

Political Science 330
Spring 2013

The Politics of International Economic Relations

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Online Course Information

Online Access: This course is offered entirely online. All course materials except for the textbooks will be accessible online for reading and viewing. All assignments will be completed and graded online.

Contacting Me: The most reliable way to reach me is by email: shale@uwm.edu. I check email every day during the week (though often not on weekends). If you send an email, please be certain to put "Polsci 330" as your subject header. Also, you are always welcome to come in during my office hours or to call me in my office (414-229-2399). If I am not in when you call, leave a phone number so that I can call you back. Every week during office hours, I will be in my office going over the week's material with interested students. **I urge you all to come in to office hours as often as possible, both to go over any material that is unclear to you and to discuss any material that is of particular interest to you.**

Computer Skills Needed for the Course: You will need basic word processing skills; the ability to send and receive email; and a simple understanding of how to access and browse websites, including our course website on Desire2Learn (D2L). You will have to be able to receive email via your ePanther email account, but you can if you wish forward your ePanther email to a private account. Checking your email and our course website regularly is very important to your ability to do well in this course.

Computer Resources Needed for the Course: You will need routine access either to a computer that has a **broadband** connection, or to a campus network connection to the internet. If you don't have your own computer, you will need to use one of the campus lab computers, or perhaps a computer in the public library. Be sure not to use a wireless connection when taking exams. The computer you use must have a basic word processing package such as Microsoft Word. You will also need Adobe Acrobat Reader to view Adobe PDF files.

Keeping Up with the Course: If you do not keep up with the readings, it is easy to fall behind in online courses. Be careful to organize your time effectively so as to be able to complete the coursework.

Grades

Grades will be based on eight short exams. The lowest exam grade will be dropped, and the final grade will be based on the remaining seven exams (14.29% of the grade each). These

short exams focus on the material online covered in the previous one to three weeks, but may also cover material from earlier weeks. Short exams must be taken online between 6:00 am in the morning and 2:00 am at night (a 20-hour time window), as follows:

- Tuesday, January 29, 6:00 am-Wednesday, January 30, 2:00 am
- Tuesday, February 19, 6:00 am-Wednesday, February 20, 2:00 am
- Tuesday, March 5, 6:00 am-Wednesday, March 6, 2:00 am
- Tuesday, March 12, 6:00 am-Wednesday, March 13, 2:00 am
- Tuesday, April 2, 6:00 am-Wednesday, April 3, 2:00 am
- Tuesday, April 16, 6:00 am-Wednesday, April 17, 2:00 am
- Tuesday, May 7, 6:00 am-Wednesday, May 8, 2:00 am
- Tuesday, May 14, 6:00 am-Wednesday, May 15, 2:00 am

No make-up exams will be given. If there is a medical emergency, documented by a written excuse from a health care provider, an exam may be dropped. In this case, the grade will be calculated based on the other seven exams taken.

You will take the exams online in a timed format. You will have a set amount of time—usually 35 minutes—to take an exam. You must complete the exam in that amount of time. Late exams may still be submitted, but will receive lower grades. Once you start an exam, you must finish it—there is no starting an exam, exiting, and coming back to it at another time. Each exam may only be taken one time. All eight short exams will consist of one multi-part essay question. To avoid losing your work while you are writing, you should write up your essay in your word-processing program, and then copy-and-paste it into the D2L exam window. Once you have pasted in your essay answer, be sure to click on the relevant D2L icons to save your work and then to submit your answer.

Grades will be assigned on a 0-4.0 scale. D2L shows the grades as a percentage score out of 100. The following list shows how these numerical scores equate to letter grades:

- A = 4 = 100%
- A- = 3.67 = 91.75%
- B+ = 3.33 = 83.25%
- B = 3 = 75%
- B- = 2.67 = 66.75%
- C+ = 2.33 = 58.25%
- C = 2 = 50%
- C- = 1.67 = 41.75%
- D+ = 1.33 = 33.25%
- D = 1 = 25%
- D- = 0.67 = 16.75%
- F = 0 = 0%

Exam grades will be posted on D2L within one week after exams are taken. Students with questions about their grades should discuss them first via email with the Teaching Assistant. If any issues remain unresolved, students should then contact me. Final course grades will be posted on PAWS.

Students are responsible to honestly complete and represent their work, to appropriately cite sources, and to respect others' academic endeavors. Students must use their

own words in completing exams. Copying-and-pasting from other sources, including course content materials, will result in a failing grade.

Course Description

Following a brief introduction to economic policymaking in general, the course is divided into five main parts. The first part examines the modern history of the international trading system. We begin with a brief introduction to the theory of international trade. We then examine how and why the trade policies of the world's major economies have evolved in certain ways over the last 150 years. Next, we look at how U.S. trade policy evolved after World War II. Both for the international system as a whole and for the U.S., why has there been so much variation over time between free trade and protectionism? We will examine the impact of economic interest group coalitions, political institutions, and national military or security interests.

The second part surveys some basic features of the international economy. First we look at multinational corporations (MNCs). What explains the development of MNCs? How have MNCs affected the international development process? Next we look at the workings of international finance. What are the sources of international financial crises? What are the possible responses to such crises? How do macroeconomic and exchange rate policies influence international trade and investment flows? The possibilities are illustrated through a historical survey of change in the international monetary system.

The next parts turn to recent and current issues in the international economy, both in the developed (rich) and developing (poor) parts of the world. How and why did most of Western Europe come to adopt a common currency, the Euro? What are the strengths and weaknesses of Europe's monetary integration? What explains the "Euro Crisis" that has unfolded since 2008? What is the state of trade relations among the largest developed economies? Will trade continue to become freer, or will there be a relapse into separate, more protectionist trade blocs? What explains why some regions of the developing world, particularly East and Southeast Asia, have had much higher rates of economic growth than others? Are recent policies and development patterns in the post-communist countries most similar to those in any other regions, such as East Asia, Latin America, the Middle East, or Africa? Particular attention will be paid to the causes and consequences of the 1997-99 international financial crises in Southeast and East Asia, Latin America, and post-communist Europe. This episode illustrates the diversity of economic conditions and policy responses across the developing world.

The last part of the course analyzes the role of economic trends in bringing about the collapse of the Soviet Union and the end of the Cold War. How did economic trends interact with other factors—such as Soviet institutions, ideology, and leadership, or the revolutionary changes in computer and communications technologies—to bring about the collapse?

Readings

The following required books are available in the bookstore:

I.M. Destler. (2005) *American Trade Politics*. Fourth edition. Washington, DC: Institute for International Economics. ISBN: 978-0-88132-382-5. New price: \$27.95. Also available at <http://bookstore.piiie.com/book-store/3829.html>

Joan Edelman Spero and Jeffrey A. Hart. (2010) *The Politics of International Economic Relations*. Seventh edition. Boston, MA: Wadsworth Cengage. ISBN: 978-0-53460274-1. New price: \$128.49. E-book: \$55.99. Also available at: <http://www.cengagebrain.com/shop/ISBN/9780534602741?cid=APL1>

Other readings are available on the D2L course site and on electronic reserve in Golda Meir Library, at:

<http://millib.wisconsin.edu/vwebv/enterCourseReserve.do>

Course and Exam Schedule

After the exam times listed below within each of the subject areas, the material to be covered for that exam time is also listed. Students will not be expected to know material to be covered after a given exam, but they should be ready to answer questions about all material covered through the given exam.

Part I: Introduction to Economic Policy-Making. International Trade Theory; Trade Policy in Response to Depressions and World Wars; U.S. Trade Policy since World War II.

Week 1 (January 22-25): Introduction to Economic Policy-Making. Models of International Trade. Explanations of Trade Policy.

Reading: Lecture Notes 1 (“Introduction to Economic Policymaking”) and Lecture Notes 2 (“International Trade Policy”); Coughlin, Chrystal and Wood 2000; Frey 1984, chapter 2; Rogowski 1987; Alt and Gilligan 1994.

Short exam #1 online:

Tuesday, January 29, 6:00 am-Wednesday, January 30, 2:00 am. (All material for Week 1 is relevant for this exam. Above all, you should be able to explain the models of international trade; explain their implications for which groups are expected to support free trade or protection; and apply them to examples of countries with different factor endowments. Other material may also be covered.)

Weeks 2-4 (January 28-February 13): The Great Depression of the Late Nineteenth Century: Trade Policy and Development of Political Regime Type. Trade Policy after the World Wars.

Reading: Lecture Notes 3 (“Trade Policy, 1873-1896”) and Lecture Notes 4 (“The World Wars and Trade Policy”); Gourevitch 1977; reread Rogowski 1987; Spero and Hart, pp. 1-4, 72-79; Horowitz 2004; Milward 1984, pp. 462-77, 491-502; Bhagwati 1988, 1-15, 37-42.

Short exam #2 online:

Tuesday, February 19, 6:00 am-Wednesday, February 20, 2:00 am. (May cover any historical periods discussed through the end of World War II—including all

readings for Weeks 2-4 (January 28-February 13). Above all, you should be able to apply the models of international trade to understand trade policies during the Great Depression of the late 19th century and after World War II. In your studying, pay especially close attention to the discussions of Germany and the United States. Other material may also be covered.)

Study and discussion questions: Is international trade good or bad? Is it preferable to the alternative of protection? Choose a country and discuss the costs and benefits of past or current levels of trade protection. Which groups were protesting against free trade at the famous Seattle meeting of the WTO and at more recent anti-globalization events? Can international trade models help us to understand why these groups and not others oppose free trade?

Weeks 4-6 (February 14-March 1): U.S. Trade Policy since the 1960s. Responses to the Oil and Competitive Shocks of the 1970s and 1980s.

Reading: Lecture Notes 5 (“U.S. Trade Policy”); Destler, chapters 1-11; Bhagwati 1988, pp. 43-71; Spero and Hart, pp. 4-7, 72-97, 338-350.

Short exam #3 online:

Tuesday, March 5, 6:00 am-Wednesday, March 6, 2:00 am. (Covers all materials through Weeks 4-6 (February 14-March 1). Above all, you should be able to discuss the major factors that influenced U.S. trade policies from the 1970s onward; and to explain how these factors may be related to one another, and how they came together to produce U.S. trade policies. Other material may also be covered.)

Study and discussion questions: What was the relative importance of economic interest groups and national military interests in determining the response to the oil shocks? Why was the response less protectionist than that following World War I and the Depression? What was the difference with the period after World War II? Which groups were the main opponents and proponents of the NAFTA agreement? How important was presidential leadership in making NAFTA possible? How were President Bush’s trade policy goals and trade policies different from those of President Clinton? How about President Obama’s goals and policies? Should the U.S. link trade policy to other goals, such as improving labor conditions, environmental standards, and human rights in other countries? Choose an example of a protectionist U.S. industry, and discuss how successfully it has sought protection and how it justifies protection. Choose an example of a free-trading industry and discuss how it justifies free trade.

Part II: The International Monetary System and Multinational Corporations.

Week 7 (March 4-8): The Balance of Payments. Policy Responses to Financial Crises. Fixed vs. Floating Exchange Rates Regimes. The Evolution of the International Monetary System.

Reading: Lecture Notes 6 (“International Monetary Systems and Financial Policies”); Spero and Hart, pp. 12-42; Frieden 1994.

Short exam #4 online:

Tuesday, March 12, 6:00 am-Wednesday, March 13, 2:00 am. (Covers all materials through Week 7. Above all, you should be able to explain how the five

main policy responses to deteriorating international competitiveness work. Other material may also be covered.)

Study and discussion questions: Is it desirable for governments to impose significant controls on international portfolio investment? Look at a particular example, such as Chile, Malaysia, or China, and discuss the pros and cons.

Week 8 (March 11-15): Development of Multinational Corporations: Causes and Consequences.

Reading: Lecture Notes 7 (“Multinational Corporations”); Spero and Hart, chapters 4, 8.

Study and discussion questions: Is direct foreign investment more or less desirable than the alternatives, i.e. less investment or more portfolio investment? What impact has foreign direct investment had in the U.S. and Mexico? Is more foreign investment in the U.S. and Mexico desirable? Why, in recent decades, has most foreign investment in the developing world gone to East and Southeast Asia? Choose an example of a country, and discuss the ways in which foreign direct investment and multinational corporations are discussed in its mass media.

“Spring” Break (March 18-22).

Part III: Financial and Trade Relations among the Rich Countries.

Week 9 (March 25-March 29): International Financial Relations. European Monetary Integration.

Reading: Lecture Notes 8 (“European Monetary Union”); Spero and Hart, pp. 7-11, 42-53; Feldstein 1997; Feldstein 2012.

Short exam #5 online:

Tuesday, April 2, 6:00 am-Wednesday, April 3, 2:00 am. (Covers all materials through European monetary integration. You should be able to discuss what MNCs are, and why they develop; and explain some of the varying political attitudes and policy responses to MNCs, particularly in the developing world. You should be able to discuss what is involved when a European country adopts the Euro alongside other countries; what the main economic benefits and drawbacks are; and under what conditions the monetary union is likely to come under the most economic and political stress. Other material may also be covered.)

Study and discussion questions: Has the European Monetary Union (EMU) succeeded in increasing European competitiveness? Choose an EU country and summarize journalistic debates over how it has been affected by monetary union. Choose an EU country that has so far opted out—such as Denmark, Sweden, or the United Kingdom—and summarize the debates about whether it should join in the future. In the long run, will the EMU strengthen or weaken European integration? What does the global recession of 2008 show about the EMU’s strengths and weaknesses?

Week 10 (April 1-5): Industrial Policies and Their Interaction. The Threat of Exclusive Regional Trading Blocs: Trade Relations between the U.S., EU, Japan, and China. The World Trade Organization.

Reading: Lecture Notes 9 (“Trade Relations among the Rich Countries”); Spero and Hart, pp. 98-116, and review the rest of chapter 3; Sandholtz 1992, pp. 167-96.

Study and discussion questions: Will the international economy collapse into three great protectionist trading blocs, remain more or less as it is, or see increasingly free trade and capital flows? How has the EU's eastern enlargement affected its trade policy? How has NAFTA affected U.S. trade policy? Will new protectionist trade blocs form in East Asia? Is preservation of national culture a legitimate pretext for restricting trade in "cultural products" such as movies and television shows?

Part IV: Economic Development and Crisis Response Policies in the Developing World.

Week 11 (April 8-12): Causes of Uneven Economic Development.

Reading: Lecture Notes 10 ("Economic Development"); Spero and Hart, chapters 5-7; Haggard 1991.

Short exam #6 online:

Tuesday, April 16, 6:00 am-Wednesday, April 17, 2:00 am. (Covers all materials through causes of uneven economic development (Week 11). You should be able to discuss economic and military motives for forming or avoiding exclusive regional trading blocs; and to be able to apply this reasoning to the question of why trading blocs may or may not form in various parts of the world. You should be able to discuss the main causes of uneven economic development.

Other material may also be covered.)

Study and discussion questions: What explains why developing countries have had such different rates of economic growth? What types of factors are likely to explain why policies more or less favorable to growth are adopted? For example, why have East and Southeast Asian countries usually adopted policies more favorable to growth than Latin American countries? Pick an example of a more or less successful set of policies and try to explain why such policies were chosen.

Weeks 12-14 (April 15-May 3): Responses to the International Financial Crisis of 1997-99 in Southeast and East Asia, Latin America, and Post-Communist Europe.

Reading: Lecture Notes 11 ("International Financial Crisis of 1997-1999"); Horowitz and Heo 2001, chapters 1-2, 4-6, 8-14 (Horowitz and Heo, chapter 1; Horowitz, chapter 2; LoGergo and Montinola, chapter 4; Toyoda, chapter 5; Niles, chapter 6; Heo, chapter 8; Tan, chapter 9; Flores Quiroga, chapter 10; Cason, chapter 11; Molano, chapter 12; Horowitz, chapter 13; Rutland, chapter 14); Spero and Hart, pp. 54-63 and chapter 10.

Short exam #7 online:

Tuesday, May 7, 6:00 am-Wednesday, May 8, 2:00 am. (Covers all materials through Week 14 (April 15-May 3). Above all, you should be able to discuss why countries adopted the policies they did before and after the financial crisis of 1997-99. You should focus particularly on explaining the policy similarities and differences for each of the following pairs of countries: Thailand and Malaysia; Thailand and South Korea; South Korea and Taiwan; Mexico and Brazil; Poland and Russia. On the quiz, you are likely to have to discuss one of these five pairs. Other material may also be covered.)

Study and discussion questions: Choose a country affected by international financial crisis (now or in the past), and summarize the journalistic debate over the sources of the crisis and the best responses to it. What policies should the International Monetary

Fund (IMF) prescribe in response to such crises? Should it require more or less stringent reforms? What kinds of reforms should it emphasize? When and to what extent is debt forgiveness desirable? What policy should the IMF and the “Western” Powers follow towards Russia in the late 1990s or Greece today? How well did the IMF do in prodding Russia to deepen market reforms? Does Russia’s strategic importance justify pursuing different policies than those considered best for other developing countries? Does the same logic apply to Greece since the 2008 crisis?

Part V: Economic and Other Factors in Ending the Cold War.

Week 15 (May 6-May 10): Explaining the Collapse of the USSR.

Reading: Lecture Notes 12 (“Explaining the Collapse of the USSR”); Rush 1993; Sestanovich 1993; Kontorovich 1993; Fairbanks 1993; Reddaway 1993.

Short exam #8 online:

Tuesday, May 14, 6:00 am-Wednesday, May 15, 2:00 am. (Covers all materials through collapse of the USSR. Above all, you should focus on explaining the main causes of the Soviet Union’s collapse, and discussing the relative importance of these factors. Other material may also be covered.)

Study and discussion questions: How stable or unstable was the Soviet Union in the mid-1980s? How did internal and international factors interact to cause its collapse in 1989-1991? In particular, what role was played by the USSR’s economic performance and by economic trends in the West and Japan? What was the effect of President Reagan’s defense build-up? If not for the changes implemented by Mikhail Gorbachev, would the USSR still exist? For how long could it have survived? Does the current U.S. economic embargo on Cuba improve or damage the prospects for political and economic reform?

Required Readings on Reserve in the Library:

Available via links through D2L course site and also directly from the UWM Library Course E-Reserve site.

Alt, James E. and Michael Gilligan. (1994) “The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Institutions,” *Journal of Political Philosophy* 2, 2, 165-192.

Bhagwati, Jagdish. (1988) *Protectionism*. Cambridge, MA: MIT Press.

Coughlin, Cletus, K. Alec Chrystal and Geoffrey Wood. (2000) “Protectionist Trade Policies: A Survey of Theory, Evidence and Rationale,” Federal Reserve Bank of St. Louis.

Fairbanks, Charles. (1993) “The Nature of the Beast,” *National Interest* 31, Spring, 46-56.

Feldstein, Martin. (1997) “EMU and International Conflict,” *Foreign Affairs* 76, 2 (Nov.-Dec.), 60-73.

Feldstein, Martin. (2012) “The Failure of the Euro.” *Foreign Affairs* 91, 1 (Jan.-Feb.), 15-116.

Frey, Bruno S. (1984) *International Political Economics*. New York: Basil Blackwell.

Frieden, Jeffrey. (1994) “Exchange Rate Politics,” *Review of International Political Economy* 1, 1, 81-98.

- Gourevitch, Peter Alexis. (1977) "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873-1896," *Journal of Interdisciplinary History* 8, 281-313.
- Haggard, Stephen. (1991) "Inflation and Stabilization," in Gerald M. Meier, ed., *Politics and Policymaking in Developing Countries: Perspectives on the New Political Economy*, 233-249. San Francisco: ICS Press.
- Horowitz, Shale. (2004) "Restarting Globalization after World War II: Structure, Coalitions, and the Cold War." *Comparative Political Studies* 37, 2, 127-151.
- Shale Horowitz and Uk Heo, eds. (2001) *The Political Economy of International Financial Crisis: Interest Groups, Ideologies, and Institutions*. Lanham, MD: Rowman and Littlefield.
- Kontorovich, Vladimir. (1993) "The Economic Fallacy," *National Interest* 31, Spring, 35-45.
- Milward, Alan S. (1984) *The Reconstruction of Western Europe, 1945-51*. Berkeley, CA: University of California Press.
- Reddaway, Peter. (1993) "The Role of Popular Discontent," *National Interest* 31, Spring, 57-63.
- Rogowski, Ronald. (1987) "Political Cleavages and Changing Exposure to Trade," *American Political Science Review* 81, 4, 1121-1137.
- Rush, Myron. (1993) "Fortune and Fate," *National Interest* 31, Spring, 19-25.
- Sandholtz, Wayne et al. (1992) *The Highest Stakes: The Economic Foundations of the Next Security System*. Oxford: Oxford University Press.
- Sestanovich, Stephen. (1993) "Did the West Undo the East?" *National Interest* 31, Spring, 26-34.