The Politics of International Economic Relations

Sunday Esoso Nsed Ebaye*

Peace & Conflict Resolution Studies Unit, Centre for Generalstudies, Cross River University of Technology, Calabar, Nigeria

*Corresponding Author: Sunday Esoso Nsed Ebaye, Peace & Conflict Resolution Studies Unit, Centre for Generalstudies, Cross River University of Technology, Calabar, Nigeria

Abstract: The book, the Politics of International Economic Relations by Joan Edelman Spero, is a survey of the strategies that have been so far adopted and others that states have failed to adopt in the management of the International Economic Relations since the World war II. It is an analysis of the economic system created within this period, its prospects, collapse, and the possibilities of establishing new strategies of management. Spero emphasis states’ management since states have increasingly intervened in the management of the International Economy and may increase such interventions in the future. Despite its over three decades of publication, Spero’s discourse remains thought provoking in the field of International Relations particularly as it explores the interface between economics and politics in the international system and examined one aspect of that interface: the way in which international politics shapes International Economics. The 447 page book contains ten chapters and divided into four (4) parts.

CONTENT

In the introductory chapter, Spero explained the link between economics and politics, stating that politics and economics have been divorced from each other and isolated in the analysis and theory of international relations. She argued that liberalism is the heritage that is responsible for the artificial separation of economics and politics. For the liberals, economic activity is the preserve of private enterprise and not of government. Unlike economics, politics does not obey natural laws or harmony. The only hope for peace and harmony in the international system therefore, is for politics to be isolated from economics and for the natural and harmonious processes of free trade to operate among nations. As a result, International Political Economy has been fragmented into international politics and international economics. The Bretton Woods system of international economic management in the West, established rules for commercial and financial relations among major industrial states. The East (Soviet) on their part, provided for a separate and stable international economic system. All these left most of the 3rd world nations politically and economically subordinate, with little or no alternative but to acquiesce to the international economic system provided for them. Consequently, conflicts over economic issues were reduced, importance of the economic aspect of international relations push to the background, and international economic interactions was subjugated to the level of low politics (Hoffman, 1966). If theory and analysis are to maintain touch with reality, it will be necessary to bridge the gap between economics and politics, to explore the interface between economics and politics in the national system.

Some scholars opine that economic resources determine strategic and diplomatic power (Knorr, 1975). The early industrialization of Great Britain served as a resource base for British political power and domination of the political structure of the era, just as the US economic power contributed to the creation of America's military and political dominance in the 20th century. Spero observed that the structure and operation of the international economic system are determined by the structure and operation of the international political system, as the processes of production, distribution, and consumption are affected by diplomatic and strategic factors.

The post WW II period experienced the emergence of a new political and economic system based on the hostile confrontation of the two super powers. Politically, the new system was bipolar with US as the dominant political and military power in the West, while the USSR dominated the Eastern
political and military power. There was therefore the cold war between the East imposing communist international economic system based on the concept of a socialist-common wealth, and the West imposing capitalism based on a liberalist economy of free trade and free movement of capital (Krasner, 1976). Political factors not only influenced economic systems, but also influence economic and national policies. The outcome of political conflict is determined by power. This could be seen in the policy of free trade which was a product of conflict between the landed class that advocated protection, and the rising bourgeois class that supported free trade, imperialism reflected the political power of the growing military and capitalist classes, and the US liberalism was determined by the support it enjoyed. The US had often embargoed trade with communist states in an effort to weaken their military capability and had also used economic pressure to force Iran to release its American hostages (Hirschman 1945). Some former colonial powers have also used foreign aid to retain political influence in independent former colonies.

International economic relations constitute political relations as international relations becomes political, once it involves the interaction of different groups in goal seeking pursuits. The core of international economic relations may be seen as the management of conflict and cooperation in the absence of government. Just like international political interaction, economic interaction, ranges from pure conflict to pure cooperation. Since wealth constitute a vital objective of groups in international politics, the pursuit of wealth in its scarcity leads to conflict, and such conflicts are often linked to the struggle over power and sovereignty. States have therefore established rules, institutions and procedures to manage international conflict and cooperation (Keohane and Nye, 1977).

Spero made a study of three basic systems - the Western interdependence system, the North-South dependence system, and the East-West independence system, in order to understand the nature of international economic conflict and cooperation, and their management. He concluded that as governments are seeking increased control of their economies, such governments discover that their national economies are increasingly open to external influence. He posited that the U.S. has been able to control the effect of interdependence more than other states because of its economic power. Whereas, although some 3rd world nations are relatively improving, the absolute differences in income remain, and the gap between the North and South is widening. White interdependence is a relatively symmetrical relationship, dependence is an asymmetrical relationship. Thus a dependent nation is very sensitive to both political and market factors in the North that shape Northern demands and influence their trade.

Trade dependence, is characterized by the Southern economy's dependence on trade with the North and the high levels of sensitivity to those factors that influence such trade (Cohen, 1993). The impact of this dependence is seen as the perpetuation of dependency and underdevelopment. The agitations of the 3rd world nations have been to share in the management of the system and to benefit from the system. The attempt to change the system of dependence led to the clarion call for a New International Economic Order (NIEO) in 1974.

In chapter one, the management of international economic relations since WWII, Spero highlighted the political bases for the effectiveness of the Bretton Woods system--vis- “the concentration of power in a small number of states, the existence of a cluster of important interests shared by those states, and the presence of a dominant power willing and able to assume a leadership role” (p 25).

The concentration of both political and economic power by the members of the Bretton Woods system (North American and Western Europe) enable them to formulate and enforced decisions for the system, particularly as there were no opposition from the 3rd world nations as a result of their political and economic weakness andthe fact that the 3rd world nations had no voice in the management of the system. Though, these powerful states disagreed on the specific enforcement of the liberal system, all agreed that an open system would maximize economic welfare, and enhance the possibilities of international peace (Calleo and Rowland, 1973).

Within the post war era, the public management of the economy became a primary activity of Government in the Developed States. Therefore, the role of Government in the national economy was associated with the states' assumption of responsibility to carter for the welfare of its citizens. The government thus became the custodian of vital domestic economic sectors. In order to have political peace, and economic stability, states agreed to cooperate to regulate the international economic system. To avoid a situation where the Western economy will be vulnerable to the internal communist
threats and external pressure from the USSR, economic cooperation were encouraged as a way of rebuilding the Western economies, ensuring their vitality, and providing for their political and military security. After WW II, American policy makers concluded that the US would have to assume the primary responsibility for creating an international political and economic order. The political implication of the US leadership were viewed as positive as the Europeans and Japanese who have been economically exhausted by the war, needed these assistance to rebuild their domestic economies and to finance their international trade. The concentration of power, the cluster of shared interests and the leadership of the US provided the political capability equal to the tasks of managing the international economy.

Liberals to many, no longer promote economic welfare and undermined national sovereignty and autonomy. The most effective challenge to liberalism came from the communist states when their centrally planned and state control trading systems were antithetical to the principles of free market economy. Thus, without an effective system of control, the international economy faced chaos and crisis. This led to the call for NIEO by the 3rd world nations.

In chapter two, the international monetary management, Spero drew attention to the background of the Bretton Woods system, explaining that the objectives of those present at the conference was to create an international economic system that would prevent another economic and political collapse and military conflict. Officials at Bretton Woods were ready to create a publicly operated international monetary order that would be designed to prevent economic nationalism by fostering liberalism and a high level of international interaction. It was considered that a liberal economic system supported by international cooperation would establish the basis for a lasting peace.

The international monetary fund (IMF) and the international bank for reconstruction and development (IBRD); otherwise termed the World Bank, were to carry out the functions of the central bank in the international system. The rules of the Bretton Woods system provided for fixed exchange rates with parity of all currencies in terms of gold, free trade, and any change in exchange rates must sought the approval of IMF. The IBRD or World Bank was expected to make loans and to issue securities to raise new fund to facilitate the speedy postwar recovery (Mason and Asher, 1973).

By 1947, the US discovered that the Bretton woods system was not working and that the Western system was at the verge of collapse, as the Western Europe was faced with vast import needs, not only for reconstruction but also for survival. Within the same period, the IMF and the IBRD also admitted that they could not manage the system's economic problems (pp. 105-107, 124-135). The Soviet leaders were waiting for the economic collapse of the Western Europe, which they felt would be to their political advantage. The Soviet Union also refused to cooperate with the Allies on a postwar settlement for Germany.

However, the Europeans and Japanese who had been economically exhausted by the war, needed American assistance to rebuild their domestic production, finance international trade and provide for political stability. At this point, the unilateral American management was made possible by the strength of its economy, the lessons of the interwar period and its security incentives. The US therefore abandoned the Bretton Woods objectives of convertibility and encouraged European and Japanese trade protection and discrimination against the dollar. For example, the US absorbed large volumes of Japanese exports while accepting Japanese restrictions against American exports. Thus, the US began to manage the international monetary system by providing liquidity and necessary adjustment. By the end of the 1950s, vast sums were needed beyond the US capability to support the Pound in times of crisis. The dollar crisis was aggravated by the return to the convertibility of European currencies at the end of 1958, as it made possible huge speculative international capital flows that could be directed against the pound or the dollar. A run on the pound tended to spill over into a run on the dollar. Consequently, there was a common perception of the need for cooperation to support the system.

As the US could no longer unilaterally manage the system, there was need to couple it to join in a collective management, to seek the cooperation of others, and to make concessions. This led to the multilateral management of the monetary system performed by the elite from the major states. Also a group of ten industrial nations comprising of Germany, France, UK, Sweden, Belgium Canada, Italy, Japan, Netherlands and the US, met in Paris and established the general arrangements to borrow funds from outside the IMF jurisdiction and under the control of the new group. The group later assumed
the roles of monetary management and became a forum for deliberation and exchange of information and an avenue for negotiation of monetary reforms. This group in its bid to manage the dollar crisis in 1968, established two markets for gold; the private market where the price of gold could fluctuate freely, and the public market where the group were to sell gold at $35 an ounce to one another. This understanding greatly reduced the crisis and pressure on the American gold supply. Unlike the Bretton Woods system that had no international liquidity control, the dollar system relied on the U.S. to function as the world's central banker.

In the late 1960's, the group of ten reached agreement to establish the special drawing rights (SDRS); an International reserve created by a joint decision of the IMF, to be regulated not just by the U.S. alone, but the joint control of the group of ten. The SDRS were used to settle accounts among the central banks. This was the climax of multilateral cooperation not only in containing crisis and supporting the system, but in the ability to move toward a systemic reform. However, between the late 1950s to the 1970s, there were a lot of structural changes that led to the collapse of the management system. In particular, the development of a high level of monetary interdependence laid the foundation for the return to convertibility of the western European currencies and the Japanese Yen. This contributed to the large expansion of international financial transaction, which created monetary interdependence, and good management (Krause, 1972).

Spero argued that interdependence undermines national monetary tools as the low interest rates that were used to stimulate an economy simply led to out flow of capital to countries with higher interest rates. In an interdependent world, American deficit influenced Japan and Europe economy. Also as other countries were willing to hold dollars, the U.S. could carryout unlimited foreign expenditure for political reason - foreign aid and military activities without the threat of balance of payments problems. Dissatisfaction with the political implications of the dollar system was increased by détente between the U.S and the USSR. Consequently, the system experienced the abnegation by the U.S of monetary leadership and cooperation leading to benign neglect in managing the system and in monetary reform. August 15, 1971 marked the collapse of the Bretton Woods system as the U.S. led the attempt to introduce a new international monetary management system.

The author posited that, in an interdependent world, autonomy of national policy is an illusion. Some degree of coordination is necessary to avoid contradictory and mutually defeating policies and to promote mutually reinforcing and beneficial policies.

The US in 1977 advocated the multilateral management of international economic relations, through the trilateral (US, Japan and Western Europe) commission that promoted the developed countries coordination of economic policies and to improve the functioning of multilateral organizations as a way of improving and restructuring international economic relations (Bergstein, Berthoin and Mushakoji, 1976).

Spero argued that in an interdependent world, international monetary management will inevitably confront national sovereignty. If interdependence is to be managed, it will require new forms of international authority that assume responsibilities once thought to be the prerogative of national government.

In his discourse on international trade and domestic politics, Spero examined the evolution of trade management in the face of domestic political constraints. He argued that the details of trade policies are the subject of frequent and often highly charged domestic political conflicts, because trade policy often determines prosperity or depression. Domestic politicization has been an important constraint on international management, and despite the common interest in management and a liberal system, the management of trade in the post war period is often hindered by domestic politics as it is difficult to translate the common goals into an international order of trade.

The genesis of the conflict between domestic politics and International management is traced to the Havana Charter where attempts were made for the first time to create a new internationally managed economic system in the post war era. Though the US played a leading role, but because each participant faced serious domestic political constraints, it became difficult for US to impose its plan on others. White Britain insisted on the provision for its imperial preference system, other Europeans insisted on safeguards for balance of payment problems. On the other hand, the 3rd World states demanded for provisions on economic development. The Havana charter was therefore a complex
agreement that satisfied no one. The US congress prevented the adherence to the Havana Charter. As US withdrew, the Charter collapse (Diebold, 1952).

Though the Havana Charter collapsed, the desire to create an international trading system survived. The GATT that was drawn in 1947 to provide a procedural base for tariff negotiation was intended to be a temporary treaty to serve until the Havana Charter was implemented. But as the Charter was never ratified, GATT became the expression of the International agreement on trade. GATT provided for non-discrimination as a rule for implementing free trade, provided an International Commercial Code with rules on such issues as dumping and subsidies and provided a set of rules and procedures for what was to be the principal method of trade management in the post-war period (Cooper, 1968).

As a result of this economic convergence combined with interdependence, small changes in factor costs led to large shift in comparative advantage and thus in trade production, and employment. The combination of interdependence and changes in the structure of national economies made those economies more sensitive to external events and provoked domestic opposition to free trade. With this, and many others, recession and inflation increased the possibility of disruptive national action and management collapse. One of the final drift that paralyzed the management system was the Japanese Policy of Protective Economic Nationalism. Despite Japan's economic strength, they continued to view the liberal policy as a means of economic domination by the US. By 1968, some groups of states started calling for restrictions on US trade and in 1970, they shifted their support for liberation to active campaign for protectionism (Krasner, 1976).

In her Multinational Corporation (MNC) and the issue of management (chapter four) the author posited that international investment is quite a new phenomenon and that the corporate giants tend to be oligopolistic and able to dominate markets because of their size, access to financial resources, control of technology, and their possession of a special differentiated product (Wells, 1972). The centralized and integrated organizational structure reinforces the MNC tendency to make decisions for the firm and the international environment without concern for the host states. Due to the fact that no one country has complete responsibility for overall jurisdiction, it became difficult for states to exert legal control over resident MNCs. The combination of the unique features of the MNCs and their rapid expansion among the developed economies caused some problems within the international management. The MNCs interest conflict with the global efficiency and growth do not necessarily maximize efficiency and individual national economies (Hymer, 1970). There have been attempts to regulate foreign corporations to maximize economic benefits and to minimize the loss of control by states.

The author concluded that despite the MNCs growth and effectiveness, solutions to the host states remain limited by their inability to control the activities of MNCs outside national boundaries (p.158).

There is therefore a call for maximizing the positive effects of the MNCs and minimizing their negative effects by the creation of an appropriate framework of countervailing power at the international level through legislation, guidelines, codes, multilateral agreements and through greater cooperation and exchange between states. Consequently, one will advocate for a complex system of bilateral or multilateral negotiation among states that will lead to many agreements on specific areas of conflict resolutions, such as arbitration, adjudication, or consultation procedures that would replace regulations when rules can not be agreed, as against a unified and centralized order.

In chapter five; the North-South system and the possibility of change, Spero stated that the difference between the views of the North-South with regards to development is dependent on their perception of the international market/economic system. While the North sees the system of dependence as legitimate because they benefit from it and believe that others also benefits, the South see it as illegitimate because the system has hinders their economic growth.

The central political problem of the North-South system is whether it is possible for the system of dependence to be changed and be replaced with a completely new system that can offer economic benefits to the South. In response to this predicament, three basic schools of though have proffered solutions vis – The liberal school that have prospect for the Southern Economic Growth and believe that Southern contact with the Northern developed market economies is a means of promoting development. The Marxist school of thought argue contrary that the Southern underdevelopment is as a result of the long history of subordination to the world capitalist system and that this
underdevelopment will continue for as long as the South remain in this system. Then the structural scholars who argue that the market structure is already in favour of the North and that any unregulated international trade and capital movements will promote international inequalities.

With regards to effective changes in the system, while the structuralist argue that industrialization can be achieved to narrow the gap between the North and South through foreign aid, protectionism, and access to Northern Market, the Marxist argue that the capitalist system is immutable and unable to accept a reformed system. The only change possible is revolution.

The issue therefore, is to consider the viability of the Southern states in effecting such changes particularly in the management and distribution of rewards, and to what extent the North can be made to respond (Timamy, 2007).

Chapter six focused on the use of aid. The author opined that aid is used by the developed states to sustain the existing structure of international economic relations and to attract political influence in the 3rd world states by responding to their developmental needs.

Due to the prevailing Northern perception about aid and the 3rd world weakness in insisting on changes in this regards, the International Bank for Reconstruction and Development (IBRD) had no provision for public concessional funds to promote development in the post-war international economic order. Ratter, it was determined that the emphasis of IBRD activity would be reconstruction and not development. The inadequacies of the IBRD prompted the 3rd world countries to seek public concessional funds for economic development. They therefore turned to the UN and some developed states in their quest for aid and greater participation in the management of aid.

The Special UN Fund for Economic Development (SUNFED) of 1953 presented proposal not only for soft loans for the South, but active participation in the funds management. The 3rd world states also appealed to individual Northern states to transfer reasonable resources to the 3rd world. Demands for economic change were finally considered by the North because the developed market economies began to perceive a threat to their traditional position of political dominance and security in the 3rd world nations. The US in particular, turned to new program of foreign economic aid because of the determination that economic assistance to the developing nations could be a powerful tool in the cold war. For the UK and France, the aid policy grew out of the history of colonialism.

However, aid has not altered the distribution of either wealth or power, has little impact on the North-South relations, and has even become a new feature of economic dependence and not growth or equity as expected. The presumed link between aid and political development favourable to the South has also proved inaccurate. Both sides should therefore realize that it is difficult to win friendship/development through economic assistance.

With regard to the debt crises, this link the economic future of the North to the South, as the developing countries can service their debts to the Northern banks, only when they are able to maintain their economic growth. The North therefore see aid as a tool for promoting the economic development of the South, in order to protect the economic interest of the North (Timamy, 2007)

In chapter seven, trade strategy, Spero posited that the American and British governments that were responsible for planning a new trading order paid very little attention to the developmental goals of the South. Southern interest merely coincided with Northern desires to establish a system based on free trade. The 3rd world nations argued that free trade threatened their developmental policies through national industrialization and protection from foreign competition and served the interest of the powerful Northern industrial states.

The Havana Charter that gave some leverage to the South was replaced by the GATT that excluded the interest of the developing states. The attempt by the South to look in-ward through the policy of industrialization and import substitution with the goal of achieving national development insulated from the international market ended in a failure, as it led neither to development nor to independence. Thus, the Southern states shift to export expansion could not materialized without a restructuring of the international trading system as this system prevented export growth.

As the number of independent southern states grew, the pressure for a change in GATT system increased. As this pressure increased, and with the challenge from the Soviet Union, the North felt it could no longer ignore the South’s problem leading to establishment of new committees within GATT
to deal with the problems of Southern trade. However, the South came to the conclusion that the way to change the system was not just the modification of GATT from within, but assault from without. In 1961, despite opposition from the North, the South proposed and succeeded in passing a resolution at the UNGA session calling for the UN to consult the member government with regards to holding of conference on international trade and the possible agenda. UNCTAD; a product of the Southern unity posited that unless measures are taken to counteract the structural bias against the South and to fill the trade gap, the underdeveloped states will not be able to meet the reasonable growth targets. What is needed; UNCTAD continued, is a redistribution of world resources to help the South ... and the responsibility for such transfers rests with the North (Nye, 1973: 348-349).

However, the successes of UNCTAD were limited by the clef between the oil producing and the oil consuming states of the South, the inability of UNCTAD to compel its members thereby making the South to still rely on the political willingness of the North to implement the UNCTAD programs, etc. The 3rd world discovery of commodity power led to a new phase in the North-South relations. The Southern states use this new power to press on the North for structural changes.

Again, factors such as cleavages arising from the Southern heterogeneity, the impact of rising oil prices on the oil importing developing states, the growing economic divergence between the newly industrialised countries and the majority of the 3rd world states, all worked against the interest of the Southern States.

Also, the lower labour costs in labour intensive industries and production innovations acquired from the North enabled certain developing countries to compete favourably with the Northern states within the 1980s. Following the prominence of manufactured goods and new forms of protectionism, the less developed countries (LDC) trade policy focus more on access to developed countries' markets, but recession and debt crises brought changes in the South's trade strategy and recession undermined the credibility of the 3rd world commodity power and OPEC influence as bargaining chips with the North. The recession and debt crises also caused a drop in the LDCs' import from the North.

Chapter eight focused on managing the Multinational Corporation (MNC). The author opined that foreign firms represent a significant percentage of the largest and most powerful firms in the Southern economies. She posited that the MNCs grow out of their structural position within relatively small and underdeveloped economies of the South and dominate the power over the control of supply and prices.

The MNCs could be regulated by the laws of the host states that can restrict their activities particularly during investment negotiations. Many factors posed problems to the policy makers of the Northern states such as the Southern desire for expansion of industrialization through new factories, uncertainty about the operation's eventual success and final cost and political instability in the 3rd world states. Again, the MNCs are able to influence the domestic politics of host countries thereby challenging national sovereignty.

Despite this, proponents of foreign investment have argued that the South benefit from the MNCs operation as such investments fill resource gaps and improve the factors of production in the developing nations, contribute to crucial foreign exchange earnings, profit from the sophisticated research, development, and technology, and improve welfare and efficiency of production.

Critics however argue that the MNCs exploits the developing nations and perpetuate dependence (Furado, 1970), promote capital outflow though profits, debt services, royalties, fees and manipulation of export and import prices. Also, the importation of technology stunts the development of local technology capabilities and contributes to low employment. In sum, the MNCs creates a distorted and undesirable form of growth that hinders real local development (Vaitsos, 1973 and Girvan, 1976). The MNCs have also engaged in illegal activities such as illegal contributions to political parties, bribes to local officers, refusals to comply with host laws and regulations, and the use of such extra legal methods as international boycotts to pressure an unfriendly government or to seek support for opposition to unfavorable regimes in host countries.

However, modernization and political mobilization have led to demands that affect the MNCs. These include, demands for improved economic welfare, housing, transportation, and jobs availability of new data demonstrating the detrimental effect of foreign investment, host country's learning curve, that had enabled the southern states to generate and use data regarding the MNCs operations, to write
effective laws to control the corporations, administer these laws, and in some cases, to operate the firms if and when they are nationalized (p. 281).

Other factors of change include decreasing uncertainty of operations and increase competition for investment opportunities in the south, the nationalization of local subsidiaries by host countries, restrictions of amount of equity that foreigners can hold in local companies, regulated acquisitions, regulating the MNCs' behaviour after entry, policy of positive incentives to host nations, support of state-owned industries, and the activities of producer cartels.

Despite all these, Spero argued that the real constraints that will be sufficient indicators of Southern control lie in the actual ability to manage the MNCs, and this has to do with the expertise and information needed for the effective administration of new investment regulations. Also important is the ability to ensure the real transfer of decision making from the MNCs to the host states, and the attitudes of the ruling elites in the Southern states.

In chapter nine: oil and cartel power, Spero stated that with the dramatic reversal of the system of dependency by the Southern oil exporting states in 1973, OPEC became the new hope for the 3rd world nations. Prior to this period, to preserve the dominance of the developed states, the international oil companies adopted the oligopolistic strategy of corporation, control the supply of oil, ensured high prices and to discriminate against outsiders. Faced with this challenge, the less developed countries were forced to bargain from a position of weakness. However, this position of dependence was affected by several factors such as the increased competition in refining, marketing and changes in price control as greater competition for supplies meant greater production. The ability of OPEC to attain its objectives depended on membership cooperation to reduce production and thus force price increase. Thus, the developed nations became vulnerable to OPEC threat of supply interruption, particularly as those countries influence, in the oil producing regions decline.

Another contributory factor to the changes was the Libyan contest with the oil companies which demonstrated that government revenues could be raised by increasing exports and also increasing prices. By 1972, despite the opposition by the companies, OPEC insisted and attain the nationalization of the companies beginning with 25% and rising to 51% by 1982. The monopoly of the control of oil by OPEC; same technique adopted by the seven sisters earlier on, their unity, and the tight market conditions prevented the companies from having any leverage. All efforts by the Northern consumers to counter OPEC position by forming a consumer cartel, failed particularly as the Europeans and Japanese - far more dependent on foreign sources of oil and fearful of the U.S. dominance, advised corporation with the OPEC.

The U.S. pressure however, resumed to the establishment of the International Energy Agency (IEA) for the development of alternative forms of energy. France opted out of membership of the IEA and preferred dialogue with the oil producers. Spero further postulated that OPEC domination of the oil market was partly due to the leadership prowess of Saudi Arabia. The Saudis, though wanted high prices of oil, but not high enough to jeopardize the future of an oil based energy system and the viability of the world economy. The turning point in the international oil system was the 1978 revolution in Iran that created world shortage of oil and disorder in world oil markets. Despite production increase and its refusal to add surcharges, Saudi Arabia was unable to restore order to the world oil markets. OPEC members maintained a tight market which favoured price increase by agreeing to decrease their production as Iran returned to the oil market. This was made worst with the outbreak of war between Iraq and Iran in 1980 resulting to a halt in oil exports from these countries, and reduction in world supplies. The increase in prices encourages new oil companies into the market, exploring for new crude sources and developing new purchase and distribution lines. Some companies bought only what they needed and maintain slimmer inventories thereby passing the financial burden back to the producers. The changes in the pattern of oil production and consumption and the activities of cheaters increased OPEC's problems and undermined the cartel's cohesion. The lack of cohesion within OPEC threatened the cartel's effectiveness and weakens its financial clout.

However, it must be noted that the survival of a cartel depends on two complex factors. Producers must manage price so that it does not rise above a level that would encourage the use of substitutes, and must also be able to manage the supply response from other producers.
Chapter Ten is a discourse on the East-West economic relations. Spero stated that the U.S. sought the Soviets' participation in the post-war economic relations, considering the enormous benefits they stand to gain from such economic harmony. The USSR on the other hand created a separate Eastern economic bloc with a view to dominating Eastern Europe, and to advance world revolution and spread communist ideologies. This, to the Soviet was to hasten the demise of capitalism.

The Soviet refused to join the new international economic institutions of Western origin and also prevented those satellites that had interest from participating in those institutions. In place of Western Institutions (Bretton Woods, IMF, IBRD, GATT, Marshall Plan assistance, etc.), the Soviet created the Council for Mutual Economic Assistance (COMECON). While the West operated a capitalist economy, the USSR and other Eastern Europe had a centralized state planning system. This, among others, confirmed the U.S view that the Soviet was a permanent political and military threat to the West. The U.S. therefore adopted many policies to deal with the USSR such as building an economically strong and united West, establishment of strong international monetary system, strong military (NATO), and a strategic embargo and credit restriction intended to impair the Eastern bloc militarily, politically, and economically. Thus the East and West established separate International Economic Systems with separate institutions, rules and patterns of interactions.

However, this tension was eased by forces such as nuclear parity, increased pluralism in the Eastern Europe and Soviet, Russian's inadequacy in agricultural production, Eastern problems of Industrial growth, leading to greater East-West economic interactions. For the West, domestic political consensus in favour of increased East-West trade, competition from Japan and Western Europe in U.S. markets, concern of labour over increasing unemployment also led to increased relations with the East.

Despite all these forces in favour of closer ties, there also exist forces that militated against such closer ties. For the East, the chronic shortage of foreign exchange as Eastern currencies were not convertible, the structure of foreign trade system, fear of not being able to compete with the Western manufactured goods, and potential marketable energy supplies could best be extracted with Western capital inputs which they fear may be difficult to obtain. For the West it was mainly political barriers. There was strong opposition from the republicans against any form of East-West trade expansion. The point here that not only were there disagreement on general trade policy and its relations to detente, but the U.S sought for more stringent control on high technology exports to the Soviets than the Europeans and Japanese believe were necessary. Thus, foreign firms using U.S technology and foreign subsidiaries of American corporation that shipped pipeline equipment to the Soviet Union were subject to an embargo on certain transactions with the U.S firms.

Spero concluded that the prospect of a new international economic order lies on mutual restraint and cooperation by the major power until a suitable reform is attained.

Some scholars have criticized Spero for her approach in this study. Calleo and Rowland (1973) have argued that increasing interdependence lead to doubt about the desirability of management for the purpose of reducing restrictions. They question the original economic rationale for free trade, and the political price of requiring the advantages of free trade, which is a challenge to national management seems to grow higher. Others have argued that people’s economic qualities and attitudes, their values, objectives and motivations, their social and political institutions, together with natural resources and external market opportunities are the major determinants of development (Baner, 1981) and not necessarily cooperation or interdependence.

Generally, Spero has not been able to proffer concrete and adequate recommendations as a way forward. The book; though a little repetitive, is a must read for students of international political and economic relations.

REFERENCES


The Politics of International Economic Relations


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