Some Selected Theories of International Economic Relations

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Abstract

This paper investigated Theories of International Economic Relations. Economic activities and relations preceded modern state. The need for economic relations stem from myriads of economic challenges that confront humanity (poverty, hunger and general underdevelopment etc.). Global economic challenges especially the economic recession of the 1930s that was fuelled primarily by the First World War (WW1) and Second World War (WW11) necessitated the establishment of the International Monetary Fund (IMF) and the World Bank to lead the economic recovery of the global system. The need to foster and enhance economic growth and prosperity has led states to form regional and sub-regional economic cooperation. The aim of the study is to analyze theories of international economic relations. The major assumption of the theory is that the economic mode of production fundamentally shapes the social and political superstructure. The secondary source of data was adopted for the study; it involves the collection of data from textbooks, newspapers, articles and conference papers etc. The work finds out that there are numerous theoretical underpinning that explains international economic relations: Classical, Neo-classical, Realism, Marxism, and liberalism etc. It therefore recommends that already existing global (IMF and World Bank), regional (AU and EU etc.) and sub-regional (ECOWAS and SADC etc.) economic cooperation should be strengthen by member states to enable them deliver on their mandate and overcome major economic challenges.

Keywords: Economic, International, Relations, State, Trade

Introduction

One common features of the global system is the element of interdependence. This is so owing to the fact that no state is an island as states depend on each other in diverse form for survival. Even the most technological advanced countries in the world (West) still depend on other countries for survival. International economic relations refer to the economic interactions and dependencies between countries. According Frieden (2009), international economics is concerned with the effects upon economic activity from international differences in productive resources and consumer preferences and the international institutions that affect them. According to Sonu (2010), it seeks to explain the patterns and consequences of transactions and interactions between the inhabitants of different countries, including trade, investment and transaction.

International economic relations are made up of different components such as international finance; the flow of capital across borders, including foreign exchange markets, international monetary systems, and the global financial market. This also involves understanding exchange rates, balance of payments, and the role of international financial institutions like the International Monetary Fund (IMF) and the World Bank; economic policy coordination; collaborative efforts among countries to align their economic policies for mutual benefit. This includes agreements on trade policies, monetary policies, and regulatory standards to promote stability and growth in the global economy; economic integration; the process by which countries reduce barriers to trade and investment to create larger markets and improve economic cooperation. Examples include regional trade agreements like the Economic Community of West African States (ECOWAS), European Union (EU), the North American Free Trade Agreement (NAFTA), and the Association of Southeast Asian Nations (ASEAN); international trade; the exchange of goods and services between countries. This involves exports and imports, trade policies, tariffs, quotas, and trade agreements; and Foreign Direct Investment (FDI); investments made by individuals, companies, or governments from one country into businesses or assets in another country. This includes mergers, acquisitions, and the establishment of new businesses etc.

International economic relations play a critical role in shaping global economic policies and determining the economic health and development of nations. Through international economic relations, countries come together to address economic problems that affect them. The establishment of World Bank, International Monetary Fund (IMF), European Union (EU) and Economic Community of West African States (ECOWAS) etc. are part of attempt to foster economic relations and cooperation's among countries either at the global, regional or sub regional level. It is against this background that this paper intends to examine the theories of international economic relations.

Statement of the Problem

Economic thought and development precede other forms of development. Beginning from the hunter and gathering society, it can be seen that the first activity of mankind was the need to eke out a living (economic activity). In the hunter and gatherer society, men hunt for animals why women gather fruits. This implies that right from origin, man has been involved in economic activity. Every country engages in one form of economic activities or the other in order to survive. The barriers (geographical territory) that demarcate countries made it necessary for state to cooperate to address their common economic challenges. There are myriads of economic challenges that confront humanity such as poverty, unemployment, social inequality and general underdevelopment etc. These problems can better be address when countries relate and cooperate rather than adopting a single national policy. The economic recession of the 1930s following the aftermath of the First World War (WW1) and Second World War (WW11) led to the establishment of the World Bank and the IMF at the Bretton woods institution. The EU, African Union (formerly Organization of African Unity) and ECOWAS etc. were also established to help deepened economic among member countries. The existence of economic problem has therefore necessitated the need for international economic relations.

Aim and Objectives of the Study

The aim of the study is to analyze some selected theories of international economic relations; the specific objectives are as follows:

1. Examine some theories of international economic relations.

2. Make appropriate recommendations on how to strengthen economic relations among countries in the international system.

Methodology

The historical research design was adopted for the study. It has to do with studying past event so as to understand present event in other to predict future event.

The secondary source of data was utilized for the study. Secondary source of data refer to the set of data collated or authored by another person, archives, in the form of documents collected for a purpose other than the present one in which it is being used (Asika, 2006). Selltiz et al (1977), has declared that the usefulness of secondary sources of data lies in the fact that information of this sort is collected periodically. Also, gathering of information from such sources does not require the cooperation or assistance of the individual about whom information is being sought. The sources of data for this study includes: magazines, newspapers, textbooks, articles, journals and seminar papers among others. The content analysis was adopted as our method of data analysis.

Results and Discussions

Theories of International Economic Relations

Theory is an abstract entity that depicts reality. It is a blue print through which one perceives reality. There are numerous theories of economic relations, they includes; Classical theory, Neoclassical theory**,** Keynesian theory, Realism, Liberalism, Dependency theory, Constructivism and Marxism. The assumptions of these theories are discuss below.

Classical theory of International Economic Relations

Classical theory of international economic relations was put forward by Adam Smith and David Ricardo. The doctrine that trade enhances welfare and growth has a long and distinguished ancestry dating back at least to Adam Smith (1723-90). Smith, in his famous book, An Inquiry into the Nature and Causes of the Wealth of Nations (1776), stressed the importance of trade as a vent for surplus production and as a means of widening the market thereby improving the division of labour and the level of productivity. It is worth quoting Smith directly:

> Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries the surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return something else for which there is a demand. It gives value to their superfluities, by exchanging them for something else, which may satisfy part of their wants and increase their enjoyments. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers and to augment its annual produce to the utmost, and thereby to increase the real revenue of wealth and society.

Following Smith, David Ricardo (1772-1823) introduced the concept of comparative advantage, emphasizing that countries should specialize in producing goods where they have the lowest opportunity cost. He developed the theory of comparative advantage and showed rigorously in his Principles of Political Economy and Taxation (1817) which focus on the assumptions of perfect competition and the full employment of resources (although not made explicit), countries can reap welfare gains by specializing in the production of those goods with the lowest opportunity cost and trading the surplus of production over domestic demand, provided that the international rate of exchange between commodities lies between the domestic opportunity cost ratios. These are essentially static gains that arise from the reallocation of resources from one sector to another as increased specialization, based on comparative advantage, takes place.

Neoclassical Theory of International Economic Relations

The Neoclassical theory was put forward by Heckscher-Ohlin and Stolper-Samuelson. Heckscher-Ohlin theorem (H-O) depends upon the assumptions of no international differences of technology, productivity, or consumer preferences; no obstacles to pure competition or free trade and no scale economies. On those

assumptions, it derives a model of the trade patterns that would arise solely from international differences in the relative abundance of labour and capital (referred to as factor endowments). The resulting theorem states that, on those assumptions, a country with a relative abundance of capital would export capital-intensive products and import labour-intensive products. The theorem proved to be of very limited predictive value, as was demonstrated by what came to be known as the *Leontief Paradox* (the discovery that, despite its capital-rich factor endowment, America was exporting labour-intensive products and importing capital intensive products). Nevertheless, the theoretical techniques (and many of the assumptions) used in deriving the H–O model were subsequently used to derive further theorems.

The Stolper–Samuelson theorem, which is often described as a corollary of the H–O theorem, was an early example. In its most general form it states that if the price of a good rises (falls) then the price of the factor used intensively in that industry will also rise (fall) while the price of the other factor will fall (rise). In the international trade context for which it was devised it means that trade lowers the real wage of the scarce factor of production, and protection from trade raises it.

Another corollary of the H–O theorem is Samuelson's factor price equalization theorem which states that as trade between countries tends to equalize their product prices, it tends also to equalize the prices paid to their factors of production. Those theories have sometimes been taken to mean that trade between an industrialized country and a developing country would lower the wages of the unskilled in the industrialized country. (But, as noted below, that conclusion depends upon the unlikely assumption that productivity is the same in the two countries). Large numbers of studies (Snidal, 1991; Siitonen, 1990), have attempts to elaborate on the H–O and Stolper–Samuelson theorems, and while many of them are considered to provide valuable insights, they have seldom proved to be directly applicable to the task of explaining trade patterns.

Realism

Realism is one of the theories of international economic relations. The realist theory derives its impulse from the perspective that the nature of man is sinful, aggressive and conflictual. Realism holds that political theory must flow from

observation of history and experience of people and of nation-states and that these show a pattern of violent and aggressive behavior. In this environment, the highest moral duty of the state is its own preservation. To accomplish this, states must utilize power. According to Morganthau (1978), the interest of nation-state define in terms of power, is the main moral guide in which policy are developed, but prudence in pursuing that interest is the primary ethical guide for policy makers. In the world of power politics, states must increase their power to guarantee their survival. Thus, the goal of state has come to include the search for ways to acquire and keep power, increase power and demonstrate power. In short, in a world of conflicting states seeking power, or world confirmed by historical experience and by the nature of man, states must engage in power politics in order to survive, and they should do anything prudent or otherwise to achieve that goal.

There is no single tradition of realism but rather a knot of historically constituted tensions, contradictions and evasions. There are therefore different types of realism which can be distinguish into three: classical realism (up to the twentieth century), modern realism (1939 – 1979) and neo-realism (1979 to date). This periodization does not however overcome the problem of diversity since not all classical writers agree on the causes of war, or whether the balance of power is a natural state or one which must be created for the effective management of global power.

There are therefore differences between historical realism and structural realism. Machiavelli is regarded as the leading proponent of historical realism. He advocates a set of ideas which permit nation-state leaders to bring the external environment under their control. E.H Carr can be regarded as a modern Machiavelli. To Carr (1976), nations of power must advocate for a foreign policy which recognized the interplay of power and morality, force and appeasement. It is his idea that brutal force alone cannot keep and control any population in a state of perpetual submissiveness to authority.

On the other hand, structural realism can rightly be credited to Thucydides (430-400BC) and later to Hans J. Morgenthau and Kenneth Waltz. Thucydides present power politics as a law of human behavior, he uses the "Melian dialogue", one episode of the Peloponnesian war to express the realist view of some key ideas

such as self- interest, alliances, balance of power, capabilities and insecurity. Morgenthau (1978) elevated these principles to an unprecedented height in post-World War II academic discussion. To him, nations must control other nations by force, acquire territories by force and must not have any moral consideration in respect of Justice, fairness and common interest. Alexander and Friedrich (cited in Frieden, 2009) advocated for economic nationalism and protectionism, arguing that state intervention is necessary to develop and protect domestic industries from international competition.

Realism is hinged on the following assumptions:

1. The realist theory assume that there is no essential harmony of interest among nation-state and that nation-state often have conflicting national objective, which often lead to war.
2. Realism posits that the capabilities of state are important for the outcomes of international conflict and for the ability of one state to influence another state behavior.
3. Power, they believe has a military and non-military component which include not military force but also the level of technology, population, national resources, etc.
4. Realists posit that there are severe limitations in the extent to which political reforms can alter human nature. Man is evil, sinful and power seeking. According them, human nature is not innately good or perfectible.

Liberalism

Liberalism is one of the theories of international economic relations. It is hinged on the assumption of individual freedom and right. The theory was propounded by John Locke and Thomas Hobbes. Liberalism is a political and moral philosophy based on the rights of the individual, liberty, consent of the governed, political equality and equality before the law. Liberal scholars espouse various views depending on their understanding of these principles. However, they generally support private property, market economies, individual rights (including civil rights and human rights), liberal democracy, secularism, rule of law, economic and political freedom, freedom of speech, freedom of the press, freedom of assembly, and freedom of religion. Liberalism is frequently cited as the dominant ideology of modern history.

Liberalism is one of the major pillars of western democratic societies. It guaranteed greater freedom for the individual and defined the responsibilities of the individual in the state. The state according to this perspective must at all-time seek the common good of it citizens (their happiness). According to this theory, the fundamental basis of establishing the state and government is to promote the common good of the citizens. The state must not interfere with the fundamental rights of the citizens as enshrined in the constitution. This theory also defined the role of the state in the management of the economy. To the liberalist, the state should not interfere in the running of the economy but rather should create an enabling environment to allow private sectors or individual to thrive, the role of the state according to the liberalists should be limited to the maintenance of law and order.

Liberalism became a distinct movement in the Age of Enlightenment, gaining popularity among Western philosophers and economists. Liberalism sought to replace the norms of hereditary privilege, state religion, absolute monarchy, the divine right of kings and traditional conservatism with representative democracy, rule of law and equality under the law. Liberalism also ended mercantilist policies, royal monopolies and other trade barriers, instead promoting free trade and marketization. Liberalism sought and established a constitutional order that prized important individual freedoms, such as freedom of speech and freedom of association; an independent judiciary and public trial by jury; and the abolition of aristocratic privileges. Later waves of modern liberal thought and struggle were strongly influenced by the need to expand civil rights. Robert Keohane and Joseph Nye advocated for a complex interdependence, where multiple channels of interaction and mutual dependence reduce the likelihood of conflict and promote cooperation in international economic relations.

Liberalism has advocated gender and racial equality in their drive to promote civil rights and a global civil rights movement in the 20th century achieved several objectives towards both goals. Other goals often accepted by liberal scholars include universal suffrage and universal access to education. In Europe and North America, the establishment of social liberalism (often called simply liberalism in the United States) became a key component in expanding the welfare state. Today,

liberal parties continue to wield power and influence throughout the world. The fundamental elements of contemporary society have liberal roots.

Constructivism

Constructivism is one of the theories of international economic relations that emphasize the social construction of world politics. The theory was propounded by Alexander Wendt and Martha Finnemore. The theory is hinge on certain key assumptions:

Social Constructivism: Constructivism asserts that many aspects of international relations are socially constructed rather than inherently given. This means that the identities, interests, and preferences of states and other international actors are shaped by social interactions and shared understandings rather than by purely material factors.

Identity and Interests: Constructivists believe that the identities and interests of actors are not fixed but are formed and transformed through social interactions. This contrasts with realist and liberal theories, which often assume that state interests are given and primarily focused on security or economic gains.

Norms and Rules: Constructivism emphasizes the importance of international norms, rules, and institutions in shaping state behavior. Norms are shared expectations about appropriate behavior, and they can influence state actions by creating standards of legitimacy and illegitimacy.

Power of Ideas: Ideas, beliefs, and ideologies play a crucial role in shaping the international system. Constructivists argue that the way actors interpret and understand the world can influence their behavior and the outcomes of international interactions.

Mutual Constitution: The relationship between agents (such as states) and structures (such as the international system) is mutually constitutive. This means that while structures influence the behavior of agents, agents can also change the structures through their actions.

Change and Continuity: Constructivism provides a framework for understanding both stability and change in international relations. It explains how stable norms and identities can lead to predictable behavior, while shifts in norms and identities can lead to changes in the international system.

The theory therefore emphasizes on the role of ideas, beliefs, and identities in shaping international economic relations, suggesting that these factors can influence states' economic policies and behaviors**.**

Marxism

Marxism is a socio-political and economic theory developed by Karl Marx and Friedrich Engels in the mid-19th century. It is based on the idea that society's classes are the primary actors in history and that class struggle is the central dynamic in social change. The theory is predicated on certain key assumptions:
Historical Materialism: This is the methodological approach to studying society, economics, and history. Marx and Engels argued that material conditions and economic activities are the foundation upon which societal structures and ideas are built.

Class Struggle: According to Marx, history is defined by the conflict between different classes with opposing interests. The most significant classes are the bourgeoisie (the capitalist class who own the means of production) and the proletariat (the working class who sell their labor).

Surplus Value and Exploitation: Marx introduced the concept of surplus value, which is the value produced by workers in excess of their own labor-cost, and which is appropriated by capitalists as profit. This appropriation is seen as exploitation.

Capitalism's Internal Contradictions: Marxists believe that capitalism is inherently unstable due to its internal contradictions, such as the tendency of the rate of profit to fall and the overproduction crises.

Revolution and the Dictatorship of the Proletariat: Marxism advocates for the proletariat to overthrow the bourgeoisie through revolution, leading to a period

known as the dictatorship of the proletariat, where the working class holds political power and restructures society.

Communism: The ultimate goal of Marxism is to establish a classless, stateless society known as communism, where the means of production are communally owned, and each person contributes and receives according to their abilities and needs.

Thus, the emphasis of Marxism is on exploitation inherent in capitalist systems, viewing the international economic relations as an extension of class struggle; emphasizes the role of imperialism and the global division of labor in maintaining capitalist domination.

Dependency Theory

Dependency is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. The theory was propounded by Raul Prebish. The theory emerges to contribute to the dominant argument on underdevelopment. It basically responded to the modernization theory which locates the causes of underdevelopment of third world countries to their internal factors. Dependency theory emerged from Latin American scholars. According to Todaro (2003), the theory was developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America; Raul Prebisch. Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. Indeed, their studies suggested that economic activity in the richer countries often led to serious economic problems in the poorer countries. Such a possibility was not predicted by neo-classical theory, which had assumed that economic growth was beneficial to all even if the benefits were not always equally shared.

Prebisch's initial explanation for the phenomenon was very straightforward: poor countries exported primary commodities to the rich countries who then manufactured products out of those commodities and sold them back to the poorer countries. The value added by manufacturing a usable product always cost more than the primary products used to create those products. Therefore, poorer

countries would never be earning enough from their export earnings to pay for their imports. Prebisch's solution was similarly straightforward: poorer countries should embark on programmes of import substitution so that they need not purchase the manufactured products from the richer countries. The poorer countries would still sell their primary products on the world market, but their foreign exchange reserves would not be used to purchase their manufactures products from abroad.

Three issues made this policy difficult to follow. The first is that the internal markets of the poorer countries were not large enough to support the economies of scale used by the richer countries to keep their prices low. The second issue concerned the political will of the poorer countries as to whether a transformation from being primary products producers was possible or desirable. The final issue revolved around the extent to which the poorer countries actually had control of their primary products, particularly in the area of selling those products abroad. These obstacles to import substitution policy led others to think a little more creatively and historically at the relationship between rich and poor countries.

The debates among the liberal reformers (Prebisch), the Marxists (Andre Gunder Frank), and the world systems theorists (Wallerstein) were vigorous and intellectually quite challenging. Immanuel Wallerstein developed the World-Systems theory, categorizing the world into core, semi-periphery, and periphery countries, with economic relations reinforcing these divisions. There are still points of serious disagreements among the various strains of dependency theorists and it is a mistake to think that there is only one unified theory of dependency. Nonetheless, there are some core propositions which seem to underlie the analyses of most dependency theorists.

Findings

Based on the study, the following findings were made:

1. The work observed that the international system is a web of interdependence where countries depends on each other for survival.
2. The study observed that in order to address common economic challenges that confront countries, states have embarked on economic cooperation globally, regionally and even at the sub region.

3. The work observed that there are numerous theoretical underpinning that explains international economic relations; Classical, Neo-classical, Realism, Marxism and liberalism etc.

Conclusion

The economy play a pivotal role in the society; it is usually the base or sub structure upon which the super structure; politics, religious and cultural etc spheres are determine. The numerous economic challenges that confront states made economic cooperation important for states to better the lots of their people. There are numerous economic cooperation arrangements in the global system (global, regional and sub-regional) that enable member states to come together, adopt common economic policies in other to attain economic growth and development. The assumptions of some of the theories discussed in this paper support international economic relations (Liberalism and Classical theory) while others sees international economic relations as a tool of economic exploitation (Marxism and dependency) that enhance the economic interest of Western countries over those of developing countries.

Recommendations

Based on the study, the following recommendations are made:

1. States should be encourage to embark more on economic relations (integrate) in order to address some the economic limitations that bedevil state; poverty, trade barriers and general underdevelopment etc. so as to improve the economic lots of humanity.
2. Already existing global (IMF and World Bank), regional (AU and EU etc.) and sub-regional (ECOWAS and SADC etc.) economic cooperation should be strengthen by member states to enable them deliver on their mandate.

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