

# THE ROLE OF GOVERNMENT ON POLITICS AND INTERNATIONAL TRADE

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**Article History:** Received on 25<sup>th</sup> February 2019, Revised on 30<sup>th</sup> April 2019, Published on 30<sup>th</sup> May 2019

## *Abstract*

**Purpose of the study:** The aim of this study is to discuss the role of government on politics and trade. Political economy brings the production and exchange of goods and services that are parallel with the country's law. The government plays a massive role because if it is not effective then the trade profitability will be decreased. Thus, political intervention is needed to protect the development of economy, sovereignty, and citizens of the state.

**Methodology:** The data for this study were obtained from existing literatures on the role of government on politics and international trade. The methodology relied heavily on existing literatures on the subject being dealt with.

**Result:** Political economy on international trade enables the cheap production and import of goods and services in the country. This is because international trade does not limit to commodities as they are produced by only some countries. Finally, political economy can be surveyed by comprehensively gathering political aspects, such as national policies and their administration, and this will take a basic position on the existing and ideal financial models, organizations, and related policies which are being formulated by micro- and macro-economic agendas.

**Implication:** The interest for the political economy of trade arrangement is the complementary impact of global exchange on local and worldwide legislative issues.

**Keywords:** *Government, Politics, International Trade, Political Economy*

## INTRODUCTION

Political economy brings about the ways of maintaining the production and exchange of goods and services that are parallel with the country's laws. Moreover, it is the review and utilization of the impact of financial aspects and techniques to create a distinctive social and economic framework. For example, mercantilism, capitalism, structuralism, socialism, and other aspects explore the ways making and actualizing strategies. Since people around the world have diverse interests, especially in economic matters, the political entity is used to teach any unpredictable field that can cover a wide range of trading competition between countries ([Islam et al., 2010](#)).

The economic aspect of any country is emphasized by political risk and determined by the trade profitability. Generally, the performance of the government plays a massive role because if the government does not act effectively, then the trade profitability will be decreased. Economic or business views are crucial sources for living and everyday income. It is evident that in the history of Islamic civilization that business and trade emphasized political stabilization.

The mankind civilizations started with a barter system where people exchanged goods among themselves. Sometimes, the exchange of goods without considering the value was unreasonable, where a cow was switched to get chicken. But, no matter how unreasonable, the trade history began with the barter system and the trade system has evolved efficiently and shapes the existing international trades.

Several ongoing global initiatives promise to lower trade barriers even further. Those activities include the Trade Facilitation Agreement, Trade in Services Agreement (TISA), Continental Free Trade Area (CFTA) for Africa, Trans-Pacific Partnership (TPP), and the Transatlantic Trade and Investment Partnership (TTIP). In December 2013, WTO members finalized negotiations of the Trade Facilitation Agreement ([Islam & Siwar, 2010](#)).

In December 2013, WTO members finalized negotiations of the Trade Facilitation Agreement. This agreement encourages measures, such as using common customs standards, facilitating electronic payment, publishing trade procedures, customs cooperation, and using a "single window" for trade documents. As the Legacy Establishment recently noted, cutting red tape at border crossings and improving customs and border procedures would be beneficial for trades in service agreement. In 2013, countries representing a greater part of the world's services market launched the "Trade in Services Agreement" (TISA). Trade in services includes international commerce in transportation, travel,

communications services, development, insurance, banking, and computer services. Services exports account for about one-fifth of all global exports. Yet numerous barriers interfere with the free flow of trade in services, including state-owned enterprises that restrict competition from foreign companies ([Robinson, 2015](#)).

Globalization has spread and affected the world in various ways, especially in the political and economies that are being influenced by relations established by the state. The forging of relations has forced state governments to expand in the international arena. The expansion of the government has led to redundancies of politics and economics.

The political aspects are not about the political parties in a state, but about the regulations and agreements that need to be followed by actors in the international arena. The term political can be defined as an act of a state to protect their interests by imposing tariffs during the trade and any other political protection that is being applied by the state ([Islam et al., 2017a](#)).

On the other hand, economy is an activity that involves the act of production and consumption of goods and services. The production and consumption of goods and services form the basic needs in daily lives, such as household goods and telecommunication services. Besides that, the economy can be divided into four stages. The first stage is the domestic stage, the second is the multinational stage, the third is the international stage, and the fourth is the global stage. Each stage has different situations and different difficulties. The domestic stage is the economy inside the state. The next level is the multinational economy. Starting from this stage, the state economies expand because they form and establish a relation with the neighboring state. The economy expands larger and moves to the regional arena, and then to the world arena ([Moffatt, 2017](#)).

The expanding economy in a state has led to the overlapping of these two fields. The political economy is being interconnected when the state established a relation with the international economic players. These interconnections happened because the governments of the state realized that they need to protect their domestic economies from influential economic players when establishing a relation with them ([Jevons, 1965](#)). If the state had not taken precautionary measures, then the economically expert international players would have paralyzed the developing domestic economies. The probabilities of economic players taking advantage of the domestic situation would have been high.

Thus, political intervention by the state is needed to protect the economy, sovereignty and citizens of the state. An agreement with rules and regulations is drafted to customize with the situation and establish the type of relation ([Balaam & Veseth, 2001](#)). The adaption of rules and regulations ensure that the government is protected from any misconduct or exploitation by international players. The state and the world are the areas of attention for international trade. The states are concerned with the international trade areas due to the huge potential of state development.

The government measures for protecting the domestic economy are being considered and discussed as the outcome will not only affect the state but also the relation between international economic players and the state ([Balaam & Veseth, 2001](#)). The usual measures taken by the state in protecting their trades are imposing tariff, importing quota, enforcing voluntary export restraints, adhering to local content requirements, and formulating antidumping policies and administrative policies ([Jevons, 1965](#)). These measures can help the development of the state economy in the midst of competition with international players.

Thus, it is evident that political economy is playing a vital role in international trade. The political intervention in international trade helps the trading process to be smoother as the regulations are obeyed by traders. Thus, any exploitation or wrongdoing by traders cannot happen. Besides, the domestic economy gets a chance to develop in international arenas due to the political intervention. If the government had not imposed policies in international trade, then small businesses could not be developed. This was true even in the domestic stage as the small businesses were new and in the process of stabilizing and strengthening their foothold, while facing international traders ([Balaam & Veseth, 2001](#)).

International trades are highly influenced by the political economy of a state as it protects and develops the domestic economy globally. The lack of such measures makes it hard for the state to develop in the globalized world as the economy is a significant source of income and development. The government needs to be careful and wise in handling these issues to ensure that the state can develop and confront global issues.

## LITERATURE REVIEW

The transition of economic progress shifted drastically with various factors and one of it is globalization, as it explores the impacts of real advancement issues including how to restrict poverty, imbalance of economic power, exchange in

business aspect, and human improvement. Hence, economic terms reflects all of us connected with daily life economic activities and this automatically derives human contribution to expand the economic activities and become international political economies.

[Mitra and Mehmet \(2015\)](#) conducted a study on political economy titled 'Development in A Globalizing World' and stated that economic policy formulation is still governed by political factors. The enlargement of national and global pies, arising mainly from the integration of economies and the removal of barriers to the movement of goods, services, capital, and people, has affected the scope of the influence of special-interest (or pressure) groups, bureaucrats, and other political actors'.

Besides, there is an example of why political aspect is the extreme factor in shaping international political economy of a globalized country. It can be a survey in the case of theoretical contributions where [Jain et al. \(2014\)](#) argued about the state capacity. The buildup of European Bank for Reconstruction and Development for the massive twenty transformation economic aspects in late 1989–1999 represents the most extreme and crucial advance made by governors and administrators of economic levels.

In view of the outcomes, the main approach suggests that government policy and administrative staff regulated while the state may have built substantial resources and limit its ability and use in a specific territory that relied upon its authoritative work and other variable costs. This is an imperative end product that leaves this work to prove that political and government factors bring the best transition of political economy of development in a globalizing country ([Whipps, 2008](#)).

On the other hand, the international political and economy aspect of the country is related much to the political factors as leaders and governments conduct economic activities. Thus, it is only different in terms of the types of economies and it will also become the most crucial aspect in a now globalized world, which is more challenging than before. [Balaam and Veseth \(1996\)](#) stated that liberalism is about laissez-faire and free markets while structuralism is about how capitalism pushes states and markets into class warfare.

These thoughts are however different with other economic scholars who have differences of opinion and it automatically expands the international political economy. This is because most countries in this globalized world compete between each other to become super powers in terms of economics. In this modern era, so many things have shifted drastically from the perspectives of human demands to the changing economic theories. Moreover, the country administration system derived the new dimensions of international political economy and many economic scholars have debated to show which theory is the best to summarize the international studies of political economy. Subsequently, this debate can be described first by [Cardoso and Faletto \(1979\)](#) who believed in the rationales of conceivable outcomes for financial and political improvement in what happened within the Cold War as long as it was within the Third World War. Therefore, Marxist variants of political economy turned into new conventionality in the Second World, which soon enveloped the vast majority of Eastern Europe and a little bit in Asia.

As in the article of 'Area and International Studies: Political Economy', Ian Robinson stated that 'There has never been a consensus on the theories and methods that should structure the exploration of these relationships and the debate over how best to understand these matters has evolved over time. The interpretation offered here simplifies both of these dimensions of difference'.

The evolution of the political economy itself especially in international level also being emergence because of the enhancement in international affairs aspect whereby most countries are inter-related and inter-dependent with each other, especially in economic aspect, which is a concern for political economy and contributes the countries involved in globalization.

While being impacted by the early period of dependency and speculations of critically political economy aspect, the world has become a framework of hypothesis in two ways. First is the degree to which it regarded universal economy as a framework administered by its own particular frameworks at the national level and the degree to which that rationale supposedly determined the advancement conceivable to outcomes regarded as peripheral or semi-peripheral. In the meantime, the level of national autonomy was additionally uncovered in how different subjects of economic leaders perform their skills and the policies regarding various reactions to retreats of a country's Gross Domestic Product (GDP) and Foreign Direct Investment (FDI). As an example, from more state-focused reactions in China and Russia to less the arrangements in the European Union, but still showcase the cordial arrangements in Barack Obama's United States policy.

Thus, political economy can also be surveyed by comprehensively gathered political aspects, such as country policies and their administration and this will take a basic position on the existing financial models, organizations, and related policies, which are formulated by micro- and macro-economic agendas.

Since World War II, international trade agreement has been a successful tool for decreasing barriers to global commerce. In 1947, the average tariff rate in industrial countries was around 40 percent. Today, the average worldwide tariff rate is less than 3 percent. Heritage Foundation economist Joe Cobb pointed out 20 years ago that these agreements promote freedom and individual sovereignty, when the Congress was debating the implementation of legislation for the Uruguay Round trade pact. Major reductions in trade barriers took place under the auspices of the General Agreement on Tariffs and Trade (GATT), culminating in the creation of the WTO. However, progress towards multilateral trade liberalization has stalled since then. A new round of global trade negotiations was held for every six years from 1947 to 1994. The longest gap between the agreements was 15 years. It has now been 20 years since the creation of the WTO and the culmination of the Uruguay Round, the last comprehensive global trade agreement. In spite of the fact that progress toward global trade agreement, including the WTO's Doha Round, has slowed down, the use of regional and bilateral free trade agreement to reduce trade barriers has filled the void. More than 200 agreements have taken effect since the WTO was made and several dozen are being negotiated. In addition, many countries have unilaterally reduced trade barriers.

Government policies are biased against services provided by foreign companies. Local ownership requirements prevent foreign service-providers from operating without partnering with local businesses. Restrictions on cross-border flow of data used by businesses, restrictive licensing requirements for foreign professionals, data storage requirements that force companies to store their data locally, and restrictions on foreign firms providing shipping and other transportation services are the major concerns. Service industries account for about 75 percent of the U.S. and European Union economies. In 2012, the African Union Summit approved a plan to create the CFTA for Africa by 2017. The action plan for boosting intra-Africa trade benefits include improved food security through reductions in agricultural protectionism, increased competitiveness, and reduced reliance on foreign aid. Negotiations were scheduled to begin in 2015. Trans-Pacific Partnership (TPP) is a set of trade and investment negotiations among countries such as the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

TPP is intended to be a “gold standard” agreement that will be open to additional parties, eventually becoming the core of a free trade area for the Asia-Pacific. According to a TPP statement, a high-quality TPP agreement that meets these goals and is open to additional countries would provide a tremendous boost to global trade freedom. In February 2013, US President Barack Obama required a free trade agreement between the United States and the European Union amid his state of the union address. This proposed agreement is currently known as the Transatlantic Trade and Investment Partnership (TTIP) agreement that reduces barriers to trade and investment between the United States and the European Union, along the lines engaging individuals on both continents and boosting trade freedom. Negotiators need to resist efforts to be successful and to create new regulatory barriers to trade under the guise of harmonization.

## **ROLE OF GOVERNMENT IN INTERNATIONAL TRADE**

The government plays a key role in developing the country, especially in trade, and makes export and import policies to increase income. Thus, governments have several roles to play in international trade and these roles are mentioned below.

### **The government acts as a facilitator and still provides freedom of private rights to develop business.**

The first facility is in the form of either a transit infrastructure facilities or facilities in the business licensing process. The second facility is the legal order and rent seeking. The third facility is to minimize risks through investment and international trade policies. Besides, the government needs to manage its business by controlling the exchange rate and inflation. International business is conducted through the mobility of capital, formation of a manufacturing and trading center, and the movement of technicians and manager borders that require the role of government. The government provides capital to facilitate international business activities to increase the national income. When the government enforces laws or regulations in the country of business, it has the legal protections of a contract executed before the commencement of business.

### **The government intervenes as part of an economic development program.**

The government plays a role in economic development programs, such as the substitution of import or export promotion and intervention as a result of public choice (to soothe pressure from various interest groups). This is caused because of the unemployment rate political or interest group pressure. Governmental intervention in trade is required to ensure income generation to maintain the country's economic stability and status in international trade.

### **The government gives information about the market demands in foreign countries that is significant for the state's producers, yet includes some major disadvantages which might be too high for individual agents.**

Once a foreign country with a proper request profile is distinguished, a state's producers may discover extensive institutional boundaries as managerial directions, business laws, and contract authorizations. Translating the business law of an outside nation could be an expensive assignment and the outcomes of misconception of law could significantly be more exorbitant. A state government can lessen the aggregate expenses of exploring an outside institutional structure by giving contact administrations, and preparing or counseling through a remote exchange office. These administrations are particularly imperative when the fare items are created by private ventures that do not have the pertinent inside assets.

### **The government establishes the presence of their producers in a foreign market.**

The value of a country which does business with a particular counterpart tends to decline overtime as relationships are deepened and reputations are established resulting in early entrants in growing emerging markets. The role of promoting its products is probably the most important in emerging economies, such as Vietnam, South Africa, or potentially Cuba. If state producers are among the first to establish the trading relationship with agents in such countries, and if those relationships are mutually beneficial, then other country suppliers will not easily break into the market. That implies of a payoff to aggressive promotion in specific markets and a long-term cost of failure to enter markets in a timely way. The market research, technical and administrative services, and promotional activities constitute the costs of doing business that must be paid if rural producers are to access international markets. Governments that wish to promote economic development among rural communities that lack the capacity to pay such costs should find mechanisms to deliver the support in such areas.

### **The government intervenes on subsidies, taxes, and tariffs.**

The government intervenes in term of subsidies, taxes, and tariffs to get benefits for the country. The government imposes tariffs to increase government revenues and provides protection to domestic producers against foreign competitors by increasing the cost of imported foreign goods and by forcing consumers to pay more for certain imports. Thus, tariffs are unambiguously pro-producer and anti-consumer, and they reduce the overall efficiency of the world economy. A subsidy is a government payment to a domestic producer and subsidies help domestic producers to compete against low-cost foreign imports and gain in the export market. The government plays a role in computing the value of taxes for export and import activities. The government makes high value taxes to increase their benefits and get high national income.

All data and additional charts in this report are from World Trade Organization. In 2015, the top ten exporters of commercial services were the same as the top ten importers but the order of the top ten differed. The United States maintained its position as the world's leading trader of commercial services. Although US exports stagnated, its imports were up by 3 per cent, reflecting its ongoing economic recovery. China was the second-largest services exporter in 2015, with a 6 per cent share in global services exports. The country was the only leading services exporter to record positive growth for both exports and imports (2 per cent and 3 per cent, respectively).

However, China remained a net importer of services, mainly due to the rapid increase in its travel imports in recent years. Among other leading Asian traders, imports fell more steeply than exports, with Japan's services imports down by 9 per cent. In US dollar terms, leading European traders saw declines in their services trade, with the sharpest export reduction in France (-13 per cent) and the biggest fall in imports in Germany (-12 per cent). However, it should be noted that in euro terms the growth was positive in both countries. Imports rose by 4 per cent in Ireland, as payment for business services and charges for using intellectual property thrived. Ireland recorded the most dynamic growth rate among the leading importers of commercial services.

## **IMPACT OF POLITICAL ECONOMY AND INTERNATIONAL TRADE**

The interest for political economy of trade arrangement is the complementary impact of global exchange on local and worldwide legislative issues. Furthermore, countries need to be liberalized and ensure their economies and policies.

However, there are three aspects for the domestic political economy in international terms, namely, trade liberalization, trade increase, and preferences for institutions.



Figure 1. Leading traders of commercial service

Source: World trade statistical review, 2018

The trade liberalization can change local inclinations about exchanging the political economy. As nations change, the exchange part of the economy ought to develop alongside the exposure to international monetary pressures. This can lead more noteworthy or new political cleavages and conflicts amongst nations. However, this can expand openness to exchange the changes and inclinations locally. In this case, openness raises the potential number of supporters of unhindered commerce as exporters and multinational firms increase and it may likewise decrease import-contending firms as they surrender to remote rivalry.

In political economy, states allocate and distribute power that can be viewed as relational power which means the ability to cause another actor either to do or not do something. States can act as an alternative schema and view power as hard power and soft power. Hard power is about the application of coercive force to compel another actor to do something, while soft power is about using the influence of culture, beliefs, and values to persuade another actor to do something. Market is about the realm of individual action and self-interest and tends to emphasize concerns of efficiency (Islam, 2012; Islam et al., 2013; Alshammari & Islam, 2014). In addition, the society of international political economy is the realm of history, culture, and values of the social system (Abidin et al., 2016a, 2016b). Sharp tension and conflict often occurs because state, market, and society embrace different values and prefer different methods for realizing them. Thus, these three spheres have given the interconnectedness and a change in one often evokes a change in the other, rendering international political economy to a constant state of transition. International migration refers to the cross-border movement of people from a mother country to a location outside the mother country, with the purpose of assuming higher paying employment, better living conditions, higher education, better access to civic amenities, and being engaged in an occupation for an extended period of time (Alam et al., 2011).

However, the international political economy is a network of bargains between and among states where power and markets are dealt with wealth. These bargains determine the production, exchange, and distribution of wealth and power. Bargain in international political economy can take many forms. Some are the formal signed, ratified, and enforced agreements and some bargains are merely conventions, understandings, or rules of thumb. However, some of international political economy bargains reflect the rational power of one player to get another to do or not do something. All various environmental impacts of trade policies on natural resources are difficult to assess, but evidence indicates the

presence of both negative and positive impacts ([Islam et al., 2010](#); [Islam & Siwar, 2010](#); [Islam et al., 2017a](#), [2017b](#), [2017c](#)).

As a dynamic model, it demonstrates that exchange progression has a positive input impact on approaches, inclinations, and political techniques of managing the group of domestic makers. Moreover, industries need to focus more on economic situations and their attributes change in ways that lessen the probability and request security protection in the future. This is because expanding exposure to exchange leads to expanding pressure against protection. In this way, it creates a temperate cycle of rising interest for more liberated exchange ([Milner, 1999](#)).

Domestic politics increase trade and influence the character of national political establishments. However, the relationship between two countries will be more mutually beneficial because the economic position is strengthened by trade. In this case, open relationship between nations in international trade depend on those who have a good government system. The government is very important in open economies because it bear failures occurring in international exchange and utilizes adaptable modification techniques. In addition, expanding exposure to worldwide exchange may accordingly make requests in greater to the government mediation and a bigger welfare state, which are thus important to maintain open support for an open economy.

Actually, nations turn out to be more open to exchange when they discover that it is progressively invaluable to devise foundations that expand the state's protection, independence, and stability. This infers that parliamentary frameworks with solid gatherings give corresponding portrayal of substantial areas. In this case, a strong relationship between openness and proportional representation can boost international trade and domestic institutions.

Besides, exposure to global exchange can bring higher rates of financial development, which can be attained through the improvement procedure that may convert into better conditions and give rise to democratic system. Hence, exchange advancement may cultivate conditions helpful for political progression and trade system after some time. In other words, exchange progression encourages democratization and democracy may advance more in the fields of exchange and others.

The consequences for preferences and institutions or exchange may compel approach decisions accessible to decision makers. The government needs to cut spending on social projects and decrease assesses on capital. Keeping in mind the end goal to look after aggressiveness, governments prevent the utilization of a significant number of financial strategy measures. Regardless of whether such imperatives are great or awful relies on the esteem one places on government intercession in the economy ([Milner, 1999](#)).

In short, this limitation is troubling on the grounds that it decreases the government capacity to safeguard their supporters from outside instability and along these lines may dissolve the public bolster for openness. In this case, the effect of exchange progression may not be favorable. It might deliver a backfire, making weights for security and closure to the government. As far as global legislative issues are concerned, exchange advancement may likewise have vital impacts. As nations turn out to be more open to the universal economy, it might influence their political relations with different nations. On the off chance that expanded exchange advances peace between nations or builds their odds of contention it will diminish the odds that those nations will be included in political or military clashes with each other.

The political economy has some impact on international trade. One result is the level of consumption goods rose sharply each year. Apart from goods, the services imports have also increased. As we know, the United States is the fastest growing sector and rapidly changing economy. In addition, the United States is a country that plays a role in the international political and economic stage.

Furthermore, political economy on international trade can produce and import their products in their country more cheaply. This is because international trades are not limited to commodities that some countries produce and other do not ([Geiersbach, 2010](#)). For example, Britain can import products more cheaply than Denmark. Sometimes, Denmark imports machineries as it more advantageous than importing dairy products. If the country has applied for international trade, this means the country should concentrate and always produce the product that gives the best return for any given investment of its productive resources.

On the other hand, international trade and investment should be restricted to the company. The government must impose restrictions on the free international exchange of goods and services. If a country imports product or services, it must have tariffs, taxes, charges and many more and the import policies are reflected in tariffs, import charges, quotas, import licensing, and customs practices. The exchanges can be restricted on franchising, licensing, and technology transfer. If they are not restricted, the company may not be in accordance with the pre-set laws.

Furthermore, according to [Frieden and Martin \(2003\)](#), the states are treated as unitary actors and domestic politics have barely begun to be integrated into models. They may take the form of coordination or bargaining problems, where the difficulty is to choose a particular equilibrium in a situation in which states disagree on their preferred outcome ([Barro & Salai-Martin, 1992](#)).

## CONCLUSION

In the final analysis, international factors play a major role in the global change in political economy and international trade. As we know, the world today is a global political economy. Despite the fact that developed and developing states are included in worldwide exchange with political impacts, international political economy moves towards the understanding of issues of the developed and the developing nations in the global framework. However, financial results quite often have political ramifications. Financial strategies are controlled by politics on the grounds that distinctive arrangement decisions for the most part affect the appropriation of monetary yields.

In short, globalization has generated an array of environmental and social problems that attract the attention of international political economy. Although globalization is good for trade it also gives a bad impact to other things. In particular, globalization has delivered genuine dangers and emergencies that states and worldwide organizations appear to be ready for controlling, such as a dangerous atmosphere, monetary turmoil, and displaced river streams. However the test from international political economy is to create hypotheses and ideas that help people to understand what is presently a real worldwide political economy.

Our trade balance changes from a positive to a negative impact on GDP. Growth in exports and the decline in imports show smaller changes from the second to the third quarter. This may mark the beginning of that transition. If the consumer spending is falling and the investments are flat, the trade deficit can always increase. The international trade gives more impact and advantages than disadvantages. Hopefully, dollar appreciation will be slow enough for net exports to continue the growth of our economy and jobs.

## ACKNOWLEDGEMENT

This research was supported by Research and Innovation Management Centre (RIMC), Universiti Utara Malaysia under Centre of Excellent (COE) grant. We would like to express our deepest gratitude to Prof Dr Ahmad Bashawir Abd Ghani Vice Chancellor, Universiti Utara Malaysia UUM, Prof. Dr. Ayoib Che Ahmad Deputy Vice Chancellor (Research and Innovation), (UUM) and all staffs from Research and Innovation Management Centre UUM for the time and guidance contributed towards the completion of this research project.

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