Partial Summary of Mingst, *Essential of International Relations*, Chapter 9, "The International Political Economy"

III. The Basis of the Contemporary International Economy

Key Concepts in the Liberal Economy

Liberal economics is based on the recognition that states differ in their resource endowments. Worldwide wealth is maximized if states engage in international trade.

David Ricardo (1772-1823) developed a theory that states should engage in international trade according to their comparative advantage. That is, states should produce and export those products which they can produce most efficiently (specialize), relative to other states. Thus, gains from trade are maximized for all because each state minimizes its opportunity cost.

National currencies should be bought and sold in a free market system. In such a system of floating exchange rates, the market determines the value of one currency as compared with other currencies. Floating exchange rates will lead to market equilibrium.

Roles of Multinational Corporations (MNCs)

- MNCs play a key role as engines of economic growth.
  - They act as the vanguard of the liberal economic order.
  - They have taken the integration of national economies beyond trade and money to include the internationalization of production
  - Economic improvement is driven through efficiency and MNCs promote efficiency.
- MNCs perform many activities.
  - Direct importing and exporting
  - Making significant investments in a foreign country
  - Buying and selling licenses in foreign markets
  - Engaging in contract manufacturing
  - Opening manufacturing facilities in foreign countries
- MNCs choose to operate in international markets for various reasons, all of which are based in economics, but which are affected by the political relations of the host state.
  - Reduce transport costs by moving production closer to customers
  - Tax and license advantages from local governments
  - Find cheaper labor markets
  - Obtain the services of foreign technical personnel

Liberal economics suggests a basic set of policies, all based on the minimal involvement of governments

- Open markets
- Free trade
- Free flow of goods and services
- Free flow of currencies

Roles of the International Economic Institutions

Economic liberalism has been supported by the establishment and expansion of the Bretton Woods institutions, the World Bank, the International Monetary Fund (IMF), and to a lesser extend the General Agreement on Tariffs and Trade (GATT)—now the World Trade Organization (WTO).

The World Bank—Stimulating Economies

The World Bank was designed initially to facilitate reconstruction in the post-World War II Europe.

In the 1950s the bank shifted its emphasis from reconstruction to development. It generates capital funds from member-states contributions and from borrowing in financial markets.

A high proportion of the World Bank funding has been used for infrastructure development

The International Monetary Fund—Stabilizing Economies

The task of the International Monetary Fund (IMF) was to stabilize exchange rates.

Originally the fund established a system of fixed exchange rates

In 1972 this system collapsed when the United States announced that it would no longer guarantee the system.

In 1976 the fund formalized the system of floating exchange rates currently in use.

GATT and the WTO—Managing Trade

The General Agreement on Tariffs and Trade (GATT) enshrined important liberal principles:

Support of trade liberalization
Nondiscrimination in trade
Exclusive use of tariffs for protecting home markets
Preferential access in developed markets to products from the South
Support concept of “nation al treatment” of foreign enterprises.

The GATT established a continual process of multilateral negotiations among those countries sharing major interests in the issue at hand; the agreements reached were then expanded to all GATT participants.

Most of the work was carried out over the course of eight negotiating rounds—each round progressively cutting tariffs and addressing new problems, such as intellectual property rights.

IV. How the Globalized Economy Works Today

International Finance

Capital movements played a key role in the earlier phases of the development of the international political economy and they continue to do so today

Capital moves in two ways:

Foreign direct investment (FDI) includes the building of factories and other facilities

Portfolio investment (PI) includes investments in the stocks and bonds of a country

MNC’s play a major role in the movement of capital, both in the form of FDI and in the form of PI

There are currently more than 60,000 MNCs employing 90 million people in the global economy

Of the largest 100 MNCs, 90 are based in the United States, Europe, Japan, and a handful of developing states

Critics from all perspectives realize that some states have more difficulty attracting private investment than others.

Africa receives only 8 percent of private capital

The World Bank has expanded its mission to include development lending to these countries.

Financial flows accelerated in the 1980's due to a range of mechanisms

Exchange rates were no longer fixed, so traders in currency exchange markets and in MNCs could capitalize on buying and selling currencies

The market developed new financial instruments, such as derivatives which could be packaged and sold around the world

New economic actors, sovereign wealth funds, formed in capital-surplus countries

Economic liberalization has led to the emergence of offshore financial centers with low taxation and little or no regulation

The Asian financial crisis of the 1990s illustrates the possible outcomes of the globalization of finance.

International Trade

The goal of economic liberal thinking was to create a free trade system.

For various reasons, leaders may want to protect their home markets.

The goal of the post-World War II GATT was to promote international trade by lowering trade barriers.

The GATT accomplished this in a series of negotiating rounds dealing with issues such as tariff cuts and favorable treatment for developing countries.

The final GATT round, the Uruguay Round, covered new items such as services, intellectual property, and agriculture.

In 1995, GATT became a formal institution, renaming itself the World Trade Organization (WTO).

Two important procedures were initiated in WTO:

The Trade Policy Review Mechanism (TPRM), which conducts periodic surveillance of trade practices of member states

The Dispute Settlement Body, designed as an authoritative panel to hear and settle trade disputes. The WTO can impose sanctions against violators and is more powerful than other economic dispute resolution arrangements.

Getting global participation in the WTO has proved a painstaking task.

China's accession to the WTO in 2001 required that it make commitments to move toward a market economy.

Vietnam, which acceded in 2007, has made similar commitments

Trade liberalization, the major goal of the WTO, remains controversial. The Doha Round, launched in 2001, was announced as a development round to help developing countries correct the inequities of the previous trade agreements. The North and the South remain deadlocked over the issue of agricultural export subsidies.