



Core Concepts of Intl. Political Economy (IPE) and Intl. Governance of Trade

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POLI 150

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Today's Class

- Foundational concepts of IPE



Key Terms

- Globalization
- Comparative Advantage
- Absolute Advantage
- Heckscher-Ohlin Trade Theory
- Protectionism
- Tariffs
- WTO



Central Question

How does the economy matter for international relations?



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- If any concepts are unclear, please ask questions!



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- This describes the increasing integration of national economies into international networks, as economic exchange spreads across borders. These components include:
 - Goods and services
 - Intellectual property
 - Money (“capital”)
 - People
- As a result, the economy of almost every state is now linked to a broader, global economic system.



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- Globalization generates common and conflicting interests both within and across states.



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- **Backlash:** 2010 to present?



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- These measure globalization both *de facto* and *de jure*: both real indicators of globalization as well as legal and regulatory indicators of it.



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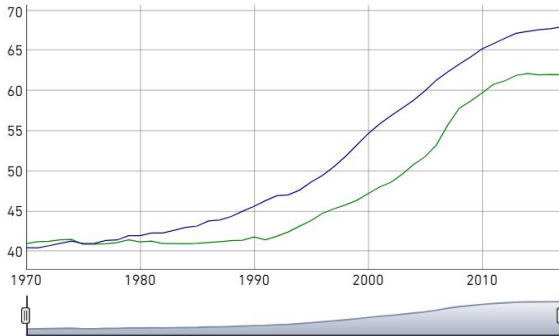


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 - De facto: trade in goods and services, FDI and capital flows, etc.
 - De jure: trade regulations, taxes, tariffs, investment and capital restrictions.



Social Globalization

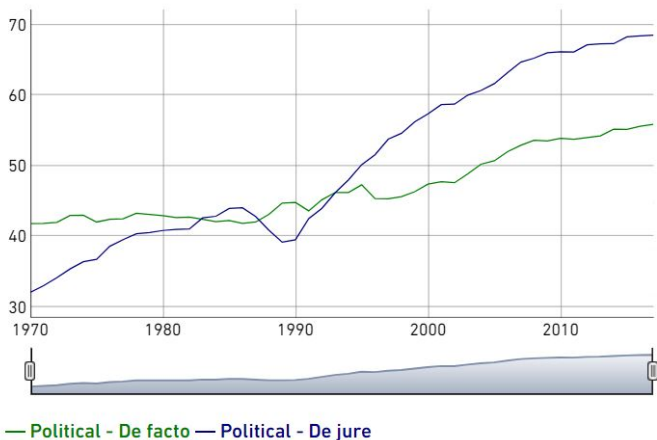


— Social - De facto — Social - De jure

World	▼	Social Globalisation	▼	De facto	▼
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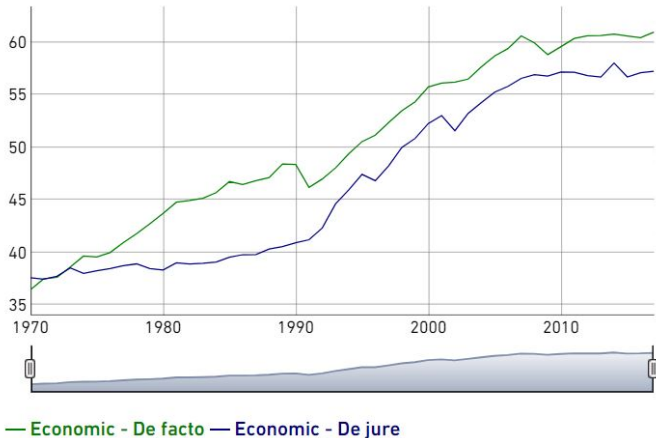


Political Globalization





Economic Globalization





Comparative and Absolute Advantage

- So, what determines what products and services firms and states send out into this global economy?
- Answering this means first defining **comparative advantage** and **absolute advantage**.
- Extended example: mowing one's lawn.



Comparative and Absolute Advantage

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- This UNC alum can mow her lawn faster than anyone else, **but should she?**



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- **Absolute advantage:** the ability of a producer to generate a greater number of goods than other producers using the same starting amount of resources.



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- Suppose also that the Duke alum's next best alternative to mowing a lawn is serving drinks at a local bar for \$8 per hour.
 - Thus, Duke alum's **opportunity cost** for mowing the lawn is \$32, as it would take them 4 hours to mow the lawn.



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- But our Duke alum has a **comparative advantage** in mowing lawns because he has the lower opportunity cost ($\$32 < \1000).



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- **Comparative advantage:** the ability of a producer to generate a good more efficiently than other goods it could create, so that its most efficient use of resources is to make that specific good/service.
- Another way to say this is that an actor has a comparative advantage if they can produce a good/service at a lower opportunity cost than other actors.



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- Now, scale this up to the level of international economics...



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- Economics, going all the way back to Adam Smith's *Wealth of Nations* (1776), has recognized the benefits of specializing production.
- Assuming prerequisites are met (including a large enough market to sell all those goods that are produced by specialized producers, and a free market), **production according to comparative advantage will result in more goods being available at the cheapest possible price.**



Comparative and Absolute Advantage

- This implies that free trade, where all producers can specialize by producing the goods for which they have a comparative advantage, can be mutually beneficial. This still holds even if one state has an absolute advantage in producing all goods.



Free Trade vs. Mercantilism

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- Recall that mercantilism explicitly prevented free trade, restricting trade within an empire via **trade barriers**: state restrictions on the international flow of goods and services.
- Eventually, free trade and globalization won out, leading to the eras of globalization from prior slides.



Grand Theories of IPE

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- **Mercantilism:** governments direct and restrict the economy (also sometimes called economic nationalism).
- **Marxism:** the structure of economy determines politics, necessitating the importance of collective ownership of the means of production by workers.



Grand Theories

Table 1.1 Three Traditional Schools of International Political Economy

	Mercantilism	Liberalism	Marxism
Most Important Actor	The State	Individuals	Classes, Particularly the Capitalist Class
Role of the State	Intervene in the economy to allocate resources	Establish and enforce property rights to facilitate market-based exchange	Instrument of the capitalist class uses state power to sustain capitalist system
Image of the International Economic System	<i>Conflictual:</i> Countries compete for desirable industries and engage in trade conflicts as a result of this competition.	<i>Harmonious:</i> The international economy offers benefits to all countries. The challenge is to create a political framework that enables countries to realize these benefits.	<i>Exploitative:</i> Capitalists exploit labor within countries; rich countries exploit poor countries in the international economy.
Proper Objective of Economic Policy	Enhance power of the nation-state in international state system	Enhance aggregate social welfare	Promote an equitable distribution of wealth and income



Heckscher-Ohlin Trade Theory

- States (their industries) tend to have a comparative advantage in producing *something*, but how do we determine what that thing is?
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 - 4 Human capital: skilled labor (sometimes combined with Capital).



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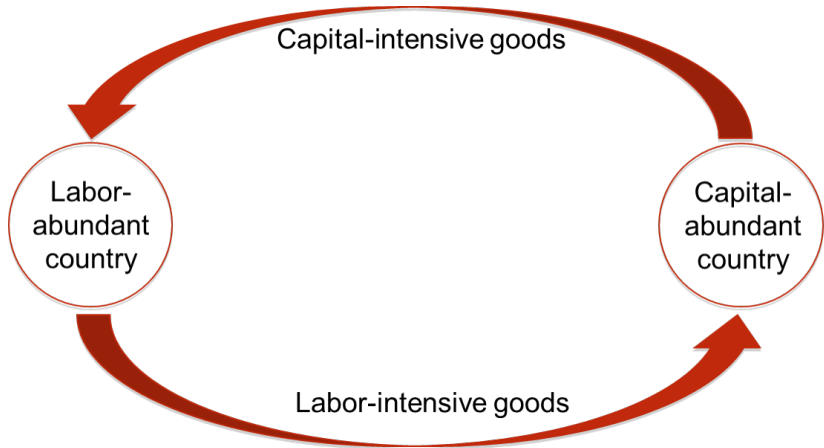


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- States will import goods that require factors which are scarce in the state, as they will not have a comparative advantage in producing them.



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- This topic will come up in the next lecture.



Trade Barriers and Protectionism

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- Usually these barriers are synonymous with **protectionism**: state-imposed barriers to imports.



Methods of Protectionism

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- **Quota:** restriction on how much of a foreign good can be imported.
- **Nontariff barriers:** rules often related to quality of imports that naturally restrict quantity.

Practically every state in the international system engages in protectionism, most commonly via tariffs, but tariff rates have fallen over time.

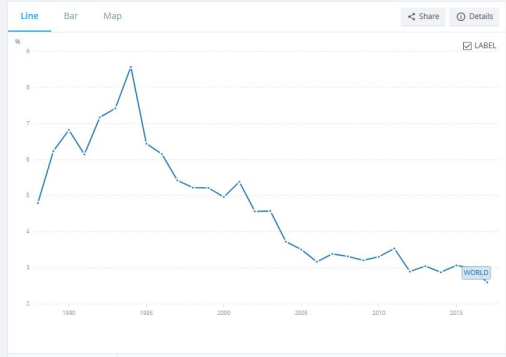


Tariff Rates Over Time

Tariff rate, applied, weighted mean, all products (%)

World Bank staff estimates using the World Integrated Trade Solution system, based on data from United Nations Conference on Trade and Development's Trade Analysis and Information System (TRAINS) database and the World Trade Organization's (WTO) Integrated Data Base (IDB) and Consolidated Tariff Schedules (CTS) database.

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International Institutions and Trade

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- This led to the creation of the Bretton Woods institutions, of which the relevant one for trade is the World Trade Organization (originally called the GATT when it was formed in 1947, with formal change to WTO in 1995).
- **The WTO's goal is to encourage multilateral reduction of trade barriers, and also provide a dispute resolution mechanism.**



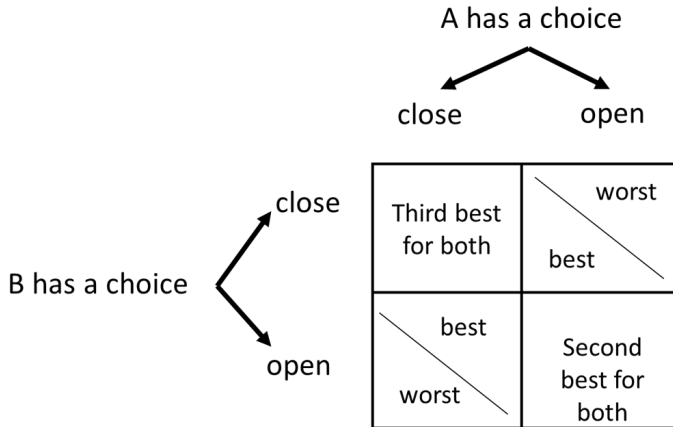
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- The choice between free trade and protectionism is effectively a Prisoner's Dilemma...



Tariffs and Free Trade





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- The incentive structure of the situation gives both countries an incentive to defect by engaging in protectionism.



WTO Solutions

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- WTO rules are “self-enforcing” – they work by letting states punish other states “legally.”



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- Negotiations stalled after the start of the Doha Round (2001), and by 2015 it was clear that the WTO had lost organizational momentum.
- This led to the rise of...



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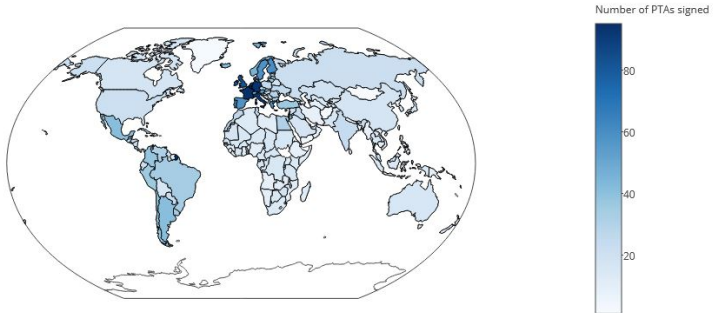


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- Have grown increasingly complex (including ties to human rights).



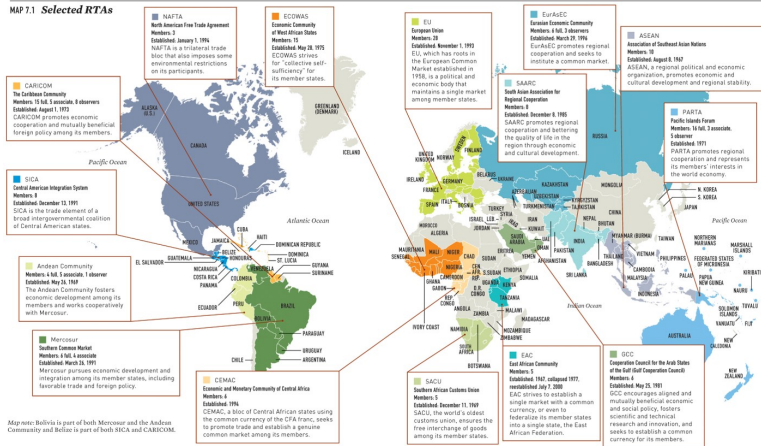
PTAs Worldwide





Selected PTAs Worldwide

MAP 7.1 Selected RTAs





WTO Shortcomings

- WTO has been criticized as especially responsive to rich developed states (most of whom used protectionism while becoming rich and developed) and neglecting the interests of poorer states.



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- Many poorer states with primarily agricultural economies view the WTO as stacked against their interests for insisting on lowering trade barriers while allowing rich states like the US to keep agricultural subsidies in place.
- WTO has also been criticized for prioritizing economic liberalization over environmental protection.



Closing Questions

Do the benefits of free trade accrue equally to all citizens? Does this have any relation to the persistence of protectionism?