

# POLI 445

# Politics of International Economic Relations

Session 3 – THEORIES OF THE GLOBAL POLITICAL  
ECONOMY

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College of Education

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# Session Overview

The session will center on the theories that shape the global political economy

Students will be expected to identify which of the theories explain the nature of the global economy

Finally, the relevance of the theories will be explored against the backdrop of how each contributes to the global economy



# Session Outline

- **Topic One** : Theories of the Global Political Economy- Mercantilism
- **Topic Two**: Theories of the Global Political Economy-Liberalism and Marxism

# Reading List

- **Thomas Oatley (2013)**, International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman.
- **Robert Gilpin (2000)**. The Challenge of Global Capitalism: The World Economy in the 21st Century, Princeton.

# TOPIC ONE

## Theories of the Global Political Economy- Mercantilism

- Mercantilism examines the relationship between economic activity and state power. It is all about state power. Supporters of mercantilism are known as mercantilists. Because mercantilism is about state power, proponents of this theory support government intervention in the economy to enhance the power of the state. It discourages imports but encourages exports. During colonialism, the colonialists used this strategy to undermine development in the colonies. The colonies were used by the colonialists to export goods to the western world and other places.

# Mercantilism

- There are two main mercantilists; **classical mercantilists** and **neomercantilists**. Classical mercantilists are the original adherents of the theory when it emerged in Europe in the 15<sup>th</sup> century through the colonial era. Neomercantilism or modern mercantilism is a contemporary version of classical mercantilism that advocates promoting domestic production and trade surplus by subsidizing exports and using tariffs and nontariff barriers to reduce imports (Kegley 2009:288). Trade surplus is when the value of a country's exports exceeds her imports. In this instance, the country benefits more from international trade than her trade partners. The opposite of trade surplus is trade deficit. Trade deficit is when the value of a country's imports exceeds her exports. Tariffs are taxes on imported goods. According to Kegley (2009: 299), "nontariff barriers are measures other than tariffs that discriminate against imports without direct tax levies and are beyond the scope of international regulation."

# Assumptions of Mercantilism

- Economic strength is a critical component of national power. This means if a country wants to be powerful in the international system, that country needs a strong economy.
- Trade is to be valued for exports, but governments should discourage imports when possible. This indicates that their countries should import from other countries when possible. However, it is important that the value of their exports exceeds that of their imports.
- Some forms of economic activity are more important than others. For instance, manufacturing is more important than agriculture.

# Assumptions of Mercantilism (Cont'd)

- States are the most important actors in the global economy. This implies MNCs, individuals, and international financial organizations are not important players in the global economy.
- Economic relations among countries are conflictual. This suggests that international trade promotes conflict between and among countries in the global system.
- The goal of economic activity is to serve national interest. National interest is what states selfishly want for themselves. (Oatley 2008: 8; Kegley 2009:284-85).



# Sample Questions

- Discuss how the neomercantilists worldview can be a mechanism for human and national development in Ghana and Africa.
- How would mercantilism undermine the international trade system?



# Topic Two-Theories of the Global Political Economy- Liberalism and Marxism

- **Liberalism**

- Liberalism is the direct opposite of mercantilism. This theory emerged in Britain in the 18<sup>th</sup> century to challenge the dominance of mercantilism in government circles (Oatley 2008). Adam Smith and David Ricardo are the well-known scholars associated with liberalism. Liberalism is also called capitalism and commercial liberalism. Capitalism is an economic ideology characterized by the private ownership of wealth-creating assets, free markets, and freedom of contract (Bardes et al 2009:13). Commercial liberalism is “an economic theory advocating free markets and the removal of barriers to the flow of trade and capital as a locomotive for prosperity” (Kegley 2009:284). As a theory in international political economy, liberalism advocates for the free movement of goods and services across national borders.

# Liberalism

- Currently, it is the dominant theory in the global economy as evidenced by the increases in the volume of trade among countries in the world. This is vigorously promoted by the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), and other regional trading agreements. Ghana's economy, for instance, has been liberalized, as goods are exported to other countries and Ghanaians also import a lot from other countries. Scholars like Kegley (2009) and Oatley (2008) have noted that liberals in the global economy share the following assumptions and principles;

# Assumptions/Principles of Liberalism

- The goal of economic activity is to enrich individuals and maximize global welfare, not to enhance the power of the state. This indicates that trade among countries in the international system should enrich individuals all over the world.
- Countries do not enrich themselves by running trade surpluses. Countries gain regardless of whether the balance of trade is surplus or deficit. This means that a country with trade deficit still benefits from international trade because the country may still have access to certain goods and services for domestic consumption and industrial production, which would be impossible without being in trade deficit. Ghana has a balance of trade deficit but we are able to use sophisticated goods like cars, hospital equipment, and computers that we cannot produce locally. What this means is that having trade deficit is not always bad for a country. For example, the United States of America has the largest economy in the world, yet in her trade with the Peoples' Republic of China (China); she has been in deficit for some time now.

# Assumptions/Principles of Liberalism (Cont'd)

- Countries are not necessarily made wealthier by producing manufactured goods rather than primary commodities. Instead countries are made rich by producing what they can produce at relatively low cost at home and trading them for goods that can be produced at home only at relatively high cost.
- Put differently, countries should focus on the areas of production they can do best (at a lower cost compared to other countries). This is consistent with comparative advantage, which was advocated by David Ricardo. Comparative advantage implies that countries will benefit if they specialize in those goods they can produce comparatively cheaply and acquire through trade goods that they can only produce at a higher cost (Kegley 2009).

# Assumptions/Principles of Liberalism (Cont'd)

- Economic relations among countries in the global system are harmonious, not conflictual. When countries trade among themselves it leads to peaceful relations in the world.
- Individuals and business firms are the major players in the global economy, not the states. This implies that individuals should be at the helm of affairs when it comes to managing both the domestic and the international economy. Liberalism goes further to argue that, this does not mean states are not important, rather states are expected to provide an enabling environment so that the private sector can be the focus of both the domestic and the international economy. According to liberals, states are to perform functions such as establishing clear rights regarding ownership of property and resources, a judicial system that must enforce the rights and contracts that transfer ownership from one person to another, and resolve market failures.

# Sample Questions

1. How do Africans benefit from the adoption of liberal economic policies by their governments?

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2. Discuss any two assumptions of liberalism.

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# Marxism

- Marxism started with the work of Karl Marx. Scholars such as Oatley (2008), (Kegley 2009), and Payne (2007) have summed up Marxists worldview in this way: Marxism is primarily against capitalism. Marx and other socialists (socialists believe that the state should control the major, if not all, sectors of the national economy) scholars have noted that capitalism has given rise to two antagonistic classes: the bourgeoisies (those who own the means of production-capital, land, etc) and proletariats (those who work for the bourgeoisies in exchange for wages).
- Marxists argue that the proletariats are paid little compensations for their services, and this would in due course lead to a class struggle or revolution, where the proletariats would take over the state and capitalism and private property would no longer be part of the state. Thus, as more workers become impoverished, the proletariats would rise up, overthrow the capitalist system, and replace it with socialism (state controlling the economy). Marxism writers of the international political economy have noted that the global economy is controlled by the capitalists global north (rich countries and their firms) and they exploit the global south (poor countries). This exploitation indicates that the international economy does not benefit all countries equally. Most gains go to the capitalists' global north countries. Ultimately, Marxists want equitable distribution of wealth and income between global north and global south countries.



# Sample questions

- Explain how the Marxists worldview might narrow the development gap between rich and poor countries in the global system.

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# Conclusion

- In this session we have been able to look at three central theories that underpin global political economic relations. Though different scholars and countries subscribe to certain theoretical persuasions, what is very clear is that all the three theories have relevance in the global system.



# References

- **Thomas Oatley (2013)**, International Political Economy (fifth Edition): Interests and Institutions in the Global Economy, Pearson Longman.
- **Bossman E. Asare (2016)**. International Politics: The Beginner's Guide- Updated and Expanded, Digibooks, Ghana.
- **Charles W. Kegley Jr. and Shannon L. Blanton (2010)**. World Politics: Trend and Transformation, Wadsworth: Cengage Learning, USA.
- **Robert Gilpin (2000)**. The Challenge of Global Capitalism: The World Economy in the 21st Century, Princeton
- **Richard Payne (2007)**. Global Issues: Politics, Economics, and Culture. New York: Pearson Longman.
- **John Ravenhill (Editor) (2005)**. Global Political Economy. Oxford University Press.
- **Joshua Golstein and Jon Pevehouse (2006)**. International Relations, Pearson Longman, USA.