МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

НАЦІОНАЛЬНА МЕТАЛУРГІЙНА АКАДЕМІЯ УКРАЇНИ
NATIONAL METALLURGICAL ACADEMY OF UKRAINE

DOCE MELIORI

О.О. ЗАВГОРОДНЯ, В.М. ТАРАСЕВИЧ, О.В. ЗОЛОТАРЬОВА, Н.П. МАДЗІК
O.O. ZAVHORODNIA, V.M. TARASEVYCH, O.V. ZOLOTARYOVA, N.P. MADZIK

Міжнародна економіка
International economics

Друкується за Планом видань навчальної та методичної літератури,
затвердженим Вченою радою НМетАУ
Протокол №1 від 21.01.2019
Printed on the Plan of editions of educational and methodical literature,
approved by the Academic Council of NMetAU
Protocol No. 1 dated January 21, 2019

Дніпро НМетАУ 2019
Dnipro NMetAU 2019

УДК 339.9
UDC 339.9

Завгородня О.О., Тарасевич В.М., Золотарьова О.В., Мадзік Н.П. Міжнародна економіка: Конспект лекції (англ. мовою). – Дніпро, НМетАУ, 2019. – 60 с.
Zavhorodnia O.O., Tarasevych V.M., Zolotaryova O.V., Madzik N.P. International economics: Lecture Notes (in English). – Dnipro, NMetAU, 2019. – 60 p.

Містить зміст лекційного курсу та перелік рекомендованої літератури з дисципліни «Сучасна міжнародна економіка». Призначений для студентів спеціальності 051 – економіка та ін. (071, 072, 073, 076) (магістерський рівень).

Contains the content of the lecture course and the list of recommended literature on discipline "Modern international economy". Intended for students of specialty 051 – economics and others (071, 072, 073, 076) (master's level).

Друкується за авторською редакцією.

Reprinted by author's editors.

Відповідальний за випуск В.М. Тарасевич, д-р екон. наук, проф.

Responsible for the issue V. M. Tarasevych, Dr. Econ. Sciences, prof.

Рецензент К.Ф. Ковальчук, д-р екон. наук, проф (НМетАУ)

Reviewer K.F. Kovalchuk, Dr. Econ. Sciences, professor (NMetAU)

C O N T E N T S

Theme 1.
THE INTERNATIONAL ECONOMICS AS A SCIENCE

1. Evolution of International Economics as a science

2. The subject of international economics

3. Methods and functions of economics as a science

4. The role of studying the course "International Economics" under condition of transitional economy

1. Evolution of International Economics as a science

The earliest sources of information about international economic relations is displayed in ancient descriptions of trading agreements between states and their citizens, in myths and in works of different philosophers and poets.

It is necessary to allocate the following stages in the further evolution of international economics as a science.

<u>First stage.</u>

An accumulation of separate ideas, theories, concepts and hypotheses within the limits of economy and chrematistics, political economy, economics

The most important are:

- Mercantilist concepts of monetary and trading balance;
- A. Smith's and D.Ricardo's theory of absolute advantage comparative theory;
- K. Marx's theories about equivalent exchange;
- V. Lenin's Theory of Imperialism;
- Theory of factors of manufacture by E.Heckscher and B.Ohlin.

<u>Second stage.</u>

Origin and evolution of international economic knowledge as a independent part of fundamental economic sciences: Political Economy and Economics.

Political Economy - social and economic positions of socialist and capitalist public systems, their interactions and rivalry in the world economy.

Economics reflects functional aspects of international trade, movement of factors of manufacture and currency relations.

<u>Third stage.</u>

Allocation (in the middle of 20th century) and evolution of the international economics as an independent science based on works of well-known scientists such as O. Bogomolov, V. Leont’ev, M.Porter, J.Pahomov, T.Rybchinsky, P. Samuelson, J. Shirjaev and others.

<u>Modern macroeconomics schools</u> conventionally can be divided into three basic groups.

<u>The Neoclassical School</u>. Modern neoclassical economic theory follows the basic idea of general balance of aggregate demand and aggregate supply which allows us to explain the basic facts of macroeconomic interdependence. Its models are constructed on the assumption that the prices steadily create a balance between supply and demand, that the behavior of economic subjects is always at the optimum rate and that competition and the market are perfect. State intervention in the economy with the purpose of regulation is considered to be undesirable for the balance of supply and demand.

<u>The Neokeynesian's School</u>. Modern neokeynesian economic theory proceeds from the idea, that the explanation of regularities of macro economical fluctuations around a point of balance of supply and demand. The reasons for deviation from macroeconomic equilibrium and governmental mechanisms for returning the economic system to a state of equilibrium are the basic problems of macroeconomics. Serious economic problems (such as hyperinflation and cyclical unemployment) can’t be solved only with the help of free market, therefore government intervention is needed in the modern economy.

<u>The School of Rational Expectations.</u> The youngest school of macroeconomics, the Rational Expectations School explains the behavior of subjects of economic activities through the their ability to analyze and forecast the future behavior of other subjects (enterprises, governments, consumers and so on) and through the development of macroeconomic parameters (inflation, rate of exchange, rates of growth and so on). The current economic policy of government should be corrected the basis of varying expectations.

Any macroeconomic theory should be estimated from the point of view of how useful it is for economists, how effectively it helps to government to reach on questions, how useful it is for international organizations regulating economic policy in the world, or for separate companies and individuals.

Modern international economics unites theories and the models concerning all schools of economics mentioned above. For example, the theory of supply and demand of goods in external trade is based on the neoclassical school of international economics, study of the ways of regulating international trade from neokeynesian one, and detailed analysis of the monetary side from monetary one.

The basic way of development of international economics is the usage and integration of the best achievements of different economic schools which allow us to answer the practical questions.

2. The subject of the international economics

One of distinctive features of the world economy of the second part of the XXth century is the intensive development of international economic relations **(IER).** There is an expansion and deepening of economic relations between countries, groups of the countries, economic groups, separate firms and organizations. The mechanism of realization of IER is improved and reconstructed. These processes are shown as the deepening of the international division of labor, the internationalization of financial and economic connections, the globalization of the world economy, the increasing of the openness of national economies and the development and strengthening of regional international structures.

What is the theory of international economic relations, what does it study?

The subject of international economic relations includes the study of two major components: actual international economic relations and the mechanism of their realization.

International economics includes a multilevel complex of economic relations between separate countries, their regional associations and members, and also the separate enterprises (transnational, multinational - corporations) in the system of the world economy. International economics as a science deals with world economic relations but not with the separate national spheres.

The course of "International Economics" may be divided into the following sections:

1. The international division of labour.
2. International trade of goods and services.
3. The international movement of capital and foreign investments.
4. The international migration of the work force.
5. The international currency and credit relations.
6. The international economic integration.

Studying the theory and practice of **IER,** we collide with a such concept, as **world economy (WE)**. The world economy, being the objective basis of **IER,** is not the special object of studying the theory and practice of **IER.** By the way, some forms of international economic relations (for example exports & imports) existed before the creation of a globalized economy.

These relations carried an interethnic, parochial regional and nonsystematic character. With the development of the world economy, **IER** expanded and deepened the sphere of its existence, and acquired global character. Being based on specialization of different economies, **IER** is closely connected with them. But on the contemporary level **IER** has become an independent phenomenon submitting to own laws. International economic relations is the form of existence and development of the world economy, its internal mechanism.

3. Methods and functions of economics as a science

At first economic laws and categories are studied and they form the appropriate science by means of the systematic use of concrete research methods.

The method of abstraction is the major method of economic theory, which extracts the essence from the subject studied. Scientific abstraction is a general scientific method of cognition; its value grows, when the opportunity of experimental check upon the economic theory is excluded.

Method of the analysis and synthesis - the economic theory by means of analysis divides economic relations into their components and investigates each of these parts separately, the economic theory by synthesis recreates a uniform complete picture of the economic process (it takes place at any level, for example, this method is actively used at enterprises where each department has special functions and tasks).

The method of induction and deduction - by means of induction provides transition from studying isolated facts to general provisions and conclusions. Deduction (deducing) makes possible transition from the most general conclusions to rather individual ones.

The unity of the historical and logical approach reflects real social and economic processes in theory.

Unity of general and special as a method of the economic theory is based on the fact that in each studied process there are common features and unique ones.

Method of ascent from simple to complex: studying begins from the simplest, the lowest elements of the subject, and becomes more complex at each successive level of investigation.

Unity of the qualitative and quantitative analysis as a method of studying of economic relations makes it possible to study each phenomenon in complex relation to its qualitative and quantitative characteristics.

Also international economics uses some methods of other economic sciences.

1) **<u>Methods of Microeconomics are:</u>**
   - Subjective analysis
   - Method of statical and dynamic changes
   - Optimization and the marginal analysis
   - Equilibrium analysis
   - Economic-mathematical models
2) **<u>Methods of Macroeconomics are</u>**
   - Scientific aggregation
   - The factorial and quantitative analysis
   - Normative and positive analysis

International Economics is in process of developing its **own methods** and **approaches**. These are:

- Global approach
- Comparative analysis

International Economics as a methodological science carries out four interconnected functions:

1. Cognitive. Primary goals in cognitive function are :

a) It investigates and reveals the direction of economic growth,

b) Gives a scientific substantiation of a direction of transformation of the relations of a production,

c) Opens a direction in perfection of regulating economic mechanisms.

2. Methodological.

3. Practical.

4. Ideological or world view.

4. The role of studing the course "Internatonal Economics" under condition of transitional economy

1. Mastering of achievements of world economic science and world economic experience;
2. Forming of pre-conditions for effective foreign economic activity of national business units (household, private firms and corporations).
3. Forming and realization of effective government external economic policy.

Theme 2.
THE CONTEMPORARY WORLD
AND WORLD ECONOMIC ENVIRONMENT

1. The essence of the contemporary world.
2. Main spheres of the contemporary world.
3. The evolution of world market and international economy.
4. The ways of favourable environment formation.

l. The essence of the contemporary world.

The contemporary world is a diverse, contradictory and integral human society, the noosphere in the global meaning.

1.1. The ***world's diversity*** is expressed in the many-sided character of people, independent states, regions, countries and citizen associations which differ in national, geographical, political, ideological, social, economic and other features.

The increasing of world diversity is marked out as a tendency to the differentiation of forms, types and manifestation of public life. Its important feature is the appearance of new independent states and national economies.

1.2. The ***world's integrity*** as the interdependence and the unity of its various components features and signs is conditioned by such tendencies:

- **The integration of forms and types of public life**. Its manifestations are:

- The interpenetration of national economics;
- Social boundaries blurring;
- The levels of political culture of different peoples become closer;
- The formation of various interstate and international economic, political, social and other organizations.

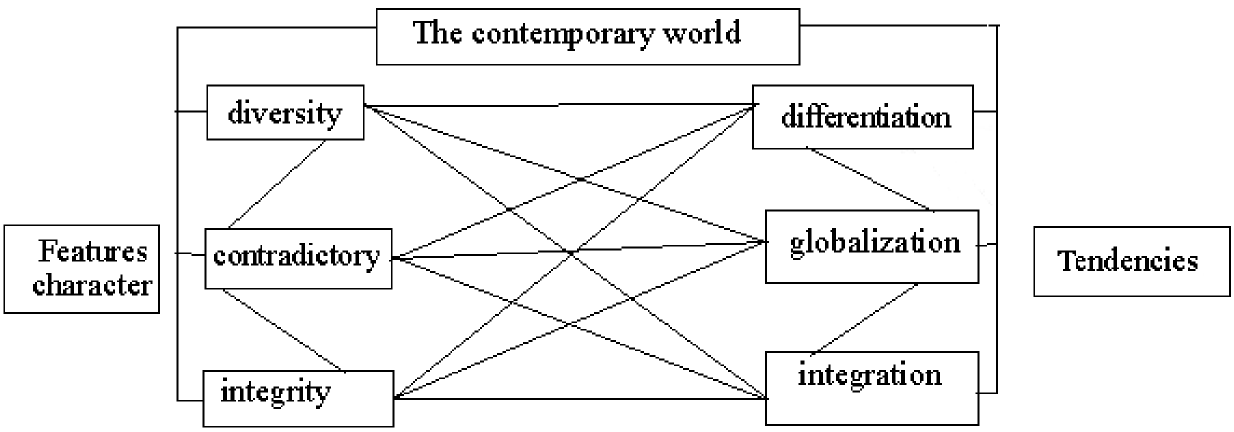
- **the globalization of noospheric processes** which is expressed in

- Society and nature co-evolution;
- Ecological imperatives and the boundaries of social-economic human development;

- A mound of global problems of the contemporary world -the formation of global economy and politics.

1.3. The ***contradictory character*** of the contemporary world is marked out not only by the existence and interaction of two "polar" features (diversity and integrity) and opposite tendencies (differentiation on the one hand, integration and globalization on the other hand) but also by the system of contradictions between

- States;
- State groups;
- National economies;
- National and world economies;
- World economic relations;
- The contemporary world spheres.



Picture 2.1. Structural connections between features and tendencies of the contemporary world.

2. Main spheres of the contemporary world.

Main spheres of the contemporary world are the economic, political, social, spiritual ones which mark out the functioning at the environmental and development of world economy.

2.1 **Political environment** involves such important components as

- *independent states* with the following characteristics:
  - governing forms (monarchy, republic);

- political regimes (democracy, authoritarianism, totalitarianism);
- organization forms (unitary state, federation, confederation);

- *various interstate formations* (e.g. UNO, EC, CIS)
- *political parties* and interstate party formations (e. g. Socialist International)
- *political process* including
  - -political attraction (elections, referendum, negotiations etc)
  - -political functioning (lobby, opposition etc)
  - -international policy
  - - international law.

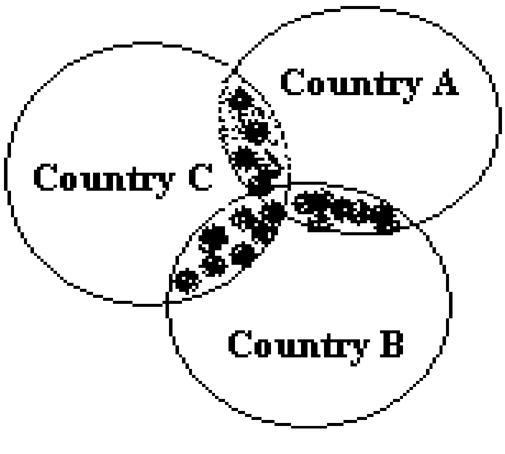
2.2. **Social environment** is characterized by the diversity of interconnected human layers, strata and groups (civil society institutions) according to the following features: demographic; racial; national; professional; religious etc.).

2.3. **Spiritual environment** is presented by the complex system of

- forms of public consciousness (scientific, aesthetic, ethical, moral, religious);
- types of cultures, traditions and genotypes of different people;
- institutes which service them (creative unions, scientific organizations, religious confessions, ethical norms and rules, national customs etc).

3. The evolution of points of view on world market and international economy.

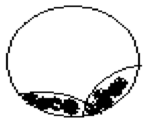
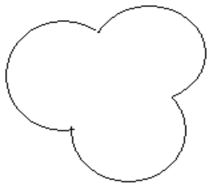
General Graph model:



Picture 2.2. Elements of General Graph model.

Table 2.1

The periods of formation of the international economy

Period	Graph Model	Contents of views on essence of national market and international economy
The Ancient Ages and the Middle Ages		**National market** is domestic market, part of which is oriented to foreign buyers.
XVI-XVII centuries.		**International market** is the parts of national markets which are connected with foreign markets
XIX - beginning of XXth century		**World market is** sphere of steady commodity and monetary relations between some countries, that is based on international distribution of factors of manufacture. **World economy** is totality of national economies and relations among themselves.
The second part of XXth century		**International economy** is the difficult complex system of national economies' correlations of national, interstate, overstate economic processes and institutes attending to them.

4. The ways of favourable environment formation.

The contemporary world demands significant changes and wise human interference directed to the formation of the most favorable environment for WE functioning.

Today it is necessary to make maximum efforts in order to ensure even more integrity of the world society by means of perfection of public life integration and noospheric process globalization.

Humanity should strive to minimize the contradictory features of the contemporary world. States and their national economies are to be developed so as not obstruct the natural course of WE functioning.

The world we live in is cruel and unjust. It encourages one people in every way possible and at the same time creates an inconvenient situation for the other peoples and neglects their interests.

The foundation of global politics and global economics will solve the problem of unfair discrimination races and peoples which places separate ethnic groups in more privileged position against than others.

One more important step on the way towards developing a progressive world society is the correction and the perfection of political, social and spiritual environment.

The state policy should always be open, predictable, transparent and as democratic as possible; people's interests should be placed in the first place.

Human mentality, its religion and culture determine people's behavior, their attitude to the things happening around them. Spiritual environment is the ethical human side and moral should be always remain moral, should be not violate permissible norms.

Human consciousness should be fully directed to the formation of a new type of international economic relations which ensure an even distribution of human goods, equal satisfaction of every individual's needs irrespective of the country where he lives, or religious, cultural and political positions he holds.

The contemporary world is movable and changeable, but it can not be developed by itself. The sound interference of both individual's, entire states and international formations is necessary in order to establish a kind of WE which would be the most acceptable and the most advantageous for everybody.

Theme 3.

THE INTERNATIONAL TRADE AND TRADE POLICY

1. Theories of international trade.

2. Export trade and revenue distribution.

3. Practice of international trade.

4. Instruments of a trade policy. Tariff and non tariff regulation of the international trade.

1. Theories of international trade

The epoch of great geographical discoveries defined the beginning of the period of the world trade and merchant capital. The absolute monarchies of Europe aimed at accumulating wealth which was identified as valuable (gold & silver) money. The representatives of Mercantilism attempted to enrich their countries by minimization of importation of precious metals, by maximizations of foreign removal (export) of the goods, and by maximization of importation of money.

In that epoch **protectionism** was predominant. It promoted the development of the national economy by its protection from foreign competition.

In epoch of industrialism[1] the greatest achievements of different nations were connected with the concept of free trade, (i.e. a free market and non-interference of the state in private enterprise activity.)

Trying to answer the question: “Why do countries trade with each other?” Adam Smith created the **theory of absolute advantages**. Each country should specialize in manufacturing those goods in the manufacture of which it has absolute advantage (the least absolute costs). The basis of the wealth of the nation is the division of labour when the country acquires absolute advantages above others.

D. Rikardo's concept of comparing advantages. Each country specializes in the manufacture of those goods on which its alternative total costs are rather lower, though the absolute costs may be sometimes higher than abroad.

[1] This was the period of active development of e machine manufacture, the establishment of plants and factories, and forming of national markets.

For example:

Table 3.1

D. Rikardo's concept of comparing advantages.

Country / Goods	Total cost of manufacture		Total product	
	England	Portugal	England	Portugal
Wool cloth	100	90	25m. of wool cloth	
Wine	120	80	50 l. of wine	

Comparative costs of wool cloth in Portugal = absolute costs of wool cloth unit/ absolute costs of wine liter = (90/25)/(80/50)=9/4= 2,25. Comparative costs of wine liter in Portugal = absolute costs of wine liter /absolute costs of wool cloth unit = (80/50)/(90/25) =4/9= 0,44.

Comparative costs of wine in England = absolute costs of wine liter in England / absolute costs of wool cloth unit = (120/50)/(100/25)=0,6. Comparative costs of wool cloth unit in England = absolute costs of wool cloth unit in England/ absolute costs of wine liter in England = (100/25)/(120/50) = 1,66.

Let's compare alternative (comparative) costs in England and Portugal: the wool cloth (0,6) is less than (2,25), wine (1,66) is more than (0,44). It's more expedient to produce cloth wool in England and wine in Portugal.

K. Marx's concept of international cost

International cost (which shows socially necessary inputs of work under average normal production conditions), as a rule is higher than cost of the goods in developed countries and lower, than cost of the goods in economically backward countries.

Heksher-Olin theory (the theory of factor proportions) has 3 basic postulates:

1. Countries export the products with intensive usage of surplus of factors of manufacture and import products with intensive usage of deficit factor of manufacture. A country is considered provided with soil resource for example if the ratio between its quantity and quantity of other factors in this country is higher than in the rest of the world.

2. International trade under conditions of perfect competition gives rise to the tendency to world leveling of the prices of economic resources.

3. Export of goods can be substituted by export of surplus factors of manufacture.

Leontief paradox .

Vasily Leontjev has decided to verify the Heksher-Olin theory on the basis of the practice of exports and imports in the USA which at that time was considered as the world economic center. It was supposed that the USA exported the capital-intensive goods and imported labor-intensive goods. The outcome of that investigation turned out to be unexpected. The relative abundance of capital in the USA was not reflected in the American export trade. The USA exported more labor-intensive and less capital-intensive production than it imported. This fact was named the «Leontief paradox».

For explaining the «Leontief paradox» the bases for "qualification of a labor" model were formed.

According to this theory in manufacture participate not three factors but four: labour, unskilled labour, the capital and ground. Relative abundance of professional staff and a highly qualified work force conduces to the export of goods which require skilled labor for manufacture. Abundance of unskilled labour stimulates the export of goods which don't need the highly qualified labor for manufacture.

Stolper -Samuelson Theorem.

The establishment of trade relations and a free market necessarily lead to the increase of benefit for the owners of an economic resource which is intensively used in production of goods with rising prices and to the reduction of prices of a resource which is intensively used in production of goods with falling prices of realization.

The theorem is about adjustment of prices on factors of manufacture. Export trade influences not only on adjustment of prices of goods, and on factors of manufacture so. Also it furthers the leveling of factors' revenue (wage, rental, interest so on) in countries involved in the trade relations irrespective of structure of demand and present factors of manufacture in each country.

Rybczynski Theorem.

Under conditions of constant prices and presences only two sectors in economy results of the extending supply of one of factors of manufacture is the disproportionate greater percent increasing of production and profits in that sector which uses this factor more intensively and in the declining in production and profits in sector which is using this factor relatively less intensively.

The new and newest theories of international trade.

Approach of S.Robok & K.Simmonds.

They attempted to analyze international trade items not of separate countries but international firms. Features of inter-firm trade (IT) are:

1. The main objects of inter-firm exchange are semi-finished products and parts which are used at final assembly of goods intended for the world market.
2. IT extends more faster between industrially developed countries where TNK are situated.
3. TNK carry out delivery of goods with the strategic purpose of direct investment or purchases of raw material according to the doctrine of comparative advantages.

S .Linder theory

Technological-difficult goods are formed by firm as reaction to already existing requirements of a home market. Only after a saturation of a home market does a firm aims to conquer a foreign market.

The theory of a cycle of life of a product of I.Kindelberger. Vernon, L.Uells.

1. USA companies export the latest goods.
2. Slowing-down of growth of the exports, development of home manufacture in the country which imports these latest goods.
3. Export of these goods to the USA where they drive out the American goods from home market because of low prime cost.
4. Increasing of exports to developing countries with following deliveries of goods from them to the USA.

The theory of international competitiveness of the nation by M. Porter.

Porter has developed a new approach to problems of the inter-firm trade. One of premises of this approach is: “On an international market firms compete instead of countries. It is necessary to understand, how the firm creates and retains competitive advantage to understand a role of country in this process".

Competitiveness of the nation depends on:

1. Parameters of factors of manufacture.

Each country to some extent has the factors of manufacture necessary for business activity of firms in any branch.

These factors are:

- human resources;
- natural resources;
- knowledge resources;
- money resources;
- infrastructure.

Hierarchy of factors:

- major factors
- developed factors
- general factors
- specialized factors

2. Conditions of demand.

Demand of a home market determines speed and introductions of innovations. It is defined:

- Structure of internal demand and buyer's preferences in volume and growth form on a home market.
- Internationalization of demand on a home market.

3. Technologically linked and supporting branches.

Technologically linked and supporting branches in which firms can execute influence among themselves in process of sales level's determination, for example computers and software..

4. Strategy, structure and contest of firms.

Firms are formed organized and managed depending on character of competition on a home market, thus different strategies and the purposes are created. National features influence on the management of firms and the form of competition between them.

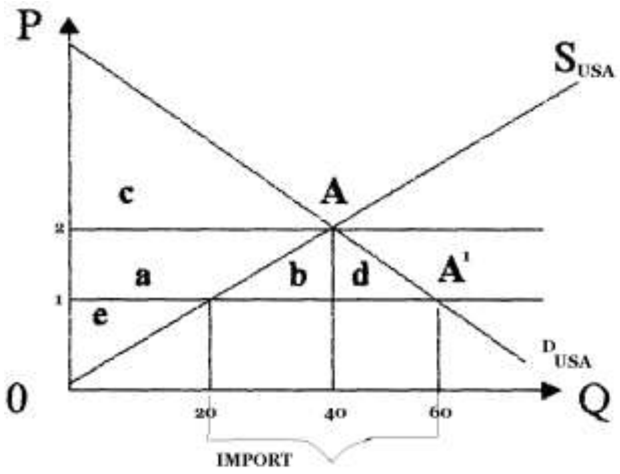
5. A role of an event (force-major events).

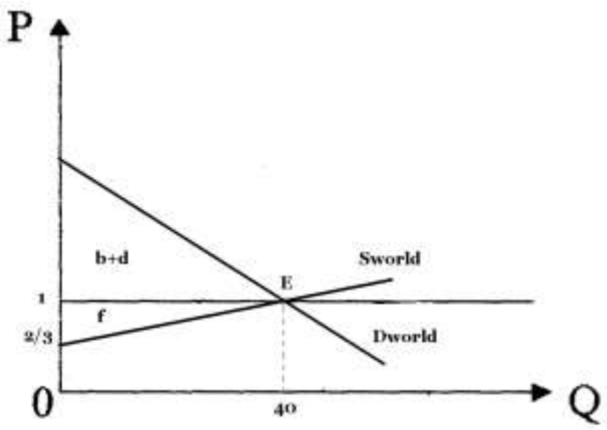
Event - is a case which has much common with conditions of development in country and which often neither firms, nor national governments can influence.

6. Role of government

The role of government consists of formation of national advantages on a large scale which works upon all determinants the set forth above.

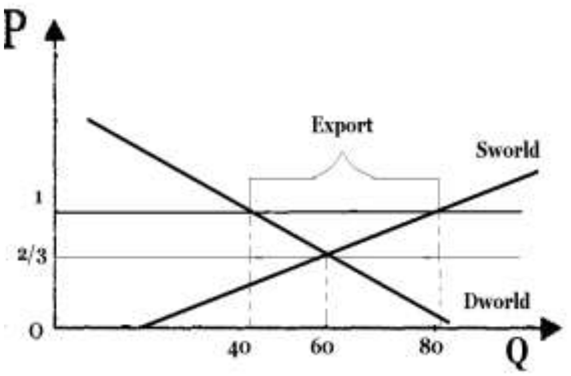
2. Export trade and revenue distribution.





3.1.a)The American market of wool cloth.

3.1.c) World trade of wool cloth before establishment of free trade



3.1.b) World trade of wool cloth under condition of free trade

Picture 3.1. Export trade.

Look at the picture 3.1.a.

Dusa, Susa are curves of supply and demand in the American market of wool cloth.

Before the establishment of international trade relations in the USA:

The area of triangle C is equal of consumers' rent.

The area of triangle (E+A) is equal of producers' rent.

A is the point of equilibrium in market of wool cloth. The price of equilibrium is 2, the level of sales in equilibrium state is 40.

After the establishment of international trade relations in the USA next changes have place:

The area of trapezium (C+A+B+D) is equal of consumers' rent.

The area of triangle E is equal of producers' rent.

A1 is the point of equilibrium in wool cloth' market under condition of free trade. The price of equilibrium is 1, the level of sales in equilibrium state is 60. (The home firms provide 20 units of market supply and foreign producers 40 others ones).

Table 3.2

Effects on the world trade market

Effects of	Before the establishment of international trade relations in the USA	After the establishment of international trade relations in the USA	Result (loss/ gain)
Consumers	C	c+a+b+d	+(a+b+d)
Producers	a+e	e	-a
Country overall	c+a+e	c+a+e+(**b+d**)	+(b+d)

For the world market of wool cloth (picture 3.b and picture 3.c):

Dworld, Sworld are curves of a supply and demand in the world market of wool cloth.

Before the establishment of trade relations

E is the point of equilibrium in world market of wool cloth. The price of equilibrium is 2/3, the level of sales in equilibrium state is 60.

After the establishment of international trade relations with the USA:

- Some producer of wool cloth is moving their goods to the American market where there are more advantageous conditions of sale.
- Prices are increasing and supply is extending.
- Demand is reducing.
- When prices in the American market and world market became the

equal (P=1) the surplus of wool cloth was formed in world market (80-40=40). This means export goods.

- Producers take addition of benefits because of the increase of sales at higher prices.
- Consumers lose the some benefits because of the rising of prices.
- Area of triangle **f** shows the result effect of international trade for rest of the world (outside the USA).

Rule of distribution of profits from trade: profit from international trade is distributed directly proportional to changes of the prices of the trading parties. Terms of trade are determined by the ratio of export prices to import prices in any given country:

$$\mathbf{T=P_x/P_m=\sum X_iP_i/\sum M_iP_i,} \qquad \mathbf{(3.1)}$$

Where are: P_x -index of export prices

P_m - an index of import prices

Xi- a lobe of each good of total cost of export in basis year

Mi-a lobe of each goods of a total value of imports in basis year

Pi- an index of price of goods i.

Exponent of export specialization of the factor (S, x/m):

$$\mathbf{S,\ x/m = (\Theta_{ex}-\Theta_{im})/\Theta_i,} \qquad \mathbf{(3.2)}$$

Where are:

Θex,- a part of the income of the factor i in a total cost of export

Θim – a part of the income of the factor i in a total cost of production competing to export

Θi – a part of the income of the factor i in total national income.

According to the influence of international trade on a country's economic dynamic the following kinds of economic growth can be distinguished:

- **Import- biased growth** - increase of factors which are intensively used in manufactures which are competing with imports.
- **Export-biased growth** favours the to development of world trade and can reduce the relative price of the exported goods.
- **Destructive growth**. Final deterioration of terms of trade puts economy in a less advantageous situation in comparison not only with the pattern version of investment in import-substituting branches and also with advantageous

version prior to the beginning of growth:

- Economic growth should be connected with the development of export-oriented branches.

- External demand for export of a country should be not flexible at price so that increase of proposal would result in the considerable reduction of prices.

- The volume of export trade of country should be great enough that negative consequences of deterioration of trade's terms have exceeded a scoring from deliveries.

3. Practice of international trade.

Forms of the international trade are:

- Exchange of consumer values by the way of productive assets and consumer goods.
- Exchange of technologies by the way of sales of licenses, patents, know-how.
- Trade in different high-tech services:
  - Technical consultations
  - Construction
  - Rent and leasing of the equipment
  - Processing and transferring of information
  - Examination projects
  - Making projects and construction of different objects.
- Without currency trade turnover:
  - compensatory agreements
  - clearing barter
  - parallel barter

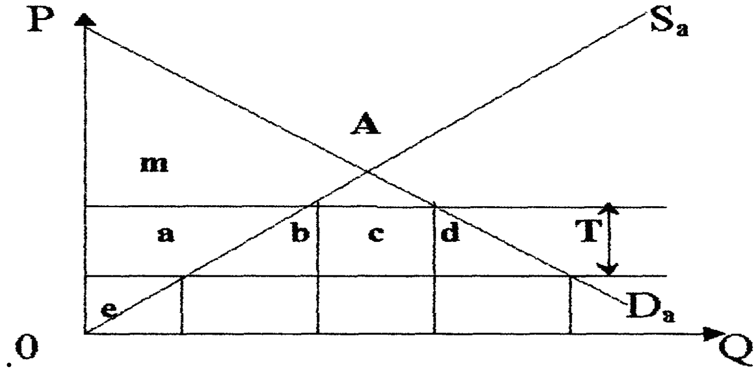
4. Instruments of trade policy.

Tariff and non tariff regulation of international trade.

Import tariffs (customs duty) - state money collections which are collected by customs organizations from the goods and property which is taken across the frontier.

If we tax foreign imports, they will more expensive to home buyers, who will switch to buying more home-produced goods. However, the danger is that other countries will retaliate, and tariff barriers will go up around the world. This will reduce world trade and in the end everyone will lose out.

Consequences of customs duty's removal are shown at picture 3.2.



Da is the curve of demand in a home market of bicycles.

Sa - curve of the supply in a home market of bicycles.

Picture 3.2. Import tariffs on the world trade market

Table 3.3

Implications of the impact of trade policy instruments

Effects	**Under conditions of tariffs' protection of home producers**	**Under conditions of free trade relations (without import tariffs)**	**Result (loss/ gain)**
Consumer (buyer) surplus	M	m+a+b+c+d	+(a+b+c+d)
Producer surplus	e+a	e	-a
State budget (income from import tariffs)	C	-	-c
Country overall	m+c+a+e	m+a+b+c+d+e	+(b+d)

E.g. area of two triangles **(b+d)** is equal to gains from abolition of import tariffs and establishment of free trade relations.

Import quotas - quantitative restriction of volumes of foreign production, allowed annually for importation in to a country.

Sometimes a country will limit the quantities of foreign goods entering it. This can be done by a voluntary agreement between trading countries, or by law. It can be avoid by foreign companies setting up factories in this country.

Discrimination in favour of imports within custom union is cancellation of all trade barriers for countries - participants of a custom union and establishment of import barriers to other countries.

Export grants (g**overnment subsidies)** - state stimulation of exports at the expense of the budget.

The government can give financial help to home companies to make it easier for them to sell their products at a lower price.

Antidumping tariffs are added import taxes with which are taxed the goods which are exported at the prices which are below the level of the world prices or domestic prices in the importing country.

Dumping occurs when a firm sells goods at lower price than in its home market. It's an illegal practice.

Exchange controls. In most countries the government-controlled central bank manages a central pool of foreign currency. If the government wants to cut imports, it will instruct the bank to limit the supply of foreign currency.

Promoting home-produced goods. The government might run a campaign encouraging citizens to buy their own, home-produced products.

Theme 4.
INTERNATIONAL MIGRATION OF LABOR FORCE

1. The origin of international migration, types and causes.
2. Economical consequences of the labor force migration.
3. Regulation of international migration processes

1. The origin of international migration, types and causes.

International migration of the labor force emerged many centuries ago; and as time went on it has changed greatly. The most active theoretical elaboration of the problems of international migration began in late 1960s. Their main idea is the international shift of the labor force as one of the manufacturing factors influencing the rate of economical growth; the cause of it is; differences in the salary rates of diverse countries.

Supporters of the neoclassical point of view, in compliance with which every man gets and consumes the utmost product of his own labor, think that immigration leads to the growth of welfare of the country to which the workers immigrate. And the economic development of the state, from which the emigration takes place, stays the same or at least does not become worse. The supporters of the neoclassical point of view suggested the possibility of of a country's economic situation worsening as a result of migration; especially if highly skilled workers emigrate. As a result of this occurrence the idea about taxing the "Brain drain" was widely discussed, the profits from which would be transferred to the Organization of United Nations and spent on development. In the past few years the accent of the migration analysis has moved towards research on the accumulation of human capital as an endogenous factor of a country's economic growth. Based on the fact, that the accumulated human capital is the most important prerequisite of the economic growth in this group of models, international migration is one of the explanations of the differences in the pace of economic growth between different countries.

There are two kinds of labor migration: internal migration of the labor force, which takes place inside the country, and external migration, which involves a few countries. The science of international economics deals with external migration of the labor force and its economic causes.

Main concepts, which are used during studying international migration, are as follows:

- **Migration of labor force** is a more than one-year resettlement of citizens from one country to another, which is caused by economic and other motives;
- **Immigration** is the moving of another countries' citizens into a specific country;
- **Emigration** is departure of citizens from one country to another;
- **Migration balance** is the difference between immigration inside the country and emigration out the country;
- "**Brain drain"** is international migration of highly skilled professionals;
- **Re-emigration** is coming back to the homeland country for permanent living.

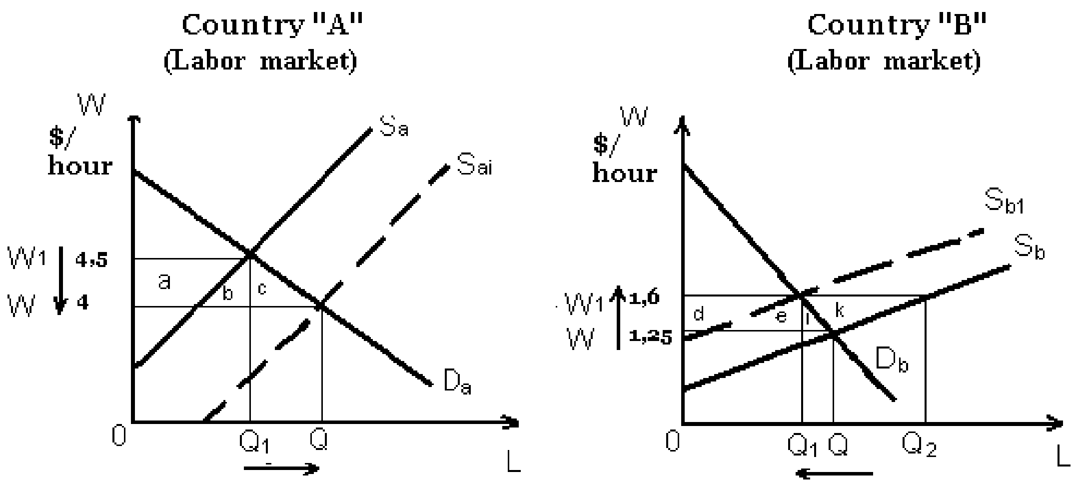
The causes of international migration of the labor force are:

- Tendency for the uniting of families;
- Unevenness of economic development and standards of living in different countries;
- National differences in salary;
- National peculiarity of unemployment level and occupational pattern;
- Concern of employers towards foreign employees.

Peculiarities are:

- Instead of «brain drain» when circulation occurs;
- Diversification of immigration tendency;
- Integration of higher education system.

2. Economical consequences of the labor force migration.



Picture 4.1. Economic consequences of labor force migration.

For instance, initial migration is not allowed and wage is $4,5 in country "A" and $1,25 in country "B".

W - wage (dollars per hour); L - amount of workers (millions of people);

S_a - supply of labour in the labour-market of country "A";

D_a - demand for working force by employers of country "A";

S_b - offer of labor in Mexico after emigration of workers;

S_{b1} - offer of labor in Mexico before emigration of workers;

Db - demand on labor in country "B" ;

When labor market of country "A" became open, the citizens of country "B" go to earn money in "A". In country "B" the labour supply decreases under conditions of constant demand and so the domestic wage level will increase. A new balance of labour market will become establish at wage 1,6$ her hour.

In country "A" situation is contrary: labour supply increases and wages decrease. Migration will end at a labor price of $4. So, the difference in the countries' wages is $2,4. There are additional migration expenses, which include economic expenses.

Table 4.1

Economical consequences of the labor force migration

Country “A”:		**Country “B”:**	
Effects for	**Result (loss/ gain)**	**Effects for**	**Result (loss/ gain)**
Employers	+(a+b+c)	Employers	+(a+b+c)
Workers	-(a+b)	Workers	-(a+b)
Country overall	+c	Country overall	+c

Market out gains and losses are new knowledge, a mixture of cultures, changing in expenditures for education, changing in domestic taxation budget incomes, social and race conflicts, overpopulation.

3. Regulation of international migration processes

Governmental regulation of international labor market is actions to limit an increasing foreign labor force (immigration) or actions to stimulate immigrants to come back to their homeland (remigration).

Selective method of regulation of immigration is filtering of unwanted immigrants on the basis of requirements that are made concerning the worker's level of proficiency, his education, age, state of health; quantitative and geographical limitation; direct and indirect prohibition on entering and other limitations.

The majority of the countries that accept immigrants use the <u>selective approach</u> when regulating immigration processes. Its idea is that the government does not prohibit those entering the country who are needed by this country.

The list of wanted immigrants varies in different countries. But usually they require to one of the following:

- The workers are ready to carry out hard, harmful, dirty, and unskilled job
for a minimal salary (workers in building, subsidiary, seasonal, and municipal fields);
- The specialist in new and rapidly developing branches (programmers, highly trained specialist, bank workers);
- Representatives of rare professions (diamond cutters, canvas

restorers,
doctors);

• Specialists with a world wide reputation (musicians, actors, scientists, sportsmen, doctors, writers);

• Big businessmen, who resettle their businesses to an accepting country, who invest capital and who create new jobs.

Governmental institutions from accepting countries deal with the problems of labor migration. The institutions operate in terms of national legislation and are based on signed two-sided and many-sided agreements.

There are at least three governmental departments for dealing with the problems of the immigration process:

- **Ministry of Foreign Affairs** that regulates by governmental administration of giving out entrance visas;
- **Department of Justice** that executes entrance regime regulated by the law;
- **Ministry of Labour** that watches for using of foreign labor force.

In the majority of countries entrance permission for an immigrant is signed contract with the employer about the immigrant's job placement; Ministry of Labor concludes that a job requires special skills or any other qualities and it cannot be done by local workers. In some countries before the entry permit of a potential immigrant is given out, his employer must get the consent of both the Ministry of Internal Affairs and the trade unions of the field. The legal basis for immigration in most of the accepting countries is represented by a huge quantity of laws and by-laws. The main characteristics of immigration legislation are the following:

- **Professional level of proficiency.** The legislation of all the accepting countries establishes strict requirements regarding the level of education and the record of service. The minimal requirement for the education is graduation out of school or college, which must be confirmed by a proper diploma. In most of cases the diploma has to be re-verified or to be estimated for its conformity to qualifications in the accepting country. The priority for hiring is given to specialists that have at least a 3-5 years record of service in their field.

- **Limitations on personal character traits.** The legislation of the accepting countries demands immigrants' good health. The country does not allow drug addicts, mentally diseased, and people with AIDS to enter. The immigrants are obligated to show a health certificate, which must be certified by the consular office of the accepting country, or to pass a special medical examination. The age requirement of the immigrants is established by the legislation regulating the branch of industry where those immigrants are going to work Usually it varies within 20-40 years of age. Finally, the legislation requirements have a great importance for the political and social aspect of the immigrants. Very often the legislation does not allow persons with a criminal history or members of terrorist organization and/or fascist organizations to enter.
- **Quantitative limitation.** The majority of the countries that accept immigrants set a maximal quantity for people that enter. Quantitative quotas, which determine the maximal share of the foreign labor force, may be set together in the context of the labor supply as a whole; in the context of separate fields that determine the maximal share of foreign workers in all of the workers in general; in the context of separate businesses that determine the maximal share of foreign labor force in one business; or just as a limitation on the general quantity of immigrants, who come in the country during a year. Quantitative limitation is a rather strict method of legislative regulation of the import of the labor force and is usually determined by appropriate laws. The legal machinery of the accepting country controls those laws.
- **Economic regulation.** Economic regulation introduces fixed financial limitations that provide reduction of the quantity of immigrants. As for juridical persons, in some countries firms have the right to hire foreign labor only after achieving a specific level of circulation and sales, or after paying some money to the country's budget. Private persons have the right to immigrate only if they are ready to invest an appointed quantity of money in the economy of the accepting country, prove the legal origin of the money they pay and to create a definite quantity of jobs. According to the legislation of some countries, the immigrants must pay for the legalization and placing in a job in a domestic business.

- **Temporal restrictions.** The legislation of most of countries sets the maximal terms for the foreign workers to stay inside the country. After the terms have expired, the immigrants should either leave the accepting country or get permission to extend their staying from competent authorities. Usually those, who had probational status or students, should follow strict rules, which do not allow prolonging of the staying. The rules demand a mandatory return to the homeland, staying there at least for a few years, and only after all those procedures do the immigrants get the right to come back to the foreign country.
- **Geographical priorities.** Almost every country, which accepts immigrants, legally sets a geographical and national structure of immigration; this is usually regulated with qualitative quotas regarding the entrance of the immigrants from some appointed countries. Sometimes in the context of the geographical quotas, to avoid accusations of racism and violation of human rights, some governments carry out lotteries for the right for representatives of different countries from one geographical region to immigrate.
- **Prohibition.** The professions, in the working of which foreigners are not allowed to take any part, are reckoned in the Job Placement Act (evident and concealed bans). In the evident ban the jobs and the fields, which forbid foreigners to work, are listed. And, on the contrary, the concealed bans set the list of the fields or specialties, in which only the citizens of the country can work. That cuts off the access for immigrants for those positions. Usually for any kinds of shifting of foreign personnel, changing the professions, or changing the place of work, the immigrant must get the permission of the immigration authorities, which may even refuse to give this. And it is clear that illegal immigration is forbidden and is persecuted by the police. The latter is not always effective. The sanctions for the violation of immigration rules are set by the legislation. They may be applied to migrants, as well as to those, who help them to get into the country illegally or who hire them. Illegal penetration into the country is considered to be a crime. Those who break the law are deported, fined or imprisoned.

Theme 5.
THE WORLD CURRENCY SYSTEM AND INTERNATIONAL PAYMENTS

1. The world currency system and its elements
2. Exchange market and currency transactions
3. International balance of payments

1. World currency system and its elements.

The world monetary system is a form of organization of currency- financial relations, fixed by international agreements which operates independently or maintains international motion of the goods and the factors of manufacture.

Currency system components are the national currencies, conditions of their mutual convertibility and reference, par of exchange, rates of exchange, national and international mechanisms of its regulation.

Basic elements of the world currency system:

1. National and collective stand-by monetary units
2. Gear of the pars of exchange and courses
3. Condition of mutual convertibility of currencies
4. Structure and frame of international liquid assets
5. Form of the international payments
6. Mode of an international exchange market and market of gold
7. Status of intergovernmental currencies on credit organizations adjusting currency attitudes.

The **reserve currency** is special category of the convertible national currency of a developed country, which executes functions of an international payment and stand-by means. It is a base for determining and regulation of parities and rate of other countries' currencies.

Forms the basis definition both regulation of parities and exchange of other countries are represented on table 5.1.

Now the basis of the parity's exchange is the ratio of the purchasing ability of separate currencies i.e. ratio of the price level on a comparable collection of the goods in the countries under comparison.

Table 5.1

The reserve currencies
(Currency structure of international reserves, %)

	1977	1995
US dollar	80.3	56,5
Pound sterling	1.5	3,4
German mark	9.3	13,7
French franc	1.3	1,8
Swiss franc	2.3	0,9
Dutch gulden	0,9	0,4
Japanese yen	2,5	7,1
ECU	0	6,5
Other currencies	1,6	9,7
All countries	100.0	100,CI

The rate of exchange - price of monetary unit of one country is expressed in monetary unit of other country.

Courses of exchange are divided on:

- Nominal
- Spot
- Actual
- Forward rate

The rate of exchange oscillates around the parity of exchange, depending on the different factors influencing the supply of currency and demand for it.

The factors are:

1. Status of currency. Is it is hard or soft. For hard: sometimes the parity of exchange is higher than the rate of exchange. For soft: the parity of exchange is lower than the rate of exchange. Demand for hard currency is great.
2. Dynamics of prices of goods and services, rate of inflation in the country, the rate of exchange in relation to the dollar etc. The parity of exchange oscillates, but its oscillations are less than oscillation of the course of exchange.
3. Difference of the interest rates in comparable countries.

Controlling factors influential on the rate of exchange:

1. Ratio of supply and demand of the given currency on an exchange market;
2. Situation of currency balance;
3. Level of the interest rates, which ones adjust to regulate a movement of capital;
4. Dynamics of the prices in the national market and inflation of expectation;
5. Speculative factor;
6. Political factor

Convertibility is the capacity of the national currency freely to interchange with currencies of other countries and back without direct interference of the state in the exchange processes.

According to degree of a currency's convertibility currency may be divided on:

1. A **freely convertible currency (FCC)** is a currency without limitation of exchange on any foreign exchanges.

2. The **particularly convertible or the clearing currencies** are currencies of countries that canceled the exchange restrictions not for all currency transactions or only for the non-residents.

The **clearing** is a system of the clearing settlements by offset of the mutual requirements and obligations.

3. **Self-contained or the inconvertible currencies** are those of countries, which maintain exchange restrictions on all currency transactions both for residents and for the non-residents.

According to limitation of a currency's convertibility currency is classified on an **internal and external**.

There are three stages in the formation and development of the world currency system:

1. **The stage of the gold standard** (Parisian and Genoa currency systems). Determining features of the system of the gold standard (beginning XIXth century – 30's of XXth century):

- Fixation of the gold contents of the national currencies;

- Direct convertibility of the national currencies to gold;
- Availability of fixed rates of exchange.

The **gold standard** was an international currency system, founded on official fixation by countries holding of the gold contents in the unit of the national currency, with the obligation of central banks to purchase and to sell the national currency in exchange for gold.

In the epoch of the gold standard that currency was converted which one could freely interchange for gold.

2. The stage of **the gold-currency standard** (Bretton-Wood currency system). Determining systems of the gold-value standard - Bretton-Wood currency system (40-70's XXth..):

- Retention of the role of gold as universal equivalent, means of payment way and unit of account in an international revolution;
- Definition of parities of currencies of all countries - participants in gold and US dollars according to their gold capacity (1ounce =35 dollars);
- To hold principles of the fixed rates of exchange;
- Installment transition to interdependent convertibility of all currencies of the countries - participants IMF (International Monetary Fund);
- Banning of free individual purchasing - selling of gold.

3. The stage of **the paper-currency standard** (Jamaican currency system). Determining features of a system of the paper-currency standard - Jamaican currency system (middle of XXth - the present moment):

- Complete removal of gold from international currency relations;
- Usage of collective international monetary unit S.D.R.(Special Drawing Rights) as main stand-by way of calculation and payment;
- Establishment of the "floating rates" for regime of exchange of national monetary units with saving of regulated elements of the system of currency relation with the help of the conforming operations on an exchange market (system of the regulated floating rates).

The main problems of functioning of current currency system are:

- What ratio of the new currencies should be?

- What is the role of S.D.R in new economic conditions?
- In connection with strengthening of three centers of gravity: Southeast Asia, Northern America and Eastern Europe, there is a problem of currency poles (centers).
- The problem of influence of process of globalization on exchange controls.

2. Exchange market and currency transactions.

The **currency market** is a system of steady economic relations between people in the process of operation of purchases - sales of foreign exchanges and payment documents in currency. On an exchange market there are currency bargains and exchange of one country's currency for the currency of an other country.

The subjects of a currency market:

- Business commercial banks;
- Separate companies, which make investments abroad;
- Private persons;
- Currency brokerage offices;
- Corporations, which execute external economic operations;
- Central (National or Federal) banks;
- Currency exchanges.

The main functions of an exchange market are:

- Currency-credit and computational service of export-import and currency transactions.
- Hedging or insurance of currency risks.
- Currency speculation is an activity of the participants of a currency market connected with receiving of maximum scoring from the currency bargains.
- Clearing.

On the world currency markets the banks carry out operations with the major currencies, which are widely used in a world payment circle. On the regional and national currency markets the operations with the concrete converted currencies of local assigning implement are carried out.

The main kinds of currency transactions:

1. Deposit currency transactions are sort-term (from 1 day till 1 year) operations on arrangement of money resources in foreign exchanges under definite percentage with the purpose of obtaining profit.
2. Conversion currency transactions are operations between the agents of the currency market concerning exchange of a definite quantity of currency of one country for currency of an other country in conformity with the rate at a definite date.
3. Arbitration operations are those oriented to obtaining profits at the expense of the differences of the rates of exchange or the interest rates.
4. "Spot" currency transactions are exchange of two currencies on the basis of the simple standardized contracts with calculations on them during a term up to two working days.
5. Forwards currency transactions are operations of the currency exchange at a matched rate.
6. Future currency transactions are standardized forwards in the contracts on currency, the trade by which takes place on exchanges.
7. The optional agreements are the contracts giving to the buyer the right to purchase or to sell on the base of the standard contract currency per definite day under the define price.
8. "Swap" currency transactions are a bargain envisioning exchange of definite quantity of two currencies and return exchange of the same quantities of currencies at a matched date hereafter.

International payments are the control system of payments according to the monetary claims and responsibilities, which arise between states, organizations and citizens, which abide on the territory of different countries on the base of economic, political, technological and other relations.

The forms of the international payments are:

- Advance payment, the letter of credit
- Bank transfer
- Documentary credit
- Open account
- Collection

3. International balance of payments.

The **balance of payments** is a ratio between all incomes of a country, which it receives from foreign countries, and all payments, which are implemented to foreign countries.

The balance of payments includes a balance of trade and a capital balance.

Balance of trade is account showing the difference between the export and the import of goods and services.

The excess of receipts from abroad above payments abroad makes a surplus of a balance of payments and increases the national currency's exchange.

The excess of payments abroad above received external payments creates a deficit and leads to falling of the exchange rate of the national currency.

Table 5.2

International balance of payments

Accounts of balance of payments	**Credit (receiving of currency)**	**Debit (using of currency)**
Current account Export of goods	+251	
Import of goods		-410
Balance of foreign trade		-159
Export of services	+70	
Imports of services		-72
Balance of a balance of goods and services		**-161**
Net produces from the investments	+14	
Net remittances		-14
Balance of current account		**-161**
Capital account		
Leakage of capital		-74
Flow of capital	+180	
Capital balance	+106	
Balance of capital account and current account		-55
Official reserves	+55	

The reduction of official reserves demonstrates the scales of the external payments deficit (+). The increasing of the official reserves (-) shows the active balance of the international transactions of a country.

Levels of the currency regulation are intergovernmental and national.

Institutional frame works of currency regulation and control are:

- The International Monetary Fund;
- The International Bank of Reconstruction and Development;
- The parliaments of countries;
- The central (national) banks;
- Ministry of Finances;
- Special institutions.

Ways of the currency regulation are:

- Devaluation of currency;
- Revaluation of currency;
- Currency intervention;
- Standardization of the computational bets of the central bank;
- Currency restrictions;
- Regulation of the balance of payments.

System of international currency control includes:

1. Currency clearings

- the unilateral currency clearing;
- the bilateral currency clearing;
- the multilateral currency clearing.

2. Currency unions.

Theme 6.
NATURE AND FORMS OF INTERNATIONAL BUSINESS

1. **Nature and kinds of international business.**
2. **Multinational corporations.**
3. **Condition and features of the development of international business in Ukraine.**

1. Nature and kinds of international business

International business represents employers activity, connected with the usage of the factors of manufacture in different forms and advantages of business activity, which is extended to the international economical sphere.

The **main purpose** of international business is maximization profits.

The material premises of the internationalization of business are modifications of structure of production according to requirements of technological advance.

Kinds of division of labour at the international level:

- General (common)
- Partial
- Single.

The single division tends to radical reconstruction of "microstructure" exchange, in which the role of semi-finished and completing products increased.

The maximization of the profit removes at a level of different components of the goods, instead of at the level of a final product.

The functional forms (shapes) of international business

Trade business is specialization in export - import trade operations; without creating a new material product. International trade business realizes the goods and services, accelerating and making cheaper process of motion of the goods as a whole.

Industrial business is creation of product / service for satisfaction of manufacturing requirements; translation of basic scientific- technical ideas into production.

Credit business is connected with granting of international credit on principles of urgency, repayability, payability.

International business is a multifunction phenomenon, which has a complex organizational and economical structure.

An international monopoly is a company or association of companies, which participates in the international division of labour and controls a considerable proportion of definite economic branches in the world economy which assures their dominance in the given branch and obtaining of the monopoly profit.

The forms of international monopolies are

- **Agreements** between the largest monopolies of one or several countries about division of commodity markets, sources of raw, realization of general scientific and technical research, output.
- **Transnational corporations**, which are national in their capital, but international in their business spheres.
- **International corporations** are trusts or concerns which act internationally with a multinational core of the share capital.

Stages of development of monopolies

1.Early stages of the development of the world economy (end 19- beginnings 20 centuries). The distinctive feature of monopolies is the high specific weight of the monopolists' companies organized by association of the capitals of different countries within the framework of cartels, trusts, syndicates; the companies of the joint property, which belongs to the monopolists of different nationalities.

Before the Second World War the international monopolies of cartel type had the basic advantage.

In the post-war period the activity of international industrial trusts and concerns was oriented in the greater degree by the creation of their foreign territory and manufacturing base.

The many foreign companies receive possibility to control sales in the local market. In case of creation of joint venture the foreign investor's risk is much lower, than that of purchasing the foreign corporation or creation of branch (representation).

Sometimes companies are compelled to integrate their resources for fighting with larger and more powerful competitors. Occasionally groups of the foreign investors create joint companies in third countries for the reduction of costs. For example, Ford (USA) and Volkswagen (Germany) have created a joint venture in Brazil for assembly of automobiles "Autolatina".

2.The present time (second half 20 centuries-....)"The «classic" cartels and their influence on the majority of the goods markets is minor. The new forms of cartel type save the main features "of «classic" cartels change them. They are:

- Contractual nature of uniting;
- Preservation of the property rights of their members in the own firms;
- Financial independence;
- Joint cooperation on price control, conditions of payments, limitation of competition in the market.

The forms of the legalized cartels are:

- Cartels are agreements on the specialization of production;
- Agreements on division of production programmes;
- Payment pools;
- License agreements;
- The agreements on mutual information;
- Agreements about joint analysis of the markets etc.

2. Multinational corporations

One of the phenomena, intimately connected with globalization is transnationalization — the formation of the large international corporations and banks executing their activity all over the world. The new epoch in the development of the international business is connected qualitatively with the beginning of the process of globalization, when the multinational companies and multinational banks (MNC and MNB) took the first place. It is known, that these corporations appeared much earlier, but only today the conditions for their global activity were created.

The competition of these companies quite often is more acute, than at the national level, where essentially diverse methods of competition are used. MNC are transformed to an independent force, whose influence national governments should take into account.

MNC are large, financial - industrial, scientific - intellectual and trade - service associations of a joint-stock type, which execute operations in country of base and beyond its borders.

In 1970 transnational corporations were considered the companies with foreign assets and the annual turnover of more than 1 mlrd. $.

In the middle 1980s years this index was raised to 2 mlrd. $, and for multinational banks - up to 4 mlrd. $.

In the 1990s years from 20 thousand corporations, which operate as international, 450 corporations belonged to a number of the multimillionaires, and to number of international monopolies able to control the international market and to receive a monopoly profit on a constant basis only 200 corporation.

The main features of MNC are

1. They are active participant of the development of the world economy and processes of the international division of labour.

2. Relative independence of the migration of the capital from the processes, which take place in side the national borders.

3. Influencing and regulation of economic relations through own operations with the purpose of increasing profit.

The whole analysis of the multinational economy is impossible without considering of two its aspects. First, there an active competition between the leading companies. Secondly, there is the creation of a whole system of correlation between them. Numerous strategic alliances between MNC of different countries are formed. They are international not only in their range of activity, but also in the structure of their capital composition.

At the same time in each country there is the own system of MNC unification, which is based on the national legislation. Its elements are holdings in Great Britain and USA, concerns —in Germany, s'udans- in Japan, financial and industrial groups and the holdings in Ukraine etc.

Today the majority of MNC unifications use the holding control form — for example, concerns and conglomerates. The asociations of banks and industrial firms (financial and industrial groups) also quite often are made out by the way of holdings

Distinctive features of modern nature of the MNC's activity are:

1. Strengthening of investment activity in branches determining scientific- technical progress.

2. The orientation of MNC to production of high technology products is accompanied by mass extraction of the contributions from the traditional branches with low competitiveness and moving of capital to the new dynamic branches.

3. The process of the "desertion" of production, i.e. moving abroad (as a rule, to the developing countries) production, which has become uncompetitive in the developed countries.

A new phenomenon of the internationalization of production and of capital is presented by formation of the multinational banks (MNB). Distinctive features of this process are:

- High pace of the internationalization of the monetary - credit markets in comparison with the similar processes among the producers;
- Formation of MNB as a financial base of MNC development.

3. Condition and features of development of international business in Ukraine

The most developed form of international cooperation in Ukraine is the joint business, which expresses in different forms the participation of foreign capital in the national production. This type of business has became widespread in Ukraine in a very short time

The legal base for the creation of joint venture in Ukraine is made by the laws of Ukraine: «About foreign trade activities», «About foreign investments», «About investment activity», «About economic companies» etc.

The main advantage of joint ventures in comparison with other forms of economic partnership is **direct investments** which serve a source of the capital for putting goods and services into effect;

- promote flow of modern technologies, forward controls;
- promote the greatest efficiency of integration of Ukrainian economy in the world economy due to the establishment of external contacts, different forms of cooperation.

Nevertheless, the investment climate in Ukraine remains unfavorable up to now. The imperfection of the legislative - administrative base of Ukraine shows that the preferential mode in the separate acts is contradicted by prohibition or limiting measures of other normative documents.

The Chamber of Commerce of USA in an evaluation of investment capital named the following 12 criteria:

1) condition of the domestic market, the geographic position of country and availability of natural resources;
2) access to the markets (countries, in which the state puts economy under rigid control and limits business activity of the private sector are considered unattractive);
3) the working force (occupation level, quantity of the labour resources etc), which is estimated as a basic element of competitiveness of the goods in the labor market;
4) currency risk (possible losses of the investor owing to oscillations of the exchange rate of the national currency);
5) repatriation of capital (absence of limitations on exportation of the dividends, percents, capital);
6) protection of intellectual property rights;
7) trade policy (in countries with different kinds of limitations in spheres of exports and imports the goods are less competitive);
8) government regulation;
9) taxation (high taxes deter foreign investors);
10) political stability;
11) macroeconomic policy (stability and logical sequence);

12) infrastructure, services (including power costs, reliable contacts with local suppliers).

The main channel of investments in the economy of Ukraine remains the engaging of loan capital through the assistance of international financial organizations.

The main investors in Ukraine are:

- International Monetary Fund (IMF);
- International Bank of Renovation and Development (IBRD);
- European Bbank for Reconstruction and Development (EBRD).

Simultaneously considerable international credits are granted to Ukraine by private specialized banks, which are under the definite control of their countries. Conditions of such borrowing are the guaranties of the government of Ukraine.

The high level of competition on the world market, flexibility of strategies and tactics of the commodity producers demand the creation of structures in Ukraine, which would provide the operations in foreign economies, and also all infrastructure of foreign economic relations.

Actual and potential advantages, which determine the competitiveness of Ukrainian production:

- High level of qualification of special categories of workers at a rather low wage;
- Availability of technically-advanced sectors of industry which are capable of fast development of new kinds of production;
- Availability of large potential of natural resources;
- Availability of the conventional markets of mechanical engineering production;
- Favourable geographic position etc.

The factors, which prevent realization of an effective external economic policy, inherited from former USSR:

- over specialization in the former unified national economic complex;
- orientation of the economy first of all towards interrepublic exchange;

- diversification failure of the forms of economic cooperation both with distant and with near foreign countries;
- structure of economy is inadequate to modern conditions of requirements of scientific - technical progress.

The factors, which preclude the implementation of an effective external economic policy:

- low competitiveness of the majority of kinds of commodity output;
- unprofitability of production of the majority of firms (specially of mechanical engineering);
- slow transition of firms of the producers to output of new kinds of competitive products;
- lagging of the technological level of the industrial output, engineering, technologies from behind the world level;
- disharmony between the parameters of the domestic production and the world standards;
- isolation from the participation in the most promising programs of the production of new items on the international base;
- the undeveloped financial, technical, information infrastructure;
- unfavourable conditions of output on the world market;
- unfavourable output of the capital and «mind outflow»;
- absence of the stable legislation etc.

The most important directions of external economic policy:

1. Revision of attitude to the domestic exporters. Predominantly in world practice exporters are not oppressed by taxes and charges. And governments do not examine an export from the narrow fiscal point of view;

2. Developing of a national import policy, as the unbalance of home market, fall of the production gives especial value to import, especially to import of the goods intended for satisfaction of the consumer demand and maintenance of the normal operation of the national economy. Such a polices the similar policy should be flexible, on the one hand, supporting

the commodity producer, and the other hand guarding against formation of domestic monopolies;

3. Renovation of the economically effective connections of Ukraine with countries of East Europe, CIS, activation of external economic relations with developing countries;

4. Change of the conceptual approach to foreign help.

Theme 7.

INTERNATIONAL ECONOMIC INTEGRATION

1. Objective preconditions and essence of international economic integration:

1.1 Integration preconditions

1.2 Objectives

1.3 Basic features of integration

2. Stages of international economic integration

3. Principles of the integration evaluation

4. Integrative centers in modern international economic relations and priorities of Ukraine

1. Objective preconditions and essence of international economic integration

The natural result of the intensification of the international division of labor, capital internationalization, the global character of scientific and technical progress, the growing number of open national economies, and freedom of trade has been economic integration.

Globalization processes in the world economy are accompanied by regionalization, economic rapprochement of countries on a regional basis, taking the form of economic integration.

In translation from Latin “integration" means merging, association of parts in a single unit. Hence, **economic integration** is the mutual adjustment and co-operation of national economies, their inclusion into a unified reproductive process on an international scale.

At the micro-level this process goes through capital interaction of the separate business units (enterprises, firms) of the neighboring countries by formation of an economic agreements system between them, the creation of branches abroad. At interstate level the integration occurs on the basis of the states economic associations and formation and coordination of national policies.

The process of integration spreads all over separate parts of the whole system:

1. Market circulation (due to trade liberalization and increase in production

factors flows), including the circulation of goods, services, money, securities - this is so called «shallow» -integration

2. Production - deep integration.

3. Decision-making sphere (at the level of firms, enterprise unions, national governments, international intergovernmental and national organizations)

So, **international economic integration** is the process of economic and political formation of an association of countries on the basis of deep and steady development of interconnections and of a division of labor between national economies, leading to gradual merging of reproductive structures.

1.1. Integration preconditions:

1. Closeness of economic development levels and degree of market maturity of the integrated countries. As a rule, the integration is the strongest and most effective when developed countries are integrating.
2. Geographic proximity of the integrated countries, common borders and historically developed economic ties.
3. Community of economic and other problems confronting the countries in the field of development, financing, economy regulation, and political cooperation.
4. Demonstration effect. Being influenced by integrative association's successes other countries have a desire to enter this organization.
5. "Domino effect".

Integration leads to the reorientation of economic ties of its members into itself and the narrowing of the sphere of economic relations with other countries which are not included in the united group. As a result, other countries left outside the association are quite often forced to enter the integrative association.

1.2 Objectives of integration:

1. Using the advantages of the economy of scale allows one to expand the market size, cut the transaction costs, create a new combination of the production factors, stimulate the inflow of the direct foreign investments.
2. Creation of the favorable foreign-policy environment, strengthening of the good neighbor relations between countries participating in the association.
3. Solving the trade policy problems, strengthening the participating countries' position in the world market. Integration allows its components to address the international organizations together, to strengthen negotiations' positions of the

participating countries within the framework of multilateral trade negotiations in WTO.

4. Assistance of modernization and structural reforms of the economy.

5. Support of the young national industries, regional market access, exchange of experience of the market reforms, national industry and agriculture support.

6. Rise of national competitiveness, joint opposition to the globalization challenges

1.3 Basic features of integration:

1. Internationalization of productive forces: exchange of production means and technological knowledge, international specialization and cooperation, production cooperation, international transfer of production resources; formation of a global material, information, organizational and economic infrastructure.
2. Internationalization through international division of labor.
3. Scales of increasing and qualitative change of traditional international trade. The functions of international trade have changed - from short-term commercial bargains ("goods - money") it has turned to means of the service of direct national production processes. The stress is displaced from initial stages (raw materials processing) to final production stages (painting, decoration, and assembly operations).
4. International transfer of the financial production resources in the form of the international credit and foreign investments.
5. Services industries develop faster than material production sphere.
6. International exchange of scientific and technical knowledge.
7. Intensive international migration of labor.
8. International cooperation directed to solving the global problems of today (protection of the environment, usage of World ocean, space etc.).

2. Stages of International Economic Integration

First Stage: Preferential Trade Agreements: lower import tariffs among member countries, but each member country retains its own tariff and quota system on trade with third countries.

Interstate institutes for the management of agreements are not created, e.g. British Commonwealth established tariff preference scheme in 1932.

Second Stage: FTA (Free Trade Area): is a group of countries without any trade restrictions within the area, but each member country retains its own tariff and quota system on trade with third countries:

1. Free movement of goods and services among member countries.
2. Possible coordination by small interstate secretariat.

Third Stage: CU (Customs Union): is created when a group of countries removes all restrictions on mutual trade and also adopts a common system of tariffs and quotas with respect to trade with third countries (European Economic Community became one in 1968). It is managed by an interstate council at ministerial level and by secretariat.

According to Viner's theory of CU its creation results in two types of effects in the economy:

Static effects are economic consequences, which deal with snapshots immediately after creation of the customs union.

Dynamic effects are economic consequences, showing themselves at the later stages of the customs union functioning.

Fourth Stage: Common Market: A CU becomes a common market with the removal of all restrictions on the movement of production factors. (EEC became a common market in 1992). Interstate body with function of over national regulation is created.

Fifth Stage: Economic Union: supranational authorities coordinate economic policies. It requires a single monetary system, a central bank, a unified fiscal system, and a common economic policy, e.g. US, Belgium + Luxembourg, 1921.

3. Principles of the integration evaluation

For estimation of how the creation of an integrative group corresponds to the interest of the international economy overall, a number of the independent experts and World Bank specialists defined the main criteria, namely:

1. Regional trade agreements should cover all branches of the economy without exception;
2. Transition period should not exceed 10 years and has to include the precise schedule of trade liberalization in separate branches;

3. Trade liberalization on condition of the most favored nation treatment (MFNT) should precede or accompany the formation of any new integrative group, especially if tariffs initially are high;

4. Common customs tariff, introduced within the customs union framework, should not exceed the lowest tariff existing in the country with the lowest tariff in the appropriate branch, or even the lowest tariff in MFNT frameworks;

5. Rules of the entry of new members into the integrative agreements should be rather liberal and should not hinder their expansion;

6. Fast transition to the most advanced forms of integration is necessary as they provide a more rational distribution and utilization of the production factors;

7. After the integrative group creation antidumping rules shouldn't be applied between member countries. And clear rules of their application should be established regarding third countries.

4. **Integrative centers in modern international economic relations and priorities of Ukraine**

According to WTO (World Trade Organization) there currently exist in the world 134 active regional trade associations and economic agreements, significantly 90 of them have been founded after 1995. The "Triad" of the most significant associations is represented:

• **European Union.** Within the framework of (the EU economic cooperation has been achieved to the utmost extent today. See detailed information below.

• **North American Free Trade Agreement** (NAFTA) founded by the USA, Canada and Mexico.

• **Asia-Pacific economic cooperation (APEC)** - China, Japan, the four "eastern tigers" (South Korea, Taiwan, Honkong, Singapore) + ASEAN(Brunei, Indonesia, Malaysia, Thailand, Philippines) + US + Canada.

European integration has delivered half a century of stability, peace and economic prosperity. It has helped to raise standards of living, to build an internal market, to launch the euro and to strengthen the Union's voice in the world.

The Union is an advanced form of multi-sector integration, its competence extending to the economy, industry, politics, citizens' rights and foreign policy of its fifteen member States.

The process of European integration was launched on. 9 May 1950 by six countries (Belgium, Germany, France, Italy, Luxembourg and the Netherlands). Today, after four waves of accessions (1973: Denmark, Ireland and the United Kingdom; 1981: Greece; 1986: Spain and Portugal; 1995: Austria, Finland and Sweden) the EU has 15 Member States and is preparing for the accession of 13 eastern and southern European countries.

The European Union is based on the rule of law and democracy. Its Member States delegate sovereignty to common institutions representing the interests of the Union as a whole on questions of joint interest. The Treaty of Paris established the European Coal and Steel Community (ECSC) (1951), the Treaties of Rome established the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) (1957). The most important documents for functioning of the European Union are the Single European Act (1986), the Maastricht Treaty on European Union (1992) and finally the Amsterdam Treaty (1997). They have formed the constitutional base of the Union, binding its Member States.

Principal objectives of the Union are:

- Establish European citizenship (Fundamental rights; Freedom of movement; Civil and political rights),
- Ensure freedom, security and justice (Cooperation in the field of Justice and Home Affairs);
- Promote economic and social progress (Single market, Euro, the common currency; Job creation; Regional development; Environmental protection);
- Assert Europe's role in the world (Common foreign and security; The European Union in the world).

The EU is ruled by five institutions:

- European Parliament (elected by the peoples of the Member States),
- European Council (made up of Ministers from the 15 Member States with responsibility for the policy area under discussion at a given meeting: foreign affairs, agriculture, industry, transport, the environment and so on).
- European Commission (driving force and executive body);
- Court of Justice - compliance with the law (comprises 15 judges and nine advocates-general appointed for a renewable six-year term by agreement between the

Member States);

• Court of Auditors (sound and lawful management of the EU budget).

Five further bodies are parts of the institutional system:

• European Economic and Social Committee (expresses the opinions of organized civil society on economic and social issues),

• Committee of the Regions (expresses the opinions of regional and local authorities on regional policy, environment, and education);

• European Ombudsman , (deals with complaints from citizens concerning maladministration by an EU institution or body);

• European Investment Bank (contributes to EU objectives by financing public and private long-term investments);

• European Central Bank (responsible for monetary policy and foreign exchange operations).

Progress to date:

• Single European currency introduction. On 1 July 2002, the Euro replaced national currencies in the Member States joining the single currency.

• The liberalization of capital markets and financial services, harmonization of taxation.

• Common agricultural policy objectives have been achieved: to ensure a fair standard of living for the agricultural community; to stabilize markets; to ensure reasonable prices for consumers; and to modernize agricultural structures.

• The liberalization of services (telecommunications, energy, etc.) representing more than 70% of the GNP of the European Union.

• The removal of technical barriers (freedom to exercise an occupation and recognition of the equivalence of training qualifications) and of physical barriers (elimination of border checks) to the free movement of individuals; standardization, and some harmonization of safety and environmental standards;

Stages of the integration formation:

• free trade area stage (1958-1969)

• customs union stage (1968-1986) - tariffs and quotas were all removed on trade among its original member countries, and a common tariff system was adopted vis-a-vis non member countries.

• common market stage (1987-1992)

• economic and monetary union stage (1993 - present)

This was accomplished by opening up borders to facilitate the free movement of individuals, goods, services, and production factors and by promoting solidarity through common policies and common financial instruments.

Mega regional integration perspectives:

• Since 1995 a number of important documents have been signed between the USA and the EU in the direction of the New Transatlantic Marketplace creation; there are also long-term plans for further expansion of this union and convert it into TAFTA (Transatlantic Free Trade Agreement).

• Also, attempts are being made to unite North and South Americas and create a Pan-American Free Trade Area in Western hemisphere,

• Enlargement of the EU to 28 member countries.

The basic directions of Ukraine's participation in the international economic integration are:

• Belongs to Commonwealth of Independent States (SIC) - since December 1991.

• Membership in the Black Sea Economic Cooperation Area, including Ukraine, Moldova, Georgia, Russia, Azerbaijan, Armenia, Turkey, Bulgaria, Greece, Romania (since 1993).

• Intensification of ties with EU according to the Partnership agreement and cooperation (since 1993).

• Status of the Associate member in Economic Union of CIS (since 1993).

• Member of the International Monetary Fund (since 1992).

The perspectives are: negotiations between Russia, Kazakhstan, Belarus and Ukraine about creation of the common economic area, and its further development into the Organization of Regional Integration.

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Навчальне видання

Завгородня Олена Олександрівна
Тарасевич Віктор Миколайович
Золотарьова Ольга Володимирівна
Мадзік Неля Петрівна

Міжнародна економіка

Конспект лекцій

Тем. план 2019, поз. 224

Підписано до друку 21.02. 2019. Формат 60х84 1/16 . Папір друк. Друк плоский.
Облік.-вид. арк. 3,52. Умов. друк. арк. 3,48. Замовлення № 38.

Національна металургійна академія України
49600, Дніпро-5, пр. Гагаріна, 4

Редакційно видавничий відділ НМетАУ