Michael Schedelik (schedelik@em.uni-frankfurt.de)
Andreas Nölke (a.noelke@soz.uni-frankfurt.de)

Peripheral growth models in the global economy
A second image IPE perspective

Starting point I: A deeply unbalanced global political economy

- Persistent global current account imbalances

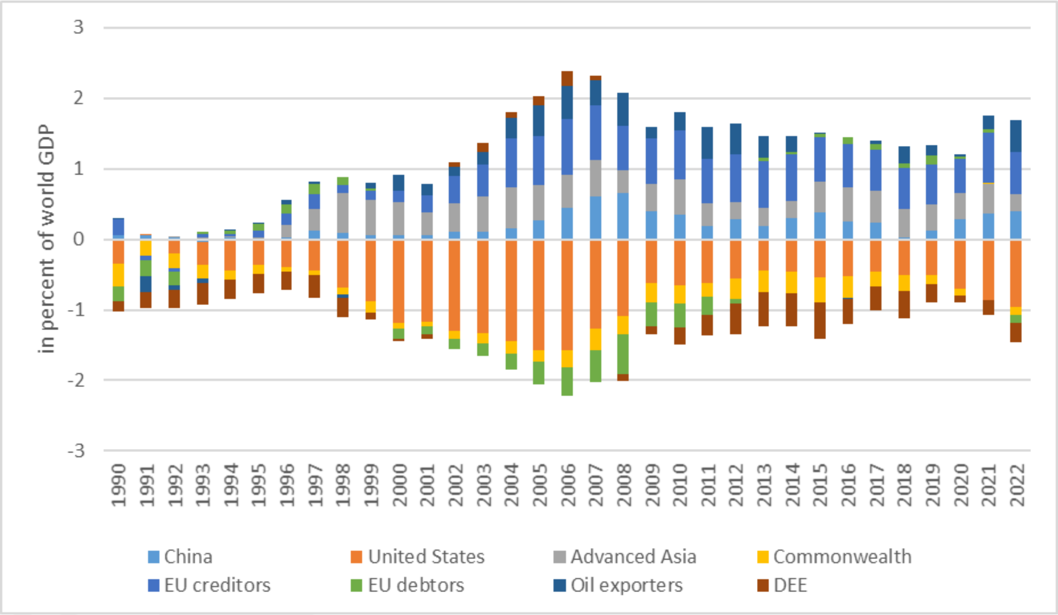


Figure 1. Current account balances of selected country aggregates

Source: Own calculations based on IMF, Balance of Payments Statistics Yearbook; World Bank national accounts data

Starting point II: Discussions on dependencies of emerging economies

- Focus of discussions on global imbalances on established economies, but emerging economies also prominent – China, oil exporters structural surplus, other emerging economies structural deficit
- Discussion on emerging economies focuses on severe dependencies: commodity price cycles; subordinate financialization; subordinate integration in global production networks
- Discussion on growth models, in contrast, focuses on national economic agency, without global structural constraints
- Our approach – second image IPE – seeks to balance structural dependencies and national economic agency
- State capitalist strategies can reduce vulnerabilities caused by dependencies

Theoretical framework: Second image IPE

- Second image IPE focuses on domestic level, in contrast to individual statesmen (first image) and the international system (third image) (Waltz 1959).

- Traditional second image IPE studies foreign economic policies based on domestic political economic variables (‚second image‘, Katzenstein 1978) or the effects of globalization pressures on domestic economies (‚second image reversed‘, Gourevitch 1978).

- In contrast to CPE studies (e.g. VoC), system-level variables are systematically incorporated, in contrast to IPE dependency studies: national economic agency.

	Global economy	
Bottom up Second Image	↑ ↓	Top down Second Image Reversed
	Domestic economy	

Figure 3. Linkages between global and domestic capitalism

Source: Own elaboration.

Types of peripheral growth models and their linkages to the global economy

Crucial system-level variables:
- commodity price cycles driven by, e.g., Chinese demand
- global financial cycles driven by US monetary policy
- globalization of production networks

Growth model	Commodity-led growth	Debt-led growth	FDI-led growth
Growth driver	Commodity prices	Portfolio inflows	FDI inflows
Vulnerability	Dutch disease, deindustrialization	Sudden stops, financial and currency crises	MNC relocating, middle-income trap

Table 1. Peripheral growth models in the global economy
Source: Own elaboration.

Commodity price cycles and dependency

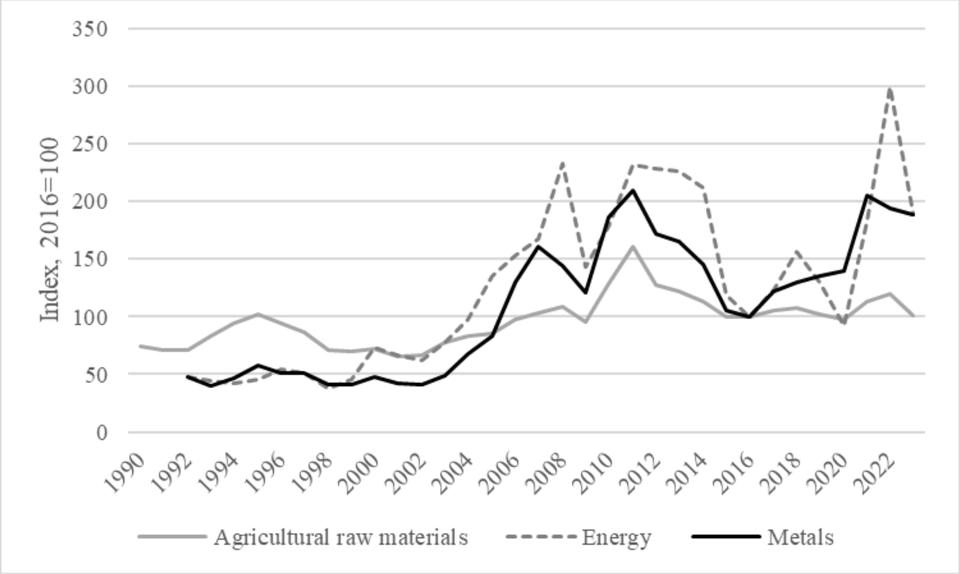


Figure 4. Commodity price cycles

Source: Own elaboration based on IMF, Primary Commodity Price System

China's rapid industrialization fuelled the latest commodity super cycle (prolonged period of elevated commodity prices).

<u>1997-2017:</u>

- China's share of global energy consumption 11 > 23 %
- China's share of global metal consumption 10 > 50 %

Commodity export dependence

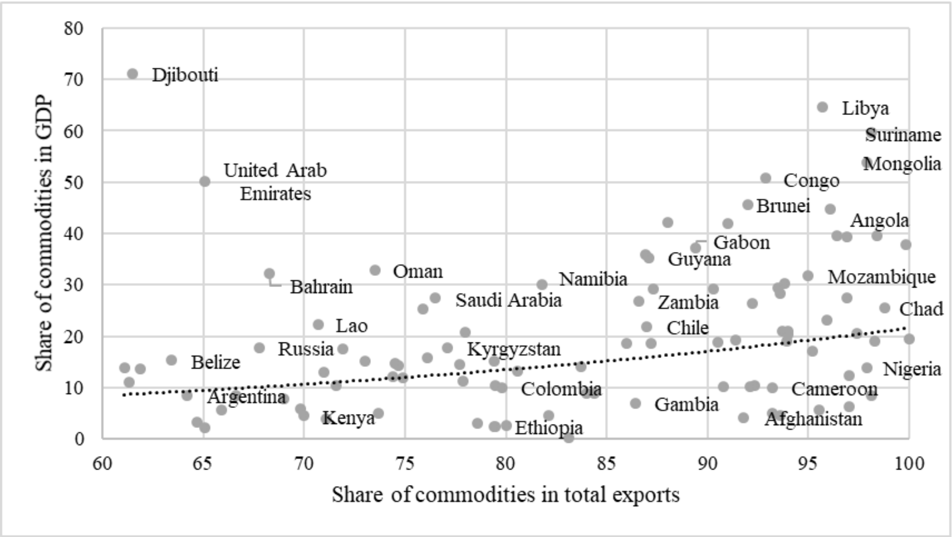


Figure 5. Commodity dependence of developing and emerging economies

Source: Own elaboration based on UNCTAD 2021

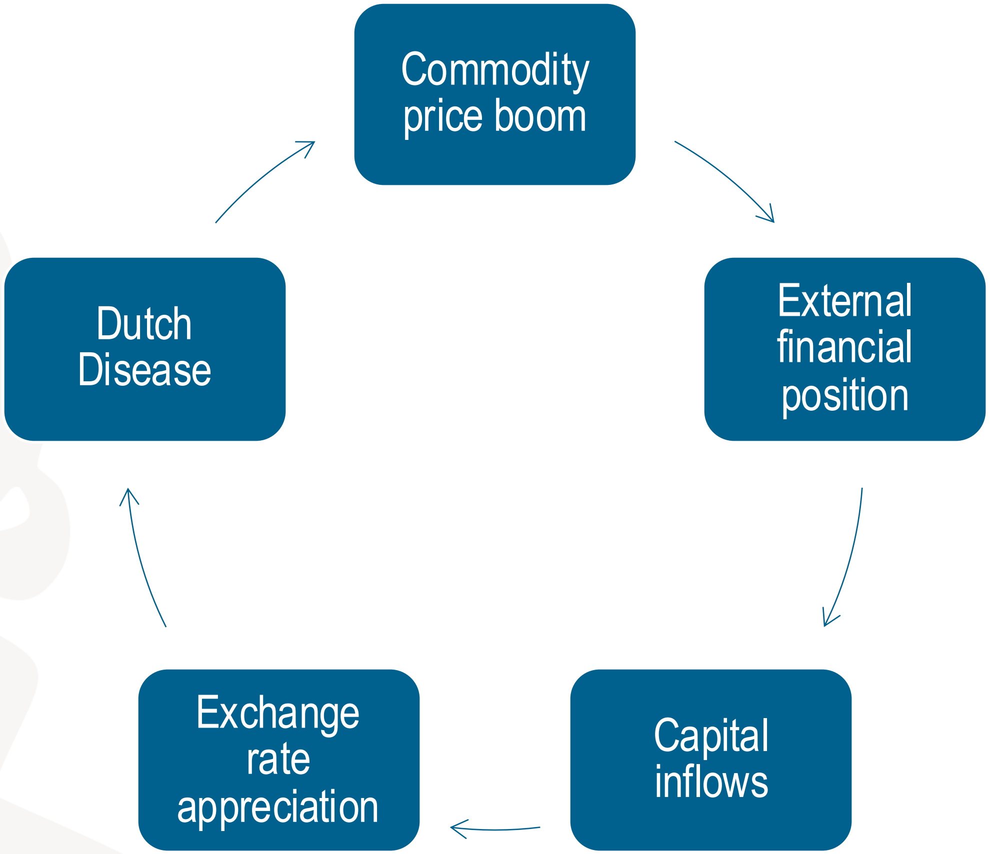
Heavy reliance on commodity exports is a prevalent feature among developing and emerging countries.

<u>2018-19:</u>

101 out of 195 countries had a commodity export product share of more than 60%.

Commodity-led growth and Dutch disease

Main problem of commodity-led growth: Real appreciation of the currency due to capital inflows and deindustrialization (so-called Dutch disease)



Commodity-led growth in Indonesia and Brazil compared

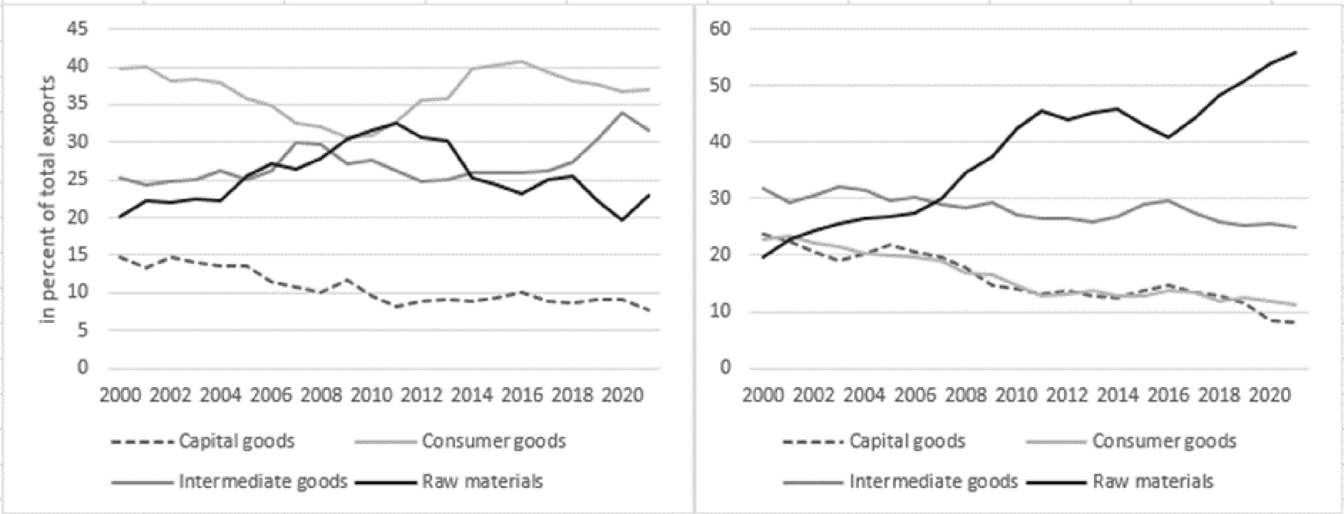


Figure 6. Export product share by stage of processing of Indonesia (left panel) and Brazil (right panel)

Source: Own elaboration based on WTO, World Integrated Trade Solution database

- Both countries implemented industrial policies to diversify its productive structure.
- While Indonesia has been successful in decreasing its commodity dependece, Brazil's has increased over time.
- Indonesia followed a more coherent state-led strategy, combining elements of trade protectionism, limiting short-term capital inflows and promotion of downstreaming of commodity sector.

Conclusions

- Second image IPE perspective: varieties of growth models and their interdependencies with the global political economy.
- Stylized features of three dominant types of peripheral growth models in the Global South: commodity-led, debt-led and FDI-led growth.
- All three models are highly dependent on external, i.e. system-level, factors: commodity prices, financial flow cycles, foreign direct investment.
- Vulnerabilities of commodity-led growth stem from Dutch disease effects, sudden stops of financial flows and the middle-income trap.
- Economic policy, e.g. industrial policies but macroeconomic policies in general, is key to dampening the negative effects of these growth models, but needs to take structural dependencies seriously.