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In this study guide the basic theoretical and methodological conceptions, the role of international trade in economic development, the main tendencies of international trade development as the most important component of international economics; the economic, organizational and legal mechanism of international trade regulation are examined. This study guide is intended for students of specialty “International Economic Relations”.

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PREFACE

«The use of trade policy as an instrument of industrial diversification and value added is still a key challenge. In addition, export of goods and services can provide income growth for the poor people, replenish the state budget, expand employment opportunities, including through high paid jobs abroad, especially for women, children and youth. Thus, exports can contribute to achieve the Millennium Sustainable Development Goals by removing people from poverty and hunger, providing opportunities for developing countries to receive more great benefits from the international trading system».

(from the UN's Report)

"Consumption is the only purpose of production, and we should not worry about the interest of producers until we need to think about the interest of consumers".

(Adam Smith (1723–1790), Scottish economist)

International trade is the leading form of foreign economic activity, the basis for the international business development. International trade plays an ever-increasing role in economic development. As a result, on the one hand, external new trade has become a powerful factor in economic growth, and on the other hand, the dependence of countries on international trade.

International trade policy is an area of government donations regulating country participation in international economic relations, its trade economic interaction with other states. The main goal of trade policy is to create favorable external and internal conditions for economic growth of the country. Trade policy is an important factor of the world community development.

The main tasks of international trade policy include the national economy protection by trade and political methods, ensuring favorable conditions for the export of goods and services and for entering the world market for national suppliers, the development of a common national and international legal framework, etc. The sphere of international trade, like any area of socio-economic relations, is constantly expanding and today covers the exchange of technologies, information and knowledge, investment cooperation, monetary policy, etc. In a broader sense, foreign trade policy is to a large extent a continuation of domestic economic policy in the sphere of international trade and economic interests.

The state's trade policy is carried out using various instruments and measures of an economic, technical, administrative, and legal nature. An

important means of trade policy is economic diplomacy, which is understood as a set of techniques, methods and practical actions used to solve the problems facing foreign trade policy.

On the world stage, there are two approaches to trade policy clash: *liberalism* and *protectionism.* Some modern theories of trade and trade policy are based on the assertion that the policy of free enterprise (laissez-faire) should dominate today with minimal government intervention. This approach does not appear to be reasonable; especially in the conditions when the global crisis has shown the inconsistency of theoretical constructions based on these ideas. The fact is that the huge increase of international trade, the complication of its structure, the emergence of more and more products in the world markets, the processes of internationalization and globalization make it imperative to strengthen supranational mechanisms for cooperation, coordination and regulation of international trade, improvement of the existing structures of the WTO and other international organizations-regulators. It is necessary to create new institutions capable for more harmonious solving the emerging trade contradictions between countries.

The main problems that are reflected in the discipline "International Trade" are concentrated around the theories of international trade with a long history, the current state of international trade, patterns and trends of foreign trade and international trade policy, organization of foreign trade operations, trade in services, e-commerce, intellectual property, management of trade enterprises.

The subject of the course"International Trade" is the study of economic relations in the field of international exchange of goods and services.

The main objective of the course "International Trade" is to form a comprehensive understanding of modern international trade and economic relations as a system of institutions, regimes and agreements; the evolution of approaches to the world trade regulation; to develop diplomatic methods for realizing the interests of foreign trade and economic activities, practical solutions for pressing world economic problems. In order to achieve success in this qualification, students will need to possess a broad knowledge right across the spectrum of international trade, preferably informed by the foreign experience.

During the course studying, the student must acquire certain knowledge, skills and abilities within the framework of ***general and professional competencies,*** including the following elements:

• the appropriate culture of critical thinking, ability to generalize and analyze; formulation of the problem and search for ways to solve it;

•the ability to search for relevant information, use it, draw conclusions based on the analysis of historical, socio-economic and cultural phenomena and processes of the world development and globalization;

• the ability to use national and international norms, rules, trade customs governing international trade;

To master the professional competencies, it is necessary:

to know:

• fundamentals of international trade: the role of trade policy in solving global economic problems and activities of the main actors in the system of international economic relations;

• principles and methods of trade policy implementation and the relationship between international trade and international trade policy;

•conditions and reasons for concluding international commercial contracts;

• organizational mechanism of trade transactions, as well as the search for innovative and promising approaches to the organization of international trade activities;

• the main legal norms used to regulate the international trade activities.

be able to:

• find information and analyze data in the field of international trade policy and draw appropriate conclusions;

• use sources of trade, economic and political information to analyze the situation in international trade and world trade policy;

• highlight the main and considerable foreign policy factors affecting the international trade;

•gain knowledge and practical skills on the use of various organization forms and methods of international exchange of goods and services.

We believe that this study guide will help students to master modern knowledge and professional skills in the field of international trade.

Chapter 1 International Trade in the System of International Business

1.1 The Notion of International Trade and its Historical Periodization
1.2 Main Characteristics, Reasons and Specific Features of International Trade
1.3 Advantages and Disadvantages of International Trade
1.4 International Trade Concepts. Benefits of Export and Import Activities for the Domestic and Foreign Firms
1.5 Indicators of Monitoring the International Trade Impact

Key concepts: international trade; foreign trade; globalization; exports; imports; exporters; importing countries; geographical and commodity structure of international trade; world commodity market; "marketable" and "non-marketable" goods; specific features of international trade; stages of development of international trade; trade gain; terms of trade; economic effect and efficiency of international trade.

1.1 The Notion of International Trade and its Historical Periodization

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

The traditional and most developed form of international economic relations is a foreign trade. Trade accounts for about 80% of the total international volume economic relations.

International trade is a form of communication between producers of different countries, arising from the international division of labor, and expresses their mutual economic dependence.

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP) (Kozak Y. and Shengelia T., 2014).

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, international trade is more complex.

International trade is one of the main drivers of economic development. International trade is the sphere of the international economic relations and

is formed from the foreign trade in goods, services, products of intellectual labor of all world countries. Today it is 80% of all international relations (Kozak, Y. and Gribincea, A., 2016; Helpman, 2011).

International trade is a paid total turnover between all countries of the world. However, the concept of "international trade" can be used in a narrower meaning: for example, the total turnover of industrialized twisted countries, the total turnover of developing countries, commodity turnover of countries of any continent or region (Filippova, 2002).

International trade can be defined as the central link in a complex system of economic relations that unite almost all countries in the world a single international economic system (Dakhno, 2004).

International trade, economic transactions that are made between countries. International trade transactions are facilitated by international financial payments, in which the private banking system and the central banks of the trading nations play important roles (J. Bertrand, 2018).

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods, which it has in surplus quantities (G. Gandolfo and Federico Trionfetti, 2014).

Generally, no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside (Kozak, Y. and Gribincea, A., 2016).

International trade is the trade between residents of different countries. Individuals and legal persons, firms, transnational corporations (TNC), non-profit organizations etc, can be residents. International trade involves the voluntary exchange of goods, services, products of intellectual labor between the parties of a trade agreement. Since this exchange is voluntary, then both parties of the agreement must be confident that they will get benefit from this exchange; otherwise, the agreement will not be concluded (Kozak, Y. and Gribincea, A., 2016).

International trade and the accompanying financial transactions are generally conducted for the purpose of providing a nation with commodities it lacks in exchange for those that it produces in abundance; such transactions, functioning with other economic policies, tend to improve a nation's standard of living. Much of the modern history of international

relations concerns efforts to promote freer trade between nations (J. Bertrand et al., 2018).

International trade is a characteristic feature of the existence of global market, which is the sphere of commodity-monetary relations between countries. These relations are based on international division of labor and other factors of production. Commodity, that is on global market in the phase of exchange, performs the information function, because informs about average values of aggregate demand and supply. Therefore countries are able to evaluate and adapt the parameters of their products and production (that is, what, how much and for whom to produce) to the requirements of global market. The participation in international trade takes the form of foreign trade for individual country, i.e. it's the trade of one country with other countries, which consists of two oncoming flows of goods and services: paid export (export) and import (import) (Kozak, Y. and Gribincea, A., 2016).

There are two basic types of trade between countries (Jim Sherlock, 2007):

• the first in which the receiving country itself cannot produce the goods or provide the services in question, or where they do not have enough.

• the second, in which they have the capability of producing the goods or supplying the services, but still import them.

An important feature of international trade is its geographic and commodity structure, namely the structure in terms of a *geographical distribution* and *commodity content*.

Geographical structure of international trade is the distribution of the trade flows between countries and their groups, which are created on the territorial or organizational basis (Y. Kozak et al., 2015).

Territorial geographical structure generalizes data concerning the scales of international trade of countries, which belong to the same part of the world or big group of countries (developed countries, developing countries, countries with economies in transition).

Organizational geographical structure generalizes data concerning the international trade between countries, which belong to integrated trade and political associations or concerning the trade between the countries that are grouped according to a selected criterion (oil-exporting countries, countries that cannot repay their debts, etc).

A very large part of world trade is clustered around three regions: North America, Europe and East Asia (Y. Kozak et al., 2017).

Other regions' contribution to world trade is much lower. In addition, recent trends indicate that such a pattern has strengthened. On one hand, trade flows have generally grown for the core regions since 2011, especially

those relating to East Asia. On the other hand, the value of trade flows has often shrunk in the periphery, especially for Latin America International Trade (J.Poon and David L. Rigby, 2017; Economy, 2018).

International trade in goods is largely composed of *trade flows involving developed countries and the East Asian region*. Trade amongst other developing country regions is of much lower magnitude, with some exceptions relating to trade in primary products. Growth rates and the composition of flows vary substantially between different importing and exporting regions.

World demand for intermediate, consumer and capital goods is still primarily met by developed countries' exports. Similarly, trade in both agriculture and manufacturing largely originates from developed countries. In contrast, developing countries are the main suppliers meeting international demand for primary products and natural resources (G. Gandolfo and F. Trionfetti, 2014).

Participation in international trade varies significantly among developing regions. East Asian countries account for a substantial part of developing countries' trade, especially with respect to exports of intermediates and manufacturing products. The participation of other developing country regions in world trade, both as importers and exporters, is much more limited, and largely confined to the supply of primary products (G. Gandolfo and F. Trionfetti, 2014).

With over US $ 3 trillion traded, *energy related goods* (oil, gas, coal and petroleum products) represent a very substantial share of world trade in goods. Other significant sectors include *chemicals, machineries, communication equipment and motor vehicles*. Trade in services is dominated by transportation, travel and other business services (Y. Kozak et al., 2015; Kozak, Y. and Gribincea, A., 2016).

Export competitiveness is largely a matter of gains or losses in market share in key export markets. During the period from 2008 to 2018, many Asian countries improved their competitiveness compared to their key trading partners. On the other hand, declining export competitiveness was experienced by a large number of developed countries as well as developing countries in Africa, West Asia and South America. Similar patterns are observed with regard to export competitiveness in regional markets (Economy, 2018; Kozak, Y. and Gribincea, A., 2016). Most developed countries as well as many developing countries (especially in East and South Asia and East Africa) are dependent on imported energy. In contrast, countries in West and Central Asia as well as most African and Latin American countries are net energy exporters (Economy, 2018).

Commodity structure 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 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 (Jones R. W., 1961.)

Commodity market is a physical or virtual marketplace for buying, selling and trading raw or primary products.

Commodities are split into two types: *hard and soft commodities*. Hard commodities are typically natural resources that must be mined or extracted (such as gold, rubber and oil), whereas soft commodities are agricultural products or livestock (such as corn, wheat, coffee, sugar, soybeans and pork) (Joshi R. M, 2012; Y. Kozak et al., 2015).

Domestic market is a market within a country's own borders and trading is aimed at single market. In such markets, firms face similar set of competitive, political, economic, social, market and technological issues. Domestic market encompasses only one set of customers and firms deal with the same.

Companies in domestic markets are generally provided with tax credits for employment generation and government of the country tries its level best to let domestic companies make trade agreements with foreign companies by removing barriers (regulations) (Joshi R. M., 2012; Y. Kozak et al., 2015).

External market is a mechanism for trading goods that are offered simultaneously to consumers in a number of countries.

Based on the international mobility of goods are divided into the "marketable", i.e. those that traded, and the "non-marketable" those that are not traded.

Marketable goods are goods that can move between different countries.

Non-marketable goods are goods that are consumed in the same country where they are produced, and not move between countries (J. Bertrand et al., 2018).

Periods of International Trade Development

There are five main stages of the evolution of international trade (Kozak, Y. and Gribincea, A., 2016; Handel, 2014):

I - the initial commercial period (1500-1850 years);

II - the period of the formation of international turnover (1850-1914 years);

III - the period between the two world wars (1914-1945 years);

IV - the post-war period (1945 - first half of 70s);

V - the period of globalization of the world economy (late 70s - to the present time).

The first period began from the time of the great geographical discoveries, which caused an active export of the goods on newly discovered lands. Exported goods were the finished products that were made from local raw materials. The trade in colonial goods facilitated the establishment of capitalism in Europe and determined the development of international trade over three hundred years. The colonial travels were accompanied by high risk, but the achievement of the fast and significant profits acted as a strong incentive to attract new participants to the trade.

Manufacturing production dominated from the XVI century to the middle of the XVIII century, it was based on the division of labor and created conditions for large-scale production. Gradually the narrow manufacturing base stopped responding to the market needs. Industrial revolutions replaced the manufacturing base with factory machine industry.

This period is marked by the innovations in the field of transport. Steam machine, internal combustion engines, ships on steam engines, electricity, etc, it all radically changed the means of national and international communication. Highways, canals, railways began to spread rapidly (Kozak, Y. and Gribincea, A., 2016).

Domestic local markets became tight and began to expand to regional, international scales in such circumstances. Local centers of international trade developed into single global market.

International trade developed very fast. Its influence on the economies of certain countries became crucial, that was evidenced by the accelerated growth rates of international turnover compared to growth rates of industrial production.

The distinctive features of the first phase:

- growth of state influence on the relations of countries and international trade;
- strengthening the government support of domestic producers. Protectionism prevails in most countries;
- the birth of the free trade policy.

The second period is characterized by the final consolidation of colonial empires on the background of rapid industrial development of the European

countries and the USA. Trade grows faster than production. Economies of different countries become more open because of this fact.

The commodity structure of international trade changes (Handel, 2014; Kozak, Y. and Gribincea, A., 2016). For example, spice trade, which thrived in the previous centuries, is replaced by the exchange of raw materials (about 60% of the total trade) and by the transition to the exchange of the industrial products.

The main factors of the growth of international trade include: further evolution of techniques and technologies in production; innovations in the transport sector; different rates of development of European countries; differences in the reserves of the mineral resources; rise in investment activity; expansion of sales markets; use of favorable conditions of local laws; level of education.

The third phase is characterized by such most important events:

1) the First World War, which destroyed the economy of European countries;

2) the great economic crisis of 1929-1933, which raised the question of the effectiveness of internal trade quite strictly;

3) the World War II that destroyed the global economic system and dramatically shook the confidence of the developing countries in a trade as a driving force of economic growth;

4) further redistribution of world markets;

5) transition to a new, more efficient Bretton Woods monetary system in 1944;

6) formation of two world economic systems.

The growth of international trade was at a very low level and was significantly lower than the rate of development of production because of violation of international trade connections and economic crises.

The raw materials, food, fuel (60% of world exports) become the main export commodities.

The First World War and the economic crisis caused the disintegration of international trade and strengthening of the customs protectionism. Countries began unreasonable apply the tariff and quantitative methods of trade regulation in the effort to protect their own economy. This only deepened the economic crisis.

The fourth phase of the development of international trade is characterized by the following key events (Kozak, Y. and Gribincea, A., 2016):

1) the collapse of the world colonial system and the rapid development of the former colonial countries, which become the new players on the world markets;

2) increased development of the world economic systems: capitalist and socialist;

3) the export of capital beyond the national borders, that ensured an increase in export of goods, capture of lucrative sales markets, sources of raw materials;

4) spreading of integration and transnationalization;

5) creation of the global international organizations.

This stage is the “gold” period of world economic growth and international trade. Average annual growth rates in industrial production constitute 6%, and it exceeds 10% in Japan. The volume of world trade during the period from 1953 to 1963 increased annually by 6.1%, and total world income – by 4.1% per year. Effectiveness was higher and the rate of growth of the world trade was 8.9% per year, while the growth in total world income was 5.1% annually in 1963-1973 years (Handel, 2014; Kozak, Y. and Gribincea, A., 2016).

For commodity export structure the increase in the share of machinery and technical products (machinery, equipment, vehicles) and the decrease in agricultural production are typical.

The influence of the state extends to the development of foreign trade. There is a transition from rigid protectionism to the liberalization policy.

The scales, directions and instruments of the trade policy reflect the rapid growth of international trade, the complexity of its structure (commodity and geographic), weaving with the new forms of global connections. It caused an appropriate modernizing of the mechanism of regulation of foreign trade, which was directed at facilitating the mutual exchange between the developed countries and spreading of their access to the markets in developing countries, and which was directed at the change of the foreign trade policy of industrialized countries towards developing countries.

The fifth stage is characterized by the following main events (Kozak, Y. and Gribincea, A., 2016):

1) the global financial crises in 1971 and 1973, which led to the collapse of the Bretton Woods monetary system. The enactment of the Jamaican currency system in 1978;

2) the first and second oil crises in 1974 and 1979, which was caused by a significant increase in the price of oil by the Organization of Petroleum Exporting Countries (OPEC);

3) the banking crisis in the US in 1979, which led to a general increase in the interest rates and put many developing countries (recipients of private bank loans) on the brink of bankruptcy;

4) the global debt crisis in 1982, which was connected with the problems of debt servicing by developing countries;

5) strengthening of existing and the emergence of new integration groups (in 1989 – APEC, in 1992 - the EU, in 1994 - NAFTA, COMESA, in 1995 - Mercosur, etc.);

6) change of political systems in the Eastern European communist countries (1989 - 1992) and the transition from the centrally planned economy to the market economies. Some countries in Asia and Latin America also begin to move in direction towards the democracy and the market reforms. The attractiveness of these countries as export markets increased significantly due to such changes;

7) the creation of the World Trade Organization, which began operations in 1995.

8) the international competition is greatly enhanced since the early 90s, its new forms appear. They are based on the growing number of the subjects of the global relations; they do not have a particular nationality. As a result, the process of globalization of international trade continues, when the economies of certain countries operate under a single, interconnected global economic system.

9) technological changes in communications, information processing, transport, which transform the globalization of markets and production in material reality.

10) the global financial crisis of 2008-2009, which caused a fall in global demand, because of which there was a decrease in production in Europe, China, Japan and India. This led to a sharp narrowing of the global market for goods and services, lower prices for raw and growth in unemployment.

11) signing of Bali Package agreement by the WTO members on 07.12.2013. This contract created the basis for the completion of the Doha Round of the WTO negotiations. The conclusion of this agreement will help to increase the turnover of world trade to $ 1 trillion (Handel, 2014; Kozak, Y. and Gribincea, A., 2016).

All of the abovementioned events, which occurred and still occur, affect the change in the trade processes.

1.2 Main Characteristics, Reasons and Specific Features of International Trade

Characteristics of International Trade

1. Territorial specialization: international Trade takes place due to geographical specialization. Every country specializes in the production of goods and services in which it has a specific advantage.
2. International competition: producers from many countries complete with another to sell their products. Therefore, there is intense competition in international trade. Here the quality, design, packing, price, advertisement, etc., all play a significant role in deciding the winner in the market.
3. Separation of sellers from buyers: in international trade sellers and buyers belong to different countries. They may have no chance of ever meeting one another. Therefore, they have to depend upon intermediaries for transactions.
4. Long chain of intermediaries: the procedure of international trade is very long and complex. It is very difficult for buyers and sellers to perform all the formalities themselves. They require the services of expert intermediaries such as, indent houses, forwarding agents, clearing agents, foreign exchange banks, etc.
5. Mutually acceptable currency: the currencies of importing and exporting countries generally are different. Therefore, it is necessary to find out a mutually acceptable currency. Generally, dollar and pound sterling are selected. These currencies are known as hard currencies because they are acceptable all over the world.
6. International rules and regulations: businesspersons engaged in international trade require knowledge of international laws and trade restrictions.
7. Government control: the government of every country exercises control over imports and exports for national interest.
8. Several documents: a large number of documents are required in international trade (G. Gandolfo and F. Trionfetti, 2014; J. Bertrand et al., 2018).

Specific features of International Trade

International trade as a special sphere of international economics has a number of specific features that distinguish it from intra-national trade: government regulation of international trade; independent national economic policy; social and cultural differences between countries; financial and commercial risks (Robert C. Feenstra, 2007).

1. Independent national economic policy. National economic policy may allow free flow of goods and services between countries regulate or ban it. All of this significantly affects the international trade.

2. Government regulation of international trade. Every country operates in its own legal environment. Its government is actively intervenes and puts under a strict control the international trade relations and monetary and financial relations, which are connected with trading operations. This intervention and control differ significantly from the degree and nature of those applicable to domestic trade.

The firm should take into account not only the laws of its country, but also the laws of the partner country during the conduct of international trade operations. Methods of implementation of these operations depend on mentioned laws. The laws of each country determine the choice of markets, prices for goods, which the company can offer, the cost of resources (labor force, raw materials, technologies) etc.

3. Social and cultural differences of countries. Countries that 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 many 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.

4. 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 (Y. Kozak et al., 2015; Kozak, Y. and Gribincea, A., 2016).

Reasons for International Trade

Countries trade with each other when, on their own, they do not have the resources, or capacity to satisfy their own needs and wants. By developing and exploiting their domestic scarce resources, countries can produce a surplus, and trade this for the resources they need.

The five basic reasons why trade may take place between countries are summarized below. A variety of models are described which offer a reason for trade and the expected effects of trade on prices, profits, incomes and individual welfare (Rumyantsev, et al., 2004).

1. *Differences in Technology*

Advantageous trade can occur between countries if the countries differ in their technological abilities to produce goods and services. Technology refers to the techniques used to turn resources (labor, capital, land) into outputs.

The basis for trade in *the Ricardian Model of Comparative Advantage* is differences in technology. In the Ricardian model, countries are assumed to differ only in their productive capacities. It was in this model that David Ricardo first formally demonstrated the principle of comparative advantage. When defined in terms of productivity differences, comparative advantage is regularly confused with a simpler concept that economists call absolute advantage. It is worth taking a few moments to illustrate the differences (Paul R. Krugman and M. Obstfeld, 2007).

If the US has higher productivity in corn production compared to Switzerland, while Switzerland has higher productivity in watch production compared to the US, economists would say the US has an absolute advantage in corn production and Switzerland has an absolute advantage in watch production. In this case it is intuitive that if the US concentrates on corn production and Switzerland on watch production, then resources could be shifted from relatively lower productivity industries to higher productivity industries and the total combined output of corn and watches would rise. With greater output, and after an appropriate trading pattern is introduced, both countries could end up with more of both goods than before, meaning that both countries can gain from trade. For most who have studied economics this is what they remember as comparative advantage. However, they are only partially right (Fomichev, 1998).

It is correct that this example of trade is consistent with comparative advantage; however, Comparative Advantage also covers cases that are less obviously advantageous for countries. For example, one might ask what happens if the US had higher productivity in both corn and watches compared to Switzerland. This is the question that Ricardo tackled when he formalized Comparative Advantage. His answer to the question also substantially expanded the number of situations in which technology differences could result in advantageous trade (Fomichev, 1998).

Ricardo's simple analysis demonstrated that even when one country is technologically superior in both goods. It could still be advantageous for countries to trade. In this circumstance, a comparative advantage is present for those products that the country can produce most best in comparison to other countries, even if the best product is produced less productively than in the other country. For example, suppose the US is 10X more productive

in corn and only 2X more productive in watches compared to Switzerland. In this case the US is clearly best at producing corn (10x > 2x). At the same time though, Switzerland is ½X as productive in watches and (1/10) X as productive in corn. Thus, Switzerland's most-best product and hence its comparative advantage is watches (since ½ > 1/10) even though it can't produce them as effectively as the US (Paul R. Krugman, 2007).

The reason both countries can benefit in this case is because productivity is not the only determinant of industry advantage; instead it is the combination of productivity and average wages. In countries with lower productivity in all industries, they will also have lower average wages. However, average wages for similar workers will lie somewhere in the middle of the range of the country's industry productivities. In the example above, wage differences between the US and Switzerland in the absence of trade will fall in the range between 10X and 2X; perhaps wages will be 5X higher in the US in this example (which implies they are 1/5 as high in Switzerland). This means that for the relatively highest productivity industry in Switzerland (watches), productivity (1/2 as productive) will sufficiently exceed the average wage (1/5 as high) to make production in watches profitable in comparison to the US. Observers of this situation may well note that Switzerland's advantage is due to low wages since wages are only 1/5 as high as in the US. However, it is a mistake to think that low wages gives an advantage in all industries. That's because, as Ricardo showed, in the low wage country's least productive industry (in this case corn); Switzerland's wage advantage (1/5 as high) will be overwhelmed by its productivity disadvantage (1/10 as productive). This means that corn production will be unprofitable in Switzerland despite having lower wages.

Looking at this same situation from the US perspective, the US is the best at producing corn (10X as productive) but its wages are only 5X higher. That implies it will be profitable for the US to produce corn and sell it in Switzerland. At the same time though, the US productivity advantage in watches is only 2X higher, which is not enough to compensate for its 5X higher wages. That is why the US will find cheaper watches in Switzerland (Fomichev, 1998).

The most important conclusion from *the Ricardian model* is that advantages from trade do not disappear just because another country has lower wages; nor do they disappear just because another country is more productive in everything. Ricardo demonstrated that by specializing in producing the products that one has a comparative advantage (which may be ones in which the country has an absolute advantage) the world can expand total world output with the same quantity of resources. The expansion of output is the realization of increased economic efficiency that

economists always talk about. Finally, given the expanded output, international trade can assure that all countries in the model gain from the surplus that's created. In other words, without raising the quantity of resources, the world economy would be able to produce greater output and generate higher living standards for everyone. Economic efficiency will rise both internationally and nationally. This is how all nations can benefit from free trade (Paul R. Krugman, 2007).

It is important to note at this stage that *the Ricardian model* does not say that countries will gain from international trade; only that countries can benefit from increased output and trade if production is reorganized between countries appropriately while all resources are kept fully employed. The model is a gross simplification compared to the real world though, and thus it clearly does not incorporate everything that might happen with trade. Nevertheless the model does provide an insight that quite likely carries over to more complex situations. For example, the model results should cause observers of international trade situations to hesitate when fears grow that low wage country may soon take over production of the world's output, or when developing countries protect their markets because of fears that they cannot compete with the more developed countries in the world. These commonly expressed fears about international trade are shown, by virtue of *the Ricardian model*, to be based on a misperception (Fomichev, 1998; Paul R. Krugman, 2007).

2. Differences in Resource Endowments

Advantageous trade can occur between countries if the countries differ in their endowments of resources. Resource endowments refers to the skills and abilities of a country's workforce, the natural resources available within its borders (minerals, farmland etc.), and the sophistication of its capital stock (machinery, infrastructure, communications systems) (Tsygankovaet al., 2001).

The basis for trade in *the Heckscher-Ohlin Model* is differences in resource endowments. *The Heckscher-Ohlin Model* states that a country which is capital-abundant will export the capital-intensive good. Likewise, the country which is labor-abundant will export the labor-intensive good. Each country exports that good which it produces relatively better than the other country. In this model a country's advantage in production arises solely from its relative factor abundance.

The Heckscher-Ohlin theory focuses on the two most important factors of production, labour and capital. Some countries are relatively well endowed with capital; the typical worker has plenty of machinery and equipment to assist with the work. In such countries, wage rates generally are high; as a result, the costs of producing labour-intensive goods-such as

textiles, sporting goods, and simple consumer electronics-tend to be more expensive than in countries with plentiful labour and low wage rates. On the other hand, goods requiring much capital and only a little labour (automobiles and chemicals, for example) tend to be relatively inexpensive in countries with plentiful and cheap capital. Thus, countries with abundant capital should generally be able to produce capital-intensive goods relatively inexpensively, exporting them in order to pay for imports of labour-intensive goods (Kozak, Y. and Gribincea, A., 2016).

In *the Heckscher-Ohlin theory* it is not the absolute amount of capital that is important; rather, it is the amount of capital per worker. A small country like Luxembourg has much less capital in total than India, but Luxembourg has more capital per worker. Accordingly, the *Heckscher-Ohlin theory* predicts that Luxembourg will export capital-intensive products to India and import labour-intensive products in return (Fomichev, 1998; Kozak, Y. and Gribincea, A., 2016).

3. Differences in Demand

Advantageous trade can occur between countries if demands or preferences differ between countries. Individuals in different countries may have different preferences or demands for various products. The Chinese are likely to demand more rice than Americans, even if facing the same price. Canadians may demand more beer, the Dutch more wooden shoes, and the Japanese more fish than Americans would, even if they all faced the same prices.

4. Existence of Economies of Scale in Production

The existence of economies of scale in production is sufficient to generate advantageous trade between two countries. Economies of scale refer to a production process in which production costs fall as the scale of production rises. So another major reason that international trade may take place is the existence of economies of scale (also called increasing returns to scale) in production. An economy of scale means that production at a larger scale (more output) can be achieved at a lower cost (i.e. with economies or savings). When production within an industry has this characteristic, specialization and trade can result in improvements in world productive efficiency and welfare benefits that accrue to all trading countries (Handel, 2014).

Trade between countries need not depend upon country differences under the assumption of economies of scale. Indeed, it is conceivable that countries could be identical in all respects and yet find it advantageous to trade. For this reason, economies of scale models are often used to explain trade between countries like the US, Japan and the European Union. For the most part these countries, and other developed countries, have similar

technologies, endowments and to some extent similar preferences. Using classical models of trade (Ricardian, Heckscher-Ohlin), these countries would have little reason to engage in trade. And yet, trade between the developed countries makes up a significant share of world trade. Economies of scale can provide an answer for this type of trade (Handel, 2014).

5. Existence of Government Policies

Government tax and subsidy programs can be sufficient to generate advantages in production of certain products. In these circumstances, advantageous trade may arise solely due to differences in government policies across countries. Hence, goods and services are likely to be imported from abroad for several reasons. Imports may be cheaper, or of better quality. They may also be more easily available or simply more appealing than locally produced goods. In many instances, no local alternatives exist, and importing is essential. This is highlighted today in the case of Japan, which has no oil reserves of its own, yet it is the world's fourth largest consumer of oil, and must import all it requires.

The production of goods and services in countries that need to trade is based on two fundamental principles, first analyzed by Adam Smith in the late 18th Century (in *The Wealth of Nations, 1776*), these being ***the division of labor and specialization.***

6. Division of labor

Division of labor means breaking down production into small, interconnected tasks, and then allocating these tasks to different workers based on their suitability to undertake the task efficiently (Deardorff's Glossary, 2010).

When applied internationally, a division of labor means that countries produce just a small range of goods or services, and may contribute only a small part to finished products sold in global markets. For example, a bar of chocolate is likely to contain many ingredients from numerous countries, with each country contributing, perhaps, just one ingredient to the final product.

7. Specialization

Specialization is the second fundamental principle associated with trade, and results from the division of labor. Given that each worker, or each producer, is given a specialist role, they are likely to become efficient contributors to the overall process of production, and to the finished product (Deardorff's Glossary, 2010). Hence, specialization can generate further benefits in terms of efficiency and productivity.

Specialization can be applied to individuals, firms, machinery and technology, and to whole countries. International specialization is increased when countries use their scarce resources to produce just a small range of

products in high volume. Mass production allows a surplus of good to be produced, which can then be exported. This means that goods and resources must be imported from other countries that have also specialized, and produced surpluses of their own (Tsygankova et al., 2001; Krylov, 2008).

When countries specialize, they are likely to become more efficient over time. This is partly because a country's producers will become larger and exploit economies of scale. Faced by large global markets, firms may be encouraged to adopt mass production, and apply new technology. This can provide a country with a price and non-price advantage over less specialized countries, making it increasingly competitive and improving its chances of exporting in the future.

1.3 Advantages and Disadvantages of International Trade

Advantages of International Trade (Advantages, 2020; Kozak, Y. and Gribincea, A., 2016):

1) *optimal use of natural resources:* international trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided;

2) *availability of all types of goods:* it enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs;

3) *specialization:* foreign trade leads to specialization and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labor;

4) *advantages of large-scale production:* due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods that they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world;

5) *stability in prices:* international trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.);

6) *exchange of technical know-how and establishment of new industries:* underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large;

7) *increase in efficiency:* due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world;

8) *development of the means of transport and communication*: international trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible;

9) *international co-operation and understanding:* the people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations;

10) *ability to face natural calamities:* natural calamities such as drought, floods, famine, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met by imports from other countries (Advantages, 2020).

So, international trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

Disadvantages of International Trade (Advantages, 2020; Kozak, Y. and Gribincea, A., 2016):

1) *impediment in the development of home industries:* international trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse;

2) *economic dependence:* the underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries;

3) *political dependence:* international trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence;

4) *mis-utilisation of natural resources:* excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run;

5) *import of harmful goods:* import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people;

6) *storage of goods:* sometimes the essential commodities required in a country and in short supplies are also exported to earn foreign exchange.

This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country;

7) *danger to international peace:* international trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace;

8) *world wars:* international trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

1.4 International Trade Concepts. Benefits of Export and Import Activities for the Domestic and Foreign Firms

World trade is the simplest and most obvious form of international division of labor. Each country according to it natural and geographical conditions and the level of technical and economic development to a greater or lesser extent involved in world trade in goods and services. Its participation in world trade is characterized by two ratios: the import and export of goods and services.

Export of goods and services from the country and their sale on foreign markets is called *export.*

Import of goods and services and their sale in the domestic market is called *import.* Import of goods in order not to sell them in the domestic market, and export to third parties country is called *re-export.*

International trade is in principle not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade (G. Gandolfo and F. Trionfetti, 2014).

The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of *"export trade"* and *"import trade.*" Export involves sale of goods and services to other countries. Import consists of purchases from other countries (Kozak, Y. and Gribincea, A., 2016).

Import and export are the defining financial transactions of international trade. The term "**export"** means shipping in the goods and services out of the jurisdiction of a country. The seller of such goods and services is referred to as an "exporter" and is based in the country of export whereas the overseas-based buyer is referred to as an "importer". An **import** is a good brought into a jurisdiction, especially across a national

border, from an external source (Joshi R. M., 2012). The word "**import**" is derived from the word "port," since goods are often shipped via boat to foreign countries (Deardorff's Glossary, 2010). Countries are most likely to import goods that domestic industries cannot produce as efficiently or cheaply but may also import raw materials or commodities that are not available within its borders. The sale of **exported** goods adds to the producing nation's gross output. If used for trade, exports are exchanged for other products or services in other countries (Kozak, Y. and Gribincea, A., 2016).

Net exports equal the amount by which foreign spending on a home country's goods and services exceeds the home country's spending on foreign goods and services.

An import is a good or service brought into one country from another. The word "import" is derived from the word "port," since goods are often shipped via boat to foreign countries. Along with exports, imports form the backbone of international trade; the higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes (Deardorff's, 2010).

Re-exports are exports of foreign goods in the same state as previously imported. Re-exportation may occur when one member of a free trade agreement charges lower tariffs to external nations to win trade, and then re-exports the same product to another partner in the trade agreement, but tariff-free. Re-exportation can be used to avoid sanctions by other nations (Peter K. Yu., 2007).

Re-imports are goods imported in the same state as previously exported. Re-importation occurs often when excise taxes are high on a commodity, such as alcohol. Buyers who desire certain domestic products, but do not wish to pay the high excise tax, can buy it from another country where the excise tax is lower (Peter K. Yu., 2007).

The concept of "*balance of payments*" was introduced in 1767 by James Steuart, 1712–1780), a Scottish economist from the last representatives of late mercantilism.

Balance of payments items are designed to reflect all external trade operations of the country with the outside world. These articles cover exports of goods and services, the cost of tourists abroad, and so on.

The country's balance of payments is the balance between the country's revenues from the outside world and its payments to it (Dakhno, 2004).

The balance of trade (BOT) is the difference between a country's imports and its exports for a given time period. The balance of trade is the largest component of the country's balance of payments. Economists use the BOT as a statistical tool to help them understand the relative strength of a

country's economy versus other countries' economies and the flow of trade between nations. The balance of trade is also referred to as the trade balance or the international trade balance. If a country exports a greater value than it imports, it is called a trade surplus, positive balance, or a "favorable balance", and conversely, if a country imports a greater value than it exports, it is called a trade deficit, negative balance, "unfavorable balance", or, informally, a "trade gap" (Deardorff's Glossary, 2010; Kozak, Y. and Gribincea, A., 2016).

The term "**turnover**" can have multiple meanings. In general, the term refers to the amount of stock traded by individual traders, stock exchanges or countries. It can also refer to the activity level of trading in a specific portfolio (Deardorff's Glossary, 2010).

Turnover is the trading volume of the market or of a particular security. So, it can measure the trading volume for individual traders, stock markets or entire countries. For example, a stockbroker will use turnover to measure the size of his trades, while stock markets and countries will use their respective turnovers to gauge the size of the overall market for stocks (Deardorff's Glossary, 2010).

Exchange rate. International trade is significantly affected by existing *exchange rates* a kind of bridge between the value of national and international market. The impact of the exchange rate is reflected in the export-import price ratios, which in turn detects changes in the domestic economic situation and adjusts firms' activities operating for export and / or competing with imports (Dakhno, 2004).

The depreciation of the national currency increases the value of imports, as foreign suppliers are forced to increase prices for their products to compensate for the loss of revenue from the depreciation of the exchange rate of their foreign counterparties. As a result, in countries where the national currency is depreciating, prices are rising, imports and consumption of foreign goods are declining, and this is generally having a negative effect on the domestic economic situation. The depreciation of the exchange rate increases the burden of external debt recorded in foreign currency, it becomes unprofitable to repatriate the profits received by foreign investors in the currency of the country in which they invested. Such profits are reinvested or used to purchase goods at domestic prices of the investing country for further export.

If the exchange rate in a country rises, it negatively affects its export industries. Changes in exchange rates inevitably lead to changes in the prices of goods imported and exported by such countries.

Thus, the competitiveness of goods in international markets is affected not only by factors of production but also by exchange rates. There are

many examples of how the steady growth of the national currency exchange rate has led to a loss of competitiveness of the country's products, despite the fact that its technological level, as well as the peculiarities of management have not caused any doubts and concerns.

Benefits of Export and Import Activities for the Domestic Firms

Factors that help businesses to benefit in *export activity* (Kozak Y.et al., 2014; Kozak, Y. and Gribincea, A., 2016):

- the use of excess capacity, which companies sometimes have at their disposal, but this capacity is not appropriate for domestic demand;
- obtaining of higher profits;
- significant amounts of foreign sales make domestic producers less dependent on domestic economic conditions;
- reducing production costs, due to the coverage of conventionally fixed costs by issuing larger output, increase of efficiency through experience, which was acquired in the production of large quantities of products; massive purchases of materials and transportation of their large quantities;
- risk sharing;
- knowledge and experience, gained by firms in the process of working on foreign markets that promotes increase of the effectiveness of their activity during marketing operations on the domestic market.

Factors that help businesses to benefit in *import activity* (Kozak Y.et al., 2014; Kozak, Y. and Gribincea, A., 2016)*:*

- avoidance limitations of the domestic market, reducing the production costs or improving the quality of products;
- obtaining the cheap high-quality materials, components and technologies for their use in the manufacture;
- the use of excessive capacities of trade and distribution network;
- the possibility of distribution of operational risks because of the fact that company is less dependent on a single supplier dictates when expands the range of suppliers.

The impact of the international trade on domestic firms, which are competitors in the import, is ambiguous. The clash of interests of the company with import competition may lead to negative consequences in the form of labor dismissal or reduction of wages. The adverse effect of competition from import is particularly noticeable when competing industry operates in a specific field. However, the above losses caused by import competition, are temporary (Kozak, Y. and Gribincea, A., 2016).

Two counter flows of goods and services: export and import create international trade (Kozak Y.et al., 2014; Kozak, Y. and Gribincea, A., 2016).

As defined by the United Nations Statistical Commission **the export is**:

- the movement of goods from the country, which are produced, grown or extracted in the country, as well as goods previously imported from abroad and processed in the customs territory;
- the removal of goods previously imported, the processing of which occurred under the customs control;
- the removal of goods abroad, which were imported earlier and which were not processed in any way in the exporting country. Such export is called re-export. The goods that were sold at international auctions and commodity exchanges are often the subjects of the re-export. The removal (export) of goods from the territory of free zones and bonded warehouses is also re-export.

The import is (Krugman P. et al., 2014; Dakhno, 2004)**:**

- the importation into the country of goods of foreign origin directly from the country of manufacture or intermediary country for the personal consumption, for industrial, construction, agricultural and other enterprises or for the processing with the purpose of consumption within the country or for the export from it;
- the importation of the goods from free zones or bonded warehouses;
- the importation from abroad previously exported domestic products that were not subjected to the processing there. Such import is called re-importation;
- the importation of goods for processing under customs control. These products are imported into the country for processing with the purpose of export of finished products, which includes this product in processed or in modified form (e.g. the import of the olive oil for the manufacturing of canned sardines for export). Importer is usually exempted from customs duties.

All the products supplied by the parent companies of TNCs to their subsidiaries that are located in other countries are also included into the value of exports and imports. This way the intra-corporate exchange is taken into account, which is carried out within TNCs and is included in the international trade trade (Kozak Y.et al., 2014; Kozak, Y. and Gribincea, A., 2016; Krugman P. et al., 2014).

1.5 Indicators of Monitoring the International Trade Impact

1. Trade balance (S) is determined as the difference value of exports (E) and imports (I) of the country for a certain period (Kozak, Y. and Gribincea, A., 2016):

$$S = E - I_m, \tag{1.1}$$

Active trade balance is the excess of exports of goods and services over imports. It shows that the foreign trade is positive for the country.

Passive trade balance is the excess of volume of imports over exports of the country.

2. Foreign trade turnover (FTT) is the sum of value of exports and imports for a certain period:

$$FTT = E + I \tag{1.2}$$

3.General (total) trade (GT), which is the sum of value of exports, imports and transit goods (T) transported through the country, that is foreign trade ”load” on the country:

$$GT = E + I + T \tag{1.3}$$

4. Index of "terms of trade". This is the ratio of export and import prices. The gains from the international trade depend on the changes in export and import prices. There are commodity, revenue and factor terms of trade.

Commodity terms of trade can be expressed by the ratio of export and import prices for certain goods or by the ratio of the index of export prices and index of import prices as a whole, if the foreign trade in all goods is investigated. The following formula is used in the last case (Kozak, Y. and Gribincea, A., 2016):

$$T = \frac{P_x}{P_{im}} \tag{1.4}$$

where P_x – index of export prices;
P_{im} – index of import prices.

If index of terms of trade T = 1, it means that the prices of exports and imports are equal and trading terms remain unchanged. If T > 1, it means that for every unit of exported goods, more imported goods can be purchased. Since the larger volume of imports becomes possible instead of the previous export quantity, the welfare of the country will increase. Thus the terms of trade improved compared to the base period.

If index of terms of trade T <1, it means that for every unit of exported goods less imported goods can be purchased. Since the smaller volume of imports becomes possible instead of the previous export quantity, the welfare of the country reduces. Thus the terms of trade deteriorated (Kozak, Y. and Gribincea, A., 2016).

5. The index of export concentration (Ie.c.). It is used to determine certain types of products export in total production of these products and has the form:

$$I_{e.c.} = \frac{E_i}{V_{prod.i}} \times 100\%, \tag{1.5}$$

where E_i – volume of export for i-type of product; $V_{prod.i}$ – aggregate output for *i*-type of product.

The more this index is close to 100%, the greater the share of exports in total production. This indicates that the country is the world exporter of this type of product.

6. The index of import dependence of the country (Zij) is defined as the share of imports in total consumption:

$$Z_{ij} = \frac{I_{ij}}{P_{ij}} \times 100\%, \tag{1.6}$$

where I_{ij} -volume of import of the commodity “i” to the country “j”;

P_{ij} - the volume of consumption of the commodity “i’ in the country “j”;

$$P_{ij} = V_{ij} + I_{ij} - E_{ij}, \tag{1.7}$$

where V_{ij} - volume of production of the commodity “i” in the country “j”;

E_{ij} – export of the commodity “i” from the country “j”.

This indicator shows the dependence of the country on the external market in various goods, i.e. the level of satisfaction of demand for this type of product from its own capacities and imports. If it is equal to 100%, then this would indicate that the need of the country in this product is completely satisfied by import.

7. Index of net trade (**I_{nt}**) shows the excess of exports over imports level by each type of product (with the positive value of indicator) or the excess of imports over exports (with its negative value):

$$I_{nt} = \frac{E_i - I_i}{E_i + I_i}, \quad (1.8)$$

where E_i - export of the commodity “i”;

I_i - import of the commodity “i”.

The index can range from -1 to + 1. If the index is closer to -1, it means that the commodity is imported only; it negatively characterizes the trade of the country. If it is closer to one, the commodity only is exported and it indicates the positive trade.

8. The export quota (Q_e**) is calculated by the formula:**

$$Q_e = \frac{E}{GDP} \times 100\%, \quad (1.9)$$

where E - volume of exports for the certain period;
GDP - gross domestic product for the same period.

9. The import quota (Qi) is calculated by the formula:

$$Q_i = \frac{I}{GDP} \times 100\%, \quad (1.10)$$

Where I – volume of imports for the certain period.

10. The effectiveness of foreign trade turnover (E_{ft}), is defined by the formula:

$$E_{ft} = \frac{C_i}{C_e} \times 100\%, \qquad (1.11)$$

where C_i – the costs of domestic production of imported goods;

Ce – national expenditure on export production;

Country saves the work of its employees, participating in international trade on special condition. This condition consists in the following: the domestic costs of exports will be less than the costs because of imports.

11. Efficiency of export (Fe):

$$E_e = \frac{F_e}{C_e}, \qquad (1.12)$$

where Fe – foreign exchange receipts from export; Ce - the costs on production and sale of export products.

12. Efficiency of import (E_i):

$$E_i = \frac{F_i}{C_i}, \qquad (1.13)$$

where C_i – the costs of domestic production of imported goods, Fi - foreign exchange costs of imported goods.

Gains from the International Trade means the net benefits that countries experience because of lowering import tariffs and otherwise liberalizing trade (Deardorff's Glossary, 2010).

There are several **factors** that determine the gains from international trade (G. Gandolfo and F. Trionfetti, 2014; Handel, 2014):

1) differences in cost ratio: the gains from international trade depend upon the cost ratios of differences in comparative cost ratios in the two trading countries. The smaller the difference between exchange rate and cost of production the smaller the gains from trade and vice versa;

2) demand and supply: if a country has elastic demand and supply gains the gains from trade are higher than if demand and supply are inelastic;

3) factor availability: international trade is based on the specialization and a country specializes depending upon the availability of factors of production. It will increase the domestic cost ratios and thereby the gains from trade;

4) size of country: if a country is small in size it is relatively easy for them to specialize in the production of one commodity and export the surplus production to a large country and can get more gains from international trade. Whereas if a country is large in size then they have to specialize in more than one good because the excess production of only one commodity cannot be exported fully to a small sized country as the demand for good will reduce very frequently;

5) terms of trade: gains from trade will depend upon the terms of trade. If the cost ratio and terms of trade are closer to each other more will be the gains from trade of the participating countries;

6) productive efficiency: an increase in the productive efficiency of a country also determines its gains from trade as it lowers the cost of production and price of the goods. As a result, the country importing gains by importing cheap goods.

Some of the important factors that determine **the gains from international trade** can be as follows (Essential, 2020; Kozak, Y. and Gribincea, A., 2016):

1) *differences in cost ratios*: the gains from international trade depend on differences in comparative cost ratios in the two trading countries. “A country gains by foreign trade, if and when, the traders find that there exists abroad a ratio of prices very different from that to which they are accustomed at home. They buy what to them seems cheap and sell what to them seems dear.

The bigger the gap between what to them seems low profits and high profits, and the more important the article affected, the greater will be the gain from trade.” It country A has a comparative advantage in the production of wheat and country B has a comparative advantage in the production of cotton, both countries will gain from trade.

The size of the gain will depend on the cost of production of each commodity in both countries. If with increase in efficiency of labour the cost of production of wheat in country A falls, then country B shall gain more from trade. Contrary will be the case if the cost of production of cotton in country B falls, then country A will gain from trade. Thus the greater the differences in comparative cost ratios, the larger are the gain from trade.

2) level of income: the level of money income of a country is another factor which determines the gains and the share of trade. A country whose

goods have a constant demand in other countries will have a high level of money income. If the demand for its exports is high, it export industries will expand. Consequently, the level of money wages will rise in these industries. Competition for labor will force other industries to raise money wages to the level of export industries. Thus the overall level of money incomes will tend to be high in the country. But the prices of foreign goods being imported into the country will be low, while the money incomes of the people will be high. So people of the country will gain as consumers of cheap imported goods. On the contrary, a country having high demand for foreign goods will have low money incomes. As it will have high demand for foreign goods, their prices will be high. Consequently, its people will lose as consumers of those imported goods;

3) terms of trade: the most important factor which determines the gains from trade is the terms of trade. The terms of trade refer to the rate at which one commodity of a country is exchanged for another commodity of the other country. This refers to the barter terms of trade which Mill used to determine the gains as well as the distribution of the gains from international trade. In the modern analysis also, it is the terms of trade that determine the gains from trade. But when international trade takes place, the terms of trade change and are different from the domestic terms of trade. It is the international terms of trade that determine the gains from trade;

4) productive efficiency: an increase in the productive efficiency of a country also determines its gain from trade. It lowers costs of production and prices of goods in the home country. As a result, the other country gains by importing cheap goods and its terms of trade improve but that of the home country deteriorate. On the other hand, if productive efficiency increases in the foreign country, its goods will be cheaper. The home country will increase its imports of these goods. Its terms of trade will improve and it will gain from trade;

5) nature of commodities exported: another factor is the nature of commodities exported by a country. A country which exports mainly primary products has unfavorable terms of trade. Consequently, its gain from trade will be smaller. On the contrary, a country exporting manufactured goods has favorable terms of trade and its gain from trade will be larger;

6) technological conditions: a country which is technologically advanced and has an abundance of capital, its volume of foreign trade will be large and so will be its gain from international trade. On the other hand, if a country is technologically backward with abundant labor, its volume of foreign trade will be small and so will be its gain from trade;

7) size of the country: the gain from trade also depends on the size of the country. A small country which specializes in the production of those commodities in which it enjoys a comparative advantage, exchanges them with a large country. Under conditions of constant opportunity cost and different demand patterns, the more foreign market prices differ from domestic prices, the greater will be the gain from trade for the small country.

Self-control Questions:

1. What is international trade and what are the trends of its development?
2. Describe the main stages of international trade development, what are their distinctive features?
3. What is the place of international trade in the system of international economic relations? Describe the concepts of international trade.
4. Features of the dynamics and changes of commodity and geographical structure of international trade.
5. What are the specific features of international trade?
6. How is the degree of dependence of countries on international trade determined?
8. What factors determine the needs of international trade and what benefits does it bring?
9. Describe the composition and methodology of analytical calculations of international trade indicators.
10. What is the essence of “trade terms”?

Chapter 2 International Trade Models and Theories

2.1 Classical International Trade Theories
2.2 The Heckscher and Ohlin Model
2.3 Standard Model of International Trade
2.4 Alternative Theories of International Trade

Key concepts: mercantilism; the absolute advantage theory; gain from international trade; the comparative advantage theory; opportunity (relative) costs; factor capacity; factor saturation; production limited opportunities; labor-intensive and capital-intensive goods; "Leontiev's paradox", the Heckscher and Ohlin model, product life cycle theory, economies of scale theory, alternative theories of international trade.

2.1 Classical International Trade Theories

Obviously, one of the main questions that the theory of international trade must answer is what underlies this gain from foreign trade, or, in other words, how the directions of foreign trade flows are determined.

Economic theory shows that international trade is a means by which countries, developing specialization, can increase the productivity of available resources and thus increase the volume of goods and services produced, and increase the level of welfare.

Mercantilism is the direction of economic thought that emphasizes the commodity character of production. European scientists developed it in XVII-XVIII centuries. It is the doctrine where the existing world is seen in static, but the wealth of nations is seen as a fixed phenomenon in every moment. Mercantilism is an economic theory where the government seeks to regulate the economy and trade in order to promote domestic industry – often at the expense of other countries. Mercantilism is associated with policies that restrict imports, increase stocks of gold and protect domestic industries. 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. Having more money in circulation stimulates the development of national production and the employment increase. Mercantilism stands in contrast to the theory of free trade – which argues countries economic well-being can be best improved through the reduction of tariffs and fair free trade (Tsygankova et al., 2001; Kozak, Y. and Gribincea, A., 2016).

Mercantilism involves:

1) restrictions on imports – tariff barriers, quotas or non-tariff barriers.

2) accumulation of foreign currency reserves, plus gold and silver reserves. In the sixteenth/seventeenth century, it was believed that the accumulation of gold reserves (at the expense of other countries) was the best way to increase the prosperity of a country;

3) granting of state monopolies to particular firms especially those associated with trade and shipping;

4) subsidies of export industries to give a competitive advantage in global markets;

5) government investment in research and development to maximize the efficiency and capacity of the domestic industry;

6) limiting wages and consumption of the working classes to enable greater profits to stay with the merchant class;

7) control of colonies, e.g. making colonies buy from Empire country and taking control of colonies wealth.

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 as many goods as possible and should purchase as little as possible at the foreign market. Herewith, the country should accumulate gold. Mercantilists also considered that it is necessary to carry out the governmental control over all economic activities and justified the economic nationalism.

The role of mercantilism can be defined by following statements:

1) mercantilism was the first 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 created one of possible models for the development of international trade based on commodity character of production. They laid the foundations of categorical apparatus used in modern theories of international trade;

3) the balance of payments was firstly described (Mercantilism, 2020; Kozak, Y. and Gribincea, A., 2016).

Criticisms of Mercantilism (Mercantilism, 2020):

1. Adam Smith's "The Wealth of Nations" (1776) – argued for benefits of free trade and criticized the inefficiency of monopoly.

2. Theory of comparative advantage (David Ricardo)

3. Mercantilism is a philosophy of a zero-sum game – where people benefit at the expense of others. It is not a philosophy for increasing global growth and reducing global problems. Trying to impoverish other countries will harm our own growth and prosperity. By contrast, if we avoid zero-sum

game of mercantilism increasing the wealth of other countries can lead to selfish benefits, e.g. growth of Japan and Germany led to increased export markets for UK and US.

4. Mercantilism that stresses government regulation and monopoly often lead to inefficiency and corruption.

5. Mercantilism justified Empire building and the poverty of colonies to enrich the Empire country.

6. Mercantilism leads to reciprocation of policies – high tariffs on imports leads to retaliation.

7. The growth of globalization and free trade during the post-war period showed possibilities from opening markets and respecting other countries as equal players.

8. Economies of scale from specialization possible under free trade.

Despite many criticisms of mercantilism, there are arguments to support the restriction of free trade in certain circumstances (Mercantilism, 2020):

1) tariffs in response to domestic subsidies. Supporters argue that since China's steel is effectively subsidized leading to a glut in supply, it is necessary and fair to impose tariffs on imports of Chinese steel to protect domestic producers from unfair competition. US tariffs on imports of steel from China are 266%. In Europe, tariffs are 13%;

2) protection against dumping. If some countries have an excess supply of goods, they can sell at a very low price to get rid of the surplus. However, this can make domestic firms unprofitable. Protectionism can be justified to protect against this dumping;

3) infant industry argument. For countries seeking to diversify their economy, tariffs may be justified to develop new industries.

Absolute advantage theory

The theory of absolute advantage was put forward by Adam Smith who argued that different countries enjoyed absolute advantage in the production of some goods which formed the basis of trade between the countries. He criticized mercantilism in his work "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776). A. Smith held the view that the wealth of nation 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 government is not the accumulation of gold and silver, but making arrangements to develop production on the basis of cooperation and division of labor. Smith considered that two countries must benefit from the trade, when they trade with each other. When one of them does not win anything, it will refuse the trade. Not only selling, but also purchasing of goods at the foreign market can bring the benefits for the country.

The idea of absolute advantage rests on a number of assumptions on the part of Adam Smith. While influential and insightful, the theory of absolute advantage is not always entirely accurate because many of these fundamental assumptions are in fact not true in practice. Here are the most significant of these assumptions (Tsygankova et al., 2001; Kozak, Y. and Gribincea, A., 2016):

1. *Lack of Mobility for Factors of Production*. Adam Smith assumes that factors of production cannot move between countries. This assumption also implies that the Production Possibility Frontier of each country will not change after the trade.

2. *Trade Barriers*. There are no barriers to trade for the exchange of goods. Governments implement trade barriers to restrict or discourage the importation or exportation of a particular good.

3. *Trade Balance*. Smith assumes that exports must be equal to imports. This assumption means that we cannot have trade imbalances, trade deficits, or surpluses. A trade imbalance occurs when exports are higher than imports or vice versa.

4. *Constant Returns to Scale*. Adam Smith assumes that we will get constant returns as production scales, meaning there are no economies of scale. For example, if it takes 2 hours to make one loaf of bread in country A, then it should take 4 hours to produce two loaves of bread. Consequently, it would take 8 hours to produce four loaves of bread.

However, if there were economies of scale, then it would become cheaper for countries to keep producing the same good as it produced more of the same good.

This theory became known as the absolute advantage theory, because it was based on the absolute advantage: the country exports the goods, which costs of production are lower than in the 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. 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 this fact 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 only a small portion of international trade can be explained, by using the

principle of absolute advantage (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. D. Ricardo explained this position.

Comparative advantage theory

A rule of international specialization, depending on absolute advantages, excluded countries without absolute advantage from international trade. The D. Ricardo developed the absolute advantage theory in his work “On the Principles of Political Economy and Taxation” (1817). He 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 case of the presence of comparative advantages (Kozak, Y. and Gribincea, A., 2016).

D. Ricardo's theory of international trade is based on the following preconditions (Kozak, Y. and Gribincea, A., 2016): free trade; fixed costs of production; absence of international labor mobility; absence of transportation costs; lack of technical progress;full employment; there is only one factor of production (labor).

Comparative advantage theory states that if countries are specialized in the production of the commodities that have relatively lower costs in comparison with other countries, the 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, exclusively a difference in relative costs of production of the commodities, regardless of the absolute amount of these costs, can be the basis for emergence and development of international trade.

Domestic prices are determined only by cost, i.e. by supply conditions in the D. Ricardo’s model. But the world prices may also be determined by the world demand, which was proved by the English economist John Stuart Mill. He showed at what price the exchange of goods between countries is carried out in his work “Principles of Political Economy”.

In conditions of free trade, the exchange of goods is carried out in such a proportion of prices that is set somewhere between the existing relative prices of goods within each of the trading countries. The final level of prices, i.e. the world prices, of mutual trade will depend on the level of world demand and supply for each of these products.

The price of imported goods is determined by the price of the goods, which should be exported, to pay for imports according to J.S. Mill’s theory

(the reciprocal demand theory). Therefore, the final proportion of prices in trade is determined by domestic demand for goods in each trading country. The world price is established based on supply and demand correlation. The level of the world price should be such, that the revenue from total exports can give the country the opportunity to pay import. However, analyzing the comparative advantages, not the market of separate product is studied, but the relationship between the markets of two products that are produced simultaneously in two countries. So it is important to consider not absolute, but relative amounts of supply and demand of goods.

Thus, this theory is the basis of determining the price of goods, taking into account the comparative advantages. Nevertheless, its drawback is that it can be applied only to the countries of approximately the same size, when domestic demand in one of them can affect the price level in the other one. Countries can benefit from the trade (the economic effect) in the specialization of countries in trade of goods, in production of which they have comparative advantage. The country benefits from the trade, because it can get instead of its goods more necessary foreign goods from abroad than on the domestic market. Benefits from the trade are both the saving of labor costs and the growth of consumption (Kozak, Y. and Gribincea, A., 2016).

Example

Table 2.1 – Production in England and Portugal

Production	England	Portugal
(n) cloth	100 workers / year	90 workers / year
(m) wine	120 workers / year	80 workers / year

From table 2.1 it can be seen that the production of a certain amount of (n) cloth in England will require the labor of 100 workers per year. For this amount of cloth, England acquires a certain (t) amount of Portuguese wine, for its own production it would take 120 workers a year. Consequently, it is profitable for England to buy wine from Portugal by selling cloth to it. For the production of the same goods, Portugal spends labor, respectively, 90 and 80 workers per year, so it is profitable for it to import cloth in exchange for wine. The unequal exchange of labor of 100 English workers for the labor of 80 Portuguese workers, according to D. Ricardo, is due to the difficulties of moving the factors of production between countries.

According to the model of D. Ricardo, Portugal has an absolute advantage over England in the production of both goods, however, Portugal has a comparative advantage in the production of wine, since its production

will require 67% (80/120 x 100) of England's costs, and for the production of cloth - 90% (90/100 x 100). Consequently, it is more profitable for Portugal to produce and export wine, and for England - cloth.

D. Ricardo in his model assumes a given quantity of goods produced (wine and cloth) and considers the differences in labor time spent on their production. Subsequently, already in the XX century, this approach began to be interpreted differently, on the basis of the concept of opportunity costs (or replacement costs). The author of this interpretation is considered the American economist G. Haberler.

The importance of the comparative advantage theory:

1) the balance of aggregate demand and aggregate supply was first described. The cost of goods is determined by the ratio of aggregate demand and supply for them, both domestically and from abroad;

2) the theory is true regarding any quantity of goods and any number of countries, as well as for the analysis of trade between different entities. In this case, country specialization in some goods depends on the ratio of wage levels in each country;

3) the theory based the existence of benefits from trade for all countries, taking part in it.

The limitation of the comparative advantage theory is in those presuppositions, on which it is based. It does not take into account the impact of foreign trade on income distribution within a country, fluctuations in prices and wages, international capital movements. In addition, it does not explain the trade between almost identical countries, none of which has no a relative advantage over another, it takes into account only one factor of production – the labor.

The *Ricardian model* is the simplest model that shows how differences between countries give rise to trade and gains from trade. In this model, labour is the only factor of production, and countries differ only in the productivity of labour in different industries.

In the *Ricardian model*, countries will export goods that their labour produces relatively efficiently and will import goods that their labour produces relatively inefficiently. In other words, a country’s production pattern is determined by comparative advantage.

Let us use some of the initial conditions from the example of D. Ricardo *(Tab. 2.1)*: there are two countries (England and Portugal) and two goods (cloth and wine). Suppose that in England for the production of 1 m² of cloth it takes 100 hours of working time and for the production of 1 liter of wine - 120 hours. The total number of working hours that England has in a given year is 220 thousand hours. Thus, England can produce either 2200

m² of cloth (220 thousand h / 100 h), or 1833 liters of wine (220 thousand h / 120 h), or any combination of these goods is possible within these limits.

In Portugal, the total number of working hours is 170 thousand hours. It will take 90 hours for the production of 1 m² of cloth, and 80 hours for the production of 1 liter of wine. Thus, in Portugal either 1899 m² of cloth can be produced (170 thousand hours / 90 h), or 2125 liters of wine (170 thousand h / 80 h), or any combination of these products is possible within these limits.

This trade will affect the relative prices of goods in such a way that instead of two different prices in closed markets, a single world price is gradually established. For example, the world price of 1 m² of cloth will be set in the range from 4/5 to 6/5 liters of wine. Let us assume that this price will be equal to 5/5, ie 1. At this price the cloth will be sold both in England and in Portugal. In England, wine producers will be making less profit than before, and cloth producers more. As a result, the production of wine will decrease and the production of cloth will increase. The opposite situation will arise in Portugal. All this will lead to the fact that England will specialize in the production and export of cloth, and Portugal - in the production and export of wine.

Thus, free trade leads to specialization in the production of each country, the development of the production of "comparatively advantageous" goods, an increase in output throughout the world, as well as an increase in consumption in each country

We can show that trade benefits a country in either of two ways. First, we can think of trade as an indirect method of production. Instead of producing a good for itself, a country can produce another good and trade it for the desired good. The simple model shows that whenever a good is imported, it must be true that this indirect “production” requires less labour than direct production. Second, we can show that trade enlarges a country’s consumption possibilities, which implies gains from trade.

The distribution of the gains from trade depends on the relative prices of the goods countries produce. To determine these relative prices, it is necessary to look at the relative world supply and demand for goods. The relative price implies a relative wage rate as well.

The proposition that trade is beneficial is unqualified. That is, there is no requirement that a country be “competitive” or that the trade be “fair.” In particular, we can show that three commonly held beliefs about trade are wrong. First, a country gains from trade even if it has lower productivity than its trading partner in all industries. Second, trade is beneficial even if foreign industries are competitive only because of low wages. Third, trade

is beneficial even if a country's exports embody more labour than its imports.

Extending the one-factor, two-good model to a world of many commodities does not alter these conclusions. The only difference is that it becomes necessary to focus directly on the relative demand for labour to determine relative wages rather than to work via relative demand for goods. In addition, a many-commodity model can be used to illustrate the important point that transportation costs can give rise to a situation in which some goods are nontraded.

While some of the predictions of the *Ricardian model* are clearly unrealistic, a number of studies (Jones R., 1961; Robert C. Feenstra, 2007; Krugman P. et al., 2014) have confirmed its basic prediction - that countries will tend to export goods in which they have relatively high productivity -.

However, both *absolute advantage and comparative advantage* are enormously significant concepts for understanding how international trade works. Both nations and the firms residing within them make many of their decisions about resource allocation (which goods should be allotted more or fewer resources for production) based on assessments of absolute and comparative advantage.

The two concepts are undoubtedly related but are also distinct. Absolute advantage refers to situations wherein one firm or nation can produce a given product of better quality, more quickly, and for higher profits than can another firm or nation. Comparative advantage, by contrast, looks at international trade more broadly - it accounts for the opportunity costs of choosing to manufacture multiple kinds of products using finite resources. Adam Smith had believed that absolute advantage was a necessity for beneficial trade (Jones R., 1961).

2.2 The Heckscher and Ohlin Model

Swedish economists Eli Heckscher and Bertil Ohiin tried to explain the reasons for international trade in manufactured products. The main provisions of the new theory were formulated by E. Heckscher in a short newspaper article published in 1919. These provisions were generalized and developed by his student B. Olin. A certain contribution to the development of this theory was made by the American economist P. Samuelson (Fomichev, 1998).

In accordance with their theory, countries export those goods in the production of which a surplus factor is mainly used. According to the authors of the theory, there are three main factors: labor, capital and land.

However, the Heckscher-Ohlin theory is two-factor, since it compares only two of the three factors, for example, labor and capital. Thus, some goods are labor intensive and others capital intensive. Different countries are endowed with labor and capital to varying degrees. Consequently, in a country where there is a lot of labor resources, and there is not enough capital, labor will be relatively cheap, and capital - expensive, and vice versa, in a country where there are few labor resources, and there is sufficient capital, labor will be expensive, and capital - cheap. Each of these countries will export those goods that are relatively cheaper to produce, using more of the "cheap factor of production".

Heckscher-Olin's theory successfully explains many of the patterns observed in international trade. Countries do export mainly products whose production costs are dominated by relatively surplus resources. However, the structure of available production resources for industrialized countries is gradually leveling off. In addition, the world market is growing the share of trade in "similar" goods between "similar" countries. The research of factors affecting the commodity nomenclature and volume of international trade, allowed the Swedish scientists E. Heckscher and B. Ohlin to clarify and supplement the key founfations of the comparative advantage theory and to formulate the concept of factors of production in 20-30 years of XX century (Fomichev, 1998).

In reality, the development of the trade is based not only on differences in labor productivity, but also on differences in resources of the country (land, capital, and raw materials). E. Heckscher and B. Ohlin tried to prove that the different relative supply of production resources makes the difference in the relative prices of goods, which in turn, creates the preconditions for international trade.

The famous American economist Vasily Leontiev in the mid-1950s attempted to empirically test the main conclusions of the Heckscher-Olin theory and came to paradoxical conclusions. Using the model of intersectoral balance "cost - output", built based on data on the US economy in 1947; V. Leontiev showed that American exports were dominated by relatively more labor-intensive goods, and imports - capital-intensive. Given that in the first postwar years in the United States, unlike most of their trading partners, capital was a relatively surplus factor of production, and wages were much higher, this empirical result clearly contradicted what the Heckscher-Olin theory suggested, and therefore received the name "Leontief's paradox". Subsequent studies have confirmed the existence of this paradox in the postwar period not only for the United States but also for other countries (Japan, India, etc.).

Numerous attempts to explain this paradox have made it possible to develop and enrich the Heckscher-Olin theory by taking into account additional circumstances affecting international specialization, among which are the following:

- heterogeneity of factors of production, first of all labor, which can differ significantly in the level of qualification. From this point of view, the exports of industrialized countries may reflect a relative redundancy of highly skilled labor and specialists, while developing countries export products that require high costs of unskilled labor;
- the significant role of natural resources, which can usually participate in production processes only in association with a large amount of capital (for example, in the extractive industries). This to some extent explains why exports from many natural resource-rich developing countries are capital-intensive, although capital in these countries is not a relatively surplus factor of production;
- the impact on the international specialization of foreign trade policy pursued by the state, which can limit imports and stimulate domestic production and exports of products of industries where intensively used relatively scarce factors of production.

Heckscher and Ohlin formed the assumptions concerning the different factor-intensity of individual commodities (one commodity is labor-intensive, the other one is capital-intensive) and different factor-abundant of individual countries (one country has relatively more capital, the other one has relatively less capital).

Factor intensity is an indicator that determines the relative costs of production factors on the product creation. For example, product B is relatively more capital-intensive than the product A, if the ratio of capital to labor in the production of goods is more than the ratio of the same cost of production of the product A.

Factor abundance of the country is an indicator that determines the relative factors endowment of the country.

For example, if you define factor abundance through the absolute sizes of the factors of production, the country where the ratio of total capital to total labor is greater than in other countries will be considered as capital-abundant or capital endowment country.

The essence of the Heckscher-Ohlin theorem is in the next point: each country will export that factor-abundant goods, for the production of which it uses relatively abundant and cheap factors of production, and will import the goods, which require relatively scarce and expensive resources.

The Heckscher-Ohlin theorem considers that trade is based on comparative advantages and shows that the difference in the factor-

abundance of the countries is the reason of the comparative advantages. The reason of the differences between the relative prices of goods in different countries and the trade between them countries is the difference in factor-abundance of the countries.

The essence of the factor-price equalization theorem is in the next facts: international trade leads to the equalization of the prices for the goods, and this, in its turn leads to the equalization of the prices for the factors of production, by means of which these goods are produced.

The theorem has some limitations: it considers the world in static, determining the factors affecting the macroeconomic equilibrium at a certain time, and does not take into account the fact that the absolute amounts of factors of production are different in different countries, and therefore the absolute amounts of income for capital will be greater in the country, which is endowed with more capital. So, full equalization of the prices for the factors of production as a result of trade is impossible (Kozak, Y. and Gribincea, A., 2016).

2.3 Standard Model of International Trade

Standard model is the main theoretical tool for analyzing international trade. Its basic concepts were established by Irish economist F. Edgeworth and Austrian economist G. Haberler in different years (Kozak, Y. and Gribincea, A., 2016).

The standard model of international trade regards an aggregate demand and aggregate supply of goods. The offer in the market is characterized by the marginal rate of transformation. It means the number of items II, production of which country should refuse to produce each additional unit of goods I. The demand of the market is characterized by a marginal rate of substitution. It means such a number of items II, production of which country should refuse to produce one additional unit I and thus preserve the current level of consumption.

Increasing costs of substitution are basic for the standard model. It means that the country should abandon the issue of not constant but the growing number of other goods, for the production of each additional unit of a product. The factors of production are not homogeneous and are used in different proportions. These facts can lead to increasing costs of substitution. So, the country should use resources that are becoming less effective or less suitable for the production of the product in process of increase of any good.

The full specialization of the countries is not carried out at increasing costs of substitution. The relative prices of goods become closer until they

become equal in case of the specialization of each country. The extension of increase of their production of the goods, that create comparative advantage, is not profitable from that moment, because the equilibrium price is already reached. This is carried out up the moment of complete specialization of countries in the production. Further specialization does not make sense, because the increasing costs of substitution will be more expensive than importing goods (Dakhno, 2014).

Gain from trade consists of two components: the gain from exchange (these are the benefits that the country receives only because it was involved in trade relations with other countries) and gain from specialization (these are the benefits that the country receives due to the fact, that in the terms of trade the country concentrated its efforts on the production of goods in production of which it has a comparative advantage).

In standard model the original assumption of relative advantages is the difference in production capabilities and consumption levels. Its separate case is the trade, based on differences in tastes of the two countries and carried out in conditions of complete coincidence of production capabilities of countries-trading partners. At this model of trade the production structure becomes more identical as the countries depart from autarky.

Standard model was further elaborated in general equilibrium model in international trade. This general equilibrium model connects the supply and demand for goods in the country with supply and demand for them from abroad. General equilibrium is the simultaneous balancing of supply and demand for goods in domestic and international trade, i.e. on domestic and global market. It is based on the concept of mutual demand, which combines elements of supply and demand, and shows the number of imported goods, which are required for the country to encourage it to export a certain amount of its goods. The model also considers more accurate method of determining the relative prices of goods in terms of trade through the exchange curves that reflect the country's desire to export and import at different relative prices (Kozak, Y. and Gribincea, A., 2016; Dakhno, 2014; Tsygankova et al., 2001).

2.4 Alternative Theories of International Trade

In recent decades, significant shifts have taken place in the directions and structure of world trade, which do not always lend themselves to an exhaustive explanation within the framework of classical trade theories. This prompts both the further development of already existing theories and the development of alternative theoretical concepts. Among such qualitative shifts, one should first of all note the transformation of technical progress

into the dominant factor in world trade, the ever-growing share in trade of counter deliveries of similar industrial goods produced in countries with approximately the same supply of production factors, and a sharp increase in the share of world trade turnover accounted for by intra-firm trade.

Product Life Cycle Theory

In the mid-60s, the American economist R. Vern put forward the theory of the product life cycle, in which he tried to explain the development of world trade in finished products on the basis of their life stages, that is, the period of time during which the product has a viability in the market and ensures the achievement of the seller's goals.

A product's life cycle spans four stages - adoption, growth, maturity, and decline. The first stage is the development of new products in response, as a rule, to an emerging need within the country. Therefore, the production of a new product is of a small-scale nature, requires highly skilled workers and is concentrated in the country of innovation (usually an industrialized country), and the manufacturer has an almost monopoly position and only a small part of the product goes to the external market.

In the next stage, the demand for the product grows and its production expands and gradually spreads to other developed countries, the product becomes more standardized, competition between manufacturers increases and exports expand.

The stage of maturity is characterized by large-scale production, the price factor becomes predominant in the competition, and as markets expand and technologies spread, the country of innovation no longer has competitive advantages. Manufacturing begins to move to developing countries where cheap labor can be effectively used in standardized manufacturing processes.

As the life cycle of a product goes into decline, demand, especially in developed countries, decreases, production and sales markets are concentrated mainly in developing countries, and the country of innovation becomes a net importer.

The theory of the product life cycle fairly realistically reflects the evolution of many industries, but it is not a universal explanation of the trends in the development of international trade. If research and development, advanced technology ceases to be the main factor determining competitive advantages, the production of a product will indeed move to countries with a comparative advantage in other factors of production, for example, in terms of cost or labor. However, there are many products that do not fit into the life cycle theory (with a short life cycle, high transportation costs, having significant opportunities for quality differentiation, a narrow circle of potential customers, etc.).

Economies of Scale Theory

In the early 1980s, P. Krugman, K. Lancaster and some other economists proposed an alternative to the classical explanation of international trade, based on the so-called scale effect. The essence of this effect, well known from microeconomic theory, is that with a certain technology and organization of production, long-term average costs decrease as the volume of output increases, that is, there is an economy due to mass production (Krugman, 2012).

According to this theory, many countries (in particular industrialized ones) are provided with the main factors of production in similar proportions, and in these conditions it will be profitable for them to trade with each other with specialization in those industries that are characterized by the presence of the effect of mass production. In this case, specialization allows to expand production and produce a product at a lower cost and, therefore, at a lower price. In order for this effect of mass production to be realized, a sufficiently large market is needed. International trade plays a decisive role in this, as it allows expanding sales markets. In other words, it allows you to form a single integrated market, more capacious than the market of any single country. As a result, more products are offered to consumers and at lower prices.

At the same time, the realization of economies of scale, as a rule, leads to the violation of perfect competition, since it is associated with the concentration of production and the consolidation of firms, which become monopolists. The structure of the markets is changing accordingly. They become either oligopolistic with a predominance of inter-industry trade in homogeneous products, or markets of monopolistic competition with developed intra-industry trade in differentiated products. In this case, international trade is increasingly concentrated in the hands of giant international firms, transnational corporations, which inevitably leads to an increase in the volume of intra-firm trade, the directions of which are often determined not by the principle of comparative advantages or differences in the supply of factors of production, but by the strategic goals of the firm itself.

Self-control Questions:

1. What is the essence of the theory of mercantilism, its significance and limitation?
2. Describe the theory of absolute advantages.
3. What is the essence of the principle of comparative advantage?
4. What is the essence of the theory of mutual demand?

5. What is the significance of the theory of comparative advantage?
6. Describe the Heckscher-Olin theory.
7. Why is it important to study the mercantilist theory of trade?
8. What are the differences between the concepts of mercantilists in relation to the national wealth from today's views?
9. Can a country lose or gain an absolute advantage? Give examples.
10. What are the advantages of the theory of comparative advantage over theory absolute benefits?
11. Can one country have a comparative advantage in production both products at the same time? Assumptions: the world economy is developing from two countries that produce two goods.
12. Can a country always have a comparative advantage in production a certain product?
13. List and explain alternative theories of international trade.

Chapter 3. Legal Regulation of International Trade

3.1 International Trade in the Context of International Law
3.2 Contradictions of the Modern International Trade
3.3 International Legal Acts within the World Trade Organization

Key concepts: international economic law; subjects of international economic law; the European Free Trade Association (EFTA), the European Union (EU), the North American Free Trade Area (NAFTA), the Asia-Pacific Economic Cooperation Organization (APEC); the General Agreement on Tariffs and Trade (GATT); legal mechanism of the GATT; international legal acts within the World Trade Organization; Customs Valuation Agreement; Agreement on Technical Barriers; Export Subsidizing; Agreement on Antidumping Practice; the General Agreement on Trade in Services.

3.1. International Trade in the Context of International Law

International trade, like any other human activity, cannot be carried out in a legal vacuum. On the modern stage, it takes place within a fairly clearly defined legal field.

During the period after the Second World War, the legal framework between public trade was created largely due to long negotiations under the General Agreement on Tariffs and Trade. Eight rounds of GATT talks took place in:

- Geneva (Switzerland), 1947;
- Annecy (France), 1949;
- Torquay (UK), 1950;
- Geneva (Switzerland), 1956;
- Geneva (Switzerland), 1960–1961;
- Geneva (Switzerland), 1964–1967;
- Tokyo (Japan) (actually took place in Geneva), 1973–1979;
- Punta del Este (Uruguay) - Geneva (Switzerland) – Marrakech (Morocco), 1986–1994

In the literature, you can find some other information. In particular, in dictionary “International trade. Glossary of Terms” (1997, pp. 140–141) the third round of GATT is called Tokyo, term of its holding - 1950–1951; at the beginning of the fourth roundin - 1955; the fifth round (1960-1962) is called Dillon (in honor of the US Secretary of State); sixth - Kennedy round (in honor of the President of the United States), etc.

International trade can be seen in the context of international domestic public law and international private law rights. From these perspectives, it is worth recalling that the subjects of international public law are states, intergovernmental organizations, nations that for their liberation, and state-like formations. They want to enter into bilateral or multilateral relations from various aspects of international trade. Relations of public international law it is a political relationship, a sovereign relationship (G. Gandolfo, 2014).

The main subjects of *private international law* are physical and legal entities of different nationalities. This right to regulate civil law relations complicated by a foreign element. However, there are cases when the state enters the civil legal relations with individuals and / or legal entities.

International economic law is a sub-branch of international public and private law. As international trade is a narrower concept, than international economic relations, so is international trade law, from the point of view of public international law, covers more narrowly range of legal relations than international economic law.

Often, *subjects* of *international economic law* conclude between agreements on foreign trade (in particular, foreign trade important) aspects so that the mechanism stipulated in the agreements could natural and legal persons covered by the legal diction of the respective states.

Such international legal acts include, in particular (G. Gandolfo, 2014):

• Convention on Limitation Periods in International Sales goods, concluded in New York on June 14, 1974;

• Convention on Contracts for the International Sale of Goods, concluded in Vienna in 1980;

• Convention on the Law Applicable to Treaties purchase and sale of goods, concluded in The Hague in 1985.

3.2 Contradictions of the Modern International Trade

Analyzing the processes taking place in world trade, it should be emphasized that *liberalization* is its main trend. There was a significant decrease in the level of customs duties, many restrictions, quotas, etc. were canceled. However, there are a number of problems. One of the main ones is the growth of protectionist tendencies at the level of economic groupings, trade and economic blocs of countries, in many respects opposing each other.

The first step towards the formation of trade and economic blocs is the creation of free trade zones. According to the World Bank, at the turn of the 90s, about 42% of world trade was carried out within such zones. Among

the most famous zones are the European Free Trade Association (EFTA), the European Union (EU), the North American Free Trade Area (NAFTA), the Asia-Pacific Economic Cooperation Organization (APEC), etc.

There are compositions of the nine largest international regional trading blocs as follows:

1. European Union (EU) - Austria, Germany, Great Britain, Italy, Ireland, France, Spain, Portugal, Finland, Sweden, Denmark, Belgium, Luxembourg, Netherlands, Greece.
2. North American Free Trade Agreement (NAFTA) - USA, Canada, Mexico.
3. European Free Trade Association (EFTA) - Iceland, Norway, Switzerland, Liechtenstein.
4. Asia-Pacific Economic Cooperation (APEC) -Australia, Brunei, Malaysia, Singapore, Thailand, New Zealand, Papua New Guinea, Indonesia, Philippines, Taiwan, Hong Kong, Japan, South Korea, China, Canada, USA, Mexico, Chile.
5. "Mercosur" - Brazil, Argentina, Paraguay, Uruguay.
6. South African Development Committee (SADC) - Angola, Botsvan, Lesotho, Malawi, Mozambique, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Zimbabwe.
7. West African Economic and Monetary Union (UEMOA) - Cote d'Ivoire, Burkina Faso, Nigeria, Togo, Senegal, Benin, Mali.
8. South Asian Association for Regional Cooperation (SAARC) - India, Pakistan, Sri Lanka, Bangladesh, Maldives, Bhutan, Nepal.
9. Andean Pact - Venezuela, Colombia, Ecuador, Peru, Bolivia.

Objective processes of a political, economic, historical nature lead to the formation of such blocs. The activation of such processes, on the one hand, contributes to the development of international trade (within zones, blocks, regions), and on the other hand, creates for it a number of obstacles inherent in any closed formation. On the way to a unified, global system of the world market there are still many obstacles and contradictions that will arise in the course of interaction of trade and economic groups with each other.

The formation of free trade zones does not make any fundamental changes in the world economy. The grouping of countries into economic blocs does not mean unconditional progress in the implementation of the ideas of free trade or capitulation to protectionist principles. The dilemma of "free trade" or protectionism never ceases to exist. It is transferred to a different level of foreign trade relations, which determines decision on the choice of economic policy of a group of states in relation to third countries. It is characteristic that even within the framework of individual trade and economic groups, contradictions arise between individual countries,

developing into the so-called. "Trade wars" (trust, grape, oil "wars" between the EU member states).

International economic organizations play an important role in the regulation of international trade, in removing obstacles to its development and its liberalization. One of the main organizations of this kind is the General Agreement on Tariffs and Trade (GATT). The treaty establishing the GATT was signed by 23 countries in 1947 and entered into force in 1948.The GATT ceased to exist, being modified into the World Trade Organization (WTO) on December 31, 1995.

GATT is a multilateral international agreement containing principles, legal norms, rules of conduct and state regulation of mutual trade of the participating countries. GATT was one of the largest international economic organizations, the sphere of activity of which covered 94% of world trade.

The legal mechanism of the GATT was based on a number of principles and norms as follows (G. Gandolfo, 2014)*:*

- nondiscrimination in trade, ensured by mutual provision, on the one hand, of the most favored nation treatment in relation to export, import and transit operations, related customs duties and taxes, and on the other hand, the national regime, equalizing the rights of imported and domestic goods in relation to domestic taxes and duties, and rules governing domestic trade;
- the most favored nation treatment, which means that the contracting parties provide each other with all those rights, advantages and benefits that any third state enjoys (or will enjoy) they have. This principle can apply to the import and export of goods, customs duties, industry, navigation, legal status of legal entities and individuals;
- the use of predominantly tariff means of protecting the national market, the elimination of import quotas and other non-tariff restrictions;
- progressive reduction of customs tariffs through multilateral negotiations;
- provision of preferential treatment in trade with developing countries;
- resolution of emerging trade disputes through negotiations;
- reciprocity in granting trade and political concessions.

The GATT was carried out through multilateral negotiations, which were combined in rounds. Since the beginning of the work of the GATT, 8 rounds have been held, the results of which have led to a tenfold reduction in the average customs duty. After World War II, it was 40%, in the mid-90s - about 4% (J.Poon, 2017).

By early 1996, the GATT consisted of about 130 countries. As noted above, since January 1996, the World Trade Organization (WTO) has replaced the GATT. 81 countries have become its founding members. The agreement on the establishment of the WTO was preceded by a 7-year

period of negotiations within the framework of the "Uruguay Round". According to R. Ruggiero, Director General of the World Trade Organization (WTO), the Uruguay round will lead to an increase in trade volumes "almost the same as in the golden age" (that is, in the 50-70s) (J.Poon, 2017).

The World Trade Organization, in addition to the GATT principles, includes the Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). The new organization will also regulate the international exchange of services and intellectual property and oversee investment protection. It is estimated that her competence extends to a trade turnover of $ 5 trillion. The activities of the World Trade Organization should bring the world economy about 250 billion dollars of additional income annually (J. Sherlock, 2017).

By the end of the 90s, the average rate of customs tariffs in developed countries should be reduced to about 3%. During the GATT agreement, the states, by reducing customs duties, compensated them for the so-called “non-tariff barriers”. It includes subsidies for national production, the introduction of various standards and norms, certification of goods. At the Uruguay Round of the GATT, issues were raised about the protection of intellectual property, sanitary and phytosanitary control, which can also become an obstacle to free trade. All these issues now have to be addressed by the World Trade Organization (J. Sherlock, 2017).

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3.3 International Legal Acts within the World Trade Organization

The main international legal acts within the World Trade Organization are as follows (World, 2018)*:*

1. General Agreement on Tariffs and Trade (GATT) on Tariffs & Trade - GATT). Applies to trade in goods.

2. General Agreement on Trade in Services (GATS). Applies to trade in services.

3. Agreement on Trade-Related Aspects of Intellectual Property Rights. It is the link between intellectual property and trade.

It is on these three “pillars” that the “building” of the World this trade.

The results of the Uruguay Round of GATT negotiations were but in the following documents:

A.The Marrakesh Agreement

B. Multilateral Agreements:

1. In the field of trade in goods (trade in goods) - General Agreement on Tariffs and Trade in 1994.

Associated Agreements:

• Agreement on the Application of Art. VII GATT 1994 (Customs Agreement Assessment), (Agreement on Implementation of Article VII of GATT 1994, Customs Valuation);

• Pre-shipment Inspection Agreement (PSI);

• Agreement on Technical Barriers to Trade (TBT);

• Agreement on the Application of Sanitary & Phytosanitary Measures - SPS;

• Agreement on Import Licensing Procedures (ILP);

• Agreement on Safeguards;

• Agreement on Subsidies and Balanced Measures;

• Trade-Related Investment Measures Agreement (TRIMS);

• Agreement on Textiles & Clothing (ATC);

• Agreement on Agriculture (AA);

• Agreement on Rules of Origin (ARO).

Arrangements and decisions:

• Agreement of Balance-of-Payments Provisions of GATT 1994;

• Decisions on cases in which customs administrations have you doubt the veracity or accuracy of the declared value those (Decision Regarding the burden of proof) (Decision Regarding Cases where Customs Administrations Have Reasons & Doubt the Truth or Accuracy Of the Declared Value (Decision on Shifting the Burden of Proof));

• Agreement on Rules & Procedures Governing the Settlement of Disputes);

• Agreement on the interpretation of paragraph 1 (6) of Art. II GATT 1994 (Understanding on the Interpretation) of the Article II: 1 (6) of GATT 1994 (Binding of tariff concessions).);

• Decision on Trade & Environment.

2. General Agreement on Trade in Services (GATS).

3. Intellectual Property Rights.

B. Plurilateral Trade Agreements:

• Agreement on Trade in Civil Aircraft (Agreement on Trade in Civil Aircraft);

• Agreement on Government Procurement;

• International Dairy Agreement;

• International Bovine Meat Agreement.

The main purpose of the General Agreement on Tariffs and Trade is to create in a world of liberal and open trading system that gives enable enterprises of the Member States to carry out trade activities on the basis of fair competition.

There are the following basic rules defined by the GATT (World, 2018)**:**

• protection of national industry only through tariffs, Member States are prohibited from introducing quantitative marriage;

There are a very limited number of exceptions to this rule;

• tariff binding. Each country has its own reduction schedule tariffs, reduced tariffs are prohibited to increase;

• the most-favored-nation regime, which means that tariffs are applied on a non-discriminatory basis to all countries. Exceptions of this rule apply to member countries of regional economic groups and developing countries. For such countries, preferential tariffs may apply, and this is not considered violation of the rule;

•the principle of national treatment (prohibition), which prohibits discrimination against imported goods over equivalent ditches made by national economies.

Customs Valuation Agreement

The customs valuation agreement was concluded in 1980 after the Tokyo round of GATT negotiations and replaced cumbersome procedures and determination of the customs value of goods.

The main purpose of this agreement is to protect the interests of fair trade.It establishes that the customs authorities are the basis for the charge duties take the price paid by the importer of a particular good for a particular agreement. This applies to agreements concluded as related parties.

International trade knows **several ways to calculate duties**:

• *ad valorem;*

• *specific;*

• *combined or mixed.*

In the case of the *ad valorem method*, the duty is defined as the share of the price of the imported product (for example 10% of the value consignments of goods), in the case of a specific method - as a sum money per 1 liter or 1 kg of goods. The third method is a combination-this first two.

Most countries in the world prefer the first method, the more convenient it is for customs authorities, the easier it is to manage in the process of international negotiations and to compare customs levels tariffs.

It is no secret that customs authorities around the world are often suspicious relate to the declared price of imported goods and believe that it underestimated in order to deceive the state and reduce its customs revenues. Therefore, the value of the goods for the calculation of duty is

determined by the price actually paid or payable (price actually paid or possible) when the goods are sold to the country of import.

This price also includes the cost of buyers for packaging, container, ancillary goods and materials (assists), royalties, royalties, commissions and brokerage (except for purchasing commissions), future proceeds from the sale or use by the seller of goods, transport, insurance and related costs, if the importing country uses CIF to estimate the price.

From the customs price deduct:

• cost of freight after the import of goods into the customs territory of the country imports;

• cost of construction, installation, maintenance, technical assistance, occurring after import;

• taxes and mandatory payments of the importing country.

Under the agreement, the burden of proof is correct. Price is imposed on importers. If the customs authorities have doubts are true or truthfulness (truth or accuracy) of the declared declared value, importers should have the right to explain submit documents, etc., to prove that the declared price is free. If the customs authorities still have doubts, has the right to require them to explain to him in writing the reasons no doubt. The agreement provides for the possibility of submission by importers appeals to the internal administrative bodies of customs.

If the customs authorities reject the declaration declared by the importer the price, the agreement clearly defines the five standards to be followed to determine the value at its discretion. These standards should be applied in the following sequence:

• the value is taken to be the already determined contract value of the identical goods;

• the cost is determined by the already determined contract value of similar ones goods;

• deductive value is determined on the basis of prices domestic market for goods identical to or similar to imported them (while deducting profits, duties, taxes, transactions, sports, insurance and other expenses in the country of import);

• estimated value (computed value) is determined by addition to the cost of production of the valued goods profit and total costs equivalent to those applicable in the exporting country. to the same goods imported into the country of import.

• fall-back method is used in that where the four previous standards cannot be applied, and allows you to flexibly use any of them. According to this method, it is prohibited to use the price of goods exported to third countries, minimum duties, arbitrary or fictitious cost.

The agreement stipulates that its member states harmonize their legislation in accordance with its rules, and this will allow importers estimate the amount of duty paid in advance.

Agreement on Technical Barriers

The Standards Code was concluded in 1985 after Tokyo Round of GATT Negotiations to Prevent setting barrier standards for international trade as well organization of production of industrial goods in accordance with natively recognized standards (Narlikar Amrita, 2003).

International trade cannot be imagined without voluntary and mousse standards.

Agreement on Technical Barriers to Trade is to remove unnecessary barriers to international trade. To achieve this, standards need to be internationally agreed. International organizations are taking steps to harmonize standardization at the planetary level (on a world-wide basis).

In the agreement, the term *"technical regulations"* is used standards, compliance with which is mandatory, and in fact min "standard" is applied to voluntary standards (voluntary standards).

The concepts apply to product characteristics, technology and methods of their manufacture (affecting the characteristics of product), terminology and symbols, packaging and labeling.

According to the agreement, the right to implement is recognized by the countries mandatory standards to ensure the quality of imported goods protection of human health and safety, plant conservation and wildlife and the environment.

The technical rules must meet the following conditions (Narlikar Amrita,2003):

• apply the most-favored-nation treatment to imports from all sources;

• apply the principle of national to imported goods mode;

• be formed and used in a way that does not create necessary barriers to trade;

• be based on scientific information.

The agreement states that member states will use international standards as a basis for national standards. International standards are not applied only when, in the opinion of the authorities, they are unfair or inappropriate in view of the mathematical, geographical and technical factors.

If countries introduce national standards that are not based on international, they must publish a notice to publish a notice and notify the secretariat of the World to notify the WTO secretariat. This will allow export to comment on draft standards and taking into account their views on the goods they export.

The agreement stipulates that the manufacturer or exporter in certain cases must obtain a certificate of positive assurance in the competent institution or laboratory. Attitudes towards foreign applicants should not be worse than to domestic.

The Agreement on Technical Barriers to Trade encourages member states mutually recognize certificates of conformity, results of inspections and tests performed by competent certification bodies.

According to the agreement, not only the central authorities of the countries, but also local authorities must comply with the line.

Voluntary standards can harm international trade, if they differ significantly in different countries. The agreement contains

The Code of Good Practice, which defines line of preparation, adoption and application of standards. Such principles

The rules and regulations are reminiscent of the technical rules for mandatory standards. Information on the standards being developed and adopted should be published at least once every six months. After adoption of the standard, the competent national authorities must to the Information Center of the International Organization for Standardization / International Electrotechnical Commission (ISO / IEC Information Center) information on the publication, as well as how and where it can be harvest this information.

Export Subsidizing

Under the agreement, exported goods can be exempted from customs duties and other indirect taxes, as well as exempt from these duties and taxes components of the goods used in the process of preparation of products for export. Indirect taxes can be, in particular, sales taxes, excise duty, turnover, value added tax, deductible, transfer, equipment, etc., as well as stamp duty (Narlikar Amrita,2003)..

The principle of national treatment, which is one of the determinants of the GATT, provides for the right of states to impose on imported goods, in addition to customs duties, all indirect taxes applicable to the products of the national economy. Therefore, if exported goods are not exempt from indirect taxes in the countries of export, it would mean that they are subject to taxation twice - in the country of export and the country of import. If exported goods are exempt from direct taxes (on income or profits), it means that such goods are essentially subsidized. Export subsidies are prohibited. Countries can only reimburse their exporters for the indirect taxes that are levied on export goods. Businesses in countries that do not provide for indirect tax refunds may find themselves at a disadvantage in foreign markets. It should be noted that the refund should not exceed the amount of duty on imported components of goods manufactured for export,

and indirect taxes on exported goods. The overstatement of the refund will be nothing more than a hidden export subsidy. Countries rarely resort to export taxes. This is permitted under the GATT, but it is prohibited to impose export restrictions unless such restrictions are permitted (Freund, 2012).

Restrictions aimed at introducing standards or rules for the classification, sorting or marketing of international trade goods or required to address a critical deficit are permitted.

According to the GATT, it is prohibited to impose export restrictions on raw materials in order to stimulate the development of the national manufacturing industry and avoid competition between exporters.

It should be borne in mind that the export duty should be applied under the most-favored-nation treatment, ie it cannot be applied to exports to some countries and at the same time not to the same exports to others.

Subsidizing the production of industrial goods. The Agreement on Subsidies and Balanced Measures defines the right of states to provide subsidies to entrepreneurs that can significantly affect trade (Fang, 2006).

Export subsidies are strictly prohibited. If earlier, the use of export subsidies was banned only in developed countries, now - non-prohibited subsidies are considered permitted in developing countries.

Subsidies can be provided in the form of grants, loans, loan guarantees, the state's refusal to collect taxable income, government provision of goods and services, purchase of goods, and so on.

By analogy with traffic lights, prohibited subsidies are called "red light subsidies", they include export subsidies and subsidies provided in connection with the use of domestic rather than imported goods. Allowed subsidies are divided:

• *actionable*;

• *non actionable*.

The impugned subsidies are called “amber light subsidies” and the non-appealed subsidies are called “green light subsidies”.

The concept of "specificity" is applied to subsidies.

Specific are subsidies provided to an enterprise or group of enterprises, industry sector or group of industries, a particular region.

All permitted subsidies that are not specific are considered contested. However, there are exceptions to this rule (for example, subsidies for certain research activities, partial funding of production facilities and new environmental standards, assistance in the development of backward areas).

Government subsidies to small and medium-sized enterprises are generally considered unchallenged.

If a country considers that goods from another country have received prohibited subsidies or have been adversely affected by the granting of permitted subsidies, it may apply to the WTO Dispute Settlement Body. If the negative consequences have taken the form of material damage, the country, instead of resorting to dispute settlement procedures, may impose a balanced duty on imported subsidized goods. This requires a petition from national industry harmed by subsidized imports (Fang, 2006).

Balanced duties may not be imposed on goods for the production of which subsidies have been used, which are not considered to be contested.

Agreement on Antidumping Practice

The agreement was first concluded in 1988 after the end of the Tokyo Round of GATT negotiations and set out the conditions for the imposition of anti-dumping duties by the countries to which the flow of dumped goods was directed.

This agreement contains strict dumping criteria. A dumped product is one whose export price exceeds the price of similar goods in the country of export, or whose selling price is lower than the cost of production.

Factors that determine unfair competition, the agreement distinguishes two forms:

• *export subsidies*;

• *dumping of goods in foreign markets*.

Under the agreement, Member States may impose an anti-dumping duty on dumped goods. In order to impose such a duty, it is necessary that the dumped goods cause material damage on the foreign market (is there a possibility of such damage?).

It is inappropriate to talk about any form of dumping if the country of export is not doing well with the economic situation and the goods are sold at prices below production costs, or their sales are insignificant. In this case, for comparison, export prices to third countries should be used or rely on estimated prices that could arise in the production and sale of goods in a country of import.

There must be a causal link between the dumped imports and the injury to the domestic industry of the country concerned.

It is quite difficult to compare the export price and the home consumption price. Underestimated domestic prices are not taken into account under the following conditions:

• relevant sales take place over a period of more than one year;

• the average selling price in the domestic market is lower than the weighted average unit cost of production (the weighted average unit cost);

• sales at prices below production costs exceed 20% of the total;

• costs are not reimbursed within a reasonable time.

Average prices are defined as the weighted average prices of the domestic market and the weighted average prices of all export transactions or as the arithmetic mean domestic and export prices of all transactions. If the export price fluctuates significantly, the weighted average domestic market price can be compared with the price of a particular export transaction. For currency settlements, the exchange rate as of the date of sale or the rate specified in the forward contract should be taken into account.

Exporters have the right to propose an increase in export prices in order to avoid anti-dumping and countervailing measures. This can only happen after the authorities have followers will conclude that there is damage to national industry. It is impossible to force exporters to raise export prices, it is voluntary.

The maximum length of the investigation period in the context of both agreements is 18 months. Before announcing the final decision, the competent investigating authorities must inform the interested parties of all the facts on which the decision is based.

Balanced and anti-dumping duties should be set separately for each exporter (producer). If their number is large, it is allowed to determine the duty based on statistically reliable examples, in which case exporters (manufacturers) should be consulted.

The Agreement on Anti-Dumping Practices and the Agreement on Subsidies and Balanced Measures stipulate that such measures automatically expire five years after their entry into force. To extend their validity, the study should establish that the absence of measures will lead to the resumption or emergence of new grounds for dumping and material injury (Suranovic S., 2010).

The General Agreement on Trade in Services

Since 1947, international trade in goods has been governed by the provisions of the GATT, while multilateral international legal regulation of trade in services was absent until the VIII (Uruguayan) round of GATT negotiations. The round concluded a General Agreement on Trade in Services, the purpose of which is in line with the purpose of the GATT. GATT provisions are applied in GATS taking into account specific features of services (Guillermo K., 2013).

The main text of the GATS sets out concepts, principles and rules that generally apply to trade in services. The annexes to the agreement set out the principles and rules relating to certain types of services.

The General Agreement on Trade in Services applies to services provided on a commercial basis by both private sector companies and government-owned or controlled firms. GATS does not apply to aircraft

traffic control services and related rights. Services provided to government agencies are excluded from the agreement, and the provisions of the Government Procurement Agreement apply to them.

The general obligations of GATS concern (Suranovic S., 2010)*:*

• application of the most-favored-nation treatment to international trade in services;

• transparency of regulations;

•mutual determination of qualification requirements for service providers;

• rules on the regulation of monopolies, exclusive service suppliers and other business activities that restrict competition;

• trade liberalization measures, including those that increase the role of developing countries.

Information providers from developing countries are provided with information directly at so-called contact points.

The right to provide services arises on the basis of certificates, licenses and other documents. The GATS encourages member states to conclude bilateral and multilateral agreements on the mutual recognition of qualifications required to obtain documents confirming the right to provide services. Such systems of mutual recognition should be kept open for accession by other participating countries if they can demonstrate that their national standards and requirements are in line with international ones.

The agreement provides for measures to prevent the abuse of a monopoly position by exclusive service providers. If a country has a situation where competition in the provision of services is restricted, other countries have the right to consult with it in order to remove the relevant restrictions.

The protection of the national service provider does not take place through measures taken at the border, but as a result of legislative regulation of foreign direct investment.

According to the General Agreement on Trade in Services, the obligations of member states to liberalize access to services markets must be fulfilled through amendments to national legislation aimed at the widespread application of the principle of national treatment to foreign service providers.

The following restrictions should be removed (Guillermo K., 2013)*:*

• on individual and general investments of foreigners in the field of services;

• establishment of institutions providing services by foreigners;

• the number of types of services and their total volume;

• number of competitors in a particular service sector;

• organizational forms of entrepreneurial activity;
• the total number of service providers in the market.

The agreement stipulates that member states will hold further talks on subsidizing services and taking safeguards for international trade in services.

The GATS contains provisions governing exceptions to the general rules of this agreement (in relation to economic integration, balance of payments, labor market integration, ethics, human health, environmental protection, state security).

Restrictions on market access or compliance with the principle of national treatment are divided into horizontal, ie those that apply to the entire range of services, and specific, covering the relevant sector or type of services.

Virtually all restrictions on so-called horizontal commitments apply to services that require a commercial presence in the importing country, as well as the movement of individuals. Economically developed countries have few horizontal restrictions on the commercial presence of foreign service providers. Horizontal liabilities in connection with the movement of individuals relate mainly to internal movements in the companies of "key personnel" (essential personnel) - managers and technicians, as well as short-term visits of business visitors.

Developing countries advocate for independent professionals to be able to work abroad without forming a company or other form of commercial presence. Not all economically developed countries agree with this view.

Developing countries include the following *restrictions on their commercial presence in their horizontal commitments* (Guillermo K., 2013):

• presence is allowed only in the form of a joint venture;
• the foreign supplier is not allowed to have a controlling stake (majority share) of the joint venture;
• a certain number of board members must be citizens of the country;
•a foreign supplier must use advanced technology and managerial experience;
• a foreign supplier must train local employees;
• a foreign supplier must cooperate with local subcontractors;
• a foreign supplier must report accurately and promptly on its activities.

In addition to horizontal commitments, there are also sectoral commitments. Economically developed countries have reserved the right to impose restrictions in all sectors. Developing countries have shown more flexibility and covered a limited number of sectors.

Commercial presence obligations and restrictions apply to the following sectors:

• construction and related engineering services;
• social, health and related services;
• management and consulting services;
• financial services.

Therefore, the commitments made by countries should be seen as a first step towards the liberalization of international trade in services. The development of an efficient services industry is a priority for many countries. The tertiary sector lagged behind the secondary sector of developing countries' economies. These countries can continue to benefit from working with foreign service providers. The lack of information on the commercial and technical aspects of the services that developing countries wish to receive will be addressed to some extent by the establishment of "contact points" by developed countries. Information on national legislation in the field of services and the practice of its application can be used by all participating countries. Individuals now have greater opportunities to provide services without creating a form of commercial presence in the importing country. However, it should be borne in mind that the chances of professionals to provide services abroad will increase if they operate in their home country as part of a legal entity (juridical personality) (Guillermo K., 2013).

Liberalization measures increase trade in services between developing countries. Joint ventures formed by legal entities and / or individuals in these countries can compete successfully with firms in economically developed countries, especially in providing services to developing countries.

The General Agreement on Trade in Services has the following annexes (World, 2018)*:*

• *Annex on Movement of Natural Persons Supplying Services under the Agreement*. It assumes that services are provided in accordance with specific commitments made by importing countries.

• *Annex on Financial Services.* Concerns insurance and reinsurance, banking and other financial services, in particular, it allows countries to take measures aimed at protecting the interests of investors, depositories, policyholders;

• *Annex on Telecommunications.* It stipulates that the most favored nation treatment and the principle of national treatment, which includes access to the public telecommunications network and services, apply to all foreign service providers. The agreement does not require the application of these principles to cable or other distribution of radio and television programs. Developing countries are allowed to introduce reasonable conditions to strengthen their national telecommunications infrastructure

and strengthen their participation in international trade in telecommunications services;

• *Annex on Negotiations on Basic Telecommunications*. Concerns negotiations on the liberalization of long-distance international communication services;

• *Annex on Negotiations on Maritime Transport Services.*

Self-control Questions:

1. What are the contradictions of modern international trade?
2. The interrelations between international economic law and international trade.
3. What are the main international legal acts?
4. What are the main international legal acts within the World Trade Organization?
5. What are the basic rules defined by the GATT?
6. The main purpose of Customs Valuation Agreement and its practical implementation.
7. Agreement on Technical Barriers to Trade as an instrument to remove unnecessary barriers to international trade,
8. Export Subsidizing in the system of international trade regulation.
9. Agreement on Antidumping Practice and its practical international implementation.
10. The General Agreement on Trade in Services and its functional purpose.

Chapter 4 Forms of International Trade and Methods of Export and Import Operations

4.1 Forms of international trade
4.2 Methods of Export and Import Operations

Key concepts: forms of international trade; international trade classifiers; international product nomenclatures; world price; world commodity markets; international trade in raw materials, industrial goods, services, products of intellectual labor; patent; license; industrial designs, trademark; "know-how"; engineering services; international licensed trade; counter trade; barter transactions; compensation agreements; e-commerce; international leasing; international production cooperation.

4.1. Forms of international trade

At present, the sale of services on the world market has largely separated from the sale of goods. Although sometimes the service is very closely linked to the continuation of material production, but in general, worldwide, the service is understood as an activity that is not embodied in tangible product, and always manifests itself in some beneficial effect that its consumer receives.

Forms of international trade in accordance with the subject of trade

There are four forms of international trade concerning the subject of trade (Kozak, Y. and Gribincea, A., 2016):

I. Trade in manufactured goods, machinery, equipment, includes:

a) consumer goods. For example, clothes, footwear, detergents, furniture, household appliances, personal care products, perfumes and cosmetics, accessories, jewelry, fur products, cars;

b) machine-technical products:

- finished products. It is a supply of machines and equipment for use in the finished form;
- disassembled products. This form of trade is particularly developed in the automotive industry (a share of disassembled cars and components is 40-50% in this market), a production of tractors, motorcycles, electrical household appliances, radio and electronic equipment, agricultural machinery;
- complete equipment. Complete objects are the industrial or other enterprises as whole, separate shops, plants, units that form the finished technological complex or its separate part. The complete equipment is

considered to be a set of organically bound machinery and equipment by a single technological process, that ensures the release of finished products or complete technological stage (Kozak, Y. and Gribincea, A., 2016; Dakhno, 2014; Tsygankova et al., 2001).

II. Trade in raw materials: mineral raw materials, products of its enrichment and processing (by ferrous and non-ferrous metals), agricultural raw materials of vegetable and animal origin and products of their initial processing, and food products.

III. Trade in services. For example, transportation services, tourism, rental, computer, financial, engineering services, communications services, etc.

IV. Trade in products of intellectual work. Scientific and technical knowledge, which are the results of scientific research, development works, and the experience of their industrial development are the objects of sale and purchase. Trade in products of intellectual work includes trade in patents, licenses, trademarks, industrial designs, scientific and technical services (engineering).

The international trade in manufactured goods, machinery and equipment

The maintenance system is formed before the delivery of products to this market. It involves the establishment of a sales network, maintenance points, the issuance of instructions for operation and repair of products, the issuance of spare parts catalogs, the manufacture of special diagnostic and repair equipment and devices, the construction or acquisition of spare parts warehouses and other activities.

In the structure of international trade in manufactured goods the trade in machinery, equipment and vehicles dominates (approximately 51,5%), the industrial products of sections 6 and 8 are in the second place (35,82%) and the chemical products are in the third place (12,68%) (Kozak, Y. and Gribincea, A., 2016).

As for the sphere of consumption, here maintenance also includes two types of operations: maintenance in warranty period and in the post-warranty period. In the first case it is supposed to provide a number of services without additional payment by the buyer of the product - assistance in installation and commissioning operation, consulting of consumers, elimination of the revealed defects, and implementation of preventive inspections.

A high share of manufactured goods, machinery, equipment, vehicles in international trade shows a modern level of production, high-tech production.

The following features are inherent for the international trade in manufactured goods, which are caused by new demands of the market (Kozak, Y. and Gribincea, A., 2016):

- reduction of the life cycle of most types of goods;
- increasing of the production of high-tech products that provides the steady differentiation of intermediate and finished products;
- the process of constant diversification of production to smaller industries and sub-industries, separation of which will automatically generate the need in exchange of the products of such industries that are more narrowly specialized further;
- the development of intra-industry trade, that displaces the traditional inter-industry trade;
- the growth of the share of the recovered equipment in machine-tool products;
- the transition from single to system sales;
- increasing demands for technical and economic indices of the products;
- the growth of trade in goods for production purposes is ahead of the growth in trade of machine-technical products for cultural and community purposes;
- development of the new, more effective constructional materials;

In the world market of manufactured goods, the trade of machinery and technical products is divided into the trade of finished products, the trade of the disassembling products and the trade of the complete equipment.

The international trade of finished products is characterized by following features (Kozak, Y. and Gribincea, A., 2016):

- the growth of the world production of finished products is outpacing the growth of volume of the world production of raw material industries;
- the outpacing growth of the export of finished goods in comparison with the export of mineral raw materials and agricultural products;
- the real supply of technological equipment is the initial stage of the relationship between the exporter and the importer. The use of this equipment for other purposes requires the carrying out of such mutual actions: installation and commissioning of equipment in operation, maintenance, supply of spare parts. Therefore, supporting services are provided (maintenance in warranty and post-warranty periods, staff training, creation of optimal stocks of spare parts). The similar interaction of partners after the delivery of the finished product is beneficial for both sides. Exporter is fixed in the new market and raises the sales volume by providing a full range of necessary services for a particular consumer. Importer receives along with hardware also the set of skilled services from a

provider, who knows all the features of the use of this product, in order to ensure specified performance and, consequently, to achieve economic results.

The development of *international trade of disassembling machine-technical products* is due to peculiarities of the international division of labor in modern conditions. Objectively the conditions have established for the dismemberment of the production process into separate operations and for separation of them in the independent productions, and also for the exchange between such links of the single technological cycle of their products (components of the final product).

Export of finished disassembling products raises its competitiveness; helps to overcome the various customs and administrative protectionist barriers aimed at limiting of import of finished products; reduces almost in 2 times transport costs because components and parts, as a more compact cargo, are being transported in containers.

The countries such as Belarus, Canada, China, Latvia, Lithuania, Pakistan, Republic of Korea, Russia, the United States, Singapore, Germany, Israel, India, Italy, Finland, Czech Republic, Sweden, Japan, etc, are the countries, where the export of manufactured goods is priority (more than 50% of total export of goods and services) (Vengerska, and Kalantarova, 2014).

The international trade in raw materials

Raw materials are generally products of mining and agriculture. Therefore, the main commodities markets are food markets, markets of agricultural raw materials, markets of ores and metals, fuel.

A trade of commodities is characterized by several features (Kozak, Y. and Gribincea, A., 2016; Rumyantsev, 2003):

- supply and demand for raw commodities depends on climatic conditions, natural stocks, political and economic crises;
- the long-term excess of supply of raw materials over the demand;
- partners strive to set a fairly lengthy relationship based on long-term international contracts, in which the exporter is ensured stable sales, and the importer is guaranteed a regular supply;
- purchase and sale of commodities closely associated with delivery of other types of goods are part of commercial transactions, complex types of external economic cooperation;
- the growth of export commodities with an absolute increase in the size of the trade of this commodity group is reducing;
- the growth of trade of fuel and raw materials of mineral origin is outpacing the growth of trade of food and agricultural raw materials;

- a trade of semi-finished products made on the basis of mineral and vegetable raw materials, as well as the raw material of deep processing/refining and specially trained materials of superior quality is increasing;
- requirements of importers to the ecological safety of products supplied are increasing;
- high degree of monopolization;
- governmental interference in the determination of the volume, directions, forms and methods of trade of commodities and foodstuffs is increasing.

The raw materials export is about 20% of world export, and it is about 40% with the trade of half-finished products (ferrous and nonferrous metals and chemical products) (Kozak, Y. and Gribincea, A., 2016).

Export of raw materials on the world market is a priority for such countries, as Albania, Bolivia, Vietnam, Ghana, Guadeloupe, Guinea, Zambia, Iceland, Cuba, Mongolia, Namibia, Niger, Nicaragua, New Zealand, Peru, Somalia, Sudan, Tanzania, Togo, Uganda, Chad, Chile, Equatorial Guinea, etc (more than 50% of total export of goods and services) (Kozak, Y. and Gribincea, A., 2016).

Mineral raw materials include a wide range of products of the mining industry: various salts, asbestos, graphite, building stones, etc. Most of them are widespread in nature, although they are not always used, which depends on the need, possibilities and profitability extraction. Some mineral products are used directly (rock salt, building stones, etc.), others are raw materials for the chemical (potassium salts, phosphorites, sulfur, etc.) and jewelry (precious stones) industries, etc. Most of the mineral raw materials New products do not participate in international circulation due to their wide distribution or are subject to regional trade.

The market for ores and metals is traditionally divided into:

- to the ferrous metals market;

- to the market of non-ferrous metals.

Moreover, raw materials include iron ore, non-ferrous metal ores and non-ferrous metals themselves, and industrial goods - iron and steel produced from iron ores. The main supplier of iron ore in the world is Brazil. In Asia, the largest consumers of iron ore - the main importers - are China, Japan and the Republic of Korea.

Copper is of particular importance among non-ferrous metals. The development of the copper market significantly affects the pricing and development of markets for other non-ferrous metals. A feature of pricing in the markets for non-ferrous metals is the absence of world prices for raw materials for the production of non-ferrous metals, which is associated with

a huge variety of qualitative characteristics of raw materials. Prices for raw materials (ores or concentrates) depend on the prices of the respective refined metal. Refined metal of standard quality has homogeneous properties, therefore, a certain grade is selected as the base one, and then the corresponding discounts or surcharges are calculated for the discrepancy between a particular product and the base one. To determine the prices of raw materials, calculation formulas are developed that are well known.

Deposits of copper ores are available in almost all regions; however, their main reserves, as well as mining, are concentrated in a small number of countries. In 2007, the top ten of these countries included Chile, USA, Canada, Australia, Indonesia, Russia, Peru, China, Poland, Mexico and Zambia.

The largest producers of copper ores among the industrialized and developing countries are Chile, the USA, Canada, and of ferrous metal - the USA, Chile, Japan, as well as Zambia, Zaire, Canada.

Copper raw materials are subject to active international trade. The main exporters of copper concentrates among industrially developed and developing countries are the USA, Chile, Papua New Guinea, Portugal, and the Philippines. Japan, Germany, Spain, and the Republic of Korea stand out among the importers. Rough metal trade is limited. The largest suppliers are Chile, Peru; the main importers are the USA and the EU countries, as well as the Republic of Korea.

National markets of particular goods, which create global commodity market, have their own specifics. These specifics are the reason of diversity of commercial and trade-political factors that influence the dynamics and the level of world prices. A lot of different prices for the same goods or goods with the same quality in one field of rotation (export, wholesale, retail) and based on the same transport are on the world market. Two criteria are used for choosing the price:

- large commercial agreements are concluded at this price;
- these are the prices of the agreements concluded in the largest centers of world trade, such as Chicago Mercantile Exchange, London Metal Exchange, etc. (Baum, C. and Caglayan, M., 2010).

There are the following types of prices: prices of the trade agreements with the payment in convertible and non-convertible and partly convertible currency; clearing prices; transfer prices; the advertised prices and accounting prices are used by determining the prices level; reference prices (prices of goods in the internal wholesale trade or in the external trade of foreign countries).

International trade with food products

The main positions in the world food market are held by cereals and products of their processing, oil seeds, vegetable oils, fats, meal, vegetables and fruits, meat and meat products, dairy products, coffee, cocoa, tea, sugar, fish and seafood. In recent years, there has been a clear trend towards faster growth in the trade in ready-to-eat foods.

Many food products are traded on the world market on stock exchanges, and the prices for such goods in over-the-counter trade are guided by exchange quotes (wheat, corn, coffee, sugar, some types of seeds, etc.). Some goods are sold at auctions that determine world prices for them (fish, tea, vegetables, fruits, etc.). For selected food products, the world prices are the import or export prices of the major importers or exporters. For example, prices for nuts, dried fruits, honey are determined in the London market, for some types of feed, vegetables and fruits - in the Parisian wholesale market or at import prices in Germany Vengerska and Kalantarova, 2014).

Prices for many food products are characterized by significant volatility due to the influence of various factors (year, seasonality of supply and demand, the possibility of speculative exchange transactions, etc.). Fluctuations in prices for many goods can reach 100% during the year, 10-13% during the month.

Food prices, similarly to prices for many other goods, are characterized by plurality due to the presence of different varieties, trade centers, as well as different delivery times, etc. Competition from artificial and synthetic substitutes has a strong influence on prices (although to a greater extent degree this applies to agricultural raw materials). Under its influence, there is a convergence of prices for natural and synthetic goods, and the latter quite often become a regulator of prices for natural products.

The dynamics of world prices largely depends on foreign trade policy, since food products are characterized by rather strict tariff and non-tariff protection of domestic markets and in industrialized countries there is wide subsidization of exports.

In connection with large fluctuations in food prices, as well as for other raw materials, steps are being taken at the interstate level to stabilize markets. International commodity agreements, in which exporters and importers participate, try to regulate prices for coffee, cocoa, sugar, wheat, etc. using export quotas, buffer stocks and other mechanisms, associations of exporting countries - prices for peppers, bananas, etc Vengerska and Kalantarova, 2014).

Major exporters and importers of certain types of food in the world market are presented in table 4.1.

Table 4.1 - The main exporters and importers on the food markets

Name of the market	Basic exporters (E) and importers (I)
1. A market of live animals, incl.: -cattle; - sheep; - pigs.	 E: the USA, Canada, the EU E: Australia, Turkey I: the Near East
2. A market of meat, incl .: - beef and veal; - pork; - lamb and goat meat; - birds meat	 E: Australia, Brazil, the EU, the USA, Argentina E: Denmark, Canada, the USA, Benelux E: Australia, New Zealand E: the USA, the EU, Brazil; I: Russia, China, the EU countries of Near and Middle East
3. A market of dairy products, including: creamy butter, cheese, milk (dry powder or condensed).	E: the EU, New Zealand, the USA, Australia, Argentina
4. A market of eggs	E: the USA, China, the Netherlands (70% of world exports). I: Japan, the EU, Canada, Hong Kong.
5. A market of cereals, incl.: - wheat - corn - rice	 E: theUSA, Canada, Australia, Argentina, Ukraine,the EU countries. I: Mexico, the USA, CIS, Japan, China, the EU, Brazil, Egypt, Indonesia, Algeria. E: the USA E: Thailand, Vietnam, China, Pakistan I: Indonesia, Iraq, Nigeria, Iraq
6. A market of citrus and bananas	E: Mediterranean, Latin America. I: Europe and North America.
7. A sugar market	E: Cuba, Brazil, China, India (from sugar cane) Trends in the market and prices depend on the volume of production and purchase of sugar by Russia and China.
8. A market of seeds, vegetable oils, incl.: - soybeans; - rape	 E: the USA, China, Brazil, Argentina I: European countries, Japan. E: Canada, Australia, CIS, the USA E: Central Europe, Russia, Ukraine, the USA, Argentina

Continuation of the table 4.1

- sunflower (seeds) - olive oil - peanut oil	I: the EU, Turkey E: the EU, Spain, Italy, Greece, Tunisia. I: the EU, the USA, Syria, Morocco. E: Senegal, Argentina, China, India, USA. I: the EU, Indonesia, Canada, Russia, Mexico, Japan, North Africa
9. A market of fish oil	E: Peru I: Norway, the EU, Canada, Mexico, Japan
10. A market of tobacco leaves	E: Brazil, the USA, Zimbabwe, China, Italy, India I: the United Kingdom, Germany, Russia, the USA, Japan, the Netherlands.
11. A tea market	E: India, China, Sri Lanka, Indonesia. Offer of higher grades of tea in the world market is declining. Competition among major importers is growing, causing higher prices for tea and reducing consumption
12. A cocoa market	E: Ivory Coast, Ghana, Nigeria, Indonesia, Brazil I: the USA, Germany, Netherlands, the United Kingdom, Switzerland. Exporting countries concluded with importing countries in 1972 International cocoa agreement to regulate the market
13. A coffee market	E: Brazil, Colombia, Mexico, Ivory Coast, Indonesia, India I: Germany, Japan, France, Italy, Spain

Source: (Kozak, Y. and Gribincea, A., 2016; the World Bank, 2018).

Central and South America (23, 8 %), North America (9,0%), Europe (8,8%) dominate among the regions of the world in the export of food products (The World Bank, 2018).

There is a pricing problem at food markets because prices expose to fluctuations, which is difficult to predict. Pricing in food markets is characterized by several features: prices on individual food items orientate on stock prices or prices of auctions; prices are unstable; plurality of prices in connection with the availability of various sorts, centers of commerce, differences in terms of supply; strong competition from artificial and synthetic substitutes; an impact of foreign trade policy (Vengerska and Kalantarova, 2014).

International trade in services

The world market in services is the exchange of services between countries. It is an integral part of international economic relations along with world commodity markets (Kozak, Y. and Gribincea, A., 2016; International Trade, 2017).

The services are exchanged in this market. They are the result of the operation in the most important areas of human activity: science, technology, production, management.

Service is an execution by one party (the contractor) under the order of the other party (customer) of specific actions under the contract or performance of certain activities that are consumed in the process of implementation. Services as a result of work are displayed in beneficial effects, especially in consumer value. Services in foreign economic activity - are the economic relations between the two parties - residents and non-residents (Rumyantsev, 2003).

The main characteristics of services is in the fact, that they cannot be, unlike goods, seen and felt to the touch; they cannot be preserved; services trade is related to their production; services export means providing services to foreigners, it means to non-resident, even if he is on the custom territory of the country. The difference between the goods and services is also in the way of the government's protection of domestic producers. If manufacturing industries fence themselves off by setting tariffs, quantitative restrictions, etc., so the service sector dissociate itself mainly by national regulations and rules on foreign direct investment and foreign service providers participating in the activities of domestic enterprises (Kozak, Y. and Gribincea, A., 2016).

Services sector protection can't be achieved through measures at borders as intangible nature of services and the fact that few services operations are related with border crossings (Rumyantsev, 2003).

The World Trade Organization Secretariat divides services into *12 sectors* (Dakhno, 2004):

- business, including professional and computer (business, including professional and computer services);
- communication services;
- construction and engineering (contruction and engineering services);
- distribution services;
- educational services;
- environmental services;
- financial (insurance and banking) services));
- medical (health);
- tourism and travel services;

• recreational, cultural and sporting services);
• transport services;
• others.

The International Monetary Fund (IMF) has developed the guidelines for the balance of payments, which is represented by the composition of services included in the current account. Classification of services can be classified as follows (Kozak, Y. and Gribincea, A., 2016):

1) Transportation services:

- passenger transportation (international passenger transportation by all models of transport and providing of related services);
- freight transportation (international freight transport by all types of transport and providing related services).

2) Travel services:

- services associated with business travel;
- services related to personal travel.

3) Communication services (postal services, courier, telephone and other communication between residents and non-residents).

4) Construction services (building facilities abroad, implemented on an interim basis by residents).

5) Insurance services (non-resident insurance by the resident companies).

6) Financial services (financial intermediation between residents and non-residents (commission for opening letters of credit, currency exchange, brokerage, etc.).

7) Computer and information services (consulting in computer programs, information services.

8) Other business services:

- intermediary services (mediation commission);
- leasing (leasing and freight of ships, airplanes and other transportation equipment);
- other business, professional and technical services (legal, accounting, management, advertising and other services, and services of the design, cartography, construction supervision, crop protection).

9) Personal, cultural and recreational services

Services, unlike goods, are intangible and invisible, while goods can be accumulated. The British magazine The Economist once said that the service is that when buying and selling can not fall and hit his foot.

International trade in goods involves their physical movement across state borders. Such relocation of services is rare. The time and place of consumption of the service must match. In order to receive certain services,

interested persons need to come to the country where the relevant services are provided (for example, tourist, recreational, medical, educational, etc.)

Thus, international trade in services can take the form of:

• crossing borders with service products;

• movement of consumers to the country of import;

• establishing a commercial presence in the country where the service will be provided;

• temporary relocation of specialists to the country in order to provide services.

International trade of licenses is the main economic mechanism of international technological exchange and is widely and quickly spread in our time (Foreign trade, 1992).

The international trade growth of licenses is caused by a number of factors that stimulate firms to sell and buy licenses in the global market (Kozak, Y. and Gribincea, A., 2016):

- a commercial interest in the implementation of technological transfer, both from the licensor and from the licensee;
- growth of the competition in the global market;
- acceleration of the output of new products to the market;
- receiving of an access to additional resources;
- penetration and conquest of the inaccessible markets in the countries, where tariff and non-tariff barriers are widely used;
- receiving of the profit by selling licenses on the products, that do not correspond to new strategic priorities. Thus, firms with diversified production are constantly adjusting product nomenclature, changing the resources for the production of the most profitable products;
- countries with limited resources of scientific and technological development have an opportunity to occupy a strong position in the world market without additional expenses by taking part in international technological exchange;
- political and legal reasons.

There is a classification of countries according to their roles in international trade of licenses (table 4.2).

Table 4.2 - The classification of countries according to their role in international trade of licenses

Groups of countries	Characteristics
1) Industrialized countries with dominant export of licenses	The USA. The export orientation of trade of licenses has historical nature and reflects the scientific and technological potential of a country. A government defrays the biggest part of expenses for conducting fundamental scientific researches. In the USA the proceeds from the sale of licenses is 56% of total payments from licensing agreements in all countries and 17 times more than their payments for purchased licenses
2) Industrialized countries with prevailing export of licenses	The United Kingdom, Switzerland. They have a positive balance in the licensed trade and conduct a policy to stimulate an export of licenses. Specializing on the manufacture of high-tech products, they create a large number of branches and subsidiaries of large firms with relatively small opportunities for industrial use of new technologies
3) Industrialized countries with prevailing import of licenses	Germany, Japan, Italy, France and other industrialized countries. They widely use foreign experience and technical knowledge to upgrade leading sectors based on advanced technologies and acceleration of their own R&D. They do not seek to balance receipts and payments on licensing agreements
4) Developing countries with the export-import orientation of the trade in licenses	Argentina, Brazil, Mexico, India, Turkey. They conduct a policy of targeted purchases of foreign technologies to solve major economic problems. Licenses are being exported usually to nearby countries
5) Developing countries with import licensed trade orientation	Thailand, Algeria, Panama. A purchase of new technologies fulfills mainly in the form of licenses, associated with the construction of industrial objects
6) Developing countries with episodic trade in licenses	The least developed countries

Source: (Kozak, Y. and Gribincea, A., 2016).

There are the objects of licenses: a patented invention or technological process; technological knowledge and experience, know-how; industrial patterns (new art and design decision that determines its appearance); trademark (Kozak, Y. and Gribincea, A., 2016).

The forms of international trade on the type and organization of the relationship between the partners

The main forms of international trade, depending on the nature and methods of organizing of relations between exporters and importers include: counter trade, commerce, industrial cooperation and leasing (Kozak, Y. and Gribincea, A., 2016):

1. International countertrade.

The essence of a countertrade is that the export-import operations are complemented by the adoption by the partners of counter obligations concerning supply (purchase) of agreed goods and services. International countertrade is qualitatively a new form of commercial operations with the rapid development. It facilitates efficient, long-term, mutually beneficial cooperation of members directly in the sphere of production. Its share is about 50% in international trade (Freund, C. and Pierola, M. D., 2012).

The following features characterize the countertrade (Baum, C. and Caglayan, M., 2010):

- it is an important tool for regulation of international trade since the conclusion of intergovernmental agreements on the exchange of commodities, as well as agreements on economic and industrial cooperation on a reimbursable basis allow to determine for several years ahead types and amounts of goods of relative supply, its total cost and payment, the nature and cost of related or separately provided technical services and scientific and technical knowledge;
- a flexibility, which allows contractors to adapt to changing conditions in world markets; enables countries to diversify purposefully their export, to appear in non-traditional markets, in remote markets of developed countries, fenced by tariff and non-tariff barriers; creates conditions for savings of currency, acceleration of international trade;
- linking of export with counter purchases of goods of importing firms or importing country, and vice versa.

2. E-commerce.

An important feature of modern international trade is the development of e-commerce. The term “e-commerce” covers distribution, marketing, sale or delivery of goods or services by electronic means. Rapid growth of e-commerce is observed with the Internet for commercial purposes (Kozak, Y. and Gribincea, A., 2016; Suranovic S., 2010).

Advertising; order and payment and supply can be carried out via the Internet and thus is considered in the context of e-commerce. Any product that can be represented in digital form may be supplied electronically.

3. International leasing.

International leasing is a form of long-term operation that is associated with the transfer into use of equipment, vehicles and other movable and immovable property, other than land and other natural objects (Deardorff's Glossary, 2010).

International leasing is one of the forms of leasing for which a leasing contract is carried out by leasing agents, who are under the jurisdiction of different states, or in cases where property or payments cross state borders. (Kozak, Y. and Gribincea, A., 2016).

4. International industrial cooperation.

International trade by cooperation is characterized by a previous long-term consistency of direct industrial relations and an interest of parties in the performance of joint activities.

International industrial cooperation is the most prevalent kind of international production and technical links between enterprises. It is the result of specialization of national industries, that interact in the international system of division of labor, are based on subject of specialization and acts as a form of partial and general division of labor in the global economy (Fang, W.S. et al., 2006).

Operations of industrial cooperation include (Narlikar Amrita, 2003):

- supply of raw materials, components, parts, spare parts, blanks, semi-finished components and other products for branch and inter-branch purpose, that are technologically connected and are necessary for the joint production of the final product;
- provision of services for the implementation of design and repair works, maintenance and implementation of technological operations.

The features of the international industrial cooperation are as follows (Kozak, Y. and Gribincea, A., 2016):

- the subjects of cooperation are industrial companies from different countries;
- the cooperation is not accompanied by the creation of any organizational structures;
- the parties adapt their production to the implementation of the cooperation on the basis of a previous approval of joint activities;
- the unification of the object of cooperation, i.e. the introduction of common technical requirements, technical documentation, safety requirements;
- the fixation of the components, semi-finished products, technologies, etc. in the contractual procedure, as the main objects of the cooperation;

- the distribution of tasks between parties within the agreed program, fixation of production specialization and coordination of their economic activities;
- keeping of the schedule of production programs in the agreed volumes, range and quality;
- long-term, stability and regularity of relations between partners, which increases their interest in this kind of connections and leads to the establishment between cooperators industrial and technological relations, close cooperation and interdependence;
- different socio-economic nature of relations between partners.

4.2 Methods of Export and Import Operations

The subjects of international trade choose one or another method of foreign trade, when they go to the world market to sell their products. The method of international trade is the organizational form and procedure of foreign operations. There are two main methods of international trade: direct and indirect (Gerasimchuk and Voitko, 2009).

The nature of product, scale of production, the features of target markets, where it is planned to sell products, as well as forms of international trade (by subject of trade or by specificity of the relationship between the partners) affect the choice of method of foreign trade.

1. Trade based on direct links between contractors (direct method).

The direct method of foreign operations envisages the establishment of direct links between the manufacturer (supplier) and the end-consumer, i.e. the product is delivered directly to the end-consumer, and is purchased directly from the manufacturer based on the contract for the international sale. About 50% of international trade is based on direct links.

The direct method is usually used (Kozak Y.and Shengelia T., 2014):

- when transnational corporations are selling the large and expensive produce for industrial use. In some companies, the share of direct sales is about 70% of all export products for industrial use. This is due to the increase of the technical level and complexity of the products that are released on the market; increasing of the unique equipment share, complete equipment of enterprises, new vehicles, air craft. Direct contacts between the exporter and importer, starting from the design stage and finishing products commissioning should established to take into account the requirements of the buyer;
- when export-import operations are carried out between large transnational corporations regarding the supply raw materials, semi-finished products, components, parts and etc.;

- when the goods are supplied through the foreign subdivisions of the TNCs, that own retail network. Sales and production foreign branches and subsidiaries, created by TNC, become the contractors on the markets of other countries;
- when the industrial raw materials are exported or imported on the basis of long-term contracts;
- when the agricultural raw materials are purchased from farmers in developing countries;
- when carrying out foreign trade activities of public enterprises and institutions of the developing countries, by organizing and holding of the tenders.

Direct sale has several advantages: gives the exporters the opportunity to establish close contacts with the foreign customers, to implement the strict control over trading operations; to earn higher profits by reducing costs in the amount of agent's commission; better study the status and trends of the market development; quickly adapt their production programs to the demand and requirements of foreign markets; reduce the risks and dependence of the results of the commercial activities from the bad intermediary organization (Guillermo K.,.2013; Kozak, Y. and Gribincea, A., 2016).

The disadvantages of direct trading methods include: the presence of high risk, due to differences in economic, legal and social conditions in various countries and the need to attract staff of high commercial qualification (in this case, the financial costs can increase significantly).

The special type of direct method of foreign trade operations is *intra-firm trade* between the departments of the same TNC.

There is a system of internal markets inside the TNC. The TNC's internal market is a system of supplies at specific transfer prices undertaken by individual branches and subsidiaries within the TNC. A large number of export-import operations that are formally market operations and that are carried out according to the contract of sale, delivery etc., in fact, represents the movement of goods and services within a single corporation on this market. Internal market contributes to maximization of profits of TNC and to the achievement of its effective functioning, and it is one of the mechanisms for the integration of individual businesses within the corporation. Internal TNC's markets account for approximately 70% of all international trade (Guillermo K., 2013; Kozak, Y. and Gribincea, A., 2016).

The important feature of intra-firm trade is the involvement of many small firms that act as contractors and subcontractors of the TNCs to international trade via internal markets. TNCs act as connecting links

between the many firms that do not have access to the world market. In addition, internal markets of TNC promote intra-regional trade development, because branches of TNCs satisfy significant needs in details and components by supplies from the parent company.

2. Trade through the mediatory link (indirect method).

More than half of all goods, involved in international trade, are realized with the support of retailers. Their services are widely used in foreign trade in the US, the UK, the Netherlands, Sweden, Japan and other countries. The trade and intermediary link is used in following cases: in case of marketing of standard industrial equipment and consumer products; when large firms realize minor products; in case of selling in remote, inaccessible and poorly studied markets of small capacity; in time of marketing new products; in case of the absence of own distribution network in the importing countries; - by large companies with a small amount of export-import operations; when carrying out occasional transactions by foreign small and medium-sized firms (Kozak, Y. and Gribincea, A., 2016; Dakhno, 2014; Tsygankova et al, 2001).

The advantages of indirect method of the trade are (Kozak, Y. and Gribincea, A., 2016):

- firm-exporter does not invest the funds into the organization of the sales network on the territory of the importer, as the intermediary firms have their own material and technical basis (warehouses, repair shops);
- exporter is exempt from activities related to sales of goods (delivery to the importer, packaging, the adaptation to the requirements of local market, documentation);
- intermediaries have great opportunities in the organization of advertising, exhibitions, fairs;
- it is possible to use the capital of trade and intermediary firms to finance the agreements on the basis of short-term and medium-term loans;
- trade intermediaries have strong business relationships with banks, insurance and transport companies;
- markets for certain goods are monopolized by the trade and intermediary firms and can be reached only when using the intermediary links.

The disadvantage of indirect method of the trade is the deprivation of the exporter of the direct contacts with the sales markets, as well as his dependence on the integrity and activity of trade intermediary.

The special features of the activity of trading intermediaries in modern conditions include (Kozak, Y. and Gribincea, A., 2016):

- expansion of directions and areas of trade and intermediary activity that is carried out on the certain goods (nomenclature); activities

(wholesale, retail, parcel); carried out operations (export, import); services rendered; the nature of agreements and functions. The specialization of intermediaries in transactions with certain groups of goods is growing. Intermediaries provide different types of services in complex: marketing operations (search counterparties, conclude transactions on behalf of the seller, provide guarantees for payment of the goods by the buyer, prepare market research, carry out advertising campaigns), forwarding operations; financing transactions; providing technical services and after-sales maintenance; providing information on markets;

- linking the trading intermediaries to manufacturers of machinery and equipment;
- concentration of the majority of trading-intermediary operations in the hands of a small number of the TNCs that have their own financial, insurance companies, fleet, warehouses of spare parts. This allows them to carry out purchase and sale operations at their own expense, financing, insurance, transportation, maintenance, production and processing;
- increased influence on the trading intermediaries by transnational corporations, which coordinate the scope and nature of their activities by dividing markets;
- submission of small and medium trading-intermediary firms to large industrial companies by means of franchise system, i.e. long-term contracts with exclusive rights to sale goods and services with preserving the brand of manufacturer;
- submission of small and medium-sized firms, exporters and producers in developing countries to trading monopolies;
- participation of trading-intermediary firms in international consortiums for implementation of the major construction projects.

Self-control Questions:

1. What is the classification of forms of international trade?
2. What are the differences between international trade classifications of goods?
3. What are the different types of prices in international trade?
4. What are the forms of international trade in relation to the subject of trade?
5. Describe the world markets for raw materials and industrial goods.
6. What are services and what are their differences from goods?
7. What are the classifications of services?
8. What are the ways of international trade in services?
9. Describe the structure of the world market for services.

10. What is the essence of international trade in intellectual products work?
11. Why is international trade in licenses growing?
12. What are the objects of licenses and what are the types of licenses?
13. What are the forms of international trade in terms of method and organization relationships between partners?
14. What are the specifics of countertrade?
15. What are the features of e-commerce?
16. What are the features of international leasing?
17. Describe the international production cooperation and its main forms.
18. What is the method of international trade?
19. Describe the essence of direct trade.
20. What are the advantages and disadvantages of direct trade?
21. Describe intra-corporate trade.
22. Describe the essence of indirect trade.
23. What are the advantages and disadvantages of indirect trade?
24. What are the types of trade and intermediary operations and types of intermediaries?

Chapter 5 Organizational Mechanism of International Commodity Markets

5.1 International Commodity Exchanges: Features and Objectives
5.2 International Commodity Auctions
5.3 International Biddings
5.4 International Fairs and Exhibitions

Key concepts: organized commodity markets; international commodity exchange; stock exchange transactions; real transactions: immediate delivery agreements and agreements on goods with delivery in the future; futures contracts; hedging; international commodity auction; auction goods; international bidding (tenders), tender committee; tender documentation; international fairs; international exhibitions.

5.1 International Commodity Exchanges: Features and Objectives

The organized markets include *international commodity exchanges, international commodity auctions, international biddings, international exhibitions and fairs*. They act as intermediaries between exporters (manufacturers, national trade and intermediary firms) and importers (end users, foreign trade and intermediary firms) (Suranovic S., 2010).

Exchanges set standards for exchange-traded goods, the level of prices (quotations) for commodities and securities, analyze the situation in questions and suggestions, disseminate business information.

The functions of the exchange are performed by an association of trade organizations, which has the rights of a legal entity, acts in accordance with the laws of the country.

International commodity exchanges are the permanent wholesale markets. Purchase and sales operations take place on these markets, at first, on the mass raw and food qualitatively similar and interchangeable commodities (products in material form) and secondly, the "intangible" goods (financial instruments or contract of financial type) (Kozak, Y. and Gribincea, A., 2016).

The *commodity exchange* is focused on the wholesale turnover of mass, mainly raw materials and food products (non-ferrous metals, grain, cotton, sugar, etc.). There are *universal* and *specialized* (for individual products or groups) *commodity exchanges*. Only large companies are allowed to trade on official stock exchanges; in many countries there are informal stock exchanges on which any securities are traded (Dakhno, 2004).

Exchange trade is characterized by the features as follows (Kozak, Y. and Gribincea, A., 2016):

- the goods are usually absent at the exchange;
- the goods should not spoil quickly and must be presented massively;
- contracts that contain fixed quantity of specified class, type, grade, length of supply are sold on exchange, instead of defined consignment;
- contracts are concluded on the basis of standard exchange contracts;
- buyer receives not the goods, but a warrant (commercial testimony), confirming the delivery of the goods by the seller on the stock warehouse;
- the goods must be suitable for standardization, i.e. for creation of a classification standard on the basis of which the agreements without availability of the goods can be concluded;
- the trade in financial instruments converts the exchange to the scope of capital, i.e. to the financial institution; tenders are conducted on an ongoing and regular basis;
- exchange is the mediator and therefore has no right to conclude the contract on its behalf;
- the prices in the off-exchange trade are set on the basis of stock quotes;
- there is no direct impact on the bidding process from the state.

The *main objectives* of the international commodity exchanges are (Kozak, Y. and Gribincea, A., 2016; Narlikar, 2003)**:**

- the achievement of a high concentration of supply and demand in one place, allowing to identify the real balance of commodity markets and to provide necessary goods to the community, to limit the release of goods, the offer of which exceeds the demand;
- regulation of the wholesale turnover is based on market laws;
- realization of the qualified intermediation between buyers and sellers;
- formation of world market prices;
- setting standards for the exchange commodities, development of standard contracts, fixation of trading terms;
- connecting buyers and sellers.

The biggest commodity exchanges are presented in the table 5.1.

Table 5.1 - The biggest commodity exchanges

Country	Name of exchange	Majors turnover
The USA	Chicago Stock Exchange Trading (established in 1848).	Cereal, oil, broilers, plywood, precious metals, treasury notes and bonds of the USA; municipal bonds, indexes, stocks and bonds.
	Chicago Mercantile Exchange (founded in 1919).	Cattle, pigs, timber, treasuries of the US, currency, equity indexes.
	New York Stock Exchange trading (established in 1872).	Copper, crude oil, diesel, gasoline, propane gas, platinum and palladium.
	Chicago exchange rice and cotton	Rice and cotton
	Chamber of Commerce of Kansas City	Cereals and securities
	Minneapolis Grain Exchange	Wheat and other crops
	New York Stock Exchange cotton and citrus (from 1996 merged with the New York Futures Exchange)	Cotton, concentrated orange juice, potatoes, propane gas, real index of the dollar and the US's treasury notes
	North American Exchange (trading division of Chicago exchanges)	Cereals, oil, cattle, pigs, precious metals, treasury notes of the US, currency.
Great Britain	London International Financial Futures and Exchange (Liffey) (established in 1982).	Financial instruments: commodity futures coffee, sugar, cocoa, securities, fixed income, treasury bills, stocks.
	London Metal Exchange (established in 1877).	Industrial metals (copper, aluminum, zinc, lead, nickel, silver, etc.).
	International Petroleum Exchange (established in 1980).	Petrol, North Sea oil "Brent" gas oil, diesel fuel, fuel oil
	London Commodity Exchange	Agricultural products: coffee, cocoa, sugar, rubber, potatoes, oil, vegetable oil, soya flour and others.
	Baltic futures exchange	Potatoes, wheat, barley, cattle, pork, soybean meal.
Japan	Industrial Tokyo Commodity Exchange	Gold, silver, platinum, rubber, cotton and wool yarn
	Tokyo International Financial Futures Exchange	Financial instruments
Germany	European Exchange - EUREX (established in 1997).	Options trading based on the German stock index (DAH)

Source: (Kozak, Y. and Gribincea, A., 2016).

The most important centers of exchange trade are the USA, the UK, and Japan (98% of the international exchange turnover) (Kozak, Y. and Gribincea, A., 2016).

The Chicago Commodity Exchange is the world's largest commodity exchange for grain trade. Trading is done both in cash and through futures contracts. In addition to grain, other agricultural products are traded on the stock exchange.

The London Metal Exchange is the world's largest exchange for non-ferrous metals - copper, lead, tin, zinc and more. The exchange was founded in 1877 and now has about 110 members. The minimum sales volume of copper, lead, zinc, aluminum is 25 tons, tin - 5 tons, nickel - 6 tons. The official price lists of the exchange are used by producers and consumers around the world to conclude long-term contracts. On the stock exchange

Futures and options contracts are also available. Information on concluded agreements is received by the London Clearing House.

International Petroleum Exchange - financial exchange, founded in 1980. It deals with options and futures for various types of oil.

Exchange members are divided into *brokers and dealers*.

The conclusion of transactions takes place through the mediation of *brokers* who act in accordance with the instructions received from clients. The form of transfer and, accordingly, receipt of instructions can be completely different. Most often, instructions are transmitted orally (directly or by telephone), and sometimes confirmed in writing by telefax, telegraph or teleprinter. The instruction must determine the type of goods, quantity, price, as well as the term of the transaction. The rest of the conditions are contained in standard exchange contracts (Gerasimchuk and Voitko, 2009).

The price in the instruction is determined by setting its upper or lower border or by entering into a deal at the most favorable moment. In this case, the price will be as close as possible to the quotes of the given day.

After the conclusion of the transaction, each broker writes down in his card the price, quantity, delivery month, type of goods, the name of the company on whose behalf the transaction was carried out, the initials of the second broker who participated in this transaction. Thus, the trade is recorded twice.

Exchange members settle among themselves not directly, but through exchange clearing. *Brokers* submit daily reports on all trades made and pay or receive only the difference on all transactions.

Each transaction concluded during the exchange session orally is checked by the relevant clerks representing the contracting parties, and by 12.00 the next business day is confirmed by a written contract submitted by the seller (Gerasimchuk and Voitko, 2009).

Futures' trading is a leading form of modern stock trading. On futures (in other words - futures) exchanges trade not real goods, but contracts for the supply of goods in the future.

The main features of ***futures trading*** are (Kozak and Gribincea, 2016):

• the fictitious nature of the agreements, the exchange of goods is virtually absent, the obligations of the parties to the agreements are terminated with the help of reverse transaction with payment of the price difference;

• connection with the real product market is through "hedging", not the supply of goods;

• clearly defined and unified consumer value of existing goods subject of the exchange contract, the goods are considered as the carrier of the price, equated to money and exchanged for them in any moment;

• full unification of conditions regarding the volume of goods sold;

• impersonality of agreements and substitutability of counterparties to these agreements.

5.2 International Commodity Auctions

International commodity auctions are specially organized markets that operate periodically in certain places. The sales of previously examined by purchaser goods, which become the property of a buyer, who offers the highest price, are carried out on the auctions by providing public biddings at pre-specified times and at specially assigned places (Kozak, Y. and Gribincea, A., 2016).

The *distinctive features* of the auction trade are:

- sale of mass and individual products with strictly defined individual properties that can not be standardized;
- trade is done only for commodity that is available;
- pre-auction inspection of goods is obligatory;
- voluntary form of trade that is public, i.e. all interested exporters and importers have the right to be engaged in commercial transactions (Kozak, Y. and Gribincea, A., 2016; Narlikar,2003).

The following main *types of auctions* are known:

• *currency*, the object of which is mandatory currency deductions that have taken place or have taken place in certain countries;

• *promissory note*, which sells short-term treasury bills;

• *group*, where orders are accumulated, and then one or two times during the day "thrown" to the trading floor, where they are sold under the control of an authorized broker or employee of the firm). This auction is also called a volley;

• *double* - bidding, where both sellers and buyers compete with each other, the price is set due to the balance of supply and demand, when the number of sellers at the price formed at the auction is equal to the number of buyers;

• *closed*, where all buyers offer prices at the same time (usually in writing), the product is bought by the one who offered the highest price;

• *gold*, the object of sale of which is gold;

• *English (classic)*, in which the goods are sold to the buyer, that offered the highest price;

•*Dutch*, held for charity. The starting price decreases until the most generous philanthropic seller will agree to the minimum price of the announced lot.

Brokers (auctioneers) in their professional activities are bound by a special oath – separate auctions provide for buyers acted only through brokers.

A deposit is usually required to participate in the auction. The buyer must pick up the goods sold at the auction immediately after the end of the auction.

5.3 International Biddings

International bidding (tender) is a method of conclusion of sales and purchase contracts or a contract, under which the buyer (customer) announces a competition for sellers (suppliers) on the product (with pre-defined characteristics) and after comparison of the proposals the buyer signs a contract with the seller (supplier), who proposed product on the most favorable for the buyer (customer) conditions.

Bidding is a method of concluding purchase and sale contracts or contracts, in which the buyer (customer) announces a tender for sellers (contractors) for goods with predetermined technical and economic characteristics and, after comparing the received offers, signs a sales contract or a work contract with the seller (contractor) who has offered more favorable conditions for the buyer (customer).

Tenders are often used by developing countries as a method of procurement. Their share accounts for 20 to 40% of all goods imported by state organizations and about 80% of the world's trading conducted on machines and equipment. This is due to the fact that there is no experience of conclusion of large-scale international contracts in most developing countries; current legislation requires importers to purchase equipment, the cost of which exceeds a certain amount, only through tenders; absence of the necessary technical knowledge and skills for independent solving of

technical and technological problems (Kozak, Y. and Gribincea, A., 2016; Narlikar, 2003).

International tenders are organized by the government organizations (ministries, purchasing organizations), municipal authorities, sometimes by large private firms, that provides them defined benefits: there is no need to create its own foreign trade unit, to carry out regular commercial and marketing activities; they have the opportunity to engage large financial firms in trading, because firms must pay bail in the amount of 1-3% of the value of alleged agreement in order to get the right to participate in the auction (Kozak, Y. and Gribincea, A., 2016). Widespread, especially in developing countries, tenders for the construction (including "turnkey") of enterprises of the chemical and related industries, timber, paper, light and food, cement industry, metallurgical and other enterprises, power plants, power lines, railways and highways, gas pipelines, bridges and tunnels, airfields, hotels, etc.

Trading plays an important role in the modern economy. According to experts, the value of orders for the supply of equipment and capital construction projects received through tenders is about one third of the total value of exports of mechanical engineering products from industrialized countries.

In modern international trade, several types of trading are used, differing in the methods of attracting participants and the publicity of the results.

Open bidding. All interested companies can take part in them. They are usually carried out when placing orders for relatively simple equipment and services that other firms can offer.

Prequalified open biddings are held in two rounds. All interested offers take part in the first round. They submit to the tender committees materials confirming their competence and experience in carrying out such orders. The materials list the objects in the construction of which they participated, reviews of buyers and customers. Then firms are selected - retraining. Only firms selected by the tender committee on the basis of an analysis of the submitted materials participate in the second round (Gerasimchuk and Voitko, 2009).

Sometimes announcements are of a purely formal nature, and their publication is done with a great delay. This happens in those cases when all the terms of the auction are communicated in advance to one or two firms that have already supplied similar equipment, with which it is planned to conclude a new contract, formalizing it through the auction.

On the day of the closing of the auction, in the presence of all participants, the heads of the tender committees open the packages with bids, name the firms or consortia that submitted bids, and also announce the

prices offered by the bidders. Such trades are called vowels. In open tendering, the decisions of the tender committees on the transfer of orders to the winners, as well as information on the quoted prices of other participants are published in the press.

Usually, up to several dozen firms and consortia take part in open and retraining tenders. Announcements of open tenders are published by buyers (customers) in newspapers or specialized magazines, therefore such tenders are often called public. Large auctions are announced 2-4 months or more before the day of holding, ordinary ones - 1-1.5 months in advance, small ones - sometimes 20 days before. In announcements about open tenders, only basic information is briefly reported: the name of the organization conducting the tenders; tender number; name, nature and quantity of purchased equipment (or purpose and characteristics of a construction site); the procedure and deadline for submitting proposals; the address where you can get all the necessary information (Gerasimchuk and Voitko, 2009).

5.4 International Fairs and Exhibitions

International fairs and exhibitions

International fairs are a place of demonstration of goods intended mainly for export.

Fair is a periodically operating market, allowing exhibitors-participants to exhibit the samples, exhibiting its production, demonstrate new developments and technical improvements for the purpose of direct trade agreements. At international fairs products are sold only by intermediaries (manufacturing, wholesale and retail network).

Exhibition is a public demonstration of achievements in a particular field of economics, technology, science, culture that are designed to meet human needs.

Unlike contracts concluded at international exchanges and auctions, contracts concluded at international fairs do not have specific features; their content is determined by sellers and buyers themselves. Agreements are concluded mostly after the fairs.

In addition to contact, another important function of fairs is advertising. So, the fair is exactly the place where you can look at people and show yourself what it means in the language of economists to collect offers (Gerasimchuk and Voitko, 2009).

Functions similar to fairs are performed by *international exhibitions*.

International exhibition is the most effective tool for studying market conditions, finding potential customers, establishing business contacts and cooperation relations, establishing business cooperation, selection of

potential investors etc. This is facilitated by direct communication between the experts and by the organized on exhibitions visual display using computer technology and video capabilities of production. It is allowed to conclude trade agreements on the exposed samples in order to develop turnover in most exhibitions, but selling, unlike fairs, is carried out to end consumers.

The benefits of international exhibitions and fairs (Kozak Y. and Shengelia T., 2014):

1) for the buyer: concentration of large number of goods samples produced in different countries; it is possible within a short time to observe the market, to get advice from experts, analyze prices and quality characteristics of products; to agree the commercial terms and to conclude the agreement at the place; there is an opportunity to get acquainted with the product in action, with his work and way of use;

2) for the seller: the possibility of extensive advertising of their products using a variety of means (printed promotional materials, advertising films, sale and distribution of samples in small packages, display of products in operation); the opportunity to learn better and faster the products of its competitors; agreement conclusion;

3) exhibitions and fairs are the meeting place for representatives of business circles of various countries, it facilitates supporting direct contacts and establishing new personal contacts;

4) exhibiting of the best examples of new products contributes to technological progress and the emergence of new products.

The exhibition is international if 10-15% of exhibitors are representatives of foreign countries (Kozak, Y. and Gribincea, A., 2016).

Self-control Questions:

1. What is the essence of international commodity exchanges?
2. What are the features of stock trading?
3. What are the main objectives of international commodity exchanges?
4. On what grounds can be classified international goods stock market?
5. What is the structure of exchange goods?
6. What are the features of transactions for real goods?
7. What are the features of futures contracts?
8. Describe the essence of speculative transactions and hedging transactions
9. What is the sequence of exchange transactions?
10. What are the trends in exchange trade?
11. What is the essence of international commodity auctions and their features?
12. What goods are traded on international auctions?

13. On what grounds can be classified international goods auctions?
14. What are the stages of auctions, what is their content?
15. What is the essence of international trade?
16. Who organizes the auction?
17. What goods are traded in international auctions?
18. On what grounds can be classified international trade?
19. What are the stages of international bidding?
20. What is the essence of international fairs?
21. What is the essence of international exhibitions?
22. Describe the benefits of international fairs / exhibitions.
23. On what grounds can be classified international fairs / exhibitions?
24. Which stages involve the participation of the firm in the international fairs / exhibitions?
25. Who regulates the activities of international fairs / exhibitions?

Chapter 6 International Trade Transactions and Agreements

6.1 Classification of Foreign Trade Transactions and Agreements.
6.2 International Sales Contract: Definition and Structure
6.3Financial Conditions for International Sales Contracts. International Commercial Terms: INCOTERMS.

Key concepts: international trade operation; foreign trade contract; international sales contract; trade custom; terms of the contract; export, re-export, import, re-import, transit operations; international trade agreement; international sale and purchase agreement; contractors; unification of international trade rules; conventions on the international purchase and sale of goods; simplification of international trade procedures; standard contract; international commercial terms (INCOTERMS).

6.1 Classification of Foreign Trade Transactions and Agreements.

International or foreign trade has been the fastest growing economic activity for many decades. Foreign trade operations are a set of basic and auxiliary types of commercial activity, ie it is a set of techniques, the consistent application of which ensures the implementation of an international contract of sale. An international trade agreement is an agreement concluded by two or more parties located in different countries for the supply of goods of a certain quantity and quality or the provision of services in accordance with the terms agreed by the parties. Recognition of a commercial agreement is subject not only to the rules of civil law, but also to special rules of commercial law, which determine the rules of their conclusion and implementation.

The main types of foreign trade operations are as follows:

• export - activities aimed at selling goods and then exporting them from the country;

• import - activities related to the purchase of goods from a foreign partner with its subsequent import into the country;

• re-export - provides for the return of goods outside the customs territory, which were previously imported from abroad, without processing;

• re-import - import from abroad of products previously exported outside the customs territory without its processing.

The main reasons for the re-export are:

• traditional forms of international trading, in particular trading on international exchanges and auctions;

• in case of suspension of the normal course of events in the process of implementation of an international agreement (refusal of the buyer, his bankruptcy);

• the contract is part of a large international agreement (for example, when building abroad);

• making a profit by reselling products in different markets and due to price differences.

Ancillary foreign trade operations include transport, insurance, financial and settlement, customs procedures, filing a patent or trademark application, and brokerage services. Practice shows that one main operation has up to ten auxiliary ones.

International trade agreements are governed by the UN Convention on Contracts for the International Sale of Goods (Vienna Convention of 1980) and the Hague Convention on the Law Applicable to Contracts for the International Sale of Goods.

Characteristic features of modern international trade agreements are as follows:

• a significant increase in the range and change in the nature of products entering international circulation, updating and frequent change of products, expanding the range of supplies of intermediate products;

• complex nature of agreements for the supply of equipment for entire enterprises (complete equipment);

• increase in the scale of agreements;

• expanding the practice of turnkey supply, when the seller undertakes to perform the full range of works on the construction of the enterprise - from the development of design documentation to the commissioning and achievement of all planned indicators by the enterprise;

• implementation of large-scale agreements jointly by companies from different countries as a result of the formation of consortia.

Depending on the characteristics of the classification, sales contracts can be divided into the following types: contracts with one-time and periodic delivery; contracts with payment in cash, commodity and mixed forms.

A one-time supply contract, or so-called one-time agreement, provides for the delivery by one party of another agreed quantity of goods before the date specified in the contract. After the fulfillment of obligations, the legal relations between the parties are terminated.

One-time transactions are of two types:

• with short delivery times (for raw materials deadlines can be set as specific, ie date or period, and indefinitely, for example, after harvest, after the opening of navigation);

• with long delivery times (for example, for complete and complex equipment, ships).

The terms of a complete equipment contract can vary considerably depending on the methods of concluding such contracts: based on direct links between the supplier and the customer or because of the supplier-exporter's participation in the tender. Usually, a contract for unique equipment is concluded based on direct connections. The content of contracts based on the results of the tender is more standard, as its participants focus on the conditions set by the customer, and the choice is usually made not because of technical and economic conditions, but rather on the basis of commercial conditions.

Contracts with periodic delivery provide for regular and periodic delivery of goods of agreed quantity and quality within a specified period. This period can be both short (up to one year) and long (on average 5-10 years, and sometimes 15-20 years).

Long-term contracts are usually concluded for raw materials (oil, coal, petroleum products, natural gas, ores, newsprint, etc.). Contracts with payment in cash provide for settlements in the currency set by the parties, taking into account those specified in the contract

6.2 International Sales Contract: Definition and Structure

A contract is an agreement between two or more parties, called the parties to a contract, the performance of which is ensured by law if the participants comply with certain conditions.

The contract of purchase and sale is a commercial document, which is a contract for the supply of goods and, if necessary, the services that accompany it, agreed and signed by the exporter and importer. From the very title of this document it follows that one party to the contract buys, the other - sells the subject of the contract. An essential condition of the contract of sale is the transfer of ownership of the goods from seller to buyer. This contract of sale differs from all other types of contract - lease, license, insurance, etc., which do not contain conditions for the transfer of ownership of the goods and the subject of the contract is either the right to use the goods or services.

In the case when the goods are delivered immediately after signing the contract, the agreement is called a sale, and if the contract specifies a later delivery date, it is a sale agreement. An international contract can be

concluded both orally and in writing (according to the Vienna Convention on the International Sale of Goods Agreement of 1980), but its enforcement is possible only in writing. According to the legislation of Ukraine, an international contract must be concluded only in writing. Also, according to the Vienna Convention, an international contract of sale may be considered concluded after the buyer has sent an acceptance of the seller's offer or after sending confirmation of the seller's acceptance of the buyer's order for conditions that both acceptance and confirmation are made within the established term.

An international contract of sale belongs to the so-called standard contracts, ie in international practice there are standard form, which relate to contracts of sale. The most general pro forma of a contract of sale is defined in the 1980 Vienna Convention on International Contracts of Sale. In addition, standard proformas are determined both by the requirements of national legislation (in particular, in Ukraine, the mandatory articles of the international contract of sale and its structure are defined by law) and by associations of entrepreneurs of certain industries. The contract of sale determines the content of the contractual terms, the procedure for their implementation and responsibility for performance.

Usually, before signing the main text of the contract, the parties draw up and sign a memorandum of intent, which states the parties to the agreement, its subject, as well as certain conditions of the future agreement, including the cost of delivery.

The structure and content of the contract are individual in nature and are determined by such factors as the subject of the agreement and the level of relationships between the parties. At the same time, Ukrainian legislation defines the structure of the contract in foreign economic activity, ie provides a list of mandatory articles that must be reflected in the contract to recognize it as legitimate. Other non-mandatory items may vary depending on the needs of the counterparties.

Typical sections of the contract are as follows:

1. Introductory part, or preamble. The preamble precedes the general text of the agreement and usually has the following meaning: the name and number of the contract, the place and date of its conclusion, the definition of the parties to the agreement. In the contracting parties, as a rule, indicate the brand names under which the counterparties are registered in the market. The register of their country, their legal status, location (name of the country or city), as well as the name of the parties in the text of the contract (for example, the seller and the buyer or the supplier and the customer). Sometimes the preamble refers to the negotiations that preceded the signing

of the contract, indicating the place and date of their holding, or to the seller's proposal, indicating its number and date of dispatch.

2. Subject of the contract. This section indicates the name of the product, its characteristics, and range. In the case of equipment supply, its characteristics include, for example, the definition of performance, power, fuel or energy consumption, and other indicators. When determining the range of goods indicate the types, styles, varieties, brands or models of products supplied. If the contract provides for the supply of goods with different quality characteristics or different range, they are usually listed in the specification, which is attached to the contract and is an integral part of it, which is subject to a reservation.

3. Quantity. The unit of measurement of quantity, the order of establishment of quantity, system of measures are defined. The quantity of goods in the contract can be expressed in terms of weight, volume, length, area, as well as in pieces, and the choice depends on the nature of the goods and the practice of international trade in a particular product. The number of individual specific goods is determined in the contracts in terms of conventional units. For example, the amount of a number of chemical products is determined in terms of 100% of the content of the basic substance.

4. Product quality. Determining the quality of the goods in the contract of sale involves the establishment of a qualitative characteristic, ie a set of properties that determine the suitability of the goods for their intended use. The choice of method of determining the quality depends on the nature of the product, the practice in international trade in this product, and other conditions.

The main methods of determining the quality of goods are as follows:

• by standard. This method involves the supply of goods whose quality exactly meets a certain standard, with the issuance of a certificate. A standard is a document that gives a qualitative description of a product. In foreign countries, standards are developed by various governmental organizations (national standards), trade unions, scientific and technical associations and institutes, insurance companies and others. Sometimes in the practice of trade use standards developed by large industrial firms;

• according to technical conditions. This method is used in the case when there are no standards for a particular product and when due to the special conditions of production and operation of the product it is necessary to establish special requirements for its quality. The technical conditions contain a detailed technical description of the product, a description of the materials from which it is to be made, rules and methods of inspection and testing. Technical conditions usually determine the quality of goods

produced on the basis of individual orders, in particular unique or complex industrial equipment, apparatus, vessels, etc .;

• according to the specification specified in the contract. The specification usually contains the necessary technical parameters that characterize the product. It can be composed of exporters, importers, various associations and other organizations - both national and international. In this case, the contract must indicate the organization that drew up the specification and provide the main indicators of this specification;

• according to the sample. This method involves establishing the quality of the goods in the contract in accordance with a certain model, agreed and confirmed by the parties, as well as to the existing standard. The contract, as a rule, specifies the number of samples taken and the procedure for comparing the delivered goods with the sample. Usually three samples are taken: one is kept by the buyer, the second - by the seller, the third - in some neutral organization specified in the contract (for example, in the Chamber of Commerce). The contract provides for storage by the parties of samples for a specified period from the date of receipt of the last batch of goods;

• by preliminary inspection. In the contract, this method is denoted by the words “inspected - approved”. The buyer has the right to inspect the whole consignment of goods in due time. The seller guarantees the quality of the goods as approved by the buyer after inspecting the goods. In this case, the seller is not responsible for the quality of the actually delivered goods, if there were no hidden defects that the buyer could not identify during the inspection of the goods and which he was not notified before the transaction. According to a preliminary inspection, goods are usually sold at auctions and from warehouses;

• the content of certain substances in the product. This method of determining the quality involves setting in the contract the minimum allowable content of nutrients and the maximum allowable content of undesirable elements or impurities (as a percentage);

• on the release of the finished product. In this method, the contract sets an indicator that determines the amount of final product to be obtained from raw materials. This figure can be set both as a percentage and in absolute terms;

• by natural weight. In this way the quality of grains is determined. Natural weight is the weight of one hectolitre (volume unit) of grain expressed in kilograms. It reflects the physical properties of grain (shape, size, content, specific gravity) and gives an idea of the quantitative yield of flour and cereals from it. Natural weight indicators are usually used together

with other indicators, for example, with the content of impurities in the grain.

5. Term and date of delivery. The term delivery of the goods means the moment when the seller is obliged to transfer the goods to the buyer or on his behalf to a person acting on behalf of the buyer.

The quantity of the goods stipulated in the contract can be delivered once or in parts. In the case of a single delivery, one delivery date is set, in the case of delivery in parts, the contract specifies intermediate delivery times.

The term of delivery in the contract of sale can be established by means of one of the following ways:

• the calendar day of delivery is determined;

• determines the period during which the goods are to be delivered, ie calendar month, quarter or year, period of the month or quarter, the interval between certain dates. If the delivery date is a calendar month, quarter or year, add the words “during” or “not later”. In the case of periodic deliveries, the term may be denoted by the word "monthly". Long-term contracts usually set a general term of the contract and intermediate terms, which can be determined either immediately for the entire term of the agreement, or at the end of each calendar year for the following year. Setting the delivery date by determining the period is the most common in the commercial affairs of foreign firms;

• on the basis of trade customs, for example, “immediate delivery”, “fast delivery”, “without delay”, “delivery of goods that are in place”, “from a warehouse”. Sometimes contractors do not set the exact date of delivery or acceptance of the goods. The term is determined by agreed conditions, for example, "after harvest", "after the opening of navigation";

• the related delivery date is stipulated. In this case, the delivery time is calculated not from the date of signing the contract, but from the date of fulfillment of obligations by the buyer (for example, transfer of the advance, approval of the customer estimates, drawings, etc.);

• at the request of the buyer, when the buyer has the right to express a desire to receive the goods at any time during a certain period, having previously notified the applicant of their intention to accept the goods. This method is unfavorable to the seller and beneficial to the buyer, so it is relatively rare in the practice of trade.

6. Packing and labeling. The seller must pack the goods in such a way that they reach the buyer undamaged. The shipper has the right to choose the type and kind of packaging that corresponds to the nature of the goods when the goods are delivered on the terms "free of packaging costs", but must fulfill all the wishes of the buyer, if the package is paid separately.

Determining the type of packaging depends on the characteristics of the product to be packaged.

7. The order of shipment of goods. The contract usually stipulates the seller's obligation to notify the buyer of the readiness of the goods for shipment and the shipment, and also establishes the procedure for fulfilling this obligation. The contract usually specifies a period calculated in days before the start of the delivery period, during which the seller is obliged to notify the buyer in the appropriate form of the readiness of the goods for shipment.

8. Delivery-acceptance. Under the delivery of goods means the transfer of goods by the seller in the possession of the buyer in accordance with the terms of the contract of sale. As a result of such transfer the buyer gets an opportunity to exercise full control over the goods (delivery of commodity documents or keys from the enterprise under consideration).

Delivery of goods to the carrier is usually considered the transfer of goods to the buyer, if it is accompanied by the issuance of documents that exclude the seller's control over the goods. The transfer of goods to the buyer, which is called delivery, is carried out at the expense of the seller. Delivery costs include the cost of weighing, counting, marking, packaging, possible customs duties. Acceptance means checking the conformity of the quality, quantity and completeness of the goods to its characteristics and technical conditions specified in the contract.

Types of delivery-acceptance are as follows:

• preliminary acceptance. It usually aims to inspect the goods at the seller's enterprise to establish compliance with its quantity and quality to the terms of the contract, as well as to establish the correct packaging and labeling of the goods;

• final delivery, acceptance aims to establish the actual delivery in the prescribed place and within the specified time. The results of such acceptance are binding on both parties and are taken as a basis for settlements under the agreement.

The place of actual delivery-acceptance can be marked as follows: the enterprise or warehouse of the seller; agreed port of shipment, railway station of departure or airport; destination port, border or terminal railway station in the destination country; the composition of the buyer or the final point of sale of goods.

Terms of delivery and acceptance of goods in quantity and quality, as a rule, do not match. Acceptance of goods by quality can be carried out in two ways: based on a document confirming the quality of the delivered goods to the terms of the contract, and because of checking the quality of the actually delivered goods at the place of acceptance. Checking the quality of the

actually delivered goods can be carried out by conducting a qualitative analysis, comparison with previously selected samples, inspection of the goods, inspections and tests.

9. Complaints. Claims made by the buyer to the seller in connection with the inconsistency of the quality and quantity of the delivered goods to the terms of the contract are called complaints. Complaints may be filed by the buyer only on those issues that were not the subject of acceptance of the goods made in accordance with the terms of the contract, and also in cases where it is found that the documents provided by the seller do not correspond to the actual data on delivery. var. The parties to the contract establish: the procedure for filing a complaint; the terms during which the complaint can be filed; rights and obligations of the parties in connection with the filing of a complaint; ways to settle complaints.

10. Guarantees. This section defines: the amount of guarantees provided by the seller; warranty period; responsibilities of the seller in case of detection of defects in the goods or inconsistency of his contract. The scope of the provided guarantee depends on the nature of the goods and the technical conditions of the contract. The warranty period can be calculated: from the date of delivery of the goods; from the date of transfer of the goods to the first consumer; from the moment the buyer receives from the seller a written notice that the equipment is ready for shipment; from the date of commissioning of the equipment.

11. Transport conditions. Cargo can be transported by sea, rail, road (organized roads) to the destination.

In transport conditions the following is provided:

• determination of ports of loading (unloading) of goods, transshipment points, cargo transfer;

• distribution of costs for loading (unloading) of goods between the seller and the buyer;

• choice of pro forma charter or bill of lading for the execution of the contract of carriage;

• the procedure for informing about the arrival of the vessel at the port of loading (unloading) and determining the readiness of the vessel to perform cargo operations;

• norms of loading (unloading) and the order of calculation of constant time;

• conditions for the appointment of stevedores and agents;

• rates, conditions and procedure for payment to the carrier of demurrage and dispatch.

12. Export and import licenses. The procedure for obtaining export and import permits (licenses) can be either summarized in the text of the

contract of sale, or formulated in detail in the general terms of supply, which are an integral part of the contract. In particular, the general conditions may specify the procedure for obtaining licenses: if an export or import license is required to perform the contract, the party who must obtain the relevant license must directly state this in the contract, and take all necessary measures in a timely manner. If the party does not receive a license within the period specified in the agreement, such speech is considered to have lost its force.

6.3 Financial Conditions of International Sales Contracts. International Commercial Terms: INCOTERMS.

Financial terms of international sales contracts.

The price of the goods. When setting the price of goods in the contract of sale, the following indicators are determined.

The unit of measure by which the unit price is determined. The price can be set (Guillermo and Jimenez, 2013):

• for a certain quantitative unit of goods or for a certain quantity of goods, the generally accepted unit of measurement when trading in a particular product or in units of account (hundreds, dozens);

• per unit of weight based on the basic content of the main substance in the product (for such goods as ores, concentrates, chemicals, etc.);

• per unit weight depending on fluctuations in natural weight, impurity content and humidity.

Price basis. When fixing the price of the goods in the contract, it is important to determine its basis in relation to the place of delivery. The price base determines whether transport, insurance, warehousing and other costs of delivery of the goods are included in its price. It is usually defined by the use of the appropriate term “Incoterms”.

Price currency. The price set in the contract may be expressed in the currency of the exporting or importing country or in the currency of a third country. When choosing a currency, the prices of mass goods are of great importance to the trade customs that have developed in international trade in such goods. For example, in contracts for wood and timber, wool, cocoa, rubber, non-ferrous metals are usually quoted in pounds sterling, in contracts for petroleum products, cotton, sugar, precious metals, fur - in US dollars. The exporter seeks to fix the price in a relatively stable currency, and the importer, on the contrary, is interested in fixing the price of goods in a weaker currency.

In order to reduce the currency risks assumed by counterparties, the contract provides for the following ways to reduce them:

• fixing the contract price in the most stable currency;

• application of the clause on revision of the contract price in case of change of the exchange rate of the price exceeding the established coefficient of fluctuations, establishment of the so-called currency clause.

The method of price fixing. Depending on the method of fixing, there are the following types of prices:

• *fixed*, which is established at the time of signing the contract and is not subject to change during its term;

• *variable* that is fixed at the time of signing the contract and can be revised later if the market price of a particular product before its delivery changes. The contract stipulates the limits of market price fluctuations, in case of exceeding which the contract price will be revised, as well as the limits of change in the contract price;

• *sliding*, which is calculated at the time of performance of the contract by revising the contractual (initial) price taking into account changes in production costs that occurred during the performance of the contract. If the contract provides for partial deliveries, the sliding price is calculated separately for each delivery. At the time of signing the contract in this case the so-called basic price is fixed and its structure, ie a share in percent of constant expenses (profit, overheads, depreciation deductions) is stipulated, the cost of raw materials and labor costs, as well as the method of calculating the sliding price, which the parties will use. In practice, a mixed method of fixing the price is sometimes used, when part of the price is fixed firmly when signing the contract, and the other part - in the form of a sliding price;

• *price with fixation in the future*. The contract in this case stipulates the conditions of fixation and the principle of determining the price level. The buyer may be given the right to choose the time of fixing the price during the term of the transaction with a reservation, which sources of price information he should use to determine the price level. When determining the price level, counterparties usually focus on two types of prices: published and estimated. Op, public prices are prices reported in special and branded sources of information. They usually reflect the level of world prices. The world price is the price at which large commercial export and import transactions are carried out with payment in a freely convertible currency. Practically world prices in such conditions are export prices of the main suppliers of a certain product and import prices in the most important centers of import of this product. The published prices include reference prices, stock quotes, auction prices; prices quoted in general statistical directories; prices of actual transactions; prices of offers of large firms. Estimated supplier prices are used in contracts for non-standard equipment,

usually manufactured to individual orders. After all, the differences in such equipment in terms of design, performance, nature, quality, weight, etc. are so significant that it is impossible to compare it with other similar equipment for the same purpose.

International Commercial Terms: INCOTERMS

The main international trading operations are *export-import operations*, which refer to commercial activities related to the purchase and sale of products that have material form (Votes, 2012; Kozak, Y. and Gribincea, A., 2016).

Export operations are activities that are associated with the sale and removal of goods abroad to transfer them into the ownership of foreign contractor. Export operations include (Foreign trade, 199; Fang, W.S. et al.):

- providing the customs authority the documents certifying the grounds and conditions of export of goods outside the customs territory of the country;
- payment of taxes and charges imposed on the export of goods;
- obeying the requirements by an exporter stipulated by law.

Products that have been previously imported into the customs territory of the country are removed outside the customs territory of this country without paying export duties and without the use of non-tariff regulation, in case of carrying out re-export operations. Re-export operations are carried out under the following conditions (Kozak, Y. and Gribincea, A., 2016):

- obeying the requirements by an exporter stipulated by law;
- customs authority is given the permission to re-export goods;
- goods that are re-exported, firstly, are in the same condition they were at the time of entry into the customs territory of the country, except for changes due to natural wear and tear or losses under normal transportation and storage; secondly, they were not used for receiving profit; thirdly, they are exported no later than one year from the date of entry into the customs territory of the country.

The Incoterms rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms rules are there to guide you. The Incoterms rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis (Kozak, Y. and Gribincea, A., 2016).

The basic conditions of supply in the contract of sale of goods are the conditions that define (Kozak, Y. and Gribincea, A., 2016):

1. The rights and obligations of the parties for the supply of sold goods:

- who and at whose expense provides transportation of goods on the territory of the exporter, the importer and transit countries, and at transportation of goods by sea, river and air transport;
- condition of the cargo in respect of the mean of transport, that determines the seller's obligations to deliver the cargo in a particular place for a fixed price in a contract or load the goods on a vehicle or prepare it for upload, or transmit to the transport organization;
- seller's obligation in packing and labeling of goods and obligations of the parties in cargo insurance;
- obligations of the parties regarding the execution of commercial documentation according to the current requirements in international trade practice;
- where and when the ownership of the goods are transferred from the seller to the buyer.

2. The time of the transfer the risk.

The obligations of the seller and the buyer contained in *INCOTERMS 2020* for each of the basic conditions are listed in table 6.1.

Table 6.1 - The obligations of counterparties

The seller's obligations	**The buyer's obligations**
Provision of goods in conformity with the contract	Payment of the price
Licences, authorisations and formalities	Licences, authorisations and formalities
Contracts of carriage and insurance	Contracts of carriage and insurance
Delivery (the goods)	Taking delivery (the goods)
Transfer of risks	Transfer of risks
Division of costs	Division of costs
Notice to the buyer	Notice to the seller
Proof of delivery, transport document or equivalent electronic message	Proof of delivery, transport document or equivalent electronic message
Checking, packaging, marking	Inspection of goods
Other obligations	Other obligations

Source: (Kozak, Y. and Gribincea, A., 2016; Guillermo and Jimenez, 2013).

Thus, the basic conditions of delivery determine who bears the costs of transporting the goods from the seller to the buyer. Expenses, that are

carried by the exporter, are included in the price of goods (sometimes they reach 40-50% of the price). Basic terms install the basis of price and impact on price level (Guillermo and Jimenez, 2013).

INCOTERMS defines 11 rules and they have been grouped into 4 different categories. The obligations of the seller and the buyer are defined for each condition for delivering the goods and set time of transfer of risk of accidental loss (International Organization, 2019; Kozak, Y. and Gribincea, A., 2016). Table 6.2 shows the terms "Incoterms", which are used in the international commerce.

Table 6.2 - International Commercial Terms

Term group	Abbreviation
Group *E* Depature	EXW (Ex Works)
Group *F* “Free” Unpaid Carriage	FCA (Free Carrier) FAS (Free Alongside Ship) FOB (Free on Board)
Group *C* Paid Carriage	CFR (Cost and Freight) CIF (Cost, Insurance and Freight) CPT (Carriage Paid To) CIP (Carriage and Insurance Paid To)
Group *D* Delivery	DAP (Delivered At Place) DPU (Delivered At Place Unloaded) DDP (Delivered Duty Paid)

The Incoterms table is structured in such a way that the exporter's liabilities are increasing from group “E” to group “D”, and the price of the goods is increasing accordingly.

Different practices and legal interpretations between traders around the world necessitated a common set of rules and guidelines. As a response, International Chamber of Commerce (ICC) developed commercial terms in 1936, that are the universal set of basic conditions, knowledge and using of which facilitates the implementation of trading operations. These terms were created to get rid of different contradictions, clearly define the duties of the counterparties and reduce the risk of legal complications, in the contracts for the sale of goods. They are based on international commercial practice and trade customs. The collection was called “International rules for the interpretation of trade terms INCOTERMS” (International

Commercial Terms) (International Chamber, 2019). Changes in INCOTERMS were made in 1953, 1967, 1980, 1990, 2000 and 2010. A new version of the INCOTERMS rules, known as **"INCOTERMS 2020"** came into force on January 1, 2020 (Incoterms, 2020).

"Incoterms" is a trademark of International Chamber of Commerce, registered in several countries.

The Incoterms rules feature abbreviations for terms, like FOB ("Free on Board"), DAP ("Delivered at Place") EXW ("Ex Works"), CIP ("Carriage and Insurance Paid To"), which all have very precise meanings for the sale of goods around the world (International Federation,2019).

These terms hold universal meaning for buyers and sellers around the world. If you are a financial analyst in the City of London, then you might associate the acronym "FCA" with the United Kingdom's Financial Conduct Authority. However, for importers and exporters around the world, FCA are the initials used for "Free Carrier," or the seller's obligation to deliver the goods to the carrier nominated by the buyer at the seller's premises or another named place (Incoterms,2020).

More accessible and easier to use, Incoterms 2020 includes more detailed explanatory notes with enhanced graphics to illustrate the responsibilities of importers and exporters for each Incoterms rule. The introduction to Incoterms 2020 also includes a more detailed explanation on how to choose the most appropriate Incoterms rules for a given transaction, or how a sales contract interacts with ancillary contracts (International Organization, 2019; International Air, 2019; International Road, 2019).

Incoterms aligns different levels of insurance coverage in Cost Insurance and Freight (CIF) and Carriage and Insurance Paid To (CIP).

On the release of Incoterms 2020, ICC General Secretary John W.H. Denton (ICC, 2020) said: "*Incoterms 2020" rules make business work for everyone by facilitating trillions of dollars in global trade annually. Because they help importers and exporters around the world to understand their responsibilities and avoid costly misunderstandings, the rules form the language of international sales transactions, and help to build confidence in our valuable global trading system*."

The new Incoterms 2020 rules have been published in the fourth quarter of 2019, at the same time as the centenary of the International Chamber of Commerce, and have been entered into force on January 1, 2020.

However, the terms FCA and CIP are not used by the vast majority of international trade participants (exporters, importers, freight forwarders, logistics operators, banks). This is because FOB and CIF are two very old terms. For example, FOB has been already used in England in the late

eighteenth century, and the International Chamber of Commerce published this term in the first edition of the Incoterms rules in 1936.

It is anticipated that the new Incoterms 2020 regulations will allow FOB and CIF delivery terms to be used for transport containers, as was the case with Incoterms 2000 and previous versions. This change is very important for all participants in foreign economic activity, as approximately 80% of world trade is carried out in container packaging (New Rules, 2020).

Self-control Questions:

1. What is the essence of an international trade agreement?
2. Who is a counterparty to international trade agreements?
3. What is the implementation of export and import operations?
4. Under what conditions are re-export and re-import operations carried out?
5. What is the essence of transit operations?
6. What is international agreement?
7. What is the importance of unifying the rules of conclusion international trade agreements?
8. What is the essence of the UN Convention on International Treaties purchase and sale of goods?
9. How is the simplification of international trade procedures carried out?
10. What is meant by a standard contract?
11. What is the essence of the basic conditions of supply of goods?
12. What is the essence of a foreign trade contract?
13. What types are divided into international sales contracts?
14. Describe the structure of the contract.
15. How obligations are distributed between seller and buyer during deliveries of goods on the terms of INCOTERMS in groups E, F, C and D?

Chapter 7 National Level of International Trade Regulation

7.1 Free Trade Policy VS Protectionism and their Influence on Economy
7.2 Tariff methods of International Trade Regulation
7.3 Non-tariff Methods of International Trade Regulation
7.4 Financial Methods of Trade Policy Regulation

7.1 Free Trade Policy VS Protectionism and their Influence on Economy

The main feature of government regulation of international trade is the possibility of application of two different types of foreign trade policy in combination*: liberalization (free trade policy) and protectionism*.

The minimum of state interference in foreign trade, which is developed on the basis of free market forces of supply and demand, is understood under the *free trade policy*. 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, is called *protectionism.*

These two types of trade policy characterize the measure of state intervention into international trade (Kozak, Y. and Gribincea, A., 2016; Tsygankova et al., 2001). The basic regulator of foreign trade is a market in the conditions of policy of liberalization. The protectionism practically excludes the operation of free market forces. It is assumed that economic potential and competitiveness of separate countries is different at the world market.

The protectionism policy contributes to the development of certain industries in the country; often it is a necessary condition for industrialization of agrarian countries; it causes the 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.

There are four forms of protectionism (Kozak, Y. and Gribincea, A., 2016):

1) selective protectionism, directed against some countries or some commodities;

2) industrial protectionism, which protects some industries;

3) collective protectionism: the countries, which belong to economic integration organizations, conduct this form to the countries, which do not belong to a union;

4) hidden protectionism, which is carried out by methods of domestic economic policy.

In every country, there are economic, social and political arguments, and the groups of pressure in favor of protectionist measures.

The main arguments for restrictions on foreign trade are: necessity of defense providing; increase of domestic employment; diversification for the sake of stability; protection of infant industries; protection from dumping (J. Bertrand et al., 2018).

Each policy has its positive qualities and disadvantages, which depend on the circumstances, time and place of use (table 7.1).

Table 7.1 - Applying the principles of free trade and protectionism and their influence on economy

Free trade		Protectionism	
Advantages	Disadvantages	Advantages	Disadvantages
Specialization of countries, that facilitates the development of competition	The danger of over-specialization and increasing economic dependence on other countries	Creation and development of new industries	The problem of industry choice: - support for inefficient production; - saving of production backwardness
The growth of economic development of countries, that are involved in the international division of labor	The absence of state regulation in foreign trade does not allow the country to fulfill its social functions	Protective measures for manufacturers. The growth of employment	Problems regarding: - saving of the doomed sectors; - spending of funds that are not reimbursed
Efficient use of resources (factors of production). Increased consumption and prosperity of the country	More developed countries will benefit more than the less developed countries.	The development of industries that supply raw materials and supplies in ”protected” production. Liquidation of depending on the supply of raw materials	Human resources can be used more effectively in other areas. Crisis situations in liquidation of the doomed industries. Exhaustion and decrease of the national wealth

Continuation of the Table 7.1

The elimination of the military-political dependence was permitted by the classics of free trade theory	Less developed countries may not get benefit from specialization due to non-compliance of export and import prices	The creation of own defense industry: • support of the volume of production; •retaining qualified potential	Problems related to elimination of unpromising industries and application of diversification programs

Source: (Kozak, Y. and Gribincea, A., 2016).

The instruments of state regulation of international trade are (Kozak, Y. and Gribincea, A., 2016; Krylov, 2008):

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

7.2 Tariff Methods of International Trade Regulation

A tariff is a tax or import duty levied on goods or services entering a country. Tariffs can serve the twin purposes of generating revenue for governments and making it more difficult for companies from other countries to do business in the protected market (J. Sherlock, 2017).

The moves towards "free trade" of the 19th century were largely offset by the reintroduction of tariffs in the early part of the 20th century at rates sometimes as high as 33 and 50%. Since 1945, tariffs have been lowered significantly as a result of eight successive rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT), the third institution established following the Bretton Woods Agreement, and its successor the World Trade Organization (WTO).

Customs tariff is the main and the oldest instrument of foreign trade policy. This is a systematic set of customs rates, which is imposed on goods and other subjects that were 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 subjects that are moved across the customs border of the country.

There are three main functions of duties (Kozak, Y. and Gribincea, A., 2016)*:*

- fiscal function - in the cases, when duties are introduced to get money for the state. This function applies to both import and export duties;

- protectionist function - in the cases, when duties are used to reduce or remove the imports, thereby protecting domestic producers from foreign competition;
- balance function - in the cases, when they are introduced for preventing from unwanted exports of goods, domestic the prices of which are lower than on the world market.

A tariff raises the price of a good in the importing country and lowers it in the exporting country. Because of these price changes, consumers lose in the importing country and gain in the exporting country. Producers gain in the importing country and lose in the exporting country. In addition, the government imposing the tariff gains revenue. To compare these costs and benefits, it is necessary to quantify them. The method for measuring costs and benefits of a tariff depends on two concepts common to much microeconomic analysis: consumer and producer surplus (Kozak, Y. and Gribincea, A., 2016; Krylov, 2008).

According to the object of levying, there are the following types of duties:

1. Import duties, that are imposed on the goods imported to the customs territory of a country. Import duty is differentiated. There are types of rates that can be used:

1) preferential rates suggest reduction of customs duty rates or exemption from customs duty. They are applied for goods that come from countries, which create a customs union or free trade area together with the state that charges a duty, or for goods coming from developing countries;

2) the preferential rates, which are applicable for goods entering from countries or economic unions which use MFN regime;

3) full (gross) rate, which are used to all other goods.

Thus, import duties are the dominant form of duties, which are used by all countries to protect the domestic market from foreign competition.

2. Export duties that are imposed on the goods exported from the customs territory of a country. This form of duties is used rarely, in cases of large differences between domestic and world prices for certain commodities. The purpose of these duties is to reduce exports and fill up the budget. The rate of export duty (T_e) is equal to a percentage exceeding of exports (world) price of the commodity P_c over the domestic price:

$$T_e = \frac{P_c - P_d}{P_d} \quad (7.1)$$

where T_e - the rate of export duty; P_c - price of the commodity; P_d - the domestic price.

An export subsidy is a payment to a firm or individual that ships a good abroad. Like a tariff, **an export subsidy** can be either specific (a fixed sum per unit) or ad valorem (a proportion of the value exported). When the government offers an export subsidy, shippers will export the good up to the point at which the domestic price exceeds the foreign price by the amount of the subsidy (Paul R. Krugman, 2007).

Export subsidies are foreign trade policies undertaken by domestic governments that are intended to "protect" domestic production by restricting foreign competition. In general, a quota is simply a quantity restriction placed on a good, service, or activity. For example, employers often face hiring quotas for different demographic groups and sales representatives often have quotas for sales activities.

The goal of export subsidies is to increase the limit the availability of imports in the domestic economy and thus encourage domestic consumers to purchase domestic production. While export subsidies and other foreign trade policies can be beneficial to the aggregate domestic economy they tend to be most beneficial, and thus most commonly promoted by, domestic firms facing competition from foreign imports. Domestic firms benefit with higher sales, greater profits, and more income to resource owners. In addition, domestic consumers also benefit with more production and lower prices. However, export subsidies are paid for by domestic taxpayers (Freund, C. and Pierola, M.D., 2012; Fang, W. S. et al., 2006).

While the theory predicts that export subsidies will increase exports, many practical issues, such as the political environment, administrative capacity to monitor their distribution and use, etc. may interfere with their impact (Fomichev, 1998).

7.3 Non-tariff Methods of International Trade Regulation

Although progress was made in dismantling tariff barriers under the GATT in the period up to 1995 when the WTO was established, the use of non-tariff protection increased during the 1980s, mostly as a substitute for the tariffs which were outlawed (J. Sherlock, 2017).

The following is a list of non-tariff measures that have been considered by both developed and developing countries (J. Sherlock, 2017):

• *Quotas.* A numerical limit in terms of value or volume imposed on the amount of a product which can be imported. Chinese quotas on imported automobiles or French quotas on Japanese VHS equipment during the 1980s are wellknown examples.

• *Voluntary export restraints.* Agreed arrangements whereby an exporter agrees not to export more than a specific amount of a good to the importing country (usually to preempt the imposition of more stringent measures). Such agreements are common for automobiles and electronics, but are also applied to steel and chemicals.

• *Domestic subsidies.* The provision of financial aid or preferential tax status to domestic manufacturers which gives them an advantage over external suppliers. The most obvious examples are agriculture, where both the EU and US have consistently employed subsidies to help domestic producers.

• *Import deposits.* The device of requiring the importer to make a deposit (usually a proportion of the value of the goods) with the Government for a fixed period. The effect on cash flow is intended to discourage imports.

• *Safety and health standards / technical specifications*. This more subtle form of deterrent requires importers to meet stringent standards or to complete complicated and lengthy formalities. The French bans on lamb and then beef imported from the UK during the 1990s will be long remembered by the British farming industry (Dumoulin, 2017).

The spread of **non-tariff barriers** is caused by the fact that their introduction is the privilege of the 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 (Kozak, Y. and Gribincea, A., 2016; Krylov, 2008; Dumoulin, 2017).

Non-tariff barriers can be divided into the following groups: *quantitative, hidden and financial ones* (Kozak, Y. and Gribincea, A., 2016; Kozak, Y. Gribincea, A., 2014).

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

By the direction of action, quotas are divided into two types (Kozak, Y. and Gribincea, A., 2016):

- *the export quotas*, that are imposed by the government of the country to prevent from the export of scarce products in the domestic market, as well as to achieve political objectives. These quotas are used rare;

- *import quotas*, that are imposed by the government of the country to protect the domestic market from the foreign competition, to achieve the 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 .

An import quota is a direct restriction on the quantity of some good that may be imported. The restriction is usually enforced by issuing licenses to some group of individuals or firms (Deardorff's Glossary, 2019). For example, the United States has a quota on imports of foreign cheese. The only firms allowed to import cheese are certain trading companies, each of which is allocated the right to import a maximum number of pounds of cheese each year; the size of each firm's quota is based on the amount of cheese it imported in the past. In some important cases, notably sugar and apparel, the right to sell in the United States is given directly to the governments of exporting countries.

The primary goal of **import quotas** is to reduce imports and increase domestic production. Because the quantity of imports is restricted, the price of imports increases, which thus encourages domestic consumers to buy more domestic production. Import quotas are one of three common foreign trade policies designed to discourage imports and/or encourage exports. The other two are tariffs and export subsidies.

The imposition of import quotas on foreign imports, as well as other foreign trade policies, are commonly justified for at least five of reasons (Guillermo K., 2013):

1. *Domestic Employment*: because foreign imports are produced in other countries by foreign workers, decreasing imports and increasing domestic production also increases domestic employment.
2. *Low Foreign Wages*: restricting imports produced by foreign workers who receive lower wages "levels the competitive playing field" compared to domestic goods produced by higher paid domestic workers.
3. *Infant Industry*: if foreign imports compete with a relatively young domestic industry that is not mature enough nor large enough to benefit from economies of scale, then import quotas protect the "infant industry" while it matures and develops.
4. Unfair Trade: the foreign imports might be sold at lower prices in the domestic economy because foreign producers engage in unfair trade practices, such as "dumping" imports at prices below production cost. Import quotas seek to prevent foreign producers such activity.

5. *National Security*: import quotas can also discourage imports and encourage domestic production of goods that are deemed critical to the security of the national economy.

While **import quotas** and other foreign trade policies can be beneficial to the aggregate domestic economy they tend to be most beneficial, and thus most commonly promoted by, domestic firms facing competition from foreign imports. Domestic firms benefit with higher sales, greater profits, and more income to resource owners. However, by increasing domestic prices and restricting accessing to imports, foreign trade policies also tend to be harmful to domestic consumers (Kozak, Y. and Gribincea, A., 2016).

The difference between a quota and a tariff is that with a quota, the government receives no revenue. When a quota instead of a tariff is used to restrict imports, the sum of money that would have appeared with a tariff as government revenue is collected by whoever receives the import licenses. License holders are thus able to buy imports and resell them at a higher price in the domestic market. The profits received by the holders of import licenses are known as quota rents. In assessing the costs and benefits of an import quota, it is crucial to determine who gets the rents. When the rights to sell in the domestic market are assigned to governments of exporting countries, as is often the case, the transfer of rents abroad makes the costs of a quota substantially higher than the equivalent tariff.

Economic results of the introduction of quotas are as follows (G. Gandolfo and Federico Trionfetti, 2014)**:**

- 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;
- 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 the direct source of monopoly profits; they always increase the incomes of producers of import-substituting products; they restrain the import competition (tariffs usually permit it).

Example

Consider, one hypothetical country, the United Provinces of Csonda might be inclined to make use of quotas on foreign imports. Csonda, like any real world sovereign nation, is inclined to implement import quotas and other foreign trade policies that are designed to increase net exports. In particular, Csonda has decided to restrict the sales of one particular good - sundials. The principal target of Csonda import quotas is the Republic of Northwest Queoldiola, which coincidentally has a comparative advantage in Sundial production (G. Gandolfo and Federico Trionfetti, 2014).

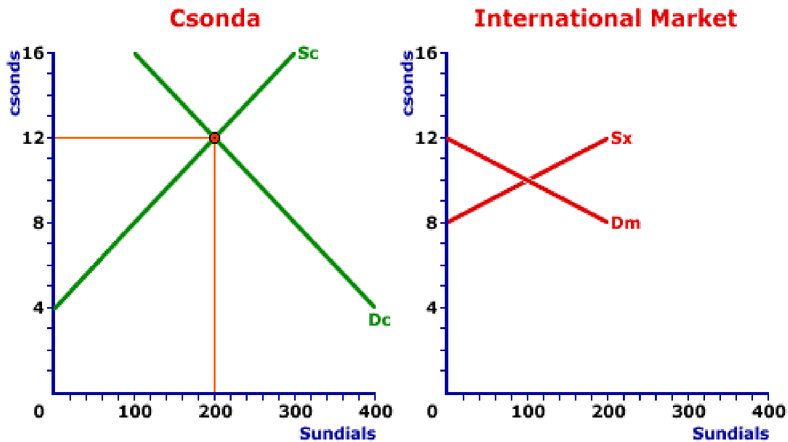

Figure 7.1 - Domestic and international markets

The left panel in this exhibit (figure 7.1) contains the domestic Csondan market for sundials. The domestic market demand is represented by the negatively-sloped demand curve, labeled Dc. The domestic market supply is represented by the positively-sloped supply curve, labeled Sc. In the absence of imports, the domestic Csondan market achieves equilibrium at a price of 12 csonds (which is the domestic currency in Csonda). The quantity exchanged at this equilibrium is 200 sundials.

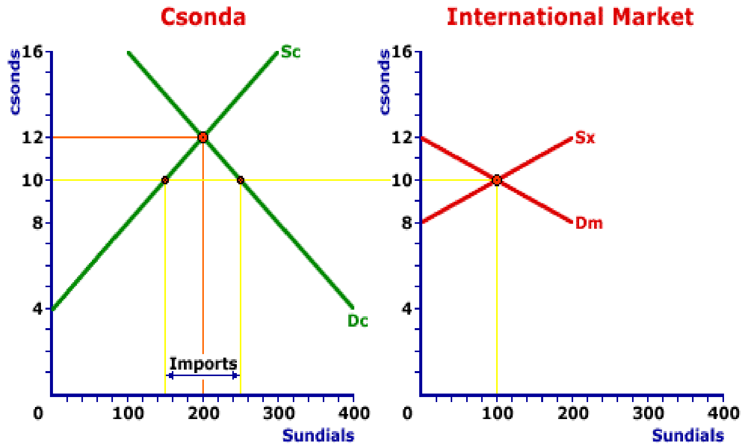

Figure 7.2 - Imports

Imports of Queoldiolan sundials changes this domestic equilibrium (figure 7.2). The right panel presents the international market for sundials. The import demand curve, labeled Dm, is the shortage derived from the Csondan sundial market for prices less than 12 csonds. The export supply curve, labeled Sx, is based on the surplus generated by the Queoldiolan sundial market (not shown) for prices above 8 csonds.

The international market achieves a sundial price of 10 csonds such that Csonda imports 100 sundials from Northwest Queoldiola. The goal of the Csondan Sundial Manufacturers Association is to reduce the quantity of imports and to increase the price.

Suppose that the Csondan government imposes a quota on the importation of Queoldiolan sundials. In particular, let us say that it restricts imports to no more than 50 Queoldiolan sundials (G. Gandolfo and Federico Trionfetti, 2014).

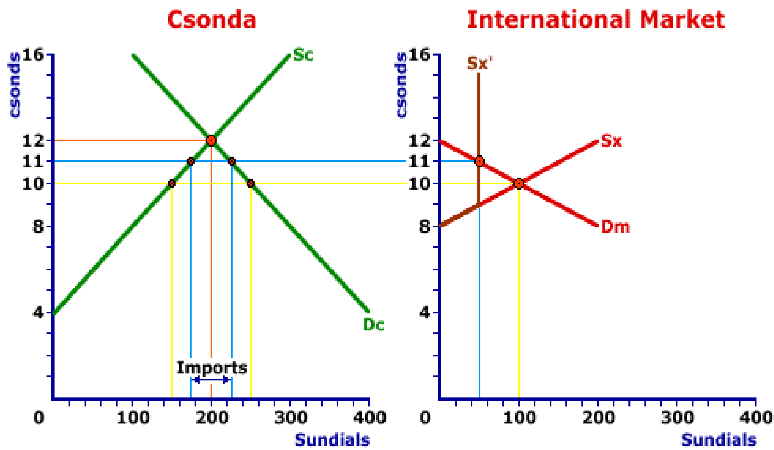

Figure 7.3 - Import quota

This import quota causes the export supply curve, Sx, in the international market to change (figure 7.3). Up to 50 sundials the current export supply curve is relevant. However, with the import restriction, the curve turns vertical at a value of 50 sundials. Queoldiola can not export more than 50 sundials to Csonda. The new export supply curve thus has two parts - positively sloped up to 50 sundials (a price of 9 csonds), then vertical for higher prices. This equilibrium is achieved at a price of 11 csonds and a quantity of 50 sundials. That is, Northwest Queoldiola exports 50 sundials to Csonda at a price of 11 csonds each (G. Gandolfo and Federico Trionfetti, 2014).

Some of the consequences of this quota are much as expected, others not:

1. First, with fewer imports entering Csonda from Northwest Queoldiola, domestic producers are able to increase their quantity produced. The domestic quantity of Csondan sundials produced increases from 150 to 175. However, the combination of domestic production and imports (175 plus 50) generates a smaller consumption quantity after the quota is imposed than before (225 versus 250).

2. Second, with these changes in quantity supplied and quantity demanded, the price increases from 10 csonds to 11 csonds, in accordance with the law of supply on the producing side and the law of demand on the consuming side.

3. Third, domestic Csondan sundial manufacturers produce a larger quantity (175 versus 150) at a higher price (11 csonds versus 10 csonds). As a result, more revenue flows to the domestic Csonda producers. They are definitely better off, which is just the result they were seeking.
4. Fourth, domestic Csondan sundial buyers consume a smaller quantity (225 versus 250), also at a higher price (11 csonds versus 10 csonds). They are paying more for sundials and receiving fewer sundials. As a result, they are worse off.
5. Fifth, unlike a tariff, the Csondan government does not receive any tax revenue.

An import quota eliminates some of the gains from trade generated by the exchange between Csonda and Northwest Queoldiola that prompted the trade in the first place. However, an import quota does make the domestic Csondan producers better off, even though this is at the expense of the domestic Csondan consumers.

Licensing. Quotas are imposed by government authorities through the issuance of licenses. A license is 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 (Kozak, Y. and Gribincea, A., 2016; Kozak Y.and Shengelia T., 2014).

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.

There are several types of licenses:

1) Depends on the type of rights which are certified in license (for export or import) there are:

- export licenses - the rights to export certain type of goods, which are subjected to quantitative restrictions or permitting procedure of export;
- import licenses - the rights to import certain type of goods, which are subjected to quantitative restrictions or permitting procedure of import.

2) Depending on the period, the license may be:

- general - open permission for export (import) operations as for designated product (products) or with defined country (group of countries) over the period of the licensing regime of this product (products);
- individual - permission for export or import of good within a specified period of time.

The hidden trade restrictions. The hidden types of trade restrictions with more than 100 titles are very important methods of trade policy. They allow countries to restrict exports or imports unilaterally. They include technical

barriers, internal taxes and charges, public procurements, local content requirements (Kozak, Y. and Gribincea, A., 2016; Kozak Y.and Shengelia T., 2014).

Technical barriers are the national standards of quality, economic requirements, medical restraints, packing and marking of goods requirements, requirements to implement the complicated customs formalities, laws of consumer protection etc. Technical barriers arise from the fact that national technical and administrative rules prevent from the imports of goods (Krugman P., 2012).

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

The sizes of internal taxes often exceed the value of the amount of import duties, and their rate can vary depending on the conjuncture of domestic market.

Public procurements. The policy within the government procurements 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 lie heavy on the taxpayers. The volumes of such purchases often reach 10-15% of the GNP of a country. The use of public procurement policy, in some extent, discriminates foreign suppliers.

Local content requirements. 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 to maintain the level of employment, as a result (Kozak, Y. and Gribincea, A., 2016; Kozak Y.and Shengelia T., 2014).

7.4 Financial Methods of Trade Policy

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 (Kozak, Y. and Gribincea, A., 2016).

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.

There the factors, which facilitate the implementation of dumping: differences in the demand for product in different countries; the presence of certain assumptions that allow the manufacturer to establish and dictate prices; trade barriers and high transport costs which allow the manufacturer to protect the foreign market, where he sells goods at low prices, from the domestic market, where the sale of goods may be provided at higher prices (International finance,2015).

Trade discrimination. The trade discrimination is associated with the existence of the import barriers that are discriminating, that is the level of customs taxation of goods and services of one country is higher than of the others. The main types of discriminatory barriers include trade blocs and trade embargo (Handel, 2014).

Trade blocks. The development of creating trade blocs increases the importance of trade discrimination. Trade blocs allow free trade between the member countries of any association and simultaneously establish the barriers against imports from countries that are not included in this bloc.

The economic blocs include free trade area, customs union, common market, economic union. In the free trade area all the barriers to trade between the member-countries eliminated, but each country retains its own barriers to trade with countries that are not members of this association. Customs union eliminates barriers to trade among the member countries, and provides a common trade policy towards countries outside the customs union. The common market has no trade barriers; it is characterized by the common external trade policy, but also provides the free movement of factors of production between the member countries. The member countries of economic union unify the monetary policy, taxation, public expenditures, and common currency, in addition to the free movement of goods, services and factors of production (International finance,2015).

Trade embargo. It is the prohibition of all trade transactions with certain states by one or more countries. Its purpose is to pressure the country for achieving political objectives and, consequently, to undermine economic welfare of a particular state and to deprive it from its markets.

The embargo applies to aggressive trade discrimination. Not only the traditional trade of goods may be restricted or prohibited, but also trade in services, intellectual products, capitals (prohibition concerning the giving of credits in several country) (Kozak, Y. and Gribincea, A., 2016).

Trade embargo may be classified according to the following criteria (Kozak, Y. and Gribincea, A., 2016)**:** by the origin of the decision on the embargo: state and international embargo; by the volume of application: full or partial; by the object of influence: to export, to import or to transit; by the terms of use: in wartime, in time of peace; by the terms of action: for a fixed period, for an indefinite period; by the scope of products of trade: for one product (product group), several products (product groups), for goods, services and products of intellectual labor.

The consequence of the introduction of the **embargo** is the economic loss both for the country, that impose the embargo, and for the country, against which it is introduced (Deardorff's Glossary, 2010). Third countries, that are not party to the embargo, can obtain the additional gain. The volumes of prohibitions are very important. They show if the damage of "target" country will be sufficient to outweigh the loss of the country that initiated the embargo. For example, when country A decides to use embargo on export to country B, part of world export supply disappears in country B, its consumers feel the deficit of imported goods. The prices on imported goods grow. Country A has losses too. These losses are the differences between losses of producers and win of consumers and loss or excess of exports. Third countries, which do not take part in embargo, win because of additional sales at higher prices. Losses of the world in general are the losses of effective global trade (Kozak, Y. and Gribincea, A., 2016).

Trade wars. Trade discrimination is a feature of trade wars resulting from contradictions between the economic interests of the countries due to the various political reasons. Prevention ingress of goods of the certain country on the domestic market, unjustified increase in customs rates, the introduction of quotas, and use of dumping embargo may arise for the support of domestic producers and protection of national interests.

Trade wars are the conflicts of higher level of tension because they can easily be transformed into real fighting. Such conflicts require international efforts for their settlements. Trade wars may occur between individual country and trading blocs, between trading blocs, between one country and several countries, between two individual countries. There are the examples of outstanding trade wars (Kozak, Y. and Gribincea, A., 2016):

- "steel war", which began after the economic crisis in 1998 and still not finished now. The USA, Brazil, Russia, Ukraine, Japan and other countries participate in it. The reason of this war is the introduction by the USA of import duties on steel deliveries from most exporting countries. Not only American steel companies, but also ports, shipping, transport companies that specialize in delivery of imported steel to the country suffer

from this war. Total losses of all participants of this war were estimated at $ 10 billion;

- “meat war”, that took place between the US and the EU. Use of hormones by American beef producers for increasing the weight of animals was the reason of its war. The US undertook commitments in 1989 to export beef to Europe without hormones. However, the EU accused the US in violation of the agreement in May 1999. In response, the US raised duties on some European goods and going to raise duties on food products that were exported from the EU by 100%. The war ended in August 1999 via the WTO. Total losses of all participants of this war were estimated at about 1 billion dollars;
- ”banana war” was between the EU and the countries of Latin America (1991-2012). Europe opened its markets to producers of bananas from its former African colonies and gave them the opportunity to trade without duties, but Latin American banana exporters had to pay additional duties.

Self-control Questions:

1. What is the difference between free trade policy and protectionism?
2. What are the reasons for protectionist state intervention?
3. How can you determine the type of trade policy?
4. What are the types of duties?
5. What are the economic consequences of the introduction of duties?
6. What is the essence of the optimal tariff?
7. What is a quota and what are its types?
8. What are the specifics of licensing?
9. What is meant by "voluntary" export restrictions?
10. What are the hidden types of trade restrictions?
11. What are the financial methods of trade policy?
12. What are export credits used for?
13. What is the essence of trade discrimination?
14. What are the features of the development of customs and tariff regulation in Ukraine?
15. Whose interests the government should take into account first in determining its trade policy, the interests of producers or consumers?
16. Import and export tariffs are more common in developed ones countries or developing countries?
17. Which argument in favor of protectionism is the most important and why?
18. Why protectionism is so stable, despite the conditional economic validity of defense arguments?

Chapter 8 Supranational Level of International Trade Regulation

8.1 International Trade Organizations. The World Trade Organization (WTO)
8.2 United Nations Conference on Trade and Development (UNCTAD)
8.3 Organization for Economic Cooperation and Development (OECD)
8.4 International Trade Centre (ITC)

Key concepts: international trade organizations; the World Trade Organization (WTO); the General Agreement on Tariffs and Trade (GATT); United Nations Conference on Trade and Development (UNCTAD); Organization for Economic Cooperation and Development (OECD); International Trade Centre (ITC).

8.1 International Trade Organizations. The World Trade Organization

International trade organizations have enormous power in the global trade environment.

Trade organizations are associations that countries establish to liberalize trade among member countries through voluntary participation. Treaties like the NAFTA aim to liberalize trade between member countries smoothly. Trade organizations are established for specific purposes. The aim is to help its members enjoy various economic benefits.

Major trade organizations are:

1. World Trade Organization (WTO)
2. United Nations Conference on Trade and Development (UNCTAD)
3. Organization for Economic Cooperation and Development (OECD)
4. International Trade Centre (ITC)

1. The World Trade Organization.

The World Trade Organization (WTO) is a global organization that helps countries and producers of goods deal fairly and smoothly with conducting their business across international borders. It mainly does this through WTO agreements, which are negotiated and signed by a large majority of the trading nations in the world. These documents act as contracts that provide the legal framework for conducting business among nations. There are several groups within the WTO, with the highest decision-making authority going to a group known as the Ministerial Conference, which can make decisions on all matters and trade disputes among members.

History. The WTO was officially created in January of 1995 and essentially replaced the General Agreement on Tariffs and Trade (GATT), which had been in force since 1948, a few years after the Second World War. Before the WTO was created, an initiative to start something similar known as the International Trade Organization (ITO) took place. Unfortunately, the ITO treaty was not approved by the U.S. and a few other countries and ultimately never went into effect.

In the 1980s, as the world economies became more global in trade and business, it became evident that GATT was not built or structured to address many of the new global trading challenges that were arising. As a result, the biggest trade negotiating event on record began in 1986. It was known as the Uruguay Round, seeing as it took place in Punta del Este, Uruguay. One of the final accomplishments of this round was the creation of the WTO (World, 2004).

Contrary to the temporary nature of GATT, WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries. It achieved the international status like IMF and IBRD, but it is not an agency of the United Nations Organization (UNO).

Structure. The WTO has 164 members (2016) accounting for over 97% of world trade. Around 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments (World, 2004).

The WTO's top level decision-making body is the Ministerial Conferences which meets at least once in every two years. Below this is the General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body (The World Trade, 2019).

At the next level, the Goods Council, Services Council and Intellectual Property Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements (The World Trade, 2019).

The important objectives of WTO are:

1) To improve the standard of living of people in the member countries.

2) To ensure full employment and broad increase in effective demand.

3) To enlarge production and trade of goods.

4) To increase the trade of services.

5) To ensure optimum utilization of world resources.

6) To protect the environment.

7) To accept the concept of sustainable development.

The main functions of WTO are discussed below:

1) To implement rules and provisions related to trade policy review mechanism.

2) To provide a platform to member countries to decide future strategies related to trade and tariff.

3) To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

4) To administer the rules and processes related to dispute settlement.

5) To ensure the optimum use of world resources.

6) To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

WTO Agreements.

The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATI).

GATT is now the WTO's principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement and trade policy reviews.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each country promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments (World Trade, 2004):

1) Goods: it all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers; the text of the General Agreement spelt out important, rules, particularly non-discriminations since 1995, the updated GATT has become the WTO s umbrella agreement for trade in goods.

It has annexes dealing with specific sectors such as, agriculture and textiles and with specific issues such as, state trading, product standards, subsidies and action taken against dumping (International finance, 2015).

2) Services: banks, insurance firms, telecommunication companies, tour operators, hotel chains and transport companies looking to do business

abroad can now enjoy the same principles of free and fair that originally only applied to trade in goods.

These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors, they are willing to open for foreign competition and how open those markets are.

3) Intellectual Property: the WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information such as trade secrets "intellectual property" should be protected when trade is involved.

4) Dispute Settlement: the WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore, for ensuring that trade flows smoothly.

5) Policy Review: the Trade Policy Review Mechanism's purpose is to improve transparency, to create a greater understanding of the policies that countries are adopting and to assess their impact. Many members also see the reviews as constructive feedback on their policies (World Trade, 2004).

All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO Secretariat.

Hence, the WTO is one of the most powerful and controversial legislative bodies in the world. Ideally, *the purpose of the WTO* is to facilitate free trade while helping governments meet social and environmental goals.

Advantages:

1, WTO trading system helps to keep the peace.

This sounds like an exaggerated claim, and it would be wrong to make too much of it. Nevertheless, the system does contribute to international peace, and if we understand why, we have a clearer picture of what the system actually does.

The short-sighted protectionist view is that defending particular sectors against imports is beneficial. But that view ignores how other countries are going to respond. The longer term reality is that one protectionist step by one country can easily lead to retaliation from other countries, a loss of confidence in freer trade, and a slide into serious economic trouble for all – including the sectors that were originally protected. Everyone loses. Confidence is the key to avoiding that kind of no-win scenario. When governments are confident that others will not raise their trade barriers, they will not be tempted to do the same. They will also be in a much better frame of mind to cooperate with each other. The WTO trading system plays a vital

role in creating and reinforcing that confidence. Particularly important are negotiations that lead to agreement by consensus and a focus on abiding by the rules (Kushnir, 2014).

2. The system allows disputes to be handled constructively.

As trade expands in volume, in the numbers of products traded, and in the numbers of countries and companies trading, there is a greater chance that disputes will arise. The WTO system helps resolve these disputes peacefully and constructively.

3. A system based on rules rather than power makes life easier for all.

Decisions in the WTO are made by consensus. The WTO agreements were negotiated by all members, were approved by consensus and were ratified in all members' parliaments. The agreements apply to everyone. Rich and poor countries alike have an equal right to challenge each other in the WTO's dispute settlement procedures.

There are matching benefits for larger countries. The major economic powers can use the single forum of the WTO to negotiate with all or most of their trading partners at the same time. This makes life much simpler for the bigger trading countries. The alternative would be continuous and complicated bilateral negotiations with dozens of countries simultaneously. And each country could end up with different conditions for trading with each of its trading partners, making life extremely complicated for its importers and exporters. The principle of non-discrimination built into the WTO agreements avoids that complexity. The fact that there is a single set of rules applying to all members greatly simplifies the entire trade regime. And these agreed rules give governments a clearer view of which trade policies are acceptable.

4. This organization gives consumers more choice, and a broader range of qualities to choose.

5. Trade raises incomes.

Lowering trade barriers allows trade to increase, which adds to incomes – national incomes and personal incomes.

6. Trade stimulates economic growth, and that can be good news for employment

Trade clearly has the potential to create jobs. In practice there is often factual evidence that lower trade barriers have been good for employment. But the picture is complicated by a number of factors. Nevertheless, the alternative -protectionism-is not the way to tackle employment problems (World Trade, 2004).

Disadvantages:

1. The WTO is Fundamentally Undemocratic.

The policies of the WTO impact all aspects of society and the planet, but

it is not a democratic, transparent institution. The WTO rules are written by and for corporations with inside access to the negotiations. For example, the US Trade Representative gets heavy input for negotiations from 17 "Industry Sector Advisory Committees." Citizen input by consumer, environmental, human rights and labor organizations is consistently ignored. Even simple requests for information are denied, and the proceedings are held in secret. Who elected this secret global government?

2. The WTO Will Not Make Us Safer.

The WTO would like you to believe that creating a world of "free trade" will promote global understanding and peace. On the contrary, the domination of international trade by rich countries for the benefit of their individual interests fuels anger and resentment that make us less safe. To build real global security, we need international agreements that respect people's rights to democracy and trade systems that promote global justice.

3. The WTO Tramples Labor and Human Rights.

WTO rules put the "rights" of corporations to profit over human and labor rights. The WTO encourages a 'race to the bottom' in wages by pitting workers against each other rather than promoting internationally recognized labor standards. The WTO has ruled that it is illegal for a government to ban a product based on the way it is produced, such as with child labor. It has also ruled that governments cannot take into account "non commercial values" such as human rights, or the behavior of companies that do business with vicious dictatorships such as Burma when making purchasing decisions.

4. The WTO Would Privatize Essential Services.

The WTO is seeking to privatize essential public services such as education, health care, energy and water. The WTO's General Agreement on Trade in Services, or GATS, includes a list of about 160 threatened services including elder and childcare, sewage, garbage, park maintenance, telecommunications, construction, banking, insurance, transportation, shipping, postal services, and tourism. In some countries, privatization is already occurring. Those least able to pay for vital services - working class communities and communities of color - are the ones who suffer the most.

5. The WTO Is Destroying the Environment.

The WTO is being used by corporations to dismantle hard-won local and national environmental protections, which are attacked as "barriers to trade." The very first WTO panel ruled that a provision of the US Clean Air Act, requiring both domestic and foreign producers alike to produce cleaner gasoline, was illegal. The WTO declared illegal a provision of the Endangered Species Act that requires shrimp sold in the US to be caught with an inexpensive device allowing endangered sea turtles to escape. The

WTO is attempting to deregulate industries including logging, fishing, water utilities, and energy distribution, which will lead to further exploitation of these natural resources.

6. The WTO is Increasing Inequality

Free trade is not working for the majority of the world. During the most recent period of rapid growth in global trade and investment (1960 to 1998) inequality worsened both internationally and within countries. The UN Development Program reports that the richest 20 percent of the world's population consume 86 percent of the world's resources while the poorest 80 percent consume just 14 percent. WTO rules have hastened these trends by opening up countries to foreign investment and thereby making it easier for production to go where the labor is cheapest and most easily exploited and environmental costs are low.

7. The WTO Hurts Poor, Small Countries in Favor of Rich Powerful Nations.

The WTO supposedly operates on a consensus basis, with equal decision-making power for all. In reality, many important decisions get made in a process whereby poor countries' negotiators are not even invited to closed door meetings – and then 'agreements' are announced that poor countries didn't even know were being discussed. Many countries do not even have enough trade personnel to participate in all the negotiations or to even have a permanent representative at the WTO. This severely disadvantages poor countries from representing their interests. Likewise, many countries are too poor to defend themselves from WTO challenges from the rich countries, and change their laws rather than pay for their own defense.

8. The WTO Undermines Local Level Decision-Making and National Sovereignty.

The WTO's "most favored nation" provision requires all WTO member countries to treat each other equally and to treat all corporations from these countries equally regardless of their record of accomplishment. Local policies aimed at rewarding companies who hire local residents, use domestic materials, or adopt environmentally sound practices are essentially illegal under the WTO. Developing countries are prohibited from creating local laws that developed countries once pursued, such as protecting new, domestic industries until they can be internationally competitive. California Governor Gray Davis vetoed a "Buy California" bill that would have granted a small preference to local businesses because it was WTO-illegal. Conforming to the WTO required entire sections of US laws to be rewritten. Many countries are even changing their laws and constitutions in anticipation of potential future WTO rulings and negotiations (World Trade,

2004).

Whether free trade and the WTO accomplish these goals is the subject of considerable debate. Some question whether free trade benefits wealthy nations and multinational corporations rather than communities and the environment. Further, approximately two thirds of WTO members are developing countries, and some of these countries are concerned that poor domestic infrastructure, political instability, and certain tariff arrangements disproportionately inhibit their abilities to engage in profitable trade. Critics also point out that a country's choice not to join the WTO may effectively place an embargo on the goods and services of that country (The World Trade, 2019; Dumoulin, 2017).

8.2 United Nations Conference on Trade and Development (UNCTAD)

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. It is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues.

The objective of UNCTAD is to reduce and eventually eliminate the trade gap between the developed and developing Countries, and to accelerate the rate of economic growth of the developing world.

The main functions of the UNCTAD are:

1. To promote international trade between developed and developing countries with a view to accelerate economic development.
2. To formulate principles and policies on international trade and related problems of economic development.
3. To make proposals for putting its principles and policies into effect, to negotiate trade agreements.
4. To review and facilitate the coordination of activities of the other U.N. institutions in the field of international trade.
5. To function as a centre for a harmonious trade and related documents in development policies of governments.

Activities. The important activities of UNCTAD include research and support of negotiations for commodity agreements; technical elaboration of new trade schemes; and various promotional activities designed to help developing countries in the areas of trade and capital flows.

8.3. Organization for Economic Cooperation and Development (OECD)

The OECD's origins date back to 1960, when 18 European countries plus the United States and Canada joined forces to create an organization dedicated to economic development.

The Organization for Economic Cooperation and Development (OECD) is a unique forum where the governments of 35 democracies with market economies work with each other, as well as with more than 70 non-member economies to promote economic growth, prosperity, and sustainable development. 35 Member countries span the globe, from North and South America to Europe and Asia-Pacific. They include many of the world's most advanced countries but also emerging countries like Mexico, Chile and Turkey.

The Organization provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies.

For more than 50 years, the OECD has been a valuable source of policy analysis and internationally comparable statistical, economic and social data.

OECD helps to ensure the environmental implications of economic and social development are taken into account. OECD's work is based on continued monitoring of events in member countries as well as outside OECD area, and includes regular projections of short and medium-term economic developments.

8.4 International Trade Centre (ITC)

The International Trade Centre (ITC) is the only development agency that is fully dedicated to supporting the internationalization of small and medium-sized enterprises (SMEs).

This means that the agency enables SMEs in developing and transition economies to become more competitive and connect to international markets for trade and investment, thus raising incomes and creating job opportunities, especially for women, young people, and poor communities.

Established in 1964, the International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

ITC's mission is to foster inclusive and sustainable economic development, and contribute to achieving the United Nations Global Goals for Sustainable Development. The ITC*'s* role can be presented as follows (Figure 8.1).

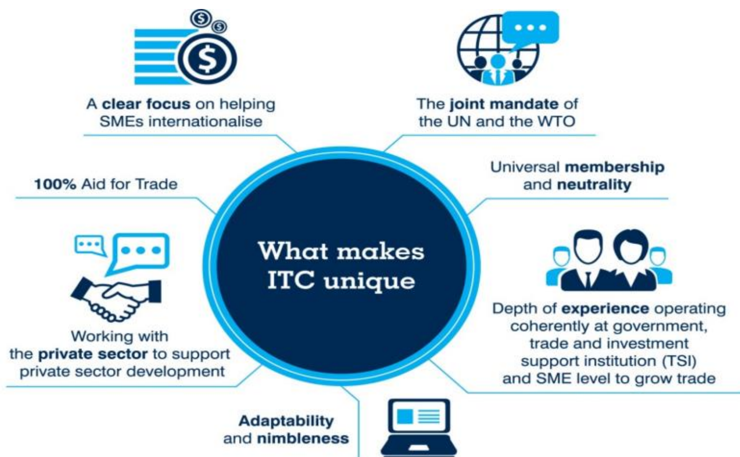

Figure 8.1 - The role of International Trade Centre* (World Trade, 2004)

*Source: International Organization, 2019.

As the joint agency of the United Nations and the WTO, ITC is the only multilateral agency fully dedicated to supporting the internationalisation of SMEs. Its joint mandate combines a focus on expanding trade opportunities with the aim of fostering sustainable development.

All UN and WTO members are governing members of ITC. The organization objectively and impartially carries out its technical assistance in support of the internationalisation of SMEs.

Depth of experience operating coherently at government, trade and investment support institution (TSI) and SME level to grow trade.

ITC has a strong record of accomplishment of connecting developing country businesses to value chains, building sustainable market linkages and delivering positive development outcomes. ITC's distinctive feature is to offer integrated solutions by building institutional, managerial and entrepreneurial capacities simultaneously at government, institutional and enterprise levels (International Organization, 2019).

ITC's focus is to facilitate SME success in international business. Having worked with SMEs for 50 years, ITC is familiar with the unique needs of SMEs, including women-owned enterprises, and has vast experience in improving their international competitiveness and connecting

them with markets.

All ITC's work is focused on Aid for Trade, an initiative that helps developing countries in building capacity and trade-related infrastructure to expand trade opportunities.

ITC brings together public and private sector actors to jointly contribute to a conducive business environment. ITC also works with the private sector to support its capacity as buyers, investors, and providers of technical assistance (World, 2004).

As a relatively small organization, ITC is able to rapidly shape its approach based on insights and perspectives of its beneficiaries and partners. This flexibility enables us to adapt to the changing needs of clients in a dynamic fast-paced international business environment.

Self-control Questions:

1. What is the main purpose and objectives of the WTO?
2. What are the results of rounds of trade negotiations?
3. Describe the system of WTO agreements.
4. How is the regulation of international trade in goods?
5. What are the features of the regulation of international trade in services? How influenced the international trade of Uruguay Round?
6. What are the main differences between the mechanisms and instruments of the WTO compared with GATT 1947?
7. What are the features of the practice of tariff and non-tariff instruments by WTO members to secure interests in the domestic and foreign markets?
8. How are national economic interests realized through procedures for negotiating and settling disputes?
9. What are the ways to enhance the institutional effectiveness of UNCTAD?
10. What is the role of ITC in the Trade Facilitation Program?
11. Describe the activities of ITC in Africa, Arab countries, Asia-Pacific, CIS and Southeast Europe, Latin America and the Caribbean.
12. What is a Model Law? Discuss the main points of Model Laws developed by UNCITRAL.
13. What is the difference between a Member State and an Observer State in UNCITRAL? What are the rights and responsibilities of the participating states?
14. What problems remain in Ukraine after accession to the WTO?

TESTS

1. A founder of Mercantilism was:
a) A. Smith;
b) D. Ricardo;
c) D. Hume;
d) T. Mann.
2. Mercantilism as a direction of economic theory has left the scene:
a) in the middle of the XVI century;
b) at the beginning of the XVII century;
c) at the end of the XVII century;
d) at the end of the XVIII century.
3. Name the author of "Research on the nature and wealth factors of nations":
a) D. Ricardo;
b) A. Smith;
c) F. Quesnay;
d) S. Fourier.
4. Theories of absolute and comparative advantages in the international trade has been developed by:
a) A. Smith and D. Ricardo;
b) R. Auden and D. Defoe;
c) J. Lo and S. Fourier;
d) A. Puergo and L. Feuerbach.
5. E. Heckscher and B. Olin were _____economists:
a) German;
b) French;
c) Swedish;
d) Italian.
6. The theory of competitive advantage was developed by:
a) M. Porter;
b) T. Rybchynsky;
c) R. Vernon;
d) E. Heckscher.
7. Specify a non-existent type of specialization:
a) subject matter;
b) general;
c) detailed;
d) technological.

8. The organization of economic cooperation and development covers the following countries:

a) industrially developed;

b) economically backward;

c) agricultural;

d) developing countries.

9. International classifications of goods do not include:

a) Harmonized System of Description and Coding of goods;

b) Standard International Trade Classification;

c) Classifier of goods by broad economic categories;

d) International Universal Classifier of Goods.

10. Valuation of exports and imports of goods at constant prices during the one period is called:

a) "special" trade;

b) "general" trade;

c) the physical trade volume.

11. If exports of goods and services are less than imports, then:

a) the current account balance is negative;

b) the trade balance is positive;

c) the balance of goods and services is negative;

d) the balance of services and non-commercial transactions is negative.

12. World (global) trade is calculated as:

a) the sum of the value of exports and imports of all countries;

b) the sum of the value of exports of all countries;

c) the sum of the value of exports, imports and transit of goods.

13. The volume of foreign trade turnover, taking into account the value of transit goods can bedefined as:

a) the physical volume of trade;

b) "general" trade;

c) "special" trade.

14. "Golden" trade period is considered among experts as the _____ stage of international trade development:

a) I;

b) II;

c) III;

d) IV;

e) V.

15. If trade exports exceed imports, then____:

a) the balance of payments is positive;

b) the current account balance is negative;

c) the balance of services is positive;

d) the trade balance is positive.

16. The concept of “trade terms” is understood as:

a) the difference between exports and imports;

b) the ratio of exports to imports;

c) the ratio of export and import prices;

d) the ratio of prices for agricultural products to prices for industrial products.

17. The country's export quota is calculated as:

a); $\frac{E}{GNP}$;

b) $\frac{E}{GNP} \cdot 100\%$;

c) $\frac{E}{GDP}$;

d) $\frac{E}{GDP} \cdot 100\%$.

18. International commodity agreements are___:

a) the methods of regulating the world market of raw materials;

b) the methods of regulating world markets for certain commodities;

c) the methods of regulating any world commodity market.

19. Modern forms of payment for licenses are:

a) advanced payment and profit sharing;

b) royalties and national payment;

c) transfer of securities and technical documentation.

20. "Normal" trade can be defined as:

a) trade with simple goods under short-term agreements;

b) trade between countries in the absence of an intergovernmental agreement on trade facilitation.

21. The license's object has the following features:

a) territorial limitations;

b) patent purity;

c) provide for the payment of tax for its issuance;

d) the possibility of monopolizing its use.

22. According to the specifics of regulation, trade can be distinguished into the following types:

a) traditional trade; most-favored-nation trade, preferential trade;

b) compensatory trade; discriminatory trade; preferential trade;

c) ordinary trade; most favored nation trade; discriminatory trade;

d) traditional trade; preferential trade; discriminatory trade.

23. Introduction of voluntary export restrictions:

a) raises the welfare of the importing country;

b) is more profitable for the importing country than the use of the import quota;

c) can bring benefits to the exporting country;

d) brings benefits to both the importing country and the exporting country.

24. Assume that country A imports products from countries B and C. Due to a political conflict, country B imposes an embargo on trade with country A, country C does not join the embargo. From the economic point of view, it can be argued that in this case:

a) country A loses and countries B and C win;

b) countries A and B lose and country C wins;

c) countries A and C lose and country B wins;

d) all three countries lose;

e) the total welfare of countries A, B, C will not change.

25. The use of production subsidies as a factor of supporting domestic producers:

a) leads to the same consequences for the welfare of the country as the use of the customs tariff on imports;

b) is more desirable in terms of impact on the welfare of the country than the introduction of an import quota;

c) leads to the fact that the volume of domestic production increases, imports decrease, and the domestic price increases;

d) is similar in its economic consequences to the use of export subsidies.

26. "Ad valorem" tariff is:

a) a duty on imported goods, defined as a percentagefrom its value;

b) a duty on imported goods, defined as absoluteof magnitude;

c) a duty on imported goods, defined as a combination ofthis percentage of its value and absolute value;

d) a value added tax.

27. "Autarky" is a policy aimed at:

a) in minimizing the dependence of the country's economy on countries;

b) in the abolition of tariff and non-tariff barriers in the international trade;

c) in the introduction of a single currency within the international economic association;

d) in deepening international economic integration.

28.A country engaging in trade according to the principles of comparative advantage gains from trade because it:

a) is producing exports indirectly more efficiently than it could alternatively.

b) is producing imports indirectly more efficiently than it could domestically.

c) is producing exports using fewer labor units.

d) is producing imports indirectly using fewer labor units.

e) none of the above.

29. The "specific" tariff is:

a) a tariff, measured as a percentage of the value of the imported the goods;

b) a tariff based on a fixed amount levied on imported goods;

c) a special credit limit for the buyer;

d) a quantitative restriction of exports.

30. Unit - dumping is:

a) the sale of goods on foreign markets at prices lower than domestic;

b) the sale of goods on foreign markets at prices below cost in order to oust from the market of domestic producers;

c) discrediting the price at its own expense;

d) there is no correct answer.

31. An "automatic" license is:

a) a single permit for export or import;

b) automatic permission to import or export goods without any quantitative limitations;

c) automatic permission to import or export goods only from certain countries;

d) automatic permission to import or export goods, provided that the exporter or importer has not received an official refusal.

32. The main functions of the export tariff are:

a) protectionist and balancing;

b) fiscal and balancing;

c) fiscal and protectionist.

33. According to the specifics of the subjects' interaction, trade can be:

a) ordinary trade; preferential trade; cooperation trade;

b) compensatory trade; preferential trade; discriminatory trade;

c) cooperation trade; ordinary trade; compensatory trade;

d) traditional trade; cooperation trade; counter trade.

32. Production not for the market in general, but according to the tasks and technical requirements of specific customers can be defined as:

a) sales cooperation;

b) production and sales cooperation;

c) production cooperation;

d) consortium's trade

33. The division of services into "transport, communication, utilities" is a subject to the following classification feature:

a) consumer services;

b) intermediary services;

c) distribution services;

d) no correct answer.

34. Under the terms of the calculations prices can be distinguished into:

a) prices: moving; variables; transfer;

b) prices: commercial transactions; clearing; assistance programs;

c) prices: commercial transactions; consumer; net prices;

d) prices: statistical; auction; stock quotes.

35. Long-term trade agreements include:

a) basic agreements; protocols; barter agreements based on a letter of commitment;

b) parallel agreements; full compensation; partial compensation;

c) barter agreements; direct compensation;

d) basic agreements; partial compensation; advance purchases.

36. The plurality of world prices are determined by:

a) the commercial nature of international agreements;

b) irregular implementation of foreign trade agreements;

c) protectionism;

d) global competition.

37. The reasons for the countertrade intensification include the following groups of factors:

a) of a commercial nature;

b) financial nature;

c) technological nature;

d) only a) and b) are correct;

e) all the abovementioned options are correct.

38. The total trade of the world can be considered as:

a) international trade;

b) world trade.

39. The protocols belong to:

a) barter and compensation agreements on a non-currency basis;

b) counter-purchases;
c) agreements with simultaneous supply;
d) long-term advance purchases.

40. The advantages of trade in disassembled products include:
a) the possibility of progressive harvesting;
b) high frequency of deliveries;
c) high quality products.

41. Consumer services include:
a) advertising services;
b) transport services;
c) tourist services;
d) medical services.

42. Full compensation relates to:
a) counter-procurement;
b) short-term compensation agreements;
c) long-term advance purchases;
d) global agreements.

43. The “hidden” discount is:
a) dealer discount;
b) discount for turnover;
c) free services;
d) discount to sales intermediaries.

44. The average turnover discount is:
a) 2-5%;
b) 20-40%;
c) 15-30%;
d) up to 15%.

45. Taxes equalizing the price level belong to:
a) border;
b) mobile;
c) compensatory;
d) special.

46. Taxes, the task of which is to urgently reduce the products' import in the domestic markets, belong to:
a) special;
b) mobile;
c) compensatory;
d) border.

47. Bilateral or tripartite trade agreements form:
a) the international level of international trade regulation;
b) the supranational level of international trade regulation;

c) the international level of international trade regulation;
d) the national level of international trade regulation.

48. Among the differences between brokerage and agency transactions can be:

a) the broker acts in his own name and at his own expense;
b) the broker is an independent person;
c) the broker carries out a large number of one-time transactions;
d) the broker may receive remuneration from both the seller and the buyer of goods and services.

49. The following “futures” contracts are not traded on the International Commodity Exchange:

a) for the goods and their derivatives;
b) hedging transactions;
c) for various interchangeable goods;
d) for the same product in different markets;
e) no correct answer.

50. At the preparatory stage of the auction ____does not take place:

a) inspection of the goods by buyers;
b) formation of lots;
c) sending a notice of the auction to sellers;
d) publication of the catalog.

51. The concept of "tender" does not include:

a) a comprehensive technical and commercial proposal;
b) a set of documentation;
c) an offer;
d) bargaining.

52. The import deposit implies that:

a) the seller must pay a certain amount in foreign currency as a percentage of the contract price;
b) the buyer must pay a certain amount in national currency as a percentage of the contract price;
c) the buyer must pay a certain amount in foreign currency as a percentage of the contract price;
d) no correct answer.

53. The subject of international bidding may be:

a) engineering consulting services;
b) goods with a high degree of standardization;
c) large consignments of goods;
d) construction and installation works;
e) goods with generic features.

54. Quotas are not:

a) cost restrictions imposed on imports of goods;

b) restrictions on the physical volume of exported goods;

c) cost restrictions imposed on the export of goods;

d) quantitative restrictions on domestically produced products.

55. International counter-agreements do not include the following agreements:

a) barter;

b) spot;

c) trade compensation;

d) industrial compensation.

56. For the price of a foreign trade agreement to become international, the following requirements must be met:

a) agreements should be carried out within integration groups;

b) agreements must be of a commercial nature;

c)transactions must be made in the national currencies of the counterparties;

d) transactions should be carried out regularly;

e) answers b) and d) are correct.

57. The subject of sale under engineering conditions can be:

a) technical documentation;

b) files of suppliers;

c) recommendations;

d) methods of personal sales.

58. The object of commercial "know-how" is:

a) technical documentation;

b) files of suppliers;

c) statistical calculations;

d) research protocols;

e) document flow;

f) all answers are correct.

59. The object of maritime transport insurance is not:

a) cargo;

b) vehicle;

c) freight;

d) insurance certificate.

60. _____doesn't belong to commercial forms of international technological exchange:

a) engineering;

b) licensed use of industrial property;

c) export of complete equipment;

d) labor migration of specialists.

61. Technology in the world economy cannot be transferred with the help of:

a) inventions;

b) trademarks;

c) utility models;

d) industrial designs.

62. The four basic rules of the GATT are:

a) protection of national industry only through tariffs; tariffs should be reduced and their further increase is prohibited; trade should be carried out under the most favored nation regime; national regime - for foreigners;

b) the possibility of applying an embargo; non-granting of national treatment to foreigners; trade should be carried out under the most favored nation regime; tariffs should be reduced or increased;

c) it is prohibited to reduce tariffs, but it is not prohibited to increase them; national treatment is provided selectively; national industry can be protected only by non-tariff methods; international trade is carried out under the most favored nation regime;

d) national industry can be protected only by tariffs; tariffs may increase; the most-favored-nation regime applies only to developing countries; the national regime does not apply to foreigners.

c) it is prohibited to reduce tariffs, but they are not prohibited raise; national treatment is provided selectively;

63. The Uruguay Round of GATT negotiations placed the burden of proof on the accuracy of the declared value of imported goods on persons -___:

a) importers;

b) exporters;

c) customs officers;

d) importers and exporters at the same time.

64. Under the GATT Customs Valuation Agreement, it is forbidden to determine the customs value of the imported goods with:

a) the contract value of identical goods;

b) the contract value of similar goods;

c) the deductive value of imported goods;

d) the inductive value of arbitrarily selected goods.

65. According to the Agreement on the Application of Sanitary and Phytosanitary, GATT measures may be used:

a) only under the most favored nation regime;

b) selectively;

c) if they do not deviate from internationally recognized standards;

d)if they provide weaker protection compared to international standards.

66. The Agreement on the Application of Sanitary and Phytosanitary Measures within the GATT allow them to be applied:

a) at any time on a temporary basis;

b) on a temporary basis as a precautionary step in case of risk of spreading diseases;

c) without taking into account the need to minimize the negative impact on international trade;

d) without taking into account alternative approaches to risk.

67. The Agreement on Technical Barriers to Trade and the Agreement on the implementation of Sanitary and Phytosanitary measures provide creation of "reference points":

a) in each country;

b) only in developing countries;

c) only in developed countries;

d) only in countries with transition economies.

68. The GATT rules do not allow countries to release exported goods:

a) from duties and other indirect taxes imposed on evidence that used and consumed in the production process;

b) from indirect taxes on the exported product;

c) from indirect taxes on production and distribution exported product;

d) from direct taxes (for example, income tax).

69. The GATT rules allow for the introduction of export restrictions to prohibit the export of:

a) all goods in order to avoid competition among exporters;

b) raw materials to stimulate national industrial development;

c) food and other vital goods, if this is aimed at preventing their critical deficit;

d) any goods.

70. Agreement on Subsidies and Balanced Measures under GATT the following types of subsidies allow:

a) export;

b) subsidies that give preference to the use of goods for national industry over foreign;

c) import;

d) subsidies provided by States to backward regions, rather than to the enterprises of these regions.

71. Trade between two countries can benefit both countries if:

a) each country exports that good in which it has a comparative advantage.

b) each country enjoys superior terms of trade.
c) each country has a more elastic demand for the imported goods.
d) each country has a more elastic supply for the supplied goods.
e) both C and D.

72. Suppose that prices in the free trade zone exceed the world level. The potential gain from joining the Free Economic Zones (FEZ) will be higher than:

a) the demand for imports in this country is more elastic;
b) the demand for imports in this country is less elastic;
c) the difference between the price level in the FEZ partner countries and the world price is smaller;
d) there is a greater difference between the level of prices in the FEZ partner countries and the world price;
e) answers a) and c) are correct.

73. Given the following information (in terms of unit labor requirements):

Country	Cloth	Widgets
Home	10	20
Foreign	60	30

a) neither country has a comparative advantage.
b) home has a comparative advantage in cloth.
c) foreign has a comparative advantage in cloth.
d) home has a comparative advantage in widgets.
e)home has a comparative advantage in both products.

74. In which case only the conditions of the auction are published in the auction catalog, when____:

a) the auction is public;
b) the auction involves the use of a price increase method;
c) the auction involves the use of an understated method of price;
d) the auction is permanent.

75. Who will benefit the most from "free foreign trade"?

a) consumers;
b) industries that compete with imports;
c) developing countries;
d) young industries.

76. Commodity exchanges are:

a) occasional retail markets for homogeneous goods;
b) permanent retail markets for homogeneous goods;
c) permanent wholesale markets for homogeneous goods;
d) permanent wholesale markets for various goods.

77. Transactions on exchanges are concluded by:

a) dealers;
b) distributors;
c) brokers;
d) auctioneers.

78. “Futures” are:

a) speculative agreements;
b) spot transactions with real goods;
c) forward agreements with real goods;
d) agreements in the field of intellectual property.

79. Auctions specialize in the implementation of:

a) mass raw materials;
b) real goods with clear individual properties;
c) services.

80. International bidding cannot be:

a) open;
b) closed (tender);
c) open with preliminary qualification;
d) closed with further qualification.

81. The establishment of free trade relations will lead to Argentina becoming an exporter and Brazil an importer. Trade will raise the general welfare of both countries. Which of the following statements most accurately identifies the population groups in both countries that will advocate for and against free trade:

a) consumers in both countries are in favor of free trade, producers in Argentina are in favor of free trade, and producers in Brazil are against;

b) consumers in both countries are in favor of free trade, producers in Brazil are in favor of free trade, and producers in Argentina are against;

c) producers in both countries - for free trade, consumers in Argentina - for free trade, and consumers in Brazil - against;

d) producers in Argentina and consumers in Brazil - for free trade, consumers in Argentina and producers in Brazil - against;

e) producers in Brazil and consumers in Argentina - for free trade, consumers in Brazil and producers in Argentina - against.

82. Industries oppose free trade competing with the importer because_____:

a) they are forced to increase production efficiency to remain competitive;

b) they lose sales to those consumers who prefer imported products;

c) they are forced to sell their products at lower prices because competition will intensify;

d) all previous options are correct.

83. Introduction by the country of a non-prohibitive customs tariff on imports:

a) always worsens the well-being;

b) always worsens the welfare of consumers in this country;

c) always brings additional benefits to producers in import-substituting industries;

d) always brings additional income to the state.

84. The actual level of customs protection in relation to the final product will increase if:

a) the rate of customs duties on imports of competing end products increases;

b) the rate of customs duties on imports of components of material costs increases;

c) the rate of customs duties on imports of components of material costs decreases;

d) a) and b) are correct;

e) a) and c) are correct.

85. The customs tariff on imports will raise the nation's welfare if:

a) it is introduced by a small country to protect against competition from a large country;

b) rates of customs duties on raw materials and supplies are lower than on final products;

c) the country introducing the tariff has a monopoly position as an importer;

d) the country, the import of which is subject to a customs tariff, has a monopoly position on the world market as an exporter.

86. The methods of forceful trade and political influence include:

a) an embargo;

b) “boycott”;

c) antidumping procedures;

d) blockade;

e) all of the above;

e) correct answers a), b) and d).

90. _____ can provide permission to export these goods from any country:

a) open general license;

b) ordinary general license;

c) automatic license;

d) open individual license.

91. An international cartel will have more opportunities to dictate favorable prices than:

a) the cartel will have a larger share in sales of this product on the world market;

b) higher elasticity of world demand for this product;

c) the elasticity of supplies of this product from alternative cartel sources will be lower;

d) correct answers a) and b);

e) correct answers a) and c).

92. "Pepsi" sells soft drinks in Ukraine. The Ukrainian government is introducing a high import tariff to protect domestic producers and increase the income tax for foreign companies. What measures should "Pepsi" take to reduce income taxes:

a) make direct investment and establish its own branch in Ukraine;

b) use inflated transport prices in payments for the supply of concentrate to Ukraine;

c) insure their investments, obtain guarantees from the Ukrainian and American governments.

93. The main difference between the WTO and the GATT____:

a) the WTO is the result of a multilateral agreement on a long-term basis in the absence of an institutional framework;

b) the WTO is a permanent institution with an extensive system of organs;

c) the WTO has an effective dispute resolution procedure, but operates on a provisional basis;

d) the WTO covers the sphere of trade in services.

94. The WTO Working Group begins working with the applicant country on the basis of:

a) Memorandum on trade regime;

b) Applications to the WTO Central Council;

c) Memorandum on trade regime and statements to the WTO Central Council;

d) Report of the applicant country.

95. The executive body of the WTO is:

a) Secretariat;

b) Council for Trade in Goods;

c) committees;

d) the Conference of Ministers;

e) no correct answer.

96. The Government Procurement Agreement was first concluded on ________ GATT Round:

a) Tokyo (VII);

b) Uruguay;

c) Dillon;
d) Geneva.

97. The GATT system corresponds to the _____economy:

a) command and administrative;
b) market;
c) transitional;
d) mixed.

98. The main types of foreign trade policies are:

a) protectionism - liberalization;
b) autarky - liberalization;
c) protectionism - "free trade".

99. The effectiveness of the import duty rate is determined by____:

a) its level (the higher - the better);
b) the ratio of prices for goods in the domestic and foreign markets;
c) both factors;
d) none of these factors.

100. A harmonized system of description and coding of goods has been developed by___:

a) the GATT;
b) the Customs Cooperation Council;
c) the UN.

GLOSSARY

A

Absolute advantage in connection with the international division of labor, this concept means ability countries produce certain goods with lower compared to other countries costs.

Accelerated tariff elimination is an accelerated abolition of customs tariffs-occurs by agreement between the States concerned in accordance with international agreements.

Acceptance is consent to payment (guarantee of payment) of goods (services) or to enter into an agreement on the proposed terms.

Acceptance credit - credit secured by bills of exchange. It can be received by commercial banks or foreign credit institutions in a particular bank to finance, in particular, import and export operations.

"Ad valorem" tariff - the amount of the tariff for imported goods, which is set as hundred parts of the declared value of the goods.

B

Balance of payments is the final difference between foreign exchange earnings and payments of a certain country for a year.

Balance of trade is the difference between the value of exports and imports of a country for the year.

Balance of trade deficit is the predominance of the value of imports of goods and services over the value of export in a particular country during the year.

Bilateral trade is a trade involving mutual supplies in order to achieve trade balance.

C

Capital export is the export of capital from a particular country, which is taken into account under the balance sheet, which fixes the international movement of capital.

Cargo insurance is an insurance that applies to the cargo being transported ships, aircraft and other modes of transport.

Carrier is a natural or legal person who provides transportation of passengers and cargoes.

Charter is a contract for the carriage of goods by sea or air, as well as passengers concluded between the owner of the vehicle (freight) and the lessee (charterer) for the lease of the entire vehicle or part for a specific flight or term.

Claims - complaint, statement of the buyer, filed due to non-performance or improper fulfillment of contract conditions.

Commodities - raw materials, goods include, for example, grain, coffee, cocoa, wool, cotton, jute, rubber ("soft goods"), metals and other solid raw materials ("hard goods").

Commodity agreement is an agreement of producer countries on the mechanism of regulation of prices and volumes of production of certain types of raw materials.

Commodity market is a market in which the purchase and sale of certain types of raw materials. The main commodity markets are located in London and New York, but some commodity markets are concentrated in the producing countries of these goods.

Commodity market is a physical or virtual marketplace for buying, selling and trading raw or primary products.

Commodity structure is formed under the influence of competitive advantages, which are available for the national economy.

Comparative advantage is the expediency of a country's exports of the goods it produces with relatively less cost.

Compensation agreement is an agreement on mutual supplies of goods of equal value.

Compensation duty is a duty levied in excess of the normal import duty, for example, to combat dumping.

Competitive list is a document on various technical and economic indicators and conditions of sale of exported or imported goods.

Concession is an agreement on the basis of which the government or local self-government bodies transfer, under certain conditions, to foreigners or other states the right to exploit forests, subsoil, enterprises, etc., as well as an enterprise organized on the basis of such an agreement.

Consignment is a form of commission sale of goods, according to which their owner (consignor) transfers to the commission agent (consignor) goods for sale from the commission agent.

Consignor is the owner of the goods, who sells them abroad through a commission agent (consignor).

Counter trade is a direct exchange of goods and (or) services from a certain country to other goods and (or) services from another country.

Counter trade means that the export-import operations are complemented by the adoption by the partners of counter obligations concerning supply (purchase) of agreed goods and services.

Currency is the currency of any country, banknotes of other countries, as well as credit and payment documents, which are expressed in foreign currencies and can be used in international calculations.

Currency reservation is the condition in the international contract to review the amount of payment is proportional to the change in the exchange rate of this contract.

Current account balance is the difference between the volume of exports and imports of goods, services and remittances of a country at a given time. It does not take into account transactions with financial assets and liabilities.

Custom declaration is a document that contains information about things that move across the border.

Custom duty is a tax levied by customs authorities in case of import of goods (usually imported) across the customs border of the country.

Custom tariff is a list of types of duties imposed by the government on exported and imported goods.

Custom valuation is estimation by the customs authorities of the value of imported goods in order to collect import duties.

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

D

Division of labor means breaking down production into small, interconnected tasks, and then allocating these tasks to different workers based on their suitability to undertake the task efficiently.

Domestic market is a market within a country's own borders and trading is aimed at single market. In such markets, firms face similar set of competitive, political, economic, social, market and technological issues.

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. Dumping is considered as a form of international price discrimination.

E

Export insurance is an insurance against the risk of non-repayment of the loan, as well as the obligation to pay instead of a foreign buyer.

Export license is a document that allows you to export certain goods in general abroad or to individual countries.

Export restraints are restrictions imposed by the exporting country on the export of goods to a particular country, mainly at the request of the latter.

Export subsidies are various forms of government payments and benefits provided to exporters in order to strengthen their competitive position in foreign markets.

Export subsidies are foreign trade policies undertaken by domestic governments that are intended to "protect" domestic production by restricting foreign competition. In general, a quota is simply a quantity restriction placed on a good, service, or activity.

Export tariff is a tax or duty on goods exported from a particular country.

Export value is the cost of goods offered for export.

Export-import operations are the main international trading operations which refer to commercial activities related to the purchase and sale of products that have material form.

External market is a mechanism for trading goods that are offered simultaneously to consumers in a number of countries.

F

Fair is a periodically operating market, allowing exhibitors-participants to exhibit the samples, exhibiting its production, demonstrate new developments and technical improvements for the purpose of direct trade agreements.

Foreign trade is exchange of capital, goods, and services across international borders or territories.

Forward contract - transactions on purchase and sale of foreign currency, securities at the agreed price for a certain date in the future.

Franchise in merchant shipping is the condition of insurance of the contract, which provides for the release of the insurer from damages, if they do not exceed a certain amount.

Free trade is a policy of state non-interference in the sphere of international trade (free trade). It is believed that international trade should be formed on the basis of free play of natural forces of supply and demand

Free trade policy means the minimum of state interference in foreign trade, which is developed on the basis of free market forces of supply and demand.

Free-trade area is a form of regional economic integration in which member states abolish reciprocal trade barriers while retaining the right to pursue an independent trade policy with respect to non-member states.

Freight - fees for the carriage of goods by water or for the use of vessels for a certain period of time, as well as cargo transported on a chartered vessel. The concept does not apply to luggage and mail.

Futures is a type of transactions on the stock or commodity exchange, certifying the obligation to buy (sell) the underlying asset at a certain time and on certain conditions in the future, with fixed prices at the time of the parties to the contract.

G

GATT - General Agreement on Tariffs and Trade, is the first multilateral economic agreement (concluded in 1947), which contains the rights and obligations of member countries to liberalize world trade in goods.

General export license is a license for those export goods that are not covered by a special export license.

Geographical structure of international trade is the distribution of the trade flows between countries and their groups, which are created on the territorial or organizational basis.

Gross domestic product (GDP) is the annual cost of the final product created in a particular country.

Gross national debt is a total government debt.

Gross national product (GNP) is a market value of all goods and services produced (provided) in a particular country during the year.

H

Harmonized Commodity Description and Coding System are international rules of classification and statistical information on goods entering international trade. Developed within the framework of the Customs Cooperation Council. Contains 21 sections, 96 chapters, 5019 positions.

Hedging is a sale of currency, goods through the conclusion of futures and futures agreements of the opposite content. As a result of any change in prices for merchants and sellers under one contract suffer losses, under another benefit; thanks to this technique, sellers and buyers do not incur losses from price increases (decreases).

I

Import leasing is the type of leasing under which equipment is purchased from a foreign company and leased to domestic enterprises.

Import license is a granted permit for a specified period to the relevant government agencies for the right to carry out certain import operations in banking, trade and other areas.

Import quota is a direct restriction on the quantity of some good that may be imported. The restriction is usually enforced by issuing licenses to some group of individuals or firms.

Import restrictions are measures (import deposits, licenses, quotas) used to reduce or regulate imports.

Import substitution is a policy aimed at reducing the export of goods by expanding their domestic production.

in the international market.

International bidding (tender) is a method of conclusion of sales and purchase contracts or a contract, under which the buyer (customer) announces a competition for sellers (suppliers) on the product (with pre-defined characteristics) and after comparison of the proposals the buyer signs a contract with the seller (supplier), who proposed product on the most favorable for the buyer (customer) conditions.

International commodity agreement is an agreement between producers of a certain product (usually raw material) to control its export in order to stabilize prices for the product.

International commodity auctions are specially organized markets that operate periodically in certain places. The sales of previously examined by purchaser goods, which become the property of a buyer, who offers the highest price, are carried out on the auctions by providing public biddings at pre-specified times and at specially assigned places.

International commodity exchanges are the permanent wholesale markets where purchase and sales operations take place, at first, on the mass raw and food qualitatively similar and interchangeable commodities (products in material form) and secondly, the "intangible" goods (financial instruments or contract of financial type).

International exhibition is the most effective tool for studying market conditions, finding potential customers, establishing business contacts and cooperation relations, establishing business cooperation, selection of potential investors and etc.

International importation license is an agreement on import of goods from a certain country in case of their re-export to a third country.

International leasing is a form of long-term operation that is associated with the transfer into use of equipment, vehicles and other movable and immovable property, other than land and other natural objects.

International tenders are organized mainly by the government organizations (ministries, purchasing organizations), municipal authorities, sometimes by large private firms, that provides them defined benefits: there is no need to create its own foreign trade unit, to carry out regular commercial and marketing activities; they have the opportunity to engage

large financial firms in trading, because firms must pay bail in the amount of 1-3% of the value of alleged agreement in order to get the right to participate in the auction.

International trade is the trade between residents of different countries and sphere of the international economic relations and is formed from the foreign trade in goods, services, products of intellectual labor of all world countries.

Invisible trade balance is a difference between the value of exports and imports by invisible items of trade, which include, in particular, freight and passenger transportation, insurance, banking and consulting services, sale of intellectual property rights, etc.

Invoice is a document issued by the seller in the name of the buyer to pay for the purchased goods, work performed or services provided.

L

Laisser-faire is a scientific concept, whose proponents believe that a market economy works best when there is no government intervention and the economy is regulated by market forces.

Leasing is a long-term lease of equipment, machinery, buildings, vehicles, usually with subsequent redemption. It is a way to finance investments and increase sales, based on the preservation of ownership of the goods by the landlord.

N

Net export of goods and services is the predominance of exports over imports in a given country.

Net foreign investment is the predominance of foreign assets over the country's liabilities.

Non-tariff barriers in the field of international trade, it means all barriers other than tariff barriers. For example, licensing, embargoes, phytosanitary standards, quotas, etc.

P

Parent company is the main company of a transnational company.

Payment's deficit is an excess of payments of the country over their receipts to the country.

Predatory dumping is a sale of goods in foreign markets at lower prices than in the market of the exporting country in order to oust from this market national and foreign competitors.

Preferential tariff is a tariff scale, which is characterized by preferential rates for goods imported from certain countries.

Primary commodities are goods that have not been subjected to primary processing.

Prohibitive tariff is a high tax on goods imported into the country, which is applied when the volume of the relevant goods exceeds the established limit.

Prolongation is an extension of the term of the contract, agreement, promissory note, loan, authority.

Promissory note is a debt obligation, document that the borrower gives to the lender when receiving a loan.

Protectionism is 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.

Protective tariff is a tariff scale, which is characterized by such duty rates that protect domestic producers from competition from foreign goods.

Q

Quantitative export restrictions are non-tariff methods of regulating international trade, which provide for the establishment of the volume of exported goods.

Quota is the volume of permitted exports or imports of certain goods.

Quotation determines the exchange rate of securities, foreign currency, goods.

R

Re-export is an export from the country of goods that were previously imported into it, without their processing.

Re-exports are exports of foreign goods in the same state as previously imported.

Re-imports are goods imported in the same state as previously exported.

Reserve currency is an internationally recognized currency used by many countries around the world to meet financial obligations to other countries.

Restrained exporter is a country whose government voluntarily (or rather, "forced voluntarily") restricts the export of its goods to another country or group of countries.

Restrictive business practice - actions of economic entities aimed at restricting the entry of other economic entities into the market.

S

Sanitary and Phytosanitary Regulations - state standards and other normative criteria established for the protection of human life and health, conservation of flora and fauna.

Sectoral trade agreement is a bilateral or multilateral international agreement relating to a particular sector of the economy.

Subsidiary is an enterprise controlled by the parent company.

Subsidy is the type of assistance provided by the government is mainly in cash, as well as in the form of tax benefits provided to domestic producers. Indirectly, this discriminates against importers who are not subsidized.

T

Technical barriers are the national standards of quality, economic requirements, medical restraints, packing and marking of goods requirements, requirements to implement the complicated customs formalities, laws of consumer protection and etc.

Technical trade barriers are various sanitary, phytosanitary, administrative, engineering and other norms (standards, rules, etc.) that interfere with the continuous movement of goods across state (customs) borders.

Tender in the economic sphere is a special form of placing orders for the supply of goods and contracts for the performance of works, which involves attracting proposals from several suppliers (contractors) in order to ensure the most favorable commercial and other terms of the agreement for the customer.

Terms of trade is the ratio between the prices of goods exported and imported by a particular country.

The balance of trade (BOT) is the difference between a country's imports and its exports for a given time period.

Time-charter is a ship lease agreement for a certain period.

Trade deficit is the predominance of the value of imports over the value of exports in a given country during the year.

Trade discrimination is associated with the existence of the import barriers that are discriminating, that is the level of customs taxation of goods and services of one country is higher than of the others.

Trade gap is the difference between the value of exports and imports of a country.

Trade preferences are special benefits provided by one state to another or one entity to another in trade, such as a reduction in customs tariffs.

Trading company is a firm that performs import and export operations.

Tranche - issues, series, part of a bond loan, designed to improve market conditions in the near future or intended to be placed on the loan markets of different countries. The loan terms are the same for all tranches.

Transfer price is a price used in international trade by enterprises of multinational corporations.

Turnover is the trading volume of the market or of a particular security.

V

Voluntary export quota is quantitative restrictions on the export of the relevant goods, set by the country voluntarily.

Voyage charter is a type of chartering related to the carriage of goods between these ports during one flight.

W

Warranty contract is a guarantee contract, a document that provides for the contractor's responsibility for the performance of the delivered products, its repair and replacement.

World price is a price at which a particular product is sold in international trade.

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