

INTERNATIONAL TRADE

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In this training manual the essence and the role of international trade in economic development, the basic theories of international trade exchange, the trade policy, the organizational and financial aspects of international trade, the normative legal regulation and the practice of the conclusion of international trade agreements are examined.

For students and academics.

ISBN

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PREFACE

An important feature of our time is the growing interdependence of countries' economies, the transition from the internationalization of economic life to the globalization of production processes and financial environment. This is accompanied by increasing involvement of the countries to the existing system of world trade links.

The good prospects for strengthening the efficiency of the foreign trade activity through the optimal use of the advantages of world economic and international division of labor are opened before the countries.

The states all over the world, the economic groups form their own foreign trade models, adequate to objective processes of globalization and international economic regionalization

This formation is impossible without finding out the state and the key trends of functioning and development of world trade relations.

Therefore the aim of the manual is to systematize and generalize the consistent patterns, conditions, principles, mechanisms of international trade.

The proposed textbook represents an attempt to describe the issues of the organization and regulation of international trade, including the modern mechanisms of the conclusion of international contracts of purchase and sale

The consideration of the complex of issues of functioning and development of the modern system of international trade determines the structure of the proposed textbook. Its fifth edition consists of six chapters, which contain an updated and converted material.

Chapter I is devoted to the describing of the essence and value of international trade in the system of international economic relations and the features of its development, performance evaluation, the relationship between international trade and economic development of the country. In the chapter the basic concepts of international trade are discussed. The study of these concepts helps to explain the reasons of international exchange, its dynamics, structure and efficiency.

Chapter II is devoted to the regulation of international trade at the national and supranational levels.

In **chapter III** the considerable attention is paid to the peculiarities and the main instruments of trade policy of the European Union.

Chapter IV concerns the organizational aspects of international trade. It describes the forms of international trade, methods of export-import operations, as well as the activities of organized commodity markets.

Chapter V provides an opportunity to get acquainted with legal regulation of international trade agreements, with the processes of conclusion and execution of contracts of international sale, with the settlement of international trade disputes.

Chapter VI describes the payments in international trade transactions. The main focus is on the essence and forms of international payments, means and methods of making international payments.

We hope that this manual will enable students to make the maximum use of international experience of research in international trade.

Part I. International trade: economic essence and development theories

Chapter 1. General characteristics of international trade

1.1. The notion of international trade, structure and specific features

International trade is one of the main driving forces of economic development. International trade is the sphere of the international economic relations and is formed from the foreign trade in goods, services, products of intellectual labor of all world countries. Today it is 80% of all international relations.

The participation in international trade takes the form of foreign trade for individual country, i.e. it's the trade of one country with other countries, which consists of two oncoming flows of goods and services: paid export (export) and import (import).

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

International trade is a characteristic feature of the existence of global market, which is the sphere of commodity-monetary relations between countries. These relations are based on international division of labor and other factors of production. Commodity, that is on global market in the phase of exchange, performs the information function, because informs about average values of aggregate demand and supply. Therefore countries are able to evaluate and adapt the parameters of their products and production (that is, what, how much and for whom to produce) to the requirements of global market.

International trade in goods was the historically first and to a certain time the main sphere of international economic relations. Only at the end of the 20th century different forms of financial transactions began to play the main role in international economic system. But international trade is still very important, which is proved by the growth of international trade volumes. But the significance of international trade is very considerable now, that is proved by the growth of international trade volumes (Tab.1.1).

Such rapid development of international trade is associated primarily with increased liberalization process of international relations and increased demand for manufactured goods, which share in total world exports is 70%.

Table 1.1.

The dynamics of development of world trade in goods and services

Indicators	The growth rates %								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
World trade in goods and services	7,4	7,6	15,2	15,4	-12,0	13,8	5,0	3,7	2,2
Import									
Industrialized countries	6,5	6,3	12,9	11,7	- 14,4	10,9	2,8	1,9	2,0
Developing countries and countries with economies in transition	12,0	11,0	13,2	27,7	- 10,5	18,1	7,9	6,2	5,5
Export									
Industrialized countries	5,9	6,8	14,6	11,7	- 15,1	13,0	4,7	2,0	1,8
Developing countries and countries with economies in transition	9,9	9,7	24,6	38,2	- 7,5	14,9	5,4	5,6	3,5

Source: [7]

International trade today, as earlier, remains the important incentive for the growth of the international economy. International trade flows significantly pass ahead the growth of the world output. (Fig.1.1)

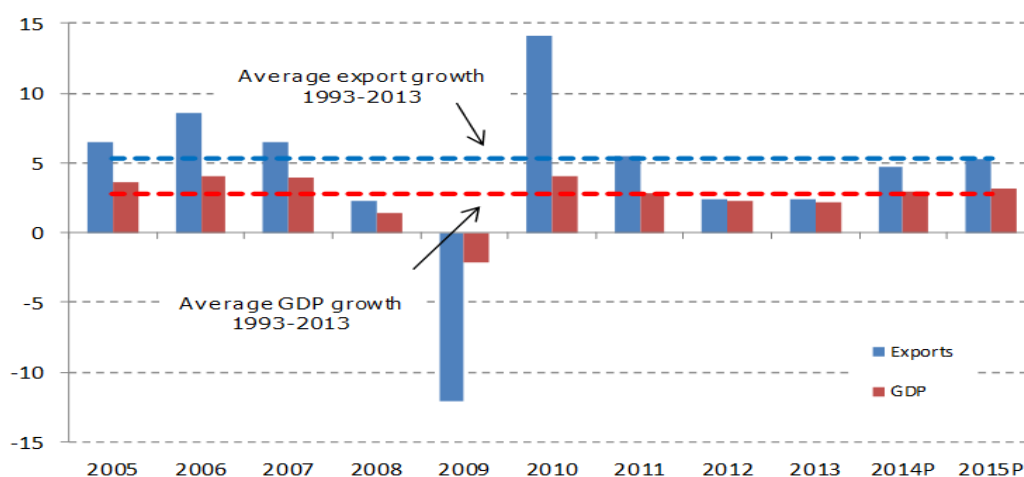


Fig.1.1. The growth rate of the world trade and world GDP

Source: [27]

This happens due to the deepening of the international labor division, formation and development of the new types of labor division, which form the basis of international economic integration and intra-firm exchange. In this connection, it is sufficient to note that in the EU, the most integrated international economic grouping, the trade passes ahead the production in 3 times.

Rapid growth of international trade positively affects the economies of the developing countries by stimulating their exports (Tab. 1.1, Fig. 1.2).

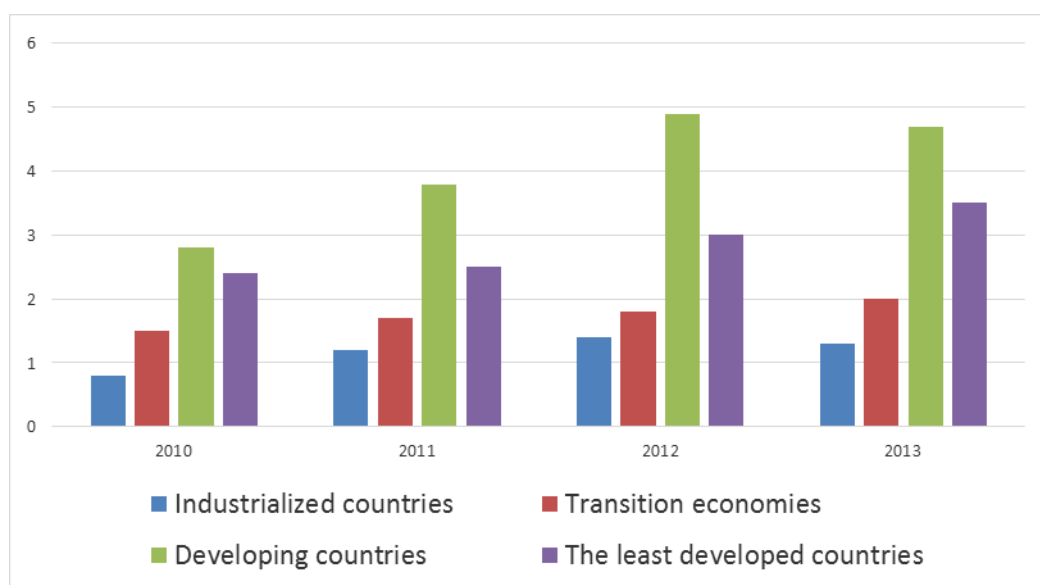


Fig. 1.2. Economic growth in the developing countries compared to the industrialized countries in 2010-2013, %

Source: [26]

Countries of informal group BRIC (Brazil, Russia, India and China) belong to the countries that develop most rapidly. GDP of the BRIC countries already exceeds GDP of the EU, they also pass ahead the industrialized countries of the Group of 7 at the total volume of gold reserves. It is expected that they will produce 44% of world GDP by 2050 and will be ahead of industrialized countries by the main economic indicators (Russia will be able to overtake Western European countries by 2030, India will surpass Japan by 2035, China overtake USA by 2040) [6]. The BRIC countries conventionally will be perceived as “the second echelon” after Triad countries (USA, Japan, the EU) in the next decades. The growth rates of leading companies of these states are not less than 15% per year and their earnings ranged from \$100 million to \$ 2 billion per year. China's economic growth has the most positive impact on private businesses around the world, second place is divided between Russia and India, and Brazil is on the third place.

Other countries are grouped around the BRIC: Iraq, Kazakhstan, and Venezuela. Thus, in the future, strong union might be formed, with which the Group of 7 and OPEC will have to reckon.

1.1.1. Geographical and commodity structure of international trade

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

Geographical structure of international trade is the distribution of the trade flows between countries and their groups, which are created on the territorial or organizational basis.

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

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

Geographical structure of international trade was formed under the influence of world economic division of labor, i.e. of the deep international division of labor and the development of scientific and technological revolution (Tab. 1.2).

Table 1.2

Geographical structure of world trade in goods by selected regions in 2013

Export		Region	Import	
Volume			Volume	
\$ billion	%		\$ billion	%
17930	100,0	World	17930	100,0
2370	13,2	North America	3034	16,9
750	4,2	Latin America	787	4,3
581	3,2	Europe	655	4,1
5908	33,0	The European Union	5803	32,3
549	3,0	CIS	805	4,4
516	2,9	The Russian Federation	305	1,7
630	3,5	Africa	580	3,2
1349	7,5	Middle East	713	4,0
5638	31,4	Asia	5333	29,7
798	4,4	Japan	812	4,5
2048	11,4	China	1359	7,6
302	1,7	India	463	2,6

Source: [5]

Commodity structure of international trade is formed under the influence of the competitive advantages of the national economy. A country has the competitive advantages only if prices on export commodities (or internal prices) are lower than the world prices. Differences in the prices are caused by different production costs, which depend on two groups of factors.

The first group of factors is formed by natural competitive advantages. They include natural and geographical factors that are given from the outside: climate, availability of mineral fossils, soil fertility etc.

The second group of factors (socio-economic) is formed by the gained competitive advantages. These factors characterize scientific, technical and economic level of the development of the country, its production apparatus, scale and seriality of production, industrial and social infrastructure, scales of research projects. They determine the competitive advantages that have been achieved in the process of the development of national economy.

A typical trend in a trade in goods is a growth of the share of trade of products of manufacturing industry (about $\frac{3}{4}$ of the value of world exports) and reducing of a share of the raw materials and food (about $\frac{1}{4}$).

The commodity structure by regions of the world is characterized by data in the Tab. 1.3.

Table 1.3.

The structure of the world exports of the main group of products by regions in 2013

Region	Agriculture		Extractive industry		Manufacturing industry		Total	
	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%
Europe	656	9,5	901	13,0	5204	75,2	6913	100
Asia	451	7,7	818	13,9	4389	75,1	5845	100
North America	287	12,1	511	21,6	1547	65,6	2357	100
Latin America	241	31,7	322	42,5	199	26,2	758	100
CIS	64	7,6	512	60,8	238	28,3	841	100
Africa	55	9,3	395	67,1	121	20,5	588	100
Middle East	38	2,8	824	61,7	327	24,4	1335	100
World	1792	9,6	4283	23	12025	64,5	18637	100

Source: [5]

The data in the Tab. 1.3 show the interconnections between the level of economic development of countries and the structure of their foreign trade turnover. The commodities of manufacturing industry are dominated in the export structure of the countries, which belong to the industrialized and newly industrialized countries and in which the gained competitive advantages dominate (countries of Western Europe, North America and Asia). There is the high proportion of extractive industry in the countries, which have rich natural resources (Middle East and Africa). The CIS countries intensively use their natural competitive advantages, therefore their commodity structure, which differs from

the average global indicators, has a big share of production of extractive industries (deviation from the average indicator is 37.8 percentage points) and a relatively low share of products of manufacturing industry (deviation from the average is 36.2 percentage points).

1.1.2. The main types of markets and products

Markets can be classified according to the various criteria. The generally recognized classification is listed in the Tab. 1.4

Table 1.4

The classification of markets

Indicator of classification	Types of markets
1	2
1. Industry affiliation of a product as an object of exchange	Commodity markets. They cover the market of a concrete product or group of products, which are interconnected by certain characteristics of an industrial nature or by those that serve for the satisfaction of the same needs (e.g. the shoe market, the ferrous metals market, the car market, the raw materials market)
2. The object of exchange and the limits of its coverage	Commodity markets of countries and regional commodity markets. At the core of the subdivision is a belonging to the countries or a regional sectoral affiliation of the objects of exchange. These markets include the market of the specific product, the market of the group of products or products of a certain industry of one country or region (such as shoe market in Turkey, Ukraine consumer electronics market, and the EU's car market).
3. Sphere of international commodity exchange and industry affiliation of the objects of exchange	<p>Global commodity markets are the totality of national markets. The basis of economic relations between their members is the international division of labor (for example, world grain market, and world market of mechanical rubber products). The objects of the world commodity markets are specific products or groups of products.</p> <p>The main features of the world market are following:</p> <ul style="list-style-type: none"> • it is a category of commodity production, that went beyond the national borders in search of sale of its products; • it manifests itself in the international movement of goods, which are influenced not only by internal, but also by external supply and demand; • it optimizes the use of factors of production and prompts the manufacturer in which sectors and regions these factors can be used most effectively. • it performs the reorganization role and removes from the international exchange the products and often even their manufacturers, who are not able to provide an international standard of quality at competitive prices. <p>Distinctive features of the world market are following:</p> <ul style="list-style-type: none"> • state borders and foreign economic policies of individual countries affect the world market

	<ul style="list-style-type: none"> • the system of world prices operates in the global market; • the world commodity market is complemented by the market of services; • the structure and direction of the trade in certain countries in the global market are determined by changes in the competitiveness of their products and services; • the world trade has an uneven growth of both the trade of individual countries and the trade of the entire world; • the development of the interstate forms of regulation of the world market: international trade organizations (including the WTO) and regional integration economic organizations (Benelux, the EU, EFTA, Latin American Integration Association, the Association of South-East Asia, etc.).
4. The relationship to the national borders of the sphere of exchange	<p>The internal (local) and external (foreign) market. The internal market is a form of commercial communication, where the manufacturer by himself sells all commodities, that are intended for the sale inside the country. Foreign market covers the whole sphere of commodity circulation that goes beyond the national borders of the certain country. The international market, markets of countries, world commodity markets are considered external (foreign) only for one particular country. Economic relations between the participants of commodity exchange envisage that the participants have different nationality and the object of exchange crosses the national customs borders of the certain countries.</p>
5. The nature of the object of commodity exchange	<p>Market of goods, market of services, markets of technologies, capital markets, labor markets, securities markets.</p>
6. The nature and level of demand and supply on the market	<p>Market of a seller, where demand exceeds supply. A market of a buyer, where supply exceeds demand.</p> <p>The seller's market is characterized by the limitation of the product range and quantitative supply of goods. Also it is characterized by an existence of a shortage that prompts the buyer to acquire exactly what the seller offers without having specific requirements for quality, technical and economic characteristics of the goods.</p> <p>The market of the buyer is characterized by a diverse range of goods produced by different manufacturers. It creates the competition between the sellers of products, which meet the same or similar customer needs.</p>
7. The nature of the relationship between seller and buyer	<p>Free, closed and regulated markets.</p> <p>In the free markets there is no limit for the conclusion of commercial agreements between contractors. In the trade of various goods the share of free markets is different (for example, on the world oil market - 70%, on the sugar market - 30%). The closed markets usually mean the inter-corporate delivery of TNCs, which account for a total of about 40% of international trade.</p> <p>Regulated markets include markets covered by international trade agreements aimed at their stabilization.</p>

The foundation of the classification of goods is formed by different signs: international mobility, purpose, terms of use, level of demand and price, consumption pattern and degree of processing, method of manufacturing.

International mobility. To recognize the trade as international, the sale of goods as export and the buying as import, it is necessary for the goods to cross a border of a state and this fact must be registered in the relevant documentation. And it does not matter whether a commodity changes an owner or not. So, if TV is sold (transferred) by Japanese company to its affiliate in Ukraine, then it is considered as exports of Japan and imports of Ukraine, despite the fact that the Japanese company is still the owner of the commodity.

In the international economics the commodity is not seen as a product of manufacturing, but as an object of demand and supply.

There are conditions for commodity (service), which give the opportunity to be this object:

- when it is needed by someone;
- when it is targeted by the two main forces of the market economy, by supply and demand;
- when at least one of these forces (demand and supply) acts from abroad.

The ability to produce the product for inside market does not mean that it will be recognized as a commodity on world market, that is it will be bought abroad. Products may not be sold abroad for the following reasons:

- due to their uncompetitiveness;
- due to the initial inability to put them on foreign markets;
- due to their fundamental inability to be sold.

Based on the international mobility the products are divided into “market goods”, that is, the ones that are traded (MG), and “non-market goods”, the ones that are not traded (NG).

“Market goods” are the products that can be moved between different countries.

“Non-market goods” are the goods, that are consumed in the same country, where they were produced, and they are not moved between countries.

The main differences between “market” and “non-market” goods are illustrated in Tab. 1.5.

Table 1.5.

The differences between MG and NG by basic signs

Sign	"Market" goods	"Non-market" goods
Prices	They are determined by the ratio of supply and demand in the world market, they are under the influence of supply and demand for them both within the country and abroad	They are determined by the ratio of demand and supply in the national market. Fluctuations in the prices of these products in other countries are not important
Maintenance of internal balance of	Maintenance of the balance is not especially significant since the lack of domestic demand can be offset by the	Maintenance of the balance is very important. Its possible violation could lead to the

supply and demand	increase of demand abroad, and the lack of domestic consumption can be offset by the increase of the supply of foreign goods	socio-economic disproportions
Domestic prices	Their dynamics and level depend on the dynamics and level of the prices in other countries	They may greatly differ from the prices in other countries and their change can not lead to a change in international prices on these products.

“Market” goods usually include the following groups of goods: agriculture, hunting, forestry, and fishing, the products of mining and manufacturing industry; “non-market” goods include: utilities and construction, wholesale and retail trade, restaurants, hotels, defense, social services, health care, social work, etc.

The division of goods into the “market” and “non-market” goods largely depends on the transportation costs on their moving abroad and on the trade barriers that exist on this way. The reduction of transportation costs due to the technology development leads to the increase in the number of “market” goods, and the increase in a state protectionism leads respectively to their reduction.

“Market” goods are divided into exported and imported goods (Fig.1.3).

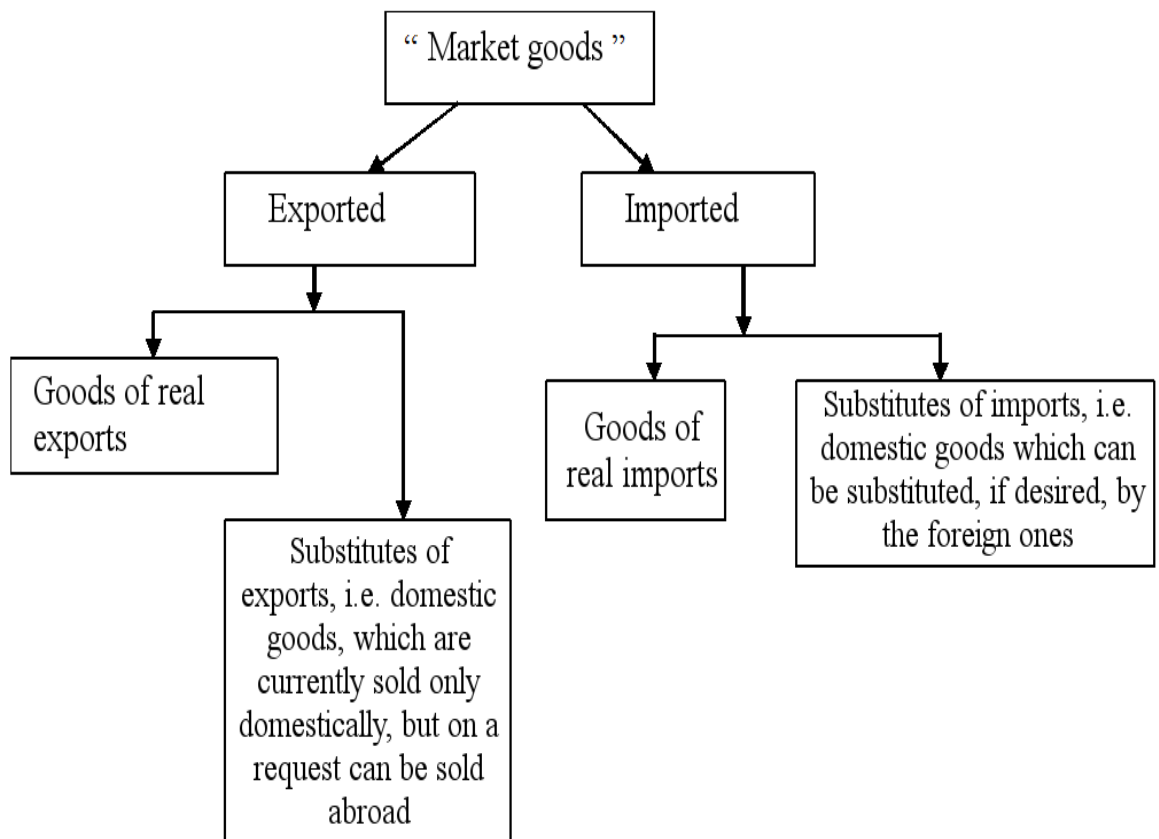


Fig.1.3. The classification of “market” goods

Purpose. On this basis the goods are divided into:

- consumer demand goods, that are intended for personal consumption, individual use and have a wide nomenclature and assortment (TVs, refrigerators, washing machines, VCRs, cars, etc.);
- goods of production purposes, that are used in the production of other goods and determine the specificity of particular industries (technological equipment) or have the general purpose (motors, cranes). They also include vehicles and devices that are used in the manufacturing process.

Term of use. Products are divided into products of a short-term and a long-term use.

Level of demand and price. On this basis products are classified into:

- fast-moving consumer goods (FMCG), that are purchased regularly, and are focused on the certain quality characteristics;
- selective demand goods that are purchased after the comparison with similar products depending on the degree of satisfaction of needs, level of quality, price, etc;
- prestigious products with unique properties that are determined by fashion, high comfort;
- luxury products, that meet the individual needs of wealthy people and greatly exceed their daily needs.

Consumption pattern and degree of processing. These are the raw materials, semi-finished products, finished products, components, parts.

Method of manufacturing. Production is divided into standard (available for an unknown end user) and unique (is based on previous customer orders and is made on the basis of previously agreed technical and economic parameters between the supplier and buyer).

1.1.3. Specific features of international trade

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

Government regulation of international trade. Every country operates in its own legal environment. Its government is actively intervenes and puts under a strict control the international trade relations and monetary and financial relations, which are connected with trading operations. This intervention and control differ significantly from the degree and nature of those applicable to domestic trade. The government of each sovereign country creates its own system of export and import licensing, import and export quotas, duties, embargoes, export subsidies, its own tax laws, etc. with its trade and fiscal policy. A major obstacle to international trade can be governmental resolutions on currency regulations (the system of currency regulation of the inflow and outflow of a foreign currency into and out of

the country governs international movement of goods, services and capital) and the resolutions concerning the standards of quality, safety, health safety, hygiene, patents, trademarks, packaging of products and the amount of information that is provided on the packaging.

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

Government regulations and laws may affect the competitiveness of domestic companies on the international market due to the increase in their costs. Government may oblige its industrial companies to pay their workers a package of various cash benefits. It will affect the cost of production and reduce the possibilities of the company in the field of price competition on foreign markets.

Independent national economic policy. National economic policy may allow free flow of goods and services between countries, regulate or ban it (for example, the restriction of trade can take the form of “voluntary” export restrictions, boycotts of products of the country, rejections of preferential tariffs and issuance of new credits, restrictions on access to high-tech products). All of this significantly affects the international trade.

To maintain the balance of international payments the country must link its economy with the global economy, that is to conduct the policy that would ensure competitiveness of prices and costs compared to the other countries and would not allow the existence of the differences between domestic law and international regulation. These differences could lead to the conflict situations in foreign trade.

If the internal economic policy of the country harms its external stability, then all trading countries feel the negative consequences of this fact. For the international trade functioning in the atmosphere of freedom the governments have to agree the domestic and international policies with their trading partners. These policies must not harm the interests of any party. If the national economic policies in international trade are based solely on domestic national interest without the consent or without consultation with its trading partners, it leads to political tensions between the partners (taxation of certain goods, import quotas, etc.). Thus, international trade is often influenced by independent national economic policies of individual states.

Socio-cultural differences between countries. The countries involved in international trade differ from each other in customs, language, priorities, and culture. Although these differences do not affect significantly the international trade, but they complicate the relations between the governments and introduce many new elements to the activities of the international companies. Insufficient knowledge of the customs and laws of the exporting or the importing country leads to uncertainty and distrust between the seller and buyer.

Financial and commercial risks. The main financial risks include currency and credit risks.

International trade takes place between the countries with different currency systems that determine the exchange of one currency for another. The instability of exchange rates leads to an appearance of a currency risk. Currency risk is a risk of the foreign exchange losses due to a change of exchange rate of the currency of price relative to the currency of payment in the period between the signing of foreign trade contract and making the payments under this agreement.

One of the problems of the importer is the necessity of obtaining of foreign currency in order to make the payment. Currency risk arises for the importer if the exchange rate of the currency of price is increased relative to the currency of payment.

Exporter may have the problem of foreign currency exchange which is received by his country. He suffers losses by the falling of the exchange rate of the currency of price relative to the currency of payment, because he gains a smaller real value compared to the cost of the contract.

It is important to have time for transportation of goods in international trade. That is why the exporter is exposed to credit risk and suffers from inconveniences associated with the distance and time, which is required for the transporting the goods abroad and receiving a payment. The gap in time between the request to foreign supplier and receipt of goods is usually associated with the duration of transportation and necessity to prepare appropriate documentation for transportation.

Exporters may require additional funds which he can get in bank to finance the preparation and delivery of goods abroad. At the same time the credit is needed for longer time than it should have needed, if he sold goods in the domestic market of the country. Exporter must fulfill its obligations under the terms and conditions of the loan agreement. However, there is risk of a failure to return the debt.

Credit risk can also arise when the government gets a loan from a foreign lender or provides the guarantee for a loan to a third party in its country, but then either government or third party refuses to repay the loan and declares immunity from prosecution. Exporter will be powerless to collect the debt because it will be forbidden to conduct the claims through the court.

Commercial risks related with the possibility not to get profit or have losses in the process of trade, can appear in the following cases:

- insolvency of the buyer at the time of payment of the goods;
- refusal of the customer to pay for the product;
- change in product prices after the conclusion of the contract;
- reduced demand for products;
- inability to transfer funds to the country of the exporter in connection with currency restrictions in the country of the buyer (importer) or lack of currency, or because of the refusal of the government of the importing country to give this currency of any other reason.

1.2. Main stages of international trade development

The retrospective of international trade is often considered by such criteria as major world events. There are five main stages of the evolution of international trade [7]:

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

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

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

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

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

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

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

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

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

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

Europe became the center of international trade.

The distinctive features of the first phase:

- growth of state influence on the relations of countries and international trade;

- strengthening the government support of domestic producers. Protectionism prevails in most countries;

- the birth of the free trade policy.

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

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

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

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

The period 1850-1875 years is still considered as relatively free exchange phase. However, the next years are characterized by the increased protectionism, due to the growing influence of monopolies on the foreign policies of their countries. Previously characterized as a defensive, protectionism becomes offensive and protects from a foreign competition not the weak sectors of the national economy, but the most advanced and highly monopolized ones.

The third phase is characterized by such most important events:

1. The First World War, which destroyed the economy of European countries.
2. The great economic crisis of 1929-1933, which raised the question of the effectiveness of internal trade quite strictly.
3. The World War II that destroyed the global economic system and dramatically shook the confidence of the developing countries in a trade as a driving force of economic growth.
4. Further redistribution of world markets.
5. Transition to a new, more efficient Bretton Woods monetary system in 1944.
6. Formation of two world economic systems.

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

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

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

The issues of the trade liberalization were the focus of governments around the globe after the World War II.

The fourth phase of the development of international trade is characterized by the following key events:

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

2. Increased development of the world economic systems: capitalist and socialist.

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

4. Spreading of integration and transnationalization.

5. Creation of the global international organizations.

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

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

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

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

The fact that the formation of the structure of international economic relations occurred in the conditions of sharp change in the balance of forces in favor of the US promoted liberalization of foreign trade in this period. The US substantiated the necessity of liberalization by the close interdependence between free trade and the achievement of full and sustainable use of resources and also by the general necessity in spreading of the international division of labor.

The policy of liberalization has made the main progress in the area of customs-tariff measures. The General Agreement on Tariffs and Trade (GATT) was developed at international conference in Geneva in 1947.

Within the integrated groups the application of preferential customs-tariff measures is observed.

The fifth stage is characterized by the following main events:

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

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

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

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

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

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

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

8. Financial crises in Mexico (1994 - 1995), which significantly affected both the conjuncture of the currency and stock markets, and the global economic conjuncture: the business activity was slowed, world prices for fuel and raw materials decreased.

9. The introduction of a common currency (the euro) and providing the common monetary policy by the EU in 1999. The euro currency zone appeared with the introduction of the euro.

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

11. Technological changes in communications, information processing, transport, which transform the globalization of markets and production in material reality.

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

13. Signing of Bali Package agreement by the WTO members on 07.12.2013. This contract created the basis for the completion of the Doha Round of the WTO negotiations. The conclusion of this agreement will help to increase the turnover of world trade to \$ 1 trillion.

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

Further development of the multinational international trade is observed. The number of non-US TNCs, especially in the developing countries, and the number of mini-TNCs increase. The share of the inter-corporate supplies increases

inside the TNCs. In the trade between industrialized countries the inter-corporate supplies account for 30% of bilateral trade [2].

The share of machinery and technical products (78% of world commodity) grows and at the same time the share of raw materials and foodstuffs decreases in the commodity structure of international trade; world trade in services and intellectual work products develops dynamically.

The development of intra-industry trade contributes to strengthening of international exchanges, i.e. when the two partner countries exchange (export or import) the goods, that belong to the same industry or product category. This type of trade indicates the international specialization in its thinner form than, for example, exports of machine tools to import of food.

The geographical structure of trade changes due to the economic and political events in the world. Group of “newly industrialized countries” (NICs) plays an important role in the world trade. There are some features of them: the share of industrial products in the world exports grows; high rates of industrialization and the increase in the domestic production; policy that encourage exports directed to foreign markets. The most dynamic global commodity trade flows are typical for the Triad countries in the modern period: the US – the EU countries - Japan, which are the members of various trade blocks and have an enhancing competition between them.

The regulation of international trade is characterized by a further harmonization of the trade rules in the WTO. A mechanism for strengthening of the interaction of the WTO, IMF and the World Bank are created.

A return to the protectionism, called “neo-protectionism”, is observed. Protectionist moods began to spread, since the customs tariff measures have become more liberal and do not provide the necessary level of protection of the domestic market. Many countries have found the ways to get around the requirements of the GATT and to apply non-tariff trade barriers.

1.3. The system of indicators of monitoring the impact of international trade

Participation in the international division of labor allows to achieve certain economic goals at a lower cost of inputs. The international exchange of goods, services, technology will be beneficial to all participants of trade under the conditions of the rational structure of exports and imports, the development and implementation of effective foreign policy. The initial stage of this process is to determine the country's place in the global economy, to analyze its foreign trade, structural changes, and intensity of the foreign trade and the efficiency of operations with external partners. This is done with the help of various parameters that can be divided into 5 groups [11].

Group I. Absolute indices. Most of them are basic, but they can also be derivative. Absolute indicators usually have costs value, but natural units of measurement can be used for their expression, if it is necessary. International trade

in metals, citrus, dairy products and meat is measured in tones, coffee trade – in sacks, eggs trade - in pieces, live animals - in heads, etc.

Two counter flows of goods and services: export and import create international trade.

1.1. As defined by the United Nations Statistical Commission the export is:

- the removal of goods from the country, which are produced, grown or extracted in the country, as well as goods previously imported from abroad and processed in the customs territory;

- the removal of goods previously imported, the processing of which occurred under the customs control;

- the removal of goods abroad, which were imported earlier and which were not processed in any way in the exporting country. Such export is called re-export. The goods that were sold at international auctions and commodity exchanges are often the subjects of the re-export. The removal (export) of goods from the territory of free zones and bonded warehouses is also re-export.

1.2. The import is:

- the importation into the country of goods of foreign origin directly from the country of manufacture or intermediary country for the personal consumption, for industrial, construction, agricultural and other enterprises or for the processing with the purpose of consumption within the country or for the export from it;

- the importation of the goods from free zones or bonded warehouses;

- the importation from abroad previously exported domestic products that were not subjected to the processing there. Such import is called re-importation. Re-importation includes the products, which were not sold at the auction, were returned from the consignment stock, were rejected by the buyer, etc.;

- the importation of goods for processing under customs control. These products are imported into the country for processing with the purpose of export of finished products, which includes this product in processed or in modified form (e.g. the import of the olive oil for the manufacturing of canned sardines for export). Importer is usually exempted from customs duties.

All the products supplied by the parent companies of TNCs to their subsidiaries that are located in other countries are also included into the value of exports and imports. This way the intra-corporate exchange is taken into account, which is carried out within TNCs and is included in the international trade.

1.3. Trade balance (S) is determined as the difference value of exports (E) and imports (I) of the country for a certain period:

$$S = E - I \quad (1.1)$$

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

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

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

$$FTT = E + I \quad (1.2)$$

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

$$GT = E + I + T \quad (1.3)$$

Group II. Relative indices. They are mostly derivative and expressed in the form of coefficients, shares, percents and other dimensionless quantities.

2.1. Indices of exports and imports dynamic. For the analysis of the development of the export and import activities the following indicators are used: the growth rates (individual, aggregate, medium) and growth rates of volumes respectively of export, import or foreign trade volume.

Individual index applies to physical changes in exports, imports and foreign trade volume. Dynamics of physical volume and physical volume growth compared to the base year can be defined by it. But it only considers changes in the physical volume.

Aggregate physical volume index of foreign trade, taking into account the price of the current year ($I_{ph.v.}$) allows us to estimate the export or import of commodities within constant prices of one period to obtain information on the movement of the mass of commodities without affecting price volatility i.e. takes into account the price factor. It is calculated by the formula:

$$I_{ph.v.} = \frac{\sum_{i=1}^n V_{i1} \times P_{i1}}{\sum_{i=1}^n V_{i0} \times P_{i1}} \quad (1.4)$$

where V_{i1} – volume of turnover of i -commodity in the current year in natural dimension (m^3 , pcs., tons, etc.);

V_{i0} - the volume of turnover of i -commodity in the base year in natural dimension;

P_{i1} - price of i -commodity in the current year in monetary units.

2.2 Import-export ratio (an index of the state of balance) ($I_{i/e}$) is determined by the ratio of exports of goods and services (E) to the volume of imports (I):

$$I_{i/e} = \frac{E}{I} \quad (1.5)$$

The trade balance is positive if this ratio is greater than one, and has a negative balance if it is less than one.

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

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

$$T = \frac{P_x}{P_{im}}, \quad (1.6)$$

where P_x - index of export prices;

$P_x = \sum x_i p_i$ - (x_i – the share of each commodity “i” in the total value of exports in the base year);

p_i – the ratio of the current price for the commodity “i” to its price in the base year;

P_{im} – index of import prices;

$P_{im} = \sum im_i p_i$ (im_i – the share of each commodity “i” in the total value of imports in the base year).

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

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

Revenue conditions of trade are defined as an index that indicates a potential ability of the country to import goods through revenue, which is derived from the exports in general. It is calculated as the commodity conditions of trade multiplied by a quantitative index of export:

$$T_g = \frac{P_x}{P_{im}} \times Q, \quad (1.7)$$

where Q – index of export volume.

The growth rate indicates that the import potential increases due to the increasing export revenues.

Factor conditions of trade are defined as an index, which links the import prices with productivity (efficiency) of one or more factors of production. It shows how many imports can be obtained per unit of productivity growth in the export sectors.

One-factor conditions of trade (T_{of}) are calculated by the formula:

$$T_{of} = \frac{P_x}{P_{im}} \times Z_x, \quad (1.8)$$

where Z_x - the index of productivity in the export sector of the country

Thus, the T_{of} measures the amount of imports, which country receives per unit of a domestic factor of production invested in the exports.

Two-factor conditions of trade (T_{tf}) are calculated as the commodity conditions of trade multiplied by the share of index performance (efficiency) of the exporting industries in the country (Z_x) and an index of the productivity of the exporting industries in the country, from which the goods are imported, that is, the index of the productivity of imports (Z_{im}):

$$T_{tf} = \frac{P_x}{P_{im}} \times \frac{Z_x}{Z_{im}} \times 100 \quad (1.9)$$

The index of the two-factor conditions of trade shows how many units of the internal factors are contained in the exports of a country, which are exchanged for a unit of foreign factors, contained in imports.

In general, the conditions of trade depend on the fluctuations in the global and domestic markets, on the changes in the conditions of production, on the degree of monopolization of certain commodity markets.

2.4. The index of export concentration ($I_{e.c.}$). It is used to determine certain types of products export in total production of these products and has the form:

$$I_{e.c.} = \frac{E_i}{V_{prod.i}} \times 100\% \quad , \quad (1.10)$$

where E_i - volume of export for i-type of product;

$V_{prod.i}$ - aggregate output for i-type of product.

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

2.5. The index of import dependence of the country (Z_{ij}) is defined as the share of imports in total consumption:

$$Z_{ij} = \frac{I_{ij}}{P_{ij}} \times 100\%, \quad (1.11)$$

where I_{ij} – volume of import of the commodity “i” to the country “j”;
 P_{ij} – the volume of consumption of the commodity “i” in the country “j”;
 $P_{ij} = V_{ij} + I_{ij} - E_{ij}$,
 where V_{ij} – volume of production of the commodity “i” in the country “j”;
 E_{ij} – volume of export of the commodity “i” from the country “j”.

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

2.6. Index of net trade (Int) shows the excess of exports over imports level by each type of product (with the positive value of indicator) or the excess of imports over exports (with its negative value):

$$Int = \frac{E_i - I_i}{E_i + I_i}, \quad (1.12)$$

where E_i - export of the commodity “i”;
 I_i - import of the commodity “i”.

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

2.7. The index of export concentration (Hirschman index) shows the variety of goods, which country exports. It is calculated by the formula:

$$H_j = \frac{\sqrt{\sum_{i=1}^{239} \left(\frac{X_i}{X}\right)^2} - \sqrt{\frac{1}{239}}}{1 - \sqrt{\frac{1}{239}}}, \quad (1.13)$$

where H_j – index of concentration of exports j (j – index of the country)

239 – the number of products on the UN classification;

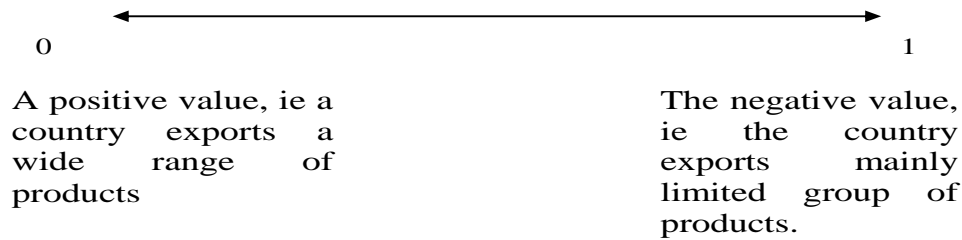
i –index of the product (1 to 239);

x_i –value of export of i-commodities by country j;

x – the total value of exports of country j, which is calculated as follows:

$$X = \sum_{i=1}^{239} x_i$$

The value of the index H_j is in the following limits:



Group III. Indicators of structure. The structure of exports and imports gives the qualitative characteristics of international and foreign trade.

Commodity structure of exports (imports) is the proportion of separate groups of goods (services) in total exports (imports). It provides systematization of the totality of commodities, exported from the country, by the certain signs (groups of countries or all countries of the world), or imported into the country or group of countries.

Belonging to the group of goods is determined according to the applicable rules of classification of goods. Standard International Trade Classification, Harmonized Commodity Description and Coding System, Classification by Broad Economic Categories can be used for goods classification.

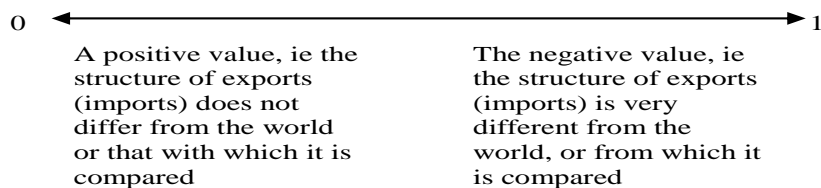
3.1. Index of diversification of exports (imports) shows the deviation of the export structure (import) from the structure of world exports (imports). It is used to determine differences in the structure of foreign trade of different countries, export or import of which are quite versatile. This index is calculated as the deviation of the share of exports of goods in the country from its share in world exports by the formula:

$$S_j = \frac{\sum_{i=1}^n |h_{ij} - h_j|}{n}, \quad (1.14)$$

where S_j - index of diversification of export (import) of the country j ;
 h_{ij} - the share of i -goods in total world exports (imports) of the country j ;
 h_j - the share of i -goods in total world exports (imports);
 n - the number of studied groups.

Sometimes, the structure of export (import) of the geographical area of studied country is used as a basis for comparison, instead the global structure of export (imports).

The value of the index S_j is in the following limits:



3.2. The share of high-tech products in exports of products of manufacturing industry. This share should not exceed 15% according to the recommendations of the World Bank.

3.3. The share of products of manufacturing industry in total exports. It should not be less than 40% according to the recommendations of the World Bank.

Indicators 3.2 and 3.3 show the effectiveness of the structure of exports.

The geographic (regional) structure of exports and imports characterize the distribution of commodity flows (in both directions) at the place (countries, regions) of destination or origin and are classified according to the structure of exports and imports of the country, the structure of exports and imports of goods (or commodity group), as well as internal and external structures. Thus, there are following geographic (regional) structures of exports (imports):

a) external geographical structure of exports (imports) of the country – is the distribution of exports (imports) by countries or regions of its destination (origin);

internal geographical structure of exports (imports) of the country - the distribution of exports (imports) by regions (administrative units) of origin (consumption) within the country;

b) external geographical structure of export of product - the distribution of export of a particular product by countries (regions) of consumption. External geographical structure of import of product – is the distribution of supplier countries of certain goods according to their share in the formation of total imports of the product;

internal geographical structure of export of goods – is the distribution of export of a particular product by regions (administrative units) of its formation inside the exporting country. Internal geographical structure of imports - is the share of regions within the country of the consumption of certain product;

c) geographical structure of exports (imports) of group of countries - is the distribution of total exports (imports) of this group by regions (countries) of destination (origin);

d) geographical structure of exports (imports) of product by a group of countries, that demonstrates the distribution of total exports (imports) of certain product between the countries (regions) of consumption (origin);

e) geographical structure of world exports (imports) shows the share of each country (region) in world exports (imports), defining the leading exporters (importers) in the world;

f) the geographical structure of world exports (imports) of product shows the share of each country (region) in the world exports (imports).

3.4. Index of geographic concentration of exports (imports) of good (Herfindel-Hirschman index). It describes the condition of the world market for a particular good by the following features: the number of exporters (importers) and the share of the main exporter (importer).

This index is the greater, the lower the total numbers of exporters (importers) and the higher the share of the main exporter (importer). We can calculate it by the formula:

$$S_k = \sqrt{\sum_{i=1}^n \left(\frac{X_i^k}{X^k} \right)^2}, \quad (1.15)$$

where S_c – index of geographic concentration of exports (imports) of commodity k ;

X_i^k – the volume of exports (imports) of goods for the country i ;

X^k – the volume of world exports (imports) of commodity k ;

n – the number of countries-exporters (importers) of commodity k .

IV group. Indicators of intensity.

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

$$Q_e = \frac{E}{GDP} \times 100\%, \quad (1.16)$$

where E - volume of exports for the certain period;

GDP - gross domestic product for the same period.

4.2. The import quota (Q_i) is calculated by the formula:

$$Q_i = \frac{I}{GDP} \times 100\%, \quad (1.17)$$

where I – volume of imports for the certain period.

4.3. Foreign trade quota (Q_{ft}), which is defined by the formula:

$$Q_{ft} = \frac{0,5(E + I)}{GDP} \times 100\%, \quad (1.18)$$

4.4. The volume of export, imports, and foreign trade turnover per capita. They are calculated by the formulas:

$$E_{pc} = \frac{E}{P}; \quad (1.19)$$

$$I_{pc} = \frac{I}{P}; \quad (1.20)$$

$$FTT_{pc} = \frac{FTT}{P}, \quad (1.21)$$

where E_{pc} , I_{pc} , FTT_{pc} – respectively exports, imports, foreign trade turnover per capita;

E and I – the value of national exports and imports for the year;

FTT - the country's foreign trade turnover for the year;

P - the population of the country for the year.

4.5. The intensity of intra-industry trade between countries (U_i) is calculated as follows:

$$U_i = \frac{(E_i + I_i) - |E_i - I_i|}{E_i + I_i} \times 100\%, \quad (1.22)$$

where E_i , I_i – export and import of industry i ;

$|E_i - I_i|$ - the absolute value of the difference between exports and imports of products of this industry, which is equal to the volume of intra-industry trade of industry i ;

$(E_i + I_i)$ – value of foreign trade turnover of industry i ;

$(E_i + I_i) - |E_i - I_i|$ - the level of intra-industry trade.

The average level of intensity of intra-industry exchange among the industries of the country (group of countries) can be determined by:

$$\bar{U}_i = \sum_{i=1}^n \frac{(E_i + I_i) - |E_i - I_i|}{E_i + I_i} \times 100\%, \quad (1.23)$$

where n – the number of industries or countries.

V group. Indicators of economic efficiency (effect) of foreign trade.

5.1. Macroeconomic indicators. Economic efficiency of foreign trade is the degree of saving of national labor, which is achieved due to the country's participation in the international division of labor.

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

$$E_{ft} = \frac{C_i}{C_e}, \quad (1.24)$$

C_i – the costs of domestic production of imported goods;

C_e – national expenditure on export production;

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

5.1.2. Efficiency of export (E_e):

$$E_e = \frac{F_e}{C_e}, \quad (1.25)$$

where F_e – foreign exchange receipts from export;

C_e - the costs on production and sale of export products.

5.1.3. Efficiency of import (E_i):

$$E_i = \frac{C_i}{F_i}, \quad (1.26)$$

C_i – the costs of domestic production of imported goods

F_i - foreign exchange costs of imported goods.

5.1.4. Budget effectiveness of export (E_e^b):

$$E_e^b = \frac{F_e}{Pr_e}, \quad (1.27)$$

where Pr_e – selling price of industrial products for export

5.1.5. Budget effectiveness of import (E_i^b):

$$E_i^b = \frac{Pr_i}{F_i}, \quad (1.28)$$

where Pr_i - delivery price of imported goods for the domestic market.

5.1.6. The effect of the state budget from foreign trade exchange (E_{ft}^b):

$$E_{ft}^b = (Pr_i - Pr_e) + K_c(F_e - F_i), \quad (1.29)$$

where K_c – currency coefficient for transferring of foreign currency into the national currency.

5.2. Microeconomic indicators. They are calculated before the conclusion of foreign trade agreements, in time of planning of foreign economic activity as well as to evaluate the efficiency of export-import operations in the previous period.

5.2.1. Efficiency of production of goods for export:

$$E_e^f = \frac{Pr_e}{C_e}, \quad (1.30)$$

This parameter must be greater than one, and then the production and sale of this product will be effective on the international market.

5.2.2. Efficiency of use of imported goods (E_i^{use}) or its consumption:

$$E_i^{use} = \frac{C_i}{Pr_i}, \quad (1.31)$$

If $E_i^{use} > 1$, it shows that the production of the imported goods by own forces is inefficient and it will be better to import it.

5.2.3. The profitability of export (R_e):

$$R_e = \frac{H_e}{CP_e} \times 100\%, \quad (1.32)$$

where H_e – export revenues in hryvnia, which are calculated by the transfer of foreign exchange receipts in hryvnia at the rate of NBU on the day of admission of foreign exchange receipts;

CP_e – cost of production of the exported product.

5.2.4. The economic effect from export (EE_e):

$$EE_e = H_e + C_s - C_e, \quad (1.33)$$

where C_s – cash revenue from the compulsory sale of the part of currency to the country.

5.2.5. The economic effect from import (EE_i):

$$EE_i = P_r - P_{si}, \quad (1.34)$$

where P_r – selling price of imported goods in the domestic market;

P_{si} – price of purchase of the imported goods, which includes all costs related to their acquisition (contract costs, customs fees, taxes, transportation, etc.).

5.2.6. The integrated economic effect of the firm from export-import activities ($EE_{e/i}$):

$$EE_{e/i} = EE_e + EE_i. \quad (1.35)$$

This index is calculated if the firm is dealing with exports and imports at the same time.

1.4. Expediency of international trade exchange

1.4.1. The gain from international trade at the country and consumers levels

The value of international trade in the international economy is caused by the fact that the important factors and feasibility of international exchange of goods and services are in its foundation.

There are factors, which cause the necessity of the international trade:

- the appearance of the global market;
- unevenness of development of individual branches in different countries.

Production of the most developed areas, which cannot be fully realized in the domestic market, is exported abroad. In other words, there is a need to sell products in foreign markets and the need to obtain certain goods from outside;

- the tendency to unlimited expansion of the size of production. Since the capacity of the domestic market is limited by responsible demand, production outgrows the limits of the internal market. The entrepreneurs of each country are fighting for foreign markets;

- the desire to get higher profits due to the use of cheap labor and raw materials from developing countries.

No country in the world can manage without foreign trade now. All countries depend on international trade. They have different dependency on it. It is defined as the ratio of half of the cost volume of foreign trade turnover to GDP (the index of foreign quota). All countries can be divided into three groups for this indicator: with high dependence (45-93%), middle dependence (14-44%) and small dependence (2,7-13%).

The countries with high dependence are usually developing countries, or they have small territory. These facts lead to very high degree of openness of their economies: Brunei – 48,9%, United Arab Emirates – 51,2%, Macedonia - 71,3%; Belgium and Luxembourg - 48,4%, Panama - 30,3%, Singapore - 93,2% [7, p.54].

The countries with middle degree of dependence are mostly large developed countries (Germany, United Kingdom, and France).

The countries with low dependency are the countries, which are guided by their own economic potential. Also we can classify as low dependent the countries, which are economically underdeveloped. The countries cannot move to an open economy because of their low economic potential. Zaire - 2,7%, Liberia - 3,4%, Brazil and Japan - 8,6%, USA - 9,2%, Somalia - 11,2%, Belarus - 14,8% belong to this group [7 , p.54].

International trade is reasonable if it brings any benefit.

The countries receive some benefits from the participation in international trade, such as:

- the opportunity to export goods, in the production of which those resources are used that are in the plenty inside the country;
- the opportunity to import goods, for the produce of which it would be necessary to spend a lot of relatively limited resources in country;
- the effect of saving on larger scales of production, the specialization on a narrower set of products.

Export activity of the country activates certain aspects of the national economy: provides the orders to national suppliers, creating jobs for the workers of the state, allows paying of dividends to the shareholders of national companies.

At the same time, import of goods from other countries may force domestic manufacturers to reduce prices for products in order to improve their competitiveness. The inability of the company to respond to competition adequately can lead to bankruptcy of the enterprise, closing of it and dismissal of workers.

Consumers are interested in international trade to:

- import the consumption goods at a cheaper price compared to the national price or the products, which are better than national on certain parameters;
- import raw materials and export manufactured goods. This fact reduces domestic production costs, makes it possible to refuse release of products, production of which only depends on foreign suppliers;
- export domestic products, and to use received money for import.

Consequently, the consumers will benefit from the increase in the number and diversity of goods, lower prices. The level of consumer's welfare increases because of these factors.

1.4.2. Benefits of export and import activities for domestic firms

We can consider gains from international trade for the domestic international firms from the standpoint of export and import capabilities [11, p. 34].

There are factors that help businesses to benefit in *export activity*:

- the use of excess capacity, which companies sometimes have at their disposal, but this capacity is not appropriate for domestic demand. This capacity can include: explored reserves of natural resources, the specific capacities for the production of certain products that can not be used in the production of other goods. Often production technology may allow company to make production profitable only in serial production, in larger amounts than it is necessary to meet the demand in the country;

- obtaining of higher profits. The manufacturer can sell products more profitable on the foreign market due to differences in the competitive environment on the foreign market from domestic one. It is connected with the fact that product may be on another stage of the life cycle in the foreign market. For example the stage of maturity inside the country usually leads to lower domestic prices. Increase of sales and profits will be typical for maturity stage of products abroad. Increased profitability can be achieved by differences of government measures for income taxation, price controls within the country and abroad;

- significant amounts of foreign sales make domestic producers less dependent on domestic economic conditions;

- reducing production costs, due to the coverage of conventionally fixed costs by issuing larger output, increase of efficiency through experience, which was acquired in the production of large quantities of products; massive purchases of materials and transportation of their large quantities. In general, companies can reduce their costs by 20-30% in the case of doubling the increase in output;

- risk sharing. The manufacturer can reduce the variation of demand, organizing sales in foreign markets because of business cycles in different phases and the same products at different stages of the life cycle;

- knowledge and experience, gained by firms in the process of working on foreign markets that promotes increase of the effectiveness of their activity during marketing operations on the domestic market

There are factors that help businesses to benefit in *import activity*:

- avoidance limitations of the domestic market, reducing the production costs or improving the quality of products (e.g., compensating for unexpected changes in access to domestic sources of raw materials by opposite changes in the import of raw materials);

- obtaining the cheap high-quality materials, components and technologies for their use in the manufacture. This company gets more resistance against

competition from imported finished products or can compete in export markets more effectively by itself;

- the use of excessive capacities of trade and distribution network;
- the complement of available product lines, allowing the company to offer more products for sale;
- the possibility of distribution of operational risks because of the fact that company is less dependent on a single supplier dictates when expands the range of suppliers.

The impact of the international trade on domestic firms which are competitors in the import is ambiguous. The clash of interests of the company with import competition may lead to negative consequences in the form of labor dismissal or reduction of wages. The adverse effect of competition from import is particularly noticeable when competing industry operates in a specific field. However, the above losses caused by import competition, are temporary. Untapped resources will move into more productive industries in the developing economies, for example, in industries which produce products for export, and competing in import firms will adapt to accept new technologies the demand for new products and services and their production.

Chapter 2. International trade and economic development

2.1. Determinants of promotion of economic development and international trade

Acceleration of economic development, improvement of socio-economic and international trade, use of the benefits of the international trading system are the important tasks of countries of the world. The need to address these tasks requires to identify the main factors of economic development and of facilitate international trade.

We can consider economic development as a sustainable increase in national output of goods and services and measure by different parameters. For example, the growth rate of GDP or GDP per capita. The last index is called “wealth effect” or “effect of economic development”.

Economic development and international trade are complex, interdependent processes that are the results of the interaction of different factors: economic, political, social.

Certain factors may play a role of the main engine of growth at various stages of the development of the country. The economic development and international trade are stimulated in most cases by such factors, as: innovation and technological advances that improve efficiency of activity, and also create new competitive advantages; level of economic freedom, which indicates the existence of a market economy; natural and geographical conditions that form the natural competitive advantages; quality of preparation of the labor force [1, p.91].

The driving force of long-term economic development is technological innovations (scientific and technical progress), because the most part of the increase in real per capita income occurs due to them in developed countries. This term covers both machines, equipment, various forms of technological solutions, which have physical expression, and a set of technical and management skills for organization of production and implementation of foreign trade operations.

The differences in the technologies, that the countries have, determine their different levels of economic development and form the basis of comparative advantages. Technological inequality forces the country to produce those goods for which there is better technology in this country. Technologically reliable comparative advantage arises in the case of technological changes in the different sectors and countries.

Technology development is closely linked to the factors of production (capital and labor). Thus, technological advances make the capital more productive and generate incentives for new investments. The technology could also materialize in new equipment, i.e. in some form of physical capital, and insufficient attention to human resources undermines the potential of the country to develop through the innovations and technological progress.

English economist John Hicks, who received the Nobel Prize in economics in 1972, described the different types of scientific and technical progress (STP) and

showed how they are connected with the factors of production (capital and labor), and what impact on economic development these types do [8, p.73]. He divides STP on neutral, labor-saving and capital-saving:

- neutral STP increases the productivity of labor and capital in the same proportion. The result is that a given amount of output can be produced at lower cost of labor and capital;

- labor-saving STP increases the productivity of capital in greater degree than productivity of labor. As a result, capital replaces labor in production, and the parity of capital to labor increases, i.e., more capital is used per unit of labor. This volume of output is produced with less capital and labor, but with the higher ratio of capital to labor;

- capital-saving STP increases the productivity of labor in greater measure than capital productivity. As a result, labor replaces capital in production, and the parity of labor to capital increases, i.e., more labor is used per unit of capital. This volume of output can be produced with less labor and capital, but with the higher ratio of labor to capital.

Thus, any STP regardless of its type reduces the amount of labor and capital which is necessary to produce any output, i.e. it increases the productivity of factors of production. The structure of exports is changed under the influence of the innovative changes, in particular, the research intensity increases, and it gives new impulses for dynamization of economic development.

Economic and political situation in the country about which the level of economic freedom testifies, influences on economic growth and openness to the international trade.

American analytic center Heritage Foundation created indicator, which helps to measure the level of economic freedom of countries around the world. This index is calculated on base of ten major objective economic criteria which make it possible to determine the overall rating of each country. There are:

- tax freedom;
- freedom of ownership;
- freedom of investment;
- freedom of labor relations
- freedom of entrepreneurship;
- financial freedom (the development of banking sector);
- freedom from corruption;
- freedom from government interference in the economy;
- free trade (trade policy);
- freedom of monetary relations (monetary policy) (Tab. 2.1).

About 50 independent economic parameters can be used for every of these 10 criteria. All the countries in rating are divided into five categories: "free" (80-100), "basically free" (70-79,9); "with middle-freedom" (60-69,9), "relatively free" (50-59,9), "depressed" (0-49,9).

The index of economic freedom changes from 70,5% to 90,1% in developed countries, it averages 60% in transitive countries, and it makes 43,6% in the least developed countries [8, p. 74].

The world index is calculated and it is 60,6%, and indices for the regions of the world make: at American region - 62,3%, European region – 67,5%, Asia-Pacific – 59,1%, Middle Eastern and North African – 54,7%, South Africa - 60,6%.

There is a stable relationship between economic freedom and economic development. The countries with consistently high ratings of economic freedom also have higher rates of economic development effect. In 2013 Hong Kong (90,1), Singapore (89,4), Australia (82,0), Switzerland (81,6), New Zealand (81,2) belonged to the countries where there was the greatest degree of economic freedom. Their effect indicator of economic development is respectively 36,8 thousand dollars 51,7 thousand dollars, 67,0 thousand dollars, 79,0 and 32,0 thousand dollars (when average in the world is 10,2 thousand dollars). The countries with the lowest level of economic freedom also have a low standard of living. For example, in Zimbabwe, and Burma the level of economic freedom is respectively 35,8 and 40,1, and GDP per capita – 0,2 thousand dollars and 1,2 thousand dollars respectively.

Natural and geographical factors make an influence on the economic development and international trade. The countries with good natural conditions usually export raw materials and agricultural products. Unhealthy or harsh climate, poor soils, lack of waterways make bad influence on the development. The scientists at Harvard Institute for International Development established, that the countries, that are not landlocked, develop more slowly than the coastal state, and the total cut from the sea slows annual rate of about 0,7%; tropical countries develop by 1,3% slower than the countries located in the temperate zone [1, p. 94].

Improving the quality of human resources is the important factor in our time. Education, health care, professional training are the investments in human capital.

The relationship between economic growth and accumulation of the human capital is demonstrated through the index of the intellectual feedback of the production [7]:

$$\frac{\Delta Y}{Y} = \frac{\Delta Y}{I_r} \bullet \frac{I_r}{Y}$$

where Y - result of production (national income, GDP, etc.);

ΔY - increase of production in the i-year;

$\frac{\Delta Y}{Y}$ - rate of economic growth;

I_r - investments in human capital;

$\frac{\Delta Y}{I_r}$ - intellectual feedback of the production;

$\frac{I_r}{Y}$ - the share of social investments in national income (GNP).

The improvement of quality of the labor force, reducing unemployment and employment protection are important components of development for all countries.

There is the gap by the level of human capital between the developed and developing countries. Thus, in industrialized countries 80 scientists and technicians accounted for 1000 persons, and in developing countries - 9. In the developing countries there are over 900 million of illiterate, 1,5 billion people do not get medical care [7]. It is proved that Malaysia, Singapore, Indonesia have been able to overcome the negative impact of their tropical geographical environment and to develop much faster than tropical countries of Africa and Latin America, because they have directed many investments in human capital, especially in education [1, p. 94].

All the considered factors make the countries more inclined to transparency, they promote their economic growth, and it creates better conditions for the development of international trade.

Table 2.1

The countries with the largest index of economic freedom in 2013 (%)

Countries	The overall index of economic freedom	Freedom of ownership	Freedom from corruption	Tax freedom	Freedom from government interference in the economy	Freedom of entrepreneurship	Freedom of labor relations	Freedom of monetary relations	Freedom of trade	Freedom of investment	Financial freedom
Hong Kong	90.1	90	82.3	93.0	89.7	98.9	95.5	82.0	90.0	90	90
Singapore	89.4	90	91.9	91.2	91.2	96.8	96.5	81.5	90.0	85	80
Australia	82.0	90	87.7	64.2	62.6	94.6	79.2	80.5	86.4	85	90
Switzerland	81.6	90	88.1	68.9	65.7	75.4	87.4	85.2	90.0	85	80
New Zealand	81.2	95	94.0	71.2	32.3	96.1	90.2	86.3	86.8	80	80
Canada	80.2	90	87.7	79.7	47.3	89.3	83.1	76.3	88.3	80	80
Chile	78.7	90	72.3	76.5	83.8	69.3	69.3	84.1	82.0	90	70
Mauritius	76.5	65	53.4	92.2	81.8	74.4	78.0	76.7	88.6	85	70
Ireland	76.2	90	74.8	74.0	30.6	83.4	79.5	81.7	87.8	90	70
Denmark	76.1	90	93.7	39.3	0.5	98.1	91.2	80.0	87.8	90	90
Estonia	75.9	90	64.2	80.4	56.0	77.6	55.9	76.9	87.8	90	80
United States	75.5	80	72.0	65.8	48.1	89.2	97.2	75.4	86.8	70	70
Bahrain	75.1	60	49.4	99.9	71.4	76.3	82.0	78.4	78.6	75	80
Great Britain	74.9	90	76.4	56.6	29.5	92.0	73.1	73.5	87.8	90	80
Netherlands	74.2	90	88.0	51.7	25.6	89.7	59.6	79.9	87.8	90	80
Luxembourg	74.2	90	84.1	62.8	47.6	72.6	43.1	78.9	87.8	95	80
Finland	73.4	90	93.4	65.1	8.9	93.6	46.5	78.9	87.8	90	80
Iceland	72.4	90	84.2	72.9	32.9	91.2	59.1	76.0	87.9	70	60
Japan	72.4	80	77.8	69.2	47.1	80.0	79.8	87.5	82.4	70	50
Macau	71.3	60	49.7	71.4	91.7	60.0	55.0	79.8	90.0	85	70

Source: http://www.heritage.org/index/pdf/2013/Index2013_ExecutiveHighlights.pdf

2.2. Role of international trade in economic growth

2.2.1. Types of economic growth

International trade can be considered from two sides: as an engine of economic growth and a derivative of economic growth. Empirical researches of famous economists M. Michalopoulos, K. Jay, M. Mikaeli, A. Kruger, B. Balass indicate the role of international trade in economic development. The results of their works show the several facts:

- the growth rate of GNP and export growth rate are highly correlated with each other;

- there is a very strong correlation (0,38) between the change in the share of exports in GNP and rates of change of GNP. This relationship is particularly strong in countries with more developed industrial potential, but wasn't noticed in the least developed countries, indicating that the growth under the influence of export can be in case when the country achieves the minimal initial level of development;

- the increase in the growth rate of export revenues by 1% each year is connected with increase in the rate of growth of GNP by 0,1% [7].

International trade contributes to economic development of the countries, creating an opportunity to implement their significant comparative advantages and to develop the new ones. It stimulates faster and more efficient use of internal resources and enables to get the benefits and advantages of specialization and participation in the international division of labor. The countries have the opportunity to meet their demand for raw materials, capital goods and technology that are not manufactured or produced by local enterprises with high costs, to increase production based on demand of the world market on those products for which the countries have comparative advantages of specialization.

Additional demand due to the global market helps to overcome the small domestic market, to increase the effect of economies of scale due to access to the large and diverse markets. International trade not only directly affects the rate of reproduction. Multifaceted indirect effect is connected with the creation of numerous businesses that serve the external sector (adjoining and ancillary manufactures, suppliers, subcontractors) and help to overcome inertia; they are another one component of the economic growth).

Change in exports (supply of goods on export) and imports (demand for foreign goods) depends on changes in the terms of trade. This dependence is characterized by the concepts of "elasticity of exports" (relative supply of exports) and "elasticity of imports" (the relative demand for imports) [21].

The elasticity of imports (E_{im}) is the change in the demand for imports, resulting from the changes in the terms of trade. The elasticity of imports is measured as the ratio of percentage change in import volumes to the percentage change in the price of import, i.e.:

$$E_{im} = \frac{\Delta IM(\%)}{\Delta P(\%)} \quad (2.2)$$

If the prices for imported goods fall, the volume of import increases, and if the prices rise, import reduces. Demand for import considered to be elastic if $E_{im} > 1$. This means that the decline in prices for imported goods by 1% led to an increase in demand for more than 1%. Demand for import considered to be inelastic if $E_{im} < 1$. This means that the decline in the price for imported goods by 1% led to increased demand for less than 1%.

The country will increase the costs of import when prices fall (because falling of the import prices means improving terms of trade), if import demand is elastic, as demand for imports increased to a greater extent than their price falls.

The country will reduce the costs of import if import demand is inelastic. But as the volume of imports is limited by abilities of exports (export earns money for import), in case of the elasticity of import and fall of its price, the export volume should be increased.

The elasticity of exports (E_x) is the change in the supply of goods for export, resulting from the changes in the terms of trade. The elasticity of exports is measured as the ratio of percentage change in export volumes to the percentage change in the price of import, i.e.

$$E_x = \frac{\Delta X(\%)}{\Delta P(\%)} \quad (2.3)$$

If the prices for imported goods fall, export volumes increase, and if the prices rise, export volumes reduce.

Thus, the elasticity of import demand and elasticity of supply of goods for export are closely interrelated with each other. High elasticity shows the maturity of the market mechanism that allows manufacturers to quickly respond to changing prices. The low elasticity indicates insufficient development of mechanism of regulation of economic processes that creates serious economic problems for society.

International trade can be considered as a derivative of economic growth i.e. economic growth directly affects the development of international trade. It distributes domestic production opportunities of the country, contributing to the growth of cheap exports, entering new markets. But at the same time reducing export prices could lead to the fact that countries-importers of these products will get all the benefits of increased economic growth. The nature of the impact of economic growth on international trade depends on which factors of production increase - import substitution or export broadening [23].

From the perspective of influence on international trade economic growth could be export-led growth, import substitution or neutral.

If the output of the country of export goods increases in greater proportion than the production of goods that may be the subjects of imports, economic growth, which results in more than proportional distribution of trade, is called export-led growth.

Export-led growth is determined by increase in production of export goods in the country. The increase of their supply in the world market leads to the decrease of the relative prices, as the country is forced to sell more of its export goods to export, the relative prices of which are falling, in order to buy the previous quantity of imported goods, the relative prices of which are growing. As a result, export-led growth leads to worsening of the terms of trade in the given country and to improvement in the countries - trade partners.

If the country's consumption of product, which is the subject of imports, increases in the greater proportion than the country's consumption of product which is intended for export, then the influence of economic growth on consumption will cause the spread of trade in even greater proportions and will be called import substitution.

Import substitution growth is determined by increase in production in the country of import substitution products. Extension of the domestic production leads to a fall in demand for imports, relative prices of import and increase in the relative price of exports. Thus, import substitution growth leads to improved terms of trade (reduced import demand causes a decrease in import prices) of the given country and to the deterioration of them in the countries-trading partners.

Import substitution type of domestic economic growth and export-led growth in the rest of the world are beneficial for a particular country, as the country's terms of trade with other countries are improving. Export-led type of domestic economic growth and import substitution growth in the rest of the world make worse the terms of trade for given country with the rest of the world.

The increasing volume of international trade without changing the terms of trade between countries is understood under the neutral growth of trade. This increase of trade is theoretically possible if the growth of all factors of production occurs with the same rate in all countries.

Economic growth, depending on the terms of trade and the effect of growth has different effects on the welfare of the country. The positive effect of growth indicates improving the welfare of the country. Otherwise, the welfare decreases or remains unchanged. If the effect of growth is positive and the country's terms of trade improve as a result of economic growth and trade, then the welfare of the country increases. If they are negative, then the welfare of the country reduces, and if they change in opposite directions, the welfare of countries may get worse, or become better or remain unchanged depending on the relative values of these indicators.

There is also immiserizing growth, which is defined as a situation in which the deterioration of terms of trade blocks the positive effects derived from the economic growth [10,]. This is the extreme economic model of increase in supply, where hypertrophied export-led growth faces a sharp decrease in terms of trade.

There are 3 main conditions for the immiserizing growth:

- the growth should be directed in the direction of spreading supply of exports goods. The growth of export supply should be so essential to influence the world prices;

- foreign demand for export commodities of the country should be so inelastic with respect to prices that spreading of exports will lead to significant reduction in global price for given export commodity;

- the country is so heavily dependent on international trade, that significant deterioration in its terms of trade will reduce the national welfare.

However the model of immiserizing growth is very rare occurrence in real life.

2.2.2. Competitive export as a component of the dinamization of growth

Increase in the competitiveness of domestic production plays an important role for economic development of the country. The competitiveness is “the level, which can be reached by country, in free and fair conditions, producing goods and services that meet the requirements of international markets and simultaneously maintaining and increasing real incomes for a long time” - as it is defined by the Organization for Economic Co-operation and Development. [18]

The relationship between the environment of country and specific process of wealth creation and the impact of certain factors on this process are accounted in the analyzing the value and role of competitiveness in modern world. Twelve factors of competitiveness underlying the calculation of the Global Competitiveness Index (GCI) are determined in “Global Competitiveness Report” that is issued by World Economic Forum (WEF) in collaboration with the Center for International Development at Harvard University:

- 1) institutions;
- 2) appropriate infrastructure;
- 3) a stable macroeconomic framework;
- 4) good health and primary education;
- 5) higher education and training;
- 6) efficient goods markets;
- 7) efficient labor markets;
- 8) developed financial markets
- 9) the ability to harness the benefits of existing technologies;
- 10) market size, both domestic and international;
- 11) by producing new and different goods using the most sophisticated production processes;
- 12) innovation.

Global Competitiveness Index is a synthetic indicator. It consists of statistics (1/3) and expert assessments (2/3). Top managers of companies all over the world are interrogated for creating these expert assessments.

Global Competitiveness Index on average equals to 5,44 in developed countries, 4,27 - in transition countries, 3,43 - in the least developed countries.

Export competitiveness is one of the important indicators of a country's competitiveness. UNCTAD's experts identified the main characteristics of competitive export. These are:

- the share of country's exports in international markets;
- diversification of "export basket" of the country;
- the growth rate of export;
- modernization of technology and growth of skills of staff in the export sector;
- expansion of the number of firms-exporters that can compete internationally;
- the share of national added value in exports of the country;
- growth of real wages in the sphere of exporting;
- achievement of economies of scale [18].

The presence of all these features allows to assess the export as competitive.

Competitive export allows the countries to obtain more foreign currency. So, these countries have the opportunity to import goods, services and technologies that are needed for increasing productivity, living standards and internal capacity. Owing to it the enterprises begin to focus on higher standards; they have the opportunities for easy access to information, feel competitive pressure due to competitive export. This fact encourages the local firms to put generous efforts for mastering new skills and capabilities.

There are four criteria, which distinguish competitive export from usual export [18]:

- stability of export that is established and increasing volumes of export, the share on the relevant product and regional international markets, the integration with foreign markets;
- high level of efficiency of export operations, that is evidence of the price competitiveness and the realization of comparative advantages;
- the quality of export goods and services and their innovativeness, that ensure long-term presence on the global market and demand of consumers for the products of the company, according to the theory of R. Vernon's product life cycle;
- the conscientiousness of a competition, i.e. the export operations are carried out in a competitive environment without the use of protective measures that are prohibited by international agreements and instruments, that distort the market mechanism (Fig. 2.1).

Thus, export competitiveness of the country, of the firm shows the effectiveness of their integration into the world economy and adaptation to contemporary global economy.

Economic growth and the increasing of country's competitiveness require the adaptation to structural changes that occur in international trade. These changes characterize the structural changes in the production under the influence of innovations, changes in demand and the liberalization of trade regimes.

There are general structural changes, such as:

- falling share of raw products, products of primary processing of raw materials in international trade;

- the rapid increase of the share of knowledge-intensive goods in international trade;
- gradual increase of the share of intermediate goods, the growing importance of the trade in intermediate products, components, units.

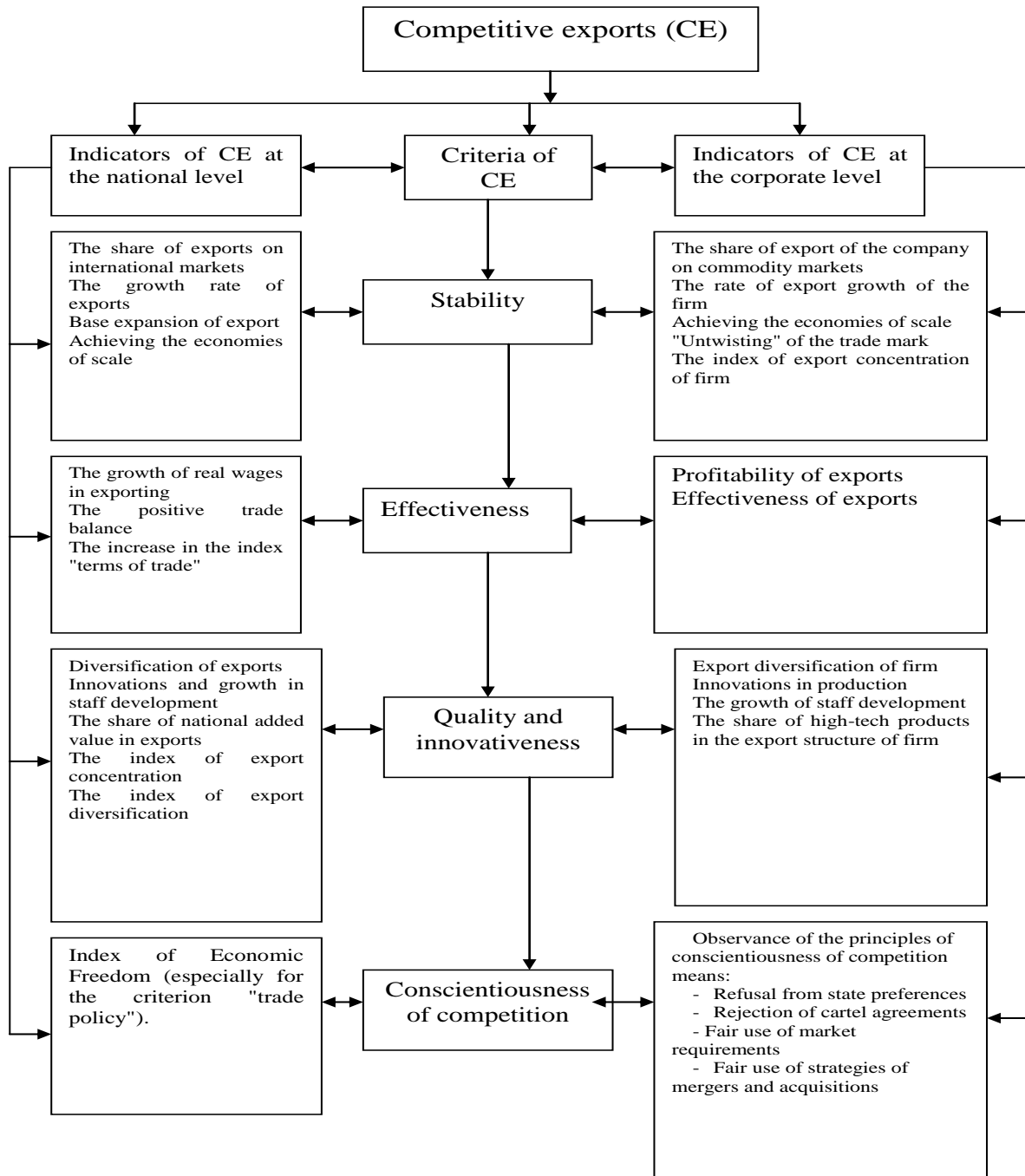


Fig. 2.1. The system of criteria and indicators of export competitiveness

Chapter 3. International trade theories

3.1. Classical international trade theories

3.1.1. Mercantilism theory

Mercantilism is the direction of economic thought that emphasizes the commodity character of production. It was developed by European scientists in XVII-XVIII centuries. It is the doctrine where the existing world is seen in static, but the wealth of nations is seen as a fixed phenomenon in every moment. Therefore, its adepts (T. Mun, A. Serra, A. Montchrestien) believed that growth of welfare of one country is possible by redistributing of existing wealth, that is through the pauperization of another country. Mercantilists associated the wealth with stocks of precious metals (gold and silver). In their opinion, the larger number of precious metals a country owns, the richer it is. Having more money in circulation stimulates the development of national production and the employment increase. A state, according to mercantilists, should:

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

Thus, the mercantilist policy of major countries was based on striving for maximum accumulation of money capital and maximum reduction of import, i.e. a state should sell as many goods as possible and should purchase as little as possible at the foreign market. Herewith, the country should accumulate gold. Mercantilists also considered that it is necessary to carry out the governmental control over all economic activities and justified the economic nationalism.

The role of mercantilism can be defined by following statements:

1. Mercantilism was the first attempt to create a theory of international trade, which directly linked trade relations with the domestic economic development of a country and with its economic growth
2. Mercantilists created one of possible models for the development of international trade on the basis of commodity character of production. They laid the foundations of categorical apparatus used in modern theories of international trade.
3. The balance of payments was firstly described [6].

However, mercantilists could not understand that the enrichment of one country could be carried out not only by means of pauperization of other ones it trades with, that the economic growth is possible not only as a result of redistribution of existing wealth, but also by means of its accumulation. In other words, they believed that a country could have benefit from trade only at the expense of another country that makes trade a zero-sum game.

Nowadays, the manifestations of neo-mercantilism are observed, when the countries with high rates of unemployment try to limit import in order to stimulate domestic production and employment.

Mercantilism school dominated in economy during 1,5 century. Huge number of possible restrictions operated in international trade at the beginning of the 18th Century. The rules of trade were contrary to the needs of production. There was a need for a transition to free trade.

The theory of international trade found its next development in the works of economists of the classical school.

3.1.2. Absolute advantage theory

Development of international trade during the transition period of the developed countries to a large machine production led to the emergence of the absolute advantage theory, developed by A. Smith. He criticized mercantilism in his work “An Inquiry into the Nature and Causes of the Wealth of Nations” (1776). A. Smith held the view that the wealth of nation depends not so much on the accumulated stock of precious metals, but on the possibility of economy to produce final goods and services. Therefore, the main task of the government is not the accumulation of gold and silver, but making arrangements to develop production on the basis of cooperation and division of labor. A. Smith was the first, who answered the question “Why is a country interested in international exchange?” He considered that two countries must benefit from the trade, when they trade with each other. When one of them does not win anything, it will refuse the trade. Not only selling, but also purchasing of goods at the foreign market can bring the benefits for the country. A. Smith tried to determine the types of products which are profitable to export and import, and also whence the benefits from trade arise.

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

- labor is the only factor of production. Only it affects the productivity and price of goods;
- full employment, i.e. all available labor forces are used in the production of goods;
- only two countries, which trade only by two products between each other are involved in international trade
- production costs are constant, and their reduction increases the demand of goods;

- the price of one product is expressed in amount of labor, which is spent on production of another product;
- transport costs for goods transportation from one country to another are not taken into account;
- foreign trade is carried out without any restrictions;
- international trade is balanced (import is paid by export);
- factors of production do not move between countries.

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

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

3.1.3. Comparative advantage theory

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

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

- free trade;
- fixed costs of production;
- absence of international labor mobility;
- absence of transportation costs;
- lack of technical progress;

- full employment;
- there is only one factor of production (labor).

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

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

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

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

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

The importance of the comparative advantage theory is the following facts:

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

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

- the theory based the existence of benefits from trade for all countries, taking part in it;

- the possibility to develop foreign economic policy on the scientific foundation appeared.

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

3.1.4. Factor proportions theory and its testing by W. Leontief

In the classical theories the trade between countries is explained by their different absolute and relative costs of labor to manufacture goods that is the comparative advantage arises only in the conditions of international difference in labor productivity. However, the reasons of the origin of comparative advantages of a country-trading partner are not explained in these theories.

The research of factors affecting the commodity nomenclature and volume of international trade, allowed the Swedish scientists E. Heckscher and B. Ohlin to clarify and supplement the key tenets of the comparative advantage theory and to formulate the concept of factors of production in 20-30 years of XX century.

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

The theory is based on the following preconditions:

- there are two countries, two commodities, one of which is labor-intensive and another one is capital-intensive, and two factors of production: labor and capital;

- each country is provided by the factors of production differently;

- technologies are the same in both countries;

- there is no international movement of factors of production;

- full specialization of countries in production of any product is not possible.

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

They did it in order to show the role of the structure of factors of production in determining the trends and consequences of international trade.

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

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

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

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

The Heckscher-Ohlin theorem considers that trade is based on comparative advantages and shows that the difference in the factor-abundance of the countries is the reason of the comparative advantages. The reason of the differences between the relative prices of goods in different countries and the trade between them countries is the difference in factor-abundance of the countries.

The Heckscher-Ohlin theorem had further development in the factor-price equalization theorem (the Heckscher-Ohlin-Samuelson theorem). It answers the question: if the relative price of labor-intensive (capital-intensive) goods changes, how will the relative price of the labor (capital) change in a labor-abundant (capital-abundant) country?

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

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

However, despite the disadvantages, the factor proportions theory is the important instrument for the analysis of international economy, showing the principle of general equilibrium which governs the economic development. This model of international trade is the most suitable for explaining the processes of trade between the parent states and colonies, when the first ones performed as the

industrialized countries, and the second ones as agrarian and raw-material-producing appendages.

Nevertheless, in the analysis of the trade flows in the “triangle” of the United States – Western Europe – Japan, the Heckscher-Ohlin theorem faces difficulties and contradictions, which attracted the attention of many economists, particularly, the American Nobel Laureate W. Leontief. He applied the Heckscher-Ohlin theorem to the analysis of foreign trade of the USA. He showed by means of several empirical tests that the terms of the theory do not keep in practice. Since the USA was a capital abundant country with relatively high wages, according to the theory, it should export capital-intensive goods, and import labor-intensive ones. However, they exported more labor-intensive goods in reality, and capital intensity of American imports exceeded exports by 30%. This fact meant that the USA was not capital abundant, but labor abundant country. The results of the Leontief’s research were named “Leontief’s paradox”: the Heckscher-Ohlin theorem is not confirmed in practice, because labor abundant countries export capital-intensive products, and capital abundant countries - labor-intensive ones.

W. Leontief explains this paradox in next facts: the USA exported the goods, whose production was impossible or inefficient due to the lower labor skills in other countries. W. Leontief created the model of “labor skill”, according to which, the production includes four factors instead of the three factors (capital, land, labor). These four factors are: skilled labor, unskilled labor, capital and land. The relative welfare of professional staff and skilled labor predetermine the export of goods, the production of which requires the use of skilled work. The surplus of unskilled labor contributes to the export of goods, the production of which does not need the high qualification.

Nobody can give the convincing answer to the question about the reason of Leontief’s paradox. The main explanations are the following: 1947 year, analyzed by Leontief, was not representative; the two-factor model (capital and labor) was used; American tariffs, to a considerable extent, protected domestic labor-intensive industries; human capital was not taken into account. The testing of the Heckscher-Ohlin theorem, by means of the data of a large number of countries, confirmed the existence of Leontief’s paradox in other countries.

3.2. Standard model of international trade

Standard model is the main theoretical tool for analyzing international trade. Its basic concepts were established by Irish economist F. Edgeworth and Austrian economist G. Haberler in different years.

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

additional unit I and thus preserve the current level of consumption.

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

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

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

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

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

General equilibrium can be reached in the case when export of goods I of country A is equal to import of goods I in country B, and import of commodity II of country A is equal to export of commodity II of country B.

3.3. Alternative concepts of international trade

The use of classical theories is complicated by the lack of clarity in their empirical confirmation. Some assumptions, on which they are based, do not exist in real life. Therefore, they cannot be adapted to the most modern forms of international trade.

A number of theories with neo-technological approach appeared due to the rapid development of high technology and high-tech industries and increasing pace of the growth of international trade in the second half of the twentieth century. They are called alternative theories because their authors try to explain the realities and perspectives of international trade by dynamic comparative advantages that occur or are created, used and then disappear; formulate causes and consequences of individual countries participation in international trade exchange from other positions than in the classical theories. Emphasis is placed on demand, imperfect competition, and economies of scale, qualified labor and technological advances as key elements of international specialization.

3.3.1. The technology gap theory

American economist Michael Posner developed technological gap theory in 1961. The application of this concept in the analysis of international trade meant the rejection of the assumption of Heckscher-Ohlin theory, regarding the use of identical production technology of similar goods to all countries. M. Posner believed that the same technology is not always used simultaneously in different countries and its dissemination takes some time on an international scale. As a result, one country can use one or another new technology, while the other country has not received this innovation yet. In addition, the innovator firm is not interested in the rapid dissemination of its technology in the form of public domain [8].

M. Posner believes that most of the trade between developed countries is based on the introduction of new manufacturing processes and new products. The firm, which introduces a new product, may use its monopoly on exports until firm imitators will not appear with similar products on the market. Such temporary monopoly is often based on patents and licenses, the issuance of which stimulates the development of new inventions and technologies. Technological leadership of one company is really capable to add a new preference to the country of commodity's origin.

This theory states that the country may hold the position of leading exporter only on condition of the constant innovative activity in the global market. However, this model has some disadvantages because it does not explain the scales of the technological gap, features of their occurrence and elimination.

3.3.2. Product life cycle theory

The basic positions of the product life-cycle theory were developed by Raymond Vernon in 1966. It was based on the concept of the product life-cycle, proposed by the specialists of Harvard Business School in the early 1960s, who declared that sales of the products and profits from them change over time. There are four main stages of goods life cycle:

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

R. Vernon proves that an important role is played by technologies and researches in building up of trade relations between countries. The industrialized countries have much more technological and scientific possibilities to develop a new product. Companies may have comparative advantages in science and technology, which will lead them to a competitive advantage in the new products development in countries such as the United States. These firms most probably will export the goods developed by them to stretch the stage of growth of their product life-cycle. On the other hand, American import will have a tendency of advantage of the goods, the production of which does not much depend on technology or scientific research.

3.3.3. Representative demand theory

The representative demand theory was developed by a Swedish economist Stefan Linder in 1961. He tried to explain the trade structure of individual country there, and built his analysis of international trade exclusively on the problem of demand [7].

He takes as a basis the volume of exchange of similar goods between countries with a comparable level of development, without regard to the Heckscher-Ohlin theorem. A new approach was founded on the following principles:

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

S. Linder made a conclusion, that international trade in manufactured goods will be more intensive between the countries with the similar income levels, in

comparison with product turnover between the countries with different income levels, while the exchange is carried out by identical or similar goods. The convergence of countries according to the level of development requires alignment of the quality of goods.

However, the Linder's theory does not explain what manufactured goods a country will export and which of them it will import.

3.3.4. Economies of scale theory

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

As the factors of production growth, the cost-per-unit reduces as a result of different factors. These are increased specialization of production, the relatively slow growth in auxiliary departments than in the scale of the production, technological economy.

Economies of scale is the production development, at which the growth of unit production factors costs leads to increased production of more than one unit.

The theory of economies of scale explains the trade between the countries that are so close in factor endowments that even minor discrepancies in its endowment cannot explain the mutual trade, and also explains the trade between the countries by close to or technologically homogeneous products. According to this theory, production must be placed to ensure the growth of the economics of scale effect of production in countries with a large domestic market. The base of this concept is the assumption that the developed countries are endowed with factors of production in almost equal proportions, and therefore trade between them is suitable in the event that they specialize in the manufacture of goods of different industries due to what costs are reduced as a result of mass production. The number of firms and a variety of goods manufactured by them increase and the price of goods reduces because of the international trade development. This was reflected in the works of the American economist Paul Krugman [13].

3.3.5. Intra-industry trade theory

There are two flows, which create international trade in terms of monopolistic competition from the standpoint of differentiation of production nomenclature: inter-industry and intra-industry trade [10].

Inter-industry trade is the export and import of goods which belong to different product groups. Inter-industry exchange can be explained by the theory of Heckscher-Ohlin.

Intra-industry trade is the export and import of goods, which belong to the same product group.

Intra-industry exchange does not display the presence of competitive advantages. Its development is stimulated by means of economies of scale and production of differentiated products. The trade develops in the conditions of the same or similar provision with the factors of production and leads to higher incomes for all factors of production. It is normally carried out between the developed countries or countries of approximately the same size. Countries sell parts, components of products, differentiated products of branches that produce the industrial products.

Index of intra-industry trade (U) determines the volume of intra-industry trade between the countries. It is calculated as follows:

$$U = 1 - \frac{|X - IM|}{X + IM}, \quad (3.1)$$

where X – volume of export of particular industry and commodity group;
IM – volume of imports of particular industry and commodity group.

How the industry or commodity group is defined, it influences the value of this index. The larger the scale of the industry is, the higher the value of U is and the greater the probability that the country will export some types of differentiated goods and will import the other commodities is. The use of index U is very important in determining the differences in intra-industry trade of certain industries, as well as for an explanation of changes in intra-industry exchange within the same industry.

Inter-industry trade is carried out only by the products of different industries. Inter-industry trade and intra-industry trade occur in the cases of product differentiation. The greater the countries are similar in provision with the factors of production, technologies then the share of intra-industry trade between them is bigger.

Part II. Trade policy

Chapter 4. National level of international trade regulation

4.1. The main types of trade policy

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

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

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

- a system of unilateral measures. The instruments of state control are used by the government unilaterally and they are not coordinated with the trading partner in this system;

- the undertaking of bilateral agreements. Trade policy measures are coordinated between trading partners in such agreements;

- the undertaking of multilateral agreements. Trade policy is coordinated and regulated by the participating countries (the General Agreement on Tariffs and Trade, the General Agreement on Trade in Services which are included in the system of the WTO agreements, agreements on trade of the EU's member-states) [11, p.170].

The state can use each of approaches in any combination.

The main feature of government regulation of international trade is the possibility of application of two different types of foreign trade policy in combination: liberalization (free trade policy) and protectionism.

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

These two types of trade policy characterize the measure of state intervention into international trade.

The basic regulator of foreign trade is a market in the conditions of policy of liberalization. The protectionism practically excludes the operation of free market forces. It is assumed that economic potential and competitiveness of separate countries is different at the world market. Therefore a free action of market forces can be unprofitable for the less developed countries. Unlimited competition from the side of more powerful states can lead to economic stagnation and the formation of inefficient economic structure in less-developed countries.

The protectionism policy contributes to the development of certain industries in the country; often it is a necessary condition for industrialization of agrarian countries; it causes the unemployment reduction. However, the removal of

foreign competition reduces the interest of domestic producers in the implementation of scientific and technological progress, improving the efficiency of production.

There are four forms of protectionism:

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

In every country there are economic, social and political arguments, and the groups of pressure in favor of protectionist measures.

The main arguments for restrictions on foreign trade are:

- necessity of defense providing;
- increase of domestic employment;
- diversification for the sake of stability;
- protection of infant industries;
- protection from dumping;

Necessity of defense providing. In time of peace the protection of industries that are necessary to military production, must be provided with the purpose not to be dependent on foreign suppliers during the war. It sounds pretty convincing. However, the following facts clarified upon closer examination of this argument. Firstly, almost any industry can be defined as a category, necessary for military production. Secondly, such a policy can be effective if we assume that it will be no measures in response that is unlikely. Therefore, most economists believe that alternative methods (for example, the direct subsidies) of protection of strategic sectors are more effective both economic and socially.

The increase of domestic employment. A major reason for protection is unemployment. Unemployed persons form the most powerful pressure group in support of import restrictions as a condition of employment growth in the country.

In fact, the claim that free trade can lead to unemployment is reasonable. Import reduces the demand for certain goods of domestic production and leads to unemployment in areas where they are made. However, unused resources can not stay without using, because we live in a world with limited resources. The countries that produce goods for export require labor inflows, offsetting the loss of jobs in industries that compete with imports in the absence of restrictions in trade. Free trade is not so much affect the overall employment, as it changes the type of employment. It is believed that unemployment resulting from free trade is the short-term problem that can be solved by alternative methods, professional retraining, moving to a new place premium to money unemployment benefit.

Expenses related with a possible increase in prices and costs, which resulted in unemployment, must be compared in the process of deciding on the import restrictions. It is necessary to take into account the social costs that affect people and amplified by the fact that potential candidates for dismissal are often those people, who are unable to find alternative employment.

Diversification for the sake of stability. The essence of this protectionist argument lies in the fact that trade barriers are necessary for industrial diversification, which is the basis of reducing dependence of country on socio-economic and political conjuncture, which is made on the world markets of certain products.

In fact, the diversification helps to protect the domestic economy from the effects of international political developments, the decline in production abroad from random fluctuations in supply and demand for one or two specific products and thus provides great internal stability. But it should be remembered that the economic costs of diversification can be very significant and very inefficient (especially in countries with monocultural economies). In addition, the argument for the sake of diversification stability can not practically be applied to the industrialized countries with the already diversified economic structure.

Protection of infant industries. The logic of the argument to protect infant industries lies in the fact that their production is competitive only after some time. Enterprises of this sector must achieve a competitive level of production costs due to economies of scale, training and experience of workers over time, etc., and the only protective measures may be taken off. For example, the production of automobiles in Brazil and South Korea has reached the high competitiveness due to national protection. But there are other examples where protectionist measures did not give the expected results. Thus, the production of automobiles remained weak even after many years of functioning in Argentina and Australia. High probability, that future benefits will exceed the initial costs and high quality products will be provided, is necessary that the policy of protecting infant industries was effective.

Protection from dumping. Dumping or the sale of goods lower than their costs can be applied generally to eliminate competitors, for capturing monopoly position and price increases in the future. In this sense, dumping - is “economic piracy”. It quite deserves anti-dumping duty. But dumping should not be used as an excuse for continuing trade barriers as a form of price discrimination. In addition, the result of the law of comparative advantages may be issued as dumping. But it undermines the very basis of international trade in the end.

Thus, the art of trade policy is in striving for a balance between the two tendencies: free trade and protectionism. Each policy has its positive qualities and disadvantages, which depend on the circumstances, time and place of use. (Tab.4.1.).

Table 4.1.

Applying the principles of free trade and protectionism and their influence on economy

Free trade		Protectionism	
Advantages	Disadvantages	Advantages	Disadvantages
Specialization of countries, that facilitates the development of competition	The danger of over-specialization and increasing economic dependence on other countries	Creation and development of new industries	The problem of industry choice: - support for inefficient production; - saving of production backwardness
The growth of economic development of countries, that are involved in the international division of labor	The absence of state regulation in foreign trade does not allow the country to fulfill its social functions	Protective measures for manufacturers. The growth of employment	Problems regarding: - saving of the doomed sectors; - spending of funds that are not reimbursed
Efficient use of resources (factors of production). Increased consumption and prosperity of the country	More developed countries will benefit more than the less developed countries. Less developed countries may not get benefit from specialization due to non-compliance of export and import prices	The development of industries that supply raw materials and supplies in "protected" production. Liquidation of depending on the supply of raw materials	Human resources can be used more effectively in other areas. Crisis situations in liquidation of the doomed industries. Exhaustion and decrease of the national wealth
The elimination of the military-political dependence was permitted by the classics of free trade theory		The creation of own defense industry: - support of the volume of production; - retaining qualified potential	Problems related to: - elimination of unpromising industries; - application of diversification programs

The instruments of state regulation of international trade are:

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

Two indicators are used for the oriented determination of the nature of trade policy:

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

- the average level of nontariff barriers. It is calculated as the value share of the imports or exports, which are subject to the restrictions [11, p. 173].

Regime of implemented restrictions for each of the indicators is considered as open one if the level of restrictions is less than 10%, the moderate - if less than 10-15%, the limited - over 25% and the restrictive - 40-100%

4.2. Tariff methods of international trade regulation

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

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

There are three main functions of duties:

- fiscal function - in the cases, when duties are introduced to get money for the state. This function applies to both import and export duties;

- protectionist function - in the cases, when duties are used to reduce or remove the imports, thereby protecting domestic producers from foreign competition;

- balance function - in the cases, when they are introduced for preventing from unwanted exports of goods, domestic the prices of which are lower than on the world market.

4.2.1. Types of duties

There are the basic types of duties [7]:

1. According to the way of levying:

- **ad valorem (value) duties (T_{AV})**, that are imposed as a percentage to the customs value of the goods which are the subject to duty (for example, 30% of customs value);

$$T_{AV} = \frac{P_d - P_{im}}{P_{im}}, \quad (4.1)$$

where P_d – the price of commodity on the domestic market;

P_{im} – the import price of the commodity.

Generally these duties are applied for products that have different quality characteristics within the same product group. Ad valorem duties help to support the same level of protection of the domestic market, regardless of fluctuations of

prices for goods that automatically adapt to inflation. Only the amount of revenue to the budget changes in this case. If the amount of the duty is equal to 30% of the price of good, that is equal to \$ 150, then the budget income is \$ 45. If the price of good will be increased to \$ 200, the amount of the budget income will be increased to \$ 60. Revenue is \$ 24 in case of the decrease in price to \$ 80. Hence, ad valorem duty makes the price of imported goods increased at the installed rate.

- **specific duties**, that are imposed in the prescribed amount of money per unit of goods which are the subject to duty (for example, \$15 per 1 ton);

$$T_s = \bar{P}_d - P_{im} , \quad (4.2)$$

where \bar{P}_d - the average internal price of good, which needs customs protection.

Specific duties are imposed, usually on standardized products. The degree of customs protection with specific duty is directly dependent on price fluctuations. Thus, the specific duty \$ 100 per unit of imported ventilator restricts its imports more if the price is \$ 600 (because the specific duty is 16,7% from ventilator's price) then if the price is \$ 1000, because the specific duty is 10% of its price. That's why protection level for domestic producers decreases in case of higher import prices, and increases in the case of a decrease in import prices while using specific duties. However, the specific duty increases protection of the domestic market during the fall of import prices;

- **compound duties** that combine the two above-mentioned types of customs duties (for example, 30% of customs value, but no more than \$15 per 1 ton).

2. According to the object of levying:

- **import duties**, that are imposed on the goods imported to the customs territory of a country. Import duty is differentiated. There are types of rates that can be used:

a) preferential rates suggest reduction of customs duty rates or exemption from customs duty. They are applied for goods that come from countries, which create a customs union or free trade area together with the state that charges a duty, or for goods coming from developing countries;

b) the preferential rate, which are applicable for goods entering from countries or economic unions which use MFN regime;

c) full (gross) rate, which are used to all other goods.

Import duties are the dominant form of duties, which are used by all countries to protect the domestic market from foreign competition;

- **export duties**, that are imposed on the goods exported from the customs territory of a country. The export tariff is usually ad valorem. This form of duties is used rarely, in cases of large differences between domestic and world prices for certain commodities. The purpose of these duties is to reduce exports and fill up the budget. The rate of export duty (T_e) is equal to a percentage exceeding of exports (world) price of the commodity P_C over the domestic price:

$$T_e = \frac{P_c - P_d}{P_d} . \quad (4.3)$$

3. According to the nature:

- **seasonal (import and export) duties**, imposed on the goods of the seasonal character for operational regulation of international trade. Its duration is not over few months per year (up to four months from the installing moment – in Ukraine);

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

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

b) as a precautionary measure against the participants of foreign economic activity, which disserve the state interests in a particularly branch, as well as a measure to stop the unfair competition;

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

Special duty rate is set in each case. This duty is paid by the importer of the goods, regardless of other taxes and duties (mandatory payments), including duties, customs fees, etc. Payment of special duty can be made in cash or in cashless form, or by introducing the amount of duty on deposit or through the registration of corresponding debt obligation. The paid amounts of special duty can be returned to the importer by the decision of special bodies;

- **anti-dumping duty** can be applied in the case of import of goods into the customs territory of the country at a significantly lower price than in the country of export at the time of export. If such imports cause or threaten to cause damage to domestic producers of similar or competing products, or hinder to organize or to expand production of such goods. The anti-dumping duty is charged on the goods that are the objects for application of antidumping measures and serves as a temporary gathering for compensation of losses from commodity dumping. This duty may be charged only after anti-dumping investigation and obtaining objective proofs of harm or threat of harm to the domestic economy.

The size of anti-dumping duty rate can be determined:

- in the percentages of the customs value of good, which is the object anti-dumping investigation;

- the difference between the minimum price and the customs value of the particular good (as the difference between the prices of good in the domestic and foreign markets). Minimum price is the price of the product which does not cause the damage to domestic producers.

The rate of anti-dumping duty should not exceed the difference between competitive wholesale price of dumping object in the country of export and declared price at its importation into the customs territory of the importing country. It also can't exceed the difference between the object of dumping in the importing

country and the average price of similar or directly competitive products, which are exported by this country.

Anti-dumping duties can be established by the importing country to fight with dumping and for alignment of prices to the normal level. Normal price is the equivalent of product price in the domestic market. It usually can be defined on the basis of prices, which are established in the process of ordinary trade transactions between independent buyers in the exporting country;

- **compensation duties** applied to the imports of the goods on the customs territory, in the production or exports of which the subsidies were used directly or indirectly, if such imports cause or threaten to cause injury to domestic producers of similar or competing products, or impede organization or expansion of production of such goods.

Compensation duty can be charged after the investigation and obtaining of objective evidences, which can show significant damage to the national economy.

The level of compensation duty rate can be defined:

- as a percentage of the customs value of the product that is the object of anti-subsidy investigation;

- as the difference between the minimum price and the customs value of the particular product.

The rate of compensation duty must not be more than established amount of subsidies.

The imposition of the compensation duties allows alignment of the terms of trade.

4. According to the origin:

autonomous duties, that are imposed on the basis of unilateral decisions of public authorities;

- **agreement duties**, that are imposed on the basis of bilateral or multilateral agreements;

- **preferential duties** with rates lower than the current tariff; they can be imposed on the basis of multilateral agreements on goods originating in developing countries, or countries, creating a customs union or free trade area or form the border trade together with this country.

5. According to the types of rates:

- **permanent rates** are the rates of customs tariffs, imposed by public authorities, which may not be changed depending on the circumstances;

- **variable rates** are the rates of customs tariffs, which may vary by state authorities in certain cases.

6. According to the calculation method:

- **nominal rates** are the customs rates, indicated in the customs tariff;

- **effective (actual) rates** are a real level of customs rates for the final goods, calculated on the basis of the level of duties, imposed on imported units and

components of the products. This is the level of rate, which can protect the domestic market really and effectively or regulates an export and transit.

Sometimes country imports raw materials free of duty or introduces lower tariff rates on imports of productive resource than on imports of the final product, in manufacturing of which the mentioned productive resource was used. This process is needed for encouragement of national producers in manufacturing and for the growth of employment rate. In this case effective tariff rate, which is calculated on the basis of domestic added value or the cost of processing within the country, will be more than nominal tariff rate, which is calculated on the basis of the cost of the final product. Inside added value equals to the price of the final product minus import costs of production resources that were used for producing the commodity.

The nominal tariff rate shows the extent of price growth for the final product due to tariff and that's why it is important for consumers.

The effective tariff rate shows the level of provision of protection for domestic industries that produce goods which compete with imports. Therefore the effective tariff rate is important for manufacturers.

Effective tariff rate (T_e) can be calculated by the formula:

$$T_e = \frac{T_n - K \cdot T_{im}}{1 - K}, \quad (4.4)$$

where, T_n – nominal tariff rate on the final product;

T_{im} - nominal tariff rate on imported components;

K – the share of imported components in the cost of the final product.

The formula indicates the next facts:

- effective tariff rate on the final product is equal to the nominal tariff rate ($T_e=T_n$), if the nominal tariff rate on imported components is equal to the nominal tariff level on the final products or if imported components are not used in the manufacturing of final products ($K = 0$);

- effective tariff rate on the final product is more than nominal one ($T_e>T_n$), when the nominal tariff rate is more than tariff rate for imported components ($T_n>T_{im}$) and vice versa;

- effective tariff rate decreases if tariff rate on imported components increases and vice versa;

- effective tariff rate increases if the coefficient- K increases.

The nominal tariff rate can be only positive, effective one - both positive and negative, if the tariff on imported components is much higher than the rate for the final product [10, p. 210].

Countries sometimes use **tariff quota**, which is a form of variables customs taxes. The rates of these taxes depend on import volume of product. Product within its specified number is taxed at basic intra-quota tariff rate in case of import, and in case of exceeding a certain volume of imports – at higher over-quota tariff rate.

Use of this tool of trade policy allows overcoming the contradiction that arises between the interests of domestic producers and the introduction of import quotas.

This contradiction exists because of two facts:

- on the one hand, producers are interested in the tariff, which protects them from foreign competition;

- on the other hand, they, as consumers, are not interested in mentioned tariff because it deprives them of their opportunity to get cheaper imported goods.

Tariff escalation can be used for protection of domestic producers of finished products and for stimulating the importation of raw materials and semi-finished products. Tariff escalation is the raising of customs taxation level for goods with the growth of degree of their processing.

The higher interest rate of imported tariff is in the process of moving from raw materials to finished products, the higher the degree of protection of finished products manufacturers is from foreign competition.

4.2.2. The economic implications of the imposition of duties

Economic results of the imposition of a duty are varied: they affect production, consumption, commodity turnover and welfare of the country, which introduced the import tariff, and its trade partners [8, p. 180].

Introduction of the import tariff to protect the domestic producers, who bear the losses due to glutting the markets by cheaper goods, affects the economy of both the small and big countries. A country is considered to be small, if its demand for imported goods does not alter world prices, and the big one, if a change in demand for imported goods causes a change in world prices.

The impact of the tariff on economy of small country is shown in Fig. 4.1.

Consumers can buy only Q_1 of this product from domestic producers for the world price P_c . Unsatisfied demand is equal to Q_1Q_2 and can be covered by imports. Country introduces import duty on unit of the commodity in the amount of t , it leads to an increase in the price of imported goods from P_c to P_c+t . This way internal price increases, and the world price is stored at the same level.

As a consequence, there are following processes in the country:

- the overall volume of demand reduces (from Q_2 to Q_4) that occurs at the expense of consumers, who are not able to buy the product at the high price;

- the volume of imports decreases that occurs as a result of increasing in domestic production and the demand reducing;

- domestic production of goods increases, because domestic producers of the goods, competing with the imported ones, are able to put more products on the market (no Q_1 , but Q_3 of goods);

- its economic losses increase, because the domestic production must be protected by the tariff of supplementary quantities of goods at higher costs. The more the protection of the internal market grows by means of import duties, the more resources that are not specifically intended for the output of this product have to be used for the production. The country could not bear the losses, if it purchased

the goods at lower prices from a foreign seller. There is a change of effective, in terms of costs, foreign goods by the less effective, in the production, domestic goods in the domestic market. The loss for the country as a whole is the sum which corresponds to areas of the triangles CJM and NHB (Fig. 4.1).

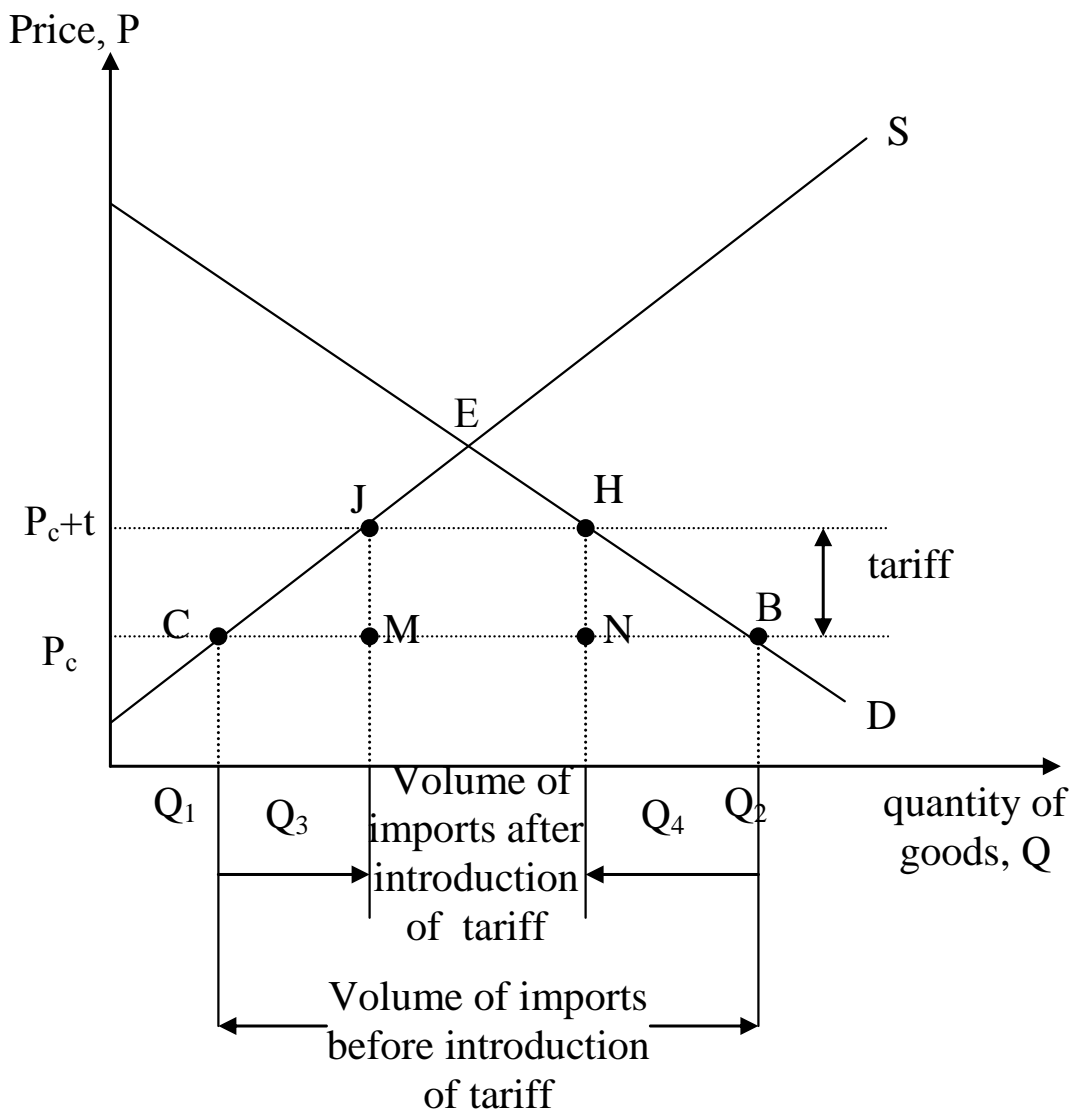


Fig. 4.1. The impact of introduction of tariff in small country

So, there are economic effects, which arise in case of introduction of import tariff:

- the effect of state income, i.e. the state receives additional income, which is equal to the product of tariff rate and import volume (MJHN);
 - trade effect, i.e. the reduction of import (BN + CM);
 - consumer effect, i.e. the reduction of domestic consumption (BN).
- Consumers' welfare decreases because the consumption of good is connected with the growth of its price in the domestic market;
- production effect, i.e. the expansion of domestic production (CM).

Therefore, world prices are not changed with the introduction of import tariff by small country, and its terms of trade are not so improved to offset the negative impact of tariff on the economy.

The effects of introducing an import tariff by a big country are almost the same as in a small country. However, it reduces the level of the world prices and falling costs of imports.

An import tariff, introduced by a big country, does not only protect the market from foreign competition, but is also the means to improve the terms of trade with the surrounding world. The big country is a high volume importer of goods in the world market. So if it limits the imports by import tariffs, it reduces significantly the aggregate demand for the goods. As a result, sellers of the goods have to reduce the prices. At the constant prices of the exported goods and the decline in prices of the imported goods, the terms of trade of the country improve. The introduction of an import tariff will cause positive results only if they are not obscured by negative economic losses for the country because it has been imposed. In other words, the positive effect of the tariff is achieved if the effect of the terms of trade in value is greater than the sum of losses arising as a result of less efficiency of domestic production compared with the international one and reduction of domestic consumption of the goods.

4.2.3. Optimal tariff

The trade volume of the big country will be decreased if mentioned country introduces tariff, but the terms of trade will be better. But, on the one hand, the reduction of trade leads to lower welfare of the country and, on the other hand, improved trade conditions cause the well-being of the country. That's why the problem of optimal tariff rate raises.

Optimal tariff is such tariff rate, that give the maximum benefit from improved trade conditions minus negative effect as a result of decline in trade volumes (Fig. 4.2) [11 p.184].

The customs tariff can be imposed in the wide range from 0 (under the terms of free trade) to prohibitive level (import of goods into the country stops). When $T=0$ the welfare of the country corresponds to E_1 . During the process of growing of tariff rate in the country, the well-being of mentioned country is growing too till the maximum level E_2 (optimal tariff). The well-being decreases when tariff rate is more than optimal. Economic expenses overlap obtained win more and more till the time, when tariff level is prohibitive and the country is in terms of autarky. Economic well-being will fall to the E_3 level because of lack of cheap imports.

Optimal tariff is calculated by the formula:

$$T_O^j = \frac{T_n^j - \sum a_{ij} T_n^i}{1 - \sum a_{ij}}, \quad (4.5)$$

where T_o^j - optimal tariff rate in “j” branch;
 T_n^j - nominal tariff rate in “j” branch;
 T_n^i - nominal tariff rate in “i” branch;
 a_{ij} – the share of the products of “i” branch in the volume of the production of “j” branch at the prices of free trade.

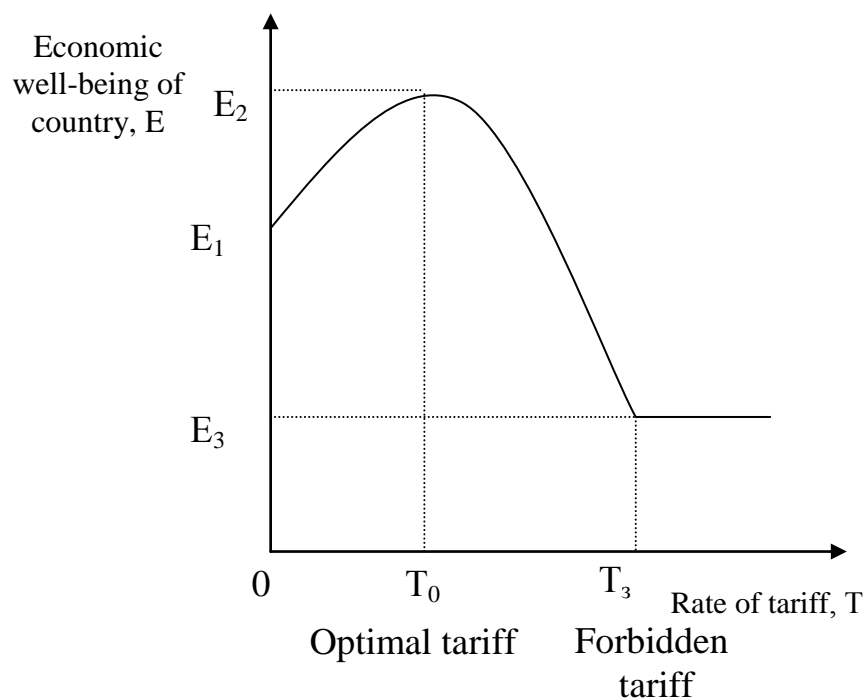


Fig. 4.2. Optimal tariff

Optimal tariff rate is usually not high, positive ($T_0 > 0$) and is less than prohibited tariff rate ($T_0 < T_3$). Country improves its terms of trade by the installing of optimal tariff. But these terms of trade became worse in trading partners. The well-being of trade-partner country is reduced when the volume of trade and terms of trade are worsened at the same time. In this case trade-partner country can introduce its own optimal tariff. This way, the win of big country arises due to its trading partners as a result of income redistribution. At the same time it leads to losses in world economy, where factors of production are used irrational.

Tariff methods of foreign trade protection are usually connected with the extra expenditures of consumers. The economists calculated that the average Japanese consumer spends 890 dollars more, because of trade restrictions, for food, cosmetics and chemical products; the tariffs in 21 industries cause annual expenditures of \$10,2 bill, or \$40,8 per a consumer in the USA. Potential income of consumers due to the cancelling of all the tariffs and quantitative restrictions could be about \$70 bill, or 1,3% of GDP [8].

4.3. Nontariff methods of international trade regulation

The tariff is not a unique method of the trade policy. The other trade restrictions are also applied for international trade regulation. These are non-tariff restrictions, which is widely used in the trade practice [2, p.185]. There are more, than 800 methods of non-tariff barriers: administrative, financial, credit and others. They are widely spread in the trade practice. More than half of world trade is the subject of non-tariff barriers that create major threat to the global trading system. According to the UN figures, Middle East countries and North African countries (57,69%) and developed countries (48,24) most frequently use non-tariff methods in their export of agriculture products; in the export of mineral products and fuels - Europe and Central Asia (6,72); in the export of industrial products - Latin America and the Caribbean (11,68%) [2, p.183].

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

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

4.3.1. Quantitative restrictions

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

Setting quotas. A quota is the most common form of non-tariff barriers. The quota is a quantitative measure of the export or import restricting of the goods by a certain number or amount for a certain period of time. Quotas are usually used to regulate the imports of agricultural products. If the goal of the government is to control the movement of some product rather than its restriction, then the quota can be imposed at a higher level than the possible imports or exports.

By the direction of action, quotas are divided into two types:

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

By scope, quotas are divided into two types:

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

Economic results of the introduction of quotas are as follows:

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

Economic results of the introduction of quotas are as follows:

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

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

Licensing may be in the following forms:

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

- an independent instrument of government regulation.

Licensing can act in automatic or non-automatic form. Automatic licensing does not install quantitative or other restrictions on export (import) of goods. Non-automatic form installs them.

There are several types of licenses:

1. Depends on the type of rights which are certified in license (for export or import) there are:

- export licenses - the rights to export certain type of goods, which are subjected to quantitative restrictions or permitting procedure of export;

- import licenses - the rights to import certain type of goods, which are subjected to quantitative restrictions or permitting procedure of import.

2. Depending on the period, the license may be:

- general - open permission for export (import) operations as for designated product (products) or with defined country (group of countries) over the period of the licensing regime of this product (products);

- individual - permission for export or import of good within a specified period of time.

There are different types of individual licenses.

Individual licenses *depend on the volumes of rights*. According to this fact they may be divided into two groups:

- opened - open permission for export or import of goods within a specified period with the definition of its total volume;

- one-time - one-time permit, which has nominal nature and is provided to perform separate transaction by specific subject of foreign economic activity for a period, which is not less than necessary for the export (import) transactions.

There are three types of individual licenses *according to the grounds for establishing licensing regime*:

- anti-dumping - the right to import certain goods that are the subjects of anti-dumping investigations or antidumping measures within a specified period;

- compensation - the right to import certain goods that are the subjects of anti-subsidy investigation or compensatory measures within a specified period;

- special - the right to import certain goods that are the subjects of special investigations or special events for a specified period.

Licenses can be distributed in different ways. The most effective one is open auction, which is a sale of import quotas on a competitive basis. The exporter, who offers the highest price of license (as the right to export the product within the import quota) gets the license. Competitive sale of import quotas brings country the high income and prevents bribery and corruption.

There are another ways of distribution of licenses:

- the system of distinct advantages, which involves fixing of licenses by government for certain firms proportionally the sizes of their imports in the previous period or proportionally the structure of demand of national importers. This method gives the opportunity to support firms, which reduce import of goods as a result of import quotas introduction;

- the system of distribution of licenses on non-price basis is based on the governmental issuance of licenses to the firms, which showed their ability to provide export-import operations in the most effective way. This method is expensive, because it involves the formation of the expert committee and several stages of selection. It is important to begin from less market method (administrative one, ex. distribution of licenses on non-price basis) and gradually move to the most market (auction) in the process of choosing a method of distribution of licenses.

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

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

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

4.3.2. The hidden trade restrictions

The hidden types of trade restrictions with more than 100 titles are very important methods of trade policy. They allow countries to restrict exports or imports unilaterally. They include: technical barriers, internal taxes and charges, public procurements, local content requirements.

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

Internal taxes and charges. State and local governments may impose value added tax, excise taxes, charges for customs clearance, registration, port charges,

etc. taxes on the imported goods with a goal to growth their internal prices and decline competitiveness in the domestic market.

The sizes of internal taxes often exceed the value of the amount of import duties, and their rate can vary depending on the conjuncture of domestic market.

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

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

The requirements about local participation not only reduce imports but also include requirements for foreign investors: liabilities of the foreign company-investor to export certain part of output from the host country. Such requirements distort international trade and contribute to installation of non-tariff barriers.

4.3.3. Financial methods of trade policy

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

Dumping is the export of goods at prices lower than the cost of production, or, at least, at lower prices than in the domestic market. Thus, dumping is considered as a form of international price discrimination.

There the factors, which facilitate the implementation of dumping: differences in the demand for product in different countries; the presence of certain assumptions that allow the manufacturer to establish and dictate prices; trade barriers and high transport costs which allow the manufacturer to protect the foreign market, where he sells goods at low prices, from the domestic market, where the sale of goods may be provided at higher prices.

There are sporadic, persistent and predatory dumping in international trade practice.

Sporadic dumping is an episodic sale of surplus goods in the world market at the lower prices than in the domestic market. This type of dumping is used in

case of overproduction of goods. When a firm is unable to sell the goods in own country and does not want to stop its production, it sells goods on the foreign market at lower price, than domestic.

Persistent dumping is a long-term sale of product in the world market at a lower price than in the domestic market.

Predatory dumping is a temporary intentional reduction of export prices in order to drive out competitors from the market and introduce subsequently monopolistic prices.

Dumping can be done at the expense of individual firms, which want to seize the foreign market of their products and by government subsidies to exporters.

Despite the fact that dumping brings some benefit to a country-importer, improving its terms of trade, governments consider all types of dumping of foreign producers a form of unfair competition. Therefore, it is prohibited both by the international WTO's rules and national legislation in several countries. If the fact of dumping is proved, the country has the right to impose trade restrictions in the form of anti-dumping duties. There are two criteria, which are needed for legal introduction of anti-dumping duties: sale of goods abroad at a lower price than in country of origin, and causing material damage to the domestic industry. There are the factors, which have negative influence on the domestic industry:

- actual or potential decline in manufacturing, sales, loss of market share, profits, productivity, income from investments or capacity utilization;
- the impact on domestic prices;
- the actual or potential impact on the cash turnover, inventories, employment, wages, growth rates ability to attract capital or investments.

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

Depending on the nature of payments, there are direct and indirect subsidies.

Direct subsidies are direct payments to an exporter after the export operation, which are equal to the difference between the expenditures and the received profit. Direct subsidies contradict international agreements and are prohibited by the WTO.

Indirect subsidies are hidden subsidies of exporters in the form of tax exemptions, preferential terms of insurance, repayment of import duties, etc.

According to specificity, a subsidy can be *legitimate* (does not give reasons to apply compensatory measures) and *illegitimate* (gives reasons to apply compensatory measures).

There are domestic and external (export) subsidies depending on the subject, receiving a subsidy.

Domestic subsidies are government financing of domestic production of goods, which compete with imports. They are considered as one of the most disguised financial instruments of trade policy, as well as the best method of import restrictions in comparison with import tariff and quota, because they do not distort domestic prices and provide smaller losses for the country (losses occur for the national economy because of next facts: a) as a result of receiving subsidies, inefficient local producers can sell their goods; b) subsidies are financed through the budget, i.e. by means of taxes).

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

Export subsidies may be granted in the following main forms:

- providing an enterprise with direct subsidies;
- payment of premiums after export operations;
- introducing preferential (rates, base of calculation, mechanism of charging, etc.) transport or freight tariffs for export shipments compared to transfers in the national market;

- direct or indirect delivery of imported or national goods by a public authority to use the export goods in the production under more favorable conditions than the conditions of supply of competing goods to produce the goods, intended for consumption in the domestic market, if these conditions are more beneficial for their exporters than in world markets;

- exemption or deferral of payment of direct taxes, which must be paid by exporters, implementing export transaction or paying to social insurance funds;

- giving discounts in case of paying taxes;

- introducing exemptions of payment or repayment of indirect taxes, in the case of production and delivery of goods for exports;

- reduction of rates or repayment of taxes on imports of material and technical resources, the goods for export;

- implementation of state programs, which guarantee or insure export credits, guarantees or insurance programs of non-arising of the cost of the exported goods or exchange risk programs, using premium rates, insufficient to cover the long-term costs and losses, arising from the implementation of these programs.

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

An export subsidy is an expenditure line of the budget, and hence an additional tax burden for the taxpayers (the costs of financing the subsidy are equal

to the quantity of goods, exported after the introduction of the subsidy, multiplied by the amount of the subsidy).

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

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

- total amount of subsidy as for the product cost is greater than 5%;
- subsidies cover the cost of production of industries;
- subsidies are not one-time events and they cover the production costs of the enterprise;
- there is direct write-off of debt by the government.

Export credits. Governments use export credits, providing financial incentives to develop exports by domestic producers in order to hide the export subsidies.

Export credits can be provided in several forms, these are:

- subsidized credits for domestic exporters. These credits are issued by state banks at the lower interest rate than the market one;
- state credits for foreign importers, who must purchase the goods only from firms of the country, providing this credit.

There are the classifications of export credits by purpose and time of granting (Tab. 4.2).

Table 4.2

Characteristics of the export crediting

Purpose of credit	Time of crediting
For exports of consumer goods and raw materials	Short term (1 year)
For export of machinery and equipment	Medium-term (1-5 years)
For export of investment products and large projects	Long-term (over 5 years)

Export crediting is a tool of struggle for foreign markets; it promotes export of commodities, and accelerates the growth rates of development of the national economy.

4.4. Trade discrimination

The trade discrimination is associated with the existence of the import barriers that are discriminating, that is the level of customs taxation of goods and services of one country is higher than of the others.

The main types of discriminatory barriers include trade blocs and trade embargo [5, p. 237].

4.4.1. Trade blocks

The development of creating trade blocs increases the importance of trade discrimination.

Trade blocs allow free trade between the member countries of any association and simultaneously establish the barriers against imports from countries that are not included in this bloc.

The economic blocs include: free trade area, customs union, common market, economic union. In the free trade area all the barriers to trade between the member-countries eliminated, but each country retains its own barriers to trade with countries that are not members of this association. Customs union eliminates barriers to trade among the member countries, and provides a common trade policy towards countries outside the customs union. The common market has no trade barriers; it is characterized by the common external trade policy, but also provides the free movement of factors of production between the member countries. The member countries of economic union unify the monetary policy, taxation, public expenditures, and common currency, in addition to the free movement of goods, services and factors of production.

Evaluation of the profitability of conducting discriminatory policies depends on the base of comparison [5, p. 239]. If the comparison base is the free trade, then the establishment of new barriers, that discriminate the imports of certain countries, is usually inefficient. If the comparison base is uniform tariff, that is the same for all products regardless of country of origin, then the elimination of tariffs between countries can bring the benefit. Thus, on the one hand, the creation of the free trade area or customs union is a step towards free trade. When trade barriers between countries are unified, the creation of trading bloc, between members of which barriers will be strengthened indicates a general decrease in the number of the world's import barriers. Such situation makes countries closer to a policy of free trade and so we can assume that wellbeing of the world will increase with the creation of trade blocs. On the other hand, the formation of trading blocs may affect the decline in world trade. Member countries begin to buy more expensive products from the supplier, who is a partner on the bloc after the formation of bloc. Bloc will encourage the expensive production inside it, maintaining high tariffs on goods from cheap sources outside the union (the consumer is interested to buy goods from the cheapest sources in case of uniform tariffs on imported goods).

Countries are allowed to bloc selectively in case of its creation, this fact can cause international disputes. That's why the WTO prohibits trade discrimination.

Auspiciousness (improved welfare) or destructiveness (reduced welfare) of trade discrimination can be showed on the example a customs union [11, p.240]. Increased welfare in the customs union is in the case when production in the member state is replaced by cheap imports from another member. At the same time it is important that all economic resources are used fully both before and after the establishment of a customs union. It makes the welfare of a member state increased, because it promotes greater specialization of production, based on comparative advantages. A customs union also increases the welfare of third countries due to the fact that some fraction of their real incomes growth (due to more complete specialization of production) comes to total imports, which is increased in the rest of the world.

There are some conditions, which allow customs union to contribute prosperity and growth of trade:

- the higher trade barriers of member states before block creation, the greater the probability that the formation of the union will lead to the development of trade between participating countries;

- lower trade barriers on trade with the rest of the world of the customs union reduce the possibility of trade reorientation, which is expensive;

- probability that producers with low prices will cease to exist inside the bloc is higher in conditions when a customs union contains a significant number of countries;

- economies of the member-states should be competing and not to be complementary (for example, industrial country and agricultural one, as complementary countries);

- members of the of the customs union should be as close as possible to each other geographically. In this case transport costs will less hinder the welfare of trade between member states;

- the growth of welfare as a result of customs union creation can be provided in case of great trade volume till the formation of union and economic interconnection between potential member-countries.

The decrease of welfare in customs union arises when cheap import from countries, which are not the members of union, is replaced by more expensive imports from member countries. This is the result of preferential trade with member countries of bloc. As a result of this fact, production moves from more efficient producers, which are located outside, to less effective ones, who are inside the bloc. Reduction of welfare impairs international distribution of resources and makes the production alienated from comparative advantage.

4.4.2. Trade embargo

The embargo (trade) is the prohibition of all trade transactions with certain states by one or more countries. Its purpose is to pressure the country for achieving

political objectives and, consequently, to undermine economic welfare of a particular state and to deprive it from its markets.

The embargo applies to aggressive trade discrimination. Not only the traditional trade of goods may be restricted or prohibited, but also trade in services, intellectual products, capitals (prohibition concerning the giving of credits in several country) [2, p.130].

Trade embargo may be classified according to the following criteria:

- by the origin of the decision on the embargo: state and international embargo. Typically, the international organization (for example, UN) decides to impose the international embargo regarding the state whose actions threaten international security. However, this decision is only the recommendation. So the countries should decide on its introduction on their own. State embargo is introduced by the individual country;

- by the volume of application: full or partial;

- by the object of influence: to export, to import or to transit;

- by the terms of use: in wartime, in time of peace;

- by the terms of action: for a fixed period, for an indefinite period;

- by the scope of products of trade: for one product (product group), several products (product groups), for goods, services and products of intellectual labor.

The consequence of the introduction of the embargo is the economic loss both for the country, that impose the embargo, and for the country, against which it is introduced. But third countries, that are not party to the embargo, can obtain the additional gain. The volumes of prohibitions are very important. They show if the damage of “target” country will be sufficient to outweigh the loss of the country that initiated the embargo. For example: when country A decides to use embargo on export to country B, part of world export supply disappears in country B, its consumers feel the deficit of imported goods. The prices on imported goods grow. Country A has losses too. These losses are the differences between losses of producers and win of consumers and loss or excess of exports. Third countries, which do not take part in embargo, win because of additional sales at higher prices. Losses of the world in general are the losses of effective global trade.

The success or failure of the embargo depends on the degree of trade elasticity. The success of the embargo will be most likely when: a) the country, which introduces an embargo, has a high elasticity of export supply (can fairly safely reduce the volume of its exports); b) “target” country has low elasticity of demand for imports, i.e. this country is too heavily dependent on foreign trade; c) economic sanctions are wide and they are imposed without warning, by surprise.

A country, which has a significant share in the world trade and applies the embargo, suffers from it less than a small country. The large country has more room for maneuver in the global market and the small country can strongly depends on its own trade with this country. Therefore, the US successfully introduce the embargo against small countries such as Cuba, Iran, Nicaragua, and Nigeria.

There are political and economic failures of the embargo [5]. Political failure arises when the government of the “target” country makes big bets with policy, which is the goal of embargo. In this case the government will not take into account the expensiveness of such policy (this, for example, is characteristic of the dictatorial regime). Economic failure may arise when the embargo inflicts minor damage to the “target” country, but can lead to significant losses in the country, which administered embargo.

4.4.3. Trade wars

Trade discrimination is a feature of trade wars resulting from contradictions between the economic interests of the countries due to the various political reasons. Prevention ingress of goods of the certain country on the domestic market, unjustified increase in customs rates, the introduction of quotas, use of dumping embargo may arise for the support of domestic producers and protection of national interests.

Trade wars are the conflicts of higher level of tension because they can easily be transformed into real fighting. Such conflicts require international efforts for their settlements. Trade wars may occur between individual country and trading blocs, between trading blocs, between one country and several countries, between two individual countries [6, p.51, p.51-83]. There are the examples of outstanding trade wars:

- “steel war”, which began after the economic crisis in 1998 and still not finished now. The USA, Brazil, Russia, Ukraine, Japan and other countries participate in it. The reason of this war is the introduction by the USA of import duties on steel deliveries from most exporting countries. Not only American steel companies, but also ports, shipping, transport companies that specialize in delivery of imported steel to the country suffer from this war. Total losses of all participants of this war were estimated at \$ 10 billion;

- “meat war”, that took place between the US and the EU. Use of hormones by American beef producers for increasing the weight of animals was the reason of its war. The US undertook commitments in 1989 to export beef to Europe without hormones. But the EU accused the US in violation of the agreement in May 1999. In response, the US raised duties on some European goods and going to raise duties on food products that were exported from the EU by 100%. The war ended in August 1999 via the WTO. Total losses of all participants of this war were estimated at about 1 billion dollars;

- “banana war” was between the EU and the countries of Latin America (1991-2012). Europe opened its markets to producers of bananas from its former African colonies and gave them the opportunity to trade without duties, but Latin American banana exporters had to pay additional duties. The conflict was settled via the WTO by signing of the agreement at the end of 2012.

- "textile war" between Japan and the United States was conducted during over 20 years. It ended with conciliatory agreement, but was replaced by "fighting" on television, automobiles, semiconductors, VCRs markets, etc.;

- "tax war" between the US and the EU started in 2000, when the EU asked the WTO allowing them to apply punitive sanctions against the US's goods in the amount of 4,043 billion dollars. Europeans believed that the US subsidized the US's exports to Europe. The WTO warned the US about the illegality of such practices, but the US did not make any specific measures. So the EU's trade sanctions came into force on March 31, 2004. These sanctions accounted for 315 million dollars that year. There are similar sanctions of the USA against the EU in the amount of \$ 100 million.

Russia conducts the trade wars with Ukraine, Belarus, Georgia, Turkmenistan, Poland and others. There are different reasons of such behavior.

Trade wars are always conducted. The quantity of lashes, as experts note, increases directly proportional to the increase of integration of the country into the world community and increase of competitiveness of its products on the market.

Chapter 5. Supranational level of international trade regulation. The international organizations for the international trade regulation

5.1. International trade regulation in the WTO system

5.1.1. Goals, objectives, principles of the WTO

World Trade Organization is the leading global trade regulator. It monitors the multilateral trading system, supports trade flows by encouraging non-discriminatory, predictable trade policy in the countries-members of the WTO, eliminates trade barriers via multilateral negotiations, and creates impartial procedures of resolving trade conflicts between member states.

The main goals of the WTO are liberalization of international trade, elimination of discriminatory barriers on the way of flows of goods and services, free access to national markets and sources of raw materials. Achieving these goals will ensure the strengthening of the global economy, investment growth, expanding of trade links, rise of employment level and incomes worldwide.

The functions of the WTO are:

- supervision of the state of world trade and consulting in the sphere of management of international trade;
- providing mechanisms of settlement of international trade disputes;
- development and adoption of world standards of trade;
- oversight of trade policy of countries;
- discussing the pressing problems of international trade.

The main principles of the international trade system, which are distinguished by the WTO, are:

- non-discrimination, which is realized on the basis of regime of the Most favored nation (MFN) treatment, which is priority in the agreements of GATT, GATS, TRIPS and national treatment that complements the MFN;

- free trade. This principle implies the conduction of the rounds of multilateral trade negotiations that are directed at elimination of existing trade barriers and creation the conditions for the free trade. Protection of national industry must be carried via tariff, whose rates are reduced. The use of the quantitative restrictions excepting some situations (difficulties with the balance of payments, the sphere of agriculture) is forbidden;

- predictability. Principle requires tariff rates to be reduced and bound for avoidance of further increase. Predictability of trade processes also is contributed by transparency of national trade policy, which is achieved by informing the WTO about the use by the government of certain instruments of trade policy and by publishing legislative and normative acts concerning the trade policy in the media;

- fair competition. In a broad sense “competition policy” includes any policy connected with competition in the market, including trade, regulatory, government policies regarding anti-competitive activity of public and private companies. In narrow meaning this term is used only for marking the legislation or policy within

field of anti-competitive behavior of the enterprise. The main types of entrepreneurial practice, which has anti-competitive consequences, affects international trade and is forbidden by the majority of competitive legislations, are as follows:

a) agreements between competing firms producing identical or similar products;

b) anti-competitive agreements between firms across the whole industrial and distribution cycle;

c) abuse of dominant position;

d) merging of companies;

- promotion of development and economic reforms. The realization of this principle is achieved through the creation of the conditions for the use of the potential benefits of participation in the international trade by the member governments.

The most important problems of multilateral regulation of international trade, ways of its liberalization are solved in negotiations (rounds). The provisions of the GATT in 1947 were the legal basis of the rounds. Altogether there were 9 rounds. Some rounds got their names from the names of public figures, which essentially influenced their conduction, or from the names of places of their start.

The first round was held in Geneva in 1947, which was attended by 23 countries. There the General Agreement on Tariffs and Trade was created; 45,000 tariff concessions that covered almost half of world trade volume were carried. The tariff reduction was 21.1% in the US in 1947.

The second round began in Annecy (France) in 1949. Nine countries were joined to the GATT. 5000 tariff concessions were “exchanged”.

The third round was held in Torquay (UK) in 1951. Four countries were joined to the GATT. The result of the negotiations was the implementation of the 8700 tariff concessions.

The fourth round was held in Geneva in 1956. One more state adhered to the GATT; rates were declined moderately. The average rate of industrialized countries has been reduced to 15%.

Fifth round (1960-1961) was held in Geneva and was named “Dillon Round”. It was attended by 34 countries, the results were: 4400 tariff concessions, but there has not been implemented any concessions for agricultural products and other sensitive products, despite the fact that due to the creation of the EEC, there was expected the increase of tariffs and trade barriers for these products.

Sixth round (Kennedy Round) was held in Geneva (1964-1967); it was attended by 74 countries. It introduced a new method conducting tariff negotiations – formulaic (linear decrease). A decrease in the average level of tariffs on industrial goods by 35% was the result of this round. Negotiations “position by position” regarding agricultural products were not so successful. There were considered some non-tariff measures besides tariff issues and adopted the Agreement on Anti-dumping measures, the Agreement on Customs Valuation. The questions of giving the preferential treatment to developing countries also were

considered in the round. Since this round special attention has been paid to non-tariff restrictions and problems of agricultural products trade.

The *seventh, Tokyo, round* (1973-1979) was attended by 99 countries, which accounted for 90% of world trade volume. Approximately 33000 tariff lines were bound; the tariffs for thousands of industrial and agricultural products were reduced. Average import tariff for industrial products in industrialized countries was decreased to 6%. There were concluded agreements, which included rules on preferential tariffs and non-tariff regime for the benefit of developing countries; agreements on non-tariff measures and specific products; agreements on subsidies and compensation measures, technical barriers of trade, government purchases, customs valuation, import licensing procedures, anti-dumping, beef, dairy products, civil aircraft.

The *eighth, the Uruguay round* (1986-1994) was attended by 117 countries, it stimulated further liberalization of international trade both by reducing tariffs and eliminating tariffs on certain product groups. Tariffs on industrial goods were reduced from 6,4% to 4% (by 40%) in industrialized countries. In 1947 GATT was amended by agreements on transshipment inspection, rules of origin, investment measures, dispute settlement etc. A new edition of the GATT of 1994 (GATT, 1994) is a basic set of rules on trade of goods. The General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) were also adopted in this round. The World Trade Organization was created for institutional processing of created trading system and ensuring the functioning of the GATT, GATS and TRIPS.

The *ninth, Doha round* (2001-2013) was held in Doha, Qatar. In 2001 the Ministerial Declaration IV of the WTO was adopted, which identified the directions for future trade negotiations on such questions:

- continuation of liberalization of agricultural trade. The emphasis is on preventing the emergence of restrictions and disproportions in world agricultural markets; improving the access to markets; reduction of all forms of export subsidies; use of special and differential treatments for developing countries;

- liberalization of trade in services;

- access to markets of non-agricultural products. The main attention is paid to reduction or, where it is required, elimination of import tariffs, tariff peaks, elimination of non-tariff barriers in particular it concerns products that represent export interest for developing countries;

- trade-related aspects of intellectual property rights. Support of public health by ensuring access to existing medicines, the development of new medicines, creating a multilateral system of notification and registration of geographical indications for wines and alcohol drinks, as well as the protection of geographical indications for other products, protection of traditional knowledge and folklore;

- interrelation between trade and investment. Provision of stable conditions for long-term cross-border investment, particularly foreign direct investment,

which will assist the expansion of trade, as well as activation of technical assistance to developing countries;

- relationship between trade and competition policies;
- rules of carrying out public purchases;
- trade facilitation for the purpose of acceleration of turnover, warehousing and customs clearance of goods;
- mechanism of protecting domestic markets from unfair competition (anti-dumping, countervailing measures);
- settlement of disputes;
- trade and the environment. Attention is paid to the relationship between WTO rules and concrete trade obligations that are fixed in multilateral economic agreements; reduction or elimination of tariff and non-tariff barriers for ecological goods and services; the impact of ecological measures on access to markets;
- e-commerce;
- relationship between trade, debt and finance. The purpose is to facilitate the resolving the external debt problem of developing and least developed countries; rise of coherence in international trade and financial policies to prevent trading system from the effects of financial and monetary instability;
- trade and technology transfer. Purpose – to broaden the flow of technology to developing countries;
- technical cooperation. Development of a new strategy for WTO's technical cooperation to further growth and integration.

However, the negotiations of member states concerning the development of world trade reached a dead end since 2008. A basis for the completion of the Doha Round of negotiations was created by so-called Bali package of agreements, signed by WTO countries on 12.07.2013 on Bali (Indonesia). Adopted package of documents is intended to further liberalization of world trade, reduction of tariffs on trade in agricultural products and manufactured goods. The package includes an agreement on simplification of procedures for foreign trade (reducing red tape on customs control, etc.), five documents for agricultural sector (including the agreement on food security and declaration of export competition), as well as four documents on support of least developed countries (preferences for poorest states, easing the ban on subsidies for farmers if they provide famine relief, etc.).

Bali package of agreements is very important because it is the first global reform of international trade and it means the signing of the first juridical binding WTO documents since the inception of the organization.

Thus, the World Trade Organization is, on the one hand, the organization, and on the other – a set of international judicial documents, multilateral trade agreements that define the rights and obligations of member-states in the sphere of international trade and the formation of national trade policies.

The WTO system includes the following multilateral agreements:

1. trade in goods:
 - a) General Agreement on Tariffs and Trade (GATT 1994) and related agreements:

- Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation Agreement);
 - Agreement on Pre-shipment Inspection;
 - Agreement on Technical Barriers to Trade;
 - Agreement on the Application of Sanitary and Phytosanitary Measures;
 - Agreement on Import Licensing Procedures;
 - Agreement on Safeguards;
 - Agreement on Subsidies and Countervailing Measures;
 - Agreement on Implementation of Article VI of the GATT 1994 (anti-dumping);
 - Agreement on Trade-Related Investment Measures;
 - Agreement on Textiles and Clothing;
 - Agreement on Agriculture;
 - Agreement on Rules of Origin;
 - b) agreements and decisions:
 - Understanding of the Balance-of-Payments Provisions of the GATT 1994;
 - decisions about cases when customs administrations have reason to doubt the truth or accuracy of the declared value;
 - Understanding on the Interpretation of Article XVII of the GATT 1994 (state trading enterprises);
 - Understanding on Rules and Procedures Governing the Settlement of Disputes;
 - Understanding on the Interpretation of Article II: 1 (b) of the GATT 1994 (binding tariff concessions);
 - decisions on trade and environmental protection;
 - trade policy review mechanism.
 - 2. trade in services: the General Agreement on Trade in Services (GATS);
 - 3. intellectual property rights: the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- The main legal documents are also multilateral trade agreements with a limited number of participants:
- Agreement on Trade in Civil Aircraft;
 - Agreement on Government Procurement.

5.1.2. Regulation of international trade in goods

The main rules of trade in goods are defined in the General Agreement on Tariffs and Trade 1994, which consists of four parts: “Generalities”, “Rules of trade policy”, “Procedural issues” and “Trade and Development”.

There are four basic rules fixed by the General Agreement on Tariffs and Trade in practice of international trade regulation

The first rule: the protection of national industry is carried out only through the tariffs.

Despite the fact that the GATT is aimed at the gradual liberalization of trade, it is determined in the GATT, that countries could be forced to protect domestic production from foreign competition. However, the GATT requires that protection was carried out using tariffs. The use of quantitative restrictions (import quotas, licenses) is prohibited

The second rule: tariff rates must be decreased and be bound to avoid further increases.

States should provide that the tariffs and other measures, used to protect the domestic market, should to be reduced and, where it is possible - to be eliminated through multilateral trade negotiations. As a result of trade negotiations, the WTO member states agree to open their domestic markets to the foreign goods and to “bind” themselves with corresponding obligations.

The tariffs, that are reduced and bound in such a way, are not liable to increase, and this is indicated in the national Schedule of concessions of the country. Schedule of concessions is an integral part of the legal system of the GATT.

The third rule: the trade on the basis of the Most Favored Nation (MFN).

The essence of the terms of this regime is to ensure that trade should not be discriminatory. MFN is the term, which is fixed in international trade agreements that provide concession of the contracting parties to each other all the rights, preferences and privileges, which are given or will be given to any third country.

The fourth rule: trade on the basis of national treatment.

The principle of national treatment complements the MFN principle and it assumes that the imported product that crosses the border after the payment of duty and other charges, should receive the treatment that is no less favorable than the treatment obtained by similar goods produced by domestic producers. Therefore, the state cannot impose on imported goods the internal taxes (for example taxes on sale) at higher rates than those applied to similar domestic products after the goods arrived to the country after paying the duties on the customs. And the rules that regulate the sale and purchase of goods in the domestic market should not be more stringent towards to imported goods.

5.1.3. Regulation of international trade in services

The international regulation of trade in services is based on the General Agreement on Trade in Services (GATS). It aims to promote the economic growth of all trading partners and the development of developing countries, through the expansion of trade in services, and seeks to achieve this by applying to trade in services the rules of the GATT.

The GATS involves international trade in services, with the exception of services provided by public authorities, and many air transport services.

The GATS, firstly, is a comprehensive agreement, because it contains the main rules that refer to all types of services, appendixes concerning specific services and sectors. It also contains the schemes of specific commitments for each

member. The GATS, secondly, is the framework agreement, which provides the initial conditions and rules that further will be specified and corrected by the parties [2,].

The structure of the GATS contains 6 parts: "Scope and definition", "General obligations and disciplines", "Specific commitments", "Progressive liberalization", "Institutional provisions", "Final provisions".

The most important general obligations include the following:

- 1) ensure the Most Favored Nation (MFN) treatment;
- 2) transparency of rules on trade in services. This commitment involves the creation of information and contact points;
- 3) mutual recognition of qualifications required for the provision of services;
- 4) the rules concerning monopolies, exclusive service suppliers and other business practices that restrict competition;
- 5) the measures aimed at liberalization of trade, in particular, to ensure greater participation of developing countries.

Specific commitments are the commitments assumed by separate countries on certain service sectors. Country is obliged to assume the obligations of market access, national treatment and other obligations in each of the selected service sectors.

Service delivery is executed by four ways:

- 1) cross-border supply, i.e. the provision of services across the border. Neither supplier nor customer of a service are moved across the border, it is crossed only by the service;
- 2) consumption abroad, i.e. move of consumers to the country of export;
- 3) commercial presence, i.e. the creation of commercial presence in the country where services should be provided (the opening of a branch or subsidiary);
- 4) presence of natural persons, i.e. a temporary relocation of individuals to another country with the purpose of providing services there.

The determination of such modes of service delivery is aimed at enhancing of identification of appropriate regulating measures.

5.1.4. Regulation of international trade in intellectual property products

The necessity of protection of intellectual property rights is connected with the expansion of copies and analogues of goods in international trade turnover, which are lawfully protected by copyright, trademarks, patents.

Any illegal use of intellectual property is a violation of owner's rights.

The regulation of international trade in products of intellectual property in the legal system of WTO is based on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). It extends the sphere of regulation of international trade processes and significantly improves the system of intellectual property protection [2].

TRIPS Agreement consists of 7 parts: "General provisions and basic principles", "Standards concerning the availability, scope and use of intellectual

property rights”, ”Enforcement of intellectual property rights”, ”Acquisition and maintenance of intellectual property rights and related INTER-PARTES procedures”, ”Dispute prevention and settlement”, ”Transitional arrangements”, ”Institutional arrangements: Final Provisions”.

The TRIPS Agreement is based on the provisions of the main international conventions on intellectual property rights (IPR). Its important feature is that the standard protection set by international conventions has received legal protection.

Countries mustn't use discrimination of foreigners or between foreign and national citizens concerning acquisition, volume and reservation of intellectual property rights, i.e., the countries are required to expand the MFN and national treatment.

The objects of intellectual property in the TRIPS Agreement include: copyright and related rights; trademarks; geographical indications; industrial designs; patents; layout-designs (topographies) of integrated circuits; undisclosed information.

Intellectual property rights are limited in duration. The minimum period of protection varies from country to country.

The minimum periods of protection:

- patents – 20 years from the date of the application for patent;
- trademarks – 7 years from the date of initial registration and each renewal of registration. Registration is renewed for an indefinite period;
- industrial designs – at least 10 years;
- copyright – during life of the author plus 50 years;
- topographies of integrated circuits – 10 years from the date of registration or, if registration is not required, 10 years after the first use.

It is assumed that countries can take appropriate measures, including legislative measures, to prevent the abuse of intellectual property rights by their owners and to apply practice that restrains trade or unfavorably affects the transfer of technology in order not to let improved and strengthened IPR protection make a negative effect on the transfer of technology on reasonable commercial terms.

The obligations for governments of member-states to provide in national legislation the procedures and guarantees intended to ensure the effective implementation of IPR are formulated in the Agreement.

Implementation of provisions of the Agreement helps to control the manufacture and trade in counterfeit and pirated goods, as well as it helps the commercial enterprises to improve their sales strategies in foreign markets. They need to explore, if the processes, which they use to produce particular product or any of its components, are patentable or are liable to any other type of IPR protection in a particular export market.

5.2. The regulation of international trade in the UN system

5.2.1. Facilitation of international trade development by UNCTAD

In the regulation of international trade United Nations Conference on Trade and Development (UNCTAD) occupies an important place. It is the organ of the United Nations General Assembly, established in 1964. Its establishment was based on the reason that the GATT was a semi-closed organization, a kind of “club favorites”, the entrance to which was closed for many countries. Therefore, on the initiative of a number of socialist and developing countries, it was decided to establish a body within the UN system that would regulate international trade according to principles, as was expected, were fairer. The main idea is to move the emphasis in the mechanism of regulation for the benefit of developing countries, particularly the least developed ones. These principles are reflected in “Charter of Economic Rights and Duties of States”, which was created by UNCTAD and adopted by the General Assembly in 1976.

The main goal of UNCTAD is to facilitate international trade to speed up the economic development, especially in developing countries, help them solve problems that arise in connection with the processes of globalization and integration into the world economy on the basis of equality.

UNCTAD achieves these goals through research and analysis of policy, intergovernmental meetings, technical cooperation and interaction with the business sector.

The main tasks of UNCTAD:

- analysis of trends in the global economy and assessment of their impact on development;
- assistance to developing countries, in particular to least developed countries to maximize the positive impact of globalization and trade liberalization, as well as their integration into the international trade system and active participation in international trade negotiations;
- exploration of global trends in flows of foreign direct investments and their influence on trade, technology, economic development;
- assistance to developing countries in attracting investment;
- assistance to developing countries in the development of enterprise and entrepreneurship, especially small and medium enterprises;
- assistance to developing countries and transition economies to improve the effectiveness of institutions that facilitate trade.

Functioning of UNCTAD is conducted in three directions. These are:

1. Intergovernmental meetings with involvement of experts. Intergovernmental negotiations under the auspices of UNCTAD facilitate the introduction of fair conditions of trade. The results of the negotiations are reflected in a number of important documents: the principles of the “New International Economic Order”, Agreement on the Generalized System of Preferences, which provides preferential treatment for exports of developing countries to the

industrialized countries, the Agreement on the Global System of Trade Preferences among Developing Countries (GSTP), the Integrated Programme for Commodities (IPC) and others.

UNCTAD deals with other issues of international economic cooperation, besides solely trading. It is currency and finance; maritime transportation; insurance of technology transfer; international investment.

2. Carrying out a research, strategy analysis and data acquisition that are used in the meetings of government representatives and experts. Analytical activity includes following areas: global economic trends and their impact on development process; macroeconomic policy; concrete development problems, using successful experience of developing countries, and countries with transitional economies; issues connected with financial flows and indebtedness. Bank of information which is provided to member states is created by results of the research.

3. Technical assistance to developing countries. The activity of UNCTAD includes more than 300 projects in more than 100 countries, for which it annually spends about \$ 24 billion in the sphere of technical cooperation.

The main goal of UNCTAD was carrying out measures for the effective integration of all countries into the world trading system from the beginning of XXI century. The role of UNCTAD strengthens in solving the following issues today. These issues are:

- diagnosis of causes of the lack of progress in the least developed countries in the development sphere and working out recommendations for their elimination;
- improvement of support of South-South Cooperation;
- the expansion of international cooperation in support of sector of raw materials;
- development of measures to overcome the negative effects of climate change for trade and development of developing countries;
- development of the energy sector from the position of attracting new investments in energy infrastructure and the development of alternative energy sources as well as efficient energy use;
- assistance to countries with post-conflict and post-crisis renewal of economic mechanism connected with trade and development;
- developing mechanisms of technology transfer and its global distribution;
- interaction with organizations of the UN system to facilitate developing countries the access to markets of developed countries, which use different tariff barriers;
- facilitation the liberalization and trade expansion of developing countries within the "Trade Facilitation Programme".

Thus, UNCTAD acts as a coordinating centre of the UNO for the comprehensive consideration of issues of international trade and development, as well as relevant issues in finance, technology, investment and innovation.

5.2.2. Specificity of ITC activity in the sphere of international trade

International Trade Centre UNCTAD/ WTO (ITC) is a joint subsidiary body of technical cooperation between the WTO and the UNO. It was established in the framework of the GATT in 1964, and became the structure of UNCTAD in 1968. Members of ITC are members of the WTO and UNCTAD. ITC has its headquarters in Geneva.

The main goal of ITC is the assistance the developing countries in developing and implementation of programs for the development of exports and the improvement of import technology.

The main tasks of the ITC:

- promotion the integration of enterprises of developing countries into the world trading system;
- supporting the national programs for the implementation of strategies of trade development;
- supporting the development of trade infrastructure;
- improving the efficiency of export in prospective sectors of the economy;
- promotion the international competitiveness development of member-states in general and in the sector of small and medium-sized enterprises in particular.

One of the main programs of ITC for the regulation of international trade is “Trade Facilitation Programme”. It is a comprehensive model of technical assistance in the development of exports, which is the basis of its strategic development and functioning. The model develops trade capacity of countries on three levels:

I level: governing bodies and institutions that make strategic decisions;

II level: trade promoting institutions (TPI);

III level: small and medium enterprises (SME).

The purpose of the model is to help the subjects of these three levels to study target markets, find ways to implement effective export operations.

Model of the technical assistance is based on three strategic goals, eight sub-goals and nine corresponding indicators (Tab. 5.1).

Table 5.1

Strategic goals, sub-goals and their indicators of ITC

Strategic goals of ITC	Sub-goals of ITC	Indicators
1. Support of governing bodies in integration of national entrepreneurial sector into the international economy	1.1. Developing by the governing bodies the programs and political measures aimed at the development of the trade	Number of developed and implemented strategic programs of trade development. Number of national development programs that include measures of trade development with the support of ITC

	1.2. Understanding the business needs and creation favorable conditions for entrepreneurial activity by the governing bodies	Number of national institutions operating within the framework of multilateral trade agreements due to the support of ITC
	1.3. Attracting entrepreneurial sector in the process of trade negotiations	The number of cases in which due to the support of ITC the positions of state were supported by the participation of the business sector
2. Development of competence of service suppliers in the sphere of trade before the business support	2.1. Providing services that meet the requirements of enterprise-customers by TPI	Increasing the number of TPI, that raised their rating according to the system of evaluation of ITC trade promotion institutions, due to the support of ITC
	2.2. Effective representation of the business sector by the forces of TPI as a factor of formation a favorable business environment	Number of proposals submitted by TPI to the competent authorities
3. Improving the competitiveness of enterprises in the international market	3.1. Development of the operating strategies of international business development by enterprises	Increasing the number of enterprises that got the opportunity to develop operating strategies of international business development due to educational programs of ITC concerning the management of export operations
	3.2. The readiness of enterprises to do export operations	Increasing the number of enterprises that got the opportunity to prepare for doing export operations due to educational programs of ITC
	3.3. The readiness of enterprises to convert business opportunities into business activity	Increasing the number of enterprises that have found potential buyers and signed agreements due to support of ITC

The model of the technical assistance in export development includes five key tasks (areas of activity). These are:

- export strategy. The responsible persons must correctly identify priorities, develop and implement export development plan, taking into account market requirements;

- entrepreneurial sector in trade policy. Governing bodies should integrate the business sector in trade policy, in the process of regional and multilateral negotiations. The result of these measures should be development and implementation of trade policy that reflects business needs;

- strengthening the positions of trade promotion institutions. TPI should provide small and medium enterprises as well as governmental bodies more efficient services, that will lead to an increase in export resources of SME and will allow TPI to organize the growth trade capacity;

- analytical work in the trade sphere. It is necessary to expand the opportunities of clients to obtain analytical information concerning trade sphere with assistance of ITC;

- competitiveness of exporters. Active and potential SME-exporters have to increase the indicators of export activity and extend presence in the market.

These areas of activity are based on three principles, following them can lead to achievement more significant results:

- concentration, i.e. development not broadwise, but in the depth and focus on the concrete needs of clients;

- coverage, i.e. expansion of coverage through the development of relationship of strategic partnerships and resource mobilization;

- integration, i.e. the rejection of disparate measures in favor of the initiative, customer-oriented actions.

This approach allows the ITC to be the leading partner-supplier of technical assistance in the trade sphere and to increase the competitiveness of SME in the international market.

The national, regional and international programs are developed by ITC. The use of these programs helps the Centre to implement the strategic goals and objectives in the area of trade development.

National programs. A two-level methodology of providing assistance in the sphere of trade at the national level is developed by ITC. It involves targeted measures at the national level and comprehensive national programs. The methodology is based on four principles:

- needs: each program should be aimed at solving urgent for the country tasks, formulated in the strategic documents;

- coordination and partnership: all measures should be agreed with all initiatives of ITC, and if necessary – with measures of other organizations;

- participation and sustainability: any program should be implemented in cooperation with leading partners in this country, this will provide sustainable development after the completion of the project;

- results: an analytical plan must be made for the appraisal of effectiveness of the program.

Regional programs. In these programs ITC focuses on several points. These are:

- development of regional trade flows in order to realize the opportunities of regional market;
- formation of international production and distribution networks in order to increase competitiveness in scale of region;
- expansion of resources of trade facilitation (through the creation of regional centers of expertise);
- support of regional integration programs;
- reinforcement of the process of mutual enrichment of national and regional technical resources in the field of packaging, quality control and compliance with standards, logistics, access to trade information and its analysis;
- promotion of regional measures aimed at eliminating trade barriers, to facilitate access to both inter- and extra-regional markets.

The goals of any regional program must be conformed to national and regional priorities.

International programs of ITC. International activity of ITC is divided into five areas. These are:

- 1) corporate activities. This area includes all measures of ITC, providing technical assistance in the field;
- 2) expert meeting. This direction provides giving trainings that are dedicated to particular programs and main events of international importance;
- 3) websites, publications, e-education. Clients of ITC have access to essential information;
- 4) development of national, regional and thematic programs within areas of activity of ITC;
- 5) financing of priority programs.

Thus, the programs of ITC are aimed at strategic and operational research of market situation; providing range of economic-consulting services; trade information management; development of education in the sphere of export; development of branch-wise production and branch-wise markets; trade in services; management of production-sales chain.

5.2.3. Activity directions of UNCITRAL in the field of international trade law

The UN Commission on International Trade Law (UNCITRAL) was established in 1966. It is the principal legal organ of the UNO in matters of international trade law. The main objective of UNCITRAL is to reduce and eliminate differences arising from the application of the laws of different countries in matters of international trade, which impede international trade flows and development of international trade.

The main tasks of UNCITRAL are:

- promotion the harmonization and unification of international trade law;

- coordinating the work of international organizations in the sphere of international trade law;
- promotion the broad participation of countries in the existing international conventions and the development of new international conventions on international trade law;
- manpower development in the field of international trade law, especially for developing countries.

The activity of UNCITRAL finds the main expression in the development and adoption of conventions that is of the documents which contain agreed norms, principles and standards in the field of international trade law.

Legislation developed by the Commission extends to the following areas:

1. International purchase and sale of goods and related with it agreements. In this sphere the following documents are developed:

- Convention on the Limitation Period in the International Sale of Goods (1974);
- United Nations Convention on Contracts for the International Sale of Goods (Vienna Convention, 1980);
- UNCITRAL Legal Guide on International Countertrade Transactions (1992);
- UNCITRAL Legislative Guide on Secured Transactions (2009).

2. International shipping. The main documents of this area:

- The UN Convention on the Carriage of Goods by Sea (“Hamburger Law”, 1978);
- The UN Convention on Liability of Operators of Transport Terminals in International Trade (1992).
- The UN Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea (2008).

3. International commercial arbitration and conciliation procedures. The Commission has developed:

- UNCITRAL Arbitration Rules (1976);
- UNCITRAL Conciliation Rules (1980);
- UNCITRAL Model Law on International Commercial Arbitration (1985);
- UNCITRAL Notes on Organizing Arbitral Proceedings (1996);
- UNCITRAL Model Law on International Commercial Conciliation (2002).

4. Public purchases and infrastructure development. The main documents are:

- UNCITRAL Model Law on Procurement of Goods, Construction and Services (1994);
- UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects (2001).

5. Contracts on capital construction. In 1988 the UNCITRAL Legislative Guide on Drawing Up International Contracts for the Construction of Industrial Works was published.

6. International payments. The documents of this area are:

- The UN Convention on the International Bills of Exchange and International Promissory Notes (1988);
- UNCITRAL Model Law on International Credit Transfers (1992);
- The UN Convention on Independent Guarantees and Stand-by Letters of Credit (1995);
- The UN Convention on the Assignment of Receivables in International Trade (2001).

7. E-commerce. The following laws are developed in this area:

- UNCITRAL Model Law on Electronic Commerce (1996);
- UNCITRAL Model Law on Electronic Signatures (2001).

8. Cross-border insolvency. This area includes:

- UNCITRAL Model Law on Cross-Border Insolvency (1997);
- Legislative Guide on Insolvency Law (2004). Its goal is to create an effective legal framework in matters of financial difficulties of the debtors.
- Practice Guide on Cross-Border Insolvency Cooperation (2009).

The technical cooperation and assistance in the application of legislation acts is an important area of UNCITRAL activity. The successful application of laws is proved by their use in different countries. They are the basis for improving trade legislation. UNCITRAL spreads the information about the contents of legal documents indicating their preferences. Technical cooperation and assistance to countries are realized through the implementation of various measures: promotion of process of regional harmonization of trade law on the basis of the relevant documents of the Commission, controlling the development of concrete laws, which bring into force the UNCITRAL Model Laws, etc.

Part III. The European Union's trade policy

Chapter 6. The common EU's trade policy as a basis of the European integration

6.1. The formation and organization of the common trade policy

The common trade policy of the EU is, in fact, the policy in the sphere of regulation of foreign trade relations. It has arisen and developed since the second half of the XX-th century in connection with the formation and expansion of integration processes in Europe.

The trend towards unification of economic policies became apparent and predominated in all regions of the world in the late 1980s. In these circumstances, the further coordination of efforts of the European countries in foreign trade activities become necessary to ensure the successful operation of companies from the countries of the European Community in the external and domestic markets. The high dependence on external markets and foreign economic activity was typical for the countries of European Community. This pinpointed the issues of supporting the competitiveness of European companies in the global market and their protection in the domestic market. The isolation of national markets and the use of various protective and stimulating measures were the causes of the low competitiveness of European firms for a long period. This was explained by the following:

- economic development of certain EU's countries did not allow to confront the major competitors in full measure – the US and Japan, and new industrial countries in recent years;

- the difference in the rules of protective measures allowed the competing firms to penetrate the markets of some countries through the markets of other countries, which were less protected from foreign competition;

- inconsistency of stimulating measures increased the number of small competitors in the market of a single product, reinforcing the competitive positions of US and Japanese multinational corporations [8,].

The key preconditions for the development of a common approach to protecting the national, i.e. European, markets are:

- aggravation of competition;
- taking countries to a new level of protectionism;
- involving the sphere of services and scientific and technical knowledge into the competition.

Principles and rules for the formation of common foreign trade policy, which were laid down in the Treaty of Rome or Treaty establishing the European Economic Community, were reviewed and completed. They are reflected in the Maastricht and Amsterdam treaties. The term “foreign trade policy” has been expanded and coordinated actions began to spread to all areas of foreign economic activity. The common commercial policy towards third countries was developed

within the EU. It summarized the experience of protection the competitive advantages of the European market.

The extension of international trade and intensification of competition have transformed the common trade policy of the EU into the most important area of integration interaction. Joining forces in the sphere of international trade contributed to improving the authority of the EU in the world. The prospect of the expansion and consolidation of the single market has strengthened the EU's position both in the bilateral negotiations with separate partners and multilateral negotiations within the GATT. So, in particular the WTO believes that the model of cooperation and trade liberalization within the EU could be an example to organize the collaboration between WTO members in the future.

Since the EU is the largest market, it significantly affects the state of world trade and development rules of its regulation. However, in some cases this effect can have an asymmetric character, i.e. the EU market and its regulation are more important for other countries than the market for these countries for the EU. An example of this is Australia. Thus the share of the EU accounts for 15% of Australian exports and 24% of Australian imports. At same time the share of Australia in total volume of European trade accounts for only 2% [8,].

Issues of foreign trade regulation play an important role for many countries which are not the members of the EU. A system of foreign trade relations with separate countries, which took into account their specificity and importance for the European market was established by the EU through consistent implementation of negotiations. Special forms of relations and preferences were developed for each group of countries that have common specific features and importance for the EU as trading partners. It has become an important competitive advantage of the EU compared to overseas competitors, because it allowed within certain limits to consolidate its positions in the most interesting markets.

At the same time the EU's trade policy is a result and a tool for European integration. It is not only the main regulator of integration, facilitating its development, but also reflects and embodies its results and needs. The closer the trade policy is connected with processes occurring in society, the more fully it reflects the conditions and needs of development, the more successfully it influences the processes it regulates.

The trade regulation of the EU neither cancels nor replaces the legal norms of the member states. It comes from the fact that the task of forming a single market can be executed only if its key rules are common on the whole and similar in the rest. The interests of foreign trade of the EU require the common market to function within a single legal space.

From the very beginning of the formation of the common trade policy it was predicted that it is necessary to achieve the convergence of law of the member states to the extent necessary for the proper functioning of the single market. The EU's countries, on the one hand, did not refuse their law and on the other – agreed that the convergence of national trading systems should occur in the sphere of foreign trade.

The assumptions concerning the harmonization of national legislations are set out in the Rome Treaty. The specific attention was paid to national legal acts that should not violate the conditions of competition within the common market. If this happens, the act will be cancelled.

The development and deepening of integration facilitated the strengthening of supervision over the compliance of rules of national law and principles of the single market. The rejection of any country to implement the measures of harmonization the national legislation is subject to special consideration. The permission for the application of national rules of law is given only after providing evidences that these norms are not measures of unjustifiable discrimination or hidden restrictions on trade between member states.

Legal regulation of international trade is realized primarily through the division of authority between the EU and member-states. As a result, there are three areas of authority: the first consists of the exclusive powers of the EU, the second – the general powers, the third – the powers which are retained by member states and which are not covered by the EU's trade policy [8].

The EU's trade policy is formed and implemented using two types of legislation: primary and secondary.

The founding treaties of the EU, agreements that introduce changes in them (audit contracts), agreements for the joining the new member states to the EU refer to primary legislation. According to them the regulation of relations with third countries and other subjects of international economic relations are concerted. The competence of the common trade policy includes trade in goods, services, intellectual products. Other issues which are partly within the competence of the common trade policy include: indirect taxation, the use of standards and measures of technical regulations, patent policy and observance of obligations of intellectual property rights.

The acts of secondary legislation in the sphere of trade policy have the following basic legal forms:

- regulations. They are the obligatory and have direct action in the EU member states, i.e. are subject to the application of authority and judicial bodies of all member states regardless of whether this country supported their adoption or not. Their implementation does not require special decision-making;

- directives. Their main difference from the regulations is that in directive, as a rule, the goal and results that must be achieved are indicated. They require the transposition into national legal systems and are obligatory for implementation by member states, but national government bodies have the right to determine the forms and methods of implementation of the set tasks by themselves. There are two types of directives:

- framework directives, which form an independent group of acts that are not hierarchically liable to regulations, and usual directives which may contain more detailed regulation, especially if they are adopted on the basis and on implementation of regulation (in this case there is a hierarchical subordination). Directives can be addressed both to every and particular EU's member-state;

- decisions. These are the acts of the individual, rather than general character. They are obligatory for implementation by those to whom they are addressed. Moreover, the addressee needn't be a country, it may be certain categories of juridical entities or even separate juridical entities;

- recommendations that are not the obligatory documents and have a recommendatory character.

As the EU's trade policy is implemented through different types of legal acts, it allows to make decisions and to monitor their observance in all levels of integration interaction.

The different EU's institutions are involved in trade policy. Supranational bodies of the EU, the competence of which is conducting and regulation of the common foreign trade policy, include the European Commission, European Council, European Parliament.

The competences of European Commission in this area are:

- preparation and elaboration of all questions that relate to a common trade policy as far as supervision over its implementation both at the level of the EU in general, and at the level of individual countries;

- preparation of proposals for European Council referring to negotiating with third countries or international organizations;

- constant interaction with the member states with a purpose of identifying and solving problems which are connected with the discrepancies between national and supranational legislation;

- giving recommendations to the EU's countries to devise measures that are necessary for coordination of foreign trade policy;

- interaction with representatives of business associations, chambers of commerce, labor unions and other non-governmental organizations;

- examination and assessment of measures that are intended to be taken. This is done in order to analyze the economic, social and environmental consequences of conclusion agreements with third countries or implementation of any measures within the EU.

The competences of the European Council include:

- decision-making relative to changing the customs tariff rates, the conclusion of tariff and trade agreements on trade in goods and services, conclusion and implementation of agreements on the exchange of intellectual property, unification of measures of trade liberalization, export policy and the use of protective measures, especially anti-dumping and compensating;

- approval of decisions and proposals of the European Commission;

- giving the European Commission a mandate for negotiations with third countries and organizations;

- delegation to the Commission in some cases, the authority to make decisions.

The European Parliament treats questions of the following types of procedures:

- consultation procedure, which involves obtaining the conclusion of Parliament before the proposal of Commission will be approved by the Council;
- cooperation procedure, which allows Parliament to introduce amendments purposely to improve legislation;
- procedure for the adoption of joint decisions, which involves the distribution of legislative powers between the Parliament and the Council;
- procedure for obtaining a concord which is necessary to sign international treaties.

Considered authorities of supranational bodies on the EU's trade policy indicate that all decisions are made in concord of all countries of the Union and reflect the common position of the countries. In general, the EU and its members attempt to make this policy as transparent as possible and to take into account the concern of all interested parties.

6.2. The features of the common EU's trade policy

From the very beginning the purpose of common trade policy of the EU was the harmonious development of world trade, the progressive elimination of restrictions in international trade and lowering of customs barriers. Treaty establishing the EEC (Treaty of Rome) set a close relationship between the implementation of the common trade policy of the Community and the deepening of customs integration of the member states. The EU's trade policy is aimed at facilitating the implementation of trade within the community and the development of the common approach to third countries. This helps to protect producers from member states and strengthens the EU's position in the world. Thus, the common trade policy becomes an integral part of the EU's internal market formation.

The internal market of the EU is seen as “a space without internal borders, where the free movement of goods, persons, services and capital is provided”; it is a higher form of economic integration, compared with the common market. There was adopted an official document “Completing the internal market” in 1985, which sets out the formation program of the internal market. It contains 300 legislative proposals and included the removal of physical and technical barriers in trade, free movement of capital, harmonization the law of associations, tax harmonization.

The creation of the internal market has been an important stimulus for the development of the European trade. This led to a significant reduction in production costs and promotion of goods to the market.

The common trade policy is aimed at developing and strengthening the previously established trade alliances, increasing the competitiveness of European firms. It is based on two main principles. First principle: the member-states participate in creating a system of harmonious international trade relations and gradually eliminate trade barriers in international trade, i.e. the norms and rules of the GATT are laid down in the basis for a common EU's foreign trade policy. However, the inclination of the EU to standards and rules of the GATT is much smaller than it is of its competitors (such as the US), as it considers that the

regulation of international trade should be implemented primarily in the interests of the national market. Thus, the European countries attempt to protect themselves from the introduction of “foreign rules” and to ensure themselves the freedom to choose the means and methods to protect their internal market. This causes the differentiated approach to the application of separate means of foreign trade policy of the EU. Current trade legislation of the EU as a rule is focused on protecting the internal market, which now has significant advantages compared to exporters from third countries. The second principle: facilitation to strengthening the competitiveness of the European countries and their firms by eliminating mutual trade barriers. This will facilitate a more effective use of advantages of the European market.

It is necessary to pay attention on the sphere of distribution of the common trade policy, which provides the coordination of mentioned points: changes in tariff rates of the Common Customs Tariff of the EU; the conclusion of tariff and trade agreements; measures to liberalize trade; adoption of protective measures, including the use of anti-dumping and countervailing duties; pursuing an export policy (Treaty of Rome). The Maastricht Treaty (1992) has significantly limited the authority of member states to introduce protective trade measures (such measures can now be introduced only with the prior permission of the Commission), and has introduced provisions on customs cooperation, cooperation in the fight against drug trafficking and other forms of international crimes, particularly in the field of customs. The Treaty of Amsterdam (1997) introduced provisions relating to trade in services and intellectual property. This is corresponded with the development of international trade law after the creation of the WTO. Treaty of Nice (2001) expanded the sphere of measures coordination and included the regulation of trade in services and intellectual property. Treaty of Lisbon (2007) included provisions on conclusion of agreements with third countries and monitoring over their implementation, emphasized the importance of non-tariff regulation as far as included issues on direct investment. Besides that, according to this treaty, the EU received the status of independent subject of international law, i.e. all foreign trade agreements are signed only by the authorized representative of the EU, but not the representatives of member states.

The EU developed a strategy for access to third country markets, which aims at opening new markets for the EU and increasing the competitiveness of its products and services in third countries. The task is to reduce the level of protectionism of the EU, as without this it is impossible to expect similar concessions from third countries. The particular emphasis in the strategy is placed on bilateral relations with the US and China, which are the main partners and competitors. As the basis of the Strategy the following tasks are assumed:

- to abide the standards and principles of the WTO and the multilateral system of trade regulation;
- to continue working on the coordination of bilateral agreements with countries and regional alliances that are main trading partners of the EU. The main

criterion for the establishment of free trade zones with other countries and alliances is the potential of these markets;

- to initiate a new stage of negotiations on protection intellectual property rights with the purpose of its illegal use and elimination of this problem within trade relations with key partners;

- to review the Strategy from the point of view of the use of non-tariff measures. The European manufacturers must clearly identify the key sectors of the economy and the main issues that need to be solved. The new strategy should provide an efficient access of the European companies to the market of government contractual works;

- to identify possible directions to reform anti-dumping policy and practice of using protective measures, because the majority of the EU's companies are multinational and have branches and subsidiaries in many countries.

It should be mentioned that the global financial crisis of 2008-2009 significantly influenced on the trade policy of the EU. This crisis resulted in significant reduce of domestic demand. This succession of events shows that only accelerated economic growth in the world and using advantages of the global market will allow many European companies to retain their positions. In these conditions, the most important task for the producers is demand stimulation and seeking new markets for selling goods and services. At the same time, exports of the European goods cannot be effective without developing a new import strategy. Openness of the European market is important because 2/3 of the imported goods are used for further processing and the production of other goods, including export goods. Therefore, at the end of 2010 the EU published a new concept of trade policy, which is aimed at the period 2011-2020. Its main directions are:

- strict implementation of commitments that were taken within multilateral agreements with third countries, including agreements of Doha Round;

- implementation of the new approach to developing countries, in particular the reform of the General System of Preferences. It will allow to take into account all the requirements of the Doha negotiations and to extend initiatives to support the integration of these countries into the world economy;

- search for effective ways to realize interests and to promote a compromise with partners at bilateral level [7].

Thus, the current EU's trade policy is a comprehensive strategy that includes tools to achieve improving the competitiveness of the European economy in the context of globalization, promotes business development in member states, and reduces poverty in the world. In general, the modern features of foreign trade policy of the EU include:

- 1) absence of restrictions within the EU. So, customs and quantitative restrictions on mutual trade are eliminated; member states have pledged to conduct a consistent harmonization of all measures of foreign trade policy. These activities are reflected in the Internal Market Programme of the EU, which began to function on January 1, 1993. The harmonization of tax systems is held with a purpose of gradual elimination of tax barriers. The formation of internal market increased the

role, authority and competitiveness of the European countries in the global economy;

2) common foreign trade policy of member-states. The EU's market is the largest in the world and therefore it is an attractive environment for doing international business. Players in this market have to know the standards and rules which work there, and to remember that they are set on the basis of the interests of 28 countries and are agreed by them on the level of law-making bodies;

3) constant extension of the community, which has both positive and negative consequences for key partners and competitors of the EU;

4) features of the use of tools, measures of foreign trade policy and privileges for groups of countries. In the EU there is a special scheme of relationship with main trading partners, which takes into account the specificity of a partner in each separate case [8, p.146].

The EU plays an important role in formation of the global trade system and therefore it is necessary to note some of the features of modern trade policy within the WTO. The EU directly declares its inclination for free and liberal trade development, initiates particular recommendations and decisions that facilitate and encourage the development of relations within the WTO. However, numerous liberalization measures at the same time are combined with protectionist ones, this fact significantly complicates the access to the European markets for goods and services from other countries. Using its economic and political power, as well as thorough mastery of legal tools of trade dispute resolution, the EU has an ability to use different tools to protect its internal market.

The trade policy of the EU cannot be pursued out of touch with other sectors of the economy and therefore always is consistent with competition policy, innovation development, support of small and medium enterprises, etc.

Chapter 7. The main instruments of the EU's trade policy

7.1. Instruments of tariff regulation in the EU

The most important tool of tariff regulation in the EU is the Common Customs Tariff (CCT). Its introduction was an indispensable condition of forming a customs union. Integrated customs tariff refers to the main features of European integration. It includes all goods imported into the territory of the EU, and is based on the principle of Most Favourable Nation treatment. The main tasks of the use of CCT and imposition of customs duties include:

- increasing the cost of imported goods and thereby support of domestic production (protectionism);
- acquisition of income in the budget (the EU's budget receives 90% of collected customs duties);
- the fight against the trade practices that violate fair competition in world trade (dumping or subsidies);
- achievement of political advantages: strengthening of positions in the global trading arena in order to obtain more advantageous access to foreign markets in international trade negotiations;
- development of a mechanism for economic integration (customs unions, free trade zones) and assistance to developing countries;
- providing an active balance of payments by reducing the volume of imports and thereby reduce the outflow of foreign currency in exporting countries;
- possibility to introduce the emergency protective measures against goods that cause yield loss to domestic producers;
- possibility to react to violations of obligations by countries-partners in the WTO;
- predicament of exporting raw materials, food and other goods at prices lower than the average world market prices and thus prevention of deficiency of such goods in the internal market (by exacting export duties);
- stimulating the development of separate regions (special economic zones, free zones);
- stimulating the development of separate branches of production by providing favorable tariff treatment.

Customs Tariff consists of two main parts:

1) commodity nomenclature – a systematic and classified list of goods that cross the customs frontier; products are divided into large typical groups (sections) which, in turn, are subdivided into more specific groups (positions and sub-positions) with their denomination with digital codes;

2) the rates of customs duty and exemption from duties that correspond the most specific commodity positions (sub-positions) in the commodity nomenclature.

The commodity nomenclature is used not only for the purpose of exacting customs duties, but also to indicate goods that are excisable, liable to preferential

rates of VAT, import and export restrictions and other trade policy measures, as far as for accumulating foreign trade statistics.

The following types of commodity nomenclature are used in the EU:

1) Combined Nomenclature (CN), which is the basis of CCT, is based on the Harmonized Commodity Description and Coding System (introduced by Regulation No 2658/87 of 23 July 1987) and includes 8-digit commodity codes;

2) the nomenclature of the Integrated Tariff of the European Communities (Taric), which is developed on the basis of CN. It contains 10-digit codes that are specified for imports as well as for statistical purposes; sometimes it includes additional codes to indicate the special measures of trade policy (agricultural duties, anti-dumping duties, measures for the control of dual-use goods, export refunds and so on).

Exacting of customs duties in the EU is executed on the basis of CCT. There are several criteria for the classification of duties:

1) by the nature of foreign trade operations: import and export duties. Currently, the EU uses export taxes in rare occasions (mostly for raw goods in order to prevent their deficiency in the internal market of the EU), as their exacting contradicts the principles of the GATT/WTO);

2) by the method of establishing: ad valorem, specific, mixed duty;

3) by the purpose of charging are distinguished:

a) normal duties:

- CCT duties, which are divided into autonomous and conventional (contractual). Conventional duties are applied to goods originating from countries participating in the GATT or have agreements to provide MFN; autonomous duties are used in rare cases, when they are lower than contractual or are applied to commodity groups, which have no contractual duties;

- agricultural duties are exacted within the common agricultural policy of the EU;

b) preferential duties - the concessional duties, which correspond the international obligations or unilateral measures of the EU;

c) protective duties:

- anti-dumping,

- countervailing,

- repressive (they are used in case of violation their international obligations by the countries-trading partners of the EU).

The ad valorem duties are used mainly in CCT. They include 90% of the commodity nomenclature, relatively to small number of products are used specific (6,5% of tariff items) and mixed duties (2,8% of items). Specific and mixed duties are used to agricultural products, the majority of which is subject to tariff quotas.

The EU also has (since January 1, 1988) the Integrated Tariff of the European Communities (TARIC), based on the Combined Nomenclature. It is the main instrument of practical implementation of CCT and common trade policy of the EU. It combines tariff and non-tariff measures of imports and exports regulation. Thus, the TARIC is designed so that for each commodity position all the measures used in

the EU on imports, and sometimes, on exports are reflected. That is, except import (and export) duties, TARIC includes all existing preferential arrangements, as well as non-tariff measures of the EU. Thus, in contrast to the EU regulations in the field of the CCT, TARIC has no direct effect; its use is obligatory only for the customs authorities of member states and for statistical purposes.

Besides the Combined Nomenclature and CCT rates, TARIC includes tariff exemptions (relief from import duties for separate products), tariff preferences (autonomous and conventional), tariff rate quotas (quantity or value limits for preferential or duty-free import of goods within tariff exemptions and tariff preferences), antidumping and countervailing duties, customs duties in the member states, the ban on imports and exports, quantitative restrictions on imports and exports (quotas, licenses, certificates), security measures on imports and exports, cases of return of customs duties on export, other measures of trade and agricultural policy.

TARIC is published annually in the official publications of the EU. Current changes of the tariff are available to the member states and individuals in electronic form, namely in the Internet.

An important feature of customs regulation in the EU is applying the principle of *freedom of movement of goods* which originate from third countries. There is a concept “Customs status of a good” in the EU customs law. There are two customs statuses of the goods:

1) EU’s goods. These are goods which: a) are completely manufactured in the customs territory of the EU and do not include goods imported from outside the customs territory of the EU; b) are imported from the countries and territories that are not part of the customs territory of the EU, and released for free circulation in the EU; c) are manufactured in the customs territory of the EU from goods specified in point “b”, or from combination of products mentioned in p. “a” and “b”;

2) foreign goods - all other goods that do not meet the definition of the “EU’s goods”.

Through the concept of the “EU’s goods” is realized the interrelation of internal and external aspects of the customs union: goods from third countries, which have received the status of the “EU’s goods” as a result of customs clearance in the EU, receive the ability to unimpeded circulation within the territory of customs union, using the principle of freedom of movement of goods.

The *tariff escalation* is typical for the EU customs tariff, as far as for tariffs of other developed countries, that is the rise of customs taxation of goods with increasing degree of their processing. In the EU the mixed escalation is applied, i.e., low tariff rates for raw materials, labor-intensive products and manufactured goods, with the exception of textiles. This shows that the EU is interested in importing these goods.

The EU can sometimes reduce or even eliminate the duty on certain components to manufacture complex products. This reduces production costs and improves the competitiveness of the final product. This is typical for such industries as chemical manufacturing, microelectronics, aircraft and shipbuilding, high-tech

and knowledge-intensive production. Thus, the interests of industrial policy are taken into account in the EU by the development of approaches to customs regulations.

According to the agreements reached in the trade negotiations within the GATT/WTO, the EU consistently reduces the rates of import duties. A significant number of goods get the *tariff preferences* in the EU. The tariff preferences are the concessionaire rates of customs duties used for imports of goods from different countries, groups of countries or territories. They can be autonomous (adopted unilaterally) and conventional (based on international agreements). It is necessary to hold to certain terms, especially rules of origin of a good, in order to provide tariff preferences that are not contradict the principle of most favored nation: the good should be manufactured in the territory of this country in order to apply a tariff preference in importing from this country.

Tariff quotas are used to restrict the preferential access of goods: preferential treatment of imports of goods is applied only to achieve a particular quantitative or value margin, after that the good is imported on the general, non-preferential basis.

The mechanisms of realization of the EU's trade policy through CCT include also tariff franchise (duty-free import of certain goods by special decision of the EU Council) and autonomous tariff exemptions (temporary reduction of import or export duties, used in autonomous targets of the EU). The majority of tariff exemptions are introduced by separate legislative acts of the EU. Sometimes tariff exemptions are applied in conjunction with the tariff quota, i.e. duties are reduced only until the volume of imports (exports) of a good reaches a certain quantitative limit set for this time period. According to a general principle, tariff exemptions may be given only to raw materials, semi-finished products and components, for which there are no analogs in the EU's market.

Currently, according to the information of the WTO, the average level of tariff protection is 3% (almost the lowest index in the world), on agricultural goods – 11,8%, on industrial goods – 2,4% [27].

An important objective of the EU's foreign policy is to maximize the volume of exports. Export to third countries is executed without restrictions. The EU gradually pursues a policy of export duties denial, which fully corresponds with the purposes and principles of the GATT, during the tariff regulation of exports of goods. Export duties are applied only in exceptional cases to prevent the outflow of vital products from the EU.

7.2. The use of quantitative restrictions in the EU's foreign trade

Increased competition on world markets requires from the EU the use of a significant number of quantitative restrictions applied on the basis of generally accepted principles of the WTO.

The most widespread form of quantitative restrictions is *quoting* – setting limit volumes of imports (exports) of certain goods with the distribution of volume shares (quotas) among concrete importers (exporters) for a particular time period.

Quoting also is used as a measure of tariff regulation, defining the limit volumes of imports of goods which are subjected to tariff preferences and tariff exemptions. Providing importers (exporters) the right to import (export) quoted goods within distributed among them quotas is called *licensing*.

The current system of quoting is based on the common trade policy, taking into account the principle of free movement of goods within the EU. The general scheme of allocation of quotas is following: the EU Commission publishes a notice about the opening the quota in the Official Journal of the European Union, indicating the method of allocating quotas, licensing conditions, period to appeal an application for a license, a list of the competent authorities of the member states that consider the application. Allocation of quotas is held among companies-applicants which received licenses once or phased. Unallocated and unused quotas are reallocated by the Commission.

The allocation of quotas is made by one of three methods:

- traditional distribution method. It is when quotas for import (export) of goods on a priority basis are shared between so-called “traditional” importers (exporters). Those importers (exporters) are “traditional” who can prove that during a previous period of time they regularly imported (exported) goods of this type;

- method of quotas allocation in the order of receipt of applications. Applicants, who first applied for the allocation of quotas, obtain the license first. The amount of quoted goods is equal for all licensees and is set by the Commission according to the concrete type of quoted good. After full use of quotas by their licensees they can file a new application;

- proportional method. The competent authorities of the member states inform the Commission about the number of applications submitted and the requested amount of goods. On the basis of this information, the Commission allocates quotas proportionally to the filed applications.

The licenses are valid within the territory of the EU, excepting cases when they are given for separate member states or regions of the EU. The general duration of a license is four months.

Tariff quotas, which are calculated for a year, are widely used in the EU in recent years. They are used to 48% of tariff items, mainly for agricultural products. In addition, there are quotas which are established within agreements on “voluntary” export restraints (VER) from third countries; export quotas. It should be noted that, in accordance with WTO requirements (decision of the Uruguay Round in 1994), the European Commission adopted a resolution on the abolition since January 1, 2005 import quotas on clothing and other textile products from WTO member states. These products began to be imported freely in the EU, and their trade is regulated by the GATT rules.

The agreements on “voluntary” export restraints take the important place in the system of quantitative measures. They are not covered by the rules of the GATT, as they have the bilateral character and entail the introduction of restrictions on exports. Their attractiveness is in mentioned fact. It is assumed that member states should not conclude special trade agreements with third countries, but they

sometimes negotiate about VER with exporters, whose import of goods threatens or makes losses to important branches of economy. With the formation of the single European market, agreements on VER are eliminated, because the procedure of their application becomes more centralized. However, the agreements on VER still remain on the national level. Thus, they cover 71 types of goods, including measuring devices, clocks and watches, consumer electronics, transistors, integrated circuits - in France, 48 types of goods - in Italy, in other countries, except Spain and Portugal – less than 10 quantitative restrictions [8].

Besides the bilateral agreements on VER, the EU concludes the so-called sectoral agreements with separate partners, which are based on the mechanisms of quoting and licensing of trade in certain goods.

The conditions of use of quantitative restrictions fully comply with the provisions of the Agreement on Safeguards GATT/WTO towards WTO members: the presence of the growth of imports and the conditions which cause or threaten to cause significant damage to the branch of national industry. As for countries that are not WTO members, one condition is enough: either growth of import, or the conditions in which it is produced.

Quantitative restrictions are used for imported goods regardless of its origin country and they are introduced for a period of not more than 4 years. However, this period can be continued for another 4 years, on conditions that the investigation has established the need to continue the measure. In some cases quoting may be applied to a concrete region, not to the entire territory of the EU. It is made on the basis of comparative analysis, which determines that the use of quotas in defined region will be more efficient and they will minimally impact on the unity of the EU's market.

The EU's export, as a rule, is exempt from quantitative restrictions. However, there are some cases when the export control and the quantitative restrictions remain: to fulfill the international obligations of the EU, mainly relating to chemical products and radioactive waste, some types of weapons; when exporting certain types of goods whose production is not sufficient in the EU; the export of works of art that have special value; when exporting items related to the security of member states.

7.3. The system of protective measures in the EU's trade policy

The main purpose of the application of protective measures is to prevent unfair competition. Unfair competition – it's dumping or subsidized imports, towards which the *anti-dumping or countervailing measures* are used, as far as presence of increasing imports against which the *special protective measures* are taken.

According to the results of the Uruguay Round of multilateral trade negotiations, the EU introduced new legal norms in the field of anti-dumping (Council Regulations № 384/96, 905/98, and regulations that complement them: № 2238/2000, № 1972/2002, № 461/2004, № 2117/2005) and countervailing (Council Regulation № 2026/97, № 1973/2002, № 461/2004) measures. The EU implemented the international agreements adopted within the GATT using these

legislative norms. Indicated regulations vary mainly for the rules of calculation of duties; the issues of considering damages and procedural rules are regulated the same.

Anti-dumping measures and measures of compensation the subsidies, are used as anti-dumping and countervailing duties after appropriate investigations. They are aimed at struggle against various types of unfair trade practices. Anti-dumping measures are directed at compensation of trade imbalance caused by the actions of third countries in the EU's market. Countervailing measures pursue the objective of liquidation of trade imbalance within the EU, which arose because of unfair export subsidies in the EU by the governments of exporting countries. The EU's regulations prohibit the use of both types of protective measures in respect of the same product. In practice, the EU in such cases confines itself to the use of measures of anti-dumping protection.

The use of special measures for increasing imports is regulated by Regulation № 3285/94. The increasing import – it's importing in such amounts and conditions that cause significant damage or threaten significant damage to the European producers of the goods. The special measures include limiting terms of import permits, the regime of import quoting, special duty. These measures are taken after carrying out a special investigation.

So, the import transactions in the EU are regulated on the basis of the principle of free trade, adoption of protective and restrictive measures in exceptional cases, i.e. to enter any protective measure it is necessary to carry out an investigation, within which is identified: damage, its type, connection with import operations and the presence of unfair business practice. The practice shows that the EU uses the whole range of measures to protect the internal market. However, in the recent years the anti-dumping measures have the highest importance; the average annual number of investigations initiated is 18. Actually no one investigation on the subsidized imports ended with imposition of measures, special measures are not applied at all.

Besides protection from dumping and subsidies, the EU's legislation allows in response the use of the *measures aimed at combating illegal restrictions of access of goods from the EU to markets of third countries*. Such restrictions in the EU's law are called "foreign trade barriers" and include both tariff and non-tariff measures of third countries, which directly or indirectly are aimed at restriction of imports of goods from the EU.

The EU has developed a mechanism that allows the participants of economic activity and member states to demand from the EU's institutions to take protective measures in response to trade barriers that are created by third countries and lead to damage or other adverse consequences for the EU's exporters and manufacturers. In this regard Regulation № 3286/94 is adopted (amended by Regulation № 356/95), which establishes rules and procedures within the common trade policy to ensure the rights of the EU as a participant of world trade, especially those rights that are based on norms of the WTO. This Regulation is applied to those trade barriers that impede

or can impede the export of goods from the EU to third countries. The feature of the Regulation is its spread besides goods for certain types of service export.

Special attention in the EU is paid to the use of *measures of technical regulation* for protection of its internal market from imports of products that do not meet the strict standards and high requirements of the EU to the quality of products. These issues are solved usually through the conclusion of bilateral agreements on mutual recognition of standards. The EU has concluded such agreements with Australia, New Zealand, Canada, Israel, Japan, the US, Switzerland. They are distributed mainly to the medical, telecommunications, electrical equipment. As a member of the WTO the EU applies all norms and rules of the Agreement on Technical Barriers to Trade, which aims to ensure technical regulations and standards, procedures which are used to assess compliance with such norms, requirements and standards not to be formulated and applied to create unnecessary barriers to trade. It is the external aspect of technical regulation.

It is necessary to pay attention to the second aspect, related to the circulation of the European goods in the EU's internal market. Trade between the EU's countries could increase annually by 150 billion euros, if member states did not require fulfilling of national standards. This impedes the trade in the single internal market, because measures of technical regulation and conformity procedures are not yet harmonized in all sectors of economy.

There is a large number of sanitary and phytosanitary measures besides the technical standards in the EU's trade policy. The legal basis for their use is represented by the EU's Regulation № 178/2002. It harmonizes the principles and procedures for adopting and using standards of safety and food, and is based on the following principles: keeping a high level of security at all stages; analysis of possible risks; responsibility of operators for the safety of imported and produced goods; clear division of costs in all stages of the value chain; right of citizens to take full and regular information on goods that are manufactured.

All products manufactured or imported into the EU's market must meet strict regulatory measures. Food that is imported must comply with safety standards or bilateral agreements between the EU and exporting countries. The question of sanitary control is the subject of bilateral agreements with Canada, New Zealand, USA, and they are also included in trade agreements with Chile, Mexico, and Switzerland.

Also, there are other regulations relating to sanitary and phytosanitary standards in the EU. Thus, the rules of official controls on imports of products from third countries are fixed in the EU's Regulation № 882/2004; import and manufacture of products of vegetable origin are regulated by Directive 2000/29/EC; Regulation №1829/23 regulates the circulation of genetically modified foods, etc. However, the EU is beginning to feel some "redundancy" of its own standards regarding fruits and vegetables. They create some problems both for citizens and companies inside and outside the European market. Therefore, the Commission proposed to cancel 26 out of 36 directives on beans, cauliflower, melons, and

cucumbers. It was not supported by Germany, Italy, Spain, France, Hungary, according to which consumers may suffer due to low quality products.

Although the EU complies with international standards in many cases, it is constantly working on coordination and harmonization of standards at the regional scale. The European standardization organizations and European manufacturers' associations play an active role in the process of standardization.

7.4. Financial methods of the EU's trade policy

The subsidies play an important role among the financial methods of regulation of the EU's foreign trade. They are the hidden form of protectionism and they protect the internal market from foreign competition. Subsidies, having the features of agreements, are considered as internal economic policy of a country, which creates commercial barriers beyond international agreements (more detailed see p.4.3.3).

Subsidies are used in electronic, textile, coal, steel, paper industry.

In some countries of the EU the governments assist ship-building and ship-repairing industry in order to stimulate exports. So, shipyards of member states receive from the government such amount of subsidies that can cover 10% of the costs for shipbuilding. This seriously violates the interests of third countries. The forms of assistance are different: subsidies of restructuring of the national shipbuilding, direct and indirect subsidies to supplement circulating capital and investment projects, insider lending, export credit subsidies and state ownership of the shipyard.

Now the EU has to declare its intention to abandon this practice under the pressure of third countries, but still it finds new arguments for its preservation. For example, the rejection of the subsidies for the shipbuilding and ship repair is dependent on "termination of unfair practices" of government support in other countries.

Also the export subsidies are used in agriculture of the member countries. These grants are used for milk and dairy products, beef, veal, pork, poultry, wheat, canola and olive oil, sugar, rice, raw tobacco, alcohol. The support to manufacturer amounted to 74,2 billion euros in 2012 [27].

Subsidies on agricultural products are available in different forms:

- return of cost to farmers for the purchase of agricultural equipment, fertilizers, plant protection;
- carrying out by government free works that are connected with increase in the quality of soil, buildings, roads, irrigation systems, etc.;
- payment of services to farmers for the difference between the minimum prices that are set by the state for a certain product, and the actual market price.

The practice of granting export subsidies, as already noted, greatly influences the interests of the trading partners of the EU. In particular, the EU is a key player in the global market for dairy products; its share in world exports of dried cream is 25% of the total amount. At the same time New Zealand and Australia are the EU's

main competitors. In addition, the EU is a big exporter of meat (about 1/5 of total market volume), competing with Australia, New Zealand and the USA. In the Uruguay Round, the EU's countries agreed to commit themselves to reduce the total budgetary expenditure on export subsidies on agricultural products by 36% and to reduce the total volume of exports covered by subsidies for the same products by 21%. Therefore, they are allowed to use six categories of subsidies, therefore commitments operate:

- providing the direct subsidies by the government, which depend on export indicators;
- sale of noncommercial resources (which are state-owned) of agricultural products by governments at a price lower than the comparable appointed for the similar goods when it is sold to buyers in the internal market;
- payments when exporting certain agricultural products which are financed by the government, regardless of whether there is a waste of public funds or not, including payments that are financed from the proceeds of charges, imposed from the same goods or from which the exported product is manufactured;
- providing subsidies for reduction of costs related with sales and export of agricultural products;
- costs for internal transportation and freight for export delivery, which are granted by the government on terms that are more favorable than for delivery to the internal market;
- subsidies on agricultural products which depend on their incorporation in the production of goods for export [2, p. 159].

The cheap and interest-free export credits, excepting export subsidies, are broadly used in the EU's countries. The transactions that are carried out with the help of these loans are not taxed.

The financial concessions take the important place among the indirect subsidies. They are aimed at accelerating the amortization. Using this type of indirect subsidies, the government allows the companies to include in the amortization fund the part of profits without taxation. This amortization has two functions: 1) it reduces spending of companies to taxes and 2) it gives the companies the opportunity to obtain equipment and to repair equipment at a lower price. As a result – the companies reduce the costs and increase their competitiveness [9].

The harmonization of indirect taxation is defined as one of the objectives of the European integration in the Treaty of Rome. The Value Added Tax (VAT) and excise duties take the key place in the harmonization of indirect taxation. These taxes are regulated by the EU's Council Directives: VAT – by the Directives 2006/112/EC, 2008/8EC, 2008/9/ EC, 2008 /117EC, excise duties – by the Directives 91/12 / EC, 92/80/EC, 92/83/EC 92/84/EC, 95/59/EC, etc.

VAT is charged on a single system, but there is retained a significant differentiation of the number and level of rates. There are used basic, reduced, most reduced rates. Basic rates vary within 12-14%; higher rates are set to fuel, gasoline, alcohol, advantaged – for food, medicines. The EU countries can reduce the rate of VAT to 5% for such goods and services as food, medicine, books, theater and

cinema tickets, taking rooms in hotels, payment of restaurant bills and so on. VAT rates for them account for 17-21% in different EU's countries [19, p.265]. Significant differences exist in the excises. This causes significant variations in prices for the same product in different countries. Therefore, the European Commission proposed the set of measures for drawing together of VAT rates and excise duties in the framework of formation a single regime.

According to the principle of national treatment all EU's countries apply VAT that is equal the VAT on similar products supplied to the market by domestic producers. VAT is paid at custom clearance of imported goods. There are two variants of customs clearance. It can be made in that EU's country whose boundary the product intersects firstly, and then it goes into free circulation throughout the customs territory of the EU, or it can be carried out in the country where the product is delivered.

Deliveries of goods within the EU are taxed in the country of consumption. Deliveries of goods are exempt from VAT in the country of origin (the EU's members), if the buyer is registered as a VAT payer in another EU's country and the goods physically left the territory of the country of origin. Thus the VAT is paid by the final consumer and the final sum of VAT is paid by the country of the final delivery. It is expected to transition to a unified system of VAT collection in which the tax will be collected in the country of origin in the long term within the EU. That is in selling goods from one European country to another, the seller will include VAT to the price and the buyer will receive a tax deduction in the amount of paid VAT the same as in trade within the country [2]. This will reduce transaction costs for the trade between the EU's countries.

There are special conditions concerning the taxation of goods that have been used, including works of art, collector's items and antiques, in the EU's countries. Since 2000 the buying gold (bars, coins) was exempted from VAT. The EU's countries may introduce some exceptions to the general VAT regime in order to simplify the procedure of taxation or to prevent certain types of tax evasion, but it must be authorized by the Council of the EU.

The issue of charging VAT is important in the terms of sale of goods by means of e-commerce. The goods supplied to the EU, including those that were acquired by foreign companies using e-commerce, are the subject to VAT at the frontier. In case when remote sale is made between the EU's countries and the delivery does not exceed fixed by destination country maximum value amount, VAT is charged in the country of origin of goods, provided that this product is not excisable. Sellers have to register themselves as VAT payers in the destination country (member state) and, if necessary, to have in this country an office to implement the relevant tax procedures (payments), if the maximum permitted value is exceeded,.

The general arrangements for excise taxes have a higher specificity in the European Union. Harmonization includes not only procedures charging, but also the level of rates. Basically, the excises are charged from tobacco products, alcoholic

beverages, fuel, and cars. Excise rates, that the EU's countries apply in respect of imported goods, do not differ from the rates for similar goods of local production.

Harmonization of excise duties is facilitated by existing provisions in the EU, which relate to:

- harmonization of the structure of excise duties on tobacco production in member countries;

- convergence of excise duty on cigarettes;

- convergence of excises on tobacco, except cigarettes. The minimum excise duty is established on these products. The member states have the right to apply the specific excise duty calculated on the basis of the maximum retail price, or a combination of both excise duties;

- harmonization of the structure of excise duties on alcohol and alcoholic beverages;

- convergence of rates and the establishment of minimum rates on beer, alcohol and alcoholic beverages. The rates are reviewed every two years with regard to meet the needs and features of the internal market;

- harmonization of the structures of excise duties on petroleum products and the establishment of minimum excise rates on oil products for ethyl gasoline, diesel fuel and paraffin (as fuel), domestic petrol, diesel and paraffin. The member-states have the right to apply to certain petroleum products for special purposes reduced excise rates or exemption from excise duty. The rates are reviewed every two years and the state of the internal market is taken into account;

- common rules regarding the tax marking of gas oil and kerosene, which did not carry the excise at full tariff which is applied to petroleum products when they are used as rocket fuel.

The excise policy develops towards ensuring tax revenues, ensuring good economic conditions at the national level, maintaining the principle of compatibility with EU policies in other areas.

The process of harmonization of indirect taxes is shown by decrease of their average deviation from 6,2 to 5,0 in the EU. This is higher than the corresponding figures in Europe and the OECD countries in the whole [9, p. 264]. Noted data indicate a high degree of integration of the economies of these countries.

The EU's policy in the field of indirect taxation is aimed at the greatest possible degree of unification of taxes and consideration of the interests of member states. The mechanism of this policy includes firstly the adoption of principal decisions at the level of declarations, how could be resolved an issue, and then the long and gradual work on the harmonization of national tax legislation is held.

Part IV. Organizational aspects of international trade

Chapter 8. Forms of international trade: essence and features

There are various forms of international trade depending on the subject and the nature of foreign trade transactions. Most of them are classified according to two characteristics - the subject of trade and a method and organization of the relationship between partners. Analysis of forms of international trade allows to characterize more the amount and structure of trade of an individual country, a group of countries and the world in general, and to identify some advantages or disadvantages for the exporter or importer.

8.1. Forms of international trade in accordance with the subject of trade

There are four forms of international trade concerning the subject of trade:

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

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

b) machine-technical products:

- finished products. It is a supply of machines and equipment for use in the finished form. For example, vehicles, machine tool products, technical products for cultural and community purpose;

- disassembled products. This form of trade is particularly developed in the automotive industry (a share of disassembled cars and components is 40-50% in this market), a production of tractors, motorcycles, electrical household appliances, radio and electronic equipment, agricultural machinery;

- complete equipment. Complete objects are the industrial or other enterprises as whole, separate shops, plants, units that form the finished technological complex or its separate part. The complete equipment is considered to be a set of organically bound machinery and equipment by a single technological process, that ensures the release of finished products or complete technological stage. The volume of supply in contracts for complete equipment includes: design, technological documentation (engineering consulting services); equipment of specified performance indicating the costs of raw materials, fuels and output of finished products, technical services (an installation, an adjustment, a launch of equipment in commissioning, training of specialists).

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

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

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

8.1.1. International trade classifications

International trade in manufactured goods and primary goods is based on international trade classifications. In these classifications all the products are divided into sections, specific chapters, headings, and subheadings, etc. by the features. The list of trade names in the corresponding classification system is called a commodity nomenclature. International commodity nomenclatures are used as the basis for constructing a customs tariff (the more detailed is the commodity nomenclature, the more effectively the tariff can be used for protectionist purposes), are used for the classification of goods in the statistics, in transportation tariffs.

The Standard International Trade Classification of the UN (SITC) (the 4th edition, 2008), the Harmonized Commodity Description and Coding System (also known as the Harmonized System – HS); the Classification by broad economic categories of the UN (BEC) (the edition of 2002) are used for the classification of goods in international trade.

In SITC the classification of goods is carried out at the level of groups by types of raw material from which the goods are made; by the degree of processing of goods; the product destination; the place of goods in the international trade. (Tab. 8.1).

Table 8.1

The classification scheme of SITC, Rev.4

Section codes and their names	Number of			
	divisions; their codes	groups	subgroups	positions
0. Food and live animals	10 (00-09)	36	132	335
1. Beverages and tobacco	2 (11-12)	4	11	21
2. Crude materials, inedible, except fuels	9 (21-29)	36	115	239
3. Mineral fuels, lubricants and related materials	4 (32-35)	11	22	32
4. Animal and vegetable oils, fats and waxes	3 (41-43)	4	21	41
5. Chemicals and related products, n.e.s.	9 (51-59)	34	132	467
6. Manufactured goods classified chiefly by material	9 (61-69)	52	229	767
7. Machinery and transport equipment	9 (71-79)	50	217	642
8. Miscellaneous manufactured articles	8 (81- 89)	31	140	420
9. Commodities and transactions not classified elsewhere in the SITC	4 (91, 93, 96, 97)	4	4	6
Total	67	262	1023	2970

The classification is used to publish data about the foreign trade of countries-members of the United Nations and international organizations. The comparative indices of the volume and structure of export and import of different countries are determined based on this classification; moreover it is possible to do a regroup of commodities in other classifications by using a special "key".

The Harmonized Commodity Description and Coding System represents international requirements for the classification and statistical information on goods that enter the foreign trade (Tab. 8.2).

Table 8.2

The classification system of the HS

Name of sections	Quantity		
	Groups (codes)	Positions	Sub-positions
I. Animals and animal products	5(01-05)	14	194
II. Products of vegetable origin	9(06-14)	790	270
III. Fats and oils of animal and vegetable origin; cleavage products; finished edible fats; waxes of animal or vegetable origin	1(15)	22	53
IV. Products of flavoring industry; alcoholic and non-alcoholic drinks; tobacco and artificial tobacco substitutes	9(16-24)	56	181
V. Mineral products	3(25-27)	67	151
VI. Products of chemical and allied industries	11(28-38)	176	759
VII. Plastic and products of it; rubber and its products	2(39-40)	43	189
VIII. leather materials; leather; fur; fur materials; goods made of fur; saddlery and harness; travel goods; handbags and similar goods; products of guts	3(41-43)	21	74
IX. Wood and products of it; charcoal; cork; goods of cork; products made of straw, vines and other materials for weaving; baskets and basketry	3(44-46)	27	79
X. Paper pulp of wood or other cellulose-fibrous materials; paper and cardboard waste paper; paper, cardboard and products made of it	3(47-49)	41	149
XI. Textile and products of it	14(50-63)	149	809
XII. Shoes, hats, umbrellas, sticks, rods and their parts; trimmed feathers and products of it; artificial flowers, and hair products	4(64-67)	20	55
XIII. Products of stone, plaster, alabaster, cement, asbestos, mica or similar materials; ceramic products, glass and products of it	3(68-70)	49	138
XIV. Natural or cultured pearls, semiprecious and precious stones, precious metals, base metals, lacquered precious metals and products made of it; jewelry and coins	1(71)	18	52
XV. Ferrous and non-ferrous metals and products of it	11(72-76,78-83)	157	587

XVI. Machines, equipment and mechanical appliances, electrical equipment and its parts; record and reproductive equipment; video equipment and its parts	2(84-85)	133	762
XVII. Means of land, air, space, water transport, equipment and parts to it	4(86-89)	38	132
XVIII. Optical, photo and cinematic instruments and apparatus, measuring, control, precision, medical and surgical instruments and apparatus; watch; musical instruments and its parts.	3(90-92)	56	230
XIX. Arms and ammunition, its parts	1(93)	7	17
XX. Various finished products	3(94-96)	32	131
XXI. Products of art, items for collectibles and antiques	1(97)	6	7
Total	96	1241	5019

Harmonized system was developed by the Harmonized System Committee set up by the Customs Co-operation Council (CCC). CCC is an intergovernmental organization that plays a leading role in working with multilateral regulation of customs and tariff practices; it is a coordinating and methodical center in the field of customs control. CCC adopted the International Convention on the Harmonized Commodity Description and Coding System in 1983, which was ratified by 53 countries and the EU member states at the end of 1987. From the 1st of January 1988 the majority of countries of the world have gone over to a new customs tariff, based on HS. All the WTO member states, which account for more than 90% of world trade, adopted the Harmonized System.

The goals of the HS are:

- simplification of drafting and processing of commercial and customs documents;
- cost reduction by rewriting, classification and registration of foreign cargo by volume, value, destination countries and other parameters;
- simplification of accumulating, accounting of data, conducting economic analysis about foreign trade;
- simplification of the exchange of tariff discounts within the WTO.

The structure of the nomenclature of the Harmonized system (the NHS) consists of classification and coding system.

Classification system consists of 21 sections, 96 groups, 33 subgroups, 1241 commodity positions, 3553 sub-items, 5019 sub positions, i.e. the system has 6 degrees. Goods in the NHS are grouped by the following features:

- an origin (products of vegetable, animal origin);
- a purpose (foodstuffs and beverages; industrial raw materials; fuel and lubricating materials; machinery and equipment, which include tools; vehicles; industrial goods for consumers);
- a degree of processing (commodities for production and non-production purpose; half-stuffs for production and non-production purpose; finished products).

The Harmonized system contains detailed explanations, which contribute to the same understanding of classification groups, definition of the rate of duty, the comparability of statistical data of the foreign trade.

Coding system of the HS allows to provide information in a convenient form for the collection, transmission and processing, as well as to carry out its computer processing.

Thus, HS promotes unification, perfection statistical records and increased control over the export and import operations.

Classification of commodities by the BEC is based on goods included in the SITC and the HS. All products are distributed according to their destination in 7 groups and within each group according to the degree of processing. In addition, some products are combined into groups on commercial or personal consumption features depending on the term of usage (Tab. 8.3). The main purpose of the classification by broad economic categories is the compilation of data on international trade according to the broad economic classes of goods. Furthermore, it should serve as a means of converting of data of the SITC from international trade to the categories of final use, which are allocated within the System of National Accounts, i.e. which correspond to the three classes of goods: means of production, intermediate and consumer goods. This will help while carrying out the economic analysis at the national, regional and international levels to consider and compare foreign trade statistics together with other general economic statistics such as national accounts, industrial statistics, etc. The United Nations Statistical Commission believes that the BEC can also serve as a guidance for national classifications of import by broad economic categories, but it should not be considered as a standard (such as the SITC).

Table 8.3

Classification by Broad Economic Categories

1. Food and beverages
 - 1.1. Primary
 - 1.1.1. Mainly for industry
 - 1.1.2. Mainly for household consumption
 - 1.2. Processed
 - 1.2.1. Mainly for industry
 - 1.2.2. Mainly for household consumption
2. Industrial supplies not elsewhere specified
 - 2.1. Primary
 - 2.2. Processed
3. Fuels and lubricants
 - 3.1. Primary
 - 3.2. Processed
 - 3.2.1. Motor spirit
 - 3.2.2. Other
4. Capital goods (except transport equipment), and parts and accessories thereof
 - 4.1. Capital goods (except transport equipment)
 - 4.2. Parts and accessories
5. Transport equipment, and parts and accessories thereof
 - 5.1. Passenger motor cars

- 5.2. Other
- 5.2.1. Industrial
- 5.2.2. Non-industrial
- 5.3. Parts and accessories
- 6. Consumer goods not elsewhere specified
- 6.1. Durable
- 6.2. Semi-durable
- 6.3. Non-durable
- 7. Goods not elsewhere specified

8.1.2 The international trade in manufactured goods, machinery and equipment

The manufactured goods, according to the Standard International Trade Classification, include chemicals and related products (Section 5), manufactured goods classified chiefly by material (Section 6), machinery and transport equipment (section 7), miscellaneous manufactured articles (Section 8).

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

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

The following features are inherent for the international trade in manufactured goods, which are caused by new demands of the market:

- reduction of the life cycle of most types of goods;
- increasing of the production of high-tech products that provides the steady differentiation of intermediate and finished products;
- the process of constant diversification of production to smaller industries and sub-industries, separation of which will automatically generate the need in exchange of the products of such industries that are more narrowly specialized further. The constant updating of nomenclature and range of goods is taking place;
- the development of intra-industry trade, that displaces the traditional inter-industry trade;
- the growth of the share of the recovered equipment in machine-tool products;
- the transition from single to system sales. The main product is offered with accessories and related products;
- increasing demands for technical and economic indices of the products;
- machine-technical products must meet the requirements of the International Organization for Standardization;
- the growth of trade in goods for production purposes is ahead of the growth in trade of machine-technical products for cultural and community purposes;
- strengthening of stamping of the social factor, which is in short supply and in increasing of the cost of skilled labor;

- development of the new, more effective constructional materials;
- the need for rapid implementation of the measures on the delivery of drawings of the products to the customer by the Internet and delivery of products by a system "just in time";
- the significant part of the world exports and imports of machinery and technical products is concentrated in industrialized countries;
- the state trade policy is aimed at promoting exports of machinery and technical products and at the protection of domestic producers, etc.
- the growth of a share of counterfeit products in the global consumer market.

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

The international trade of finished products is characterized by following features:

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

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

Export of finished disassembling products raises its competitiveness; helps to overcome the various customs and administrative protectionist barriers aimed at limiting of import of finished products; reduces almost in 2 times transport costs because components and parts, as a more compact cargo, are being transported in containers. Import of finished products in the form of components and parts, of course, is accompanied by reduced fees. This fact promotes the organization of assembly industries, therefore, the development of a national industry and the

increasing of an employment of the labor force. Supplying components and parts for assembly, the exporter provides a market penetration and an increasing of the amount of sales consisted of finished goods.

This form of trade often passes through the internal channels of the transnational corporation (TNC). A share of components and parts is about 30% in total exports of the OECD countries of the machines and vehicles. This proportion is higher in some developing countries where there are branches of western TNCs: in Taiwan – 36,3%, French Guiana - 49, Hong Kong – 46,2, Barbados – 61,6, Nicaragua – 81,6. This significantly increases the weight of the goods moving between countries, firmly linking the national economy of such countries.

Assembling enterprise in the form of a joint venture is organized according to the principle of a progressive assembly that involves a gradual and phased replacement of imported parts and components on parts and components of the national production. Basic principles of assembly production of joint ventures are:

- parts and components must be prepared so that the next assembly is not required a preparation of highly skilled workers;
- parts and components of the domestic production should have a quality not lower than an imported one and be interchangeable without any manual fitting;
- terms of supply of components and parts must be rhythmic and with an established optimal supplier storage reserve.

The development of *international trade of the complete equipment* is connected with the emergence and functioning of market of complete objects (goods-objects). The complete equipment, as it was noted earlier, is a unique technological complex of the enterprise or under construction object. Its delivery is inextricably linked with the provision of the design-research, engineering, technological services, execution of commissioning, the transfer of related licenses, an organization of a training of administrative and production staff.

Exporter of the complete equipment receives the opportunity to expand the export opportunities significantly due to the non-standard, more expensive equipment, related services, including know-how, patents.

The supply of complete equipment enables the importer to get technologically established set of basic and auxiliary equipment in short term, to learn the production staff and to begin the production of the finished products after starting of commissioning.

The proportion of deliveries of complete equipment is 10-15% in total world export of machinery and equipment. This form of trade is widespread in both the industrialized countries and the developing countries, especially in India, Brazil, Argentina, and Mexico.

The trade of complete equipment is carried out according to the following terms of general contractor:

- construction of the objects on a “turn-key basis”. Such supplies are the agreements, when the counterparty of the customer is responsible for the construction of objects for industrial and non-industrial purposes and represents the

customer in relations with other entities involved in the construction of the object. The counterparty passes the object , that is ready to use, to the customer;

- construction of the objects on the term “for the finished products”. This agreement stipulates the duty of the contractor to ensure the commissioning of the enterprise until its achievement of design capacity and the development in output of agreed nomenclature, quality and quantity;

- construction of the objects on the terms ”for the production and realization of the products”. The contracts of this type suggest a wide range of obligations and responsibilities of suppliers. The supplier provides not only the commissioning of enterprises in the initial period, but also sales of its products;

- the supply of complete equipment on the terms BOT (according to build, operate, transfer). The term BOT means an attraction of international consortium to finance all costs associated with the construction of the objects on a “turn-key basis”, as well as operation and maintenance of the object under the guarantee of the government to purchase products of this company during 10-15 years at prices, that provide reimbursement of expenditures and receipt of revenue of those, who constructed the object. Exporters at this form of supply are able to sell their products in the market of another country and get pre-approved revenue and importers get finished object without significant financial costs and do not face difficulties in commissioning [2, p.258].

International trade in manufactured goods is characterized by regions of the world by the data in Tab. 8.4.

Table 8.4

The world export of manufactured goods by regions of the world

Regions of the world	Exports of manufactured goods (share in global exports of goods,%)						
	Total	Ferrous metals and products from them	Chemical products	Office and tele-communication equipment	Automobile products	Textiles	Clothing
World	64,1	3,7	10,9	9,3	7,2	1,6	2,4
North America	66,7	1,4	10,9	9,9	11,4	0,7	0,5
Central and South America	26,6	2,6	6,7	0,8	3,4	0,6	2,1
Europe	74,1	3,1	16,3	5,6	9,9	1,3	2,0
CIS	23,2	6,6	6,3	0,5	0,7	0,5	0,4
Africa	16,4	1,4	3,4	0,5	1,5	0,5	1,6
Middle East	19,7	0,5	6,4	1,1	1,0	0,5	0,8
Asia	78,3	3,0	8,0	19,0	6,0	3,0	4,4

Source: [23]

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

The experts of the WTO underline the increase of the EU's share in the world export of automobiles up to 51,2% among the main trends of the development of the trade of industrial goods, while reducing of the share of Japan and the United States according to 11,7 and 9,3%, and also the record paces of growth of the world export of clothing and textile products on 17% (up to 725 billion) including China – on 20% (up to 248 billion dollars).

8.1.3. The international trade in raw commodities

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

A trade of commodities is characterized by several features:

- supply and demand for raw commodities depends on climatic conditions, natural stocks, political and economic crises. Therefore, in general, the international raw commodity trade is characterized by instability of the market;

- the long-term excess of supply of raw materials over the demand. This leads in some cases to the resource crisis in developing countries, with a narrow resource specialization as export of raw materials gives them from 50 to 100% of export revenues;

- partners strive to set a fairly lengthy relationship based on long-term international contracts, in which the exporter is ensured stable sales, and the importer is guaranteed a regular supply. About 30% of the global primary exports are accounted on long-term contracts, while for natural gas - 100%, copper, tin, lead-zinc concentrates - 90%, coal - 75%, iron ore - 60%, manganese ore - 30%;

- purchase and sale of commodities closely associated with delivery of other types of goods are part of commercial transactions, complex types of external economic cooperation (technical-economic, scientific and technical), large-scale agreements on compensation basis;

- the growth of export commodities with an absolute increase in the size of the trade of this commodity group is reducing;

- the growth of trade of fuel and raw materials of mineral origin is outpacing the growth of trade of food and agricultural raw materials;

- a trade of semi-finished products made on the basis of mineral and vegetable raw materials, as well as the raw material of deep processing/refining and specially trained materials of superior quality is increasing;

- requirements of importers to the ecological safety of products supplied are increasing;

- high degree of monopolization. The largest commercial and industrial companies are seeking to establish exclusively high prices on commodity markets. The intra corporate supply of raw materials is conducted at reduced transfer prices;
- governmental interference in the determination of the volume, directions, forms and methods of trade of commodities and foodstuffs is increasing.

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

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

International trade in food products, according to the SITC, includes: foodstuffs and animals (section 0): live animals, meat and meat products; dairy products and eggs; fish and seafood; grain and grain products, vegetables and fruits; sugar and honey; coffee, tea, cocoa, spices; cattle feed; a variety of foodstuffs; beverages and tobacco (section 1); oil (section 2, group 22); fats, oils, waxes of vegetable and animal origin (section 4).

Sections 0 and 4 are on the main place in the world market of food products. Trade in food, ready to use is rapidly developing.

Major exporters and importers of certain types of food in the world market are presented in Tab. 8.5.

Table 8.5

The main exporters and importers on the 13 markets of food

Name of the market	Basic exporters (E) and importers (I)
1. A market of live animals, incl.: -cattle; - sheep; - pigs.	the USA, Canada, the EU E: Australia, Turkey I: the Near East
2. A market of meat, incl .: - beef and veal; - pork; - lamb and goat meat; - birds meat	E: Australia, Brazil, the EU, the USA, Argentina E: Denmark, Canada, the USA, Benelux E: Australia, New Zealand E: the USA, the EU, Brazil; I: Russia, China, the EU countries of Near and Middle East
3. A market of dairy products, including: creamy butter, cheese, milk (dry powder or condensed).	E: the EU, New Zealand, the USA, Australia, Argentina
4. A market of eggs	E: the USA, China, the Netherlands (70% of world exports). I: Japan, the EU, Canada, Hong Kong.

5. A market of cereals, incl.: - wheat - corn - rice	E: theUSA, Canada, Australia, Argentina, Ukraine,the EU countries. I: Mexico, the USA, CIS, Japan, China, the EU, Brazil, Egypt, Indonesia, Algeria. E: the USA E: Thailand, Vietnam, China, Pakistan I: Indonesia, Iraq, Nigeria, Iraq
- rye	E: the EU, Canada I: Japan, Poland, Republic of Korea, China, the USA
6. A market of citrus and bananas	E: Mediterranean, Latin America. I: Europe and North America.
7. A sugar market	E: Cuba, Brazil, China, India (from sugar cane) Trends in the market and prices depend on the volume of production and purchase of sugar by Russia and China.
8. A market of seeds, vegetable oils, incl.: - soybeans; - rape - Sunflower (seeds) - Olive oil - Peanut oil	E: the USA, China, Brazil, Argentina I: European countries, Japan. E: Canada, Australia, CIS, the USA E: Central Europe, Russia, Ukraine, the USA, Argentina I: the EU, Turkey E: the EU, Spain, Italy, Greece, Tunisia. I: the EU, the USA, Syria, Morocco. E: Senegal, Argentina, China, India, USA. I: the EU, Indonesia, Canada, Russia, Mexico, Japan, North Africa
9. A market of fish oil	E: Peru I: Norway, the EU, Canada, Mexico, Japan
10. A market of tobacco leaves	E: Brazil, the USA, Zimbabwe, China, Italy, India I: the United Kingdom, Germany, Russia, the USA, Japan, the Netherlands.
11. A tea market	E: India, China, Sri Lanka, Indonesia. Offer of higher grades of tea in the world market is declining. Competition among major importers is growing, causing higher prices for tea and reducing consumption
12. A cocoa market	E: Ivory Coast, Ghana, Nigeria, Indonesia, Brazil I: the USA, Germany, Netherlands, the United Kingdom, Switzerland. Exporting countries concluded with importing countries in 1972 International cocoa agreement to regulate the market
13. A coffee market	E: Brazil, Colombia, Mexico, Ivory Coast, Indonesia, India I: Germany, Japan, France, Italy, Spain

Source: [23]

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

There is a pricing problem at food markets because prices expose to fluctuations, which is difficult to predict. Pricing in food markets is characterized by several features: prices on individual food items orientate on stock prices or

prices of auctions; prices are unstable; plurality of prices in connection with the availability of various sorts, centers of commerce, differences in terms of supply; strong competition from artificial and synthetic substitutes; an impact of foreign trade policy.

There are such commodity groups of section 2 of the SITC on the global market of agricultural raw materials: leather, fur; rubber, cork and wood; pulp and waste paper; textile fibers and wastes; raw materials of animal and vegetable origin, not elsewhere specified.

The world export of agricultural raw materials by regions of the world consists of (in billions): North America-251, Central and South America – 206, Europe – 670, Africa – 59, Near East – 32, Asia-382 [7, p. 119].

The markets for agricultural raw materials develop under the influence of the same macroeconomic factors as the food markets. The leading position on the markets for agricultural raw materials is occupied by natural rubber, wood, cotton, wool.

The center of the world production of *natural rubber* is Southeast Asia. Thailand, Indonesia and Malaysia are the largest of its producers, which account $\frac{3}{4}$ of the world production.

The main importers of natural rubber are industrially developed countries (countries of America account 23% of the world consumption, Europe-18%, Japan - 12%) and Asian developing countries.

The dynamics of prices on natural rubber determines the increase or decrease in stocks under the influence of the ratio of supply and demand. Reduction in the world stocks leads today to a rise in prices on this product.

Control of the stability of prices in the market of natural rubber is carried out by the International Rubber Conference Organisation (the INRO), which was created in 1980.

The world production of *forest products* is increasing constantly. The most dynamically this industry develops in the United States and Canada.

There are changes in recent years in the structure of forest products: proportion of raw materials for pulp and paper production and wood has increased and the proportion of raw materials for mechanical wood processing has decreased.

In the international trade of *textile fibers* about a half falls on cotton (fiber). A world production of cotton is 27,4 million tons per year. The main producers are China, India, the United States, Brazil, Australia, Uzbekistan, which produce approximately 87% of cotton in the world. The largest consumers are China, India, Pakistan, Turkey, and Bangladesh.

The New York Cotton Exchange, the Chicago Rice and Cotton Exchange and cotton and mediation market of the Liverpool Cotton Association are the leading centers of the world trade in cotton.

The most expensive kind of textile raw material is wool. A world wool production is about 2 million tons per year, while the share in the total consumption of all textile fibers is about 5%. The main producers of wool are

Australia, New Zealand, Argentina, Uruguay, South Africa, and CIS. Auctions and trade houses play an important role in a trade in wool.

The ores and metals market includes the ferrous metals and non-ferrous metals market, including: steel market (52,7%), gold (14,9%), copper (9,6%), aluminum (7,6%), silver (2,1%), nickel (2,0%). The world market of metals increased by 28%, on average, over the past five years. The highest growth rates are observed in the gold market (212%), silver (182%), tin (47%), steel (25%), copper (22%).

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Major exporters and importers in the world market of nonferrous metals are:

- market of copper concentrates and refined copper: exporters – the United States, Chile, Portugal, the Philippines, Russia, Canada, Kazakhstan; importers – Japan, Germany, Spain, the Republic of Korea;

- market of aluminum: exporters – Russia, Australia, Norway, Brazil; importers are Japan, the United States, Germany, Italy, Belgium, France, the Netherlands, the United Kingdom;

- market of refined lead: exporters-Australia, Canada, Mexico; importers-the United States, the EU countries;

- market of zinc ores and concentrates: exporters – Canada, Sweden, Peru, Mexico; importers - Germany, France, Belgium, Japan;

- market of tin concentrates and refined tin: exporters – Australia, Peru, Bolivia, Canada; importers - the EU countries, the United States, Japan;

- market of nickel: exporters – Canada, New Caledonia; importers - Japan, the United States, Germany;

- market of gold: exporters – the Republic of South Africa, the United States, Australia, Canada.

The peculiarity of the market of non-ferrous metals is the lack of world prices on raw materials of non-ferrous metals. This is connected with the presence of a large variety of qualitative characteristics of the feedstock. Prices on raw materials directly depend on prices on a refined metal.

The world market of fuel includes the trade in goods from section 3 of SITC: coal, coke, briquettes; petroleum, petroleum products and similar products; natural and manufactured gas; electricity.

The leading role in this market belongs to the petroleum (about 40% of world production and consumption), coal (about 31%), and gas (about 23%).

The biggest exporters of petroleum and petroleum products are Saudi Arabia (17,6%), Russia (14,8%), Nigeria (6,5%), Iran (5,6%), and importers - the USA (21,9%), China (11,2%), Japan (8,3%).

OPEC ensures 36,5% of total demand for oil of consumer countries. In the closest 5 years this indicator will increase to 40% and during 10 years will exceed 50%. According to forecasts, the oil demand raises by an average of 1.6% annually; it will make 120 million barrels per day until 2030 year.

To ensure this growth in demand the great investments will be necessary. Over 60% of increase of oil demand will be determined by developing countries (especially Asian). The share of developing countries in the world demand will increase in 2030 up to 43% [7, p. 122].

In the next decade oil with the share of 40% will maintain a dominant role in the global primary energy consumption. Its price will remain a benchmark in the global market of energy products.

The international trade in coal has a tendency to expand. For the last 10 years the turnovers of coal market grew by nearly 50% and accounted for 1 billion tons in 2013. It is connected to the fact that the reserves of coal in the world huge and they are relatively easily accessible; there is the opportunity to diversify its supplies; it is sold all over the world at very stable prices.

Australia, the USA, South Africa, Indonesia, South America, Canada, CIS are the main exporters of coal, and Western Europe, Japan, South Korea, Taiwan are the importers.

In price struggle on the global market those countries can win, which mine the coal by opencast methods (South Africa, Australia).

The world market of natural gas develops under the influence of the changes in the market of liquid fuels. Special interest is manifested to liquefied natural gas because its use in electric power plants, in cars, airplanes, helicopters is constantly growing. The trade in liquefied gas is concentrated mainly in the Asia-Pacific region and is makes about 75% of the world trade in these products. The world exports of liquefied natural gas is approximately 90 million tons and the cost of its global commodity turnover exceeds \$ 10 billion.

The share of gas in the global energy supply will increase to 26-28% and coal - will be in the range of 19-24% by 2020.

Russia, Norway, the Netherlands are the leading exporters of natural gas in continental Western European countries.

Today at the expense of petroleum, gas and coal 85% of energy demand is covered and their total share will be 60% in 50 years.

The world export of fuel by the world regions is (billion dollars): North America - 400, Central and South America - 323, Europe - 822, Africa - 382, CIS - 521, the Middle East - 847, Asia - 700 [17, p. 123].

The countries conclude different international agreements to stabilize the development of international trade in raw materials:

- the stabilization agreements that are intended to provide the stabilization and the balance of supply and demand. The quota on the volume of raw materials are provided in them. They are concluded concerning the trade in copper, tin, zinc, nickel, aluminum, coffee, cocoa, rubber;

- administrative and trade agreements that are intended for the statistical analysis of the markets of raw materials and making recommendations for the conduct of trade in certain products, such as sugar, wheat and other cereals;
- the international trade agreements for development measures that are intended for creation and development of the export-oriented production of raw materials. They are concluded, for example, on jute, valuable types of wood, vegetable and olive oil, and others.

8.1.4. World prices for manufactured and raw commodities

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

- large commercial agreements are concluded at this price;
- these are the prices of the agreements concluded in the largest centers of world trade, such as Chicago Mercantile Exchange, London Metal Exchange, etc. [20].

For certain goods, the world prices are the import or export prices of the major exporters or importers.

Thus, world prices are the prices of goods on the world market, where the commercial transactions should be done on a regular basis, should carry separate commercial nature, should be performed in a free trade policy regime and to be realized in a freely convertible currency

There are the following types of prices:

- prices of the trade agreements with the payment in convertible and non-convertible and partly convertible currency;
- clearing prices;
- transfer prices.
- prices by the programs under the state aid and so on.

The advertised prices and accounting prices are used by determining the prices level.

Advertised prices are the prices, which level is reported in the specialized and proprietary information sources. They usually reflect the level of world prices.

Advertised prices include:

- reference prices (prices of goods in the internal wholesale trade or in the external trade of foreign countries), that are printed in economic newspapers, magazines, special bulletins, company catalogs, price lists;
- exchange quotation (the prices of goods that are the subject of exchange trading);
- auction and bidding prices;

- the prices of actual transactions, that are not published on a regular basis, but they are compared with reference prices in order to establish the real contract price;
- prices of the proposal of the large firms.

Accounting prices are used to non-standard equipment and are calculated by exporting firm. We can find the information about them sporadically in print, that's why these prices can't be used for comparison in case of choosing the prices level.

When analyzing world prices, they are divided into two groups: the prices of manufactured goods and the prices of raw materials.

Export prices of major manufacturers and their exporters are the world prices for the products of manufacturing industries. Base of export prices is formed with domestic prices, which are calculated using the method of complete and direct costs.

All the costs, which are connected with the manufacturing (materials, labor, indirect costs), must be summarized according to the complete costs method. The value of expected profit must be added to them. Then we can define expected income from sales. We can calculate the factory unit price of the product by dividing of expected income value on monthly output.

The rate of loading of capacities is taken as 75-85% in case of using this method. Premium (discount) on income must be added to factory price. This measure is defined as the ratio of real income to the invested capital (in percentages). This ratio is calculated on prospect and is called "target" rate of profit, its value is not constant and may vary depending on the position of a company in the market, the nature of its pricing policy and state. Excise may be an example of such premium, and discounts – are the corrections on wholesalers. Method of direct expenses provides a more complete account of market conditions at the initial stage of pricing. It is based on the allocation of all costs on overhead (fixed) and direct (variable) costs (Tab. 8.6) [21].

Table 8.6

**Price determination by the method of direct costs
(monthly costs, dollars).**

Costs	Variants			
	I	II	III	IV
Expected sales volume, items	400	600	800	900
Estimated price per unit	18,0	16,0	15,0	14,0
Total direct (variable) costs	8,58	8,46	8,4	8,34
"Marginal profit" per unit	9,42	7,54	6,6	5,66
The total "marginal profit"	3768	4528	5280	5094
Fixed costs at 100% capacity utilization	3000	3000	3000	3000
Realized profit	768	1524	2280	2094

Several options for predictable prices and the corresponding predicted volumes of sales are determined by the method of direct costs. Then the sum of

direct costs is calculated and “marginal” (additional) profit per unit of output (the spread between the selling prices and variable costs) is determined, and then - on the whole amount of projected sales for predictable price. Then fixed costs are deducted from the total obtained ”marginal profit” and earnings from sales are defined. The calculations show that the maximum income is received in the sale of 800 items at a price of \$ 15 per unit. It is possible to determine the optimal combination of production volume, selling prices and costs by this method, but it is difficult to use, because firms usually do not know the demands and sales volumes of their products.

Full-cost method is preferred. Since pricing is influenced by many factors, prices that were calculated using described methods, serve only as a basis for further maneuvering on the market with constantly changing conditions. Businesses refine these prices by using branched out system of discounts and extra charges for variation of quality allowances for shift quality, delivery conditions, packaging, labeling etc. Few operations are carried out by list prices. Large consignments are realized at a discount from list prices or at contract prices.

Not size of the internal expenses play the main role in the formation of world prices of raw materials, but:

- the ratio of supply and demand in the market of raw commodities;
- the combination of prices of main producers (exporters) and exchange quotation or auction prices;
- prices plurality of major manufacturers (exporters) defined by the specifics of regional markets, the difference in the use of currency at calculations, the imbalance of supply and demand for commodities;
- the state or groups of states-leading exporters and / or importers of the certain products play the special role in the formation of world prices. Groups of states (the main manufacturers and exporters) can create interstate foreign trade associations to monitor the level of production of given kind of goods and have an influence on the formation and dynamics of world prices (e.g., Organization of Petroleum Exporting Countries - OPEC).

The mechanism of formation of world prices on raw commodities testifies to the divergence of world and domestic prices for similar goods. As a rule, domestic prices are higher than the world ones. This fact is more typical for import and less - for export prices. But it occurs to the contrary in the trade of some primary commodities, such as oil: world prices exceed the internal prices. This fact is connected with customs barriers between countries, with the activity of the most competitive firms in the global market and dependence of world prices on price indices for products of the market leaders.

Leading exporters and importers in international trade in goods are presented in Tab. 8.7.

Table 8.7

**The main exporters and importers
in global trade in goods in 2012**

Exporters	Volume, billion. USD.	Share, %	Importers	Volume, billion. USD.	Share, %
China	2049	11.1	The USA	2336	12,6
The USA	1546	8,4	China	1818	9,8
Germany	1407	7,6	Germany	1167	6,3
Japan	799	4,3	Japan	886	4,8
Holland	656	3,6	Great Britain	690	3,7
France	569	3,1	France	674	3,6
Korea	548	3,0	Holland	591	3,2
Russia	529	2,9	Hong Kong	553	3,0
Italy	501	2,7	Korea	520	2,8
Hong Kong	493	2,7	India	490	2,6
Great Britain	474	2,6	Italy	487	2,6
Canada	455	2,5	Canada	475	2,6
Belgium	447	2,4	Belgium	437	2,4
Singapore	408	2,2	Mexico	380	2,0
Saudi Arabia	388	2,1	Singapore	380	2,0
Mexico	371	2,0	Russia	335	1,8
UAE	350	1,9	Spain	335	1,8
Taipei	301	1,6	Taipei	270	1,5
India	294	1,6	Australia	261	1,4
Spain	294	1,6	Thailand	248	1,3
Australia	257	1,4	Turkey	237	1,3
Brazil	243	1,3	Brazil	233	1,3
Thailand	230	1,2	UAE	230	1,2
Malaysia	227	1,2	Switzerland	198	1,1
Switzerland	226	1,2	Malaysia	197	1,1
Indonesia	188	1,0	Poland	196	1,1
Poland	183	1,0	Indonesia	190	1,0
Sweden	172	0,9	Austria	178	1,0
Austria	166	0,9	Saudi Arabia	156	0,8
Norway	161	0,9	Czech	141	0,8
Czech	157	0,9	South Africa	124	0,7
Turkey	152	0,8	Vietnam	114	0,6
Qatar	133	0,7	Hungary	95	0,5
Kuwait	119	0,6	Denmark	92	0,5
World	18401	100,0	World	18601	100,0

Source: [27]

The table shows that the first 20 leading exporting countries and six importing ones are located in the Asia-Pacific region (24,3% of world exports), seven - are in the EU (23,1%). It testifies to a key role of these regions in the world economy. Total export of these 20 countries is 68,8% of world exports and total import is 72,9% of world imports.

8.1.5. International trade in services

The world market in services is the exchange of services between countries. It is an integral part of international economic relations along with world commodity markets.

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

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

Services and trade in them are qualitatively different from the trade in goods.

The main characteristics of services is in the fact, that they cannot be, unlike goods, seen and felt to the touch; they cannot be preserved; services trade is related to their production; services export means providing services to foreigners, it means to non-resident, even if he is on the custom territory of the country. However, the above description of characteristics is limited. Some services can be seen (for example, consultant report on diskette), some of them are stored (for example, telephone answering system).

The difference between the goods and services is also in the way of the government's protection of domestic producers. If manufacturing industries fence themselves off by setting tariffs, quantitative restrictions, etc., so the service sector dissociate itself mainly by national regulations and rules on foreign direct investment and foreign service providers participating in the activities of domestic enterprises.

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

International organizations systematize and classify the services that are the subjects of international trade.

The International Monetary Fund (IMF) has developed the guidelines for the balance of payments, which is represented by the composition of services included in the current account. Classification of services, adopted by the IMF, shows payments between residents and non-residents and includes 11 sectors:

I. Transportation services:

A) passenger transportation (international passenger transportation by all models of transport and providing of related services);

B) freight transportation (international freight transport by all types of transport and providing related services).

II. Travel services:

A) services associated with business travel [goods and services purchased by non-residents, traveling on business reasons (business trip)];

B) services related to personal travel [goods and services purchased by non-residents, traveling on personal reasons (tourism)].

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

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

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

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

VII. Computer and information services (consulting in computer programs, information services (data processing, use of databases, subscription on information line), computer services).

VII. Royalties and license fees (usage of the rights of property (trademark, patent, copyright, etc.) and usage of the originals or prototypes (films, manuscripts) based on the license).

IX. Other business services:

A) intermediary services (mediation commission);

B) leasing (leasing and freight of ships, airplanes and other transportation equipment);

C) other business, professional and technical services (legal, accounting, management, advertising and other services, and services of the design, cartography, construction supervision, crop protection).

X. Personal, cultural and recreational services:

A) audiovisual services (film production, radio and television programs, CDs, artists' fees);

B) others services (Showing of exhibitions, sporting and other events).

XI. Government services (supplying of goods to embassies, consulates, international organizations, UN peacekeeping operations).

The World Bank classifies services for aggregated groups, including revenue traffic. Services are divided into two groups:

I group - factor services, which include payments, that arise in connection with the international movement of factors of production - capital, labor (income on investments, royalties, wages, paid by non-residents, etc.).

II group – nonfactor services, which include other services (transport, travel, and other non-financial services), that are not related with the factors of production [23,].

In the GATS World Trade Organization offered the classification of services by the 12 sectors: (1. Business (Business services and professional services: accountancy services; advertising services; architectural and engineering services; computer and related services; legal services) 2. Communication (audiovisual services; postal and courier, express mail services; telecommunications)

3. Construction and Engineering; 4. Distribution services; 5. Education services; 6. Environmental services; 7. Financial services; 8. Health and social services; 9. Tourism and Travel services; 10. Recreation, cultural, and sporting; 11. Transport; 12. Other services) and by 155 subsectors.

Various characteristics of services affect the way of charring out international operations in the service sector. If international transactions of goods provide their physical movement from one country to another, so only some kinds of services provide movement across borders. However, time and place of consumption cannot be separated for most of transactions in services, which requires approximation service supplier to the consumer.

Services are provided at the international level using four methods: cross-border supply, consumption abroad, commercial presence, and presence of natural persons (see Chapter 5, p.5.1.3).

The total number of services traded in last two methods, is significantly higher than the first two. However, the latest achievements of ICT and e-commerce development create more and more opportunities for companies to provide services in a mode of cross-border movement without creating a commercial presence in the importing country.

It can be, when not only one way of delivery for providing services may be used. For example, certain advisory service can be provided by means of telecommunications and individuals directly present there.

Service delivery is the fastest section of foreign trade. More and more types of services become market commodities and are recorded on the current account balance.

Export of services amounted nearly 4,4 trillion dollars or 23,7% of total world export of goods and services, and imports – \$ 4,12 trillion dollars or 18,1% of world import of goods and services in 2012. The trade in services is growing constantly and quite rapidly (Tab. 8.8, 8.9).

Table 8.8

**The main exporters and importers
in the global trade in services in 2012**

Importers	Volume, bln. dollars	Exporters	Volume, bln.dollars
Total (world)	4 116, 4	Total (world)	4 363,0
The USA	416,5	The USA	628,2
Germany	302,2	The United Kingdom	289,1
China	281,0	Germany	263,4
Japan	182,8	France	200,4
The United Kingdom	174,3	China	195,3
France	173,8	India	145,0
India	128,9	Spain	135,7
Singapore	118,4	Japan	131,0
Ireland	111,8	Singapore	118,7

Canada	107,0	The Republic of Korea	109,6
The Republic of Korea	107,0	Ireland	106,6
The Russian Federation	106,6	Holland	102,9
Italy	104,9	Italy	102,0
Holland	93,7	Belgium	101,4
Belgium	93,1	Hong Kong	97,8
Spain	90,0	Canada	82,5
Brazil	77,7	Luxembourg	71,7
Hong Kong	73,2	Switzerland	68,5
Australia	63,4	Denmark	65,9
Denmark	58,1	Sweden	61,4
Sweden	54,4	The Russian Federation	61,4
Thailand	52,8	Austria	57,5
Switzerland	52,6	Australia	51,7
Saudi Arabia	49,8	Thailand	49,3
Norway	48,2	Turkey	42,6
Austria	44,8	Norway	38,9
Luxembourg	42,2	Brazil	38,1
Malaysia	42,2	Poland	37,8
Indonesia	33,8	Malaysia	37,8

Source: [27]

Table 8.9

The dynamics of the development of the global trade in services by regions

Regions of the world	The rates of growth, %					
	Export			Import		
	2005-2012	2011	2012	2005-2012	2011	2012
North America	8	9	5	6	8	8
Central and South America	10	19	4	15	23	18
Europe	7	12	-2	6	3	9
CIS	14	20	9	14	18	19
Africa	9	0	6	14	11	12
Near East	-	11	13	-	12	15
Asia	12	12	6	11	21	14
Total world	9	11	2	9	10	11

Source: [27]

In the structure of the world export of services the largest share accounts for trips – 25,6% and transport services – 20,6%, followed by the following services: financial - 7,4%, royalties and license payments - 6,4%, computer and information – 6,0%, communication- 2,5%, construction – 2,4%, insurance -2,1%, personal, cultural and recreational -1,3%. Other services (25,7%) account for the category “Other business services” (sales, leasing, legal, accounting, advertising, management, engineering, etc). In the structure of import of services transportation services account for 27,9%, trips - 24% [27].

The share of transport services and trips in total volume of the trade in services and their dynamics by regions of the world are shown in the Tab. 8.10, 8.11.

Table 8.10

The share of transport services and trips in export and import of services of certain regions of the world in 2012, %

Export		Regions	Import	
Transport services	Trips		Transport services	Trips
10,9	17,4	North America	10,9	13,6
3,2	4,4	South and Central America	4,8	4,4
46,7	38,6	Europe	31,8	38,1
41,8	33,2	The EU	29,5	34,1
4,4	2,2	CIS	2,5	5,6
3,0	3,8	Africa	5,5	2,6
3,6	4,6	Near East	9,6	6,8
28,3	29,0	Asia	34,9	28,8

Source: [27]

Table 8.10 shows that the largest share in export and import of transport services and trips accounts for countries of Europe and Asia.

Table 8.11

The dynamics of the global trade in certain services by regions, %

	Total	North America	Latin America	Europe	CIS	Africa	Near East	Asia
Commercial services								
2005-10	9	8	10	7	14	9	-	12
2011	11	9	19	12	20	0	11	12
2012	2	5	4	-2	9	6	13	6
Transport services								
2005-10	7	6	9	6	13	9	9	9
2011	9	11	17	10	16	6	22	4
2012	1	3	-1	-2	5	9	13	4
Tourism								
2005-10	6	4	7	3	9	8	15	13
2011	12	10	8	13	28	-4	2	18
2012	4	8	5	-2	12	6	6	10
Other commercial services								
2005-10	11	10	16	10	19	11	-	13
2011	12	8	30	12	20	3	14	14
2012	2	4	6	-2	11	4	20	6

Source: [27]

The rates of growth of the world trade in commercial services are growing annually during the period of 2005-2012. The CIS countries, Latin America and Asia are characterized by the highest rates of trade, both in total and by main types of services.

The growth of trade in services is due to the following factors:

- revolutionary technological changes;
- increasing the rate of development of technological programs in the field of telecommunications and information;
- increase in demand for financial, insurance and banking services.

The global services market is characterized by rapid development of the financial services market. So, according to experts of "Mercer Oliver Wyman," rates of growth of the sector of the global financial services will significantly accelerate over the next 15 years, and its share will make almost 10% of the global GDP by 2020. The total revenues of the global financial sector services will increase in 3 times (from 2 trillion to 6 trillion dollars by 2020).

Revenues of the financial services sector in North America and Western Europe will grow by 5,5% annually. This parameter will grow even faster (for example, in Russia, Brazil, India and China it will grow two times faster than in other countries) in other regions. The financial services sector of China was almost the same as in Italy in 2010, but it can overtake the financial services sector of Germany by 2020.

The situation on the markets of financial services in Latin America and Africa is less favorable.

It is predicted that the volume of retail banking operations will grow faster, than the wholesale banking business or insurance. Revenues from the provision of retail loans on mortgage and credit cards will grow by 4% annually until 2020. Services in the field of medical and pension insurance are characterized by similar rates of growth. The slow rates of growth of services (2%) are expected in the wholesale banking business [2, p. 286].

In recent years there has been a decrease in the volume of import between the EU countries, that reflects the strengthening of trade relations of the EU with other countries. It should be noted that the common European market of services has not been established yet. The reason for this is the presence of numerous national barriers in this area, from the establishment of the new company, which is governed by different legal standards, to the establishment of sales prices, the level of which is influenced by various tax regimes. The absence of a single EU's market causes a number of negative aspects. Firstly, due to the fact that the role of services in the total gross product of the EU's countries reaches 70 %, problems, faced by certain companies, affect the economy of the region on the whole. Secondly, companies, especially small ones, do not have the opportunity to expand sales markets and bear the additional costs. Thirdly, it is difficult for consumers to access to more qualified and affordable services, which they could use in terms of the common European competition between companies. Fourthly, service providers are experiencing difficulties in conducting advertising campaigns inside

the EU, and also there are a lot of bureaucratic formalities during the contracts for work and different rates of indirect taxes.

External trade in services plays an important role in the development of the service sector in OECD countries. About 6% of the total volume of services, are produced in these countries, are being exported and rates of growth are constantly increasing. The largest share in the trade in services accounts for services in the field of transport, tourism and some types of business services. Each of these types of services in export and import of services rank 21-27%. Trade in insurance, computer and information services is growing the fastest. An important beginning of sales of services is foreign subsidiaries of companies. The share of turnover of foreign subsidiaries in the total turnover of the services sector is more than 20% in Hungary, Belgium, Ireland, Czech Republic, Poland, Italy [2, p.287].

Developing countries in the market of services offer the services to those sectors, where there is a potential for the development of export trade. For example, these are financial, telecommunications, construction, medical and other sectors. A large number of these countries largely depends on import of services, from liberalization of which they receive benefits, their import of services is constantly growing, as the productivity of the industry is closely related to accessible and affordable financial, computer and information services. Businesses while searching for foreign markets have to spend much more than before on marketing and scientific researches, advertising, etc.

Technological progress in the branch of communications gives providers that were previously connected to national markets, the ability to act in the international arena. Banks and insurance companies, using fax, e-mail, can act much more effectively. Architects, engineers can transfer their projects and observe the progress of construction from the distance of thousands of kilometers due to the modern information technology.

International transport services

International transports are the services of all types of transport of carrying goods of transport operation, provided by residents of one country to residents of another country.

The range of transport services is wide. Services are classified according to:

- mode of transport: water (sea, river); land (rail, road); air (aviation); space; pipeline;
- the subject of the transport operation (cargo, passenger, baggage);
- transport characteristics of product: dry (coal, ore), bulk (grain, cement), synthetic, liquid (oil, vegetable oils);
- frequency of transportation (regular and irregular);
- the order of passing the border (without reloading and with reloading)
- type of transport and technological system (by container, by ferry, by lighter etc.);
- message type (direct, indirect, etc.);

- geographic areas of transportation (international, intercontinental).

Currently so-called transport corridors are used widely, that link several modes of transport on certain areas for shipping through the territory of several countries with appropriate financial and legal security.

Transport services are distinguished by the following categories:

- passenger transportation;
- freight shipping;
- services of vessels rent (marine, river, air), land transport with team and operator;
- services of repair and maintenance of transport;
- shunting services (for rail transport);
- services for descent to water and towing (for sea and river transport);
- additional services (services of handling, storage, packaging / unpacking, navigation, sailing, servicing, commission payments, etc.).

An amount of international trade can be significantly affected by transport costs. Transportation costs (the cost of delivery of goods from producer to consumer, including the cost of freight, insurance, loading / unloading, packing / unpacking, and other accompanying costs) are so large that make unprofitable exports and imports of goods, it means that transportation costs transform products from the “market” the “non-market”. This leads to a reduction of trade, of level of countries specialization, of benefit sizes from trade.

Transportation costs may affect the territorial division of labor. Thus, in the extractive industries the transport costs on transportation of finished products are lower than on transport of raw materials from which they are made. Since the final products of these industries is much lighter and more expensive than raw materials, so processing enterprises try to be located near the sources of raw materials extraction. Transportation costs for of finished goods are higher than of their components transportation in processing industries. Therefore, the assembly plants are located near sales markets. For example, juice concentrates are produced by major firm in the home country, but branches are located in other countries close to the markets, obtaining concentrate they made from it soft drinks, that are realized for local wholesale and retail [2, p.289].

First place on the transport market is taken by sea shipping, which accounts for 80% of world trade turnover.

Market of carriage of goods by sea is classified:

- by types of freighted vessels (transport by tankers, by dry cargo, by trailers, by refrigerators, by ferries, etc.);
- by the form of transportation organizations (linear or regular, with tramp or irregular tonnage markets);
- by type of ship (regular, rented);
- by geography (North European, the Mediterranean, Far Eastern, etc).

The volume of international maritime traffic is growing by 3.9% annually. This is caused by increasing the tonnage of developed countries, which make over

70% of the world's merchant fleet: Greece, Japan, the USA, UK, Norway, China, Russia and Germany.

The largest merchant fleet in the world is in Japan. Tonnage of Eastern and Central Europe countries is 4% of the world's tonnage, tonnage of developing countries is 19,7%.

The world's merchant fleet tonnage has increased by 23% over the past 10 years, weight of cargo - by 45%, turnover of maritime transport - by 34%. The development of science and technology has led to making cheaper maritime transport, which allows refusing transport costs in the value of world trade.

The commodity structure of international maritime transport has changed: if bulk cargoes (mainly petroleum products), which accounted about 56%, dominated in the physical volume earlier, now about 2/3 account on dry goods.

Dynamics of maritime transport are distinguished uneven in regions. Over the past three decades, the share of industrialized countries in the volume of unloaded cargo reduced from 79,9 to 62,4%, while the volume of shipped goods - on the contrary, increased from 31,1% to 42,5%. The most rapid growth of carriage of goods by sea is in the Asian countries: the share of developing countries of this region has increased in 3,5 times - from 6,4 to 20,6%, and countries with economies in transition - from 1,2 to 6,2%.

More than 3/4 of the world's carriage of goods by sea is the share of 25 countries, with the top 5 countries (the USA, Germany, Japan, United Kingdom and France), which control nearly 40% of freight and 30% of total tonnage [2, p.290].

Maritime transport market is governed by the Brussels Convention for the Unification of Certain Rules of Law relating to Bills of Lading ("Hague Rules", 1924) with changes in accordance with the Brussels Protocol 1968 that defines the relationship between the participants of the contract of maritime shipping and legal status of the bill of lading. The marine shipping of passengers and baggage is regulated by Athens Convention relating to the Carriage of Passengers and their Luggage by Sea.

International trips

The significant part of the world market is occupied by services related to international trips. International trips are highlighted in international trade as international economic transactions, and are set of products and services purchased by travelers abroad, if they are there less than a year and are considered as non-residents. There are tourists among the travelers, that is the travelers, who spent one or more nights in the visit country and excursionists, that means travelers who spent abroad at least 24 hours.

International trips are divided into:

- business trips, which include all personal expenses of travelers who are abroad on business, to pay for goods and services. Herewith the costs, which are done by a stranger from the name and for the account of the organization that sends in business trip, are not included;

- personal trips, which include all personal expenses of travelers who are abroad for personal reasons, to pay for goods and services (hotels, restaurants, travel agencies, travel agencies associated with recreation, gifts and other goods purchased and exported from the visits country). The costs associated with traveler transportation abroad and back are not included into personal travel. They are included in the passenger transport [2, p.291].

Business trips grow more quickly, their rate is twice bigger than the other types of tourism, that is related to internationalization of business. This concerns both TNCs and joint ventures.

Tourism is the fastest growing sector of the global economy. More than 9% of the world GDP is tourism. The cost of travel services is growing as new hotels need very expensive equipment and the creation of tourist centers of infrastructure development are based on the newest information technology and costs sometimes in 2 times higher than direct investments in construction. The great part of costs consist costs of professional training.

The feature of tourism as a commodity is that most part of it is produced with minimal costs and usually without using of the national currency.

The annual growth rate of flow of tourists in the world travel market was 104%, including Europe - 104%, in Asia -107%, America -103%, Africa - 105% in the Middle East - 108% over the past 5 years.

Approximately $\frac{3}{4}$ of services in international trips are provided by developed countries, $\frac{1}{4}$ - by developing countries and countries with economies in transition.

The most popular tourist destinations by 2020 are shown in Tab. 8.12.

Table. 8.12.

The most popular tourist destinations

Country	Number of tourist arrivals, mln USD	Share in the global tourism market, %	Dynamics of growth in 1995-2020 years, %
China	137,1	8,6	8,0
The USA	102,4	6,4	3,5
France	93,3	5,8	1,8
Spain	71,0	4,4	2,4
Hong Kong	59,3	3,7	7,3
Italy	52,9	3,3	2,2
Great Britain	52,8	3,3	3,0
Mexico	48,9	3,1	3,6
Russia	47,1	2,9	6,7
Czech Republic	44,0	2,7	4,0
Total	708,8	44,2	-

Source: [http://tourlib.net/books_tourism/kvartalnov_tourism17.htm]

The leading countries of travel market spend tens of millions of dollars to noncommercial advertising of their tourist facilities, for example, Turkey allocates 70 million dollars from budget for advertising and development of tourism industry, Austria - 140 million dollars, Spain - 45 million dollars, Romania - 3 million dollars, Ukraine – 2,4 million dollars.

The current global market for services is a holistic system, which consists of subsystems such as transport, tourism, finance, construction, insurance and other services. They are closely interrelated, are sensitive to market movements caused by the constant fluctuations in demand and supply of services in the market, characterized by a high rate of capital turnover, associated with short production cycle in the service sector and the continuing increase in range.

8.1.6. International trade in intellectual property products

The international market of intellectual property rights is created from the trade of non-material types of technology (technology transfer) and the trade in scientific, technical, engineering, consulting services.

Immaterial types of technology include:

- patent is a certificate issued by the appropriate government agency to inventor, and that certifies his monopoly on the use of the invention
- license is a permission issued by technologies owner (licensor), protected or unprotected by patent, to interested party (licensee) to use this technology within a specified time and for a fee;
- copyright is the exclusive right of authors of literary, audio or video product to display and to reproduce the work.
- trademark is a symbol (picture, graphic combination of letters, etc.) of a certain organization, that is used to individualization of the product producer and that can not be used by other organizations without official permission of the owner;
- know-how is the provision of technical knowledge, practical technical, commercial, administrative, financial experience, that has commercial value, is used in the production and in the professional practice and is not provided with the patent protection.

Development of international products market of intellectual work is caused by acceleration of scientific and technological progress (STP). Expansion of scientific research and design works (R&D) requires huge financial costs, expensive equipment, highly skilled personnel. This forces firms to participate in international scientific and technical division of labor. The rapid development of trading of technology, scientific and technological knowledge is largely associated with significant differences in the technical level of individual countries. In terms of acceleration of STP, advanced equipment and technology are concentrated in a small group of industrialized countries, which spend huge sums on research and

development. Thus, the USA's R&D expenditures are exceeding these total expenses in Germany, France, England, Italy, and Japan. Therefore, the USA has high concentration of advanced scientific research. Foreign scientific and technical knowledge are widely used by Japan, which gave to this country the opportunity to produce new products, improved from their own research. International technology exchange has been used successfully by Germany, which modernized production base of transport engineering, chemical and electrical industries with the help of foreign licenses.

Developing countries have to develop their technological base in the same direction as the developed countries to be competitive in the global market. Purchases of foreign advanced technology are important tools for overcoming technical backwardness, creating its own industry, which can satisfy the domestic demand and reduce dependence on imports.

Deepening of international scientific division of labor leads to increasingly firm's specializing in narrow fields of science and technology.

The exchange of scientific and technical knowledge provides individual countries that do not have sufficient financial resources, to research and development, to achieve high rates of economic growth through using of advanced technology of other countries.

International technology exchange has the following features in modern conditions [2, p.294]

1. The development of the high technologies market. Trend is considered progressive, if it envisages not just growth of export potential, but its "intellectualization", that is increasing the share of high-tech products in total exports. This is a factor of economic growth. The generally high technology classification for export and import products, that embodying new technology and leadership, is the classification developed in the USA, which is used by international organizations to perform statistical comparisons of different countries. This classification system allows exploring the trade of high technology products in 10 major technology areas: biotechnology, life sciences technology rights, optoelectronics, computers and telecommunications, electronics and computerized manufacturing, new materials, aerospace technology, weapons, nuclear technology.

Technological capacity of trade (R&D intensity of trade) classification, developed by UNCTAD is used to assess the volume of the technologies, transferred through trade in goods Technological capacity of trade is understood as share of expenditure on research and development in the total production and trade of individual industries. Technological capacity of trade index is calculated for each country based on industry and production of certain goods, and then is determined as the average value of technological capacity of trade.

It's considered that high-tech succinct products and industries the average value of technological capacity of trade of which is above average for the country, group of countries or industry; medium technology succinct - if the average value of technological capacity of trade is close to the mean; low technology succinct - if

the average value of TCT is much lower than average. For example, trade by integral aerospace equipment (22,7% expenses for R&D in total production) and office equipment and computers in the OECD (17,5%) are considered as high-tech; medium technology succinct - trade in automobiles (2,7%), chemicals (2,3%); low technology succinct is selling of bricks, clay (0,9%), food (0,8%), paper (0,3%), etc. In this case the average value of technological capacity of trade for high-tech products is 11,4%, for medium-tech ones is 1,7%, for low-tech ones is 0,5%.

2. The monopoly of the largest firms in the technology market. Scientific development researches are concentrated in the firms of major industrial and developed countries, as soon as they have sufficient financial resources to conduct expensive researches. Transnational corporations engaged actively in research and development of their foreign branches, subsidiaries, which are characterized by increasing the share of expenditure on research and development in the total cost of these multinationals.

3. Technological policy of TNCs. Recently, it has been changes in the directions of R&D conducted by TNCs. Researches are displaced in industries determining the success in the production and marketing activity:

- improvement of traditional kinds of products for their better adaptation to the requirements of the world market by the indexes of material consumption, power consumption, security, reliability, etc;
- the creation of innovative products, market research, where high returns can be expected;
- improvement of existing and creation of new technology.

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

- sale of licenses in the early stages of product life cycles, in order to have time to recoup the costs of research and development revenues by the sale of their results;
- establishing high monopoly prices for patented products and limiting the production and release of new product to licenses buyers;
- agreements between TNCs to obtain exclusive rights to patents blocks for most important inventions. Agreements are concluded between certain multinational corporations to form patent pools¹. All participants of pool obtain the rights to inventions by issuing reciprocal licenses. Using of new inventions, created out of a pool, shall be ceased;
- using of patents to control the development of technology or inhibition of development;
- disposal of subsidiaries of TNCs autonomy in selecting technology. They should be guided by the general license policies within multinationals;
- the transfer of licenses by TNCs on non-commercial conditions to their subsidiaries. This fact put the latter in a preferential position in the market, it

¹ Poole is a form of monopolies, special kind of cartels, which are marked by the fact that profit of all participants goes to the general fund and then is distributed between them according to previously established proportion.

improves the competitiveness of their products. Share of internally corporation revenues is of over 60% among all licensing revenues in developed countries, including the US's share of revenues from the sale of licenses subsidiary branches is about 80%, in England – is 50%;

- strategic alliances between TNCs of different countries for the joint solution of scientific and engineering problems.

4. The relationships of TNCs with developing countries. TNCs try to create such structure of international division of labor, which would provide economic and technical dependence of developing countries. Thus, in these countries, TNCs create enterprise for the production of components that are delivered to the subsidiaries in other countries. TNC reduces the costs of its products by transferring of technology for the manufacture of intermediate products to countries with cheap labor.

Often TNC moves the production of the products, the life cycle of which has expired and profits from the sale of which gradually decreases, to developing countries. These products are obtained at low prices and then are sold by developing countries through their distribution network under famous trademarks, getting increased profits.

5. The participation of “venture capital” firms in international technological exchange (small and medium-sized firms with employing up to 1 thousand pers.). The advantage of these firms in the technology market is their narrow specialization. These companies have access to highly specialized world markets, by issuing a limited range of goods; they do not bear additional costs for market research, advertising; pay more attention to the immediate resolution of scientific and engineering problems.

Selling of licenses is the most competitive form of technology transfer for venture capital firms, because they cannot compete with large corporations neither in scale of high-tech products export, nor in the business capital export.

6. The development of international technical assistance. This assistance is provided by developed countries to developing countries and countries with economies in transition in the transmission of technical knowledge, experience, technology, technologically capacious product, and training of staff.

The main buyers in the market of products of intellectual work are: foreign branches or subsidiaries of multinational corporations; separate independent companies.

The reasons of transfer of new technologies by TNCs to their foreign units are: the contradiction is coped between the need for extensive use of the latest technological developments in order to obtain the maximum profit and arising in connection with this threat of losing a monopoly on scientific and technological advances; unit costs of R&D is reduced; trade secrets leak out of TNCs is excluded; the income of the parent company is increased (received payments for new technology are exempted from taxes in many countries).

Technology of those areas, where there is a small percentage of R&D expenses (metallurgy, metalworking, textile, garment industry), are usually being sold to independent firms.

International licensed trade

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

The growth of international trade of licenses is caused by a number of factors that stimulate firms to sell and buy licenses in the global market:

- a commercial interest in the implementation of technological transfer, both from the licensor (by selling license in a short time he pays expenses of R&D, gets additional income due to the rapid development of invention and production of new products based on it) and from the licensee (by buying a license he saves on R&D, has an access to advanced scientific and technological achievements, receives incomes from the use of the latest technologies);

- growth of the competition in the global market;

- acceleration of the output of new products to the market;

- receiving of an access to additional resources;

- penetration and conquest of the inaccessible markets in the countries, where tariff and non-tariff barriers are widely used;

- receiving of the profit by selling licenses on the products, that do not correspond to new strategic priorities. Thus, firms with diversified production are constantly adjusting product nomenclature, changing the resources for the production of the most profitable products. Herewith products or technology, that most companies have no interest in, but can be profitably transferred to foreign companies, which are interested in selling them, may appear “overboard”;

- countries with limited resources of scientific and technological development have an opportunity to occupy a strong position in the world market without additional expenses by taking part in international technological exchange;

- the advertisement of domestic products is being created using licenses and consequently the demand on this products increases in other countries, and also the foreign markets are being studied;

- political and legal reasons.

Overall a turnover of the licensed trade is about \$30 billion per year. However, the significance of this market is determined by the fact, that the cost of products, which are produced in different countries with foreign licenses, is \$330-400 billion annually. The leading position in the market of licenses is held by the United States (65% of revenues of industrialized countries from an export of licenses).

There is a classification of countries according to their roles in international trade of licenses (Tab. 8.13) [2, p. 299].

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

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

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

Licenses can be **patent**, i.e. confirming the transfer of the right to use a patent without the proper know-how, and **nonpatent**, i.e. confirming the right to use the know-how without patents for invention. The main part of the world trade of technology accounts on selling of nonpatent licenses, because they do not require conducting of an additional R&D and provide a minimal commercial risk.

There are three types of licenses in terms of transmitted rights for the use of scientific and technical knowledge of licensor:

- simple license (non-exceptional) is the license, during the sale of which the licensor keeps the right to use an object of license and provide other licensee with licenses on this technology in this territory;

- exceptional license, which provides a monopoly right of licensee to use the technology and refusal of licensor from independent use of patented inventions or know-how and its selling in the agreed territory;

- full license, which gives licensee the exclusive right to use patents or know-how during the term of the agreement and the refusal of licensor from independent use of the subject of license during this period.

A license can be **opened**, in case, when any interested person has a right to use a patent. It is formalized in the relevant patent office, and the patent fee is charged at half of the size.

A license can be **compulsory** in case, when the competent authorities force an owner of the patent to transfer the right of usage of the patent to other people.

Selling of licenses is based on the signing of a **license agreement**. The license agreement is a contract according to which a licensor (a seller) provides a licensee (a buyer) the permission for use in certain limits of their rights on patents, know-how, trademarks and for certain reward.

One of the most important and difficult issues in the sale and purchase of licenses is the definition of royalties (prices of licenses). Royalty is a defined remuneration of the licensor, paid by the licensee as a compensation for provision of the right to use the subject of the agreement.

There are different forms of royalties. Depending on the method of calculation, they are divided into two groups.

The first group includes the compensations, the amount of which is calculated on the basis of actual economic issue of the use of license. This group includes such forms as periodic interest payments and participation in a licensee profit.

The second group includes the compensations, the amount of which is not directly related to the actual use of the license, but it is pre-established and pointed out in the contract, based on estimates of the possible economic effect and expected incomes of licensee based on the use of the license. This group includes the following forms: initial cash payment, lump-sum payment, a transfer of securities of licensee, a transfer of counter technological documents.

International trade in engineering services

The common form of international trade in intellectual property products is engineering. Engineering is a complex of engineering and consulting services concerning the use of technological, scientific and technical developments.

The essence of international trade of engineering services is in provision of one side to another based on agreements of commercial engineering, consulting, engineering and construction services concerning:

- pre-production:

a) pre-services (social and economic researches, field researches, mapping, mineral exploration, preparation of technical and economic studies, consultations and supervision over the performance of these works);

b) project services (drafting of general plans, schemes, working drawings, technical specifications, consultations, supervision, etc.);

c) post-project services (preparation of contract documentation, supervision over the performance of works, construction management, acceptance of work)

- provision of the production process (services of organization of production process, control of enterprise, staff training);

- provision of selling of the products;

- maintenance of construction and operation of industrial, infrastructural, agricultural and other facilities.

All these services have intellectual nature and are aimed at optimization of investment projects at all stages of their implementation.

The main factors, affecting the development of the international market of engineering services, are:

- acceleration of scientific and technological progress, which leads to significant changes in the structure of international trade towards an increasing trade of related types of equipment, that require special knowledge to solve technological and organizational issues, starting from designing of an enterprise to bringing it into operation;

- growth of governmental and private investments, that allows to expand construction and introduce new objects, during the design of which engineering services may be required;

- presence of free capital, that is located in the market of engineering services;

- high demand for engineering services from countries, that have started to develop independently and don't have the necessary experience and experts for exploration and development of their natural resources, development of fuel and energy base, creating of heavy industry, etc;

- the desire of large TNCs to foreign economic expansion, i.e. expansion of spheres of influence. They use a provision of technical services as a means of penetration into economies of other countries. For example, the provision of engineering services to any country causes the supply of machinery and equipment, a cost of which is 10-20 times higher than the cost of services that caused their supply;

- increasing of the number of large engineering companies with large turnovers and the wide sphere of activity, the creation of national and international associations of engineering firms, which contribute to the development of engineering [11].

Special features of the market of engineering services as a technology market are:

- results of trade of engineering services are embodied not in material form of the product, as in the trade of technology, but in some beneficial effect, which

may or may not have a material carrier, i.e. engineering is an indirect form of technology transfer. For example, services for training, managing of the process of construction do not have a material carrier;

- engineering services are connected with the preparation and maintenance of the process of production and implementation, designed for intermediate consumption of goods and services. Production services are not related to engineering services;

- services, which are adapted to be used in a competitive environment and transfers of an average available scientific and technical, industrial, commercial and other knowledge and experience, are an object of sale.

Specialized firms, large industrial and construction companies and organizations provide the engineering services. There are thousands of companies and organizations that provide engineering services in developed countries. More than 25 thousand companies of different profiles and volume of activity are registered in the USA; about 10 thousand - in the EU's countries and most of them are located in Germany, Austria, where the market is represented by small and medium-sized companies, and the largest companies are in the United Kingdom, Sweden, Finland, the Netherlands.

The structure of a foreign trade turnover of 200 leading companies of national origin and regions of their activities is presented in Tab. 8.14 [11].

Table 8.14

A turnover on foreign projects of leading engineering firms

Countries of placement of the leading engineering firms	A turnover on regional markets (million dollars)						
	In total	Middle East	Asia-Pacific	Africa	Europe	The USA, Canada	Latin America
The USA	8368,9	696,3	2213,6	537,0	2729,0	1075,3	1116,8
Canada	987,4	76,3	256,2	115,0	97,5	327,4	116,0
The Great Britain	2629,4	122,2	897,9	104,5	281,5	1175,0	38,2
Germany	393,8	62,3	171,3	81,7	38,5	3,7	36,4
France	1162,2	108,3	395,6	119,9	300,3	118,1	120,1
Italy	126,2	25,3	32,8	14,8	31,0	-	22,4
The Netherlands	1472,2	88,4	237,3	49,5	541,3	490,5	65,2
Other Europe	1115,3	87,7	135,0	99,8	545,0	138,1	109,6
Japan	659,8	67,2	405,6	87,4	13,2	17,1	69,4
China	156,3	62,0	64,0	21,3	5,5	3,1	0,5
Others	576,2	210,2	109,0	64,5	30,5	139,0	26,3
In total 200 leading companies	17647,8	1606,2	4917,3	1295,4	4613,3	3293,0	1720,9

The engineering services market is conventionally divided into engineering and consulting services market and the market of engineering and construction

services. This led to the distribution of firms, companies, engaged in the provision of engineering services, on consulting engineering and construction engineering firms.

Consulting engineering companies provide the technical services in the form of consultations. The sphere of their activity is the civil engineering (ports, airports, highways, urban construction, etc.) and industrial objects that use specific technological processes.

Construction-engineering companies provide a full range of services: design of an object, supply of equipment, construction, installation and bringing of equipment in operation. They also specialize in developing of industrial objects based on the use of specific technological processes. These firms serve as a general contractor, but subcontractors are the engineering and construction companies.

Various types of contracts are used in practice depending on the nature and volume of provided engineering services. Consulting engineering services are formalized by a contract of provision of consulting engineering services or by an agreement of business trip of specialists to do certain kinds of work.

Construction engineering services are often provided on the basis of a turnkey contract or a contract for a provision of technical assistance in construction.

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

The main forms of international trade, depending on the nature and methods of organizing of relations between exporters and importers include: counter trade, commerce, industrial cooperation and leasing. These forms are associated with an industrial cooperation; they reflect the operational aspect of international trade, particularly with the use of information and computer technologies.

8.2.1. International countertrade

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

The countertrade is characterized by the following features:

- it is an important tool for regulation of international trade since the conclusion of intergovernmental agreements on the exchange of commodities, as well as agreements on economic and industrial cooperation on a reimbursable basis allow to determine for several years ahead types and amounts of goods of relative supply, its total cost and payment, the nature and cost of related or separately provided technical services and scientific and technical knowledge;

- a flexibility, which allows contractors to adapt to changing conditions in world markets; enables countries to diversify purposefully their export, to appear in non-traditional markets, in remote markets of developed countries, fenced by tariff and non-tariff barriers; creates conditions for savings of currency, acceleration of international trade;

- linking of export with counter purchases of goods of importing firms or importing country, and vice versa.

Types of international countertrade are: barter operations; counter purchases; redemption of technique that has been in use; tolling operations; simple compensation operations; complex compensation agreements.

Barter agreement is a type of export-import operations, formalized by barter contracts or agreements with the mixed form of payment, by which a payment of export (import) supply is partly provided in natural form between contractors, that means a balanced sharing of the cost of goods, works, services in any combination, not mediated by a movement of funds in cash or cashless forms.

The main feature of barter transactions is that this currency-free exchange of goods is based on equity of values of exchanged goods at world prices.

Barter contract in its structure is like a double contract of sale. Each party is both seller and buyer. The total amount of barter contract is determined by the parties in the single currency after corrections, constructed on the basis of basic conditions of supply. Quantitative volumes of supplies of goods from each party are adjusted so, that the total value of supplies from each side is the same. Customs fees, duties, taxes are paid by each party of the contract in their own country without mutual settlement.

Barter contracts often act as a single trial supply to the market in order to determine demand, distribution channels, and in case of the shortage of foreign exchange.

Counter purchases. This form of countertrade allows partners to implement their obligations flexibly based on full or partial payment for goods in cash or goods, offsetting of the financial requirements without transfer of foreign assets, achieving of balance in mutual supply.

Depending on the amount of commitments there are three options of counter purchases.

The first variant. It suggests, that obligations of counter purchase include contract of sale, which provides that the importer pays the full cost of the goods according to documents, confirming delivery, and exporter undertakes to buy counter products in all the amount of the export contract not later than the deadline. Importer determines the list of goods of oncoming supply, its basic features, prices and requires from exporter to provide in the set of payment documents and bank guarantee of proper implementation of counter commitments, i.e. financial provision of agreement.

Parties conclude main and additional agreements, in which they exchange roles of seller and buyer.

The second variant. A main contract concludes; according to it the importer pays one part of the amount by a sum of money, and another by counter delivery of goods. An additional contract, that reflects the main commitments of importer concerning a delivery of counter products of agreed nomenclature, certain quality and prices, concludes in the amount of counter deliveries. An importer of the primary contract must pay an exporter the full remaining amount by money in case of non-colliding of obligations of the additional contract.

The third variant. The main contract concludes, according to it about half of the cost of delivered goods importer pays in money, and the rest with counter deliveries of goods. But in this case he makes counter deliveries in advance, i.e. till the main delivery. Such counter purchases are called advanced or previous. Contracts for the main delivery and advanced delivery are connected in such way, that conclusion of implementation of the obligations under the counter advanced delivery of goods is the beginning of implementation of obligations under the main delivery.

Exporter includes importer duties to the main contract to provide financial performance guarantees of counter supplies for protecting their interests.

The importer protects his interests in next way: advanced deliveries of goods by additional contract are made only with the proper performance of bank guarantee of commitments on the full amount of advanced supply.

The buyback of the technique that was in use when selling of newer models and modifications. At this form of trade the exporter has an opportunity to sell more modern and expensive products, and importer has the possibility to get rid of outdated technology and sell it at the residual value, that is to take it into account in the cost of purchased new equipment. Cost of redeemed technique is credited to the payment for new one and is made depending on its condition, models, year of manufacture and other conditions about 10-20% of the cost of new value.

Tolling operations. Tolling operation is the supply of raw materials, intermediate products, component parts from one country to the country trading partner for their subsequent processing, assembling in the country trading partner and the reverse supply of the finished products to the country of first export.

The economic content of these transactions is that the owner of raw materials, not having facilities for processing, provides raw materials to processor in another country, in the amount necessary for the production of a given quantity of finished products, associated with processing and to ensure reasonable rate of return processor.

Cost of the processing raw materials and finished products, purchased in the implementation of international contract is determined on the basis of world prices. Customs procedure, which is applicable to these agreements, provides liberation of parties of agreement from measures of economic impact of the state, paying export duties if custom confirms that the exported products are manufactured with determined in the contract raw materials and in accordance with established and

agreed norms of finished product production from this material during the production processing.

Payment of fines and compensations is provided mainly in the product, rather than in cash.

Simple compensation agreements. At this form of countertrade the exporter supplies the production equipment under the terms of commercial credit and the importer after the installation and commissioning gradually repays, compensates the cost of production and the cost of the credit by the supply of the products manufactured at this facility.

The purposes of these operations are the creation of new industries, new products, the saturation of energy-intensive industries that need of reconstruction, by modern equipment and technologies.

Simple compensation agreements are generally placed on the amounts that do not exceed 20 million dollars and for no longer than 3 years. The prices for compensating products are established solid and are fixed annually.

Complex compensation agreements. These are the long-term (5-10 years) compensatory operations of large scale (100 million dollars and more). The features of these agreements are that the exporter is not interested to use the compensating products in such large quantities by himself. Often he abandons it in favor of a third party, which compensates for the exporter the cost of equipment and the credit during the sales of the production.

Thus, the complex compensation agreement is tripartite.

The contracts must be concluded for supplying of specific equipment and supplying of compensating products to a third party that owns the sales market to perform such agreements and it concludes contract between exporter and third party about terms of repayment of the equipment as the implementation of compensating products.

International practice of partner choice is usually used for the open international bidding of tender committees in preparing and implementing of complex compensation agreements.

8.2.2. E-commerce

An important feature of modern international trade is the development of e-commerce. The term “e-commerce” covers distribution, marketing, sale or delivery of goods or services by electronic means. Rapid growth of e-commerce is observed through the use of the Internet for commercial purposes.

Commercial operation is divided into three stages: advertising and search; order and payment; supply.

Each of these steps can be carried out via the Internet and thus is considered in the context of e-commerce. Any product that can be represented in digital form may be supplied electronically.

The products that are delivered electronically include:

- computer software. This is the main product that is sold through the Internet;
- financial and insurance services;
- video and audio goods (movies, games and music);
- tourist services (order tickets and hotel accommodation);
- information services (telephone services and / or services of telegraph, access to databases);
- telecommunications services;
- information technology services and others.

There are six main means of e-commerce: telephone, fax, television, electronic payments and money transfers, EDI and the Internet.

The most versatile tool compared to other ones of electronic commerce is the Internet, because most of the stages of commercial operations can be performed interactively with one or more other persons, without limitation of time or space, and with relatively low costs with the help of an internet.

The volume of e-commerce increases annually. The significant fraction of total e-trade value accounted for United States (93% of all e-commerce). This trade is 16,28% of all national transactions between enterprises, and the annual growth rate is 6,1% in the US. The share of electronic transactions accounts about 2% of total retail sales. The annual growth rate of retail e-commerce is about 30%, and total retail only 9%.

The use of electronic tools of goods and services realization growing in Europe, if the volume of e-commerce amounted to \$146 billion in 2012, according to Forrester Research, they will grow to 249 billion dollars in 2017 [5].

Developing countries are far behind developed by the technical capabilities to conduct electronic commerce. This fact can be explained by the development of telecommunication infrastructure, high cost of Internet use, lack of qualified professionals to work in this area.

The firms, which are involved in sectors such as electronics, chemicals, logistics, which are performed via the Internet 30% of their intercompany transactions, will be leading in the development of electronic commerce. Traditional industries (machinery, automotive, metal) are carried out by the Internet almost 27% of their commercial transactions.

The benefits of e-commerce include:

- reducing barriers to trade and dissemination of information;
- providing the consumers and businesses with the information about the availability of any goods and services in the world, prices, conditions of sale, which allow them to find the most profitable suppliers;
- providing the suppliers with operational information about market services. This provides an opportunity to do business without creating new departments and not hiring agents abroad;
- facilitating communications between the market participants and avoidance of delays in the supply of goods or services with the help of virtual shops and online contact nodes;

- the speed and security of supply enable enterprises to reduce the volume and nomenclature of the inventory, which reduces their costs.

Primarily the reducing of the income of the countries is one of the disadvantages of e-commerce. Thus, such products as books, movies and music can be converted into digital format and can be directly transferred to the consumer with the avoidance of the customs duties. It is difficult to collect the indirect taxes from these products (for example VAT, sales tax).

E-commerce can create problems as for compliance with intellectual property rights. It may be similar trademarks that may cause conflicts in the absence of boundaries in the global network of e-commerce in different areas.

Trade in electronic tools leads to arising legal questions of origin of goods. It means if goods should be considered as “local” or “imported” when the goods delivered electronically. It is also unclear how to act when national legislation and international conventions relating international trade, require “writing” agreements, “original” documents or “real” (made by hand) signatures. Thus, the use of e-commerce requires not only technical solutions, but also the presence of appropriate legal environment.

Model Law on Electronic Commerce and the Model Law on Electronic Signatures were made by UNCITRAL to help governments to cope with these disadvantages on international level.

Developed countries (the US, the EU and OECD countries) are involved in the development of international regulations for electronic transactions, based on Model Law, regulations of EDI under the contracts and agreements between trading partners.

8.2.3. International leasing

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

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

Leasing acts as the form of a loan and at the same time as the form of international trade, which creates conditions for accelerated development of new technologies. The leasing company (lessor) buys the equipment and etc. at its own expense and transfers to company (lessee) for a specified period. This process must be confirmed by the contract. Firm-client can continue it or buy the leased property at depreciated value after the end of the lease term. The rent is set at a level that exceeds the price of the lease object at which you can buy it at normal commercial conditions.

The global volume of transactions for the equipment leasing is growing by 4,1% and is about 0,5% trillion dollars in recent years. The largest region in total volume of leasing transactions is North America (55% of the world market of

leasing services). Europe accounts for 26%, for Asia -16%, and other countries - 3%. The share of the largest 5 countries accounts for 80,1% of the world volume of leasing operations: the USA - 52,1%, Japan - 13,9%, Germany- 6,5%, the UK – 3,8%, France – 3,8%.

The level of development of international leasing operations is considered to be a unique indicator of the dynamism of the country's economy and flexibility of its economic mechanism. Thus, leasing is a major investment tool in the USA, which has a 40% of investment in machinery and equipment for several years; this figure exceeds 25% in most industrialized countries and NIC. The share of leasing in the amount of investment in production by continents is the following: Asia - 27%, Africa - 1,3%, North America – 41,5%, South America - 31,1%, Europe - 24,6%, Australia and New Zealand – 1,7%.

The firms, which act on the international leasing market as tenants, are divided into four main groups: bank branches; branches of industrial companies, "connected" leasing companies, independent companies.

Leasing branches of commercial banks, that provide both a direct funding of the purchase of equipment and a provision of leasing services; they control a larger share of the leasing market. At first, commercial banks considered leasing equipment as competition to their business. Later, as soon as equipment buyers began to look for ways to reduce their tax burden, they began to create specialized branches, which have taken a prominent place in the market of long-term lease of equipment.

The group of branches (not "connected") of **industrial companies** includes leasing companies, which do not specialize in renting of a production of parent companies.

"Connected" leasing companies are specialized branches of equipment manufacturers, which finance selling of products of their parent companies.

The group of **independent leasing companies** includes different companies (insurance, financial, leasing), that do not have a parent company, which owns controlling shares.

The main importers of the USA's leasing services are Canada and the EU.

8.2.4. International industrial cooperation

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

International industrial cooperation is the most prevalent kind of international production and technical links between enterprises. It is the result of specialization of national industries, that interact in the international system of division of labor, are based on subject of specialization and acts as a form of partial and general division of labor in the global economy. International industrial cooperation means the inclusion of the country in the international division of labor within the so-called "vertical model of international division of labor",

provided that the autonomy of the production process in national borders is maintained.

Thus, international cooperation of production is a sustainable exchange of goods, which are elements of the final production and are produced with the greatest economic efficiency, between countries, based on the international division of labor as a result of the implementation on a contractual basis of joint activities.

The main link of international industrial cooperation and direct links are the agreements (contracts) that are concluded by business entities on the basis of relevant intergovernmental, industry and inter-institutional agreements. They represent the base (before the establishment of a customs union) to the customs authorities at the crossing of goods across the border.

Operations of industrial cooperation include:

- supply of raw materials, components, parts, spare parts, blanks, semi-finished components and other products for branch and inter-branch purpose, that are technologically connected and are necessary for the joint production of the final product;

- provision of services for the implementation of design and repair works, maintenance and implementation of technological operations, that are connected with the production and sale of the final product.

The features of the international industrial cooperation are as follows:

- the subjects of cooperation are industrial companies from different countries;

- the cooperation is not accompanied by the creation of any organizational structures;

- the parties adapt their production to the implementation of the cooperation on the basis of a previous approval of joint activities;

- the unification of the object of cooperation, i.e. the introduction of common technical requirements, technical documentation, safety requirements;

- the fixation of the components, semi-finished products, technologies, etc. in the contractual procedure, as the main objects of the cooperation;

- the distribution of tasks between parties within the agreed program, fixation of production specialization and coordination of their economic activities;

- keeping of the schedule of production programs in the agreed volumes, range and quality;

- long-term, stability and regularity of relations between partners, which increases their interest in this kind of connections and leads to the establishment between cooperators industrial and technological relations, close cooperation and interdependence;

- different socio-economic nature of relations between partners, that depends on whether cooperation is intra- or inter-firm.

There are three forms of international cooperation.

1. International cooperation in the supply of components (contracting cooperation). Delivery or exchange between cooperators of completing products

occurs for the implementation of the next assembly of the final product in enterprises either of each of partners, or of one of them. The aim of such cooperation is to increase the level of specialization of production and receive benefits without additional investment by saving on costs of production and increasing of the volume of production of the final products. Such cooperation is carried out by two main methods.

The I method is an exchange of completing products between partners according to the previously agreed terms of specialization and independent assembly of the final product.

The II method involves the delivery of components from one partner to another, who assembles the final product. According to this method, enterprises that produce individual components, are technologically connected and specialized by parts.

They produce and supply products to the one main enterprise (usually a parent company), which assembles the final product.

2. International cooperation on the basis of the organization of joint production with the aim to create and release a new single final product involves the combination of financial, scientific, technical, material and labor resources of companies-cooperators and fixing by each of the partners specific responsibilities for production of a particular part of products. Partners are working closely at all stages of the creation of the final product (R&D works, the industrial development of production, serial production, sales, and maintenance). Usually such cooperation is carried out by the firms with approximately the same production profile, in which subject specialization is dominated. It can be based on two methods.

The I method. Participation of the partners is limited by supplies of individual components for a creation of a final product.

The II method. Partners are joining forces and funds to create a new product, beginning from design to sales and maintenance of the jointly created product. All the charges and costs of the final product are distributed between the partners in advance.

3. International industrial cooperation by the approval of production programs. It is based on the distribution of the product range between two or more firms and conducting of joint scientific researches. Some firms make agreements of contractual specialization or division of production programs. Such agreements usually conclude competing companies in order to separate and consolidate for each party of the agreement a specified range of products, and eliminate or reduce duplication of production. This helps to limit competition between firms that produce products of the same range, to increase the homogeneity and specialization of products, they produce.

Chapter 9. Methods of export and import operations

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

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

9.1. Trade on the basis of direct links between contractors (direct method)

9.1.1. Essence of direct method

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

The direct method is usually used:

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

- when export-import operations are carried out between large transnational corporations regarding the supply raw materials, semi-finished products, components, parts and etc.;

- when the goods are supplied through the foreign subdivisions of the TNCs, that own retail network. Sales and production foreign branches and subsidiaries, created by TNC, become the contractors on the markets of other countries. They come in direct relationship both with the industrial, and with the retail end users on the country's market and on other markets. This changes the nature of direct link, as they are focused on realizing direct contacts with the concrete customers. Creating of foreign sales and production departments and the establishing of direct inter-firm relationships cause the changes in the ratio between the traditional methods of implementing of foreign operations;

- when the industrial raw materials are exported or imported on the basis of long-term contracts;

- when the agricultural raw materials are purchased from farmers in developing countries;

- when carrying out foreign trade activities of public enterprises and institutions of the developing countries, by organizing and holding of the tenders.

The direct method of trade presumes the supply of pre-coordinated products that orientate on the specific requirements of the specific foreign consumer. Direct links have purposeful character, because they are based on a system of pre-orders and are characterized by strength and resistance relationships between customers and suppliers of needed for the production raw materials, components with the aim of uninterrupted providing by resources of production process. The long-term contracts are concluded between suppliers and consumers that envisage the regular supply of agreed quantity of goods, within a specified period.

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

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

9.1.2. Features of intra-firm trade

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

There is a system of internal markets inside the TNC. The TNC's internal market is a system of supplies at specific transfer prices undertaken by individual branches and subsidiaries within the TNC. A large number of export-import operations that are formally market operations and that are carried out according to the contract of sale, delivery etc., in fact, represents the movement of goods and services within a single corporation on this market. Internal market contributes to maximization of profits of TNC and to the achievement of its effective functioning, and it is one of the mechanisms for the integration of individual businesses within the corporation. Internal TNC's markets account for approximately 70% of all international trade [2].

The important feature of intra-firm trade is the involvement of many small firms that act as contractors and subcontractors of the TNCs to international trade via internal markets. TNCs act as connecting links between the many firms that do not have access to the world market. In addition, internal markets of TNC promote intra-regional trade development, because branches of TNCs satisfy significant needs in details and components by supplies from the parent company. An

important trend is also the formation of the specialized subsidiaries as the parts of the TNCs that provide specific services (for example, management of the company).

The main difference of internal market from the external market is the “free access” for economic agents that use the mechanism of transfer prices. About $\frac{1}{3}$ of the world trade is made through transfer prices. Transfer prices are conditional and calculated prices of intra-firm trade between the foreign units of the multinational corporation. They are used primarily to transfer profits and reduce taxes.

If the goal of a TNC is to reduce the amounts of paid taxes imposed on export or import, the transfer prices are determined at the level significantly lower than market price. For example, prices are down to component parts that come across the border between the branches and are supplied by the parent company.

If the goal of a TNC is to overcome the restrictions on repatriation of profits, which are introduced by the country where the foreign units of a TNC are placed, in this case the goods are delivered at a higher price to the consumer-branch in the country that has applied currency restrictions.

In addition, the transfer prices are used when national currencies of countries, where the units of TNC are placed, tend to depreciation and also to decrease the amount of income taxed. This happens when the home country decides that profits and other forms of activities of foreign affiliates are not taxed as long as those profits are not transferred to the account of the parent company. If the tax rate is lower abroad than in the home country, then the parent company is interested in transferring part of its income to the branches, reducing export prices of goods and services provided to foreign units.

Thus, transfer prices can be considered in two ways. The first aspect (internal) is associated with the use of transfer prices as the coordinator of commercial and industrial activity within the TNC. The second aspect (external) is associated with their use as a tool by which the TNC compensates the negative influence of the environment.

Transfer pricing is based on five main methods: cost, market, factual, contractual and mixed [2].

The price is set at the level of costs at cost-based transfer pricing. There are three methods for determining prices based on costs:

- based on variable costs per unit of production;
- total costs when both variable and fixed costs per unit of production are taken into account;
- based on marginal costs, i.e. the basic price, that include the fixed and variable costs per unit of production, plus extra charge.

The prices on intra-firm supplies are set on the basis of the market prices at market transfer pricing.

In case of factual transfer pricing the determined part of the profit is included at every stage of the production cycle or in the distribution of products between the subdivisions of TNC that ensure profitability of each subdivision.

TNC uses the following approaches to determine the rates of return to its subdivisions, according to this method:

- according to industry standards;
- by turnover (profit is determined for each unit by the volume of trade, which provides the certain unit);
- by expenditure;
- according to labor costs.

The prices are set on the basis of negotiations and consultations between the subdivisions of TNC, if the contractual transfer pricing is used. TNC uses the following tools according to this method:

- providing the subdivision, that sells, with the rights to sell products both on internal and external markets;
- providing the subdivision, that buys, with the right to acquire products both on internal and external markets;
- corporate arbitration.

The combination of all the above-mentioned methods is applied when mixed transfer pricing is used. Thus, the lower limit of the price can be defined by costly method, and the top limit – by the market method, and then TNC chooses one of the prices depending on the goals and objectives of TNC.

9.2. Trade through the mediatory link (indirect method)

9.2.1. Essence of indirect method

Purchase and sale of the goods are carried out through the trade and intermediary link on the basis of the concluding the contract with a middleman at the indirect method. This involves the implementation of specified obligations by the middleman in connection with the sale of goods of the seller.

Trading intermediaries are the legal entities (firms, organizations, institutions, etc.), which contribute to exchange of goods and are independent from the producers and consumers. Their direct function is the combination of buyers and sellers, linkage of a supply and demand.

The trade mediation covers a broad range of services:

- search of foreign contractor;
- preparation and conclusion of the contract;
- crediting of the parties and guarantee of the payment of the goods by the buyer;
- implementation of transport and freight forwarding operations;
- insurance of the products at transportation;
- implementation of customs formalities;
- implementation of the advertising and other measures to promote products to foreign markets;
- providing maintenance and other services.

The intermediary bear up certain costs in carrying out his activities, the main of which are:

- wages of administrative personnel and service workers;
- depreciation costs on buildings, construction, office equipment, machinery;
- costs of maintaining buildings, construction, communication, advertising, hospitality expenditures;
- customs and forwarding costs;
- costs of maintaining subagent network;
- taxes and fees.

More than half of all goods, involved in international trade, are realized with the support of retailers. Their services are widely used in foreign trade in the US, the UK, the Netherlands, Sweden, Japan and other countries. The trade and intermediary link is used in following cases:

- in case of marketing of standard industrial equipment and consumer products;
 - when large firms realize minor products;
- in case of selling in remote, inaccessible and poorly studied markets of small capacity;
 - in time of marketing new products;
- in case of the absence of own distribution network in the importing countries;
 - when large trade and intermediary firms monopolize import of certain goods;
 - by large companies with a small amount of export-import operations;
- when carrying out occasional transactions by foreign small and medium-sized firms.

The advantages of indirect method of the trade are:

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

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

the integrity and activity of trade intermediary.

The special features of the activity of trading intermediaries in modern conditions include:

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

- linking the trading intermediaries to manufacturers of machinery and equipment;

- concentration of the majority of trading-intermediary operations in the hands of a small number of the TNCs that have their own financial, insurance companies, fleet, warehouses of spare parts. This allows them to carry out purchase and sale operations at their own expense, financing, insurance, transportation, maintenance, production and processing;

- increased influence on the trading intermediaries by transnational corporations, which coordinate the scope and nature of their activities by dividing markets;

- submission of small and medium trading-intermediary firms to large industrial companies by means of franchise system, i.e. long-term contracts with exclusive rights to sale goods and services with preserving the brand of manufacturer;

- submission of small and medium-sized firms, exporters and producers in developing countries to trading monopolies. These firms buy raw materials, which are processed and realized through their own retail stores;

- participation of trading-intermediary firms in international consortiums for implementation of the major construction projects (they carry out purchasing and sales operations for these enterprises).

9.2.2. Trading-intermediary operations

Trading-intermediary operations are the operations related to the sale and purchase of goods that are executed under the order of a manufacturer-exporter by the independent trading intermediary on the basis of their agreement or on the basis of the individual assignment.

The types of trading-intermediary operations are classified depending on the nature of the relationship between the manufacturer-exporter and the trade intermediary, and also they are classified depending on the functions performed by the trade intermediary. There are the next types of trading-intermediary operations:

resale operations; commission operations; agency operations; brokerage operations (Tab. 9.1).

Table 9.1

Types of international intermediary operations

Intermediary operations	Trading intermediaries	The main functions of intermediaries				Nature of powers
		action on his own behalf	signing the contract	negotiation	purchase of goods in the property (funding the agreement)	
1. Resale operations	a) merchants, stockholders, dealers, operators; b) distributors	+	+	+	+	Intermediaries conclude agreements with the third parties on their own behalf and at their own expense (the supply agreement)
2. Commission operations	a) commissioners; b) consignees	+	+	+	-	Intermediaries conclude the agreements with the third parties on their behalf, but at the expense of the principal (the agreement of the commission).
3. Agency operations	a) trading commercial agents; b) agents-representatives	-	+	+	-	Intermediaries conclude the agreements with the third parties on the behalf and at the expense of the principal (agency agreement).
4. Brokerage operations	brokers, courtieux	-	-	+	-	Intermediaries who are not entitled to conclude the agreements with the third parties.

The resale operations are carried out by trade intermediary on his own behalf and at his own expense, i.e. the intermediary is the party of the contract with the exporter as well as with the end customer, and becomes the owner of the goods after the payment.

There are two kinds of resale operations.

The trade intermediary acts as the buyer with respect to the exporter in the first type of resale operations. He gets the goods on the basis of the contract of purchase and sale. Reseller regarding the exporter acts as the buyer who acquires goods under the contract of sale in the operation of the first type. He becomes the owner of goods and has the right to sell them at his discretion on any market and at any price. When the exporter and the intermediary execute their obligations under the contract of sale the relations between them terminate. Such intermediaries are called dealers.

The exporter provides the intermediary, that is called the trader under the contract (or distributor), with the right to sell the exporter's products on a particular territory within the agreed term on the basis of the contract (distribution agreement) - in the second type of operations.

Distributor is engaged in sale of the goods on his own behalf and at his own expense. Distributor promotes the product from the exporter to the end user on the particular territory. Distributor bears all risks connected with damage or loss of the goods, and also with insolvency of buyers.

In the distribution agreement only general conditions are established, that regulate the relations between the parties concerning the sale of goods on the defined territory. For the execution of this agreement the parties conclude the special contracts of purchase and sale of goods. According to these contracts the intermediary gets the goods of the exporter, and then he must sell them to the final consumer (to third parties) on his own behalf and at his own expense. These contracts include the quantity and quality of the delivered goods, monetary and financial terms of delivery, quality assurance, and procedure for complaints and more.

Terms of purchase and sale between the seller under the contract and the end customer must comply with the terms of the contract between the exporter and the seller.

The territory on which the distributor is entitled to sell exporter's goods is defined in the contract granting rights to sell it. It's called contractual territory and beyond its borders trader under the contract has no right to sell goods without the written permission of the exporter.

The right to sale can be:

- simple, when the exporter has the right to sell the products on the contractual territory independently and through other intermediaries;
- exclusive (monopoly restriction), if the exporter is obliged to sell defined products on the contractual territory only through this distributor. Exporter can also prohibit domestic and foreign buyers to sell defined products on contractual territory;
- exclusive with limitations, when the exporter retains the right to sell the goods on the contractual territory directly to third parties. This is possible in cases when the intermediary has refused to buy goods at prices and on terms proposed by the exporter; if the goods are delivered to the state organizations; if the goods are the parts of the compensation agreement, are the component parts of equipment, machinery supplied by the exporter to another client.

The price terms and the ways of payment of remuneration are determined in the contract granting the right to sell.

The responsibilities of a distributor not related to the sale of goods are also defined in the contract:

- trader under the contract cannot represent any other firm that is a competitor to exporter on a contractual territory without the consent of the exporter, and cannot sell products that are competitive for the exporter's goods - it is stated in no competition clause;
- minimum sales volume clause provides the minimum amount by which the middleman has to purchase goods within a specified period, or determines the amount of products broken down by delivery time, or contains an indication that sales must be made in such amounts, by which the exporter's market share is not less than a specified percentage;

- the responsibilities of the distributor in maintenance service include: providing service during the warranty period, carry out repairs after the warranty period, holding a warehouse of spare parts and repair shops, etc.;
- distributor is obliged to provide advertising at his own expense or partly with the exporter;
- mediator informs the exporter about the market position, about goods selling, about his other exporters. He protects the interests of the exporter, agrees not to put exporter's products in worse conditions than the products of the other exporters.

If the mediator is in the country of an exporter, then his responsibilities may include receiving orders from foreign buyers and placing them at the manufacturer on his own behalf and at his own expense. If the mediator is in the importing country, then his responsibilities may include the organization of warehouse, supply of goods from the warehouse to the final consumer, advertising, demonstration of samples in a warehouse and more.

Exporter usually puts at the disposal of the distributor the detailed technical documentation, provides support in solving technical issues arising from the sale of goods under the agreement. In addition, he provides the intermediary with incentives for the creation of spare parts reserve; partially or fully offsets the cost of maintenance, advertising and so on.

As under the agreement the intermediary sells the goods on his own behalf and at his own expense, the exporter does not have any relations with the buyer and the latter can not make claims to the exporter.

The distribution agreements are beneficial for both exporters and distributors.

The distribution agreements are interesting to the exporters because they give the chance to exit the new markets and to provide advertising of their goods in these markets throughout several years; the distribution firm has its own marketing network or means for its creation; the distribution agreements are accompanied by the purchase and sale contracts on delivery of the goods, they guarantee the receipt of the payment for the goods immediately after the delivery of the goods (if only the goods are not delivered on credit). The distribution agreement excludes the risks of losses from loss or damage of the goods on the territory of another country.

As for the distributors, these contracts are interesting to them, because in comparison with other intermediaries, the distributors have the bigger commercial independence, they independently establish the prices, they often get the monopoly rights of sale of the principal's goods on their territory.

The agreements with the distributors usually are signed for long term (2-5 years) with the subsequent prolongation under the agreement of parties. Such agreements are concluded basically for sale of machine-technical, raw materials and consumer goods.

Commission operations are carried out between the commission agent (mediator) and commission principal (committent). The commission principal entrusts the commission agent, but at the expense of the commission principal to

make the operation of purchase and sale with the third counterpart. The commission agent gets the payment for the goods supplied. The commission agent is the intermediary only for the commission principal. For the third counterpart the commission agent will be the party of the contract of purchase and sale, namely - the seller if the commission agent has to sell some goods or the buyer if the commission principal entrusts to the commission agent to buy some goods.

The commission agent builds the relations with the commission principal on the basis of the commission contract. It usually has single character. According to the commission agreement the commission agent does not buy the goods of the commission principal, but only concludes the agreements of purchase-sale of goods at the expense of the commission principal. So, the commission principal remains the owner of the goods till to its transfer to end customer. Thus, while making the operation, the commission agent does not become the owner of the product, even for a moment, and the product comes directly from the seller to the buyer.

Sometimes when making commission operations the good of the commission principal is passed into the possession of the commission agent, who does not become its owner. The owner is the commission principal. The commission principal bears the risk of accidental loss or accidental damage to the goods, unless otherwise agreed, and the commission agent has to take measures to ensure the safety of the goods entrusted to him and is responsible for any loss or damage if this happens due to his fault.

The commission contract usually has such reservations:

- minimum and maximum prices at export and at import. It is also warned that overpricing should not cause the loss of the competitiveness of the goods;
- delivery dates of the goods;
- marginal technical and qualitative characteristics of the goods;
- the responsibility of the commission principals to the commission agents and the responsibility of the commission agents to commission principals;
- the size and the way of commissions payment that may be determined as a percentage of the transaction (on average up to 10%) or as the difference between the price assigned by commission principal and price of sale assigned by the commission agent.

- payment terms.

The consignment operations are one of the types of the commission operations. Their essence is in the supply of the product by the exporter (consignor) to the intermediary (consignee) for the realization on the market within a certain period of time. The consignee makes the payments to the consignor as the goods are selling from the warehouse.

The goods of mass production are sold on the conditions of the consignment, when the exporter is not sure in sustainable and rapid sale of these goods. Such operations are also used when the market is weakly developed or when supplying goods that are not well-known to local buyers.

The consignment operations are conducted on the basis of the consignment agreement. According to this agreement one party (consignee) undertakes to sell goods that are delivered to the warehouse in the consignee's country by the order of another party (consignor), within the term of the consignment contract, for the established fee, on its own behalf and at the expense of consignor. The goods remain the property of the consignor until the moment of their sale to the third party.

The consignment contract includes the following information:

- the sum of the goods' prices that simultaneously are stored in a warehouse and replenished as far as they are sold;
- consignment period during which this amount should be realized (for example, goods worth 100 thousand dollars consignment period - 3 years);
- the duties of the consignor and the consignee;
- payment terms. The currency of payment should be defined; it should be determined after which term after the sale of goods the payment to the consignor should be made by the consignee (payment is made as far as product is sold). Payment is satisfied after the consignor confirms its receipt and its accuracy (payments are made by calendar periods on open account with the provision of a bank guarantee by the consignee or acceptance of drafts to the sum of consignment, as consignor lend to consignees on the medium-term of goods sale);
- method of consignment that have chosen the parties:
 - a) irrevocable, if any part of the goods contracted is not realized by the consignee, the latter will have to buy it for lump sum;
 - b) partially revocable, when the consignee has to sell goods for a certain amount, and products for the remaining amount. If they can't be realized, the consignee will return them to the consignor;
 - c) revocable, which means that all unsold goods can be returned to consignor;
- minimum sale prices below which the consignee can not sell the goods without the prior written consent of the consignor. The basic terms of supply of goods on consignment should be specified;
- conditions of consignee remuneration.

Consignment operations have several advantages: make it possible for consignee to influence the prices level on the market, raising them in the period of increasing demand and decreasing them during the bad realization; facilitate the development of new markets, as foreign buyers have the opportunity to view the product and to check it in work.

Agency operations envisage, that one party (principal) entrusts to another party (agent) to make actual and legal actions concerning the purchase or sale of goods on the contractual territory at the expense and on the behalf of the principal

Agency operations are carried out on the basis of the agent agreement that is concluded for the definite or indefinite term. The agreement is concluded for the period from one to five years and it provides the opportunity to extend the term for

the definite or indefinite period (until one of the parties declares its intention to terminate the agreement).

The agents can be classified by the volume of powers: with the right (sales agents, agents-attorneys) and without the right (agents-representatives) to conclude the agreements on the behalf and at the expense of the principal.

Agent as an independent intermediary (sales agent) can be characterized by the following features:

- he is a legal entity registered in the commercial register;
- he is not in the labor relations with the principal and acts only as his representative within the responsibility entrusted to him by the agency agreement;
- he operates independently and for a certain remuneration;
- he does not participate in the sale or purchase of goods, does not buy goods at his own expense, but only contributes to the agreement implementation;
- he can't be directly controlled by the principal.

The rights granted to the agent to perform transactions on a certain territory, can be simple, exclusive and exceptional with constraints.

Simple right is determined by including the terms of direct sales in an agreement. According to these terms, the principal retains the right to negotiate with customers located in the agent's territory without the participation of the latter.

Principal's products are not available in the agent's territory through the intermediaries of third countries, in case of providing the agent with the exclusive rights (this condition is sometimes called a monopoly reservation).

Principal reserves the right to deliver goods directly to certain customers or certain categories of customers (for example, state enterprises and organizations) in case of providing exceptional rights with constraints.

Sometimes agency agreements include a condition on providing the agent with the right to sell the principal's goods outside the agent's territory.

The obligations of the sales agent are fixed in the contract in the form of special reservations:

- reservation of no competition according to which:
 - a) the agent does not have the right to offer, to buy or advertise products that are competitive for the principal's products and to represent other companies that are competitors on the contractual territory;
 - b) the agent must keep manufacturing and business secrets both during and after the expiration of the contract;
 - c) has no right to act as an agent for the benefit of competitors or participate in the capital of these companies;
 - d) must notify the principal on violation of its monopoly rights and take steps to protect them;
- reservation of minimum turnover, according to which the agent is obliged to mediate on concluding contracts in the amount not less than the agreed amount (minimum quota), which is set for a specified period (usually a year). It should be

also defined the consequences for an agent in case of failure to reach the amount of sales or when exceeding such amount;

- del credere reservation. The agent guarantees the principal against losses that may occur as a result from failure of the buyer to pay the price who bought the product with the assistance of an agent. The agent agrees to compensate the principal's losses arising from the insolvency of the buyer within a pre-established amount;

- carries out advertising at his own expense in accordance with the instructions of the principal;

- provides after-sales maintenance. The amount of services provided is specifically determined and the amount of compensation paid for them over commissions;

- provides information and reports to the principal.

Agent-representative performs the smaller volume of functions. His responsibilities include:

- conducting market researches and informing the principal about the market trends;

- providing the principal with the information on technical requirements for products and prices;

- informing the principal of the demands of consumers, of the predictable orders placement;

- creating a favorable opinion of the principal and its products in the business community and provide advertising;

- facilitating the conclusion and implementation of contracts;

- organizing business contacts of principals with importers of goods, with governmental and other organizations that affect the decision to place orders.

Agent's reward is fixed in the agent's agreement. The time of occurrence of the agent's right on remuneration and the date of its payment are primarily determined in this agreement.

Typically, the agent has the right to receive remuneration from the transactions which have not been executed due to the fault of the principal. Payment of remuneration is made within the prescribed period.

Agent with exclusive right may receive remuneration for all transactions of the principal on the assigned territory, even if they are concluded without the assistance of an agent.

The agency agreement defines the principal's duties, which should:

- transfer the materials to the agent (either free or for a fee) needed to carry out his activities (designs, drawings, catalogs);

- notify the terms of the agreement;

- inform the agent on time if he can not accept orders transmitted by the agent.

The principal has the right to:

- change prices;

- control prices on agreements, which are concluded by the agent on his behalf. This is important in conditions of foreign exchange rates changes, increased customs duties, quotas in the importing country;

- register the trademarks of goods sold by an agent.

Brokerage operations – these are the setting the contact between seller and buyer through the professional intermediary, called broker in Anglo-American law, a makler – in German law, courtieux – in French law, that facilitates the conclusion of the agreement between the interested clients.

Brokers assist in sales and purchase of large quantities of goods (usually exchange and auction goods). But they are not the party of the contract neither as the seller, nor as the buyer. Their task is to find the buyer for the seller and the seller for the buyer and to assist the signing of the contract between them. Thus, the broker is not representative, he is not in contractual relations with either the buyer or the seller, and operates on the basis of individual orders.

The work of the broker can be described schematically as follows:

- the exporter from the country A addresses the broker from the country B with the request to find the buyer in any country on the given goods;

- the broker addresses to the importer from the country C with the offer to buy the given goods from the exporter;

- when the parties reach consent the broker brings the parties together and they sign the contract;

- the exporter delivers the goods to the country C.

The broker's functions include:

- providing the commercial market information to the client;

- searching the contractor and negotiating with him;

- contract drafting and sending the properly signed copies of the contract to each counterparty;

- delivering other documentation needed for the transaction to the parties;

- control over the implementation of the contract and lodging the claims;

- guaranteeing the solvency of the buyer;

- selection of the party of goods of the certain assortment.

The broker has no right to represent the other party in the agreement and to accept the broker's charges from the other party, except when there is the consent of the client. In some cases, two brokers act as the middlemen: from the buyer and the seller.

The broker receives the broker's charges (brokerage) for the intermediary activity. This brokerage is usually received from the party that appealed to him first. Its size is ranging from 0,25% to 2-3% in the commodity transactions.

If the transaction is single, there is no necessity to sign the agreement. If relations have long-term character they are made out by the contract.

9.2.3. Trading-intermediary firms

The exporter solves the problem of selection of intermediary firm, when organizing sales through the trade and intermediary link. Choosing the right agent largely determines the degree of effectiveness of the agreement. Next points must be done in the process of selecting agent: it is analyzed the degree of reliability of the company, it shall be considered how conscientiously it relates to their duties, its business reputation, the possibility of maintenance, professional level of engineering services, availability of material and technical base.

The choice of intermediary firm is determined by the fact how large is the number of clients served by it, because an exporter prefers to refer to the mediator, for whom he is the sole principal of the sale of such product.

Trade and intermediary firms include the firms that are legally and economically independent of the producers and consumers of goods. They operate for the profit. The profit can be obtained in two ways:

- the difference between the price of purchasing goods from the exporter and the prices at which these products are sold to customers;
- as a reward for services rendered to promote products to foreign markets.

The main activity of trade and intermediary firms is a commercial activity. However, the biggest of them in some cases carry out production activities (processing of sold and purchased goods), transporting, insurance. These features help to implement sales activities.

Trade and intermediary firms depending on the nature of transactions are divided into trading, commission, agency, and brokerage.

Trading firms carry out resale operations at their own expense and on their own behalf. They work mainly with regular suppliers, relations with which are based on long-term basis. Depending on the nature of transactions it is distinguished trading houses, export, import, wholesale, retail firms, distributors, stockists.

Trading houses are usually TNCs of conglomerate type, which include foreign trade company and also manufacturing, banking, insurance, transportation, retail and other companies. Trading house does not limit its scope of activity of any one product group. It conducts export and import barter and other foreign trade operations at his own expense for a wide range of goods and services and implements a range of transactions that are interrelated by efficiency, partner's interest, by mutual payments while using various forms of foreign economic relations.

Trading houses perform the following functions:

- purchase the goods from manufacturers or wholesalers of their own country and resell them abroad;
- buy the foreign goods abroad and resell them to local wholesalers or retailers, industrial users;
- perform some commission orders;

- provide services in the field of insurance, repairing and maintenance, warehousing, engineering, finance;
- invest in the production, acquire enterprises, lease equipment (leasing), provide loans;
- provide the investment cooperation with foreign partners in projects construction.

Export firms are commercial enterprises that buy goods at their own expense in the domestic market and then resell them on their behalf abroad. They sometimes carry out commission orders, acting as commissioners of foreign companies.

Export firms depending on their functions and the range of products are divided into:

- specialized, selling only one product or products similar for the nomenclature. Thus the agreement on any one product group should account for over 50% of sales. Sales goods are mostly products of light and paper industry;

- universal, selling wide assortment of mass consumer goods and exporting products of several industries. These companies purchase goods of many businesses that are located in different areas, and sell them in several countries. The agreements are concluded with the existing product samples;

- firms exporting agricultural products (corn, cotton, wool, tea, rubber, coffee, silk, etc.). These firms operate in the markets (mostly markets of developing countries), where consumers and producers, due to their dispersal and number, are unable to organize its own network of sales channels. They use the services of intermediaries-suppliers, who connect them with the direct producers (farmers). Intermediaries-suppliers control a large commodity stockpiling network: from buyers that acquire goods directly from individual producers on local bases to traders and packers that resell it to export firms.

Import firms are the commercial enterprises that buy at their expense the goods abroad, and sell them on the domestic market to the industrial, wholesale and retail dealers. These firms have commodity stocks in the warehouses and can immediately carry out supplies to the domestic market on demand.

The firms specialized in the purchase and sale of a limited number of similar raw materials and food products (tea, coffee, tobacco, sugar, spices, and textile raw materials) occupy the largest part of import firms in industrialized countries. Their function is not only import but also sorting, preparation of the assortment, packaging, packing. Purchase of goods by import firms directly from the foreign exporters is carried out through: commodity exchanges; auctions; constant purchasing offices that are opened by import firms abroad.

The importance of import companies in the sale of machinery and equipment is growing as they carry out the after-sales maintenance. Many import companies have a wide network of dealers that sell machines and equipment directly to consumers and carry out after-sales service.

Wholesale companies are the companies that act as intermediaries between industrial or procurement enterprises and retail firms. They buy goods at their own

expense abroad in large quantities and sell them in the local market to individual consumers in smaller parties to obtain profit from the price difference.

Retail companies are the companies that usually perform export and import operations independently. They act by creating their own foreign branches in the form of retail stores and by organizing the offices and agencies for the purchase of goods from small local producers. Large retailers have a wide network of branches, subsidiaries and procurement offices abroad.

There are also parcel retail firms taking orders from foreigners and citizens living outside their own country.

Distributors are the firms that usually placed in the country of the importer and conduct mainly import transactions of purchase and sale of goods on their own behalf and at their own expense on the basis of agreements granting them the right to sell.

Stockists are the firms in the importing country that conduct export and import operations on the basis of a special agreement on consignment store. This agreement serves as a supplement to the agreement on the right to sell, agent agreement, commission agreement. Stockists possess own warehouses, buy and sell goods at their own expense and on their behalf, sometimes their function is one of the advanced features of wholesalers.

Activities of **commission firms** are connected with commission intermediary operations. They perform single consignor orders on their own behalf, but at the expense of the consignor. Depending on the type of transactions and relations with committent it is distinguished export and import commission firm.

Export commission firm act as the seller or buyer representatives.

Commission firm is the representative of the seller, it fulfills the orders of the domestic manufacturer-exporter to sale his products in the foreign market. Its responsibilities include timely delivery of goods to the buyer, financing and documenting transactions, implementation of all formalities in the country of the buyer, implementation of warranty maintenance (by agreement of the parties), the organization of products saving in the exporting country or abroad (on behalf of the consignor). Commission remuneration the company receives from the manufacturer-exporter.

Commission firm is the representative of the buyer; it fulfills the orders of the foreign buyer to purchase the goods on the market of his own country and to place the foreign importers orders with the manufacturer of his own country. The duties of the company also include transportation and cargo insurance, signing contracts and making payments on behalf of the buyer. The firm receives the commission remuneration from the buyer.

Conformational houses play the most important role among the commission firms-representatives of the buyer. Their feature is assuming the risk for loans, which they provide to customers on behalf of the manufacturer-exporter, in addition those firms carry out chartering, insurance and crediting of an importer, if he requests it, making a cash payment for delivered by an exporter goods.

Commission import firms are the representatives of the customers in their countries and they place orders with the foreign manufacturers on their own behalf and at the expense of domestic consignors. They also provide various services to principals, for example, provide the informative reviews of commodity markets, follow the shipment, keep in contact with suppliers. For these purposes they have their own representatives abroad, may receive the goods on consignment from the foreign producers.

Agency firms perform the agency operations and act on behalf and at the expense of the principal. They can enter into agreements on behalf of principal and at his expense or they can be only the mediator at the agreements conclusion. The characteristic features of the agency companies are the long-term representation, close contact with the principal and legal independence from the principal. Most agency firms have the Western European origin. Their branches specialize in import and export of finished products and services of independent suppliers. These firms are the most active on the markets with limited capacity. Agency companies have the stable positions in the Western European export of goods and services in developing countries. Their share in these operations is 10-20%.

Depending on the location, agency firms are classified into:

a) agents in the country of principal:

- export agent - it is the trading firm that acts on behalf of one or a small number of industrial firms of his country on the basis of agent agreement that is concluded between them. This company receives the samples, catalogs, price lists from the industrial firms and, based on it, looks for the buyers. Large firms use their overseas offices and sales agencies to obtain import orders. Transportation costs of the agency company are reimbursed by industrial enterprise;

- import agent – it is the trading firm, located in the country of principal, and it performs the import operations at his expense. These companies may provide additional services on preservation of the goods of foreign suppliers in their warehouses in anticipation of orders and the services on advertising to promote products on the market;

b) agents in the foreign country:

- the foreign agent on selling – it is the company that has been granted the right by the company of another country to act on its behalf and at its expense on the defined land in a foreign country in the prescribed range of products. These companies organize the distribution of principal's goods on the market, carry out maintenance of machinery and equipment, create spare parts warehouses, areas for equipment demonstration, and organize advertising. The large firms are characterized by an extensive network of own offices, branches and offices in their country;

- foreign purchasing agency firm that performs operations on purchases of goods abroad for their principals. Its services are used by the importers that do not have their own branches abroad and do not send their representatives there.

Brokerage firms perform broker operations. These are the intermediary firms that bring together counterparties of the international trade agreements. The

brokers cannot act as buyers or sellers of goods that they are commissioned to sell or buy, under the legislation of some countries. The specialists of brokerage firms are characterized by professionalism, good knowledge of the product, commodity prices, market conditions, sufficient knowledge about the customers' requirements and capabilities of suppliers. These companies maintain strong relations with the banks, sometimes allowing them to finance the deals and to give guarantees on the solvency of customers (*del credere*).

Chapter 10. Organized international commodity markets

Organized commodity markets are the specially created markets for specific products, which operate according to established rules fixed in international and national regulations, and on which international trade transactions are performed between buyers and sellers of goods at predetermined time, forming the supply and the demand for them.

Trade through such markets is an indirect method of trading. The organized markets include international commodity exchanges, international commodity auctions, international biddings, international exhibitions and fairs. They act as intermediaries between exporters (manufacturers, national trade and intermediary firms) and importers (end users, foreign trade and intermediary firms).

10.1. International commodity exchanges

10.1.1. Essence of international exchange trade

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

UNCTAD experts clarified the concept of “international commodity exchange” due to the rapid growth of the exchange trade in financial instruments (commodity futures, bank interest rates, stock shares indexes, contracts of affreightment, contracts on government securities): “Modern mercantile exchange is the financial market, where different groups of participants (hedgers and speculators) trade with the contracts tied to commodity prices or the so-called “subsistence values” to avoid price risk and transfer it to other market participants or, on the contrary, the adoption of risk in order to get profit”.

There are about 50 international commodity exchanges with a total turnover of over 10 trillion dollars in developed and developing countries, which is about 25% of their gross national product [7]. Almost 160 production items are sold on the markets of these countries. Products in material form are presented by two groups in the international exchange turnover. These groups take in it around the same proportion: the first group – “agricultural and forest products” and the second group – “industrial raw materials and semi-finished products”.

The exchange goods structure of the 1st and 2nd groups (percentage of total exchange turnover of the relevant group) is characterized by the following data:

1st group: oil products -38%; grain products - 22%; livestock products - 18%; food and textiles - 20%; forest products - 1,3%; natural rubber - 1%;

2nd group: fuel products - 50%; precious metals - 30%; non-ferrous metals - 20%.

The basic part of the international exchange turnover is formed from the futures contracts («intangible goods»), which do not provide the supply of real goods. The volume of exchange turnover for these agreements is 1,5 trillion dollars per year (60-70% of global turnover). There are 110 futures markets for agricultural goods and 40 – for the industrial raw materials and semi-finished products in the world [7].

Exchange trade is characterized by the following features:

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

The main objectives of the international commodity exchanges are:

- the achievement of a high concentration of supply and demand in one place, allowing to identify the real balance of commodity markets and to provide necessary goods to the community, to limit the release of goods, the offer of which exceeds the demand;
- regulation of the wholesale turnover is based on market laws;
- realization of the qualified intermediation between buyers and sellers;
- formation of world market prices;
- setting standards for the exchange commodities, development of standard contracts, fixation of trading terms;
- connecting buyers and sellers;
- creating conditions to deal with monopolistic tendencies by bringing to exchange trading a large number of sellers and buyers in the bidding process to ensure transparency and competition;
- creating conditions for minimizing the commercial and financial risks (exchange guarantees the fulfillment of agreements, uses the insurance mechanism of price risk);

- providing the participants of exchange and non-exchange market by information about the supply and demand for the product, prices, level of competition.

There are several directions of modern exchange trade development.

1. The transition to the electronic exchange trade.

2. The development of interbank relations, the transition of exchanges to advanced technologies of exchange trade, create preconditions for their merger and functioning by unified rules.

3. Changes in the ratio between the agreements on real goods and futures contracts in favor of the latter.

4. The increase in speculative transactions in the futures markets, which account for over 95% of all exchange transactions. This has created favorable conditions for money laundering.

5. Development of the trading in options directly related to the futures trading. The options accounts for about $\frac{1}{3}$ in the total turnover of the world market of futures.

6. Enhancing the role of international commodity exchanges in establishing and regulating prices on world commodity markets. The trade in grains, coffee, cocoa beans, natural rubber is carried out on the basis of stock quotes of leading companies [7].

There are many different types of commodity exchanges in the world, which can be classified by various criteria.

By the role in world trade, exchanges are divided into international and national.

The distinctive features of international commodity exchanges are:

- international commodity exchanges serve concrete commodity markets;
- exchange transactions are carried out by representatives from various countries;
- international commodity exchanges provide free transfer of profits obtained as a result of exchange transactions;
- they conduct arbitrage operations, i.e. speculative transactions with the purpose to achieve the profit received on the difference in price on the stock exchanges around the world.

The international nature of exchanges is provided by the relevant currency, trade and tax regimes of countries where they are placed.

For example, all exchanges located in Chicago and New York, London Metal Exchange, the London Futures and Options Exchange are international.

Exchanges serving regional markets are considered as international. The range of their action covers the territory of two or more geographically associated countries (London, Paris, Sydney and other exchanges).

National stock exchanges conduct transactions of sale of goods in a single country.

According to the nomenclature of goods the universal and specialized exchanges are distinguished.

The agreements are concluded on a wide range of different products at the universal exchanges.

Specialized exchanges are generalists, where the subjects of transactions are single-type products (e.g., the New York Stock Exchange of coffee, sugar, cocoa, grain exchange in Minneapolis), and highly specialized, where the subject of trading is one type of product (e.g., exchange of sugar, rubber, wool, legumes).

By the degree of openness the open exchanges (in exchange transactions are involved both members of the exchange and bid visitors) and closed exchanges (in exchange operations are involved only members of the exchange) are distinguished.

On the basis of legal forms commodity exchanges are created as joint-stock companies of the open type; closed type companies, companies with collective responsibility and others.

The biggest global commodity exchanges include exchanges, which are presented in Tab. 10.1.

Table 10.1

The list of the biggest commodity exchanges

Country	Name of exchange	Majors turnover
The USA	Chicago Stock Exchange Trading (established in 1848).	Cereal, oil, broilers, plywood, precious metals, treasury notes and bonds of the USA; municipal bonds, indexes, stocks and bonds.
	Chicago Mercantile Exchange (founded in 1919).	Cattle, pigs, timber, treasuries of the US, currency, equity indexes.
	New York Stock Exchange trading (established in 1872).	Copper, crude oil, diesel, gasoline, propane gas, platinum and palladium.
	Chicago exchange rice and cotton	Rice and cotton
	Chamber of Commerce of Kansas City	Cereals and securities
	Minneapolis Grain Exchange	Wheat and other crops
	New Orleans Commodity Exchange	Rice, cotton, soybeans
	Buy coffee, sugar, cocoa	Coffee, sugar, cocoa, butter, cheese, milk.
	New York Stock Exchange cotton and citrus (from 1996 merged with the New York Futures Exchange)	Cotton, concentrated orange juice, potatoes, propane gas, real index of the dollar and the US's treasury notes
	North American Exchange (trading division of Chicago exchanges)	Cereals, oil, cattle, pigs, precious metals, treasury notes of the US, currency.
Great Britain	London International Financial Futures and Exchange (Liffey) (established in 1982).	Financial instruments: commodity futures coffee, sugar, cocoa, securities, fixed income, treasury bills, stocks.
	London Metal Exchange (established in 1877).	Industrial metals (copper, aluminum, zinc, lead, nickel, silver, etc.).
	International Petroleum Exchange (established in 1980).	Petrol, North Sea oil "Brent" gas oil, diesel fuel, fuel oil

	London Commodity Exchange	Agricultural products: coffee, cocoa, sugar, rubber, potatoes, oil, vegetable oil, soya flour and others.
	Baltic futures exchange	Potatoes, wheat, barley, cattle, pork, soybean meal.
Japan	Industrial Tokyo Commodity Exchange	Gold, silver, platinum, rubber, cotton and wool yarn
	Tokyo International Financial Futures Exchange	Financial instruments
Australia	Sydney Futures Exchange	Wool, cattle, gold, silver, stocks.
Brazil	Brazilian Futures Exchange (founded in 1986).	Coffee, cattle, soy beans, gold.
Germany	European Exchange - EUREX (established in 1997).	Options trading based on the German stock index (DAH)
Canada	Winnipeg Commodity Exchange	Wheat, barley, oats, rye, flax, gold.
Malaysia	Commodity Exchange Kuala Lumpur	Tin, rubber, palm oil
Netherlands	European Options Exchange	Gold, silver and others.
France	French international futures exchange (established in 1986).	Financial instruments futures transactions coffee, cocoa, sugar, stock indices.
Sweden	Swedish Option and futures exchange	Financial instruments

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

10.1.2. Types and procedure of exchange business transactions

There are two main types of exchange transactions: real goods transactions and futures (urgent) agreements.

Real agreements are concluded to transfer ownership on goods from the seller to the buyer at a certain cash equivalent. Agreements end by the actual delivery of the goods. The agreements with immediate delivery and agreements with supply in future are distinguished depending on the delivery time.

Agreements with immediate delivery (existing agreements) are held on the basis of spot contracts and therefore they are called “spot” agreements. They represent bilateral agreements with immediate delivery of existing product.

Agreements with supply of goods in future are called forward contracts. These agreements are based on forward contracts, which are bilateral agreements on the supply of a certain quantity of goods of agreed quality and price, fixed at the time of the contract conclusion at the defined place in defined time. Agreements with supply of goods in future include:

- agreements on the arrival of the goods loaded before its conclusion and sent to the set point;
- agreements on the loading of the goods, which have to be loaded by the seller at the point of departure in defined term;

- agreements for the supply of goods, which must be delivered by the seller to the destination point in defined time.

Terms of realization of different forward contracts differ from 3 to 24 months.

Agreement prices for supplies of goods in the future differ from prices of the real agreements. This is due to possible deviations of the prices on the day of realization from the prices on the day of the conclusion of the agreement. In case of exceeding the price on forward contracts over "spot" prices (supply of goods is higher than demand for it) difference is called kotango difference. It consists of the sum of saving costs, insurance and payment of bank interest. If the price on forward contracts is below the "spot" price (supply of goods is lower than the demand for it, goods with immediate delivery are not enough), the difference is called backwardation.

The sellers conclude forward contracts to ensure the regular sales of goods in process of production in future, and the buyers - for the trouble-free work of their enterprises.

Futures agreements are the transactions that do not involve a commitment to deliver real goods, but assume the purchase and sale of the rights on goods. While their conclusion the seller expects the reduction of the prices in future, and the buyer - increase of the prices. Those who correctly guess the real price of the goods after a certain period, whose contract for purchase and sale has been already signed, will win. For example, the seller of goods X expects that prices will decline and sells 6-month futures contracts for product X at a price of \$ 5,000. If after 6 months the price of goods drops to 4500 dollars, the seller can buy real goods at a price of \$ 4500 for the contract and deliver it to the buyer for a previous price of \$ 5,000. Neither the buyer nor the seller do not mean the real goods, and therefore their relations are regulated by paying the difference, which is paid by clearing house at any moment. Thus, the result of futures contracts is not the receipt of real goods, but receipt or payment of the difference between the value of the contract at the day of contract conclusion and day of worth. The contract value is affected by changes in commodity prices.

Futures agreements involve the following conditions:

- the forms of futures contracts are standardized, i.e. the following details are standardized: type of product, quantity, basic quality and payments for deviations from it, the conditions and terms of delivery, form of payment, responsibilities of the parties in case failure to comply with obligations under the contract, disputes procedure arising during the conclusion and performance of the contract;

- each contract contains the prescribed by exchange quantity of good that is the contract unit (e.g., coffee - 10 tons, cocoa beans - 5 tons, copper - 25 tons, sugar - 60 tons);

- futures agreements are not concluded on the amount of products, but on the number of contracts. Product amount is determined by the number of contracts;

- agreements are concluded only on one type of standard product set by the exchange. It is called the base sort, except which the exchange can set several varieties, replacing it. The calculation in this case is based on quotations of the base sort using discounts for product of lower sort and premiums for higher product quality;

- buyers and sellers agree only two contract parameters – the price and delivery time;
- contractors make a cash deposit and maintain the required amount of deposit to the date of the contract, which guarantees its implementation.

Contract is fulfilled through clearing and settlement house.

Thus, exchange agreements are conducted for buying and selling the real goods, execution of speculative operations, and implementation of insurance against possible price changes (hedging).

Agreement on purchase and sale of real goods are carried by: producers - to sell their products; consumers - to provide themselves with the necessary products that are generally raw materials for processing; traders - for resale.

Speculative transactions are carried out in order to receive profit from the difference of the price of buying and selling in the exchange contracts. Contracts are purchased for resale in the future at a higher price and are sold based on further price reductions. Speculative transactions are provided with both real commodity and futures contracts.

Futures contracts are used in order to hedge. Hedging transactions allows to avoid possible expenses in case of changes in market prices on real goods contracts. The essence of hedging is that the seller of real goods, with delivery in the future, wants to use the price level that exists at the time of the transaction conclusion, and at the same time provides a hedge operation, i.e. he sells futures contracts on the same dates and for the same amount of goods. Buyer of real goods with delivery in the future simultaneously buys futures contracts on the stock exchange. After delivery of real goods by the seller their redemption is done. After receiving the goods by the buyer the sale of futures contracts is made at the same time. Insurance is based on the fact that if one party bears losses as a seller of real goods, it will benefit as a buyer of futures for the same quantity, and vice versa, the buyer of real goods offset the costs of price changes, making hedging by the sale of futures on the exchange.

The main participants of exchange trade are: trade firms that conclude the agreements on their own behalf and at their own account; industrial firms that sell their products; processing firms that are the consumers of the products purchased on the exchange; brokers – the persons that conclude the contract on the instructions of clients; dealers – the persons who conclude the contract on their own behalf; brokers – the dealers that conclude the contract on their own behalf and on the instructions of clients.

Persons can be legal persons (organizations) or individuals. In some markets, such as the Chicago Mercantile Exchange, participation in exchange trading is allowed only for brokerage firms that are owned by a certain person (i.e. non-corporate members). In others, such as the German DTV – only for banks that meet certain requirements for equity capital.

Exchange transactions are conducted by a specific pattern (Fig. 10.1).

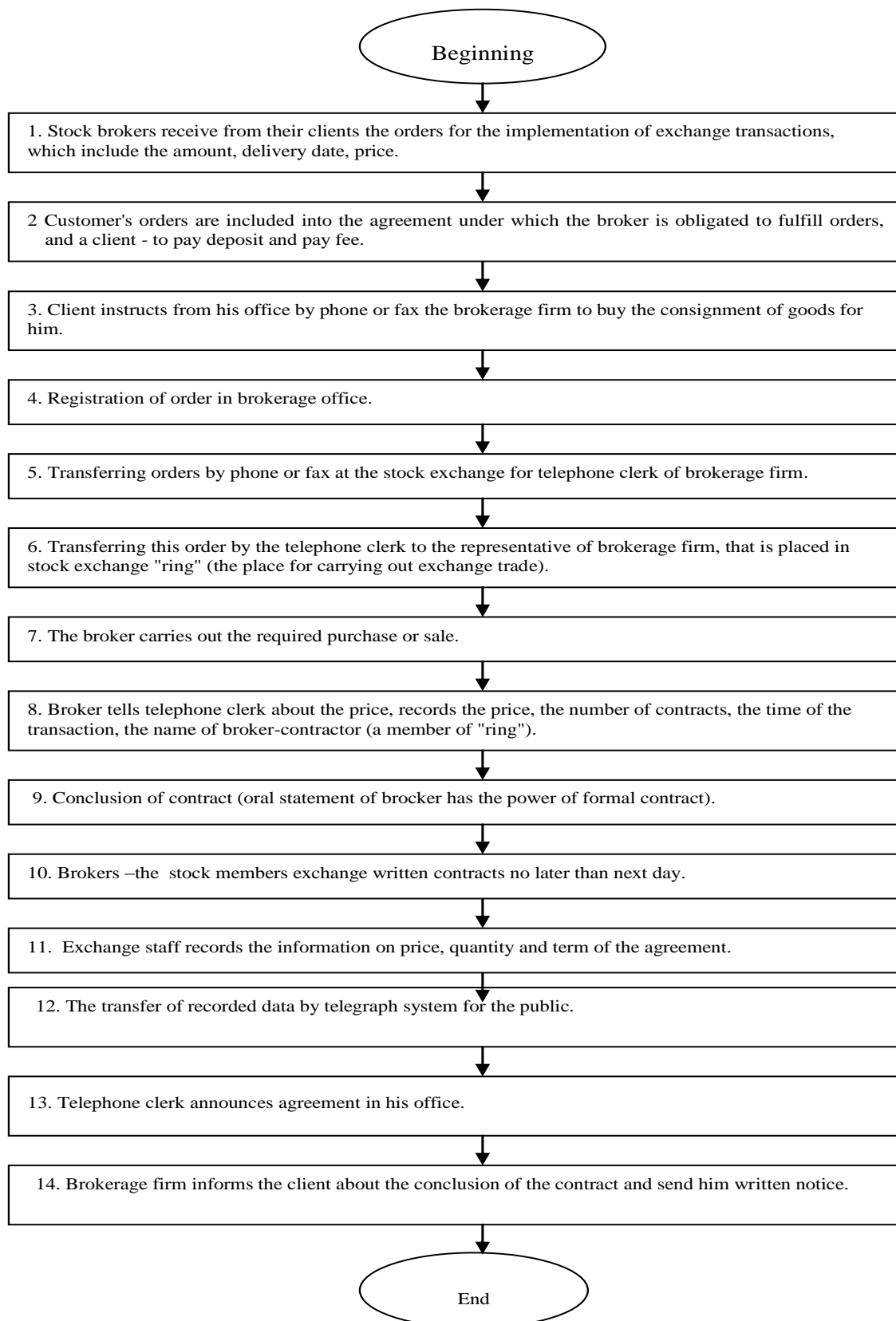


Fig. 10.1. The procedure of exchange transactions

10.2. International commodity auctions

International commodity auctions are specially organized markets that operate periodically in certain places. The sales of previously examined by

purchaser goods, which become the property of a buyer, who offers the highest price, are carried out on the auctions by providing public biddings at pre-specified times and at specially assigned places

The distinctive features of the auction trade are:

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

Auctions provide an opportunity to create an open competition, to determine the price of the good, quickly realize it at a bargain price to the buyer; allow the buyer to verify the quality of the goods; guarantee the supply of goods that are stored in an auction warehouse.

Auction is the most important form of realization of such goods as fur, it is held over 150 auctions for its sales during the year (more than 70% of all fur sold in the US and Canada is sold through international auctions of these countries, in Denmark - 90%, in Sweden and Norway - about 95%), tea (70% tea in the world is sold through auctions), unwashed wool (90-95% wool, exported by Australia and New Zealand), tobacco, painting items, crafts, sculpture (about 90% of all sales), tropical forest, cattle, etc on international commodity markets.

The main centers of auction trade are given in the Tab.10.2.

Table 10.2

A list of the main centers of the auction trade in certain goods

Type of good	Centers of the international auction trade
1. Fur and fur raw material: • including mink	New York, Montreal, London, Copenhagen, Oslo, Stockholm, St. Petersburg
• astrakhan	London (South Africa astrakhan), St. Petersburg
• fox, sable, muskrat, squirrel, ermine, seal	St. Petersburg
• blue polar fox	Copenhagen, Oslo, London
• rabbit	London
2. Unwashed wool	London, Liverpool, Cape Town, Melbourne, Sydney (Australia), Wellington (New Zealand). It is sold 75-80% of global sales in these centers
3. Tea	Kolkata and Cochin (tea from India) London (from India, Indonesia, Sri Lanka); Colombo (Sri Lanka); Hamburg; Antwerp; Nairobi (Kenya) and Malawi (Tanzania, Uganda, Congo, Mauritius, Rhodesia, Mazambik); Singapore
4. Tobacco	New York, Amsterdam, Bremen, Lusaka (Zambia), Limba (Malawi)
5. Flowers	Amsterdam
6. Fruits and Vegetables	Antwerp, Amsterdam

7. Fish	The USA, ports of Western European countries (except Norway and Iceland)
8. Horses	Deauville (France), London, Moscow
9. Carpets	Tashkent
10. The objects of art, antiques	The USA, London

The goods are sold on auctions for the auction prices. These are real prices, that are set at auction as a result of the relation between supply and demand, and the main feature of their formation in most cases is the presence of the large number of buyers and one or many sellers.

International auctions are classified according to specific characteristics.

By the time of carrying out the auctions are divided into regular and irregular. Regular auctions are held by special auction firms in the same places at a certain time (one or more times per year). Irregular auctions are held when there is a need to sell goods.

By the form of trade auctions are divided into open and closed auctions. Auctions of open form are organized usually by a corporation that monopolizes trade of certain goods and dictates the purchase prices on these goods. Buyers are direct participants in the auction. Auctions of closed form are organized by specialized brokerage firms that resell goods. Buyers and sellers are not directly involved in auction.

According to a source of profit there are three types of auctions.

The first type - auctions receiving profit from the difference between the resale price (wholesale buyer or direct consumer) and the purchase price.

The second type - auctions which carry out the resale of independent producers products in terms of commission. The amount of commission depends on the transaction amount and type of goods. Thus, the American auction "Sotheby's" has developed such practice of paying commissions: if the sum of deal on jewelry ranges from 120 thous. to 1,2 mln. swiss francs, then the auction receives 6% of the transaction plus reimbursement of expenses, and if more than 20 mln. - then 2% of the transaction and compensation for half the cost. When selling paintings and vintage furniture, commission can reach up to 12%.

The third type - a mixed model of the auction at which the firm performs both resale and commission operations.

By the functional orientation the auctions may be commercial and both commercial and industrial. Auctions, that are trading firms, have the appropriate facilities, equipment, qualified personnel. Auctions, that are commercial and industrial firms, also have their own production that allows completing the preparation of goods for sale. For example, the production of bought up fur pelts from purveyors.

By the character of activity the auctions are divided into specialized, brokerage and commission, auction firms owned by cooperatives, unions of producers.

Specialized firms organize auctions and sell auction goods as at their own expense and on the terms of the commission. These companies assume all functions on the preparation and conduction of auctions.

In some cases they give loans to sellers on the security of their products, which have been transferred to the company for the auction sale. Examples of such companies are specialized peltry-fur companies, representing trade monopolies and which sell at auctions furs purchased, usually at their own expense. And they sell fur, owned by manufacturers on a commission basis.

Brokerage and commission firms organize auctions and sell on them goods on a commission basis on behalf of their clients. The company is both representative of the seller and buyer and receives from those and other rewards. Seller and buyer do not know each other, they know only broker.

Auction firms belonging to cooperatives or associations of producers, are common in Scandinavian countries, in each country there is one company that enjoys a monopoly position in the auction trade, for example, the fur of its country.

There are four stages in conducting auctions, which are presented in Fig. 10.2.

Auctions role has decreased in today's international trade. It is connected with the dynamic development of direct links between exporters and importers, expansion of commodity supplies of uniform and guaranteed quality, increased sales of products based on individual contracts, reduced export efficiency due to significant additional costs connected with the unloading, storage, shipment of goods.

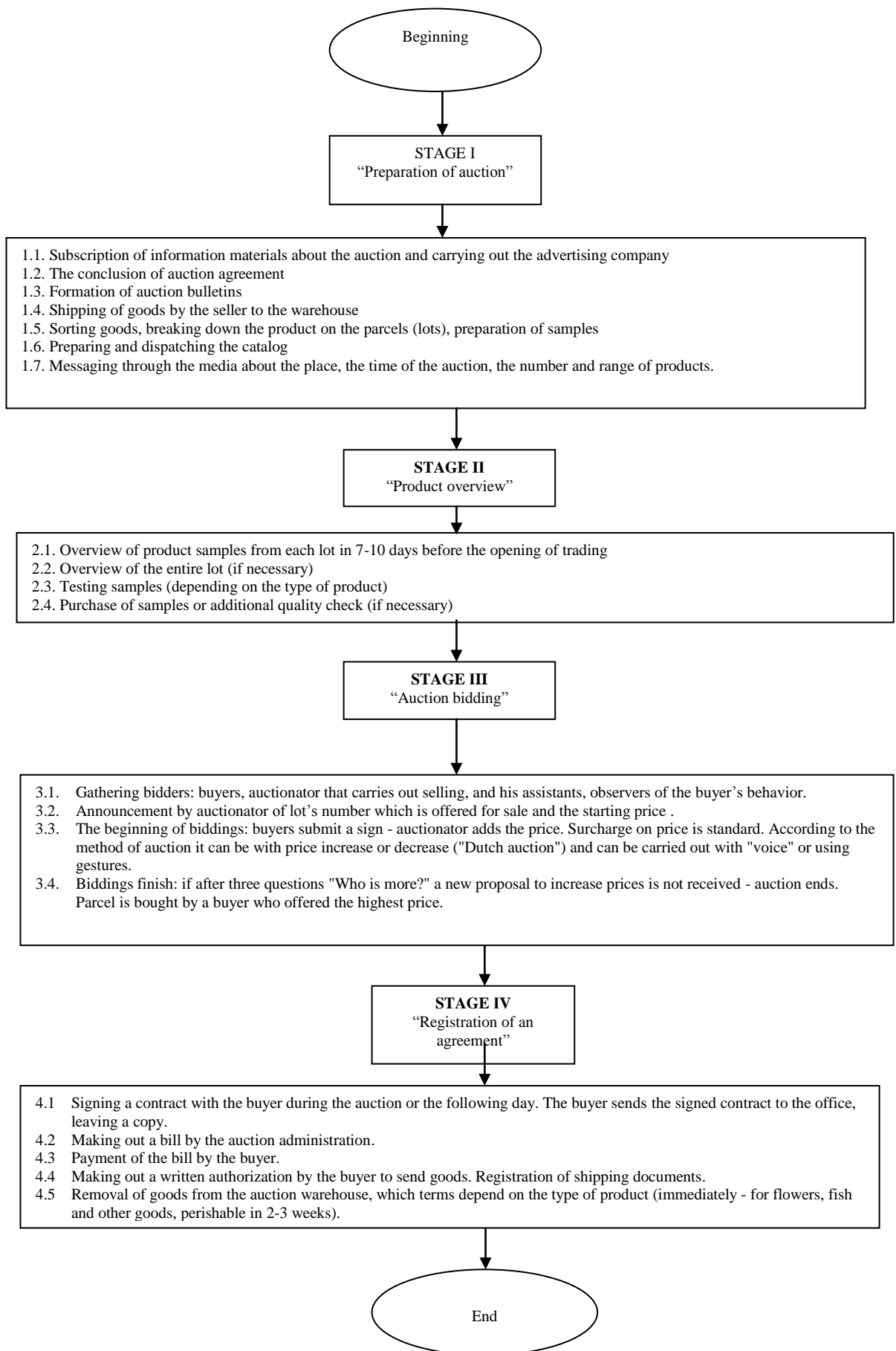


Fig. 10.2. The procedure of international auction

10.3. International biddings

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

Biddings allow concentrating a large number of suppliers, contractors in one place, ensuring maximum competition. This is the most common mean of agreements conclusion on machinery and equipment supplying, performing researches, design and exploration, construction of “turnkey” objects, providing state loans, and so on.

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

International tenders are organized mainly by the government organizations (ministries, purchasing organizations), municipal authorities, sometimes by large private firms, that provides them defined benefits: there is no need to create its own foreign trade unit, to carry out regular commercial and marketing activities; they have the opportunity to engage large financial firms in trading, because firms must pay bail in the amount of 1-3% of the value of alleged agreement in order to get the right to participate in the auction.

International biddings can be classified into types based on a particular trait.

Depending **on the method of carrying out** tenders can be open and closed.

All interested national and foreign companies and organizations can participate in open tenders. The subjects of the tender are the standard and universal equipment, small-scale contract works.

Limited, pre-approved membership of large companies and organizations that are experienced and technically well equipped (usually 5-7 firms) are invited in closed tenders. The subject of the auction is the unique, complex, special equipment, complete enterprises, complex contract works requiring high skills.

There are public and private tenders depending on the degree of information openness concerning the bidding proposals, received from the participants, and concerning the announcement of conditions offered by the winner.

The tender committee chairman reveals packages with companies' offers and reports the prices in carrying out overt trading on the day of its closing. The decision of the tender committee, information on order quantity and the total value of the contract are published in the press.

Public biddings are typical for open tenders.

Tender committees do not make public disclosure of proposals, do not disclose neither the participants nor proposed conditions by them in private biddings.

The information about the conditions of the conclusion of the contract is not published. Private biddings are typical for closed tenders.

Depending on the **legal status of participants** tenders are divided on:

- tenders involving only legal entities when the subject of bargaining is non-standard equipment manufactured by several companies in different countries when the conditions of the tender, the amount of supply and terms of contract are not attractive;

- tenders involving consortiums when it comes to large-scale orders, forcing firms to be combined in temporary alliances. Complex of anticipated by the agreement supplies and works is distributed among the members of the consortium on the basis of the following criteria: achieving the higher level of technological development; achieving the lowest costs in the production of various types of goods or while performing works

- combined tenders, i.e. involving legal entities and consortiums.

Regarding **subject** of tenders they can be: on the goods supply; on performing contract works; combined, i.e. including both supply of necessary goods and execution of works.

According to financial conditions biddings are held:

- with the price offer (participating companies offer prices);

- with a discount (price is fixed in the tender documents and participants try to reduce it);

- on a credit basis (credits can be provided by exporter, international organizations, government);

- on a reimbursable basis (payments for delivered goods or performed works are based on counter-trade schemes, in the form of compensation).

There are four stages in carrying out international biddings (Fig. 10.3).

An important stage of tender's preparation is the development of tender documentation, which includes:

- tender conditions or tender pro forma:

- a) the name and quantity of the goods that are planned to purchase;

- b) all the main technical specifications, technical and economic characteristics of the subject of the bidding;

- c) commercial terms (delivery time, order for establishing the price, payment terms, information related to the provision of loan to exporter and to depositing warranty collateral etc.);

- d) the terms of the arbitration, penalties.

- the conditions of the tender (instruction to bidders);

- general trading conditions (similar to many types of equipment purchased through tender in the country) and special tender conditions (technical, economic and other characteristics of this particular type of equipment);

- technical and economic documentation (specifications, drawings, catalogs);

- enumeration of types of works, the best methods of its implementation, the program and work schedule;
- contract pro forma;
- forms and amounts of guarantees.

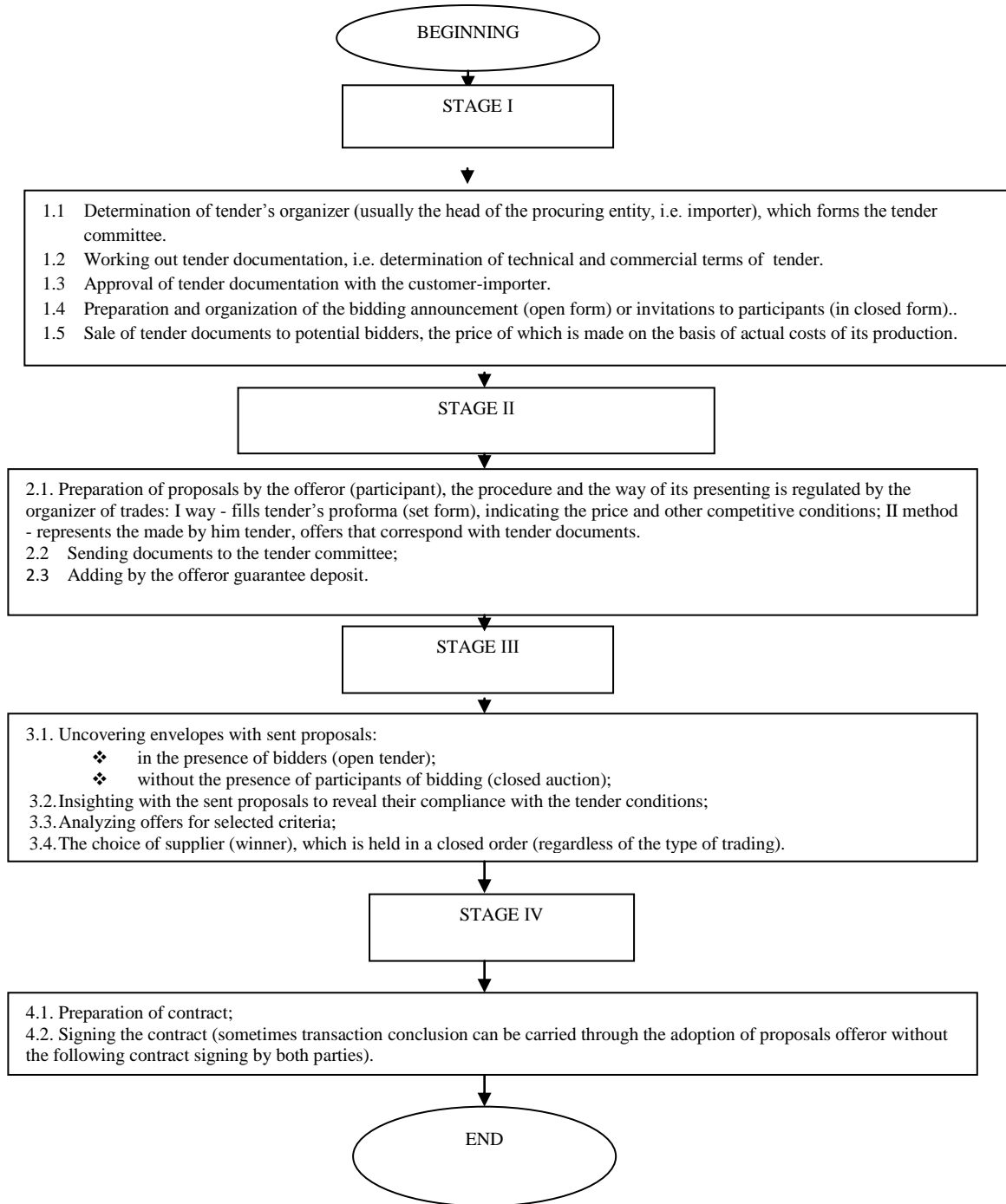


Fig. 10.3. The procedure of international biddings

The rights of tender organizers and tender committees are wide enough. Thus, using the right to reject any proposal without explanation, they can stimulate the

development of domestic production by involving local firms to execution of tender orders.

There have been developed and are used the recommendations of international organizations (ECE, UNIDO), the international agreements on procedures for tendering, international trade rules and more in order to standardize the rules of tendering and qualification requirements, optimizing time and costs of preparing tender documents and tender offers.

10.4. International fairs and exhibitions

Fair is a periodically operating market, allowing exhibitors-participants to exhibit the samples, exhibiting its production, demonstrate new developments and technical improvements for the purpose of direct trade agreements.

At international fairs products are sold only by intermediaries (manufacturing, wholesale and retail network).

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

International exhibitions is the most effective tool for studying market conditions, finding potential customers, establishing business contacts and cooperation relations, establishing business cooperation, selection of potential investors and etc. This is facilitated by direct communication between the experts and by the organized on exhibitions visual display using computer technology and video capabilities of production.

It is allowed to conclude trade agreements on the exposed samples in order to develop turnover in most exhibitions, but selling, unlike fairs, is carried out to end consumers.

The benefits of international exhibitions and fairs:

1) for the buyer:

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

2) for the seller:

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

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

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

5) exhibitions and fairs act as information centers for the exchange of economic, scientific and technical information.

The exhibition is international if 10-15% of exhibitors are representatives of foreign countries.

About 400 international exhibitions are held every year in the world. The largest exhibition centers in the world are in Western Europe and the United States. In Germany - Hannover (465 thous. m² exhibition area), Frankfurt - (292 thous. m²), Cologne (275 thous. m²); France - Paris (226,6 thous. m²); Italy - Milan (375 thous. m²); US - Chicago (204 thous. m²); UK - Birmingham (190 thous. m²); in the Netherlands - Utrecht (181 thous. m²); Spain - Valencia (180 thous. m²).

Overall, the share of Germany, Great Britain, USA, France and Italy accounts for about 70% of all held international exhibitions and fairs. The importance of international fairs / exhibitions is growing in developing countries (Syria, Libya, Ghana, Morocco, and Chile).

International trade fairs / exhibitions are classified by certain characteristics.

By location there are domestic and foreign fairs / exhibitions. International trade fairs / exhibitions are considered domestic for national exhibitor and foreign - for a representative of another country.

By the sphere of activity fairs / exhibitions are divided into regional, interregional and global fairs / exhibitions.

An example of the world exhibition may be World exhibition “Expo – 2000”, which was opened in 2000 in Hanover (Germany). 200 countries and international organizations participated in it; “Expo” realized 800 “international projects” on all the continents.

Universal and specialized fairs / exhibitions are distinguished **by the nature of offered exhibits**.

Broad product range of unrelated industries is demonstrated on universal fairs / exhibitions, i.e. exhibits are not limited by certain product groups.

Products of one or more related industries are demonstrated on specialized fairs / exhibitions.

By terms of conducting there are periodic (2-4 times a year for consumer goods or at intervals of 2-5 years for technological innovations) and permanent fairs / exhibitions (organized usually in different offices of the country abroad to demonstrate examples of export goods).

By location of conducting the fairs / exhibitions are divided into permanent, i.e. they always keep its theme and venue, and mobile, which are organized to expand the range of visitors by using different means of transport (on board of large ships, in vans, airplanes).

The agreements are concluded in two forms at the international fairs / exhibitions: the agreements on exposed samples, followed by delivery of the goods, and on the sell of exhibits. Participation of firm in the international fair / exhibition involves passing four stages (Fig. 10.4).

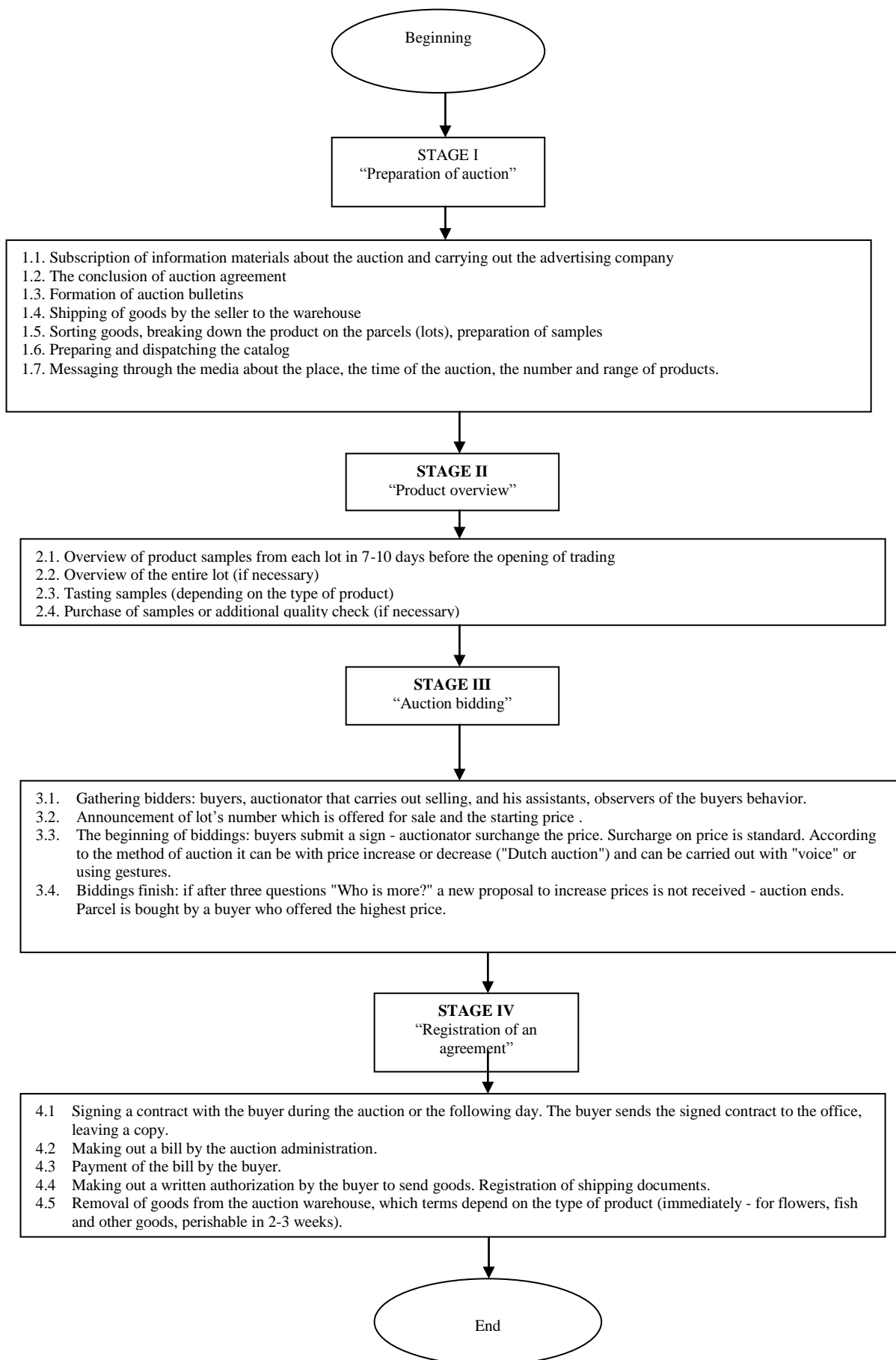


Fig. 10.4. The procedure of international auction

The indicator of the intensity of contacts is calculated to determine the effectiveness of participation in the exhibition / fair, to compare the exhibition with others in which the company have participated:

$$I_c = \frac{C}{S \times D} ,$$

where I_c – intensity of contacts;

C – number of recorded conversations with clients;

S – number of stand-attendants;

D – exhibition duration in days [6].

The activities of international fairs / exhibitions are regulated by:

- local institutions (ministries, departments, chambers of commerce, unions of industrialists and entrepreneurs, city authorities and others);
- international organizations (for example, the **International Exhibitions Bureau, International Union of Exhibitions and Fairs**, established to organize international trade fairs, expansion of their activities, promoting international trade; Working Group on international fairs in the Commission of external trade development at UNECE).

Part V. International trade agreements

Chapter 11. Legal regulation of international trade agreements

11.1. Essence of international trade agreements

The internationalization of industrial production on the basis of mutual supplies of products and services, results of creative activity is characteristic of modern world economic relations. Such nature of economic cooperation determines the forms, methods, content of international trade.

International trade operations are the actions that are aimed at organizing, conducting and regulating the exchange of goods, services, intellectual products between two or more contractors around the world.

The main international trading operations are export-import operations, which refer to commercial activities related to the purchase and sale of products that have material form.

Export operations are activities that are associated with the sale and removal of goods abroad to transfer them into the ownership of foreign contractor. Export operations include:

- providing the customs authority the documents certifying the grounds and conditions of export of goods outside the customs territory of the country;
- payment of taxes and charges imposed on the export of goods;
- obeying the requirements by an exporter stipulated by law.

Products that have been previously imported into the customs territory of the country are removed outside the customs territory of this country without paying export duties and without the use of non-tariff regulation of FEA, in case of carrying out re-export operations. Re-export operations are carried out under the following conditions:

- customs authority is given the permission to re-export goods;
- goods that are re-exported, firstly, are in the same condition they were at the time of entry into the customs territory of the country, except for changes due to natural wear and tear or losses under normal transportation and storage; secondly, they were not used for receiving profit; thirdly, they are exported no later than one year from the date of entry into the customs territory of the country.

Import operations are activities that are associated with the purchase and importation of foreign goods for their subsequent realization in the domestic market. Implementation of import operations involves:

- providing the customs authority documents certifying grounds and conditions for importing goods into the customs territory of the country
- payment of taxes and charges imposed on the goods in time of import into the customs territory of the country under its laws;
- obeying the requirements stipulated by law on non-tariff measures and other restrictions.

Products that have been exported from the customs territory of the country, are set into free circulation in its customs territory with exemption from customs duties and without the use of non-tariff regulation of FEA in case of carrying out re-import operations. Goods can be moved across the customs border of the country in re-import regime if they:

- are originated from the customs territory of the country and are imported not later than one year after their movement (export);
- were not used outside the country of origin for profit;
- are imported in the same condition they were at the time of export (export), except for changes due to natural wear and tear or losses under normal conditions of transportation and storage.

The amounts of export (export) duties paid, while exporting, are returned to owners of these goods or authorized persons on the basis of their applications in the case of re-importation of goods within one year from the date of its export.

The person, who transports re-import goods, pays the amounts received by the exporter as payment or through other benefits provided during exportation (export) of goods and interests on these amounts.

Thus, export-import transactions are considered as performed if the product has passed through the state border of the counterparty, it is necessary to carry out certain customs formalities and procedures for that.

Transit operations are also distinguished, while implementation of which goods and vehicles are moving under customs supervision between two customs authorities in the international practice. Transit operations can be direct and indirect.

Direct transit operations refer to the transportation of goods from one country to another through the territory or airspace of a third country. These operations are not included in the export or import and are registered by types of transport facilities, the amounts of goods, countries of origin and destination. Indirect transit operations refer to the storage of goods in bonded warehouses for the purpose of their processing and subsequent export to another country.

The transited goods should:

- remain in the same condition except natural losses, and should not be used for the purposes other than transit;
- be delivered to the customs office of destination within the period specified by customs office of departure.

Certain operations can be performed (overloading, unloading, loading, repackaging) with such goods without changing their properties and trade dress, during the transit of goods with the permission and under the supervision of the customs authority

Implementation of international trade operations involves the use of certain legal forms and specific methods of its implementation.

The legal form of international trade is an international trade agreement, defined as an agreement between two or more contractors located in different

countries, on supply of a certain quantity and quality trade items², services, exchange of scientific and technical knowledge, lease.

Contract is considered to be international only on condition that its parties are in different countries. If the contract is concluded between parties of different nationality, which firms are located in one country, in this case the contract is not considered to be international. The contract is considered to be international if the contract is concluded between the parties of the same nationality, which firms are located in different countries,

International trade agreement, depending on the object of purchase and sale is made in several forms, these are: the form of a purchase and sale contract of goods in material form, the contract of purchase and sale of services, the contract of purchase and sale of products of intellectual work.

Parties (contractors) of international trade agreements are the firms, businesses alliances (associations), government agencies and organizations, international economic organizations of the UN system.

The firm is the enterprise that pursues commercial goals while economical activity. Firms carry out the vast majority of international trade agreements. Firms operating in the global market, differ by type of economic activity, current operations, legal status, the nature of the property, by capital belonging and control.

Business alliances are non-profit associations of certain groups of entrepreneurs, the purpose of which is not to receive profit, but to represent the interests of these groups of entrepreneurs in government agencies and assist in organizing international activities, including the expansion of international trade. Businesses alliances are established in the form of associations, leagues, federations, councils, conferences and so on. There are many thousands of alliances, which, depending on their functions, membership, types of activity can be local, national, international, industry (sub-branch) in developed countries.

Representatives of the major business alliances in international trade participate in the development of laws drafts on trade policy, patent law, taxes; provide exporting firms with export and other subsidies; prepare and conduct negotiations for concluding trade agreements with foreign countries; participate in the provision of export credit guarantees and in protection of the domestic market from foreign competition by imposing special import taxes, anti-dumping duty etc. However, business associations, as non-profit organizations, often act as counterparties of international trade agreements.

Public authorities (ministries and agencies) and organizations have the right to participate in international trade agreements only after receiving a special permission of the government of the country. Thus, the right of entering foreign markets is used: in the US - State property management (purchase and sale of

² Commodity units are a certain number of goods of one type that are determined for a certain period to be a subject for actual or potential trade agreement.

strategic materials, export of silver), in the UK - Department of Trade and Industry, in India - Ministry of Defense and Ministry of Agriculture.

Most government agencies and organizations have the right of entering foreign markets, placed in developing countries.

International organizations of the UN system, acting as counterparties of exports and imports of goods and services in the global market, are mainly engaged in construction of investment projects. Thus, they provide technical assistance in the field of pre- investment works (UNDP), fulfill the full range of services in the construction of “turnkey” objects on the basis of commercial contracts concluded with specialized engineering firms (UNIDO, UNCTAD, UNEP, FAO, ILO) . Constructed facilities are transferred to the government of the country-recipient of technical assistance on previously agreed terms.

Following peculiarities are typical for international trade agreements:

- expansion of the range, variety, supplies of intermediate products, fast changes of products, complication of products entering the world market, resulted in the extension of the terms of contract implementation;
- complex nature of the agreements for the supply of equipment for companies, i.e. supply of machinery, equipment, materials is provided in conjunction with the technology and engineering services;
- an increase in the number of agreements on economic cooperation, that include the supply of equipment and materials, and implementation of obligations on financing, insurance, various forms of payments;
- expansion of “turnkey” supplies, i.e. the seller fulfills complex of works on construction of an enterprise;
- making big deals with companies from different countries through the establishment of consortiums that are often temporary and long-term intercompany alliances;
- purposefulness of international trade agreements, i.e. that orientation on a specific customer, which involves establishing direct connections with consumers carried out on the basis of pre-orders for pre-approved supplies.

11.2. Regulation's unification of the conclusion of the international trade agreements

The practice of international trade is characterized by a significant degree of legal unification the aim of which is reducing the legal barriers in international trade by developing and application of international legal documents adopted at the international level. It concerns primarily international contracts for sale of goods.

Such international economic organizations as UNCITRAL, UNIDROIT, UNCTAD, UNECE are engaged into the unification and harmonization of international trade law [23].

The United Nations Convention on Contracts for the International Sale of Goods was developed by the United Nations Commission on International Trade Law (UNCITRAL), in order to unify the conditions of international trade

agreements which are concluded and eliminate the significant differences in the national legislation. This Convention was adopted at the United Nations Conference on Contracts for the International Sale of Goods, held in Vienna in 1980 and so called the Vienna Convention. The Conference was attended by 48 countries. The Convention entered into force from 1 January 1988.

The Convention offers participants the wide opportunities to formulate the terms of the agreement according to their interests and taking into account the features of its content. It contains the uniform rules, governing the international sale of goods, concerning most countries with different economic and legal systems and that are aimed at removing legal barriers in international trade.

The Convention has a normative character, but the parties can withdraw from any provision of the contract or change the action.

The features of the Vienna Convention are in next facts:

- it contains the uniform rules of conclusion and execution of contracts for the international sale of goods;
- it helps to speed up, facilitate and reduce the cost of negotiating, because there is no need in studying the legislation of the counterparty;
- it creates the preconditions for unambiguous interpretation of the rights and obligations of the parties;
- it promotes the liquidation of discriminatory unequal relations in international trade;
- it defines the obligations of the seller and the buyer under the contract;
- it regulates the relations between the counterparties regarding the objects of the contract in the event of disputes between the parties relating to the countries which are not parties to the Convention;
- it establishes a list of objects of the contract for the sale of goods, which are not covered by its action;
- it determines the signs of the contract for the sale of goods to which the Convention does not apply.

There is the structure of the Vienna Convention:

Part I: Sphere of Application and General Provisions. It reveals the content of the term “the international contract for the sale of goods” (Art. 1); conditions of applicability of the international agreement for sale and delivery of goods (Art. 2, 3); the sphere of regulation and interpretation of the Convention (Art. 4, 5, 7), the applications of the parties (Art. 8), the manners (Art. 9), the form of the contract (Art. 11, 12, 13).

Part II: Formation of the Contract. It includes the provisions: the conclusion of the contract on the basis of the offer (Art. 14-22); the time of the conclusion of the contract (Art. 23, 24).

Part III: Sale of Goods. It includes: general provisions (Art. 25-29); obligations of the seller: supply the goods and transmission of the documents, conformity of the goods and the rights of third parties; legal remedies in the case of breach of contract by the seller (Art. 30-52); obligations of the buyer: payment rates; adoption supply, legal remedies in the case of breach of contract by the buyer

(Art. 53-65); passing of risk (Art. 66-70); obligations common to both buyer and seller: predictable breach of contract and contracts for the supply of goods in separate batches; the damages; the percentages; the exemption from liability; the consequences of termination of the contract; saving product (Art. 71-88).

Part IV: Final Provisions (Art. 89–101).

One of the most important documents, developed by UNCITRAL, is also the Convention on the Limitation Period in the International Sale of Goods (1974). It establishes the uniform norms on time limits, which should begin in disputes arising from contracts and also the limitation periods.

International Institute for the Unification of Private Law (UNIDROIT) takes a significant place in the development and establishment of common rules of international trade. The institute developed many international legal documents adopted at the international level: Convention relating to a Uniform Law on the International Sale of Goods; International Convention on Travel Contracts; Convention on Agency in the International Sale of Goods; UNIDROIT Convention on International Financial Leasing; UNIDROIT Convention on International Factoring and so on. In addition, the Institute develops alternative methods of unification: model laws and recommendations, codes of conduct in certain industries, standard forms of contracts.

The Convention on the Law Applicable to Contracts for the International Sale of Goods (referred to as The Hague Convention) plays an important role in the unification of the procedure of concluding and performing the contract for the international sale of goods. It was developed by UNIDROIT and presented and opened for signature at the extraordinary session of the Hague Conference on Private International Law (HCCH) in 1985. The session was attended by almost all economically developed countries and 30 developing countries of Asia, Africa and Latin America.

The aim of developing the new Hague Convention (first version was adopted in 1955) was to develop the provisions that supplement the Vienna Convention and the Regulations for the Unification of Conflict of Laws Rules that determine the law applicable to issues that are not regulated by the same rules of international law. The Convention is universal, that it can be used in the member states in those cases where one or even both parties in the contract for the international sale of goods belong to non-member states.

The main provisions of the Hague Convention are:

- the determination of the international character of the contract for the sale of goods (supplement to the Vienna Convention);
- the exclusion from the scope the certain types of goods for the international sale of goods (goods of the personal consumption);
- the inclusion of auction and exchange goods, vehicles, electricity;
- the determination of the applicable law governing the contract.

The law applicable to the contract for the sale of goods includes the following: the interpretation of the contract; the rights and obligations of parties and performance of the contract; the moment at which the buyer gets the right to

incomes from goods; the moment at which the buyer has risk of goods; the reality and consequences for the parties to preserve property rights; the consequences of breach of contract; methods of repayment the obligations; time limits and consequences of nullity of the contract; not applying the Convention relative to the contract for the sale of goods between the parties that belong to the member states of the other international agreements.

UNIDROIT prepared a document entitled “Principles of International Commercial Contracts” in 1994. The principles, that should be considered when drawing up the contracts, are the following:

1. Freedom of contract and its forms. This is expressed in the freedom of regulating relations in accordance with the legislative norms of the state. This principle provides:

- the free decision on the conclusion or non-conclusion of the contract;
- the free choice of contractors;
- the free determination of the content of the contract;
- the free decision on the manner and form of contract;
- the freedom of change the contract in general or its individual provisions;
- the right to decide the question of termination of the contract.

2. The obligation contract. A duly signed contract is binding for the parties resulting the freedom conclusion of the contract. The parties agree on the will and elaborate to self the rule that regulate the specific mutual relations. Thus, in accordance with the law, they have the opportunity to regulate their relations on their own, based on their interests. But this contract may be changed or terminated in accordance with its terms or by agreement of all parties.

3. Good faith and fair business practice. Each party during force of the contract must act in accordance with the accepted good faith in practice of the international trade and fair business practices, and doesn't have the right to exclude or limit this principle. Fair business practice should not apply by the standards that are commonly used within individual legal systems. The internal standards are taken into account, when it is proved that they are common in different jurisdictions.

4. The custom and practice. The counterparties may be bound by custom in respect of which they have agreed and by practice which they have established in their mutual relations. The custom is a widely known order of the business relationship of the determined business lines, which is always followed in the international commercial practice.

The General Conditions of the sales are also used in preparation of foreign trade contracts, developed by the International Trade Centre UNCTAD / WTO.

UN Economic Commission for Europe (UNECE), namely its Committee on Trade (CT) decides the large complex of questions in the sphere of regulation of international commercial practice. As part of the Committee works the Group of Experts on international agreements for the supply of industrial products, elaborating manuals for the assembly of such contracts, and the Working Group on

facilitation of international trade, which elaborates the recommendations for transmission systems of foreign media and foreign documents.

The working documents, taken by UNECE, have the different legal status and the areas of application:

- resolutions and decisions which have the force of the fully harmonized norms;
- recommendations that are used for policy coordination in various fields with the relevant international and regional organizations of the different level;
- requirements that are contained in international agreements and conventions and are binding to the parties who agree;
- rules are developed on the basis of the intergovernmental agreements and protocols. They contain the binding requirements for those who signed these agreements.

UNECE focuses on the following general provisions in their work:

- trade facilitation by firms to improve the efficiency of international trade. It is achieved through simplification, harmonization and standardization of procedures of export and import using all means of transport, and by developing a unified system of export and import documentation both for the paper documents and their electronic equivalents based on international standards;
- widen access to information on the conjuncture on world commodity markets;
- the adoption of new concepts of entrepreneurship.

UNECE actively engages in the development of standard contracts and their implementation in international trade practice for the trade facilitation.

A typical contract is an exemplary contract or series of standardized conditions set out in written form formulated in advance, considering trading practice or trading customs and adopted by the contracting parties after they have been agreed with the requirements of a specific agreement.

The typical contracts are applied only to certain goods or certain types of trade. Most often they are used while making agreements for standard kinds of machinery and equipment, consumer goods; for industrial raw materials (long-term contracts); the massive raw materials and food products (for exchanges).

UNECE developed more than 30 variants of standard contracts and the general conditions of sale of goods. For example, a contract for sale of goods of grain, the general conditions for sale of goods for export of consumer durables and hardware serial production; the general conditions for sale of goods of softwood lumber; the general conditions for the international sale of goods of citrus; the general terms of export supplies of the machine equipment, etc.

The development of standard contracts is engaged by the large companies in monopolistic industries; international, national industry unions of entrepreneurs; Committees of commodity exchanges; Chambers of Commerce and others. Thus, international contracts for the supply and installation of equipment can target on a standard contract FIDIC, prepared by the International Federation of engineers. It consists of two parts: Part I – the general conditions with forms of proposals for

bidders and the agreement; Part II – the conditions of contract applications with details on the preparation of specific items.

The use of standard contracts allows unifying the conditions of international trade. It saves time for the transaction, provides an opportunity to widely apply the gained practical experience of trade in this field.

A typical contract is periodically reviewed and changed due to constant changes in correlation of forces between exporters and importers, organizational and technical terms of trade: means of transport, methods of determining the quality standards and so on.

11.3. International trade terms (INCOTERMS -2010)

Parties of a contract are often not aware of the differences in trade regimes, where are the commercial enterprises of partners. It can lead to disputes, litigation, that entails the loss of time and financial loss.

International Chamber of Commerce (ICC) developed commercial terms in 1936, that are the universal set of basic conditions, knowledge and using of which facilitates the implementation of trading operations. These terms were created to get rid of these problems, clearly define the duties of the parties and reduce the risk of legal complications, in the contracts for the sale of goods. They are based on international trade practice and customs. The collection was called “International rules for the interpretation of trade terms INCOTERMS” (International Commercial Terms). Changes in INCOTERMS were made in 1953, 1967, 1980, 1990 and 2000. A new version of the INCOTERMS rules, known as “INCOTERMS 2010. ICC rules for the use of domestic and international trade terms”, came into force on January 1, 2011 [6].

Basic terms of delivery simplify the process of developing and conclusion of the contract; help the partners to find a way of shared responsibility.

The basic conditions of supply in the contract of sale of goods are the conditions that define:

- 1) the rights and obligations of the parties for the supply of sold goods:
 - who and at whose expense provides transportation of goods on the territory of the exporter, the importer and transit countries, and at transportation of goods by sea, river and air transport;
 - condition of the cargo in respect of the mean of transport, that determines the seller's obligations to deliver the cargo in a particular place for a fixed price in a contract or load the goods on a vehicle or prepare it for upload, or transmit to the transport organization;
 - seller's obligation in packing and labeling of goods and obligations of the parties in cargo insurance;
 - obligations of the parties regarding the execution of commercial documentation according to the current requirements in international trade practice;

- where and when the ownership of the goods are transferred from the seller to the buyer;

2) the time of the transfer the risk of accidental loss, or damage to the goods and costs which may arise from this.

The obligations of the seller and the buyer contained in INCOTERMS 2010 for each of the basic conditions are listed in Tab. 11.1.

Table 11.1

The obligations of counterparties

A. The seller's obligations	B. The buyer's obligations
A1. Provision of goods in conformity with the contract	B1. Payment of the price
A2. Licences, authorisations and formalities	B2. Licences, authorisations and formalities
A3. Contracts of carriage and insurance	B3. Contracts of carriage and insurance
A4. Delivery (the goods)	B4. Taking delivery (the goods)
A5. Transfer of risks	B5. Transfer of risks
A6. Division of costs	B6. Division of costs
A7. Notice to the buyer	B7. Notice to the seller
A8. Proof of delivery, transport document or equivalent electronic message	B8. Proof of delivery, transport document or equivalent electronic message
A9. Checking, packaging, marking	B9. Inspection of goods
A10. Other obligations	B10. Other obligations

Thus, the basic conditions of delivery determine who bears the costs of transporting the goods from the seller to the buyer. Expenses, that are carried by the exporter, are included in the price of goods (sometimes they reach 40-50% of the price). Basic terms install the basis of price and impact on price level.

INCOTERMS defines 11 rules and they have been grouped into 4 different categories. The obligations of the seller and the buyer are defined for each condition for delivering the goods and set time of transfer of risk of accidental loss or damage to the goods from the seller to the buyer.

The term "free" means that the buyer is free from all risk and costs of delivery of the goods to the point marked after the word "free" as used in the designation of the basic conditions (Tab. 11.2).

The 11 terms of INCOTERMS 2010 are divided into two categories:

1. The basic terms of delivery for any mode or modes of transport: EXW, FCA, CIP, CPT, DAT, DAP, DDP.

2. The basic terms of delivery for sea and inland waterway transport: FAS, FOB, CFR, CIF.

**Groups of the terms that define basic terms on delivery in
INCOTERMS 2010**

Group E	Departure
EXW	Ex Works (named place of delivery)
Group F	Main Carriage Unpaid
FCA	Free Carrier (named place)
FAS	Free Alongside Ship (named loading port)
FOB	Free On Board (named loading port)
Group C	Main Carriage Paid
CFR	Cost and Freight (named destination port)
CIF	Cost, Insurance and Freight (named destination port)
CIP	Carriage and Insurance Paid to (named place of destination)
CPT	Carriage Paid To (named place of destination)
Group D	Arrival
DAT	Delivered at Terminal (named terminal at destination port)
DAP	Delivered at Place (named destination place)
DDP	Delivered Duty Paid (named destination place)

The content of basic terms:

I. Group «E» means that the seller's only responsibility is to make the goods available at the seller's premises and so he does not bear any risks and costs of delivery goods.

1. EXW – “Ex Works (named place of delivery)”. This term of deliveries provides that the seller has fulfilled his obligation to deliver the goods at the moment of transfer to the buyer or authorized person from his enterprise or warehouse. The seller (unless otherwise agreed by the parties in the contract) is not responsible for loading the goods on the vehicle provided by the buyer and for its customs clearance (required payment of customs duties). The buyer incurs all the costs and bears all the risks associated with the transportation of the goods from the seller’s premises until their final destination. Thus this term represents minimum obligation for the seller; therefore the price of goods that sold under the terms of EXW, be the lowest in comparison with other basic conditions of supply. However, this condition shall not apply, when the buyer cannot comply or enforce the customs formalities connected with the export of goods because of reasons that do not depend on him. In these cases, deliveries should be performed on a “free carrier” (FCA).

II. Group «F» requires from the seller delivery of the goods for carriage in accordance with the instructions of the buyer. Contracts for these conditions belong to contracts of departure.

2. FCA – “Free Carrier” (named place of delivery). This term means that the seller has fulfilled his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose

within the place or range stipulated where the carrier shall take the goods into his charge. In some cases (during transportation by rail or air) contract with the carrier is made by the seller, but the seller may act at the buyer's risk and expense.

This term may be used for any mode of transport, including multimodal transport.

“Carrier” means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage by rail, road, sea, air, inland waterway or by a combination of such modes. If the buyer instructs the seller to deliver the cargo to a person, e.g. a freight forwarder who is not a “carrier”, the seller is deemed to have fulfilled his obligation to deliver the goods when they are in the custody of that person.

3. FAS – “Free Alongside Ship” (named port of shipment). This term means that the seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities.

4. FOB – “Free On Board” (named port of shipment). This term means that the seller has fulfilled his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

III. Group «C» requires from the seller to contract for carriage on usual terms at his own expense. Contracts for these conditions belong to shipping contracts.

5. CFR – “Cost and Freight” (named port of destination). This term means that the seller must pay the costs and freight necessary to bring the goods to the named port of destination. At the same time the risk of loss of or damage to the goods is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The buyer takes over also other additional costs due to events occurring after the time the goods have been delivered on board the vessel. The seller, however, should provide free export of goods from his country (to pay all customs duties).

6. CIF – “Cost, Insurance and Freight” (named port of destination). This term means that the seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss or of damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium.

The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export.

7. CPT – “Carriage paid to... ” (named place of destination). This term means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.

“Carrier” means any person who, in a contract of carriage, undertakes to perform or to procure the performance on carriage, by rail, road, sea, air, inland waterway or by a combination of such modes. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. The CPT term requires the seller to clear the goods for export.

8. CIP – “Carriage and insurance paid to...”(named place of destination). CIP has much in common with CIF. This term may be used for any mode of transport including multimodal transport. The seller must contract for insurance and pays the insurance premium, require clearing the goods for export. However, the seller is only required to obtain insurance on minimum coverage just during transportation in terms of CIF.

IV. Group «D» according to which the seller is responsible for the arrival of the goods at the agreed place or destination at the border or within the importing country, and has to bear all costs and risks needed to deliver the goods to the country of destination. Contracts for these conditions belong to conveying contracts.

9. DAT – “Delivered At Terminal” (named terminal at port or place of destination). This term means that the seller has fulfilled his obligations when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. “Terminal” is a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination. The “Fees” means the responsibility and risk of customs clearance, as well as for payment of customs formalities, customs duties, taxes and other charges.

10. DAP – “Delivered At Place” (named place of destination). This term means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller is required to clear the goods for export.

11. DDP – “Delivered Duty Paid” (named place of destination). This term means that the seller has to bear all the costs and risks involved in bringing the goods including (where applicable) any “duty” for import in the country of destination. DDP should not be used if the seller is unable directly or indirectly to obtain the import license. However, if the parties wish to exclude from the seller’s obligations some of the costs payable upon import of the goods (such as, value-added tax: VAT), this should be made clear by adding explicit wording to this

effect in the contract of sale. Whereas the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation.

The parties of foreign operations prefer the FOB and CIF among all the considered basic terms. The export price of the goods is meant under the “FOB price”, and the import price is meant under the “SIF price” in the international trade. The delivery of goods in these terms is profitable for the seller, because the risk of accidental loss or damage to the goods from the time of loading the goods on ship and getting the bill of lading is passing to the buyer. In addition, by entering into the contract on CIF, the seller is entitled to charter a ship on his own. This allows him to get extra profit from the difference between the cost of freight, rooted in the price, and actually paid price to the ship-owner and also due to the use of charterer tonnage for transportation by the return flight of their imported goods.

Chapter 12. International purchase and sale contracts

12.1 Types and content of international purchase and sale contracts

12.1.1. Characteristic of international purchase and sale contracts

The basis for the implementation of foreign trade operation is the foreign trade contract that is the materially executed agreement of two or more entities of foreign economic activity and their foreign contractors, aimed at the establishment, modification or termination of their mutual rights and obligations in foreign economic activity.

Different types of foreign trade agreements are used in international commercial practice: contract of sale, license, lease, engineering, insurance, transportation, maintenance of production, loans, etc. Their structure, content, and features are determined by the type of foreign trade operations, which they accompany. But the international contract of sale is used more often in foreign trade. Therefore, it is advisable to consider the content and features of these contracts.

International contract of sale is a commercial document, which is the agreement of goods supply and, if necessary, related services, agreed and signed by the exporter and importer.

Contracts of sale, depending on the timing of delivery and payment options, are divided into:

- single and periodic delivery;
- payment in the monetary and commodity forms (fully or partially) [2,].

Contract of sale with single delivery is a one-time agreement, according to which it is expected to supply from one party to the other one the quantity of goods, agreed between them, to a specified date fixed in the contract. Delivery of goods is carried out one or more times during the agreed term.

There are two types of single-supply contracts:

- with short-term. They are usually used in the process of concluding agreements of raw materials. Delivery may be established on the specified date or period, and uncertain, for example, after the occurrence of event;
- with long-term (3-5 years or more). They are usually used in the process of concluding trading agreements in equipment, aircraft, ships, ship units, sophisticated equipment, etc.

Terms of contracts with long-term delivery vary depending on methods of their conclusion: direct or indirect, when the exporter is taking part in bidding, which is organized by the importer. Contracts for the unique equipment are concluded on the basis of direct contacts, the monopoly supplier of which is the manufacturer - exporter, highly specialized firm or consortium, which acts on behalf of its main company. Contractors are companies of industrialized countries, supplying equipment for the facilities, the building of which is carried out by firms of importing country.

More standardized conditions are characteristic for contracts, concluded through international bidding, because the participants of bidding offer their conditions, focusing on the tender conditions. The content of the contract differs with laconism and references to the tender conditions.

The contract of sale with the periodic delivery is an agreement that involves regular, periodic supply of agreed quantities of goods within a specified period.

These contracts are short-term (usually annual) and long-term (average delivery time is 5-10, sometimes 15-20 years).

Long-term contracts are concluded for the supply of industrial raw materials and semi-finished products (coal, oil, petroleum products, natural gas, ores, pulp and other products).

The contract of sale with payment in monetary form involves the calculations in currency, methods and forms of payment agreed by parties.

The contract of sale with payment in the commodity form. The selling of one or more products simultaneously associated with the purchase of other goods and payments in foreign currency are not made. These are barter and compensation agreements. A simple exchange of agreed amounts of one commodity to another is assumed in barter contracts. They indicate quantity of goods mutually supplied or the sum by which the parties supply products. The supply of goods on equal value is expected in compensation contract as well as in barter, however, in contrast to a barter agreement, the parties agree the price of goods supplied mutually. There are usually not two products, but large amount of goods offered for exchange.

The contract of sale with payment in mixed form. The subject of contract is usually construction on conditions of directed lending of “turnkey” company. Payment of expenses is partially carried out in cash and partially in the form of commodities. Part of goods, implemented beforehand in the contract, will be supplied from a built enterprise. Three long-term contracts are also implemented in it, for the same amount: the contract of sale of technical tools and services for the construction of company; agreement on long-term loan; long-term contract for the supply of raw materials.

The obligatory condition of the contract is the transfer of ownership of the goods from the seller to the buyer.

The contract of sale is conditioned with the content of contractual terms, the order of their performance and responsibility for implementation.

12.1.2. The influence of trade traditions on the terms of contract

Internationally accepted trade customs significantly affect the conditions of contract of sale that play a crucial role in resolving disputes between contractors. Trading custom is generally accepted rule that was established in international trade (which is not a law), which includes clear and defined position on the issue to which it is connected.

Trading custom must meet the following requirements:

- a) have the character of general rule, i.e. be used in all or most cases to which it applies;
- b) be quite well known in the relevant field of trade;
- c) be identified to its contents and be clear for understanding.

Common rules for using of trading customs are:

- a) the parties are connected by any custom with respect to which they have agreed, and practices which they have established in their mutual relations;
- b) in case of the absence of agreement to the contrary it is considered that the parties had in mind the use of the custom in their contract, about which they knew or should have known and which is widely known and regularly is adhered by the parties in such contracts in the relevant sphere of trade.

The information about trade custom can be found in the stock exchange rules, in the collections of chambers of commerce, the materials of the UN's commissions, in standard contracts, in the decisions of the arbitrators on specific issues.

12.1.3. Basic terms of international purchase and sale contract

Business entities have the right to use well-known international orders, recommendations of international bodies and organizations in creating the text of the agreement.

The rights and obligations of the parties of the contract are determined by the right of place of its conclusion, unless the parties have agreed otherwise, which is reflected in the agreement.

The conditions that must be provided in the contract are.

1. TITLE, NUMBER OF AGREEMENT (CONTRACT), DATE and LOCATION OF ITS CONCLUSION.

2. PREAMBLE.

The full names of the parties - participants of foreign economic operations, under which they are officially registered, indicating the country, short definition of the parties as contractors ("Buyer", "Seller", "Customer", "Supplier", etc.) and the names of the documents that guide contractors in the agreement (contract) (charter of company, memorandum, etc.) – must be determined in the preamble .

3. SUBJECT OF AGREEMENT (CONTRACT).

This section determines the goods (works, services) which one contractor must deliver (make) to another, indicating the exact name, grade, or final result of performed work.

It is also defined the exact name of counter supply (or the name of the product, which is the ultimate purpose of tolling) in the case of barter agreement (contract), or contract for tolling.

If the good (work, service) requires more detailed characteristic or nomenclature of goods (works, services) is large, this fact must be indicated in the addendum, which should be an integral part of the agreement (contract).

Corresponding mark about this fact) must be done in the text of the agreement (contract).

Mentioned addendum (specification) in the barter agreement (contract), moreover, is balanced by the total value of exports and imports of goods (works, services).

Appropriate technological scheme of processing must be mentioned in the addendum to the agreement (contract) for processing of the customer-owned raw materials.

4. QUANTITY AND QUALITY OF GOODS (THE VOLUME OF EXECUTED WORK, SERVICES).

The unit of measure of goods accepted for this type of products (in tones, kilograms, units, etc.), its total quantity and quality characteristics are determined in this section depending on the nomenclature.

The specific volume of works (services) and terms of their implementation are determined in the text of the agreement (contract) for works (services).

5. BASIC TERMS OF GOODS delivery (ACCEPTANCE/DELIVERY EXECUTED WORKS OR SERVICES).

This section specifies the type of transport and basic conditions of delivery (due to "INCOTERMS-2010"), which define the responsibilities of contractors for the supply of goods and establish the time of risk allocation from one party to another, as well as a specific period of deliveries of good (some parties of goods).

The terms and conditions of the executed works (services) should be specified in the case of concluding the agreement (contract) for works (services) in this section.

6. PRICE AND TOTAL VALUE OF CONTRACT.

The price per unit of measure of goods and the total value of the goods or the cost of works (services), which is supplied according to the contract, and currency of price are determined in this section. If according to the contract goods of varying quality and range are supplied, the price is set separately for each unit class, grade, and its total value must be mentioned as a separate point of a contract. In this case, the price indices can be specified in the addendums (specifications) that are referred in the text of the contract.

Mortgage value of materials, price and total cost of finished goods, the total cost of processing are mentioned in the contract for the customer-owned raw materials.

The total value of goods which were exported and the total value of goods, which were imported under this contract, denominated in foreign currency are mentioned in barter contract.

Thus, the contract price is the amount of currency units that buyer must pay to seller in particular currency for the entire product or unit that has been delivered by the seller on the basis of the conditions specified in the contract geographic point.

Currency of price must be set in the contract. This is the currency in which the price of goods is determined in the contract. Type of goods, factors operating in international payments, including inter-state conditions, international tradition affect

on the choice of currency. Product price can be set in any freely convertible currency: the exporting country's, the importing country's or a third country's. Sometimes the price of the contract is specified in several currencies or collective currencies to hedge currency risk.

Determination of currency of price is essential condition of the contract because currencies are not equal in their quality. It is advisable to focus countries with hard currencies on export, and countries with weak currencies – on import due to monetary point of view.

The way of fixing of the price is established in the contract. Contract price can be fixed depending on the nature of foreign trade transactions: at the time of drawing up the contract; during the implementation of the contract; till the end of the contract.

There are the following types of prices depending on the method of fixing of the price: hard (stable, fixed, and guaranteed); mobile; sliding; with subsequent fixation.

Hard price is set in the form of concrete figure at the time of signing the contract. This price is not subjected to change throughout its validity and does not depend on the terms and order supplies consignment. There is a warning in the text of the contract: "Hard price is not subject to change". These prices are used usually during the drawing up foreign trade agreements on commodity exchanges, international auctions and trade fairs.

They are used in short-term supplies, but also can be used in long-term supplies. Hard price firstly is beneficial for the importer. Exporter, who gave consent to a price concession, significantly compromises to purchaser because the actual price of goods may rise significantly until receipt of payment for goods in today's inflationary conditions. The exporter may require the advance payment from the importer to compensate this concession and avoid the risk.

The mobile price is fixed price which is set during drawing up the contract that may be revised later if the market price of the product will changes until its delivery. A notice, which provides changes in prices fixed in the contract, depending on the increase or decrease in market prices until the implementation of the agreement, must be mentioned in the contract in case of establishing a mobile price.

Minimum allowable deviation of the market price must be mentioned in the contract, for example, 2-5% of the price, accepted in the contract. Within these limits of fluctuations, the contract price is not reviewed. The source of statistical data, which shows the changes in market price, must be noted in the contract, in case of establishment of the mobile price. Mobile prices are usually set on industrial, raw, and food products supplied under long-term contracts. The calculations are carried out at current prices.

Sliding price is set at the time of fulfillment of terms of agreements by the reviewing contract (base) price accounting changes in production costs that occurred during the execution of the contract.

The sliding price is calculated separately for each supply in case of partial delivery.

Sliding price is fixed in next way: the price for the date of offer or contract signing (basic price) and the procedure of decomposition of this price for its constituent elements (such as wages - 35%, materials - 40% constant fraction of the price variable, i.e. profit, depreciation, overhead - 15%) must be mentioned.

The basic price is calculated by exporter and must be agreed with importer during signing the contract. Final (sliding) price is calculated by formula, which is recommended by European Economic Commission [7]:

$$P_1 = \frac{P_0}{100} \left(A + B \frac{M_1}{M_0} + C \frac{S_1}{S_0} \right), \quad (12.1)$$

where P_1 - sliding price (at the time of shipment);

P_0 - the basic price fixed at the time of conclusion of the contract;

A, B, C - the share in the cost of goods (in the amount of 100%);

A - the proportion of overhead costs, which is established exporter plus a profit;

B - the proportion of material costs;

C - the share of labor costs;

M_1 and M_0 - the cost of the material at the moment of implementation and signing the contract;

S_1 and S_0 - the cost of labor and at the moment of implementation and signing the contract.

The basic price, its structure, the moment of basic price change, method and time of calculation of the final price, the limit of slip (i.e., not more than 5% of basic price) must be mentioned in the contract.

The contract may provide that the slide does not extend to the entire amount of production costs, but only on certain elements indicating their value as a percentage of the total order value. Variable price may be applied not for the whole duration of the contract, but for a shorter period (for example, the first few months of the contract establishment or for a period of set number of goods supply).

Sliding price is applied to long-term contracts, because its economic terms may significantly change in the long-term delivery. These prices are usually set for products that require long term production (e.g., unique cars), and in case of performing large volume of contract works.

Pricing with following fixation provides that the basic price is indicated at the moment of drawing up the contract, but also there is a warning. This warning shows that the basic price will change if there will be a change in market prices for the same products till the end of agreement implementation.

So, the price with following fixation is set during the execution of the contract. Only the moment of fixation and the principle of determining the level of prices are determined in the contract. For example, price for the sold goods may be set on the level of the world market prices at specific date on the day of delivery of goods to the buyer, before the delivery of each contractual consignment or before the start of each calendar year according to the agreement of the both sides. The right to choose the moment of fixing of prices may be given to buyer.

The minimum allowable deviation of market price from the basic, in limits of which there is no price revision must be considered in contract.

Prices with subsequent fixation can be set for raw, industrial, and food goods with long term supply.

Different types of discounts may be considered in time of determine of contract price. The most common ones are:

1. Total (simple discount) is the discount provided from the list price or advertised price, and usually is 20-30%, and in some cases - up to 40%. These discounts are used in the contract of machinery and equipment, in particular for standard types of equipment. Discounts for advertised prices can be 2-5%.

2. Turnover discount (bonus discount). It is given to regular customers on the basis of specific arrangements (bonus agreement). The scales of discounts are set in the contract in this case depending on the achieved turnover during a specified period, usually one year, and also for payment amounts under these discounts. Bonus discounts can reach 15-30% of turnover for certain types of machinery and equipment and 1-2% for raw materials and agricultural products.

3. Progressive discount is the discount for quantity and seriality. It is given to the buyer if he buys determined and growing amount of goods beforehand.

4. Dealer discount is the discount provided by producers to their foreign intermediaries on sales. They are 15-20% of the retail price on average.

5. Special discounts. These are: discounts granted to privileged customers in orders of which sellers are particularly interested, discounts for trial lots and orders; discounts for regular orders.

6. Seasonal discounts - discounts for the purchase of goods out of the period of active season (for example, for agricultural fertilizers, they are about 15%).

7. Hidden discounts that are granted to the buyer in the form of discounts on freight, soft loans or interest loans by providing free services and samples.

8. Discounts for returning goods, which was purchased in several firm. They are available to the buyer when he returns purchased earlier in the firm goods of outdated model. These discounts can reach 25-30% of price-list price.

9. Discounts in case of sale of second-hand equipment - up to 50% from the original price.

7. TERMS OF PAYMENT.

This section determines the payment currency, method, procedure and terms of financial arrangements and guarantees of fulfillment the mutual payment obligations by both sides.

The obligation of buyer (importer) for delivered goods is paid in *currency of payment*. If exchange rates are volatile, prices are fixed in the most stable currency and payment - in the currency of the importing country.

The currency of payment is usually the national currencies of industrialized countries in trade with the firms of these countries. FCC of major industrialized countries is used as the currency of payment in the trade with developing countries, and the currency of those countries, whose banks store the receipts from developing countries from exporting, is used in the export contract.

The rate of conversion of the first currency to the second one is indicated in the contract, if the currency of price and the currency of payment are not the same (for example, based on the SDR or at the market rate of exchange).

The terms of conversion, which are imposed in the contract, are:

- rate of appropriate type of payment tool (rate of telegraphic or bank transfer payments for bills or without them, rate of mail order);
- conversion rate: mostly, this is the average rate of the day, sometimes the rate of buyer or seller in time of the opening or closing of the foreign exchange market;
- currency conversion time (the calculations are made at the current exchange rate - often at the market rate on the day before payment or for 2-3 days prior to the day of payment or the date of payment) in the relevant currency market (seller's, buyer's or third country's).

Improper set of conversion time can lead to large losses as a result of changes in exchange rates. It is wrong to make the conversion of the currencies on the exchange rate of the day of concluding the contract, because in the case of instability of the currency of payment and its tendency to depreciation, the exporter may sustain the losses at the time of payment.

It is important to coordinate some points in case of determining of terms of payment:

- when payment should be done: before, after or at the time of delivery of the goods;
- the method of payment, the form of payment, terms of bank transfer (advance payment) or terms of provided documentary letter of credit or encashment;
- conditions on the guarantee if it is necessary (type of guarantee: on request, conditional) period of the guarantee, the possibility of change in terms of contract without a change of guarantees;
- which party shall bear the costs for services of correspondent bank;
- the place of payment (currency and foreign trade regulation significantly affect for international payments. If there are significant limitations in these countries, the effective settlements are impossible).

The way of the party insurance by contract against currency risks is including of monetary and price protection clauses to payment terms.

The monetary and price clauses in the international practice are: currency, combined, and index clauses.

Currency clauses are the special conditions that require revision of payment amount in the same proportion, which provides the change of exchange rate of currency of payment relative currency of clause. The currency of payment depends on stable currency of clause according to this method. That is, according to currency warnings, payment amount is subjected to review in proportion to changes in foreign currency exchange rates relative to currency of payment or other stable currency.

Combined monetary and price clauses are used for adjusting the amount of payment based on changes in commodity prices and exchange rates. If prices and rates vary in the same direction, the amount of liabilities is transferred to the largest

percentage of deviation. If the directions of their dynamics are not the same, the amount of payment varies on the difference among the deviations.

Index clauses may be applied in the international practice. These special conditions are introduced in the contract for the purposes of insurance of exporters from inflation risk. According to the index clause, the price of the product that is noted in the text of contract, must be added to the index of prices for similar goods or most essential products that make the “consumer basket”. Thus, the index clause stipulates that the price of goods and the payment amount will change until the moment of payment according to the change of certain index of prices, which is mentioned in contract, compared to the drawing up of contract at the moment of the conclusion of the contract.

8. TERMS OF DELIVERY-ACCEPTANCE OF THE GOODS (WORKS, SERVICES).

This section identifies the time and place of actual delivery of goods, list of shipping documents.

Delivery and transfer are performed by the number according to shipping documents, by quality - according to the documents certifying the quality of the product.

9. PACKAGING AND LABELING.

This section provides information about the packaging of the good (boxes, bags, containers, etc.), about appropriate marking, which is coated on it (name of the seller and the buyer, contract number, destination, size, and special conditions of storage and transportation, etc.), and the terms of its return, if necessary.

10. FORCE MAJEURE.

This section provides information about the cases in which the terms of the contract can not be executed by the parties (natural disasters, war, embargo, interference from the authorities, etc.). The parties are released from their obligations for the duration of these circumstances, or may refuse to perform the contract partly or wholly without additional financial responsibility. The term of the force majeure must be confirmed by chamber of commerce and industry of the appropriating country.

11. SANCTIONS AND CLAIMS.

This section establishes the procedure of application of the penal sanctions, compensation of damages and presenting the claims due to failure or improper performance of counterparty obligations.

The amounts of penal sanctions (in percentages from the cost of not-delivered good or unpaid amount of money), terms of payment of penalties (from which period they are set and how long they or their guarantee size work), period of application of claims, rights and obligations of the parties of the contract, ways of settlement of claims must be clearly defined.

12. SETTLEMENT OF DISPUTES AT COURT.

This section identifies the terms and procedures of dispute settlement at the court concerning the interpretation, failure and/or improper execution of the agreement (contract) with the indication of the name of the court or clear criteria of a

court for any of the parties depending on the subject and nature of the dispute and parties agreed range of substantive and procedural law that will be applied by this court, and the rules of procedure of court settlement.

13.LOCATION (RESIDENCE), ADDRESS AND PAYMENT DETAILS OF PARTIES.

Full legal address, postal and payment information (№ of account, bank name) of contractors of the contract must be mentioned in this part.

The additional conditions may be defined in the contract behind the arrangement of two sides, such as: insurance, quality assurance, terms of attracting sub executors of the contract, agents, carriers, defining loading standards (unloading), the terms of the transfer of technical documentation for the product, conservation of trade marks, order of the payment of taxes, duties, fees, different kind of safeguard clauses at what point the contract takes effect, the number of signed copies of the contract, the possibility and the procedure for making amendments and additions to the contract, and other data.

Export and import transactions for purchase and sale include several stages: preparation for the conclusion of the contract, conclusion of the contract and contract execution.

12.2. Preparation for the conclusion of international purchase and sale contract

The stage of preparation for the conclusion of the contract on the basis of direct links includes:

1. **The choice of contractor.** Such factors must be accounted in the process of choosing the contractor:

- the character and subject of contract;
- country of conclusion and country of execution of the contract;
- market size and market conjuncture;
- degree of monopolization of market by large firms;
- possibility of penetration to the market;
- duration of trade relations with a particular company;
- the nature of the company activity (producer, consumer or reseller)
- connections, recommendations.

2. **Establishment of the contact with potential buyer.** The following methods may be used in such process:

- to send a proposal (offer) to one or several foreign buyers;
- to accept and confirm the order of the buyer;
- to send the buyer a proposal in response to his request;
- to take part in international bidding, exhibitions, fairs, and use tools of advertising;
- to send the buyer a commercial letter about the intentions to begin negotiations concerning conclusion of the contract.

The offer of one party to another to conclude the contract in commercial practice is called **an offer**. Offer is a written proposal of seller (offeror) to the possible buyer concerning the sale of goods on established conditions by seller.

There are basic terms of the agreement, which are mentioned in the offer: the name of product, quantity, quality, price, delivery conditions, delivery time, payment terms, the nature of containers and packing, order of acceptance and delivery, general conditions of supply.

There are two types of offer: strong and free.

Strong offer is the written offer of exporter for sale of certain consignment of goods. This offer is sent to one prospective buyer by offeror, and indicates the period, during which the seller is bound by its proposal and can not make a similar offer to another buyer.

If the importer accepts the terms of the offer, he sends to the importer the written statement, which contains unqualified **acceptance**, i.e. the approval to accept all the terms of the strong offer.

In case of disagreement of importer with certain conditions of offer, he sends the exporter **counteroffer** (i.e. new offer) with the indication of his terms and time for giving answers.

Price, payment terms, quality and quantity of goods, place and time of delivery, scope of responsibility of one party to the other, the procedure for resolving disputes are the terms, the change or addition of which are significant differences between acceptance and offer.

If the buyer does not give a reply within a specified period in the offer, it means his rejection from the conclusion of the agreement on the proposed terms and dismisses exporter from his proposal.

Free offer is the offer of the same consignment of goods to several possible buyers. There is no installed time to answer, so the offeror is not bound by his offer. The consent of the buyer with the conditions, which mentioned in the free offer, must be supported by solid counteroffer. The agreement is considered as concluded after the acceptance of counteroffer by seller. Exporter accepts that counteroffer, which was obtained earlier or from the more perspective buyer.

Using a free offer for the buyer is less convenient than strong offer, because it does not give to the importer the certainty that if he sends counteroffer, he will become the owner of the goods. This offer is rarely used.

The method of preparing an agreement based on the study of conditions of **order** for the supply of goods, received from the buyer, is often used in international trade practice.

Orders can be confirmed and accepted to execution or rejected (the reasons must not be obligatory explained). Order confirmation is a commercial document, which is a message of exporter about the acceptance of terms of the order without warnings.

If the initiative comes from the buyer, his appeal to the seller about sending an offer (proposal) is called the **request**. The purpose of the request is to receive a number of competitive offers from export companies. The best from them should be

chosen on the basis of analysis. Therefore, requests are sent not to one, but to several firms in different countries. Exact name of the necessary product, its quality, variety, quantity, delivery time are noted in request. Price, at which the importer is ready to buy this product, usually is not noted in request, only the method of its fixation must be mentioned there.

Negotiations between contractors are conducted through exchange of letters, phone calls, telegraph, teletype, facsimile, etc., but personal contacts, as a rule, play the decisive role.

There are documents, which must be issued in preparation for the conclusion of export transactions:

- proposal (offer);
- contract;
- order confirmation;
- proforma invoice (a document that serves as a preliminary account, but not the basis for payment);
- request for delivery instructions (is given by the supplier with the request to the buyer to inform the instructions regarding terms of delivery of ordered products);
- tender (proposal of the offeror, who takes part in bidding, which meets customer needs and confirms that offeror agree to take technical specifications indicated in the works and provides an indication of the proposed price or value of the work).

There are documents, which must be issued in preparation for the conclusion of agreements:

- request;
- letter of intent, by which the buyer informs the seller about acceptance in principle of supply and agreement to begin negotiations on the conclusion of the contract;
- order (it includes instructions for delivery of ordered products, the number and size of partial deliveries, their terms, dispatch address, type of transport, carrier's name and instructions for packaging);
- tender documentation.

12.3. Conclusion of international purchase and sale contract

12.3.1. Stages in conclusion of international contract

Stage of the conclusion of the contract includes pre-contract period, commercial negotiations, initialing of the contract, signing of the contract.

Preliminary negotiations on the future agreement and basic conditions are agreed during pre-contract period. This fact must be realized for concrete and precise nature of terms of the contract, which do not give the reasons for misunderstanding.

Negotiations are conducted through correspondence, personal meetings, phone calls or conversations or in by their various combinations.

The draft of the contract is carried out in the pre-contract period. It takes into account the actual agreement reached by the parties during the negotiations.

Parties should take into account a number of important points to avoid mistakes and losses at the drawing up the contract [2]:

1. The scope of the contract. Agreement can be short or detailed.

Short contract contains minimum conditions: the subject of the contract that includes the name and quantity of the goods; price and mentioned basic conditions of supply; terms of payment). It is necessary to imagine the fulfillment of the gaps of the contract during its conclusion.

Detailed contract provides a significant number of additional conditions. Disadvantages of these agreements are:

- contract usually consists with the help of standard contracts that do not take into account the type of goods. In this case, the same conditions are provided as relative to all kinds of mass grocery and industrial goods, and relative to machinery and equipment. Typical contracts consist regardless of the nationality of the partner, and excluding the applicable law;

- relatively unusual reference to the standard conditions of sale, which are used in international trade;

- there is an attempt in the contract to predict conditions for all cases that may arise during its implementation. This complicates the negotiation process in case of the conclusion of the contract and burdens the contract by large number of general provisions.

2. The agreement must be concluded in the way, which keeps the interests of both partners and be composed according to applicable law. Therefore, this operation should be entrusted to a lawyer.

3. Contradictions or uncertainties should not be in the contract. The contradictions between individual terms of contract, not clearly defined conditions cause objections according their interpretation and it will be expensive for one party. Therefore, the phrases that could be interpreted ambiguously must be excluded from the contract.

4. If the contract is created by contractor, the essence of certain phrases and their meanings should be clearly identified.

5. Names and other information about the contractors. If there are no legal addresses of the parties, or there are: fictitious legal address of a foreign partner, or postal address for sending correspondence on the question in the contract, in this case there is no possibility to find a partner for the handing him claim materials and subpoenas concerning calling him to arbitration. It is necessary to check the legal status of the partner (his legal nature, the place of his registration, volumes of its legal capacity), its financial position, commercial reputation, authority's representative on the contract. The exporter may not receive payment for its goods, or will not be able to obtain a refund, that was paid for the imported goods, which were not delivered or delivered incomplete or with important shortcomings if all the mentioned points will not be checked.

The conformity of the name of foreign partner in the preamble and in section “Location of the parties” must be also checked. This is due to the fact that the company, which is listed in the preamble, can not be registered in the trade register and therefore can not be recognized as a legal entity of the country, which is named as place of its location. A firm, whose registered address specified in the contract, can deny that it has signed a contract.

6. The quantity of goods and delivery time at each stage may not be mentioned in contracts that require delivery of goods in several stages.

7. Sometimes there are errors, allowed the application of the basic conditions of deliveries. This can lead to difficulties in resolving disputes, for example, on the issue of the moment in which the product is considered as delivered, and about the time of transfer of risk from the seller to the buyer.

8. The relationships between contractors are not only determined by the contract, but by the rules of applicable law. This fact must be taken into account in case of the conclusion of the contract. Disparity of contract conditions to imperative law leads to recognition of agreement in general (or its condition) as invalid. If there is no condition about some question in contract, the gap of contract can be filled by using the rules of applicable law. In this case the counterparty is not always able to fulfill a condition of the contract.

9. The contract should include the possibility of and procedure for making additions and changes in the contract.

Arguments of the parties are studied and compromises may be found in the period of commercial negotiations. One party sends the second a draft of a contract in time of agreement of the terms of contract. Final text of the contract must be created after studying and finding compromises. Pre-contract documents also must be created at this stage: the discrepancy report, dispute resolution protocol, a protocol on mutual credit requirements, deal of change of the contract, cover letters for the draft of treaty, agreement (contract) of purchase and sale.

The prepared final text of the contract must be vided by each party by signatures of authorized representatives of the parties (the previous signature or initialing of the contract) and then must be signed. This is the last stage of contract.

Thus, the contract is concluded when it is signed by the parties, legal addresses of which are referred, or if it is signed by a person, which has a right to sign such documents.

If the parties of the contract are two counterparties, the contract is signed by both parties in duplicate, and if there are three or more contractors - it consists of several copies and is signed by each party. If the parties are located in different geographical points and can not sign a contract at the same time, the first copies of all contracts must be signed by one party, and then this party sends them to another party, who returns the required number of copies with two signatures to the first party.

12.3.2 Form, moment and language of contract

The contract of sale may be concluded in written, oral (by phone, on auctions and exchanges), partly in writing and partly orally.

In most cases, national laws require only a written form of agreement. An offer and acceptance must be done in written form.

The rights and obligations of contractors arise from the moment of conclusion of the contract. The moment of conclusion of the contract is defined differently in different countries. If the contract is signed by the present parties, it is concluded from the moment of its signature, if another date of its entry into force is not mentioned in this document. If a contract is concluded between the absent parties, the time of the drawing up is:

- time of sending of written acceptance (in the UK, the USA, Japan, Switzerland);

- time when the exporter gets acceptance (in France, Germany, Italy, Austria).

The oral agreement must be necessarily supported by a written contract.

The contract shall be concluded in two languages, if two counterparties are involved, and if there are more of counterparties, contract must be concluded in all needed languages.

The text of the contract is originally printed firstly in one language, then in another. Another way, when each page of text is divided vertically into two parts: the contract is print on the language of one partner on the one side, and on the language of other partner – on the other side.

12.4. Performance of international purchase and sale contract

Execution of the contract - is a process of implementing of commitments: from the side of the seller - the supply of goods, which are the subjects of the contract, to the buyer; from the side of the buyer - to pay a set price.

12.4.1. Preparation of commodities for shipment

The seller should prepare the goods for shipment and issue the documents, which are necessary for the dispatch and receipt of payments, in definite time in order to perform its obligations.

Seller must fulfill a number of requirements during the preparation for shipment of the goods:

- a) packaging of the product. These requirements take into account:

- terms of transportation (the method, the distance and duration of transportation, the ability to overloading of goods during the transit, temperature and humidity during transportation, weather, transportation payment options, compatibility with other goods, etc., are taken into account);

- climate conditions (the packaging should be particularly strong, saturated with a special substance and made of special materials, like packaging in metal

containers, sealed boxes, etc., in case of supply of goods to tropical countries, where there are high humidity and temperature);

- the specific of customs regime of destination country of the goods. Packaging should be tailored to the relevant guidance contained in the customs tariff. For example, the packaging should be as easy as possible in case of levying of specific duties from the gross weight of the goods. Net weight is determined by deducting the discounts on certain types of packaging (barrels, boxes, crates, drums) from the gross weight of the package. It must be done accounted scale, which is established in the customs tariff. This is called tarr rate.

- provisions of legislation of the country of destination of goods related to the packaging. So the importation of goods in a particular package may be banned; import duties on certain types of packaging materials may be imposed;

b) product marking. Required inscriptions, images, symbols, placed on the package are understood as marking. Marking must include the mark of the country of origin, comply with customs about the size label and its application. Marking is required for proper transportation and delivery of the goods to the recipient, to relieve congestion of goods in time of transit, quantitative selection of individual pieces, to avoid confusion in time of issuing goods to various recipients.

12.4.2. Foreign trade documentation

Depending on the functions, the foreign trade documents, which confirm the execution of the contract, can be divided into groups:

1. By ensuring of the production of export goods:
 - orders for the purchase (for purchases of products or materials needed to produce goods, which are ordered by the buyer);
 - manufacture instruction;
 - order for export from warehouse;
 - table for billing (includes information on sold goods, is used for the preparation of commercial account);
 - packing instruction;
 - order for internal transportation;
 - statistical and administrative documents.
2. By preparation of goods for shipment:
 - chartering application;
 - instruction dispatch;
 - order for shipment (air transport);
 - warrant for traffic (local traffic);
 - notice of readiness for shipment;
 - warrant for departure;
 - notice of departure;
 - message about documents distribution;
 - permission for delivery.
3. Financial documents (from pay-banking operations):

- instruction of bank transfer;
- application for encashment bill;
- notification of collecting payment;
- notification of payment to commercial letters of credit;
- application for a bank guarantee;
- bank guarantee;
- letter of guarantee on commercial letters of credit;
- encashment letter;
- form of the documents;
- application for commercial letters of credit;
- commercial letters of credit;
- notice of the trade credit;
- message of transfer of commercial letters of credit;
- change notification of commercial letters of credit;
- banker's draft;
- bills of exchange;
- notes;
- bond.

4. Shipping documents:

4.1. Commercial documents:

4.1.1. Commercial account. The main settlement document, which contains the request of the seller to the buyer for payment of the mentioned sum of payment for delivered goods. The unit price of a good, total payment amount, the basic conditions of supply of goods, payment method and payment by bank name, where the calculation must be made, payment information on the cost of freight and insurance must be noted in commercial account. There are the types of accounts according to the functions:

- invoice is the demand for payment for sold goods. Is usually issued after final acceptance of the goods by the buyer;
- specification account combines account details and specifications. Is issued when a party includes different range of products;
- previous account is issued when receiving the goods is made in the country of destination or in case of partial deliveries and when a contract is not signed yet. Seller issues an invoice which is the document for the final payment after receipt of goods or supply the whole party;
- proforma invoice contains information about the price and value of the consignment, but it is not settlement document, as it contains no request for payment of specified amounts.

4.1.2. The documents, which provide a quantitative description of the goods, specification, technical documentation, packing sheet;

4.1.3. Documents that testify to the quality of delivered goods, certificate of quality, warranty, test report, permit shipment.

4.2. Insurance documents:

- insurance (confirming insurance contract, contains terms of insurance);

- insurance certificate (certifying that insurance has been made and policy was issued);
- insurance declaration (used when the insurer shall notify the policyholder information about individual supply covered by the insurance contract);
- account of insurer;
- cover note (insurer shall notify the insured that his instructions of insurance are executed).

4.3. Transportation documents (certificates issued by carriers in order that the goods are accepted by him for carriage):

4.3.1. by maritime transport:

4.3.1.1. bill of lading - the document, which confirms the acceptance of goods for carriage by sea and requires the carrier to issue goods to legal owner. The bill of lading is:

- receipt confirming acceptance for carriage of goods, marked on the front of this document (“cargo on board”, “cargo is loaded”, “accepted for loading goods”);
- contract for the carriage of goods on the considered terms;
- document of title, that entitles the holder to dispose of the original load. The person indicated in the bill of lading or has a bill of lading to bearer, may require from cargo the issuance of product and dispose of them. It is enough to sell or assign the rights which are on the bill of lading for the sale of goods, which is in the way and provided by the bill of lading.

Types of bill of lading:

- nominal, which is written for a specific recipient of the goods. Goods are issued to the person for whose name the bill of lading was issued;
- order bill of lading, according to which the consignor may assign its rights to a third party by making bill of lading, i.e. by putting signature and seal on the back of document. Goods are issued to the person, whose name the bill of lading endorsed;
- bearer bill of lading, under which goods are transferred to any person - the owner of the bill of lading.

Bill of lading consists of three or more copies of the same content and date (for the shipper, consignee and carriers). All copies constitute a complete set and are originals. However, only one original bill of lading may be the document of title. After issuing a load for one from the originals, the other ones are longer valid.

4.3.1.2. Mate receipt;

4.3.1.3. Marine invoice;

4.3.1.4. Dock receipt.

4.3.2. Rail transportation: rail consignment and road statement.

4.3.3. Air transport: air waybill.

4.3.4. Trucking: roads bill; boarders (includes a list of cargo transported by truck).

4.3.5. During several transportation modes: universal transport document; multimodal transport document; combined transport document.

4.3.6. If case of using all methods of transportation:

- receipt about obtaining of goods;

- letter of guarantee;
- confirmation for chartering tonnage;
- statement - requirement for sending;
- freight account;
- notification of arrival of the goods;
- reports about interference in supply;
- reports about interference in traffic;
- report about supply of the goods;
- cargo manifests;
- freight manifest;
- container manifest.

4.4. Transport and forwarding documents (for clearance forwarding operations, handling of cargo, warehousing, transportation organizations, providing local vehicle, inspection, condition of packaging, labeling):

- shipping instructions;
- forwarding instruction;
- message of forwarder to agent of the importer;
- message of forwarder to exporter;
- forwarding account;
- forwarding evidence of the receipt of the goods;
- notice of departure;
- warehouse FCR;
- receipt to obtain goods;
- storeroom receipt;
- warrant for cargo handling;
- order for goods;
- documents for port charges.

4.5. Customs documents (for registration of transfer of goods across borders):

- customs declaration;
- export, import, foreign exchange licenses;
- declaration of the exchange controls (exports and imports);
- declarations: tax, handling, about goods for domestic consumption, about the immediate customs release, about dangerous goods;
- custom message of delivery;
- application and certificate of origin of the good;
- certificate of (UNCTAD) of origin of the good, which is subject to the preferential regime;
- consular invoice;
- evidence of district designation;
- application and evidence of quality control;
- application and evidence of review;
- statistical documents (export and import);
- evidences: veterinary, sanitary, phytosanitary, quarantine;
- declaration of goods for customs transit;

- international customs declaration (according to the International Convention to Facilitate the Crossing of Frontiers for Goods Carried by Rail, 1952);
- Carnet TIR (according to the Customs Convention on the International Transport of Goods);
- ATA book (according to the Customs Convention on the temporary importation of goods);
- Declaration TMT (according to the Customs Convention on the international transit of goods);
- Transit warranty certificate.

12.4.3. Liability of the parties for violation of contract obligations

One party may apply legal remedies to the other party in case of breach of contract. They are used when there is a material breach of contract and contractor loses something that, on what counted.

When the contract is violated by the seller, the buyer may: declare about the termination of the contract; require replacement of the goods in case of non-compliance and eliminate this discrepancy by correcting; install additional time to fulfill its obligations by the seller; claim damages; reduce the price and so on.

If the buyer does not fulfill any of its obligations under the contract, the seller may: terminate the contract; demand compensation for damages, payment of the price, take delivery, performance of other obligations; install an additional period of reasonable length for performance of the contract.

There are two groups of terms that must be considered for pursuant trade agreement:

- the terms, that are not influenced and changed by partners;
- the terms, which partners can establish and change
- The first group of terms includes:
 - economic and political situations of the importer's country;
 - national and international regulatory system of settlements that are currently in force in international trade;
 - security of payment obligations (financial status of the partner).

The second group of terms includes:

- delivery terms (time, frequency, provided transportation, insurance, etc.);
- procedure and terms of payment;
- reception of additional guaranties in time of making payments.

The most difficult is the evaluation of the first group of terms of the execution of trade agreement, which requires a significant amount of organizational and information work. The solution to this problem is recommended based on an analysis of existing ratings of countries that engage in the development of competent agencies and consulting firms.

Chapter 13. Settlement of international trade disputes

13.1 Settlement of international trade disputes by international commercial arbitration

International commercial arbitration is most often used for resolving disputes arising in the international trade between the parties of different countries. International Commercial Arbitration (arbitration court) is a non-governmental body that is formed of persons chosen by the parties or appointed in the manner prescribed by law.

Organizations and firms of different countries usually consider that arbitration of disputes is better than judicial, concluding the contracts. Its advantages are: the relative velocity of the proceedings; voluntariness subordination of the dispute arbitration; competence and neutrality of arbitrators and the choice by the parties of such arbitrators, which, in their opinion, are the most qualified to review a particular dispute; confidentiality of disputes; relatively low cost of the arbitration consideration, compared to the court one; the arbitration award cannot be appealed. It should be noted that the enforceability of the arbitral award exists almost everywhere.

The condition of the arbitration order of the dispute resolution is the agreement of the parties about its transfer to arbitration. Such an agreement may be included into a foreign trade contract and in this case it generally called “arbitration clause”. It can also be in the form of a separate agreement, and then it is called the arbitration agreement, emphasizing its isolation from the contract. The basic requirement of legislation of most countries for arbitration agreement is the requirement of adherence in the written form.

In case of concluding the arbitration agreement it is necessary to predict:

- the place of arbitration;
- the rules of law, that can not be violated;
- the choice of substantive law according to which the dispute will be considered³;
- the limits of the arbitration clause;
- the choice of arbitrators;
- payment for the arbitration court to consider the dispute;
- the language in which the dispute will be considered;
- the nature of the case (the degree of openness, the term);
- the procedure, which arbitrators must follow (based only on documents, oral examination, questioning witnesses, etc.);
- the arbitration court must decide, unless the parties decide the dispute peacefully;

³ Substantive law – all the legal norms, that act in certain countries and do not relate to the process. Each country has its own rules of international private law, which determine, the substantive law of what country, should be applied by the courts for resolution the legal issues that arise in international trade agreements.

- the availability of influence of certain provisions of the arbitration agreement on the validity of the contract as a whole;
- cases, which determine that the procedure of the "peaceful" settlement of the dispute has not expired yet.

The peculiarity of the arbitration agreement is obligation for the parties, who can not escape from transfer of dispute arbitration.

Arbitration agreement, including the arbitration clause in the foreign trade contract has the relative independence, the autonomy concerning the contract. This means that the validity of the arbitration agreement does not depend on the validity of the contract for which it was concluded.

The institutional structure of international arbitration is a set of different arbitration bodies, which are aimed at ensuring the security and predictability of the global trading system.

International commercial arbitration may be formed specifically for the individual case, which is called isolated or as a permanent arbitration institution (institutional arbitration).

The permanently functioning arbitrations are created by trade and chambers of commerce of countries, by the exchanges, associations and so on. There are general arbitrations that exist in chambers of commerce of the respective countries, and special, considering the specific case taking into account the type of product or type of activity (e.g. London Arbitration of Grain Trade Association, the International Arbitration for Sea and Inland Waterway in Gdynia) among them. There are over 100 permanently functioning arbitrations. Such institutions as the ICC's International Court of Arbitration in Paris, the London Court of International Arbitration, the Arbitration Institute of the Stockholm Chamber of Commerce, The American Arbitration Association, European Court of Arbitration. There is the International Commercial Arbitration Court at the Chamber of Commerce of the CIS, in particular, the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (Arbitration Court) are widely known and take advantage of the high authority.

The ICC's International Court of Arbitration is a non-governmental organization and has functioned since 1923. It is engaged in the arbitration settlement of international commercial disputes. The Rules of Arbitration and The Optional Conciliation Rules (to promote the peaceful resolution of disputes) were created by this organization.

According to the recommendations of the ICC all parties, which want to refer to ICC arbitration, should use the following normative point, in their contracts: "All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."

Rules of Arbitration of the ICC do not limit the parties to the free choice of law governing the contract, and the place and the language of arbitration.

European arbitration is governed by the Convention on International Commercial Arbitration, signed at Geneva in 1961. The Convention was ratified by Ukraine. European arbitration is functioned under the auspices of the UNECE. Rules of Arbitration of the UNECE have functioned since 1996.

The London Court of International Arbitration is functioned on the basis of “LCIA Arbitration Rules”. There are the list of arbitrators, the scale of arbitration fees, adopted typical clause, which transmitted for consideration and final decision in arbitration.

American Arbitration is represented by the American Arbitration Association, which is governed by the Law on Arbitration of the USA, the One Arbitration Law, the Rules of Commercial Arbitration and Additional procedures of international commercial arbitration.

The International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (Arbitration Court) is an independent permanent arbitration court, which considers economic disputes arising in foreign trade activity with contractual and other forms of international economic relations, if at least one of the parties is foreign. Its competence includes disputes arising from the relationship: purchase and sale (supply) of goods; works; provision of services; exchange of goods and / or services; transportation of goods and passengers; commercial representation and mediation; lease (leasing); scientific and technical exchange and sharing other creative works; construction of industrial and other facilities; licensing transactions; insurance; joint ventures and other forms of business cooperation; other forms of international economic relations.

Thus, next mentioned disputes can be submitted to the court by agreement of the parties:

- disputes from contractual and other civil legal relations arising in the implementation of trade and other international economic relations if the business of at least one of the parties of the dispute is located abroad;

- disputes of enterprises with foreign investments, international associations and organizations established on the territory of Ukraine, together, disputes between their participants, as well as their disputes with other legal entities in Ukraine.

The activity of the Arbitration Court is based on the Rules of the International Commercial Court at the Chamber of Ukraine, the Law of Ukraine “On International Commercial Arbitration” № 4002 - XII of 24 February 1994, establishing the requirements to the arbitration agreement (arbitration clause), the requirements to the order for selecting arbitrators, the rules of arbitration procedure, the procedure for the adoption of arbitration awards.

A special place occupies the UN Commission on International Trade Law (UNCITRAL) in the institutional structure of international arbitration, which is not an international arbitration center, but it developed several documents unification of the law of international arbitration, i.e. they contain common rules on pre-arbitration dispute resolution and arbitration. They include: Arbitration Rules (1976), Conciliation Rules (1980), Model Law on International Commercial

Arbitration (1985). These documents are based by many states for developing national legislation.

It is possible to make a link above documents by using a typical arbitration clause appearing in them. It is possible to do in the part, which concerns settlement of disputes in drawing up the international trade contracts.

13.2. Settlement of international trade disputes within the WTO

The general system of rules and procedures applicable to disputes arising between the parties of foreign relations is provided by the WTO in the GATT 1994. The authority for resolving disputes under the WTO, the WTO General Council executes its function, has the exclusive authority to create arbitration groups to consider specific disputes; to approve the reports submitted by such groups and also by the appellate body; to monitor the implementation of decisions and recommendations; to authorize the use of appropriate measures in case of default the recommendations.

The aim of dispute settlement mechanism within the WTO is to provide a positive solution of disputes, i.e. the desires of the parties to find mutually acceptable solutions to problems that arise between the member states are encouraged. The settlement of dispute is reached in the process of bilateral consultations between the interested governments.

So, carrying out of such consultations is mandatory in the first stage of the settlement of differences. The claimant may apply for the Dispute Settlement Body (DSB) to a request formation of arbitration to the proceedings, if consultations do not work within 60 days,

The procedure for conducting arbitration group is characterized in the next facts.

Each party presents to group its statement that sets out the facts and arguments relating to the dispute until the beginning the consideration of the dispute.

The arbitration group may appoint a group of experts to prepare an expert opinion, if one of the parties raises the question of scientific or technical nature.

Arbitration group represents to the parties the descriptive section of its report (factual aspect of the case and argument of the parties) and gives them two weeks to prepare comments. Then the team gives the parties an interim report on the conclusions and gives the parties a week to apply for review of the report.

The term of revision is no more than two weeks.

The final report is transmitted to the parties of the dispute within six months. The period of the report is reduced to three months in case of urgent need when it is about perishable goods. The report is distributed to all members of the WTO in three weeks after transmission of the report to the parties.

If the arbitration group recognizes that the considered event contradict the conditions of the relevant WTO agreements, it recommends the member state that

has implemented this measure, to bring it into conformity with this agreement. The group can also offer ways to implement the recommendations.

The reports of the arbitration group shall be approved by the DSB.

The mechanism of the WTO dispute settlement provides the opportunity for the appeal of each party. An appeal is considered by the permanent appellate body created by the DSB and consists of 7 people. The term of appeal shall not exceed 60 days. The appellate body has the right to confirm, change or cancel the legal conclusions and conclusions of the arbitration group.

The process of settlement by the arbitration group is shown in Fig. 13.1.

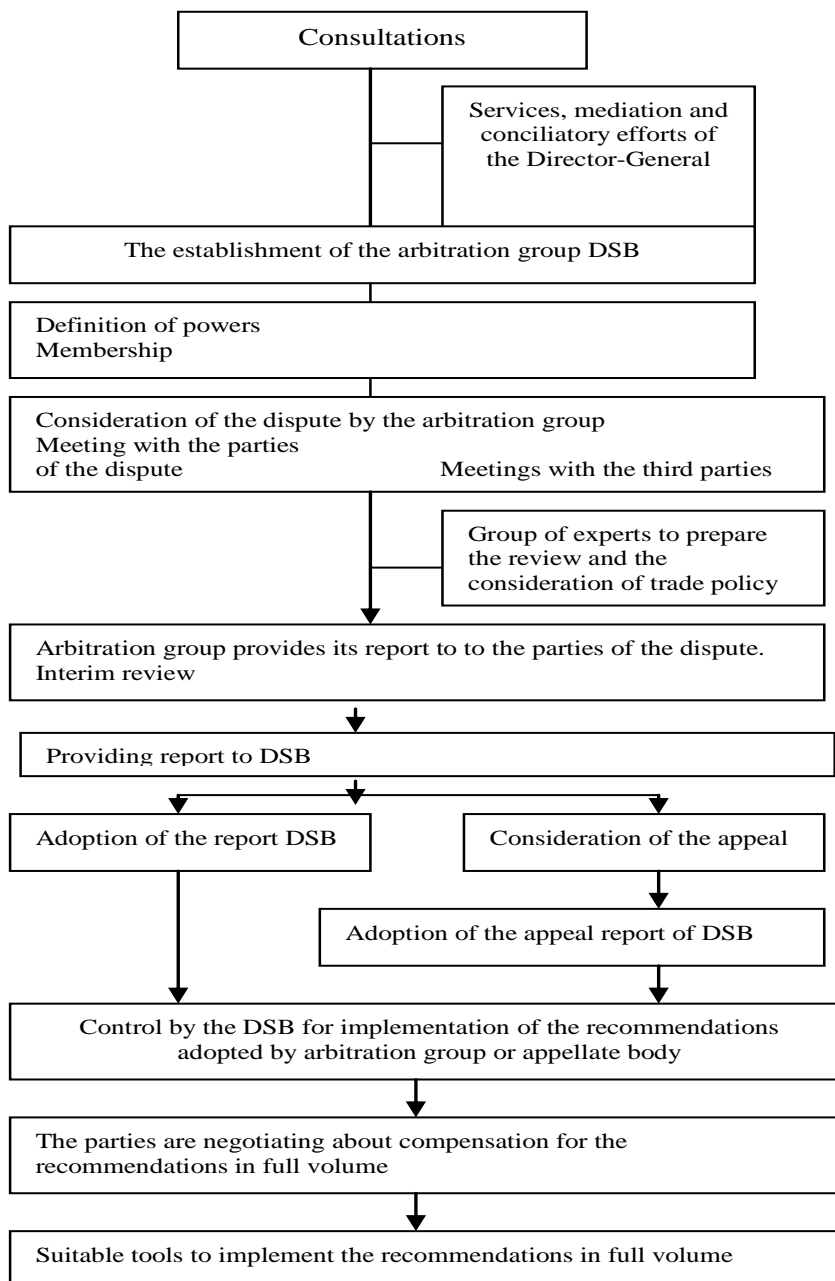


Fig. 13.1. The process of the dispute settlement by the arbitration group that was created by the WTO Dispute Settlement Body

The DSB accepts the report of the appellate body that, in the unconditional order, must be adopted by parties of the dispute if there is no general opinion, that the report should not be accepted.

Immediate implementation of recommendations of the DSB is a prerequisite condition for effective dispute resolution.

The violated party (defendant) should state its intentions in respect of the recommendations at the meeting of the DSB conducted within 30 days after the adoption of the report of the arbitration group or the report of the appellate body. If the immediate implementation of the recommendations is not possible for objective reasons, DSB establishes the “reasonable time” for their performance. The respondent party is obliged to negotiate with the claimant to determine mutually conciliatory compensation, such as the reduction of tariffs in sectors that are of particular interest to the plaintiff in case of failure of the recommendations within the prescribed period.

If the satisfactory compensation for the plaintiff will not be agreed, the claimant may apply to the DSB for sanction to suspend concessions or obligations of the defendant.

The action of concessions stops in that sector of trade in respect of which the dispute arose. If this measure is for some reason ineffective or cannot be implemented for practical reasons, the action of concessions stops in respect of other sector of trade, but within the same transaction, and if it is not possible, the action of concessions stops within the other WTO agreements.

The DSB controls implementation of the adopted recommendations or legal definitions, and any unresolved dispute will remain in its agenda till the full solution.

Part VI. Payment operations under international trade contracts

Chapter 14. Essence and basic forms of international payments

14.1. Characteristic of international payments

International settlements are the regulatory system of payments for monetary claims and liabilities arising between the subjects of international economic activity based on political, economic, scientific, technical and other relations. Consequently, international settlements - are:

a) commercial payments for monetary claims and liabilities arising between companies, banks, institutions and individuals from different countries related to international trade, international credit, foreign direct investment, etc;

b) noncommercial payments, related to the transport of passengers, insurance, tourism, the transfer of funds abroad etc.

Different factors have an influence on the state of international payments:

➤ economic and political relations between the countries;
➤ position of the country in the commodity and currency markets;
➤ the degree of use and effectiveness of government measures to regulate foreign trade;

➤ the international trade rules and customs;

➤ the regulation of international flows of goods, services and capital;

➤ the differences in inflation rates in different countries;

➤ the state of balance of payments;

➤ the banking practice;

➤ the terms of foreign trade contracts and credit agreements;

➤ the convertibility of currencies, etc.

The features of international payments are:

1. Importers and exporters, their banks enter to the certain separate from foreign trade contract relations relating to shipment, handling of title and payment documents to payment. The volume of obligations and distribution of responsibilities between them depend on the specific form of payment.

2. The international payments are regulated by national normative and legislative acts, international banking rules and customs.

3. The international payments are the subject of unification. It is caused by the process of internationalization of economic relations, the universalization of banking operations. For example, the unification of bill legislation, Uniform rules for documentary credits and collections, Uniform Rules for Contract Guarantees, etc.

4. The international payments have the documentary form usually, that is they are made against financial and commercial documents.

5. The international payments are made in different currencies, and then, firstly, the dynamics of exchange rates influences on their efficiency. Secondly, the normal functioning of international commodity-money relations is possible only if there is the free exchange of national currency for the currency of other countries.

In other words, the most effective participation of this or that country in international trade payments is possible only on the basis of convertible currency. In modern practice, the payments of debt requirements and obligations between the banks of different countries are made mostly in freely convertible currency. The state uses the exchange restrictions that directly affect foreign trade payments in the countries with a partially convertible currency.

International settlements are bilateral, when they are implemented between two countries or multilateral, when the amounts proceeded from the sale of goods in one country are used for payments to the third countries.

The majority of international payments exercised by the procedure of cashless payments, through the banks of different countries, that support mutual correspondent accounts, keep on them monetary assets in corresponding currency and execute payments and other commissions on principles of reciprocity. The procedure is provided by such way: a bank in the country of importer writes off the sum of payment from the account of the client and enrolls it (or equivalent in foreign currency) on the account of foreign bank - the correspondent. The bank in the country of exporter writes off this sum from the account of correspondent and enrolls it on the account of the client that exported the commodity.

Cash payments for international payments are performed mostly in case of traveling of delegations overseas, traveling of tourists or individuals who change their currency in foreign currency in banks.

International payments are connected with the functioning of financial markets because of capital movement in indirect and direct investments.

Large banks play a leading role in the international payments. The degree of their influence on the international payments depends on:

- the scales of external economic connections of basing country;
- the application of national currency of basing country;
- the specialization, financial state, business reputation;
- the networks of banks-correspondents.

The banks use their foreign separations and press relations with foreign banks for realization of payments. Press relations with foreign banks are accompanied by opening of accounts of “loro” (accounts of foreign banks in this bank) and “nostro” (accounts of this bank in foreign banks). Press relations determine the order of settling, size of commission, methods of addition to the spent money.

The main forms of the international payments in international trade are a commercial letter of credit and acceptance of the documents passed to the bank on encashment.

14.2. International payments via letter of credit

A letter of credit is a document issued by a financial institution, or a similar party, assuring payment to a seller of goods or services provided certain documents have been presented to the bank. The letter of credit notarizes an exporter, that the

bank will pay the transported products. It also notarizes an importer, that the payment to the exporter will not be executed without verification of the accordance of documentation with the terms and conditions of the letter of credit.

Procedure of realization of letter of credit operation is divided into three phases.

The 1 phase. The agreement to open a letter of credit. The suggestion is examined in relation to the terms of delivery of commodity. An exporter gives to the potential customer his suggestion and discusses the terms of letter of credit with a customer during negotiations.

The 2 phase. The commission to open the letter of credit. This phase is related to signing of delivery terms of commodity and its payment. An importer gives to the exporter an order to supply the goods in accordance with the signed agreement of sale. At the same time he gives to the bank the commission to open the letter of credit.

The 3 phase. Using of letter of credit. An exporter supplies the booked commodity and gives to the bank documents for payment.

Commercial banks get a certain commission from producing and payment of letter of credit [2].

14.3 International payments via encashment

Encashment - is a bank transaction, by means of that a bank gets monetary resources from a payer (importer). The resources belong to the client. Bank does it on the instructions of the client (exporter) and on the basis of settling documents for the commodity and material values or rendered services shipped to importer and sets off this money on the bank account of client-exporter. This form of payment is considerably widespread, as it is cheaper, comparatively with the letter of credit.

The realization of encashment is conditionally divided into three phases.

The 1 phase. The agreement about terms of encashment. An exporter determines the terms of payment in the suggestion or co-ordinates them with a customer in a contract of a purchase-sale.

The 2 phase. Issue of encashment order and the delivery of documents. The seller ships the ordered goods or directly to the buyer or to the agent upon receipt of the order or after conclusion of the contract for purchase and sale. At the same time he folds all necessary documents (invoice, bill of lading, insurance certificate, testifying to the origin of commodity and other) and sends them to the bank (bank - the payee) together with an encashment commission. Bank - the payee passes the documents with necessary instructions to the collecting bank.

The 3 phase. The presentation of documents to the payer. A collecting bank informs the customer about the receipting of documents, and also about the terms of their receipting. He takes over a custom payment or accepting bill of exchange and passes documents to the customer. The prepaid sum for encashment is translated to bank - the payee that then the bank sets off this amount on the account of exporter [2].

Chapter 15. Tools and methods of international payments

15.1 Tools of payment in international trade

15.1.1. Payments by bills

The promissory note (bill) is one of the main tools in the system of international payments.

The promissory note applies to credit tools of payment, and this fact is caused by the spread of commercial loans in foreign trade.

The promissory note - is a security certifying unconditional obligation of the drawer to pay the specified amount of money to the owner of the bill (drawer) after the deadline.

Environment of notes application:

- to pay for delivered products, performed work and rendered services;
- to cover the mutual debts of businesses;
- in case of the importation of property as a foreign investor's contribution to the authorized capital of foreign investments and contracts (contracts) on joint investment;
- for payment of import or export duties, taxes and charges at import (export) tolling raw materials;
- to pay export duties, tax to added value, income tax and so on.

There are two main types of bills: simple and transferable (draft).

Promissory note - is made for strictly defined format document on which the debtor (drawer) assumes the simple, unconditional obligations within the specified period in a specified place to make a payment to the creditor (the holder) or to the person, he orders. The payer is promiser in simple bill. Thus, a promissory note is a bond of importer to make a payment.

Draft - is a document, which is made for strictly defined form that contains simple and unconditional offer of debtor, drawer to another person, the payer (drawee) within a specified period in a specified location to make payment to the creditor, drawer (payee) or to whom, he orders. In other words, a draft is a written order to make a payment to a person at a particular time, which is exposed by exporter to foreign importer.

Promissory note is different from the simple one in fact that the promiser does not carry on payment, but transfers his duty to his debtor (the payer of bill).

Bill of exchange is used in terms of commercial credit during the calculations

Availing by bank is the guarantee in case of the simple bills and bills of exchange. Aval is a guarantee of payment in case of the simple bills and bills of exchange by the guarantor if the debtor fails to discharge its obligations under the bill. It is carried on the face of the bill or on an additional sheet (allonge) and is signed by the guarantor.

Bill is reversible financial instrument in the international payment system. All rights, claims and risk of this document transfer to the person, who get the bill. Transferring of bill is carried by transfer of labels - endorsement, which is carried on the back of the bill and must be signed by endorsement.

A bill may be issued in any currency, but mostly it is issued in the currency of payment.

Bills issued in one country and payable in another, are called foreign (external).

Bill rate is important in the basis of calculation for operations with foreign bills.

Rate of bill is the price of a foreign bill in local currency. Course "spot" can be chosen as a base in case of the quotation of short rates of bill. It is important to be oriented on course "forward" in case of quotation of the long-term rates of bill.

Bank bills are used in addition to commercial bills. Bank bill is a draft which is used by banks. Banks put mentioned drafts on their foreign correspondents. Importers repay their debt obligations by buying these bills in national banks and sending them to exporters.

15.1.2. Payments by checks

Checks are widely used in trade and non-trade calculations. Cheques are used as an independent tool of payment, as well as in combination with other forms of international payments.

Estimated cheque is a document containing unconditional written order of the holder (issuer) of bank account to transfer the amount of money, mentioned in the check, to recipient (holder).

A check is a special form of payment that has apparent simplicity and increased mobility. It is convenient for calculations when importer is afraid to give money before receiving the goods. Exporter wants to transfer the goods to obtain guarantees payment. Use of the cheque gives the opportunity to save running costs and accelerate cash payments, since all checks are paid after submission.

The absolute nature of the payment by check means the independence from the obligations to pay the amount of money, mentioned in the check, from the conditions and validity of the transaction, for which the check is issued. The invalidity of this condition is not the ground for refusal of making payment by check.

The cheque on the condition of transfer from one person to another can be: nominal, order, and bearer.

Depending on the issuer of cheque, there are banking and branded ones.

Travel checks and eurocheques are used in calculating non-commercial character.

15.1.3. Payments by plastic cards

Plastic cards are widely used in the practice of international payments of private nature. This payment method can be implemented only in specially equipped areas. There are two types of plastic cards: debit and credit.

Debit cards are used to pay for goods and services through direct write off of a certain amount of money from bank accounts.

Credit cards allow the holder to make payment for goods and services by use of bank loans or loans of issuing company of credit card.

There are different types of credit cards according to the character of provision of services: targeted, warranty, universal.

15.1.4. Bank transfer

Bank transfer is estimated banking operation, which is a commercial bank's commission for its correspondent bank to pay the appropriate amount of money at the request and at the expense of transferor to foreign recipient (beneficiary) indicating the method of compensation for the bank, which is a payer of the amount of money.

Bank transfer is a sending of payment order from one to another bank. Payment order – is a payment document that contains instructions of payer's bank, to transfer the mentioned amount of money from payer's account to the beneficiary one. Payment orders are calculated with suppliers and contractors in case of prepayment by them after the agreement with the creditors. Time and workflow of operation are reduced in case of payment by orders.

Bank transfer is a part of letters of credit, collections, checks, bills of exchange.

15.2. Methods of payment in international trade

Transfers abroad may be made in writing form, by post, telegraph, teletype, through interbank communications systems and more.

Importance of communication systems of standardized form, which work with uniform information, is increased in terms of growth of payments between the banks of the world countries. These systems of move of money between banks for goods and services are international payment systems.

International payment system is a payment system in which payment organization can be both resident and non-resident and provides its activities in two or more countries. It is also a transferor of money from one country to another [7].

Number of international banking networks is constantly increasing. International networks that provide a range of services on transfer of payments, information provision and management for assets are created to meet the growing

demand for information and telecommunication service. The most famous international payment systems are systems SWIFT and TARGET.

The system SWIFT – is a worldwide interbank financial telecommunication system. It was organized in 1973 in Brussels to develop unified methods of exchange of financial information and the establishment of an international data network using standardized messages. This system is the largest and most widespread in the world network of financial messages, any bank can consider itself a full-fledged member of the world financial community after connecting to the system. The main activity of SWIFT is to provide prompt, reliable, efficient, confidential and protected from unauthorized interference access to telecommunications services for banks and for works on standardization of forms and methods of sharing financial information.

SWIFT provides the following services:

- the exchange of standardized financial messages with a fixed set of symbols;
- transfer by the network of mass payments and other files with an arbitrary set of symbols;
- the exchange of secured financial messages of own formats in real time (“Online”, i.e. the departure time in the place where the starting point of transfer is located);
- union of structural units of the financial institution and its customers into a single virtual network (creating a closed user group), led by a member of SWIFT;
- obtaining online data about the state of the correspondent account.

Network payment messages as well as messages that are relevant to the treasury, securities and trade are sent by SWIFT. Financial SWIFT messages are classified into: system messages, client transfers and checks, transfers of financial organizations, money markets - forex, derivatives and deposits, collections and cash letters, securities markets, precious metals, letters of credit and guarantees, traveler's checks, money management and the status of the client.

Transmission of a message over the SWIFT network takes from 20 seconds to 5-20 minutes, while the high degree of reliability and confidentiality is provided (about 100%).

Every day in the world over 9 million SWIFT messages are transferred, total value of which is more than \$7 bill. dollars.

Main advantages of SWIFT:

- Reliability. SWIFT takes on financial responsibility for the accurate and timely delivery of messages;
- Speed. Message delivery is done within a few seconds, is completely automatic with verification and authentication;
- Safety. SWIFT network ensures complete security by multilevel combination of physical, technical and organizational security methods, provides complete autonomy and privacy of transmitted messages;
- Efficiency. All payment documents are received by the system in a standardized form that allows the automate processing, eliminate the possibility of

different understanding of the meaning of messages by sender and recipient, and ultimately increase the efficiency of the bank. Fixation of transaction execution enables full control (audit) of all orders and daily automated report about them, besides, language barriers are being overcome and the difference in the practice of banking operations is reduced;

- Profitability. SWIFT network allows significantly reduce settlement and financial risk, reduce the cost of communications and broaden the range of services for its clients, which in its turn increases the competitiveness of member banks.

The main drawback of SWIFT, in terms of users, is a high entry fee, which creates some problems for small and medium-sized banks. Generally, in practice, the cost of banks to participate in the SWIFT system is usually recovered within 5 years.

There are more than 50 national payment systems built, based on SWIFT.

In EU for servicing transactions between the ECB and national central banks the Trans-European Automated Real-Time Gross Settlement Express Transfer System – TARGET was created, which began operating on January 4, 1999. It was organized in order to facilitate implementation of the single monetary policy, reducing transit time of cross-border payments, creating a safe and secure mechanism for cross-border payments, increasing the efficiency of payments between EU countries. Its basis is the system SWIFT. TARGET system - a decentralized system, i.e. cross-border payments go through national central banks, by passing the European Central Bank (ECB). It consists of the national Gross Settlement systems in real time (GSSRT) and system of relationship between them and the European Central Bank (ECB).

TARGET system performs such three main tasks:

- Serving the needs of the monetary policy of the Eurosystem;
- Increases the effectiveness of cross-border internal European payments;
- Provides reliable and secure mechanism for the settlement of cross-border payments.

In TARGET the following types of payment transactions are processed:

- Payments, directly related to the operations of central bank, where at least one party (sender or recipient) is Eurosystem;
- payment transactions of netting systems of large transfers which are in Euros;
- Payments in euro between clearing banks;
- Interbank and client payments in euro.

TARGET system operates with about 70% of the total gross European settlements. Over 200 thousand payments in the amount of approximately 1,500 million euros are made through it daily. The average size of one cross-border customer payment is 1 million euros, and of interbank – about 18mln euro.

Since January 2007 the implementation of the system TARGET 2 was started. Basis of TARGET 2 is defined by task of creating a single European payment area, which involves the harmonization of infrastructure, interfaces and functionality, consistency management system, the overall liquidity management

system and uniform prices. In addition, the development of the system is influenced by EU enlargement, which involves the use of common platform for payment transactions for countries – new EU members instead of decentralized structures, including the national payment systems.

Principles of TARGET 2 formation:

- Contacts with customers are decentralized (between the credit institution and its native central bank);
- Accounting, management reserves and transactions are related to monetary policy and are implemented on the level of the national central bank.

Modular TARGET 2 implies the existence of compulsory and additional modules (systems). The compulsory modules provide a full range of services for conducting settlements and providing information about payment transactions. Additional modules allow making transactions with calculation in a national central bank, managing customer database, using a data warehouse and providing the ability to control the minimum reserves.

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