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## International political economy: A field born of the OPEC crisis returns to its energy roots

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### ABSTRACT

International political economy (IPE) is a multidisciplinary field which officially falls under the political science discipline in the United States. IPE of energy is a nascent field to which scholars have only recently started to identify. IPE scholarship generally focuses on issues where politics and economics intersect, and looks at a variety of actors, including individuals, states, and international organizations. Since IPE's official founding in the 1970s, following the energy crises and the end of the gold standard, most energy research has focused on issues related to oil, such as OPEC, the "resource curse," oil companies, and wealthy countries' domestic policies and politics as they relate to oil. We suggest a number of promising areas for research: on the theoretical side, making politics explicit and incorporating international organizations, global governance, regionalism, community interests, international structure, ideas and identity, and inter- and intra-disciplinary research. We also suggest three issue areas – renewable, nuclear, natural gas, and coal as energy sources; electricity; and sovereign wealth funds.

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### 1. Introduction

International political economy (IPE) of energy, a field with which scholars have only recently started to identify, holds great promise for energy research in the social sciences. To date, the field has been dominated by research on oil and has often included under-theorized studies that struggle to get published in top journals in political science, the primary discipline to which IPE formally belongs, despite its strong multi-disciplinary roots. In this article, we first introduce the reader to the major concepts and paradigms within IPE: realism, liberalism, and historical structuralism (or critical theories). Although many scholars no longer identify with one paradigm or another, these are a useful way to structure the actors and assumptions one usually makes in IPE research. We then discuss the most developed bodies of research in IPE of energy: the role of and decision-making within the Organization of Petroleum Exporting Countries (OPEC), the role of institutions in ameliorating or avoiding the potential "resource curse," the relationships between governments and oil companies, and energy

trade issues, such as pipelines. This leaves a voluminous agenda mostly untouched. We elaborate on several areas of theory and issue areas that should be further developed, such as the role of communities and regions, and renewable energy, electricity, and sovereign wealth funds. These include IPE concepts that have not been much used for energy issues, as well as new topics that have emerged due to technical and scientific advances or understandings, such as the consensus that climate change is occurring and has anthropogenic causes and the economic rise of China. We end by arguing that the new journal *Energy Research & Social Science* (ERSS) has a significant role to play in terms of giving IPE of energy scholars an important venue for their research, an opportunity to engage with other social scientists as well as engineers and scientists, and to publish in a journal that further solidifies their identity as a community of social scientists studying energy issues.

### 2. The international political economy of energy: some key concepts

IPE is a subfield of International Relations (IR), itself one of the primary fields in Political Science.<sup>2</sup> Like other branches of

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<sup>2</sup> In some countries, IR or International Studies is its own discipline.

Political Science, IPE seeks to answer the definitive questions posed by Harold D. Laswell in his book *Politics: who gets what, when, how* [1]. At the heart of politics is the distribution of limited resources and the power that explains distributional outcomes. Power is fundamentally about the ability of one actor – a state, organization, or individual – to change the behavior of another. Power also includes the ability to set agendas and structure rules, which in turn benefit some actors and disadvantage others [2–5].

IR scholarship traditionally divides into the two most important aspects of politics: international economics and international security. During much of the Cold War era, international security issues and accompanying arguments, sometimes called “high politics,” were dominant. Even as security remained central to IR scholarship, in the 1970s, two major world events emphasized the crucial role of economics: the end of fixed exchange rates, and the global energy crisis precipitated by OPEC’s oil embargo of the Western states.<sup>3</sup> These events gave birth to the field of IPE. In 1971, hamstrung by fixed exchange rates and facing increasing inflation from high government expenditures, the Nixon Administration devalued the U.S. dollar, ending the “gold exchange standard,” one of the three pillars of the post-World War II Bretton Woods accords, which also created the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade, superseded in 1995 by the World Trade Organization [7]. The second event followed just two years later, when the 1973 Arab–Israeli War disrupted global oil supplies, leading to dramatically escalating prices and shortages, alerting scholars and practitioners in the West to the power of the commodity-exporting states. This is the same period in which global environmental politics developed as a field of study; both are multidisciplinary with the strongest links to political science [8]. Compared to global environmental politics, IPE is much broader, encompassing the full range of trade and monetary issues, with IPE of energy including issues that may or may not relate to the environment.

The power of these so-called Third World states, which many in the West considered politically and economically underdeveloped or backward, contrasted with the then-dominant IR paradigm: realism. Classical realism, generally considered the oldest of the IR theoretical frameworks, assumes that states – which political scientists define as a central authority with the ability to make and enforce laws, rules and decisions within a specified territory – have primary power in international relations.<sup>4</sup> Realists further assume that the international system, a place filled with conflict, is a self-help world in which other states and entities, such as the United Nations and other international organizations, cannot be trusted. States must thus build up their own power. The world is mostly a zero-sum game: if you win, I must have lost. In IPE, realists argue that a state can engage in international trade in order to reap the gains from trade, but should not enter into agreements unless it will gain relatively more than the other state, what scholars refer to as “relative gains” [9].

Realism in IPE dates back to the mercantilist era when governments plundered other territories in order to expand their own wealth. In modern IPE parlance, realism is sometimes known as neo-mercantilism, statism or economic nationalism.<sup>5</sup> Under realist assumptions, the most powerful states, as measured by military

strength and GDP, get what they want. Thus, OPEC in the 1970s shattered this assumption by crippling the US and Europe, demonstrating the weaknesses of what were supposed to be the most powerful states. Realists today continue to focus on the power of states. Like realists in the broader field of IR, they argue that states, which they tend to reify, will get the most from the international system by guardedly watching other states, making sure to follow the imperatives of a self-help system. They argue that those who ignore the rules of realism will find themselves weakened, even threatened existentially. A hard core realist would thus argue that the US is foolish to be engaging in extended trade with China, as it is empowering the state most likely to threaten it in the future. States like Russia are seen as realist states, as they are most focused on using international economics to enhance their own power rather than to spread ideas, grow the global economy, or help weaker states develop economically. Realism is a highly parsimonious and cohesive paradigm: there are few assumptions but, according to realists, they explain a great deal about how the world behaves.

Under the realist conception, energy, as a key strategic good, is seen as both a source of internal strength to be employed in the international system for those states that have access to it and a source of external dependency, and thus vulnerability, for those that do not. Energy resources are thus critical factors as they alter the balance of capabilities between states locked in competition and consequently affect the distribution of power in the international system [11]. Michael Klare’s books on resources and conflict provide good examples of the realist paradigm, though they tend to omit an explicitly theoretical framework [12–14].

According to energy realism, both energy importing and exporting states should not rely on energy markets to provide optimal energy outcomes but rather should steer markets to benefit the state. In this context, national energy policy is considered a security challenge and as such is “securitized”, as opposed to being conceived of as largely an economic issue [15]. State intervention via subsidies to specific energy sources (such as fossil fuels vs. renewable energy), diplomatic activity designed to enhance access to energy resources and energy security (energy diplomacy), and support for national energy champions, such as Russia and natural gas giant Gazprom, exemplify energy realism [16]. Research shows that developing and developed states employ these strategies to ensure greater energy security [17].

To illustrate the importance and prevalence of state intervention in domestic energy markets, consumption subsidies worldwide amounted to \$544 billion for fossil fuels and \$101 billion for renewable energy in 2012 [18]. Historically, France adopted neo-mercantilist strategies focused on increasing state control through the promotion of nuclear energy and energy-firm nationalization [19], and Japan has also historically promoted nuclear energy [20,21]. Energy-rich countries often heavily subsidize petroleum product consumption. In terms of energy diplomacy, following the oil crises of the 1970s, Japan strengthened economic and political bilateral links with the Arab oil producers in order to secure direct bilateral oil deals [22]. Similarly, since becoming a net oil importer in 1992/1993, and specifically by the mid-2000s, China engaged in a “global hunt for energy” [23]. Buoyed by diplomatic support, Chinese national energy champions have been tasked with increasing the percentage of equity oil and gas in overseas projects [24]. Chinese national oil companies (NOCs) obtain loans from their home government at low (or no) interest and this is often accompanied by soft government loans to energy-rich governments [25–27]. A prominent example is the \$2 billion loan China’s Export-Import Bank extended to Angola for infrastructure projects in 2004. In return, it appears, Angola awarded an oil concession to Sinopec. Two years later, Angola was given a \$4 billion infrastructure loan [28,29]. In turn, Chinese NOCs advance Beijing’s

<sup>3</sup> It should be noted that although IPE became a formal field in the 1970s, scholars had previously recognized and published on issues at the intersection of politics and economics. A prominent example is [6].

<sup>4</sup> There are now several forms of realist thinking, some of which accept the greater priority to international organizations and domestic politics than classical realists.

<sup>5</sup> Some argue that these terms should not be used interchangeably; for example, see [10].

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