Emergence of International Political Economy as a Sub-Discipline of International Relations and Impact of the Global Crisis on International Political Economy

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Abstract
After global economic developments in 1970s placed international political economy matters among the most important items of the international agenda; International Political Economy (IPE) emerged as one of the most important sub-disciplines of International Relations. In this study, emergence of IPE as a sub-discipline and impact of the global crisis on IPE will be analyzed. For this aim, collapse of the Bretton Woods System, the oil crisis of 1974, and demands of developing countries to establish New International Economic Order in 1970s will be evaluated within the context of increasing interconnectedness of international politics and international economy. Impacts of increasing mutual complex interdependence, globalization, and international financial movements on the emergence of IPE will be investigated. The effect of the global crisis on IPE will be analyzed. It is expected that number of IPE studies will increase and IPE will gain importance as a sub-discipline of International Relations.

Keywords: International Political Economy, International Relations, global crisis

1. Introduction
International Relations emerged as a discipline after the First World War. The focus of the International Relations studies was the issue of how to achieve security and how to avoid another world war. International Political Economy (IPE) emerged as a sub-discipline of International Relations after global economic developments in 1970s placed international economy issues, which were seen as low politics issues besides high politics issues like security, among the most important items of the international politics agenda.

IPE investigates the relationship between international politics and international economy. It is concerned with the way in which political and economic factors interact at the global level. (Walter & Sen, 2010:1) In the words of Susan Strange (1994: 11):

“International relations asked the question why nation-states continued to go to war when it was already clear that the economic gains made in war would never exceed the economic costs of doing so… International political economy today… asks why do states fail to act to regulate and stabilize an international financial system which is known to be vitally necessary to the ‘real economy’ but which all the experts in and out of government now agree is in dangerous need of more regulation for its own safety?”

Gilpin (1987) defines IPE as a research area, which analyzes dynamic interaction between “the state” and “the market” and the problems emerging from coexistence of “the state” and “the market” in the modern world. IPE investigates the role of states and markets in global economic developments. It analyzes rules, laws, norms and organizations that are called institutions, which shape the world economy and markets. IPE examines how these institutions are established, developed and how they affect the world economy. (Woods, 2009: 244)

IPE, which emerged in the beginning of 1970s, quickly became a very dynamic and extensive research area after the world became a complicated place characterized by a tremendous amount of interdependence (interconnectedness) among individuals, social groups, nation-states and a variety of other actors in the international system. (Balaam & Veseth, 2008:4) In this paper, emergence of IPE as a sub-discipline and impact of the global crisis of 2008 on IPE studies will be analyzed.
2. Emergence of International Political Economy as a Sub-Discipline of International Relations

The Second World War and the Cold War enhanced the significance of main research issues of international relations such as war, peace and security. Even if different taxonomies of power (Morgenthau, 1948) (Aron, 1966) (Waltz, 1979:131) (Carr, 1939) (Strange, 1988) (Nye, 2004) classified economic power as an important component of national power; and even if “the international” can be studied best via various interdisciplinary studies (Harle, 2011:92), international economy issues were generally neglected in international relations studies until 1970s. High politics issues continued to be central elements of the discipline. Centrality of these issues was contested because of global economic developments in 1960s and 1970s and IPE emerged as a sub-discipline.

IPE concerns “the unequal pace of change in the international political system and in the international economic system, and the effects of this unequal rate of change on the international society, and on the relations of states with each other.” (Strange, 1970: 304) These changes had not been noticed at a great extent since many international relations scholars in these years had focused on the political and strategic relations between national governments to the neglect of all else. (Strange, 1970: 304) International political and economic developments particularly in 1960s and 1970s changed this.

Current account deficit of the US in late 1950s and in the beginning of 1960s and reluctance of the West European countries and Japan to revalue their currencies created fissures in the Bretton Woods System, which had been established after the Second World War. US’s mounting current account deficit during the Vietnam War in late 1960s made it harder to sustain the international monetary system. The liabilities created by foreign-held dollars exceeded the US supply of gold and price of gold rose to 40 dollar an ounce in international markets. (Lairson & Skidmore, 2003: 90) International markets’ confidence in dollar declined. After the US abolished the convertibility of dollar to gold in 1971, the Bretton Woods System collapsed.

After the Bretton Woods System collapsed, uncertainties in the international monetary and financial system occurred. After the Bretton Woods System collapsed, currencies began to float, and the system transformed into managed floating system. The G-7 was established by developed countries (US, UK, Japan, Germany, France, Italy and Canada) to cope with problems of the international monetary system. The oil crisis of 1973 intensified problems in the world economy. The world economy entered the stagflation period when economic stagnation and high inflation were seen simultaneously. There were negative developments in the international trade system as well as the international monetary and financial system. In 1950s and 1960s, states had taken steps to lower barriers to international trade within the framework of GATT. Global economic developments in 1970s triggered a new protectionism wave and tariffs and non-tariff barriers to international trade began to increase. Developed countries tried to cut imports from developing countries by non-tariff barriers.

Protectionist policies of developed countries were criticized by developing countries and by politically weak and economically poor recently decolonized countries, which were also discontented with their subordinate position in the international economic system. (Jackson & Sorensen, 2002: 178) They called for the establishment of the New International Economic Order in 1970s. (O’Brien & Williams, 2010: 132) The main aim of the New International Economic Order was to reform the international trade, investment, monetary and financial system. Developing countries demanded more voice in the decision-making mechanism of international institutions such as IMF and World Bank, which had been an expression of American hegemony. (Cox, 1981: 140) They also called for the restructuring of the international monetary and financial system. Developing countries also demanded more effective regulations for international investment.

Efforts of developing countries were unsuccessful at a great extent since developed countries did not support reforms that would decrease their influence in the international monetary, financial and trade system. Even if all countries had one vote in the United Nations, five countries had veto rights and developed countries could block reforms. Developed countries could block reforms also in the international financial institutions such as IMF and World Bank because of their weight in the decision-making mechanism of these institutions. Even if efforts of developing countries were successful at a very limited extent, their criticism towards developed countries’ weight in the global economic governance from the beginning of 1970s; their demands to decrease income disparity between the developed and developing countries, and their calls to improve economic conditions of Third World countries in United Nations Conventions clearly demonstrated interconnectedness of international economy and international politics.
These international economic and political developments had serious effects on international political economy studies and IPE emerged as an important sub-discipline of International Relations. Globalization, led by developments in telecommunication, information and transportation technologies was another dynamic that supported emergence of IPE as one of the most important sub-disciplines of International Relations. Revolutionary developments in information technologies broke down barriers between geographically dispersed markets, accelerated international capital movements, and led to the securitization and integration of global markets. (Hoogvelt, 2010:53) Technological developments became the source of power and change within the global economy. (Youngs, 2000: 89) Globalization, increasing international trade and complex mutual interdependence made international economic issues subjects of international politics. Causes and consequences of globalization and its effect on states, international institutions and international cooperation were among the issues that were researched most in IR and IPE studies.

As mutual interdependence among countries increased, international economic issues related to trade, investment, money, which were seen as low politics issues besides high politics issues such as security and diplomacy, became important items on the international politics agenda. All these developments demonstrated how intertwined international political and economic issues had become. As a result, IPE emerged as one of the most influential sub-disciplines of IR.

3. Impact of the Global Crisis on International Political Economy

The global financial crisis, which started in 2008 in the US, quickly spread to other countries because of financial globalization and started debates about restructuring of the international financial system. The crisis underlined the need for structural change in global economic architecture in a way that the major international institutions such as World Bank, IMF, and WTO can be reformed. (Lane & Maeland, 2011: 40)

It is estimated that global crisis may have political effects besides economic ones. According to Keohane (2009): “In the 1930s, economic crisis led to Nazism in Germany and militarism in Japan. We must not overlook the threat that global economic crisis could again have malign effects on world politics.” The global crisis has already had various political effects. As a consequence of global crisis, some emerging European economies experienced political turnover. (Pepinsky, 2012) The crisis led to the reestablishment of states’ authority on international financial markets and had geopolitical consequences. It is estimated that international power balances will find a new equilibrium because of the crisis. It is argued that the global crisis demonstrated how interdependent the world is and increased the multipolarity of the international system. (Melenikov, 2009)

According to Friedberg (2010: 48), it will be more difficult for the US to wage an escalating arms competition because of financial difficulties at least for the next several years, and possibly for much of the coming decade. Gökay and Whitman (2010: 154) argue that “the ‘unipolar’ phase of US dominance is being replaced by a ‘multipolar’ phase, in which the USA will continue to remain one of the most prominent powers, but has to share this position with China and India as new rising global superpowers.” The global crisis may lead to hegemonic transition, which implies long term changes in global governance structures and institutions. (Gills, 2010)

The Chinese economy achieved to grow fast even in a time of economic distress during the global crisis and may become the center of the global economic order replacing the US’s declining hegemony. (Dilek, 2010: 171) Furthermore, China may move to the center of global politics, as a result of a power shift from the West to China. (Breslin, 2011a) Meanwhile, Nye argues that the power effects of the financial crisis are exaggerated and may lead to policy miscalculations in both Beijing and Washington, which may destabilize the international system. (Nye, 2010: 151)

The global crisis accelerated the emergence of a new world order in Asia and in the world. (Overholt, 2010:33) It is argued that the global crisis will accelerate the change in international economic and political balances. It is argued that China’s status in global economic governance will rise after the global crisis because of China’s expanding economy and its excellent performance during the crisis. (Xinbo, 2010: 160) Some US policymakers are concerned about China’s intention to use its holdings of US securities as leverage against US policies that is not in line with its national interests. (Morrison, 2010:45) Statements of various Chinese government officials suggesting the dumping of its US treasuries holdings to counter US pressure on various issues were criticized by US officials. (Morrison, 2010:45)
Because of the global crisis, the date at which China is estimated to overtake the US is constantly being revised. In 2003, a Goldman Sachs report forecasted that it would be 2041; after the crisis, the Economist brought the date 21 years back to 2019. (James, 2011:530) If we take into account GDP in purchasing power parity, the Chinese economy may have already passed the US economy. It is argued that the G-20, influence of which increased after the crisis, is a reflection of changing international balance of power because of the emergence of emerging countries, particularly the BRIC countries (Brazil, Russia, India, and China). The G-20 is seen as an important step towards the reform of the global economic governance. It is argued that the G-20 may become a vehicle for transition from a unilateral form of hegemony to collective hegemony that increases the global role of emerging powers such as China. (Beeson & Broome, 2010: 519)

In the restructuring process of the international financial system, divergence of views was seen between the developed countries and developing countries, which tried to shape the process in line with their interests. Divergence of views transformed the restructuring of the international financial system into a process of international political struggle. The BRIC countries struggled to enhance their political influence by using their increasing weight in the global economy. Putin, in a speech he made in 2007 in Munich, had already said that the economic potential of the BRIC countries (which became the new centers of global economic growth) would inevitably transform into political influence and would strengthen the multipolarity of the international system. (Lukyanov, 2009: 130)

The developing countries, particularly the BRIC countries demanded reforms on the decision-making processes of the international financial institutions such as IMF and the World Bank and on the international monetary system. It is argued that different from previous crises, developing countries have not followed the post-crisis policies proposed by various OECD countries, particularly the US (Matt, 2012) and they will not travel to Washington, New York, London, or Basel to get advice about the redesigning of their financial architecture. (Mahbubani, 2010: 208)

Developed countries, particularly the G-7 countries remained distant from structural reforms and gave prominence to fiscal stimulus and regulation of financial markets, banks and other financial institutions. The developing countries, particularly China and Russia began to question the international reserve currency status of dollar and argued that Special Drawing Rights (SDRs) of the IMF could be used as a reserve currency. The developed countries supported reserve currency status of dollar. The G-20 was divided into two camps- developed and developing countries- even if differences remain between the camps. (Qingyan, 2010: 13) Western powers try to protect their vested interests and guide the evolution of the international system in their favor while emerging powers- particularly China- try to gain a status that match their strength. (Qingyan, 2010: 13)

In spite of the divergence of views among the developed and developing countries, as a consequence of intensifying efforts since the beginning of the crisis, particularly dating from the G-20 Summit in April 2009, some positive steps were taken with regards to the restructuring of the international financial system. In this connection, it is argued that international cooperation platforms like the G-20 enhance the transgovernmentalist nature of the global financial architecture.

At the September 2009 Summit of the G-20, decisions related to the restructuring of the international financial system were taken. Developing countries’ pressure since the start of the global crisis bore fruit and one year after the crisis, decision to transfer quota shares and voting rights of the IMF and the World Bank were taken at the G-20 Pittsburg Summit. Transfer of at least five percent IMF quotas from overrepresented countries to underrepresented countries was agreed upon. Also, transfer of at least three percent World Bank voting rights was agreed upon.

Even if some positive steps were taken with regards to restructuring of the international financial system at the G-20 Summits, not much progress could be made on strategic issues such as the international reserve currency status of dollar because of political struggle between the developing and developed countries. The G-20 Summits were indicators of a significant shift of hegemony over global governance towards the developing economies, nonetheless were short of challenging the authority of the international financial institutions. (Cammack, 2012) The struggle was rather on the decision-making process of these institutions. Worse than that, many of the promises made by the G-20 countries remain unfulfilled and momentum for fundamental reform dropped significantly. (Samans, Schwab & Malloch-Brown, 2011)
It is argued that the developed countries do not want to lose their weight in the international financial and monetary system. They dismissed the calls of developing countries to diversify the international monetary system, which limited cooperation about the restructuring of the international financial architecture. When recommendations of the Stiglitz Commission Report were discussed at the UN, developed countries blocked and obstructed most of the innovative proposals related with the reform of the international financial system. (Warner & Buckley, 2010: 237)

Developing countries expressed their concerns in different international platforms and stated that developed countries’ policies put obstacles in front of the restructuring of the international financial and monetary system. Chinese leaders demanded a fair change to the global distribution of power that would give greater voice and role for developing countries. (Breslin, 2011b: 1343)

It is estimated that restructuring process of the international monetary and financial system will be shaped by international political dynamics as well as the course of the global crisis and economic factors. It is estimated that neoliberal globalization may survive in a more heterodox and multipolar fashion. (Öniş & Güven, 2011: 482-483)

Developed countries, particularly the G-7 countries will try to protect their weight in the decision-making process of international financial institutions. They will also try to sustain the international reserve currency status of dollar while the developing countries, particularly the BRIC countries will try to increase their weight in the decision-making mechanism of the international financial institutions. They will also try to diversify the international monetary system.

These developments triggered by the financial crisis clearly demonstrated to what degree international politics and international economy became intertwined. Studies and negotiations over the restructuring of the international financial and monetary system multiplied the number of IPE studies.

As international political and economic developments in 1960s and 1970s led to the emergence of IPE as a sub-discipline, it is expected that the global crisis of 2008 will seriously affect IPE studies because of its widespread effect on the global economy and politics. International trade dropped in an order of magnitude larger than what was observed in all of the postwar recessions in all parts of the world. (Levchenko, Logan & Tesar, 2010: 215)

Because of the magnitude of the global economic crisis and because of the struggle and debates among states with regards to the reform of the international monetary, financial and trade system, it is expected that international politics and international economy will become much more interconnected and interdependent than they did in 1960s and 1970s. It is estimated that the restructuring process will be shaped according to the changing international economic and political balance of power. Politics of financial governance reform will be more important and representation and accountability will be keys to create a more effective global governance system. (Seabrooke & Tsingou, 2010) It is argued that multilateralism, determined leadership and international cooperation are required to find a multilateral solution to the global crisis. (Robertson, 2010: 40)

The global crisis started debates about the role of the state on markets and about the relationship between neoliberal international economic order, inequality, states and markets. (Silvey, 2010: 832)

The crisis also started debates about whether the global crisis constitutes an existential challenge to the legitimacy of hegemonic neoliberal globalization. (Rucki, 2011) It is expected that the increasing pressure for more inclusive, secure and sustainable globalization will give rise to new patterns, institutions and processes in global governance that can create a proactive global systemic risk management. (Georgiana, 2010: 126)

Helleiner (2011) argues that the study of IPE scholarship in the global crisis contains useful lessons for the field’s future. Because of the need for international cooperation after the global crisis, it is expected that studies about global governance and the role of the G-20 in global governance will increase. According to Mosley and Singer (2010: 18), three issues became more important for IPE after the global crisis:

1. The complex determinants of cross-national variation in financial regulation
2. The rise of new forums of economic decision-making and governance such as G-20, G-7, and the Financial Stability Forum (FSF) and the role emerging market countries in them
3. The interplay between individual firms-as-political-actors and public policy outcomes
4. Conclusion

International political and economic developments in 1970s intensified interconnectedness of international economy and international politics and IPE emerged as one of the most important sub-disciplines of IR. Globalization was among the most effective dynamics that led to the emergence of IPE.

Globalization, which transformed the international system fundamentally in the 20th century, continues to be effective at a greater magnitude in the 21st century because of acceleration of scientific and technological developments, particularly in information, telecommunication and transportation technologies. One of the most important effects of globalization is deepening integration of the world economy. International monetary, financial and trade architecture becomes more integrated each and every year.

Increasing integration of the world economy has many positive consequences. Nonetheless, it has also negative consequences, which were seen during the global crisis. Because of the integration level of the international financial and monetary system, the financial crisis quickly spread and became a global economic crisis, which demonstrated that the global financial and monetary architecture should be regulated and governed much more effectively. In this conjuncture, global governance became one of the most researched concepts. Issues related to international monetary, financial and trade system became the most important items of the international politics agenda.

Because of the depth and extent of the global crisis, restructuring of the international monetary and financial system was discussed extensively. States tried to shape the restructuring process in line with their national interests and these issues became the most important issues of international politics. Number of IPE studies multiplied. It is expected that number of IPE studies will continue to increase and IPE will gain importance as a sub-discipline of International Relations.

References


