Ministry of Higher Education and Scientific Research
Salahaddin University-Erbil
College of political science
International Relation Department
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INTERNATIONAL POLITICAL ECONOMY

Lecturer
Beastun Omer Nuri
Email. Beastun.nuri@su.edu.krd

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International Political Economic

IPE Description

IPE is the study of how states and markets affect the distribution of power and wealth in the world. Analyzing the interactions of governments, businesses, and ordinary people, IPE helps us understand the causes of global problems and the consequences of global exchanges. concerns the social, political, and economic arrangements affecting the global systems of production, exchange, and distribution. These arrangements are the result of human decisions (man-made) institutions and sets of self-set rules and customs). The IPE is a network of bargains between and among states (that deal in power) and markets (that deal in wealth).

Meaning of IPE

The IPE is the study of a fundamental tension between and the dynamic interaction of two spheres of life, which we can variously call:

- Society and Individuals
- Politics and Economics
- States and Markets

A way to understand the basics of IPE is to pick apart its name, which includes the following parts:

- International
- Political

- Economy

International: It deals with issues that cross national borders and with relations between and among nation-states.

Political: It involves the use of state power to make decisions about who gets what, when, and where in a society.

Economy: The economy or economics deals with how scarce resources are allocated to different uses and distributed among individuals through the decentralized market process.

Market: The market is the sphere of human action dominated by individual self-interest and conditioned by forces of competition.

The definition of IPE is the analysis of the interaction between the political and the economic sphere involving state and non-state actors on the national and international levels.

Essential of IPE

- IPE is the field of study that analyses the problems and questions arising from the parallel existence and dynamic interaction of “state” and “market” in the modern world.
- So, state and market are the principles of IPE.
- **In the absence of the market:**
- The state or its equivalent would allocate economic resources.
- This would be the pure world of the political scientist.
- **In the absence of the state**
- The price mechanism and market forces would determine the outcome of economic activities.
- This would be the pure world of the economist.
- **Relation between state and market**

- There is no doubt that there is a strong relationship between the economy and the state because they are affected by each other, especially in the modern state (the nation-state). State deals according to the economy because the economy is an important card in the hands of the state and it cannot dominate policies if it does not have a large and developed economy (for example America, China, Russia...)
- **State intervention in the market**
- Usually, in all countries, there are two systems around the economic system (such as the capitalism system and the socialism system), in the first the state does not intervene in the market, but in the second system, the state intervenes in the market. Although there is a contemporary system called the mixed system (capitalism and socialism).

The Structures of IPE

The structure of IPE is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and their scientists and professional people

IPE has the following structures:

- Security structure
- Production structure
- Finance structure
- Knowledge structure

- **Security Structure**

Security from natural forces or from the threats and actions of others is perhaps the most basic human need. When one person or group provides security for another or contributes to that security, a security structure is created.

- **Production Structure**

The Production structure can be defined as the sum of all arrangements determining what is produced, by whom and for whom, by what methods, and on what terms. The issue is at the heart of the international political economy.

- **Finance Structure**

The pattern of money flows between and among nations. It defines who has access to money, how and on what terms?

Money directly amounts to wealth and is therefore central to IPE.

- **Knowledge Structure**

Knowledge can lead to wealth for those who can use it effectively.

Nations with poor access to knowledge (industrial technology, scientific discoveries, medical procedures) find themselves at a disadvantage relative to others.

<u>Political Economy Behavior</u>

Political economists are very interested in gains and losses incurred with the implementation of a certain policy. It gives them an idea as to which groups support the policy and which groups don’t. They also examine how individuals increase their utility by participating in political activity Capital and labor are used to influence political processes and generate policy outcomes with the most benefit. The political behavior in an economy is shaped by

1-Interests

They include the interest of individuals and groups who are able to use their power to influence policy. Individuals in government tend to promote their own economic and political interests that will help them retain power. People outside the government are often more concerned with the outcome of the economic policies implemented

2- **Ideas**

Ideas are considered an important influence on policy, in addition to economic and political interests. It is assumed that individuals are self-seeking and rational and that they are unable to assess the outcomes of all the choices available to them

Ideology allows an individual to decide what they should do in order to remain consistent with their basic values and beliefs. Incorporating ideology into economic models allows some political action to be guided by factors other than self-interest. Some people want to enter politics simply because they want to make a change in the world

3- **Institutions**

There are political rules that include the Constitution and define how leaders are chosen and how a new policy can be implemented. Institutions help structure incentives facing individuals and groups within the economy

History of IPE

Political Economy …IPE needs to be looked at from a historical perspective. History of Economics shows that the term Political Economy originated in France in the 17th century. The phrase économie politique (translated in English as a political economy) first appeared in 1615 with the book by Antoine de Montchrétien: Traité de l'economie politique. Sir James Steuart (1761) was the first English economist to put the term in the title of a book on economics, An Inquiry into the Principles of Political Economy. Political economy most commonly refers to interdisciplinary studies drawing upon economics, law, and political science in explaining how political institutions, the political environment, and the economic system- capitalist, socialist, and mixed influence each other.

Political economy originally was the term for studying production, buying and selling, and their relations with law, custom, and government, as well as with distribution of national wealth including through the budget process

Contemporary international political economy appeared as a subfield of the study of international relations during the era of Cold War rivalry between the Soviet Union and the United States (1945–91). Analyses initially focused largely on international security but later came to include economic security and the role of market actors—including multinational corporations, international banks, cartels (e.g., OPEC), and international organizations (e.g., the IMF)—in national and international security strategies. International political economy grew in importance as a result of various dramatic international economic events, such as the collapse of the Bretton Woods international monetary system in 1971 and the oil crisis of 1973–74.

During the early period of the Cold War, political scientists emphasized the realist, or power politics, dimension of U.S.–Soviet relations, while economists tended to focus on the Bretton Woods system of the international economy—that is, the institutions and rules that beginning in 1945 governed much of the international economy. During the Vietnam War, however, a growing decrease in the value of the U.S. dollar and large deficits for the United States in its balance of trade and payments weakened the ability of the United States to conduct and pay for the war, which thereby undermined its relationship to its North Atlantic Treaty Organization allies. During the OPEC oil crisis, the realist-oriented U.S. Secretary of State Henry A. Kissinger found himself unable to understand the issues without the assistance of an economist. These events led to a search for a multidisciplinary approach or outlook that borrowed different theories, concepts, and ideas from political science and international relations—as well as from economics and sociology—to explain a variety of complicated international problems and issues. It did not so much result in the development of a new school of political economy as emphasize the continued relevance of the older, more-integrated type of analysis, which explicitly sought to trace the connections between political and economic factors.

Following the end of the Cold War, international political economy became focused on issues raised by economic globalization, including the viability of the state in an increasingly globalized international economy, the role of multinational corporations in generating conflict as well as growth in the "new global economy," and various problems related to equity, justice, and fairness (e.g., low wage rates in developing countries and the dependency of these countries on markets in wealthier countries). In the 1950s and '60s, American economist W.W. Rostow and other experts on Western economic development made popular the argument that after a period of tension, disorder, and even chaos within a developing country that had been exposed to the West, that country would eventually "take off," and development would occur. In the late 1960s and continuing into the 1990s, many development experts from a structuralist point of view (including many Marxists and neo-Marxists) posited a variety of explanations as to why many developing

countries did not seem to develop or change much. For example, the German-born economist Andre Gunder Frank made popular the idea that, when developing countries connect to the West, they become underdeveloped. Social theorist and economist Immanuel Wallerstein, whose works have made a lasting impact on the study of the historical development of the world capitalist system, argued that development does occur but only for a small number of semiperipheral states and not for those peripheral states that remain the providers of natural resources and raw materials to the developed industrial core states.

Such themes were evident in the 1990s and the early 21st century when a number of politically and economically powerful (and mostly Western) multinational corporations were accused of exploiting women and children in unsanitary and unsafe working conditions in their factories in developing countries. These cases and others like them were seen by some structuralists as evidence of a “race to the bottom” in which, in order to attract investment by international businesses, many developing countries relaxed or eliminated worker-protection laws and environmental standards

Political Implications of International Trade

International trade has always been at the center of IPE analysis and is likely to remain so in the future. This is not so much because of the economic and political importance of international trade itself as due to the fact that trade is a mirror that reflects each era's most important state market tensions. The problem is that states think in terms of geography and population, which are the relatively stable factors that define its domain while markets are defined by exchange and the extent of the forward and backward linkages that derives there from. The borders of markets are dynamic, transparent, and porous; they rarely coincide exactly with the borders of states and a few markets today are even global in their reach. When trade within a market involves buyers and sellers in different nation-states, it becomes international trade and the object of political scrutiny. The political analysis of this subject treats international trade as fundamentally different from domestic economic activity, while economic theory sees no important distinction between the two. The international exchange of goods, services, or resources with another country raises many political questions of national interest, especially questions concerning the economic and military security of the nation. Besides, the full impact of export and Imports on national security depends upon what is exported to whom and on what terms. And, although a trade surplus does increase reserves, an excessively large bilateral surplus of exports over imports can create political problems, such as those that Japan and China have experienced with respect to the United States. High export penetration is sometimes seen as an aggressive policy by the target nation, which may react to defend its perceived security interests. Willingness to permit imports from foreign nations can also be used as a foreign policy tool * (23). The design of the postwar international trade institutions was heavily conditioned both by the free trade views of economists and by the interwar experience of beggar-thy-neighbor trade policies that created an environment of destructive competition and retaliation. Thus the mission of the WTO, and before that the General Agreement on Tariffs and Trade (the GATT), is to progressively reduce the barriers to free trade through multilateral negotiations. This movement towards global free trade, however, has not stopped states from using trade tools to further their own foreign policy goals when they can. Thus we live in an environment where the political and the economic viewpoints of international trade compete for attention

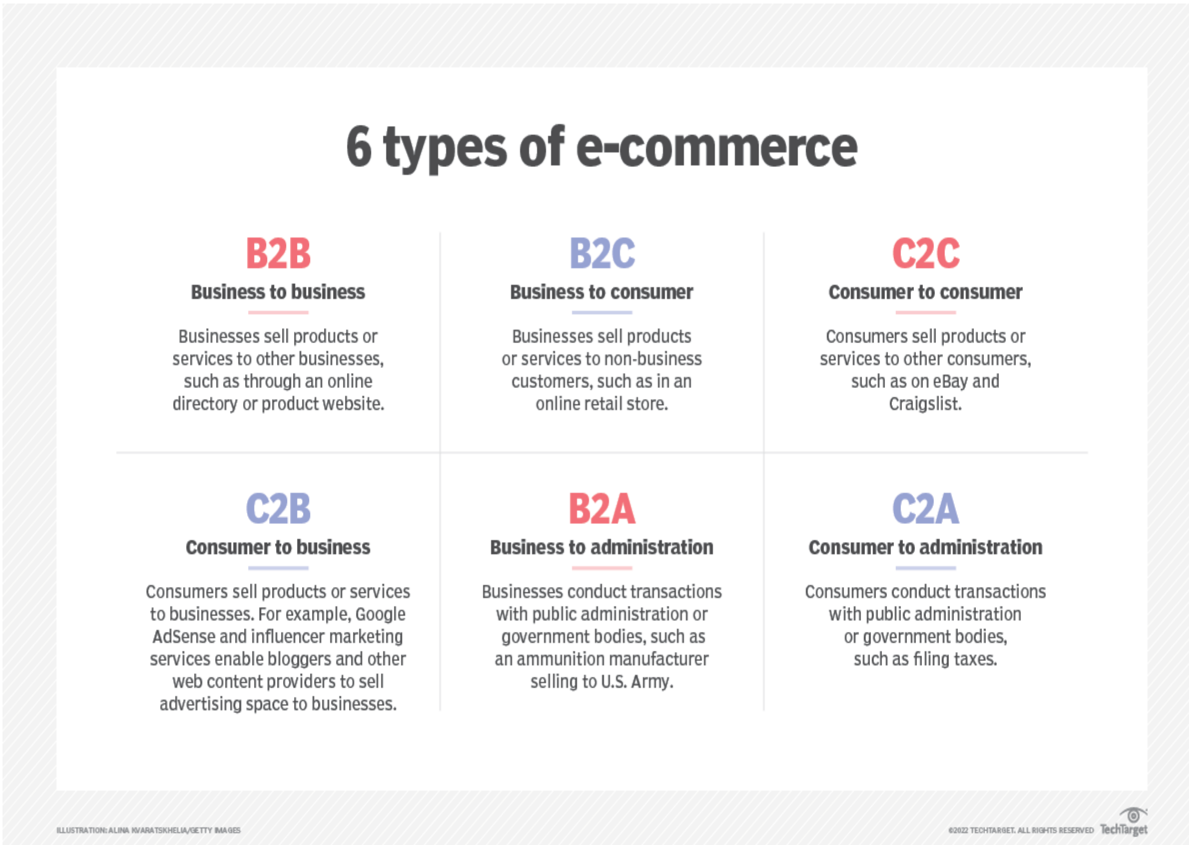
The advent of free trade areas such as the North American Free Trade Area (NAFTA) and customs unions like the European Union (EU) provides a good example of the political economy of international trade. Regional trade agreements like NAFTA and the EU frequently use economic tools to achieve political goals.

One of the political goals of European economic integration, for example, was to strengthen the western Cold War alliance. One of the political goals of NAFTA was to stabilize and strengthen Mexico's democratic system. The economic benefits of regional free trade are intended to compensate states and their citizens for the loss of sovereignty and other political costs they may bear in forming a regional bloc. Thus, in theory, regional blocs create both political and economic benefits. At the same time, however, there are political and economic costs. Politically there is the problem of the democracy deficit. As more and more policy decisions are made at a level above that of the nation-state, the link between citizens and policy is necessarily weakened, which may weaken the legitimacy of government generally. Economically there is the problem that regional

free trade is not always consistent with global free trade. Regional trade blocs may experience trade diversion where production shifts from a more efficient producer outside the regional bloc to a less efficient producer within the bloc. This inefficiency wastes scarce resources and reduces global welfare, according to the economic analysis, thus freer trade is not necessarily the road to free trade

Electronic Commerce

E-commerce (electronic commerce) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer or consumer-to-business.



Types of e-commerce

Business-to-business (B2B) e-commerce refers to the electronic exchange of products, services or information between businesses rather than between businesses and consumers. Examples include online directories and product and supply exchange websites that let businesses search for products, services and information and initiate transactions through e-procurement interfaces. A Forrester report published in 2018 predicted that by 2023, B2B e-commerce will reach $1.8 trillion dollars and account for 17% of U.S. B2B sales.

Business-to-consumer (B2C) is the retail part of e-commerce on the internet. It is when businesses sell products, services or information directly to consumers. The term was popular during the dot-com boom of the late 1990s, when online retailers and sellers of goods were a novelty.

Today, there are innumerable virtual stores and malls on the internet selling all types of consumer goods. Amazon is the most recognized example of these sites. It dominates the B2C market.

Consumer-to-consumer (C2C) is a type of e-commerce in which consumers trade products, services and information with each other online. These transactions are generally conducted through a third party that provides an online platform on which the transactions are carried out.

Online auctions and classified advertisements are two examples of C2C platforms. EBay and Craigslist are two well-known examples of these platforms. Because eBay is a business, this form of e-commerce could also be called C2B2C -- consumer-to-business-to-consumer. Platforms like Facebook marketplace and Depop -- a fashion reselling platform -- also enable C2C transactions.

Consumer-to-business (C2B) is a type of e-commerce in which consumers make their products and services available online for companies to bid on and purchase. This is the opposite of the traditional commerce model of B2C.

A popular example of a C2B platform is a market that sells royalty-free photographs, images, media and design elements, such as iStock. Another example would be a job board.

Business-to-administration (B2A) refers to transactions conducted online between companies and public administration or government bodies. Many branches of government are dependent on various types of e-services or products. These products and services often pertain to legal documents, registers, social security, fiscal data and employment. Businesses can supply these electronically. B2A services have grown considerably in recent years as investments have been made in e-government capabilities.

Consumer-to-administration (C2A) refers to transactions conducted online between consumers and public administration or government bodies. The government rarely buys products or services from individuals, but individuals frequently use electronic means in the following areas:

- **Social security.** Distributing information and making payments.
- **Taxes.** Filing tax returns and making payments.
- **Health.** Making appointments, providing test results and information about health conditions, and making health services payments.

Mobile e-commerce (m-commerce) refers to online sales transactions using mobile devices, such as smartphones and tablets. It includes mobile shopping, banking and payments.

Mobile chatbots facilitate m-commerce, letting consumers complete transactions via voice or text conversations.

Advantages and disadvantages of e-commerce

- **Advantages**

Benefits of e-commerce include its around-the-clock availability, speed of access, wide availability of goods and services, easy accessibility, and international reach.

- **Availability.** Aside from outages and scheduled maintenance, e-commerce sites are available 24/7, enabling visitors to browse and shop at any time. Brick-and-mortar businesses tend to open for a fixed number of hours and may even close entirely on certain days.
- **Speed of access.** While shoppers in a physical store can be slowed by crowds, e-commerce sites run quickly, which is determined by computing and bandwidth considerations on both the consumer device and the e-commerce site. Product and shopping cart pages load in a few seconds or less. An e-commerce transaction can comprise a few clicks and take less than five minutes.
- **Wide availability.** Amazon's first slogan was "Earth's Biggest Bookstore." It could make this claim because it was an e-commerce site and not a physical store that had to stock each book on its shelves. E-commerce enables brands to make a wide array of products available, which are then shipped from

a warehouse or various warehouses after a purchase is made. Customers will likely have more success finding what they want.

- **Easy accessibility.** Customers shopping a physical store may have difficulty locating a particular product. Website visitors can browse product category pages in real time and use the site's search feature to find the product immediately.
- **International reach.** Brick-and-mortar businesses sell to customers who physically visit their stores. With e-commerce, businesses can sell to anyone who can access the web. E-commerce has the potential to extend a business's customer base.
- **Lower cost.** Pure play e-commerce businesses avoid the costs of running physical stores, such as rent, inventory and cashiers. They may incur shipping and warehouse costs, however.
- **Personalization and product recommendations.** E-commerce sites can track a visitor's browse, search and purchase history. They can use this data to present personalized product recommendations and obtain insights about target markets. Examples include the sections of Amazon product pages labeled "Frequently bought together" and "Customers who viewed this item also viewed."
- **Disadvantage**

The perceived disadvantages of e-commerce include sometimes limited customer service, consumers not being able to see or touch a product prior to purchase and the wait time for product shipping.

- **Limited customer service.** If customers have a question or issue in a physical store, they can see a clerk, cashier or store manager for help. In an e-commerce store, customer service can be limited: The site may only provide support during certain hours, and its online service options may be difficult to navigate or not answer a specific question.
- **Limited product experience.** Viewing images on a webpage can provide a good sense about a product, but it's different from experiencing the product directly, such as playing a guitar, assessing the picture quality of a television or trying on a shirt or dress. E-commerce consumers can end up buying products that differ from their expectations and have to be returned. In some cases, the customer must pay to ship a returned item back to the retailer. Augmented reality technology is expected to improve customers' ability to examine and test e-commerce products.
- **Wait time.** In a store, customers pay for a product and go home with it. With e-commerce, customers must wait for the product to be shipped to them. Although shipping windows are decreasing as next-day and even same-day delivery becomes common, it's not instantaneous.
- **Security.** Skilled hackers can create authentic-looking websites that claim to sell well-known products. Instead, the site sends customers fake or imitation versions of those products -- or simply steals credit card information. Legitimate e-commerce sites also carry risk, especially when customers store their credit card information with the retailer to make future purchases easier. If the retailer's site is hacked, threat actors may steal that credit card information. A data breach can also lead to a damaged retailer reputation.

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