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Department of International Economic Relations

INTERNATIONAL ECONOMIC RELATIONS

Textbook

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The textbook aligns with the curriculum and professional framework of the discipline «International Economic Relations». It comprehensively explores the content, structure, intricacies, and evolving trends within international economic relations. A particular emphasis is placed on the international division of labor and an in-depth analysis of various facets of international economic relations, including international and regional economic integration.

This study guide is enriched with tables, figures, and indispensable statistical data, which elucidate the dynamic nature of international economic relations' development. After each topic, a practice test is thoughtfully provided to assess and reinforce students' comprehension and knowledge.

This publication promises to be an invaluable resource for a diverse audience encompassing students, postgraduates, educators, scholars specializing in economic disciplines, and professionals in international economics.

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INTRODUCTION

The proposed textbook, «International Economic Relations» is specifically designed for students specializing in 292 «International Economic Relations». It offers a comprehensive understanding of internationally recognized economic science, exploring various phenomena and processes and delving into the laws governing their development. Moreover, this manual serves as a valuable resource for those engaging in scientific research within this field.

The primary objective of this training manual is to enable students to grasp the theoretical foundations and develop the analytical skills necessary to analyze processes and stay abreast of the latest trends in interstate economic communication. By comprehending international economic relations and the objective laws and principles shaping their progression, students will gain insights into the diverse forms of IER and the key tools and conditions essential for their successful implementation. Emphasizing the present deep structural transformations within the global economic space, the textbook equips learners with the knowledge to navigate these dynamic changes effectively.

Ultimately, the knowledge acquired from this textbook serves as the bedrock for honing the professional skills of future international economists.

The main **objectives** of the manual are as follows:

- Familiarize future international economists with the essential conceptual framework in global economic practice.
- Develop a profound understanding of the nature of International Economic Relations (IER), encompassing their various forms, principles, and governing laws.
- Highlight the critical conditions influencing the functioning of IERs, providing insight into the global environment in which they evolve.
- Outline the economic regularities and forms of international convergence and integration processes.
- Foster students' ability to scientifically analyze the state of development within the global economic space, enabling them to identify the position of individual countries' national economies, their foreign economic strategies, and policies.

- Cultivate the skills necessary for students to anticipate and predict the future development of international economic relations.
- Upon completing the «International Economic Relations» discipline, students should have a comprehensive understanding of:
- The conceptual apparatus of international economic relations and the interconnectedness of their forms, subjects, and levels using dialectical principles.
- Theories of international trade, encompassing principles and laws governing the development of international economic relations, processes of international division of labor, specialization, and cooperation.
- The various forms, methods, and mechanisms employed in regulating international trade processes of international labor migration and capital movement.
- The challenges and functioning of the international monetary and credit system and the methodology of international payments.
- The logic, directions, and forms of the development of interstate economic convergence and integration processes within the context of global economic transformations, among other relevant topics.

The manual seeks to equip students with a comprehensive understanding of international economic relations, preparing them for the dynamic challenges of the global economic landscape.

The study guide comprises sixteen topics that align with state standards, exploring the content, forms, and directions of development in international economic relations, as well as the theory of international trade, and more. The logical sequence of the guide reveals the peculiarities and regularities of various forms of international economic relations, along with the forms and tools used to regulate them amidst globalization.

The guide's value is further enhanced by including theoretical concepts and practical materials to aid independent study and knowledge assessment. It offers fundamental terms, test tasks, control and discussion questions for self-monitoring, research essay topics, and recommended reading to reinforce the understanding of the subject matter.

INTERNATIONAL ECONOMIC RELATIONS AS AN EDUCATIONAL DISCIPLINE AND ECONOMIC CATEGORY

Main questions for study:

1.1. The essence, objects, and subjects of the IER.

1.2. IER levels. Levels of development and regulation of the IER.

1.3. IER forms.

1.4. Principles and features of the IER mechanism.

1.1. The essence, objects, and subjects of the IER

International economic relations (IER), trade, currency financial, and other types of connections exist between economic subjects of the global economy regarding the production, distribution, exchange, and consumption of goods, services, and ideas based on international labor.

The IER system is a dynamic interdependence of global subjects' economic environment, which manifests itself as a holistic entity.

The key features of IER are as follows:

- The foundation of both national and global economic systems revolves around interstate division of labor and exchange.
- International economic relations (IER) materialize through the national economy, which inherently accommodates the commodity-monetary dimension of interactions.
- The principles of demand, supply, and free pricing exert a more potent influence on IER than within national economies.
- The global market boasts heightened competitiveness compared to national markets, driven by many international participants and goods.
- International trade is marked by robust trade flows, fostering consistent international commodity markets.

- International trade and the movement of production factors across borders are facilitated by monetary flows, encompassing the international payment system, commodity-money loans, and currency-financial relationships. Consequently, a global financial market and monetary-financial system emerge, evolve, and operate. The flow of capital, foreign investments, and interstate loans constitute the pillars of the global financial system.

- International economic relations encompass the dynamic migration of labor, contributing to a vibrant global labor market in contemporary economics. Similarly, the international framework for licensing, patenting inventions, and safeguarding copyrights significantly shapes the global information market.

The scope of International Economic Relations (IER) encompasses all entities targeted by economic activities within the global economy. This comprises goods and services actively traded on the global market.

The subject of IER, in its comprehensive essence, is intricate and diverse, with key components including:

- The global economy itself;
- The international division of labor;
- Classical, alternative, and contemporary theories of international trade;
- International trade in goods and services;
- The international movement of production factors;
- International economic integration and the globalized framework within the world economy.

The International Economic Relations (IER) participants consist of diverse entities capable of autonomously pursuing their economic and political interests. These encompass:

- States
- Regional unions of countries
- Integration groups
- International organizations (of economic, political, and cultural orientations)
- Transnational corporations

- Legal entities, both domestic and foreign
- Natural persons, including citizens of individual states, foreign citizens, and stateless individuals engaged in IER.

Legal entities encompass enterprises, firms, organizations, and corporations involved in executing international economic contracts, agreements, and engagements. They operate continuously, possess movable and immovable property, and hold rights to acquire, own, utilize, and dispose of property assets. They also retain the capacity to be plaintiffs and defendants in court, bear independent property liability, and engage in foreign economic and foreign policy activities. These legal entities comprise various forms, such as joint-stock companies (JSCs), limited partnerships, limited liability companies (LLCs), and sole proprietorships.

The state holds a pivotal role as a central entity within the global economic system, wielding substantial influence over its operations. The state's primary function is to establish a framework for the operations of all global economic participants at various tiers through the negotiation of bilateral or multilateral cooperative agreements.

Prominent participants in international economic relations encompass numerous domestic enterprises as well as transnational corporations (TNCs), accounting for the GDP and TNC category.

In contemporary economic landscapes, the principal players in international economic relations comprise national economies, interstate integration blocs, multinational enterprises, and international organizations.

IER are two-level:

1) interstate socio-economic relations – property, market, commodity-monetary, consumption, planning, distribution relations.

2) interstate organizational and economic relations are formed during international cooperation, centralization, combination, concentration, specialization, and production, as well as in the process of implementing forms of organization of global production.

The main forms of international economic relations include: international trade in goods and services, international currency, financial and credit relations, international scientific and technological exchange, international labor movement, international capital movement, and international transport relations.

At the core of contemporary IER lies the economic operations of entities, particularly transnational corporations (TNCs).

IER exhibits a multi-faceted systemic character, constituting a framework of economic connections that transcend national confines. Alongside this characteristic, present-day IER is marked by the following:

- Interactions among entities of varying tiers.
- Manifestation through diverse forms.
- Varied degrees of operational engagement.

1.2. IER levels. Levels of development and regulation of the IER

Traditionally, International Economic Relations (IER) are categorized into macro-, meta-, and micro-levels.

The macro level encompasses the connections among nations, groups of states, and international organizations.

The meta-level pertains to economic sectors engaged in foreign economic activities.

The micro level involves the interactions between firms, enterprises, individual entities, and farms across different global regions.

IER levels are also classified based on the extent of interaction between subjects of interstate economic relations, determined by the duration of agreements and the degree of interdependence among national economies.

Additionally, **four developmental levels are identified**:

International Economic Contacts: These are occasional economic interactions regulated primarily by one-time agreements and arrangements. Such cooperation is prevalent among legal entities and individuals.

International economic interaction refers to established and stable economic relationships among participants of international economic relations. These relationships are founded upon long-term international economic contracts, agreements, and arrangements.

International economic cooperation involves robust, enduring collaborations rooted in shared, pre-established goals outlined within long-term economic agreements and contracts. The partnership among international economic entities characterizes this level of interaction.

There are four distinct levels for regulating international economic relations: subject, national, international, and global.

Subject Level: This level governs IER at the entity level, encompassing firms, enterprises, and companies.

National Level: This level regulates IER at the state level.

International Level: This pertains to regulation between states and groups of states.

Global Level: This level involves regulation by global economic organizations such as the WTO and IMF.

1.3. IER forms

Considering the structure of IER, it is possible to distinguish the following **forms of IER manifestation**:

- international trade in goods;
- international trade in services;
- interstate movement of capital;
- international labor migration;
- international scientific and technical relations;
- international monetary and credit relations;
- international monetary and financial relations;
- interstate transport relations;
- international economic integration.

Interstate trade stands as a predominant facet of international economic relations. It involves the exchange of goods and services among countries, encompassing imports and exports. This trade entails the movement of goods and services both entering (imports) and leaving (exports) a nation's borders. It serves as the primary mode of economic interaction within the global market.

The international movement of capital refers to capital's cross-border transition. This process involves withdrawing capital from one country's domestic circulation and investing it in various forms, such as money or goods, within another host nation's production cycle or circulation. The aim is to generate income for the capital's owner.

International labor migration depicts the spontaneous or organized movement of the workforce from one country to another, often prompted by economic factors.

International scientific and technical relations revolve around developing and utilizing global scientific and technical advancements for commercial or non-commercial purposes.

International monetary and credit relations constitute a specific subset of IER. These encompass the connections between creditors and borrowers from diverse countries.

Interstate monetary and financial relations encompass the system of currency-based payment settlements between nations.

Interstate transport relations concern the movement of goods and passengers across international borders.

International economic integration is a natural progression of lateral, enduring collaborations and labor division between national economies, leading to establishment international economic complexes within states.

All the aforementioned forms of international economic relations are interlinked and mutually reliant.

A distinct feature of modern IER is its dynamic evolution and the emergence of novel relationship forms. This growth is propelled by production concentration, specialization, cooperation, and the global integration of economic activities. Modern interstate economic relations hold significance in addressing global issues and overarching political objectives, including international development programs and ecological balance preservation. Supranational regulation via international economic organizations characterizes IER in contemporary times.

1.4. Principles and features of the IER mechanism

The mechanism of interstate economic relations (IER) constitutes a framework of socio-economic and organizational-legal norms and conditions that guide their operations. A key trait of this mechanism is its inherently market-oriented nature, encompassing all associated attributes. Its development and operation rest upon fundamental international market principles, including pricing, supply and demand dynamics, and competition.

The principles governing the functioning of IER are enshrined in relevant interstate and national legal documents. These principles are most comprehensively outlined in the United Nations Organization's declaration «New Economic Order».

Key overarching principles of IER encompass:

- National Sovereignty: Acknowledging each state's right to exercise internal and external policies autonomously.
- Principle of Peaceful Coexistence: Affirming the right of countries to resolve cross-border conflicts amicably.
- Principle of Equality: Ensuring equal treatment among nations.
- Principle of Cooperation for Development: Emphasizing collaboration between states to foster progress.
- Principle of Mutual Assistance: Highlighting support between nations.
- Principle of Mutual Benefit: Fostering reciprocal advantages.
- Principle of Freedom in Form Selection: Granting the freedom to choose modes of interstate economic interaction.
- Principle of Enhanced Intergovernmental Assistance for Developing Countries: Elevating support for less developed nations.
- Principle of National Regime in Interstate Economic Relations: Recognizing the sovereignty of nations in their economic dealings.
- Principle of Non-interference in Internal Affairs: Respecting nations' autonomy in domestic matters.
- Principle of Non-discrimination: Prohibiting bias.
- Principle of Human Rights and Freedoms: Upholding human rights respect.

- Principle of Honoring Interstate Obligations in Good Faith: Requiring earnest fulfillment of commitments.

- Principle of Peaceful Dispute Settlement: Advocating peaceful conflict resolution.

- Uniform National Legislation Requirements: Applying consistent legal standards to all global economic entities.

Each of the listed principles of IER is key and inviolable. However, there is a threat of violation of the fundamental principles of the IER, particularly the principle of sovereign equality of states, which is the basis of modern interstate relations. This means that each country is obliged to respect the sovereignty of other participants in interstate economic relations, that is, their right to exercise legislative, executive, and judicial power within the state territory without any interference from other states, as well as to conduct their own foreign economic policy.

Special IER principles:

1. **The principle of the national regime** stipulates that non-resident legal entities and individuals within each state participating in IER hold the same rights and responsibilities as resident legal entities and natural persons. In other words, foreign entities are granted a legal status equivalent to domestic ones. This principle ensures that foreign goods, services, capital, individuals, and legal entities are subject to a legal framework that matches or exceeds that of domestic counterparts.

2. **The principle of the greatest international assistance** entails each participating party (country) committing to extend to the other party (country) a regulatory framework in a specific area of economic cooperation (entailing benefits, privileges, advantages, etc.) that will also be provided to any third party in the future. This principle aims to create a level playing field among countries and other participants in IER. International trade should be mutually advantageous and executed under the most favorable conditions. Actions that undermine other states' economic and trade interests should not be employed within trade boundaries. This principle is operationalized through its incorporation into relevant agreements, contracts, and intergovernmental documents.

3. **The notification principle** involves disseminating information about international regulatory systems among concerned parties within the framework of interstate multilateral agreements. This is typically accomplished through official notifications issued by state bodies responsible for overseeing the implementation of these agreements.

4. **The principle of preferential treatment** entails affording underdeveloped countries advantages with respect to their goods' entry into the markets of industrialized nations. The primary form of international preference is tariff concessions, established through reduced import duty rates.

5. **The principle of freedom of interstate transit** guarantees consistent access of goods to the international markets of any state, irrespective of its geographical location in the global arena. This principle ensures equitable access to international transport for all entities engaged in global trade circulation.

6. **The principle of transparency**, also called **the principle of external trade legislation**, emphasizes a transparent foreign trade regulatory system. This involves the accessibility of interstate information regarding regulatory measures, ensuring their clarity and unambiguity. This principle encompasses the measures and rules governing their international application. The principle of international transparency typically includes provisions to protect confidential information that could hinder the application of foreign economic and trade legislation, contravene public interstate interests, or jeopardize the legitimate business interests of specific firms.

PRACTICUM FOR TOPIC 1

Exercise 1. **Control and Discussion Questions**

1. Define the core of international economic relations and outline their primary characteristics.

2. Assess the present state of international economic relations and prevailing trends.

3. Examine the distinct developmental attributes characterizing international economic relations.

4. Outline and explain the objectives and purposes underlying international economic relations.

5. Differentiate between the levels of international economic relations and provide illustrative instances.

6. Analyze the economic context shaping international economic relations.

7. Evaluate the political and legal context influencing international economic relations.

8. Scrutinize the social and cultural dynamics that impact international economic relations.

9. Assess the technological factors that shape international economic relations.

10. Examine the infrastructural elements that play a role in international economic relations.

Exercise 2. **Topics for a Scientific Essay and Presentations**

1. Explore the primary ways in which the global economic conditions of different countries influence international economic relations. Support your analysis with relevant examples.

2. Investigate the considerable impact of the political and legal circumstances of various nations on international economic relations. Provide concrete instances to illustrate your points.

3. Identify and discuss the primary entities you consider to be key players in international economic relations. Justify your choice with factual evidence and analyze their influence on these relations.

4. Examine the designated role and significance of international economic organizations within the framework of international economic relations. Evaluate the relevance of their activities in the contemporary context, drawing on specific examples.

5. Analyze how diverse economic processes and phenomena have shaped the evolution of international economic relations over recent years. Highlight the specific changes brought about by these factors.

INTERNATIONAL DIVISION OF LABOR AND ITS CHARACTERISTICS IN MODERN ECONOMIC REALITIES

Main questions for study:

2.1. The essence and factors of IDL development.

2.2. Trends in the international division of labor.

2.3. Forms and directions of development of international specialization and production cooperation.

2.1. The essence and factors of IDL development

One of the prominent attributes of the global economy is the rapid growth of international economic relations. These processes are rooted in the concept of the international division of labor, characterized by its deepening and expansion.

The international division of labor (IDL) is a phenomenon wherein countries specialize in producing specific goods or providing services, subsequently engaging in exchanging these products within the global market. IDL emerges among countries that uphold their state sovereignty and is pursued with the goal of enhancing production efficiency, minimizing labor costs on a global scale, and optimizing the allocation of productive resources.

Regarding the factors contributing to the development of IDL, noteworthy aspects encompass:

- Natural and geographical conditions.
- Socio-economic conditions.
- Scientific and technical progress.

Let's delve into the essential factors contributing to the development of the international division of labor:

1. **Natural and Geographical**: These encompass disparities in climatic conditions, economic and geographical positioning, and the availability of natural resources within a country.

2**. Socio-economic**: This category includes aspects such as the abundance of human resources, scientific and technical potential, the extent of production infrastructure, the magnitude and variety of production, the pace of creating production elements and socio-economic infrastructure, the growth of production and foreign economic relations, and the socio-economic nature of national production.

3. **Scientific and Technical Progress**: This involves the broadening and deepening of scientific research and design activities, the acceleration of the depreciation of assets, the optimization of enterprise size, and technological diversification.

In the past, primary significance was attributed to natural and geographical conditions. For instance, climate, territorial expanse, natural resources, economic and geographic location, and population size played a pivotal role. Historically, disparities in the distribution of natural resources were a primary driver of the emergence of the international division of labor.

Scientific and technical progress advancement has diminished the significance of natural and geographical factors. This shift has enabled the utilization of scientific and technological breakthroughs and advancements. The contemporary model of global economic development exhibits the following primary attributes:

- dominance of intensive sustainable economic growth;
- novel industrial sectors have surfaced while existing ones have undergone rapid modernization;
- shortened production cycles;
- expansion of the service sector, notably in banking and insurance.

Concurrent with scientific and technical progress, socio-economic conditions have been pivotal in the international labor division. Notably, this includes the achieved levels of economic and scientific-technical development and the mechanisms governing domestic production and foreign political and economic relations.

Recent decades' monumental political, social, and economic changes have profoundly impacted the international division of labor. Its principal development trajectory revolves around the proliferation of inter-state specialization and collaboration in production. These manifestations represent forms of interstate division of labor, encapsulating its core.

The progression of the inter-state division of labor underscores the imperative of bolstering labor productivity and curtailing production costs.

In the context of modern economic dynamics, the global international division of labor operates through three distinct functional types:

1. **Single Type**: This involves states specializing in specific stages of production. For instance, consider the production of disposable syringes. Both Kazakhstan and Ukraine manufacture these syringes, while Japan, specializing in needle production, exports the necessary components.

2. **General Type**: This category encompasses international exchange within the realms of processing and extractive industries. In this form of international division of labor, exporting countries can be categorized into agricultural, raw material, and industrial sectors.

3. **Partial Type**: This form of international division of labor entails labor differentiation within expansive production domains, often segmented by branches or sub-branches (such as heavy and light industries, livestock farming, and agriculture). Partial international division of labor is closely linked to subject specialization.

Leveraging the benefits of the international division of labor enables a state to capitalize on the disparity between international and domestic prices of exported goods and services during the exchange process. Furthermore, it reduces domestic costs by incorporating cost-effective imports, safeguarding national production levels.

An imperative precursor for the international division of labor's advancement is the interstate distribution of other pivotal production factors like land, capital, and technology. A nation opts to produce a specific item if it possesses production factors that render it more efficient in its creation compared to other entities. The equitable significance of land, labor, capital, and technology holds true for the production of any commodity.

As an illustration, consider the manufacturing of «Lee Cooper» jeans – an Anglo-American denim-focused apparel and footwear company. Multiple countries contribute to the production of the final product – jeans. Cotton fabric for pockets hails from Pakistan, zipper teeth originate from Japan, sewing thread is sourced from Northern Ireland; Spain provides the thread dye; Italy contributes with fabric dye using German-made dark blue paint; brass rivets are crafted from Namibian copper and Australian zinc; polyester fabric for zippers comes from France; and pumice stone from Turkish volcanoes is used for the distressed effect.

Concurrently and in tandem with the international division of labor, several parallel processes unfold:

- internationalization of production;
- increased openness of national economies;
- development and strengthening of regional international structures.

2.2. Trends in the international division of labor

Continuously developing, the international division of labor in modern economic realities has acquired several trends and features.

1. In the global economic environment, the gap between industrialized and developing countries persists and grows. 80% of the total resource potential of the world economy controls the so-called «golden billion». Highly developed countries control about 85% of the GDP produced in the world economy. They account for more than 84% of world trade. Developing countries in the global economic space are mainly suppliers of raw materials and consumers of finished products, however, in recent years, a new sectoral orientation of such countries has been formulated.

2. Due to the asynchrony of socio-economic development, transformations continue in the arrangement of political and economic forces in the group of industrialized states, primarily between the three main centers – the United States of America, China, and Western

Europe. This necessitates a permanent restructuring of the system of international division of labor.

3. The world is progressively becoming an inseparable, globally integrated economic realm, giving rise to contradictory and multifaceted emerging trends. Primarily, these trends encompass both globalization and, concurrently, the regionalization of economic activities.

Globalization is an intricate and multifaceted process encompassing all facets of human development. It manifests in the expanding interconnectedness and interdependence among nations, giving rise to a unified global economic sphere. With the evolution of globalization, the internationalization of production has gained momentum, establishing enduring production bonds among enterprises across various nations. Take, for instance, the Boeing 737, the world's largest civilian aircraft, composed of 6 million components sourced from 16 thousand businesses spanning over 30 countries.

4. In the conditions of globalization, international integration processes and internationalization of economic activity are intensifying. Interstate economic integration is a process of economic and political unification of countries, and interaction of their national economies at different levels and in different forms. The most advanced global-level international integration entities impacting competitive influence include the European Union, USMCA (a recent trade accord among Mexico, the USA, and Canada, succeeding the North American Free Trade Agreement - NAFTA), MERCOSUR, ASEAN, and others.

5. A prominent contemporary trend involves top nations collaborating to collectively manage and mitigate the impacts of economic and currency shocks and threats. The significance of international organizations such as the IMF, IBRD, and World Bank Group is rising. These entities are dedicated to fostering global economic growth, foreign trade, monetary and financial cooperation, and sustaining the balance of payments for their member states. They also oversee currency exchange rates, extend loans to these nations, and offer assurance for foreign private loans.

6. The participation in the international division of labor of the former states of the socialist camp was transformed. There is a transformation of

their national economies and their involvement in the interstate division of labor on a different basis.

7. The role of multinational enterprises in interstate economic exchange and the international division of labor is constantly growing. GNPs control almost half of global industrial production and world trade. Multinational enterprises constitute a potent segment of corporate business, functioning globally and exerting a pivotal role in fortifying worldwide economic connections. They hold a significant position in advancing the internationalization of global economic interactions and deepening the international division of labor.

8. Structural crises and imbalances in international trade periodically disrupt the interstate division of labor. For instance, the aggressive spread of the coronavirus disease (COVID-19) in 2020 triggered an abrupt global economic downturn, shocking the entire world. The rapid propagation of the virus and its aftermath caught the international community and humanity at large off guard. The pandemic wielded adverse effects across all spheres of economic activity, resulting in a slew of severe repercussions.

2.3. Forms and directions of development of international specialization and production cooperation

The international division of labor presents itself through two primary forms: international specialization and international production cooperation.

International specialization denotes a vision among nations where the country and its residents concentrate their production resources on specific economic activities. For instance, Japan excels in manufacturing cars, ships, electronics, and watches; Colombia stands out as a major coffee producer; Germany is a prominent car exporter.

International specialization of production (ISP) evolves in two dimensions – production and territorial. The production dimension encompasses inter-industry and intra-industry specialization and the specialization of individual enterprises and associations. In the territorial dimension, there’s a focus on the specialization of individual states, groups of states, integration unions, and regions in producing specific goods and their components for the global market.

Cross-industry specialization signifies the interaction between countries concerning the international exchange of goods across various industries.

The primary manifestations of international production specialization include subject specialization, detailed (nodal) specialization, and technological (staged) specialization. Subject specialization involves multinational enterprises from different countries collaborating to produce and export fully manufactured, consumer-ready goods. Detailed international specialization relies on the collaboration of manufacturers from different countries to produce components and parts that lack independent utility. This form of specialization is prominent in mass production items like cars, radio equipment, and tractors, extending to engines, electrical components, bearings, gearboxes, devices, and more. Technological specialization pertains to executing specific stages of international technological processes within a unified production process. This involves tasks like assembly, welding, painting, casting, and producing blanks.

The most advanced forms of specialization are concentrated in sectors such as mechanical and instrument engineering, among others.

The sector that shapes the character of a country's international production specialization is referred to as an internationally specialized industry. Distinct attributes mark it:

- A notably larger proportion of exports within this industry than other sectors.
- A greater share of this industry's contribution to the country's production than its share in global production.

The second component of international production specialization is **international production cooperation**, involving the collaboration among manufacturers from multiple countries in producing specific goods for the global market.

Cooperation refers to a framework of interstate collaborative economic entities established to address their member nations' socio-economic and other requirements. Collaboration can encompass various domains such as international production, science and technology, transportation, construction, logistics, and financial transactions including banking operations, insurance, credit, and the provision of diverse services.

International production cooperation (IPC) signifies the interaction among two or more entities within the global economic landscape, involving at least one foreign entity. This interaction involves collective development or joint production and the collaborative marketing of end products and other commodities. This collaboration is rooted in specialization in the production of intermediary goods or specialization in distinct technological phases of research and development, production, and implementation, all coordinated through relevant economic activity programs.

The benefits of international cooperation encompass:

- Facilitating swift integration of innovations through market-driven approaches.

- Lowering production/implementation costs for new products, thereby reducing technology recovery duration for manufacturers.

- Fostering the growth of collaborative international business endeavors.

- Mitigating potential adverse impacts stemming from foreign investments in the domestic economy.

Conversely, **drawbacks** of this form of international labor division include:

- Erosion of autonomy in each country’s production.

- Necessity to synchronize every phase with partners.

- Vulnerability to unforeseen alterations in the legal framework of one partner state.

International cooperation serves **two primary functions**:

- Functions as a mechanism for enhancing the production of tangible goods and services with reduced costs.

- Facilitates realizing novel objectives that would be challenging to accomplish without the collective endeavors of manufacturers from multiple countries.

Key attributes of this form of international labor division encompass the following:

1) Early consensus among participants regarding activity conditions across all production and product sale stages.

2) Involvement of industrial enterprises from various countries as active participants in the production process.

3) Clear allocation of tasks between parties for manufacturing both individual components and the final product.

4) All business interactions between cooperating entities are established on the foundation of long-term contracts rather than mere sales agreements. These documents encompass all terms, ranging from raw material supply and product volumes to pricing, penalties for delays, and responses to force majeure circumstances, all tailored to the legal specifics of each country.

Varieties of international production cooperation (ICP) encompass:

- Geographical scope: global, interregional.
- Participant count: bilateral, multilateral.
- Number of production sites: single-entity, multi-entity.
- Connectivity structure: horizontal, vertical, and mixed, within and between industries, within and between companies.
- Nature of activities: spanning design and construction, trade and sales, service provision, production, scientific and technical domains.
- Production stages: encompassing pre-production, production, and commercial phases.

Forms of ICP organization: contractual, contractual, joint production, joint venture.

Cooperative relationships are manifested at the global, international, inter-industry, or intra-industry levels.

In the realm of global economic practices, three primary cooperation formats are recognized:

- Execution of collaborative programs (projects).
- Contractual specialization.
- Establishment of joint ventures.

Cooperative collaboration in the shape of **joint programs (projects)** involves two or more nations joining forces to execute a project. This collaboration can be bilateral or multilateral, catering to the interests of the partnering nations and those of the base states of cooperation. Joint international programs are executed through two distinct approaches: contractual collaboration, wherein the executor performs designated tasks for the customer – producing components, assemblies, etc., constituting part of the customer's products; and the establishment of joint production by pooling various resources (financial, material, labor, scientific, technical, etc.) of partners, assigning each full responsibility for producing a specific portion of the product.

The key goal of the international contractual specialization is to prevent production duplication and direct escalation of global market competition among producers involved in production cooperation. Its essence lies in delineating international production programs and designating specific sets of final products for each participant.

Joint ventures (JVs) represent a more intricate and multifaceted form of production cooperation. Rooted in shared participation by international partners in capital, management, income sharing, and risk, JVs spark substantial international interest in fulfilling their commitments. Joint international enterprises consolidate the advantages and merits of all forms of collaboration (elevating product technical standards and competitiveness, achieving compact production with extended timelines and reduced costs, accelerating innovation cycles, and penetrating foreign markets with expanded export sales).

The most prevalent forms of international joint ventures in the global economic sphere include limited liability companies (LLCs) and joint-stock companies (JSCs).

International labor collaboration is founded on the international division of labor and is not self-sustaining. Concurrently, international production specialization doesn't always mandate international labor cooperation for its sustenance, functioning, and advancement.

PRACTICUM FOR TOPIC 2

Exercise 1. **Control and discussion questions**

1. Give the classification of international production cooperation.
2. Give examples of subject, detailed and technological specialization of countries.
3. New economic order and IDL.
4. Outline the main factors of the international division of labor.
5. Describe the peculiarities of Ukraine's participation in the international division of labor.
6. Describe the current trends in IDL.
7. Reveal the economic essence of the international division of labor.
8. Why is the international division of labor a necessary condition for creating a world economy?
9. What are the indicators of the level of international specialization?
10. Name the forms of international specialization and production cooperation.
11. What features and trends of the international division of labor can you list?
12. What advantages does participation in the international division of labor give the country?

Exercise 2. **Topics for scientific essays and presentations**

1. What do you think is more rational from an economic point of view: the functioning of individual highly specialized enterprises, firms or their association? Justify the answer.
2. In your opinion, is it expedient to restructure Ukrainian enterprises in modern business conditions through consolidation based on specialization and cooperation? Give examples.
3. How can the specialization of enterprises affect the increase in the knowledge intensity of products, and the increase in the implementation of scientific and technical achievements in highly integrated structures?
4. Determine the role of scientific and technical progress in the development of international specialization and industrial cooperation.
5. Study the economically beneficial specialization of individual countries of the world (your choice).

WORLD MARKET AND WORLD ECONOMY

Main questions for study:

3.1. Current state and trends of the world market.

3.2. Characteristic features of the world market.

3.3. Modern world economy.

3.4. Characteristic features of the world economy.

3.1. Current state and trends of the world market

The world market is the sphere of exchange of goods and services between national economies.

The world market manifests itself through international trade.

International trade is the sphere of interstate commodity-monetary relations, which is the totality of foreign trade of all countries of the world and consists of two opposite flows – export and import.

Evolution of market forms:

1. Domestic market: goods are sold by producers within national borders.
2. The national market is a combination of domestic and foreign trade.
3. The international market is a part of the national market that is directly connected with the markets of other countries.
4. The world market is the sphere of stable commodity-monetary relations between states, which are based on the interstate division of labor, and other factors of production.

The transition from an industrial society in advanced countries to a post-industrial (information) society determines several of the latest features and trends in the development of the world market.

1. The main and most obvious external sign of the existence of the world market is international trade, which in the conditions of globalization is characterized by the following factors:

- in the conditions of globalization, national enterprises take an active part in global production networks (currently, approximately one-third of it is global production networks). The functioning of global production networks provides for further liberalization of international trade in the following areas: abolition of customs duties on components and semi-finished products; improvement of internal and interstate transport systems; implementation of a stable and predictable policy in the field of foreign trade and investment;

-the continuous evolution in technology, demand, and the structure of national economies is amplifying the significance of interstate trade in services. Presently, the services market is one of the most rapidly expanding sectors in the global economy, covering roughly 2/3 of economic activities. A significant portion of the world economy's workforce is employed by international service companies, with the service sector contributing 50% to 70% of GDP in many countries.

The United States of America takes the lead as the primary global exporter and importer of services, contributing to around 14% of total world service exports and 10.5% of imports. Following suit, Great Britain (7% of world exports and 5.1% of imports), Germany (6.8% and 8.1%), France (4.3% and 4%), China (3.8% and 5%), and Japan (3.8% and 4.7%) secure the subsequent top positions. Spain (3.6% of total exports and 2.8% of imports), Italy (3% and 3.6%), Ireland (2.9% and 3.3%), and the Netherlands (2.7% for exports and imports) further contribute to this landscape. Altogether, these ten global entities account for over half of the world's export and import of commercial services;

- the emergence of a global trade (market) regime largely related to the interstate transfer of intellectual property rights. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) led to an increase in the level of material and legal protection of rights in all spheres of intellectual property (copyright and related rights belonging to it, trademarks, industrial designs, geographical indications, topologies of integrated circuits, patents for inventions, closed information, including business secrets, commercial and business information, test data);

- the growth of international trade is based on the system of relevant international economic organizations (WTO, UNCTAD, etc.).

2. The global market's evolution is driven by the flow of goods and services (international trade) and the movement of production factors and financial assets. Capital exports currently surpass the growth rate of both commodity exports and the gross domestic product of industrialized nations. In the context of modern world economic relations, foreign investment's role is bolstered, even when domestic investment capital is insufficient.

A notable contemporary trend is the substantial increase in population migration, significantly affecting labor resources and leading to a reconfiguration of the pivotal production factor – labor. The number of migrants has more than doubled since the 1950s. Immigrant resource contributions and their well-qualified composition have diversified across regions. A migrant population has essentially formed, comprising approximately 180 million individuals, as per the United Nations. Forecasts by experts indicate that the upcoming decade will witness industrialized countries accepting around 2 million migrants annually. Noteworthy countries supplying migrants include China with over 300,000 individuals, Mexico with over 250,000 individuals, India with over 225,000 individuals, and the Philippines and Indonesia each contributing around 180,000 individuals.

The consensus among most economists today is that economic growth, even with tangible improvements in labor productivity, hinges on substantial labor resource replenishment via migration. According to the United Nations projections, approximately 128 million international migrants, constituting 61%, will reside in developed countries, while 82 million migrants, comprising 39%, will be in developing countries. Europe (33%), Asia (28%), North America (24%), Africa (9%), and Latin America, the Caribbean, and Oceania (3% in each of these regions) will house the majority of international migrants.

3. The subject of global economic interaction has undergone both quantitative and qualitative transformations, affecting products in terms

of their form and content. The increasing differentiation of industries (now numbering over 300) substantially broadens the spectrum of goods entering international trade networks. Currently, industrially developed nations lead in supply diversification on the foreign market. For instance, Germany exports over 180 product categories, while the USA, Great Britain, and France each export over 175, and Japan over 160.

The global market comprises millions of diverse products, encompassing single items, product groups, entities, programs, and services. While services trade can double in less than eight years, international trade requires approximately 15 years for the same growth. The term «services» no longer confines itself to a limited range of low-prestige offerings. Modern services predominantly encompass knowledge-intensive sectors, including telecommunications, credit, financial services with scientific components, insurance services, healthcare, education, culture, and more.

The service sector amalgamates various economic activities to fulfill individual, production, and societal needs. In the context of service technology-related trade, modern conditions foster the expansion of scientific, technical, and technological exchanges. This entails activities such as comprehending the laws and patterns of nature, society, and thought (the realm of science), adapting them to human requirements (developing new equipment models and technologies), the process of creating material and intellectual goods and services (material and spiritual production), and refining and seeking more effective modes of managing this process.

4. The most important characteristic of the modern world market is formation of powerful international trade and economic associations of countries (EU, USMCA, ASEAN, MERCOSUR, APEC, etc.).

3.2. Characteristic features of the world market

The world market has the following features:

- products are sold outside the country;
- the exchange of goods and services across borders is impacted not solely by domestic and international supply and demand;

- it acts as a means of optimizing the use of factors of production, providing information about in which spheres and countries (regions) or integration associations they can be applied most effectively;
- performs a remedial role, pushing goods and their producers out of interstate exchange if the latter is unable to ensure the international standard of product quality at competitive prices;
- it involves a pricing system – global prices. These global prices stand as the prevailing price level on worldwide commodity markets within a specific timeframe;
- the movement of goods on the market is determined not solely by economic factors (production ties between enterprises and regions of the country), and effective foreign economic policy of individual states.

The main external feature of the functioning of the global market is movement of goods and services between countries, that is, the presence of international trade.

The product, which is on the world market at the exchange stage, performs an *informational function*, reporting the averaged characteristics of the aggregate demand and aggregate supply. Due to this function, each participant can estimate and adapt their production volumes to the global ones.

The global market functions as a realm of international exchange, thus exerting a reciprocal impact on the production process. It delineates what, how much, and for whom production is required. Consequently, from this perspective, the world market takes precedence in relation to production and serves as a fundamental category within the realm of international economy and international economic relations.

3.3. Modern world economy

It is challenging to conceive of a contemporary nation existing in complete isolation from the global community. Even a country with a substantial land area cannot entirely furnish itself with all required means of production, nor provide its population with the entire spectrum of diverse goods and services. This interdependence leads to the interconnectedness of national economies, ultimately culminating in forming a unified global economy.

The world economy encompasses the national economies of global countries, bound together by fluid production factors. It manifests as a global system encompassing both state and non-state entities interconnected through the international division of labor and various forms of interaction.

Each provided definition, to varying degrees, captures the essence of the world economy. Among these, the following definition can be deemed the most comprehensive: the world economy represents an amalgamation of interlinked national economies, interspersed with interstate economic relations, all regulated and managed through pertinent international mechanisms.

Elements of the world economy:

1) national economies;
2) international organizations;
3) TNC;
4) international economic relations.

The contemporary global economy exhibits a diverse landscape. The wealthiest and most influential nations constitute the world economy's core, steering modern technologies and nurturing post-industrial economies. Notable members include North America, European Union countries, and Asia-Pacific nations, which wield control over scientific and technical advancements, capital mobility, and global markets. A profound integration of production, trade, and financial ties characterizes the «center» countries, as they shift towards post-industrial information societies.

The semi-periphery encompasses reasonably developed but lesser-impacting nations that employ adopted technologies and uphold industrial economies, including countries in transitional stages. Examples encompass industrial and emerging industrial states like Brazil, Mexico, Argentina, Australia, Saudi Arabia, and post-socialist nations.

The periphery of the global economy comprises economically disadvantaged countries («Third World» nations) marked by political instability, dictatorial rule, and agrarian economies. This category encompasses the most underdeveloped countries in Africa, Asia, and Latin America. The periphery relies on exploiting natural resources, with certain regions facing overpopulation and widespread political disputes and conflicts.

Modern trends in the development of the world economy:

- internationalization of production;
- globalization;
- international economic integration;
- informatization;
- transnationalization.

The internationalization of production signifies the advancement and operation of interstate economic relations among all entrepreneurial entities, as productive forces outgrow the confines of national economies, culminating in a multinational direct production process. This progression involves expanding companies' activities beyond national boundaries, often leading to establishing transnational corporations (TNCs). Transnational corporations possess production facilities in multiple states and frequently engage in global market operations via numerous foreign branches and subsidiaries formed through capital export.

Although they retain national ownership and capital control, TNCs function internationally due to the scope of their activities. Presently, more than 70 thousand TNCs contribute to over 20% of global production.

Globalization represents the process of convergence, interpenetration, and integration of economic, political, and cultural relationships across all elements of the global economic arena. It epitomizes the highest phase of internationalization, encompassing the operation and expansion of market economies, the reinforcement of international labor division, and the establishment of an extensive banking system.

Globalization leads to intensified interdependence among world states, fostering expanded economic, political, and cultural connections and information exchange among global economic stakeholders. Simultaneously, it accentuates the influence of certain states on stable world economic development, as they introduce their value systems, economic paradigms, and legal frameworks.

International economic integration signifies a deepened convergence of national economies, entailing the establishment and operation of sustainable relationships. Such integration is marked by coordinated interstate economic policies and the establishment of international economic groups, spanning regional entities like the EU, USMCA, ASEAN, APEC, and MERCOSUR, as well as profile-oriented groups such as OPEC, IAEA, IMF, WTO, UN, etc.

Informatization encompasses a comprehensive framework of organizational, legal, political, socio-economic, scientific, and technical processes to facilitate the fulfillment of information needs for individuals and society. It rests on the foundation of contemporary computer and network technologies. Information has gained increasing prominence in human lives in the 21st century, disseminated by mass media and managed by information technologies. The notion of an information society has emerged, wherein production and consumption pivot around information rather than traditional goods and services. Informatization has emerged as a pivotal aspect of social life, enabling resource conservation, efficient management, and robust defense capabilities for states.

A monumental breakthrough occurred with the integration of computers into the global Internet, ushering in unrestricted access to information. The Internet enables real-time communication with individuals situated in even the remotest corners of the world. This phenomenon precipitated the swift dissemination of scientific accomplishments, substantial cultural exchange, and the emergence of fresh avenues for collaborative resolution of urgent global issues by states. Information has transformed into a pivotal strategic resource within contemporary society, spanning domains such as science, technology, finance, and social and political realms.

Transnationalization is an economic phenomenon characterized by enhanced integration resulting from the global operations of transnational corporations. Within this framework, a significant portion of a state's production, consumption, imports, exports, and income are contingent on international hubs situated outside the nation. As the 21st century dawned, transnationalization of production and capital emerged not only as a direct prerequisite for the development and operation of transnational corporations but also as a determinant significantly shaping the dynamics and proportions of global economic advancement. The foreign economic sphere's growing role in the activities of transnational corporations becomes an increasingly active factor in their sustainable economic growth.

The scope of transnational corporations' operations has significantly broadened, driven by factors such as the opening of Eastern European and post-Soviet economic spheres, intensified privatization efforts, the rapid globalization of financial markets, heightened economic competition, increased interdependence among nations and economies, ongoing regional integration processes, and the emergence of advanced technologies, particularly in communication, telecommunications, space, and biotechnology.

The world economy constitutes a multifaceted and intricate system with well-defined boundaries, qualitative and quantitative attributes. It should not be equated with the global economy, which predominantly pertains to productive forces and their national or regional attributes. Likewise, it should not be conflated with the world market. The distinction between the world economy and the world market arises because the former is primarily characterized by the international movement of production factors and goods (albeit to a lesser extent), while the latter predominantly centers around international trade.

The world economy encompasses all the principal parameters of the world market and augments them with novel, crucial elements linked to the international mobility of production factors.

3.4. Characteristic features of the modern world economy

The characteristic features of the modern world economy are as follows:

- development of international movement of factors of production;
- growth on this basis of interstate forms of production in companies, located in several states, primarily within TNCs;
- the economic policies of nations are directed towards promoting the interstate flow of goods and production factors through both bilateral and multilateral approaches;

- the formation of an open-type economy within the framework of many countries and interstate integration associations, etc.

The modern world economy is constantly changing, and countries must adapt to these changes to achieve sustainable economic growth.

As per a UN report, the global economy is projected to grow by 2.3% in 2023 and by 2.5% in 2024. In the United States of America, the growth is anticipated to be 1.1%, while the European Union is expected to see a growth of 0.9%. China's GDP growth is forecasted at 5.3% due to the easing of COVID-19-related restrictions.

The slowdown in economic growth can be attributed to factors such as the COVID-19 pandemic, the Ukraine conflict, and climate change's effects.

Geopolitical tensions, weakening global demand, and tight monetary and fiscal policies are anticipated to impact global trade. The projection for 2023 suggests a 2.3% increase in the volume of world trade in goods and services, which is lower compared to the pre-pandemic year.

Predictions indicate a decrease in global inflation to 6.5% in 2023 and further to 4.1% by 2024. Monetary policy should remain focused on restoring price stability, while fiscal policy should target alleviating the burden on the cost of living and aligning with monetary policy. Structural reforms can contribute to combating inflation by enhancing productivity and mitigating supply constraints. Simultaneously, multilateral cooperation is essential for accelerating the transition to green energy and preventing global fragmentation.

For instance, the new IMF report for 2023 highlights the potential risk of severe fragmentation in the world economy, which could reduce global economic growth by 7% after decades of increasing economic integration. Moreover, the loss could be even greater, ranging from 8% to 12% in certain countries if technology also becomes decoupled.

PRACTICUM FOR TOPIC 3

Exercise 1. **Control and discussion questions**

1. What is the essence and structure of the world market?
2. Describe the current state of the world economy.
3. Which countries or groups of countries have a huge influence on the world economy and why?
4. Name and describe the main trends in the development of the world economy.
5. Explain the concept of «internationalization of production». What are the consequences of this process?
6. What is regional economic integration? What is its importance in the development of the modern world economy?
7. Give examples of regional and profile international economic groupings of countries. What is the purpose of their creation?
8. What is the importance of informatization in the modern world?
9. What are the positive and negative consequences of the globalization process? Give examples.

Exercise 2. **Topics for scientific essays and presentations**

1. Consequences of the Russian-Ukrainian war for the world economy.
2. The world economy during the war: changing priorities.
3. The state and consequences for the economy of Ukraine from the Russian-Ukrainian war.
4. The state and consequences for the Russian economy of the Russian-Ukrainian war.
5. Analysis of the world food market in the conditions of the Russian-Ukrainian war.
6. Energy crisis in war conditions: causes, consequences, and ways of overcoming.
7. Assess the state and consequences for consumers (Ukraine, Russia, EU) from the war.
8. Are you a supporter of globalization or anti-globalism? Justify your answer.

THEORIES OF INTERNATIONAL TRADE

Main questions for study:

4.1. Mercantilist and neo-mercantilist theories.

4.2. Classical theories.

4.2.1. The theory of absolute advantages.

4.2.2. The theory of comparative advantages.

4.3. Neoclassical theories.

4.3.1. Theory of country size.

4.3.2. The theory of the ratio of production factors (Heckscher-Ohlin).

4.3.3. The theory of equalization of prices for factors of production.

4.3.4. Leontief's paradox and its explanation.

4.4. Alternative theories.

4.4.1. The theory of the product life cycle.

4.4.2. The theory of similarity of countries, or the theory of intersecting demand.

4.4.3. The theory of competitive advantages.

4.4.4. Theory of technological gap.

4.4.5. The theory of economies of scale of production.

The foreign trade policies of nations revolve around several key questions: determining the goods to be exported and imported, identifying trading partners and their extent, assessing the need for state intervention in trade, and determining the extent of such intervention.

Two distinct types of trade theories have been developed to address these questions. The first type emphasizes minimal state interference in trade structure. These theories analyze and elucidate the patterns of trade that would emerge without government-imposed restrictions. Notable theories in this category encompass absolute advantages, comparative advantages, country size, factor proportions, product life cycle, country similarity, and international competitiveness.

The second type of theory advocates government involvement in modifying trade volumes, compositions, and directions. Theories under this category include mercantilism, neo-mercantilism, and others.

International trade theories aim to assist both firms and governments in making well-informed decisions regarding specialization and strategies, promoting efficient utilization of national resources.

4.1. Mercantilist and neo-mercantilist theories

Mercantilism

The theory of mercantilism, formulated by European scholars like **Thomas Mann, Charles Deviant, Jean Baptiste Colbert, and Sir William Petty**, marked the inception of international trade theories. This theory aimed to underscore the significance of trade and the necessity for nations to engage in economic exchanges with foreign markets, serving the interests of the mercantile bourgeoisie during feudalism's transition to capitalism. Mercantilism fulfilled these roles.

Mercantilism represents an economic doctrine and policy that championed the mercantile bourgeoisie's interests during the feudalism-to-capitalism transition. According to this theory, a country's wealth is gauged by its holdings of gold and silver. A plentiful money supply fosters domestic production growth and increased employment.

In the mercantilist view, the economic system encompasses three sectors: production, agriculture, and foreign colonies. Merchants were deemed pivotal for the efficient operation of the economy, given their role as the primary production factor. The wellspring of wealth, according to mercantilism, lies in the circulation sphere, rather than production.

Advocates of mercantilism believed in the finite global reserves of gold and silver. Consequently, they contended that nations could enhance their own wealth through redistributive practices, potentially leading to the impoverishment of others.

In line with mercantilist principles, states were advised to: 1) stimulate exports to generate a surplus of exported over imported goods, facilitating an inflow of gold; 2) curtail imports, particularly luxury items, to maintain a favorable trade balance; 3) prohibit the export of raw materials from the motherland to colonies while permitting duty-free import of non-domestically mined raw materials; 4) encourage colonies to export primarily inexpensive raw materials; 5) restrict colony trade to only the metropolis, which could then re-sell colonial goods abroad.

At the core of mercantilist policies was the pursuit of maximum capital accumulation and minimal imports. This approach aimed to enable control over various economic activities, military strengthening, governance enhancement, colonial wars, establishment of factories (manufactories), and job creation through the amassed funds in the form of gold and silver.

The merit of the mercantilists lies in their pioneering attempt to formulate the theory of international trade, highlighting its significance for the economic progress of nations. They constructed one of the conceivable models for trade's evolution, rooted in the commodity nature of production. Additionally, they introduced the concept of the balance of payments within the context of the contemporary economy.

However, the limitation of the mercantilists' perspective is that they believed nations could only attain prosperity through the redistribution of existing wealth, rather than through its augmentation. This viewpoint failed to account for the potential for wealth creation.

The classical school of economists further advanced the international trade theory in their subsequent works.

Neomercantilism

Currently, manifestations of neo-mercantilism can be observed, wherein countries experiencing high unemployment employ measures to discourage imports and stimulate domestic production, thereby bolstering exports and employment. The primary aim of neo-mercantilist policies is to bolster government-held foreign exchange reserves, subsequently enhancing the effectiveness of monetary and fiscal strategies. For instance, a nation might strive for full employment by expanding production beyond domestic demand and exporting the surplus. Alternatively, a country might seek to sustain political influence in another nation by exporting more goods there than it imports. Some terminologies of mercantilism, such as «active» and «passive» trade balance, remain relevant today.

4.2. Classical theories

4.2.1. The theory of absolute advantages

The founder of the classical school of economic thought, **Adam Smith** (1723-1790), posited that the foundation of the wealth of nations and peoples lies in the international division of labor and the corresponding specialization of different countries. Countries should engage in producing goods for which they possess absolute advantages. In his work *«An Inquiry into the Nature and Causes of the Wealth of Nations»* (1776), Smith critiqued the mercantilists' viewpoint that the accumulation of gold and silver forms the basis of wealth. He was the first to argue that true wealth depends on a country's ability to produce final goods and services. The government's paramount task is to implement measures that foster production growth through cooperation and division of labor.

The core of the theory of absolute advantages is that countries should export goods produced at lower costs (where they have an absolute advantage) and import goods produced more affordably by other countries (where the absolute advantage belongs to their trading partners).

The theory of absolute advantages is built upon the **following assumptions:**

1) Labor constitutes the sole factor of production.

2) Full employment prevails, utilizing all available labor resources for production.

3) International trade involves just two countries, each trading two goods.

4) Production costs remain constant and reducing costs augments demand for the product.

5) One product's price is determined by the amount of labor invested in producing another.

6) Transport costs for moving goods between countries are negligible (i.e., they are disregarded).

7) Factors of production remain stationary across countries.

8) Foreign trade remains uninhibited, devoid of regulations. Governments should refrain from interfering in foreign trade, advocating open markets and unrestricted competition (a policy called «laissez-faire», signifying state non-intervention in the economy and promoting free competition).

The strength of the theory of absolute advantages lies in its foundation on the labor theory of value and its affirmation of the benefits of the division of labor both nationally and internationally.

However, the theory's **drawback** is its failure to account for international trade between countries when one lacks an absolute advantage in producing specific goods.

EXAMPLE. Regarding sausage production, France holds an absolute advantage by producing 10 kg in 1 hour, whereas the Czech Republic only produces 2 kg. On the other hand, the Czech Republic demonstrates an absolute advantage in beer production, generating 6 liters in 1 hour compared to France's 2 liters.

In the production of which product does France have an absolute advantage? In producing which product does the Czech Republic have an absolute advantage? Explain why?

Solution. France has an absolute advantage in sausage production, as it produces 10 kg of sausage in 1 hour, while the Czech Republic produces only 2 kg. At the same time, the Czech Republic has an absolute advantage in beer production, as it produces 6 liters of beer in 1 hour.

Without engaging in trade, France can exchange 10 kg of sausage for merely 2 liters of its own beer. However, through trade with the Czech Republic, France could trade 10 kg of sausage for 6 liters of beer. Consequently, France gains 4 liters (6 - 2) of beer or 3 hours of labor. Conversely, the Czech Republic can acquire 10 kg of sausage from France, which would otherwise require 5 hours of labor. By reallocating those 5 hours to beer production (5 x 6 = 30 liters), the Czech Republic gains 24 liters (30 - 6) of beer or 4 hours of labor due to the trade with France.

The concept of absolute advantage was formulated to illustrate the potential gains countries can achieve through specializing in producing and exporting goods they can produce more efficiently than others while importing products that other countries excel at producing. This strategy can lead to mutual benefits when both countries possess at least one product in which they hold an absolute advantage over each other. A notable illustration of this concept is evident in Saudi Arabia, which possesses vast oil reserves, conferring an absolute advantage over other nations, and Colombia, due to its climatic conditions that favor coffee cultivation. For Saudi Arabia to venture into coffee cultivation or for Colombia to engage in oil extraction would likely incur high costs and result in diminished productivity.

4.2.2. The theory of comparative advantages

David Ricardo, a British economist (1772-1823), expanded on Adam Smith's theory of absolute advantages with his theory of comparative advantage. This economic theory elucidated the reasons and advantages of international trade by considering the differences in relative opportunity costs of producing the same goods across countries. In Ricardo's theory, underpinned by the labor theory of value and labor as the primary factor of production, the argument that one country could outperform another in producing everything did not negate the rationale for international trade.

The crux of the theory of comparative advantage is that countries can achieve trade advantages by specializing in producing goods with the lowest opportunity costs relative to other nations. This approach makes trade mutually beneficial for both countries, even if one nation's production is not absolutely more efficient than the other's.

D. Ricardo's theory of international trade is based on the **following assumptions:**

1) free trade;
2) transport costs are not taken into account;

3) fixed production costs;
4) lack of scientific and technical progress;
5) full-time employment;
6) absence of a single factor of production – labor.

David Ricardo introduced significant economic concepts into discourse: alternative price and opportunity cost.

Alternative price signifies the labor time required to produce one product, conveyed in terms of the labor time needed to produce another.

Opportunity cost, or substitution cost, quantifies the quantity of other goods that must be forfeited to acquire a specific amount of a particular good.

Advantages of the theory of comparative advantages encompass the inaugural depiction of aggregate demand and supply balance and the substantiation of benefits stemming from specialization and trade for both involved nations.

However, this theory's **limitation** lies in the absence of considerations for countries' sizes and transportation expenses. Larger countries possess diverse resources and are thus less reliant on foreign economic connections. If transportation expenses outweigh the savings from specialization, the advantages of international trade can diminish.

EXAMPLE. Consider two countries, England, and Spain, engaged in producing wine and cloth. England requires 120 labor units to produce a certain quantity of wine and 100 labor units for a certain quantity of cloth. Meanwhile, Spain has better conditions, spending 80 labor units on wine and 90 labor units on cloth. According to A. Smith's theory, Spain, possessing absolute advantages, should produce both products while England, without these advantages, would solely consume Spanish goods, which is impractical. If both countries need units of each product, Spain would use 160 labor units to produce two units of wine and 180 units of cloth, totaling 340 labor units. Though potential savings could exist for the world economy in terms of labor units, over time, England, as a net consumer, would deplete its reserves, leading its capital to flow to Spain in exchange for imports.

Another scenario sees each country independently self-sufficient in both products. Spain's self-sufficiency requires 170 labor units, while

England's requires 220 labor units. These expenses are substantial both for England and the global economy (390 labor units).

By pursuing specialization, with Spain producing its strongest product (wine) and England its least weak (cloth), both nations and the global economy stand to benefit. Spain's production of wine for both it and England requires 160 labor units, compared to the previous 170 without specialization. England's self-sufficiency in cloth now requires 200 labor units, down from the initial 220. Consequently, both countries save resources, which can be reinvested to boost production. The global economy also saves 30 labor units (360 compared to the earlier 390).

4.3. Neoclassical theories

4.3.1. Theory of country size

The theory of absolute advantages fails to consider variations in countries' production specialization. Contemporary research, accounting for factors like country size, helps elucidate the extent and types of products involved in international trade.

The Country Size Theory posits that countries with larger land areas tend to possess more diverse climates and natural resources, making them generally closer to economic self-sufficiency than smaller nations. Despite neglecting transportation costs, which affect large and small countries differently, this theory highlights the promotion of international trade in small countries due to lower transport costs, while large countries face inhibitions due to higher transport expenses.

Comparing countries by their economic sizes, those with developed economies and high per capita income are more likely to engage in goods production requiring extended manufacturing durations. Such countries cultivate industries serving substantial domestic markets, aiming for competitiveness in export markets as well.

4.3.2. The theory of the ratio of production factors (Heckscher-Ohlin)

The earlier theories did not comprehensively explain a country's comparative advantage in specific products. The foundation for modern regulations guiding the direction and structure of international trade flows was established by Swedish economists who demonstrated that comparative advantage is contingent upon the availability of production factors.

In the 1920s, Swedish neoclassical economists **Eli Heckscher and Bertil Ohlin** formulated the Heckscher-Ohlin theory, a pivotal concept. They retained the labor theory of value while supplementing it with the notion that value creation involves factors beyond just labor, encompassing land and capital.

According to Heckscher and Ohlin, each country aims to engage in trade with products that employ its abundant and therefore cheaper factors of production, leading them to develop their advantageous sectors extensively. For instance, Australia, comparatively richer in land but poorer in capital and labor, specializes in producing wheat, fodder crops, and livestock in its trade with Great Britain. Conversely, Great Britain, abundant in capital and labor but lacking in land, sells manufactured goods to Australia.

Key components of the Heckscher-Ohlin theory include countries exporting goods utilizing their surplus factors and importing products that require scarcity factors. **Paul Samuelson** mathematically validated the theory's principles in 1948. Samuelson assumed that:

1) there are two countries, two goods, and two factors of production (usual simplification 2x2x2);

2) the supply of factors in each country is fixed and their movement is possible between sectors within countries, but not between countries;

3) countries differ from each other only in the supply of production factors;

4) in both countries, the technology is such that an unchanged scale effect is ensured.

For the Heckscher-Ohlin theory to hold, certain factors must be in place:

- Trade freedom
- Similar consumption structures in partner nations
- Roughly equivalent technological conditions among manufacturers

- Consistency in export-import goods, transport costs, and other production expenses.

One crucial facet of the theory is its consideration of countries and regions. The authors emphasize that each region should specialize in producing and exporting items that it can create more inexpensively in monetary terms, without necessary reliance on labor units.

4.3.3. The theory of equalization of prices for factors of production

Enhanced by Samuelson's research, the Heckscher-Ohlin theorem evolved into **the Heckscher-Ohlin-Samuelson theorem**. This theorem's essence lies in the following: under conditions of factor homogeneity, identical technology, perfect competition, and full goods mobility, international trade works to equalize the prices of production factors among countries. For instance, increased wheat production in Canada leads to heightened land prices and subsequently elevated rent, resulting in a surge in product prices. The reverse occurs in importing nations.

Homogeneous capital is capital that has the same productivity and risk; **homogeneous work** is work with the same level of training, education and productivity; **homogeneous lands** are lands with the same fertility, soil condition, etc.

The theory's **advantages** stem from its portrayal of different relative factor availability, encompassing the Heckscher-Ohlin and Heckscher-Ohlin-Samuelson theorems. It is a crucial tool for analyzing the international economy, illustrating and substantiating the principle of general equilibrium that underscores robust economic development.

The Heckscher-Ohlin theorem and the Heckscher-Ohlin-Samuelson theorem have certain **drawbacks**, including the following provisions

1. Although both countries produce two goods, the disparities in required production factors between these goods might be so significant that their relative prices fail to balance.

2. Assumption of identical technology in trading countries overlooks cases where a technologically advanced nation can possess higher

relative prices for labor and capital than a country with less sophisticated technology.

3. The idea of absolute internal mobility of factors and goods faces practical obstacles due to both natural factors (like transport costs) and artificial ones (such as registration and regulations) that impede the inter-industry movement of production factors and goods.

4. The theories disregard ongoing dynamic fluctuations in factor supply among countries, such as labor migration, capital movement, and technology trade, which are prominent features of the modern international economy.

5. The theory of factor price equalization portrays a completely static world, overlooking factors that influence macroeconomic equilibrium over time.

6. The theory does not account for variations in the absolute sizes of production factors between countries, leading to unequal income per capita in nations with different capital levels.

Despite their shortcomings, these theories remain valuable tools for understanding international trade dynamics.

4.3.4. Leontief's paradox and its explanation

In 1953, American researcher **Wassily Leontief** published findings from his study aimed at practically verifying Heckscher-Ohlin's concepts.

Leontief examined Heckscher-Ohlin's theory's assertion that countries export products that heavily use their surplus and more affordable production factors while importing goods reliant on less intensive use of these factors.

He simultaneously tested **two assumptions:** 1) the validity of the Heckscher-Ohlin theory; 2) in the US economy, where capital was believed to be more abundant compared to its trade partners, the expectation was to export capital-intensive goods and import labor-intensive ones.

Surprisingly, the outcome contradicted these expectations: labor-abundant nations exported capital-intensive items, while capital-abundant countries exported labor-intensive goods. This paradoxical observation became known as «Leontief's paradox».

Leontief himself and other economists conducted numerous efforts to decipher this paradox. Despite varying calculation methods, these studies essentially confirmed Leontief's paradox, prompting scholars to introduce additional production factors into the Heckscher-Ohlin model, such as technology and labor skills (factor quality).

When considering the quality of specialized factors, the Heckscher-Ohlin-Samuelson theorem remains valid. For example, the labor component in American exports during that era was distinctive due to the nation's superior workforce compared to its trade partners.

At that time, the USA's primary surplus was cultivated land, followed by skilled personnel, with capital ranking lower. Consequently, exports were predominantly goods that incorporated these leading factors.

Several explanations for Leontief's paradox exist. One is that products can be produced through various methods. Another is the heterogeneous nature of labor power.

Furthermore, the fact that the USA imported substantial quantities of raw materials, necessitating significant capital investment for extraction, plays a role. If American exports rely heavily on such raw materials, it can render them capital-intensive.

An American economist, James Hartigan replicated Leontief's calculations using the same year's data, but excluded industries reliant on capital-intensive raw materials. The results demonstrated the paradox's disappearance, affirming the Heckscher-Ohlin theory's correctness.

Another explanation of the Leontief paradox emerged in 1971 from American economist Robert Baldwin. He considered the existence of an American import tariff, introduced to safeguard labor-intensive sectors from foreign competition and prevent the import of labor-intensive goods. Baldwin's calculations revealed that tariff elimination reduced the Leontief paradox's effect by 5%, though it didn't entirely eliminate it.

4.4. Alternative theories

4.4.1. The theory of the product life cycle

The concept of the product life cycle was introduced into the realm of economic study due to the finite duration that each product experiences in the market. Products are eventually replaced by more advanced versions, leading to the need for this concept.

The product life cycle delineates the sequential stages of a product's presence in the market, tracking changes in sales volume and profit over time. The cycle encompasses the following phases: product development, market introduction, growth, maturity, and decline.

Raymond Vernon proposed this theory, capturing the 1960s reality where products initially designed for the American market gradually expanded to other global regions.

At its core, the international product life cycle theory asserts that certain product types undergo distinct stages – introduction, growth, maturity, and decline – where production moves across countries throughout these cycles.

1. **The implementation stage** corresponds to when a new product enters the market, gradually gaining traction in sales volume. The primary objective during this phase is to effectively introduce the product to consumers and encourage initial trial purchases. This is accomplished through strategies like distributing complimentary product samples, conducting public demonstrations, and participating in exhibitions and fairs.

During the product introduction stage to the market, there is a marginal increase in sales volume. However, this phase may not yield immediate profitability due to substantial capital investments in marketing, limited initial product releases, and potential challenges in mastering production processes. Industrialized countries play a significant role in this stage, taking the lead in introducing and promoting the product within the market.

2. **The growth stage** commences with a rapid surge in sales volumes and the company's profitability. This signifies consumer acceptance of the product. As competing firms become more active, there is a need for

adjustments to specific product attributes, enhancements in packaging, and improvements in services offered.

Concurrently, alongside the domestic production of the new product, the country of innovation might initiate its production abroad.

3. **The maturity stage** entails a deceleration in sales volumes, heightened competition, elevated marketing costs, potential price reductions for the product, and either stabilization or decline in profits.

To extend the product's maturity stage, various strategies are employed: expanding the market through modification; exploring novel applications for the product; altering product characteristics through modifications or design enhancements; adjusting marketing approaches such as pricing policies, distribution channels, and advertising campaigns. This stage can be prolonged through the modernization of product or market segments.

As global demand for new goods plateaus, production may shift to other countries capable of employing established technology, leading to reduced unit production costs. This reduction in costs facilitates increased sales in underdeveloped nations.

4. During the decline stage, there is a significant drop in sales volume and profit, leading to a reduction in the number of competitors. This phase corresponds with consumers transitioning to a new product.

To navigate the decline stage, firms can implement several strategies, including discontinuing the production of outdated products. If the product remains profitable, companies may opt to drastically cut marketing expenses or establish production contracts with overseas subsidiaries.

The International Product Life Cycle theory suggests that initially, many new products will be produced in the countries where they were studied and developed, primarily industrially developed nations.

Over the course of the product life cycle, which consists of four stages, production becomes more capital-intensive and eventually shifts to other countries.

This theory's **advantages** include its ability to explain trade development patterns for a wide range of goods, encompassing synthetic materials, cotton fabrics, leather and rubber products, paper, electronics, petroleum products, and office equipment.

However, there are certain **disadvantages** to this theory:

1. It does not account for all product types, particularly luxury items that may not follow the complete life cycle stages.

2. The theory attributes leadership to the USA, which had already established its dominance.

3. The theory isn't applicable to products produced by multinational corporations (TNCs).

4.4.2. The theory of similarity of countries, or the theory of intersecting demand

Interindustry trade involves the exchange of goods between different industries in separate countries, while international trade is significantly composed of intra-industry trade transactions. Intra-industry trade refers to exchanging goods produced within the same industry across different countries. For instance, Japan exports Toyota cars to Germany, and Germany reciprocates by exporting BMW cars to Japan. Remarkably, nearly 40% of global trade is attributed to intra-industry trade, a phenomenon often overlooked by classical international trade theories.

In 1961, Swedish economist **Stefan Linder** sought to elucidate the phenomenon of intra-industry trade. Linder proposed that trade in manufactured goods occurs due to shared consumer preferences among countries with similar economic development levels. According to Linder, companies initially produce goods to meet domestic demand. Exploring new sales prospects reveals promising foreign markets where consumers prefer products like those demanded domestically. For instance, in the Japanese market, a segment of potential buyers for BMW cars – a prestige-seeking, affluent group-aligns with German consumers' preferences. Germany's market for Toyota cars caters to a segment focused on the optimal «price-quality» balance, paralleling Japanese consumers in this category. With each company targeting a specific consumer segment in the other country's market, the mechanism of intra-industry trade is set in motion.

This theory was based on the **following principles:**

- production conditions depend on demand conditions;
- the conditions of domestic production are primarily contingent on domestic demand. The cornerstone of production lies in the representative demand within the country, which serves as a fundamental but not solely adequate condition for a product's export potential;
- the foreign market is just a continuation of the domestic market, and the international exchange is only a continuation of the interregional one.

The theory's strength lies in its ability to elucidate trade between similar goods. However, its weakness emerges when there exists a substantial income disparity between consumers in both countries, considerably restricting its applicability in explaining international trade.

4.4.3. The theory of competitive advantages

The theory of competitive advantages of countries (nations) was pioneered by American economist **Michael Porter**, who examined practices of companies across ten major industrial nations: Great Britain, Germany, Denmark, Italy, South Korea, Singapore, the USA, Switzerland, Sweden, and Japan, accounting for half of global exports.

M. Porter focused on understanding and maintaining competitive advantage in over 100 relatively complex sectors and industries. He considered these sectors crucial for high and increasing productivity within a country, beyond the scope of traditional and modern international trade theories. The selected countries varied in terms of economic development, size, governmental policies, social philosophies, geography, and location, but they all shared a common trait – success or growing capability in competing within the analyzed industries. Industry competitiveness was assessed over 1971, 1978, and 1985.

The result was a comprehensive theory of competitive advantage, outlined in Michael Porter's seminal work **«The Competitive Advantage of Nations»** (1991). This theory is substantiated by ample evidence gathered during the four-year study. Porter's research concluded that a combination of four main factors influences a country's competitiveness in international trade:

1. Factor conditions: specific prerequisites like skilled workforce and infrastructure required for effective competition in a particular industry.
2. Demand conditions: domestic market demand for goods or services produced by the industry, considering national economic, cultural, educational, and ethnic traits.
3. Related and supporting industries: the presence of competitive related or supporting industries on the global market.
4. Firm strategy, structure, and rivalry within the competitive environment: factors like effective market strategy, flexible company policies, stimulating domestic market competition, and minimal state protectionism.

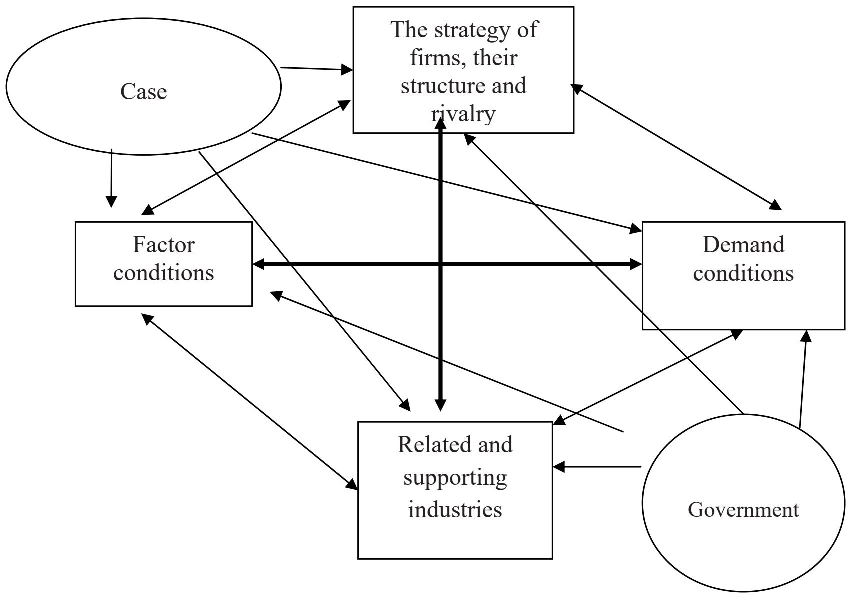

Fig. 4.1 M. Porter's national rhombus of competitive advantages[1]

[1] Kozyk V.V., Pankova L.A., Danylenko N.B. Mizhnarodni ekonomichni vidnosyny [International economic relations]: navch.posib. 6-te vydan. K.: Znannya, 2006. S.150 [in Ukrainian]

The success of countries in specific economic sectors hinges on the combined impact of their production factor availability, local demand characteristics, development of related industries, competitiveness, and local market conditions. The author contends that these four determinants collectively positively influence a country's firms effectively competing on the global stage.

The determinants of national competitiveness form a complex, evolving system. Michael Porter referred to this system as a «diamond», with each determinant influencing the others. The theory of competitive advantage of nations posits that governments can both positively and negatively influence each of the four components of Porter's diamond. Governments can shape local demand through product standards and regulations that guide buyer needs. They can affect related and auxiliary industries through regulation and competition levels via tools like tax policies and anti-monopoly measures.

One **advantage** of this theory is its recognition of the role played by economic factors, politics, cultural values, and national leadership in ensuring the success of firms within specific market segments and industries. In essence, it elucidates the attributes inherent to a nation that are prerequisites for its industries to succeed in international competition.

4.4.4. Theory of technological gap

The theory of the technological gap, developed by American economist **Michael Posner** in 1961, elucidates the advantages enjoyed by a country that introduces new goods to the market. Posner asserts that technological change is an ongoing process. Even if countries possess similar factor proportions and preferences, the continuous cycle of invention and innovation can stimulate trade.

In this model, a firm unveils a new product on the domestic market for the first time. Once it proves successful domestically, efforts are made to introduce it to foreign markets. These new goods grant the producing firm or exporting nation a temporary monopoly in world trade until competing firms with similar products emerge. Patents and copyrights often fortify this temporary monopoly. The technological gap a company holds can confer a fresh advantage to the product's country of origin. The exporting nation garners a comparative advantage globally and a temporary monopoly until other producing nations can replicate the new product.

This theory posits that a country can sustain its position as a primary exporter globally only through constant innovative endeavors. Nonetheless, this model has limitations, as it does not delineate the extent of the technological gap, how it arises, or how it is ultimately bridged.

4.4.5. The theory of economies of scale of production

Economies of scale pertain to the advantageous economic outcomes a company gains as its production scale enlarges. This is because the production costs can be distributed across a larger volume of products. As the company's size grows, the cost savings resulting from increased production become more substantial.

Business size plays a pivotal role in economies of scale. Greater business size corresponds to greater savings. These economies can be categorized as internal or external. Internal economies of scale emanate from managerial decisions, encompassing accounting, information technology, and marketing functions.

Economies of scale are paramount across industries, signifying cost savings and competitive edges that larger businesses enjoy over smaller counterparts. Consumers often wonder why smaller businesses may charge more for a similar product that larger enterprises offer. This variation in unit cost hinges on production volume. Larger companies benefit from spreading production expenses over a higher quantity of goods. Moreover, if multiple companies produce similar products within an industry, the industry itself might influence product costs.

Several factors contribute to reduced unit costs via economies of scale. First, labor specialization and advanced technology bolster production volumes. Second, unit costs can decrease due to bulk orders from suppliers, sizable promotional acquisitions, or diminished capital expenses. Lastly, the dispersion of internal function costs across higher quantities of units produced and sold contributes to cost reduction.

Intrinsic and extrinsic scale effects comprise two distinct types. Intrinsic economies of scale transpire within a company through shifts in operational or production strategies. Conversely, external economies of scale originate from industry-wide factors that influence a solitary company and the entire sector.

Internal economies of scale emerge when a company reduces its internal costs, a phenomenon that is specific to that particular firm. This may arise due to the company's sheer magnitude or strategic decisions made by its management. Diverse categories of internal economies of scale exist, encompassing:

1. Technical: Incorporating large machinery or production procedures that amplify productivity.

2. Purchase: Gaining price concessions for large-volume procurements.

3. Management: Enlist specialists to oversee and enhance various facets of the production process.

4. Risk: Spreading risks among multiple investors.

5. Financial: Elevating creditworthiness, leading to more favorable interest rates.

6. Marketing: Leveraging more influential advertising strategies.

Large enterprises frequently accomplish internal economies of scale, characterized by diminished costs and augmented production levels. This success may stem from their ability to purchase resources in bulk, possess proprietary technology, secure patents, or access greater capital resources.

PRACTICUM FOR TOPIC 4

Exercise 1. **Control and discussion questions**

1. What are the main postulates of mercantilism regarding international trade?

2. Show the difference between the positions of absolute and comparative advantages theories.

3. What is the source of countries' comparative advantages in the Heckscher-Olin model?

4. Name the key characteristics of P. Samuelson's international trade theory.

5. What is the essence of the Heckscher-Ohlin theorem and what does Leontief's paradox have to do with it?

6. Reveal the essence of Leontief's paradox?

7. What effect will an increase in national reserves of a certain factor of production have on the volume of output of various goods (assuming constant prices of final products)?

8. Does international trade in goods leads to the equalization of prices for factors of production between countries?

9. What are the features of the theory of comparative advantages?

10. How does the product life cycle theory work at the international level?

11. What is the essence of the theory of competitive advantages of nations?

12. Name the key characteristics of alternative theories of international trade.

13. To study the latest theories of international trade.

Exercise 2. **Topics for scientific essays and presentations**

1. Evaluate the application of M. Porter's theory of competitive advantages in any country's tourism field.

2. Analyze the activities of any leader of a firm (corporation or enterprise) according to the theory of competitive advantages.

3. Describe the product life cycle (of your choice) according to the product life cycle theory.

4. Investigate the volume of international trade according to the countries' similarity theory.

5. Investigate the economic potential of large countries in international trade according to the theory of country size.

INTERNATIONAL TRADE IN GOODS

Main questions for study:

5.1. The essence, types, and indicators of international trade.
5.2. Forms of international trade.
5.3. Methods of international trade.
5.4. Pricing in international trade.
5.5. Means and methods of payment in international trade.

5.1. The essence, types, and indicators of international trade

In the global economy, it stands as a pivotal driver of economic progress. A distinct variant of international economic interactions is international trade, encompassing the entirety of foreign trade in goods, services, and the intellectual labor products of all nations worldwide. International trade accounts for approximately 80% of the total volume of global economic transactions. It denotes the exchange of goods and services between countries, serving the aims of export and import activities.

International trade involves the interaction of residents from various nations, encompassing individuals, legal entities, transnational corporations (TNCs), companies, and regional integration groups. The objects of international trade encompass both goods and services.

Foreign trade, which is limited to a single country, pertains to purchasing or selling goods and services across national borders.

Based on the nature of the traded items, two fundamental **forms** of international trade emerge:

- International trade in goods (ITG) signifies the collaboration between producers of goods from diverse countries, evolving through international division of labor and reflecting their interdependence. This encompasses the exchange of raw materials, food, semi-finished products, fuel, and finished products, both for production and non-production purposes.

- International trade in services (ITS) represents the specific interactions between sellers and buyers from different nations involving services. Examples span production, transportation, consulting, tourism, medical care, education, and marketing services.

Three primary types of international trade can be delineated: export trade, import trade, and transit trade.

Export trade encompasses selling goods or services produced within one country to residents of another country. For instance, the UK exports a range of items including cars, turbojet aircraft, medicine, gold, and crude oil. In 2022, the UK's exports of goods and services totaled £815 billion.

Import trade encompasses procuring goods or services from another country, where they were manufactured or created. Imports typically arise when there is insufficient demand or lower production capacity in the country of origin. Goods can also be imported when they cannot be manufactured locally, such as importing crude oil.

Transit trade denotes the import of goods into a country followed by their re-export without distribution within the importing nation. For instance, if metal is imported from India to Singapore, processed, and subsequently re-exported to China, it constitutes transit trade. This form of trade serves purposes like accessing equipment, technology development, and bolstering international economic ties.

There are five main reasons for the development of international trade: differences in technology, differences in resource availability, differences in demand, the presence of economies of scale, and the presence of government policies.

Each trading pattern usually includes only one motivation for trading.

International trade in goods is the earliest and most developed form of IER.

The following factors influenced the stable and sustainable growth of international trade:

1) development of IDL and internationalization of production;

2) R&D, which promotes the restoration of fixed capital, the creation of new competitive branches of the economy, which accelerates the reconstruction of old branches;

3) active activity of TNCs on the world market;

4) liberalization of international trade with the help of measures carried out by GATT/WTO;

5) development of trade and economic integration processes.

Current trends in international trade exhibit a dual nature. On one hand, there is a notable surge in international economic integration, marked by the gradual erosion of borders and the emergence of various interstate trade alliances. Simultaneously, the international division of labor is deepening, leading to a distinction between industrially advanced and underdeveloped nations.

Distinctive attributes characterizing the present stage of international trade development include:

- Accelerated growth rates in international trade surpassing production growth rates.
- Structural shifts in the composition of international trade, favoring finished products, particularly those high-tech and science-intensive, along with services.
- A rising prominence of developing nations and newly industrialized countries in the realm of international trade.
- Augmented influence of foreign economic policies pursued by nations.
- Reinforced role of transnational corporations (TNCs) in shaping international trade dynamics.
- Escalation in the exchange of services.

International trade materializes through two opposing flows: exports and imports, embodying key indicators such as trade balance and trade turnover.

Export refers to the sale of goods or services produced within one country, involving their transfer to another nation. Exports play a pivotal role in a country's developmental trajectory and have acquired diplomatic and foreign policy significance. Countries engage in exporting goods and services where they possess a competitive or comparative advantage.

Import, on the other hand, involves the acquisition of a product or service from a foreign country for trade purposes. These goods can be obtained by individuals, businesses, or government entities, either for further processing or resale to end consumers.

Foreign trade turnover is the amalgamation of a nation's exports and imports. The disparity between export and import values during a specific period (such as a month, quarter, or year) results in the **trade balance**. An **active (positive**) trade balance emerges when exports exceed imports, while a **passive (negative**) balance emerges when imports surpass exports. Negative balances are often offset using gold or convertible currency.

Value indicators are influenced by pricing fluctuations. For instance, even with an increase in physical goods sold, the export value can decrease if prices have dipped. Conversely, a rise in value indicators of foreign trade turnover might not necessarily signify a surge in actual trade volume, but rather an increase in commodity prices.

Successful engagement in the global market necessitates a country's possession of **foreign economic infrastructure** – a system capable of facilitating the movement of goods and services from producers to consumers in other nations. This infrastructure may comprise physical and technical facilities (such as well-equipped warehouses) and specialized post-sales support organizations.

Key indicators characterize the state of international trade, including its volume, export-import operations dynamics, commodity composition, and geographic distribution. Trade volume is assessed through qualitative and quantitative criteria. For export valuation, the **FOB** (Free on Board) price is commonly utilized, obligating the seller to transport and load goods onto ships at the port of shipment. For imports, the **CIF** (Cost, Insurance, and Freight) price serves as a valuation base, covering costs, insurance, and freight during transit, especially for waterborne shipments.

Commodity structure entails the composition of goods in exports and imports, while the geographic structure delineates trade flows across individual countries or groups of nations.

5.2. Forms of international trade

The following forms of international trade are distinguished according to the following criteria:

1. According to the specificity of the regulation mechanism, there are four forms of international trade:

- ordinary;
- preferential;
- discriminatory;
- according to the mode of the greatest assistance.

2. According to the specificity of the interaction of subjects:

- traditional (simple);
- cooperative trade;
- counter (compensatory);
- leasing (rental).

3. According to the specifics of the subject of trade:

- trade in raw materials (mineral raw materials, products of their enrichment and processing; agricultural raw materials of plant and animal origin and products of their primary processing; food products; chemical products);
- trade in industrial goods, machines and equipment;
- trade in intellectual property products;
- trade in services.

Let's delve into each form of international trade in greater detail.

Conventional trade, along with its corresponding trade regime, exists in the absence of trade agreements and mutual arrangements between countries.

Preferential trade involves one state granting benefits to another either on a mutual basis or unilaterally within the trade regime. These preferences or benefits are typically extended based on participation in customs unions, currency arrangements, economic unions, international organizations, and similar frameworks.

Developed countries provide preferences to developing nations unilaterally, but decisions regarding their application are usually developed through multilateral discussions. For instance, the European Union has established a general system of preferences that its member states extend to developing countries. These preferential benefits encompass finished and semi-finished goods.

Discriminatory trade entails using various restrictive measures (such as trade embargoes, trade wars, and other instruments) that unfairly treat a trading partner.

Trade discrimination in the context of international trade signifies a departure from the principle of providing an equal regime for all trading partners – a principle known as non-discrimination. This principle, adopted by both the United Nations and GATT/WTO, asserts that no country should face discriminatory treatment in international trade or other forms of international economic relations. However, in practice, discriminatory practices in international trade are quite prevalent. The United Nations permit measures such as trade embargoes, boycotts, and trade blockadess of exerting both trade-related and political pressure on a country that breaches international law norms.

The most-favored mode is a fundamental principle guiding the activities of WTO member countries. This trade approach entails contracting states offering each other concessions on duty rates, customs fees, and other regulations and mechanisms governing foreign trade transactions.

Conventional trade remains the most prevalent form of international trade, involving the uninhibited exchange of exports and imports of goods and services, without being contingent on cooperative relationships.

Cooperative trade is marked by participating countries mutually agreeing, in a contractual manner, upon the terms of collaborative production activities.

Key features of international production cooperation include:

- The presence of industrial enterprises engaged in production cooperation from various countries across the globe.

- Contractual recognition of the primary cooperative elements – finalized products, technologies, semi-finished goods, components, equipment, etc.

- Coordination of business endeavors among partner enterprises hailing from diverse nations.

- Allocation of specialized production tasks among partnering entities.

- Execution of reciprocal or unilateral goods supply following the agreed-upon production program schedule within the bounds of the cooperative agreement.

- Establishment of enduring and stable relations between partners, leading to the deepening of industrial and technological interconnections and fostering close collaboration and interdependence.

Production cooperation has gained significant popularity, particularly in industries such as automotive manufacturing, shipbuilding, tractor production, electrical engineering, and more.

Compensatory (reciprocal) trade represents a form of barter where one part of the exchange involves goods, while the remainder is conducted using hard currency.

In compensatory trade, the unique aspect of the relationship between the exporter and the importer lies in the linkage between the sale of goods or services and corresponding purchases, or conversely, the purchase of goods or services and related sales. Payment occurs through the provision of goods and/or services, either in addition to or in lieu of financial settlement. Such agreements can be formalized as single or multiple interconnected contracts.

As per the terminology of the UN Economic Commission for Europe, all types of trade and counter agreements fall under the category of international compensation agreements. In these agreements, firms from different countries mutually commit to specific actions, such as the supply of goods, services, or technologies, which will be reciprocated in a manner clearly outlined in the relevant contractual documents, and the corresponding actions will be executed in the amounts stipulated therein by the other party. It's important to note that the concept of counter trade excludes pure barter transactions.

According to a compensation agreement, the exporter pledges to buy a defined quantity of goods from the importer during an agreed-upon timeframe. Typically, the export and import goods are not directly related. This agreement usually encompasses a shorter duration compared to a repurchase agreement, generally spanning from 1 to 3 years.

Compensation agreements entail the exporter agreeing that the importer will pay, either entirely or in part, for the supplied goods. This agreement combines both the purchase and sale aspects into a single contract.

Leasing (rental) trade encompasses a trade format where goods, predominantly machinery and equipment, are sold based on a purchase and sale agreement that effectively transforms into a purchase process. This transaction can extend over several years, and the outcome might not necessarily involve the transfer of ownership of the subject of the agreement. The foundation of this trade model is centered around rental arrangements.

Depending on the duration of the agreement, **three distinct types of leasing** are identified:

1. **Leasing**. This involves the extended rental of machinery, equipment, or real estate for periods exceeding one year. There are two primary forms of leasing:

- *Operational Leasing*: Lasting for about 3 to 5 years, this type of leasing involves a lease term that is shorter than the product's entire life cycle. As a result, the asset isn't fully amortized during the lease duration. After the lease term concludes, the goods are returned to the lessor and then released for a new term.

- *Financial Leasing*: Spanning 15 to 20 years, financial leasing corresponds to the full payback term of the leased equipment. At the end of the lease term, the lessee can choose to return the leased object to the lessor, establish a fresh agreement under preferential terms, or acquire ownership of the leased equipment by paying the remaining value.

2. **Hiring**. This form encompasses medium-term machinery and equipment rentals, typically 1 to 3 to 5 years.

3. **Renting**. In this format, machinery and equipment are rented out on a short-term basis, generally for periods of up to 1 year.

In international leasing, the dynamics between the seller (exporter) and the buyer (importer) exhibit distinct features:

- The transaction is facilitated through the involvement of a specialized clearing company.
- All parties involved in the agreement are situated in different countries.
- The leasing agreement diverges from the conventional sales agreement due to the timing of transferring ownership of the subject of the agreement to the lessee (in the case of financial leasing) or the absence of such a transfer altogether (in operational leasing).

Based on the direction of the leasing transaction, international leasing is categorized into the following types:

- **export leasing**: This involves an agreement where both the supplier and the leasing company are situated in the same country. The lessee, in this scenario, is a foreign company;
- **import leasing**: In this operation, the leasing company is located in the country of the lessee, while the supplier is a foreign company;
- **transit leasing** is an agreement with all participants in different countries. These are the most complex operations for leasing companies.

International leasing operations take place thanks to various sources of financing. Depending on this, the following types of leasing are distinguished:

- at one's own expense, which involves the use of one's own financial resources for the execution of the leasing agreement;
- for funds raised (loans, loans from banks and financial companies);

- with partial financing by the lessor. It is usually used for the implementation of projects, and its essence is that the lessor pays only a certain amount from his own funds (60-80% of the value of the object) when purchasing the leased object, and the rest of the necessary funds is raised as a loan from one or more creditors (equity share the supplier of the subject of the leasing agreement may also have). At the same time, the debt is paid as lease payments are received from the lessee throughout the term of this agreement.

5.3. Methods of international trade

A trade method refers to a way trade exchanges (trade transactions) are conducted. In the realm of international trade practice, two primary trade methods are prevalent:

1. **Direct Method**: This entails the direct execution of a transaction between the producer and the consumer. With the direct method, a financial advantage is apparent, as intermediary commission expenses are minimized. Additionally, risks and dependency on the intermediary's integrity or competence are reduced. Direct trade is characterized by purposefulness, long-term stability, and a continuous market presence, which enables swift responsiveness to market changes. However, employing the direct trading method necessitates commercial expertise and trading experience. Otherwise, financial costs might not decrease and could potentially escalate.

2. **Indirect Method**: In this approach, goods are bought and sold through an intermediary trading firm. This is achieved by entering into a specialized agreement with the intermediary, outlining its responsibilities concerning the sale of the manufacturer's goods.

Both methods have their own merits and considerations, and the choice between them depends on various factors including market dynamics, risk tolerance, financial considerations, and the level of commercial expertise available.

Table 5.1

Classifications of types and characteristics of intermediaries[2]

№	Qualification sign	Types and characteristics mediators
1.	Depending on the granted powers	1. A broker is an intermediary who does not have the right to sign agreements with third parties but only seeks the possibility of concluding awarding the contract.
		2. A dealer is an intermediary who signs agreements with third parties on his own behalf and at his own expense.
		3. A distributor is an intermediary who receives the right to sell goods of the manufacturing company (acting on behalf of another) in a certain territory within a certain period at its own expense.
		4. A commission agent (consignor) is an intermediary who concludes a delivery agreement with third parties on his own behalf but is not the owner of the product and works at the expense of the manufacturing company (trustee).
		5. An agent (trade agent or representative, agent-attorney) - represents the interests of sellers (principals) on a long-term basis, concluding agreements with third parties on behalf of and at the expense of the principals.
2.	Depending on the degree of versatility (specialization) functions	A functionally universal - mediator who performs the entire set of wholesale functions.
		Functionally specialized trade intermediaries that create conditions for the execution of acts of sale.
		Functionally specialized logistic intermediaries, that create conditions for the organization of trade.

[2] Klasyfikatsiya ta kharakterystyka sub'yektiv poserednyts'koyi diyal'nosti [Classification and characteristics of intermediary activity subjects]. Retrieved from https://pidruchniki.com/1249110353878/ekonomika/klasifikatsiya_harakteristika_subyektiv_posedrednitskoyi_diyalnosti [in Ukrainian].

1	2	3
3.	Depending on the commodity universality (specializations)	1. Merchandise-universal - intermediaries with several groups of goods in their assortment.
		2. Product-specialized - intermediaries who sell a limited range of goods with narrow specialization.
4.	By type of consumer	1. Wholesalers are intermediaries who buy products for the purpose of e further resale.
		2. Retail - intermediaries who sell products to the end consumer.
5.	Depending on the organizational status	1. Independent – intermediaries who carry out their activities without subordination to other subjects' markets.
		2. Administrative - intermediaries who are under the corporate control of suppliers or consumers.
		3. Contractual – mediators who are formally independent but according to contracts must perform certain functions at the request of other market subjects.
		4. Managed – intermediaries who are formally independent, but due to market conditions must perform certain functions at the request of other market subjects.

The use of sales intermediaries (firms) gives certain advantages:

1. In this case, the exporting company does not invest significant funds in the organization distribution network in the importing country's territory.

2. They free the exporter from many problems related to the sale of goods, adapting to market requirements.

3. It is essential to use the capital of trading and brokerage firms based on short- and long-term lending.

4. Sales intermediaries completely monopolize the markets of some goods and are inaccessible for direct contact with consumers.

Simple intermediaries (brokers) search for and bring together mutually interested sellers and buyers but do not directly participate in the transactions themselves.

The following organizational forms of **intermediaries** are distinguished:

- international commodity exchanges;
- international auctions;
- international bidding (tenders);
- international fairs and exhibitions.

International commodity exchanges serve as continuous wholesale markets where bulk raw materials and food products are traded through purchase and sale agreements.

Around 70 different goods are the subjects of international trade on commodity exchanges, encompassing nearly 30% of global trade.

Two forms of commodity exchanges exist: **universal exchanges** (like Chicago - dealing in grain, soybeans, broilers, gold, silver; London - specializing in coffee, cocoa, sugar, and rubber) and **specialized exchanges** (for instance, London and New York for non-ferrous metals; Chicago, Winnipeg, London, Milan for grain; New York, London, Paris for coffee, cocoa).

In the United States of America, the CME Group owns four major exchanges: Chicago Board of Trade, Chicago Mercantile Exchange, New York Mercantile Exchange, and COMEX. In terms of daily volume, the CME stands as the world's largest futures and options market.

The annual trading volume on international commodity exchanges, stemming from various types of operations, is estimated to be between 3.5 to 4 trillion US dollars

An international auction represents a method for the international sale of individual batches of goods or single items. These items are sequentially presented for inspection and are acquired by the highest bidder.

Types of auction trade:

- public auction;
- silent auction;

- Dutch auction (participants gradually increase the price of their offer, such auctions work with a price decrease. During the auction, the price automatically decreases until one of the participants stops this decrease. This means they are ready to buy the lot for this amount).

Auctions can be categorized into three main types:

- Specialized auctions
- Universal auctions
- Compulsory auctions.

Prominent international auctions are hosted in renowned cities like London, New York, Amsterdam, Montreal, and others.

International bidding, also known as tenders, constitutes a competitive procurement method wherein the buyer (customer) initiates a contest for suppliers (sellers) from various countries. The goal is to provide a product or service aligning with specific technical and economic prerequisites. Open, closed, and single tenders are prevalent formats.

Tenders hold significant sway in the global machinery and equipment market.

An international fair denotes a substantial, periodically organized market event that takes place at a specified venue and time. These fairs facilitate agreement signings, product sample displays, the exchange of scientific and technical information, as well as business negotiations. For instance, the Frankfurt Book Fair is a traditional European event boasting over 7,000 exhibits from around 100 countries, extending over five days.

International exhibitions manifest as public showcases spotlighting accomplishments across the realms of economy, science, technology, culture, art, and other societal domains of one or more countries. Noteworthy examples include distinguished automotive exhibitions such as the Paris Motor Show, Internationale Automobil-Ausstellung (IAA Cars) or Frankfurt Motor Show, Geneva Motor Show, Tokyo Motor Show, North American International Auto Show (NAIAS), Auto China Show, New York Auto Show, International Chicago Auto Show, Shanghai International Automobile Industry Exhibition (Auto

Shanghai), Dubai International Motor Show, Auto Expo in India, and The Australian International Motor Show (AIMS).

5.4. Pricing in international trade

The global commodity market exhibits a multitude of prices, reflecting the existence of multiple price points for the same product or items of identical quality within the same sector. World prices encapsulate the rates at which export and import operations transpire, comprehensively delineating the state of international trade concerning a specific product.

Key characteristics of **world prices** include:

- Substantial commercial export-import activities are executed based on world prices.

- Transactions are settled in freely convertible currencies.

- All trade agreements are conducted via international commodity exchanges.

The principal factors shaping prices on the global commodity markets encompass:

- General Economic Factors: These factors are applicable across different product types and regardless of production and sales conditions. They encompass aspects like inflation, the overall state of demand and supply, and the economic cycle.

- Specific Economic Factors: These are determined by product attributes and the conditions of production and sale. They comprise elements like taxes, fees, demand and supply dynamics for goods or services, and consumer characteristics such as quality, reliability, prestige, etc.

- Specific Factors: Pertaining to goods and services, these factors include seasonal fluctuations in production and sales, operational expenses, supply completeness, post-sales service guarantees and conditions, etc.

- Special Factors relate to the influence of specialized mechanisms and economic instruments, such as government regulations and exchange rates.

- Non-Economic Factors: These impact world prices for a defined period. While not directly tied to the economy, they influence dynamics within the realm of international trade. Examples encompass political, military, and social factors.

World market prices materialize under the amalgamation of diverse influences, culminating in the actual price for a specific product.

Two types of prices are used in international trade: **settlement prices** and **published prices**.

Settlement prices are individually determined by exporting firms for specific industrial goods.

Published prices - prices reported in special and proprietary sources of information.

TNCs are the main entities of IER, which control 2/3 of international trade. Intra-corporate trade of TNCs is carried out according to a special category of world prices - transfer prices. **Transfer prices** are prices that differ from market prices. These are the prices of intra-corporate trade between units located in different countries of the world. This type of pricing is used to transfer profits and reduce taxes.

Transfer prices are a commercial secret, are mostly artificial in nature and are created not under the influence of supply and demand but based on internal company policy.

Global commodity markets are divided into four main types:

- the market of perfect or pure competition;
- pure monopoly market;
- the market of monopolistic competition;
- the market of competition of few suppliers (oligopoly).

The listed types of markets differ from each other in the number of trading entities, which is of key importance in the final formation of prices.

1. The **perfect (pure) competition market** is characterized by many sellers and buyers in the market of homogeneous products. The following features characterize this type of market:

- manufacturers strengthen their competitive advantages due to the introduction of the latest technologies, rationalization of production, and cost reduction;

- the quality of goods improves and their consumer value increases;
- the prices of goods are reduced in order to keep them on the market.

2. A market is considered a **pure monopoly** when there exists only one supplier of a particular good or service. In such a scenario, the manufacturer wields the authority to establish the price for the product. Typically, the manufacturer sets a price level that maximizes their profitability. This often involves imposing additional constraints on buyers. Pure monopolies are predominant in markets associated with exclusive goods, such as products within the aerospace industry, specific categories of machinery manufacturing, and items from the military-industrial complex. A notable example is the United States' historical monopoly in the space industry, particularly concerning the launch of commercial satellites. The National Aeronautics and Space Administration (NASA) exercised complete control over these endeavors for an extended duration.

3. **The market of monopolistic competition** involves the interaction of large monopolies and a significant number of medium and even small firms that have found their niche in the market. Such a market is characterized by two main features:

- each manufacturer produces products that are different from the competitor company. An example can be the car market in Europe, the prices of which tied to a group of leading firms in Germany, France, Italy, the USA, Japan, etc.;
- competition is not only intra-industry, but also inter-industry. For example, the metallurgical industry and the chemical industry through substitute goods.

4. **An oligopoly market** is characterized by the presence of a limited number of suppliers. In such a market structure, several supplier firms dominate key market segments while smaller entities hold a relatively insignificant role. This type of market hinges on the participation of a few key players. For the existence of an oligopoly, it's often necessary for relevant agreements to be established. These agreements outline

obligations for participants, covering aspects such as production volumes, market distribution, pricing policies, wage strategies, and more. One of the simplest ways to enforce these obligations is through a cartel

For instance, OPEC (Organization of the Petroleum Exporting Countries) operates as an international cartel. OPEC frequently adjusts pricing dynamics in the global oil market by managing the supply and demand for this strategically crucial resource.

The formation of prices in all types of markets is also directly or indirectly influenced by government policy. It manifests itself in the following measures:

- regulation of domestic prices and tariffs;
- provision of export subsidies, subsidies;
- customs and tariff policy;
- use of anti-dumping measures and procedures;
- tax regulation;
- state funding of R&D;
- establishment of certain quantitative restrictions, for example, quotas in foreign trade mainly within the framework of integration groups, trade blocs (unions).

5.5. Means and methods of payment in international trade

International settlements serve as the mechanism for regulating payments between participants engaged in international economic activities. They establish a framework for managing monetary claims and obligations.

A pivotal instrument in the realm of international settlements is the **promissory note**. This security document serves to validate the issuer's commitment to pay a specified sum of money to the promissory note's owner (also referred to as the holder) upon the predetermined due date.

Two main types of promissory notes are employed in the context of foreign trade transactions: the simple promissory note and the bill of exchange.

- **Simple Promissory Note**: This document outlines a basic commitment by the debtor (drawer) to fulfill a payment to the creditor (promissory note holder) within the stipulated timeframe and at the designated location.

- **Bill of Exchange (Draft):** A bill of exchange is a written directive issued by the drawer to the payer of the bill (drawee). This directive obligates the drawee to make a specific payment at a particular time and place to the holder of the promissory note. For instance, a promissory note can be employed in electronic tenders as a payment option for the procured item. This document is provided to the supplier in the value equivalent of the actually delivered goods. Upon drawing up the bill of exchange, the customer's responsibility to pay for the goods is replaced by the obligation to honor the bill of exchange instead.

Checks serve as a widely adopted instrument in international trade settlements.

A **settlement check** signifies a written directive issued by the account holder (cheque drawer) to their banking institution, instructing it to pay the designated sum of funds specified in the check to the check holder. This method is convenient for conducting transactions in cases where the importer is hesitant to release payment until the goods are received, and the exporter prefers not to relinquish the goods prior to securing payment guarantees.

For international trade transactions, bank transfers and credit cards stand out as the most utilized cash payment options for exporters.

A **bank transfer** involves a payment directive issued by a commercial bank to its correspondent bank. This directive entails transferring the specified sum of money from the transferor's account to the foreign recipient (beneficiary), indicating the method of reimbursement to the payer bank for the amount disbursed.

Bank transfers constitute an essential component of checks, promissory notes, collections, and letters of credit.

Credit (plastic) cards represent personalized payment tools that facilitate non-cash transactions for goods and services, along with cash withdrawals from bank branches and ATMs. These cards are widely employed in the context of private international settlements, offering convenience and ease of use.

An **international payment system** denotes a framework where payments are sent or received between countries. Such systems encompass transactions involving suppliers, banks, and often entail the exchange of two different currencies.

Numerous international payment systems exist on the global market. Systems like SWIFT and SEPA are intended exclusively for financial institutions engaging in international transactions. Additionally, payment systems designed to facilitate payments in online stores, such as PayPal, Skrill, or Alipay, are also prevalent.

Among the most widely utilized international payment systems, SWIFT and TARGET hold prominent positions.

The **SWIFT system**, standing for the Society for Worldwide Interbank Financial Telecommunications, serves as an international interbank financial telecommunication network designed for the seamless transmission of financial messages between banks. This system facilitates various functions, including the issuance of money transfer orders between banks. Consequently, both banks and their clients can efficiently transfer funds across the globe. SWIFT payments find application in foreign purchases, hotel room reservations, educational expenses, leisure activities, medical treatments, and money transfers.

The primary objective of SWIFT is to ensure rapid and dependable transmission of banking and financial information. This system encompasses processes of sorting and archiving information based on computer equipment, contributing to efficient data management within the financial realm.

SWIFT provides the following range of services:

- exchange of standardized financial messages with a fixed set of symbols;

- transfer of mass payments with an arbitrary set of symbols;

- exchange of protected financial messages of own formats in real time (online);

- unification of structural subdivisions of the financial system and its clients into a single closed virtual network, etc.

The main **advantages** of SWIFT payments:

- the speed of transfers to any country in the world;
- reliability. This system assumes financial responsibility for the timely delivery of messages;
- a transfer that will allow payment in any currency;
- profitability;
- security.

The main **disadvantage** of SWIFT is that you will have to pay a fairly high price for the wide availability of SWIFT transfers. The value here is incomparable higher and most often defined as a percentage of the transfer amount, but with a minimum and maximum value. These values are set for each country individually.

TARGET (Trans-European Automated Real Time Gross Settlement Express Transfer System) – Trans-European automated gross settlement system in real time. This system is intended to facilitate the introduction of a single currency policy, reduce the time of cross-border payments, create a safe and reliable mechanism for making and increasing the efficiency of payments between EU countries.

Advantages of the TARGET system:

- performing transactions in real time;
- reliable SWIFT technology;
- free access.

Disadvantages of the TARGET system:

- relatively high cost;
- limited ability to process large volumes of operations.

PRACTICUM FOR TOPIC 5

Exercise 1. **Control and discussion questions**

1. To which countries are the main flows of export and import of industrially developed countries of the world directed? What explains this?
2. Why, despite the low degree of dependence on international trade, are some industrially developed countries the main participants in world trade? Name these countries.
3. How do changes in terms of trade affect supply and demand and why?
4. What factors influence the process of pricing on world markets?
5. Investigate pricing in various global commodity markets.
6. Name the types of state policy in the field of foreign trade.
7. What is the specificity of the structure of international trade?
8. How is international trade relations regulated?
9. Analyze the means of payment in international trade.
10. Name the advantages and disadvantages of SWIFT and TARGET in international trade.

Exercise 2. **Topics for scientific essays and presentations**

1. Investigate the gains from international trade at the country level. Give examples.
2. Investigate the benefits of international trade for consumers. Give examples.
3. Investigate the benefits of domestic firms from export-import operations.
4. To study the countries that have competitive exports in the world.
5. What is the role of international trade in economic growth? Give examples.
6. To monitor the prices of non-ferrous metals on world commodity exchanges.
7. Monitor the prices of industrial and raw materials on world commodity exchanges.

INTERNATIONAL TRADE IN SERVICES

Main questions for study:

6.1. Essence and classification of services.

6.2. Peculiarities of international trade in services.

6.3. Ways of carrying out international transactions in the service sector.

6.4. Pros and cons of service sector development.

6.5. Regulation of international trade in services. The role of GATS.

6.1. Essence and classification of services

The world services market is a diversified system of specialized service markets, in which all countries participate, where various types of services are the main object. The world market for services exists on the basis of the international division of labor.

The share of services in the GDP of developed countries is now about 70%, while that of developing countries is 55%. More than 60% of workers are employed in the service sector of developed countries.

A service is a product of labor created as a result of a purchase-sale agreement. In other words, a service is an action, the result of which is consumed in the process of its provision.

Production of services has its own characteristics. It may or may not be associated with the product in its material form. In this regard, **two types of services** are distinguished:

- production (material);
- non-production (intangible).

Manufacturing services are related to tangible products. The provision of such services does not differ in content from the labor process in material production. The second type of services is not related to material products and is directed directly to a person or his environment.

There are different approaches to the classification of services. In international trade, more than 600 types of services are considered, united in the **following classification groups:**

1. Transport services (passenger, cargo transportation).
2. Services related to travel, in particular:
   - services related to business trips;
   - services related to personal trips.
3. Communication (postal, telephone, courier, and other communication services between residents and non-residents).
4. Construction (construction of facilities abroad).
5. Insurance (insurance of non-residents by resident insurance companies).
6. Computer and information services.
7. Financial services.
8. Royalties and license payments (for example, use of intellectual property rights: patent, copyright, trademark, etc.; use originals or prototypes (such as films) based on a license).
9. Personal, cultural, and recreational services.
10. Services of state institutions (administrative services).
11. Other business services (business, professional, leasing, consulting, etc.).

The GATT/WTO classification is based on the International Standardized Industrial Classification, a framework endorsed by the United Nations and widely accepted across numerous countries. As per this classification, services encompass all sectors falling within categories 4-9, specifically:

1. Communal services and construction.
2. Wholesale and retail trade, restaurants and hotels.
3. Transportation, storage, and communication.
4. Financial intermediation.
5. Defense, health care, and public works.
6. Other communal services, social and personal services.

This classification serves as the foundation during negotiations concerning the liberalization of international trade in services within the framework of the General Agreement on Trade in Services (GATS/WTO). GATS is the principal international agreement that governs trade in services on a global scale. It provides the overarching framework for regulating international trade in services.

The World Bank classification provides for the division of all services into **two groups:**

1. Factor services, which include payments arising in connection with the international movement of factors of production (income and investments, royalties and license payments, salaries to non-residents).

2. Non-factor services, which include the remaining types of services (transport, travel and other non-financial services), not related to production factors.

This classification, like the previous one, is used in solving the problems of regulating international trade in services within the framework of the GATS, which usually focus on non-factor services.

It should be noted that the provision of services mainly occurs simultaneously with the sale of goods or the implementation of investments; in the economic sphere, scientists have proposed to classify services depending on the method of their delivery to consumers:

a) services related to investments (banking, hotel, business);

b) services related to trade (transportation, insurance);

c) services related to both trade and investment (communication, construction, computer and information services, personal, cultural and recreational services).

In OECD countries and UNCTAD publications, services are divided into five categories:

1. Financial.
2. Information (communication).
3. Professional.
4. Tourist.
5. Social.

6.2. Peculiarities of international trade in services

Services have a number of **features**. These include:

- invisibility;
- the inseparability of the production and sale process;
- the time gap between the fact of purchase and sale and the fact of its consumption;
- as a rule, the impossibility of accumulation, storage, and transportation;
- insensitivity to the touch;
- a high degree of individualization depending on the consumer's requirements;
- territorial differences between their producer and consumer;
- obtaining a multiplier effect;
- trade is mainly carried out through direct contacts between producers of services and their consumers;
- its regulation is carried out not at the border, but within the country by the relevant provisions of domestic legislation;
- great dependence of the volume of services and their cost on the complexity and knowledge-intensiveness of goods;
- significantly greater protection by the state of the production and implementation of services than the spheres of material production and trade;
- services received for personal consumption (tourism, education, culture, etc.) cannot be used in economic turnover.

International trade in services is intricately intertwined with the global movement of capital and labor force. These interactions necessitate the utilization of various services, such as banking, transportation, education, healthcare, and more.

Contrasting with the manufacturing sector, the service sector often receives higher levels of state protection against foreign competition. For instance, numerous countries maintain full or partial state ownership in sectors like transport, communication, science, education, and healthcare.

Services are characterized by their intangibility and inability to be physically touched or preserved, setting them apart from tangible goods. The trade of services is intrinsically linked to their production. Exporting services entails providing services to non-resident foreigners, even if they are situated within the country's customs territory. However, these characteristics have exceptions – some services can indeed be seen (e.g., reports on flash drives) or stored (e.g., telephone answering systems).

Governments extend protection to their domestic producers differently between goods and services. While manufacturing industries may be shielded via tariffs, quotas, and other measures, the service sector primarily relies on national regulations, foreign direct investment rules, and the involvement of foreign service providers within national enterprises.

The dominant players in the services trade landscape are highly developed nations, contributing to around 70% of global service exports and over 50% of imports. Prominent countries in this realm include the USA, Germany, France, and the Netherlands. A subset of these, including the USA, Great Britain, Germany, and France, account for a significant portion of global service exports.

Developing countries, excluding a few emerging markets like South Korea, Mexico, and Singapore, serve as substantial consumers in the services market. Specialization is observed in various sectors, such as South Korea's engineering and construction services, Mexico's tourism, and Singapore's financial and banking services. Additionally, smaller island nations often rely heavily on tourism and the hospitality industry for their economic sustenance.

Tourism and transportation services command a substantial share in the services market, representing approximately a quarter of global trade in services. Countries like Japan, the UK, Germany, and Norway play significant roles in shipping, with Norway's service exports being influenced considerably by shipping. Land transportation, tourism, and travel see strong leadership from the USA, UK, and France. Notably, a substantial portion of Canada's, Italy's, and Switzerland's export earnings are attributed to tourism.

6.3. Ways of carrying out international transactions in the service sector

There are **four ways** of carrying out international operations in the field of services:

1. Cross-border supply (providing services across the state customs border).
2. Consumption abroad, i.e., the physical movement of consumers to the producing country.
3. Commercial presence.
4. Relocation of natural persons-producers of services to the country of consumption.

The first method assumes that neither the producer nor the consumer of the service crosses the state border, but only the service itself. For example, international money transfers.

The second method involves moving the service consumer abroad. For example, receiving medical services by a patient abroad or receiving educational services by a student abroad, etc.

The third way is the opening of branches of foreign commercial banks in third countries.

The fourth way is that the producer of the service crosses the border, but the consumer of the service does not. For example, tours of artists, actors who provide their services abroad.

There may be cases where no method can be used to provide the service only one way thanks to the latest advances in communication technology and international electronic trade. For example, a certain consulting service can be provided by technical means of telecommunications and directly present individuals.

6.4. Pros and cons of service sector development

Advantages and disadvantages of the development of the service sector.

Advantages:

1. In Comparison with Material Production

The service sector demonstrates lower material, resource, and energy intensity in comparison to material production.

2. Absorption of Surplus Labor

The service industry effectively absorbs surplus labor arising from enhanced efficiency in large-scale industrial enterprises.

3. Addressing Territorial Economic Issues

The expansion of the service sector can aid in resolving territorial economic challenges, such as the decline of production capacities in certain regions.

4. Enhancing Economic Openness

The growth of the service sector fosters increased economic openness within a country.

Disadvantages:

1. Substantial Initial Investment and Skilled Workforce

Certain sectors within the service industry demand significant startup capital (e.g., entertainment, medicine, banking, and transport) and/or a highly skilled workforce (e.g., consulting, IT, finance, medicine, and advertising).

2. Impact on Production Share

The expansion of the service sector often results in a decline in the proportion of production within the overall economy. This shift could potentially lead to a rise in the import of goods, contributing to a negative trade balance in «raw» economies.

3. Indirect Environmental Impact

The growth of the service industry can indirectly affect the environment, characterized by accelerated industrialization of landscapes due to the construction of infrastructure like roads and airports.

6.5. Regulation of international trade in services. The role of GATS

States apply various instruments of trade policy in the sphere of regulation of trade in services.

These measures include:

1. Restrictions on trade in services.

2. Restrictions on the movement of people and their right to practice abroad.

3. Restrictions on establishing branches of foreign companies providing services in the domestic market.

4. Restrictions on the movement of service users.

5. The existence of monopolies for providing certain types of services recognized by the state, and sometimes even performed by it.

6. Prohibition of state bodies to purchase foreign services.

7. Introduction of quantitative quotas for the import of foreign services, etc.

The international regulation of trade in services is conducted through various channels, including bilateral agreements, multilateral agreements within country associations (such as the European Union), and international organizations like GATT/WTO.

A significant milestone in this realm was the Uruguay Round of GATT negotiations, which led to establishing the General Agreement on Trade in Services (GATS). This agreement became a foundational element of the World Trade Organization (WTO) and officially came into effect in 1995.

GATS serves as a regulatory framework for global trade in services, operating on established rules and principles. Its primary goal is to facilitate the expansion of trade in services through openness and gradual liberalization. Moreover, it aims to involve more developing countries in this domain by enhancing the potential of their domestic service sectors, thereby increasing their efficiency and competitiveness on the global stage.

Goals of GATS:

- to create a reliable and predictable system of international rules for trade in services;
- to promote the gradual liberalization of service markets.

The fundamental principles of GATS apply to all service sectors.

But there are two **exceptions**, in particular:

- services provided during the performance of state powers on a commercial basis, such as: social security schemes, health care, education.
- services related to air transport.

GATS also applies to all services procured by all levels of government (central, regional, local, etc.).

Basic principles of GATS:

- application of the most favored nation regime to international trade in services;
- transparency of regulation (transparency of regulations);
- mutual determination of qualification requirements for service providers;
- rules on the regulation of monopolies, exclusive service suppliers and other business activities that limit competition;
- measures of trade liberalization, particularly those that foresee developing countries' growing role.

The provisions outlined in the GATS encompass the entire spectrum of measures implemented by WTO member countries' governments concerning commercially provided services. However, services procured by government entities for their internal requirements fall outside its scope and are governed by the Agreement on Government Procurement within the WTO.

Beyond the central GATS agreement, the international legal framework governing service-related matters is composed of various agreements, both bilateral and multilateral, covering different aspects:

1. International Agreements on Sector Cooperation: These operate through international organizations such as the International Civil Aviation Organization (ICAO), International Maritime Organization (IMO), and United Nations World Tourism Organization (UNWTO) to facilitate cooperation in specific service sectors.

2. Bilateral and Multilateral Trade Agreements: These encompass trade and economic agreements among nations, addressing aspects of services and capital movements. Regional trade agreements (RTAs) also fall within this category.

3. Sector-Specific Agreements: Countries forge bilateral and multilateral agreements in various service sectors, including maritime and air transport, tourism, education, healthcare, telecommunications, space, and more.

4. Agreements within Regional and International Organizations: Services cooperation within regional integration associations (such as the European Union, MERCOSUR, ASEAN) and international organizations (like the OECD, UNCTAD) are also part of the framework.

This diverse array of agreements shapes the landscape of international service trade, each playing a role in regulating and facilitating trade in services across borders.

PRACTICUM FOR TOPIC 6

Exercise 1. **Control and discussion questions**

1. What are services and how do they differ from goods?
2. What is the difference between factor and non-factor services?
3. What state policy measures are used to limit the access of foreign services to the domestic market of the importing country?
4. Which exclusions from the national regime are considered discrimination against foreign services?
5. Name the types of international tourism.
6. Name the means of regulating access to the market.
7. What types of services are used in Ukraine?
8. Define the concept of international transport services and give their classification.
9. The essence, features and significance of the international market of information services.
10. Features of international franchising, its dynamics and influence on the world market.

Exercise 2. **Topics for scientific essays and presentations**

1. International trade in services: dynamics, structure and geographical focus. Evaluate new types of services (consulting, business, professional services, etc.).
2. Explore international services in the field of production, cooperation and advertising. Give examples.
3. Analyze the activity of franchise networks in different regions of the world and the peculiarities of modern advertising business.
4. The main economic results of tourism business development for countries that produce tourist services.
5. The main trends in the development of international transport, transport networks and transport infrastructure of the countries of the world (EU) (consider the development of transport services in the conditions of the Russian-Ukrainian war).

INTERNATIONAL TRADE POLICY. STATE REGULATION OF INTERNATIONAL TRADE

Main questions for study:

7.1. Customs and tariff regulatory instruments.

7.2. Non-tariff instruments for regulation of foreign economic activity.

7.3. Types of foreign trade policy.

7.4. WTO in the field of regulation of international trade.

7.1. Customs and tariff regulatory instruments

The **customs tariff** is defined as:

- an instrument of trade policy and state regulation of the domestic market of the country in its interaction with the world market;
- the list of duty rates applied to goods moving across the customs border, systematized according to the commodity nomenclature of foreign economic activity;
- a specific rate of duty payable upon export or import of certain goods to the customs territory of the country. In this case, the concept of customs tariff completely coincides with the concept of duty.

The customs tariff is the main and oldest tool of foreign trade policy. This is a systematized set of duty rates that are levied goods and other items imported into the customs territory of the country or exported outside its territory.

The duty collected by the customs is a tax on goods and other items moving across the customs border of the state.

Customs serve various functions, encompassing fiscal, protectionist, and balancing roles:

1) **Fiscal** function pertains to both import and export duties, contributing crucial revenue to the state budget. This essential role ensures a financial influx for the government's operations.

2) **Protectionist**, or defensive, function primarily involves imposing import duties. This practice is intended to curtail or eliminate imports, safeguarding local producers from unfavorable foreign competition that might hinder their growth.

3) **Balancing** function centers on export duties, which are implemented to prevent the undesired export of goods. This strategy becomes relevant when domestic prices for specific goods are inexplicably lower than international prices, ensuring stability in the local market.

Types of duties:

<u>1. By method of collection:</u>

- **ad valorem** – calculated as a percentage of the customs value of goods subject to customs duties (for example, if the customs tariff rate for imported goods is 10%, and the value of a batch of imported goods is 3000 USD, then the duty will be equal to 300 USD);
- **specific** – charged in a set monetary amount per unit of goods subject to customs duty (for example, 364 USD for 1 ton of crude oil, export tariff);
- **combined** – contain both mentioned types of customs collection (for example, 30% of the customs value, but no more than 15 USD per unit of goods).

<u>2. By object of taxation:</u>

- **import duty** charged on goods when they are imported into the customs territory of the state. The import duty is differentiated. The following types of rates may apply:

a) preferential rates, implying a reduction in duty rates or exemption from customs duty. They apply to goods coming from countries that establish, together with the customs authority, a customs union or free trade area, or to goods coming from developing countries;

b) preferential rates, which are applied to goods coming from the country or economic unions that enjoy the regime of the most favorable treatment;

c) full (general) rates that apply to all other goods.

Import duties are the predominant form of duties applied by all countries of the world to protect the domestic market from foreign competition;

- export (export) duty charged on goods when they are exported outside the customs territory of the country. The export tariff is usually ad valorem. This form of duties is rarely used, in cases of large discrepancies between domestic and world prices for certain types of goods, their purpose is to reduce exports and replenish the country's budget. The rate of export duty (Te) is equal to the percentage excess of the export (world) price of the commodity in Ps over the price at which it is sold on the domestic market: Te= Ps-Pd/Pd

3. By nature:

- **seasonal (import and export)** duty charged on goods of a seasonal nature for operational regulation of international trade. Its term validity does not exceed several months per year (for example, in Ukraine – up to four months from the moment of installation);
- **special** duty applied by the state in the following cases:

a) as a protective measure, if the goods are imported into the customs territory of the country in such quantities or under such conditions that cause or threaten to cause harm to domestic producers of similar or directly competing goods;

b) as a preventive measure against participants in foreign economic activity that violate state interests in the industry, as well as a measure to stop unfair competition;

c) as a measure in response to discriminatory and/or unfriendly actions by foreign states, as well as in response to the actions of individual countries that limit the exercise of the legal rights of subjects of foreign economic activity of the state.

The special duty rate is established in each case. This is paid by the importer of the goods regardless of other taxes and fees (mandatory payments), including duties, customs fees, etc. Payment of the special duty is made in cash or in non-cash form, or by making a deposit of the amount of the duty or issuing a corresponding debt obligation.

Paid amounts of special duty can be returned to the importer by the decision of special bodies (in Ukraine – by the Interdepartmental Commission on International Trade);

- **anti-dumping duty**, which is applied when goods are imported into the customs territory of the country at a price significantly lower than in the country of export at the time of this export, if such import causes or threatens to cause damage domestic producers of similar or competing goods or prevents the organization or expansion of production of such goods. The anti-dumping duty is charged on goods that are subject to anti-dumping measures and serves as a temporary fee to compensate for the loss from product dumping. Such a duty is charged only after conducting an anti-dumping investigation and obtaining objective evidence of damage or threat of damage to the domestic economy.

The amount of the anti-dumping duty rate is determined by:

- as a percentage of the customs value of the goods that are the object of an anti-dumping investigation;
- or as the difference between the minimum price and the customs value of this product (as the difference between the prices of the product on the domestic and foreign markets). The minimum price is understood as the price of the specified product at which it is not sold will harm the national producer.

The anti-dumping duty rate must not surpass the discrepancy between the competitive wholesale price of the dumped item in the exporting nation and the price declared upon its import into the importing country’s customs domain. Alternatively, it should not exceed the difference between the price of the dumped item in the importing nation and the mean price of comparable or directly competing goods exported by that nation.

Anti-dumping duties are enforced by the importing country with the objective of countering dumping practices, aiming to restore prices to a level deemed customary. The customary value aligns with the product's price in the domestic market. This value is generally established based on prices set during regular trade transactions between unaffiliated purchasers within the exporting country;

- **compensatory duty**, which is applied when goods are imported into the customs territory of the country, during the production or export of which a subsidy was directly or indirectly used, if such importation causes or threatens to cause damage national producers of similar or directly competing goods or prevents the organization or expansion of production of such goods. Compensatory duty is calculated after investigation and receipt objective evidence of significant damage to the national economy. The amount of the countervailing duty rate is determined by:

- as a percentage of the customs value of the goods that are the object of an anti-subsidy investigation;

- or the difference between the minimum price and the customs value of the specified goods.

The countervailing duty rate should not exceed the established amount of subsidies.

The introduction of countervailing duties makes it possible to level the terms of trade.

4. By origin:

- **autonomous** - duties introduced on the basis of unilateral decisions of the state authorities of the country;

- **contractual** - duties established on the basis of a bilateral or multilateral agreement;

- **preferential** – duties with lower rates compared to the current tariff; they are imposed on the basis of multilateral agreements on goods that come from developing countries or countries that create a customs union or a free trade zone with this country, or are formed in cross-border trade.

5. By type of rates:

- **permanent** - these are the rates of the customs tariff established by the state bodies powers that cannot change depending on the circumstances;

- **variable** - these are the rates of the customs tariff, which can change in the cases established by the state authorities.

6. According to the method of calculation:

- **nominal** - customs rates specified in the customs tariff;

- **effective (valid)** - the real level of customs rates on final goods, calculated considering the level of duties imposed on import nodes and details of these goods That is, it is the size of the rate that really and effectively protects the domestic market or regulates exports and transit.

In certain instances, a country opts to import raw materials without tariffs or imposes reduced tariff rates on production resources compared to the final product. This strategy aims to stimulate domestic manufacturing industries and enhance employment opportunities. In such scenarios, the effective tariff rate, calculated based on domestic value added or in-country processing, can surpass the nominal tariff rate, which is calculated using the final product's cost. Domestic added value equals the final product's price minus the expenses linked to importing the production resources required for its creation.

The nominal tariff rate demonstrates the price increase resulting from the tariff on the final product, which holds significance for consumers. Conversely, the effective tariff rate indicates the level of protection granted to domestic industries producing import-substituting goods, making it pertinent for producers.

The nominal tariff rate remains positive, while the effective rate can be positive or negative, especially when the tariff on imported components significantly surpasses the tariff on final products.

To address the conflict between the interests of national producers and the implementation of import quotas, countries sometimes employ tariff quotas. These variable customs taxes depend on the imported goods' volume. Within the designated quantity, items are taxed at the fundamental intra-quota rate, and if the import volume exceeds this limit, a higher over-quota tariff rate applies. This trade policy tool helps mitigate the contradiction arising from producers desiring protective tariffs against foreign competition, while also wishing to access cheaper imported goods as consumers.

For safeguarding national finished product manufacturers and incentivizing raw material and semi-finished product imports, tariff escalation may be employed. Tariff escalation involves increasing customs taxation levels as the level of processing rises. The percentage increase in import tariffs from raw materials to finished goods directly influences the degree of protection offered to finished product manufacturers against foreign competitors.

7.2. Non-tariff instruments for regulation of foreign economic activity

Non-tariff barriers have become prevalent in international trade practices, encompassing over half of global trade today. These barriers pose a significant threat to the stability of the world trade system. Non-tariff regulations serve distinct purposes, including safeguarding the national economy, upholding international economic security, ensuring public health and safety, and fulfilling international commitments.

The proliferation of non-tariff restrictions is largely due to the discretionary authority granted to national governments. Unlike tariff regulations that are subject to international agreements, non-tariff barriers grant governments the freedom to implement diverse restrictions. Unlike tariffs, these barriers typically don't directly increase the immediate cost of goods, making their impact less conspicuous to consumers.

Non-tariff restrictions are categorized into three groups: **quantitative, hidden, and financial** measures. Among these, **quantitative** restrictions are administrative tools that prescribe maximum allowable volumes of specific goods for import or export within defined timeframes. These quantitative measures encompass **quotas, licensing, embargoes**, and even **«voluntary» export restrictions.**

A **quota** denotes a predetermined limit on the value or quantity of imports or exports for a particular commodity. Governments, whether importing or exporting, may establish quotas to safeguard domestic industries during temporary material shortages or to influence global prices for certain goods. For instance, a notable illustration of quotas is observed in the European Union's protectionist approach toward Ukrainian agro-industrial products within the framework of the Deep and Comprehensive Free Trade Area (DCFTA). This policy curtails the import of specific Ukrainian products, including honey, garlic, flour, beef, pork, poultry, and sugar, into the EU customs territory.

A **quota** is one of the most prevalent forms of non-tariff restrictions in international trade. It quantitatively limits the export or import of goods within a specific volume or quantity over a designated timeframe. Quotas are particularly widespread in the regulation of agricultural product imports.

A quota set at zero effectively translates into an **embargo**, signifying a complete prohibition on imports or exports. For instance, in response to the situation in Ukraine as of 2022, the government imposed a zero quota on the export of crucial mineral fertilizers to maintain equilibrium within the domestic fertilizer market. This embargo has effectively halted the export of nitrogen, phosphorus, potash, and complex fertilizers from Ukraine.

Quotas serve distinct purposes based on their intended outcomes. To control the flow of a particular product without limiting it outright, governments can set quotas above the level of feasible imports or exports.

Quotas are categorized by their effect into **export** and **import** quotas:

Export quotas are initiated by a country's government to prevent the export of products that are in scarce supply on the domestic market. These may include ores, precious metal concentrates, gemstones, and precious metal waste. Additionally, export quotas can be employed for political motives, albeit infrequently.

Import quotas restrict the quantity of a specific product or goods type that can be imported within a specific period. These quotas are a form of protectionism, aiding domestic industries by shielding them from foreign competition. They are used to achieve trade balance, regulate demand and supply domestically, and counter discriminatory trade policies of other nations.

Quotas can also be divided by their scope:

Global quotas apply to the import or export of a particular product, irrespective of its source or destination country. These are implemented for specific periods and aim to achieve the desired level of domestic consumption by maintaining imports at a constant volume despite fluctuating demand.

Individual quotas operate within the framework of global quotas, assigning a quota to each country engaged in importing or exporting the goods. These are determined through bilateral agreements between countries.

The **economic ramifications** of quotas include:

- Quotas prove more efficient than tariffs in limiting imports. They can maintain import volumes steady despite demand growth, thus boosting prices and fostering domestic production and consumption.
- Quotas are fixed quantities and lack flexibility concerning product prices.
- They offer a simpler and more manipulable tool for swift administrative actions, contrasting with tariffs that necessitate legislative adjustments.
- Quotas yield direct monopoly profits, bolstering import-substitute product producers' income and constraining import competition, a feature less pronounced in tariffs.

Licensing for export and import involves the issuance of licenses by a designated state authority to importers or exporters. These licenses grant permission to trade specific goods within a designated timeframe. Licensing serves two primary purposes:

- Quantitative trade regulation: Licenses are issued in concurrence with quotas, and issuance may cease at a predetermined point. Here, licensing acts as an extension of quotas, with the license validating the right to trade goods within the allocated quota.
- Import and export control: Licensing, in this case, functions as an autonomous tool of state regulation, enabling oversight of trade activities.

A **license** is a permit issued by state authorities to export or import goods in specified quantities for a specified time. License issued by the state through special authorized agencies.

The main **types** of licenses:

- **one-time license** – permission to export or import for a period of up to 1 year, issued to a specific company for one foreign trade operation;
- **general license** – permission to export or import one or another product during the year without restrictions on the number of transactions;
- **global license** – permission to freely import or export certain goods to any country in the world for a specified period without limiting the quantity or value;
- **automatic license** – a permit issued immediately after receiving an application from an exporter or importer, which cannot be rejected by a state body for unhindered import or export of goods.

General licenses for exporting products to ensure compliance with intergovernmental agreements are exclusively granted to enterprises authorized by the government to receive them and which have been allocated corresponding export quotas. In other instances, exporters are issued one-time licenses detailing the price per unit of measurement of the exported product and its total currency value as per the contract.

Transferring licenses to other legal entities is generally prohibited, except in cases where intermediaries sell goods based on contract, commission, or agency agreements.

Various methods are employed for distributing licenses. The most effective approach is through open auctions, where import quotas are competitively sold. The exporter willing to offer the highest price is granted the license, entitling them to export goods within the allocated import quota. Competitive auctions for import quotas yield substantial revenue for the state and curtail the proliferation of bribery and corruption.

A **«Voluntary» Export Restriction** (VER) is a quantitative restriction on exports, established because of an intergovernmental agreement that obliges one of the trading partners to limit or refrain from expanding their export volume. Such agreements are typically formed when an importing nation prompts its trading partner to voluntarily curtail exports. A notable example occurred in 1981 when Japan imposed voluntary restrictions on the export of Japanese cars to the USA (set at 1.68 million cars). This action followed demands by American politicians to institute a quota on Japanese car imports. Opting for a VER rather than a quota allowed Japan to retain control over the situation, instead of the US.

Such agreements are often instigated by national producers who contend that importing a specific product would result in production losses and market disarray. Rather than enforcing import quotas, the importing nation applies political pressure on the exporting country to limit the export of the concerned product. While the term «voluntary» is used, the agreement is usually a response to importer demands, thus making the concept of «voluntariness» somewhat relative.

According to the UNCTAD classification, there are **three groups of voluntary self-restraints**:

1) voluntary self-restrictions, which are applied as a result of agreements between associations of industrialists of interested industries of importing and exporting countries, with the veiled support of governments;

2) restrictions established through direct intergovernmental negotiations, but which are also carried out by agreement between exporters and importers;

3) restrictions that are established in accordance with intergovernmental agreements, which provide for the control of governments in exporting countries on the fulfillment of conditions agreements, in particular, in compliance with obligations regarding the volume of deliveries and the level of prices.

An **embargo** constitutes a prohibition or restriction on the export and/or import of goods to specific countries. These stringent sanctions halt trade in particular commodities with the targeted nation. Under an embargo, the country subject to it is unable to engage in the purchase or sale of the embargoed goods and associated technologies. An illustrative case involves the joint decision by the governments of Poland and

Hungary on April 15, 2023, to temporarily bar the import of grain and other food products from Ukraine. This measure aimed to safeguard their respective agricultural sectors. This embargo was of a temporary nature, lasting until June 30, 2023. Hungary's embargo covered grain and oil crops from Ukraine, while Poland's included grain, milk, eggs, and poultry meat.

Embargoes serve as tools to either penalize or exert influence on countries that violate established international norms, such as committing military aggression or human rights abuses. These overt and covert measures are widely accepted in international practice. For instance, in the context of the Russian-Ukrainian conflict, an embargo on maritime shipments of Russian oil to European Union nations became effective on December 5, 2022.

Embargoes can take an **open** form, which involves a comprehensive trade ban. This extreme measure is implemented not solely based on the importing country's decision but often through agreements reached at the international level, frequently within the framework of the United Nations. An example of this is the United States supporting an economic embargo against Cuba following the Cold War due to the communist government's human rights violations in that country.

Conversely, **veiled** embargoes encompass limitations on the access of foreign vessels to internal waters or restrictions on the sale of specific goods within a country's domestic retail market. These covert measures offer subtler ways of curtailing trade activity.

Embargoes manifest in **three primary forms**:

1. **Trade Embargo**: This variant directly prohibits the export of specific goods or services, encompassing a comprehensive restriction on trade involving these designated commodities.

2. **Strategic Embargo**: The ban pertains to trade in goods and technologies tailored for military purposes, targeting items that could bolster a nation's military capabilities.

3. **Sanitary Embargo**: This form introduces a ban to safeguard people, animals, or plants. Notably, the World Trade Organization (WTO) enforces sanitary trade restrictions that forbid the importing and export of endangered animals and plants.

In general, this type of sanctions affects countries differently. If the state to which similar sanctions are applied, has a developed economy with diversified sales markets for various goods, then the consequences will be minimal. If the country's economy is underdeveloped and not very diversified, then sanctions imposed on certain goods cause many problems.

Hidden types of trade restrictions.

Concealed approaches hold significant prominence within non-tariff regulatory methods and are often referred to as methods of covert protectionism. These encompass various strategies, including **technical barriers**, **internal taxes** and **fees**, **public procurement**, and stipulations concerning the incorporation of local components.

Among these, **technical barriers** serve as state-imposed measures involving control and limitations pertaining to the technical attributes of a product. These measures can function to restrict certain products' entry into the domestic market. Technical barriers encompass diverse aspects such as national quality standards, economic prerequisites, sanitary restrictions, packaging and labeling mandates, adherence to complex customs formalities, as well as consumer protection laws.

Technical barriers materialize in various forms, including:

- Standards
- Technical norms and regulations
- Safety requisites for products
- Specifications concerning packaging, labeling, and other technical attributes of goods.

An illustration of technical barriers can be observed in the prohibition of American canned vegetable exports to Norway. This ban stems from Norway's disallowance of food products containing specific types of salts. Conversely, the United States forbids the import of live animals and fresh meat from countries with instances of foot-and-mouth disease. This restriction remains regardless of whether the affected livestock originates from regions unaffected by the disease.

A similar scenario unfolds in Argentina, where imported goods destined for Canada are required to bear clear, indelible markings in both English and French. France prohibits the advertisement of grain-based alcohol, such as Scotch whisky. In Ukraine, certain food additives and dyes used in the production of food items are forbidden, despite their use in several European countries.

The common thread in all technical barriers is their implementation to uphold the integrity of the national system of product safety standardization.

Internal taxes and duties serve as concealed trade policy methods aimed at raising the domestic price of imported goods, thereby diminishing their competitiveness in the local market. These methods lie under the jurisdiction of national authorities, both central and local. These entities are empowered to levy value-added tax, excise tax, and various fees on imported goods, including those related to customs clearance, registration, and port usage.

Internal taxes and fees fulfill a fiscal role, contributing to state budget augmentation, specifically to fund regulatory, control, and oversight bodies responsible for foreign trade activities.

Certain types of taxes are openly discriminatory towards specific foreign nations. For instance, road taxes based on a vehicle's cylinder capacity or power, rather than its price, can demonstrate this bias. Another example is France's practice of imposing an additional import tax on alcoholic beverages derived from grain, while exempting domestically produced beverages made from fruit.

Internal taxes often surpass the cost of import duties, and their rates can vary depending on the domestic market's condition. Cross-border taxation's importance has grown due to active utilization within the European Union. According to WTO rules, a nation introducing internal taxes on goods related to turnover, sales, excise levies, or value-added taxes gains the authorization to introduce supplementary advantages for exporting such goods. Additionally, the nation can impose an equivalent tax on the import of analogous products.

Public procurement represents a covert trade policy method that obliges government entities and enterprises to procure specific goods exclusively from domestic firms, even if these goods are more expensive than imports. This elevates governmental expenditures, shouldered by taxpayers. While to some extent discriminating against foreign suppliers, public procurement policies significantly impact trade dynamics, accounting for 10-15% of GDP in many countries.

For instance, the American government's «Buy American» rule grants domestic manufacturers a 50% advantage in price differences over foreign counterparts for Ministry of Defense contracts and a 12% edge for other state procurements.

The substantial volume of goods and services procured directly by national governments, and the influence they wield over state and private firms through these procurement policies, have established preferential state procurement as a defining characteristic of contemporary trade. This is particularly pertinent in the context of high-tech goods and services. International regulations governing public procurement are encapsulated in the Agreement on Public Procurement within the WTO framework.

Mandates for local component content constitute a covert method of trade policy, legally establishing the proportion of a final product that must originate from domestic producers when the product is intended for sale within the domestic market. Typically employed by developing countries, this method aims to supplant imports with domestic production. It achieves this by introducing local content prerequisites for specific industries. Additionally, it serves to avert the shift of production to developing nations with cheaper labor, thereby sustaining domestic employment levels.

For instance, the United States mandates that foreign car suppliers entering the American market, including those from Japan, must enhance their utilization of components manufactured in the United States, encompassing labor and advertising services.

Local participation requirements not only constrain imports but also encompass demands placed upon foreign investors. This includes the obligation for foreign investor firms to export a designated portion of their produced goods from the host country. Such stipulations distort international trade dynamics and foster the emergence of non-tariff barriers.

Financial methods of trade policy.

To incentivize exports within international trade practices, **financial methods** are employed, a significant portion of which hinges on direct or indirect government subsidization of national exporters. The objective of utilizing financing as a means of regulating international trade, particularly for expanding exports, is to confer favor upon domestic producers and exporters over foreign companies. This favoritism is achieved by diminishing the value of exported goods, thereby enhancing their competitiveness on the global market. Export financing is sourced from various channels including the state budget, financial institutions, funds, exporters themselves, and banks that facilitate their transactions.

However, the application of financial methods is subject to limitations, as multilateral agreements within the framework of the World Trade Organization (WTO) perceive them as mechanisms of unjust competition on the global market. Despite this, numerous countries globally employ diverse forms of financing, often orchestrated through intricate schemes.

Financial methods encompass several components of trade policy, including **dumping, subsidies, and export crediting**.

Dumping entails artificially reducing prices for exported goods and services. Typically, these prices considerably undercut market rates, sometimes even failing to cover production costs. Dumping thus functions as a manifestation of international price discrimination.

Dumping is facilitated by various factors, such as disparities in demand for goods across different countries, certain conditions enabling manufacturers to dictate prices, and trade barriers coupled with high transport costs. These factors allow producers to shield foreign markets, where goods are sold at lower prices, from domestic markets where higher prices are prevalent.

The purposes of dumping can span:

- Penetration, conquest, and retention of new markets
- Outmaneuvering competitors
- Acquiring profitable clientele
- Selling surplus or underperforming products

Different countries' legislations often categorize dumping into two primary **types**:

1. Price Dumping: Exporting goods at a lower price than what's charged in the domestic market.

2. Cost Dumping: Exporting goods at a price below their cost of production.

As per regulations set by the World Trade Organization (WTO), dumping is widely disapproved in international business practices, particularly when it leads to tangible harm or industrial losses in the importing country. While not outright forbidden, this practice is generally viewed as detrimental to fair competition and can be perceived as a means of undermining competition within a specific market. Both the General Agreement on Tariffs and Trade and the Anti-Dumping Agreement (both documents under the WTO) permit nations to shield themselves against dumping by imposing tariffs, provided these tariffs restore equilibrium to the product's price after its sale within the domestic market.

An illustrative instance of a dispute involving international dumping is the ongoing conflict between neighboring nations, the United States and Canada, known as the «softwood controversy. » The dispute originated in the 1980s due to Canadian lumber exports to the United States. Unlike most lumber in the United States, Canadian softwood lumber wasn't subject to regulation on private lands, leading to significantly lower production costs. Consequently, the U.S. government contended that these reduced prices constituted a subsidy from Canada, and that the lumber should be subject to trade measures aimed at countering such subsidies. Canada contested this assertion, and the dispute continues to persist.

In international trade practice, several types of dumping are distinguished:

- **permanent dumping** – permanent export (sale) of goods at a price below the market price;

- **sporadic (accidental) dumping** – periodic sale of excess goods, the amount of which exceeds the level of demand on the domestic market;

- **intentional dumping** – a temporary reduction in the prices of exported products with the aim of securing a position on the market, displacing competitors and subsequently establishing a monopoly price. In this case, the product can be sold at a price lower than the cost price;

- reverse dumping – sale of goods on the foreign market at inflated prices compared to the domestic market. A rather rare phenomenon, usually observed as a result of currency fluctuations;

- mutual dumping - counter-trade of goods at lower prices between two countries. It is observed when the sale of one specific product in each of the countries is monopolized.

Dumping can be orchestrated either by state entities or private companies, often as a calculated effort to offset present losses with anticipated future gains. This implies that dumping is generally regarded as a one-time occurrence. In certain cases, this strategy is adopted when potential losses could surpass those incurred through dumping.

Dumping maneuvers can be executed through individual firms seeking to establish a foothold in foreign markets for their products, or via state-subsidized initiatives to bolster exporters. A majority of countries exhibit a negative stance towards dumping. Primarily, this is due to its infringement on the principle of equitable competition, allowing foreign traders to instantaneously outpace local contenders. Consequently, anti-dumping duties are often levied on goods to counteract this practice.

Dumping is detrimental to local economies as well. The practice of offering services at reduced prices to enhance market share often incites similar endeavors by other enterprises. This, in turn, adversely affects industry growth and the broader market for comparable services.

Subsidies, a common and widespread tool within governmental economic policies, serve to address a wide spectrum of issues and attain diverse objectives aligning with a country's socio-economic trajectory. A **subsidy** entails financial or other support from state entities towards production, processing, sale, transportation, or export of goods. This support bestows benefits (profits) upon the subject of economic and legal interactions in the exporting country. Nonetheless, such backing for domestic producers concurrently discriminates against importers.

Objectives of applying subsidies:

- equalization of production, economic and social conditions of individual regions of the country;
- employment support, promotion of personnel training and retraining and progressive changes in the structure of the labor market;

- implementation of complex economic and social programs aimed at accelerating development in developing countries;
- assistance in the restructuring of certain sectors of the economy in order to achieve the goals of social policy;
- support of research programs;
- supporting the establishment of new industries and export industries, promoting investment attraction, infrastructure development, etc.

The global landscape is witnessing an escalation in cases combating subsidized exports. However, the upsurge in anti-subsidy investigations is occurring slower than anti-dumping cases. Noteworthy participants in these investigations include the European Commission, the USA, Canada, and Chile. The USA is a consistent proponent of anti-subsidy investigations, averaging around 20 investigations annually. Notable countries under investigation include India, Taiwan, Thailand, and Indonesia. Nearly half of all anti-subsidy investigations center around steel products, with others concerning sectors like chemicals, textiles, metals, and food.

Export credits, which involve credits extended by exporting companies, banks, or governments to facilitate and promote exports, play a pivotal role. These credits essentially defer payment, facilitating the easier acquisition of goods for the buyer. Such credits serve as a tool to drive goods into the global market. Export credits often mask export subsidies, serving as a mechanism for state-driven financial stimulation to foster the growth of domestic producers' exports.

Export credits are granted to buyers and sellers, with buyer credits being more prevalent. Buyer credits predominantly entail short-term loans with deferred payment spanning 2 to 6 months, occasionally extending to 1 year. These are commonly practiced in the trade of consumer goods and raw materials. For machinery and equipment exports, medium-term (up to 5 years) and long-term (over 5 years) loans are provided. Seller credits, mainly extended to equipment manufacturers during the production phase of products ordered by foreign partners, are pre-financing loans with a fixed interest rate that empower exporters to defer payments themselves.

Export credits are granted in the form of:

- subsidized loans to domestic exporters. Such loans are issued by state banks at an interest rate lower than the market rate;

- state loans to foreign importers with the mandatory condition of purchasing goods only from companies of the country that granted such a loan.

Types of export credits:

- short-term (up to 1 year for crediting the export of consumer goods and raw materials);

- medium-term (from 1 to 5 years for crediting the export of machines and equipment);

- long-term (over 5 years for crediting the export of investment goods and large projects).

Export credit is an important factor in modern foreign trade, which significantly affects the competitiveness of products, since the seller offers not only the product but also certain financing for its purchase.

7.3. Types of foreign trade policy

Depending on the extent of state involvement in international trade, **two distinct foreign trade policies** emerge:

- Free trade policy (free trade)
- Protectionist policy

Free trade policy signifies minimal state intervention in foreign trade, operating on the principles of unimpeded market dynamics of supply and demand. It epitomizes a liberal state approach, facilitating unrestricted movement of goods and services between nations, absent trade barriers for both imports and exports. Customs authorities primarily engage in registration tasks. Such a policy is adopted by countries with highly developed productive capacities, enabling local businesses to effectively navigate competition.

Arguments in favor of free trade:

- restriction of monopoly;
- improvement of product quality;
- formation of high living standards;

- increased competition;
- use of production resources;
- expansion of freedom of choice for consumers.

Negative consequences of free trade:

- threats to internal macroeconomic stability from cyclical fluctuations in the world market;
- sale of low-quality and obsolete products of foreign manufacturers;
- the imposition of consumer tastes uncharacteristic of the population of a certain country, etc.

Protectionism represents a state policy aimed at safeguarding the domestic market against foreign competition through the implementation of import restrictions.

Through protectionist measures, a nation shields its domestic producers and stimulates the advancement of local production. However, these policies can inadvertently foster stagnation by diminishing incentives for technological progress, subsequently eroding the competitiveness of domestic goods. Concurrently, such policies might fuel illicit imports through smuggling. Moreover, trading partners can reciprocate with countermeasures pertaining to the export of goods from the concerned country, resulting in economic losses.

Protectionism commonly dominates the foreign trade policy of developing countries.

There are several forms of protectionism:

- **selective** – directed against certain countries or certain types of goods;
- **sectoral** – aimed at the protection of certain industries, most often agriculture;
- **collective** – conducted by associations of countries in relation to countries that are not part of these associations;
- **hidden** – carried out by methods of internal economic policy.

The debate over whether a country should adopt a policy of free trade or protectionism lacks a definitive consensus. Many countries opt for a flexible foreign trade policy that combines elements of both protectionist methods and free trade principles.

Each nation enacts legislation to govern its foreign trade, establishing specific rules and conditions that define its foreign trade policy. Through these regulations, the state endeavors to cultivate advantageous circumstances for domestic producers, create conducive conditions for exporting national goods to foreign markets, and concurrently constrain the influx of foreign goods into its own market. Consequently, the state wields significant influence over the overall landscape of export-import relationships.

Table 7.1

Advantages and disadvantages of protectionism and free trade policies[3]

	Free trade policy	**Protectionism**
Advantages	Enables mitigating losses stemming from disruptions in production and consumption caused by customs protection..	The state protects national producers, stimulates the development of national production.
	Provides the chance to elevate the standard and quality of living by broadening the horizons of international specialization in production through the utilization of comparative advantage.	Increases the level of use of national resources.
	Creates better prerequisites for expansion market renaissance.	Improves the «terms of trade» and increases economic benefits.
	Provides an opportunity to optimize distribution of production resources between countries, etc	Allows mitigating the crisis in those industries that are experiencing difficulties in their economic development, etc.

[3] Mytno-taryfne rehulyuvannya eksportno-importnykh operatsiy [Customs and tariff regulation of export-import operations]. Retrieved from https://elib.lntu.edu.ua/sites/default/files/elib_upload /page9.html [in Ukrainian]

1	2	3
Disadvantages	In the exporting nation, a net gain materializes from the surplus of producer benefits over consumer losses for products. Conversely, in the importing country, an overall boost in well-being arises primarily from heightened gains for consumers, while producers of goods in competition with imports experience losses. The process of deepening international specialization can potentially lead to an increased economic reliance on other states.	Can lead to stagnant phenomena in production, as they weaken incentives for technical progress, decline in competitiveness of national goods is increasing illegal import of goods (contraband). Problems related to liquidation unpromising branches of the economy and application of diversification programs.

Another form of foreign trade policy is known as «laissez-faire» (French term meaning «leave alone» or «let you do»). It entails a state policy of refraining from economic intervention and promoting competition freedom. This «non-intervention principle» serves as an economic doctrine advocating minimal government involvement and regulation in the economy.

The roots of «laissez-faire» trace back to the physiocrats, a group of 18th-century French economists who espoused the view that public policy should not disrupt the operation of natural economic phenomena and processes.

At the core of this policy lies the belief that minimal state engagement in the economy leads to improved business operations and, consequently, societal well-being. Through the «laissez-faire» approach, countries eliminate various trade barriers. For instance, many nations impose taxes on imported goods, typically varying based on the product. A laissez-faire economy dispenses with such barriers, permitting the market to autonomously determine its course.

7.4. WTO in the field of regulation of international trade

The World Trade Organization (WTO) stands as the primary global regulator of international trade. Emerging from the transformation of the General Agreement on Tariffs and Trade (GATT) in 1995, the core tenets and principles of GATT found their incorporation within the WTO, at times referred to as GATT/WTO for brevity.

Distinguished as the sole worldwide international organization addressing trade regulations among nations, the WTO's agreements, endorsed and ratified by the majority of global trading nations, hold pivotal significance. Its membership now exceeds 150 countries, with its headquarters situated in Geneva, Switzerland. The WTO is under the leadership of a Director-General. Notably, as of March 1, 2021, Ngozi Okonjo-Iweala, a Nigerian economist and international development expert, assumed the role, marking the first woman and first African representative to hold this position.

The **core objective** of the WTO revolves around fostering the liberalization of international trade, dismantling discriminatory barriers impeding the flow of goods and services, facilitating unimpeded entry into national markets and raw material sources, and managing trade-related disputes. Accomplishing this mission promises to bolster the global economy, stimulate foreign investments, expand trade relationships, and elevate employment rates and incomes on a worldwide scale.

WTO functions:

- supervision of the state of world trade and provision of consultations on issues management in the field of international trade;
- provision of mechanisms for resolving international trade disputes;
- development and adoption of global trade standards;
- supervision of trade policy of member countries;
- discussion of urgent problems of international trade.

The primary functions of the WTO are enshrined within the Marrakesh Agreement, which established the organization.

The key domains of the WTO's engagement encompass:

- Initiating negotiations to reduce or eliminate trade impediments (such as import tariffs and other trade barriers) and establishing protocols that regulate international trade behaviors (including anti-dumping measures, subsidies, product standards, etc.).

- Overseeing and enforcing the application of established WTO regulations pertaining to trade in goods, services, and intellectual property rights related to trade.

- Monitoring and assessing the trade policies of member nations, while ensuring the transparency of regional and bilateral trade agreements.

- Resolving disputes arising between member states regarding the interpretation and execution of agreements.

- Enhancing the expertise of public officials from developing nations in the realm of international trade.

- Facilitating the accession process for around 30 non-member countries aspiring to join the organization.

- Conducting economic research and compiling and disseminating trade-related data to support other principal facets of WTO activities.

- Educating and informing the public about the WTO, its mission, and its endeavors.

The foundational principles of the WTO encompass a commitment to border openness, the assurance of most-favored-nation treatment and non-discriminatory conduct among member nations, along with transparency and equitable competition. The opening up of national markets for global trade, albeit with warranted exceptions or adaptable flexibility, stands to foster sustainable development, enhance human well-being, mitigate poverty, and foster peace and stability. This market liberalization, however, should be accompanied by judicious domestic and international policies that foster economic growth and development tailored to the distinct needs and aspirations of each WTO member.

The purview of the WTO includes a wide spectrum of activities: regulation of customs and tariffs, management of anti-dumping measures, control of subsidy utilization and compensatory actions, oversight of non-tariff barriers, supervision of customs unions and free trade zones, addressing commercial dimensions of intellectual property rights protection, and trade concerning specific commodities (like textiles, agricultural goods, aircraft, etc.). Additionally, the organization also engages with trade-related aspects of investment activities and more.

PRACTICUM FOR TOPIC 7

***Exercise 1.* Control and Discussion Questions**

1. Analyze the influence of key state policy tools on international trade outcomes.

2. Explore the fundamental nature of customs and tariff mechanisms as means of regulating global trade.

3. Examine the core characteristics of non-tariff tools used in international trade regulation.

4. Investigate various trade policy approaches adopted by different countries worldwide.

5. Investigate the causes, distinct attributes, and consequences of contemporary trade conflicts.

6. Elaborate on instances of trade bias within the Most Economically Viable nations. Offer illustrative examples.

7. Differentiate between the principles of free trade policy and protectionist approaches in international trade.

***Exercise 2.* Topics for scientific essays and presentations**

1. Investigate the diverse economic implications of tariff implementation across various global nations. Support your analysis with relevant case studies.

2. Examine the economic effects resulting from the adoption of protectionist policies in different countries around the world.

3. Explore the economic outcomes associated with the implementation of free trade policies in diverse countries worldwide.

4. Analyze the significance and consequences of tariff quotas and non-tariff measures within the context of the Ukraine-EU Deep and Comprehensive Free Trade Area.

5. Investigate the multifaceted consequences of imposing a trade embargo on a specific country. Support your analysis with illustrative examples.

6. Examine the current global challenges and threats that impact international trade regulation, and assess their potential implications.

7. Delve into the necessity and feasibility of reforming the World Trade Organization (WTO) to align with contemporary realities. Present arguments both in favor and against such reforms.

INTERNATIONAL MOVEMENT OF CAPITAL

Main questions for study:

8.1. The essence and reasons for the international movement of capital.

8.2. Forms of international movement of capital.

8.3. Consequences of international movement of capital.

8.4. Mechanisms of regulation of international movement of capital.

8.1. The essence and reasons for the international movement of capital

Cross-border movement of capital, commonly referred to as international capital migration, plays a crucial role in shaping international economic relations. It involves the transfer of capital beyond a country's borders, either in the form of commodities or currency, with the primary goal of generating profits or deriving business benefits.

This phenomenon is typically categorized into two distinct processes: capital export and capital import. Capital export denotes the unilateral transfer of capital from one nation to another, driven by the aspiration to attain economic advantages. Conversely, capital import entails the acquisition of external capital, in various forms, with the intention of reaping profits from diverse economic activities.

The motives behind international capital migration stem from a blend of external and internal factors. Certain circumstances necessitate the outbound movement of capital, while others prompt its inbound flow. Although the triggers for both capital export and import often intersect, they ultimately play different roles. The decision to attract foreign capital is guided by the priorities outlined in a country's economic development strategies.

At the core of international capital migration lies the pursuit of elevated profits, surpassing those achievable within the capital's country of origin, or the facilitation of the optimal functioning of domestic enterprises. This movement underscores the global ambition to bolster financial returns and enhance the efficiency of national businesses while contributing to the intricate web of international economic ties.

The movement of capital is driven by a multitude of factors, which include:

- The globalization of economic activities, fostering cross-border capital flows.
- Disparities in the supply and demand for capital across various regions of the global economy.
- Intensified concerns over the availability of essential raw materials.
- Variances in production factor prices among different nations.
- Instances of surplus capital domestically, juxtaposed with inadequate conditions for its fruitful utilization.
- Imposed limitations within the domestic market or unfavorable circumstances hindering capital's effective deployment.
- The intention to circumvent tariff and non-tariff barriers inherent in standard commercial exports.
- Shielding wealth from inflationary pressures.
- Technological leadership, which catalyzes the dissemination of cutting-edge innovations.
- Necessity for technological modernization and upgrading of domestic industries.
- Corporations' drive to geographically diversify capital investments, reducing risk exposure and enhancing competitiveness.
- Opportunities emerging for more lucrative capital expansion overseas.
- Capital proprietors' inclination to invest where raw material, energy, transportation, and semi-finished product costs are lower.

- Economizing financial resources through the application of reduced customs duties and favorable tariff measures in recipient countries.
- Ensuring stable access to imported raw materials for national enterprises.
- A commitment to preserving and maintaining environmental quality in nations exporting capital.
- Interest in foreign nations' natural resources to secure raw materials for domestic industries.
- Disparities in environmental regulations and standards among countries, incentivizing the export or establishment of environmentally taxing industries in other regions.
- The presence of diverse avenues and mechanisms for international capital movement, optimizing its overseas utilization.

Objectives of capital export:

- Attaining entrepreneurial profits.
- Gaining interest on lent capital.
- Aiming to oversee the operations of enterprises and secure a portion of the local market.
- Endeavoring for sustained fulfillment of economic, political, and other interests within a specific country's territory.

When capital is being exported, actors are guided by economic expediency, characterized by:

- Acquiring supplementary profits.
- Instituting command over other assets.
- Navigating around protectionist barriers obstructing the course of trade flows.
- Bringing production closer to novel markets for sales.
- Attaining entry to cutting-edge technologies.
- Safeguarding production secrets by establishing foreign branches.
- Economizing on tax disbursements (e.g., when establishing enterprises in special economic zones).
- Diminishing expenditures associated with environmental safeguards.

Economic viability of capital import encompasses:

- Acquiring new technologies at comparatively affordable expenses.
- Facilitating rapid production advancement.
- Drawing in supplementary currency reserves.
- Amplifying scientific and technical capabilities.
- Generating extra employment opportunities.
- Augmenting exports, fostering service sector growth, and assimilating foreign management expertise.
- Enriching the national budget of the country.

Drawbacks of capital import include:

- The potential to evolve into a source of raw materials for other economies.
- External intervention in the domestic banking system.
- Takeover of critical sectors of the nation's economy by foreign capital.
- Covert outflow of profits from the country.
- A certain compromise on political sovereignty.

8.2. Forms of international movement of capital

The international movement of capital takes shape through the following **avenues**:

1. Distinguished by whether it originates from private enterprises or state entities.

2. Characterized by its nature as loan capital or business capital. Loan capital generates income primarily in the form of interest from loans and credits, while entrepreneurial capital yields profit.

3. Manifested in either monetary or commodity forms. Examples include the export of machinery, patents, know-how, invested in foreign company capitals, or material loans.

4. Manifesting as short-term (typically within 1 year, encompassing bank deposits, funds in financial institution accounts, short-term loans and credits) or long-term forms (comprising direct and portfolio investments, extended loans, and credits).

Distinct forms of international capital movement vary according to the **following criteria**:

- Capital's point of origin.
- Utilization characteristics of the capital.
- Duration of capital investment.
- Intended objectives for capital investment.

According to the sources of origin, capital is divided into official and private.

Official capital comprises state budget funds and resources from international organizations (such as the IMF and World Bank Group), either sent abroad or received from foreign sources based on governmental or intergovernmental decisions. Its origin traces back to taxpayers' contributions, encompassing government loans, grants, and international financial aid.

Private capital encompasses funds sourced from private corporations, banks, and non-governmental entities, furnished in the form of investments, trade credits, interbank loans, and the like.

Classified by utilization, capital is categorized as entrepreneurial or loan capital. **Entrepreneurial capital** refers to funds directly or indirectly invested in production for profit, constituting a fundamental element of private capital.

Loan capital denotes money extended with the aim of yielding interest. On a global scale, loan capital is predominantly associated with official capital sources..

By investment term, capital is divided into short-term, medium-term and long-term.

Short-term capital – investment of capital for a period of less than a year. Mainly in the form of trade credits.

Medium- and long-term capital – investment of capital for a term of more than one year. All investments of entrepreneurial capital are made mainly in the form of direct investments, as well as in the form of government loans.

Capital intended for investment is categorized into direct and portfolio investments.

Direct investment involves capital allocation with the purpose of gaining control over the invested entity. This primarily encompasses the export of private business capital.

Portfolio investments refer to capital invested in foreign securities without control over the invested entity. This predominantly involves the withdrawal of private entrepreneurial capital.

Functionally, the most pivotal distinction lies between direct and portfolio investments. International loans and bank deposits chiefly influence the international movement of capital.

International credit entails loans provided by creditors from one party to borrowers from another, offered under specified conditions involving repayment, payment, and maturity, either in monetary or commodity form.

Preferential international credit is an international credit granted on preferential terms:

- for a long time;
- at reduced interest rates;
- on an interest-free loan.

International credit plays a **significant role**, notably by:

- Facilitating the globalization of production and trade.
- Reinforcing international economic connections.
- Enhancing the economic effectiveness of global trade, fueling the expansion and pace of worldwide commerce.
- Ensuring the unbroken flow of international transactions and expediting the movement of funds in the global arena.
- Acting as a mechanism for payment balance regulation.
- Amplifying competition among nations, functioning as a competitive instrument for capturing sales markets.

International credit serves diverse purposes and takes various forms. Depending on the creditor's identity, it can be categorized into:

- Corporate credit.
- Banking credit.
- Governmental credit.

In terms of the lending targets, international credit is classified into financial and commercial credit.

Branded (commercial) credit pertains to deferring payment for goods sold on credit. In this arrangement, the exporter serves as the creditor, and the importer takes on the role of the borrower. A corporate loan, from the borrower's perspective, is less preferable due to its limited scope, establishing a direct commercial reliance on the creditor.

A more adaptable form within the international monetary and economic environment is a bank loan, wherein a financial institution becomes a participant in the credit relationship. The financial loan represents an instance of international banking lending.

Financial credit denotes the provision of loans in monetary (foreign) terms. These loans can be extended in the currency of the creditor or debtor country, third currencies, or even across multiple currencies – a practice observed in the European market where loans are simultaneously placed in various countries. One form of financial loans encompasses bond loans, utilized by foreign borrowers in both international and domestic loan capital markets with bank facilitation. Moreover, international banks assume harmonious roles.

Government credit, also known as intergovernmental loans, signifies a type of international credit extended by one country to another through either goods or funds within the framework of intergovernmental agreements. This category broadly encompasses loans from international financial and credit institutions such as the IMF, International Bank for Reconstruction and Development, European Investment Bank, and others.

Government credit involves individual states as the participants in the credit relationship, aimed at redistributing their national income. Provided on more favorable terms than private credit, it can be interest-free, preferential, or take the form of subsidies. Often targeted at specific projects or economic and social development programs, these loans frequently assume the shape of investment loans channeled towards capital investments or balancing payments between nations.

Gifts entail the subsidization of global economy entities without preconditions, serving long-term economic and political interests.

In the spectrum of capital export forms, international economic aid also finds a place. **International economic aid** encompasses the contribution of capital in monetary or tangible form by one country's entities to those of another country, under the principles of non-reimbursement and gratuitousness..

International economic aid assumes the following forms:

- **Financial aid** entails the provision of funds, through either interest-free loans or complimentary financing, from one country's entities to counterparts in other nations. These funds facilitate the execution of socio-economic programs and technical ventures. For instance, as per the National Bank of Ukraine (NBU), from the commencement of the Russian-Ukrainian conflict on February 24, 2022, until July 26, 2022, international financial aid extended to Ukraine has amounted to nearly 13 billion dollars. This financial support from international partners remains ongoing to Ukraine amidst the ongoing conflict.
- **Material aid** constitutes the free transfer of goods and services, encompassing household and production-related items, from entities in one country to those in other countries.

8.3. Consequences of international movement of capital

In contemporary times, major players in capital export include multinational corporations (TNCs), nations, and international monetary and credit organizations. A pivotal overarching aim of capital export is securing monopolistically substantial profits.

The international flow of capital yields multifaceted outcomes for both capital-exporting and capital-importing nations.

For countries engaged in capital export, the **positive consequences** encompass:

- Expanding sales avenues for domestic goods and services.
- Garnering returns from investments.
- Exerting influence on the foreign policy of exporting nations.
- Gaining from the deepening of international division of labor.

- Accessing economical labor markets and enjoying various economic and non-economic advantages.

The **negative ramifications** of this phenomenon encompass:

- Compromising the balance of payments (until the repatriation of profits from capital export).
- Constricting the domestic labor market (as jobs migrate overseas).
- Instigating preservation or alteration of the essential economic system.

In contrast, the **positive implications for capital-importing nations** are:

- Introducing new technologies and advanced production methods.
- Mitigating unemployment.
- Infusing foreign currency.
- Fostering the growth of export-oriented industries.

However, these processes also entail **negative consequences**:

- Gradual relinquishment of control over portions of enterprises and industries.
- Amplifying foreign influence, particularly in military, strategic, and political domains.

8.4. Mechanisms of regulation of international movement of capital

The regulation of international capital movements encompasses several key areas, including investment guarantees, the resolution of investment disputes, measures related to trade and investment, and overarching supervision.

In response to the global debt crisis of the early 1980s, the necessity arose for an authoritative international body to assure both direct and portfolio investments. The **Multilateral Investment Guarantee Agency** (MIGA) emerged as such an organization. Established in 1988 and operational since 1990, MIGA counts 110 member nations. Its core objective lies in distributing foreign direct investment across member countries. MIGA provides investment guarantees that safeguard investors against non-commercial risks, such as:

1) Currency non-convertibility or capital repatriation hindrances.
2) Expropriation.
3) Impact of war and civil unrest.
4) Contract termination.

This institution offers advisory services to governments, aiding them in attracting private investments into their economies. Operating as an autonomous entity within the World Bank Group, this organization furnishes insurance for foreign investments.

Operational under these principles, the institution:

1) Extends guarantees exclusively to investments originating from its member countries.
2) Grants guarantees for specific investment projects in the form of equity investments or loans exceeding 3 years, with a duration spanning 15-20 years.
3) Provides coverage against non-commercial risks including currency transfer impediments, expropriation of investments, contract breaches (when arbitration compensation isn't attainable), and effects of war or civil unrest.
4) Requires the investor eligible for a guarantee from this institution to be a resident of one of its member countries, and their investment must be aimed at any nation other than their own or any other member of the institution, except their country of residence.

State enterprises are eligible to receive BAGI guarantees if they operate under commercial principles. The maximum capital investment guarantee provided by BAGI is $50 million per project.

The International Centre for Settlement of Investment Disputes (ICSID) was established within the World Bank Group in 1966. It was formed in accordance with the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The primary objective is to facilitate the influx of foreign capital by establishing conditions for reconciling and resolving disputes between governments and foreign investors. Although not a literal credit organization, ICSID is associated with the World Bank Group in terms of goals and organization.

ICSID functions as an autonomous entity to mediate disputes between governments and foreign investors. The president of the World Bank serves as the president of the International Centre for Settlement of Investment Disputes. Nations can voluntarily agree to utilize its investment dispute resolution services.

The center acts as an arbitrator between investors and a country's government in case of conflicts. The process involves two approaches: conciliation and arbitration. Conciliation is pursued when both parties can be convinced of resolving the conflict amicably through mutual concessions. If conciliation proves unfeasible, ICSID issues a reasoned decision in favor of one of the parties, referred to as arbitration.

As of March 2020, the ICSID has 153 member states, including Kosovo.

Another mechanism that partially governs international investments is the **Agreement on Trade-Related Investment Measures** (TRIM Agreement), established within the framework of the WTO. This agreement acknowledges that certain investment measures fail to meet WTO requirements concerning national treatment and the elimination of quantitative trade restrictions. Such measures are to be phased out within 2 years by developed countries, 5 years by developing countries, and 7 years by least developed countries after signing the TRIM Agreement.

The supervision of international investment development is also undertaken by the **UNCTAD Commission on Investment, Technology, and Related Investment Issues**. This commission was assigned responsibilities in the mid-1996 to investigate the interrelation between investments and trade, examine the legal foundation of foreign investments, and develop a statistical reporting system.

PRACTICUM FOR TOPIC 8

Exercise 1. **Control and discussion questions**

1. Name the main forms of capital according to the source of its origin.
2. What are the reasons for export and import of direct investment?
3. What advantages do direct investors have?
4. Analyze the current state of foreign investment in Ukraine.
5. What is the essence of an offshore business and whether it is advisable to create one separate offshore centers in Ukraine?
6. What is the motivation of capital movement?
7. What types and forms of capital movement do you know?
8. What are the main motives of «capital flight»? Explain.

Exercise 2. **Topics for scientific essays and presentations**

1. The Shift from Income Tax to a Tax on Withdrawn Capital: Assessing the Pros and Cons.
2. «Default» Film Analysis: Evaluating Global Cooperation with the IMF and the Ukraine-IMF Relationship.
3. The Impact of IMF Loans on Global Economies: Case Studies of Selected Countries.
4. Unraveling the Influence of IMF Loans on the Ukrainian Economy.
5. Examining the Effects of World Bank Group Loans on Global Economies: Country-specific Insights.
6. The Impact of World Bank Group Loans on the Ukrainian Economy.
7. Assessing the Economic Implications of Loans from the European Investment Bank on Global Economies.
8. Analyzing the Economic Effects of European Investment Bank Loans on the Ukrainian Economy.
9. Capital Export: Economic Gains and Hazards for Exporting Nations – Comparative Case Studies.
10. Unpacking the Economic Advantages and Risks of Capital Import for Recipient Countries: Country Examples.

DIRECT INVESTMENT AND INTERNATIONAL COOPERATION

Main questions for study:

9.1. Direct investments and their place and role in the structure of foreign investment.

9.2. Forms and methods of direct foreign investment.

9.3. Methods of regulating foreign investments at the national and international levels.

9.4. Consequences of direct foreign investment.

9.5. World experience of attracting foreign direct investment.

9.1. Direct investments and their place and role in the structure of foreign investment

Foreign investments encompass capital that foreign investors allocate into investment targets within a country, aiming to yield profit or achieve specific societal outcomes.

The migration of entrepreneurial capital is distinguished by the following attributes:

1) Active involvement and direct engagement in overseas production processes.

2) Long-term commitment of monetary, financial, and material resources.

3) Redistribution of property across residents and non-residents of a particular nation.

4) Targeted objective of securing complete control over investment objects, resulting in business profits or dividends.

Investments in entrepreneurial endeavors manifest in diverse forms, categorized by distinct characteristics.

Based on investment targets:

1. **Financial investments** involve financial instruments like stocks, special bank investments, deposits, and shares. This entails deploying available capital for acquiring shares, bonds, and other securities issued by enterprises or the state.
2. **Capital investments** entail investing in new or existing tangible and intangible assets, in-house production for personal use, and capital repairs and modernization expenses.
3. **Intellectual investments** involve investments in training specialists, licenses, «know-how», joint scientific ventures, and more.

Based on the type of assets invested:

- Foreign currency.
- National currency.
- Securities (shares, bonds, etc.).
- Monetary claims and related rights.
- Property (movable and immovable).
- Intellectual property rights.
- Rights for conducting economic activities.
- Other lawful assets.

Categorized by investment form:

- Acquiring shares of existing enterprises.
- Establishing joint ventures with foreign entities.
- Procuring property within the country.
- Purchasing securities and intangible assets for control.
- Obtaining rights to use land and natural resources.
- Arrangements for collaborative economic activities and product distribution.
- Other legally permissible forms.

Based on ownership type:

- State.
- Private.
- International organizations.
- Non-governmental organizations.
- Mixed ownership.

Origin classification:
- Primary.
- Reinvestment.

Based on the registration form:
- Transparent investments.
- Concealed investments.
- «Black» investments.

Classified by size:
- Small (up to USD 10,000).
- Medium (up to USD 100,000).
- Large (over USD 100,000).

Segmented by return degree:
- Returnable investments.
- Risky investments.
- Non-returnable investments.

Differentiated by participation in the investment process:
- Direct involvement.
- Indirect participation.

Foreign direct investment (FDI) pertains to the prolonged commitment of non-resident companies' material resources into a nation's economy, often for the establishment and development of enterprises, while ensuring the investor's control over the investment entity. Direct investments exhibit the investor's active involvement in selecting investment targets and committing funds. Direct investment is conducted by knowledgeable investors with ample information about the investment objects and the investment process. It usually takes the form of a direct infusion of funds without intermediary involvement, aiming to secure a controlling stake in the company.

Portfolio investments (PRI), on the other hand, involve third-party mediation, often through investment or financial intermediaries. Some investors lack the proficiency to effectively select and manage investment objects. In such cases, they invest in securities issued by intermediaries like investment funds or companies. These intermediaries allocate the gathered investment funds to promising investment opportunities, manage them, and distribute the resulting income among their clients.

According to the IMF, foreign direct investment is present when a foreign entity possesses a minimum of 25% of the authorized capital of a joint-stock company (with variations in percentages based on the jurisdiction).

It is vital to differentiate between the concepts of «capital import» and «foreign investment. » While capital import refers to periodic foreign capital inflows, foreign investment denotes the cumulative foreign capital amassed in a national economy within a specified timeframe.

The investing company's home nation is referred to as the «**home country»** (or exporting country), while the country housing the invested entity is termed the «**receiving country »** (or recipient, importing country).

Countries can be categorized into groups like primary exporters of capital, those maintaining a near-equilibrium between capital export and import, and net capital importers.

When relocating production abroad, companies weigh various options for production and sales, comparing domestic scenarios with international alternatives. The profitability of foreign direct investment is gauged against the returns on capital investments in the investor's home country.

Investment market participants pursue their economic interests through engagements within investment markets, regulating the exchange of investment resources and objects. The **investment market** encompasses the economic relations between investment resource sellers and buyers. On an international scale, the international investment market entails economic relations between sellers of investment resources and buyers, who are residents of different countries.

The **investment market** is an amalgamation of distinct markets involving real and financial investments, including the market for direct capital investments (direct investments), privatization objects, real estate, other real investment objects, stocks, credit, and money markets.

As a pivotal segment within the financial market, it showcases a distinct integrative nature concerning other markets.

The real asset market encompasses investment goods and services, offering real estate, building plots (as in the mortgage market), equipment, building materials, research, design, construction, installation, commissioning, and other related works and services (constituting the contract market). Additionally, this market facilitates transactions involving new technologies, licenses, patents for inventions and discoveries, experiential knowledge, «know-how,» and engineering services (forming the market of intellectual values). Here, labor power is also traded as an investment product, representing the sale of the ability to work for remuneration.

The trajectory of international investment activity hinges on a country's investment climate, shaped by various economic, legal, social, and political factors. The **investment climate** is pivotal in determining the risk level associated with foreign capital investments and their potential for effective application within a given country. This concept encompasses two crucial aspects - investment potential and the level of investment risk.

Components of investment potential encompass elements like:

- Economic growth rates.
- Profit margins.
- Loan interest rates.
- Inflation levels.
- Purchasing power of the population.
- Robustness of infrastructure.
- Skilled workforce availability, among others.

Investment risk is influenced by factors such as:

- Political instability.
- Economic volatility.
- Social tension levels.
- Corruption prevalence.
- Safeguarding the rights of foreign investors.
- Bureaucratic hurdles, and more.

9.2. Forms and methods of direct foreign investment

Foreign direct investments (FDI) manifest distinct **forms** based on the source of origin, as outlined by the UN System of National Accounts (SNA):

- initial investments of equity capital: This encompasses scenarios like acquiring or merging companies, and establishing joint ventures, branches, subsidiaries, and associated companies. It also includes purchasing stakes exceeding 10% in enterprises.
- reinvestment: This involves retaining a portion of the investment object's income within the host country, rather than distributing it to the direct investor.
- internal corporate transfers involve loans and transfers between the direct investor (main company) and its branches, associates, and subsidiaries.

Methods to facilitate foreign direct investments:

- development of contractual cooperation
- establishment of foreign companies
- merger and acquisition

Contractual forms of FDI encompass export-import of goods and services:, trading products and services, licensing, franchising, management contracts, contract production, turnkey projects.

Contractual forms offer asset protection, but **disadvantages** include potential loss of control and competition risks. Firms tend to evolve from these forms toward more direct investment, such as creating foreign firms or joint ventures.

Own foreign companies:

1. **Subsidiary**: an independent legal entity with the parent company owning part or all its shares.

2. **Associated (mixed) company**: owned partially by the parent company, with a significant but not majority share. Mixed companies with a foreign investor holding more than half of the shares are referred to as **majority ownership companies**. When a foreign investor owns 50% of the shares and a local investor owns the other 50%, it's categorized as companies of **the same ownership**. If the foreign investor holds

less than 50% of the shares, it becomes a mixed enterprise with foreign capital participation.

A **branch** is not an independent legal entity; it is wholly owned by the parent company. It can take various forms, including a representative office abroad, partnerships with local entrepreneurs, or even movable property like ships, planes, or oil platforms that operate internationally for at least a year.

A **joint venture** (JV) signifies collaborative efforts among entrepreneurs, enterprises, and organizations from different countries. These partners distribute income and share risks in joint business activities. Notable examples include BMW and Toyota collaborating on hydrogen fuel cell research, Google and NASA developing Google Earth, and Hollywood studios uniting against internet piracy.

Another instance is the joint venture between UBER and Volvo to produce driverless cars, with a 50-50 ownership split and a value of $350 million under the joint venture agreement. Sony and Ericsson's partnership in smartphone production also illustrates the joint venture concept, with Sony eventually acquiring Ericsson's mobile division.

Advantages of joint ventures include functioning in restricted markets, capital pooling, leveraging local partner benefits, rapid adaptation through local insights, risk minimization amid changing global conditions, diversification, and limited-term commitments that suit both parties.

Disadvantages include conflicting interests and the challenge of merging corporate cultures.

International joint ventures occur when businesses from different countries collaborate, sharing cross-border business responsibilities. Notable global examples include:

1. Caradigm: Microsoft Corporation + General Electric.
2. Hulu.
3. Barnes & Noble + Starbucks.
4. Fiat Chrysler + Google.
5. Samsung + Spotify.
6. SABMiller + Molson Coors Brewing Company.
7. Ford + Toyota.

Joint ventures offer rewards through diversification and competitiveness. As a dynamic business alliance, they're rapidly growing in our modern world, demonstrating their global impact.

9.3. Methods of regulating foreign investments at the national and international levels

The strategy for attracting foreign investments necessitates a cohesive and interconnected set of measures, constituting an integral component of a country's socio-economic development plan.

Governments, both in host and home countries, commonly rely on various **administrative and economic methods** and tools to facilitate foreign investments, including:

- provision of state guarantees: These guarantees can be offered by the host country or the home country. Governments interested in promoting capital export may provide transnational corporations with assurances of full or partial capital return through state funds in case of scenarios like nationalization, repatriation barriers, currency inconvertibility, natural disasters, etc.
- foreign investment insurance: Insurance of foreign investments can be executed by both private and state-owned enterprises.
- investment dispute resolution: The process of resolving investment disputes is crucial. Mechanisms and organizations are in place to ensure a fair resolution process.
- double taxation avoidance: States often form agreements to prevent double taxation on enterprise profits from foreign investments. Corporations only pay the portion of taxes in the host country that remains unpaid in their home country.
- administrative and diplomatic support: Governments negotiate with foreign nations to establish favorable conditions for their national investors.
- establishment of free economic zones: Free economic zones, particularly special economic zones (SEZs), are among the most effective forms of such zones in many countries. SEZs

offer various incentives to attract foreign investment and foster economic growth.

The convergence of these strategies and tools creates a comprehensive framework for attracting foreign investments, aligning with a country's broader economic objectives.

A **free economic zone** (FEZ) designates a designated area within a country's territory that is subject to a liberalized regulatory framework for foreign investments, along with preferential economic conditions. These conditions can encompass favorable currency regulations, tax incentives, reduced customs tariffs, specialized labor laws, and more.

The creation of free economic zones serves several key **objectives**:

- Encouraging collaborative investment initiatives.
- Attracting cutting-edge foreign technologies and capital, along with adopting global best practices in production.
- Enhancing export capabilities.
- Generating new employment opportunities.
- Facilitating the development of communication, business, and social infrastructure, thereby accelerating the socio-economic progress of a specific region or territorial unit within the country.

Special or free economic zones are structured to elevate entrepreneurial activity, bolster local market infrastructure, and optimize the utilization of both domestic and foreign resources. This approach contributes to elevated exports, improved access to high-quality goods for domestic markets, the incorporation of novel technologies and market management techniques, and an accelerated socio-economic advancement across the nation.

Free economic zones can be categorized into various **types**:

- Foreign Trade Zones (Trade and Warehouse Zones): These zones emphasize trading and warehousing functions.
- export and production zones:
- scientific and technological zones:
- tourist (recreational) zones:
- banking free zones
- offshore zones (jurisdictions)

Certainly, foreign investors operating within Ukraine follow the national framework for investments and other economic activities, with exceptions that may arise from Ukraine's legislation and international agreements.

To encourage investment and support foreign investors, various incentives can be extended to business entities engaged in projects involving foreign investments. These projects might be aligned with state initiatives focused on prioritized sectors of the economy, the advancement of social services, or territorial development.

In the interest of national security, Ukrainian laws possess the authority to designate specific territories where activities involving foreign investors or subjects with foreign investments might be subject to restrictions or even prohibition.

Foreign investors possess the right to seek compensation for any incurred losses, which could include not only actual financial losses but also lost profits and moral damages. This compensation arises from actions, inactions, or inadequate fulfillment of duties by Ukrainian state entities or their officials concerning foreign investors or entities with foreign investments.

All financial costs and losses borne by foreign investors due to their activities must be restituted based on prevailing market rates or through a reasonable assessment endorsed by a certified auditor or audit firm. The compensation awarded to foreign investors should be swift, fair, and efficacious. The calculation of compensation takes effect from the point at which ownership rights are terminated.

The evaluation of compensation for foreign investors, resultant from actions taken, is established upon the decision to grant compensation for damages. The actual sum of compensation is disbursed in the currency originally invested or in an alternative currency that aligns with Ukrainian legislation and is acceptable to the foreign investor. Throughout the period spanning from the right to compensation being granted to the actual payment of that compensation, interest is calculated based on the average interest rate used by London banks to lend to top-tier banks in the European currency market (London Interbank Offered Rate - LIBOR).

9.4. Consequences of direct foreign investment

Positive consequences for the exporting country (resident country):

- growth of investment profits due to the redistribution of capital within the state to more profitable ones abroad;
- increasing the export of goods, equipment, and technologies should stimulate the production process.

Negative consequences for the exporting country:

- high degree of risk;
- decrease in the rate of domestic production;
- labor force migration;
- slowing down the rate of economic growth and development of the state due to the movement of capital abroad.

For the importing country (recipient country), the **attractiveness** of direct foreign investment is determined by the fact that direct investment:

- stimulate the growth rates of the national economy;
- promote the arrival of the latest technologies, equipment, and equipment;
- create additional jobs;
- the import of direct investments leads to an increase in production capacities and resources;
- contribute to the spread of managerial experience, improving the qualifications of labor resources;
- not only do new resources appear, but existing resources are mobilized and used more productively;
- direct investments contribute to the development of the national research base;
- competition and related positive phenomena are stimulated (undermining the positions of local monopolies, lowering prices, and improving the quality of products, which replaces both imports and obsolete products of local production);
- demand and prices for local factors of production increase;

- revenues to the budget in the form of taxes on the activities of international enterprises are increasing;
- when attracting investments, it becomes possible to use the partner's sales network, world-famous brands, etc.

For countries with economies in transition, attracting foreign investment is important in the context of structural reforms and economic growth.

Negative consequences of direct foreign investment include:

1. Repatriation of Profits: When resources are imported to support investments, the profits generated often leave the recipient country as investors repatriate earnings. This leads to a reduction in the resident country's GDP growth rate over time. In fact, the outflow of funds due to profit repatriation tends to exceed the initial capital investments.

2. Diverging Goals: Foreign investors might pursue objectives that do not align with the national interests of the host country. This can lead to clashes between the priorities of the nation and those of foreign investors, making it challenging to balance these interests effectively.

3. Oligopoly and Market Influence: Foreign investors may collaborate with local oligopolies or monopolies that dominate the domestic market. Such collaborations can hinder price competition, limiting benefits for consumers. Additionally, foreign investors can absorb financial resources in both local and foreign currencies, restraining the growth of local entrepreneurshi

4. Raw Material Dependence: Industries heavily reliant on raw materials often attract substantial foreign investment, but this can lead to the transformation of the host country's economy into a raw material-centric one. This dependence can negatively impact economic diversification and resilience.

5. Social Stratification: Unregulated development of foreign-invested enterprises might exacerbate social inequality and marginalization within the country. The benefits of such investments might not be evenly distributed, leading to disparities among citizens.

Foreign investment tends to flow into countries with high economic growth rates. Among developing nations, the top recipients of foreign investment are Argentina, Indonesia, China, Colombia, Malaysia, Mexico, Singapore, Xiangang, Thailand, and Taiwan.

However, developing countries are not merely recipients of foreign capital. They also engage in the movement of foreign investments to establish joint ventures. Furthermore, foreign direct investment between developed countries, particularly within the «three centers» (USA, Japan, EU), holds significant importance. Transnational corporations (TNCs) play a crucial role in investments, contributing approximately 40% of all foreign direct investments.

In essence, while foreign investment can bring benefits, these consequences highlight the need for careful consideration and effective management to ensure that the interests of both the host country and the foreign investors are balanced for sustainable development.

9.5. World experience of attracting foreign direct investment

Over the past three decades, **Poland** has undergone profound economic transformations, propelling it to become the 5th largest economy within the European Union. During this period, its economy expanded ninefold since 1990. This remarkable growth has been primarily driven by the attraction of substantial foreign investments.

During the early 1990s, Poland laid the foundation for its economic expansion by enacting the Law on Foreign Investment. This legislation eliminated constraints on the participation of foreign citizens in enterprise share capital. Moreover, it introduced tax incentives for foreign investors, particularly in regions grappling with high unemployment rates, where these incentives held greater significance.

Between 1995 and 2001, Poland established 15 free economic zones (FEZ), 14 of which remain operational to this day. These zones have played a pivotal role in enticing a total of 1,700 investors to Poland from 1995 to 2016, resulting in an impressive investment influx of 32 billion U.S. dollars. Consequently, this surge in investments facilitated the creation of 240,000 new job opportunities.

Further enhancing its investment-friendly environment, Poland introduced the «On Support of New Investments» Law in June 2018.

This transformative legislation designated the entire nation as a free (special) economic zone. Under this framework, companies undertaking new investments are granted exemptions from both income tax and real estate tax. Furthermore, investors are entitled to apply for direct state subsidies to bolster their ventures.

The Polish government also extends its support to businesses through tax breaks spanning from 10 to 15 years. The duration of these exemptions is contingent upon the level of state assistance in the respective region. Notably, regions with higher unemployment rates and less developed infrastructure receive more substantial state aid.

In this way, Poland has skillfully leveraged its pro-investment policies and incentives, fostering an environment conducive to economic growth and attracting foreign investors.

Qualifications for obtaining state aid encompass several criteria, including:

- minimum investment threshold:
- investment in regional infrastructure:
- collaboration with clusters and research institutions.

Companies are granted the opportunity to receive advantageous incentives through deductions from their tax base. These deductions can reach up to 200% of expenses, with research centers eligible for an even higher rate of 250%. These expenses might include wages, material purchases, and equipment procurement for scientific research.

The previously established free economic zones within Poland, operational until June 2018, have not been dissolved. They will remain operational until the conclusion of 2026.

A parallel example lies in the **United Arab Emirates** (UAE), where most international investment activities are concentrated within free economic zones. This trend was initiated with the establishment of the Jebel Ali Free Zone during the 1980s, the world's largest free zone. This development catalyzed the creation of over 40 additional free economic zones across the UAE. These zones offer a spectrum of benefits spanning taxation, trade facilitation, customs advantages, financial incentives, and administrative support (Refer to Table 9.3).

Table 9.3

Examples of some free economic zones in the United Arab Emirates[4]

Name	Date of creation	Number of companies	Preferences
Jebel Ali Free Zone (Jafra)	1985	More than 7000 companies	Help in creating a business; consulting; service mediation and delegation; lack of corportive tax for 50 years; lack of tax for export and import; absence of income tax booth; lack of currency restrictions; freedom of employment foreign workers.
Sharjah Airport International Free Zone (SAIFZ)	1995	More than 6000 companies	Low prices for utility services; absence of corporate taxes, income taxes; access to large ports of the region; additional sources of funding.
Free Zone Authority (DAFZA)	1996	More than 13,000 companies	Availability of warehouses and terminals for cargo storage; a simple system of customs control; round the clock mode of operation; cheap electricity and rent of premises; cheap labor force; convenient geographical location.

The cumulative foreign investment inflow into the free economic zones of the United Arab Emirates surpasses an impressive $500 billion USD. The overarching advantages offered by these zones encompass:

- zero income tax
- corporate tax exemption
- 100% foreign ownership

[4] Trydtsyat' rokiv nezalezhnosti Ukrayiny. Ekonomichni pidsumky [Thirty years of Ukraine's independence. Economic results]. Ukrayins'kyy instytut maybutn'oho. 2021, S.33 [in Ukrainian].

- duty-free import and export
- full income repatriation

In South Korea, companies benefit from a tax credit ranging between 8% and 25% of their current Research and Development (R&D) expenditures. Notably, the South Korean government allocated $4.5 million USD in 2020 for the advancement of new metal production technology. This collaborative effort involves the Korean firm, Zirconium Technology Corporation, and the Australian company, Australian Strategic Materials. This technology, under development since 2019, aims to curtail energy consumption during production by 50%. Beyond energy efficiency, it promises enhanced environmental friendliness and cost-effectiveness. The technology is adaptable to metals like titanium and zirconium, potentially leading to reduced production expenses, heightened domestic metal production, and sustained availability in both domestic and global markets.

PRACTICUM FOR TOPIC 9

Exercise 1. **Control and discussion questions**

1. What are the signs of direct foreign investment?

2. Explain how the concepts of «import of capital» and «foreign investment» differ.

3. Name the consequences of direct foreign investment for the host country.

4. Describe the structure of the international investment market.

5. Describe the forms and methods of direct foreign investment.

6. Explain the importance of foreign direct investment for the development of the world economy.

7. How does the dynamics of net investment indicators affect the country's economic development?

8. What is the multiplier effect?

9. How are investments and their main types defined in Ukrainian legislation?

10. What are the initial conditions for the formation of a favorable investment climate in Ukraine?

11. What is the difference between financial and material investments, their relationship with direct and portfolio investments? What investments prevail in the structure of international capital movement?

12. How is the level of investment liquidity assessed?

Exercise 2. **Topics for scientific essays and presentations**

1. Investigate global flows of foreign direct investment.

2. Overview of trends and forecast of the development of the world market of direct foreign investment.

3. Overview of incentives and benefits for investors provided in accordance with Ukrainian legislation.

4. Industrial parks and industrial zones: creation mechanism and activity models. Give examples.

5. Investigate the investment climate of Ukraine: positive and negative factors.

6. Internal investment as a method of overcoming the economic crisis in Ukraine.

7. Investigate the attraction of foreign investments in high-tech start-up projects.

8. Develop your own strategy on the topic: «Organization of visits of potential investors and negotiations regarding the implementation of investment projects» (which foreign investors would you like to attract to Ukraine, in which specific areas, why? Give convincing arguments why an investor should invest in Ukraine.

9. Examples of joint ventures in the world - Top 10 and their rationale.

10. Deposits, government bonds, real estate, Tesla shares or «under the mattress». What is better to invest in the future?

INTERNATIONAL PORTFOLIO INVESTMENT

Main questions for study:

10.1. Structure of portfolio investments. Main portfolio investors.

10.2. Securities market and its instruments.

10.3. Difference between portfolio and direct investments.

10.1. Structure of portfolio investments. Main portfolio investors

Portfolio foreign investment (PrII) involves capital allocation into foreign securities, granting the investor limited control over the investment entity. The prime objective is to garner income via dividends, interest, or speculative exchange rate differentials.

Such investments predominantly center around securities and are facilitated by stock brokers, who also function as financial advisors for investors. Efficient capital deployment, striking an optimal «return-risk-liquidity» equilibrium, stands as the principal aspiration in portfolio investment.

The term «portfolio investments» encompasses an array of assets including stocks, government bonds, corporate bonds, real estate investment trusts (REITs), mutual funds, exchange-traded funds (ETFs), and bank certificates of deposit.

In comparison to direct investments, PrII holds certain comparative **advantages**:

- enhanced liquidity: PrII assets can be swiftly converted into cash without incurring substantial financial losses.

- manageability: This investment class offers relatively easy administration, driven by swift sales capacity and streamlined transaction procedures.

However, it carries certain drawbacks:

- elevated risk: PrII is characterized by heightened risk levels.
- moderate profitability: Returns might be comparatively lower.
- limited influence: Investors lack the capability to impact securities' yield or market value.
- additional foreign debt: It contributes to augmenting foreign debt for both the nation and its residents.

PrII's **structural analysis** relies on various criteria:

- direction of movement: Classifying investments as export or import-related.
- Territorial and Geographical: Categorizing investments based on geographic regions.
- investment subjects: Including enterprises in foreign trade, institutional investors, private individuals, state financial institutions, and international financial organizations.
- investment instruments: Categorizing into capital participation securities (shares), debt securities, and secondary securities.
- investment term: Distinguishing between short-term (up to 2 years), medium-term (up to 10 years), and long-term (over 10 years) investments, among others.

Central players in the global financial market's portfolio investment landscape encompass universal and specialized transnational banks, along with institutional investors. Their operations on both supply and demand sides significantly influence market instrument pricing.

Institutional investors (InIns) are legal entities whose main function is financial transactions.

Types of institutional investors:

1. Pension funds.
2. Investment companies.
3. Investment funds.

4. Insurance companies.
5. Savings institutions.

There are several types of investment portfolios, so investors seek to create the type of portfolio that matches their investment intentions and risk appetite.

1. **Income portfolio**. This type of portfolio consists in ensuring a constant flow of income from investment investments. In other words, it is not fully focused on potential capital gains. For example, income-oriented investors may invest in stocks that pay regular dividends instead of those that show growth in price.

2. **Portfolio growth**. A growth-oriented portfolio mostly invests in shares of a company that is in the stage of active growth. As a rule, these portfolios are exposed to more risk. This type of portfolio is known for involving a high degree of risk and reward.

3. **Value portfolio**. This portfolio invests in cheap assets and focuses on securing deals in the investment market. When the economy is in a slump and companies are barely surviving, value investors look for profitable companies whose shares are worth less than their fair value. When the market picks up, owners of value portfolios reap significant returns.

Globalization of world markets has also affected investment funds and companies: during the last decade, their domestic investments have been significantly inferior to foreign assets in terms of growth rates.

10.2. Securities market and its instruments

The world securities market (WSM), or the stock market, is a part of the world capital market, where transactions with securities are carried out.

A stock exchange is a market where investors can buy and sell securities, including stocks, bonds, derivatives, commodities and other financial instruments. This is the most powerful component of the financial market. In addition, this market is a key indicator of the economic strength of the world.

Table 10.1

Subjects of the securities market and their activities[5]

Subjects of the securities market	
Issuers and sellers	
Investors (buyers)	
Securities market professionals	
Regulatory bodies	
Activities	
Emission activity	Organization of issuance and placement of securities.
Brokerage activity	Execution of transactions with securities in the role of a commission agent or trustee.
Dealer activity	Execution of transactions with securities on one's own behalf and at one's own expense.
Representative activity	Representation of the interests of one of the parties in the agreement.
Consulting activity	Provision of legal, economic, technical and other types of consultations on securities.
Audit activity	Checking the correctness of accounting and real financial condition of the issuer.
Deposit activity	Provision of services related to the preservation, transfer, accounting of securities.
Clearing activity	Carrying out operations on collection, verification and preparation of documents regarding the execution of securities agreements.
Registration activity	Keeping registers of securities owners.
Regulatory activity	Legal regulation of participants' activities.

Securities are monetary documents certifying the right of ownership or a loan relationship between the person who issued them and their owner and provide, as a rule, the payment of income in the form of

[5] Mizhnarodna ekonomika [International economy]: pidruch. / za red. A.O. Zadoyi, V.M. Tarasevycha. K.: Tsentr uchbovoyi literatury, 2012, s.200 [in Ukrainian].

dividends or interest, as well as the possibility of transferring monetary and other rights arising from these documents to other persons.

Principles of operation: transparency, openness, fair competition; equality of opportunity; protection of investors' rights; balance; legal orderliness and controllability.

Functions of the securities market:

- determination of the price;
- mobilization of funds;
- liquidity;
- distribution of risks;
- easy access;
- reduction of transaction costs and provision of information;
- capital formation.

The method of placement of securities:

- primary;
- secondary.

Type of placement of securities:

- the market on which securities are placed by the issuer's direct appeal to the buyer;
- the market on which securities are placed through an institutional investor.

Issuer (issuer) of securities:

- market of government loans;
- municipal loan market;
- market of securities of enterprises and organizations.

Term of circulation of securities:

- the market of securities with an established (fixed) period of circulation;
- the market of securities without a set period of circulation.

Income payment mechanism:

- fixed income securities market;
- market of securities with variable income.

Territory of circulation of securities:

- local market;
- national market;

- regional market;
- international market.

There is a huge variety of financial instruments to choose from when you decide to start trading.

Stock (equity) securities are tradable instruments representing ownership in a company and entitling their holders to a share in the company's profits as dividends. Globally, stocks are the most widely embraced investment avenue.

A share stands as a security form signifying proportional ownership in a company. When stocks are bought, ownership stakes are obtained. In private companies, equity arrangements are directly established. However, when additional capital is sought, a company might decide to go public. This necessitates an initial public offering (IPO) process, resulting in the listing of shares on stock exchanges. Once listed, shares are accessible for public trading. The primary market oversees the IPO process, while general trading transpires in the secondary market.

Debt securities, on the other hand, validate a lending relationship between the holder and the issuer. Bonds, a prominent form of debt securities, offer fixed income from their nominal value within a specified maturity period.

Promissory notes are written debt commitments granting owners the undisputed right to demand repayment upon maturity.

Bills of debt are short-term monetary instruments (3-6 months) issued by borrowers, arranged through banks, facilitating placement, purchase, credit extension, and reserve provision.

Financial derivatives, categorized as secondary financial instruments, confer the right to purchase or sell primary securities.

Subscription certificates, linked with bonds or preferred shares, bestow the holder the right to acquire a defined number of ordinary shares at a prearranged price within a specified timeframe.

Forwards constitute the simplest derivatives, involving a contract between a buyer and seller to exchange an underlying asset for cash at a predetermined price and date.

Futures resemble forwards but are standardized, with specifications set by an exchange, streamlining trading for participants.

Futures span various categories, such as stock, commodity, index, and currency futures. They involve the obligation to sell a block of shares at a designated price post signing the contract.

Options involve a contract where a buyer purchases the right to buy or sell an underlying asset by a specified future date, without obligation. The seller is obligated to buy/sell if the buyer exercises the option, with the buyer paying an option premium for the choice. If unexercised, the seller retains the premium.

This comprehensive description provides an overview of diverse securities and investment vehicles available in financial markets.

Like futures contracts, options are also classified according to their underlying assets – commodity options, index options, stock options, currency options, etc.

Table 10.2

10 largest stock exchanges in the world[6]

Stock Exchange	Year of registration	Country	Market capitalization
New York Stock Exchange (NYSE)	1792	USA	$26.2 trillion
National Association of Automatic Quotations of Stock Exchange (NASDAQ)	1971	USA	$28.28 billion
Shanghai Stock Exchange (SSE)	1866	China	$6.87 trillion
European New Exchange Technology (EURONEXT)	2000	Europe	$6.65 trillion
Hong Kong Stock Exchange (HKEX)	1891	Hong Kong	$43.64 trillion
Tokyo Stock Exchange (TSE)	1898	Japan	$5.67 trillion

[6] Largest Stock Exchanges in the World. URL:https://scripbox.com/pf/largest-stock-exchangesin-the-world/ [in English]

1	2	3	4
Shenzhen Stock Exchange (SZSE)	1990	China	$5.24 trillion
London Stock Exchange (LSE)	1801	Great Britain	$4.13 trillion
Toronto Stock Exchange (TSX)	1861	Canada	$3.1 trillion
Bombay Stock Exchange (BSE)	1875	India	$3.5 trillion

A **stock market index** represents an average or weighted means of security prices, commonly stocks, offering insight into the status and fluctuations of the stock market. These indices serve as performance benchmarks, shedding light on specific market segments or the market as a whole.

Prominent **stock indices** include the Dow Jones Industrial Average (comprising shares from the 30 largest American corporations), Nikkei 225 (calculated from 225 top firms listed on the Tokyo Stock Exchange), the Stock Exchange Index (comprising rates of the leading 100 English companies listed on the London Stock Exchange), Russel 2000 (reflecting shifts in the values of shares for 2000 medium and small US firms), and the Standard & Poor's 500 (encompassing the top 500 US publicly traded companies based on market capitalization).

10.3. Difference between portfolio and direct investments

Difference 1. Direct investments are more voluminous.

Direct investment requires a large initial capital. For portfolios, the amount of funds is quite small.

Opening a brokerage account is available to an average citizen with minimal personal savings. As a rule, experienced businessmen are engaged in direct investments.

Difference 2. Only securities are used for portfolio investments.

The main and often the only instrument of portfolio investment is securities (shares, bonds, futures, bills, etc.). In direct investment, the choice of directions is much wider - production, startups, shares, precious metals, etc.

Difference 3. Portfolio investments bring less income.

Since the initial volume of portfolio deposits is an order of magnitude less than direct and real investments, the profitability will be lower. However, the risks with competent capital allocation of portfolio investors are minimal.

Difference 4. The terms of direct investment are longer.

The payback period of direct investments is often measured in years and at the same time requires constant control by the investor and even participation in project management. Not every investor can handle such a task.

Difference 5. The liquidity of portfolio investments is higher.

High liquidity of securities is the main advantage of portfolio investments. If the client urgently needs cash, he simply instructs his broker to sell the assets at the best possible price and withdraws the money from the brokerage account.

Realizing direct investments is not so easy. It is not easy to find a buyer for a project with unpredictable results.

Difference 6. A portfolio investor can easily leave the market.

The possessor of a brokerage account retains the liberty to exit the market at any juncture. When the desire to retain funds in the stock market wanes or fresh investment prospects emerge, the option to liquidate the portfolio and explore alternative avenues is readily available.

In contrast, a direct investor can find themselves constrained by specific stipulations. Exiting the market prematurely might be unfeasible, especially when tied to an ongoing project. Premature withdrawal could entail a failure to realize anticipated profits or even result in a partial loss of assets..

Let's consider the differences between direct and portfolio investments in a visual way (Table 10.3).

Table 10.3

Differences between direct and portfolio investments

Criteria	Direct foreign investment	Portfolio investments
Profitability	High	Average
Liquidity	Low	High
Payback terms	Higher than portfolio investments	Lower, although there are exceptions
Tools	Manufacturing, Equity, Startups, Precious Metals and more	Only securities

TOP-5 main risks of portfolio investments:

Risk 1. Unsuccessful selection of securities.
Risk 2. Inappropriate time to invest.
Risk 3. Inflation.
Risk 4. Unplanned expenses.
Risk 5. Sharp jumps in the interest rate.

PRACTICUM FOR TOPIC 10

Exercise 1. **Control and discussion questions**

1. Reveal the content of the leading modern theories of portfolio investing.
2. Give a comparative description of direct and portfolio foreign investments.
3. What are portfolio investments, what types of securities are there for their implementation?
4. Name the criteria by which the structure of international portfolio investments is determined and analyzed.
5. Reveal the principles of functioning and the structure of the international securities market.
6. Describe the main instruments of the securities market.

***Exercise 2*. Topics for scientific essays and presentations**

1. Describe the situation with foreign portfolio investments in the world and name the priorities of foreign portfolio investors.
2. What is better to attract to the economy of Ukraine: direct or portfolio foreign investments? Why?
3. Explain why investors and governments treat direct and portfolio investments differently?
4. What is the situation with attracting portfolio investments to the Ukrainian economy?
5. Demonstrate how portfolio investment can be brought into the country.

INTERNATIONAL CORPORATIONS IN THE WORLD ECONOMY

Main questions for study:

11.1. Transnational corporations: essence, criteria and trends.

11.2. Types and structure of corporations in economic activity at the international and national levels.

11.3. The influence of TNCs in the international economy.

11.4. Consequences of TNC activity.

11.1. Transnational corporations: essence, criteria, and trends

An **international corporation** constitutes a structural configuration within a sizable corporate entity, engaging in direct foreign investments across diverse nations. The dominant variations of international corporations encompass transnational corporations (TNCs) and multinational corporations (MNCs). A TNC is characterized by its primary entity being owned by the capital of a solitary country, with branches dispersed across numerous countries. Conversely, an MNC's main company ownership emanates from two or more countries, mirroring the distribution of its branches.

However, the contemporary landscape prioritizes the global essence of a corporation's operations, investments, and profit generation rather than the count of countries where its leading company holds capital.

Transnational corporations exemplify enterprises of worldwide reach, operating in multiple countries. These entities command a substantial influence, accounting for 80% of global trade, 80% of new equipment and technology patents, and 70% of currency and liquid resources across developed market domains. Intra-company operations of TNCs constitute approximately one-third of global trade. Employing around 50 million individuals, TNCs contribute to approximately every 10th job in developed and developing economies.

INTERESTING. 69 of the world's 100 richest entities are TNCs, not countries.

The **main features** of the TNC:

- the international nature of the functioning and use of capital;
- huge material and financial potential; the possibility of making significant expenditures on R&D;
- these are multi-nomenclature firms whose activities are very diversified;
- high independence of the movement of own capital compared to the processes taking place within national borders;
- gaining competitive advantages and maximizing profits (constant search for the cheapest and most efficient production locations around the world);
- geographic flexibility – they can move resources and operations anywhere in the world.

The criteria for determining the international status of a company are the share of sales outside the home country, the amount of foreign assets and their share in total assets. However, in the economic literature, all large companies that have significant capacities, make direct capital investments and have strategic interests abroad are called TNCs.

Advantages of TNC:

- access to additional sources of means of production;
- avoidance of customs barriers;
- overcoming the limitations of the domestic market of the host country;
- the use of differences in the economic situation of countries due to quick economic maneuvers with the concentration of production in countries with cheap raw materials and low wages;
- obtaining a higher profit in countries with a low level of taxation;
- optimization of production and sales programs in specific conditions of national markets;

- manipulation of the balance sheets of foreign branches with subordination of income and expenditure policy to the interests of the central headquarters.

TNCs perform a number of important **positive functions** in the global economy:

- promoting the development of scientific and technical progress;
- involvement of host countries in global economic relations;
- creation of new types of products and jobs;
- stimulating the development of the world economy.

TNCs engage in different types of direct investments based on the nature of the investment, including:

1. Direct investments of the «Green Zone» (Greenfield FDI): This form involves constructing a new enterprise from scratch. Recently, this type has represented less than 20% of total direct foreign investment. Payment for such investments is predominantly made in cash.

2. Cross-border mergers and acquisitions (Cross-Border M&A): Cross-border mergers entail the transfer of asset and operational management from a domestic company to a foreign one, with the former becoming a subsidiary or branch of the acquiring entity. Cross-border M&A comprises over 80% of global Foreign Direct Investment (FDI). Notably, there's a qualitative discrepancy in how donor countries utilize this form of FDI. Developed countries predominantly utilize mergers and acquisitions, constituting nearly 100% of their direct investments, while for developing and transitioning economies, this proportion rarely exceeds 40%. In such cases, other investments tend to involve the «green zone» method of constructing enterprises «turnkey».

An illustrative instance of mergers and acquisitions is the landmark acquisition of Mannesmann AG by Vodafone Air Touch PLC in 1999. This transaction, valued at USD 202.8 billion, marked the largest cross-border M&A deal since January 1985. Notably, this acquisition emerged as the most significant cross-border deal and secured the top position on the overall M&A list.

Contemporary trends in the evolution of TNCs encompass several key aspects:

- shifting dominance of TNCs: the prominence of American TNCs has receded, with Japanese and Western European counterparts gaining stronger footholds.
- heightened interdependence: developed nations are experiencing increased interdependence due to deepened economic linkages and shared interests.
- rise of newly industrialized countries: Emerging economies and their TNCs are witnessing a surge in influence, intensifying competition within the transnational business arena.

Prominent examples of TNCs include Apple, Microsoft, Nestlé, Amazon, Walmart, Sony, Shell, and Nike.

The global influence of TNCs positions them as formidable players in negotiations with nation-states. Their capacity to amass substantial human resources and capital investment bolsters their appeal to governments seeking foreign investment. As a result, TNCs are perceived as potent tools for attracting foreign capital, prompting many developing nations to entice MNCs by establishing free trade zones replete with incentives and benefits for their investment.

11.2. Types and structure of corporations in economic activity at the international and national levels

A Transnational Corporation (TNC) comprises a parent company and foreign-controlled units. The **home country** denotes the location of the TNC's headquarters or primary holding company, while the **host country** encompasses the locations of TNC-controlled enterprises.

Distinct categories of foreign structural companies within TNCs include:

1. **Subsidiary Company**: An enterprise within the host country that is part of the TNC system and is owned by a non-resident direct investor with a capital share exceeding 50%.

2. **Associated Company**: An enterprise within the host country that is part of the TNC and owned by a non-resident direct investor with a capital share less than 50%.

3. **Branch (Department)**: An enterprise wholly (100%) owned by a direct investor. Branch forms encompass representative offices abroad, partnerships (including local entities), and mobile assets belonging to the parent company, operational abroad for a minimum of one year.

A parent company controls assets of foreign host firms. The main company comprises two entities: the parent holding company and the parent operating company, occasionally consolidated into a single operational holding company.

Five prevailing global TNC organizational structures emerge:

1. Global Commodity Structure: Assigns responsibility to TNC's national divisions for distinct global product groups. Evaluated on actual profits, it operates based on the «profit center» concept, ensuring predetermined return on investment for each product line.

2. Global Regional Structure: Empowers regional managers with operational responsibilities. It distinguishes itself from the global commodity structure by grouping all product lines within a geographic region under one unit.

3. Global Functional Structure: Focuses management on fundamental functions like production, finance, and marketing. Functional departments assume responsibility for both national and international operations under this model.

4. Mixed Structure: Integrates facets of different organizational approaches. Tailored to TNCs operating across diverse markets and competitive environments, it may incorporate a global, regional structure for European operations and a global commodity model for operations beyond Europe.

5. Matrix Structure: Combines two approaches - regional/commodity or functional/commodity. In regional-commodity matrix models, three manager types coexist: regional, commodity, and matrix. Functional-commodity matrix models accentuate essential functions and goods for production.

According to the criterion of the position of TNC divisions in the value chain, 3 types of TNCs are distinguished: horizontally integrated TNCs, vertically integrated TNCs and separate TNCs.

Horizontally integrated TNCs operate units located in different countries that produce the same or similar goods. For example, the American corporation «McDonalds».

Vertically integrated MNCs operate units in one country that produce goods that are delivered to their units in other countries. For example, «British petroleum».

Separate TNCs operate units located in different countries that are not vertically or horizontally integrated. For example, General Electric.

The classification of transnational corporations (TNCs) can be complex, as they often exhibit a combination of vertical, horizontal, and separate characteristics to maximize their impact and influence. The hierarchy of TNCs is commonly categorized into international, multinational, and global corporations.

Corporations are classified based on the degree of capital socialization and the unification of economic activities. **Cartels**, on the other hand, are formal organizations formed through agreements among independent enterprises. These agreements encompass production volumes, market division, pricing, sales conditions, labor employment, and payment terms. Cartel members maintain their industrial independence while aiming to enhance their commercial activities within a cooperative framework. Typically confined to a single industry, cartels reduce competitive pressures, potentially impacting consumer conditions and production incentives.

A prominent example of an international cartel is OPEC (Organization of the Petroleum Exporting Countries), which coordinates oil production volumes and influences market prices. Meanwhile, a syndicate involves a temporary alliance of companies collaborating to manage large transactions that may be challenging to undertake individually. Syndication enables resource pooling and risk sharing, such as when investment banks jointly market a new securities issue. Types of syndicates include underwriting, banking, and insurance syndicates. While syndicate members maintain production independence, they relinquish some commercial autonomy according to mutual agreements.

In contemporary times, the utilization of syndicates as a form of association has become less frequent. **Pools**, on the other hand, represent monopolistic alliances wherein profits are pooled into shared funds and subsequently distributed based on pre-agreed proportions linked to market segment exploitation outcomes.

A **trust** constitutes a monopolistic form of association where participants surrender their industrial, commercial, and occasionally legal autonomy. Trust members, who also possess shares, allocate profits according to their share ownership in blocks. Operational control of the trust typically rests with the board or a parent company. These trusts usually emerge within industries producing similar goods, though cross-industry trusts are also observed.

Concerns present a complex manifestation of economic activity monopolization, encompassing unification across sectors such as industry, transport, trade, and banking. Participants maintain formal legal and economic independence, contingent upon operating under the oversight of their dominant financial entities. Concerns can take on two-tier or multi-tier structures, with participant corporations joining forces in market strategies. A distinctive feature of concerns is the intermingling of capitals from different sectors.

The primary advantage of concerns as a means of production potential socialization is the concentrated accumulation of financial and industrial resources. This stems from the capability of concerns to amalgamate various commercial structures, resource proprietors, and financial assets.

A **consortium** signifies a collective formed by two or more individuals, corporations, or governments collaborating to achieve shared objectives. Consortium participants are liable solely for obligations stipulated in the consortium agreement.

Consortia emerge from temporary arrangements between banking and industrial corporations, as well as firms, to execute specific joint projects. Their prevalence extends across various countries and regions, with certain nations, like Italy, serving as more natural environments for consortium growth.

Transnational Strategic Alliances (TSA) denote diverse forms of alliances among TNCs themselves. TSA represents a distinctive organizational structure for inter-firm relationships involving two or more companies. It involves long-term coordination of participants' economic activities to execute large-scale production projects, enhance technological cooperation, expedite innovation processes, minimize production costs and risks, and facilitate market access.

TSA involves multi-faceted coordination, spanning horizontal interactions (within the same industry), vertical interactions (between suppliers and consumers along production's technological trajectory), and diagonal interactions (across various industry structures). This multifaceted coordination enhances problem-solving efficacy, offering heightened management flexibility and technological adaptability.

Prominent instances of strategic alliances include partnerships between Spotify and Uber, MasterCard and Apple Pay, Chevrolet and Disney, Vodafone India and ICICI Bank, as well as Barnes & Noble and Starbucks.

11.3. The influence of TNCs in the international economy

Transnational corporations wield substantial global influence, particularly across various societal domains.

Within the realm of TNC policies:

- They engage in collaboration with both competitors and customers.
- They establish their own corporate diplomacy and propagate corporate ideologies.
- They operate numerous divisions catering to diverse functions.
- They effectively create an internal «state» within their operational scope.

In the economic arena of TNCs:

- They consolidate their production capacities through integration.
- They maintain stable economic activities that remain open and effective, even during crises.

In the context of scientific and technological advancement:
- They leverage cutting-edge technologies in their operations.
- They facilitate the worldwide transfer of novel technologies.
- They establish research centers in multiple countries, tapping into local expertise.

TNCs, as pivotal players in foreign direct investment:
- Assume a crucial role in the host and base countries' economies.

The influence of TNCs on the economy of the host country:
- obtaining additional resources (capital, modernization of national industry, managerial experience, qualified employees);
- accelerated development of the entrepreneurial sector;
- reduction of unemployment, international standards of training of qualified personnel;
- increase in the volume of GDP, acceleration of economic growth;
- increase in tax revenues;
- manipulations in pricing, increased exploitation, and establishment of internal control by TNCs;
- TNCs can use outdated production technologies;
- TNC non-compliance with environmental standards.

The influence of TNCs on the economy of the home country:
- access and certain control over the natural resources of the host countries;
- consideration of differences in environmental norms and standards between countries;
- stimulation of demand for the products of the country where the TNC is based;
- reduction of costs for the education of specialists due to their involvement from host countries;
- access to information resources of other countries;
- political influence in the world;
- possible political pressure of TNCs on the government;
- reduction of tax revenues to the budget due to the use of TNC transfer prices.

11.4. Consequences of TNC activity

Positive outcomes stemming from TNC activities encompass:

- Influx of capital, leading to heightened investment income.
- Integration of advanced technologies, fostering innovation and production enhancement.
- Development of production through the utilization and advancement of contemporary innovations.
- Generation of demand for and provision of novel goods, catering to population preferences.
- Facilitation of employment opportunities, resulting in job creation.
- Augmentation of national budgets due to increased revenue inflow.

Conversely, **negative repercussions** of TNC engagement encompass:

- Concealment of profits and evasion of national regulations.
- Capital and profit export from host countries.
- Monopolization of power, exerting adverse effects on national economies.
- Potentially unbalanced specialization, particularly in extractive or environmentally detrimental industries.
- Creation of unfavorable competition using monopolistic pricing.
- Prioritization of self-interest over state needs.
- Depletion of resource reserves and other detrimental impacts.

Key strategies to mitigate the negative effects of foreign investments comprise:

- Endorsing an international code of conduct for transnational corporations.
- Strengthening and refining national investment legislation.
- Forging mutual agreements between nations to regulate investment processes and protect foreign investments.

PRACTICUM FOR TOPIC 11

Exercise 1. **Control and discussion questions**

1. Give a comparative description of the categories: transnational corporation, multinational corporation, and global corporation.
2. In your opinion, does the activity of TNCs affect the distribution of global income between countries? Justify your answer.
3. Define and characterize the stages of development of the transnational activity of corporations.
4. Justify the need to study the legal, economic, political, and cultural environment of operation in the process of TNC activity.
5. What is the role of TNCs in modern processes of globalization?
6. Name the positive and negative consequences of TNC activity.

Exercise 2. **Topics for scientific essays and presentations**

1. What is the role of your chosen TNC in the global economy? What are the consequences of TNC activities for the host country and the parent company?
2. Should state facilities be given a concession? What changed after adopting the Law of Ukraine «On Concessions»? Consequences for Ukraine (your thoughts).
3. The influence of TNCs on the economic development and competitiveness of the country (choose any country).
4. Analysis of competitive strategies of TNCs in the conditions of globalization of economic activity.
5. Assess the impact of TNC activities in developing countries.

INTERNATIONAL LABOR MIGRATION. WORLD LABOR MARKET

Main questions for study:

12.1. The essence and types of international labor migration.

12.2. Economic and social causes of international labor migration.

12.3. Consequences of international labor migration.

12.4. World labor market. Centers of gravity of labor force.

12.5. International regulation of migration processes.

12.1. The essence and types of international labor migration

International labor migration involves the relocation of the workforce across national borders within the global labor market for durations exceeding one year.

The primary aim of international labor migration is to seek better financial prospects. The classification of this phenomenon encompasses various aspects:

Based on the spatial scope of movement, the following categories are recognized:

- **External migration**: Entails the populace relocating beyond their country's borders.
- **Intracontinental migration**: Involves movement between nations within the same continent.
- **Intercontinental migration**: Signifies the mobility of individuals between countries spanning different continents.

Considering the timeframe of movement, international labor migration can be classified as follows:

- **Permanent migration**: Encompasses individuals departing (or entering) a nation for lifelong settlement.
- **Temporary migration**: Encompasses working abroad for a defined period, followed by either return to the home country or transition to another nation.

Temporary migration is divided into seasonal, pendulum, and episodic:

- **Seasonal (cyclical)** migration involves yearly movement during specific seasons, typically for agricultural crop harvesting, followed by a return to the home country.
- **Pendulum migration** signifies periodic population departure from the individual's permanent residence to work in another country, often a neighboring border nation, facilitated by international agreements between the countries. Frontaliers, daily cross-border migrants working in neighboring countries, exemplify this type.
- **Episodic migration** encompasses sporadic journeys such as business, cultural, household, and recreational trips, occurring irregularly over time.

In terms of legal status, the following distinctions emerge:

- **Legal migration** entails population movement adhering to national legislation, often under the visa regime.
- **Illegal migration** involves the unauthorized movement of individuals across a country's state border violating the law.

Regarding professional composition, the subsequent categorizations are identified:

- Migration of workers, exemplified by occupations like miners.
- Migration of specialists, encompassing roles such as programmers.
- Migration of humanitarian professionals, represented by individuals like singers and actors.

Based on the skill level, the ensuing classifications are recognized:

- Low-skilled labor migration, exemplified by domestic workers.
- Migration of highly skilled labor, including professions like designers.

- Migration of scientists, involving the phenomenon of «brain drain».

Considering the direction of movement, the subsequent types of international labor migration are identified:

- **Emigration**, signifying the departure of a country's workforce beyond its borders.
- **Immigration** involves the entry of the working population into a nation from external borders.
- **Re-emigration**, denoting the return of emigrants (labor force) to their homeland (the country of emigration).

Regarding the organization of migration flows, distinctions are made as follows:

- Voluntary migration signifies the workforce's non-coerced movement, where the migrant independently decides to relocate.
- Forced migration denotes the compelled displacement of citizens from their country by judicial institutions' decisions.

The disparity between immigration and emigration flows is termed the **migration balance**, depicting **net migration levels**. The aggregate of these flows quantifies gross migration levels.

At present, international labor migration showcases **several notable characteristics**, including:

- Escalating migration scale.
- Rising migrant proportion within nations' overall working populations.
- Emergence of fresh centers for labor force attraction.
- Heightened emigration of highly skilled professionals (brain drain).
- Surge in illegal immigration, among others.

A key trait in contemporary international labor migration is the emigration of scientists and highly qualified specialists. **The primary factors contributing to the «brain drain» phenomenon encompass**:

- Insufficient demand for their professional knowledge and scientific achievements.

- Limited opportunities to execute scientific innovations in one's homeland.
- Insecure intellectual property rights.
- Continuous decline in the societal standing of scientists and specialists.
- Pursuit of enhanced financial prospects.
- Uncertainty in career advancement for experts.
- Absence of a robust domestic high-tech market.
- Availability of avenues to apply knowledge and expertise abroad.

12.2. Economic and social causes of international labor migration

Worldwide migration processes are on the rise each year, driven by economic and non-economic factors.

Economic triggers for international labor migration comprise:

- Disparities in economic development across nations.
- Acceleration of production internationalization.
- Varied capital accumulation patterns between countries.
- Shifting production facility locations.
- Labor market dynamics and employment structures.
- Noticeable wage disparities for equivalent labor across nations.
- Advancement and deepening of integration processes.

Social motives for international labor migration encompass:

- Aspirations to enhance material well-being and upgrade working and living conditions.
- Ethnic and cultural proximity to the destination country.
- Pursuit of personal development needs.
- Effects of natural disasters in emigration countries.
- Political, military, and religious influences.

12.3. Consequences of international labor migration

Let's examine the positive and negative consequences for labor-exporting and labor-importing countries.

Consequences for the Labor Exporting Country:

Positive Aspects:

- Reduced strain on the domestic labor market due to surplus labor export.
- Enhanced revenue to the budget from company taxes and intermediaries.
- Increased foreign exchange income via private remittances from emigrants.
- Improved standard of living for family members and dependents back home, courtesy of remittances.
- Opportunities for private investments rise as migrants return with personal funds and production means.
- Technical and economic production level improves with skilled emigrant workers returning.
- Potential for establishing a lucrative labor export industry.
- In certain cases, compensation can be obtained from labor-importing countries through bilateral agreements.

Negative Aspects:

- Decline in home country's development opportunities due to «brain drain» of qualified personnel to more attractive nations.
- Reduction in the country's consumer market leads to decreased production and consumption.
- Diminished competitiveness in the local labor market due to the outflow of skilled young workforce.
- Risk of migrants evading taxes in countries without bilateral agreements on tax avoidance.
- Reduced budget income and subsequent decrease in potential taxpayers.

Consequences for the Labor Importing Country:

Positive Aspects:

- Boost in production due to an expanded workforce.
- Enhanced product competitiveness with the utilization of cheaper immigrant labor.
- Reduced costs for training and retraining of domestic personnel, including highly skilled workers.

- Filling positions in non-prestigious sectors and industries.
- Eases social tensions during crises by absorbing immigrant labor and filling vacancies.
- Lightened budget burden through savings on social assistance payments.
- Higher labor productivity and overall production efficiency due to competition in the labor market.
- Improvement in demographics within «aging» nations and enhancement of the gene pool in some cases.

Negative Aspects:

- Heightened labor market tension with resident workers due to cheaper foreign labor hiring.
- Increased expenditure on social protection for immigrants.
- Currency outflow in the form of remittances from immigrants.
- The escalating risk of international, inter-ethnic, and inter-confessional social problems.
- Deterioration in the country's criminogenic situation.

12.4. World labor market. Centers of gravity of labor force

The global labor market constitutes a network of relationships that arise between nations, encompassing the coordination of demand and supply for global labor resources, workforce formation conditions, wages, and social protection. These dynamics have led to disparities in quantitative and qualitative workforce distribution among countries, accompanied by divergent national approaches to labor reproduction.

Primary trends characterizing the world labor market development encompass globalization, the intensification of migration processes, and the broader application of international labor standards.

Distinct directions of labor migration have taken shape:

- Migration from developing nations to industrialized ones.
- Migration within industrialized countries.
- Labor migration between developing countries.

- Migration from former socialist nations to industrially advanced ones.
- Migration of scientists and skilled specialists to industrially developed countries.

The escalating scarcity of skilled labor globally has prompted progressive countries to enact immigration policies as remedies. In 2022, relaxed immigration policies dominated over restrictive ones, aiding countries in recovering from COVID-19's economic aftermath and addressing labor shortages that have (in certain countries) surged. These relaxed policies are expected to continue as nations grapple with high inflation and a persistent worldwide shortage of skilled workers in the next 12-18 months.

The global dearth of highly skilled workers remains a pressing issue in 2022, spanning from production and marketing to transportation and trade. Employers struggle to find individuals with a precise blend of technical skills and robust professional attributes.

The most sought-after professions in the global labor market are concentrated in IT, sales and marketing, logistics, and production. Moreover, in the era of digital technologies, migrant workers must possess strong professional qualities, including reliability, self-discipline, resilience, adaptability, creativity, originality, and critical thinking.

Presently, highly qualified workers are scarce across several sectors in the global labor market:

- Education and health (76% deficit).
- Information technology (76% deficit).
- Manufacturing (76% deficit).
- Wholesale and retail trade (75% deficit).
- Banking and finance (75% deficit).
- Hotel and restaurant business (74% deficit).
- Construction (72% deficit).

In 2019, the global labor migrant population reached approximately 169 million individuals, constituting around 62% of the total 272 million global migrants. Job search emerged as a prominent motivation for relocating to a new country. During the same year, a significant portion of labor migrants, about 67%, resided in high-income countries, totaling around 113.9 million. Additionally, 49 million labor migrants (29%) settled in middle-income nations, while 6.1 million (3.6%) were in low-income countries.

Key regions serving as main hubs for international labor migration encompass Western Europe (Germany, Great Britain), the Middle East's oil-refining nations (United Arab Emirates, Qatar, Kuwait, Saudi Arabia, Bahrain, Oman, including Israel), North America (USA, Canada), Africa (South African Republic), Asia-Pacific countries (Japan, Taiwan, Singapore, Hong Kong, South Korea), Latin American nations (Argentina, Brazil, Venezuela), Australia, and New Zealand.

Europe stands as a particularly popular labor market. Numerous citizens from CIS countries gravitate toward European destinations for various purposes, including employment, education, or permanent residence.

Let's delve into the wage levels in European countries for the year 2023.

The average monthly salary across different European nations varies:

- Bulgaria: 637 euros/month;
- Romania: 742 euros/month;
- Poland, Slovakia, Hungary, Czech Republic, Latvia, Estonia, Croatia, Greece, Malta, Portugal: ranging from 1,000 to 2,000 euros;
- Spain, Slovenia, Cyprus, Iceland: between 2,000 and 3,000 euros;
- Germany, Austria, France, Great Britain, and the Netherlands: ranging from 3,000 to 4,000 euros;
- Sweden and Belgium: 4,000 to 5,000 euros.

The highest average wages are observed in:

- Luxembourg: 5,462 euros/month;
- Denmark: 6,068 euros/month;
- Norway: 7,094 euros/month;
- Switzerland: 8,148 euros/month.

Let's consider the rating of wages per hour of work in European countries as of 2023:

1. The lowest salary recorded in Bulgaria is 4.70 euros; Serbia – 5.25 euros; Montenegro – 5.54 euros; Bosnia and Herzegovina – 5.65 euros.

2. The highest wages are recorded in Sweden – 40.40 euros; Belgium – 40.60 euros; Denmark – 44.00 euros; Switzerland – 52.48 euros and Norway – 53.83 euros.

The European labor market has a deficit in certain labor professions, in particular: builders, handymen, nurses, drivers, agricultural workers, service personnel. Salary level working professions is from 500-800 euros to 2000 euros.

Let's consider the level of wages in Europe for highly qualified professions: an IT specialist receives from 20,000 dollars USA up to 40 thousand dollars USA; engineer-economist – from USD 20,000 USA in Belgium, and in Switzerland from USD 40,000. USA; lawyer – 80-93 thousand dollars. USA; financier – 101 thousand dollars. USA; senior manager – $133,000 USA.

From the above statistical data, we can state that the European countries with the highest wage levels are Switzerland, Sweden, Norway, Denmark, Belgium and Luxembourg.

12.5. International regulation of migration processes

State migration policy encompasses deliberate efforts by a nation to regulate the movement of labor across borders. This strategic endeavor aims to effectively manage the export and import of labor between countries.

The primary methods employed to regulate international labor migration include:

1. **Administrative and Legal Methods**:
   - Implementation of national legislation defining immigrants' legal, political, and professional status within the country.
   - Operations of national immigration services.
   - Establishment of intergovernmental agreements to oversee international labor migration.

2. **Economic Methods**:

a) Attraction of foreign workers through:

- Employment opportunities.
- Competitive wage levels.
- Provision of housing and improved living conditions.
- Access to education and skill development.
- Healthcare benefits.

b) Engagement of private intermediaries in the recruitment of immigrants.

c) Issuance of licenses permitting the recruitment of workers from abroad.

Regulation of international labor migration transpires at **various levels**:

1. **National Level**:
   - Involves a range of measures undertaken by individual countries to execute their migration policies.
2. **International Level**:

   Encompasses a system of actions aimed at regulating international labor migration across global regions.
   - The International Labor Organization (ILO), a UN tripartite agency, plays a pivotal role.

The International Labor Organization (ILO), established in 1919, unites governments, employers, and workers from 187 member states. The ILO's objectives include setting labor standards, devising policies, and creating programs to foster equitable work conditions for all individuals. It strives to promote labor rights, enhance decent job prospects, bolster social protection, and facilitate dialogue on labor-related concerns. The ILO's distinctive structure ensures that workers, employers, and governments have an equal voice, ensuring that diverse perspectives contribute to labor standards, policies, and program development.

INTERESTING.

The International Labor Organization (ILO) has recently released a new employment report for the year 2023. The report forecasts a global employment growth rate of 1% for the year, accompanied by an estimated increase of three million in the number of unemployed individuals compared to 2022, reaching a total of 208 million unemployed individuals.

International Organization for Migration (IOM), established in 1951, stands as a key intergovernmental entity in the field of migration. It maintains close collaborations with governmental, intergovernmental, and non-governmental partners. With 175 member states and additional 8 states holding observer status, IOM maintains representations in over 100 countries. The organization's mission is to advocate for humane migration practices for the collective benefit, offering counsel and services both to governments and migrants.

IOM endeavors to ensure organized and compassionate management of migration processes, foster international cooperation on migration concerns, find practical solutions to migration-related issues, and provide humanitarian aid to migrants in need, including refugees and internally displaced persons. The IOM Constitution acknowledges the interconnectedness of migration and economic, social, and cultural development, and the right to freedom of movement.

IOM's efforts are concentrated within **four broad domains** of migration management:

1. Migration and Development.
2. Facilitation of Migration.
3. Regulation of Migration Flows.
4. Forced Migration.

The organization's initiatives encompass diverse activities such as advocating for an international migration law, engaging in political discussions and recommendations, safeguarding migrants' rights, addressing migrants' health concerns, and exploring the gender aspect of migration.

Integration signifies measures taken to regulate international labor migration within integration associations, forming a crucial aspect of the overall migration management landscape.

PRACTICUM FOR TOPIC 12

Exercise 1. **Control and discussion questions**

1. Identify the principal parameters characterizing the global labor market.

2. Investigate the key attributes defining the nature of the worldwide labor market.

3. Examine the core functions underpinning the operations of the labor market.

4. What are the criteria employed for the classification of labor markets?

5. Outline the qualitative traits associated with the workforce.

6. How is the indicator for educational level (literacy rate) computed?

7. Elaborate on the educational attainments across Organization for Economic Cooperation and Development (OECD) countries.

8. Is a high allocation of education expenses from a nation's GDP a sure sign of elevated population education levels? Illustrate with examples.

9. What advancements have occurred in the development of skilled labor in emerging economies?

10. How can immigration influence a country's population education level?

11. Which nations exhibit significant student mobility trends?

12. Enumerate the primary phases characterizing intellectual migration.

13. What distinguishes intellectual migration trends within Central and Eastern European countries?

14. Specify the key trajectories observed in international labor migration.

15. Describe the predominant hubs attracting labor force globally.

16. Provide positive and negative socio-economic outcomes for labor-importing and labor-exporting countries. Define the terms labor migration, emigration, immigration, re-emigration, and migration balance.

17. How does migration impact the international economy on an economic scale?

Exercise 2. **Topics for scientific essays and presentations**

1. Develop your strategy for the return of Ukrainian workers to their homeland (Provide specific arguments).

2. The role of labor migrants in the economic development of Ukraine and the conditions for their reintegration.

3. How did the coronavirus epidemic affect international labor migration?

4. «World of Ukrainians». How did the Russian-Ukrainian war change the scale and nature of emigration?

5. Comparative migration and immigration policy of different countries of the world.

6. The current migration crisis as a challenge for the European Union.

INTERNATIONAL SCIENTIFIC AND TECHNOLOGICAL EXCHANGE

Main questions for study:

13.1. The essence of international scientific and technological exchange and its forms.

13.2. The main forms and channels of technology transfer.

13.3. International regulation of technology transfer.

13.4. World experience in stimulating R&D and innovation.

13.1. The essence of international scientific and technological exchange and its forms

International scientific and technological exchange refers to the network of economic interactions between foreign entities concerning using scientifically researched and practically valuable developments.

Technology encompasses applying scientific knowledge for practical use, encompassing machines like computers, methodologies, and processes like chip manufacturing.

The swift progress of international technology exchange is attributed to **several factors**:

1) At the national level, it's driven by the varying global development of countries in the scientific and technical sphere, driven by differing R&D expenditures and application goals:

- Developed countries modernize their industries through technology acquisition.
- Developing nations overcome technological gaps and foster domestic industries.

2) At the organizational level (firms), technology acquisition aids in:

- Addressing specific economic and scientific challenges.

- Overcoming limitations in a firm's scientific and technical base and resource shortages.
- Gaining strategic development opportunities.

Exporting technology is economically viable because:

1) It generates income.

2) It's a competitive tool in the commodity market.

3) It circumvents issues in exporting corresponding products.

4) It establishes control over foreign firms through licensing terms like production volume and profit participation.

5) Technology provision grants access to other innovations via «cross-licensing».

6) It enables collaborative enhancement of the licensed asset with the buyer's involvement.

Importing technology is economically advantageous as it provides:

1) Access to advanced innovations.

2) Savings on R&D expenses.

3) Reduced currency outflows on imported goods, harnessing national capital and labor.

4) Facilitates expanding product exports via imported technology.

5) Ensures technical adaptation of innovations, typically with seller assistance.

The **global technology market**, encompassing IT and telecommunications, is rapidly expanding.

Key players in the world technology market include:

- States
- Companies
- Universities
- Scientists and specialists.

The entities of the global technology market include:

- Intellectual creations in tangible form (equipment, tools, technological lines, etc.).
- Intellectual creations in intangible form (technical documentation, knowledge, experience, etc.).

Developed nations like Great Britain, Germany, the USA, France, and Japan dominate the global technology market, accounting for over 60% of its share.

Key characteristics of contemporary international technology exchange:

1. The global technology market drives the intellectualization of the global economy.
2. Emergence of the market for science-intensive technologies (biotechnology, life sciences, IT, telecommunications, electronics, aerospace).
3. Monopoly held by major corporations in the international technology market.
4. Transnational Corporations (TNCs) are the primary actors, facilitating R&D sharing between parent and subsidiary entities.
5. TNCs' technological policies shape the landscape.
6. Intra-company exchanges of technologies hold a leading role.
7. The technology gap between countries shapes a multi-level market:

a) High technologies exchange between developed nations.

b) Developing nations and economies in transition acquire low and medium technologies from developed counterparts.

8. Venture firms actively engage in international technological exchange.
9. Growth of international technical assistance.

International Scientific and Technical Cooperation (ISTC) defines the economic relationships at the intersection of science, technology, production, and trade. It operates on joint, pre-planned intentions based on international economic agreements and contracts.

The ISTC structure encompasses:

- Formulation of international joint programs for scientific and technical research coordination and collaboration in their execution.
- International licensing and exchanging scientific and technical materials, patents, licenses, etc.
- International engineering initiatives.

- Cooperation in the education and training of scientific and engineering personnel, fostering international partnerships among educational institutions.
- Hosting international scientific and scientific-technical conferences and symposia.
- Collaborative resolution of significant scientific and technical challenges through joint planning among interested countries.
- Formulation of scientific and technical forecasts.
- Establishment and operation of international research institutes, organizations, etc.
- Facilitation of mutual interstate consultations on matters of scientific and technical policy.

ISTC's development priorities include:

- The electronization, automation, and robotization of production processes.
- Peaceful and secure utilization of atomic energy.
- Advancement of new types of structural materials.
- Enhanced practical application of biotechnology and genetic engineering.
- Exploration of space.

Information technologies hold considerable global appeal.

Key players in the Information Technology (IT) market include: Apple, Microsoft, Verizon Communications, China Mobile, AT&T Inc., Huawei, Deutsche Telekom AG, Dell Technologies Inc., Samsung Electronics Co., Ltd., and Comcast Corporation, among others.

In 2022, the Asia Pacific region dominated the information technology market, with North America ranking as the second-largest region in the sector.

13.2. The main forms and channels of technology transfer

Technology transfer channels encompass the diverse methods through which technology and knowledge traverse from one nation or entity to another, particularly from advanced economies to developing ones.

The primary conduits for this transfer can be categorized as follows:

a) Intra-company: This pertains to technology dissemination within multinational corporations (TNCs), involving foreign branches of these corporations.

b) Intercompany: This involves technology transfer through mechanisms like licensing agreements, cooperative ventures, management collaborations, and other enduring arrangements with foreign enterprises.

c) Foreign trade: This avenue encompasses the exchange of technology alongside the export of machinery, equipment, and other industrial products.

Technology transfer transpires both through non-commercial and commercial means in the global arena.

The primary modalities of non-commercial technology transfer include:

1. Scientific Publications: This involves disseminating scientific, technical, and educational literature, digital databases, reference materials, analytical studies, technical standards, instructions, company catalogs, and patent descriptions.

2. Personal Interactions: Exchange of information occurs through direct engagement among scientists and specialists during international scientific conferences, exhibitions, symposia, as well as through business trips, academic pursuits abroad, training, and internships.

3. Brain Drain: The migration of scientists and specialists from one region to another, leading to the diffusion of knowledge, is also a non-commercial method of technology transfer.

The international licensing trade is one of the most prevalent forms of commercial technology transfer. To illustrate, consider Company A, a U.S.-based enterprise specializing in Baubles. They could negotiate with a Chinese firm to enter the Chinese market, granting them access to their patented product and related resources in exchange for a fee.

A **license** is the permission of the licensor (the owner of the technology or industrial property rights) to use the invention, scientific and technical achievement, technical knowledge, production experience, production secrets, etc. by the licensee (the person receiving the technology) for a certain time for the remuneration specified in the license agreement.

A **license agreement** is a type of contract in which one party (the licensor) grants another party (the licensee) the right to produce, use, sell, and/or display the licensor's protected material.

Some examples of things that can be licensed include songs, sports team logos, intellectual property, software, and technology. License agreements allow the parties to control ownership and enter new markets without spending money on it.

For example, licensees have designed Coca-Cola t-shirts, caps, shoes and sunglasses. Then they produced these goods; they sold them to a retailer, delivered them, and paid a percentage of their sales to the licensor.

Licenses are categorized based on distinct factors:

1) Patent Presence:

- Patented Scientific and Technical Innovations: These licenses pertain to developments protected by patents.
- Patent-Free Licenses: This category includes licenses for scientific and technical discoveries lacking patent protection, without official recognition of authorship or novelty.

2) Extent of Rights Transferred:

- Simple License: The licensor permits the use of the invention under this type of license. The licensor retains the right to self-use and to grant similar licenses to others.
- Exclusive License: This license grants the licensee exclusive rights within defined limits. The licensor is prohibited from issuing similar licenses but retains the ability to utilize the invention themselves.
- Full License: Under this license, the licensor transfers all usage rights for the scientific and technical innovation for the agreement's duration.

3) Method of Commercialization:

- Pure Licenses: These licenses involve direct trade of license rights.
- Accompanying Licenses: These licenses come with equipment supply contracts.

Novel technologies are distinctive commodities, and the inventor wields a monopoly over patented inventions' utilization.

The cost of a license agreement hinges more on potential earnings derived from the licensed entity rather than the expenses incurred in research and development.

Different forms of license fee payment include:

- **Royalty**: Royalties are legally binding payments given to individuals or companies for continued asset use, encompassing copyrighted works, franchises, and natural resources. Musicians, for instance, receive royalties when their original compositions are broadcast on radio, TV, or performed in various settings such as concerts, bars, and restaurants. Royalties serve as revenue streams designed to compensate asset owners when they allow others to use their creations.
- **Lump Sum Payment**: A lump sum payment involves a one-time payment, not spread across installments. It's established in advance based on expert assessments and isn't contingent on the actual license use time.
- **Combined Payment**: This payment model involves an initial lump sum payment, typically around 10-15% of the total license price, followed by subsequent periodic royalty deductions.

Scientific, technical, and industrial cooperation can take the form of joint R&D ventures through collaborative teams and specialists working abroad, under technological cooperation agreements.

Criminal Forms of Technology Transfer:

- **Industrial Espionage**: Industrial espionage refers to competitors' illicit and unethical acquisition of business secrets to gain an edge. Often perpetrated by insiders or employees purposefully hired to spy and pilfer information for rivals. For instance, in 2018, the US accused Chinese intelligence of attempting to steal aviation technologies from Western companies. Reports indicated that Chinese scientists working in Western universities were gathering data for the Chinese military.

- **Technical Piracy**: This involves using and/or distributing copyrighted computer software in violation of copyright laws or licensing restrictions. In essence, it entails the widespread release and sale of counterfeit technologies by illicit entities.

The international transfer of technology can be carried out in the following **forms**:

1) **patent agreement -** an international trade transaction, according to which the patent owner cedes the rights to use the invention to the buyer;

2) **license agreement** – an international trade transaction under which the owner of the invention gives another party permission to use it within certain limits;

3) **«know-how»** – the transfer of technical experience and production secrets, the use of which provides certain advantages in achieving its ultimate goal;

4) **an engineering agreement** is an agreement for engineering consulting services to the buyer to implement a technical project.

5) **franchising** is the granting of the right by a large «parent» firm to a small firm to conduct its business for a certain time under its care and using its equipment, to sell its products through it.

Notable examples of renowned franchise business models include McDonald's, Subway, United Parcel Service, and H&R Block. Franchise opportunities span across various industries and nations. In India, prominent franchises include McDonald's, KFC, Pizza Hut, Subway, Dunkin' Donuts, Taco Bell, Baskin Robbins, and Burger King.

Consider a catering franchise, Pizza Celentano Ristorante, which stands as Ukraine's largest pizzeria chain. Investments range from $60,000 to $180,000, with a lump sum contribution of $10,000 to

$20,000. The projected net profit starts at $5,000 USD. The anticipated payback period extends beyond 24 months.

In the realm of service provision, Nova poshta serves as a notable franchise. The company specializes in postal and cargo deliveries across Ukraine and beyond, with investments ranging from 50,000 to 200,000 hryvnias. Royalties amount to 0.5% of turnover, devoid of a flat fee. The payback period spans from 8 months.

A trading franchise, Cheese Kingdom, operates a chain of European-style specialty cheese stores. A lump-sum contribution of €10,000 is required, while investments start at €23,000. The royalty amounts to 4%, with an estimated 12 to 18 months payback period.

INTERESTING. This form of doing business originated long ago in America, and in many countries, it was adopted from there. Most of the largest franchise chains, branches of which can be found worldwide, began their development precisely from the American market.

The world franchising market is quite actively developed. For example, international franchise exhibitions are an effective tool for developing franchise networks, as they allow franchisors and potential franchisees to meet in one place and exchange information about their products and services.

13.3. International regulation of technology transfer

A pivotal international regulatory document in the realm of technology transfer is the **Code of Conduct in Technology Transfer**, formulated by the United Nations Conference on Trade and Development (UNCTAD). This code primarily aims to foster equitable international technology transfer, ensuring equal opportunities across countries regardless of their socio-economic statuses.

Another noteworthy document is the **Paris Convention on the Protection of Industrial Property**. This convention led to establishing the International Union for the Protection of Industrial Property, commonly called the Paris Union. The convention's purpose is to facilitate more favorable conditions for patenting inventions, registering industrial designs, and goods' signs for foreign entities. However, it does not entail the establishment of international patents, international industrial designs, or international trademarks.

Key provisions of the Convention include:

- National Regime Principle: This principle mandates that citizens and firms of any participating nation receive industrial property protection equivalent to that granted to their own citizens and firms by their respective legislations.
- Right of Conventional Priority: This allows an application filed within a participating Convention country to hold priority for up to a year from the initial application's filing date in the first country.
- Prevention of Abuse Principle: This principle prevents the misuse of the exclusive rights granted by patents.

The Madrid Convention on the International Registration of Trademarks is another notable agreement stipulating trademark applications must be submitted to the International Bureau in Geneva. Subsequently, the applications are sent to the concerned departments of participating nations.

Furthermore, the **Patent Cooperation Agreement** (Washington) enables the drafting and submission of international patent applications to national offices, offering a mechanism for applicants seeking multi-country patent protection.

In addition, regional agreements also play a role in governing industrial property protection:

In 1973, a significant Convention was signed during the Munich Conference. This agreement established the framework for issuing a European patent by the European Patent Office, guided by unified regulations. This patent holds national validity within each participating country except for EU member states. It operates as a Community patent for EU territories (in accordance with the 1975 Luxembourg Convention).

The creation of the **European Patent Organization** (EPO) stemmed from the Convention on the Issuance of a European Patent by the European Patent Office. This Convention, ratified in 1977 after being adopted at the Munich Conference in 1973, established unified rules.

Various individual agreements, programs, and international organizations contribute to shaping conduct and stimulating technological market growth. The Agreement on Trade-Related Aspects of Intellectual Property Rights, part of the World Trade Organization (WTO) framework, is a pivotal international legal document. It governs intellectual property relationships, encompassing copyrights, trademarks, geographical indications, industrial designs, and more. The agreement establishes standards for intellectual property protection among WTO member countries. It mandates adherence to the Paris Convention for the Protection of Industrial Property Rights and the Berne Convention for the Protection of Copyright in Works of Literature and Art. This agreement allows countries to implement stricter intellectual property rights requirements if desired.

The **World Intellectual Property Organization** (WIPO), a specialized agency within the United Nations system, tackles technology-related matters. WIPO facilitates multilateral cooperation in safeguarding intellectual property, spanning industrial property (inventions, trademarks, industrial designs) as well as copyright for literary, artistic, photographic, video, and audio creations. WIPO ensures alignment with the principles set forth in the Paris and Berne Conventions.

Functioning as a global policy forum, WIPO brings together governments, intergovernmental organizations, industry entities, and civil society to collectively address evolving intellectual property challenges.

Member States and observers regularly convene within various WIPO committees and decision-making bodies. Their primary objective is to discuss necessary changes and new regulations essential for modernizing the international intellectual property system. The system's core aims remain rooted in fostering innovation and nurturing creativity.

WIPO extends a range of global services to safeguard intellectual property across international borders and resolve disputes through non-judicial means.

In the realm of international trade involving products of intellectual labor, the WTO operates under the multilateral **Agreement on Trade-Related Aspects of Intellectual Property Rights** (TRIPS Agreement). This agreement was concurrently signed with the Marrakesh Agreement that established the WTO in 1994. The TRIPS Agreement holds a pivotal role in promoting knowledge and creativity trade, settling trade disputes related to intellectual property, and granting WTO member countries the autonomy to pursue domestic policy goals. It formulates the intellectual property system within the context of innovation, technology transfer, and public welfare. This agreement underscores the crucial nexus between intellectual property and trade, while also outlining the necessity for a balanced intellectual property framework.

Furthermore, the TRIPS Agreement mandates governments of member countries to incorporate procedures and guarantees into their national legislation to ensure effective implementation of intellectual property rights. The agreement provides provisions allowing governments to use patents without owner consent under specific conditions:

- In cases where national security is at risk.
- When such usage aligns with the primary intent of permission.

Additionally, the TRIPS Agreement emphasizes the preservation of trade secrets and non-distributable information, ensuring their exclusive retention by the patent holder.

General obligations of WTO member countries regarding the protection of intellectual property rights:

- fair and equal for all countries;
- the cost of their implementation should not be high;
- must not contain unreasonable time limits or delays;
- should not be unnecessarily complicated, etc.

All WTO agreements (except a few multilateral agreements) apply to all WTO member countries. Each participant accepted all agreements as a single package with a single signature and assumed single obligations.

There is also the **United Nations Development Program** - UNDP (UNDP) created to assist developing countries by providing them with technical assistance in the fields of technology transfer and adaptation, development of natural resources, promotion of entrepreneurship, and solving key social issues.

UNDP is the main source of multilateral financing for technical assistance and development of UN member countries.

13.4. World experience in stimulating R&D and innovation

In the 2020 ranking of innovative economies, Ukraine ranked 45th globally, while the Czech Republic – 24th, Hungary – 3rd, Poland – 38th, and Slovakia – 39th.

Table 13.1

Ranking of innovativeness of economies, according to the Global Innovation Index 2020[7]

Place	Country	Points
1	Switzerland	66.08
13	Israel	53.55
24	Czech Republic	48.34
35	Hungary	41.53
36	Latvia	41.11
38	Poland	39.95
39	Slovakia	39.70
41	Croatia	37.27
45	Ukraine	36.32

In the 2020 ranking of cooperation between research organizations and industry enterprises, Ukraine ranked 50th in the world, while Lithuania – 34th, the Czech Republic – 37th, Latvia – 41st, Estonia – 48th.

7 Trydtsyat' rokiv nezalezhnosti Ukrayiny. Ekonomichni pidsumky [Thirty years of Ukraine's independence. Economic results]. Ukrayins'kyy instytut maybutn'oho. 2021, S.27 [in Ukrainian].

Table 13.2

Ranking of the level of cooperation of research organizations and industry enterprises, according to the Global Innovation Index 2020[8]

Place	Country	Points
1	Israel	78.5
2	Switzerland	77.5
3	Finland	75.8
34	Lithuania	53.4
37	Czech Republic	51.0
41	Latvia	49.5
48	Estonia	47.6
50	Ukraine	45.5

Only 16.8% of industrial products produced in Ukraine are high-tech, while in Slovakia – 58.1%, Hungary – 54.7%, the Czech Republic – 57.1%, Poland – 31.7%.

Table 13.3

The share of the high-tech and medium-high-tech sectors in the industrial sector production 2020

Place	Country	%
1	Singapore	77.7
3	Switzerland	60.0
4	Slovakia	58.1
5	Czech Republic	57.1
9	Hungary	54.7

[8] Trydtsyat' rokiv nezalezhnosti Ukrayiny. Ekonomichni pidsumky [Thirty years of Ukraine's independence. Economic results]. Ukrayins'kyy instytut maybutn'oho. 2021, S.27 [in Ukrainian].

1	2	3
37	Poland	31.7
41	Belarus	26.1
45	Slovenia	25.1
61	Ukraine	16.8

Currently, global innovation leadership is achieved by countries employing state-supported measures for research and development (R&D).

For instance, the Israeli government nurtures research center growth through grants and fiscal incentives. While Israeli companies face a 25% basic income tax rate, research centers benefit from a tax benefits framework that can lower income tax rates to 12.5% based on fulfillment conditions. Israel also operates an R&D Fund providing grants, covering 20% to 75% of costs based on project scope and region. Funding received is repayable upon project success.

Japan offers a tax credit of 8% to 12% of current R&D expenses, varying according to company size. For collaborative scientific research involving other companies, tax credit reaches 20%, while partnerships with universities or national research institutes grant a 30% tax credit.

Japan further facilitates promising tech startups through a government-established fund covering 85% of costs; certified venture capital firms contribute the remaining 15%. Upon startup profitability, 5% of profits return to the fund.

Germany's government has introduced the following R&D incentives:

- A 25% reduction in tax on employee salaries.
- In the case of contractor-conducted research, customers receive 15% compensation of costs, and contractors can leverage tax credits on employee salaries.

Collectively, these incentive tools can yield up to 1 million euros annually.

PRACTICUM FOR TOPIC 13

Exercise 1. **Control and discussion questions**

1. What is the international transfer of technology and in what forms is it carried out?

2. What are the features of international technology transfer?

3. What prerequisites contributed to the development of the international exchange of technologies?

4. Name the commercial and non-commercial ways of transferring technology to the international technology market.

5. In what forms is the economic expediency of technology export and import manifested?

6. Name the most common forms of technology transfer.

7. How is the international transfer of technology carried out?

8. What forms of international technical assistance do you know?

9. What is the state regulation of technology transfer?

10. Why are dominant positions in the technology market held by developed countries?

11. Is Ukraine an equal participant in international scientific and technological exchange?

12. Why has international scientific and technological exchange been developing at an accelerated pace in recent decades?

13. Describe the place of Ukraine in the system of international scientific and technological exchange.

14. Create a discussion post for social networks on the topic of artificial intelligence.

15. Artificial intelligence for business: what tasks can it solve and in what areas does it help?

Exercise 2. **Topics for scientific essays and presentations**

1. Contemporary living: a survey of ten recent breakthrough technologies. assessing their impact on human life and society. analyzing the commercial adoption of these technologies.

2. 21st century technological discoveries: boons and threats unveiled.

3. USA vs. China: the battle for technological supremacy and its implications.

4. Transforming lifestyles: exploring ten ways artificial intelligence is reshaping life.

5. Leading the digital frontier: evaluating the most digitally advanced nations worldwide with illustrative examples.

6. Navigating «COVID» and beyond: innovations for pandemic and post-pandemic eras.

7. Adapting business: real cases of innovation and adaptation in local communities.

8. Unveiling Silicon Valley: analyzing the tv series «silicon valley» and its reflection of tech culture (2014-2019).

9. Google's trailblazing influence: innovations, management practices, and business principles redefined.

10. Learning from Israel: how entrepreneurship and technological innovation foster international cooperation. Lessons for Ukraine's innovation development.

INTERNATIONAL CURRENCY AND CREDIT RELATIONS

Main questions for study:

14.1. World monetary system. Stages of formation.

14.2. European monetary system.

14.3. Exchange rate and its types.

14.4. Currency policy.

14.5. International credit and its role in the IER.

14.6. International monetary and credit and financial organizations.

14.1. World monetary system. Stages of formation

The world monetary system is a form of international monetary relations organization, conditioned by the development of the global economy as a whole system and fixed by interstate agreements.

The world monetary system belongs to the financial environment's operating system, consisting of financial institutions, transnational corporations, and investors.

The world monetary system provides an institutional basis for determining international payments' rules and procedures, exchange rates, and capital movements.

The structure of the world monetary system:

- international means of circulation and payment (gold, national currencies, etc.);
- international currency liquidity is the ability to move currency resources that provide a guarantee of timely payment of obligations in the global sphere;
- mechanism of currency parities and exchange rates;
- terms of mutual convertibility of currencies;

- volumes of currency restrictions;
- unified forms and rules of international settlements;
- currency markets and gold markets;
- international monetary and financial organizations.

The world monetary system has passed the main stages of its development:

I. **Gold standard**: gold coin, gold bullion, gold exchange (1867 – World War I).

The basis of the system is gold; all have a gold content, according to which their exchange rates are set.

II. **Bretton Woods monetary system** (1944-1973). The basis of the system is the US dollar, the gold parity is established ($35 for one troy ounce of gold ((31.1034807 grams)), and the exchange rates of all other currencies are set through the dollar).

III. **Jamaica monetary system** (1976 - to date). The basis of the system is the introduction of special borrowing rights (hereinafter referred to as special borrowing rights) instead of gold; countries have the right to choose the exchange rate regime themselves.

Let's consider in more detail the stages of development of the world currency system.

I. The gold standard.

The international gold standard prevailed from 1867 to 1914, in which gold was the international money. There was bilateral convertibility between gold and national currencies at a stable ratio. There were no restrictions on the export and import of gold, and their gold content determined the exchange rate between the two currencies.

The gold standard ceased to exist in 1914 during the First World War. Great Britain, France, Germany, and many other countries have embargoed the export of gold and suspended the redemption of banknotes in gold. The interwar period was between the First and Second World Wars (1915-1944). The United States replaced Great Britain as the world's dominant financial power during this period. The United States returned to the gold standard in 1919. During the hiatus period, many countries followed a gold sterilization policy, matching gold inflow and outflow with changes in domestic money and credit.

II. Gold exchange standard.

The Bretton Woods system was created after World War II and existed from 1945 to 1972. In 1944, representatives of 44 countries met in Bretton Woods (New Hampshire, USA) and developed a new post-war international monetary system. This system advocated the adoption of a standard of exchange that included gold and foreign currency. Under this system, each country set a nominal value for the US dollar, pegged to gold at $35 per ounce.

Under this system, a country with a reserve currency will tend to run a balance of payments deficit to secure reserves. If such deficits turned out to be very large, then the reserve currency itself would experience a crisis. This condition is often called Triffin's paradox. Ultimately, in the early 1970s, the gold standard collapsed for these reasons. Since 1950, the United States began to face problems of trade deficit. With the development of euro markets, there was a massive outflow of dollars. The US government has taken several measures to protect the dollar, including imposing an interest equalization tax on purchases of foreign US stocks to prevent dollar outflows. The International Monetary Fund created a new reserve asset called Special Drawing Rights – SDR (Special drawing rights-SDR) to relieve pressure on the dollar, the main reserve currency. Initially, the SDR was modeled as a weighted average value of 16 currencies of those countries whose share in world exports was more than 1%. A basket of currencies defines the SDR: the US dollar, the euro, the Chinese yuan, the Japanese yen, and the British pound.

SDRs were also used as a currency for international transactions. But the dollar-based gold exchange standard could not be sustained in the context of rising inflation and monetary expansion.

In 1971, the Smithsonian Agreement, signed by the group of the ten largest countries, changed the gold exchange standard. The price of gold was raised to $38 per ounce, and other countries revalued their currency by 10%. The exchange rate fluctuation corridor has been increased from 1% to 2.25%. But the Smithsonian agreement also proved ineffective, and the Bretton Woods system collapsed.

III. System of paper currency standard.

The result of the previous processes was the creation of the Jamaican currency system, which came into force in 1978 by the decision of the Kingston Conference in 1976.

The main features of the Jamaican currency system:

- complete demonetization of gold in currency relations (gold finally loses the function of money);
- the system of floating rates is legalized;
- the role of world money is performed by national currencies together with international settlement money (SDR);
- the transformation of SDRs into the principal reserve asset and an international means of settlement and payments;
- contributions to the IMF are no longer made in gold but only in foreign currency and SDRs.

14.2. European monetary system

The European Monetary System (EMS) refers to an agreement in 1979 under which member countries of the European Economic Community (now the European Union) agreed to link their currencies to promote monetary stability in Europe. The closed currency group included: Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Great Britain, Ireland, Denmark, Spain, and later – Portugal, Greece, and Iceland.

EMS was created in response to the collapse of the Bretton Woods agreement.

The Bretton Woods Agreement, concluded after World War II, established a fixed exchange rate to stabilize the economy and consolidate global financial power among the Western Allies. When it was abandoned in the early 1970s, currencies began to float – fluctuating in market value relative to each other, prompting EU members to seek a new exchange rate agreement to supplement their customs union.

The **main goal** of the EMS was to stabilize inflation and stop large fluctuations in exchange rates between European countries. This was part of a broader overall goal of promoting economic and political unity in Europe, which eventually paved the way for a common currency, the euro.

Currency fluctuations were controlled using the exchange rate mechanism (ERM).

The ERM was responsible for pegging national exchange rates, allowing only minor deviations from the European Currency Unit (ECU), a monetary unit consisting of 12 European currencies weighted by gross domestic product (GDP). The ECU served as the reference currency for the exchange rate policy and determined the exchange rates between the currencies of the participating countries using officially approved accounting methods. The quota of national currencies in the structure of the ECU was determined by the economic potential of the nations (their share in the aggregate GNP and the country's turnover).

Since January 1, 1999, the single currency for the European Union - the euro in cashless payments – has been introduced, and banknotes and coins have been introduced since January 1, 2002. It was in 1999 that the Economic and Monetary Union began to operate. In January 1999, 11 of the 15 countries of the European Union joined the monetary union – Belgium, Germany, France, Spain, Italy, Ireland, Luxembourg, Austria, the Netherlands, Portugal, and Finland.

Since January 1, 1999, the International Monetary Fund has replaced the German mark and the French franc in its basket of reserve currencies with the euro.

The Eurozone is a group of countries that use the common European currency, the euro. From January 1, 2002, 12 countries of the European Union (Germany, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, and Spain) began to use the new common currency – the euro. At that time, the euro was not wholly unique – it had been used for three years as the common currency of the EU for non-cash payments, for example, during bank transfers or in international trade.

From 2007 to 2023, eight new states joined the eurozone: Croatia, Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, and Slovenia. On January 1, 2023, Croatia became the 20th member.

Seven EU member states are not part of the eurozone: Bulgaria, the Czech Republic, Denmark, Hungary, Poland, Romania, and Sweden. These countries continue to use their national currencies, although all but Denmark are required to join when they meet the criteria for euro convergence.

The euro offers many advantages for individuals, companies, and the economies of the countries that use it. They include:

- the ease with which prices can be compared between countries. It increases competition between enterprises, which benefits consumers;
- price stability;
- the euro makes it easier, cheaper, and safer for companies to buy and sell in the eurozone and trade with the rest of the world;
- strengthening economic stability and growth;
- better integrated and, therefore, more efficient financial markets;
- more significant influence in the world economy;
- a tangible sign of European identity.

Many of these listed benefits are interrelated. For example, economic stability suits a member country's economy because it allows the government to plan. But financial stability also benefits businesses by reducing uncertainty and encouraging investment. This, in turn, helps society through increased employment and a better-quality workforce.

14.3. Exchange rate and its types

The results of the foreign economic activity of each country are primarily related to the national currency's exchange rate.

The **currency (exchange) rate** signifies the comparative value of one currency in relation to another (or a set of currencies). In simpler terms, it's the rate at which one currency can be swapped for another, influencing international trade and financial flows. Determining exchange rates arises from several key factors: Firstly, the necessity for exchanging national currencies as a result of trade in goods, services, capital movement, and credits; Secondly, the requirement to equate global and domestic market prices and economic metrics, all expressed in national currencies; Third, the periodic revaluation of foreign assets by market participants. Since currencies don't possess uniform purchasing power per unit, exchange rates aid in gauging the «worth» of monetary sums. For instance, the exchange rate from the US dollar (USD) to the British pound (GBP) being 1.24 implies 1.24 dollars equate to 1 pound. Therefore, a US traveler exchanging $10,000 for pounds would receive about 8,064 pounds.

Exchange rates hinge on both the value of domestic and foreign currencies. In July 2022, the US dollar to euro exchange rate stood at 1.02, indicating one euro's cost as 1.02 US dollars.

The exchange rate between two currencies is primarily determined by economic activities, market interest rates, gross domestic product, and unemployment rates in respective countries. Based on these variables, these market exchange rates are established in the global financial market, where financial institutions trade currencies continually. Rate shifts, ranging from minor to significant gradual changes, can occur hourly or daily.

Exchange rates are typically quoted with the abbreviation of the respective national currency. For instance, USD represents the US Dollar, and EUR stands for Euro. The currency pair involving the dollar and euro is denoted as EUR/USD. Similarly, USD/JPY signifies the exchange rate between the US Dollar and the Japanese yen, where an exchange rate of 100 implies 1 dollar equals 100 yen.

The determination of exchange rates is termed **quotation** and is overseen by official state entities. Participants in the foreign exchange market utilize seller's and buyer's rates. The **seller's rate** denotes the rate at which a resident bank sells foreign currency in exchange for the national currency. In contrast, the **buyer's rate** indicates how it purchases foreign currency using the national currency. Importantly, the seller's rate always exceeds the buyer's rate.

The difference between the seller's and buyer's rates is known as the **margin**. This margin accounts for the bank's expenses and generates profit from currency transactions.

For economic calculations and foreign trade contracts, the **average exchange rate**, which is the arithmetic mean of the seller's and buyer's rates, is employed to establish exchange rates.

Exchange rate systems are categorized into **fixed and flexible (floating) exchange rates**, determined by their establishment and operation mechanisms.

Under the **fixed exchange rate** regime, the central bank officially sets a constant ratio between the national monetary unit and another country's currency. This fixed exchange rate system encompasses two main variations:

1) The variable peg regime, where the central bank maintains a consistent rate for the national currency but periodically undertakes devaluations or revaluations, leading to a new official fixed rate.

2) The «currency board» regime mandates the coverage of any rise in the money supply exclusively through an increase in foreign currency reserves. Concurrently, the national currency's exchange rate is linked to a prominent foreign currency or a specific currency basket.

The **main advantage of fixed exchange rates** is the reduction of the risks and uncertainties arising from exchange rate fluctuations for participants in international agreements. The stability of exchange rates contributes to the growth of international trade and financial transactions. The disadvantages of the regime are related to the means of maintaining stability: insufficient foreign exchange reserves may force the country to resort to protectionist restrictions, the price of which will be a reduction in the volume of international exchange, to internal macroeconomic regulation, the consequence of which may be recession or inflation, to borrowing on global financial markets and transformation to the debtor country.

A **flexible, or freely floating, exchange rate** is a regime in which the price of a country's currency is set based on supply and demand for other currencies with minimal intervention by central banks. USA, UK, Australia, Japan, Argentina, etc., use this mode. A distinction is made between floating exchange rates, which change depending on market supply and demand, and exchange rates, which also vary depending on market demand and market supply but are adjusted by currency interventions of central banks.

The following varieties can be set for a floating exchange rate:

1) **the «managed floating»**, under which the central bank conducts periodic interventions to maintain balance in the foreign exchange market. China, Turkey, South Korea, etc., practice this regime;

2) **currency corridor**, according to which exchange rate fluctuations are allowed by the central bank within predetermined upper and lower limits;

3) **the «creeping peg»**, under which the exchange rate changes daily (usually a decrease) by a pre-planned and published value;

4) **the crawling peg** combines the mechanisms of the existing currency corridor and the «creeping peg».

The main advantage of the regime of floating exchange rates is the automatic settlement of balance of payments deficits and assets. A change in the exchange rate changes the relative prices of goods and the terms of trade, thus adjusting the flows of exports and imports and directing them to achieve equilibrium. The disadvantages of flexible exchange rates are associated with increased risks and uncertainty in trade, which can cause a reduction in international exchange and financial transactions, losses for individual countries due to the deterioration of trade conditions, and destabilizing effects on the domestic economy due to changes in aggregate demand.

Floating exchange rates are often used in countries with developed market economies and high-income levels.

14.4. Currency policy

Currency policy is a set of economic and legal measures implemented by governments, state bodies, banking and financial institutions, and international monetary and financial organizations in the field of currency relations within the country and abroad. This policy reflects the control of the money available in the economy and the channels through which new money arrives. Statistical data such as gross domestic product (GDP), inflation rate, and growth rates of individual industries and sectors influence the currency policy strategy.

Currency systems are divided into **three types**: national, regional, and world.

The strategic tasks of currency policy are:

1) ensuring sustainable economic growth;

2) maintaining a stable price level;

3) promotion of a high level of employment in the national economy (low level of unemployment);

4) provision of foreign economic equilibrium (equilibrium of the country's balance of payments).

Inflation management. In general, low inflation is most conducive to a healthy, prosperous economy. Therefore, the National Bank of Ukraine can adjust the currency policy to reduce inflation when inflation rises.

Reduction of unemployment. During depressions and recessions, unemployment rates tend to rise sharply. However, monetary policy also plays a vital role in the unemployment rate. Once the National Bank of Ukraine resolves the inflation issue, it can implement expansionary policies to help lower unemployment. An increase in the money supply stimulates the business sector, which also helps create new jobs. While there may not be a way to achieve full employment, the goal is to reduce unemployment among those willing and able to work at the prevailing wage.

Balancing of exchange rates. Since stable exchange rates play an important role in international trade, finding ways to keep them balanced is essential. Central banks can regulate exchange rates between foreign and national currencies. For example, if a central bank issues more currency to increase the money supply, domestic currencies will become cheaper than foreign currencies.

Currency policy instruments are methods, techniques, and levers used to influence market entities' currency relations to implement currency regulation and control tasks in the country.

Depending on the methods of their use and the specifics of the impact on currency operations, all instruments of currency policy can be divided into economic and administrative.

I. The **economic instruments of currency policy** involve the use of various means of stimulating the financial interest of market subjects in the implementation of certain currency transactions to influence the dynamics of the exchange rate and other macroeconomic indicators of the development of the national economy.

The main economic tools for the implementation of the central bank's currency policy include:

1. Discount policy.
2. Foreign exchange policy.
3. Diversification of currency reserves.
4. Regulation of the exchange rate regime.
5. Devaluation and revaluation of currencies.

1. **Discount policy** is a system of economic and organizational measures of the central bank regarding the establishment and periodic changes of the discount rate for loans granted to commercial banks to influence the dynamics of the exchange rate, the state of the balance of payments, and the movement of capital, as well as the dynamics of credit investments, money supply, and prices.

2. **Currency politics** is an instrument of foreign exchange policy that affects the national currency's exchange rate through state bodies' purchase and sale of foreign currency). Foreign currency is a means of payment in foreign currency intended for international settlements. Currency politics is carried out in the form of currency interventions. **Currency intervention** is the central bank's direct intervention in operations on the foreign exchange market to influence the exchange rate of the national currency through operations on the purchase and sale of foreign currencies. To increase the speed of its currency, the bank sells foreign currency, and to decrease the rate of its currency, it buys hard currency in exchange for national currency.

3. **Diversification of currency reserves** is an instrument of the central bank's currency policy, which regulates the structure of official currency reserves by including foreign currencies of different countries in their composition. **Foreign currency reserves** are official reserves of foreign currency belonging to the state, held in the central bank, in banking institutions of other countries, and in international monetary and credit organizations.

The direct form of placement of currency reserves include:
- cash (banknotes and coins);
- balances on deposit accounts in foreign banks;
- securities denominated in foreign currency.

The main goals of diversification of foreign exchange reserves are:
- protection against currency risk (existing risk of loss of funds due to fluctuations in exchange rates of various currencies);
- provision of international settlements, including settlements for the foreign debt of countries;
- currency interventions on the market.

4. **Regulation of the exchange rate regime** is the central bank's activity to establish the procedure for determining and changing the national currency's exchange rate relative to foreign currencies.

5. **Devaluation and revaluation of currencies** is a currency policy tool, the essence of which is the activity of the country's central bank, which is officially aimed at changing the national currency's exchange rate downwards or vice versa.

Devaluation is a decrease in the national currency's exchange rate relative to foreign currencies or international units of account. The objective basis is the overestimation of the official exchange rate compared to the real purchasing power of the national currency. If the inflation rate in one country is higher than in another, the purchasing power of its currency will be lower. Therefore, the exchange rate needs to decrease because it reflects fewer goods and services that can be purchased with this currency.

Revaluation is an increase in the national currency rate relative to foreign and international currency units. An objective prerequisite for revaluation is lower inflation rates in the country than in others. As a result, the purchasing power of the national monetary unit will be lower compared to foreign ones, which requires an increase in the official exchange rate of the national currency.

II. **Administrative instruments of currency policy** are a set of measures for the regulatory and legal regulation of various aspects of the functioning of the country's currency market and the activities of its participants. The main direction of administrative law of currency operations is the policy of currency restrictions.

Currency restrictions are a set of regulatory measures establishing legislative or normative rules regarding the prohibition, limitation, and regulation of operations of residents and non-residents with national and foreign currency values.

A currency blockade is a system of economic sanctions in the form of currency restrictions imposed by one country or a group of countries on another country to prevent it from using its currency values to implement specific economic or political demands. For example, in 2022, the EU froze Russian assets (foreign exchange reserves of the central bank, assets of Russian citizens included in the sanctions lists of the US, the EU, and other countries, other assets of Russian individuals and legal entities outside the country) in the amount of 29.5 billion euros.

The process of implementing a currency blockade can be carried out in the following **primary forms**:

- freezing of the country's currency values stored in foreign banks due to depriving the account holders of the right to dispose of their funds freely;
- termination of foreign aid to the country's government;
- refusal to grant loans, including loans from international monetary and credit organizations;
- introducing a ban on national companies implementing investment projects in the territory subject to a currency blockade.

14.5. International credit and its role in the IER

International credit is a relationship between subjects of the global economy regarding the provision, use, and return of a loan. Its main goal is to get the maximum income through interest. In other words, it is a loan where different states act as lenders and borrowers, that is, the movement of loan capital in international economic relations.

Principles of international credit:

1. Urgency – loans are granted for a certain period.
2. Reversibility – the return of money to the owner.
3. Payment – fee for using the loan.
4. Security – guarantees of the recipient of the loan.
5. Purposeful character. International credit, as a rule, is provided for the implementation of specific economically justified tasks.

Subjects of international credit can be the state, groups of states, firms (separate economic units registered in the countries of location), state and commercial banks, insurance companies, transnational companies, international organizations (economic, monetary, and financial), state institutions (ministries, departments).

The functions of international credit are as follows:

- ensures the redistribution of material and financial resources between countries, which contributes to their accumulation and practical use;
- accelerates the process of selling goods;
- provides mastery of the essential methods of competitive struggle in the world market;
- contributes to the implementation of programs for structural restructuring of the economy of individual countries;
- reduces the solvency of borrower countries and increases the level of their indebtedness to creditors.

The primary forms of international credit:

<u>I. According to the purpose, the following are distinguished:</u>

1. **Tied international credit** is a strictly targeted credit fixed in credit agreements.

This credit is divided into the following parts:

- commercial credit granted for the purchase of certain types of goods or payment for services;
- investment credit is allocated for constructing specific economic objects, direct capital investments, repayment of foreign debt, and purchase of securities (shares, bonds, etc.).

2. **International financial credit** serves a versatile purpose and can be utilized by the borrower for various objectives.

These loans encompass:

- **Euro loans**: These are loans extended in a foreign currency through Eurocurrency banks. Euro credits are disbursed within the euro market, which operates independently of national regulatory frameworks. Notably, this market features a favorable regime for banking operations, encompassing aspects like registration, taxation, and currency regulations.

- **Euro notes**: These comprise short-term and medium-term obligations featuring floating interest rates.

- **Bonds**: Bonds are issued with both fixed and floating interest rates. They also come in variations like bonds with warrants and convertible bonds. A warrant, for instance, stands as a distinct document granting its possessor the right to acquire shares at a predetermined rate during a specified period.

- **Eurocommercial papers**: These are obligations issued by private corporations, typically spanning 3 to 6 months, and are priced with a slight margin over the corresponding base rate of the international money market.

II. According to the form of provision:

1. Commodity international credit.
2. Foreign currency international credit.

III. By subjects of provision:

1. **Private international credit** – credit provided by private firms and banks.
2. **International government credit** – credit provided by government credit institutions.
3. **A mixed international loan** consists of private and public funds.
4. **Credit of international institutions** – a credit provided by international monetary and credit organizations (IMF – International Monetary Fund, IBRD – International Bank for Reconstruction and Development, EBRD – European Bank for Reconstruction and Development, etc.).

IV. By nature of provision:

1. **Secured international credit** – capital provided as collateral (goods and commercial documents).

2. **Blank** – capital provided without collateral guarantees and commercial documents.

V. According to crediting terms:

1. **Short-term credit** – granted for up to one month, several weeks, a week, a day, and a night.
2. **Short-term loans** – granted for up to 1 year.
3. **Medium-term loans** – granted for 1-5 years.
4. **Long-term loans** – granted for more than 5-7 years.

VI. By loan currency:

1. In the currency of the borrowing country.
2. In the currency of the creditor country.
3. In the currency of a third country.
4. In an international monetary unit (special borrowing rights, ECU, etc.).

International credit plays an **important role**, in particular:

- promotes the internationalization of production and exchange;
- contributes to the strengthening of international economic ties;
- increases the economic efficiency of foreign trade, stimulates, and accelerates the growth of world trade;
- ensures the continuity of international settlements and accelerates the circulation of funds in global circulation;
- serves as a method of regulating payment balances;
- increases competition between countries, as it is used as a competition tool for sales markets.

14.6. International monetary and credit and financial organizations

International and regional monetary and financial organizations are institutions created based on multilateral monetary relations between states.

The top place among them belongs to the **International Monetary Fund** (IMF), the **World Bank**, the **European Bank for Reconstruction and Development** (EBRD), and others.

The **International Monetary Fund** is a supranational monetary and credit institution. The IMF was created at the international monetary and financial conference in Bretton Woods in 1944 as a specialized representative organization of the UN. The IMF started working in 1947; its headquarters are in Washington.

The purpose of the Fund's activity is:

- promotion of international cooperation by providing a mechanism for consultations and agreed actions regarding global currency issues;
- promoting the balanced growth of international trade to increase the level of employment and real incomes of the population, develop the production capabilities of member countries;
- promotion of currency stability and orderly currency relations and prevention of competitive devaluation of currencies;
- promoting the creation of a multilateral system of payments and transfers for current transactions and striving to eliminate currency restrictions.

The main task of the IMF is to provide loans to countries facing actual difficulties in the balance of payments. This financing helps countries seeking to replenish their international reserves, stabilize currencies, continue to pay for imports, and ensure economic growth.

The formation of IMF resources takes place using contributions by the member state to the authorized capital of the Fund by its quota and at the expense of borrowed funds. The size of the quotas for each member country is established based on its share in the world economy. When calculating quotas, a unique formula is used, which is a weighted average of GDP (50%), openness (30%), economic volatility (25%), and international reserves (5%). Quotas are expressed in special drawing rights (SDR, from the English special drawing rights) - the Fund's unit of account. The USA, Japan, Germany, Great Britain, and France have the most significant amount of quotas.

IMF programs:

1. **Stand-by** is a type of credit that the IMF provides to its member countries to cover the deficit in their balance of payments. The economic

program provides necessary reforms in the recipient country in exchange for aid. Such a loan is usually given for one or two years. After the end of the lending period, the borrowing government must repay the loan five years after receiving it.

EXAMPLE. The Stand-by program for Argentina started in June 2018; its size was 55.3 billion US dollars, and the funds were allocated over three years. Argentina radically reformed the financial and budgetary spheres in exchange for money.

2. **FCL (Flexible Credit Line)** is a flexible credit line that is also provided for one or two years to prevent the emergence of a crisis in the country or to mitigate it.

Lending is provided only to countries with stable macroeconomic conditions and an effective monetary and financial policy. To receive funds under this program, governments are not subject to additional requirements, and the lending volume fully meets the borrower's needs.

3. **EFF (Extended Fund Facility)** – extended lending program for medium- and long-term financial assistance. The term of the program is 3-4 years; the repayment period is from 4.5 to 10 years. Assistance is provided to settle the balance of payments in the event of problems with solvency due to a slowdown in the growth rate of economic development or an increase in the negative balance of payments.

Example. More than ten countries cooperated with the International Monetary Fund within the framework of the EFF. In particular, 5.8 billion US dollars were allocated to Pakistan, 1.5 billion US dollars to Shri Lanka, 3.6 billion US dollars to Angola, and 1.3 billion US dollars to Jordan.

4. **ECF (Extended Credit Facility)** is an instrument of extended credit for low-income countries. Assistance is provided for 3 to 5 years; the loan repayment is ten years (a grace period of 5.5 years). This program's funding aims to create stable macroeconomic conditions to reduce poverty and ensure economic development.

EXAMPLE. The ECF program's most significant amount of funds was allocated to Ethiopia - 1.6 billion US dollars. Benin, Sierra Leone, Mauritania, Niger, Guinea, and Liberia each received 0.2 billion US dollars. Cameroon was allocated 0.7 billion US dollars, Somalia and Chad – 0.3 billion US dollars each.

INTERESTING. The IMF approved the 40-month financing program for Moldova under the ECF/EFF mechanisms in December 2021 and supplemented it in May 2022, which increased the total available funds under the program to 594.26 million SDR (about $800 million). Immediately after the conclusion of the agreement, Moldova received the first tranche in the amount of $84.4 million, then after the first review of the program's implementation - another $27 million.

The **World Bank Group** is one of the world's largest sources of financing for developing countries. With 189 member countries, staff from more than 170 countries, and offices in more than 130 locations, the World Bank Group is a unique global partnership: five institutions working on sustainable solutions that reduce poverty and create shared prosperity in countries that are developing.

The World Bank includes the **International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICDIS)**.

The **purpose** of these institutions is to provide financial and technical assistance to developing countries.

For example, the World Bank Group provides loans to support infrastructure development and banking reform in India. These loans help attract foreign investment and ensure the growth of the country's economy. However, some critics argue that World Bank loans increase foreign debt and reduce the country's independence.

The World Bank Group provides loans to support infrastructure development and poverty reduction in Kenya. These loans help ensure access to essential services and raise the population's standard of living. However, some critics argue that these loans increase the country's foreign debt and create dependence on foreign investment.

The **International Bank for Reconstruction and Development** (IBRD) was established in 1944 to help Europe rebuild after World War II. IBRD includes 189 member countries.

Goals of the IBRD:

- promoting the reconstruction and development of the territories of the member states by encouraging capital investments for production purposes;
- encouragement of private foreign capital investments and, in addition to private investments, if they are challenging to provide, providing financial funds for production purposes;
- stimulation of long-term balanced growth and assistance in maintaining the balance of payment balances by encouraging international investments to develop productive resources of the bank's member states.

The main **areas of activity** of the IBRD are:

- providing developing countries and countries with a transition economy with long-term loans and credits for production purposes: development of agriculture and energy;
- medium-term and long-term lending of investment projects;
- preparation, technical and financial, and economic justification of investment projects;
- financing of structural restructuring programs in developing countries and post socialist countries;
- provision of technical assistance to developing countries. The following types of technical assistance are distinguished: technical assistance, financed as a component of loans and credits; open-ended loans and loans for technical assistance; technical assistance financed through the Project Preparation Fund.

The **International Development Association** (IDA), a member of the World Bank Group, was created in 1960 to promote economic development in the poorest countries that cannot afford to take a loan from the IBRD. It is the largest multilateral source of preferential lending to low-income countries.

Goals of IDA:

- to stimulate economic development;
- to increase productivity and, therefore, the standard of living in the less developed countries of the world included in the IDA, in particular by providing financing to meet essential development

needs on terms that are more flexible and less burdensome on the balance of payments compared to conventional lending, thereby contributing to the development goals of the MBRD and its activities.

The **core operational domains** of IDA encompass:

- Financing investment projects in economically challenged and least creditworthy nations, with the aim of fostering economic development.
- Conducting comprehensive evaluations of financial projects to assess the efficiency of financial aid utilization.
- Offering support to member countries in implementing economic reforms, promoting ecological development, and combating poverty.

IBRD and IDA operate in tandem, sharing a common headquarters, leadership structure, and reporting to the same president. They also adhere to identical evaluation standards for projects. The distinction primarily lies in lending terms and financing sources. A prerequisite for joining IDA involves membership in IBRD.

Industrialized countries contribute in gold or convertible currency, developing countries contribute only 10% of their contributions in gold or convertible currency and the remaining 90% in national currency. As mentioned above, IDA provides loans only to developing countries (annual per capita income of at most 1,135 USD), which cannot borrow from the IBRD on the usual terms.

Although the conditions of IDA are liberal from a financial point of view, its economic and technical criteria for obtaining loans are the same as those applied in IBRD lending under normal conditions. Each loan must be justified from the borrowing country's economic position, prospects, and policies. Loans are granted only for high-priority purposes. IDA has actively assisted governments in structural adjustment, protection, and expansion of social and environmental programs. It supports rural development programs and projects to increase agricultural productivity and ensure sufficient food supplies. IDA also finances projects that pay special attention to raising women's incomes and status in their communities. IDA has significantly increased its support to the population, health care, and nutrition projects.

Environmental issues have been integrated into all aspects of IDA activities. The institution assists borrowers in developing environmental plans to identify policy changes and investments needed for environmentally sustainable development.

The central part of IDA funds comes from three sources: transfers from the income of the IBRD; capital of member countries; contributions of more affluent IDA members, including countries with an average annual income per capita. IDA provides loans for 20, 35, and 40 years, including a grace period of 10 years. The amount of loans is expressed in SDR, but real funds are issued in the currency in which the expenses will be made. Interest is not charged, but an annual service fee of 0.5% of the amount is issued.

The **International Finance Corporation** (IFC) is a member of the World Bank Group with headquarters in Washington, DC. IFC's efforts aim to achieve the primary goal of all institutions of the World Bank Group - improving the quality of life of the population in developing countries.

The **goals and objectives** of the IFC are to promote a steady flow of foreign investment into the private sector of developing countries to reduce the scale of poverty and raise the standard of living in these countries. Established in 1956, IFC is the largest multilateral institution providing loans and partial financing for private sector projects in developing countries.

IFC stimulates the sustainable development of the private sector by financing projects, assisting private companies of developing countries in attracting financing on international financial markets, and providing consulting and technical assistance to enterprises and governments.

The primary operational domains of IFC encompass:

- Project financing: Provision of long-term loans in major currencies or domestic currency, featuring fixed or variable interest rates. It includes investments in share capital, quasi-capital financial institutions, syndicated loans, and risk management. This involves facilitating «swap» agreements for currency and interest rates, as well as conducting hedging operations.

- Intermediary-based financing.
- Resource mobilization: IFC, owing to its unique status and accomplished achievements, serves as a catalyst for private capital investments. It mobilizes financial resources directly for profitable enterprises in developing countries. This involves coordinating syndicated loans with the participation of international commercial banks, acting as an investment fund guarantor, and issuing corporate securities.
- Advisory services: IFC extends consultations to entrepreneurs from developing nations on various matters. It advises developing country governments on creating an environment conducive to entrepreneurial growth and recommends attracting foreign direct investment.

IFC promotes the development of local capital markets, restructuring and privatization of state-owned enterprises;

- Investment activity. Regional departments and industry departments manage the investment activities of the IFC. Branch departments deal with projects in the respective fields worldwide, regardless of the regional affiliation of the project.

Provincial departments deal with projects in their geographical regions in those fields that are not dealt with by branch departments.

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group, founded in 1988. The activity primarily aims to stimulate investment flows between member countries, especially those directed to developing countries. The source of resources is the receipt of funds from the World Bank. MIGA has its capital. The warranty period is usually 15-20 years.

MIGA aims to promote cross-border investment in developing countries by providing guarantees (policy risk insurance and improving lending) to investors and creditors.

Guarantees protect investments from non-commercial risks and can help investors access funding sources with better financial terms. The Agency derives its unique strength from the World Bank Group and its structure as an international organization, the shareholders of most countries. This allows MIGA to provide an «umbrella» to deter government actions that could derail projects and help resolve disputes between investors and governments. MIGA can offer clients extensive knowledge of emerging markets and the best international experience in environmental and social management.

MIGA advises governments of developing member countries on developing and implementing policies, programs, and regulations related to foreign investment; arranges meetings and negotiations between international business circles and local authorities; provides necessary information services.

The International Center for Settlement of Investment Disputes (ICSID) provides tools for settling investment disputes through conciliation or arbitration procedures on disputed investment issues between foreign investors and investment recipient countries.

In a conflict, the center acts as an arbiter between the investor and the country's government. The settlement of investment disputes has two forms: conciliation and arbitration. Reconciliation is achieved if it is possible to convince both sides of the possibility of resolving the conflict in an agreed manner through mutual concessions.

If conciliation is not possible, the ICSID issues a reasoned decision in favor of one of the parties; this procedure is called arbitration.

Regional European monetary and credit organizations include **European Investment Bank, European Fund for Monetary Cooperation, European Bank for Reconstruction and Development**.

The **European Investment Bank** (EIB) is a financial institution of the European Union that provides long-term loans for capital investment to strengthen the EU's balanced economic development and economic integration. The critical task of the EIB is to support regional development.

The shareholders of the European Investment Bank are 27 member states of the European Union, and EU member states have full rights to finance operations. Each member state's share of the bank's capital is based on its economic share in the European Union (expressed in GDP) at the time of its accession.

More than half of the total amount of loans is allocated for investments in production in depressed regions and for improving communication systems and environmental protection. Projects supported by EIB loans have the lowest possible interest rates, and loans are granted for 20-25 years.

The **European Bank for Reconstruction and Development** (EBRD) was established in 1991 to usher in a new post-Cold War era in Central and Eastern Europe. The EBRD now operates on three continents to further promote a «market-oriented economy and promote the private and entrepreneurial initiative».

The task of the EBRD is to create a competitive industry in post-socialist countries, develop mutually beneficial relations between Western European countries and provide loans for large projects in various sectors of the economy: transport, communications, environmental protection, etc.

The **European Monetary Fund** (EMF) was created in 1973 within the framework of the European monetary system. The task of the EMF is to provide loans to EU member states to cover the deficit of the balance of payments, subject to their implementation of the economic stabilization program.

The Fund's main objective was to ensure the proper functioning of the gradual narrowing of the range of fluctuations between the currencies of the Community (the so-called «currency snake»). It also monitored interventions in the exchange markets in Community currencies. Finally, it managed short-term financing and settlements between central banks, leading to a coordinated reserve policy. Since 1976, the Fund has also been entrusted with managing Community loans to support the balance of payments of some Member States. Since 1979, with the introduction of the European Monetary System and the European Monetary Unit т(ECU), it has performed all tasks related to the creation, use, and payment of the ECU.

The European Monetary Institute took over the functions of the Fund when it was dissolved on 1 January 1994.

PRACTICUM FOR TOPIC 14

***Exercise 1.* Control and discussion questions**

1. The essence and classification of currency systems.
2. The world monetary system and stages of its evolution.
3. European monetary system. Monetary Union of EU countries.
4. Concept of currency, its purpose and scope of use.
5. Exchange rate and factors affecting the formation of exchange rate dynamics.
6. Consumer credit: what is its special feature?
7. What is the essence of an interest-free loan?
8. Describe commercial and bank loans.
9. The main areas of activity and the lending mechanism of the IMF.
10. Main areas of activity and lending mechanism of the World Bank.

***Exercise 2.* Topics for scientific essays and presentations**

Analyzing the interplay between trade and payment balances.

Assessing the impact of balance of payments on foreign exchange markets in nations.

Examining challenges and risks international financial organizations face amid escalating economic uncertainties.

Evaluating the global economic landscape: the influence of IMF guidelines on diverse countries.

Envisaging collaborative horizons: exploring Ukraine's interaction with international credit and financial entities across public and private sectors.

INTERNATIONAL ECONOMIC INTEGRATION

Main questions for study:

15.1. The essence and prerequisites of international economic integration.

15.2. Forms of international economic integration.

15.3. Consequences of international economic integration.

15.1. The essence and prerequisites of international economic integration

International economic integration (IEI) is a process of convergence and interdependence of national economies by creating a single economic space for the free movement of goods, services, capital, and labor across national borders. Integration leads to the formation of a holistic economic system. International economic integration involves the implementation of a coordinated state policy both in mutual economic relations and in relations with third countries.

The basis of international economic integration is globalization and the internationalization of economic life.

Globalization means close interaction and rapprochement of economic, political, social, legal, informational, socio-cultural and other ties between subjects of economic activity of all world countries, the formation of a single (global) system of world economic relations for the entire world society. This is the process of gradual transformation of the world into a single space in which goods, services, capital and ideas move freely, stimulating the development of supranational institutions and the creation of an international institutional, legal, cultural and informational field.

The concept of globalization is closely related to the internationalization of economic life.

Internationalization of economic life is a convergence of economies countries, which is manifested in the growth of production interdependence, increased international trade, capital and labor movement, and mutual influence on the most important economic processes in the countries.

Key factors driving international economic integration encompass:
- Geographic proximity among integrating nations, often involving shared borders.
- Historical economic interconnections.
- Compatibility of political and legal systems marked by democracy, rule of law, and protection of human rights.
- Substantial alignment of economic systems and well-developed market relations.
- Socio-economic likeness among national economies.
- Adequate economic development levels in integrating countries.
- Equal conditions for economic relations within the integrated economic environment.
- Infrastructure and information harmonization.
- Readiness to relinquish some sovereignty to bolster economic and political collaboration.
- Shared economic and political interests among integrating nations.

This framework establishes the essential prerequisites for gradual, progressive advancement from conventional economic interaction toward **integration cooperation**.

The global integration process is molded by technological progress, exerting influence across all facets of human society.

Nations engage in integration pacts with expectations of economic benefits, though they might also pursue political and other objectives.

Signs of integration:
- elimination of any discriminatory restrictions;
- interpenetration of production systems;
- coordination of national legislation and standards;
- interstate (supranational) bodies;

- single currency;
- production infrastructure;
- unified foreign trade policy;
- coordination of internal policy (economic, social, etc.).

Terms of integration:

- developed infrastructure;
- availability of political decisions of the government (creation of conditions for integration – political and economic base).

Integration levels:

- macro level (at the state level);
- micro level (interfirm level – TNC).

Obstacles to the integration of developing countries:

1. The integrating countries weakly complement each other's economies, which hinders the integration process.
2. Necessary structural changes.
3. Underdeveloped infrastructure.
4. Different levels and development potentials.
5. Political instability.

Factors fostering the progression of international economic integration:

1. Deepening of the international division of labor.
2. Socio-economic homogeneity of national enterprises.
3. Development of NTP.
4. Close levels of economic development of groups of countries.
5. Close intertwining of national economies at the micro level.
6. A long period of cooperation.
7. Common borders and development conditions.
8. Development of communication capabilities.
9. Community of cultural and historical traditions.
10. Targeted activity of state bodies and parties of countries regarding integration processes.
11. The objective necessity of a joint solution to the global problems of humanity.

The key participants in the process of integration include:

1. States.
2. TNC.
3. Public organizations.
4. Parties.
5. Individuals.

Goals and significance of international economic integration:

1. Achieving the highest production efficiency.
2. The possibility of regulating socio-economic processes at the regional level.
3. Saturation of the market with high-quality goods.
4. Ensuring economic and political consolidation and international defense security.

At the micro level, two distinct forms of integration emerge: horizontal and vertical integration.

Horizontal integration takes place when companies producing similar or homogenous products merge to distribute them and generate additional profits jointly. This often involves producing similar goods abroad as those manufactured in the home country.

Vertical integration entails the consolidation of firms operating across various stages of production.

Three variants of vertical integration exist:

- **«downward» integration**, where, for instance, a raw material or semi-finished product factory is merged with a company engaged in core production.
- **«upward» production integration**, such as a steel company acquiring a plant producing metal structures.
- **non-production «upward»** integration, encompassing distribution-related sectors.

Transnational corporations typically materialize at a certain stage of micro-integration development. They represent the most intricately integrated microstructures, with examples like Chrisler, General Motors, Volkswagen, Toyota, and Honda showcasing vertical integration, and Exxon Mobil Corporation and Texaco demonstrating horizontal integration.

On the national economic scale, integration progresses through establishing economic alliances among countries, characterized by varying degrees of coordinated national policies. This phenomenon is known as economic regionalism.

It is worth noting that groups of countries engaging in economic integration can take shape through different pathways:

1) The **«bottom-up»** approach involves a gradual progression of internationalization and transnationalization of economic activity. This begins with the development of international economic ties at the level of individual entrepreneurs, firms, and corporations. Over time, these ties gain support at the state level, leading to the establishment of agreements for creating free trade zones, customs unions, or common markets. This method often involves large-scale bilateral projects aimed at deepening international economic cooperation. The North American integration process, particularly between the USA and Canada, developed along these lines.

2) The **«top-down»** approach occurs when a group of countries forms an integration alliance due to various political and socio-economic factors, even if they do not fully meet the criteria for integration compatibility. Through regulated and coordinated cooperation at the supranational level, they gradually move toward a particular form of international economic integration.

As a result of international economic integration, specific groups of countries can create more advantageous conditions for conducting trade and facilitating the movement of production factors compared to other nations.

In the context of modern international economic relations, both integration and disintegration processes are prevalent. These processes significantly impact the global economic system and the formation of the worldwide production and economic mechanism. Disintegration refers to the weakening of economic ties between regions or the increasing influence of foreign economic relationships, replacing the intra-union connections. A pertinent example is the departure of Great Britain from the European Union, which culminated on January 31, 2020, with the country's exit from the single market.

15.2. Forms of international economic integration

Economic integration can be classified according to **five forms (levels):**

1) free trade zone;
2) customs union;
3) common market;
4) monetary and economic union;
5) full economic integration.

Each of the following forms involves a wider integration and has its own characteristics.

Preferential agreements are agreements that are signed on a bilateral basis between individual states or between already existing integration groupings and an individual country or group of countries.

A free trade zone is a preferential zone of a regional type, within which international trade of participating countries is supported free of customs and quantitative restrictions. This form provides for the complete abolition of customs tariffs in mutual trade while maintaining national customs tariffs with respect to third countries.

A customs union is a joint customs territory of countries with full elimination of customs duties in mutual relations and with a single customs tariff and a single system of non-tariff regulation of trade with third countries.

The purpose of the customs union is to facilitate mutual trade between member countries and at the same time not to create additional obstacles in trade with third countries.

A **common market** involves integrating the national markets of multiple countries into a larger unified market where capital, goods, services, and labor can move freely across its boundaries. This integration addresses matters like coordinating economic policies, achieving equivalence in economic indicators, and ensuring full alignment.

A **currency union** refers to a regional currency arrangement that seeks to consolidate the currencies of the Common Market into a singular shared unit. Key characteristics include:

- Establishment of agreed-upon fixed exchange rates maintained by the central banks of participating nations.
- Introduction of a unified regional currency.
- Establishment of a singular regional bank responsible for issuing this international currency unit.

An **economic union** signifies the amalgamation of national economies from multiple countries based on elements such as a customs union, a common market, financial system harmonization, and the pursuit of shared currency policies.

Economic unions emerge during advanced economic stages. A consensus-driven economic policy is executed, leading to the eradication of barriers. Interstate (or supra-state) entities are established, resulting in significant economic changes across all participant nations.

Complete economic integration denotes a unified economic policy and consequently, the harmonization of legislative frameworks. Key features encompass:

- A unified tax system.
- Standardized norms.
- Homogenized safety technology regulations.
- Uniform labor legislation.
- Consistent antimonopoly legislation.
- Equitable rules for establishing businesses.

A **political union** pertains to countries uniting through a joint accord aimed at conducting coordinated policies across all aspects of public life.

The simplest forms of international economic integration encompass a free trade zone and a customs union.

A free trade agreement is founded upon intergovernmental consensus among participating nations. Each member retains the autonomy to shape its own economic policy. Cooperation domains are defined within the Free Trade Agreement framework. The FTA Secretariat oversees operations and addresses technical disagreements. Optionally, an independent body (Council) could be established with authoritative decision-making power concerning technical matters. A unified customs tariff isn't enforced. Each member sets customs duties according to their trade requirements with non-participating entities. A common goods description and coding nomenclature is a requisite.

A **Customs Union** (CU) involves a shared customs boundary. Customs operations persist solely at the union's external borders. Uniform customs regulations governing imports apply across all participating nations. The Customs Union embodies a uniform trade policy established by all member countries. A supranational entity is established to regulate intra-union trade laws and trade with external countries. The CU promotes the free movement of goods across member states, nullifying customs duties among them. Uniform customs laws govern goods imported from external nations into the union's territory.

Within a Customs Union, goods entering any participating nation undergo customs checks at the initial point of entry. Typically, member countries establish a unified customs tariff.

No customs duties are imposed when goods cross European Union (EU) borders, whether transported by individual travelers or commercial carriers. This, however, doesn't imply an exemption from duty payments altogether. Travelers pay duties when they bring imported items into an EU member state. If non-EU residents purchase online in an EU nation, value-added tax (VAT) becomes applicable, with the specific rate varying by country. Additionally, excise duty is levied on selling alcohol and tobacco products.

As of 2022, all EU member states were part of the European Customs Union.

For instance, pre-Brexit, British consumers could acquire or bring goods from Europe without import duties. Post-Brexit, consumers can purchase items valued up to £135 from most online stores without extra fees. Items of higher value are subject to customs duties, varying based on the product. Gifts exceeding £39 typically incur a 20% UK VAT charge.

15.3. Consequences of international economic integration

The consequences of international economic integration on the economic development of participating countries encompass both positive and negative aspects.

Positive outcomes include:

- Market expansion, leveraging economies of scale for increased production efficiency, especially for nations with smaller domestic markets. This necessitates optimal enterprise size determination.
- Enhanced competition among manufacturers across different countries, driving price improvements, product quality enhancements, and fostering technological innovation.
- Augmented inflow of foreign investments.
- Improved trade conditions.
- Simultaneous trade growth and infrastructure enhancement.

Negative repercussions comprise:

- Resource outflow from less developed countries, favoring stronger partner nations, leading to resource redistribution.
- Potential oligopolistic cooperation among transnational corporations (TNCs) of participating countries, resulting in price hikes for respective products.
- A possible rise in mergers that solidify monopolistic control.
- Losses associated with overly concentrated production scale expansion.

PRACTICE FOR TOPIC 15

Exercise 1. **Control and discussion questions**

1. What is the essence of international economic integration?

2. Formulate the main prerequisites of international economic integration.

3. Name the main stages of the integration process: what they have in common and how they differ.

4. Reveal the essence of static and dynamic effects of integration.

5. Explain the effect of creating a free trade zone.

6. Define and explain the dynamic effects of the customs union.

7. Provide a comparative description of customs and economic unions.

8. Give a comparative description of the free trade zone and the common market.

9. What are the advantages and disadvantages of a political union?

Exercise 2. **Topics for scientific essays and presentations**

1. Investigating the mechanisms behind enhanced prosperity in integrated nations: analyzing the laws driving collective well-being. Illustrate with cases.

2. Unpacking the economic ramifications of free trade zones, customs unions, common markets, and economic unions for participating countries.

3. Distinctive attributes of economic integration forms: comparative analysis of free trade zones, customs unions, common markets, and economic unions. Exploring cooperative interactions and instances.

4. Contemporary significance of integration and disintegration trends in the global landscape. Real-life instances.

5. Contemporary viability of military-political alliances: an examination of relevance in the current era.

DEVELOPMENT OF REGIONAL ECONOMIC INTEGRATION

Main questions for study:

16.1. European integration processes.

16.2. Features of the development of economic integration in the North America.

16.3. Development of regional and subregional integration formations in Latin America.

16.4. Peculiarities of integration processes in Asia.

16.5. Peculiarities of integration processes in Africa.

16.1. European integration processes

The European Union – EU is a unique economic and political union of 27 European countries.

The EU was started by several agreements signed after the Second World War:

1) European Coal and Steel Association (the agreement was concluded in 1951 and entered into force in 1952);

2) European Economic Community (the Rome Agreement on the establishment of the EEC was concluded in 1957 and entered into force in 1958);

3) European Atomic Energy Community (the agreement entered into force in 1958).

The first step was an effort to promote economic cooperation, which was based on the idea that countries that trade with each other become economically interdependent and therefore have a better chance of avoiding conflict. The result was the European Economic Community, with the initial aim of expanding economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands.

On February 7, 1992, the Treaty on the Establishment of the European Union was signed in Maastricht (Netherlands). The agreement entered into force on November 1, 1993.

Since then, 22 more countries have joined (the UK left the EU on 31 January 2020), creating a huge single market (also known as the internal market) that continues to grow to its full potential.

Integration development within the EU has passed all stages (levels): from the free trade zone to the monetary and economic union.

The goal of the EU is to create an economic union with the highest level of integration of the economies of states (common foreign economic policy, a common market for goods, services, capital, and labor, as well as a common currency) and a political (common foreign policy) union, as well as the introduction of common citizenship.

Stages of accession of countries to the EU:

1957 - Belgium, Germany, Italy, Luxembourg, the Netherlands, France.

1973 - Great Britain, Denmark, Ireland.

1981 - Greece.

1986 - Portugal, Spain.

1995 - Austria, Finland, Sweden.

2004 - Lithuania, Latvia, Estonia, Malta, Poland, Slovakia, Hungary, Slovenia, Czech Republic, Cyprus.

2007 - Bulgaria, Romania.

2013 - Croatia.

What started as a purely economic union has evolved into an organization covering many different policy areas – from climate, environment and health to foreign relations and security, justice, and migration.

The EU has ensured more than half a century of peace, stability and prosperity, helped raise the standard of living and introduced the single European currency – the euro. More than 340 million EU citizens in 20 countries now use it as their currency and enjoy its benefits.

With the abolition of border controls between most EU countries, people can travel freely across much of the continent. All EU citizens have the right and freedom to choose in which EU country they want to study, work or retire. Each EU country must treat EU citizens as well as their own when it comes to employment, social security and taxes.

The main driver of the EU economy is the single (common) market. This allows goods, services, capital and labor to move freely. The EU seeks to follow this example in other areas.

The EU remains focused on making its governing institutions more transparent and democratic. Decisions are made as openly as possible. More powers have been given to the directly elected European Parliament, while national parliaments play a greater role than previously, working together with EU institutions.

As enshrined in the Treaty on European Union, «it is based on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to national minorities. These values are shared by member states in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail ».

These values are an integral part of the European way of life. Human dignity is the basis of key rights, it must be respected and protected.

Human rights are protected by the EU Charter of Fundamental Rights. These include the right to be free from discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, the right to protection of personal data and the right to access justice.

The EU is based on the rule of law. All citizens have equal rights before the law, and everything the EU does is based on treaties voluntarily and democratically agreed by its member states. Law and justice are supported by an independent judiciary. EU countries have given final jurisdiction in matters of EU law to the Court of Justice of the European Union, whose decisions must be respected by all.

Several institutions are involved in decision-making at the EU level:

The European Parliament acts together with the Council of the EU as a legislative body. Together with the Council, the EU controls the budget and finally approves it; exercises democratic control over the institutions, including the European Commission, and approves the members of the Commission. Plenary sessions are held in Strasbourg and Brussels.

The European Council consists of the heads of state or government of EU member states, the President of the European Council and the European Commission; provides the necessary political stimulus for the development of the Union and establishes its general goals and priorities; does not belong to the executive power. The European Council is based in Brussels (Belgium).

The Council of the European Union represents the governments of the EU member states, acts jointly with the European Parliament as a legislative body; exercises control over the budget together with the European Parliament; ensures the coordination of broad economic and social policy and establishes the principles of joint foreign and security policy; concludes international agreements. The location is Brussels (Belgium).

The European Commission is the highest executive body; submits proposals for new legislation to the European Parliament and the Council of the EU; implements the policy; manages the budget; ensures compliance with the European rights; negotiates international agreements; based in Brussels. The EC represents the interests of the EU as a whole.

The EU Court ensures the uniform application and interpretation of European law; has the right to resolve legal disputes between member states, institutions, enterprises and private individuals. The Court of Justice of the European Union is based in Luxembourg.

The European Central Bank, together with national central banks, forms the European System of Central Banks and thus determines the monetary policy of the Eurozone; ensures price stability in the Eurozone by regulating the money supply. This institution is based in Frankfurt am Main (Germany).

The European Chamber of Auditors checks the proper implementation of the budget based in Luxembourg.

Member States' national parliaments also play a role in decision-making and legislation, as do two advisory bodies. These are the European Committee of the Regions, which consists of representatives of regional and local authorities, and the European Economic and Social Committee, which includes representatives of workers' and employers' organizations, as well as groups of interested parties.

As a rule, the Commission proposes new laws, and the Parliament and the Council adopt them.

Consultative bodies (European Economic and Social Committee and European Committee of the Regions) and national parliaments are involved in the process, giving their views on the proposals, mainly from the point of view of principles of subsidiarity and proportionality. **Subsidiarity** means that, except in areas with exclusive powers, the EU only acts where actions will be more effective at the EU level than at the national level. According to the principle of proportionality, EU actions should be limited to what is necessary to achieve the objectives of the EU treaties.

Member States and the relevant EU institution or institutions then implement the adopted EU laws.

All actions undertaken by the EU are founded upon treaties that have been voluntarily and democratically endorsed by all EU nations. These treaties establish the objectives of the EU and delineate the operational framework for EU institutions. They also define the decision-making process and the interactions between the EU and its member states. In select instances, not all member states participate uniformly in every facet of EU policy. For instance, while the euro serves as the EU's unified currency, the euro area presently comprises only 20 member states, with Denmark having the option to opt out and other countries not yet meeting the eligibility criteria for participation. Within the Schengen area, encompassing 27 European nations, individuals can traverse borders among member countries without requiring a passport. Nevertheless, a subset of five EU member states maintains autonomous border controls.

Key areas of EU activity:

1. Health care:
- measures to overcome the consequences of COVID-19;
- health.

2. Climate change and the environment:
- European Green Agreement;

- climate;
- environment;
- energy;
- transport and travel;
- food and agriculture.

3. A stronger economy, social justice and jobs:
- economy and finance;
- employment and social affairs;
- work, economic growth and investments;
- regions;
- research and innovation;
- single market;
- protection of consumer rights;
- fair competition;
- taxes and customs duties;
- space

4. The EU in the world:
- international affairs and security;
- international partnership;
- EU neighborhood policy;
- trade;
- humanitarian assistance and civil protection.

5. Values, rights and rule of law:
- fundamental rights;
- justice and rule of law;
- gender equality;
- racism and equality;
- disability.

6. Digital transformation:
- digital economy and society;
- internet.

7. European democracy:
- citizens and democracy;
- EU budget.

8. Migration, borders and security:
- migration and asylum;
- Schengen zone;
- internal affairs and citizens' security.

9. Education, culture, youth and sports:
- education and training;
- youth affairs.

The headquarters of the EU is in Brussels, where most of the European institutions (European Council, European Commission) are located, as well as in Luxembourg, where the European Parliament functions.

European Free Trade Association – EFTA (The European Free Trade Association – EFTA) is an intergovernmental organization of Iceland, Liechtenstein, Norway and Switzerland. It was founded in 1960 on the initiative of Great Britain (as an alternative to the European Economic Community).

The primary objectives of EFTA include:
- Ensuring the upkeep and advancement of the EFTA Convention, which governs economic interactions among the four EFTA nations.
- Establishing a zone of unrestricted trade for industrial goods.
- Striving for full employment and financial stability.
- Enhancing labor productivity.
- Overseeing the European Economic Area (EEA Agreement), which integrates the European Union's member states with the three EFTA countries – Iceland, Liechtenstein, and Norway – into a unified market referred to as the internal market.
- Expanding the global network of EFTA free trade agreements.

The European Free Trade Association was established to advance free trade and economic integration for the mutual benefit of its four member states and their trading partners globally. All four EFTA member states are open, competitive, and forward-looking economies, actively engaged in trade liberalization on both the international stage and through free trade agreements.

EFTA ranks as the ninth largest global trader in goods and the fifth in services. It holds the position of the third most significant trade partner of the EU for goods trade and the second for services trade.

The EFTA budget is formulated in Swiss francs (CHF) and euros (EUR). The total budget for 2022 amounted to 23,361,000 Swiss francs. Three out of the four EFTA states contribute to EU cohesion through separate agreements and EEA grants, particularly Norway. The EFTA budget follows the framework budgeting principle employed by member states' governmental administrations, ensuring transparency in budget allocations at all levels.

Since 1993, EFTA member states have enjoyed the highest level of trade facilitation within the European Union.

The organization's headquarters are situated in Geneva, Switzerland.

Integration groups are actively functioning in Central and Eastern Europe. In the Black Sea region, on June 25, 1992, the leaders of eleven participating countries (Azerbaijan, Albania, Armenia, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine) adopted the Bosphorus Declaration and signed the Istanbul Declaration on **Black Sea Economic Cooperation** (BSEC) in Istanbul, Turkey.

The goals of Black Sea economic cooperation are:

- promotion and encouragement of individual and collective initiative as an important factor in achieving the goals stipulated in the Declaration of 1992;
- contribution to the development of a competitive market economy in the Black Sea region;
- increasing the potential and innovative ability of enterprises and creating new production potential for bilateral and multilateral business contacts.

The headquarters of the organization is in Istanbul (Turkey).

The Commonwealth of Independent States – CIS (Commonwealth of Independent States – CIS) was created as a regional community of states in accordance with the agreement on the creation of the CIS signed in Minsk, the Alma-Ata Declaration and the protocol to the Minsk Agreement.

Goals of the CIS:

- mandatory fulfillment of international obligations assumed within the framework of the CIS;
- non-interference in each other's internal affairs;
- observance of territorial integrity and inviolability of CIS borders;
- mandatory observance of international norms in the field of human rights and basic principles regarding the rights of national minorities;
- objective presentation of social and political life in the mass media of the member states, prevention of dissemination of information that may cause international conflicts;
- prohibition of the activities of political parties and groups based on the ideas of fascism, racism, international conflicts, etc.

Full CIS member states: Azerbaijan, Armenia, Republic of Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Republic of Tajikistan, Uzbekistan. Associated members of the CIS: Turkmenistan.

The headquarters of the organization is located in Minsk (Belarus).

The **Eurasian Economic Community** – EurAsEC was established on October 10, 2000, through the Treaty on the Establishment of the Eurasian Economic Community, signed by the Presidents of Russia, the Republic of Kazakhstan, the Kyrgyz Republic, and the Republic of Tajikistan. Preceding this, there were significant developments including the signing of the Treaty on the Creation of an Economic Union within the CIS in September 1993, the adoption of the Agreement on the creation of a free trade zone in April 1994, the Agreement on the Customs Union among Belarus, Kazakhstan, and Russia in January 1995, and the Agreement on deepening integration in the economic and humanitarian spheres by the same countries in March 1996. Subsequently, in October 1997, these nations adopted a decision outlining the priority directions for forming a common market for goods, services, and capital. On February 26, 1999, the same countries, along with Tajikistan, signed the Treaty on the Customs Union and the Single Economic Space, leading up to the signing of the EurAsEC Treaty on October 10, 2000, in Astana.

The community's headquarters are situated in Moscow and Astana (now Nur-Sultan, Kazakhstan).

GUUAM, a regional association involving Georgia, Ukraine, the Republic of Uzbekistan, the Republic of Azerbaijan, and the Republic of Moldova, was established in 1997 as a political advisory forum. In 2006, Azerbaijan, Georgia, Moldova, and Ukraine founded the Organization for Democracy and Economic Development – GUAM, operating based on the Charter and enjoying international legal status.

The principal objectives of GUAM include promoting democratic values, upholding the rule of law and human rights, achieving sustainable development, enhancing international and regional security and stability, deepening European integration, and expanding economic and humanitarian cooperation. The organization's headquarters is located in Kyiv, Ukraine.

16.2. Features of the development of economic integration in the North America

The North American Free Trade Area – NAFTA (North American Free Trade Area – NAFTA), which was adopted in 1994 and created a free trade area for Mexico, Canada and the United States, is the most important part of bilateral commercial relations between the United States and Mexico by a chick Effective January 1, 2008, all tariffs and quotas on US exports to Mexico and Canada were eliminated under the North American Free Trade Agreement.

The creation of NAFTA pursued such **goals** as:

- elimination of trade barriers and promotion of cross-border movement of goods and services;
- promotion of fair economic competition;
- improvement of the investment climate;
- protection and provision of intellectual property rights;
- creation of a procedure for settlement of trade disputes;
- creation of a framework for further tripartite, regional and multilateral cooperation in the economic sphere.

Gains from NAFTA for the US:

1. Expansion of the duty-free market for the sale of products.
2. Access to Canadian and Mexican resources.
3. Exit through Mexico to the economy of Latin American countries.

4. Development of export of agricultural, automobile, and textile products.

NAFTA gains for Canada:

1. Removal of protectionist barriers by US legislation.
2. The possibility of increasing trade with Mexico.
3. Access to the markets of Latin American countries through the USA and Mexico.

NAFTA gains for Mexico:

1. Inflow of investments from the USA and Canada.
2. Access to the markets of the USA and Canada.
3. Accelerating the development of the economy as a whole.

NAFTA encompassed services, excluding aviation, maritime transport, and basic telecommunications. It also established safeguards for intellectual property rights across patents, trademarks, and copyrighted content. Government procurement provisions extended beyond goods to cover service and construction contracts at the federal level. Additionally, American investors were ensured equal treatment alongside domestic counterparts in Mexico and Canada.

Under NAFTA, qualified goods could be shipped to customers in Canada and Mexico without duties. Eligibility hinged on various criteria in NAFTA's rules of origin. This pertained to goods wholly produced or obtained within a NAFTA nation, or when a product's origin involved adequate labor and materials, contributing to its exported form.

The transformation of the 25-year-old North American Free Trade Agreement (NAFTA) into a forward-looking agreement for the 21st century was agreed upon by the United States, Mexico, and Canada. This new pact aims to bolster mutually beneficial trade, fostering freer markets, fairer trade, and robust North American economic growth.

Effective since July 1, 2020, **the United States-Mexico-Canada Agreement** (USMCA) replaced NAFTA. This updated trade accord strives to enhance labor conditions, bolster oversight of ecologically sound production, and establish new terms for duty-free trade in specific categories of goods, particularly vehicles and dairy products. The agreement encourages motor vehicle production within member countries and improves US dairy market access in Canada. Additionally, the USMCA introduces regulations for environmental protection and workers' rights.

Transforming the previous North American Free Trade Agreement (NAFTA), the USMCA mandates that 75% of auto components must originate in the US, Canada, or Mexico to avoid tariffs. Furthermore, 40-45% of auto parts must be produced by workers earning at least $16 per hour by 2023. This wage standardization addresses the wage disparity (Mexico's wages being notably lower in 2020), making a significant impact on the automotive industry and labor market. Notably, this fulfills a key objective of the USA, promoting localized production and raising the regional localization requirement from 62.5% to 75%.

Diverging from NAFTA's open-ended nature, the USMCA is set to remain in effect for 16 years, with scheduled consultations every six years to assess renewal and adjustments. Comprising 34 chapters and 12 amendments (NAFTA had 22 chapters), the USMCA regulates trade worth over $1 trillion among its member nations. This agreement signals a pivotal shift in North American trade dynamics, driving freer markets, equitable trade, and robust economic growth. Notably, the USMCA integrates notable enhancements and contemporary approaches to rules of origin, agricultural market access, intellectual property, digital trade, financial services, labor, and other sectors. These upgrades are anticipated to generate more employment opportunities, bolster labor protection, expand market access, and foster new prospects for American workers and farmers. As a result, the COVID-19 pandemic did not derail North American states from their intended course. The extent to which this new agreement accelerates the economic recovery of member nations following the pandemic-induced recession remains a subject of debate.

Chief US Trade Representative (The Office of the United States Trade Representative (USTR)) Robert Emmett Lighthizer said: «The crisis and recovery from the COVID-19 pandemic demonstrate that now more than ever, the US must seek to increase manufacturing capacity and investment in North America. The entry into force of the USMCA is an important achievement in these efforts. Under the leadership of President D. Trump, the USMCA will continue to work to ensure the smooth implementation of the USMCA so that American workers and businesses can enjoy the benefits of the new agreement».

The USMCA agreement entered into force, so it can be said that the integration process in North America continues. The benefit for Mexico and Canada is that the negative period of uncertainty and unpredictability in relations with the United States, their main target, has ended for them.

In addition, changes in the mechanism of North American integration (for all their importance) do not have a total and one-moment nature, which allows member countries and enterprises to adapt to new work pitchfork At the same time, USMCA does not eliminate the danger of unilateral protectionist measures. This is evidenced, in particular, by the preservation of discriminatory tariffs on steel and aluminum imports from Canada and Mexico.

16.3. Development of regional and subregional integration formations in Latin America

Integration processes in Latin America took place in various forms. **Latin American Integration Association1 – LAAI, (Asociación LatinoAmericana de Integración – Aladi)**, an organization that was created by the Treaty of Montevideo (August 1980) entered into force in March 1981. Permanent members were Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Cuba joined in 1999. Cuba joined in 1999. Several countries and organizations have observer status. The headquarters is located in Montevideo (Uruguay).

LAAI replaced the **Latin American Free Trade Association –** LAFTA (Latin American Free Trade Association – LAFTA, Spanish name Asociación LatinoAmericana de Libre Comercio), created in 1960 with the aim of developing a common market in Latin America. LAAI should have played a more flexible and more limited role in promoting free trade.

Member countries approved a regional scheme of tariff preferences in 1984 and expanded it in 1987 and 1990. In 2001, LAAI signed an agreement with the Andean Group aimed at promoting further integration, and MERCOSUR (an organization bringing together Argentina, Brazil, Paraguay and Uruguay) also signed free trade agreements with LAAI members.

Three sub-regional trade and economic associations operate within the framework of LAAI: the Andean Group, the La Plata Group and the Amazon Pact, between which there are close integration ties.

Andean Group and Andean Community of Nations. In 1966, Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela – all members of the Latin American Free Trade Association (LAFTA) – agreed to form a regional subgroup.

The Andean group was established officially in June 1969, initially without Venezuela, which later joined in 1973. However, Chile withdrew in 1976. The group, initially called the Andean Group, began negotiations on a free trade agreement with the Mercado Commun del Sur (MERCOSUR) in 1996, leading to its renaming as the Andean Community of Nations in 1997. The Community's objectives encompass accelerating economic integration, coordinating regional industrial development, regulating foreign investment, and standardizing agricultural and economic policies. Further negotiations with MERCOSUR culminated in a free trade zone agreement stretching from Mexico to Argentina, effective from July 1, 2004.

The Central American Common Market (CACM), founded in 1960 by Guatemala, Honduras, El Salvador, and Nicaragua, aimed to foster regional economic development through free trade and integration. Costa Rica joined in 1962. The Economic Council of Central America, the group's primary political body, convenes quarterly to coordinate regional economic integration. The CASR's headquarters is in Guatemala. Originally formed to attract industrial capital and diversify economies, CASR made substantial trade and production progress until 1969 when the «soccer war» led Honduras and El Salvador to sever ties. Despite challenges, CASR continued until the 1980s, when it was suspended due to political instability, debt, and protectionist pressures.

Resuming activities in the 1990s under the Central American Integration System, CASR established a new Central American Free Trade Area by 1993, aimed at reducing intraregional trade tariffs over time. An electrical interconnection system was introduced in 1996, followed by renewed integration efforts in 1997. The Southern Common Market (MERCOSUR), composed of Argentina, Brazil, Paraguay, and Uruguay, saw substantial trade growth in the 1990s. The integration bloc emerged during Argentina and Brazil's bid to enhance relations, leading to significant trade increase within the group.

MERCOSUR was created in 1991 when Argentina, Brazil, Paraguay and Uruguay signed the Asuncion Agreement, which called for the «free movement of goods, services, and factors of production between countries». The four countries agreed to eliminate customs duties, impose a general external tariff of 35% on certain imports from outside the bloc, and pursue a common trade policy with countries outside the bloc. The members of the Charter hoped to form a common market similar to the EU market, to increase business and investment opportunities for regional industries and to stimulate local development. The bloc even considered the possibility of introducing a common currency.

MERCOSUR was supposed to become a customs union with a political «color».

The MERCOSUR stamp is placed on the passports of the member countries, and the MERCOSUR symbol is displayed on the license plates. Residents of member countries are allowed to live and work anywhere. In 1994, the group signed the Oru Preto Protocol, officially cementing its status as a customs union.

MERCOSUR was largely created to bring Argentina closer to Brazil, whose relations have long been marked by rivalry. The two countries account for almost 90% of the bloc's GDP and 95% of its population.

However, MERCOSUR has had difficulty opening up to other markets in recent years.

Implementing the landmark project of the trade agreement signed with the European Union in 2019 was stopped due to environmental problems and opposition from Europe. At the same time, China's influence in Latin America continues to grow.

Some experts have also questioned the bloc's commitment to democracy.

In addition, the bloc is facing challenges such as the COVID-19 pandemic, growing fragmentation among member states, and volatile trade relations with the United States.

The highest governing body of the bloc is the Council of the Common Market, which serves as a platform for high-level foreign and economic policy coordination. Decisions are reached through consensus by combining foreign and economic ministers from member countries. Leadership rotates every six months among full members alphabetically. Other bodies include the Common Market Group for macroeconomic policy coordination, a trade commission, an advisory parliament named Parlasur, and the Fund for Structural Convergence (FOCEM) to manage regional infrastructure projects.

FOCEM funds projects like highways, bridges, and waterways based on member countries' contributions determined by GDP. Brazil contributes 60%, Argentina - 30%, and Paraguay and Uruguay - 5% each. Since its 2004 inception, over $1 billion in non-recourse loans have been issued.

MERCOSUR signed cooperation agreements with Bolivia, Chile, Israel, and Peru in its early years. In 2004, they established preferential trade with India. Major agreements remained elusive. After two decades of negotiations, a comprehensive trade deal with the EU was reached in 2019. While benefitting MERCOSUR exports to the EU, the pact faces challenges due to environmental concerns over Brazilian wood exports and the potential influx of cheap Argentine and Brazilian beef affecting European farmers' profits.

Following the Brazilian currency devaluation in 1999 and Argentina's 2001 financial crisis, regional integration slowed. Trade disputes and contradictions emerged between member states, compounded by Uruguay's efforts to forge a free trade area with China, straining bloc unity.

The Caribbean Community and Common Market (CARICOM) consists of 20 developing Caribbean nations working together for economic growth and trade. CARICOM's 15 full members and 5 associate members collaborate to reduce customs duties, coordinate development, and establish a single market and economy known as the Caribbean Single Market and Economy (CSME).

CSME aims to eliminate tariff barriers, promote labor and capital movement, and harmonize monetary and fiscal policies. CARICOM institutions contribute to achieving these goals, including the CARICOM Private Sector Organization, Caribbean Tourism Organization, and CARICOM Development Fund.

Free trade zones stimulate economic growth by fostering competitiveness, innovation, and knowledge transfer. The CSME seeks to address challenges faced by small developing economies in global markets and facilitate intra-regional capital and labor movement, ultimately providing a larger market for businesses within the economic union.

16.4. Peculiarities of integration processes in Asia

The Association of Southeast Asian Nations (ASEAN) traces its origins back to 1961 as the Association of Southeast Asia, founded by the Philippines, Thailand, and the Federation of Malaya (now part of Malaysia). In 1967, ASEAN was established by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to accelerate economic growth and social development in Southeast Asia. The cessation of hostilities in Vietnam led to dynamic economic growth in the 1970s, strengthening ASEAN's position and enabling a unified stance on Vietnam's Cambodia invasion in 1979. Brunei joined in 1984, followed by Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. ASEAN's key projects center on economic cooperation, trade promotion among member states, and external partnerships.

The conclusion of the Cold War in the late 1980s fostered greater political autonomy for ASEAN countries, propelling the organization to the forefront of regional trade and security discussions in the 1990s. In 1992, member nations reduced intra-regional tariffs and eased foreign investment limitations, establishing the ASEAN Free Trade Area. The signing of the ASEAN Charter in 2007 and its enforcement in 2008 mandated biannual meetings and created bodies such as the ASEAN Intergovernmental Commission on Human Rights. ASEAN's headquarters are located in Jakarta, Indonesia.

The South Asian Association for Regional Cooperation (SAARC) emerged following the signing of the SAARC Charter on December 8,

1985. SAARC unites eight member states: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The Association's Secretariat was established in Kathmandu on January 17, 1987.

The goals outlined in the SAARC Charter aim to enhance South Asia's people's well-being and quality of life, fostering economic growth, cultural development, and self-sufficiency in the region. The Association seeks to promote trust, cooperation, and mutual assistance across various domains, both internally and with other developing countries. Collaboration with international and regional organizations sharing similar objectives is also encouraged. Decisions within SAARC are made through consensus, with bilateral and contentious matters excluded from discussions. SAARC's headquarters are situated in Kathmandu, Nepal.

The most renowned integration group in the Middle East is the **Cooperation Council for the Arab States of the Gulf (**GCC), founded in 1981 to facilitate economic cooperation. GCC member countries include Bahrain, Qatar, Kuwait, United Arab Emirates, Saudi Arabia, and Oman. **Key objectives** of the GCC encompass deepening relations, fostering connections, and bolstering cooperation among member states in various sectors. The council aims to establish uniform systems in fields such as finance, economy, trade, education, culture, law, and management. It also prioritizes advancing scientific and technical progress in industry, agriculture, animal husbandry, and scientific research. Joint ventures and private-sector collaboration are actively promoted. The GCC's headquarters are located in Riyadh, Saudi Arabia.

16.5. Peculiarities of integration processes in Africa

Organization of African Unity – OAU (Organization of African Unity – OAU). The main goals of the OAU were to rid the continent of the remnants of colonization and apartheid; promote unity and solidarity among African states; coordinate and intensify cooperation for development; protect member states' sovereignty and territorial integrity and promote international cooperation. The OAU was established in 1963. In the Charter of the OAU, the **purpose** of the organization was defined, namely:

- promote the unity and solidarity of African states;
- coordinate and intensify their cooperation and efforts to achieve a better life for the peoples of Africa;
- to protect its sovereignty, its territorial integrity and independence;
- eradicate all forms of colonialism in Africa;
- promote international cooperation, taking into account the Charter of the United Nations and the Universal Declaration of Human Rights.

Through the OAU Coordinating Committee for the Liberation of Africa, the continent spoke as one with an unwavering determination to build an international consensus supporting the liberation struggle and the fight against apartheid.

The OAU has effectively served as a platform enabling member states to address shared continental concerns and safeguard Africa's interests collectively. On September 9, 1999, the Organization of African Unity's Heads of State and Government issued the Sirte Declaration, advocating for the establishment of the African Union. This new continental organization was intended to accelerate integration, empower Africa's role in the global economy, and tackle the multifaceted socio-economic and political challenges of globalization.

The African Union (AU) was officially founded in July 2002 in Durban, South Africa, following the OAU's decision to reshape its mission. African leaders collectively agreed that unlocking Africa's potential necessitated shifting focus from decolonization and overcoming apartheid. The AU centers on fostering cooperation, integration, and growth among African nations, striving for a prosperous and harmonious continent that wields influence on the global stage.

The Constitutive Act of the African Union and Protocol Amending The Constitutive Act outline the AU's objectives, including:

- Cultivating unity and solidarity among African countries and their citizens.
- Safeguarding member states' sovereignty, territorial integrity, and independence.
- Accelerating political and socio-economic integration across the continent.

- Advocating African common stances on pertinent issues.
- Encouraging international cooperation.
- Promoting peace, security, and stability.
- Upholding democratic principles, public engagement, and good governance.
- Safeguarding human and peoples' rights.
- Enabling the continent's rightful role in global economy and negotiations.
- Nurturing sustainable development and economic integration.
- Elevating living standards through cooperation.
- Harmonizing policies among regional economic communities.
- Fostering research, especially in science and technology.
- Collaborating to combat diseases and advance health.
- Empowering women's participation in decision-making.
- Developing shared policies in trade, defense, and foreign relations for continental defense and negotiation strength.

AU's operations are facilitated through key decision-making bodies: the Assembly of Heads of State and Government, the Executive Council, the Committee of Permanent Representatives, Specialized Technical Committees, the Peace and Security Council, and the African Union Commission. The organizational framework encourages African citizen and civil society engagement via the Pan-African Parliament and the Economic, Social, and Cultural Council (ECOSOCC).

Judicial, legal, and human rights matters are overseen by entities including the African Commission on Human and Peoples' Rights (ACHPR), the African Court on Human and Peoples' Rights (AfCHPR), the AU Commission on International Law (AUCIL), the Consultative Council on corruption (AUABC), and the African Committee of Experts on the Rights and Welfare of the Child. The AU is also progressing in establishing continental financial institutions such as the African Central Bank, African Investment Bank, and African Currency Fund.

ECOWAS, consisting of Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal, and Togo, is a pillar of the African Economic Community. Established to advance collective self-sufficiency among member states, ECOWAS aims to foster a unified trading bloc through economic collaboration. With a combined GDP of $734.8 billion, the region concentrates on integrated economic activities spanning industry, transportation, telecommunications, energy, agriculture, natural resources, trade, monetary and financial affairs, and social and cultural issues.

In 2007, the ECOWAS Secretariat was transformed into a Commission. The Commission is chaired by a President, assisted by a Vice President, thirteen Commission members and the Auditor General of the ECOWAS Institutions, which includes experienced staff to provide leadership to this new organization.

As part of the renewal process, ECOWAS will implement strategic programs that will deepen cohesion and gradually remove identified obstacles to full integration. Thus, approximately 300 million community citizens can ultimately take responsibility for realizing the new vision of the transition from ECOWAS of States to «ECOWAS of the People: Peace and Prosperity for All» by 2050.

ECOWAS is headquartered in Abuja, Nigeria, with a primary purpose of fostering cooperation and integration to establish an economic union in West Africa. This endeavor aims to elevate living standards among its people, fortify economic stability, nurture relations among member states, and advance progress and development across the African continent.

Key goals of ECOWAS encompass:

- Harmonizing and coordinating national policies, and promoting integration programs, projects, and activities. This spans fields such as food, agriculture, natural resources, industry, transportation, communication, energy, trade, finance, taxation, economic reforms, human resources, education, information, culture, science, technology, services, healthcare, tourism, and legal matters.
- Unifying efforts for environmental protection and policy coordination.
- Encouraging the formation of joint production enterprises.
- Creating a common market through trade liberalization, abolishing customs duties on imports and exports within member states, and eradicating non-tariff barriers to establish a free trade zone within the Community.
- Adopting a common external tariff and trade policy concerning third countries.

- Facilitating unhindered movement of people, goods, services, and capital among member states.
- Establishing an economic union by implementing shared policies in economic, financial, social, and cultural sectors, along with the creation of a currency union.
- Promoting joint ventures in the private sector and cross-border investments through regional agreements.
- Enabling private sector integration, especially fostering an environment for small and medium-sized enterprise development.
- Cultivating a favorable legal atmosphere.
- Harmonizing national investment codes to adopt a unified investment code for the Community.
- Coordinating standards and measures.
- Nurturing balanced regional development, emphasizing solutions for unique challenges faced by each member state, particularly those without sea access and small island members.
- Strengthening relations and facilitating information flow, especially among rural populations, women's and youth organizations, as well as socio-professional groups like media associations, business entities, workers, and trade unions.
- Crafting a demographic policy that balances demographic factors and socio-economic development needs.
- Establishing a fund for cooperation, compensation, and development.

ECOWAS's **foundational principles** include:

- Equitable interdependence among member states.
- Solidarity and collective self-sufficiency.
- Interstate cooperation, policy harmonization, and program integration.
- Non-aggression between member states.
- Fostering regional peace, stability, and security through strong neighborly relations.
- Peaceful resolution of disputes, active cooperation between neighboring countries, and fostering a peaceful environment to support economic development.

- Upholding human and peoples' rights in accordance with the African Charter on Human and Peoples' Rights.
- Accountability, economic and social justice, and populace involvement in development.
- Adherence to Community rules and principles.
- Reinforcing democratic governance in each member state, as outlined in the Declaration of Political Principles adopted in Abuja on July 6, 1991.
- Fairly distributing costs and benefits from economic cooperation and integration.

The **West African Monetary and Economic Union** – UEMOA (West African Monetary and Economic Union – UEMOA) was established through a treaty signed on January 10, 1994, by the heads of state and government of seven West African countries using the common CFA franc currency.

Member countries include Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. The treaty came into effect on August 1, 1994, following ratification by the member states. On May 2, 1997, Guinea-Bissau became the eighth member of the Union.

UEMOA's primary objective is to create a unified and integrated economic space in West Africa, ensuring unrestricted movement of people, capital, goods, and services. Its **key responsibilities** encompass:

- Enhancing competitiveness and economic and financial strength of member countries.
- Harmonizing legislation, particularly diverse tax systems among member nations.
- Establishing a common market based on the free flow of goods, services, labor, as well as the liberty of residence. This includes the introduction of common customs tariffs and implementation of a shared trade policy.
- Coordinating national sectoral policies such as labor resources, regional planning, transport, telecommunications, agriculture, energy, industry, mining, and environmental concerns.

The headquarters of UEMOA is situated in Ouagadougou, Burkina Faso.

The Common Market of Eastern and Southern Africa – COMESA (Common Market of Eastern and Southern Africa – COMESA) is Africa's largest regional economic organization. COMESA encompasses a free trade area and established a customs union in 2009.

With 19 members currently, including Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe, COMESA stands as Africa's most extensive economic community. It represents a collective population of approximately 430 million and a combined GDP estimated at US$447 billion.

COMESA's core objectives involve addressing structural and institutional challenges among member states while fostering political stability and economic development. Its **major responsibilities** encompass:

- Promoting collaborative development efforts across all economic sectors and managing macroeconomic policies and programs. These efforts aim to enhance the quality of life for citizens and promote closer cooperation between member states.
- Contributing to the advancement and realization of the African Economic Community's objectives.
- Ensuring peace, security, and stability among member states to expedite regional economic growth.

India is among COMESA's partners. The headquarters of COMESA is located in Lusaka, Zambia.

The **Central African Customs and Economic Union** – UDEAC (Central African Customs and Economic Union - UDEAC) has been operational since 1964.

JUDEAC encompasses the following countries: Gabon, Equatorial Guinea, Cameroon, Congo, Central African Republic (CAR), and Chad. The primary tasks of JUDEAC include:

- Strengthening the union of member states and preserving their territorial independence.
- Establishing and developing the common market of Central Africa.

- Reinforcing the common currency.
- Implementing a collective macroeconomic policy and legal framework to foster investment and economic growth.
- The headquarters is situated in the city of Bangui, CAR.

During a high-level meeting in December 1981, the leaders of the Central African Customs and Economic Union (JUDEAC) agreed to establish the Economic Community of Central African States (ECCAS). ECCAS was founded on October 18, 1983, by members of JUDEAC and the Economic Community of the Great Lakes (CEPGL) – including Burundi, Rwanda, and then Zaire (now the Democratic Republic of Congo) – as well as São Tomé and Príncipe. Angola joined as a full member in 1999 after being an observer.

ECCAS began functioning in 1985 but faced inactivity due to financial challenges (unpaid membership fees) and conflicts in the Great Lakes region. The war in the Democratic Republic of the Congo, where Rwanda and Angola took opposing sides, added to the complexity.

ECCAS is recognized as a pillar of the African Economic Community (AEC), and formal relations between AEC and ECCAS were established in October 1999. The 2nd ECCAS Extraordinary Summit in 1998 aimed to rejuvenate the organization, approving a budget and setting goals.

A mini-summit of ECCAS leaders in 1999 led to Angola's official membership and discussions about ECCAS' challenges and growth. Subsequent summits, such as the 10th in 2002, led to the establishment of important protocols and mechanisms, like the Network of Parliamentarians of Central Africa (REPAC) and the Council for Peace and Security in Central Africa (COPAX).

The 11th Ordinary Session of Heads of State and Government in 2004 celebrated the implementation of the Pact on Mutual Security in Central Africa (COPAX) and endorsed declarations on NEPAD[9] implementation and gender equality.

The **Southern African Customs Union** – SACU (South African Customs Union – SACU) is the world's oldest customs union, established

[9] NEPAD is a new partnership for the development of Africa. The main goals of NEPAD are to reduce poverty, put Africa on the path to sustainable development, end the marginalization of Africa and empower women.

in 1910. Member countries are Botswana, Lesotho, Namibia, South Africa, and Swaziland. SACU maintains a common external tariff, shares customs revenue, and coordinates trade policies and decisions.

On July 16, 2008, the United States and SACU signed the Agreement on Cooperation in the Field of Trade, Investment, and Development (TIDCA). TIDCA establishes a consultative forum for discussions, cooperation, and potential agreements on a broad spectrum of topics, with a special focus on customs and trade facilitation, technical trade barriers, sanitary and phytosanitary measures, as well as trade and investment facilitation.

TIDCA is crafted to build upon and potentially mirror the progress achieved during prior Free Trade Agreement (FTA) negotiations between the United States and SACU. These negotiations were halted in 2006 due to differences in perspectives regarding the scope and ambition of the FTA. Ideally, TIDCA will serve as a foundation for future FTA endeavors, a shared long-term goal between the United States and SACU.

Among the most advanced groups in Africa, the **Southern African Development Community** (SADC) replaced the Southern African Development Coordination Conference (SADCC) in 1992. SADC includes member countries: Angola, Botswana, Zambia, Zimbabwe, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, and Tanzania.

SADC's core objectives encompass:

- Attaining economic development and enhancing the quality of life for the people of South Africa.
- Supporting social welfare.
- Promoting productive employment, responsible regional resource utilization, and effective environmental protection.
- Strengthening economic, social, and cultural bonds among the region's peoples, among other goals.

The headquarters are situated in Gaborone, Botswana.

PRACTICUM FOR TOPIC 16

Exercise 1. **Control and discussion questions**

1. How does the country's participation in regional integration agreements affect its economy?

2. Specify the features of the modern stage of European integration.

3. Specify the prerequisites, features and significance of North American integration.

4. Describe the specifics of the multi-level integration of Central and Eastern European countries.

5. How do you assess the prospects of the Eurasian Economic Community?

6. What is the peculiarity of the integration processes of the Asia-Pacific region?

7. What integration association in the Asia-Pacific region belongs to the intercontinental?

8. How are the integration processes taking place in the Central-Eastern part of Europe?

9. Analyze the integration processes taking place in Latin America.

10. Analyze the problems and ways of developing integration processes in Africa.

Exercise 2. **Topics for scientific essays and presentations**

1. Explore and rank the three most influential global integration blocs. Examine the key facts behind their considerable power and impact. Analyze their methods of influence and the factors contributing to it.

2. Investigate the challenges that emerged within the European Union due to the inclusion of ten new member states in 2004. Examine the specific difficulties faced and their implications for the EU's functioning.

3. Identify the countries with potential aspirations to join the European Union. Explain the reasons for the current absence of discussions about a new wave of EU expansion. Provide a reasoned explanation for this lack of focus.

4. Study the economic and societal repercussions of the European Union's expansion. Delve into the consequences of the EU's enlargement on both economic and social dimensions.

5. Propose multiple scenarios outlining the future trajectory of the European Union amid circumstances such as disintegration tendencies and the COVID-19 pandemic. Develop plausible narratives considering these influential factors.

GLOSSARY

THEORIES OF INTERNATIONAL TRADE

Mercantilist theory	a country's wealth is determined by the quantity of gold and silver it possesses.
Neomercantilism	nations strive for a favorable trade balance to attain specific social or political objectives.
Leontief's paradox	The Heckscher-Ohlin theory of the ratio of production factors is not confirmed in practice: labor-intensive countries export capital-intensive products, while capital-intensive countries export labor-intensive products.
Leontief's statistics	ratio (K/L) (USD/person-year). According to this ratio, a country can be considered capital-saturated if: (Kx/Lx)(Km/Lm) is greater than 1 and labor-saturated if: (Kx/Lx)(Km/Lm) is less than 1. K, Kx, Km are the amount of capital required for production units of ductions, units of US exports and units of US imports; respectively: L, Lx, Lm – quantity of labor required to produce a unit of output, a unit of US exports, and a unit of US import.
The theory of absolute advantages	countries export those goods that they produce at lower costs (in the production of which they have an absolute advantage), and import those goods that are produced by other countries at lower costs (in the production of which their trading partners have an absolute advantage (Adam Smith).
The theory of comparative advantage	when two countries specialize in producing goods or services where they have a relative efficiency or lower opportunity cost compared to each other, it becomes mutually beneficial for them to engage in trade (David Ricardo).

Theory of country size	since countries with larger territory usually have more diverse climatic and natural conditions resources, they are generally closer to economic self-sufficiency than small countries.
The theory of the ratio of factors of production	countries export products of intensive use of surplus factors and import products of intensive use of factors of production that are scarce for them; (Eli Heckscher and Bertil Ohlin).
The theorem of equalization of prices for factors of production	when two countries continue to produce two goods, then under conditions of free trade, the prices of factors of production become the same in both countries; (Heckscher-Ohlin-Samuelson).
The theory of the international product life cycle	product life cycle - the time during which the product is viable on the market and ensures the achievement of the seller's goals. Some types of products go through a cycle consisting of four stages – introduction, growth, maturity and decline; the production of these products is moved from one country to another country depending on the stage of the cycle; (Raymond Vernon).
The theory of intersecting demand	having developed a new product in response to a market need in the domestic market, the manufacturer then turns to markets that he perceives as the most similar to his country's markets; (Stefan Linder).
The theory of competitive advantages	the country achieves international success in one or another field due to the interaction of competitive advantages in four national determinants: factor conditions; demand conditions; related and service industries; the firm's strategy, and its structure and competition, - connected in a dynamic system, the so-called national «rhomb»; (Michael Porter).

The Samuelson–Jones theorem	as a result of trade, the incomes of the owners of the factor specific to export industries increase and decrease the incomes of the owners of an industry-specific factor that compete with imports.
The Stolper–Samuelson theorem	global trade results in elevated incomes for proprietors of a factor extensively employed in producing goods experiencing price hikes. Simultaneously, it reduces the price of a factor intensively utilized in manufacturing products witnessing price declines.

STRUCTURE OF INTERNATIONAL ECONOMIC RELATIONS

Gross internal product (GDP)	the market value of goods and services created internally countries.
GDP per capita	an indicator that characterizes the level of well-being in the country, and determines the total volume of goods and services in recalculation on the number of the country's population.
Gross national product	the market value of goods and services produced by the country's economic units, regardless of whether they are made these goods and services within the country or abroad.
Internal environment of IER	internal factor structure of the system of international economic relations and its internal laws of existence functioning and development.
Economic environment of IER	factors of an economic nature that affect the actions of IER participants. Such factors include, in particular, the structure of the national economy of the countries, the level of their economic development, and gross product per capita.
Export	sale and export of goods abroad.

External environment of IER	external relative to the forms and types of international economic relations conditions of their existence at different levels; a system of external conditions under which international economic relations develop, that is, a supersystem that externally sets the parameters and resources for the existence of the MEV system itself.
Import	purchase and import of goods from abroad.
Internationalization of production	the development of economic ties between national economies, when one country’’s economy becomes a part of the world production process.
International Economics	can be understood in both a comprehensive and a more specific context. In its broader scope, it constitutes a theory that analyzes the intricacies of the contemporary interdependent global economy. In a more specific interpretation, it aligns with the theory of market economies, scrutinizing the dynamics between diverse economic entities, encompassing state ownership in international trade of commodities and services, the flow of production factors, financial transactions, and the shaping of international economic policies.
International macroeconomics	part of the theory of international economics studies the functioning patterns of open national economies and the world economy as a whole in the conditions of globalization of financial markets.
International microeconomics	part of the theory of international economics, which studies the patterns of interstate movement of specific goods and factors of their production, as well as their market characteristics (demand, supply, price, etc.).
International trade	the sphere of international commodity-monetary relations, which constitutes the aggregate of foreign trade of all countries of the world.

International Economic Relations	relations that arise and exist between subjects from different countries regarding production, exchange and consumption of goods, services, capital and ideas on an international basis division of labor, in conditions of unlimited human needs and limited resources.
International economic aid	provision of capital in monetary and commodity forms by subjects of one country into the property of subjects of another country on terms of gratuity, non-return.
International economic contacts	the simplest, single, random economic relationships that have an episodic nature and are regulated mainly by one-off agreements. Connections of this level are more inherent to individuals and legal entities.
International economic interaction	well-developed stable economic ties between IER subjects, based on international economic agreements and contracts concluded for a rather long time.
International economic cooperation	strong and long-term ties of the cooperative type based on shared, previously worked out and agreed intentions, fixed in long-term economic contracts and agreements.
International economic integration	a higher level of development of international economic relations, characterized by the interaction of different countries' economies, implementing a coordinated state policy as in mutual economic relations, as well as in relations with third countries.
International Economic Organization	stable institution of multilateral relations, created by at least three parties (as a rule, associative type entities from three or more countries), which has agreed goals and competence in the field of regulation of the IER, as well as their own permanent management bodies and political and organizational norms (charter, procedure, membership, decision-making procedure).

National income	total income in the economy received by residents from the use of production factors (labor, capital, workforce, technology).
The political environment of the IER	a set of political factors that determine the behavior of IER subjects (political interests, motives of states, political systems of countries, political risks).
Legal environment of the IER	regulatory and legislative framework affecting behavior IER participants.
	Markets:
internal	a form of economic communication in which everything intended for sale is realized by the producer himself within the country;
national	the domestic market, part of which is aimed at foreign buyers;
international	part of national markets that is directly related to foreign markets.
Re-export	resale with export abroad earlier than imported goods that were not subjected to processing.
Re-import	import of previously exported goods that could not be processed.
World price	monetary expression of the international value of goods.
World market	the sphere of stable commodity-monetary relations between countries, which are based on the international division of labor and other factors of production.

World economy	a set of national economies of the world's countries, interconnected by mobile factors of production.
Aggregate offer	the volume of production of goods that producers are ready to collectively offer to the market at the current price level.
Aggregate demand	the volume of production of goods that consumers are willing to collectively purchase at the current price level.
Goods	any products, services, intellectual property rights and other non-property rights intended for sale:
non-commercial	goods consumed in the country where produced, and do not move between countries;
trade	goods that can move between different countries.
Export substitute goods	domestic goods, which at the moment are sold only at the domestic market, but if desired, they can also sell abroad.
Import substitute goods	domestic products that can be utilized as substitutes for foreign goods, should the need arise.
Commodity exchange	perpetually active marketplaces where goods are traded based not on immediate physical presence but on established standards, samples, and accompanying documents that govern aspects like nomenclature, quantity, pricing, delivery terms, and modes, among other factors.
Net export	export of goods and services minus imports.
Net import	import of goods and services minus exports.

INTERNATIONAL DIVISION OF LABOR

International division of labor	division of labor between countries. IDL ensures the growth of social labor productivity and contributes to labor savings time on the scale of the entire world economy. The basis of IDL is an economically beneficial specialization of individual countries.
International division of factors production	the historically determined concentration of some factors of production in different countries, which is a prerequisite for producing certain goods with higher efficiency, than in other countries.
International specialization of production	a method of labor division across nations wherein there's an amplified focus on producing specific homogeneous goods through differentiated national production. This leads to the partitioning of independent technological processes and distinct product sectors geared towards external markets beyond domestic demand.
Interdisciplinary specialization	relations between states with the exchange of products in various branches of production.
International cooperation	voluntary association of property and labor to achieve common goals in various spheres of economic activity.
Internationally specialized industry	the sector that plays a pivotal role in the international division of labor (IDL). It exhibits a substantial proportion of goods geared towards export and demonstrates a pronounced degree of intra-industry specialization.
Internationally specialized products	commodities subject to bilateral and multilateral agreements dictating production distribution programs. These goods are manufactured substantially across one or more countries to extensively fulfill global market demand.

Subject specialization	the specialization of enterprises of different countries in production and export of a completely finished and ready-to-consume product.
Detailed specialization	is based on the cooperation of manufacturers from different countries in the production of components and parts.
Technological specialization	a specialization that is based on the implementation of individual stages of the technological processes of producing goods within the limits of a echnological process.

INTERNATIONAL TRADE POLICY

Autarchy	policy of economic separation of any country (or groups of countries) from the external economic environment, efforts to form a closed economic structure. One of the foundations of autarky is the policy of self-sufficiency.
Requirement for the content of local components	a discreet trade policy approach employed by states, whereby they mandate a percentage of the final product to be sourced from domestic manufacturers if said product is intended for sale within the domestic market.
Customs war	one country imposes tariffs in retaliation to another country's tariff implementation. This results in diminished gains from global trade, decreased well-being levels in both individual nations and worldwide.
Internal taxes and duties	overt trade policy strategies designed to elevate the domestic cost of imported goods. This reduction in competitiveness within the domestic market is achieved by lowering the appeal of such goods through increased pricing.

Dumping	export of goods at prices lower than the cost price, or at a lower price than in the domestic market.
	Types of dumping:
mutual	counter trade between two countries in the same product at reduced prices.
reverse	the practice of inflating export prices in contrast to the actual selling prices of those same goods within the domestic market.
deliberate	the intentional, temporary reduction of export prices with the objective of displacing competitors from the market. This strategy is pursued to subsequently establish monopoly prices.
sporadic	episodic sale of excess stocks of goods to the foreign market at reduced prices.
State procurement	a hidden method of trade policy that requires from government bodies and enterprises to buy certain goods only in national firms, even even though these goods may be more expensive than imported goods.
«Voluntary» export restriction	quantitative restriction of exports, which is based on the obligation of one of the trading partners to limit or not expand the volume of exports, adopted within the framework of an official intergovernmental or informal agreement on the establishment of quotas for export of goods.
Grant (lat. dotatio – gift, donations; from lat. date – grant)	an allocation from the state budget, an extra payment, or material assistance provided by the government.
Export lending	method of financial non-tariff foreign trade policy, which provides financial stimulation by the state of export development by national firms.

Embargo	imposing a state ban on import or export gold, foreign currency, and individual goods by other states.
Foreign economic activity	the activity of economic entities, built on the mutual relations between them, both on the territory of the country and beyond its boundaries.
Debt collection	the settlement form, according to which the seller instructs the bank to receive from the buyer through the buyer's bank or of another bank, payment against the transfer of documents certifying the shipment of goods, performance of works, or provision of services.
Quota	a quantitative non-tariff measure limiting the export or import of goods to a certain quantity or amount for a certain period.
Quantitative restrictions	administrative form of non-tariff state regulation of trade turnover determines the quantity and nomenclature of goods allowed for export or import.
Contingent	a quantitative non-tariff measure limiting the export or import of goods, which is determined by the quantity or amount and has a seasonal nature.
Licenses	permits issued by government bodies to export or import goods in specified quantities for a certain period of time.
Licensing	regulation of foreign economic activity by permits issued by government bodies to export or import goods in specified quantities for a certain period of time.
Customs	a compulsory monetary payment collected by customs authorities when goods cross a country's customs border, either upon import or export of goods.

Customs value of goods	the price of a product, typically established in an open market transaction between impartial sellers and buyers. This price serves as the basis for potential sale within the destination country at the time of submitting a customs declaration.
Customs regulation	overseeing matters concerning the imposition of customs duties and additional taxes, all enacted during the transit of goods across a country's customs border. This entails supervising customs procedures, managing the operations of customs control entities, and fulfilling a vital role within the nation's framework.
Customs barrier	a restriction on imports, typically imposed by a country's government, often in the form of high customs tariffs or duties.
Free trade policy	a policy characterized by minimal state intervention in foreign trade affairs, developed on the principles of free market dynamics driven by supply and demand. This approach is rooted in the removal of hindrances to both foreign imports and exports, as well as domestic product circulation.
Laissez-faire policy	the policy of state non-interference in the economy and freedom of competition.
Protectionism	state policy of protecting the domestic market from foreign competition using a system of import restrictions.
selective	directed against certain countries or certain types of goods;
industry	aimed at protecting certain industries, most often agriculture.
collective	conducted by associations of countries about countries that are not members of these associations;

hidden	carried out by methods of domestic economic policy.
Subsidy	monetary payment directed to the support of national manufacturers and indirect discrimination of imports.
Tariff escalation	increase in the level of customs taxation of goods according to the degree of growth of their processing.
Technical barriers	Technical barriers encompass covert tactics within trade policy that emerge due to national norms, administrative regulations, and other standards deliberately crafted to impede the influx of foreign goods.
Trade agreement	a type of interstate agreement that establishes the principles and regimes of bilateral trade.
Mode of greatest assistance	an inclusion within an international trade agreement where states mutually grant one another all privileges, advantages, and benefits pertaining to taxes, duties, and customs fees, mirroring those that any third country currently utilizes or intends to employ.
Preferential mode	a special preferential regime granted by one state to another without extending to third countries. It can be implemented through customs discounts on imported goods, preferential lending, and insurance of foreign trade operations, a special currency regime, and financial or technical assistance.

INTERNATIONAL TRADE IN SERVICES

Service	purposeful action of an economic nature, the result of which is expressed in terms of consumption, and value and manifests itself as the satisfaction of a specific human need.
non-factor services	types of services (transportation, travel, other non-financial services) not related to factors of production.

services related to investments	banking, hotel and professional services, i.e. services, accompanying investments.
trade-related services	transport, insurance, etc., that is, services that accompany trade.
factor services	payments that arise in connection with international traffic production factors, primarily capital and labor (investment income, license fees, wages, which are paid to non-residents).
International trips	goods and services purchased by travelers abroad, if they stay there for at least a year and are considered non-residents.
International transport	services encompassing various modes of transportation (including sea, pipeline, air, land, river, and space) offered by residents of one country to residents of other countries.

INTERNATIONAL MOVEMENT OF CAPITAL. DIRECT FOREIGN INVESTMENT. PORTFOLIO INVESTMENTS

Free economic zone	part of the state's territory, on which a special legal regime of economic activity and order is established by applying the country's legislation aimed at strengthening foreign economic ties, primarily by attracting foreign capital.
«Flight» of capital	unregulated, spontaneous movement of monetary assets from enterprises and the population (including currency) to foreign destinations. This is typically done to secure more stable and profitable investments, as well as evading high taxation, inflation, or the risk of expropriation.
Investment risk guarantee	state guarantee regarding the risk of capital investments, which are sent abroad to invest in the state sector of another country.

Dividends (from the Latin dividendum - that which is to be distributed)	1) part of the net profit of the joint-stock company, which is distributed annually among shareholders in accordance with shares of their participation in the company's own capital; 2) the payment is made by a legal entity - the issuer of corporate rights or investment certificates in favor of the owner of such corporate rights (investment certificates) in connection with the distribution of part of the profit of this issuer, calculated according to accounting rules.
Export-production zones	designated areas specifically designed for the manufacturing of goods intended for exportation. These zones are typically granted special privileges within the country's customs and trade regulations, allowing for duty-free trade. Additionally, they offer tax incentives and financial benefits to attract foreign investors.
Expropriation	compelled seizure of property without providing compensation or any remuneration to the owner.
Export (removal) of capital	one-way migration of capital for placement abroad for the purpose of obtaining profit from entrepreneurial activity. It is carried out in the form of a bank transfer or in the form of supplies of means of production for the implementation of commercial projects.
Exterritoriality	application by governments of national legislation to foreign operations of companies of their country.
Investment	an economic operation involves acquiring fixed assets, intangible assets, and corporate rights and securities in exchange for funds or property.

Foreign investments	the capital and assets that foreign investors deploy into projects and activities within a host country's investment landscape, typically with the intention of generating profits or achieving specific social objectives.
	Investments:
intellectual	investments involving the purchase of patents, licenses, know-how, training and retraining of personnel.
capital	financial resources allocated towards the construction, development, refurbishment, modernization, acquisition, or establishment of long-term assets. This includes non-current material assets intended to replace existing ones and equipment for installation. Advance payments aimed at funding capital construction projects also fall under this category.
financial	assets held by the enterprise for the purpose of increasing profit (interest, dividends, etc.), growth of capital or other benefits for the investor.
Investments in production assets	investments in fixed assets, stock of tangible assets, values.
Investments in non-productive assets	investments in land, subsoil, water resources, etc.
Investor (English investor – depositor)	a legal entity or individual making investments, the source of which is own borrowed or borrowed resources in the form of financial funds, property, intellectual property, etc.
Institutional Investor	a legal entity whose main function is the implementation of financial transactions.

Investment climate	1) a set of objective and subjective conditions that facilitate (hinder) the investment process of the national economy (at the macro level) and individual enterprises, companies, industries (at the micro level); 2) a set of factors of an economic, political, legal and social nature, which are taken into account by the investor when approving decisions on making investments.
Investment position	the ratio of assets owned by a country abroad to assets owned by foreigners in that country.
Investment policy	1) a set of government decisions that determine the main directions, sources and volumes of use of capital investments in the economy, its various spheres and industries; 2) state-wide principled decisions and measures that determine the direction of use of capital investments in spheres and branches of the economy in order to ensure the efficiency and proportionality of its development, eliminate inter-branch and intra-branch disparities, achieve optimal relations between material development manufacturing and non-manufacturing spheres.
Investment portfolio	set of securities that the bank buys for the purpose of investing days of capital in profitable objects.
Investment risk	the probability of unexpected financial events and losses in the process of investment activity of the enterprise.

Capital:

long-term	capital investment for a period of more than 5 years;
medium term	capital investment for a period of 1 to 5 years;

short term	capital investment for up to 1 year;
official (state)	funds from the state budget, transferred abroad or received from abroad by the decision of the government, as well as by the decision of intergovernmental organizations;
unofficial (private)	funds of private firms or organizations that are sent abroad or received from abroad by their decision of governing bodies; the capital investment, the provision of trade loans, interbank lending, etc.;
loan (credit)	funds provided on credit for the purpose of receiving interest;
entrepreneurial	funds that are invested in production for the purpose of obtaining income. Export of entrepreneurial capital means the creation of capital by owners of enterprises on the territory of another country.

Country:

country of origin	the country in which the main division of the international corporation is located;
host country	the country in which the international corporation has subsidiaries, associated companies or branches established on the basis of direct investment.

Company:

associated company	an enterprise in which a non-resident direct investor owns a capital share of less than 50%;
subsidiary	an enterprise in which a non-resident direct investor owns a capital share exceeding 50%;
affiliate	an enterprise wholly owned by a direct investor.

Confiscation (property or individual items)	an additional criminal penalty, which consists in the forced free seizure of all or part of the property owned by the convicted person into state property.
Concession (lat. concessio - permission)	1) an agreement through which the state permits foreign firms or private entrepreneurs to operate certain enterprises, land, subsoil resources, or other economic assets. This agreement typically comes with specific conditions and aims to facilitate the reconstruction and advancement of the national economy, as well as the development of natural resources; 2) the compensation received by banks for their role in organizing the sale of newly issued securities.

Corporations:

International corporation	a form of structural organization of a large corporation that makes direct investments in various countries of the world;
Multinational corporation	the main company owned by the capital of two or more countries, branches are also located in different countries;
Transnational corporation	the main company belongs to the capital of one country, and the branch is located in many countries of the world.
International credit	loans in monetary or commodity form, provided by creditors of one party to the borrower of the other party on specified conditions.
Nationalization	removal from private property of persons into the property of the state land, industrial and transport enterprises or whole branches of the economy.

Scientific and technological zone	specific geographical area that encompasses one or more higher educational institutions, a world-class research center, and the necessary technological infrastructure to facilitate the practical application of scientific innovations. The inaugural instance of such a zone was established in the United States near San Francisco along the Pacific coast, particularly in the subtropical town of San Jose, with Stanford University as its foundation. This region specializes in the manufacture of microprocessors and computers utilizing silicon technology, and it is famously known as «Silicon Valley».
Science and technology parks (technology parks)	relatively smaller zones situated in proximity to technical universities or research centers. Within these parks, several companies converge to implement their innovative solutions, creating job opportunities in high-tech and knowledge-intensive industries. Notable examples of science and technology parks include: - In the United States, the «Highway 128» Science and Technology Park was established in Boston, founded on the resources of Harvard University and the Massachusetts Institute of Technology. - In Europe, particularly in the United Kingdom, these parks are clustered around Cambridge University, with a focus on optics and computer technology. - France hosts around 40 such parks, while Germany boasts more than 20 of them.
Normal investor compensation	sufficient compensation (paid fairly market value of the enterprise), effective (paid in a currency acceptable to the investor at the market rate on the day of the transfer), fast (payment excludes unreasonable delays, and in case of their occurrence, the investor is paid the market interest on the delayed amounts).

Offshore (English off-shore)	financial centers that attract foreign capital through provision of special tax and other benefits to foreigners companies registered in the country where the center is located.
Enterprise with foreign investments	a joint-stock or non-joint-stock enterprise in which a direct investor-resident of another country owns more than 10% of ordinary shares and votes (in a joint-stock enterprise) or their equivalent (in a non-joint-stock enterprise).
Preferential international credit	international credit provided on preferential terms: - for a long time; - at reduced interest rates; - on an interest-free loan. Tax havens are small states and territories that implement a policy of attracting loan capital, providing tax and other benefits.
Porto-franco (from Italian - free harbor)	part of the state territory within which the transportation of goods is allowed without payment of duty.
Portfolio investments	capital investments made in foreign securities that do not grant the investor the authority or control over the investment object.
Portfolio risk	aggregate risk of loss of capital invested in the investment portfolio. The portfolio risk level is always lower than the risk level of individual investment instruments, which are included in it.
Direct investor	state and private organizations, individuals and legal entities, and their associations own an enterprise with direct investments abroad.
Direct investment	capital investment to obtain a long-term economic interest in the country of capital investment, which ensures the investor's control over the object of capital investment.

Reinvestment	re-investment due to the use of profits, received from the primary investment.
Repatriation of capital	return of capital and dividends from abroad to the country, with which they were taken out.
A fair and non-discriminatory regime	provides foreign investors with a legal regime that is as favorable as that for domestic investors.
Joint ventures	is a business arrangement in which two or more parties agree to pool their resources to accomplish a specific task. This task can be a new project or any other business.
Joint venture (business) activity	activity based on cooperation between subjects of economic activity of the country and foreign entities of economic activity and on the joint distribution of results and risks from its implementation.
Territory of priority development	the territory of the state in which unfavorable socio-economic and ecological conditions, a low level of employment and incomes of the population have developed, and in which a special regime of investment activity is introduced to create new jobs.
Technopolis	a dedicated hub for the practical application of science and technology advancements. Typically, it involves the establishment of a new city where the latest innovations are integrated into production processes, and a population resides. Japan has developed a technopolis near Tokyo, specifically in Akuba. Toulouse, France, serves as a prominent center for science-intensive industries, with a particular focus on aerospace. Sophia Antipolis, situated near Nice, specializes in electronics, informatics, and pharmacology. Similar technopolises already exist in the United States and various European Union countries.

Trade and warehouse areas	zones in which goods of foreign origin can be stored, sold and bought without payment of normal duties.
Transfer prices	prices that differ from market prices; intra-corporate trade prices between TNC units located in different countries; are used for transfer profit and tax reduction.

INTERNATIONAL LABOR MIGRATION

Refugees	persons forced to emigrate from their country due to any threat (political, religious, national).
Gross migration	the sum of emigration and immigration flows.
«The drain of intelligence»	international migration of highly qualified personnel.
Internal migration	change of place of residence of persons within the national borders of the country.
Intracontinental migration	population movement between countries within one continent.
Globalization of the labor market	the creation of a unified mechanism for coordinating labor supply and demand, irrespective of an individual's country of residence. This phenomenon evolves within the context of economic globalization, where barriers to international labor mobility are reduced, facilitating the movement of workers across borders to meet the demands of a globalized economy.
External migration	population movement from one country to another.
Emigration	departure of the able-bodied population from a certain country to its borders.

Immigration	the entry of the able-bodied population into a certain country from outside its borders.
Re-emigration	return of emigrants to their homeland to a permanent place of residence.
Pendulum migration	the practice of engaging in permanent employment in one country while maintaining one's residence in another, often occurring in border regions due to international agreements between countries.
Labor migration	interstate movement of the working population over a period of more than a year, which is caused by reasons of economic or non-economic nature.
Migration balance	the difference between emigration from the country and immigration to the country.
Migration policy	targeted activity of the state related to the regulation and control of migration processes, as well as a set of means for its implementation and achievement.
Migrants	persons who move.
Intercontinental migration	population movement between countries of different continents.
Illegal labor migration	a violation of the rules established by law regarding entry, residence and employment of foreigners and stateless persons in a certain country.
Organized migration	population movement in accordance with national legislation (for example, under the visa regime).
Immigrants	those moving to a permanent place of residence.

World labor market	a system of relations that arise between states regarding the coordination of demand and supply of world labor resources, conditions for the formation of the workforce, wages and social protection.
Seasonal migration	the annual movement of individuals during specific seasons, typically for purposes like harvesting agricultural crops, with the intention of returning to their homeland after the seasonal work is completed.ï
Temporary migration	work abroad for a certain limited time with subsequent return to the homeland or moving to another country.
Labor income	wages and other payments in cash or in kind received by private individuals - non-residents for work done for residents who pay for it.
Frontaliers	migrants who cross the national border every day, to work in a neighboring country.
Pure migration	the difference between immigration and emigration flows.

INTERNATIONAL TRANSFER OF TECHNOLOGY

Intellectual Property	ownership of the results of intellectual activity and products of intellectual creative work, which in terms of legal relations are a set of objects of copyright and invention rights, as well as rights related to various types of industrial property and protection against unfair competition.

Intellectual investments	investment in the training of specialists, research and development, know-how, which involves obtaining patents, licenses, developing programs for computers and other intellectual activities.
Engineering	provision of technological knowledge necessary for acquisition, installation and use of purchased or rented machines and equipment.
Copyright	exclusive legal right granted to the creator of a literary, audio, or video work, allowing them to control the display and use of their work, and preventing others from using it without permission.
License payments	remuneration to the licensor paid by the licensee for the use of the subject of the agreement.
License agreements	an international trade agreement under which the owner of the invention or technical knowledge grants the other party permission to use within certain limits its rights to the technology.
License	permission issued by the owner of the technology (licensor), protected or not protected by a patent, to an interested party (licensee) to use this technology for a certain time and for a certain fee.
International technology transfer	interstate transfer of scientific and technical achievements on a commercial or free basis.
Know-how	the transfer of technical knowledge and production secrets, encompassing information related to technology, economics, administration, and finance.
Patent	a certificate issued by a competent government authority to the inventor and which certifies his exclusive right to use this invention.

Patent agreement	an international trade agreement under which the patent owner cedes its rights to use the invention to the patent buyer.
Renting	the temporary or short-term arrangement in which machines and equipment are leased to a lessee without granting them the subsequent right to acquire or own these assets.
Royalty	periodic deductions from the buyer's income during the period of the agreement, which depend on the profit obtained from commercial use of the license.
Technical assistance	providing assistance to countries on a paid or free basis in the areas of process technology, products and management.
	Technical cooperation:
multilateral	combines the implementation of joint projects of technical cooperation by several countries in relation to one receiving country;
bilateral	carried out under agreements between the governments of the donor country and aid recipient countries.
	Technical progress:
capital saving	progress based on technology that provides an increase in labor productivity in a relatively large degrees than capital;
neutral	progress based on the simultaneous increase in the productivity of both production factors- labor and capital.

labor saving	technological progress or advancements that significantly increase the productivity of capital in a proportionally greater manner than they do for labor.
Technological grants	free transfer by industrialized countries of technology, technology-intensive goods or financial funds for the acquisition of technologies, training and retraining of personnel.
Technology	scientific methods of achieving practical goals.
Trade mark	a symbol of a certain organization, which is used to individualize the manufacturer of the product and cannot be used by other organizations without the official permission of the owner.
Franchising (eng. franchising, lit. - an agreement on the transfer of the right to use a trademark)	1) in a broad sense - a form of combining the advantages of large and small business, the content of which is a system of relationships between the franchisor (parent company) and franchisees (small enterprises or individual businessmen, production or functional-operational companies); 2) granting the right to a small firm by the parent company to conduct your business for a certain period of time using a ready-made business model (using its equipment, technology, trademark, etc.).
Franchise (French franchise - freedom, privilege)	an enterprise created on the basis of franchising.
Hiring	medium-term equipment lease agreement, one of forms of leasing.

INTERNATIONAL ECONOMIC INTEGRATION

«Acquis communautarire» («joint work»)	a French term used within the European Union and used to define the norms developed during the existence of the European Community, which must be accepted as fact by the countries joining the Union, are not subject to negotiation and cannot be modified or eliminated by negotiation.
Associate partnership	efers to countries that have entered into association agreements with the European Union (EU). However, these countries do not have representation in the EU's governing bodies, and they do not participate in the decision-making processes of the EU. Instead, they maintain an external partnership with the EU and hold a special associate status rather than full membership.
«Associated Trio»	tripartite format of enhanced cooperation between Georgia, Moldova and Ukraine regarding integration into the European Union.
Associate membership	incomplete or partial membership of the state, public organization, person or social group in some association. Such membership is characterized by limited compared to full membership, scope of rights and opportunities, or observer status in general.
Vertical integration	provides for the unification of firms, enterprises and companies that function in different production cycles.
Rule of Law	the rule of law in the life of civil society and the functioning of the state.

Harmonization of legislation	the process of purposeful convergence and harmonization of legal prescriptions to achieve the consistency of legislation, removing legal obstacles,and compliance with international, European and national legal standards.
Horizontal integration	Horizontal integration occurs when firms producing similar or homogeneous goods merge, collaborating within a shared distribution system to generate additional profits. This consolidation is often accompanied by the overseas production of goods akin to those manufactured in their home country.
Globalization (from English Global world, worldwide)	1) the process of strengthening ties between the most distant corners of the planet; 2) the dissemination of shared, global challenges that impact all of humanity, spanning economic, political, military, and environmental issues; 3) the growth process of universal interests in all spheres of human existence, generated by deepening interrelationships and interdependence of the world's countries.
Global problems	a set of contradictory processes that threaten the normal development and even the very existence of all countries of the world and need to avert these catastrophic consequences of their joint efforts, that is, they have an all-encompassing, planetary, global character.
Confederal state (from the Latin confoederatio –union, association)	union or association, refers to the coming together of sovereign states under a common governing body, established to pursue specific objectives, particularly in the realms of foreign policy and military affairs. This union creates centralized governing entities endowed with authority delegated by the member states of the confederation. Legally, the foundation of a confederal state is typically a contract, while in a federal state, it is often a constitution. A contemporary illustration of a confederal state is Switzerland, which is organized as the Swiss Confederation.

Economic integration	progressive development of economic interactions among countries, resulting in the alignment of economic systems. This convergence is typically facilitated through the establishment of interstate agreements and is overseen and regulated by intergovernmental bodies.
Economic space	an economically rich territory that combines various objects and connections between them: - settlements; - industrial enterprises; - economic and recreational areas, transport, engineering and utility networks, etc.
Economic union, or full integration	a process that, together with a unified customs tariff and free movement of factors of production, involves the coordination of macroeconomic policy and the unification of legislation in key areas - currency, budget, and monetary.
Free trade zone	an integration grouping of countries, which provides for the complete abolition of customs tariffs for mutual trade with the preservation of national customs tariffs for third countries.
Implementation (lat. impleo – fill, execute)	implementation by the state of international legal norms
Integration (from Latin integrum – whole, integratio – restoration)	the process of rapprochement and formation of relationships; cohesion, unification of political, economic, state and public structures within the region, country, and world framework.
Custom Union	integration grouping of countries, which provides for an agreed abolition of national customs tariffs by a group of countries and introduction of a common customs tariff and a unified system of non-tariff regulation of trade with third countries.

Political union	an integration grouping of countries that provides for the transfer by national governments of most of their functions in relations with third countries to supranational bodies.
Political integration	a set of political processes aimed at the consolidation, merger of social, political, military, economic structures or ethnic groups within the framework of one state or several states to counter destructive internal and external factors.
Preferential trade agreements	signed on a bilateral basis between individual states or already existing integration groups and an individual country or group of countries.
Ratification (lat. ratus – approved)	approval by the supreme body of state power of the international agreement signed by the authorized person representative of the state. The result of the ratification is the drawing up of a special document – a letter of ratification.
Common market	an integration grouping of countries in which countries agree on freedom of movement not only of goods and services, and other factors of production - capital and labor.

INTERNATIONAL CURRENCY AND FINANCIAL RELATIONS

Currency policy	a combination of economic, legal and organizational measures and forms carried out by state bodies, central banking and financial institutions, international monetary and financial organizations in the field of currency relations.

Currency intervention	a method employed by a country's central bank to exert influence over the valuation of its national currency in foreign exchange markets. This approach involves deliberate actions by the central bank, which can include buying or selling foreign currency (usually hard currency) with its own national currency to manage and stabilize the exchange rate.
Currency restrictions	a system of legal, organizational and economic measures that regulate operations with national and foreign currencies.
Exchange rate	the price of one country's currency expressed in another country's currency.
Currency	the cash part of the money supply that circulates in the form of banknotes and coins.
Devaluation	decrease in the national currency's exchange rate, which benefits exporters.
Eurocurrency	currency, which is transferred to the account of foreign banks and used by them for operations in all countries, including the issuing country of this currency.
International Monetary and Financial System	a structured arrangement outlined in international agreements to govern monetary and financial interactions, either operating autonomously or facilitating the global flow of goods and factors of production.
International liquidity	the ability of a certain country to ensure timely repayment of its international obligations. International liquid resources include such items as gold and foreign exchange reserves, reserve credits in the IMF and settlements in SDR and euro.

International financial centers	centers of concentration of banks and other credit and financial institutions that carry out international currency and credit operations and deal with gold securities. The largest are New York, London, Paris, Tokyo, Frankfurt am Main, Zurich, Hong Kong, Luxembourg, Singapore, Shanghai, etc.
Nullification	the abolition of old monetary units and the introduction of new ones.

MONITORING AND REGULATION INTERNATIONAL ECONOMY

Bank of International Settlements	a bank that, together with other banks, is engaged in the financing of projects in participating countries.
World Trade Organization (WTO)	the foundational legislative and institutional framework for international trade systems. It establishes mechanisms for multilateral coordination and policy regulation among its member countries in the domains of trade in goods and services. Additionally, the WTO plays a vital role in resolving trade disputes and setting standards for foreign trade documentation.
Branch international organizations	organizations that regulate certain industries of production of goods or services and their trade in the international arena.
General Agreement on Trade in Services (GATS)	an integral part of the World Trade Organization (WTO) and is governed by the regulating Annex. GATS is designed to oversee and regulate international service trade as a comprehensive framework within the WTO.

Group «Great Seven» (G-7)	an advisory group consisting of the United States, Canada, Japan, Germany, Great Britain, Italy and France. It holds annual meetings at which the main directions of macroeconomic policy are agreed on such issues as stimulation of economic growth, budget deficits, inflation, exchange rates, etc.
Group «Great Twenty» (G-20)	a forum consisting of finance ministers and heads of central banks from 20 major economies around the world. These economies include 19 of the world's largest individual countries: Australia, Argentina, Brazil, Great Britain, India, Indonesia, Italy, Canada, China, South Korea, Mexico, Germany, South Africa, Russia, Saudi Arabia, USA, Turkey, France, and Japan. The European Union also participates as the twentieth member in this influential group.
World Bank Group	consists of five organizations: the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Agency for guaranteeing investments and the International Center for Settlement of Investment Disputes. The main goal is to provide loans to developing countries and countries with economies in transition for the implementation of structural policy measures.
International Bank for Reconstruction and Development (IBRD)	the main lending institution of the World Bank. Credits economic development projects.
International Development Association (IDA)	one of the five institutions within the World Bank Group. IDA's primary focus lies in assisting developing countries, with an emphasis on promoting private sector development and facilitating the mobilization of both domestic and international sources of capital to foster economic growth and development in these nations.

International Finance Corporation (IFC)	one of the five institutions of the World Bank Group. Main the goal of the IFC is to promote the economic growth of countries that are developing, through the encouragement of private entrepreneurship in the production sector.
Multilateral Investment Guarantee Agency (MAIG)	an autonomous organization of the World Bank group that provides insurance for foreign investments.
International Settlement Center of Investment Disputes	an autonomous organization of the World Bank group aimed at settling disputes between governments and foreign investors.
International technical assistance	resources provided by donor countries for the implementation of programs, projects, with the aim of carrying out reforms and implementation of social and economic development of the state.
International financial assistance	a loan provided by banks or international bodies, or countries, other external agencies or governments.
London Club	a consultative committee comprising major private creditor banks. This committee convenes in the context of negotiations between these banks and debtor countries' governments to address matters related to debt restructuring. Typically, one of the banks takes a leading role in negotiations, representing the collective interests of the participating banks within the London Club.
International Monetary Fund (IMF)	international monetary and credit organization that regulates interstate relations in the monetary and credit sphere; specialized agency of the UN.
Paris Club	an informal organization of governments of creditor countries engaged in monitoring public debt and conducting multilateral negotiations with debtor countries on the problems of restructuring public debts.

UN programs:

UNIDO (United Nations Industrial Development Organization)	an international organization whose purpose is to promote industrial development and accelerated industrialization of underdeveloped countries through the mobilization of national and international resources.
UNCTAD (United Nations Conference on trade and development)	a member of the United Nations General Assembly. Its primary mission is to promote the advancement of international trade and the enhancement of international economic relations.
Regional international organizations	numerous associations of small groups of countries that have not transitioned into an integration form and serve as a forum for them to discuss the regional problems that constitute mutual interest, coordination of regional policy in matters of production and foreign trade, collection and generalization of information about this region.
Specialized UN agencies	international organization on intellectual property (WIPO), International Labor Organization (ILO), International Civil Aviation Organization (ICAO), United Nations of Industrial Development (UNIDO), United Nations Educational, Scientific and Cultural Organization (UNESCO), Food and agricultural organization (FAO).
International Organization for Intellectual property	specialized agency of the UN system, the main task of which is the promotion of the protection of intellectual property by development of multilateral cooperation between countries and administrative management of unions in certain areas concluded in accordance with the Paris and Berne Conventions.

International Labor Organization (ILO)	a specialized agency of the UN since 1946, an autonomous organization that develops and coordinates international standards in the field of the labor market.
International Organization for Migration (IOM)	an intergovernmental organization established in 1951. Its primary objective is to coordinate international migration policies among states and international organizations. The organization serves as a platform for dialogue on contemporary migration-related issues and offers technical expertise and advisory support to countries for the execution of specific migration-related projects.
Universal international organizations	associations that encompass the majority of countries around the world. They play a pivotal role in gathering information and overseeing specific aspects of international economic relations.

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