A Conceptual Analysis of Realism in International Political Economy

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MAZHID KAT, APR 16 2015

A Conceptual Analysis of Realism in International Political Economy: Does Realism Facilitate a More Compelling Analysis of the Global Political Economy than Concepts from other Theoretical Traditions?

Realism is one of the oldest paradigms in International Relation (IR) and International Political Economy (IPE). It is “a spectrum of ideas” based on shared principles about what determines states behaviours towards one another.[i] Among its ideas is anarchy. Realists believe that there is no centralized global authority that limits sovereign states and determines their actions. For this reason, nation-states are the only legitimate actors in international affairs and neither supranational nor domestic actors can restrict them.[ii] Under conditions of anarchy and an unpredictable future, nations rely only on themselves. That is why the main driving force in the self-help world is the national interest. The central concern of foreign policy is survival because of the uncertain future of the international system. Survival, in turn, depends on power. For such a portrait of the world, realists have often been criticised as pessimists. However, practitioners of realism see it not as a foundation on which to build the world order but as an epistemological tool of analysing history and making forecasts for the future. Realism considers things not as they should be, but as they are.

Realism has also been criticized for its strong emphasis on political interactions and international security. However, despite this, a wide range of political economists have used realist understanding in describing economic relations between countries. Realism is relevant in IPE because power and military capabilities depend on capital accumulation and economic development. A wide range of economists have developed mercantilism and economic nationalism in the study of economic relations. These concepts are based on the zero-sum game understanding of the world economy.

The above-mentioned principles of realism need to be analysed in detail in order to reveal its overall strengths and weaknesses as a theory. For example, the realist understanding of states as ‘black boxes’ and anarchy as a given condition seems to be too simplified, while the composition of states’ interests should be analysed from the perspective of the competing paradigms. Moreover, realism is focused on continuity and fails to describe major changes in the international system and the role of non-state actors in contemporary international relations. Yet, some states abandon the principle of relative gains in bilateral economic relations. The main argument of the paper is that realism is still relevant in the study of IPE, however, it must be used in an approach which combines major competing theories in the boundaries of realism. In order to support this thesis, realism in IPE in its different variations will be put into historical context.

The Evolution of Realism in IPE

Originating in the time of Thucydides and his “History of the Peloponnesian War,” realism has developed over time into a complex set of theories and approaches with some shared assumptions. Among these, realism considers wealth as a substantial factor determining military capabilities, for example, Thucydides viewed the war between Sparta and Athens as “a matter not so much of arms as of money, which makes arms of use.”[iii]
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In such a context, it is interesting to examine two other significant conflicts of Ancient times for similar themes, namely the Trojan War and the Punic Wars. Homer’s Iliad states that catalyst of the Trojan War was revenge following the escape of Helen, the wife of Sparta’s King Menelaus, with Paris, the Prince of Troy. However, many historians have argued that the Achaeans more likely conquered Troy for monetary gains because it was a prosperous city that controlled important trade routes. In addition, it is understood that the Roman Empire’s defeat of Carthage was also motivated by the pursuit of financial gains, as it would enable control of the Mediterranean Sea and its rich trade flows. The victory was one of the main reasons why Rome became the dominant power in the region and expanded further to find new markets and resources.

After Ancient times, this way of thinking was continued by mercantilists in the 16th-18th centuries. Mercantilism assumes that the achievement of wealth is an essential objective of all the states, because in doing so states increase their military power and therefore ensure their security. Mercantilist economic policy is conducted by imposing import barriers to defend local markets while increasing exports in order to create trade surplus. An example of this policy can be seen between the British Empire and China in the 17th and 18th centuries. During this time, the British Empire experienced significant trade deficit with China due to large imports of silk, porcelain, and tea. The British elite did not want to accept the fact that so much of their precious metals were actively flowing to China. In order to rectify this deficit, the British East India Company began to grow opium on its plantations in India and sold it to the Chinese. While working to reverse the flow of currency from East to West, this practice by the British led to a lot of people becoming addicted to opium, as well as becoming the catalyst for the Opium wars between Britain and China in the 19th century.

Many important thinkers have advocated in favour of mercantilism. For example, political philosopher David Hume noted that what really matters in economic relations between states is the idea of relative gains. From such a point of view, international trade is described as a zero-sum game in which one nation’s gain is another’s loss. Alexander Hamilton, one of the founding fathers of the United States of America, was also a supporter of mercantilism. Hamilton created what became known as the infant industry argument based on the idea that protection of new industries from international competition through trade barriers should exist until these new industries are able to compete globally. Hamilton outlined, “Not only the wealth; but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures.” He also emphasized that industrialization was vital for diversifying the U.S. economy and making it less vulnerable to external threats as dependence on imports could weaken the military power of the United States. German-American IPE thinker Friedrich List was also in favour of mercantilism and stated that a nation’s rise in power and prosperity result from trade protectionism, support for local producers, and development of ‘human capital.’ Thus, List argued that open trade system, promoted by Britain after the Industrial Revolution, could make Germany dependent on British imports. Hence, Germany needed to impose protectionist measures to facilitate its economic growth and curb Britain’s own attempts.

Furthermore, in the 19th century economic nationalists proposed industrialization as a key in gaining economic and military power based on two key principles. Firstly, industrialization allows the development of a strong military industry and the creation of improved weapons. Secondly, manufactured goods have a higher value added than raw materials, therefore, they are necessary to achieve trade surplus. The importance of industrialization can be seen from the above example of Britain and Germany, when, Germany challenged the dominant position of the British Empire after its industrial revolution because German producers faced limitations within their market while the British could rely on their extensive colonies.

The struggle for colonies between the world’s most powerful nations was one of the primary causes of the First World War. However, in the years following the Second World War, the majority of the colonial empires collapsed. Some economists argue that the reason for this was that the development gap between centre and periphery in the colonial system was so large that the populations of the colonies could no longer afford to buy products from their colonizers. Nevertheless, independent states of the periphery today are still exporting raw materials and importing technological products from developed countries leading to uneven development and a continued dominance of the West.

Contemporary representatives of realism have indicated its relevance in the study of economic relations. For example, E. H. Carr wrote, “the science of economics presupposes a given political order, and cannot be profitably
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studied in isolation from politics."[xi] In essence, this is because economic strength underlies political power: the larger the economy, the more advanced national defence it can afford. Conversely, Carr pointed out that damaging the economy of a rival state is as crucial as defeating its armies.[xii] Moreover, he emphasized that economic power may be used as a tool of influence in two forms: the export of capital, and the control of foreign markets.[xiii] An example of this can be seen in the importance of capital export as a means for the United States in what is known as the "dollar diplomacy."[xiv] Another example is the financial pressure France placed on Austria in 1931, forcing it to abandon the project of a customs union with Germany.[xv] As for control over markets, it can be implemented through reciprocal trade agreements. For example, the British Empire buying commodities from states, which were the main consumers of British coal and manufacture goods. Therefore, purchasing power in the world economy has become a crucial international asset of political influence.

Contemporary Realist Approaches

Overall, the realist paradigm in IPE is appropriate in describing the historical development of international economic relations and related wars. However, as previously outlined, orthodox approaches such as mercantilism and economic nationalism have failed to explain growing economic openness, free trade, and capital mobility in different periods of history, including the contemporary one. Several proponents of realism advocate that such an economic system is the result of economic hegemony. Based on this observation, in the 1970s-1980s some scholars proposed the Hegemonic Stability Theory (HST). Its main argument is that a hegemon establishes the global economic rules, regimes and institutions and sustains economic openness and stability for all the members of the system, often as a means to an end. For example, the Roman Empire promoted free trade as a means of domination. Moreover, after the Second World War, the United States set up the global economic system based on free trade and capital mobility leading to the creation of the international organizations such as the World Trade Organization, International Monetary Fund and World Bank. Also, the American government launched the European Recovery Program, widely known as the Marshall Plan, which aimed at removing trade barriers and facilitating economic growth. By doing so, the United States was keeping Europe from falling into the communism. Moreover, the European Communities were established in order to strengthen European economies in the shadow of the Cold War. Some experts now associate the current crisis of the European Union with the external threat of the Cold War having disappeared, the meaning of integration has been undermined. In addition, it is argued that the decline of global economic leadership usually eliminates economic openness. Hence, the gradual decline of the British Empire after the First World War was characterized by growing protectionism. Some experts argue that a decline of the U.S. could have a similar impact on the world economy.[xvi]

Hegemony itself is based on a set of rules and norms, which constitute regimes regulating the global economy. The role of international regimes is to determine the process of wealth distribution in the world economy.[xvii] From this comes the question as to whether relative or absolute gains are important for states engaging in international trade. Joseph Grieco emphasized that relative gains are obstacles for international cooperation.[xviii] Such an opinion was supported by a realist understanding of regimes by Stephen Krasner. He argued that major states attempt to influence the design of these regimes in their favour.[xix] This includes terms of trade, the distribution of profits from Foreign Direct Investment, and economic growth. The establishment of regimes depends on power and interests.[xx] Thus, the ideas of economists David Ricardo and Paul Samuelson that through labour specialization all states can benefit from economic openness was criticized for its neglect of gains distribution. In such context, the global hegemon designs regimes which promote its leadership. At the same time, these regimes should suit other states and their economic interests to make them willing to maintain this order. That is why a leading power makes economic concessions to facilitate its political influence.[xxi]

Gilpin outlined that the study of regimes is necessary to measure the distribution of gains, which directly affect political power. However, the economic theory assumption that free trade brings absolute gains for all the states does not consider subjective policies of the national elites. For example, during the period between World War I and II, Germany was primarily trading with countries of Southeastern Europe to secure flows of raw materials and become more independent, despite this not being an economically effective decision.[xxii] Additionally, the governing elite of North Korea appreciate the nation’s autonomy and independence more than economic growth. That is why it does not participate in the U.S.-lead global economic activities. Many realists agree that the contemporary global liberal
economic order is biased in favour of the United States. One of the main proponents of such an idea was Susan Strange, who argued that economic policies of the American government have affected the whole global economy in a negative way. For instance, she argued that the unlimited power of the United States has led to huge budget deficits.[xxiii]

Regime theory and hegemonic stability theory complement each other and draw a precise picture of the contemporary global economic system. In such terms, globalization is the result of the U.S.-led policy of economic openness. Charles Kindleberger stated that the U.S. leadership has replaced the British dominance of the past. However, he criticized the American government for being apathetic in taking on responsibilities after the Great Depression that facilitated the global economic crisis. In his opinion, “for the world economy to be stabilized, there has to be a stabilizer—one stabilizer.”[xxiv] He added that the leader should maintain the flow of capital to poor countries, provide order in the exchange rates, and arrange for coordination of macroeconomic policies among the leading economies.[xxv] Hence, the U.S. dollar became the main global reserve currency and a number of international institutions regulate the global economy under American leadership.

The contemporary global economic system is still based on regimes promoted by the U.S. after the Second World War, that were partly transformed from Bretton Woods to the Jamaica Agreement. This system has become even more global following the collapse of the Soviet Union and the inclusion of new members who were members of the USSR’s communist regime. The contemporary global economic governance, in the realist view, is the reflection of the power distribution in the system. However, developing countries consider their influence in this system inappropriate to their real economic power. For that reason, states such as China and Russia are trying to build independent economic regimes as alternatives to U.S.-led institutions such as the World Bank or IMF, for instance, the BRICS Development Bank. In addition, revisionist powers promote regional trade blocks, such as the Eurasian Union or the ASEAN–China Free Trade Area.

Some aggressive countries may use their economic capabilities to satisfy their imperialistic ambitions and increase their power, an example of which can be seen in a number of currency wars that have occurred between China and the United States that have greatly affected the structure of international trade.[xxvi]

On the other hand, the global economy is used by a hegemonic power to defend its political position and maintain status quo in the international system. Thus, Russia’s actions in Ukraine during 2013-14 crisis faced a tough response from the Western powers in the form of economic sanctions. This is an example of the weaponization of finance. The politicization of economic relations is inevitable in the world when military means are ineffective because they are capable of producing greater global instability. However, economic tools of foreign policy are not necessarily more moral than military ones. As E.H. Carr stated, economic pressure can ruin whole economies and states in a way that is worse than wars.[xxvii]

Criticism

Despite its clarity in describing overall historical trends, realism has strong criticism in several dimensions. Firstly, the realist ideas consider states as ‘black boxes’ that lack an understanding of how the national interest is composed. Secondly, realism is criticized for its excessively materialistic approach. The role of ideas, values, institutions, and norms is largely underestimated. For example, Hans Morgenthau, the founding father of the contemporary political realism, blamed the Western liberal democracies for being weak in reacting to the threat of fascism.[xxviii] Thirdly, realism is usually referred to as the theory of world powers, which pursue power politics courses. Therefore, realism needs to be complemented with the assumptions of the competing IPE theories: Marxism, liberalism, constructivism.

The main critics of realism are liberals. They argue that growing integration of the world economy and interdependence among states will create a more peaceful and stable global order because aggressive actions will lead to huge economic losses. However, this concept misses several points. Firstly, even greatly economically interdependent states may start wars with one another, as was seen with the British Empire and Germany in the beginning of the 20th century.[xxix] Moreover, interdependence is usually not perfectly symmetrical. In many cases, weak states become more dependent on major powers.[xxx] Leading powers, in turn, use their economic power to
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promote global regimes more favourable to themselves. Also, interdependence can lead to economic crises becoming more widespread, which in turn leads to negative consequences in different parts of the world.[xxxi] For instance, the Great Depression in the United States during the 1930s was one of the reasons for huge economic problems in Germany, which were used by Hitler in his rise to power. Finally, some states have ideologies which prevail over economic interests. For example, North Korea conducts a Juche policy of self-sufficiency and Russia continues to experience significant economic losses because of its imperialistic turn.

Another major point made by liberals concerns the rise of non-state actors and the diffusion of power in IR. However, Gilpin indicated that this argument is only partly correct. He stated that, though states remain primary actors and establish overall boundaries, Multi-National Corporations, international institutions and Non-Governmental Organizations are rising in importance.[xxxi] For example, the competences of the European Union are agreed and determined by the national governments. The world economy structure is affected by “both markets and the policies of nation-states, especially those of powerful states.”[xxxii] Therefore, non-state actors are not able to influence the international system on their own. They act within states and determine their agendas. Thus, some studies convince that Multi-National Corporations promoted their influence over political processes through their home governments and not as independent actors.[xxxiv] In less developed countries or political systems without checks and balances, companies play an especially influential role. Usually they react to new laws and regulations and impose pressure on governments because companies do not have legitimate tools to perform on a par with nation-states. Moreover, in economic systems with state capitalism, major companies act as the means of foreign economic policy rather than sources.[xxxv]

Along with the liberal critique, one of the most recent critiques of realism comes from the constructivist camp. Its main representative, Alexander Wendt, outlined that international politics are socially constructed; therefore, shared ideas and identities underlie the objective reality. Constructivism disapproves of realism for its exaggerated emphasis on physical military forces, geographical circumstances, and other objective conditions—power itself is meaningless; anarchy is not a natural state of affairs. Nevertheless, material capabilities are still important but only in the social context. Objective factors on their own cannot explain IR. This is due to the inter-subjectivity of mutual perceptions among states. For example, the economic growth and strengths of India is not regarded as much of a threat in the United States compared to the rise of China. Therefore, domestic factors are usually more important in determining identities and interests than external circumstances.[xxxvii] The international system and identities are based on interdependence. For example, in the 19th century free trade was adopted as economic ideology in the West and then spread to other actors.[xxxviii] Additionally, the transformation from embedded liberalism to neoliberalism in the global economic system, implemented under the U.S. hegemony, was an ideological transformation of how the global economy should work.[xxxviii]

Gilpin, in his turn, explained that the role of ideas, ideology, and constructs have already been incorporated by many realist thinkers.[xxxix] Moreover, he added that, of course, constructs are important, but material constrains also limit ideas and constructions. Hence, the compromise between ideas and material forces should be found. Realist constructivism can describe how domestic economic systems determine overall economic interests. This approach improves realist analytical language with new concepts. For instance, the Cold War was the result of differences in ideological commitments and national economic systems between the United States with its liberal capitalism and the Soviet Union with state-planned communism and not solely of power distribution in the system.

Besides, Gilpin emphasized that states’ interests are shaped by the governing elites, powerful lobbying groups, and the national economic systems.[xl] That is why the national interest usually depends on a state’s elite subjective view of the world. However, there are also objective features of the international system, which limit internal factors. This perspective made an important contribution in a more in-depth analysis of the national interest’s sources. In the classical Marxist understanding of the international system, governing bourgeoisie classes are in consensus because they want to preserve their privileged positions. However, Gilpin emphasized that different national elites clash over the control of resources, assets, firms, and capital. One of the pillars of the Westphalian system, the principle of nation-state, is usually misinterpreted. The Westphalia treaty sets sovereignty of states whose boundaries were determined on the basis of ethnicity. However, many European powers were still governed by monarchs; thus, national economic interests for a long time were determined by the ruling class of nobility, only later replaced by the
bourgeois. These groups have been very important in forming national ideologies and economic preferences.

In the present, the role of elites in forming national ideologies continues to prove to be crucial. Two prominent political figures, Deng Xiaoping and Mikhail Gorbachev, played key roles in transforming and incorporating the Chinese and Soviet economies respectively into the capitalist system. A more recent example is Iran’s President Hassan Rouhani. His moderate policy towards the United States seeks to improve economic performance of the Islamic Republic. In addition, national ideologies largely depend on historical path-dependency. Thus, China and Russia who, unlike Brazil and India, have a strong imperialistic background, behave more antagonistically in their foreign policy. China’s peaceful rise, from such a point of view, raises serious debates on whether two big economies such as China and the U.S. can sustain a global economic order without major conflicts.[xlii]

Conclusion

Realism seems persuasive in its explanation of the IPE development. The main argument is that the history of humankind is the history of wars, which are underlain by economic incentives. Realism in its classical versions of mercantilism and economic nationalism can describe many historical processes in the world economy. However, in the present, new economic conditions of economic openness have emerged. New approaches to realism, such as regime theory and Hegemonic Stability Theory, are more compelling in the study of the contemporary global economy and its structure. Realism in IPE is relevant for several reasons. First of all, the number of nation-states is increasing. Secondly, the role of international organizations, norms, and rules is diluted. Thirdly, more and more countries are militarizing.

Although realism appears to be self-sufficient in the study of IPE, it is needed to be complemented with elements of other theoretical approaches to avoid weakness in explaining several aspects. Firstly, in the study of the composition of state the principle of state as a ‘black box’ should be abandoned. Gilpinian’s version of realism tries to integrate elements of Marxism, liberalism and constructivism to find a balance. Thus, states are still primary actors in the international system but non-state actors, especially corporations, increase their influence on foreign policy decisions within political systems. Then, important sources of national interest are national ideologies, histories, cultures and elites, which form foreign economic policies.

Such an outcome transforms basic realist assumptions about survival and self-help politics, making realism more complex and sophisticated, and diminishing its systemic attitude. Realist constructivism is needed for a more compelling understanding of the international system because “anarchy is what states make of it.”[xliii] As far as “history matters,” powers with imperialistic past will still behave aggressively. The dilution of realism with constructivism is also needed for normative reasons. Although realism is used as a positivist explanatory theory, it also plays a role in transforming reality. Realist thinkers produce their thoughts of conflicts’ inevitability what forms decision-makers’ minds through the media discourse. This postmodernist approach is necessary to transform the global order. Of course, the Cold War happened for objective reasons described by realists. However, a realist bias of the contemporary Russia IR academia made an important contribution into forming a more aggressive perception of the world by the Russian government.

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