

POLITICAL ECONOMY AND ITS IMPACT ON INTERNATIONAL TRADE

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Abstract

Purpose of the study: The aim of this study was to relate the political economy and its impact on trade and development of economy. One of the currently witnessed changes that strike out the most from previous years is the relatedness of each political economy aspect of the world. The dimension of economy can be found in different problems throughout the world and economy has become the most prioritized aspect in the 21st century.

Methodology: The data for this study were obtained from existing literatures on political economy and trade as well. The methodology heavily relied on the existing previous literatures on the subject being dealt with.

Results: The findings indicated that the government could decide to intervene in markets with the intention of limiting import or maximizing export. Trade barriers might be applied for the intention of limiting imports such as tariffs, import quotas, native gratified necessities, directorial strategies, and anti-dumping policies.

Implications: Protectionist policies are being implemented by country by the means of protecting the local market from international market that might risk the industries inside the nation and might resulted in the depletion of the nation's sovereignty rate. Protectionist policy can be considered as a barrier towards trade but is essential for the long run local industry.

Keywords: *Political Economy, International Trade, Globalization, Trade Theory*

INTRODUCTION

International political economy is a study of the fundamental aspects of the dynamic interaction of two spheres of society, namely politics and economics. Political economy is the line that connects the two spheres and separates national interest from individual self-interest. Political economy comes from the Greek word "polis" where politics means a city or state ([David, 2006](#)).

One of the few changes that could be seen in today's world are the relatedness of each aspect or sector of the world. The dimension of economy can be found in different problems throughout the world and economy has become the most prioritized aspect in the 21st century. It has also changed the way people look at the term security as it can now be associated with economy and natural resources more than ever ([Bennett, 1941](#)). The most important part of its interestedness is that the political aspect of a problem can no longer be discussed without bringing up its economy aspect, resulting in the emergence of international political economy as a field of study.

The study of international political economy touches different studies, combining international relation, economy, and politics as one subject of its own and creating a field of study that examines the inter-relation. As one of the branches of international studies and economy, international political economy explores the relation between the two, which is termed as globalization. Globalization is mentioned in different studies and has many definitions from the perspectives of global economy, society, and politics.

The main idea of globalization is the phenomenon of shrinking the world into a related and integrated society. Our civilization can be expanded more with the development in technology that supports the expansion of modern civilization throughout the world. Barriers are now history because of the improvements in the communication and information technology. We no longer have to travel all the way to Europe to conduct businesses or send letters that take a long time to reach addressees. In other words, globalization can be described as the shrinking of space and time due to the advancement of technology that creates a global network for communicating and supporting the movement of people and creates a an interrelated and integrated world connected by interests of states and trade between nations. This paper will indicate the relationship between the political economy and its impact on trade on the development of the economy.

LITERATURE REVIEW

[Miller \(2008\)](#) explored interdependent countries, asmost would try to make a relation and stably maintain it. International political economy itself argues the actual economic restraints with power or politics. Countries in conjunction with other

countries must be willing to meet its interests and make certain adjustments to make a mutually beneficial relation. In order to achieve the goal and interest, the state controls the market forces to increase their power. International Political Economy (IPE) itself can be interpreted by two words, namely, state (country) and market. When there is a reciprocal relationship between these two aspects, then the economy and politics would affect one another.

[Oatley \(2016\)](#) argued that IPE is a study on how economy and politics shape each other. IPE has a long history and is, in fact, one of the main subjects in long distance trade that started thousands of years ago. At that time, trade served as a major means of exchanging commodities and spreading religion. For example, Islam was spread in Indonesiam by Arab Muslim traders as early as the eighth century. Apart from religion, countries can impose trade control on others. The Dutch United East India Company, Vereenigde Oost-Indische Compagnie (VOC) came to Indonesia with the main purpose of trading. However, they gained power and started to colonize for as long as 350 years. We can see how important and powerful trading is. Trading also happened between countries before this and one of the examples is the overland trading route from China to eastern Mediterranean, which is known as 'The Silk Road'.

IPE studies the political competition between winners and losers in global economic exchange. In today's world, IPE is still relevant because politics and economy are related to each other. Especially in global sector, the economics of a country is determined by its politics. International factors affect national policy by direct effect on the domestic political economy. Imagine country A and country B not having any bilateral relation or banning each other in international area, resulting in the absence of economic relation between them ([Heilmann, 2015](#)).

According to [Salleh \(2011\)](#), globalization has resulted in people becoming aware of and attached to their locality as an appropriate forum for self-assertion and democratic expression. Globalization is a process of activities in various sectors, as countries around the world become a market force that is increasingly integrated with the state territorial borders unimpeded. The social, cultural, technological, political, and economic aspects have both positive and negative impacts. In the field of economics, international trade also showed a rapid development ([Bozyk, 2006](#)). Exchange of goods and services do not have any such restrictions between countries, technological advances have made international trade easy. In the context of globalization, international trade is also feeling both positive and negative effects. The world is regarded as an entity in which all areas can be reached quickly and easily. Everyone is enabled to try anywhere and anytime in terms of trade and inventory ([Vito, 2001](#)).

By knowing the impact of globalization on international trade, both developed and developing countries can minimize the negative impacts and maximize the positive impacts on international trafficking that influence the country's economy. Increased globalization is not easily accepted by developing countries ([Frieden & Martin, 2002](#)). Globalization requires a process of unification of the characteristics of what is required of developing countries. The positive impact of globalization in the economic field is to spur productivity and innovation and economic operators so that the product is able to compete with other products, that cannot meet the demands of times because it was accustomed to technology and just being able to buy without making ([Frankel, 2006](#)). Some observers contend that more globalization, including more worldwide exchange and speculation, will prompt better establishments; other "anti-globalization" advocates contend that globalization harms human rights and vote-based system because of intemperate powers given to multinational enterprises or multilateral associations ([Yang, 2013](#)).

INTERNATIONAL TRADE THEORY

International trade theory explains the pattern of international trade and distribution of gains from trade. The theory convinces most economists of the benefits of liberal trade. However, many non-economists oppose liberal trade. The theories of international trade are divided into classical theory and modern theory. Classical economists were oriented towards the growth of economics and their focus was on explaining how the wealth of nations increased. These theories include Mercantilism Theory, Absolute Advantage Theory, and Comparative Advantage Theory. On the other side, the modern theory includes Heckscher-Ohlin Theory, New Trade Theory and Competitive Advantage Theory ([Ghansyam, 2010](#)).

Classical Theory of International Trade

Mercantilism Theory: Mercantilism was the economic system of major trading nations during the 16th, 17th, and 18th centuries. Mercantilism is a practice in which the government regulates the economy and trades to promote domestic industry, often at the expense of other countries. Mercantilism is associated with policies that restrict imports and foster domestic industries. Smith argued that by giving everyone the freedom to produce and exchange goods as they pleased (free trade) and open up the market for domestic and foreign competition, the natural interest of the people will promote

greater prosperity compared with strict government regulations. Smith believes human beings ultimately promote public interest through their economic choices.

Absolute Advantages Theory: Adam Smith, a Scottish philosopher wrote a book to upend the mercantilist system and published it on March 9 1776. He named the book as “An Inquiry into the Nature and Causes of the Wealth of Nations”, usually called “Wealth of Nations”. Smith transformed economy into a science identity and brought about new viewpoints in the way to be able to usher a new era by the term he lived ([Kucukaksoy, 2011](#)). Mercantilism, being an economic and political doctrine, was valid until then and was started when classical liberalism was dominant. It criticized mercantilism and ushered new concepts used in explaining economy. Reactions against mercantilism started in the middle of 17th century and economic thought entered a transition term after that. The period between 1660 and 1776 is called the transition term, which started with Adam Smith and in which the first theoretical and methodological steps of the Classical Theory were taken. Mercantilists prohibited the ultimate goods import (as it causes valuable mine output) and aimed to increase the input of valuable mines by increasing export. In contemporary phrasing, this situation necessarily means running the balance of payments surplus and this aim states the essential intent of mercantilists ([Gilpin & Gilpin, 2006](#)). The Industrial Revolution accelerated and production was no longer a problem. However, finding new markets became important. The important developments in the 18th century prepared the end of Mercantilism ([Schumacher, 2012](#)).

Comparative Advantage Theory: Comparative advantage theory is much more general than the preceding discussion of special cases ([Deardorff, 1984](#)), but predictions about the pattern of trade weaken with generality. On average, a country imports goods that would be relatively expensive in the absence of trade. David Ricardo states in his theory of comparative advantage that trade can be beneficial for two countries if one country has an absolute advantage in all products and the other country has no absolute advantage in any of the products. A nation, like a person, gains from trade by exporting goods and services in which it has the greatest comparative advantage in productivity and by importing good and services in which it has the least comparative advantage ([Ricardo, 1891](#)). This theory assumes labor as the only factor of production in two countries with zero transport cost and no trade barriers. Based on Japan’s opening to trade in the 1850s, [Bernhofen and Brown \(2004\)](#) address the general model’s assumptions, which are: (i) price taking consumers minimize the expenditure needed to realize any level of utility (real income) and (ii) producers behave so as to maximize the national product given the resource endowments. The first assumption implies downward sloping demand curves in a generalized form. The second assumption leads to upward sloping supply curves in a generalized form. Scale economies and imperfect competition, treated in the section on endogenous advantage, can lead to the violation of the second assumption. Subsequent developments of trade theory generalized the production model. The essence of comparative advantage theory remains that trade is due to differences in relative prices that obtain in the absence of trade and an average of each country’s citizens gain from such trade ([Schumacher, 2013](#)).

Modern Theory of International Trade

Heckscher-Ohlin Theory: Traditional trade lies between two Ricardian model and Heckscher-Ohlin model. In the Ricardian approach, relative work profitability differentiates from others to create a basis for trade across countries. On the other hand, the Heckscher-Ohlin approach assumes identical production functions for the same commodities over the world and the possibility of technological differences in terms of differences in relative factor endowments. The Heckscher-Ohlin model shows that trade will expand the interest for goods produced by the country’s abundant resources. Since work is the abundant resource in most developing countries, the forecast is an expansion sought after for labor intensive goods. Otherwise, trading gives a developing country the chance to gain from the more propelled innovations of the developed world. This technological exchange is expected to help developing. The Heckscher-Ohlin theory offers a simple and familiar way of analyzing linkages between factor supplies and the composition of trade. Recent research shows that Heckscher-Ohlin theory has a lot of explanatory power if its domain is restricted to broad product categories (rather than specific goods, for which scale economies are often the main determinant of trade) and if capital – physical and financial – is excluded from the list of production factors, because of its international mobility ([Kozanoglu et al., 2011](#)).

New Trade Theory: New Trade Theory (NTT) proposes that a critical factor in determining international pattern of trade is the exceptionally generous economies of scale and network effects that can happen in key industries. These economies of scale, and network effects, can be significant to the point that they exceed the more customary hypothesis of comparative advantage. In a few industries, two countries may have no noticeable differences in opportunity cost at a specific point in time. In any case, if one country spends a significant time in a specific industry, then it may gain

economies of scale and other system profits by its specialization. Another component of new trade theory is that firms who have the benefit of being an early participant can turn into a dominant firm in the market. This is because of the increase of main firms' considerable economies of scale implying that new firms cannot contend with occupant firms. This means that in these global industries with very large economies of scale, there is likely to be limited competition, with the market dominated by early entrants, leading to a form of monopolistic competition. This means the most lucrative industries are dominated in capital escalated countries, which were the first to develop these industries. Therefore, being the main firm to achieve industrial maturity gives an exceptionally competitive advantage. New trade theory likewise turns into a consideration clarifying the growth of globalization. It implies that poorer and developing economies may struggle to build up certain industries, since they are way behind the economies of the developed world. This is not because of any inherent relative competitive advantage, but rather the economies of scale of the developed firms. This is not due to any intrinsic comparative advantage, but due to the economies of scale already possessed by developed firms. [Krugman \(2008\)](#) was a leading academic in developing the New Trade theory. He was awarded a Nobel Prize (2008) in economics for his contributions in modeling these ideas.

Competitive Advantages Theory

Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors. The development of theories that explain competitive advantage has occupied the attention of the management community for the better part of the century. Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (low cost), or performing activities at comparable cost but in unique ways that create more buyer value than competitors and, hence, command a premium price (differentiation). The pursuit of competitive advantage is arguably the central theme of the academic field of strategic management ([Furrer et al., 2008](#)). [Robinson and Pearce \(1988\)](#) define strategic management as 'the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization'. [Certo and Peter \(1990\)](#) define strategic management as 'a continuous, iterative process aimed at keeping an organization as a whole appropriately matched to its environment'. Strategic management is concerned with defining organizational performance, variables of strategic choice and competitive advantage. Strategic choice determines the market in which to participate and where to position the organization within those markets.

TRADE IN TODAY'S WORLD

Governments interested in higher economic growth, less hunger, and better environmental quality should reduce trade barriers. Options for boosting trade freedom include:

- i) Negotiating thorough global deals, for example, the Uruguay Round trade agreement;
- ii) Adopting regional and bilateral trade agreement that decrease trade barriers;
- iii) Sector-specific negotiations in ranges of general agreement on the advantages of liberalization;
- iv) Unilateral diminishments in trade barriers made out of economic self-interest, including profits by global value chains. For example, in the United States, half of all imports are intermediate goods utilized by U.S. manufacturers and eliminating tariffs permanently on these products would be in the country's interest.

Surveys suggest that people would welcome leadership on these issues. According to a recent Pew Research survey conducted in 44 countries, a median of 81 percent of people believe trade is good. A 2014 survey by the Chicago Council for Public Affairs found strong support for international commerce in the United States. According to that survey, 65 percent of Americans believe "globalization, especially the increasing connections of our economy with others around the world, is mostly good for the United States." The 2015 Index of Economic Freedom shows that people who live in countries with low trade barriers are better off than those who live in countries with high trade barriers. Diminishing those barriers whether unilaterally, bilaterally, or multilaterally through regional trade agreements, comprehensive global agreements, or sector-specific negotiations is a demonstrated formula for prosperity ([Veseth & Balaam, 2006](#)). In all cases, the authors clear up the sort of data used and the different sources for that information in the comparing review for the trade policy factor. When none of this information is available, the authors simply analyze the overall tariff structure and estimate an effective tariff rate.

The trade freedom scores for 2015 are dependent on data for the period covering the second half of 2013 through the first half of 2014. Based on the conceivable data, it is presented as of June 30, 2014. Any adjustments in law effective after that date have no positive or negative effect on the 2015 trade freedom scores. International political economy is about

the politics of global economic relations where it studies the fundamental tension between and the dynamic interaction of two spheres of life, which it can variously call states and markets. International political economy is the field of study that analyzes the problems and any questions that arise from the parallel existence between interaction of “state” and “market”. Other than that, political economy focuses on the basic of the conflict that exists among the interests of the individual and the broader interests of the society. International political economy also concerns about social, political, and economy arrangements that can affect the global system of production, exchange, and distribution and the mix of values reflected therein. In other words, political economy is about the role of the state with regard to economy and also the interactions between political and economic processes. However, political economy gives more attention to the distribution of social power based on property and wealth ([Richard, 1998](#)).

In political economy, states allocate and distribute power, where it can be viewed as divided between relational power which means the ability to cause another actor to do or not to do something. States can be as an alternative schema to view power as divided between hard power and soft power, where hard power is about the application of coercive force to compel another actor to do something and 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 actions and self-interest and tends to emphasize concerns of efficiency ([Islam, 2012](#); [Islam et al., 2013](#); [Alshammari & Islam, 2014](#)). In addition, society part of the international political economy where society is the realm of the history, culture, and values of the social system ([Abidin et al., 2016a, 2016b](#)). It is because state, market and society often embrace different values and prefer different methods for realizing them, and sharp tension and conflicts often occur. Thus, these three spheres (given the interconnectedness and change in one) often evoke a change in others, 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 that mother country, with the purpose of taking up higher income employment, better living conditions, higher education, getting access to civic amenities, and conducting a daily existence there for an extended period of time ([Alam et al., 2011](#)).

International political economy is multidimensional because international political economy analyzes international issues in term of three analytical perspectives, four levels of analysis, and four global structures. Liberalism, Realism, and Structuralism are the analytical perspectives, where the perspective of liberalism is also known as economic liberalism and is most closely associated with economics ([Goldeng et al., 2008](#)). Many liberal values and ideas are the ideological foundation behind globalism and the globalization campaign and these analytical is under John Maynard Keynes. Mercantilism or economic nationalism is about the perspective most closely associated with political science and realism. It is mainly because of national interest and state struggles for wealth and power.

Besides, there are four levels of analysis used in international political economy, namely, global level, interstate level or international level, state or societal level, and individual level. The global level is the broadest and most comprehensive level of analysis. It focuses on how global factors like changes in technology, commodity, prices, and climate, create limitations and opportunities for all governments and societies. The international level emphasizes how the relative balance of political, military, and economic power between states affect the probability of war, prospects for cooperation, and rules related to transnational corporations ([Riley & Miller, 2014](#)).

The relative power of a state determines the ways in which it will associate with or exercise leverage over its allies and states with dissimilar interest. The societal level is paradoxical because the focus narrows to factors within states and explanations contain more causal factors. At this level also, it emphasizes lobbying by socio-economic groups, electoral pressures, and culture influence the foreign policies of countries. It also focuses on how different types of governments and decision-making processes within a state shape the way of interactions with others. Lastly, individual level is about the narrowest level and yet it contains the biggest number of factors that explain why state leaders choose certain policies or behave in particular ways. This level also emphasizes on psychology, personality and beliefs that shape choices made by specific policy makers.

However, the international political economy is a network of bargains between and among states that deal in power and where markets deal with wealth. These bargains determine the production, exchange, and distribution of wealth and power elsewhere. Bargain in international political economy can take many forms. Some are the formal agreements signed, ratified, and enforced and other bargains are merely conventions, understandings, or rules of thumb. But, some of international political economy bargains reflect the rational power, which is the 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](#)).

In international political economy, two theories, namely, classical political economy (Adam Smith and David Ricardo) and Marxist political economy are used. Classical political economy is seen as a complex natural organism where human labor is a key source of wealth. This theory explains about the division of labor and key role of the market as an integrating force. This also explains the harmony of interest between classes where it is about the key role played by the state in maintaining a market economy.



Figure 1. International political economy between China and ASEAN regions

International trade is a process in which goods and services are exchanged across national borders. Production and trade structure is a set of relationships among countries, international organizations (IOs), an international business and non-governmental organizations (NGOs) which together influence and manage regulations and international norms related to what is produced where and by whom, how, to whom, and for how much. The first theory of international trade is mercantilism. It suggests the best interests of the state to maintain a trade surplus with more exports than imports. Mercantilism also supports state intervention to achieve a surplus in the balance of trade and mercantilism also creates trade as a zero-sum game, where one country gains and other countries incur losses.

The second theory of international trade is the absolute advantage. In this theory, Adam Smith has argued that a country has an absolute advantage in producing a product, if it is more efficient than any other country. Every country should have expertise to manufacture products with an absolute advantage and trade with products that have been produced by other countries.

The third theory is the comparative advantage. David Ricardo has argued that what would happen if a country has an absolute advantage in all production. Ricardo proposed that a state must have expertise to render their products truly efficient and have to buy products that are less efficient than other countries, even if the products can be produced in their own country.

The fourth theory is the Heckscher-Ohlin theory. Eli Heckscher and Bertil Ohlin have argued that comparative advantages arising from differences in factor endowments of the country, so far each country is endowed resources, such as land, labor, and capital, the theory is different from Ricardo's theory that emphasizes productivity. This theory predicts that countries will export goods that use the factor intensively that many local and imported goods that use the scarce factor intensively in the country.

The fifth theory is the product life cycle theory. Raymond Vernon explained the pattern of international trade and investment in the product life cycle, wherein the product life cycle has four stages, which are introduction stage, growth stage, maturity stage, and decline stage. The life expectancy of a product depends on market demand and how marketing instrument is used. An introductory stage of organization introduces a product at the national and international levels. For the growth stage, the organization will produce more products due to users' requests. For the maturity stage, the product will be well-known, received, and used by many users. Then, at the decline stage the market becomes saturated and can no longer sell products. This theory differs from the Heckscher-Ohlin theory in which these theories have changes in technology over time. Mobile technology has also changed over time and standard mobile technology and finance are the vital factors in multinational corporations.

The sixth theory is a new theory, suggesting the ability of a firm to achieve economies of scale to reduce unit costs associated with large-scale output and will have important implications on international trade. This shows the critical factor in determining the international pattern is due to an large scale economy and affects the network in the main industry. Furthermore, the company will have an advantage in this theory, as the participants will be the firm's early dominance in the market. This is because the first company to join will get greater economies of scale, and this means that a newly joined firm cannot compete with existing companies. This shows that the industry will be dominated by capital-intensive and industry-developed countries. Therefore, firms should first reach maturity in the industry to have a competitive advantage.

The last theory is Porter's Diamond of Competitive advantage. Michael Porter has argued the reasons for a country to achieve international success in specific industries and identify the properties that promote or hinder the creation of competitive advantage. The first factor is the endowment of the country's position in factors of production necessary to compete in a given industry. The second is due to the demand from the country's own request to engage in industrial products or services. The third is related to supporting industries, namely pressure or lack of suppliers in the industry or related industries have international competition and the last is a firm strategy, structure, and competition due to conditions governing how the company was created, organized, managed and has the competitive domestic nature.

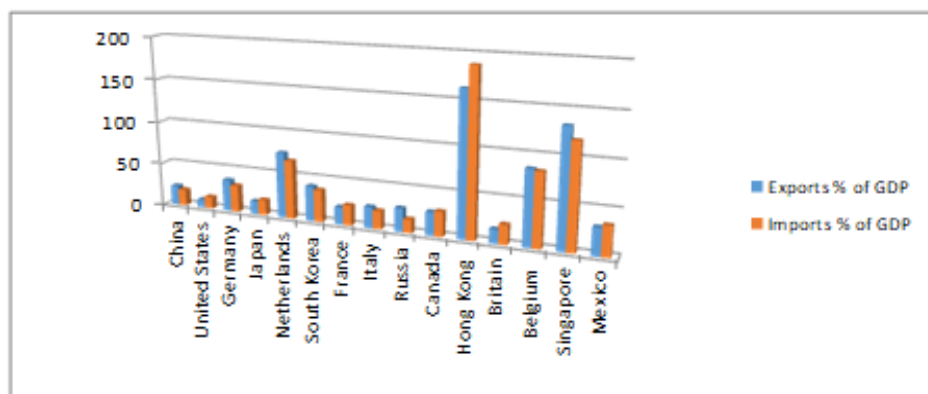


Figure 2. International trades in trade flows on global

Top three countries by economic dominance (% share of global economic power)

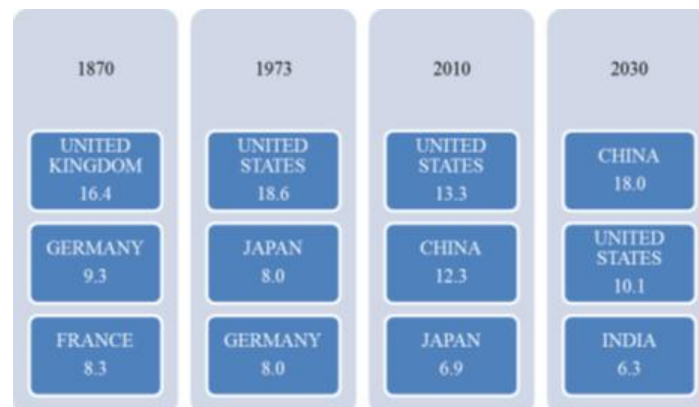


Figure 3. Relationship between International Political Economy (IPE) and International Trade

Figure 3 shows the relationship between international political economics and international trade that can affect a country's economy. We can see the United Kingdom regulates the world trade in 1870, whereas the United States regulates the world trade in 1973 and 2010, and China will possibly govern the country in world trade in 2030, as it presently has a very strong economy and can make a lot of trade with foreign countries.

POLITICAL ECONOMY AND INTERNATIONAL TRADE

Even though many states have committed into performing free trade, they tend to intervene in markets. In order to insure and maintain the stability of a country's economy and to protect the interest of politically important group, the government must interfere in the form of implementing policies that would regulate the flow of trade between countries.

The reason behind the interference of a government in market can be divided into two categories, namely, political arguments and economic arguments.

Political arguments for government to interfere in markets are that the state is concerned with the situation for certain groups and political elites that influence the country and in order to protect their interests that would result at the expense of others. Usually, the actors involved in these arguments are the producers and consumers. The first reason that backs up the political arguments is to protect jobs and is the most common reason used for limiting trade between states. It is the outcome of pressure inflicted by foreign producers in which it would result in the threatened domestic union or industry by competition with those foreign producers that are more effective and efficient. It is also important to protect domestic industry from foreign influence. It is considered as important to maintain the sovereignty of a nation through limiting trade that would bring foreign influence to the decision making and power that would follow the money (Vito, 2005).

The sovereignty of a nation would be threatened if foreign investors got comfortable and meddle in the state affairs and would be considered as a breach in national security. Trade barriers can also be inflicted to prove a point for a country. For example, if a state does not feel the same way about other states stand in an international issue, the state can implement trade barriers such as sanctions to prove a point. If the threatened government does not comply and solve things, tension can rise and diplomatic relations between those states might be damaged. This would also lead to the next political arguments in which government intervention would be required to establish the goals of foreign policy. Preferential might happen to a country in which a state might favor one country over another with the purpose of establishing a better relation with them. Other reasons would be to protect consumers from dangerous products that might do them harm. The limitations would be for them to set some health standards in which it would protect the citizens from harmful substances. Protecting human rights in exporting countries is also another reason for governments to impose trade barriers.

The economic arguments that would back government interference in market are based on the concern of the overall prosperity of a country in which it would benefit the state, producers, and also consumers. The infant industry is one of the major arguments behind the economy arguments in which a government might impose trade barriers. Small and new domestic industries should be protected until they can handle competition with bigger and more capable producers from foreign countries. Although there had been many questions popping up about when exactly does an industry can be considered as grown? Some scholars suggest that an industry can be considered as grown if they no longer need funds and other help from the government. The second reason is the strategic trade policy, where government can set their priority to national interest. When certain advantages emerge in the market, a state can help their own country to attain them. They can also help domestic industries and firms overcome challenges in entering the market where the foreign industry might have advantages of their own.

The government can decide to intervene in markets with the intention of limiting imports or maximizing exports. Trade barriers might be applied for limiting imports, such as tariffs, import quotas, local content requirements, administrative policies, and anti-dumping policies. The government can intervene through subsidies, incentives and additional benefits to local producers for maximizing the exports, which would be used in favor of national interest. For states to use trade barriers to control the market in order to gain as many advantages as possible would be a proof of how political economy can impact trade between countries.

CONCLUSION

The importance of international political economy cannot be underestimated. It is a very powerful force that influences the making of foreign and domestic policies. The power it has over a state cannot be denied and it would be one of the factors that drive a state to do things. Trade as a form of relation between states is a media in which states can show off their abilities to control and manipulate the arena to their benefit. The state can no longer separate their politics with the market

Regardless of how states implement free trade, the influence of government would still be there to control the market. These regulations that the government would implement can be considered as protectionist policies. Protectionist policies are being implemented by country by the means of protecting local markets from the international market that might risk the domestic industries and might result in the depletion of the nation's sovereignty rate. The protectionist policy can be considered as a barrier towards trade but is essential for the long run of the local industries.

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