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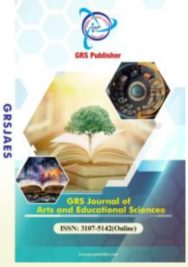

A Review of Understanding the International Economic Order and World Political Economy

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Introduction

The book reviewed in this article is one of the few important works that has portrayed international economics with a realistic approach.

Earlier, in 1987, a book by the same author was published entitled The Political Economy of International Relations, which received considerable attention in various academic circles around the world.

In this book, Robert Gilpin has presented his views on international economics in a relatively comprehensive manner.

As a structural realist, he has tried to explain the flow of international economics in terms of the power variable and to define the logic that governs international politics as the driving force of the flow of international economics.

The same approach is evident in the present book, published in 2001; however, the new book also discusses the developments of the 1990s.

Issues such as globalization, regionalism, and financial crises that were the focus of international economic debates in the 1990s are discussed in detail in Gilpin's new book. Nevertheless, the previous theoretical foundation is still preserved and supported.

In this article, we will introduce the book by referring to its abstract.

Abstract of the book's content

The main starting point of Gilpin's discussion is a critique of the neoclassical approach to economics, which he argues is based on the assumptions of "methodological individualism" or the rational choice model of individuals.

In this framework, individuals are assumed to be rational optimizers who always seek to maximize or optimize their own interests at the lowest possible cost.

In economics, which is basically defined by the neoclassical approach, it is not about why people are self-interested, it is not about whether it is possible to change people's inclinations, and it is also not about what consequences people's self-interest has for them. Only the principle of self-interest is accepted and is at the service of man.

It is on this basis that markets are formed and the forces of supply and demand reach equilibrium in them.

Disequilibrium is an exception, and economics is not concerned with it either.

The principle is that eventually equilibrium will be restored, and the prevailing situation will prevail.

According to Gilpin, despite the claims of neoclassical economists that economics is a science like physics, economics is in practice based on normative assumptions accepted by most economists, which can have distorting effects.

One of the most important limitations of economic theory is its inattention or under attention to the role of the state, which operates in the arena of international relations on the basis of relative rather than absolute gains.

This issue challenges economics' commitment to a "Pareto optimal" state that is based on absolute gains.

In contrast to neoclassical economics, Gilpin defends a political economy in which the autonomy and self-regulation of the market are criticized, and the principles of economics are limited by political, social, and psychological constraints.

Accordingly, a proper understanding of international economics requires attention to the intervention of non-economic variables, especially those of international politics.

According to Gilpin, although a liberal economic order with stability and international cooperation is possible, such an order has never occurred in history without the will and support of a hegemon.

The order based on British hegemony in the 19th century and the hegemony of the United States in the 20th century are prominent examples of this.

Therefore, the liberalization of the international economy without the support of a hegemon is, if not impossible, at least problematic.

The supervision of international public goods, such as free trade and monetary stability, requires the existence of a dominant power that sees the liberal world economy as its own and takes decisive action in this direction.

This case shows that states, as power players dominating international politics, tend to direct the flow of the international economy according to their own power-oriented considerations.

Another important point is that neoclassical economists believe that the distribution of economic activities is governed by the law of comparative advantage.

It does not matter what a country produces (agricultural products or technologically superior goods).

What is important is that there is a kind of international division of labor in which each country produces according to its comparative advantage. Economists consider technology to be a public good that is available to all.

They did not pay serious attention to the importance of economic monopolies. However, in recent years, a number of economists have developed new theories to overcome such limitations. The New Growth Theory (or Internal Growth Theory), the New Theory of Economic Geography, and the New Trade Theory are among them.

In these theories, it is accepted that some markets are immature and monopolistic, that technological innovations are of key importance, and that history or path dependence should be used as a key variable.

These new theories examine the functioning of economic-technical forces in interaction with powerful players such as states and multipolar corporations.

These explain the increasing attention of governments to the economy (despite the spread of neoliberalism and globalization).

Although states are considered to be integrated into the global capitalist network, their national political economic systems are not necessarily identical.

For example, the US economy operates largely on the neoclassical model of a competitive market economy in which individuals seek to maximize their own self-interest and business firms are expected to maximize their profits.

This is while Japanese companies are committed to the interests of their shareholders, including workers and subcontractors, or German companies consider them responsible to society and are more supportive of the welfare state than American companies. In the Japanese model, economic interests are of secondary importance compared to political and social goals. In Germany, like Japan, the emphasis is on exports, savings, and national investment rather than consumerism, but the government allows the market to operate more freely and, like most Western European governments, intervenes less in the market than in Japan.

However, German capitalism, in comparison with the corporate capitalism of the Anglo-Saxon countries, gives a greater role to workers and social institutions in the management of corporate affairs, and in general, the German political economy system is representative of welfare state capitalism on the European continent.

The world economy is therefore not a uniform network, because national differences are a serious obstacle to global multilateralism.

There has been vast literature on the superiority of free trade over protectionism, but the reality is that protectionism has always existed and has emerged in newer forms.

Economists have always warned that protectionism reduces the efficiency of the international and national economy by preventing countries from exporting goods and services, in which they have a comparative advantage. The most important result of protectionism is the redistribution of national income from consumers to protected producers.

While free trade spreads its benefits throughout society, in practice it has been observed that non-economic considerations, especially national power, can always pose problems for the flow of free trade.

Moreover, practical realities suggest that the process of trade liberalization requires strong political leadership that is committed to liberalization and has the necessary resources to maintain it. Therefore, globalization will not lead to liberalization by itself, driven solely by economic variables.

Such leadership is also necessary to ensure monetary stability.

After the collapse of the Bretton Woods monetary system, the central banks of the major economic powers took over the management of the international monetary system. What later became known as the “reference domain” was based on the cooperative efforts of central banks and finance ministers to stabilize the value of currencies.

However, the passage of time has shown that such a situation, for which the term “non-system” might be appropriate, does not function satisfactorily. This problem laid the foundation for the creation of the European Monetary System by the countries of Western Europe.

Different rates of inflation or price instability in national economies are the most important problems facing the stabilization of the parity rate.

While some governments place great value on price stability, others prefer to pursue expansionary and largely inflationary policies to reduce unemployment or stimulate economic growth.

For example, while Germany and Japan pursued anti-inflationary policies, prioritizing price stability during the postwar period, the United States pursued moderately to severely inflationary policies, at least until the late 1970s.

The triple objectives of stable exchange rates, national independence in monetary policy, and capital mobility are irreconcilable goals; it may be possible to pursue two of them simultaneously, but it is not possible to pursue all three simultaneously.

Accordingly, no monetary and financial system can combine these three desired objectives, although it can combine at most two of them.

The United States in the late 1990s favored independent monetary policy and free capital movements. Europeans favored relatively stable exchange rates.

Some, such as China and Malaysia, place a high value on macroeconomic independence and have therefore moved to impose controls on capital movements.

In sum, international monetary stability can be achieved alongside flexibility in domestic policymaking when, in the first step, major economic powers cooperate politically with each other.

According to Gilpin, the East Asian financial crisis and other related crises of the 1990s can be analyzed in some way within the framework of the special conditions that emerged after the Bretton-Woods era. While international finance is inherently highly vulnerable and requires effective regulation, the regulator is not reliable. Various approaches have been proposed as to the most appropriate mechanisms for stabilizing international financial flow. Some emphasize market reliance, arguing that deregulated financial markets will punish investors and borrowers who do not behave prudently.

Another group advocates strengthening the regulatory role of the International Monetary Fund.

To improve the functioning of the Fund, better information must be collected and there must be transparency, more appropriate rules of conduct and supervision must be in place, and the Fund must be able to act as a lender of last resort. A number of economists and governments are in favor of implementing some level of control over capital movements at the international level.

At the annual meeting of finance ministers and central bank governors of the Group of Seven countries in February 1999, some parties, including Germany, France, and Japan, supported increased controls.

In general, it must be said that the increase in financial flows is the source of movements that seek to create a single, integrated global market.

The new conditions of international finance have led to increased interdependence of trade, monetary affairs and other dimensions of the international economy, and the need to integrate these areas has made the management of the world economy extremely complex.

Gilpin's analysis of the activities of multinational corporations in the era of globalization is that they are largely the product of market failures and individual corporate practices.

They are, first, firms that hold oligopolistic monopolies and operate in imperfect markets.

Based on the state-centered approach, multinational corporations are essentially national corporations that compete with each other worldwide.

They typically employ about two-thirds of their workforce from within their home countries. On the other hand, despite extensive discussions on the internationalization of services and manufacturing, the concentration of corporate activity is in the major economic powers. According to an estimate made in the 1990s, about 85 percent of all foreign investment is made in the three major economic powers of the world, namely the United States, Western Europe and Japan.

Multinational corporations, far from weakening the role of states, can be said to be national corporations that operate across borders and are often deeply rooted in national societies. Whereas if the principle is comparative advantage, the nation is subject to the efficiency trap. Another point is that there is still no set of international rules for the management of foreign direct investment. Although some progress was made in this direction during the Uruguay Round, a concessional regime for regulating foreign direct investment was not established.

Similarly, we see that industrialized countries, despite providing some financial and technical assistance and trade concessions, are resisting the demand of less developed countries to establish a development regime.

Development projects in less developed countries have so far been experimented with different frameworks.

At the same time, the world has not yet reached a specific package on development. In the neoliberal perspective that emphasizes the free market, the development regime has no place.

Although it is impossible to speak with certainty about the credibility of the development regime, options such as free trade and economic transparency are not in sufficient condition for solving the problems of underdevelopment or issues related to economies in transition.

In the case of the emerging economies of East Asia, two points are worth noting: first, there are different and conflicting views on the factors behind their success, and second, the financial crisis of the 1990s cast doubt on the credibility of development projects in East Asian countries.

Thus, the passage of time shows that development is a more complex concept than is imagined in the neoliberal approach.

Another feature of the current international economy is the growth of a new wave of regionalism that began since the adoption of the European Single Market Act in 1986.

Economists are not unanimous about whether regionalism is trade-creating or trade-distorting.

New perspectives have been proposed that argue that the distortive aspect of regionalism is dominant.

Countries cooperating within regional arrangements, by supporting regional trade barriers and trade diversion, will provide companies located in a region with exclusive access to technological advances, economies of scale, and other advantages.

According to the state-centered realist approach, any successful process of political and economic integration must undoubtedly be supported and championed by one or more major political units interested in using their power and influence to advance the integration process. For example, in Western European integration, France and Germany played such a role. In various forms of economic regionalism, some of the benefits of free trade, such as increased competition and economies of scale, are created for member countries, while non-member countries are deprived of these benefits.

On this basis, regionalism cannot be considered compatible with the principles of free trade based on comparative advantage.

As for the fate of the nation-state at the beginning of the 21st century, Gilpin, while acknowledging the significant external and internal pressures on the state and accepting some changes in it, still sees the world as state-centered.

The role of the state has also increased in some areas, such as increasing international competition through support for “research and development”, technological policies and support for domestic enterprises. On the other hand, in many cases, state weakening is the result of ideological, technological, and international political developments.

Therefore, globalization is not the main cause of state weakening. Many of the political and economic problems and issues attributed to globalization have in fact been created by technological and other developments that have nothing to do with globalization.

The state remains the ultimate decision-maker in domestic and international economic matters, although its role in some areas has been relatively reduced.

On the other hand, in the past, states did not enjoy complete economic freedom.

There are many reasons that indicate a decrease in the level of global integration in the current situation compared to the late 19th century. Thus, at the turn of the 21st century, there has been no dramatic change in the role of the nation-state.

Despite the advocacy of minimal rules by many neoclassical economists and some liberal thinkers, many scholars of international political economy argue that the management of the international economy requires extensive rules or formal regimes.

Today, there are three major perspectives on "international economic governance": Neoliberal institutionalism, which emphasizes the continued role of the state and believes in the need for formal international institutions and regimes. The new century of centralism, which, while accepting the weakening of the state, speaks of the replacement of international civil society (with the decline in importance of non-state actors), and intergovernmentalism, which argues that international cooperation between domestic government institutions with each other in specific functional areas, is rapidly being replaced by the decision-making functions of nationally-centered governments in the management of the global economy.

Gilpin, as a state-centered thinker, believes that although one can hope for cooperation between great powers in their own interests—which would lead to a more humane and stable international political and economic order—global governance cannot replace the self-centered nation-state.

Conclusion

Robert Gilpin is one of the few prominent realist theorists in the field of international political economy who has published various works in this field.

He joined the faculty of Princeton University in 1962, but his views have been attracting attention since the 1960s.

In the 1970s, he published a book that is still used as a key text in the field of realist understanding of international political economy.

The title of the book is: United States Power and Multinational Corporations: The Political Economy of Foreign Direct Investment. The main argument in this book is that American multinational corporations are the result of American power and that their activities are also in the service of American power.

In principle, the realist approach to international political economy carries the message that the development of international economic cooperation is the product of specific political wills that see such cooperation as to their benefit.

However, at any time, they may recognize that such cooperation is not to their benefit and may disrupt or prevent the continuation of such cooperation. Multinational corporations are the product of partnerships that, although ostensibly economic in nature, are fundamentally rooted in political considerations. At first glance, it may seem that realism contains the same messages as those put forward in the Marxist paradigm. It is true that the realist view of international economics is, like the Marxist view, pessimistic and uncertain about the sustainability of partnerships, but two fundamental differences should be noted. First, Marxism is economic-oriented and sees the roots of conflicts in the exploitative nature of capitalism, while realism is political-oriented and sees conflicts as the product of states' power-seeking. The second difference is that Marxism is optimistic about the future of conflict, because eventually capitalism will retreat and better conditions will be created, but within the framework of realism, assuming the peak of conflict and the occurrence of a major war, it is only possible for the distribution of power to change. Even if the system changes, the logic of power remains the same.

Gilpin has discussed this issue in detail in his book War and Change in World Politics. In the book introduced in this article, Gilpin's state-centered approach is also quite evident.

Like other great thinkers such as Charles Kindleberger and Stephen Krasner, he believes that the stability of international capitalism depends on the existence of a hegemonic power that is able and willing to establish stability in the free international economy.

In Gilpin's view, since the hegemony of the United States has declined over the past few decades, unrest and disruptions in the free flow of the international economy are to be expected.

Although there has been a recent liberal discourse on globalization and the limitation of the sovereignty and role of states, such views are, in Gilpin's view, overly optimistic.

On the one hand, we are witnessing that, in parallel with the development of the globalization process, regional blockades have also been strengthened, which is an obstacle to the liberalization of the international economy in the form of a global network. On the other hand, the occurrence of economic crises in the 1990s, especially in East Asia, showed how vulnerable the free flow of the economy is without relying on a powerful hegemon. Moreover, since the 1990s, various forces have taken a stand against globalization, of which the protests during the Seattle meeting are a result.

Therefore, no dramatic change has occurred with the globalization that is being talked about.

The world is still state-centered, and the flow of the international economy is, in essence, the product of the interaction of the political wills of states.

Within the framework of Gilpin's theory, the current economic crisis that has gripped America and the world is another sign of the disorders and chaos that have occurred due to the lack of a powerful regulatory director and will occur in the future if the great powers are unable to play the same regulatory role.