

International Political Economy and its relation to International Finance

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ABSTRACT:

International political economy (IPE) is a rapidly growing study that appeared as sub-discipline of the International Relations which appeared after World War II, different definitions were given to International Political Economy by researchers, where some define it as an interaction between states and markets at international level, others define it as the study of the interplay of economics and politics in the world arena, but what was agreed on that IPE is an interdisciplinary study, that relates different fields together as international economics, international finance, international trade, multinational corporations and other fields. A focus on International finance which is a study that touches every aspect of World economy especially nowadays with the globalization and having a free global financial market, international finance affects the welfare of billions of investors; foreign investors can contribute in the economic growth and also can be a trigger to economic crises (Tomz, 2012, p.692). As there is inseparable mix between politics, economics, and finance there are always debates which could lead to political conflicts, which were due to the existence of an open economy, which created a volatile exchange rates, and also on the other side role of the international organizations such as the IMF, World bank and WTO play in political economy decisions. This paper will focus mainly on the relation between international political economy and international finance on different aspects, as global financial markets, volatility of exchange rate, and the role of international organizations.

Keywords: International political economy, International Finance, Exchange Rates, Financial Markets, International Organizations

INTRODUCTION

As the World becomes attached together due to globalization, almost every aspect in social sciences is related together, and that any event that could happen in any nation, could easily affect the whole World. After World War II and with the start of the Cold War International Relations arose and by the global economic development in 1970s (Ozkan, 2012) a new sub-disciplinary of international relations that has appeared which is International Political Economy (IPE), a study that researchers view it differently, where some researchers view it as an interplay of economics and politics in World affairs (Woods, 2008), Giplin has defined IPE as an interaction between "the state" and the "market" and the problems emerging from the coexistence of "the state" and "the market" in the modern World (Ozkan, 2012), (Giplin, 1987). Veseth defined IPE as an attempt to understand international and global problems using interdisciplinary areas, and that Veseth has viewed IPE as "Problematique" which means a set of problems that bear some relationship to one another. Most researchers agree IPE is an interdisciplinary field within the International relations study.

One of the main interdisciplinary relation that International Political Economy has is with International Finance which is a study that appears all over the World, and cannot be ignored, where it affects the welfare of billions of people, foreign investors can contribute to economic growth, but can also trigger severe economic crisis (Tomz), International finance deals with foreign exchange rates, financial regulations and foreign aid from international financial institutions as International Monetary Fund (IMF), World Bank and World Trade Organization (WTO) which is related to international trade, as they also play an essential role between finance and nations' relations.

" The belief that an adequate understanding of the nature of any phenomenon and an adequate assessment of its value are to be gained by considering it in terms of the place it occupied and the role which it played within a process of development" (Mandelbaum, 1971).

From the above quotation the researcher needs to highlight the purpose of the paper, which is to focus on the relation between international political economy and international finance as a phenomenon, with taking into consideration that the relation is not that straight forward as it might appear (Langley), and that there are actors that could enter in the relationship between the two areas of study.

HISTORY SPEAKS

In order to understand what IPE is, it is required to know that political economy is about the sources of political powers, international political economy do appear when there is struggle for power (Collier, 2006). In general IPE do investigates the role of states and markets in global economic developments, also to examine how institutions are established, developed and how they could affect the World economy.

Before International Political Economy and its relation with International finance do integrate, Bretton Woods system was a system that related nations to each other through currencies, where countries fix their currencies to dollar, and that the U.S government at that time in 1944 promised to convert all dollars to gold at 35\$ per ounce (Woods, 2008), and that exchange rates were based to a dollar-gold standard. Under the Bretton Wood system international institutions were strengthened as World Bank, and International Monetary Fund ((Veseth).

Bretton Woods System collapsed in 1970s as it made a pressure on U.S currency where President Richard Nixon has decided to devalue the dollar in order to protect the domestic responsibilities of the United States over international one, and since this period the fixed exchange rate system no longer exists and that floating exchange rate is the one that do handle the international relations between nations, this is an international political economy of international finance discipline.

After the collapse of Bretton Woods system, International institutions as World Bank and mainly International Monetary Fund (IMF) were playing a more important roles between countries and their financial needs, where IMF started to offer financial and technical assistance to develop transition economies (Woods, 2008), before that International Monetary Fund had a role to ensure a stable exchange rate regime, while the World Bank role was to facilitate private investment and reconstruction mainly in Europe during the period of Post Wars. During the 1980s negotiations were done between well developed countries and produced World Trade Organizations (WTO) that was officially established in 1995, which is a forum for governments to negotiate trade agreements, it is a place for governments to settle a trade disputes, and it operates a system of trade rules(World Trade Organization).

All of these relations where part of the International Political Economy of International Finance and increased economic and financial relations between countries, and that any economic crisis happen in one country will certainly affect the whole World, where at the period of 1980s there was the international crisis that arose due to the floatation of the exchange rate, and have made the oil importing countries lend more from commercial banks, and interest rate increases in industrial countries trying to control inflation(IMF), during this critical period there were great depression in many countries, especially the developing ones.

Moving more with history, in the late 20th century and with the emergence of the 21st century more relations between countries appeared, due to advancement in technology, trading, and financial markets, which appeared due to globalization that the world become one market , and that globalization is the main actor that affected the relation between international political economy and international finance, where there have been integration between countries in areas of finance, trading and economics, which led to deepening political and World economy integration in one way or another, and at the same time the International Monetary Fund and World Bank role toward this integration have increased significantly.

The increasing integration of the World economy due to globalization has many positive consequences and also negative one (Ozkan, 2012), and with the existence of the known quote "The survival of the strongest" the developed countries placed more power on the international institutions, with their relation with less developed countries. This is was mainly shown in the global financial crisis that took place in the period of 2008-2009 that

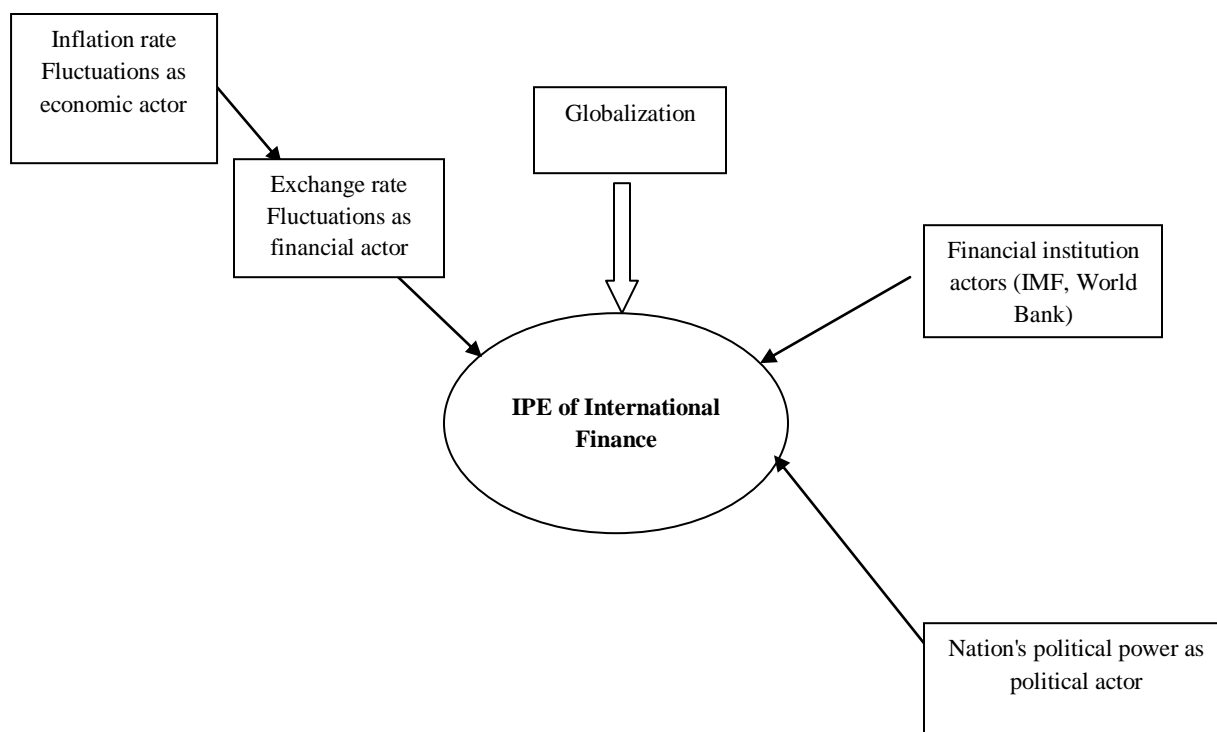
were due to the collapse of mortgage lending in the United States, and the instability happened in the derivatives market and debt market, that affected the whole globe and witnessed large imbalances in global capital flows, making the developing countries request lending arrangements from IMF in a form called "Stand By Arrangement" which means to create a tailored lending arrangements (IMF), with also tailored interest rate payments and this makes the IMF play an important role as another essential actor in the International Political Economy of International Finance, making certain requirements that need to be maintained by these countries in order to have the financial support from IMF.

Not only the Global crisis was an example that resemble the relation between international political economy and international finance, there is another example for this relation, which was the emergence of the Euro currency that was introduced in 1999 in the European Union zone, the single currency adopted in the European Union, there is no separation in the relation between IPE and International Finance regarding the Euro currency, it does have political, and economic goals in creating the Euro currency, where the political goal was to make binding relation with the European Union members (Veseth), and this binding is found in economic perspective, which will directly affect the finance perspective, and that there will be no exchange rate cost in the European Union zone, adding to this it increased the financial stability in this area, contributed to lower inflation, and has facilitated international trade, and that the fact that markets were not controlled by single nation, it is a market that relates all the European Union together through the Single currency Euro, which makes the European Union a more powerful voice in the World (EU Commission). The size and strength of the Euro area protects it from external economic shocks, such as oil prices fluctuation and turbulence in the currency market (EU Commission), but also any country in the European Union has a financial crisis (like Greece) it will affect the whole market, which is considered as a draw back in the European Union.

INTERNATIONAL POLITICAL ECONOMY OF INTERNATIONAL FINANCE: THE MODEL

With the rise of globalization, International Political Economy and its relation with International finance were more related, there has been a debate by academics and policy experts about whether financial globalization is considered as a catalyst for economic growth and stability around the World, or it is an injecting dangerous and often costly volatile into the economies of growing middle-income –countries (IMF, 2007). The idea is that with globalizing the World highlighted the differences between developed countries and developing ones, adding to this it showed the level of power each country has and how can it use it to control the economic and financial markets.

In order to understand this more, the author has made a model that show the actors that play important role in the relation of International Political Economy and International Finance.



It was viewed that International Relations mean that nations are the center of all relations (Veseth), Nations are vital actor in any relation but from this model the International Political Economy of International Finance shows that there are various actors that could integrate in the relation more than it could be imagined, first IPE is by nature an interdisciplinary field that is affected widely by globalization which is showed in the model as the source of impact on IPE of International Finance, and how globalization has led to the integration of the whole world together, another actor is the Economic actor which is part of IPE discipline that deals with changes in inflation rate, unemployment, and then this introduce finance which cannot by any means be separated from the global economic market, and with the changes happen in the inflation rate, this will affect the exchange rate fluctuation and will eventually affect the trade and the foreign exchange market and the actor that plays the essential role in this relation, but not the center is the Nation's political power how could it affect the decisions of the international financial institutions, and also affecting aggressively the financial market, affecting the relations between nations, that was the reason of the existence of the international relations as it was existed in order for countries maintain cooperation, instead of going to war against each other, and this cooperation could be done financially, economically and above all politically.

When looking at the model of the relationship between international political economy and international finance, it is worth saying that there are 3 main assumptions needed to be at the back of our minds:

First people live in a World of scarce resources, second that political actors seek to survive, and finally decision makers act if they are rational (Sobel, 2013), and decision makers could be viewed as the government and with the factors surrounding governments due to globalization effect, so this means the model show how powerful political actors could do whatever could be done in order to reach to survival.

Another aspect in International Political Economy and its relation with International Finance is that there is always continuous expansion of Multinational Corporations and this make the relation between nations more interrelated, most of the countries are now host countries and that all countries do compete for capital, technology and jobs in the global market for multinational investment (Veseth).

CONCLUSION:

Since the late of 20th century and the start of 21st century Globalization have transformed the international system, integrating the whole World technologies, developments, information telecommunications and financial markets (Ozkan, 2012) together, Globalization have affected International Political Economy and deepening the integration of the World economy (Ozkan, 2012), International Political Economy is an interdisciplinary study that relates various disciplines together, one of this discipline is International Finance, which is interrelated with International Political Economy. From this conceptual model used in this paper it was reached that there are different actors affecting the relation more, and that IPE and its relation with International Finance cannot be separated. One main actor is the financial institutions and their role in dealing with IPE relations, and their role has been essential in any nations' relations.

Finally the World relations have been interrelated and interchangeable across time, and that various events happen nowadays which could affect the relation of nations together and it's not only concerned with nation's relation one another, but there are other actors that need to be considered when focusing on International Political Economy discipline.

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BIOGRAPHY:

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