

International Political Economy

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1. Beyond System-level Analysis

- *1.1 Structural Realist Theories*
 - *Hegemonic Stability Theory*
 - ⇔ *comparison with pre WWII*
 - *Realist Hegemonic Stability*
 - *Economist Hegemonic Stability*
 - *Security Externality and System Structure*
- *1.2. Interdependence and Institutions*
 - ⇔ *based on post-WWII developments*
 - *Complex Interdependence Theory*
 - *Liberal Institutional Theory*
- *1.3 Beyond system-level analysis*
 - *Empirical challenges*
 - *Theoretical developments*

1. Beyond System-level Analysis

The historical context

- *The Genealogy of Economic Openness*
 - *Periods of economic openness (→ free trade, capital mobility)*
 - *Beginning of the 20th century & post WWII (Western World)*
 - *The global spread of open economic development (1990s~)*
 - *Characteristics of the current “economic globalization”*
 - *Increase in the number of nation states/Third “wave of democratization” (and the collapse of the Communist bloc)/Underwritten by international economic organizations*
 - *Survived the Global Recession of 2008-09*
 - *The collapse of the open global economy*
 - *From Early 20th Century to the 1930s*
 - *Collapse of the Gold Standard and the formation of trade blocs / Collapse of democracy (“wave of fascism”)/ Absence of international economic organizations/agreements*
- *Theorizing Economic Openness*
 - *Began in the late 1970s (with the decline of American Hegemony)*

1. Beyond System-level Analysis

1.1 Structural Realist Theories

- **Structural Realism (= Third Image)**
 - Anarchy (\Leftrightarrow Hierarchy) and unitary actor
 - Security dilemma and Relative gains
- **Hegemonic Stability Theory**
 - **International finance** (\Leftrightarrow Kindleberger)
 - Financial instability and “Beggar-thy-neighbor Policy” (\Leftrightarrow collective action problem)
 - Hegemon (= provider of public goods) and the logic of public good provision
 - **International trade** (\Leftrightarrow Krasner)
 - When free trade benefits? \rightarrow Structure dependent free trade
 - Contributions and problems
 - **Beyond HST: Alliance Theory** (\Leftrightarrow Gowa)
 - Security externalities, polarity, and free trade
- **Problems of Realist IPE Theory**
 - Absolute gains and relative gains debate
 - Economic globalization sans hegemon

1. Beyond System-level Analysis

1.2 Interdependence and Institutions

- **Complex interdependence** (⇔ Nye and Keohane)

- ➔ **International Organization Policymaking**

- Critique of realism
- Interdependence and bargaining power
- Issue analysis (⇔ Structural analysis)

- **Liberal Institutionalism** (⇔ Keohane)

- ➔ **Why International Institutions?**

- Anarchy and unitary actor (➔ third image)
- Reiterated prisoners dilemma, Coase theorem, and information asymmetry
- Role of international institutions/regimes

- **Problems with Liberal Institutionalism**

- Institutions and the distribution problem
- Agreement and compliance problem
 - ➔ selection bias and compliance problem

1. Beyond System-level Analysis

1.3 Beyond system-level analysis

- **Empirical Challenges**
 - *Decline of U.S. hegemony / proliferation of economic agreements / spread of democracy*
- **Theoretical Developments—Back to the second image?**
 - **Democratic peace theory** (→ Russett and Oneal)
 - **Kantian Tripod**
 - *Democratic dyads, commercial interdependence, and joint membership in international organizations*
 - **Problems**
 - *Why do democracies behave differently? (norms)*
 - *Democratic peace or commercial piece*
 - **Democratic trade** (→ Milner and Mansfield)
 - **Empirical Findings**
 - *Democracies trade more*
 - *Democracies enter more trade agreements*
 - *What is the source of this democratic advantage?*
- **Remaining Issues**
 - *(Why) is democracy conducive to free trade, capital liberalization?*
 - *What is the relation between democratization and liberalization?*

1.1 Structural Realist Theories

Hegemonic Trade Theory

Domestic Effects of Openness

Goals	Predicted effects of openness according to (direction of relationship)	
	Larger relative size of country	Higher level of development of country
Political power	+	+
National income	-	system
Economic growth	system	system
Social stability	+	+

Probability of an Open Trading Structure with Different Distributions of Potential Economic Power

		Size of States		
		RELATIVELY EQUAL		VERY UNEQUAL
		SMALL	LARGE	
Level of Development of States	EQUAL	Moderate-High	Low-Moderate	High
	UNEQUAL	Moderate	Low	Moderate-High

Krasner's Hegemonic Stability Theory Framework (Lake 1993)

1.1 Structural Realist Theories

Polarity and trade

$$\begin{aligned} \log X_{ij(t)} = & \log A + B_1 \log Y_{i(t-1)} + B_2 \log Y_{j(t-1)} \\ & + B_3 \log P_{i(t-1)} + B_4 \log P_{j(t-1)} \\ & + B_5 \log D_{ij(t-1)} + B_6 \log BA_{ij(t-1)} \\ & + B_7 \log MA_{ij(t-1)} + B_8 \log War_{ij(t-1)} + \log z_{ij} \quad (1) \end{aligned}$$

TABLE 1
Regression of Exports on GNP, Population, Distance, Alliances, and War, 1905–85

PARAMETER	PERIOD OF MULTIPOLARITY				PERIOD OF BIPOLARITY				
	1905	1913	1920	1930	1938	1955	1965	1975	1985
Intercept	-4.57 (7.88)	-8.79 (9.99)	57.21*** (14.74)	7.39 (5.06)	12.44* (6.19)	34.81*** (8.19)	5.69 (5.17)	6.29 (4.25)	12.14** (4.88)
log GNP _i	.95*** (.17)	1.68*** (.23)	2.78*** (.34)	1.53*** (.14)	1.67*** (.20)	1.12*** (.26)	.28 (.26)	.83*** (.20)	.96*** (.32)
log GNP _j	1.10*** (.18)	.90*** (.25)	2.17*** (.27)	1.25*** (.14)	1.57*** (.22)	.93*** (.25)	.44** (.26)	.55*** (.21)	1.19*** (.32)
log Population _i	-.02 (.33)	-.95*** (.35)	-4.10*** (.83)	-1.21*** (.23)	-1.68*** (.34)	-1.88*** (.49)	.14 (.39)	-.68*** (.26)	-1.13*** (.42)
log Population _j	-1.21*** (.27)	-.92*** (.31)	-4.83*** (.59)	-1.74*** (.23)	-2.27*** (.32)	-1.82*** (.49)	-.38 (.39)	-.45** (.25)	-1.42*** (.40)
log Distance _{ij}	-.33*** (.09)	-.06 (.10)	.27 (.13)	-.35*** (.06)	-.06 (.09)	-.01 (.09)	-.12** (.06)	-.23*** (.05)	-.28*** (.07)
log Bilat. alliance _{ij}	-.37 (.31)	-.57 (.36)	.20 (.77)	1.04*** (.42)	-.30 (.40)	3.02*** (.55)	2.58*** (.39)	2.07*** (.32)	2.10*** (.43)
log Multilat. alliance _{ij}	-.61 (.55)	-.31 (.72)	.96*** (.39)	— ^a	.48* (.35)	.86** (.46)	1.65*** (.33)	.99*** (.18)	.84*** (.26)
log War _{ij}	-7.12*** (.61)	— ^b	1.55 (.72)	— ^b	— ^b	— ^b	— ^b	— ^b	— ^b
Adjusted R ²	.92	.71	.83	.86	.80	.78	.82	.82	.80
N	39	39	37 ^c	40	37 ^d	41	40	41	41

Note: Entries are unstandardized regression coefficients with standard errors in parentheses. Years shown are year t in equation 1. For each year, there are 42 observations minus the number of outliers.
^aNo multilateral alliances existed among the major powers in 1929.
^bNo wars between major powers were conducted during these years.
^cNo data on the Soviet Union's exports to Germany are available for 1920.
^dNo data on Italian exports to the Soviet Union are available for 1938.
**p* ≤ .10 (one-tailed test); intercept *p* ≤ .10 (two-tailed test).
***p* ≤ .05 (one-tailed test); intercept *p* ≤ .05 (two-tailed test).
****p* ≤ .01 (one-tailed test); intercept *p* ≤ .01 (two-tailed test).

TABLE 2
Regression of Exports on Per Capita GNP, Distance, and Alliances, Excluding the Soviet Union, 1905–1985

PARAMETER	PERIOD OF MULTIPOLARITY				PERIOD OF BIPOLARITY			
	1905	1913	1920	1938	1955	1965	1975	1985
Intercept	9.57*** (2.54)	3.60 (3.46)	2.68 (2.95)	3.17 (3.05)	10.51*** (1.85)	8.73** (3.48)	8.33*** (2.79)	7.78* (4.27)
log Per capita GNP _i	1.12*** (.23)	1.76*** (.30)	1.88*** (.29)	1.41*** (.26)	.80*** (.21)	.79*** (.31)	.90*** (.21)	.69** (.30)
log Per capita GNP _j	.96*** (.23)	.69*** (.32)	.94*** (.28)	1.36*** (.26)	.51*** (.20)	.82*** (.30)	.78*** (.21)	1.15*** (.30)
log Distance _{ij}	-.26** (.11)	.06 (.14)	-.21** (.10)	-.18** (.10)	-.14* (.10)	-.17* (.11)	-.21*** (.06)	-.32*** (.09)
log Bilat. alliance _{ij}	-.41 (.39)	-.11 (.42)	.58 (.66)	-.21 (.62)	2.36*** (.49)	2.41*** (.51)	2.18*** (.32)	1.92*** (.44)
log Multilat. alliance _{ij}	-.61 (.63)	-.12 (.75)	1.06** (.35)	.33 (.41)	1.31*** (.53)	.93* (.55)	.97*** (.25)	.80*** (.31)
Adjusted R ²	.75	.63	.74	.78	.87	.80	.85	.81
N	28	28	28	28	29	30	28	28

Note: Entries are unstandardized regression coefficients with standard errors in parentheses. Years shown are year t in equation 2. For each year, there are 30 observations minus the number of outliers.
**p* ≤ .10 (one-tailed test); intercept *p* ≤ .10 (two-tailed test).
***p* ≤ .05 (one-tailed test); intercept *p* ≤ .05 (two-tailed test).
****p* ≤ .01 (one-tailed test); intercept *p* ≤ .01 (two-tailed test).

1.3 Beyond system-level analysis

Democratic Peace Theory

$$\begin{aligned} \text{DISPUTE}_{ij,t} = & \beta_0 + \beta_1 * \text{IGO}_{ij} + \beta_2 * \text{DEM}_L + \beta_3 * \text{DEM}_H + \beta_4 * \text{DEPEND}_L \\ & + \beta_5 * \text{dDEPEND}_H + \beta_6 * \text{GROWTH}_L + \beta_7 * \text{CAPRATIO}_{ij} \\ & + \beta_8 * \text{ALLIES}_{ij} + \beta_9 * \text{CONTIG}_{ij} \end{aligned}$$

$$\begin{aligned} \text{IGO}_{ij} = & \beta_0 + \beta_1 * \text{DISPUTE}_{ij} + \beta_2 * \text{DEM}_L + \beta_3 * \text{DEPEND}_L \\ & + \beta_4 * \text{ALLIES}_{ij} + \beta_5 * \text{DISTANCE}_{ij} + \beta_6 * \text{GDPPC}_L \end{aligned}$$

TABLE 1. *Involvement in militarized disputes: The pacific benefits of democracy, interdependence, and IGOs*

	Coefficient	Standard error of coefficient	Probability
Joint IGO memberships _{t-1}	-0.008	0.003	.01
Democracy score _t	-0.023	0.007	.002
Democracy score _H	0.017	0.007	.02
Dependence score _{L,t-1}	-21.087	12.296	.09
Trend in dependence	-3.915	1.770	.03
Three-year economic growth _t	0.012	0.007	.10
Capability ratio	-0.0010	0.0003	.10
Allies	-0.245	0.103	.02
Contiguity	0.746	0.118	.000
Constant	-1.760	0.140	.000
Log likelihood function	-3210.2		
N	19,752		

TABLE 2. *Joint IGO memberships as affected by militarized disputes, democracy, and interdependence*

	Coefficient	Standard error of coefficient	Probability
Dispute involvement _{t-1}	-2.151	1.073	.05
Democracy score _t	0.604	0.063	.000
Dependence score _{L,t-1}	348,013	130,465	.01
Allies	7.503	0.742	.000
Distance	-0.0019	0.0001	.000
GDPPC _t	0.0032	0.0002	.000
Constant	34,449	0.910	.000
Adjusted R ²	0.63		
N	18,657		

1.3 Beyond system-level analysis Democracy and IOs

3. Only certain types of IGOs, defined by function and by the global/regional distinction, may have significant conflict-reducing effects. For example, global organizations with nearly universal membership may have no discernible effect, but others which, though global, have more restricted membership [for example, the General Agreement on Tariffs and Trade (GATT), World Trade Organization (WTO), World Bank, and International Monetary Fund] may exclude states already in highly conflictual relationships with one or more of their members, and so, may more effectively inhibit violent conflict among those who are members.

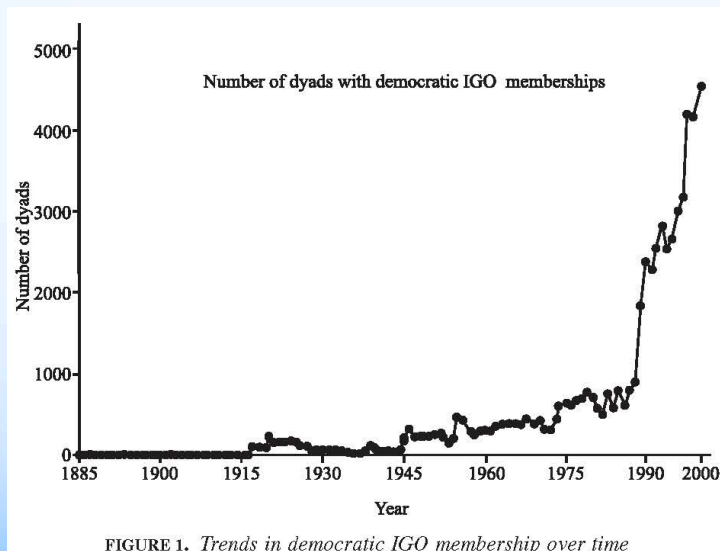


TABLE 2. The effects of democracy, interdependence, and IGO membership on fatal militarized disputes, 1885–2000

Variable	Base model	Democratic dyads	Allies	Base model ¹	EU/EFTA
DEMOCRATIC IGOs	-0.079** (0.037)	-0.072** (0.036)	-0.079** (0.037)	-0.073*** (0.027)	-0.073*** (0.044)
DEMOCRACY ₂	-0.063*** (0.014)	-0.052*** (0.017)	-0.063*** (0.014)	-0.058*** (0.014)	-0.063*** (0.014)
DEPENDENCE ₂	-52.011*** (18.272)	-52.110*** (18.407)	-51.915*** (18.051)	-51.705*** (18.047)	-51.670*** (18.229)
CONTIGUITY	1.635*** (0.263)	1.632*** (0.264)	1.638*** (0.270)	1.631*** (0.264)	1.635*** (0.263)
DISTANCE	-0.693*** (0.104)	-0.695*** (0.104)	-0.693*** (0.104)	-0.690*** (0.104)	-0.694*** (0.104)
MAJOR POWER	1.348*** (0.190)	1.347*** (0.191)	1.348*** (0.191)	1.361*** (0.191)	1.350*** (0.189)
CUMULATIVE MIDS	0.118*** (0.015)	0.117*** (0.015)	0.117*** (0.015)	0.119*** (0.014)	0.117*** (0.014)
JOINT IGOs	-0.001 (0.007)	-0.002 (0.007)	-0.001 (0.007)	0.001 (0.007)	-0.001 (0.007)
DEMOCRATIC DYAD	—	-0.393* (0.301)	—	—	—
ALLIES	—	—	-0.011 (0.183)	—	—
EU-EFTA	—	—	—	—	-0.480 (1.300)
Constant	-0.939 (0.836)	-0.846 (0.853)	-0.942 (0.833)	-0.961 (0.839)	-0.938 (0.836)
Pseudo R ²	.27	.27	.27	.27	.27
N	454,380	454,380	454,380	454,380	454,380

Notes: Parameters are estimated using logistic regression, after including a cubic spline function with two knots. Entries in parentheses are Huber standard errors clustered on the dyad. All significance tests are one-tailed. *** $p \leq 0.01$; ** $p \leq 0.05$; * $p \leq 0.1$.

1. DEMOCRATIC IGOs includes IGOs with composite democracy scores at or above 6.