**ANDREW MAMEDU**

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# **Chapter One: Introduction**

## 1.1 Introduction

In the aftermath of the Second World War, many colonial nations relinquished their power, granting independence to their former colonies and leading to the emergence of many new countries. However, these new countries, also known as developing countries or the Third World, were often weak in the economic field and found themselves at the bottom of the global economic structure. From the 1970s onwards, some of these developing countries began to initiate changes in the international system to improve their economic position. At the same time, neo-Marxism became prominent, offering theories about the economic backwardness of developing countries.

This period marked the emergence of the third major debate in International Relations, centered around the international political economy and who gets what in the international economic and political system. Understanding the roles and behaviors of local and international markets, institutions, states, and civil societies is crucial in our increasingly globalized and interconnected world. The course of International Political Economy provides a solid foundation for individuals seeking to comprehend these roles and behaviors, as well as significant global and regional issues that impact daily living.

International Political Economy (IPE) is an intrinsic academic field within the international arena that draws on international politics, international economics, history, and cultural studies. The goal of this paper is to expound on the theories and dynamic linkages among institutions, states and markets, and civil society in both regional and global contexts. The paper covers major theories, concepts, and issues of IPE, including international institutions, international trade, international finance, international development, and the consequences and controversies of globalization.

This paper aims to provide a comprehensive discussion of the topic of international political economy, covering topics such as the International Monetary Fund (IMF), international trade, economic development, and international development, among others. The paper will explain each of these topics in detail, providing a thorough exploration of the field of IPE. Understanding the complexities and interconnections within the international political economy is crucial for those seeking to navigate the increasingly interconnected global landscape.

# **Chapter Two: Body of Assignment**

## 2.1 Evolution of The International Economic System Since the Second World War

Since 1945, the global economic order has undergone significant changes that reflect both global politics and national interests of various nation-states. According to Robert Gilpin, the international economic order is largely determined by world politics and state interests. The establishment and evolution of the liberal international economic order were significantly defined by two important conditions of the international setting, namely Cold War politics and American hegemony, until around the end of the 1980s. Since the early 1990s, globalization has increasingly shaped and defined the global economic order.

The aftermath of World War II brought about profound political consequences, particularly the introduction of the Cold War and American hegemony, which led to a unipolar world. The military outcome of the war brought the Soviet Union into the heart of Europe, causing profound political impact on international relations. The temporary occupation line in Central Europe between the allied forces soon turned into a demarcation line of Cold War politics, dividing the wartime allies into two conflicting blocs. Cold War politics established a political bond among the capitalist countries against a perceived threat to their national security from the Soviet bloc. Postwar foreign policies in both political and economic spheres of these countries were framed within this context, and low politics was subordinated to high politics of the Cold War.

The outcome of World War II significantly rewrote the political map of world powers. The former major powers in world politics were either defeated or considerably weakened, while the US emerged from the war as a superpower, holding two-thirds of the world’s gold supply, almost half of the world’s monetary reserves, and possessing half of the world’s manufacturing capacity. This made the US occupy a predominant position in the global economy and politics. With its preponderant military and economic power, the US became a new hegemony, capable of providing capital and military protection desperately needed by other capitalist countries for their economic reconstruction and national security.

The history of International Political Economy (IPE) before the 1970s was a subject that was ignored by scholars and practitioners of international relations. In the early 1970s, scholars and decision-makers began to focus more on economic issues due to the world oil price crisis resulting from the 1973 Organisation of Petroleum Exporting Countries (OPEC) embargo, the Vietnam War, and US domestic economic turmoil that eroded its hegemony since the Second World War. The Macroeconomic Policy Adjustment in Interdependent Economies (1968) by Richard Cooper stated that countries needed to open cooperation links between them because the balance of payments of each country is very vulnerable to a large number of shocks and disturbances. Robert Keohane and Joseph Nye elaborated their analysis in a book called Power and Interdependence (1977), arguing that a new era in International Relations had arisen, and it could no longer be understood solely as an international competition for power. Economic issues and new patterns of cooperation have given birth to a new world politics whereby international political economy plays an important role.

## 2.2 History of International Political Economy

International Political Economy has a distinguished and long lineage going back to the liberal Enlightenment of the 17th and 18th centuries. Political economy was the label given to the study of the economic aspects of public policy, even before the separate disciplines of economics and political science. Sir William Petty first used the term "Political Economics" in a publication in 1671. The classical economists of the 18th and 19th centuries, such as Adam Smith and the French physiocrats, all understood their subject to be something called political economy, which was closely linked to the study of moral philosophy. The earliest university departments teaching the subject were all called departments of political economy.

Oscar Wilde continued using the term "political economy" at the dawn of the 20th century. However, a split occurred not long after John Stuart Mill's monumental summary of all economic knowledge in the mid-19th century, fragmenting the social sciences. Classical political economy subdivided, and in place of the earlier conception of a unified economic and political order, two separate realms were envisioned, representing two distinct spheres of human activity: the society (private sector) and the state (public sector).

The immediate cause of the split was the increasing formalization of economic study and the growing abstraction of its more advanced theoretical ideas. A "neoclassical" school emerged, aiming to develop a pure science, removed from the minutiae and distracting complications of everyday life. Gradually, the discipline of economics distanced itself from many of the practical policy and normative concerns that had previously motivated practitioners. So scholars with a more direct interest in institutions or issues of governance gravitated elsewhere, mostly toward the new discipline of political science with its central focus on the workings of political systems

Alfred Marshall's Principles of Economics replaced Mill's Principles of Political Economy as the leading source of economic wisdom in 1890. This signaled the divorce of political science from economics, leaving few points of intellectual contact or communication between them. While some scholars continued to stress connections between the pursuit of wealth and power, the gap between the two fields grew deeper over time. By the mid-twentieth century, the relationship between the two disciplines had become nonexistent in mainstream academia. Half a century ago, the policy agenda was preoccupied with the cold war and the threat of nuclear weapons, and foreign economic relations were relegated to the realm of "low politics."

However, in 1970, Strange published an article provocatively titled "International Economics and International Relations: A Case of Mutual Neglect," which showed that the void between international economics and international relations had endured for too long. Strange argued that a new approach to the study of international economic relations was needed, which would be a new effort at "bridge building" to spotlight the crucial "middle ground" between economic and political analysis.

Strange's article was a manifesto, pushing for a new field of study, which was a more modern approach to the study of international economic relations. Scholars were already beginning to grope their way toward reconnecting the two realms of inquiry, "reintegrating what had been somewhat arbitrarily split up." Interestingly, most of these scholars were economists rather than political scientists. An early example was Jacob Viner, who explored the relationship between "power" and "plenty" as objectives of foreign policy in a historical study of the doctrine of "mercantilism."

Finally on Strange's article, it highlighted the need for a new approach to the study of international economic relations that would bridge the gap between economics and political science. While there had been some efforts to reintegrate the two fields, most of these efforts were made by economists rather than political scientists.

In the International Political Economy (IPE) literature, the theme of tensions arising from market liberalization in a system of sovereign states has been a recurring one. This theme was first highlighted by Cooper and has remained relevant ever since. During the period of 1970 to 1971, several other authors contributed to this theme. Kindleberger's book, Power and Money (1970), discussed the growing tension between economic and political activity in an increasingly interdependent world. Raymond Vernon's book, Sovereignty at Bay, introduced the multinational corporation as a key political actor on the world's stage. Additionally, Albert Hirschman's National Power and the Structure of Foreign Trade (1945/1969) highlighted the hidden politics of international trade.

Hirschman's book emphasized how relations of dominance and dependence among states may arise naturally from the asymmetries of foreign commerce, and how import and export policies may be used opportunistically by governments to exert political pressure and leverage. These themes have continued to echo through the IPE literature. In retrospect, it is evident that a new integrated approach to IPE was emerging by 1970. However, the birth of this field was not officially recognized at the time, as scholarly fields do not come equipped with an official birth certificate. Rather, it was only in retrospect that we became aware that something new had been born.

Strange's manifesto, which appeared in a British journal, deserves a special place in the annals of IPE. It marked a turning point and distilled the brewing discontent among specialists in concise and focused terms. Strange's call to battle was not the sole spark that ignited a renewed interest in the political economy of IR, but it was significant. It was particularly popular in the United Kingdom, compared to the United States, which may not have seen the work at that time. Looking back, Strange's manifesto is as good a candidate as any to mark the moment of the new field's birth.

## 2.3 Globalization and the rise of Populism in the West

Populism is a political approach aimed at appealing to the average citizens who feel that their needs are not being handled by the relevant authority. Populism can manifest in different forms, such as left-wing populism, which develops from class divisions and right-wing populism, which develops from ethnic or religious divisions. According to Inglehart and Norris (2016), cultural backlash, not income inequality, is the driving force for populism. However, Gidron and Hall (2017) argue that the cultural backlash results from the change of social status, which is mainly disrupted by economic impacts. Therefore, economic insecurity and cultural insecurity are closely related, and both can lead to the rise of populism.

The economy plays a crucial role in populism. Economic growth forgives distribution issues when everyone gets a piece of the pie, whether large or small. However, when economic growth slows down, inequality rises to the surface and becomes a matter of concern, especially when the population growth rate exceeds the GDP growth rate. According to Piketty (2013), if the real rate of return on capital is greater than the rate of growth of national income, then a change in the distribution of income in favour of capital follows. The growing inequality in the distribution of income and wealth can pave the way for the rise of populism.

Globalization has also contributed to the rise of populism. Bretton Wood Institutions such as the International Monetary Fund, the World Trade Organization, or the World Bank lack transparency and accountability. When individual nation-states fail to find an adequate response to global challenges, the national economy usually falls under the regulations developed by those international independent institutions. Populism becomes more attractive as global integration develops. However, the Western middle class has been the biggest loser in an increasingly globalized economy, leading to the hollowing out of the middle-income group. The resulting economic insecurity and cultural insecurity have fueled the rise of populism.

The mobility of people is the most important unexploited reward from globalization once the benefits from creating a bigger pie which could increase global GDP, if the remaining barriers to international migration are to be eliminated, as estimated by Clemens (2011).

The issue of mobility and immigration has become a significant concern in today's world. Unlike the mobility of goods, services, and capital, the mobility of people is accompanied by cultural clashes, as the surge of cultural backlash shows. The backlash mainly results from immigration, particularly due to the endless wars and instability in some countries, mostly Sub-Saharan Africa and the Middle East. The influx of immigrants with different customs and cultural backgrounds has led to situations of xenophobia and racism. This cultural insecurity is intrinsically linked to right-wing populism and has resulted in populist responses from the right wing, such as Brexit in the UK, Donald Trump's victory in the 2016 US presidential election, and the strength of certain parties in continental Europe.

Although these anti-immigration populist parties are characterized as far-right, nativist, neo-fascist, and even nationalist, they still abide by their constitution, and you cannot find them rejecting the democratic constitutional order. Instead, they could be termed "civilizationists," driven by the notion of a civilizational threat from extreme religious belief, which is understood to be completely alien to civilization. They advocate for an identitarian Christianism defined by strong Islamophobia, while endorsing some liberal principles such as gender equality, gay rights, and freedom of speech.

However, it is important to note that the main component of the political stance of these right-wing populist parties is anti-immigration (with a strong anti-Islam flavour) rather than the traditional arguments of the far-right. They may not be unambiguous supporters of traditionally liberal demands, and characterizing them as such may be excessive. In addition, some of these parties may try to appear "moderate" to increase votes, as seen with the French Front national in the 2016 presidential election.

When it comes to right-wing populist parties in Western Europe, such as in Italy and Austria, they have typically only participated in government in coalition with more traditional right-wing parties. However, in Eastern Europe, two countries - Poland and Hungary - are currently solely ruled by right-wing populist parties. This has raised concerns from the European Union (EU) about the increasingly authoritarian trends in those countries.

Overall, the agendas of these conservative, nationalist, anti-immigration parties align more closely with the concept of illiberal democracy, as popularized by Zakaria (1997). In an illiberal democracy, despite the fact that democratic elections take place, some features typically associated with liberal democracy, such as the rule of law, separation of powers, and the protection of civil liberties, are at risk of being restricted in the name of the nation's will. This means that institutions like a free press, constitutional court, and individual rights may be viewed as obstacles to effective governance.

Additionally, these parties often reject respect towards minorities or advocates of pluralism, seeing them as excuses for disrupting the function of democratic politics. This has led to concerns among some observers about the future of democratic norms and institutions in countries ruled by such parties, particularly in Eastern Europe where they hold a greater degree of power.

## 2.4 Global Trade Imbalances between the US and China

A report by Scott (2017) highlights the substantial trade deficit that exists between the United States and China, which has been growing since the end of the Great Recession. This deficit has led to the loss of millions of jobs in the US, primarily in the manufacturing sector, which has failed to recover fully since the recession. The trade deficit has resulted in the US missing out on opportunities to create jobs in the export industry, while imports from China have surged. This has contributed to a slowdown in manufacturing job generation, which has led to stagnant wages and income for typical workers, widening inequality, and an adverse impact on the economies of other countries that have lost out on trade opportunities.

The loss of jobs in the US has been felt across the country but has hit the manufacturing industry the hardest, including those sectors where the US previously held a competitive advantage. The report notes that 3.4 million jobs were lost between 2001 and 2015, including 1.3 million jobs lost since the start of the Great Recession. The computer and electronic parts industry saw the most significant trade deficit growth, leading to the loss of 1,238,300 jobs, which accounted for 36% of the total jobs lost during this period. The hardest-hit congressional districts were in California, Texas, Oregon, Massachusetts, Minnesota, and Arizona, where jobs in this industry are concentrated. Other manufacturing industries, including textiles, apparel, and furniture, were also adversely impacted, leading to job losses in Georgia, Illinois, New York, and North Carolina.

The loss of wages has been felt by workers who do not have a college degree. Growing trade deficits between 2001 and 2011 led to a reduction in the incomes of directly impacted workers by $37 billion per year, while growing competition with imports from China and other low-wage countries reduced the wages of all non-college graduates by $180 billion per year. This income was redistributed to corporations and workers with college degrees in the top of the income distribution, resulting in higher profits and wages.

The report highlights that China engages in practices that go beyond free market principles, including subsidies, dumping of massive quantities of exports, blocking of imports, piracy of software and technology, technology theft, manipulation of its currency, and investment in excess production capacity in various industries, often through state-owned enterprises. China's currency manipulation has persisted over the past two decades, leading to persistent currency misalignments. Other countries in the region have followed China's lead in currency manipulation, leading to large and growing trade surpluses with the US and the world over the past 15 years.

Overall, the report emphasizes the negative impact that the trade deficit with China has had on the US economy, particularly in terms of job losses, stagnant wages, and income inequality. It highlights the need for policy solutions to address these issues and ensure that trade practices are fair and equitable for all countries involved.

## 2.5 Brexit and the Eurpean Monetary Union

In 1979, the UK government became a member of the European Monetary System. However, they declined participation in the Exchange Rate Mechanism, which was a system of fixed exchange rates between the currencies of the European Community. The UK eventually joined the ERM in October 1990, but due to the 1992-93 currency crisis, the pound was ejected from the system on “Black Wednesday” (13 September 1992), along with the Italian lira. This event resulted in the UK's traditional Eurosceptic stance becoming more hardened.

Despite being a member of the European Community since 1973, the UK has always been known as an “awkward partner” according to George (1998). This position as a relative outsider was cemented with the Maastricht Treaty that included an opt-out clause from joining the Economic and Monetary Union (EMU). While seven other EU member states are expected to join the euro area once they achieve the Maastricht Treaty convergence criteria on inflation levels, interest rates, debt and deficits, and exchange rate stability, the UK and Denmark obtained opt-outs from this plan.

Nonetheless, both the opt-out countries and the pre-ins have participated in activities in the four pillars of EMU which include monetary, financial, fiscal, and economic. As a result, their involvement is essential to the success of the European Union's economic policies.

Brexit is having an impact on EMU in various ways. Firstly, it is creating economic conditions that create incentives for further integration within the euro area. Secondly, it is changing alliances within the EU, both between the euro-ins and outs, as well as within the euro area itself. Thirdly, it is shifting political resources to deal with the consequences of Brexit, which may divert attention away from EMU.

It is important to note that while the UK’s departure from the EU may not have the same impact on EMU as the exit of a euro area country, it is still affecting EMU in significant ways. As a result, it is essential for the EU to continue engaging with the UK and other opt-out countries to ensure the continued success of EMU.

## 2.6 The World Trade Organisation (WTO) and Trade Policies

The World Trade Organization (WTO) is a global organization with 164 member countries that was established in 1995 to regulate and manage global trade rules, mediate disputes, and promote trade liberalization. The United States was a key advocate for the formation of the WTO, which built upon the agreements and rules established by the General Agreement on Tariffs and Trade (GATT) since 1947. The aim was to create an open, rules-based trading system after the Second World War, and this has now resulted in 98% of global trade occurring among WTO members.

GATT, established in 1947, was updated through negotiations over the years, including the Uruguay Round of trade negotiations from 1986 to 1994, which led to the creation of the WTO. The Uruguay Round resulted in the expansion of GATT's multilateral rules to include services and intellectual property.

GATT, which stands for the General Agreement on Tariffs and Trade, is one of the agreements of the World Trade Organization (WTO). Established on January 1, 1995, the WTO also includes the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). Prior to the establishment of the WTO, GATT played a role in negotiating and administering multilateral trade rules from 1947 to 1994.

The WTO is a consensus and member-driven organization with core principles that include nondiscrimination (most-favored nation treatment and national treatment), fair competition, freer trade, transparency, and encouraging development. These principles are enshrined in WTO agreements that cover goods, agriculture, services, intellectual property rights (IPR), and trade facilitation, among other issues. Many countries have joined the WTO not only to expand access to foreign markets but also to promote domestic economic reforms, transition to market economies, and promote the rule of law.

The Trade Facilitation Agreement (TFA) is a new multilateral trade agreement of the WTO that came into force on February 22, 2017. It is the only major concluded component of the negotiations and aims to address multiple trade barriers confronted by exporters and importers. The TFA aims to reduce trade costs by streamlining, modernizing, and speeding up customs processes for cross-border trade, as well as making them more transparent. Analysts view the TFA as evidence that achieving new multilateral agreements is possible, and its design, including special and differential treatment provisions, could serve as a template for future agreements.

The TFA has three sections. The first section contains the main provisions, many of which are binding and enforceable. Mandatory articles include requiring members to publish information, including certain items online; issue advance rulings in a reasonable amount of time; and provide for appeals or reviews if requested. The second section provides for Special and Differential Treatment Provision (SDT) for developing country and Least Developed Countries (LDC) members, allowing them more time and assistance to implement the agreement. The TFA is the first WTO agreement in which members determine their own implementation schedules, and progress in implementation is explicitly connected to technical and financial capacity. The TFA requires that "donor members," including the United States, provide the needed capacity building and support. Finally, the third section sets institutional arrangements for administering the TFA.

As of August 2021, 94% of the membership has ratified the agreement, and members have been actively notifying their commitments and progress. As of August 2021, 70% of implementation commitments have been notified, and capacity strengthening activities are ongoing to support full implementation. The TFA is an important agreement that demonstrates the WTO's commitment to promoting freer trade, reducing trade barriers, and supporting development. Its success provides a blueprint for future multilateral agreements and serves as a reminder of the WTO's importance in the global economy.

## 2.7 Financial Globalization

Financial globalization is a concept that refers to rising global linkages through cross-border financial flows. financial globalization is understood as the integration and linkage of a country’s local financial system with international financial markets and institutions. This integration typically requires that governments liberalize the domestic financial and capital sector. Integration takes place when liberalized economies experience an increase in cross-country capital movement, including an active participation of local borrowers and lenders in international markets and a widespread use of international financial intermediaries. As expected, developed countries are the most active participants in the financial globalization process, developing countries (primarily middle-income countries) have also started to participate. The wave of financial globalization since the mid-80s has been marked by an increase in capital flows among industrial countries and, more notably, between industrial and developing countries. While these capital flows have been associated with high growth rates in some developing countries, a number of countries have experienced periodic collapse in growth rates and significant financial crises over the same period, crises that have exacted a serious toll in terms of macroeconomic and social costs. The global financial linkage was used recently in the Russia/Ukraine Crisis, as Russia was sanctioned by banning them from one of the major global financial platform for international trade. In return, Russia responded by demanding for the Ruble (its local currency) as means of payment for its gas, fertilizer and crude oil, which they are th main exports of globally. This has contributed to the current recession the global economy is facing.

Historical, financial globalization is not a new phenomenon, but today’s depth and breath are unprecedented. Capital flows have existed for a long time. In fact, according to some measures, the extent of capital mobility and capital flows, a hundred years ago is comparable to that of today. Over a 100 years ago, only a few countries and sectors participated in financial globalization. Capital flows tended to follow migration and were generally directed towards supporting trade flows. For the most part, capital flows took the form of bonds and they were of a long-term nature. International investment was dominated by a small number of freestanding companies, and financial intermediaries were concentrated on a few family groups. The international system was dominated by the gold standard, according to which gold was the global standard of measurement, like the United State Dollars is today and this was what backed national currencies.

The outbreak of the First World War represented the first blow to this wave of financial globalization, which was followed by a period of instability and crises ultimately leading to the Great Depression and then followed the Second World War. After these events, governments reversed financial globalization imposing capital controls to regain monetary policy autonomy. Capital flows reached an all time low during the 1950s and 1960s. The international system was dominated by the Bretton Woods system of fixed but adjustable exchange rates, limited capital mobility, and autonomous monetary policies. As Mundell (2000) postulates, the 1970s witnessed the beginning of a new era in the international financial system. As a result of the oil shock and the breakup of the Bretton Woods system, which occurred between 1968 and 1971, when the US President Richard Nixon announced the temporary suspension of the US dollar conversion to gold, a new wave of globalization began. This led to oil shock, which provided international banks with fresh funds to invest in developing countries. These funds were used mainly to finance public debt in the form of syndicated loans. With the disintegration of the Bretton Woods system of fixed exchange rates, countries were able to open up to greater capital mobility while keeping the autonomy of their monetary policies. The capital inflows of the 1970s and early 1980s to developing countries preceded the debt crisis that started in Mexico in 1982. To solve the debt crisis of the 1980s, Brady Bonds were created, which led to the subsequent development of bond markets for emerging economies. Deregulation, privatization, and advances in technology made foreign direct investment (FDI) and equity investments in emerging markets more attractive to firms and households in developed countries. The 1990s witnessed an investment boom in FDI and portfolio flows to emerging markets. Today, despite the perception of increasing financial globalization, the international financial system is far from being perfectly integrated.

There is evidence of persistent capital market segmentation, home country bias, and correlation between domestic savings and investment. The recent deregulation of financial systems, the technological advances in financial services, and the increased diversity in the channels of financial globalization make a return to the past more costly and therefore more difficult. It is almost impossible to reverse the financial globalization, as it currently stands, particularly for partially integrated economies, although there is still that slight chance of it happening. The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. Arguably, the main benefit of financial globalization for developing countries is the development of their financial system, what involves more complete, deeper, more stable, and better-regulated financial markets. As discussed in Levine (2001), a better functioning financial system with more credit is key because it fosters economic growth. There are two main channels through which financial globalization promotes financial development. First, financial globalization implies that new type of capital and more capital are available to developing countries. Among other things, new and more capital allows countries to better smooth consumption, deepens financial markets, and increases the degree of market discipline. Second, financial globalization leads to a better financial infrastructure, what mitigates information asymmetries and, as a consequence, reduces problems such as adverse selection and moral hazard. On the other hand, the disadvantage of it for developing countries still exist, as it is a system designed to favour the developed countries, who have better balance of trade, by nature of their productive capacity and what they produce. The developing countries majorly export raw materials, with little or no added value.

## 2.8 Economic Development

The definitions of development and underdevelopment have been the topic of much debate and discussion over the years due to their ambiguity. Economic development is an ever-evolving concept that involves the transformation of an economy through the introduction of updated technologies to improve the standard of living, employment rates, labor productivity, and income levels of a population. Infrastructure, social, political, and institutional factors must also be improved to facilitate this transformation (Myint and Krueger, 2016). Economic development is essential for reducing poverty by providing better employment opportunities, increased income levels, and better goods and services through the latest production technologies. However, in many countries worldwide, this framework for economic development, modern technology, industrial sector, and infrastructural facilities has not yet been established due to various historical and political reasons, resulting in high levels of inequality among countries and within them.

While economic development has improved living conditions and income levels worldwide, its negative impact on the environment is also alarming and inevitable. Modern technology requires a considerable amount of resources, including fuel, power, minerals, metals, water, and timber, which are often released into the environment as pollution and waste (Georgescue Roegen, 1971). The Earth has a limited capacity to absorb and recycle waste and pollution, resulting in environmental disasters as pollution adversely affects living systems on Earth. Climate change is one example of such dangers, with greenhouse gases accumulating in the atmosphere and threatening the Earth's climatic structure, resulting in various disasters such as droughts, floods, and hurricanes, which affect agriculture and marine life, among other things.

It is crucial to ensure that economic development processes and outcomes do not damage the environment beyond repair. Therefore, sustainable development, which refers to economic development that does not threaten the natural environment or limit future development, is needed. Sustainable development is defined as "development that meets the needs of the present generation, without compromising the ability of future generations to meet their own needs. This is encapsulated in the Sustainable Development Goal of the United Nations.

## 2.9 International Monetary Fund and World Bank

The IMF calls itself “an organization of 185 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.” The IMF advises members on economic policy and provides assistance to member countries with “balance of payments problems” (ie. inability to pay international debts). So the IMF helps with debt (and other fiscal issues) while the World Bank funds development projects. These loans come with requirements for reform or “conditionalities” – meaning, the performance targets set up as a condition for the loan; attaining these targets often involves applying Structural Adjustment Programs (SAPs). SAPs are sets of policy required for getting new loans or obtaining lower interest rates on existing loans. They are meant to ensure the desired reduction in borrowers’ fiscal imbalances. They typically – and notoriously – involve, internally, privatization and deregulation, and, externally, reduction of trade barriers. In recent years, borrowers have taken to writing Poverty Reduction Strategy Papers themselves. These take the place of Structural Adjustment Programs with something that increases local input. Still, they have turned out to be rather like their predecessor.

The World Bank was established in 1945, with ratification of policy developed at Bretton Woods. Bretton Woods is the nickname for the United Nations Monetary and Financial Conference, held in 1944 in Bretton Woods, New Hampshire. Its goal was to find ways to rebuild Europe and solidify international financial cooperation after the destruction wrought by WWII. The World Bank is comprised of two bodies: 1. the International Bank for Reconstruction and Development (IBRD) – this used to be synonymous with the World Bank itself; 2. the International Development Association (IDA), added in 1960. The World Bank’s first loan was to France for post-war reconstruction, but after decolonization, and as the European countries got back on their feet, the bank’s lending has been more focused on poorer nations. “Development” wasn’t overly important to the Bank’s early years, but from the 1960s, once it turned attention to poverty alleviation, it did much to make development – both as a notion and as a set of economic priorities – central to our times. The germ of this idea was there from the start, however. In a speech supporting the initial proposal for the Bank, John Maynard Keynes stated that “as soon as possible, and with increasing emphasis as time goes on, there is a second duty laid upon [the Bank], namely to develop the resources and productive capacity of the world, with special attention to the less developed countries.

Keynes was a driving force behind Bretton Woods and helped draft the initial policy documents. His economic theories still inform the Bank’s operations (sort of). Keynesian economics promote a mixed economy, with the state and the private sector intermingling. Keynes found flaws in the notion that markets operate best without state intervention. He argued governments should: influence consumer demand to control the nature of production; combat high levels of unemployment and deflation; actively stimulate the economy by reducing interest rates and investing in infrastructure. Keynesian economics are part of the structure of the World Bank itself. Membership for nations is by purchase of shares. So it is a financial institution, but its “shareholders” are governments. Their buy-in supplies some capital, but most comes from private investment in bonds and securities.

The Bank’s membership changed a lot with decolonization. For instance, in 1947 there were 44 member countries, 2 of which were African (Ethiopia and South Africa), but by 1971 there were 116 members, 40 of which were African. The Bank’s response to the changing membership structure was the IDA, which offered below-market interest rates and long-term loans to poorer countries otherwise unable to borrow from the Bank or other private sources. The IDA also expanded the types of projects the Bank would lend to, to include what is sometimes called “social lending”: education, health care, agriculture, housing, etc., instead of roads and dams and the like. Social lending is what the Bank now emphasizes in its public image campaigns. Before the 1960s the Bank was rarely associated with words like “poverty” and “inequality,” but since the IDA was initiated poverty alleviation has become its main stated goal.

The International Monetary Fund (IMF) defines itself as an organization comprising 185 countries working to promote global monetary cooperation, secure financial stability, facilitate international trade, promote high employment, sustainable economic growth, and reduce poverty. The IMF provides economic policy advice to its members and assists member countries in addressing balance of payments problems, such as the inability to pay international debts. On the other hand, the World Bank finances development projects and provides loans to countries that come with conditions for reform or “conditionalities.” These conditions often involve implementing Structural Adjustment Programs (SAPs), which are sets of policies required for obtaining new loans or obtaining lower interest rates on existing loans, aimed at reducing fiscal imbalances. SAPs involve privatization, deregulation, and the reduction of trade barriers.

The World Bank was established in 1945, following the ratification of the policy developed at the Bretton Woods Conference, which was held in 1944 in Bretton Woods, New Hampshire. The conference's primary goal was to rebuild Europe and promote international financial cooperation after World War II. The World Bank comprises two bodies: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), added in 1960. While the Bank's first loan was for France's post-war reconstruction, its lending has shifted to focus more on poorer nations since decolonization and as European countries have gotten back on their feet. The idea of development has become central to our times, with the Bank emphasizing poverty alleviation as its main goal.

John Maynard Keynes was a driving force behind Bretton Woods and helped draft the initial policy documents. His economic theories still inform the Bank's operations. Keynesian economics promote a mixed economy, with the state and the private sector intermingling. Keynes argued that governments should influence consumer demand to control the nature of production, combat high levels of unemployment and deflation, and actively stimulate the economy by reducing interest rates and investing in infrastructure. The World Bank's membership structure changed significantly with decolonization, with the Bank responding by creating shareholders. So membership for nations is by purchase of shares. So it is a financial institution, but its “shareholders” are governments. Their buy-in supplies some capital, but most comes from private investment in bonds and securities.

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## 2.10 Climate Change and Global Environmental Politics

Climate change and its impact on the environment have become a global concern, with the impacts on both humans and the planet being undisputed. Recently, a new debate has arisen regarding setting standards for environmental protection and identifying the primary cause of environmental degradation. This debate between developed and developing countries, commonly known as the North-South debate in global environmental politics, aims to identify, limit and minimize the threat of global climate change. Human activities such as industrialization, consumerism, burning of fossil fuels, tropical deforestation, and the increasing use of automobiles are strongly linked to environmental degradation, contributing to the production of greenhouse gases (GHGs) that accelerate climate change (Shitikov & Rosenberg; 2005).

Although poorer developing countries have made a comparatively small contribution to environmental degradation compared to the wealthy and industrialized global North, the impacts of environmental degradation are multidimensional. While both wealthy and poorer countries suffer from climate change, the poorer South is the most vulnerable to this phenomenon. Hence, the main questions in global environmental politics are who should take responsibility for climate change, who should set the standards for controlling GHG emissions, and how to implement necessary actions to protect and control the environment.

Developed countries have a high level of energy resource consumption due to their luxurious lifestyle, with a United Nations Development Programme (UNDP) report stating that there are “more than 900 cars per thousand people of driving age in the US, more than 600 in Western Europe and fewer than 10 in India” (Kazak; 2015). Similarly, there are more than two televisions on average per house in America, while less than 1 house in 10 has a television in Liberia and Uganda. The average per capita water consumption per day is 425 litres in the richest countries and 67 litres in the poorest. Additionally, industrialized countries like the US emit four times more CO2 than China and India, and about 30 times more than Kenya. The average British lifestyle generates more GHGs in two months than a least developed country produces in a year.

As awareness of the problem increases, many states have taken steps to reduce their emissions and control the threat of global climate change. At this juncture, the responsibility and contribution of developing and poor countries have become more prominent. Developing countries observe that the North is highly developed and should thus take primary responsibility for reducing GHG emissions as they have already produced significant amounts of GHGs. However, the North denies this, highlighting that the factors that differentiate developing countries from the developed North are not the same, but different. According to the developed North, poverty, poor environmental education, lack of awareness, and development in the South are the primary drivers of environmental pollution and degradation, and developing countries are thus equally responsible for climate change and should be held accountable for the problem (Birnie Boyle & Redgwell; 2015).

However, the North denies this, highlighting that the factors which differentiate the situations of developing countries with the developed North are not the same but different. For example, according to the developed North, the major factors that differentiate the two regions are poverty, poor environmental education, lack of awareness and development in the South, and that these are primarily responsible for environmental pollution and degradation. Thus, developed countries state that the global South is equally responsible for climate change and should be held equally accountable for the problem. This paper examines the North versus South debate in global environmental politics, and blends this issue with related literature and information, hopefully shedding more light on this seemingly intractable problem. Understanding the North-South Debate of Global Environmental Politics The “North-South” divide, signifying the differences between the more industrialised economies of the global “North” and the relatively less developed and developing countries of the global “South”, has continued to be a defining feature of global environmental politics (Shygal; 2015).

Generally, the global North includes the US, Canada and Western Europe, the developed part of Asia, Australia and New Zealand. The global South is made up of regions such as Africa, Latin America and developing Asia including the Middle East. The former mostly covers the West and the developed world while the latter category largely corresponds with the developing and poor regions (Jakobsen; 2013). Considering geographical location, developing countries – global South – are primarily located in sub-tropical or tropical ecosystems and the developed countries – global North – occupy mainly temperate and arctic climates and ecosystems. The division between the North and the South based on their economies, political stability, technology, scientific research and other factors are very persistent. In addition to these geographical, political and economic factors environmental politics and climate change have become a more significant issue of debate between the two regions.

## 2.11 Multinational Corporations

In the global knowledge-based economy, multinational corporations (MNCs) are the main players. The first multinational corporation in the world was the Dutch East India Company, which was also the first company to issue stock. With quasi-governmental powers, such as the ability to wage war, negotiate treaties, coin money, and establish colonies, it was arguably the world's first mega corporation. The history of multinational corporations in developing countries is marked by its origins in policies of imperialism and colonialism. Nigeria, as a developing country, has hosted MNCs long before independence until the present day. As Nigeria struggles to develop socio-economically as a nation, the number and activities of these MNCs have grown over time.

Multinational corporations are powerful conglomerates that emerged in Nigeria after the abolition of slave trade. European countries needed a market for surplus products and a place to access cheap raw materials and labor, and Africa, especially Nigeria, became the obvious destination. They dominated the Nigerian economy after independence. Consequently, multinational corporations like the United African Company (UAC), Toyota motors, Coca-Cola, Lever brothers, Mobil oil, Shell BP, etc., dominate the world's economic landscape. These corporations are very rich in all aspects because of the profits they make in Nigeria. For instance, Nigeria is one of the largest producers of oil in the world, accounting for over 80% of its income. However, since this sector of the economy is effectively controlled by multinational corporations, who make enormous profits from the industry, one would expect them to spearhead the developmental process of Nigeria. Unfortunately, the reverse is the case, as most of these corporations have been accused of playing active roles in the underdevelopment of Nigeria. These corporations are distinguished based on their orientation into "ethnocentric" (home-country oriented), "polycentric" (host-country oriented), or "geocentric" (world-oriented).

According to Spero and Hart (1999), a multinational corporation (MNC) is a business enterprise that maintains direct investments overseas and upholds value-added holdings in more than one country. An enterprise is not truly multinational if it only operates overseas or as a contractor to foreign firms. A multinational firm sends abroad a package of capital, technology, managerial talent, and marketing skills to carry out production in foreign countries. Dunning (2008) supports the same view and defines MNC as an enterprise that engages in foreign direct investment (FDI) and owns or controls value-added holdings in more than one country. Hennart (2008) defines MNC in a different way by envisioning it as a privately owned institution devised to organize, through employment contracts, interdependencies between individuals located in more than one country. Kogut and Zander (2003) state that multinational corporations are economic organizations that grow from their national origins to span across borders. Hill (2005) views multinational enterprises as any business that has productive activities in two or more countries. He identifies certain characteristics of multinational corporations at the start since they serve, in part, as their defining features. Multinational corporations are usually very large corporate entities that, while having their base of operations in one nation, carry out and conduct business in at least one other, but usually many nations, referred to as "host nations." Kim (2000) agrees with this proposition and envisions multinational corporations as very large entities having a global presence and reach.

Multinational corporations (MNCs) can spur economic activities in developing countries and provide an opportunity to improve the qualities of life, economic growth, and regional and global commons. According to Gilpin (1987), cited in Osugwa and Onyebuchi (2013), "the principal objective of multinational corporations is to secure the least costly production of goods for world markets. This goal may be achieved through acquiring the most efficient locations for production facilities or obtaining taxation concession from host governments. This objective confirms the views of the Marxist who see the MNCs as progressive agents of capitalism. Multinational company lies in the fact that its managerial headquarter is located in one country while the company carries out operation in a number of other countries as well. Okwandu and Jaja (2001) define it as a large enterprise with operations and divisions spread over several countries but controlled by a central headquarters. Multinational corporation is an enterprise which possesses at least one unit of production in a foreign country. MNC is an organization owing or controlling enterprises or physical and financial assets in at least two countries of global economy and opting for a multi-domestic strategy founded on social-economic differences of these countries as a reply to specific local demand. The multinational corporation or enterprise generally consists of the parent company (the resident of one country) and at least one affiliate (resident of another country)

## 2.12 International Institutions

Simpson and Weiner (2011) defined international institutions as organizations, establishments, or foundations dedicated to promoting a public, educational, or charitable cause or program. Duffield (2007) characterized international institutions as entities that have a central role in international relations, comprised of countries that come together to achieve specific goals. According to Koremenos, Lipson, and Snidal (2001), international institutions are explicit arrangements negotiated among international actors, which prescribe, proscribe, and/or authorize behavior. These institutions are the result of negotiations and agreements, and they can advance or impede state goals in the international economy, environment, and national security.

International institutions can serve to achieve cooperation in dealing with economic, technical, social, cultural, or humanitarian issues, or a combination thereof. Cooperation can also extend to governance and security, as exemplified by the United Nations' primary aim of promoting peace, security, social progress, better standards, human rights, and friendly relations among nations.

International institutions can be classified based on their commonalities, including composition, objectives, and functions. However, these classifications are not absolute, as some institutions can fit into more than one category.

One method of classification is based on the number of members, with some international institutions having exclusive membership while others are open to all countries. For instance, the United Nations is an example of an international institution with open membership, while the G20 comprises only the most industrialized nations in the world.

Another classification method is based on a shared common history among member states, such as the Commonwealth group, limited to countries that were once part of the British Empire, and NATO, which arose from issues of geo-politics and security during the Cold War era.

A third classification method is based on the common interests of members of international institutions, such as security, food security, health, settlement of disputes, economy, trade, disaster management, human rights, and global finance.

In conclusion, international institutions play a crucial role in promoting cooperation among countries to address various global challenges. The classification of these institutions based on commonalities provides useful insights into their nature and functions.

## 2.13 International Trade

International trade is the exchange of goods and services between nations and is an important contributor to the global economy. The types of goods and services commonly traded include machinery, raw materials, food, capital goods, clothes, and television sets. International trade has expanded to include services such as foreign transportation, travel and tourism, banking, warehousing, communication, advertising, and distribution. Another important aspect of international trade is foreign investments and production in other countries, which allows companies to serve their international customers with goods and services at a lower cost. International business encompasses all of these activities, and it is a growing field worldwide.

International trade is carried out by governments and firms that operate on an international scale. Economic interdependence between countries has become increasingly common in the modern world. The relationship between international trade and economic growth has been studied extensively, dating back to the classical period in the 18th century when David Ricardo and Adam Smith asserted that trade had a positive influence on economic growth. They believed that trade led to higher capital accumulation and technical progress, which improved productivity. While economic growth has been a constant throughout human history, the rate of growth has varied from slow and irregular to more rapid, dynamic, and continuous with advanced innovations and industrial revolution. However, the major concern regarding international trade remains its impact on the economy's growth rate.

Trade theories suggest that there is a positive correlation between an economy's openness, inflation, Investment to GDP ratio, and export to GDP ratio. Trade can promote economic growth from the supply side. However, if the cost of balance of payments reduces the availability of imported goods, exporters may be forced to use more expensive imports to offset the trade imbalance in the economy.

While every country engages in international trade to some extent, the degree of openness varies among nations. No country can be completely self-sufficient. Self-sufficiency refers to a situation where a country produces enough goods and services to meet the total consumption of goods and services without any deficit in supply or excess demand. The level of self-sufficiency also varies among countries. International specialization and regional specialization are important concepts in international trade. Regional specialization refers to the practice where different areas or regions specialize in producing certain types of products or services. International specialization, on the other hand, occurs when certain goods or services are only produced by countries that have specialized in them. Countries that produce a surplus of a certain product in the international market export the product to other countries that have a deficiency of the same product in exchange for what those countries produce in surplus.

In conclusion, international trade and production are essential aspects of international business that are growing day by day across the globe. The relationship between international trade and economic growth has been studied extensively, and while trade can promote economic growth, there are also concerns about its impact on the economy's growth rate. The degree of openness of an economy varies among nations, and self-sufficiency is not achievable. International and regional specialization is essential in international trade as it enables countries to produce certain products efficiently and trade them with other countries that have a deficit in those products.

## 2.14 International finance

According to Kozak (2015), international finance refers to the set of relations involved in creating and using funds and assets necessary for the foreign economic activities of international companies and countries. It involves not just money, but money as capital that brings added value and profit. Finance is the movement and constant change of forms in the cycle that passes through three stages: the monetary, the productive, and the commodity. It serves the circulation of capital and is the economic tool that measures primarily labor costs through the universal equivalent of money.

However, the definition of international finance is not exhaustive, as it does not reflect all the essential features generated by the external environment of international business. The external environment involves the set of temporary and spatial risk factors, such as currency, credit, investment, and political risks caused by uncertainty and fluctuations in exchange rates of securities, the comparative difference in inflation and interest rates in different countries, and the uncertainty of the economic policy of the country. The uncertainty and increased risk are exacerbated by the fact that international companies have a small effect on the business areas in which they operate.

Therefore, while choosing alternative financial decisions in the international business area, it is essential to analyze the value of future costs and revenues of time, space, and uncertainty caused by the need to work with a large number of currencies, taking into account the differences in interest rates and inflation, legislation and political systems in many countries.

International finance is one of the main subsystems of the world economy that makes a decisive impact on the national and global economy. Its elements include the international monetary system, international payments, international financial markets, international taxation, and international financial management of transnational corporations.

International financial transactions are carried out in the international financial markets and solve the problems of organizing and managing money relations in the formation and use of funds within the global financial environment. The objects of financial operations are various financial assets such as national and foreign currency, securities, real estate, and precious metals. The major international financial transactions are the real money transfer, operations with capital, investment, and speculation operations.

International finance contributes to the internationalization of social, economic, and monetary relations on the accumulation, distribution, and redistribution of internationalized financial resources and international financial flows. Its influence on the development of economic relations occurs through the internationalization of all the structural parts of the trade, currency and credit relations system, and the mechanism of securities and investments. The proportions of international exchange are formed based on this basis, leading to the internal unity of components of the global market and a unified system of international monetary-financial and credit relations.

## 2.15 International Development

International Development refers to the pursuit of a world free from poverty, discrimination, and injustice. It encompasses a broad range of activities and initiatives aimed at addressing the socio-economic and political challenges facing societies across the world. The United Nations' Sustainable Development Goals (SDGs) provide a common framework for understanding international development. In 2015, world leaders adopted 17 SDGs, including No Poverty, Zero Hunger, Good Health & Well-Being, Quality Education, Gender Equality, Clean Water & Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Reduced Inequalities, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water, Life On Land, Peace, Justice and Strong Institutions, and Partnerships for The Goals.

According to the Society for International Development (SID), international development involves addressing the economic and human development levels of countries on an international scale. It is the basis for international classifications such as developed, developing, and least developed countries, and it involves a range of practices and research aimed at engaging with international development processes. However, there are many different schools of thought regarding what constitutes the "development" of a country.

International development is a field that is dedicated to improving the quality of life of people around the world. It focuses on long-term solutions to problems such as poverty, poor healthcare and sanitation, human rights violations, and inequalities. To achieve these solutions, humanitarian organizations and economic institutions often work together. Most of these institutions were established after World War II. Development is not just about economic growth; it also involves improving the quality of life and providing opportunities for success.

As the world becomes increasingly globalized, international development is a critical concern for every government and every conscious world citizen. To achieve a better world for all, it is important to work towards the SDGs and collaborate with other organizations and individuals in the international development community. This will help to eliminate poverty, discrimination, and injustice and create a sustainable future for generations to come.

## 2.16 Consequences and Controversies of Globalisation

Williamson (1998) argues that globalization leads to an increase in global output through various mechanisms. Firstly, trade can increase world output by utilizing the old Heckscher-Ohlin theory of comparative advantage, which is based on different factor abundance in different countries. Secondly, new trade theories explain trade by increasing returns to scale, which can also lead to an increase in world output. Foreign direct investment (FDI) brings the best technology and intellectual capital to countries that would otherwise have to invest substantial resources in reinventing the wheel for themselves. FDI can also bring products that would otherwise be unavailable to the countries where the investment occurs, increasing the quality and value of world output. International capital flows can transfer savings from countries where the marginal product of capital is low to those where it is high, increasing world output.

Globalization can influence both the level and distribution of income. Standard theory would lead one to expect that all countries will benefit from the distribution of income between countries. Trade is considered mutually beneficial, and the experience of widespread growth alongside rapidly growing trade in the postwar period serves to substantiate that. Most FDI goes where a multinational has intellectual capital that can contribute something to the local economy, and is therefore likely to be mutually beneficial to investor and recipient. A flow of capital that finances a real investment is likely to benefit both parties, as the yield on the investment is expected to be higher than the rate of interest the borrower has to pay, and that rate of interest is also likely to be higher than the lender could expect at home.

Williamson argues against loose talk about free trade making rich countries richer and poor countries poorer, as it finds no support in economic analysis. There is no reason to believe that the North benefits itself at the expense of the South by imposing import restrictions like non-tariff barriers or agricultural subsidies. Standard theory suggests that while this does indeed impoverish the South, the public in the North also suffers, and it loses more than the producers gain. Therefore, eliminating such barriers would be a promising strategy by seeking a coalition with Northern consumers, rather than engaging in North-bashing, which would only alienate potential Northern allies.

# **Chapter Three: Conclusion**

Conclusively, the field known as international political economy is a multifaceted field consisting of salient topics such as Evolution of the international economic system since the Second World War, The History of International Political Economy, Globalisation and the Rise of Populism in the West, Global Trade Imbalances between the United States and China, Brexit and European Monetary Union, The World Trade Organisation and Trade Policies, Financial Globalisation, Economic Development, The International Monetary Fund and World Bank, Climate Change and Global Environmental Politics, Multinational Corporations, International institutions, International trade, international finance, International Development amongst other topics. International Political Economy as a discipline in the field of political science is concerned with the way in which political and economic factors interact at the global level. More specifically, political economists usually undertake two related kinds of investigations. The first concerns how politics constrains economic choices, whether policy choices by governments or choices by actors or social groups. The second concerns how economic forces motivate and constrain political choices, such as individuals’ voting behavior, unions’ or firms’ political lobbying, or governments’ internal or external policies

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