TAJIK NATIONAL UNIVERSITY

FINANCIAL-ECONOMIC FACULTY

TRAINING MANUAL
«INTERNATIONAL ECONOMIC RELATIONS»
For «World economy» specialty students

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The training manual presents international economic relations in the system of the modern economic theory. Particular attention is paid to microeconomic and macroeconomic mechanisms and their implementation under conditions of international integration and globalization.

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Preface

Market reforms are fundamentally changing the economy, as well as consciousness of the people, and form an increasing demand for knowledge of the theoretical foundations of the market economy. Lack of this knowledge makes impossible the active behavior in a dynamic market environment, in scientific researches and in business as well.

There is an opportunity to overcome the ideologies of the past and to get closer to international standards in the development of economic thought in the post-communist countries. However, the development of economic theory has been moving slowly and inconsistently. This is evidenced by the fact that curriculums of the economists' training in universities even now include the political economy (in fact the Marxist and Leninist one), which represents a dead end in the development of economic thought.

The existence of extreme ideological political economy as an integral part of economic theory: first of all, does not promote the learning and development of economic theory as a modern system of knowledge; secondly, inhibits the approximation of the developments of national theorists to the international level, and thirdly, reduces the professionalism of students, their approach to the challenges of modern business.

The proposed textbook is an attempt to spread tools of micro-and macroeconomic analysis on the sphere of international economic relations at the level of the intermediate course (an intermediate level). Our consideration of its structure makes it possible with the logical accuracy to identify and to explore the major issues that are included in the subject of international economic relations.

In the first part, on the basis of multidimensional methodology, the subject of the course "International Economic Relations" is determined from the metasystem of world economy, and integration and globalization dimensions of modern international economic relations are discussed.

The second part is devoted to the analysis of microeconomic mechanism of international economic relations: the functioning of international trade relations and the international movement of factors of production.

The third part presents the researches of the macroeconomic enforcement mechanism of international economic relations: the functioning of modern monetary and financial structures.

The fourth part discusses basic questions of macroeconomic policy in an open system of international economic relations.

We hope that this textbook will allow students to make the most use of the global research experience of international economic relations. It will be useful in both the lecture hall and the later life.

PART 1. INTRODUCTION TO «INTERNATIONAL ECONOMIC RELATIONS »

Chapter 1. THE WORLD ECONOMY AND INTERNATIONAL ECONOMIC RELATIONS

1.1. The World Economy: Basic Characteristics and Structure

The modern world economy as a special organic holistic system began to be formed on the basis of the world market since the end of XIX - beginning of

XX century. Now we can talk about the world economy as a global economic system that is based on international and world economic division of labor, internationalization and integration of production and exchange, and operates on the principles of a market economy.

The modern world economy is a holistic system, but the integrity of the evolved gradually. It was formed with the evolution of the international division of labor, the process of internationalization of economic life of the countries of the world community, the integration of groups of countries into regional economic complexes (unions) of interstate regulation of social and economic processes, trans-nationalization of production.

The history of the world economy begins with the international division of labor (IDL) associated with the exchange activity and its products between nation-states.

IDL, or the division of labor between countries is a step in public territorial division of labor. It is based on the cost-effective production specialization of individual countries and shows the results in the interchange of specialized production in certain proportions.

The international division of labor exists in two basic forms: the international specialization and international production cooperation.

International specialization - a form of division of labor between the countries in which the increase in the concentration of homogeneous production is based on the progressive differentiation of the national production. Specialization in the international division of labor will eventually provide the specialization of countries and regions in the production of certain products and parts for the global market. The international production cooperation is the result of the specialization of national industries, which interact in the international division of labor. International clustering based on subject specialization and is the form of the private and public division of labor in the global economy.

The international production cooperation is meant to include the country in the international division of labor within the so-called vertical model of the international division of labor, that is, while maintaining the autonomy of the production process within the national borders.

The international division of labor was the unifying element that created the world economy as a set of interrelated international exchange of national economies, projecting its subsystems.

Exit of trade links across national boundaries, that is, the internationalization of the circulation (heading stage of the capital), and now is the general activetrend for all over the world who want to get the economic benefits of the international division of labor and international trade. But today the trade relations between the countries and serving their monetary and credit relations constitute only a primary level of integrity of international relation since the middle of the XX century took shape national level of the world economy.

In the second half of the XX century in the evolution of the international division of labor is a qualitative shift, which has resulted in the export of capital across national borders. Internationalization has covered all stages of the movement of capital (monetary, industrial, commercial), has found some form, as follows:

• the integration of national economies into the regional economic complexes with the structure and proportions of the opening on the consumption of the whole region, as well as the regulation of interstate economic relations;

• transnationalization, that is out of production and business corporations (companies) in the form of branches and subsidiaries across national boundaries.

Division of transnational corporations (TNCs), in the territory of nation-states, operating largely as economically, organizationally and legally independent entities, whose relations with the national states are built on special contracts.

Internal angular momentum of the integration processes and transnationalization is the emergence of a new phenomenon of the global economy - world economic division of labor: a) intra-and inter-regional and b) global (transnational) division of labor.

1.2. International Economic Relations in the System of World Economy

To determine the subject matter of the course "International economic relations" should be out of the world economy highlight the economic subsystem. International economic relations, in spite of being one of the subsystems of the world economy, however, has its own logic and its own development subsystem. In other words, highlighting the international economic relations of the world economic system, it is necessary to determine: systemic symptoms (concept), the content material (substrate), the structure and subjects of international economic relations**.**

The concept of the international economic relations system

The concept of the system of international economic relations - is a system (integral) ratio, which expresses the unity - the integrity of the system: the overall objective of the whole system and its subsystems at all levels, the mechanism of functioning of the whole system and its subsystems, as well as the norms of behavior of its subjects - the motivation of activity, decision making, the criterion of efficiency, etc.

In other words, the presence of specific integral properties of the large number of interrelated elements making system.

From the standpoint of contemporary realities, those shifts that have occurred in the development of the world community, serve as the backbone to ensure the unity, integrity of international economic relations, the two properties (attribute):

• variety of market-based economic relations , called "socially oriented market system ";

• internationalization of economic relations , which grows in the integration and globalization, that is, the formation of a single supranational economic (trade, production and investment, monetary and fiscal) space.

These properties determine the specificity of the content and structure of international economic relations

Definition of international economic relations as a socio-driven market system rather vividly reflects its current state:
• market orientation;
• tangible effect of non-market, institutional controls at both the regional and inter-regional and global levels;
• desire to control the world market and an active influence on the domestic national markets by international institutions, multinational corporations, with the help of various tools, including the market.

Thus, international economic relations are capable of self-regulation of the market for corrective role of TNCs, international and supranational institutions. This is an essential feature of the system of international economic relations.

International economic relations are an information system in the information society. This is - one of the faces of her social type that defines its operation and development because:
- information and information technology is one of the decisive factors in the growth of labor productivity and competitiveness of firms, national economies, regional groups, multinational corporations. Competitiveness on the basis of information technology is achieved due to a sharp increase in the rate of economic processes by reducing energy consumption, material consumption , the transition to zero waste production;
- the use of information technology is a major factor in making the right management decisions;
- information technology will allow effective small-scale production - oriented to a specific person;
- information and information technologies are changing the nature of the accumulation of wealth, and in the end - the very concept of "wealth". There is a transformation from the real wealth of knowledge and other useful information. Information is usually embodied in a reified factors, but they are not capable of self-expression. Therefore, the accumulation of human capital is becoming a priority.

A characteristic feature of international economic relations is the fact that from the very beginning because of its nature and an information market is an open system with a high degree of openness.

The overall level of openness of the system of international economic relations is determined by the degree of openness of its subsystems and subjects: first of all the national economies and regional integration groupings, multinational corporations, international economic organizations.

Usually, the "openness" is meant the development of 2-key channels that link the national economic system:
-the international movement of goods and factors of production;
-the international monetary and financial sector.

The current state of the system of international economic relations can distinguish two criteria and therefore the level of openness of its two subsystems:
1) due to the international division of labor, the degree and forms of involvement in the international movement of goods and factors of production.
2) due to the global economic division of labor, the degree of integration of national economies into a supranational (regional and global) economic area.

On the first level under the "openness" is usually understood the development of 3 key channels that link the national economic system, determine the extent and form of involvement in the international movement of goods, capital and labor.

As an indicator of openness on the first level can serve as a proportion of exports (export quotas) and imports (import quota) in gross domestic product (GDP).

$$\mathbf{Eq = (E / GDP) \times 100}$$

where Eq- export quota;
E – export volume.

$$\mathbf{Iq = (I / GDP) \times 100}$$

where Iq - import quota;
I – import volume**.**

The combination of export and import quotas gives an idea of the extent link the individual national economies and the world economy. An indicator of openness on the first level is the intensity of migration, which is determined by comparing the number of migrants from the population of the country. In this case, the ratio of emigration (Re), the ratio of immigration (Ri) and the migration turnover (Mt) are calculated

$$\mathbf{Re = \frac{Nem}{P} * 1000}$$

$$Ri = \frac{Nim}{P} * 1000$$

$$Mt = \frac{Nem+Nim}{P} * 1000$$

where P - the average number of the country's population,
Nem - the number of emigrants
Nim - the number of immigrants.
Migration rate is usually calculated in parts per million (‰).

The difference between the number of immigrants and emigrants (Nim - Nem) is the country's net migration, it can be positive or negative. The openness of the economy indicates part of the economy and in the international movement of capital. The role of foreign capital (especially FDI) in the economy of the country is determined by its part in the total amount of investment in the country (including attachments residents).

Another indicator is the proportion of foreign investment (especially FDI) in GDP:

$$\frac{FDI}{GDP} * 100$$

where FDI - foreign investment.

On the second level the "openness " of the economy is determined mainly by the degree of independence of the international monetary and financial system, which is implemented through the functioning of the international financial markets. As the dominant figure of the international economi relations as a market economy, in fact, is the effectiveness of the monitoring and regulation of the national economy and the world economy as a whole. The openness of the system of international economic relations is objectively determined by the state of the world economic and international division of labor and the resulting processes of integration and globalization of production and circulation. Thus, international economic relations - is an economic subsystem of the world economy, which specificity, the purpose and mechanism of functioning are determined by its social type.

Substrate (material content) of the system of international economic relations, as a subsystem of the global economy are:
-multitude of relations that develop as a result of the international movement of goods and factors of production;

-multitude of relations in the international monetary and financial sector.

The structure of international economic relations are:

-the international trade in goods and services;
-the international movement of capital;
-the international migration;
-the international transfer of technology;
-the currency and monetary relations;
-the global financial system and international financial markets.

In order to give a systematic definition of the subject of the course "International economic relations", it remains to determine their main subjects.

The international economic relations subjects include organizations whose activities (trade, production and investment, monetary and financial) beyond the national borders. These are the various firms, the state (as an entity), the transnational corporations and transnational banks.

Regulation of relationships that develop between these actors, takes place at different levels by different institutions:

• On the sub-national - state;
• On the regional level - regional cooperation bodies;
• On the global level - worldwide economic organizations.

International economic relations - is a subsystem of the global economy. System definition of "International economic relations" as a special science and a particular course is only possible in the modern economic theory, which includes the use of tools of micro-and macro-economic analysis. The subject of the course "International Economic Relations" at the micro level are relationships that develop between the subjects of world economic relations concerning the interstate movement of goods and factors of production.

At the macroeconomic level, the subject of the course "International Economic Relations" significantly expanded. It includes:

• study of the phenomenon of the modern international monetary and financial system;

• study of the problems concerning the exchange rate and the mechanism of its formation, the balance of payments, which determine the position of the national economies in the world economy;

• analysis of the international financial markets, trade in specific financial instruments - currency and credit, securities.

Thus, international economic relations as the subject of a special course – is part of modern economic theory, which studies the relations developing between businesses in the areas of international trade (goods and services), the international movement of factors of production (capital, labor , technology) in international monetary and financial sector as a relatively independent economic phenomena of modern economic relations, which are inherent in the developed mechanisms for monitoring and control.

The specificity of the content and structure of international economic relations as one of the subsystems of the world economy, which is interconnected and interdependent with other subsystems, determines the effectiveness of a systematic approach to the analysis of its problems.

The systems approach - is the direction of scientific knowledge and methodology of social practice, which is based on the consideration of objects as systems. The systems approach focuses on the study of the disclosure of the integrity of the object to the laws of nature and the functioning of its parts (subsystems) from the standpoint of the whole (at the level of the whole organism) to identify the various features and types of bonds in the syste and the construction of a unified multi-dimensional picture.

<u>Questions on the chapter</u>

IER is a set of forms, methods and means

a) trade and economic cooperation

b) trade war

c) the influence of developed states on the rest

d) economic assistance from developed countries to the rest

e) cooperation in trade, scientific and technical, industrial and monetary and financial spheres of PR.

Transactions that can be made without the presence of a real product are made

a) at an auction;

b) on a commodity exchange;

c) by means of a tender;

d) with the help of an intermediary;

e) in all of the above ways.

International division of labor:

a) the process of uniting countries into blocks for closer economic cooperation

b) specialization of countries in the production of certain products

d) the difference between the value of exports and imports of the country for a certain period

e) government policy aimed at protecting the interests of domestic producers from foreign competitors

As production develops, the importance of international trade:

a) increases

b) decreases

c) remains the same

If world prices for a product are higher than domestically, this contributes to:

a) termination of trade

b) import

c) export

If the amount of funds received is higher than the amount of payments, then the balance is called:

a) active

b) passive

c) balanced

How does the international division of labor affect the efficiency of the world economy?

a) increases

b) shortens

c) does not affect

Self-test questions

1.Regularities in the development of the world economy.

2. Stages of the formation of the world economy. The structure of the world economy.

3. The international division of labor - the material basis of the world economy, indicators and factors in the development of the international division of labor.

4. Internationalization of the world economy and transformation of the model of global cooperation.

5. The economic essence of globalization of the world economy, its causes and consequences.

6. The concept and structure of the international economic relations.

7. Subjects of the international economic relations.

Chapter 2. INTERNATIONAL TRADE IN INTERNATIONAL ECONOMIC RELATIONS SYSTEM

2.1. Basic features of modern international trade

2.1.1. The Nature of International Trade

Today international trade is one of the major driving forces of economic development. It appears as a sphere of international economic relations and is formed by merchandise trade, trade in services and products of intellectual labor of all countries in the world. Today, it accounts about 80% of all international operations.

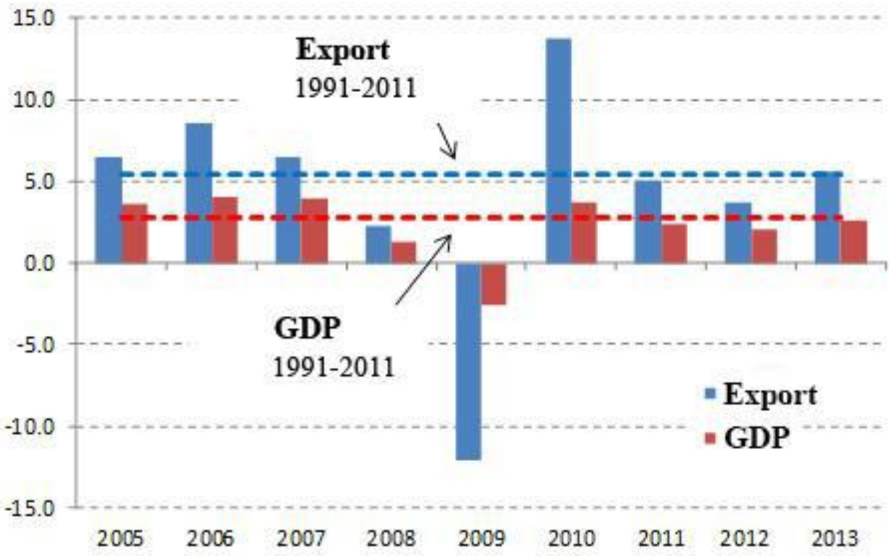
A single country takes part in international trade in the form of foreign trade, i.e. it is the trade between the country and other ones, which consists of two opposing flows of goods and services: export and import.
International trade is trading between residents of different countries, which may be individuals and legal persons, firms, TNC, non-profit organizations, etc. It provides the voluntary exchange of goods, services, products of intellectual labor between the parties of a trade agreement. Since this exchange is voluntary, both parties of the agreement must be confident that they will get benefit from this exchange, otherwise the agreement will not be signed.

International trade is a characteristic feature of the existence of the global market, which is the realm of commodity-money relations between the two countries and is based on the international division of labor and other factors of production. The product, which is located on the world market in the phase of the exchange, performs the function of information as reported on the mean values of aggregate demand and supply. Therefore, countries have the opportunity to evaluate and adapt the parameters of its products and production (ie what, how much and for whom to produce) to the demands of the global market.

International trade of goods was historically the first and until the certain period of time, the main sphere of international economic relations. Only at the end of the 20th century, different forms of financial operations became dominant in the international economic system. But international trade is still very important, which is proved by the growth of international trade volumes. According to the WTO experts, international trade volume increased by 7.6% in 2006, 15.2% in

2007, 15.4% in 2008. Such rapid development of international trade, is mainly connected with strengthening of international relations liberalization process, increase of demand on manufactured goods, percentage of which composes 70% in total volume of international export. However in 2009 international trade volume reduced to 13.1% due to the world financial crisis. In 2010, the decline in world trade has stopped: the increase was 13.8%, and in 2011 and 2012 - respectively 5.0% and 3.7%.

International trade today, as before, remains an important growth driver for international economics. International trade flows are well ahead of the growth of world gross domestic product.



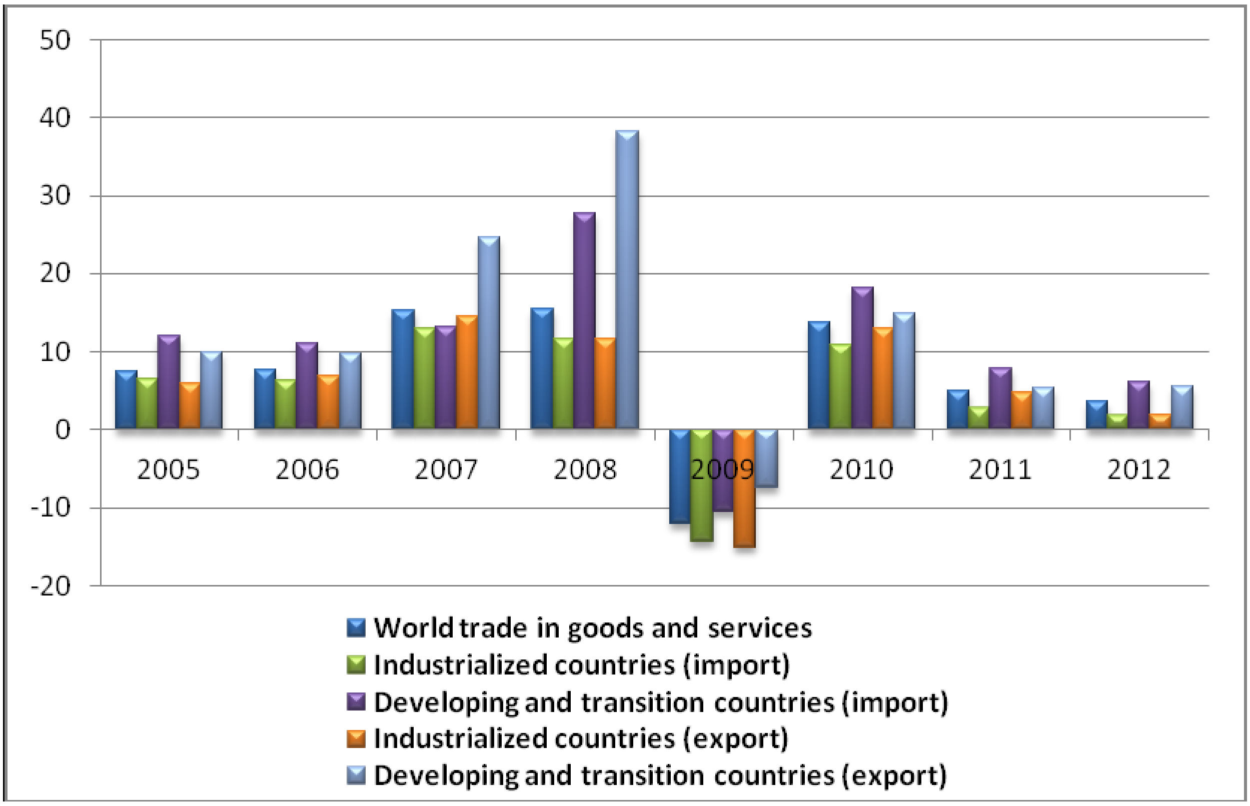
Growth rate of volumes of world trade and world GDP, 2005-2013

This is the result of the deepening of the international division of labor, the formation and development of new types of division of labor, which lie at the heart of international economic integration and intracompany exchange. In this regard, it is important to note that in the EU - the most integrated international economic grouping - trade goes ahead of production by 3 times.

Rapid growth of international trade has a favorable effect on the economy of developing countries by stimulating their exports.

The dynamics of development of the world trade in goods and services

Data	Growth %							
	2005	2006	2007	2008	2009	2010	2011	2012
World trade of goods and services	7,4	7,6	15,2	15,4	-12,0	13,8	5,0	3,7
Import								
Industrialized countries	6,5	6,3	12,9	11,7	- 14,4	10,9	2,8	1,9
Developing and transition countries	12,0	11,0	13,2	27,7	- 10,5	18,1	7,9	6,2
Export								
Industrialized countries	5,9	6,8	14,6	11,7	- 15,1	13,0	4,7	2,0
Developing and transition countries	9,9	9,7	24,6	38,2	- 7,5	14,9	5,4	5,6



Economic growth in developing and transition countries in comparison with industrialized ones, 2005-2012

2.1.2. The Geographical and Commodity Structures of International Trade

Geographic and commodity structure is an important feature of international trade and presents a structure in terms of geographic distribution and commodity filling.

Geographic structure of international trade means the distribution of trade flows between separate countries and their groups, created according to territorial or organizational criterion.

Territorial geographic structure generalizes information about international trade scale of countries belonging to the same part of world or extended country group (developed countries, developing countries, countries in transition).

Organizational geographic structure generalizes data concerning international trade between both countries belonging to international trade and political unions and countries, which are separated in defined groups by the chosen criterion (oil-exporting countries, debtor countries etc.).

Geographic structure of international trade was formed under the influence of world economic division of labor and scientific and technical revolution development.

Geographic structure of the world merchandise trade by separate regions

Export volume		Region	Import volume	
billion dollars	%		billion dollars	%
18401,0	100,0	World	18601,0	100,0
2371,4	12,9	North America	3192,0	17,2
749,6	4,1	Latin America	754,7	4,1
6384,8	34,7	Europe	6530,5	35,1
5803,3	31,5	EU	5937,6	31,9
805,3	4,3	CIS	569,1	3,1
529,3	2,9	Russian Federation	335,5	1,8
630,0	3,4	Africa	610,2	3,3
1349,0	7,3	Middle East	739,6	4,0
6110,6	33,2	Asia	6205,1	33,4
798,6	4,3	Japan	885,8	4,8
2048,7	11,1	China	1818,4	9,8
294,2	1,6	India	489,7	2,6

Commodity structure of international trade is formed under the influence of competitive advantages, which are available for the national economy. A country has competitive advantages only if prices on export commodities (or domestic prices) are lower than the world ones. Difference in prices occurs due to different production costs, which are depended on two factor groups.

The first factor group is formed by natural competitive advantages. Among them are natural-geographical factors: climate, availability of mineral fossils, soil fertility etc.

The second factor group (the socio-economic one) is formed by gained competitive advantages. These factors define scientific-technical and economical level of country development, its production apparatus, scale and sequence of production, production and social infrastructure, scale of research activities. All this defines competitive advantages, which were gained in the development process of the national economy.

The structure of world merchandise export by major product categories by regions

Region	Agriculture products		Fuels		Manufactures		Total	
	Billion dollars	%	Billion dollars	%		Billion dollars	%	Billion dollars
Europe	657,3	10,3	623,8	9,8	Europe	657,3	10,3	623,8
Asia	383,6	6,3	492,2	8,1	Asia	383,6	6,3	492,2
North America	257,6	10,9	305,3	12,9	North America	257,6	10,9	305,3
South and Central America	205,2	27,4	198,5	26,5	South and Central America	205,2	27,4	198,5
Commonwealth of independent states (CIS)	65,9	8,2	503,3	62,5	Commonwealth of independent states (CIS)	65,9	8,2	503,3
Africa	57,4	9,1	349,4	55,5	Africa	57,4	9,1	349,4
Middle East	29,8	2,2	911,2	67,5	Middle East	29,8	2,2	911,2
World	1656,8	9,0	3383,7	18,4	World	1656,8	9,0	3383,7

The data in table show the relationship between the level of economic development and the structure of foreign trade. So, for the countries of Western Europe, North America and Asia, related to the industrialized and newly industrializing countries that are predominantly acquired competitive advantage in the export structure dominated by manufactures. Both Middle East and Africa, being countries with rich natural resources, have high enough proportion of the fuel industry. The CIS countries make extensive use of its natural competitive advantages, and therefore in the commodity structure, which is different from the world average, there is a high proportion of production extractive industries and, relatively, the low one of manufactures.

2.1.3. Main Specific Features of International Trade

International trade, as a special sphere of international economics, has its own specific features, which distinguish it from intra-national trade: government regulation of the international trade; independent national economic policy; social and cultural difference of countries, financial and commercial risks.

Government regulation of the international trade. Every country is functioning within its own legal framework. The government of the country controls and takes an active part in foreign-trade relations and monetary relations, connected with trade operations. Such interference and the control differ significantly from the degree and the nature of those measures, which are applied to domestic trade. Government of every sovereign country, due to its own trade and fiscal policy, creates its own system of export and import licensing, import and export quotas, duties, embargo, export subsidies, its own tax legislation etc. Government rules on monetary regulations and the delegated legislation, concerning standards of quality, security, public health, hygiene, patents, trademarks, packing of goods and information content, which is mentioned on packing, can be regarded as international trade barriers.

Independent national economic policy. National economic policy can permit free flow of goods and services between countries, regulate or prohibit it, All this influence significantly the international trade.
To support the balance of international payments, a country must harmonize its economy with world one, i.e. pursue a policy, which would provide the competitiveness of prices and costs in comparison with other countries and which wouldn’t allow a discrepancy between domestic law and international regulation, which could lead to a conflict situation in the sphere of foreign trade.

Social and cultural differences of countries. Countries which take part in international trade have different traditions, languages, priorities and culture. Although such differences do not influence significantly on international trade, they complicate relations between governments and add a lot of new elements in activity of international enterprises. Lack of knowledge of exporting or importing in a country leads to uncertainty and distrust between sellers and customers.

Financial and commercial risks. International trade takes place between countries with different exchange systems, which cause the exchange of one currency to another one. Due to the exchange-rate instability, there is the currency risk. Currency risk in international trade means risk of currency loss as a result of change in currency of price in relation to currency of payment in between signing an international contract and effecting of payment according to this contract.

During international trade realization, it's necessary to spend some time on goods transportation, that's why an exporter runs the credit risk and feels discomfort, connected with time and distance, which is needed for the transportation abroad and payment receiving. The time gap between the order to a foreign supplier and goods receiving, as a rule, is often connected with the duration of the period of transportation and the need to prepare the appropriate documentation for it.

The goods preparation and its delivery abroad requires additional financing, for which an exporter has to apply to a bank. In this case, the exporter needs a credit for a much longer time than he needed in case of selling goods domestically. The exporter must carry out his own commitments in compliance with term and conditions of a credit deal. However, a risk of a bad debt can appear.

Commercial risks, connected with possibilities of non-receipt of profits or a loss occurrence during trade operations realization, can appear in such cases:

- customer insolvency at the moment of merchandise payment;
- customer's refusal of merchandise payment;
- change in price on goods after making of contract;
- decline in demand for goods;
- impossibility of money transfer to the exporter's country in connection with currency limitations in a customer's (importer's) country or a lack of currency or refusal of an importer's country government for assignment of this currency because of any other reasons.

3.1.4. The Importance of International Trade in the Modern World

The importance of international trade within the world economic system is caused by important factors and practicability of international exchange of goods and services.

There are some factors predetermining the necessity of international trade. They are:

- Emergence of the world market.
- Unevenness of development of individual industries in different countries. Products of the most developed industries, which can't be realized at the internal market, is transported abroad. In other words, both the sales requirements at foreign markets and the need in receiving certain goods from outside, appear.

- Tendency to unlimited expansion of the production. Since the capacity of domestic market is limited by solvent demand of population, production is overgrowing the limits of domestic market and businesspeople of every country are struggling for foreign markets.
- Tendency to get higher income in connection with the usage of low-paid manpower and raw materials from developing countries.

International trade is especially important, because there is no country in the world, which can exist without foreign trade. They are all depended on international trade, but their level of dependency is different. It’s determined as the ratio of half value volume of foreign trade turnover (export + import) to GDP. According to this indicator, all countries can be divided into 3 groups: high dependent (45 – 93%), medium dependent (14-44%) and low dependent (2,7 – 13%).

International trade is rational, when it provides some benefits, which can be received on three levels: national level, the level of domestic international firm and also on customers’ one.

<u>Due to taking part in the international trade, countries gain:</u>

- the opportunity to export those goods, production of which takes more national resources, which country has in relatively large numbers;
- the opportunity to import those goods, which can’t be produced in their country because of the lack of needed resources;
- economies of scale effect in production, specialized on more narrow set of goods.

There are two points of view on benefits from international trade for home international firms. The first point of view concerns the export opportunities, the second one - the import ones.

From the point of view of export activity, enterprises obtain benefits at the expense of:

- using excess capacity, which is hold by companies, but are not desirable by domestic demand;
- getting greater profits. Because of the difference between the foreign trade competitiveness environment and the national one, the producer can sell goods there with higher income;
- considerable volumes foreign sales, which make natural producers less dependent on domestic economic conditions;

- reduction of production costs, connected with: fixed costs, covered by the expense of bigger volume of outputs; effectiveness rising due to experience, gained during manufacture of large batch of produce; bulk purchases of materials and their transportation by large batches;
- distribution of risk. Producer can reduce the fluctuations of demand by organizing the production distribution on foreign markets, due to of countries' economic activity being in different phases, and some goods being on different stages of the life cycle;
- knowledge and best practices, received by firms in the functioning process on foreign markets.

From the point of view of import activity, enterprises obtain benefits at the expense of:

- avoiding limits of the domestic market by reducing production costs or by upgrading quality of production;
- getting cheap high-quality materials, components, technologies to be used in its production;
- using excess capacity of trade distribution network;
- expansion of commodity line due to which a firm can increase its supply of product line;
- possibilities of distribution of operative risks, as by expanding the suppliers range, the company will be less depended on a singular supplier.

In their turn, consumers obtain benefits from cheaper prices, increasing of quantity and diversification of goods, which leads to higher standard of well-being.

2.2. Fundamental Theories of International Trade Development

2.2.1. Mercantilism: The Essence, the Significance and Limitations

The modern theories of international trade have a rich history. For a long time, started from the emergence of economic science by itself (the beginning of the 17th century) scientists have tried to answer the following key questions:

- Why does international trade exist and what are its economic basis?
- How much profitable is the trade for each of the participating countries?
- What is it necessary to choose for economic growth: free trade or

protectionism?

Mercantilism was the first one, which proposed the theoretical understanding of these questions. It is a doctrine, where the existing world was considered in a static and the wealth of nations was considered as a fixed phenomenon in every moment. Therefore, its adherents (T. Man, A. Serra, A. Montchrestien) believed that the welfare of one country is possible by means of redistribution of the existing wealth, i.e. through the pauperization of another country. Mercantilists associated the wealth with stocks of precious metals (gold and silver). In their opinion, the larger number of precious metals a country owns, the richer it is. Also, from their point of view, having more money in circulation stimulates the development of national production and the employment increase. A state, according to mercantilists, should:

- stimulate exports and export more goods than import. This approach will provide the gold inflow;
- restrict the importation of goods, especially luxury goods that will provide export balance of trade;
- forbid the production of the final products in its colonies;
- forbid the exportation of raw materials from the parent states to the colonies and allow free importation of raw materials, which are not obtained within the country;
- stimulate an export of mainly cheap raw commodities from the colonies;
- forbid any trade of its colonies with other countries, except the parent state which can resell the colonial goods abroad by itself.

Thus, the mercantilist policy of major countries was based on striving for maximum accumulation of money capital and maximum reduction of import, i.e. a state should sell to the foreign market as many goods as possible and should purchase as little as possible. Meanwhile, the country should accumulate gold. Mercantilists also felt the need to perform the governmental control over all economic activities and so justified the economic nationalism.

<u>The importance of mercantilism is in the following statements:</u>

1. For the first time, there was made an attempt to create a theory of international trade, which directly linked trade relations with the domestic economic development of a country and with its economic growth.
2. Mercantilists worked out one of possible models for the development of international trade on the basis of commodity character of production. They laid

the foundations of categorical apparatus used in modern theories of international trade.

3. There were laid the foundations of what in the modern economy is called the balance of payments.

However, mercantilists could not understand that the enrichment of one country could be carried out not only by means of pauperization of other ones it trades with, that the economic growth is possible not only as a result of redistribution of existing wealth, but also by means of its accumulation. In other words, they believed that a country could have benefit from trade only at the expense of another country that makes trade a zero-sum game. Nowadays, neomercantilism appears to be when the countries with high rates of unemployment try to limit import in order to stimulate domestic production and employment.

Mercantilism school dominated in economy during 1.5 century. By the beginning of the 18th century international trade had a huge number of possible restrictions. The rules of trade were contrary to the needs of production, and there was a need for a transition to free trade. The theory of international trade found its next development in the writings of economists of the classical school.

2.2.2. The Absolute Advantages Theory: the Essence, Positive and Negative Features

Development of international trade during the transition period of the developed countries to a large machine production led to the emergence of the absolute advantage theory, developed by A. Smith. In his work "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776), he criticized mercantilism. A. Smith hold the view that the wealth of nations depends not so much on the accumulated stock of precious metals, but on the possibility of economy to produce final goods and services. Therefore, the main task of the country is not the accumulation of gold and silver, but making arrangements to develop production on the basis of cooperation and division of labor. A. Smith was the first one, who answered the question "Why is a country interested in international exchange?" He believed that when two countries are trade partners, they need to benefit from trade. When one of them does not win anything, it will abandon the trade. A state can benefit not only from selling, but also from purchasing goods at the foreign market. And A. Smith made an attempt to determine what products are profitable to export and import, and how benefits from trade appear.

The theory of international trade by A. Smith is based on the following preconditions:

- labor is the only factor of production. It only affects the productivity and price of goods;
- full employment, i.e. all available labor forces are used in the production of goods;
- international trade involves only two countries, which trade only by two products between each other;
- production costs are constant, and its reduction increases the demand of goods;
- the price of one product is expressed in amount of labor spent on production of another product;
- transport costs of goods from one country to another are not taken into account;
- foreign trade is carried out without any restrictions;
- international trade is balanced (import is paid by export);
- factors of production are not moved between countries.

This theory became known as the absolute advantage theory, because it was based on the absolute advantage: a country exports the goods, which costs of production are lower than in a partner country, and imports the goods, produced abroad with lower costs. Both countries benefit from the specialization of each of them in the production of the goods they have absolute advantage in. This gives an opportunity to use the resources most effectively, resulting in the increasing of production of both goods. Increase of production of both goods represents the gain from specialization in production, which is divided between two countries in the process of international trade.

The main conclusion of the theory of absolute advantage is that every country benefits from international trade and it is decisive for forming the external sector of economy. International trade is not a zero-sum game, but a game with a positive result, i.e. division of labor is beneficial at both the national and international levels. However, nowadays, by using the principle of absolute advantage, only a small portion of international trade can be explained (for example, some part of trade between the developed countries and developing ones). The overwhelming part of international trade, especially between the developed countries, is not explained by this theory, because it does not consider the situation when one of the trading countries has no absolute advantage in any commodity. This position was explained by D. Ricardo in the comparative advantage theory.

2.2.3. The Comparative Advantage Theory: the Essence, the Importance and Disadvantages

A rule of international specialization, depending on absolute advantage, excluded countries without absolute advantage from international trade. The D.Ricardo’s work “On the Principles of Political Economy and Taxation” (1817) developed the absolute advantage theory and proved that the existence of absolute advantage in the national production of any commodity is not a necessary precondition for the development of international trade: the international exchange is possible and desirable in the presence of comparative advantages.

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

- free trade;
- fixed costs of production;
- absence of international labor mobility;
- absence of transportation costs;
- lack of technical progress, i.e. the technological level of each country remains unchanged;
- full employment;
- there is one factor of production (labor).

Comparative advantage theory states that if countries specialize in the production of the commodities that have relatively lower costs in comparison with other countries, a trade will be mutually beneficial for both countries, regardless of whether the production in one of them is more effective than in the other one. In other words, the basis for emergence and development of international trade can be exclusively a difference in relative costs of production of the commodities, regardless of the absolute amount of these costs.

2.2.4. The Factor Proportions Theory: the Significance and its Testing by W. Leontief

The research of factors, influencing product range and volume of international trade, allowed the Swedish scientists E. Heckscher and B. Ohlin in 30-s of XX century to clarify and supplement the key points of the comparative

advantage theory and to formulate the concept of factors of production.
Need to seek a new concept of international trade dictated by the fact that the ideas of David Ricardo based on the assumption of a constant cost of production in each country. However, in practice, along with the growth of production and product diversification was an increase of marginal costs, leading Swedish economists to the conclusion of necessity to introduce the growth conditions for replacement cost (relative costs) into the model.

The theory is based on the following preconditions:

• there are two countries; two commodities, one of which is laborintensive and another one is capital- intensive; and two factors of production: labor and capital;
• technologies in both countries are the same;
• each country in varying degrees endowed with factors of production;
• there is no international movement of factors of production;
• there cannot be the full specialization of countries in production of any product.

2.2.5. The Alternative International Trade Theories: the Reasons of Occurrence and the Significance

Modern theories of international trade are generally considered:
– on the one hand, as alternative ones to the Heckscher-Ohlin theorem, because they examine the circumstances which are not covered by the factor proportions theory. These theories characterize international trade mainly on the basis of goods supply;
– on the other hand, as alternative ones to the classical theories, which are considered to be obsolete. These theories analyze international trade mainly on the basis of demand from the point of view of consumer preferences.
The main alternative theories usually include: the product life-cycle theory; the country similarity theory, the theory of economies of scale.

The basic positions of **the product life-cycle theory** were developed by Raymond Vernon in 1966. It is based on the concept of the product life-cycle, proposed since the early 1960s by specialists of Harvard Business School, who declared that sales of the products and their profits from them change over time.

A product consistently passes four stages of life cycle:

1. The stage of appearance of a new product on the market shows the low sales. The costs of implementation of this product make the profits low too.
2. The stage of growth is characterized by growth of profits and sales growth.
3. In the stage of maturity, the development of competition and market saturation stabilize the sales and profits.
4. In the stage of decay, the products become obsolete, the sales and profits fall off.

The country similarity theory was developed by a Swedish economist Stefan Linder in 1961, where he takes as a basis the volume of exchange of similar goods between countries with a comparable level of development, without regard to the Heckscher-Ohlin theorem. A new approach was founded on the following principles:

- the conditions of production depend on the conditions of demand. Efficiency of production is as high as demand;
- the conditions of domestic production depend mainly on the domestic demand. It is the domestic representative demand that is the basis of production and is necessary, but not a sufficient condition to export the goods;
- the foreign market is just a continuation of the internal one, and the international exchange is only the continuation of the interregional one.

The theory of economies of scale is not related to the theories of comparative advantage or to the ratio of production factors. It recognizes the different levels of market's monopolization and non-optimal using of factors of production.

As the factors of production growth, the cost-per-unit reduces as a result of: increased specialization of production, the relatively slow growth in auxiliary departments than in the scale of the production, technological economy. Economies of scale is the production development, at which the growth of unit production factors costs leads to increased production of more than one unit.

2.3. International trade policy

2.3.1. The Main Types of Trade Policy

Regulation of international trade supposes purposeful influence of the state on trade relations with other countries. The main goals of foreign trade policy are:

- the volume change of exports and imports;
- changes in the structure of foreign trade;
- providing the country with the necessary resources;
- the change in the ratio of export and import prices.

There are three main approaches to the regulation of international trade:

- a system of unilateral measures, in which the instruments of state control used by the government unilaterally and not coordinated with the trading partner;
- the undertaking of bilateral agreements, in which trade policy measures agreed between trading partners;
- the undertaking of multilateral agreements.

Trade policy is coordinated and regulated by the participating countries (the General Agreement on Tariffs and Trade, which is included in the system of the WTO agreements, agreements on trade of EU member states). The state can use each of approaches in any combination.

The basic line of government control of international trade is the application of two different types of foreign trade policy in combination: liberalization (free trade policy) and protectionism.

Under the **free trade policy** is understood the minimum of state interference in foreign trade, which developed on the basis of free market forces of supply and demand, and under the **protectionism -** the state policy, which provides the protecting of the domestic market from foreign competition through the use of tariff and non-tariff trade policy instruments.

These two types of trade policy characterize the measure of state intervention into international trade. If under the conditions of liberalization policy, a basic regulator of foreign trade is a market, then the protectionism practically excludes the operation of free market forces. It is assumed that economic potential and competitiveness at the world market of separate countries is different. Therefore a free action of market forces can be unprofitable for the less developed countries. Unlimited competition from more powerful states can result to economic stagnation and the formation of inefficient economic structure in less-developed countries.

The protectionism policy contributes to the development of certain industries in the country and often is a necessary condition for industrialization of agrarian countries and unemployment reduction. However, the removal of foreign competition reduces the interest of domestic producers in the implementation of scientific and technological progress, improving the efficiency of production.

<u>There are such forms of protectionism:</u>

- selective protectionism, directed against some countries or some commodities;
- industrial protectionism, which protects certain industries;
- collective protectionism: countries, which belong to economic integration organizations conduct this form to countries, which do not belong to a union;
- hidden protectionism, which is carried out by methods of domestic economic policy.

Every country has economic, social and political arguments, protecting interests of protectionism.

<u>The main arguments for restrictions on foreign trade are:</u>

- necessity of defense providing;
- increase of domestic employment;
- diversification for the sake of stability;
- protection of infant industries;
- protection from dumping;
- cheap foreign labor force.

So, the art of trading policy is to find the point of balance between two trends: free trade and protectionism. Each policy has its own advantages and disadvantages, depending on the circumstances, time and place of its applying.

<u>The instruments of state regulation of international trade include the following:</u>

- tariff methods that regulate mostly the imports and protect domestic producers from foreign competition. They make foreign goods less competitive;
- nontariff methods, regulating both imports and exports (they help to bring more domestic products on the world market, making them more competitive).

<u>To indicate the nature of trade policy, the following two indicators are used:</u>

- the average level of customs tariff. It is calculated as the average rate of import duties, according to the value of imported goods, to which the rate is applied. This indicator is defined only for the goods whose imports are imposed by duties;
- the average level of nontariff barriers. It is calculated as the value share

of the imports or exports, which are subject to the restrictions [18, p. 173]. Mode of implemented restrictions for each of the indicators is considered as open one if its level is less than 10%, the moderate one if less than 10-15%, the limited one if over 25% and the restrictive one if 40-100%.

3.3.2. Tariff Methods for International Trade Regulation

Customs tariff is the main and oldest instrument of foreign trade policy. This is a systematic set of rates of customs duties, imposed on goods and other things, imported to the customs territory of a country or exported from this territory.

A duty, charged by customs, is a tax on goods and other things that are moved across the customs border of the state.

Duties perform the following functions:

- *a fiscal function,* when they are used to generate, mobilize, accumulate financial resources of the state. This function applies to both import and export duties;
- *a protectionist function,* when they are introduced to reduce or eliminate the imports, thereby protecting domestic producers from foreign competition;
- *a balance function,* when they are introduced to prevent from undesired exports of the goods, the domestic prices of which are lower than the world ones.

There are the following types of duties:

1. According to the way of levying:

- ad valorem (value) duties (TAV) imposed as a percentage to the customs value of the goods which are subject to duty (for example, 30% of customs value);
- specific duties (TS) imposed in the prescribed amount of money per unit of goods which are subject to duty (for example, $15 per 1 ton);
- compound duties that combine the two above-mentioned types of customs duties (for example, 30% of customs value, but no more than $15 per 1 ton).

2. According to the object of levying:

- import duties imposed on the goods imported to the customs territory of a country;
- export duties imposed on the goods exported from the customs territory of a country.

3. According to the nature:

- seasonal (import and export) duties, imposed on the goods of the seasonal nature for operational regulation of international trade. It is valid during a few months;

- special duties applied by the state in the following cases:

a) as protective duties, if goods are imported to the customs territory of a country in such quantities or under such conditions that cause or threaten to cause injury to domestic producers of the similar or competing products;
b) as a precautionary measure against the participants of foreign economic activity, which disserve the interests of the state in a particular industry, as well as a measure to stop the unfair competition;

c) as a measure in response to discriminatory and (or) the unfriendly actions of foreign countries, as well as in response to the actions of different countries that restrict the legitimate rights of entities of foreign economic activities of a country;

- anti-dumping duties applied to the imports to the customs territory at the price significantly lower than in the country of exports at the time of the exports, if such imports cause or threaten to cause injury to domestic producers of similar or competing products, or impede organization or expansion of production of such goods;
- compensation duties applied to the imports of the goods on the customs territory, in the production or exports of which the subsidies are used directly or indirectly, if such exports cause or threaten to cause injury to domestic producers of similar or competing products, or impede organization or expansion of production of such goods.

4. According to the origin:

- autonomous duties imposed on the basis of unilateral decisions of public authorities;
- agreement duties imposed on the basis of bilateral or multilateral agreements;
- preferential duties with rates lower than the current tariff.

5. According to the types of rates:

- permanent rates are rates of customs tariffs, imposed by public authorities, which may not change depending on the circumstances;
- variable rates are rates of customs tariffs, which may vary by state authorities in certain cases.

6. According to the calculation method:

- nominal rates are customs rates, indicated in the customs tariff;
- effective (actual) rates are a real level of customs rates for the final goods, calculated on the basis of the level of duties, imposed on imported units and components of the products.

3.3.3. Non-tariff Barriers for International Trade Regulation

For international trade regulations also applied the other trade restriction, - non-tariff ones, which is widely used in the trade practices.

Distribution of non-tariff barriers stems from the fact that their introduction is the privilege of the state government, and they are not regulated by international agreements. Governments are free to apply any kind of non-tariff barriers, which is not possible with the tariffs, regulated by the WTO. In addition, non-tariff barriers usually do not result in immediate increase of the price of the goods and, therefore, a consumer does not feel their impact in the form of a supplementary tax (introducing a tariff makes the product price increases by the amount of the duty). In some cases, the use of non-tariff methods, with a relatively liberal customs treatment, can lead to a more restrictive nature of state trade policy as a whole.

Non-tariff barriers can be divided into the following groups: quantitative, hidden and financial ones.

Quantitative restrictions include quotas, licensing, “voluntary” export restraints.

Setting quotas. A quota is the most common form of non-tariff barriers.

A quota is a quantitative measure of the export or import restricting of the goods by a certain number or amount for a certain period of time. Quotas are usually used to regulate the imports of agricultural products.

If the objective of the government is to control the movement of some product rather than its restriction, then a quota can be imposed at a higher level than the possible imports or exports.

By the direction, quotas are divided into the following:

- export quotas, imposed by the state government to prevent from the export of scarce products in the domestic market, as well as to achieve political objectives. These quotas are rare;
- import quotas, imposed by the state government to protect the domestic market from the foreign competition, to achieve balance in the trade balance, to regulate supply and demand within the country, as the adequate measure in response to discriminatory trade policies of other countries.

By scope, quotas are divided into the following:

- global quotas, imposed on imports or exports of a certain product for a certain period of time, and do not depend on the country importing or exporting this product (for example, the USA use quotas to regulate the importation of Roquefort cheese, certain sorts of chocolate, cotton, coffee, etc.). The aim of introduction of these quotas is to achieve the required level of domestic consumption. The amount of global quotas is defined as the difference between domestic production and consumption of the goods, which they are imposed on;

- individual quotas are quotas, imposed as parts of the global quota, of each country, exporting or importing the goods. They are imposed on the basis of bilateral agreements.

Economic results of the introduction of quotas are as follows:

- quotas are a more effective tool, than tariffs on import restrictions, their introduction allows imports to be kept at a constant level, despite the growth in demand that, in its turn, increases the price of a product. At the previous level of imports, domestic production and consumption increase;
- quotas are an absolute value and they are inflexible to the price of a product;
- they are more effective for rapid actions of administrative authorities, they are easy to manipulate (tariffs usually require the enactment of corresponding legislation);
- quotas are a direct source of monopoly profits; they always increase the incomes of producers of import-substituting products; they constrain import competition (tariffs usually permit it).

Licensing. Quotas are imposed by government authorities through the issuance of licenses.

A license is a permission, granted by public authorities for export or import of goods in the assigned amount for a certain period of time. A license is issued by the state through the special authorized agencies.

Licensing may be in the following forms:

- an integral part of the quota. In this case, a license is a document which certifies the right to import or export the goods within the obtained quota;
- an independent instrument of government regulation.

Voluntary export restraints (VERs) is a quantitative restriction of exports, based on the commitment of one of the trading partners to limit (or not to expand) the volume of exports, adopted within the intergovernmental agreement on quota imposing on product exports.

An importing country forces its trading partner to reduce voluntarily (unilaterally) the exports. The reason of a VERs implementation is usually the statements of national producers that the importation of some product causes the losses in production and disorganization of the local market. Instead of imposing import quotas, an importing country put political pressure on an exporting country, requiring the imposition of restrictions on the exports of a particular product. By means of pressure on the trading partner, there occurs a threat of imposing trade restrictions on such a high level that the very possibility of international trade between countries will be put into question.

In general, the economic effect of the introduction of voluntary export restraints by an exporter is negative for an importer. However, the amount of its losses reduces due to the increase of imports of similar products originating in countries, which do not impose voluntary restraints on their exports.

The essential role of non-tariff methods of trade policy focuses on the hidden methods of trade restrictions with more than 100 titles. They allow countries to restrict exports or imports unilaterally. They include: technical barriers, internal taxes and charges, public procurement, local content requirement.

Technical barriers are national standards of quality, economic requirements, medical restraints, packing and marking of goods, requirements to implement the complicated customs formalities, laws of consumer protection and etc. Technical barriers arise from the fact that national technical and administrative rules prevent from the imports of goods. It occurs in case of non-correspondence of the imported goods to the enforceable standard of quality, health and safety, which are applied to the similar domestic products, non-correspondence of agricultural products to the sanitary and phytosanitary norms, applied to prevent from the imported pests and diseases that do not exist in a given country.

Internal taxes and charges. State and local governments may impose various direct (value added tax, excise taxes, etc.) and indirect (charges for customs clearance, registration, port charges, etc.) taxes on the imported goods with a view to enhance their internal prices and decline competitiveness in the domestic market.

Public procurement. The policy within the government procurement is that the public authorities and enterprises must buy certain goods only from national firms, even if these goods are more expensive than the imported ones. It increases the government expenditures that burden lies heavy on the taxpayers. The use of public procurement policy, to some extent, discriminates against foreign suppliers. The volumes of such purchases often reach 10-15% of the GNP of a country.

Local content requirement. This method of the hidden trade policy involves the legal establishment of a share of the final product, which should be produced by local (national) manufacturers, in case of selling this product in the domestic market. Typically, this method is used by the governments of the developing countries in order to replace imports with domestic production and also to avoid transferring the production to the developing countries with lower labor costs and, as a result, to maintain the level of employment.

The purpose of financing, as a method of the international trade regulation, in particular, the exports expanding, is discrimination of foreign companies for domestic producers and exporters by reducing the value of the exported goods and enhancing their competitiveness in the world market. Export financing is available from the following sources: the state budget, banks, funds of exporters and their banks. Financial methods of trade policy include: dumping, subsidies, export crediting. Dumping is the export of goods at prices lower than the cost of production, or, at least, at lower prices than in the domestic market. Thus, dumping is considered as a form of international price discrimination.

Subsidies. Governments of many countries in order to develop certain industries and provide the necessary export policy, use subsidies, i.e. carry out state subsidies to producers when they enter the world market. In other words, a subsidy is a financial or other support by public authorities of the production, processing, selling, transporting, exporting of the goods, in the result of which the entity of economic-legal relations of an exported country receives benefits (profit). This support of national producers, at the same time, discriminates against importers.

Depending on the nature of payments, there are direct and indirect subsidies.
Direct subsidies are direct payments to an exporter after the export operation, which are equal to the difference between the expenditures and the received profit. Direct subsidies contradict international agreements and are prohibited by the WTO.
Indirect subsidies are hidden subsidies of exporters in the form of tax exemptions, preferential terms of insurance, repayment of import duties, etc.

<u>According to specificity, a subsidy can be as follows:</u>

- a legitimate subsidy, which does not give reasons to apply compensatory measures;
- an illegitimate subsidy, which gives reasons to apply compensatory measures.

Depending on the entity, receiving a subsidy, there are domestic and external (export) subsidies.
Domestic subsidies are government financing of domestic production of goods, competing with imports. They are considered as one of the most disguised financial instruments of trade policy, as well as the best method of import restrictions in comparison with import tariff and quota, because they do not distort domestic prices and provide smaller losses for the country (losses for the national

economy occur because : a) as a result of receiving subsidies, inefficient local producers can sell their goods; b) subsidies are financed through the budget, i.e. by means of taxes).

Export subsidies are government financing of national exporters, allowed to sell the goods to foreign buyers at lower prices than in the domestic market, and thereby promote the exports.

Export subsidies may be granted in the following main forms:

- providing an enterprise with direct subsidies;
- payment of premiums after export operations;
- introducing preferential (rates, base of calculation, mechanism of charging, etc.) transport or freight tariffs for export shipments compared to transfers in the national market;
- direct or indirect delivery of imported or national goods by a public authority to use the export goods in the production under more favorable conditions than the conditions of supply of competing goods to produce the goods, intended for consumption in the domestic market, if these conditions are more beneficial for their exporters than in world markets;
- exemption or deferral of payment of direct taxes, which must be paid by exporters, implementing export transaction or paying to social insurance funds;
- giving reductions when paying taxes;
- in the case of production and delivery of goods for exports, introducing exemptions of payment or repayment of indirect taxes;
- reduction of rates or repayment of taxes on imports of material and technical resources, the goods for export;
- implementation of state programs, which guarantee or insure export credits, guarantees or insurance programs of non-arising of the cost of the exported goods or exchange risk programs, using premium rates, insufficient to cover the long-term costs and losses, arising from the implementation of these programs.

An export subsidy reduces an export price of the product and demand for the product increases abroad. As a result, the terms of trade of the country, that exports, deteriorate. However, due to the decrease in the export price, the quantity of the exported goods increases. Because of the growth of exports, less products appear in the domestic market, a domestic price increases. The benefit or loss of the exporting country depends on the fact, whether it can compensate the losses, linking with the worsening terms of trade, i.e. decline in export prices, by means of increase in sales.

An export subsidy is an expenditure line of the budget, and hence an additional tax burden for the taxpayers (the costs of financing the subsidy are equal to the quantity of goods, exported after the introduction of the subsidy, multiplied by the amount of the subsidy).

Thus, as the subsidies reduce the costs of producers, they have an impact on international trade by means of artificial improving of competitiveness of certain firms in export markets, or providing the advantages of internal products compared with imported ones.

The importing country when an export subsidy occurs (the use of illegitimate subsidies) may impose countervailing duties levied on goods that are subject to countervailing measures. These measures can be used in the event of serious damage to the interests of other countries, in particular in the following cases:

- total amount of subsidy in comparison to the cost of the product is greater than 5%;
- subsidies cover the cost of production of industries;
- subsidies are not one-shot and cover the production costs of the enterprise;
- direct debit by the government.

Export credits. To hide the export subsidies, governments use export credits, providing financial incentives to develop exports by domestic producers. Export credits can be the following: subsidized credits for domestic exporters. These credits are issued by state banks at the lower interest rate than the market one; state credits for foreign importers, who must purchase the goods only from firms of the country, providing this credit.

Questions on the chapter

1.D. Ricardo proposed a theory:
a) random components that determine the nature of trade;
b) differences in the provision of factors;
c) differences in climate and resources;
d) differences in labor productivity.

2. The largest part of modern international trade is classified as trade:
a) agricultural products;
b) mineral products;
c) industrial goods;
d) services;

e) dairy products.

3. The most important economic category expressing the essence and content of international economic relations is:
a) the international division of labor;
b) international trade;
c) international economic integration;
d) international infrastructure;
e) free trade.

4. A product is labor-intensive in the Heckscher-Ohlin model if it uses in production:
a) the relatively high ratio of land to labor in comparison with other commodities;
b) more land than labor;
c) the relatively small ratio of land to labor in comparison with other commodities;
d) more labor than land;
e) only labor.

5. Dumping is:
a) export subsidy;
b) import tariff;
c) an example of price discrimination;
d) competition between two monopolists located in different countries;
e) any violation of trade laws.

6. A "small" country is a country:
a) in which the demand for imports is greater than domestic demand;
b) in which the supply of exports is greater than the domestic supply;
C) which does not affect its terms of trade;
d) which cannot function without international trade.

7. Autarky is:
a) free trade between countries;
b) self-isolation of the country, in which the needs of the population for goods and services are met only through domestic production;
c) protection of domestic producers of goods that compete with imports through customs duties and non-tariff restrictions;
d) a reasonable combination of the principles of protectionism and free trade.

8. According to M. Porter's theory, a company's position in the industry is determined by:
a) the possibility of the appearance of substitute goods;
b) the ability of suppliers to bargain;
c) differentiation of goods.

9. The country's foreign trade turnover is:
a) the volume of imports of the country during the year;
b) the volume of the country's exports during the year;
c) there is no correct answer among the proposed options;
d) the amount of exports and imports of the country.

10. The export quota is:
a) the share of exports in the country's foreign trade turnover;
b) the country's share in world exports;
c) the ratio of the value of a country's export to its GDP or GNP;
d) the cost of exports per capita of the country's population.

Self-test questions

1. International trade concept. Correlation between the concepts of the world market and world trade;

2. The need for the existence and development of international trade, its problems;

3. Features and specific features of international trade;

4. The international division of labor is the basis for the development of international trade;

5. International trade theory: absolute and relative advantages;

6. Modern theories of international trade. Heckscher-Ohlin theory. The Leontief paradox;

7. The theory of competitive advantages and modern innovations in the interpretation of international trade;

8. Main trends in the development and distribution of commodity flows in international trad;

9. Indicators for assessing the degree of development and the role of international trade in the country's economy;

10. Purpose and general direction of international trade policy. Types of trade policy

11. Customs tariffs, their types and application features;

12. Types, functions and classification of customs duties.

Chapter 3. INTERNATIONAL FACTOR MOVEMENTS IN INTERNATIONAL ECONOMIC RELATIONS SYSTEM

3.1. International capital movements

International capital movement is a rather developed component of the international flows of factors of production. Its nature consists in the partial removal of the national capital, after which it is included to the manufacturing process or other turnover in other countries. Under modern conditions, the capital mobility is relatively high, although it has more restrictions than the international trade. The growth rates of capital movements between countries are several times greater than the growth rates of both production and international trade. International capital movements can replace or complement the international trade, if the efficiency of use of capital is higher than the result of international trade.

International capital migration is not a physical movement of production means, but **a financial transaction**: loans, purchase and sale of securities, the investment.

Specific forms of international capital movements are distinguished by the following features:

- sources of capital origin;
- the nature of use of capital;
- terms of capital investment;
- the purpose of capital investment

<u>By the sources of origin, capital is divided into official **capital** and **private** capital.</u>

Official capital is funds of the state budget or the budget of international organizations (IMF, the World Bank, etc.), which move abroad or from abroad according to the decisions of governments or intergovernmental organizations. Its source is money of taxpayers.

Private capital is funds of private firms, banks and other non-state organizations, which are provided in the form of investment, commercial loans, interbank crediting.

By the nature of use, capital is divided into business capital and loan capital.

Business capital is funds that are directly or indirectly invested in the production for profit earning. It is usually private capital.

Loan capital is funds that are provided to a borrower to obtain a given percentage. On an international scale, loan capital is basically official capital.

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

Short-term capital is capital investment for less than one year, mainly in the form of the trade credit.

Medium-term and **long-term** capital is capital investment for more than one year.

All investments of business capital are mainly in the form of direct investments, as well as in the form of state credits.

By the purpose of investment, capital is divided into direct and portfolio investment.

Direct investment is capital investment in order to acquire control over the object of allocation of capital. It is mainly export of private business capital.

Portfolio investment is capital investment in foreign securities without the right of control over the investment object. It is mostly export of private business capital as well.

From a practical standpoint, the most important fact is the functional division of capital into direct and portfolio investment. The major role in international capital movements is played by international loans and bank deposits. The forms of international capital movements are defined in the investment and banking laws of each country.

Foreign direct investment.

Foreign direct investment (FDI) has a special place among the forms of international capital movements. This is due to the following two main reasons:

• foreign direct investment is a real investment, which, unlike portfolio investment, is not purely financial assets denominated in the national currency. It is invested in business, land and other capital goods;

• foreign direct investment, unlike portfolio investment, usually provides a managerial control over the object of the invested capital.

Prior to the emergence of transnational corporations (TNCs) all private foreign investments were mainly “portfolio” ones. With the appearance of TNCs (i.e. enterprises that own or control the production of goods and services outside of the country in which they are based), part of international capital movements take the form of foreign direct investment.

Foreign direct investment is a kind of foreign investment, intended to invest in production and to provide the control over the activities of enterprises by means of acquisition of a controlling interest. The proportion that determines the ownership varies in different countries. In the USA, formally a direct foreign investment is any capital investment if an investor holds a 10% interest in the company. Foreign direct investment covers all types of investment, either buying new shares, or simple crediting, if only an investing firm holds more than 10% interest in a foreign company. The proportion of participation in the company’s capital can be obtained in exchange for technology, skilled stuff, markets, etc. Investor’s property (complete or partial) and his control over the foreign enterprise, which becomes part of the organizational structure of TNCs as its branch or subsidiary company, are the main differences of foreign direct investment from other types of investing.

The hallmark of foreign direct investment can be considered a prevailing of the sales of the product, produced abroad with the help of FDI, over the sales of domestic products in the form of trade exports.

The factors that affect the growth of foreign direct investment and make proactive growth of FDI compared to the growth of the world trade (as well as GDP of the industrialized countries) are as follows: integration of production, its evolution towards a so-called international production; a growing role of TNCs; economic policies of the industrialized countries to support economic growth and employment; the trend of the developing countries and countries with economies in transition to overcome the crisis of the economy and social sphere; environmental factors that encourage the developed countries to transfer harmful production into the developing countries. When the government participates in foreign direct investment, their additional motive may be the achievement of certain political objectives: providing strategic resources, expanding its sphere of influence.

Foreign direct investment is the basis of TNCs domination in the world market. They allow the transnational corporations to use enterprises in foreign countries for producing and marketing of products and disseminating rapidly new products and new technologies at the international level and, thus, enhance their competitiveness. As far as they are concerned, FDI are motivated ultimately by profits.

The structure of the main factors of foreign direct investment can be presented as follows.

Marketing factors: 1) market size, 2) market growth, 3) a tend to hold a market segment, 4) a tend to succeed in export of parent company, 5) the need to maintain close contact with customers, 6) dissatisfaction with the existing state of market, 7) export base, 8) following the buyers, 9) following the competition. Trade restrictions: 1) trade barriers, 2) preference of domestic goods by the local consumers.

Cost factors: 1) a desire to be closer to the sources of supply, 2) availability of labor resources, 3) availability of raw materials, 4) availability of capital and technology, 5) low-cost labor, 6) low cost of other production costs, 7) low transport costs, 8) financial and other incentives offered by the government, 9) more favorable price levels.

Investment climate: 1) the overall attitude to foreign investment, 2) political stability, 3) restrictions in the ownership, 4) exchange rates adjustment, 5) stability of foreign currency, 6) the structure of taxes, 7) good knowledge of the country.

General factors: 1) expectation of high profits, 2) other factors.

The mentioned above factors of FDI are specified during the development of investment policy through the system of indicators, comprising about 340 indexes and more than 100 evaluations of experts in economic, legal, technical, social and other spheres. The data analysis form 10 fundamental factors to assess the potential of the country to act as host FDI or so-called competitive potential of the country.

These factors include the following:

- dynamics of the economy (economic potential);
- production capacity of industry;
- dynamics of the market;
- financial support of the government;
- human capital;

- prestige of the state;
- availability of raw materials;
- the orientation to external markets (export potential);
- innovation potential;
- social stability.

Each of these 10 factors includes a system of specific indicators. For example, for human capital's evaluation, Swiss experts suggested using 36 indicators that include: population and its dynamics; the overall unemployment rate; migration of the labor force as a whole, including highly skilled one; the level of professional training; motivation of hired workers and their mobility; management and its professional adaptation; the level of wages; public expenditures for education per capita; the level of workforce with higher education; periodicals publishing; the health care system, etc.

In practice, most decisions concerning foreign direct investment are based on many motives and take into account many factors. Political motives for investing are rarely separated from economic ones.

On the basis of expert estimates, the most attractive conditions for FDI are possessed by the following countries: the USA, Canada, Germany, Switzerland, and Asia-Pacific newly industrialized countries (NICs).

Forms of foreign direct investments. Foreign direct investment is carried out in the form of transfer of capital from one country to another by means of crediting or buying the shares from a foreign company, which is largely owned by the investor or under his control, or by means of setting up a new business. Therefore, foreign direct investment tends to imply a high level of investor commitments to the controlled firm in relation to transferring of new technologies, managerial know-how, the provision of the skilled stuff. Immaterial, mobile assets become a rather widespread form of FDI under modern conditions.
They may occur even with small initial funding or without any movement of financial capital abroad.

The mentioned form of foreign direct investment provides the controlled branch with: the transfer of the management skills; trade secrets; technologies; the right to use the trade mark of the parent company; etc. Therefore, a particular attention should be paid to the technology transfer.
Technology transfer does not mean only the emergence of new equipment in the market, but also mastery of technique of operations' performing on it. In the industries, where the role of intellectual property is essential, such as pharmacy,

education, medicine, scientific researches, the access to the resources and developments of parent company generates benefits far beyond those that could be obtained by infusion of capital. It explains the interest of many governments to the fact that TNCs have research centers (capacities) in their countries. An integral part of the technology transfer is the management skills that are the most significant components of foreign direct investment.

The principles of technology transfer are usually the following:
1. The usefulness of the technology.
2. Favorable social and economic conditions for the transfer.
3. The willingness and ability of the host country to use and adapt the technology.

In the industrialized countries, complex technological processes are economically justified, and specialists from these countries are able to solve the problems and develop technology. The problems occur in the less developed countries with little industrial experience. Production capacity must be adapted to the production in small series; equipment and operations should be very simplified due to the lack of qualified and trained personnel. In most cases, in these countries the quality is only reaching the world standards. To overcome these problems, for example, the electronics giant 'Philips' created a special experimental plant. The plant contributes to the fact that a lot of elements, defining the possibility of production functioning, are adapted to the local circumstances, and thus the necessary know-how and other elements are transferred to the developing countries.

Technology transfer increases with the growth of the industrialization, which will create not only the demand for new technologies, but also complicate the processes and technology in the existing economic sectors.

The consequences of foreign direct investments. Foreign direct investment has a significant impact on the socio-economic development of investing countries (where the capital comes from) and destination countries (where the capital comes in), on different social groups in these countries, and on the state and dynamics of the world economy as a whole and of individual regions as well.

The analysis of FDI impact on the well-being of the individual groups of population shows that foreign direct investment brings the following:

- **benefits**:

a) to foreign firms and investors;

b) to workers of the receiving country (workplaces);

c) to the population of the receiving country from a possible increase of social services because of taxes on incomes from FDI;

- **losses:**

a) to workers of an investing country, as FDI means exports of workplaces;

b) to competing firms in the receiving country;

c) to taxpayers of an investing country, as profits of TNCs are more difficult to tax and the government either shift the shortfall in tax revenue to other payers or reduce the budget-funded social programs.

<u>The general conclusion of economists, analyzing FDI is as follows:</u>

1) an investing country generally wins because the benefits for investors are more than losses of workplaces and other categories of persons in the home base country;

2) a receiving country also generally wins, because the benefits for workers and other categories of persons are more than the losses to investors of the receiving country who are forced to compete with firms that have technological, managerial and other advantages.

The simultaneous existence of both costs and benefits breeds differences in the business world, among politicians, scientists and economists about foreign investment. In many countries, FDI gives birth to nationalistic sentiments. In the USA, for example, according to the survey, 48% of Americans are opposed to Japanese investment and only 18% agree to take them. The position of the developing countries is ambivalent. On the one hand, they fear excessive foreign influence and exploitation and, on the other hand, the disinvestment as a means of access to the latest technology, exports expansion, etc.

In many countries in the sphere of investment policy there are powerful conflicting pressure groups, seeking to limit FDI inflow or their wide attraction.

In the home countries of TNCs, the lobbying influence of these corporations on foreign policies of the governments often results in international military conflicts in order to protect the interests of investing firms that do not coincide with the interests of nations as a whole.

The Nature of Portfolio Investment

International portfolio investment is a capital investment in foreign securities, giving an investor no right to control the object of investment, but giving only a priority right to receive income according to the purchased share of the ‘portfolio’ of the investment object, which in international practice generally does not exceed 10%.

International investment portfolio of an individual company includes the following:

1) shares;

2) debt securities:

a) bonds, promissory notes, loan notes,

b) money market instruments:

• treasury bills;

• deposit certificates of a bank;

• banker acceptances, etc.;

3) financial derivatives.

The main motivation to implement international portfolio investment is the receiving of higher income abroad. For example, residents of one country buy securities of another country if the revenues there are higher. It leads to the international leveling of incomes. However, this explanation for the reasons of international portfolio investment does not take into account the fact that the flow of capital is bilateral. If incomes from securities in one country are lower than in the other one, then it explains the flow of investment from one country to another one.

However, it is incompatible with the simultaneous capital flow in the opposite direction. To explain a bilateral capital flow, an element of risk must be taken into consideration. Investors are interested not only in profit, but also in a lower risk, associated with a specific type of investment. Thus, the risk of owning the bonds is linked with the possibility of bankruptcy and change of their market price, and the risk of the shareholding is in the possibility of bankruptcy, significant fluctuations of their market rate and the possibility of getting lower incomes. Thus, investors try to maximize the profits with an acceptable level of risk. There is a certain link between profitability of securities and risk of their acquisition: the higher profit an investor can get, the higher is the risk. For example, the revenue from the shares of company A and company B is on average 30%.

However, with equal probability, the profit from share A can be from 20% to 40%, and the profit from share B is from 10% to 50%. Shares B are associated with greater risk, because the range of values of the income for share B is much larger, so to minimize the risk the investors should buy the shares of company A. If the profit of shares A decreases with simultaneous increase of shares B and vice versa, owning two shares, an investor can get in average 30% of the profit but with lower risk.

The portfolio theory is based on the assumption that profits from securities may change over time in the opposite, and also the income can be obtained with less risk, and higher income can be with the same level of risk of the portfolio as a whole. As revenues from foreign securities are typically higher than revenues from national securities, a portfolio which includes national and foreign securities may have higher revenues and/or a lower risk than a portfolio which is formed of only national securities.

Such balanced portfolio requires a two-way flow of capital. For example, if share A, which has the same average profit like share B but a lower risk, is issued in country I, while share B (with the opposite revenue to revenue A), is issued in country II, portfolio investors of country I must also purchase share B (investing in country II), and investors of country II must purchase share A (investing in country I) for the balance of the investment portfolio. Thus, reciprocal international portfolio flows are explained by the opportunity to diversify risks.

International portfolio investment rises as investors seek to diversify their activities internationally to maximize the revenue with regulated risk. The volume of international market of portfolio investment is significantly greater than the international market's one of direct investment. More than 90% of international portfolio investment takes place among the developed countries.

International Loan Capital Flows

International loan capital flows are financial transactions, related to international loans, crediting, bank deposits and transactions, which cannot be characterized as direct, portfolio investment or reserve assets.

International crediting and loans are a movement of loan capital beyond the national boundaries of countries between the entities of international economic relations, providing currency and commodity resources under conditions of recurrence, urgency and interest payment.

Each country is an exporter and an importer of capital. International credit is involved in the turnover of capital in all stages, mediating its transition from one form to another one: from cash to a productive, then to commodity and to cash again.

International credit is considered as a special kind of international trade. This trade is not a one-time exchange of goods for goods, but supplying or receiving goods today in exchange for receiving or return of goods in the future. This exchange is called an intertemporal trade.

In economics, there is always a problem of choice between current and future consumption. As a rule, the produced goods are not consumed immediately, some of them are used as a productive capital for production expansion in order to increase consumption in the future. In other words, it is a choice between the production of consumer products now and in the future.

International credit gives you an opportunity to trade in time. If a creditor country provides a loan, it sells the present consumption for future consumption. A borrower-country, taking a loan, can spend today more than earned, in exchange for the obligation to pay compensation in the future for today's consumption. The countries, taking loans, and the countries, providing them, are determined by production capacity. Countries with good current investment opportunities take loans from other countries, which do not have such relative investment opportunities but have great current incomes.

Countries with relatively large financial resources in comparison to their profitable use internally can increase their national income by means of providing credit to the countries which have higher rate of income on capital (percentage, dividend). An importer-country of capital receives an opportunity to increase its national income at the expense of foreign investment received in more favorable terms in comparison with the internal terms of crediting. In general, through international credit there is a maximization of the world product at the expense of the general increase in world production.

The importance of international crediting lie in a fact that due to it there is the redistribution of capital among countries in accordance with the needs and opportunities of more profitable use. Creditors and borrowers are banks, firms, public institutions, governments, international and regional currency-credit and financial organizations.

<u>The effectiveness of crediting is reached upon condition that there are:</u>

- free movement of capital;
- stability and predictability of the development of the world economy;
- borrowers' implementation of their obligations, full payment of their debts.

Development of international crediting today is largely determined by the activities of TNCs and its role's enhancement in the evolution of international economic relations.

The time limits for performance of liability commitments (sale of property) play an important role in the capital movement. They can be the following:

- long-term (over 5-7 years);
- short-term (up to 1 year).

The main form of international long-term crediting is international loans.

Depending on who is the creditor, they are divided into private, governmental
credits, credits of international and regional organizations.
Private loans are provided by major commercial banks in the world from
their resources. In recent years, the proportion of external credits in the total export of loan capital of these banks has declined, but they do not lose their status of major international creditors. Private long-term loans can be provided not only by the resources of banks. Banks use the means of renters of large countries for these purposes with the help of the bond loans (external emissions). Investment banks place the securities (obligations) on the stock market of their countries, issued by private foreign companies or governmental agencies. Thus, creditors are big countries with a well-developed stock market and a significant surplus of loan capital. However, not all obligations of foreign loans are placed among other holders. Some part of the obligations with high reliability and profitability are left by the banks for themselves, receiving interest income from the loans (8-10% annually).

Governmental loans (intergovernmental, state loans) are given by government crediting institutions. A country assumes all the costs connected with the loan, it relieves expenditures in case of non-payment of debt.
Loans of international organizations are given mainly by: the International Monetary Fund; the structures of the World Bank; the International Bank for Reconstruction and Development; regional development banks and other credit and financial institutions.

It should be noted that the International Monetary Fund and the World Bank are not only the largest creditors, but also coordinators of international crediting.

For the purpose intended, international loans are divided into the following:

- production credits for the development of national economy, which are sent to industry, transport, agriculture (purchase of equipment, materials, licenses, productive services, etc.);
- non-production credits to provide the government, the army, the purchase of weapons, the payment of interest on foreign debts, etc. The share of credits of non-production character in the total amount of foreign credits increases.

The movement of short-term loan capital has the following forms:

a) commercial and bank credit;
b) current accounts in foreign banks.

Commercial (corporate) credit is widely used in foreign trade and given by an exporter of one country to an importer of another country in the form of a payment delay. In the commercial credit, a loan operation is combined with the sale of goods, and the movement of loan capital is combined with the movement of commodity capital.

Bank short-term crediting is the provision of funds in the monetary form on the security of goods, commodity documents and bills.

The cost of short-term credits is high enough (6-9% annually). Commercial loans are commonly used by English, German, French, Japanese firms for the purpose of foreign trade expansion.

Companies and banks use current accounts in foreign banks to attract free money capital of other countries. Current accounts in foreign banks are characterized by high mobility, variability, dependence on the economic and political conditions. Thus, countries can use them with a view to the exploitation of less developed countries (for example, to “freeze” the deposits that are formed as a result of goods delivery).

The international debt emerge. The practice of international crediting clearly shows how the actual development of international loan disagree with such conditions of normal work of the credit system as stability and timely payment of debts.

A tangible proof of mentioned above statement is the global debt crisis.

The main reason of the periodic occurrence of international debt crisis is a presence of strong motivation of sovereign debtors to refuse the payment of the debt. If the governments of the debt countries come to the conclusion that all payment obligations do not provide net inflow of funds in the future any more, there is an incentive to abandon some or all payments of the debts but to avoid outflow of resources from countries.

A reason to stop paying by the sovereign debtors helps explain some features of the behavior of international creditors. One of them is perseverance in establishing a higher interest rate in loans to foreign governments in comparison with the loans to private and public borrowers in their own country. The requirement for a higher interest rate is a way to get some kind of insurance award in case of non-payment of debts: while there is no crisis, creditors receive this award, but in case of a crisis they bear large losses.

What can solve the problem of non-payment? It may not be a traditional offer, linking new loans to the debtor with the requirement of "belt-tightening". To delay the time of non-payment of debts, new loans should cover at least the payments of interest and the principal sum of the loan. But even if the new loans are so high, their provision increases the total amount of debt, which a debtor can finally refuse to pay for, regardless of how long a new crediting lasts.

A reliable way to solve a problem of right of ownership of loans, granted to sovereign debtors, is the introduction of a pledge or security, i.e. the assets of any type, which may go into the ownership of the creditor in case of suspension of paying for the debt by the borrower. In transactions on loans within a country, a legal loan or security play an important role in maintaining of payments on debt and simultaneously strengthen the creditability of the debtor, allowing him to obtain loans at a lower interest rate and convenient temporary schema. In the past, the countries, paying for their debts on time, were those whose creditors were able to arrest the assets of the debtors in case of failure to meet the deadline of payment terms.

Despite the adoption of the measures by governments, the total debt of countries of the world in 2012 was amounted to $69,080 billion ($62,500 billion in 2011). Over the last 10 years, the total debt of all countries of the world increased by 2 times.

Thus, international debt is a serious problem in the world economy. The economic situation of a country, as a result of the globalization of financial markets, becomes more dependent on external resources, required to cover the budget deficit, domestic investment, socio-economic reforms and execution of debt obligations.

Mobility and the scopes of capital flows depend on the level of the country's development. Financial resources, received in the form of loans on the commercial terms by a country, cause the incurring of external debt, since they require appropriate payment.

3.2. International Labor Migration

International labor migration is the mobility of labor from one country to another for a period more than one year.

International labor migration covers the whole world: both the development part and the underdeveloped periphery. Currently there are more than 214 million of international migrants. International migration of the population has played an increasingly significant role in the development of societies and has become a global process that covered almost all the continents and countries, as well as various social strata. The total number of international migrants increases continuously.

More than half of migrants come from developing countries and countries with economies in transition. From these countries over the past 5 years, industrialized nations have taken 12 million migrants, in other words, the annual inflow of migrants is an average of 2.3 million people, of whom 1.4 million went into the North America and 800 thousand - into the Europe.

International labor migration is one of the objective bases of becoming an integrated international system. At the same time, the problem of free migration is the most dangerous for governments, both politically and in the social aspect. Ethnic and religious superstition and direct economic threat to the interests of particular groups who are afraid of competition from immigrants make this problem too spicy. For politicians, the issue of migration is a "hot potato that it is better not to take out of the fire. Therefore, during the migration policy implementation is very important to know the nature and general economic and social implications.

The international migration consists of the two basic interdependent processes: emigration and immigration. ***Emigration*** is a departure of labor from one country to another, ***immigration*** is the entrance of labor to the receiving country. Also as part of international flows of people distinguish ***remigration***, which is the return of the labor to the country of emigration.

<u>The main forms of migration:</u>

– ***permanent migration***. This form of migration prevailed over others before World War I and is characterized by the fact that lots of people were left their countries for the permanent residence in the USA, Canada, Australia for ever;

– ***time migration*** providing the migrant’s homecoming on the expiration of certain term. In this connection it is necessary to notice that modern labor migration has got rotational character;

– ***the illegal migration***, which rather favorable to businessmen of the country of immigration and makes an original reserve of cheap labor necessary for them.

Differently directed flows of labor, which cross national borders, form the international labor market functioning in interrelation with the markets of the capital, the goods and services. In other words, the international labor market exists in the form of labor migration.

The international labor migration is caused by both factors of internal economic development of each separate country and external factors: a condition of the international economy as whole and economic relations between the countries. During the certain periods as motive forces of the international labor mobility could be the political, military, religious, national, cultural, family and other social factors. The reasons of the international labor migration can be understood also only as concrete set of the named factors.

Traditionally (in the neoclassical theory) as the basic allocate the economic reason of the international labor migration connected with scales, rates and structure of accumulation of the capital.

1. Differences in rates of accumulation of the capital cause the differences between an attractive and the repulsive forces of labor in various regions of the world economy that finally defines directions of moving of this factor of production between the countries.

2. Level and scales of accumulation of the capital have direct influence on an occupation level of able-bodied population and, thus, on the sizes of a relative overpopulation (unemployment), which is the basic source of labor migration.

3. Rates and the sizes of accumulation of the capital, in turn, in certain degree depend on migration level. This dependence means that rather low salary of immigrants and possibility to reduce payment to domestic workers allows to reduce the production costs and thereby increase the accumulation of capital. The same purpose is reached by the organization of production in the countries with low-paid labor. Transnational corporations for the purpose of acceleration of accumulation of the capital use either the labor movement to the capital, or move the capital to the regions with excessive amount of labor.

4. The reason of the labor movement is changes in the pattern of requirements and the production caused by scientific and technical progress. The production cutback or liquidation of some out-of-date branches release labor which searches for its applications in other countries.

So, the international labor migration, first of all, is the form of movement concerning surplus population from one center of accumulation of the capital to another. It is the economic nature of labor migration.

However in the international labor migration not only the unemployed, but also a part of the working population are involved. In this case, the driving motive of migration is the search of more favorable working conditions. The labor moves from the countries with a low standard of living and salaries to the countries with higher ones. So, an objective basis of labor migration is national distinctions in the level of wages.

The Main Stages of International Labor Migration

Historically, there are four stages of the international labor migration.

First stage of the international migration is directly connected with industrial revolution which was held in Europe from the end of the eighteenth century right up until the middle of the nineteenth. A consequence of this revolution was that accumulation of capital was accompanied by growth of its organic structure. The latter has led to formation of "the relative overpopulation" that caused mass emigration from Europe to the North America, Australia, and New Zealand. It has begun the formation of the world labor market.

Formation of the world labor market promoted:

- the economic development in the countries of immigration as satisfied the critical need of these countries for labor resources in the conditions of high rates of accumulation of the capital and the absence of reserves of attraction of labor;
- the colonization of earth's areas with few population and the new countries' retraction in the system of the world economy.

Second stage of international labor migration covers the period from 80' of the 19th century to the First World War.

The scales of accumulation of the capital considerably increase during this period. Also, this period is characterized by the strengthening of unevenness of this process within the limits of the world economy.

The high level of concentration of both production and capital in the advanced countries (the USA, Great Britain etc.) causes the increased demand for additional labor, stimulates immigration from less developed countries (the backward countries of Europe, India, China etc.). The general and qualifying structures of migrants change in this conditions. In the beginning of the 20th century the basic mass of migrants was formed by unskilled labor.

Third stage of development of the international migration covers the period between two World Wars.

The feature of this stage is the reduction of scales of the international labor migration, including intercontinental migration and even remigration from the USA as the classical country of immigration.

Fourth stage of development of the international labor migration has begun after the Second World War to date.

This stage is caused by: a scientific and technological revolution; monopolization of the international markets of labor and capital; internationalization and integration processes.

The Modern Centers of International Labor Migration

The international labor migration in modern conditions has got character of the global process. Migration captures the majority of the countries of the world. The quantity of the countries involved in the international migratory process, has essentially increased, first of all at the expense of Central and Eastern Europe, as well as CIS. According to the experts' forecast, the quantity of migrants which are accepted by the developed countries, will remain at high level in the nearest decades.

In 2011, countries leading in emigration were Mexico, India, China, Russia, Ukraine and, in turn, countries leading in immigration were the USA, Russia, Germany, Saudi Arabia and Canada.

As the major centers of gravity of foreign workers, which define modern directions of the international labor migration, can be identified: North and South America, Western Europe, South-East and Western Asia. In beginning of the 21st century annual inflow averaged 2,3 million people, 1,4 million people of whom went to the North America, and 800 million people - to Europe. The largest centers of attraction of migrants are the USA and Canada (their readiness to accept foreigners is estimated accordingly in 1,1 million people and 211 thousand people accordantly).

The defying competition ones are countries of Western Europe, where the aggregate number of the people captured by migration during the post war period, is estimated in 30 million people. It is characteristic that last 20 years over 1 million people annually moves, looking for a job, from one European country to another, i.e. take part in a intercontinental interstate exchange of labor. For modern European migrations such directions are characteristic: from less developed countries of Southern and Eastern Europe (Greece, Spain, Turkey, Poland, Hungary, etc.) to the advanced countries of Western and Northern Europe (France, England, Germany, Sweden, etc.); from the countries of North Africa, India, Pakistan to the West European labor market; labor movements from one advanced country to another.

Emigration in the countries of the European Union has increased. Number of the foreigners living today in the EU countries reaches 17 - 21million people, 12-14 million people of whom (about 4 % of the population of EU) arrived from the countries which are not members of the Union: 29 % of migrants are citizens of Turkey and former Yugoslavia; 20,7 % — citizens of the African countries, 7 % — Americas, 13,6 % — Asia, 7,8 % — the countries of Central and Eastern Europe.

Among the EU countries which have accepted the foreigners, the first places occupy: Germany (over 7 million people); France (about 5 million people) and

Great Britain (about 3 million people). The main countries of emigration to Germany are Turkey, the countries of the former Yugoslavia, Italy, Greece and Poland; to France – Algeria, Morocco and Portugal; to Great Britain – India.

The important centre of gravity of labor is Australia. The area of Persian Gulf became new point of concentration of international groups of labor, where in 1975 the aggregate number of nonlocal population in 6 countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) id 2 million people, and in the beginning of the 21st century - 4 million people, or about 40 % of all population. The most part of the Arabian emigrants arrives from Palestine, Egypt, Iraq, Syria, Jordan.

On the African continent the centers of gravity are the countries of Southern and Central Africa. The aggregate number of migrants in all countries of Africa reaches 6 million people. \

Along with Western Europe, for last two decades the new centers of gravity of foreign workers reflecting labor migration from one developing country to another, moving of foreign labor from more developed to less developed countries, which in general was not characteristic for interstate migration in the past. These include, in the first place, "the new industrial countries" of Asian-Pacific region. And in Latin America they are Argentina, Venezuela, Brazil.

The largest direction of migration in the world is the Mexico - United States one: in 2011 the number of migrants amounted to 11.6 million people. The next ones by the volume are: Russia - Ukraine, Ukraine - Russia, Bangladesh - India; in these directions, many indigenous people were migrants without moving to other countries, as a result of the establishment of new state borders.

As regards the structure of migrating labor, there are following main regularities. Structure of labor, which migrates to industrially developed countries and between the developed countries, is characterized by two moments.

The first one: the necessity of a high share of the highly skilled and scientific personnel for development of new directions of scientific and technical progress. Industrially developed countries stimulate such moving of labor with the right of reception of the status of the constant resident. So, the share of foreigners among engineers in the USA is over 10 %, doctors – over 20 %. "The brain drain" in the USA occurs from both the developing countries and the countries with economies in transition. Within the EU the highly-skilled personnel concentrates in the most developed countries.

The second one: there is a considerable share of labor for branches with physically heavy, low qualification and unattractive kinds of work. For example, in France emigrants make 25 % of all occupied in building, 1/3 – in motor industry.

In Belgium they make half of all miners, in Switzerland – 40 % of building workers.

Migration of labor between developing countries is mainly migration between new industrial countries and OPEC member countries, on the one hand, to other developing countries, on the other hand. The basic structure of migrants from these countries is semi-skilled labor. Rather small flow of skilled labor goes from the developed countries to developing ones.

For migration within former world system of a socialism is characteristic the moving of labor from the countries with less favorable social and economic conditions to the countries with more stable economy and social conditions.

The consequences of International Labor Migration

Consequences of the international labor migration are various enough. They show up in the countries of emigration, as well as in the countries of immigration, bringing certain benefits and losses to both parties. However, as analysis shows, there are more benefits obtaining by countries of immigration, and losses exceed benefits in countries of emigration. The world as a whole wins, as migration freedom allows people to move to the countries where they can bring more significant contribution to world production.

The countries of immigration obtain following benefits:

a) in the country of skilled labor immigration, rates of growth of economy are accelerated: additional demand for the goods and services of immigrants stimulates growth of production and creates additional employment in the country of their stay;

b) there is the competitiveness increase of the goods made by the country owing to the reduction of the production costs connected with lower price of foreign labor and possibility to contain growth of a salary of local workers due to increased competition on a labor market;

c) the host country wins at the expense of the taxes which size depends on qualifying and age structure of immigrants. The highly skilled experts already knowing language of host country become large taxpayers at once;

d) the considerable income brings a transfer of knowledge from the emigration country. When the host country imports the skilled labor and scientists, it saves expenditure for education and professional trainings. So, 23 % of members of National academy of Sciences and 33% of Nobel Prize winners are immigrants in the USA;

e) foreign workers are often considered as the certain shock-absorber on a case of growth of unemployment: they can be fired first of all;

f) immigrants improve a demographic picture of the developed countries, suffering population aging. In Germany, France and Sweden 10 % of all newborns appear in families of immigrants, in Switzerland — 24 %, in Luxembourg — 38 %.

The countries of emigration also obtain certain benefits:

a) decrease in a rate of unemployment and, as consequence, - social pressure in the country;

b) free labor training for countries of emigration (new professional skills, knowledge of high technology, the work management, etc.);

c) reception of incomes in hard currency as a result of remittances of emigrants.

The remittances of migrants are a considerable part of currency receipts of states that positively influences national income of the state. It is one part of consequences of migration for countries of emigration. On the other part, these countries sustain essential losses from labor export: a) reduction of tax revenues because of reduction of number of taxpayers; b) the constant migration cased an outflow of the qualified, initiative workers, called "the brain drain", leading to slowing down the rates of increase of scientific and technical and cultural level of the country. By estimates of experts, these losses reach about 76 billion dollars. Such measures of the state can be possible ways of removal of negative consequences of labor emigration:

- an emigration interdiction;
- the tax introduction for the “brain drain” to compensate the state investments in emigrants;
- creation of the high profit branches which are carrying out export of labor.

3.3. International Technology Transfer

The Essences and Forms of the International Technology Transfer

The international technological exchange (technology transfer) is understood to be the complex of the economic relations of different countries concerning the transfer of scientific and technological achievements.

The scientific and technical knowledge being bought and sold in the world market, which is the result of scientific research, engineering and experience of their commercial exploitation, as well as engineering services for the use of scientific, technical, technological and managerial developments. They are the objects of intellectual property, possessing both scientific and commercial values.

As commodities they include the following:

- a patent is a certificate, which is issued by the proper government agency to an inventor and certifies its monopoly for the use of the invention;
- a copyright is an exclusive right of an author of a literary, audio or video product for display and reproduction of the work;
- a trademark is a symbol (a picture, graphics, combination of letters, etc.) of a particular organization which is used to personalize the product manufacturer and which cannot be used by other organizations without the official permission of the owner;
- industrial designs, which must be new and original;
- non-divulged information (know-how), which is secret and kept in secret, has commercial value and is provided to the government and governmental organizations as a condition of approval for the marketing of certain products;
- a variety of technical, design, commercial and marketing documentation.

These products of intellectual work belong to so-called nonmaterial forms of technology, and trade operations in international practice are commonly referred to as international technological exchange. Thus, international technological exchange is understood to be the complex of economic relations between contractors of different countries for the transfer of scientific and technological achievements (nonmaterial types of technology) with scientific and practical values, on the commercial basis. It should be noted that there are also noncommercial forms of international technological exchange:

- technical, scientific and professional journals, patent publications, periodicals and other specialized literature;
- database and databanks;
- international exhibitions, fairs, symposia, conferences;
- exchange of delegations;
- migration of scientists and specialists;
- training of scientists and specialists in companies, universities and organizations;
- education of undergraduate and graduate students;
- activities of international organizations in the field of science and technology.

Under modern conditions, international technological exchange has certain features [8, p.264]:

1. The development of market of high technologies. The generally accepted classification of high technologies for exports and imports of products, containing new and leading technology, is the classification developed in the USA, which is used by international organizations for statistical comparisons of different countries. The classification system allows to explore the trade in products of high technology in 10 main technological sectors: biotechnology; human life science technology; optoelectronics; computers and telecommunications; electronics; computerized production; new materials; aerospace technology; armament; nuclear technology.

2. The monopoly of large firms in technology markets. Research and development are concentrated in the largest firms of the industrialized countries, since only they have sufficient financial means for expensive research. Transnational corporations actively attract for R&D their foreign subsidiaries, characterized by increasing the expenses for scientific research in the total amount of the expenses of TNCs.

3. Technology policy of TNCs. In recent years there have been changes in the trends of R&D of TNCs. Research moves to the industries that determine success in the production and marketing activities:

- enhancement of traditional kinds of products to meet the requirements of the world market concerning the indicators of in material intensity, energy efficiency, security, reliability, etc.;
- creation of innovative products, market research, where you can expect high returns;
- improvement of the existing technology and creation of a new one.

TNCs apply new approaches to the transfer of scientific and technological achievements:

- sale of licenses at the initial stages of the life cycle of products, in order to cover the expenses for R&D by incomes from realization of their results;
- establishment of exclusively high prices for the patented products, and limitation of the production and output of a new product by license buyers;
- agreement undertaking between TNCs to obtain exclusive rights to the patents for the most important inventions. The use of patents to control technique development or to hamper this development;
- deprivation of TNCs subsidiaries the autonomy in the choice of equipment and technology. They should be guided by the general licensing policy within the TNCs;
- TNCs transmission of licenses in non-commercial terms to their subsidiaries and affiliates;

- the establishment of strategic alliances between TNCs from different countries to solve jointly the scientific and technological problems.

4. Relationship between TNCs and the developing countries. TNCs try to create a structure of international division of labor, which would provide economic and technical dependency of the developing countries. For example, in these countries, TNCs create enterprises that produce components that are supplied to the subsidiaries in other countries. Transferring the technology for manufacturing intermediate products to the countries with cheap labor force, a TNCs reduces the cost of their goods.

TNCs often moves to the developing countries the production of goods, the lifecycle of which expired and the profit from sales gradually decreases. They receive these goods at low prices and then sell them through their marketing network under their well-known trademark, getting a higher profit.

A technology, which is transferred to the developing countries, is generally ill-adapted to their possibilities, because it takes into account the level of development and the structure of the industry in the developed countries.

The developing countries account for about 10% of international technological exchange due to the small capacity of their technological market.

5. Participation in international technological exchange of "venture" firms (small and mid-sized firms employing up to 1 thousand people). The advantage of these firms in the market of technologies is a narrow specialization. Producing a limited product line, these firms have access to highly specialized global markets; they do not bear additional expenses for market research, advertising; they pay more attention to the direct solving of scientific and technical problems.

6. Development of international technical assistance. This assistance is provided by the developed countries to the developing countries and countries with economies in transition in the field of the transfer of technical knowledge, experience, technologies, technology-intensive products, personnel trainings.

The main buyers in the market of technologies are as follows: foreign subsidiaries of TNCs; individual independent firms.

Transfer of TNCs' new technologies to their foreign branches is conditioned by the fact that:

- overcoming the disagreement between the need for greater use of the latest technical developments with a view to maximize the profits and resulting therefrom threat of losing their monopoly for scientific and technological achievements;

- decreasing the specific costs for R&D;
- excluding the outflow of production secrets beyond the boundaries of TNCs;
- increasing the profit of the parent company (since in most countries the payments for the new technology reception are exempted from taxes).

Independent firms usually buy technology of the industries where the expenses for R&D are small (metallurgy, metal processing, textile and clothing industry).

Products of intellectual labor are sold in the world market through sales or by means of establishing the relations arising in connection with obtaining of a temporary right to use the results of scientific research and development on the basis of international licensing agreements, as well as contracts for engineering services.

The Role of Licenses in International Trade

International license trade is the main economic mechanism of international technological exchange and currently has become widespread and rapid disseminated.

The growth of international license trade is due to a number of factors that encourage firms to sell and buy licenses in the world market:

- commercial interest in the technology transfer;
- increased competition in the world market;
- acceleration of the placing of new products in the market;
- gain of access to additional resources;
- penetration and winning of difficult markets in the countries with high tariff and non-tariff barriers;
- profits from the sale of licenses for the products that do not meet the new strategic priorities;
- countries with limited resources of scientific and technological development, participating in international technological exchange, have an opportunity to take a firm position in the world market without additional costs;
- licenses help to create advertising of domestic products and increase demand in other countries, as well as explore foreign markets;
- political and legal motivations.

International license relationships are mostly between the developed countries. The proportion of the developed countries is almost 98% in the total revenues from international license trade.

In general the turnover of license trade is about 30 billion dollars per year. However, the significance of this market is defined by the fact that the cost of products, manufactured in different countries with foreign licenses, is 330-400 billion dollars annually. The leading position in the market of licenses belongs to the USA (65% of income of the industrialized countries from license export).

The objects of licenses are as follows:

- a patented invention or technological process;
- technological knowledge and experience;
- know-how i.e. technical knowledge, practical experience of technical, commercial, managerial, financial and other character, which is commercial value, and is applied in production and professional practice and are not provided with patent protection;
- copyright;
- industrial designs (new art and design solution, which defines its outward appearance);
- trademark.

Licensing agreements are typically concluded for 5-10 years.

The Role of International Trade in Engineering Services

The common form of international technological exchange is engineering. Engineering is a complex of engineering and consulting services for using technology and other scientific and technical developments.

The essence of international trade in engineering services is to provide on the basis of the engineering agreement by one party (a consultant) to the other one (a client) commercial engineering and design, consulting, construction engineering services. <u>These services may include the following ones:</u>

- – preparation of production:

a) preliminary design services (socio-economic research, field studies, topographical survey, mineral exploration, feasibility studies, consultation and supervision of the work);

b) project services (master planning, preparation of diagrams, drawings, technical specifications, consultation, supervision, etc.);

c) post-project services (preparation of contract documents, supervision of construction, construction management, acceptance of delivery work etc.);

- the process of production (services for organizing the production process, enterprise management, staff training);
- the sales of products;
- the construction and exploitation of industrial, infrastructural, agricultural and other objects [16, p.273].

All of these services are intellectual and aimed at optimizing the investment projects at all stages of their implementation.

The main factors, influencing the development of international market of engineering services are as follows:

- acceleration of scientific and technical progress, which can lead to significant shifts in the structure of international trade towards the increase of the trade in related types of equipment that need special knowledge to solve technological and organizational issues, ranging from the design of enterprise to its introduction into operation;
- increase in public and private investment, which allows to extend the building and to introduce new objects, where engineering services are needed;
- free capital available in the market of engineering services;
- high demand for engineering services from the countries that started their independent economic development and do not have the necessary experience and experts for the exploration and exploitation of their natural resources, development of fuel-and-energy base, creation of heavy industry, etc.;
- striving of large TNCs for foreign economic expansion, i.e. to expand the spheres of influence. They use the technical services as a means of penetrating into the economies of other countries. For example, the provision of engineering services to any country subsequently causes the supply of machinery and equipment, whose value in 10-20 times higher than the cost of services for their delivery;
- increase in the number of major engineering firms with large turnover and broad field of activity, creation of national and international associations of engineering firms to promote engineering [16, p.273].

The characteristics of the market of engineering services are as follows:

- results of the trade in engineering services are not embodied in material types of product, but in some useful effect, which may or may not have a material object, i.e. engineering is an implicit form of technology transfer. For example, services of staff training, construction management do not have material objects;
- engineering services related to the preparation and provision of the process of production and realization, for intermediate consumption of material goods and services. Productive services are not engineering services;

- the objects of sales are services, adapted for the use in specific contexts and transfer of the average available scientific and technical, operational, commercial and other expertise.

Questions on the chapter

1. Foreign investment is:

A) investment of capital by a foreign person in economic objects of Tajikistan.
B) investment of capital by a foreign person for the purpose of making a profit.
C) investment of foreign capital in objects of entrepreneurial activity on the territory of Tajikistan, including money, securities, other property, property rights that have a monetary value, as well as services and information, in order to make a profit.

2. International capital migration is:

a) the movement of capital between countries, including export, import of capital and its functioning abroad

b) the export of capital and its functioning abroad in order to obtain a higher income in another country

c) Transfer of capital to offshore zones for personal and commercial purposes, reducing the tax burden on capital

d) objective economic process when capital leaves the economy of one country in order to obtain a higher income in another country.

3. The impact of international capital migration on the world economy is:

a) Promoting the growth of the world economy
b) Promoting the development of international trade
c) Promoting the global division of labor
d) Promoting the growth of world labor cooperation.

4. The main subjects of the world capital market are:

a) states
b) IMF
c) MICEX
d) World Bank

5. Loan capital is:

a) monetary funds directly or indirectly invested in production for the purpose of making a profit
b) money, directly or indirectly invested in production in order to obtain a percentage of the use of capital abroad
c) Money from the state budget transferred abroad by decision of governments, as well as by decision of intergovernmental organizations
d) funds of private companies, banks and other non-governmental organizations, moved abroad by decision of their governing bodies and their associations

6. The movement of people across the borders of certain territories with a change of permanent residence or return to it is:

a) urbanization;

b) the international labor market;

c) international migration;

e) labor migration.

7. Highlight the main economic factors of international labor migration:

a) different levels of economic development of countries;

b) religious;

c) national differences in terms of wages;

d) the presence of chronic unemployment in some countries;

e) export of capital; functioning of TNCs;

f) development of means of transport communications.

8. In modern international migration of the population prevails:

a) resettlement migration;

b) labor migration;

c) temporary migration;

d)permanent migration.

9. International labor migration is a set of movements of the working-age population between states under the influence of:

a) political factors;

b) environmental factors;

c) economic factors;

d)ideological factors.

10. Highlight the main benefits for countries accepting foreign labor:

a) stimulating the growth of production and employment due to additional growth in demand for goods and services;

b) increasing the competitiveness of goods produced in the country;

c) reduction of production costs in the country;

d) saving on costs of education and vocational training
product;

e) foreign workers "amortize" the socio-economic consequences of crises and unemployment for the local population;

Self-test questions

1. Import and export of capital (motives, forms, stages of development).
2. Foreign investment concept. Direct and portfolio investments. Advantages of attracting direct investment in comparison with import of loan capital.

3. The role of foreign investment in the development of the country's economy. Benefits over other types of economic assistance.

4. The scale and dynamics of the development of foreign investment.

5. Development trends of the foreign investment market at the present stage.

6. The role of the international stock market and international organizations in the investment process.

7. World labor market and world labor force

8. International labor migration as a form of international economic relations.

9. Types of international labor migration

10. Causes and factors of international labor migration

11. The scale and main directions of flows of international migrants

12. Positive and negative consequences of international migration

Chapter 4. Integration and globalization processes of international economic relations

4.1. Integration processes in the system of World Economy

24.1.1. Notion of international economic integration

Phenomenon of economic integration, understood as compilation and joining, appears along with a progress of commodity – monetary economy. At the beginning, integration got a form of joining different branches of economic activity in some regions. The next stage was joining regions – that is how, integrated national economies started. Then, economies of different countries – by creation thicker and thicker net of economic relations – begin to merge, and create, this way, the world economy. In the modern world economy, the economic integration has a form of creation different kinds of international, economic groupings, including groups of countries, which have a target of mutual integration of their economies [21 , p.28].

At the turn of the 20th and the 21st centuries, it is difficult to overestimate an influence of integrative processes on the global economy. An effect of mentioned processes on national economies, is also seen in every aspect of economic life. Integration became this factor, which has an essential meaning, to make economic decisions for national economies, as well as, for international ones. A majority of countries join integrative processes with liberalization of commerce, not ignoring, an important globalization process [20, p.26].

In an analysis of an economic aspect of integration, there are two tendencies: traditional modern one. The traditional analysis of economic integration, is based on classical and neoclassical theories of international exchange. The first of them, is Ricardian's law of comparative advantage. It is based on advantages from specialization. This theory is based on different production equipment factors and different level of activity of two countries. A known description of this theory is an example of England, where labor costs of cloth are smaller and Portugal, which makes cheaper wine. Barter trade between these two countries lead to a situation, when they concentrate on production of goods, made more effectively (England – cloth, Portugal – wine). This way, international exchange allows getting comparative profits [33, p.741, 742]. Neoclassic theory – Heckscher – Ohlin – says, about uneven equipment of two countries with production factors.

As a result, both countries have fulfilling structure of production – complimentary, which is good to lead international trade [2, p. 17].

These two theories build a base to define an economic integration, in such called traditional way. An author of the first definition is W.Ropke, by whom, a base of integration is liberalization of foreign trade it is a state, which allows commercial relations as free and profitable, as these, which are in national economy'. While a final effect should be a rotation of goods and service between national economies, like in a single country.

A modern attitude to the economic integration, shows fully changes, which were made in the theory of international trade. Economists, not only stress a need to eliminate various barriers in trade exchange, but also say about necessity to assure a free flow of production factors between a group of countries. An example of such an attitude, is the definition of A. Budnikowski, who treats economic integration like a process of liquidation limits in flow of goods and production factors, and creation similar conditions of competition [2, p. 18].

The second adequate definition of economic integration, is presented by an author, who reflexes reasons, targets and results of European integration (in European Union) and motives, directing countries, joining integrative groups. Economic integration (I) is showed as: "made by countries institutional relations and economic processes, which by international cooperation, are heading for optimization of basic economic – social parameters of all members of these agreements" [2, p. 20].

Presented above definitions of integration, stress a point of economic integration, which is joining economies by processes of elimination barriers economic trade and, by building its institutional bases.

Moreover, economic integration should be treated like a process, in which there are changes, not only inside structure integrating countries, but also between them. As a result of this process, a merge of separate elements goes, what leads to creation a new economic organism. Transformations, taking place in the structure of national economies, and charts of integration subjects themselves, cause, that whole this process, has a dynamic character. For this reason, even in seemingly integrated group, can appear following integrative processes [28, p. 208-209]. On a base of these deliberations, we can pronounce, that integrative processes, have an endless character, regarding a permanent progress of the world economy, permanent globalization and competition.

Besides, an economic aspect of integration in the literature of a subject, concerning the international integration, you can find political science interpretation of this phenomenon, the most important are ; functionalism and neo -

functionalism.

A founder and main representative of functionalism was D. Mitrany. He looks for ways to prevent international conflicts, besides he wants to set sources of cooperation between countries. According to a conception of functionalism, cooperation between nations should be in economic branches and with reference to their nature. It carries a necessity to focus an attention on a chosen task, and abstract from ideological elements, so, a primacy of economy over politics is accepted. Politics is inseparably with a power and is special for a concrete country. While, economy has an international character, it is a base for cooperation between societies. Approach of national economies goes by, such called spillover effect. This means, that, starting cooperation in one branch, draws a necessity of cooperation in other zones – integration accelerates it automatically..Next, we can mention two stages of this effect. The first stage aims to make changes in attitudes in societies - it is an educational effect of integration. Whereas, the second stage, includes changes in politicians' attitude, and, as a result, bringing actions connected with national safety, foreign politics and defense for common organizations . So, integration process goes to a limitation of a power of independent countries and widening international functional activity, by international organizations. Functionalism also supports global cooperation more, than a regional one [1, p.16].

The second political theory is neo-functionalism. Its main representatives are E. Haas and L. Lindberg. On a contrary to functionalism, they support a regional integration and joining, as a result of spill effect, an economic integration with a political one. An engine of integration, are elites and groups of business. These political forces, wanting to solve their problems, pass them to institutions of nationless character. An essential role in the neo-functionalism plays a spillover. But, there are three kinds of it. Functional spillover, by Mitrany, is an effect of choosing economic ties [19, p.18].

An effective realization of tasks in separate branches, needs an integration of the following ones, and , as a result, there is a coordination of politics. While, the second kind, is a political spillover. It comes from an economic approach of integrating countries and decisions of elites, who, by their actions, accelerate an integration process.

By E.Hass, the political spillover takes place, when next authorities competences of integrating national countries, are given to international organizations .The last spillover effect is a supported spillover. Here, a main role play international subjects, which are promoters of political integration and initiators of international improving. The last kind of spillover proves, that neofunctionalists throw away a thesis of self-acceleration of integration, and set a necessity make political decisions to support its dynamics [6, p.18].

As a result of integration process, a new economic body comes into being, which is not a compilation of consisting it elements, but states quite new, separate quality, and its progressing possibilities are higher than a sum of possibilities of creating it economies. Also, its meaning and tendering power in the international arena, is bigger, than each of creating it countries, separately. By P. Bozyk, in other situation, the integration would be pointless, because it is accompanied by costs, born both individually, by each member country, and together by all countries [32, p.108].

A notion: economic integration, in its modern meaning started to be used in economic literature, at the turn of forties and fifties of the 20th century. F. Machlup a spreading of this term, ties with a work of German authors, H. Gaedick and G. von Eyern, concerning statistics of commerce (1933), and a work of E.F. Heckscher about mercantilism (1931).

At the same time, the international economic integration, started to appear in official speeches of politician and officials, as well as, in documents concerning international matters. It is worth to mention a speech of P. Hoffman (managing European Community Administration – ECA) in Organization of European Economic Cooperation (OEEC) on the 31st October 1949, in which he insisted on a faster progress in "integration of Western European economy". He means, that "the pint of this kind of integration, was forming one big market, from which quantitative limits of goods flow".

Monetary barriers for money flow and even all customs would be removed for good'. Another significant example, can be a fact, that J. Tinbergen gave his second edition of his book a title ‘International Economic Integration’, while the first edition was titled ‘International Economic Cooperation’. So far, in the literature of the subject one, commonly accepted definition of international economic integration has not existed. It comes from a fact of complexity of discussed problem, and its interdisciplinary character. Some authors, dealing with international economic integration, define it differently and stress various aspects of this process.

With the passing time, a new current appeared, treating the economic integration like, happening in economy, process of joining separate, so far elements, into one, which creates a new qualitatively economic structure, represented by B. Ballasa, R. Cooper, G.Giersch, A. Marschal and J. Tinbergen. The most known representative of this current is B. Ballasa, and, by him, a definition of economic integration, is one of the most quoted in the literature of the subject. It treats the integration like an objective process, tied with a reached stage of manufacturing base, and, coming from it process of internationalization of economic life . By him, integration can be understood "as a process and as a state". Integration, treated like a process, involves different means of liquidation of discrimination between economic subjects, belonging to various national countries.

Treated like a state, cane be presented as a lack of different forms of discrimination, between national economies, considering, that discrimination, on the whole, influences mutual economic relations.
Integration process, understood usually, as a group of means, is to lead to reach awaited state of integration. By B. Ballasa, the economic integration can have a few forms, representing different stages of it – a zone of free trade, a customs union, a common market, an economic union and a total economic integration.

B. Ballasa also achieved a differentiate between an integration and cooperation. According to his conception, cooperation involves actions, going to minimalize the discrimination, while a process of integration, additionally involves actions going to limitation of some forms of discrimination. [6, p.19]
Z. Kamecki thinks, that defining the integration by B. Balassa raises some objections. First of all, it is considering the economic integration, as an economic politics, thus to acquate reasons (a set economic politics) with results (economic integration). The following reservation, is to equate the economic integration with a zone of free trade, customs union and following mentioned by Balassa, stages of integration. By Kamecki, an essence of integration are changes in economic structure, and, it cannot be equated with, coming into being, integrative groups. He stresses, that starting this type of organization, not always must lead to the economic integration, and integration can have place without creation this type of organization. In relation with it, he says, that these organizations ‘can be treated only as institutional forms and necessary only in some circumstances, to make the economic integration, bit not , as forms of economic integration generally [21 , p.23].

J. Tinbergen achieved a division of integration into negative and positive one. The negative integration leads to elimination different obstacles, in commercial exchange between member countries. The positive integration is tied with a modification of instruments of economic politics, and with leading new instruments and institutions, which would make easier a functionality of a market in an integrated area and would promote wider political targets of a union. In practice of integrative processes, separating these two types of integration is not easy. A statement that the negative integration is tied with lower integration stages, and a positive one appears only on a stage of building the economic union, is not true [25, p. 25]

Negative integration is characteristic for free trade zone and the customs union. Yet, leading a common customs tariff for the third countries in the customs union is a symptom of the positive integration. In realization, the negative integration is easier. Member countries of the integrative grouping can identify and eliminate all symptoms of discrimination in the commercial exchange much easier, than realize the common politics in any other fields.

4.1.2. Conditions of the international economic integration

For initiation and a right course of process of international economic integration, it is necessary to fulfill a few basic conditions . The most important condition is a real, or at least potential (possible to achieve while realizing) complementarity of economic structures of countries heading for the economic integration. Z. Nowak thinks that economic complementarity of different countries, compared to each other, shows a level, in which work division between them makes easier the economic progress each of them. According to it, countries with a similar structure of production, are little complimentary [6, p.20].

Complementarity should be understood dynamically, what means, that its lack in a separate moment (making the same goods, competitive to each other, in two or more countries) does not mean, that it cannot be created or developed in the future. If a lack of complementarity or competition exists in economy branches, in which it is easy to get a work division and specialization of production, (industry, especially processing one) then mutual adjustment and improving a general level of complementarity, can appear relatively fast. Whereas, the lack of complementarity or competition, is in agriculture or in mining industry, so in branches, where getting work division and specialization is difficult, then the process to increase complementarity, will go slowly.

Complementarity can have inter branch or inside branch character. An example of inter branch complementarity can be a traditional, international work division. Its bases are differences in recourses of production factors, coming from differences in raw materials, geographical situation and climate conditions. While, the base of inside complementarity, are differences in effectiveness of production factors.

Inter branch complementarity is not a necessary and enough condition, to the progress of international economic integration. In case of developed countries, its lack, and, even competition of economic structures are not an obstacle in the integration progress. In this group of countries, a necessary condition of the progress of international economic integration is existing inside branch complementarity, understood in dynamic way [2, p.372-373].
The second necessary condition for the process of integration is existing a right technical infrastructure, allowing countries to make trade sales. It is mainly a question of the right communication, transport or telecommunication connections, which enable the flow of goods, services, capital, information and, such called social-psychological infrastructure, understood as a level of acceptation of an idea and results of integration by citizens [27, p. 434].

Far easier when neighborly countries are integrating with each other, traditionally leading foreign trade and other forms of economic cooperation.
The third, important equally, although not always absolutely necessary condition, is pro integrative economic politics of countries, heading for integration, and accompanying creation some institutional-organizational structures, supporting this politics, in form of free trade zone, customs union, common market or economic union. Pro integrative politics includes actions, which enable and make easier, intensification of trade and services, and stimulate a transfer of production factors.

Two of the mentioned conditions – complementarity of economic structures and the right infrastructure – are necessary to make the process of international economic integration successful. Not fulfilling them causes, that the process of integration is practically impossible. The third condition – the pro integrative economic politics, is not an enough one, but, at the same time, is not the necessary condition. This means, that not fulfilling it, does not have to mean, that the integration cannot be done. Along it, fulfilling this condition together with not fulfilling, or only partly filing the next two conditions, is not enough to lead the effective process of economic integration.

4.1.3. Targets, premises and motives of the economic integration Process

There are two kinds of targets of the economic integration: economic and political ones. The main economic target is: progress of economic effectiveness, and in a consequence, economic development, which a synthetic factor is an increase of the national product and income . While, to the more analytical targets, we can count [6, p.21]:

– modernization of economy, by leading structural changes in production zone;

– free flow of goods, services, labor force and production factors, easy access to outside production factors, that means natural sources and technical knowledge;

– free access to foreign markets,

– reaching profitable prices in import and export,

– progress of specialization and cooperation in production,

– lower costs of technical progress and its higher dynamics.

Also the second group of targets - political ones – played an essential role in European integration.

The main economic target of integration, is maximization of profits from foreign trade and other forms of international cooperation, in frames of integrative grouping. In a short time, member countries increase their share in the internal trade of grouping and terms of trade are getting better. It is possible, thanks to elimination of tariffs, para tariffs and extra tariffs barriers. At the same time, access to markets of other member countries of grouping, is getting better. In a longer time, we can observe profitable changes in economy of member countries of the integration grouping.

Thanks to a cheaper specialization of production and division of work, there is a limitation or abandon of production and investments with relatively lower effectiveness, and concentration investments in the most effective branches. It enables of series of made goods, increase a production range, and then – increase of profits, connected with lower costs. Integrative processes make easier countries, which take part in it, access to outside production factors, especially to raw materials, labour sources and technical knowledge. It enables a limitation or elimination of national barriers of economic development, so also acceleration of a speed of national income increase [2, p.371].

Among the rest of integration targets, it is worth to put attention on civilization ones, tied with development of science technology, informatics, communication, economy organization and political life organization. Reaching these targets is possible, thanks to development of scientific – technical and productive cooperation, information exchange coordination of scientific research, or their common conducting.

Integration also enables a realization of cultural targets. It comes true, by leveling language barriers, ethnic conflicts, closeness all nations and singular people. Besides, integration allows realize targets, coming from global needs. First of all, it is protection of environment, prevention an arms race or disadvantageous demographic phenomenon.

A base of integration process, are some premises and motives. In the literature of the subject, it is stressed that premises, contrary to motives, have an objective character (come from outside of a country and are independent of it) and outside (connected with unprofitable for countries wanting to take part in the integration process, changes, which happen in the world economy, and other outside political, military and ecological threats). Objectivity of premises concerns also a right economic and civilization preparation of a country to be integrated [2, p.34].

Premises of integration can be divided into economic and outside economic ones. Economic premises, appeared in integration ideas in Europe of capitalistic system, what had place in18th century. Before, premises of internal and outside safety, as well as premises of political nature, were dominated. In case of integration countries, creating Council for Economic Assistance, political reasons dominated over economic premises [2, p.18].
To the main economic premises belong: growing competition in the world economy, connected with development of globalization processes – nowadays considered to be the most important premise, limitation of raw materials and labor force in many national economies, searching additional markets for a surplus of goods, necessity to develop inter branches specialization, necessity to concentrate expenses on research and progress of chosen production branches, market reforms in many countries, which resulted in opening for abroad .

To the outside economic premises belong: political and social ones and premises of internal and outside safety. To the political premises, we count uniform system and similarity of targets of foreign politics. Social premises come from a general development of civilization, which limits basic standards in existence and organization of life. Premises of internal and outside safety, define in going to strengthen a defending position of integration grouping, towards surrounding and preventing international conflicts. Another group of outside economic premises, are needs to a common creation of infrastructure of communication and informatics. Also, in environmental protection, cooperation of countries in prevention of pollution, and leveling their negative results, is necessary.

Motives of integration, on a contrary to premises, have a subjective character, and are results of unforced will of power and safety of a country, to the integration. In the literature of the subject, we can differ two kinds of motives – with universal and particular character. Universal motives, come from objective premises of integration, represent mainly in going to improve a defense of a country, towards outside surrounding, by strengthen a position of integrative grouping, towards this surrounding and by stabilization an effect of it.
For developing countries, taking part in integrative processes is a chance to facilitate and accelerate their economic development. Integration allows them to make common infrastructural projects.

Investments, coordinated industry development and mutual sales of goods. Thanks to integration, they can focus on development of these production branches, which enable the most effective use of owned raw sources, reduction of import or widening and verification of export. Also, thanks to integration, creating and developing industry branches in these countries, have a sure sales in internal market of integrative grouping.

To the political reasons of integration of developing countries, belong: strengthen their political position and auction strength in relations with other countries, especially with highly developed ones.

Unfortunately, despite numerous positive aspects of integration for developing countries, real integration processes, meet many difficulties and go very slowly. The results lie in a low level of economic development of these countries and a lack of complementarity of their economy.

4.1.4 . Methods and types of the international economic integration

In the literature of the subject, two methods of economic integration are presented – functional method (liberal, free market) and institutional one (authoritarian).

The first o them, is a result of objective necessity and a natural outcome of development of manufacturing forces, while, in institutional method, usually predominate political motives.

Supporters of the first of mentioned methods – functional one– think, that, a right process of integration should come from working of market mechanism and competition, While, a role of international institutions, which come into being in the process of integration and the state, should be limited to elimination all obstacles in flow of goods and production factors. According to this method, countries taking part in the integration process, should not create close regional groupings, and the market mechanism should lead to integration of the world economy, in free market conditions, and at the same time, to increase complementarity between individual countries.

The second method of integration – institutional one – has more numerous group of supporters. By this method, the economic integration is coordination and then unification of economic politics of integrating countries. In practice, it means, that these countries give a part of their functions and competence in economic politics, to a common international integrative institutions.
Presented methods of integration, are theoretical solutions and none of them exists in practice, in a pure form. Real processes of integration go according to a method, which uses, in different level elements, typical for both functional and institutional method.

Speaking about methods of integration, it is worth to remind of basic models of international economic integration. The model of integration is a total shape of integrative grouping, containing its main charts, especially a division of competitiveness, between international and over national organs and governments of member countries. In the literature of the subject, there are presented two models of integration in the market economy: model of international integration and, the model of over national integration [2, p. 178-179].

In the model of international economic integration (also called liberal no regulated model), all decisions, concerning ties of a group of countries, are made only by national institutions, whereas, an international centre has only coordinative functions. Recommendations of international integrative bodies, are prepositions and suggestions, towards member countries, and the latter ones can, but do not have to submit them.

The model of over national economic integration (also called the model of regulated or institutional integration) characterizes a fact, that over national centre of integration, on the base of information, passed by national integration centers, makes decisions obligatory to economic subjects in member countries – enterprises and national integration centers. They take a form of directives and orders. A range of decisive competitiveness of over national integration center, depends on decision of member countries and during the integration process, there is a gradual transfer of bigger and bigger part of authorities, from national to over national centers [2, p.373-379].

In a context of taking new countries, with different level of social- economic development, to the integrative grouping, appears an idea of diversity integration. It is searching a new model of integration, which allows to agree basic targets and rules, accepted by all member countries, with aspiration of countries, less or more engaged in the process of integration. Models of diversity integration, appear both in political science and in economic theories of integration .

Among ideas of diversity integration, a special attention, need four conceptions: the model of many speeds, the model of changeable geometry, the model of individual options and the mode centre-peripheries.
The model of many speeds sets, that member countries accept the same targets, and realize the same politics of actions, but in different speed. The model of 'changeable geometry' appears also in a version of 'concentric circles', 'strengthened cooperation (partnerships)' and 'flexibility' one. This conception sets that more advanced countries, develop a wider cooperation, over normal integrative process. The model set on individual options, when it comes to a range of integration, called also ' Europe a la carte', 'integrative menu', conception is chosen Europe, allows countries to choose some programs and politics from obligatory law order, and resignation with the rest of them. The model centreperipheries sets a division for countries of a core (avant-garde) , which are the main heart of economic and political development, and countries of peripheries (catching up ones).

A part of integration model, is a mechanism of integration. By a notion of mechanism of economic integration, you should understood rules of functioning of a market, in the integrative grouping. This notion contains functions of international market such as: international money, rates of currencies, international prices, international settlements, as well as, their connections with parameters of national markets. In the theory, there are two kinds of mechanism of integration – the mechanism of free market and the mechanism of regulated trade market [2, p.372].

In countries of the market economy, the main factor of integration is the mechanism of the market and competition. In economic practice, we speak about the regulated market mechanism. It means, that pro integrative politics and creation a grouping of integrative character go to facilitate of market mechanism working and a right direction or correction of its working.

In case of developing countries, where a mechanism of competition often does not work properly, to initiate a real process of economic integration, it is necessary to use other means. For example they can be: a trial to coordinate the economic development of a group of countries, free setting of chosen investments in the industry and infrastructure, coordination of chosen branches of economic politics, and, where it is possible and intentional, also gradual opening and joining national markets, in chosen branches of production.

4.1.5. Stages of advancement (forms) of economic integration

Processes of economic integration are characterized by stages. By B. Ballasa, considered as classical one, there are five stages of integration process. Starting with the simplest regional forms of economic integration, there are followed by: a free trade zone, customs union, common market, economic and monetary union and a total integration. Each of mentioned stage is characterized by specific charts. The main characteristic charts in singular stages, are presented in table below:

Institutional forms of regional integrative groupings

	Liberalization of trade between member countries	Common outside customs tariff	Free flow of production factors	Harmonization of economic politics	Unification of economic politics
Free trade zone	X				
Customs Union	X	X			
Common market	X	X	X	X	X
Economic and monetary union	X	X	X	X	X
Full integration	X	X	X	X	X

The simplest institutionally form of the integration grouping, is a free trade zone. Its target is elimination of customs and quantity limits in trade between member countries and, at the same time, keeping by each member country, a full autonomy in economic and customs politics, in relations with countries, which are not members of the zone.

Creation of the free trade zone, in practice, is often preceded by leading preferential commercial agreements, or automatically removing customs in mutual trade [26, p.67].

Liberalization of commerce in the free trade zone usually happens in stages – analytical schedule to abolish customs barriers and quantity limits for singular groups of goods, is contained in an agreement, signed by countries creating this zone. Such gradual abolishing limits in the commerce, goes to minimalize negative effects of exaggerated competition, and allows the right effect for results of creation and reallocation of commerce, which accompany functioning of free trade zone.

Subject of an agreement of the free trade zone, can be a whole trade sale between countries creating the zone, or only chosen groups of goods. In the second case, usually comes a total abolish of barriers, towards industrial goods, while liquidation of agricultural goods trade, has a selective and partial character (customs and quantitative limits for chosen agricultural products are abolished totally, for others are reduced, and for some stay the same).

After creation the free trade zone, commercial sales between member

countries become more liberal. It means that goods, made by member countries, are cheaper by abolished customs in the grouping market. While, towards the third countries, each country uses its own, most often different customs and commercial politics. In a consequence, in the zone area, goods, coming from countries of its zone, are treated differently than from other countries.
The higher form of regional grouping, is the customs union. It is thought to be a stem of integration groupings, and has the most built theory among other forms of integration groupings. Progress of the customs union theory, is tied with J. Viner and his book 'The Customs Union Issues', published in1950.
An essence of the customs union is a full liberalization of mutual trade sales, acceleration a common outside customs tariff and unification of commercial politics, towards other countries. It means that customs politics of this grouping, is focused on liberalization of trade between member countries and discrimination goods from other countries, at the same time.

J. Viner writes that a basic target of the customs union, and a main effect of its functioning, is reallocation of supply sources into specific goods. Depending on circumstances, this reallocation can go either, to a place of lower, or to higher manufacturing costs of these goods [32, p.77].

Abolish customs in mutual trade of countries, creating the union, and keeping them exchange with other countries, cause specific effects. In the literature, most often they are divided into static and dynamic ones.
Static effects appear in a short period, so they have another name – short periodical effects. They appear, when there are not structural changes (changes of equipment in manufacturing factors, changes in structure of production and consumption), or technical – technological changes (changes of a speed of technical progress and its structure). Static effects can be divided into commercial, which appear in the trade zone of goods and services, and outside commercial effects, which appear in investments, production and consumption zone.

Dynamic effects, called also long periodical ones, appear with reaction and adaptation of enterprises, governments and labor force, to changes made by creation of the customs union. A result of these adaptive processes, is a stimulation of economic development of the member countries of the union.

Commercial static effects, characteristic for the customs union are: effect of commerce creation and effect of commerce reallocation (changes of commerce directions). They go to a change of volume and structure of commerce. The first of them, concerns mutual trade between member countries of the union, the second one, the commerce of the union members with the third countries. These effects can also appear after creation of the free commerce zone.

Effect of commerce creation, is a creation new stream (streams) of commerce between member countries of the union, resulted by abolish of customs and other limits in the mutual commerce, keeping these barriers in the commerce with countries, which are not members of the union, at the same time. As a result of commerce liberalization, products, imported from member countries, become, in the specific country market, cheaper (price – related functioning of customs and other barriers is eliminated), so they are more competitive, than product made in this country. As an effect, the country production is replaced by import from a partner country. A condition to appear the effect of commerce creation, are differences in manufacturing costs of a specific product in singular countries.

A power of the commerce creation effect depends on following factors:

– price flexibility of demand of the country, which has not imported this good so far (the higher flexibility of demand is, the more intensive the commerce creation effect is, while, at a set flexibility, the more intensive creation effect is, the higher were customs rates between countries of the zone before its creation, and the bigger are differences in the costs of production of a similar good, in singular zone countries);

– price flexibility of demand in the country of a cheaper manufacturer;

– keeping a difference in costs and prices.

Liberalization of the commercial exchange in the customs union can cause, that a steam of it from countries, which are not members of the integration grouping, will be replaced by supplies of goods from member countries, even if a member country is characterized by lower production costs. It is connected with preferential treatment goods from member countries, which price and out price competiveness rises, thanks to abolition of commercial barriers and discrimination goods, from countries, which are not members. This phenomenon is called the effect of commerce reallocation. It means a worse allocation of sources, both on member countries side, and the whole world economy. This effect will be always unprofitable for more effective third country. Reallocation of commerce is also accompanied by production and consumption effects, which, in this case, we can find in a relation: member countries – countries, which are not members.

A power of the commerce allocation depends on:

– price flexibility of demand in the importing country and price flexibility

in the exporting country;
– outside customs rate;
– reaction of suppliers from the third countries, and reaction of manufacturers from the countries belonging to the zone.

The following stage, of the integration process, by B. Balassa, is the common market. It joins elements characteristic for the customs union – liberalization of the internal trade, a uniform outside customs tariffs and the common economic politics towards the third countries, with a free flow between member countries, and factors of production (labor and capital) [6, p.27].

In frames of the common market happens leading, such called rule of four freedoms, containing the free flow of goods, services, capital and people.

According to the theory of international trade, creation of the common market leads to an increase the economic effectiveness in the region. It happens, thanks to the right allocation of production factors – factors reallocate from areas with a lower final productivity, to areas of the higher final productivity [6 , p.33]. In the literature of the subject, an essence of functioning of the common market, is explained in various theoretical models. Generally, they can be divided into two groups – neo classic (concerning the integration of capital market and labor market) and modern models, containing elements of the theory of international production (stressing internal diversity of capital – flow of payments, portfolio investments, direct international investments) [6 , p.33].

The free flow of production factors causes, that factors go out of the country rich of them, to the country, in which they are relatively rare, and, in which you can get a higher rate of return with their application. Effects are short periodical adaptations of supply and prices of production agents, in the integrating countries. The most mobile agent of production is capital. Flow of capital, especially productive capital, is accompanied, most often, by migration of technical knowledge, licenses, patents and international flow of labor, which are correlated with improving qualifications and cooperation with specialists [6, p.31].

The following stage of the economic integration, is a monetary union. The monetary union is an important element of the economic integration processes, because an effective functioning of the customs union, the common market or the economic union, is impossible without an advanced integration in the monetary zone.

Theoretically, the monetary union can be realized itself or along to the

economic union. In reality, realization of the monetary union, is an element of the economic union functioning.
The monetary union contains all elements, characteristic to the common market, and additionally is characterized by the common capital market (including financial one) of integrating countries and the full rate union.

Three main premises of the monetary union, mentioned in the literature of subject, are:
– internal logics of the integration processes (coming to the stage of the common market, forces a progress in the monetary integration);
– crisis of the international monetary system (it is about the crisis of the system from Bretton Woods, which became a reason to start actions, going to the monetary integration, by countries of European Community);
– elimination of the rate risk and costs of monetary exchange.
In case of European Community, reasons, mentioned above, appeared at the end of the sixties of the 20th century. Then, it became clear, that a farther progress of economic integration is not possible, without acceleration of the monetary integration.

For the right functioning of the monetary union, some conditions are necessary. They are:
– liberalization of the capital sales and providing a freedom of financial service (integration of the capital market means a full freedom of the capital flow, portfolio, productive one) and an income from lending and productive capital);
– elimination of differences in fluctuation of exchange rate or setting a common currency;
– creation an over national centre of issuing banks, leading the common monetary politics;
– effective coordination of the economic politics of member countries, to eliminate essential differences in stage of the economic cycle.
In the literature, besides the monetary union, there are differed also, the rate union, the union without limited administratively rates and the union with parallel currency. All mentioned forms of the monetary integration, present a narrower range than the monetary union.

In case of the rate union, we can speak about the full and the partial rate union (pseudo union). In the partial rate union, a member country is obliged to keep its permanent currency rate, towards the currency of other member countries. It means, that fluctuation of rates is allowed, only in strictly limited borders. At the

same time, the member country can keep its own currency reserves, and its own monetary and fiscal system.
The full rate union means, that monetary politics of the whole grouping, is shaped by the common central bank, which can issue the common currency, and keeps common currency reserves of the member countries. One of the banks, creating the union, can takeover functions of the common central bank.

The conception of the union without limited administratively fluctuation of rates, sets, that coordination of the monetary politics, will contribute to approach of creation basic sizes of the monetary market, and they will stabilize in the natural way. The union with parallel currency is the parallel functioning of the common currency, to the national currency of countries, creating union.
W. Molle presented, a little different from B. Balassa, picture of stages of the economic integration [19, p.31].

He thinks that economic integration is the process happening on two fields – market and politics. On the market field, the integration concerns the market of goods, services and the market of production factors. The integration of markets is realized by elimination obstacles, which make hard, a free flow of goods, services and production factors, between member countries. It contributes to improve the effectiveness of economy. The essence of integration in the political field is the integration of intervention influence of governments on economy. Integration in these two fields has, due to the author, (by an author,) a stage character.
He differed following stages in the integration of goods and services:
– the free trade zone – all obstacles in trade between partners, are abolished, and, at the same time, each country can use its own customs tariffs, towards other countries; goods in the international trade must have origin certificates;
– not full customs union – obstacles between member countries are abolished, and towards goods coming from the third countries, it is led the common outside customs tariff , so, there is no need to show origin certificates on internal borders; whereas barriers towards some goods are kept,
– the customs union – all obstacles in the trade are abolished and the common outside customs tariff is led.

By W. Molle, the integration of production factors happens in two stages:
– not full common market – its first element, is not full customs union, there is a freedom of internal flow of significant segments of labor and capital, in

relations with the third countries, different country regulations can be obligatory – like in the free trade zone – or common regulations – like in the customs union;
– *the common market* – is consisted of a domestic market, where a freedom of flow of goods, services and production factors is obligatory, as well as, common outside regulations, concerning, both goods, services and production factors. In the integration in political field, W. Molle differs three stages:
– *the economic union* – determinates the common market, and a high level of coordination or unification of the most significant branches of economic politics;
– *the monetary union* – currency of member countries are tied by steady currency rates, and, are fully exchangeable, or, in all member countries there is one obligatory currency, reallocation of capital in the union borders is totally free;
– the economic and currency union joins characteristic charts of monetary union and economic one, besides, it is characterized by a big cohesion of macroeconomic and budget politics. To other charts of integration, W. Molle counted:

- *political union* – in its frames, integration goes out of economic field and contains branches, like foreign politics, to prevent crimes (police) and politics of safety,- full union – determinates a total unification of joining economies, and leading a common politics in many important branches, for example: social safety, income taxes, macroeconomic politics and stabilization politics.

4.1.6. Regional integration groupings

In the 20th century there was a strong dynamics of integration processes, in the singular regions of the world, what is identified, by many scientists, with a trial to find a new way of economy development. Nowadays, integration activity is tied with liberalization of economic relations, and they are not treated, like a necessary evil any more, but like a necessary condition of farther economic development. T. Sporek identifies this activity with a desire to create the free trade zone, where customs and quantitative limits in a group of countries, would be abolished. This view seems to be real especially, when observing a significant progress of commercial agreements, since the beginning of the nineties. A special attention needs a fact, that highest rise of numbers of commercial agreements, was in the West Hemisphere, and areas of Asia and Pacific.

A structure of the modern world economy is very complex. It comes from growing number of subjects, building it, and more complicated relations between them. In the last century, a new subject of the world economy appeared – integration grouping. It is defined, as ‘significantly different, on the surrounding background (for example, in the world economy, and in international economic relations), relatively uniform, new economic organism ,including two or more countries (national economies).

A process of integration joins members of groupings, and, it is a mutual adaptation of structures of singular economies. These international groupings have a regional character. It means, that, it is built by countries, which belong to a common geographical region, often neighbor to each other, and they are characterized, by a similar level of economic development though, it is not a necessary condition.

It is worth to stress, that integration groupings can have a dual character: formal (institutionalized) and informal. Formal integration groupings, have right organization structures, and authorities. Their role is a stimulation and continuation of integration processes, in the institutional way. Formalized integration groupings are for example: European Union, NAFTA and ASEAN. Informal groupings are deprived of formal structures, which would initiate and dynamize, integration processes. They can be formed by countries, tied with strong economic relations, for instance commercial, capital or productive ones. An example can be existing, but not formalized, relations between Canada, the USA and Mexico, before NAFTA was formed Integrative activity is observed in all continents. Table 2 presents the most important groupings, with a year of their foundation, the first and actual composition and describes institutional – legal form of each organization.

Chosen integration groupings, their primary and actual composition and planned/obtained institutional – organizational form

Integration groupings	Primary composition and the year of founding	Actual composition	Institutional organization form
EFTA – European Free Trade Association.	1960 Austria, Denmark Norway, Portugal, Sweden, Switzerland, Great Britain.	Island, Liechtenstein, Norway, Switzerland.	Free Trade Zone.
CEFTA Central European Free Trade	1992 Czechoslovakia, Poland, Hungary.	Croatia, Macedonia, Bosnia, Herzegovina,	Free Trade Zone.

Agreement.		Moldavia, Serbia.	
BFTA – Baltic Free Trade Association.	1994 Estonia, Lithuania, Latvia.	Estonia, Lithuania, Latvia.	Free Trade Zone.
UE – European Union	1951 Belgium, France, Germany, Holland, Luxemburg, Italy.	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Spain, Holland, Ireland, Lithuania, Luxemburg, Latvia, Malta, Germany, Poland, Portugal, Croatia, Romanie, Slovakia, Slovenia, Sweden, Hungary, Italy	Economic and Monetary Union (not all countries belong to it).
NAFTA – North American Free Trade Association.	1992 USA, Canada, Mexico.	USA, Canada, Mexico.	Free Trade Zone.
MERCOSUR – Common Market of The South.	1991 Argentina.	Argentina, Brazil, Paraguay, Uruguay.	Customs Union.
Andean Community.	1969 Bolivia, Chile, Ecuador, Columbia, Peru.	Bolivia, Ecuador, Columbia, Peru.	Customs Union.
CACM – Central American Common Market.	1960 Guatemala, Honduras, Nicaragua, Salvador.	Guatemala, Honduras, Nicaragua, Salvador, Costa Rica.	Customs Union.
CARICOM – Caribbean Community.	1973 Barbados, Guiana, Jamaica, Trinidad, Tobago.	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guiana, Haiti, Common Market. Jamaica, Montserrat, St. Lucia, St. Kitts and	Common Market.

		Nevis, St. Vincent and Grenadine, Surinam, Trinidad and Tobago.	
FTAA – Free Trade Area of The Americas.	Antigua and Barbuda, Argentina, Bahamas , Barbados, Belize, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Dominique, Ecuador, El Salvador, Grenada, Guatemala, Guiana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadine, Surinam, Trinidad and Tobago, USA, Uruguay, Venezuela.	Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Dominique, Dominicans, Ecuador, El Salvador, Grenada, , Guatemala, Guiana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadine, Surinam, Trinidad and Tobago, USA, Uruguay, Venezuela.	Target – Free Trade Zone.
LALA – Latin American, Integration Association.	1980 Argentina, Bolivia, Brazil, Chile, Ecuador, Columbia, Mexico, Paraguay, Peru, East Republic of Uruguay, Venezuela.	Argentina, Bolivia, Brazil, Chile, Ecuador, Columbia, Cuba, Mexico, Paraguay, Peru, East Republic of Uruguay, Venezuela.	Area with Economic Preferences. Target: Common Market
SACU – Southern African Customs Union.	1969 Botswana, Lesotho, Republic of Southern Africa, Suazi.	Bostvana, Lesotho, Namibia, Republic of Southern Africa, Suazi.	Customs Union.
COMESA – Common Market for Eastern and Southern Africa.	1994 Angola, Burundi, Dzibuti, Egypt, Erytrea, Ethiopia, Comory, Congo, Kenia, Madagascar, Malavi, Mauritius, Namibia, Ruanda, Seszele, Suazi,	Burundi, Comoros, Congo, Dem Rep., Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda,	Free Trade Zone.

	Sudan, Uganda, Zambia, Zimbabwe.	Zambia, and Zimbabwe	
ECOVAS – Economic Community of West African States.	1975 Benin, Burkina Faso, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauretania, Niger, Nigeria, Senegal, Sierra Leone, Togo, The Coast of Ivory, .	Benin, Burkina Faso, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauretania, Niger, Nigeria, Senegal, Sierra Leone, Togo. Island of Green Cape.	Target Creation of Economic and Monetary Union.
ASEAN – Association of South – East Asian Nations.	1967 Philippians, Indonesia, Malaysia, Singapore, Thailand.	Brunei, Darussalam, Philippians, Indonesia, Cambodia, Laos, Malaysia, Myanmar.	Free Trade Zone.
APEC – Asia, Pacific Economic Cooperation.	1989 Australia, Brunei, Darussalam, Indonesia, Japan, Canada, Southern Korea, Malaysia, New Zealand, Philippians, Singapore, USA, Thailand.	Australia, Brunei, Darussalam, Chile, China, Philippians, Hong Kong, Indonesia, Japan, Canada, Republic of Korea, Malaysia, Mexico, New Zealand, Papua, New Guinea, Peru, Russia, Singapore.	Multilateral System of Trade.
ANZCERTA – Australia, New Zealand Closer Economic Relations Trade Agreement.	1983 Australia, New Zealand.	Australia, New Zealand.	Free trade zone

It is worth to notice, that each of integration stages is difficult to reach. It needs, not only a rational attitude to economic matters, but also, a strong political will. The lowest stage – the free trade zone – is supposed to be the most attractive form of the integration process. It is one basic reason of such an attitude. It needs only elimination of quantitative and qualitative barriers, in trade sales, without a need to resign with economic independence of the national economy [29, p.9-10]. Majority of integration processes is limited to the free trade zone, examples are organizations, presented in table 2, for instance EFTA, COMESA and

ANZCERTA.

Majority of organizations stay at beginning stages of the free trade zone or the customs union. They also have ambitious integration projects, but for now, do not feel like getting rid of their independence. At the same time, a new phenomenon is perceived, which was not met before. The target of integration groupings, is not only liquidation of economic barriers, to increase trade, but also cooperation with scientific, technical and financial character. It is, such called new regionalization, which an essence is widening of integration areas, besides building economic groupings, also to ecology, culture or social matters.

Development of the modern world economy, for which, an increase of the global economic interrelationship is characteristic, appoints, a phenomenon of regionalization, sometimes having a form of integration. Globalization and regional integration in the world economy, like economic interrelationship, are not a new phenomenon and they existed before Yet, a range and course of these processes in the last decade of the 20th century, contains many new qualitative elements.

Regionalization, which somehow is a synonym of different integration forms, takes a form less or more close and institutionalized relations, is characterized by inter weaving economic, commercial, technical and financial cooperation [17, p.18]. In the common meaning, international economic integration is understood, as a process of a merge of national economies. Yet, this merge does not mean to add economic potentials, but creation new economic organism with different characteristics [2, p.273].

In the last years, we can observe a notable boom of the integration processes in various regions of the world. Such called new regionalism, became one of the main elements of development of the world economy, on a present stage. Modern integration initiatives, differ from the previous ones. They involve much more countries, have a wider range and different forms. Old groupings try to boom their activity, and, at the same time, new regional agreements are signed. Outside and internal conditions of economic cooperation processes, in particular countries, are also different. Change of political conditions, the end of the cold war and democratic changes, as well as abandon the model directed to inside to the model directed outside, was effective to make agreements in many countries. New conditions resulted in appearing of various forms of integration, and creating integration agreements in different regions of the world, on new rules. Actual processes are an example of integration of countries with diversified potential and big differences in development level.

Countries with lower development level, try to integrate with countries, which are main centers of the world economy.

‘New regionalization is characterized by widening the integration field, besides creation commercial blocks for such branches as: ecology, culture, social and political matters, and at the same time, sensitizing for global transformations. It is not only about defense, against results of global changes, but rather about facilitating of adaptations, which can be realized on particular countries level. It is admitted, that in regions, there are core and periphery areas. Areas out of the core, not having chances to integrate with UE and TRIADA, are less politically stable, and economically active, but they are conscience of their unprofitable situation, and want to stop a tendency to marginalization. Such called semi – peripheries of Europe, which creates East Europe, are in the indirect position, leading to the integration with the core, so with European Union.

A new stage of integration is often determined as, an open regionalism, what means, that its target is not a creation of close commercial blocks, but only increase of the free trade area. International regional cooperation is treated as a factor to strengthen of democratic and political stabilization, and to ensure economic progress and life improvement [26, p.4-9]

In the literature of the subject, a lot of place is sacrificed to research of mutual relations between two tendencies, characteristic for modern economy, especially growing up, at the same time, processes of globalization and international regionalization.

These relations are perceived in different way. On one side, it is shown, that the process of globalization and regionalization, strengthen mutually, on the other one, there is not lack of their opposition. J. Mayal interprets processes of globalization and regionalization in a very interesting way. He thinks that both trends are not opposite, but symbiotic, and appear in the world at the same time, fulfilling each other. By him, a development of regionalization was an answer to globalization process, like globalization itself, and powers, which stimulate it, were a consequence of competition in the world [6, p.31].

By J. Kleer, a base of these two processes, are mechanisms tied with profits of scale (it is called like that in economy). A deciding role in these processes played three phenomenons: a violent acceleration of technical progress, informatics revolution, and a fast development of work efficiency per worker.

Although, a core of globalization are similar, or even the same reasons, members of these processes , targets and rules setting both of them, are different. Targets of globalization do not have to be the same, as targets of the regional integration. Some are common, others can be different. Processes of the world globalization are directed by requirements of competition, and searching by economic subject, the most effective forms and localization of economic activity, and its chart differing it from integration, is spontaneity [25,p.20-24]. While, activity for regionalism, is mainly limited by needs of cooperation, not only economic, but also political and social, and contain many branches (for instance, environment protection or work conditions). Regional cooperation's target is resolving differences and contradictions between economies and works to compensate their development chances [26,p.40]

The main rules of globalization and international regionalization

	Globalization	**Regionalization**
Main Subjects	Main carriers of globalization processes are first, of all, transport cooperation.	Carriers of regional processes are always countries, agendas of institutions. They possess some power functions in the territory of regionalization.
Targets	Acting on many markets, corporations head for their maximal uniformity. Approaching of conditions happen mainly influenced by a market.	Regionalization is to go to higher effectiveness of economy, reduction of transaction costs.
Rules of activity	Corporations, lead by they own targets (finally it is maximization of profit), so activity is submitted to rules of micro economy.	Regionalization is tied with rules of macro economy – creation of outside conditions, macroeconomic stabilization, new impulses for development of infrastructure etc.

The modern world economy faced many new problems, coming from reasons of a present financial crisis, stagflation, huge divergences in goods – services – capital sales, unemployment and political events, caused by 11th September 2001 in the USA, on which there are two dominated trends – challenges: globalization and development of international economic integration. Dynamics of above events, in the global economy, increases a need of coordination of activities, yet, so far, a clear and precise conception in this range, was not worked out. Often, different, particular, mutually contradictory views of countries, despite a common interest, and then gradual widening of similarity zone, caused, that business were nor similar enough, to allow a coordination in the global scale.

Present realities of the world economy prove that, there is not the cooperation between countries, in the system of the world economy, despite a bigger engagement of international regulative organizations, such as: the United Nations, the World Trade Organization, Organization for Economic Cooperation and Development, International Monetary Fund or others form in regions, which start playing a serious role in the international economic and political relations. By A. B. Kisiel-Lowczyc, possibility to regulate economy in the international scale, can be created by regional integration, which is a function of the global transformations of the world economy [6, p.31].

Relations between the regional integration and the global system of the world economy, works on interrelation rule, that regional integration, which is a result of long term transformations of the world economy, is, at the same time, an important part of the global order, because it takes part in its development and transformation itself.

We share an opinion of many authors, who accept the regional integration for an indirect stage, on the way, to the global multilevel liberalization, stressing, that it is a fulfilling of difficult efforts, in order to remove many various barriers , in the commerce development, so it fulfills an important pragmatic stage. A practice of previous commercial negotiations proved, that important global targets, are possible to realize, only in a long time perspective, and, at the time, regional integration can fulfill an important function of stimulator of multinational process. [1, p.41].

J. Kleer asks a very important question: will the global model, worked out in the continent of West Europe, keep a capitalistic form and will be modified, or, the new model created in Asia, will win [6, p.40].

Looking at the world division, into national regions or international ones – politics of integration of a few, dozen or several dozen of countries, has nowadays a special meaning. Even setting, a priori, that in global perspective , a big part of state subjects, will join each other institutionally, in economic sense, and will unify noticeably, looking at obligatory law, it is still discussable, in what level and similarity of business, and advanced economic and civil progress, would allow such spacious areas, and a deeper integrative cooperation direct qualitatively.

Moreover, in what level an outstripping legal – international combination, so institutional authentically, will strengthen intensification and a range of material and economic combination of economies, tied formally. M. Dobraczynski approaches the above problem, in a very interesting and careful way. He suggests that economic development and institutional behaviors, affect and will affect each other mutually, despite noticeable variances, depending on a concrete situation. Author wonders of quite a new economic category, which he calls a notion 'global region', so the area containing the most advanced national economies, so a model approached to a wider Organization for Economic Development [19, p.31].

Yet, an above vision is a matter, not belonging to solution, in the first decades of the 21st century, despite functioning of mentioned above, international organizations. A level of the real integration, both in the economic, and political field, is still too loose or limited (geographically, legally or politically), to try, to authorize the mentioned institution with a term 'global region [1, p.41].This situation would be very harmful towards very pragmatic integrative initiations, created on a ripe economic area of Western Europe, which worked out concrete integration models. Confirmation of it, is the present European Union, which is, in a very ambitious and responsible role, towards the rest of European groupings and the rest of the world. Creators and supporters think, that «European 27», will carry out its most important duty, which is finishing institutional reforms, what allows a fast spreading process, so that this grouping can fulfill a role of the future ambassador of the old continent, towards the rest of the world, which are regional groupings of American and Asian continents.

In the modern world, a position of a particular country is determined, more and more, by belonging to a set region. Regionalism is shaped mostly by market powers and technological progress, like globalization, but its shape is determined by politics of governments of countries, which are members of this region, and development contacts between firms, and people. In this way, a particular area, can express common business, in the global negotiations, and solve problems and conflicts. A new regionalism is also a base for safety and political stabilization in the region.

To the most interesting and mostly extended projects of the regional in 90s, you can count groupings like: APEC, NAFTA, MERCOSUR, European Union and ASEAN, which have many features of the new regionalism. All these regional groupings, are tied with each other in different way, by additional agreements or plans, to create, much bigger area of the free trade and investments, for example Free Trade American Area (FTAA), Transatlantic Free Trade Area (TAFTA). While, European Union improves cooperation for free trade with Asian countries, in frames of dialogue Union – Asia, and with countries of South America – in frames of negotiations with MERCOSUR and with many other groupings, in various parts of the world.

4.2. Globalization of modern international economic Relations

Globalization is a processes of fundamental change taking place in world economies and based on information and development of new technologies. It influences and intensifies connections among countries and involves virtually all sectors of economic activities. The process of globalization is multi-dimensional. In the first part of the article, specific aspects of globalization have been discussed suggesting various definitions and approaches, all of which can be found in the discipline’s literature. The key features of globalization are presented in a detailed manner. In the second part of the article attention has been given to the main determinants of globalization including: global markets, global competition and interactions, education, ecology, cultural changes and social identity.

According to scientists, globalization is a term, not only hard to define, but it is also difficult to provide the exact date of its beginning. Despite that fact, some of them conduct attempts to do it. Lord Dahrendorf claims that this date is the 20th of July 1969, when the first man reached the Moon and saw the Earth as a whole. This thesis explains that despite the Earth's diversity, it is still a uniform planet.

The term "globalization" appeared the first time in 1985 as the title of a book of Ronald Robertson - the sociologist. Since then, this term has been started to be used in scientific discussions, but only in the beginning of 1990's globalization was becoming more and more popular [12, p.11].
There are many definitions of globalization, but there is st ill the lack of a standard one, which would fulfill its task in different scientific environments.

Therefore there is a need of presenting a few definitions which treat globalization from the economic point of view.

According to Anthony McGrew, the British economist who compiled a popular definition, "globalization is a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions, generating transcontinental or interregional flows and networks of activity, interaction and power.

In sum, "globalization can be thought of as the widening, intensifying, speeding up, and growing impact of world-wide interconnectedness. By conceiving of globalization in this way, it becomes possible to map empirically patterns of worldwide links and relations across all key domains of human activity, from the military to the cultural [www.polity.co.uk/global/default.htm].

The other definition was provided by UNCTAD, which says that globalization refers both to an increasing flow of goods and resources across national borders and to the emergence of a complementary set of organizational structures to manage the expanding network of international economic activity and transactions. Strictly speaking, a global economy is one where firms and financial institutions operate transnationally - beyond the confines of national boundaries [www.unctad.org].

The synthesis of most definitions is the approach of Anna Zorska, who claims that globalization is the world long-lasting process of integrating more and more countries economies over their borders, as the result! Expansion and intensification of their connections (investment, production, and cooperation). This creates the worldwide economic system, which is characterized by high dependence and leading common tasks, realized even by remote countries [19, p.43].

Nowadays globalization is thought to be the fundamental process of changes in the world economy. It is the next stage of internationalization. Globalization results from the trade liberalization, opening economies processes and reinforcing the worldwide competition. The basis of globalization is the countries integration that consists in linking their economic processes, which include foreign trade, investments and production. It is connected with migration of goods, services, production factors, labor, capital and technology. That causes that competition becomes stronger and there are more (anymore) competitors, who act on the global market. Globalization is also based on information and high technology development.

Looking from the countries' position, globalization also influences on their activities and their roles in the contemporary world. The intensification of connections between countries makes national economies more dependent and they become the elements of world economies integration system. They cooperate with each other and coordinate joint undertakings. The deeper integration decreases their sovereignty. That doesn't mean that they lose their autonomy, history, culture and independence. Countries, being members of regional or world associations, have to keep signed agreements and take into consideration the common wealth in order to contribute to the development of the entire community.

4.2.1. Globalization's characteristics

In order to better understand the globalization process, it is necessary to introduce its main features:

– multidimensional character - manifests itself in many aspects of social life, in economy, in politics and also in culture. In globalization process, there are different actions, conducted at the same time;

– complexity - globalization consists of a huge amount of sub-processes, spread allover the world, which create the exact structure. There are four main processes in the world economy: the decrease of USA's domination, financial market development, globalization of companies' activity, ecological problems;

– integration - connecting activities run on different levels: economies, markets, and companies by trade, agreement and investment connections;

– international dependence - the development of a particular entity depends on its activities run abroad and their success. This dependence can become one way dependence on a stronger foreign partner;

– connection with the progress of science, technology and organization -economies modernization, development of new production branches, increase of high qualified labor and new technology play a crucial role in the long-lasting globalization process. At the same time, globalization accelerates the technological progress;

– compression of time and space - the "world shrinking" phenomenon is the result of science and technology development. It is seen in the labor migration, products coming from all over the world, possibility in taking part in world's events (Television, Internet) and in the fast products' and services' delivery processes;

– dialectical character - clashing of processes and opinions which have opposing character: globalization - regionalism, integration - de-integration;

– multilevel character - the world economy is the highest level in the hierarchy, economy's branches, markets, companies, assets, products and

services are lower in this hierarchy;
– international range - extension of activities to the international and worldwide level [1, p.44].
Some scientists list also other distinctive features of globalization, which are presented below:
– the creation of a global financial market - as the result of liquidation of obstacles and difficulties in capital flows;
– institutionalization of foreign trade - foreign trade is controlled by such institutions like: World Trade Organization (WTO), General Agreement on Tariffs and Trade (GATT), International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF);
– MacDonaldization - global unification of needs according to some products and services, especially in the food industry, electronics and car branches;
– sudden increase of Foreign Direct Investments FDI flows - in 1990's their growth exceeded 4 times the growth of world export;
– domination of transnational corporations in the global economy – which are the main entities of the globalization process;
– geographical disjunction of the value added chain in the global scale – setting the part of chain (production of part of final product) in the place where the ratio of expenditures to effects is the most favorable;
– creation of knowledge based economy - huge capital investments in Research and Development (R&D) activities;
– creation of the fourth economic sector - traditionally, the economy was divided into three sectors: agriculture, industry and services.

Nowadays services are divided into further two sectors: traditional services and intellectual services. The tasks of intellectual services are: information processes, Research and Development (R&D) and information management. They all create the new discipline, which is The Knowledge Management;
– redefinition of the term "country" - decreasing roles of countries as the result of growing roles of integration associations and international organizations [8, p. 38] .

4.2.2. Globalization's components

There are many factors and determinants which influence on the globalization process. Some of them appear on the worldwide scale and other are realized in particular countries. If these factors are more and more advanced in the country, this country will better conduct the globalization process. The most important determinants are the following.

Global Markets

1. **Financial markets -** thanks to financial markets deregulation and capital flows liberalization, their globalization process is the most advanced. Private capital is transferred very fast all over the world. Huge amounts of capital flows, financial transactions and a multitude of mediators have contributed to the creation of global financial markets**.** Nowadays they are working automatically and aside of the real sphere. The creation of electronic money, as the computer record, became a wonder of the contemporary world economy. In the new electronic economy, fund managers, banks, international corporations and many individual investors are able to transfer capital from one to another remote place in the world. Thanks to technology development and using the newest computer science solutions, very complex financial operations can be realized on different markets during 24 hours a day. Global financial markets have also dominated contemporary production factors allocation processes, recently. Nowadays financial markets are not stable, there are sudden changes of capital flows directions and financial crises are spreading very fast all over the world.

2. **Markets of goods and services -** globalization of these markets accelerated thanks to liberalization, opening of national economies and institutionalization of foreign trade global rules within the WTO. 90% of foreign trade is based on these rules. It develops dynamically and the share of trade in GDP increases in many countries. More and more goods are subject of foreign trade and many market segments offer products equal to standards and quality on the global market. The global consumer markets, ranges of products and brand names are becoming bigger. As the result of MacDonalization, consumers' needs and preferences are also similar. Only in some areas they are differentiated.

3. **Job markets** and labor migration - progress in this sector is rather not so great. Job markets are not global, but thanks to computer technology the work can be done in remote places without the employees' migration. The management staff is the most mobile in the global economy. The globalization process

influences on local job markets, salaries, unemployment rates and migration. Migration can also result from tourism. Nowadays it is more and more popular, especially when flight tickets are cheap and global services and information are more developed [26, p.37].

4. **Markets of technology, knowledge and information** - Transport and telecommunication technology progress and computer science development are crucial factors which accelerate the globalization process. Computer revolution and telecommunication progress (electronic communication, Internet, e-business, cell phones, computers and programs) enabled the development of global interactions. The world transport and telecommunication network system helps to transfer ideas, goods, information and capital the most effectively. The computer technology progress causes that "the world shrinks" and events, information and ideas are at once spread all over the world. The global information revolution made changes in production, finance, foreign trade and in business. Services branches, with a weak position in foreign trade before, have become stronger and industrial branches gained the global range. Information revolution also created opportunities of production organization for companies' branches all over the world [19, p.46].

Global competition

The globalization process is connected with global competition, which becomes stronger on the international markets. If these markets are more connected with each other, companies have to coordinate their activities in many countries and competition conditions become more and more difficult. Liberty, liquidation of goods, services and capital flows' obstacles and possibility of doing business abroad, caused that the world economy's entities (companies, banks, financial institutions) on the one hand started to look for bigger profits abroad, but on the other hand they had to face the global competition. Globalization changes also the rules of game in gaining profits from competition. It puts the pressure on mergers and acquisitions in order to possess a long-lasting competitive advantage. Both companies and national economies have to take actions to fight with global competition. This competition sets the paths of production restructuring, its organization and fastens the technology progress.

Global economic activity

In the last decade, the high dynamism of Foreign Direct Investment (FDI) contributed to the globalization process of goods, services and financial markets. It was even higher than the dynamism of world trade. Thanks to trade and capital flows liberalization and possibility of doing business abroad, more and more companies transfer their capital and technology to other countries in order to be more efficient. Globalization creates favorable conditions for expansion and profits. Foreign Direct Investments change streams and structure of international trade and influence on development processes. Companies realize global expansion strategies, reorganize and change management methods in order to decrease cost, improve profits, minimize the risk and possess a competitive advantage on the global market.

International corporations activities reinforce the globalization process, because they are able to adjust to new conditions the most effectively. They act on different markets and increase the flows of capital, goods, services and technology. Corporations join and cooperate with each other. They conduct very complex investments and make strategic decisions concerning allocation of resources. Former, this was the role of countries and governments. Nowadays corporations' position still grows on the global market.

Global industry production

Technological changes, progress in the computer science, the development of telecommunication and the decrease of transport costs created new possibilities for many industrial branches and improved the organization of production. The basis of production internationalization is technology progress, markets liberalization and the increase of production factors mobility. These industrial changes are the result of creating complex production connection networks between companies in many countries. Globalization is connected with companies new activities and their specialization in the global scale (investments, trade, production, technology development, Research and Development - R&D, new products and marketing). Companies' global strategies allow them to settle production in particularly favorable conditions. Their development results from headquarters' activities in connection with other cooperating companies in the world.

Acting on the global market is supported by disseminating of market institutions, organizational structures, management methods, production systems, data processing methods, communication, and law regulation in the worldwide scale.

Global relationships and interactions

Nowadays, the high degree of relationships and connections between economies causes that a phenomenon existing in one country or region is easily transferred to other countries or regions. Unfortunately, the most often this concerns crises. The development of particular countries often depends on the situation on the main stock exchanges and on the currency markets. In the past, most countries were independent on sudden changes of other markets. The pace of crises' transfer is very dangerous especially for emerging markets. Now, remote economic and political events have a stronger direct influence on other countries than ever before (financial crises).

Additionally, actions and decisions made in one country can have global implications and influence on economy, politics and lives in other countries. As the result of trade, production, financial, investment and technological connections between countries, the world economy is not the sum of individual markets any more, but has become an integrated market system [8, p.52].

Education

Nowadays, in the era of globalization, the education system correlates with new global economic requirements. It is the result of problems the society has to face: increasing changeability and uncertainty and deepening different social and economic risks. Therefore, there are a few challenges confronting education systems, which make it necessary to conduct improvements in those systems:

– sudden development of technological knowledge;
– countries' integration and world economy's globalization;
– increase of importance of small and medium enterprises;
– increase of costs of education.

Therefore, the education system has to be changed, too. Schools and universities should develop abilities of fast self-organizing and enterprising adaptability to continuously changing conditions. Modernity and entrepreneurship have become the most important and the most difficult challenges of education in the XXI century. The experts claim the new education system should be a proinvestment.

It is to be based on the development of individual creative abilities and on preparation to taking part in innovative organizational cultures and institutions, where innovations are created. Therefore, pupils should be taught innovation from the lowest education level – the primary school. Virtual organizations play also a crucial role in the education process. They are the source of innovation and posses the ability of elastic adjustment to new conditions. Pupils and students should take part in practice and education exchange programs, because this teaches them how to act in conditions of other cultures and traditions and how to cooperate with people from other countries.

The education system also has to be continuously improved, because change is one of the most important features of the global economy.

Ecology

Global problems are some of the features of the world economy and they are thought to be a result of the integration process. Nowadays these problems are a danger for humanity and therefore they have to be solved not locally but globally.

Environment contamination is the most global problem and it is connected with countries' economic activity. Currently, the contamination level is so high that it is hard to keep the environment in balance and also possibilities for human existence decrease.

The world production has grown five times since the II World War.

Dynamic transformations (opening of economies, standardization of preferences and transport and communication development), being conducted in the last years, require a huge amount of natural resources and contribute to environment contamination at the same time. Human activities put pressure on environment through: overusing natural resources, contamination of natural ecosystems, pollution of air and water causing diseases, high population growth.

In the globalization process the efforts taken in order to improve the environment are necessary and laborious. It is impossible to conduct them by one country or even by a group of countries. They have to be done globally, because nowadays the environment, like money, possesses a more international character than ever before.

Questions on the chapter:

1. Mark the goals of ECOSOC:

a) military cooperation;

b) commercial and industrial cooperation;

c) scientific and technical cooperation;

d) humanitarian cooperation;
e) cultural cooperation;

2. What types of international integration exist:
a) political;
b) economic;
c) global;
d) regional;
e) military

3. Highlight the triad of the most significant international interests grace economic associations:
a) UN;
b) EU;
c) NAFTA;
d) MERCOSUR;
e) APEC;
f) ASEAN;
g) CIS;
h) NATO.

4. What type of integration associations are transnational corporations (TNCs):
a) interstate;
b) private-corporate;
c) public;
d) international

5. In your opinion, what is the ratio of regional and global point integration, if:
a) regional integration accelerates globalization;
b) regional integration is a form of combating globalization;
c) regional integration is a "stumbling block" on the path of globalization;
d) regional integration is a type of globalization

6. Maastricht Treaty (02/07/1992) is:
a) Treaty on the European Union;
b) consolidation of the principle of supranationality;
c) Agreements on an economic and monetary union, a political union.

7. Schengen agreements are:

a) agreement on the abolition of control over the crossing of internal borders in the European Union and the introduction of a common short-stay visa;

b) an agreement on a currency union;

c) an agreement on the recognition of diplomas from professional educational institutions.

8. Characteristic features of MERCOSUR:

a) free trade zone;

b) economic differentiation in terms of GDP;

c) Customs Union;

d) barriers to mutual trade;

e) cooperation with the EU;

f) everything is correct.

Self-test questions

1. Genesis of the concept of "integration".
2. Integration as a global trend in world development.
3. Theoretical concepts of integration.
4. Economics and politics in integration development.
5. The influence of the phenomenon of integration on international relations.
6. Regional integration and the formation of a multipolar the world.
7. Integration as a global trend in world development.
8. Treaty on the European Union.
9. Association of Southeast Asian Nations (ASEAN).
10. Asia-Pacific Economic Cooperation (APEC).
11. Integration processes in America.
12. Prospects for integration in Africa and Asia.
13. The BRICS countries are the "group of five".
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