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Globalization, New International Political Economy and Global Economics

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International economics is the first subfield of economics. It is this subfield of economics that established the classical economics of Adam Smith and Ricardo. It is from this subfield that classical economists launched their intellectual revolt to mercantilism, the older school of thought that views trade between nations from the perspective of power rivalry between nations. Therefore, from classical economics to neo classical economics, international economists have largely faithfully modeled economic interactions between nations in the same way that economists model interactions between individuals and between firms, that is, economic exchanges without consideration to their background of and implications for issues of war and peace. For instance, in the neoclassical theory of international trade, trade between nations is modeled basically as exchanges between economic parties with different endowments and technologies and, these parties do not resort to the explicit or implicit use of force in their interactions.

The theory of international trade has been enriched by the study of strategic trade policy in the 80s. Under the assumption of imperfect competition and scale economies, Brander and Spencer [1] proved that, under certain assumptions, government can use export subsidies to lend support to its home firm for gaining market share in a third country. The aggressive output choice by the home firm, backed up by its government, will turn out to be credible and force foreign firm to cede its market share and profit. Similarly, tariffs and R&D can also play strategic role through shifting profit toward the home firm, as discussed in Brander and Spencer [2] and Spencer and Brander [3]. Thus, things have moved one step forward: the possibility of strategic intervention has been incorporated into the model of international trade. In addition, works done by Markusen [4] and Helpman [5] have served well to explain the existence of multinational firm through the owning of product-specific asset that give it competitive advantage over foreign rivals, something that was not explained by neoclassical model. However, all these efforts still fall short of introducing hard power elements such as war and soft power elements such as diplomacy and ideology.

On the other hand, researchers of international relations had once largely considered issues of war and peace and power independent of the issue of economics and finance. The high politics of war and diplomacy dictates the low politics of commerce and finance was their basic tenet. Morgenthau [6] is a good example. However, events in the 70s and 80s had led this basic tenet to be severely challenged in the academic field of international relations. Events in world affairs show that economic forces powerfully drive political decisions including that of high politics of war and diplomacy. For instance, the oil prize hike greatly affected American Middle East policy and the economic stagnation faced by the former Soviet Union in the 1970s led to the policy of détente. There arose the new discipline or school of international political economy which brings economic forces and non state actors (such as multinational corporations and international organizations) into the center stage of international politics. Keohane and Nye [7] is the pioneer in this field. In the last two to three decades, the happening of several major events argues for closer and more rigorous analysis of the interactions between the high politics of war and diplomacy and the low politics of commerce and finance. These major events include the open door policy and economic reforms of China, the dissolution of the former Soviet Union and resurgence of Russia, the rise of the non western economies and the fundamental changes and new reality brought by globalization and new technology. As shown by the financial crises of Asia in late 1990s, the international mobility of money brought about by globalization had created economic forces more powerful than states. It is therefore clear that the traditional framework of international economics is not enough to provide a full and in depth understanding of the new global political economy.

On the other hand, the rise of non western powers such as China, Russia, India and Brazil had fundamentally reshaped global geopolitics. The world is no longer uni-polar and dominated by America economically or politically. The working of world politics and economics had become more complicated. It is therefore high time that the rigorous tools of economics be applied to the issues of global political economy where the forces of both war and diplomacy and commerce and finance powerfully affect each other.

On the eve of the First World War, the world economy was highly integrated. That close international economic integration led the general public to think that a major war among the great powers was impossible. Yet, the First World War broke out. After the great destruction of the First World War, the economic break down of the inter war era contributed to the outbreak of the Second World War. Both wars were unprecedented in the destruction and suffering caused. Consequently, in the post war era, new international economic institutional framework (that is, the Breton Woods System and the GATT) was created to manage international economy so as to avert another great war. Furthermore, the field of international relations was created in America to understand the causes of wars in general and the two world wars in particular. It is possible that if the discipline of international relations existed long before the two world wars, the great destruction and human sufferings of the two world wars could be avoided. With this solemn historical experience in mind, I urge the research into the new reality of the greatly integrated global political economy, especially the interactions between the high politics of war and diplomacy and the low politics of commerce and finance.

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