INTERNATIONAL POLICY FRAMEWORK

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Abstract: The study of International Relation (IR) can be traced back to the 17th century, since then IR has been dominated by informal trans-governmental and trans-national relations between counties. This paper defines an International Policy Framework in light of theories such as New Institutional Economics and Spatial Economics, whereby economies can enhance their export income and societal benefits. States can facilitate growing their economic pie; expanding access to wealth. Concurrently they can increase their tax base and enhance their ability to deliver quality public services. After establishing a general understanding of the macroeconomic activities within an economy, the theory of comparative advantage has been defined to validate sector-specific openness whereby trading partners can benefit mutually. Finally an Input/Output model is used to evaluate the economic activities and a general framework is established defining key steps for identifying and implementing successful IRs.

Keywords: International Relations, International Policy, Country Partnership Policy, International Partnership Framework, Economic Partnership Framework, International Development.

Introduction

Communication The history of International Relations (IR) can be traced back to the Peace of Westphalia of 1648, wherein state system was developed [15]. However, the theory of IR was not developed until after World War I. In addition to contemporary theories of liberal internationalism, Marxism has been a foundation of IR.

Marxist and Neo-Marxist theories of IR believe on the economic and material aspects, they view the international system as an integrated capitalist system which endeavours capital accumulation. In contrast to the Marxist theory 'dependency theory' argues that the developed countries, in their quest of power, jeopardise the developing states through political advisors, foreign missions, experts, and multinational companies (MNCs), thus incorporating them into the capitalist system in order to appropriate the natural resources. According to this theory a set of Core states exploit a set of weaker Periphery states for their prosperity.

Types of international agreements and arrangements

International relations are conducted through international arrangements and agreements. In general practice there are three types of international agreements and arrangements:

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a. Legally binding in international law:

i. These are concluded between countries, the governments of countries, or international organizations;
ii. Are preferably called `agreements´ or `treaties´;
iii. Contain mandatory language;
iv. And are unclassified.

b. Legally binding in the domestic law of a country or part of a country (e.g. a State or Territory):

i. These are concluded between parties which are legal entities under that domestic law;
ii. are preferably called `agreements´ or `contracts´;
iii. contain mandatory language;
iv. and may be classified.

c. Not legally binding in international or domestic law but politically and morally binding:

i. These can be concluded between any parties;
ii. are preferably called `arrangements´ or `memoranda of understanding';
iii. do not contain mandatory language;
iv. and may be classified.

Sister state agreements

The objective of Sister State Relations (SSRs) is to create and foster cultural and friendship links with overseas countries. Sister State Agreements (SSAs) are ministerial level government to government arrangements designed to foster two-way trade, education, and cultural initiatives [6]. Increasing numbers of SSAs have emerged during the past two decades. Generally, these agreements are formal and trade-strategic. They have the potential to provide substantial leverage for industry initiatives. As previously isolated nations become increasingly interdependent, global cooperation is becoming crucial to social and economic vitality.
Indications are that SSA's have evolved out of Sister City Relationships (SCRs). Macmillan dictionary defines sister cities as twin towns. SCR linkages are generally based in similarities and shared interests through history, sports, and cultural ideologies [6].

Memorandum of understanding

According to a definition from an encyclopaedia a memorandum of understanding (MOU) is a document describing a bilateral or multilateral agreement between parties. It expresses a convergence of will between the parties, indicating an intended common line of action. In the general context, they identify initial areas of cooperation and are often loosely structured; they may not necessarily include in-depth arrangements. In general MOUs reflect aspects of the theory of transnational relations (described later in this paper) and can serve as an early step establishing peer-to-peer or SSR.

Literature review

Individual states interact and coordinate with each other, and in the course of state to state interactions they exhibit commonalities in behaviour and actions. These can be analysed in the light of economic theory.

Trans-governmental/Transnational relations

Robert Keohane and Joseph Nye in 1974 defined "transgovernmental relations" or international relationships between government officials as relations "that are not controlled or closely guided by the policies of the cabinets or chief executives of those governments." Similarly, "transnational relations" are defined as "contacts, coalitions, and interactions across state boundaries that are not controlled by the central foreign policy organs of governments." [11]
An examination of literature reveals that transgovernmental cooperation is a milestone achievement in international law practice, and it is likely to strengthen the liberal internationalism. Thus, rather than challenging the traditional architecture and processes of cooperation, it is often synergistic. These networks perform a gap-filling role, especially under situations where treaties are economically and politically barred they provide an alternative mode of cooperation.

New institutional economics – transaction costs

Transaction cost economics (TCE) represents another approach to studying IRs. All transactions require some kind of mechanism - what Williamson (1985) calls a governance structure - to protect the transacting parties from various risks associated with exchange. The goal of risk mitigation induces states to contract with sister states or states of interest. Such arrangements remove or reduce barriers to trade and investment and reduce transaction costs, thereby providing economic benefits to partners. Moreover, there may also be associated multiplier effects domestically: internal competition within a state triggers increased international engagement from more players and can remarkably improve regional, and hence, state economies. Contractual arrangements provide incentives to the local businessmen to explore opportunities in the sister states, and simultaneously provide an attractive platform for foreign direct investors.

Spatial economics and geographical concentration

The IR can also be explained in terms of spatial economics and geographical concentrations. It is important to know who the state should choose to interact and the answer to this can be found applying the findings from Central-place theory by Christaller. Although, the theory defines economic relationship between the cities still the findings from this theory can be mapped to the states, and how they

interact showing the trade-off between economies of scale and transportation costs leading states to cluster together establishing close links and coordination.
Transportation favours economic development and has an impact on state interactions in terms of spatial concentration. Throughout history, transport networks have structured space at different scales. The fragmentation of production and consumption, the location specificities of resources, labour and markets generate a wide array of flows of people, goods and information. The structure of these flows in terms of origin, destination and routing is closely related to spatial economics [9].

Benefits

The main purpose of international state interaction incorporates the idea of attracting foreign capital inflows in the form of foreign direct investment. However, this interaction is never one way: that is the international relations occur on a give-and-take basis and the state plays the part of an intermediary regulating the market between the two states. The idea is to facilitate the actions of people and give access to wealth to as many as possible, as well as to increase the federal tax base in order to provide higher quality public services. This interaction focuses on expanding the economic base, thus bringing economic development and strengthening the economy against economic shocks. The state interactions follow the Pareto efficiency rule which incorporates the idea of making at least one individual (in this case the state) better off without making any others worse off. The states keep on interacting until there is no further scope for Pareto improvement.

Export income

According to the exogenous growth theory economic development results from creation and retention of primary jobs or increasing the amount of income coming into the community from outside its market area. The theory suggests that growth is the result of external resources defined by export income when dealing with state-to-state international coordination.
Proponents of economic development argue that growth is the result of capital inflow from foreign resources and not the money circulating within the local community. Thus, the biggest economic incentive for international state-to-state cooperation is to multiply the foreign capital inflow.

Social benefits

It is not only economic benefits that form the basis of state interactions; it is also social benefits which shape international relations. The world has changed into a global village and the degree of interdependency has greatly increased. This greater interdependence has resulted into ever increasing social benefits through coordination and cooperation.

Social benefits are difficult to calculate and therefore are often over looked but they yield long term results. According to the social constructivist theory of International Relations social interactions and communication are critical in establishing the international system. As the collaboration and cooperation frameworks among the state and sister states increase, the common cultural values develop and these enhance the channels for further cooperation.

Macroeconomic view

The Fig.1 depicts economic activities of a State from macroeconomic perspective. Key players are Government, individuals, and businesses. The market has two components: the resource market & the product market. The resource is comprised of capital (K) and labour (L), in which individuals supply, and businesses and government demand - K&L. The product market is comprised of all the tangible and intangible products of the economic activities, whereby businesses are suppliers and government & individuals are buyers. Fund, '$', represents the monetary unit exchanged between parties involved in transactions. For simplicity, we initially, assume that the economy is closed and the government budget is balanced.

Individuals receive income from resource markets by supplying labour (employment). Income acquired is distributed in the Goods & Services (G&S) market via purchase of market products and services, to government via taxes. The remainder is channelled to resource market in the form of savings/investment.

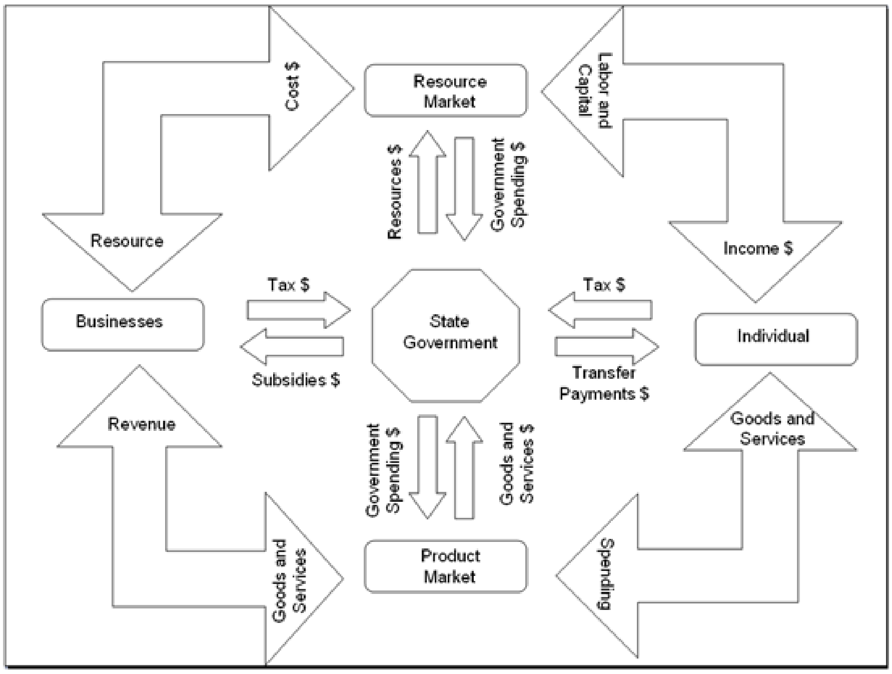

Figure 1. Macroeconomic Framework for State Government

Similarly, businesses borrow money and hire employees from the resource market. Then, they sell their products to individuals and government in the G&S market. Therefore, they receive revenue from selling G&S to individuals and government, and make payment to government via taxes and to individuals via salary.
Lastly, government receives income from the businesses and individuals in the form of taxes. Some of taxes are used to consumer G&S via discretionary or development activities, while remaining tax revenue is used to give back to businesses or individuals via subsidies.
In summary, by tracing the flow of funds due to economic activities within the 'resource market' and 'goods and services market' among individuals, businesses, and government, we can draw a macroeconomic picture of a State. Under the assumption of a closed economy, expansion of such economy is limited; however, when we relax this assumption to an open economy, expansion of the economy becomes feasible.
An economy expands when the resource market and G&S market become larger. Trade with partners outside the political border, as such, provides such an opportunity. International trade can increase the volume of the resource market and G&S market in the domestic market. Such expansion will create more tax, income, and revenue for government, individuals, and businesses respectively.
For example, growth in export means local businesses produce more tangible and intangible goods and sell it in foreign market. As discussed above, an increase in business production means more revenue for government and more income for individuals.
Export can have a two-fold effect in the resource market. i) It can increase income of individuals, therefore, increasing saving/investment. ii) The resource market can benefit from foreign investment in the domestic market which will also make the resource market larger.
The macroeconomic activities of any economy are depicted in the diagram provided as discussed above. When two economies are involved in trade, we observe an increase in the volume of both the resource and G&S market. While there is a plethora of literature on benefit of international trade, theory on opportunity cost best explains these benefits.
For example,

Table 1. Before International Trade

Economy A		
Item	Input	Output
X	10	100
Y	10	50

Economy B		
Item	Input	Output
X	10	50
Y	10	100

Total
150
150

Table 2. After International Trade

Economy A			Economy B			Total
Item	Input	Output	Item	Input	Output	Total
X	20	200	X	0	0	200
Y	0	0	Y	20	200	200

We see that in table 1, before international trade the two economies produced 150 'X' & 150 'Y'; whereas in Table 2, after international trade they produced 200 of each. This example illustrates that international trade can increase the G&S market in both the participating economies.

Implication of macroeconomic theory in SSR

Economic growth is one of the important goals of every government. As mentioned earlier, one way to expand economic activities is to increase the resource market and the G&S market via international trade. SSRs can play an important role in facilitating such trade and work as a catalyst in increasing the size of the economy.
As stated above both the economies have the same key players in the economy and the flow of funds within the market is also similar at their macro-level[3]. An expansion of economies occurs when resources and G&S from one economy are allowed to transfer to the other; when individuals and businesses from one economy have access to their counterparts in the other economy. Such flow without major hurdle can benefit mutually. Government with its overarching goal, political will, and resources therefore become an important agent for such expansion. With regard to the resources and G&S markets, government via SSRs can facilitate remove barriers between two economies. Methods to remove such barriers include: free-trade agreements, lowering trade barriers, providing incentives for international trade, and the like. Similarly, attracting foreign companies to open factories, and providing incentives to make investment in local development are other recommended policies. With regard to individuals and businesses, while the above mentioned methods are purely from an economic perspective and focus on resource and G&S markets, SSRs can also play an important role in facilitating non-economic yet socially beneficial activities. Facilitating exchange of entrepreneurs, education, and cultural knowledge can have positive effect in general economy. For example, educational exchange between two parties of different economies can make trade processes easier providing higher benefit to the economy. Education itself can be part of the services market. Similarly, entrepreneurs of the two economies can learn from each other.
Mechanisms that would facilitate connection between individuals and businesses is something SSR can encourage.

[3] The degree of influence of players can vary depending upon social and political structure of the economy.

Evaluating sister state relations

Lessons from past

The 'lesson-drawing' is a process of learning lesson from current experience in other countries to improve national policy-as a future-oriented approach. This notion postulates that the desire of many developing countries to achieve a Scandinavian standard of living does not mean that this can be done simply by enacting Nordic welfare state legislation. In fact, lesson-drawing differs from the spread of big ideas; instead, it is about contingencies: under what circumstances and to what extent will a program that worked abroad will work here? Therefore, it encourages policymakers to be skeptical about assuming that so-called 'best practice' policies can readily be adopted, but it also encourages skepticism about arguments that what is done there can never happen here. We recommend the following eighth steps to policy makers who use lesson-drawing approach to formulate programs.

1. Problem Identification
2. Choosing the appropriate partner for lesson learnt
3. Learn how the program was implemented by the partner and how it worked
4. Define the Key Performance Indicators (KPIs)
5. Design the learning taking care of the local context
6. Monitoring & Evaluation during the implementation phase
7. Adjusting the delinquencies
8. Converting the lesson drawing into standard practice

Approach to economic input output model

Evaluation of SSR between two states can be undertaken by using fairly simple Input-Output model. An input-output model is a quantitative economic technique that represents the interdependencies between different branches of national economy or between branches of different economies. The structure of the input-output model has been incorporated into national accounting in many developed countries, studying regional economies within a nation, and performing national and regional economic planning. Indeed the main use of input-output analysis is for measuring the economic impacts of events. As such, the IO Model can be an effective tool to evaluate SSRs.

Data required for such evaluation can be readily obtained with the Bureau of Statistics. Most of the world's economies, classify economic data under 17 sectors as per International Standard Industrial Classification of all Economic Activities, UN.

The application of the IO model on SSR is comprised on two steps. First, we establish the relationship between industry sectors within the economy of the State and second, we will establish the relationship between the same industry sectors of the State and Sister States.

Two industry sectors of the same economy

In an economy, an industry sector uses inputs and produces output. Furthermore, input of one industry is output for another. Finally, the remaining outputs are used in final consumption by consumers. Therefore, we will discuss output of an industry as the intermediary input and final consumption.

Demand For Industry i for good x

$$xi = xij + di \tag{1}$$

xi: output of industry I, xij: output of industry i sold to industry j, di: output of industry i sold to final demand

Inter-industry Demand for good x

$$xij = aij \times xj \tag{2}$$

xj: output of industry j, xij: output of industry i sold to industry j, aij : input output coefficient $0 \leq aij \leq 1$

Total Demand of good x

$$xi = xij + di \tag{3}$$

The above equation can be re-written as

$$xi = ai1\ xi + ai2x2 + \ldots + ain\ xn + di \tag{4}$$

Where n is number of sectors, xi is the single homogenous good 'i', 'a ij' is the unit that sector 'i' uses from sector 'j' to produce 1 unit of xi and di is final consumption in the market.

Theory of comparative advantage

As discussed in the macroeconomic overview, the trade between two economies can enlarge the services market and G&S market. Suppose we are interested in influencing an increase in trade in one sector between State XX and Sister State XY and we have the information on how changes in production, that is, an increase in the services or G&S market, in XX and XY affect the demand for each other's output. If production and export in XX increases, this will subsequently increase the income. The residents will decide how much of their income they will spend, where, and for what. Some of the spending will be for goods and services that are produced locally. Therefore, we can see the multipliers effect in income, employment and output.

While there are several of kinds of IO models available, the Bureau of Economic Analysis's (BEA) Regional Input-Output Modelling System (RIMS) is widely used. In addition, RIMS uses International Standard Industrial Classification (ISIC) of all Economic Activities, the ISIC is issued by the United Nations.

International Standard Industrial Classification of all Economic Activities include following 17 Industry Sectors:

- A Agriculture, Forestry and Fishing
- B Mining
- C Manufacturing
- D Electricity, Gas and Water Supply
- E Construction

F	Wholesale Trade
G	Retail Trade
H	Accommodation, Cafes and Restaurants
I	Transport and Storage
J	Communication Services
K	Finance and Insurance
L	Property and Business Services
M	Government Administration and Defence
N	Education
O	Health and Community Services
P	Cultural and Recreational Services
Q	Personal and Other Services

Summary

As a policy recommendation a seven step 'International Policy Framework' is recommended that will enable any department within the State Government to strategically develop international linkages creating well-balanced relationships.

Step – 1

Identify a state or sister state to develop international linkages. The criterion for selection should be based on either opportunistic selection or research based approach to satisfy economic or social objectives of the State.

Step – 2

Identify the relevant sectors of interest within the target state from the total of 17 Industrial Sectors (as discussed above). The criterion for identification should be the state needs or opportunities that may arise as a result of cooperation.

Step – 3

Identify the nodal infrastructure within the target state and seek arrangements to connect it with local nodes. In case there is more than one nodal connection available value core nodes more than the periphery. This arrangement is based on the assumption that core nodes are less costly and yield greater economic benefits.

Step – 4

Identify peer connections within selected sectors and maintain transnational peer to peer relations with such connections. This arrangement is expected to reduce transaction costs.

Step – 5

Arrange social networking events preferably co-sponsored, which build up on transnational relations established earlier.

Step – 6

Identify transnational relations which are productive and have been very active throughout the term. Mature such interactions with formal contracts, making state agreements which are long lasting. This will thus further reduce the transaction costs.

Step – 7

Develop a general framework to evaluate the agreements and relations:

a. Logic Model

i. Establish short term, medium term and long term goals,

ii. Identify activities to be performed segregated evenly over the span of time

iii. Identify indicators that will be used for evaluation purposes

b. For trade specific projects use economic input output model to quantify the benefits and costs. Few available IO models in the market are REDYN, IMPLAN and RIMS-II used by Bureau of Economic Analysis (BEA US).

For social programs use cost and benefits analysis, or lesson drawings from the past.

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STRUKTURA POLITYKI MIĘDZYNARODOWEJ

Streszczenie: Studium Międzynarodowej Relacji (SMR) można prześledzić od XVII wieku, od tego czasu SMR zostało zdominowane przez nieformalne trans-rządowe i ponadnarodowe stosunki powiatowe. Dokument ten określa międzynarodowe ramy polityki w świetle teorii, takie jak nowa ekonomia instytucjonalna oraz ekonomia gospodarki przestrzennej, w której gospodarki mogą zwiększyć swoje przychody z importu i korzyści społeczne. Państwa mogą ułatwić ich rozwój ekonomiczny i rozszerzyć dostęp do bogactwa. Jednocześnie mogą one zwiększyć podstawę opodatkowania i zwiększyć ich zdolność do zapewnienia wysokiej jakości usług publicznych. Po ustaleniu ogólnego zrozumienia makroekonomicznych działań w gospodarce, teoria przewagi komparatywnej została zdefiniowana w celu sprawdzenia poszczególnych sektorów otwartości, z których partnerzy handlowi mogą wzajemnie korzystać. Wykorzystany został model Input/Output do oceny działalności gospodarczej i ustalenia ogólnych ram w celu zdefiniowania kluczowych kroków dla określenia i wdrożenia skutecznego IRS.

國際政策框架

摘要:國際關係（IR）的研究可以追溯到17世紀，從那時起IR一直佔據著非正式的跨政府和跨國縣之間的關係。本文定義了光幹的新制度經濟學，空間經濟學，使他們的經濟可以提高出口收入和社會福利的理論寫在國際政策框架。國家可以促進經濟餡餅增長，擴大獲取財富。同時，他們可以增加他們的稅收基礎，並提高他們的能力，提供優質公共服務。在宏觀經濟活動的一個經濟體系內建立一個大致的了解，比較優勢理論已被定義為驗證具體部門的開放性，使貿易夥伴可以相互受益。最後一個輸入/輸出模型是用來評估經濟活動和定義的關鍵步驟確定和實施成功的IRS建立一個總體框架