METHODOLOGICAL GUIDELINES TO SELF-WORK OF STUDENTS ON "INTERNATIONAL ECONOMIC RELATIONS"

In modern conditions the importance of independent, extra-curricular work of students increases sharply. This is due to the fact that working independently students get acquainted with systematized information, learn to plan and organize their own activities.

Adaptation of the Ukrainian economy to the conditions on the world markets connected with the processes of internationalization and globalization predetermines the positioning of international economic relations as the most important aspect of the present.

Students, who in the future will be experts in the field of foreign economic activity, need knowledge of economic essence, genesis and development of international economic relations, understanding of the country's place in the international labour division system, ability to determine the features and trends of international economic activity. Acquiring this knowledge essentially depends on the self-work of students. Such types of students' independent work as preparation for auditorium classes (studying references, analysis of specific situations) develop skills and the ability to obtain specific results, develop the ability to analyze.

Self-study of students on studying the subjects of "International Economic Relations" provided by the working curriculum will allow students to develop modern economic thinking and a system of special knowledge in the field of international economic relations, to master the basic theoretical positions and to master the necessary practical skills that must ensure their effectiveness in the field of management at the enterprise.

MODULE # 1 "THEORETICAL PRINCIPLES AND FORMS OF INTERNATIONAL ECONOMIC RELATIONS DEVELOPMENT"

1.1. THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF INTERNATIONAL ECONOMIC RELATIONS

1. The essence of international economic relations, conditions and basic principles.
2. The structure and forms of IER.
3. Economic actors of IER.
4. Environment of IER, its structure and characteristics.

The subject of the subject "International Economic Relations" (IER) is a complex of multi-level economic relations between countries, their representatives and groupings. Thereby, it also studies the relationships between different economic actors located in different countries: individuals, households, enterprises, public and civil institutions.

The object of studying "International economic relations" is a process of interaction between economic complexes around the world, constantly renewed and repeated. They are patterns of interaction between economic entities of different countries in the international exchange of goods and services, movement of production factors and shaping international economic policy.

International economic relations represent a system of economic relations on production, distribution, exchange and consumption of different products that go beyond national borders.

The main prerequisites for the establishment and development of international economic relations are as following:

- production and capital internationalization (intensification of international interaction in the area of production and capital use);
- international labour division based on international specialization and international cooperation;
- international economic integration – the process of interlacing national economies and unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade.

Principles of IER are recorded in the relevant international and national legislation. Most of them are fully reflected in the UN Declaration “New Economic Order”. The most important ones are:

the principle of sovereignty;
the principle of peaceful coexistence;
the principle of equal rights;
the principle of IER development;
the principle of mutual assistance;
the principle of mutual benefit;
the principle of freedom to choose forms of IER;
the principle of most favoured nation (MFN);
the principle of national treatment in the implementation of IER;
the principle of non-discrimination;
the principle of respect for human rights and freedoms;
the principle of fair fulfilment of international obligations;
the principle of peaceful settlement of disputes.

International economic system (IES) is a set of elements of the global economy with specific integrative characteristics.

The main elements of IES are countries and their groups. IES can be divided into: highly developed countries (G-7), the European Union, the Organisation for Economic Cooperation and Development (OECD), developing countries and countries with transition economies. In addition, IES includes the subsystem of different international markets and subsystem of national and international institutions governing IES, as well as subsystem of international economic relations.

The international economic activity of economic entities, especially enterprises, is a core of IER. Activities of modern enterprises are aimed at getting certain economic results and primarily profit.

There are specific interrelations between subjects, forms and levels of IER forming the system.

Activities of enterprises on the international market are performed in the following forms:

- exports and imports of goods and services;
- contract and cooperative agreements (licensing, franchising, etc.);
- business activity in foreign countries (R&D, banking, insurance, contracting manufacturing, rent);
- portfolio and direct investment in foreign countries (investing abroad through the creation of production affiliates; investments in shares of existing foreign firms; investing in real estate and government securities).

Thus, the main forms of international economic relations:

- international trade – exchange of goods and services between representatives of different countries;
- international capital flows – capital movement between countries in search of the most profitable areas;
- international monetary relations – relations in the field of functioning of world money;
- international labour migration – moving of working population between countries, mainly for economic reasons.

Also, such specific forms of IER as international technology transfer and international economic integration can be named.

Implementation of various forms of IER actors perform on certain levels, which differ depending on the interaction intensity degree:

economic contacts (simplest economic relations, which are sporadic and mainly governed by single agreements);

economic interaction (stable economic relations based on international agreements and arrangements that are made for a long time);

cooperation (strong economic ties based on shared and agreed intentions, which are fixed in the long-term agreements);

international economic integration (the highest level of IER performance).

IER subjects (actors):

1) at the micro level – SMEs, natural persons engaged in international transactions;

2) at the meso level – regions, industries, associations of enterprises;

3) at the macro level – countries, international corporations (transnational and multinational corporations);

4) at the global level – international organizations and integration unions of countries.

Business activities of enterprises in the international field involve the purchase of foreign production factors, the sale of produced products on the foreign markets and transactions in international financial markets.

Development of interaction between basic IER subjects is carrying out in certain conditions, in the environment of international economic relations.

The environment of IER involves a complex of different factors (economic, political and legal, demographic and cultural, technological, ecological, etc.) requiring adjustment of actions from economic actors.

Factors of the direct impact (micro environment) – factors that directly affect the operations of IER subjects and are affected by the same actions from IER participants (consumers, competitors, suppliers and other partner organizations, human resources' market, law and institutions of government regulation).

Factors of the indirect impact (macro environment) – factors that have no direct influence on the functioning of IER subjects, but they are displayed in their actions and create particular conditions:

Political and legal environment (political system stability; specificity of trade, monetary, credit, science and technology policy; recognition of national rules and regulations).

Economic environment (the level of economic development of the country, the level and distribution of incomes, inflation rates, level of foreign economic ties development, etc.).

Socio-cultural environment (personalization of foreign customers' demand, attitude to work of professionals, entrepreneurship behaviour, cultural traditions and values, religion, etc.).

Scientific and technological factors (expanding and deepening of R&D, development of high-tech industries and introduction of innovations).

Infrastructure environment (international transport system, international information and communication system).

Questions for self-examination

1. Give the definition of international economic relations and define the main principles of their fulfilment.

2. Name and describe the main objects and economic actors of IER.

3. Give the definition of the category "international economic activity". Analyse key trends of the development of modern international economic activity.

4. Name and characterize main forms of IER.

5. Study main factors influencing the development of IER.

6. Describe features of IER environment.

1.2. THE WORLD ECONOMY AND FEATURES OF ITS DEVELOPMENT

1. Trends in the world economy contemporary development.
2. The essence of the international division of labor (ILD).
3. International production specialization and cooperation.
4. Modern theories of the ILD development.

The world economy is a global economic organism, structural elements of which include national economies that are in mobile interconnection and interdependence, subordinated to the market laws.

Trends in the current development of the world economy:

♦ liberalization of foreign economic relations (removal of barriers to the movement of capital, labour and goods between states);

♦ unification and standardization in various fields of international social and economic life;

♦ intensification of the production transnationalization development process;

♦ regulation of the world economy by the triad: the World Trade Organization – the International Monetary Fund – the World Bank;

♦ further development of economic life globalization.

The division of labour is the historically determined system of social work, which consists of qualitative activity differentiation during the society development process.

The international labour division (ILD) is the highest degree of socio-territorial division of labour between countries based on a cost-effective specialization of individual countries.

The international labour division by the kind of activity is developing in two directions:

1) vertical (different manufacturers form a single line of technological chain perform a number of sequential manufacturing operations);

2) horizontal (individual producers make the components combined in a technologically and technically complex product).

Horizontal and vertical international labour division is implemented as **general** (between large groups of industries), **partial** (separating large groups of industries to less aggregated sector and sub-sector) and **single** (intra-industry division and division within the company) at the international level.

Factors influencing countries' participation in the international labour division:

♦ natural-geographical: differences in climate, economic state and geographical position, possession of natural resources;

♦ socio-economic: characteristics of labour, scientific and technical potential, production scales and seriality, rates of the creation of industrial and social infrastructure objects, trends in the economic development, production and foreign traditions, socio-economic type of national production and foreign economic relations, political and legal factors;

♦ scientific and technological progress: the expansion and deepening of R&D, accelerating the pace of moral depreciation, increase in the optimum size of enterprises, technological diversification.

The international production specialization and cooperation are the main forms of the international labour division.

The international production specialization is a form of the labour division between countries, providing an increase in the concentration of certain types of production.

The international production specialization is developing in two directions – *production* and *territorial*.

In turn, *international production specialization by production direction* is divided into:

- intersectoral specialization;
- intra-sectoral specialization (;
- specialization of individual enterprises (companies).

Subtypes of the intra-sectoral specialization:

1) product – the specialization of enterprises from different countries in the production and export of completely finished and ready-to-use product;

2) detailed – the specialization of enterprises from different countries in the production of product components and parts;

3) stepwise or technological – the implementation of individual stages of production processes of goods within a single process (e.g., assemblage, painting, welding, heat treatment, etc.).

In the *territorial aspect international production specialization* involves the specialization of individual enterprises, individual countries, groups of countries and regions in the production of certain products and parts for the global market.

The international production cooperation is a joint effort of several manufacturers in the production of certain goods or services to be sold at the world market.

The international production cooperation covers various *forms* of collaboration, foremost among which are the following:

a) production and technical cooperation;

b) sales cooperation;

c) cooperation in after sales service.

Methods of the implementation of international cooperation links:

1) Implementation of joint programs:

- co-contracting cooperation (contracting production);
- joint production

2) Agreed specialization.

3) Creation of a joint venture.

Outstaffing is the modern form of the international labour division (human resources outsourcing) – the exclusion of staff from company personnel and their registration in the company's staff-provider.

Modern theories of the ILD development:

1) Theory of ecological interdependence between countries by K. Nuvenhuze:

- Each country should consider such factors as limited and exhaustible natural resources, the possibility of degradation of the natural environment and develop their policies based on the principles of sustainable development (rational use of natural resources and environmental protection). So, developed countries depend on the developing countries mainly in inexpensive raw materials and labour. And developing countries, in turn, depend from developed countries in technologies and capital.

2) Theory of the four-factor interdependence between countries by R. Cooper:

- structural dependence (changes in the structure of the economy of one country or the response is similar to changing the structure of the economies of other countries);
- common economic goals (economic growth, increased wealth, reducing unemployment, stable prices) requiring the use of similar economic instruments;
- cooperation with neighbouring countries in the field of the economy, particularly in terms of foreign economic relations (bilateral and multilateral agreements and arrangements for mutual exchange of goods, services and capital);
- military and political dependence (participation in military and political blocs, international financial and trade organizations, integrated units or zones).

3) The theory of modernization of international labour division:

1) developed countries producing goods that require high skilled labour and up-to-date technologies, including information; countries produce a complex, capital- and knowledge-based products and determine the prospects for the world economy;

2) less developed among developing countries specialize in the production of labour-intensive products and the supply of raw materials;

3) newly industrialized countries concentrate their efforts on capital-intensive and high-tech products.

To deepen the country's participation in the international labour division a policy of "open trade/economy" should be implemented.

Questions for self-examination

1. Determine the essence of the international labour division and comment on its development reasons.
2. Analyse factors influencing the participation of countries in the ILD.
3. Determine and study main indicators of ILD development.
4. Describe the types of international specialization and production cooperation. Give examples of using specific types of international specialization and production cooperation. Explain main benefits and risks of such activities.
5. Analyse key ideas of modern theories of the ILD development.
6. Give examples of key areas of specialization of specific national economies.

1.3. INTERNATIONAL TRADE IN THE SYSTEM OF INTERNATIONAL ECONOMIC RELATIONS

1. International trade and foreign trade.
2. International trade indicators.
3. Types of international trade. Features of international trade in services.
4. Methods of international trade
5. Theories of international trade (mercantilism, Adam Smith's theory of absolute advantage, David Ricardo's theory of comparative advantage, Heckscher-Ohlin model, Leontief's paradox, Porter's Theory of Competitive Advantage, etc.).

International trade is the exchange of goods and services across international borders or territories, which could involve the activities of the government and individuals.

There are some *factors predetermining the necessity of international trade*, such as:

- emergence and development of the world market;
- unevenness of development of individual industries in different countries;
- trend to unlimited production expansion;
- trend to get higher income in connection with the usage of low-paid manpower and raw materials from developing countries.

As important and historically the first form of international economic relations **foreign trade** represents the trade between the country and other ones, that consists of two opposing flows of goods and services: exports and imports.

Exports is a shipment of commodities to other countries or places for sale, exchange, etc. *Imports* of goods and services represent the value of all goods and other market services received from the rest of the world.

In aggregate foreign trade of all countries forms the **global trade.**

The international labour division is a base of international trade.

International trade indicators:

a) volume indicators (exports, imports, reexports, reimports, foreign trade turnover, physical volume of trade, general trade, special trade);

b) structure indicators (commodity, geographic, institutional, structure by types);

c) dynamics indicators (growth rates of exports, imports and foreign trade);

d) results indicators (trade balance, balance of services, current account balance, exports and imports per capita, export and import quotas, foreign trade quota).

Factors of international trade growth:

- ♦ stabilization of international relations in conditions of peace;
- ♦ development of international labour division, production and capital internationalization;

- ♦ STP, restoring capital, the emergence of new industries;
- ♦ TNCs' activities;
- ♦ appearance of the world market of standardized products;
- ♦ regulation by the GATT/WTO;
- ♦ activities of international financial and economic organizations (the IMF, the World Bank etc.);
- ♦ liberalization of international trade, creation of free economic zones;
- ♦ economic integration – the common market, free trade area.

Types of trading operations:

1. By the trade subject:

- trade in goods;
- trade in services;
- trade in results of intellectual activity.

2. By interaction specificity of subjects:

- trade in services (regular export and import transactions);
- countertrade;
- trade in cooperative and specialized products.

3. By regulation specificity:

- ordinary trade;
- trading on most-favoured-nation (MFN);
- discriminatory trade;
- preferential trade.

International trade in services refers to the sale and delivery of an intangible product, called a service, between a producer and consumer.

Direct trade and indirect trade are two basic methods of international trade.

International commodity exchange is a permanent wholesale market in several countries, which concluded the sale of a wide range of raw materials and food products that meet unified system standard requirements for products (cereals, sugar, coffee, oilseeds, livestock and meat, precious metals, non-ferrous metals).

International commodity auctions are specially organized and periodically operating markets in certain local places, providing the sale of previously examined goods becoming the property of the buyer who offered the highest price (fur, tea, wool, flowers, rubber, leather, antiques).

International tenders represent competitive selection of foreign suppliers and contractors through organized commodity market by bringing certain, pre-set date offers from foreign and domestic suppliers and contractors, carrying out a contest of submitted projects and conclusion contract with the party proposals of which optimally satisfy the needs and requirements of importing customers.

International exhibitions represent a method of demonstration, but not a real sale (universal and specialized by types).

International fair is an exhibition organized so that companies in a specific industry can showcase and demonstrate their latest products, service, study activities of rivals and examine recent market trends and opportunities, perform selling of their products.

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

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

Questions for self-examination

1. Give definitions of foreign and international trade. Comment on basic prerequisites of their emergence and development.

2. Determine the role of foreign trade in national economy development.

3. Identify and describe main indicators of international trade.

4. Study main types and methods of international trade. Analyse features of international trade in services.

5. Explore the specifics of the functioning of specific international commodity exchanges, international auctions, international tenders, international exhibitions and fairs.

6. Describe the factors of the international trade growth.

7. Formulate the basic ideas of the international trade concepts. Observe the changing views on the factors that shape the features of IER subjects' participation in international trade.

8. Identify what ideas of classical and neoclassical theories of international trade are relevant to the current conditions of the world economy development.

1.4. INTERNATIONAL TRADE REGULATION

1. Levels and types of international trade regulation.
2. Foreign trade policy: free trade policy and protectionism.
3. Tariff and non-tariff international trade regulation.
4. The principles and features of the WTO activity.

International trade regulation is the set of measures for targeted influence of the state on trade relations with other countries.

There are three main *types of international trade regulation*:

- unilateral;
- bilateral;
- multilateral.

Levels of international trade regulation: firm level; national level; international level; supranational level.

States must determine for themselves in which combination they want to use two opposite foreign trade policies: free trade policy (liberalization) and protectionism.

Protectionism is the practice of nations to protect domestic industries and their workers by providing subsidies for their production and imposing tariff and non-tariff restrictions on competing foreign products.

Free trade is a policy followed by some international markets in which countries' governments do not restrict imports from, or exports to, other countries.

The **methods of state international trade regulation** include the following:

- *tariff methods (customs methods)* regulating mainly the imports and protect domestic manufacturers from foreign competition rival, making imported goods less competitive in connection with the need to pay duties;

- *non-tariff methods*, regulating imports and exports, ensuring better conditions for domestic products on the world market, making them more competitive, creating restrictions on access of undesirable goods to the domestic market).

The **World trade organization (WTO)** is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948.

At present there are 164 member-states of the WTO. Ukraine became the member of the WTO in 2008 [45].

Principles of the trading system within the WTO system:

1. Non-discrimination.
2. Reciprocity.
3. Binding and enforceable commitments.
4. Transparency.
5. Safety valves.

The most important WTO agreements:

- The General Agreement on Tariffs and Trade (GATT) provided a multilateral trading system for merchandise trade.
- The General Agreement on Trade in Services (GATS) was created to extend the multilateral trading system to service sector.
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) sets down minimum standards for many forms of intellectual property (IP) regulation.

Questions for self-examination

1. Determine the role of international trade regulation in the operation of IER system.
2. Analyse types and levels of state regulation of international trade.
3. Give your arguments about the strengths and weaknesses of government policies of protectionism and free trade. Explain which of these policies is best for the development of the national economy of the country.
4. Study different tools of tariff and non-tariff regulation. Determine the conditions and the need for their use.
5. Identify the principles and peculiarities of the WTO activity.
6. Study the relationships between Ukraine and the WTO. Identify changes in Ukraine's tariff and non-tariff policies after entering the WTO.

1.5. INTERNATIONAL CAPITAL FLOWS. INTERNATIONAL INVESTMENT ACTIVITY. FREE ECONOMIC ZONES

1. The essence of international capital flows. Causes and factors stimulating capital export.
2. Forms of international capital flows.
3. Direct and portfolio foreign investment.
4. Positive and negative effects of foreign investment.
5. Investment climate.
6. Peculiarities of FEZ functioning.

International capital flows are counter flows of capital between countries bringing corresponding revenue and other benefits to its owners.

The main reasons for the capital export:

- a relative surplus of capital in the country, its over accumulation;
- cheaper raw materials and labour force represented in countries importing capital;
- differences in costs of production;
- a desire to avoid tariff and non-tariff barriers;
- a desire to protect capital from inflation, unpredictable economic and political situation in the country.

Factors stimulating the export of capital:

1. Transboundary capital flow through the establishment of subsidiaries, acquisitions of local companies, penetrating the markets of the third countries that have established high tariff and non-tariff barriers for certain types of goods.

2. Economic policies of industrialized developed countries to attract significant amounts of investment resources.

3. Economic policy in developing countries to attract significant amounts of investment resources and creating a favourable investment climate.

4. Liberalization of capital migration conditions.

5. Strengthening the role of international financial institutions and transnational corporations.

6. Adoption of the International treaties for the avoidance of double taxation.

Forms of international capital flows:

1. By the sources of origin (official and private capital);
2. By the nature of use (business capital, loan capital and international economic assistance);
3. By terms of investment (short-term, medium-term and long-term capital).

Investment represents putting different resources in a certain activity to obtain economic benefit or other intended outcomes (social, economic, political, etc.).

An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in the future.

International investments are long-term capital investments abroad for profit.

There are two *basic forms of foreign investments*:

- Foreign direct investment (FDI);
- Portfolio foreign investment.

Foreign direct investment is a direct capital investment in the business activity in order to acquire control over the object of capital allocation.

Portfolio investments – investments in foreign companies or securities bringing investor specific income but not giving the right to control the enterprise activity.

Investment climate is set of political, economic, socio-cultural, organizational, legal and geographical conditions in a country that affect whether individuals and businesses are willing to spend their money/resources and acquire a stake in the businesses operating there.

Free economic zone (or **special economic zone)** is a region or a part of the national territory with special preferential foreign trade, customs, investment, monetary, financial and tax regimes to encourage economic activity of foreign participants, attracting foreign investment and advanced foreign technology.

Creation of such zones can solve the interrelated goals: economic, social, industrial, scientific and technical.

Incentives in FEZ:

1) Foreign trade incentives.
2) Fiscal incentives.
3) Financial.
4) Administrative.

Classification of FEZs:

- by the level and range of tasks: storage, transit zones, free ports; industrial and export zones; scientific and technological zones; complex or diversified FEZs;
- by the territorial size: point (company, warehouse, terminal); territorially large (regions); geographically extensive (industrial and export zones, technological parks);
- by the areas and spheres of economic specialization: industrial (by industrial profile), sector (mining and processing, services), functional (banking, commercial activity);
- by the participants and physical layout: international and border.

Questions for self-examination

1. Define the essence and causes of the international capital movement.
2. Comment on basic regularities and features of capital export in modern conditions.
3. Study main forms of the international capital movement.
4. Analyse peculiarities of FDI and portfolio investments.
5. Describe the current trends of the international capital movement.
6. Analyse basic benefits and risks of importing and exporting capital for the national economy.
7. Determine factors influence the scale, structure and dynamics of international investment activity in Ukraine.
8. Give the definition of free economic zones.
9. Study main goals of creating FEZs and their socio-economic role.
10. Give the classification of FEZs and describe their varieties.

1.6. TRANSNATIONAL CORPORATIONS IN WORLD ECONOMIC RELATIONS

1. Essence, causes, symptoms and types of TNCs.
2. Competitive advantages of TNCs. The main stages of TNCs’ evolution.
3. Features of TNCs’ development. Contractual forms of TNCs’ activity.
4. Positive and negative effects of TNCs’ activity.
5. Activities of transnational banks.

International corporation is an organization that owns or controls production of goods or services in one or more countries other than their home country.

The most common *causes for international corporations’ formation* are as following:

♦ production and capital internationalization through the development of productive forces outgrowing national borders;

♦ economic effectiveness, due to large scale production in some industries;

♦ sharpening of competition rival.

♦ the role of government that encourages international corporations by promoting various political, economic and trade alliances and international agreements.

The main **features characterizing activities of international corporations** are as following:

♦ annual turnover exceeds $1 bln. (in large international corporations – $2 bln.);

♦ branches at least in 6 countries (for large international corporations – more than in 20 countries);

♦ percent of sales volume selling outside the resident country is more than 35% (for instance, NESTLE – 98%);

♦ 25% or more assets abroad;

♦ a single development strategy (international corporations create a management system to ensure implementation by the branch of the common strategies and policies).

Classification of international corporations:

1. *Transnational corporation (TNC)* is an enterprise created on the base of one-country capital, operating in several countries but managed from one (home) country (“Toyota Motor Corporation", “Microsoft”, “IBM”, etc.)

2. *Multinational corporation* (*MNC*) is international corporation that bring together a number of national companies on the industrial, scientific and technical basis (Anglo-Dutch concern “Royal Dutch Shell”, Anglo-Dutch company “Unilever”, etc.). Features of MNCs: the presence of multinational capital stock; multinational management centre; acquisition of foreign affiliates by administration staff who know local conditions.

TNCs also can be divided into three *types:*

- Horizontally integrated TNCs – managing units located in different countries, producing the same or similar goods.

- Vertically integrated TNCs – managing units in a country producing goods supplied to other departments of this company in other countries.

- Diversified TNCs – managing units located in different countries that are not vertically or horizontally integrated (performing completely different activities that are not very or not related to each other).

Competitive advantages of TNCs leading to the spread of their activities in the world: the ability to use organizational and economic effect of concentration and scale production; the capability of targeted variation and mobilization of large volumes of production resources; facilities for technological transfer and ability to implement a number of innovative projects; transaction savings; better access to markets; the artificial creation of additional advantages in the competition; ability to optimize competitive strategy.

In general, TNCs account for about 50% of global industrial production and over 70% of world trade (40% of trade transactions take place within these corporations with use of transfer prices). Large multinationals have budgets that exceed the budget in some countries. Of the 100 largest economies in the world, 69 are international corporations (Table 6.3).

Depending on the amount of capital owned by the parent (main) company, the legal status and the degree of subordination of enterprises influenced by the company there are affiliates, subsidiaries and associates.

Parent company as an organizational and economic management centre: develops specific goals and general directions for operation and development of the company as a whole and its structural divisions, in particular; determines means, forms and methods ensuring achievement of the established goals; monitors the performance of their requirements and corrects actions of subordinate companies if necessary; controls financial activities of all departments.

Transnational strategic alliances are special forms of inter-corporate relations between two or more companies, under which the long-term coordination of economic activities of participants is carried out to implement large-scale production projects, maximize results of technological cooperation, to ensure reduction of innovative processes' duration, and decrease production costs and risks, improve access to certain markets.

Transnational bank (TNB) is a large universal bank performing intermediary role in the international movement of capital. TNB usually relies on a network of foreign enterprises, controls monetary and credit transactions at the global market with the state support.

Questions for self-examination

1. Identify the reasons of creation and characteristics of international corporations. Describe main stages of the evolution of TNCs.
2. Analyse the varieties of international corporations, name their differences.
3. Identify main competitive advantages of TNCs in the global market.
4. Compare different modes of entering foreign markets by TNCs.
5. Study peculiarities of the development of TNCs at the present stage.
6. Explore the importance of brand value in shaping the competitive position of TNCs.
7. Comment on positive and negative aspects of TNCs' activity in the environment of the host countries.

1.7. INTERNATIONAL TECHNOLOGY TRANSFER

1. The essence of technology and international technology transfer.
2. Commercial and non-commercial forms of international technology transfer.

Technology is a scientific knowledge used in production. This is a complex scientific and technical knowledge on techniques and methods of production, its organization and management. This is a system including scientific methods of achieving practical goals.

International technology transfer represents long-term economic ties on the transfer and development of new techniques and technologies.

Standard *technology transfer process* consists of:

1) technology selection;
2) mastering technologies;
3) adjustment of technologies to local needs and opportunities.

The channels of technology transfer:

a) intra-firm channel – transferring technologies from the parent company to foreign affiliates of TNCs (2/3 of the world trade licenses);

b) inter-company channel – according to licensing, co-operation, management and other long-term agreements with foreign firms;

c) foreign trade channel – with export deliveries of machinery, equipment and other industrial products.

Scientific and technological exchange is carried out in two main **forms**:

1) non-commercial form: scientific and technical publications; exhibitions, fairs, symposiums; activities of international organizations; migration of experts in the field of science;

2) commercial form: transfer rights to use systematized scientific and technological information (licenses, patents, design solutions, know-how, industrial designs, franchising, trademarks); the establishment of new machinery and mechanisms on base of STR; personnel training; engineering services; management contracts.

A patent is an official document issued to the inventor and confirming his exclusive (monopoly) right to own, use and dispose invention over time.

License is an authorization (by the licensor) to use the licensed material (by the licensee).

International engineering activities provide comprehensive production, commercial and scientific-technical services, carried out by specialized firms as well as industrial, construction and other companies.

Reengineering is a fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical measures of performance such as cost, service and speed.

Franchising is the practice providing the right to use business model and brand of the well-known firm for a prescribed period of time.

Types of franchises: a business format franchise; a product franchise; a manufacturing franchise.

Management contracts include production contract, personnel and management, engineering and technical control of production, training, marketing and financial management of the company.

Questions for self-examination

1. Give the definition of international technology exchange.
2. Analyse channels and stages of international technology transfer.
3. Study key trends in the international technology market development.
4. Characterise main forms of international technology exchange.
5. Determine according to what legal acts the international regulation of the technology market is implemented.

1.8. INTERNATIONAL LABOUR MIGRATION

1. The essence, types and directions of international labour migration.
2. The regulation of international migration processes.
3. The International Labour Organization and the International Organization for Migration.

International labour migration is defined as the movement of people from one country to another for the purpose of employment.

The causes of labour migration are both economic and non-economic factors.

Classification of international labour migration:

1. According to directions of movement: emigration; immigration; re-emigration.
2. By duration of migration: final; temporary; seasonal; pendulum-like.
3. By organization: voluntary; compulsory; organized; illegal.
4. By qualitative structure: labour migration of low qualified workers; labour migration of high qualified specialists; migration of scientists ("brain drain").

The modern world labour market is characterized by three basic models of labour relations: European, Anglo-Saxon, and Chinese. They reflect the nature of social and labour relations in different countries of the world.

In the international labour migration, the following main directions can be distinguished**:**

- migration from developing countries to industrialized developed countries;
- migration within industrialized developed countries;
- migration of labour force among developing countries;
- migration of labour from former socialist countries (similar to migration from developing countries) to industrialized countries;
- migration of scientists, qualified specialists from industrialized countries to developing countries.

Centres of attraction of the workforce: the USA and Western Europe, South Africa, Asian newly industrialized.

Advantages for the countries importing labour force:

♦ increasing the competitiveness of their products due to reduced production costs;

♦ foreign workers create additional demand for goods and services, stimulate the growth of production and additional employment in the host country;

♦ the host country saves on the costs of education and professional training;

♦ foreign workers are a shock absorber in the event of crises and unemployment (they can be released first);

♦ there is no need to secure pensions and implement them for various kinds of social programs;

♦ improving the demographic picture of developed countries suffering from “aging” (in France, Germany, Sweden 10% of all babies appear in families of migrants, in Switzerland – 24%, and in Luxembourg – almost 38%).

Negative moments for the countries importing labour force: social tension, possible interethnic and racial hostility.

Advantages of labour exporting countries:

- export of labour is an important source of inflow of freely convertible currency into a country: taxes on profits of intermediary firms; transfers of migrants to their homeland in support of families and relatives; personal investment of migrants (bringing home means of production and durable goods, available means used for investment purposes);

- reducing pressure on the domestic labour market;
- minimize existing imbalances in its structure;
- reduction of unemployment;
- financial income from migrants;
- increasing the professional and cultural level of migrant workers.

Negative points for labour exporting countries: the loss of skilled workers if they do not return to their homeland.

The regulation of international migration processes includes:

1) Administrative-legal regulation that provides:

a) establishment of legal norms;

b) establishment of migration quotas;

c) setting the limits of the migration allowances (criminal norms).

2) Economic regulation of international migration processes consists of:

a) establishment of customs fees or barriers;

b) establishment of appropriate visa rates;

c) regulation of migrant wages;

d) introduction of various kinds of penalties.

The International Labour Organization (ILO) was established in 1919. The ILO’s main objective is to promote socio-economic progress, improve welfare and improve working conditions of people, and protect human rights.

The **International Organization for Migration (IOM)** plays an active role in regulating international migration processes and protecting the rights of migrants.

Questions for self-examination

1. Determine the essence, reasons, types and main features of international labour migration.
2. Characterize directions of international labour migration. Explain their main preconditions.
3. Name the regions and countries that are the main centres of labour migration.
4. Define benefits and shortcomings for national economies of countries being exporters and importers of labour force.
5. Explore the problems of brain drain and disadvantages for the national economy development associated with it.
6. Study basic administrative-legal and economic tools of state regulation of international migration processes.
7. Analyse role of the International Labour Organization and the International Organization for Migration in international migration regulation and the world economy development.

MODULE # 2 "MONETARY-FINANCIAL AND INSTITUTIONAL FOUNDATIONS OF INTERNATIONAL ECONOMIC RELATIONS DEVELOPMENT IN THE CONTEXT OF GLOBALIZATION AND INTERNATIONAL ECONOMIC INTEGRATION"

2.1. INTERNATIONAL MONETARY RELATIONS

1. The essence of the currency and exchange rate, their types.
2. The essence of international monetary relations. National monetary system, its elements.
3. Stages of the international monetary system evolution and their main features.
4. European Monetary System.
5. International exchange markets, their structure and types**.**

International foreign exchange relations form the basis for the implementation of all other forms of international economic relations.

The main terms in international monetary relations are concepts of currency and exchange rate.

A currency is the monetary unit that is used to measure the value of goods and services.

Types of currencies:

1) Depending on nationality: national currency is a legal monetary unit produced (emitted) in the country; foreign currency is a mean of payment emitted in other countries; common (or regional) currency is a money unit used in more than one country; collective currency representing currency basket.

2) By the degree of convertibility (exchange ability) in foreign currencies: fully convertible, partially convertible, non-convertible.

3) According to the functions performed by currency: hard currency; exotic currency; reserve currency.

Exchange rate is the price of one currency in terms of another currency; the value of a currency measured against a foreign currency.

Any change in supply or demand for a currency will cause a *depreciation* (a decrease in the value of a currency) or *appreciation* (an increase in the value of a currency) in the exchange rate.

Types of exchange rates:

1. Fixed exchange rate. In this case the government maintains a given exchange rate over a period of time.

2. Floating/flexible exchange rate. In terms of floating exchange rate regime, the rate of exchange is determined purely by the demand and supply on that currency on the foreign exchange market. There is no government intervention.

3. Managed float. Herewith, the currency is broadly managed by the forces of demand and supply but the government takes action to influence the exchange rate.

International monetary relations represent a set of economic relations between countries, legal entities and natural persons, international economic, financial and credit organizations related to the functioning of money as world money.

National monetary system is a form of monetary relations' organization of the country which is determined by its monetary legislation.

The **world monetary system** is a functional form of the organization of international currency relations, representing a set of methods, instruments and bodies (institutions) due to which payments are made within the global economy.

The main task of the international monetary system is the regulation of international payments and foreign exchange markets to ensure sustainable economic growth, inflation, exchange support in foreign trade balance of payments in different countries.

The evolution of the world monetary system is defined by the development and the needs of both national and global economy, changes in the world economy and the periodic emergence of currency crises as well.

The first system – **gold standard system** (1875-1914) – was spontaneously formed by the end of the XIX century.

The system of the gold standard has the following features: a certain gold content in the monetary unit; converting each currency in gold was provided inside and outside a particular country; gold was freely exported, imported and sold in international gold markets; support of hard correlation between gold reserves and domestic money supply.

The second system – **gold-exchange standard** or **Genoese monetary system** was legally formalized due to the interstate agreement at the Genoa conference in 1922. It was based on a gold-exchange standard, which was based on gold and on the leading currencies convertible into gold.

The third system – **Bretton Woods Monetary System** (1945-1972). At the international conference held in Bretton Woods in 1944 leading Western countries agreed on the main principles of the Bretton-Woods monetary system. The International Monetary Fund (IMF) was established, aimed at ensuring the proper functioning of the system and compliance with principles of general international agreement.

The fourth system – **Jamaica Monetary System** (1976 – present):

1) Gold was abandoned as an international reserve asset.

2) Countries were granted the right to choose any exchange rate regime.

3) Special Drawing Rights (the SDR basket, collective currency of the IMF) have become new standard of value of the currency.

4) Central banks were allowed to intervene in the exchange rate markets to iron out unwarranted exchange rate markets and unwarranted volatilities [12].

The **European Monetary System** (EMS) is a regional monetary system, public-legal form of currency relations of the “Common Market” (the European Union) to stabilize exchange rates and stimulate integration processes.

The objectives of the EMS:

- to establish enhanced monetary stability within the community and create a zone of European stability with its own currency as opposed to Jamaica system, which is based on the dollar standard;
- to simplify the convergence of economic development and give new impetus to the European process;
- to provide a stabilizing effect on international economic and monetary relations.

Foreign exchange markets are the centres where the purchase and sale of foreign currencies on national currency are made at the rate based on demand and supply.

Depending on the volume and nature of foreign exchange operations, the number of currencies used, and the level of regulatory regulation, foreign exchange markets are divided into international, regional and national (local) ones.

International foreign exchange markets serve the movement of cash flows, mediating the international exchange of goods, services and capital flows.

The national (local) currency market is the market of one state. Under it means a set of operations carried out by banks located in the territory of the country.

At the international securities market are those **types of obligations (major securities)** as:

1) eurobonds – debt issued by the borrower in obtaining long-term loans at the Euromarket;

2) shares – international placing of ownership certificates;

3) euronotes – securities produced by corporations for a period of 3-6 months with a variable rate based on LIBOR;

4) euro commercial papers – liabilities of commercial corporations issued for 3-6 months with low margin to the base rate [12].

Derivative financial instruments are:

1) forward contract is a non-standardized contract between two parties to buy or to sell an asset at a specified future time at a price agreed upon today (hard agreement);

2) futures contract is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality for a price agreed upon today with delivery and payment occurring at a specified future date, the delivery date, making it a derivative product;

3) swap is a derivative in which two counterparties exchange cash flows of one party's financial instrument for those of the other party's financial instrument;

4) option is a contract which gives the buyer (the owner) the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date;

5) warrant is an option to acquire a certain number of shares or bonds at a price performance at any time before the expiry of warrants.

Questions for self-examination

1. Give the definition of "currency", "exchange market", "international monetary system" and "national currency system".
2. Study the essence and peculiarities of modern international monetary relations.
3. Analyse the most important features of stages of international monetary system development. Explain the need to switch to new monetary systems.
4. Discover the features of international collective currency units.
5. Study purposes and basic stages of the European Monetary System's creation.
6. Determine and characterise features of international exchange markets' functioning.
7. Characterise main segments of interbank foreign exchange markets.
8. Analyse major securities and derivative financial instruments operating on the international securities market.
9. Explore peculiarities of Ukrainian national monetary system development, determine main directions of ensuring its stability as the basis for the national economy development.

2.2. INTERNATIONAL CREDITS

1. The essence, functions and principles of international crediting.
2. Types of international credits. Forfaiting. Factoring. International leasing.
3. Activities of the International Monetary Fund (IMF).
4. Activities of the World Bank (WB).
5. Major securities (liabilities) and derivative financial instruments.

International credit is a loan in monetary or commodity form given by a creditor from one country to a borrower representing another country on conditions of repayment in the set term and with interest.

Key functions of international credit:

♦ redistribution of financial and material resources between countries;

♦ strengthening production internationalization through the accumulation of temporarily free funds of some countries and directing them into the economies of other countries;

♦ accelerating the process of selling goods.

International credits can be classified by terms, by creditors, by the intended purpose, by common sources, by the loan form, by the type of provision, by the credit currency and by the form of credit provision.

Eurocredit is a loan which denominated currency is not the lending bank's national currency.

In practice of foreign trade such alternative forms as international factoring, forfeiting and lease are used.

Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount.

Forfaiting is the purchasing of an exporter's receivables (the amount importers owe the exporter) at a discount by paying cash.

Lease (leasing) is a type of crediting, in which specialized leasing company (which serves as the investor) buys asset specified by the client and passes the asset to use for payment, with the possibility of transferring of ownership of the leased asset to the lessee at the end of the lease term.

The **International Monetary Fund (IMF)** is an international organization headquartered in Washington, D.C., of 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The IMF's primary purpose was to ensure the stability of the international monetary system – the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.

The World Bank Group was established in 1944. It is headquartered in Washington, D.C., and has more than 10,000 employees in more than 120 offices worldwide.

The World Bank Group has set two goals for the world to achieve by 2030:

- end extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%;

- promote shared prosperity by fostering the income growth of the bottom 40% for every country.

The World Bank Group includes five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

Questions for self-examination

1. Define the role and place of international credits in IER.
2. Determine and describe functions and principles of international crediting.
3. Give the definition of the international market of loan capital. Describe its main segments.
4. Analyse different types of international credits by terms, by creditors, by the intended purpose, by common sources, by the loan form, by the type of provision, by the credit currency and by the form of credit provision.
5. Study features and practical cases of use of international factoring, forfaiting and leasing in performing foreign economic activity.
6. Characterise the role of international monetary and financial organizations in the processes of international lending.
7. Analyse key directions and purposes of activity of the International Monetary Fund.
8. Determine peculiarities of functions performed by institutions representing the World Bank Group.

2.3. INTERNATIONAL MARKET PRICING

1. The essence and types of international prices.
2. Factors influencing pricing strategy.
3. Pricing methods and strategies on international market.

International price is a monetary expression of the international cost of production.

The multiplicity of international prices is caused by the following factors:

– differences in trade policy with respect to specific markets as well as to certain importers;
– state and interstate monetary policy;
– protectionism;
– differences in methodology and methods of calculating prices;
– other factors.

Choice of a pricing strategy is dependent on:

♦ corporate goals and tasks;
♦ features of interaction with clients;
♦ intensity of inter-firm rivalry;
♦ phase of the product life cycle;
♦ factors related to the production of a particular product (costs, profit, level of taxes, consumer properties of goods, supply and demand).

There are such **types of prices in international trade**:

1) By the direction of trade flows: export; import.
2) By the terms of payments: commercial; assistance programs; transfer.
3) By the fullness of accounting costs: net; consumption.
4) By the nature of distribution: wholesale; retail.
5) By way of fixing (contracts): fixed; moving; sliding; price to be fixed.

The pricing process depends on the chosen general strategy for enterprise development which follows from its goals and objectives in the market:

1. Ensuring survival.
2. Maximizing current profits.
3. Conquest of leadership in terms of market share.
4. Conquest of leadership in terms of quality of goods

There are two main **pricing methods** used in the international activity of the enterprise:

1. Cost-based pricing based on actual costs of the enterprise for the production and distribution of goods:

1.1. Full cost pricing: used during the initial stages of internationalization, adding a mark-up on the total cost determine price.

1.2. Marginal cost pricing:

- Marginal cost – cost of producing and selling one more unit.
- Sets a lower limit to which a firm can lower its price without affecting its overall profit.
- Fixed cost is recovered from the domestic market and uses variable costing for international market.
- Used when to penetrate international market.

2. Market-based pricing with a focus on the level of competition:

- Exporters in developing countries generally are price followers than price setters and having limitations to offer unique products, this makes them assess the prevailing price in the international markets and top down calculation to arrive at the cost of the product.

- Beneficial as it allows to meet the competitor price in the market. The company sets the same prices as competitors, lower or higher than competitors. It is important that the price reflects the tangible benefits of the company compared with the supply of competitors.

Questions for self-examination

1. Study the essence and types of prices in international trade.
2. Analyse factors influencing pricing in the international market.
3. Characterise features of the choice of the company's pricing strategy in foreign markets. Determine feasibility of using one-price policy and flexible-price policy by the enterprise performing foreign economic activity.
4. Describe differences, advantages and disadvantages of cost-based pricing market-based pricing.

2.4. INTERNATIONAL ECONOMIC INTEGRATION

1. The essence, aims and prerequisites of international economic integration.
2. International economic integration at the micro and macro level.
3. Advantages and disadvantages of international economic integration.
4. Features and types of reintegration.

International economic integration is a process in which two or more states in a broadly defined geographic area reduce a range of trade barriers to advance or protect a set of economic goals.

The most important objective *prerequisites for international integration processes* are as following:

- modern scientific and technological progress;
- strengthening the international competition;
- the availability of sufficient high and close levels of economic development of countries, groups of countries and regions in terms of unequal distribution of resources;
- the existence of a long period of experience and mutual economic cooperation between countries;
- economic and geographic proximity of the countries, the existence of common borders;
- trends of demographic development;
- the availability and the need to address global problems;
- market unification of economic development.

Integration creates high levels of globalization and regionalization.

The main objectives of international economic integration are:

- economies of scale – increase in production volumes, effectiveness improvement and reduction of costs per unit;
- expansion in physical volumes of markets, opportunities for distributing goods, and therefore – improvement of production potential;
- free movement of goods and production factors (trade liberalization), which helps to reduce unproductive transaction costs due to release economic activity beyond national territories;

- creation of sustainable competitive advantages for countries and companies in regional and global scale, especially given the aggravation of the competition in terms of economic development, economic and political spheres of influence between individual countries, interstate formations;

- creation of favourable conditions for social and economic development, ensuring national interests, guaranteeing better security for the countries in the geostrategic context;

- facilitation in restructuring of national economy, which is especially important for countries with transition economies;

- improvement of living standards by joining more effective market spaces and optimizing business environment.

At the micro level there are horizontal, vertical, diversified and diagonal integration of enterprises, mainly TNCs.

Horizontal integration refers to the acquisition of an operation at the same level of the value chain (a firm who owns one assembly plant buying another assembly plant).

In the case of vertical integration, a company expands its business into areas that are at different points of the same production path.

Types of vertical integration:

- Forward integration: acquisition of activities closer to the final customer (e.g., when and automobile company owns a tire company).

- Backward/upstream integration: acquisition of activities in the direction of procurement.

Diversification through integration is also an alternative in integration. Firms diversify in order to spread risks. The companies acquired need not to be in the same industry or at the same stage of production.

Diagonal integration relates to many tightly-related services catering to a well-identified target market. So, in this case advantages of both horizontal and vertical integration will be used.

At **the macro level** there are the following main forms of international regional economic integration: preferential trade zone, free trade area, customs union, common market, economic and political unions. They are the successive stages of the evolution of macro integration, which implies an increase in the integration depth of countries.

Preferential trading agreement is a simplest form of economic integration where a group of countries make a formal agreement to trade goods and services on preferential terms. It results in reduced tariffs and sometimes a special quota is allowed for preferential access.

Free trade agreement is a permanent arrangement involving complete removal of tariffs on goods, usually between the neighbouring countries.

Customs union – just like the members of free trade area, the members of custom union also remove barriers among themselves. In addition, they also have a common trade policy with respect to non-member countries.

Common market has no barriers to trade among the member countries and there is also a common external policy for trade with non-member countries. In addition, the restriction on the movement of the production factors such as labour, technology, capital is removed.

Economic union involves full integration between two or more economies.

Political union – while some degree of political integration often accompanies economic integration, political union implies more formal political links between countries.

The *disintegration* creates preconditions for integration on new quantitative and qualitative terms.

In some cases, there might be conditions for **reintegration** (restoration of integration union that collapsed):

- full reintegration;

- partial reintegration;

- expanded reintegration.

Questions for self-examination

1. Determine the essence, preconditions and goals of international economic integration.
2. Describe the types and features of international economic integration at micro level.
3. Give a comparative description of the main forms (stages) of international economic integration at micro level.
4. Study impacts of integration on the social and economic development of the participating countries.
5. Analyse features of disintegration and reintegration processes in the regions of the world.

2.5. FEATURES OF REGIONAL ECONOMIC INTEGRATION

1. Factors stimulating regional economic integration.
2. Features of integration in North America.
3. Features of integration processes in Latin America.
4. Features of integration in the Asia-Pacific Region (APR).
5. Features of integration in the African Region.

International regional integration is a process of convergence and interlacing national economies and mechanisms regulating the economy, social and political relations of a particular region.

Factors stimulating regional economic integration:

- deepening of international labour division, namely specialization and cooperation;
- acceleration of STP, development and implementation of information technologies;
- expanding of regional groupings' activities;
- formation of regional markets;
- economic life internationalization;
- activities of TNCs and financial industrial groups (FIGs).

Features of integration in North America:

♦ the North American Free Trade Agreement has a large regional scale;

♦ there is a considerable gap in the economic development of member countries, making it difficult to create a single economic complex;

♦ has a distinct centre – the United States;

♦ the agreement is wide-ranging in nature covering large variety of economic aspects;

♦ NAFTA member countries are both Atlantic and Pacific, they are almost equidistant from two other major economic regions of the world – Western Europe and Asia-Pacific;

♦ Canada and the United States implemented a free trade pact in 1989. In 1994, NAFTA broadened the free trade area to include Mexico.

Features of integration processes in Latin America:

♦ Significantly weaker regionalization of trade: 26% of trade flow accounts for countries of the region, 25% – for NAFTA, 20% – for Asia and Europe.

♦ Implementation of the industrialization policy which was based on the development of import-substituting industries.

♦ Countries concluded intergovernmental agreements in which the principle of mutual specialization was the basis – industrial replacement and complement of national economies, leading to increasing protectionism.

♦ Attempts to limit the impact of TNCs (Andean Community – 15% of the equity of foreign companies must belong to the state, companies cannot export more than 14% of registered investment).

♦ Significant political efforts and opposition to the US influence.

♦ Domination of three models of international economic integration – common market, free trade zone, the partial economic preferences.

♦ Intercontinental integration – free trade agreements between MERCOSUR and Israel, Transatlantic Free Trade Area, South Asian Free Trade Area, MERCOSUR and the EU.

Features of integration in the Asia-Pacific Region (APR):

♦ Orientation on expanding subregional trade ties – 52% of trade turnover accounted for intraregional operations, approximately 17-18% – for North America and Europe.

♦ Integration includes both developed and developing states with absolutely different levels of economic development.

♦ Slow growth mainly in trade integration, variously directed integration – top-down and bottom-up.

♦ Integration takes place at the regional level and to a large extent on the level of individual subregions: ASEAN – Group of 6, Group of 4 (Vietnam, Cambodia, Laos, Myanmar), Vietnam's cooperation with Singapore and Malaysia, free trade agreement China – ASEAN, formation of free trade area India – ASEAN covering trade in goods, Republic of Korea – ASEAN (since 2007, in 2009 – investment), ASEAN – Australia –New Zealand, ASEAN – Japan, New Zealand, China.

♦ Creation of East Asian Free Trade Area (ASEAN, China, Japan, Republic of Korea, India, Australia, New Zealand) – formed a working group on trade in goods and services, investment, operation of ACU (Asian currency unit).

Africa's economic groupings range from currency unions among European nations and their former colonies to customs unions among neighbouring states.

Countries in the Arab world have made some progress in economic integration.

The **African Union** (**AU**) is a continental union consisting of 54 countries in Africa.

Thus, each region has its own peculiarities of integration processes due to the specifics of socio-economic problems and trends in national economies' development.

Questions for self-examination

1. Determine the essence of regional economic integration and main factors stimulating its development.

2. Identify the peculiarities of integration within North American region. Study prerequisites and aims of the NAFTA's creation. Analyse trends in trade and FDI of NAFTA member countries. Define key outcomes for each national economy and perspectives of integration development in North American region.

3. Characterise integration processes in Latin American region, in particular within the MERCOSUR. Study key figures of MERCOSUR development.

4. Explore differing vectors of integration in Asian-Pacific region (within the APEC and the ASEAN).

5. Identify main differences in integration processes in African region compared to others.

2.6. INTEGRATION EXPERIENCE: THE EUROPEAN UNION

1. Background, objectives and stages of the EU formation.
2. The main EU institutions and subsidiary bodies of the EU, their functions.
3. Features of the EU-28 interaction at present.
4. Areas of common EU policies (regional, agricultural, foreign trade, competition, security, etc.).
5. Economic relations between Ukraine and the EU at present.

The European Union (EU) is a union of 28 sovereign member states, that by treaty have delegated certain of their competences to common institutions, in order to coordinate their policies in a number of areas, without however constituting a new state on top of the member states.

The goals of the European Union are:

♦ promote peace, its values and the well-being of its citizens;

♦ offer freedom, security and justice without internal borders;

♦ sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection;

♦ combat social exclusion and discrimination;

♦ promote scientific and technological progress;

♦ enhance economic, social and territorial cohesion and solidarity among member countries;

♦ respect its rich cultural and linguistic diversity;

♦ establish an economic and monetary union whose currency is the euro.

Stages of the EU evolution:

- creation of a free trade zone (1958-1967);
- formation of the customs union (1968-1986);
- creation of the common market (1987-1992);
- creation of an economic union (from 1993 to present).

Major EU institutions are represented by the European Council, the European Parliament, the European Commission, the Council of the European Union, the European Court and the European Court of Auditors.

The institutions and subsidiary bodies of the EU include European Economic and Social Committee, Committee of the Regions, Economic and Financial Committee, Employment Committee, Advisory Committee, Coordinating Committee for Cooperation between Police and Justice, European Investment Bank, European Central Bank, Europol, European Agency for the Environment and others.

Regional policy, common foreign and security policy, competition policy, freedom, security and justice policy, democracy and human rights' policy, European enlargement and neighbourhood policy, energy and environment policy, development and humanitarian aid policy, education policy are examples of common policies of the EU.

At present the European Union is a key partner for Ukraine.

The European Union and Ukraine relations were developed by some stages:

- 1994-2008 – Partnership and Cooperation Agreement between the EU and Ukraine.
- 2009–2011 – Negotiations of an Association Agreement.
- March 21, 2014 – Ukraine – European Union Association Agreement (political part).
- June 27, 2014 – Ukraine – European Union Association Agreement (economic part), ratified in 2017.
- January 1, 2016 – the Deep and Comprehensive Free Trade Agreement entered into force.

- 11 June 2017 – visa-free regime.

The European Union is the most developed integrative union of the world, showing the dynamics and mainly positive trends of its development.

Questions for self-examination

1. Identify the preconditions and objectives of the EU creation.
2. Analyse evolution stages of the EU development. Determine key changes at each stage and their importance for further development.
3. Describe features of interaction between the EU bodies and institutions. Study the sequence of decision-making in the EU.
4. Study the EU's common policies: regional policy, common foreign and security policy, competition policy, freedom, security and justice policy, democracy and human rights' policy, European enlargement and neighbourhood policy, energy and environment policy, development and humanitarian aid policy, education policy, etc.
5. Analyse key indicators of the EU development in last ears in such areas as: labour market; economy and finance; international trade; agriculture, forestry and fisheries; industry, trade and services, science, technology and digital society; environment; energy; and transport.
6. Explore the prospects for Ukraine – the EU interaction.

2.7. GLOBALIZATION AND GLOBAL PROBLEMS OF HUMANITY

1. The essence of globalization, its implications, advantages and disadvantages. Coefficient of globalization.
2. The global problems of humanity, their classification criteria.
3. International cooperation in solving environmental, demographic problems and problems of peace.

Economic globalization is an increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology, and capital leading to single standards, rules, mechanisms and systems.

Manifestations of economic globalization:

–worldwide integration and deepening of economic activities;

–integrated production and consumption systems;

–IT revolution, liberalization and deregulation;

–unprecedented mobility of goods, services, capital and people;

–aggravation of global competition;

–strengthening the role of TNCs in global processes;

–events all over the world are strongly interdependent;

–the emergence of new global strategic management systems.

Some things are more globalized than others: extremely – capital flows, very – trade, moderately – corporations, FDI, production, not so much – labour.

Globalization processes can bring both benefits and shortcomings for national economies (Fig. 15.3).

Negative effects of globalization's development manifest in deepening of global problems.

Global problems of humanity are problems that cover the entire Earth, mankind, all states and requiring for their solution joint efforts of the international community.

There are such *characteristics of the global problems of humanity* as:

- problems mostly caused by human actions (deliberate or unconscious);

- have long-term negative consequences;
- characterized not only by economic but also social consequences;
- scale of negative consequences is far beyond the specific region and is nationwide in character;
- their solution requires enormous costs unaffordable for a single state.

Global considered many problems, among which are the most important:

♦ disarmament problems and keeping peace on Earth;
♦ environmental problems;
♦ food problems;
♦ demographic problems;
♦ problems in energy and raw materials.

Disarmament involves solving the following main tasks:

- carrying out measures in the area of stopping the development of weapons production destructive technologies;
- restriction and termination of nuclear tests;
- the prevention of the use of outer space for military purposes;
- reduction of military expenditures;
- reduction of weapons trade;
- demilitarization of armed conflict zones.

To reduce or completely eliminate effects of global environmental problems, it is necessary to observe the following requirements:

- to build treatment facilities in the business and create new technologies preventing environmental pollution;
- to invest in ecological projects;
- to introduce high standards of ecological management on enterprises to reduce polluting footprint;
- to form a new eco-friendly outlook in minds of people;
- to search for alternative sources of energy – hydro, wind, solar energy, using the absolute vacuum, etc.;
- to move gradually to new technologies, recultivation of contaminated territories to make them suitable for settlement and economic use.

Solutions to food problems:

- increase in soil fertility of arable land in developing countries (but it can lead to contamination both natural environment and food, affecting negatively human health);
- application of modern biotechnology achievements, especially genetically modified food, since it has a fantastic opportunities to increase production volumes.

Key directions of international cooperation in solving demographic problems of humanity in the context of sustainable development were identified by the United Nations:

- it is necessary to develop a policy that would be aimed at adapting to the inevitable consequences of accumulated demographic potential and accelerating the demographic transition;
- the demographic challenge should be fully integrated into national planning, policy making and decision-making;
- integrated programs of sustainable development should ensure close interrelation of actions concerning demographic trends and their factors with activities for rational use.

The main solution of energy and raw material problems is the search for alternative sources of energy – hydro, wind, solar energy, using the absolute vacuum, etc.

All global problems are interrelated, which determines the need to address them in a complex and use joint efforts of the international community to solve them and minimize negative effects.

Questions for self-examination

1. Identify the essence of globalization, its manifestations and basic aspects.

2. Analyse advantages and disadvantages of globalization processes. Determine whether this is more positive or negative process for the development of national economy.

3. Study the concept of challenges called global problems of humanity and determine their main features.

4. Describe modern global challenges: disarmament problems and keeping peace on Earth, environmental problems, food problems, demographic problems, problems in energy and raw materials, health problems, etc.

5. Name main causes of global problems' aggravation.

6. Analyse basic areas of international cooperation in addressing environmental, energy and raw materials, demographic, and peace-keeping issues.