

- 1) Trade is not only an economic issue, but a highly political one
 - a) Crosses state-defined borders
 - b) Regulated by states that are pressure by interest groups
 - c) Occurs within trade regimes maintained by and negotiated among states
- 2) Scholars of international political economy (IPE) studies the politics of international economic activities.
 - a) Most frequently studied: trade, monetary relations, and multinational corporations.
 - i) Economic integration of Europe and other regions, and the international politics of the global environment received special interest recently.
 - ii) Deal primarily with political bargaining over economic issues
- 3) Two major approaches are mercantilism, generally shares with realism the belief that each state must protect its own interests at the expense of others.
 - a) Not relying on international organizations to create a framework for mutual gains
 - b) Emphasizes relative power
 - i) what matters is not so much a state's absolute amount of well-being as its position relative to rival states.
 - c) Holds that the importance of economic transactions lies in their implications for the military.
 - i) States worry about relative wealth and trade because these can be translated directly into military power.
 - d) Economic liberalism, an alternative approach, generally shares with liberal internationalism a belief in the possibility of cooperation to realize common gains
 - i) holds that by building international organizations, institutions, and norms, states can mutually benefit from economic exchanges.
 - ii) It matters little to liberals whether one state gains more or less than another—just whether the state's wealth is increasing in *absolute* terms.
- 4) Liberalism and mercantilism are *theories* of economics and also *ideologies* that shape state policies.
 - a) Liberalism is the dominant approach in Western economics, though more so in *microeconomics* than in *macroeconomics*.
 - b) Marxism is often treated as a third theoretical/ideological approach to IPE, along with mercantilism and liberalism
 - i) Marxist approaches are attuned to economic exploitation as a force that shapes political relations.
 - c) Most international economic exchanges contain some element of mutual interests—joint gains that can be realized through cooperation—and some element of interests.
 - i) Game theorists call this a “mixed interest” game.
 - d) Liberalism emphasizes the shared interests in economic exchanges, whereas mercantilism emphasizes the conflicting interests.

- i) For liberals, the most important goal of economic policy is to create a maximum of total wealth by achieving optimal *ef ciency* (maximizing output, minimizing waste).
 - ii) For mercantilists, the most important goal is to create the most favorable possible *distribution* of wealth
 - iii) Liberal economists believe in markets.
 - (1) The terms of an exchange are defined by the price at which goods are traded.
 - (2) Often the *bargaining space*—the difference between the lowest price a seller would accept and the highest price a buyer would pay—is quite large.
- 5) When there are multiple buyers and sellers of a good, prices are determined by market competition
 - a) Free markets are supposed to produce stable patterns of buying and selling at a fairly uniform price
 - b) Market price: sellers know that an effort to raise the price would drive the buyer to seek another seller
 - i) Buyers know that an effort to lower the price would drive the seller to seek another buyer
 - ii) Bilateral relations are less important than in security affairs
 - iii) The existence of world markets reduces the leverage that one state can exert over another in economic affairs
 - c) Buyers vary in the value they place on an item. The supply curve:
 - i) Price rises → fewer people buy
 - ii) Price lowers → more people buy
 - iii) In a free market, the price at which the supply and demand curves cross is the equilibrium price.
 - iv) Sellers are willing to supply the same number of units that buyers are willing to purchase
 - (1) The supply and demand system does not always produce stability
- 6) Liberalism sees individual households and firms as the key actors in the economy and views government's most useful role as one of noninterference in economics,
 - a) Liberals disdain realists' obsession with international borders, because borders constrain the maximum efficiency of exchange.
 - i) Trade-based wealth depends on international political cooperation, and violence usually does not work well in pursuing such wealth.
 - ii) Liberals argue that interdependence inherently promotes peace, an idea introduced earlier
- 7) Mercantilists, economics should serve politics: the creation of wealth underlies state power.
- 8) Power is relative, trade is desirable only when the distribution of benefits favors one's own state over rivals.

- a) The terms of exchange shape the relative rates at which states accumulate power and thus shape the way power distributions in the international system change over time.
- 9) The balance of trade is the value of a state's imports relative to its exports
- a) A state that exports more than it imports has a positive balance of trade, or trade surplus
 - b) A state that imports more than it exports has a negative balance of trade, or trade deficit
- 10) Comparative advantage is the overall success of liberal economics is due to the substantial gains that can be realized through trade.
- a) States differ in their ability to produce certain goods because of differences in natural resources, each state should specialize in producing the goods for which it has a comparative advantage.
 - b) A state need not have an absolute advantage (that is, be the most efficient producer in the world) in producing one kind of good in order to make specialization pay
 - c) A free and efficient market requires many buyers and sellers with fairly complete information about the market.
 - i) Deviations from these conditions, called *market imperfections*, reduce efficiency.
- 11) No world government owns industries, provides subsidies, or regulates prices.
- a) Nonetheless, world markets are often affected by politics. When states are the principal actors in international economic affairs, the number of participants is often small.
 - b) When there is just one supplier of an item—a *monopoly*—the supplier can set the price quite high
- 12) Another common market imperfection in international trade is *corruption*
- a) individuals may receive payoffs to trade at nonmarket prices. The government or company involved may lose some of the benefits being distributed, but the individual government official or company negotiator gets increased benefits
 - b) Politics provides a *legal framework* for markets—ensuring that participants keep their commitments, contracts are binding, buyers pay for goods they purchase, counterfeit money is not used, and so forth.
 - c) In the international economy, lacking a central government authority, rules are less easily enforced.
 - i) As in security affairs, such rules can be codified in international treaties, but enforcement depends on practical reciprocity
 - d) *Taxation* is another political influence on markets.
 - i) Taxes are used both to generate revenue for the government and to regulate economic activity by incentives.
 - (1) Taxes applied to international trade itself, called *tariffs*, are a frequent source of international conflict

- 13) Sanctions Political interference in free markets is most explicit when governments apply *sanctions* against economic interactions of certain kinds or between certain actors
- 14) Enforcing sanctions is always a difficult task, because participants have a financial incentive to break the sanctions through black markets or other means
- a) Without broad, multilateral support for international sanctions, they generally fail
- 15) Self reliance or autarky is avoiding trading and trying to produce everything it needs by itself.
- 16) The protection of domestic industries from international competition is protectionism
- a) demands of important domestic industries
 - b) regardless of overall national interest
 - c) States often protect an infant industry
 - i) it starts up in the state for the first time, until it can compete on world markets
- 17) The World Trade Organization (WTO) is a global, multilateral IGO that promotes, monitors, and adjudicates international trade
- a) The WTO is the successor organization to the General Agreement on Tariffs and Trade
 - b) The Generalized System of Preferences (GSP), by which rich states give trade concessions to poor ones to help their economic development.
 - c) Beyond free trade areas, states may reduce trade barriers *and* adopt a common tariff toward states that are not members of the agreement. This is known as a *customs union*.
 - i) If members of a customs union decide to coordinate other policies such as monetary exchange, the customs union becomes a *common market*.
- 18) A cartel is an association of producers or consumers, or both, of a certain product—formed to manipulate its price on the world market.
- a) The most prominent cartel in the international economy is the Organization of Petroleum Exporting Countries (OPEC). Its member states together control hundreds of billions of dollars in oil exports annually—about 40 percent of the world total and enough to significantly affect the price
 - b) Interest groups not organized along industry lines also have particular interests in state trade policies.
 - c) If one state protects its industries, or puts tariffs on the goods of other states, or violates the copyright on works produced in other countries, the main resort that other states have is to apply similar measures against the offending state.
 - i) The use of reciprocity to enforce equal terms of exchange is especially important in international trade, in which states often negotiate complex agreements—commodity by commodity, industry by industry—based on reciprocity.
- 19) The economies of the industrialized West are often called mixed economies.
- a) The globalization of the world economy has fueled a countercurrent of growing nationalism in several world regions where people believe their identities and communities to be threatened by the penetration of foreign influences.

- i) Environmental groups also have actively opposed the unrestricted expansion of trade, which they see as undermining environmental laws in industrialized countries and promoting environmentally harmful practices worldwide