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# INTERNATIONAL ECONOMIC RELATIONS

## MANAGEMENT



 К О Н Д О Р

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE**  
**National Aviation University**

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# **INTERNATIONAL ECONOMIC RELATIONS**

## **MANAGEMENT**

**Textbook**

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The concept and the essence of international economic relations, their forms and modern trends of development were outlined. Also features international labour division, international trade in the system of international economic relations, international trade regulation, international capital flows, functioning of free economic zones, transnational corporations in world economic relations, international technology transfer, international labour migration, international monetary and credit relations, international market pricing were highlighted. Within the framework of main contemporary development trends international economic integration, in particular on the example of the European Union, globalization and global problems of humanity were considered.

For students studying in the field of knowledge 07 “Management and Administration”.

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## PREFACE

The textbook “International Economic Relations” is offered for students studying in the field of knowledge 07 “Management and Administration”.

The purpose of studying the subject “International Economic Relations” (IER) is to form the system of special knowledge in the issues and prospects of international economic relations’ development by future managers for basic and special education and practical activity by specialty. The authors of the textbook aimed at systematizing the presentation of a knowledge complex on international economic activity.

The subject “International Economic Relations” occupies an important place in the system of professional training of managers, since mastering questions of the methodology and methodical tools of studying IER gives an opportunity to increase material and intangible capital, helps to make informed management decisions on the basis of world experience of management providing enterprise development in conditions of market relations.

The subject of international economic relations is represented by both economic ties between economic entities of different countries and mechanisms for the implementation of these relations. International economic relations are focused on international labour division as a basis for the development of IER, international trade in goods, services and intellectual property, international monetary relations, international transfer of capital, international labour migration, international monetary, financial and credit relations, international competitiveness of countries, international economic integration and globalization.

The content of the subject involves the obligatory presence in the study of such elements as: concept and essence of international economic relations, their forms and modern trends of development. One of the important tasks of the course is to outline the idea that performance of international economic relations is influenced by socio-economic, political,

legal, cultural, technological, environmental factors, and at the present stage of their development the factors created by the intergovernmental and supranational regulation become increasingly important.

The textbook is prepared on the basis of modern trends of international economic relations' development. The sources of information have become scientific and practical studies of domestic and foreign scientists, learning methodical literature, periodicals, web-portals of international organisations and integration unions.

The main material of the textbook is presented in fifteen sections, in accordance with the syllabus of the subject.

In the first section "Theoretical and methodological foundations of international economic relations" the authors highlighted economic essence, genesis and peculiarities of development of international economic relations. In addition, methodological foundations and methodical tools for studying international economic relations were considered.

The second section "The world economy and features of its development" is devoted to the study of peculiarities of the world economy modern development, the place of the country in the system of international labour division, its evolution, trends in the development of international production specialization and cooperation.

The third section "International trade in the system of international economic relations" examines the process and methods of international trade in goods, services and intellectual property aspects, the evolution of economic thought regarding specialization of countries and peculiarities of international trade development.

The fourth section "International trade regulation" is devoted to the study of ideas about different ways of regulating international trade and expediency of their application by the governments of the countries.

In the fifth section "International capital flows. International investment activity. Free economic zones" reasons and consequences of capital exports-imports, features of investment as one of the main forms of international capital flows, nature and types of investments, peculiarities of

the investment climate of a country, the role of foreign investment in the national economy development, place of free economic zones in world economic relations were studied.

The sixth section “Transnational corporations in world economic relations” considers factors of origin, signs, features of development and the role of transnational corporations in world economic relations.

The seventh section “International technology transfer” outlines main forms of technology transfer, peculiarities of legal regulation of the technology market and the degree of countries’ participation in international scientific and technological exchange.

In the eighth section “International labour migration” factors influencing international migration of the labour force, its main directions, centres of gravity, the impact of labour migration on country’s economy were analysed.

The ninth section “International monetary relations” examines the essence of currency and exchange rate, their varieties, features and stages of international monetary system development, peculiarities features of the world currency market and world financial centres’ functioning.

The tenth section “International credits” is devoted to the research of peculiarities of international settlements and international credit relations, in particular factoring, forfaiting and leasing in foreign economic activity.

The eleventh section “International market pricing” considers pricing in the international market, specifics of the influence of various factors when choosing a pricing strategy for an enterprise engaged in foreign economic activity.

In the twelfth section “International economic integration” the authors highlighted features and trends of international economic integration at micro and macro levels, its prerequisites, goals and consequences.

The thirteenth section “Features of regional economic integration” is devoted to the study of preconditions and peculiarities of regional economic integration within the framework of NAFTA, MERCOSUR, APEC, ASEAN, the African Union and other unions in different regions of the world.

The fourteenth section “Integration experience: the European Union” outlines preconditions and goals of the EU creation, the interaction between EU bodies and institutions, common EU policies, prospects for Ukraine – EU cooperation.

Finally, the fifteenth section “Globalization and global problems of humanity” is devoted to considering nature and main manifestations of globalization processes, as well as peculiarities and possible consequences of global problems of mankind, ways of their solution in terms of international cooperation.

The basic concepts and keywords are summarized in the subject index. Also, a glossary with definitions of key terms of international economic relation is included. The textbook contains tests, case-studies and examples of problem solving, discussion questions, which should facilitate the practical mastering of the material and the ability to solve particular practical problems.

Contribution of the authors is as follows: L. Lytvynenko personally developed sections 1, 2, 5–10, 12–15; S. Lytvynenko personally developed section 11; L. Lytvynenko and S. Lytvynenko jointly developed sections 3, 4, preface, subject index and glossary.

The authors express their sincere gratitude for the assistance in preparing the textbook for publication to collectives of the Department of Management of Foreign Economic Activity of Enterprises and the Department of Air Transport Economics, National Aviation University, as well as to Doctors of Economic Sciences A. Novikova and V. Yanovska. Authors of the textbook will be grateful for critical comments, recommendations and suggestions.



# 1. THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF INTERNATIONAL ECONOMIC RELATIONS

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 [1].

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 [42].

**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.

Technical and economic, organizational and economic and property relations between economic entities of different countries are all parts of IER structure (Fig. 1.1).

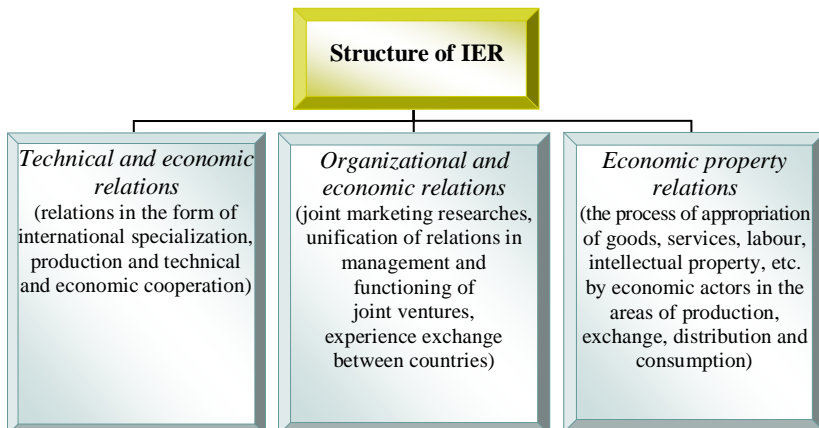


Fig. 1.1. The structure of IER

\*Compiled on the basis of [6; 17]

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.

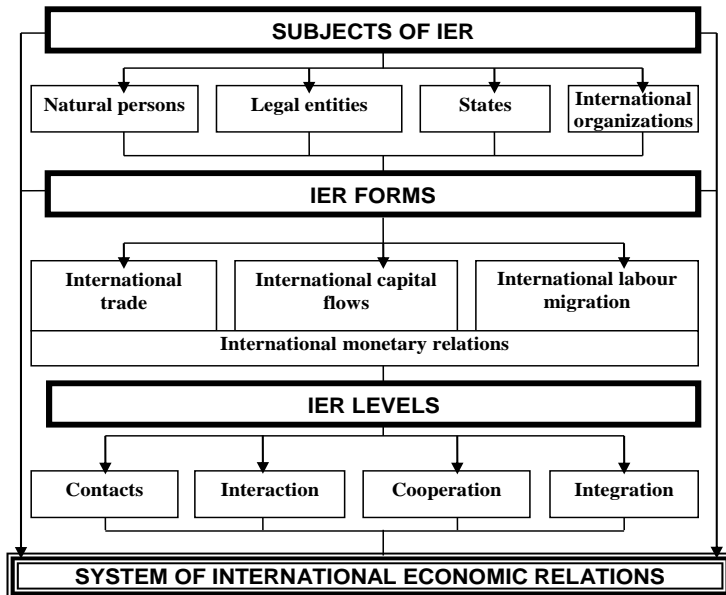


Fig. 1.2. Interrelations between subjects, forms and levels of IER [6]

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 [3].

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 [6].

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.

Transnational and multinational corporations (international by capital, management and business areas) and international joint ventures (unite

partners from different countries in investment, enterprise management and distribution of profits and risks) are specific subjects of IER.

The state as a subject of international economic relations is a sovereign entity that has the supreme authority in its territory and independence relative to other states.

Government institutions and organizations buy products and services at the global market, provide goods to economic operators from other countries. In addition, the states are called to create favourable conditions for domestic entrepreneurs to enter international markets. Thus, the state implements both direct part in IER (through inter-state relations, state enterprises and state bodies) and indirect one (formation of specific conditions for all other IER participants).

International organizations are specialized formations and associations participating in IER. They are classified by the following features:

- ◆ legal nature (governmental or nongovernmental);
- ◆ composition of the participants (universal or regional);
- ◆ scope of activity (general or special competence);
- ◆ nature of activities (coordinating, operational performance or advisory);
- ◆ duration of the activity (constant action, periodic action or temporal).

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).

*Features IER environment:*

- a) interconnection of political, legal, social, cultural, economic, technological and infrastructural elements of the environment;

- b) partial uncertainty of the environment that requires awareness, analysis and understanding of various events in economic relations with the subsequent decision on the possibility to affect certain environmental factors or the need to adapt to them;

- c) dynamic contradiction – on the one hand, IER environment is characterized by the stability due to economic, political, legal, social and cultural stability of countries and, on the other hand, – dynamics and mobility of it exist (development of integration processes, information and communication systems, etc.).



## Discussion questions

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.



## Case study “Analysis of the IER environment”

Analyse the impact of international environment factors on the activities of the specific enterprise (free choice of the student) performing foreign economic activity and evaluate them on a scale by F. Hedouri (Table 1.1 and Fig. 1.3 respectively). Also perform SNW-analysis of the selected enterprise.

Finally, make a conclusion on possible strategic and tactic actions towards the development of the enterprise in international competitive environment.

Table 1.1

Assessing the impact of external factors on the activities of the enterprise

№	International environment factors	k, the importance of the influence of external factors (from -5 to +5) not important → very important	Y, values of the influence of external factors on the activities of the enterprise (from -50 to +50) very negative influence → very positive influence	$B = k * Y$ , an indicator of the impact of external factors on the activities of the enterprise
1.	Economic			
2.	Political			
3.	Technological			
4.	Competitive			
5.	International			
6.	Social			

The scale for assessment of opportunities and threats in enterprise’s international environment by F. Hedouri is represented in Fig. 1.4.

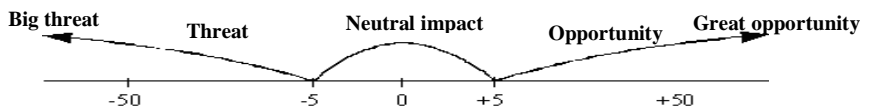


Fig. 1.3. The scale for assessment of opportunities and threats in international environment by F. Hedouri

The example of the external environment analysis of Ukrainian pharmaceutical corporation “Arterium” is given in Table 1.2.

Table 1.2

Assessing the impact of external factors on the activities of the  
“Arterium” Corporation

№	Factors of the external impact	k	Y	B = kY
1	The level of STP	+5	+5	+25
2	The impact of inflation	+4	-20	-80
3	The stability of the national currency	+4	-15	-60
4	The legislation of the country market	+2	-10	-20
5	Attitude of different population groups to the corporation	+1	+4	+4
6	Ability of market penetration	+2	-15	-30
7	The distribution of segments	+2	+10	+20
8	Prospects of market development	+5	+20	+100
9	Income of consumers	+4	-20	-80
10	Educational level	+2	-10	-20
11	State regulation of the pharmaceutical market	+3	-10	-30
12	The volume of financing the health care system	+1	+20	+20
13	Changes in the population quantity	+3	-10	-30

Assessed opportunities and threats of the “Arterium” Corporation in the international environment using the scale by F. Hedouri are shown in Fig. 1.4.

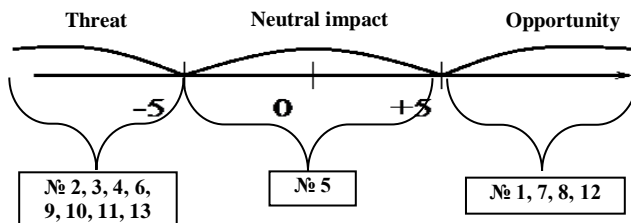


Fig. 1.4. Opportunities and threats of the “Arterium” Corporation in the international environment

SNW-analysis of the internal environment on the example of “Arterium” Corporation is represented in Table 1.3.



Table 1.3

## SNW-analysis of the internal environment of the “Arterium” Corporation

Scope	Factors of internal environment of the corporation	Qualitative assessment of factors		
		S (strengths)	N (neutral sides)	W (weaknesses)
Personnel	Competence of human resources	x		
	HR policy		x	
	Motivation of work performance	x		
	Employee turnover		x	
	Leadership style			x
Marketing and logistics	Pricing policy			x
	Market share		x	
	The life cycle of products	x		
	Image and reputation	x		
	Channels of distribution	x		
	The range of goods	x		
	General organization		x	
	The level of logistical support		x	
	Distribution policy	x		
	Trading policy		x	
Organization of general management	The organizational structure		x	
	Information and communication system of the enterprise		x	
	The organizational culture and corporate ethics of the corporation	x		
	Social responsibility	x		
	Business planning system		x	
Production and innovation	Cost of raw materials			x
	Relations with suppliers		x	
	Location of production facilities	x		
	Production process monitoring		x	
	The quality of products	x		
	Production potential	x		
	Equipment state		x	
	Research and developments	x		
Innovations	x			
Patents	x			
Finances	Financial stability of the corporation			x
	Control and accounting of costs		x	
	Paying taxes	x		
	The cost of capital			x
	The level of debt			x
	Financial dependence			x
Profitability		x		



## Tests

### **1. International economic relations represent:**

- a) foreign trade of all countries of the world;
- b) a set of economic relations between countries, their subjects, associations and groups;
- c) a part of national markets related to foreign markets;
- d) the aggregate exports and imports of all countries.

### **2. The object of the study of international economic relations is:**

- a) the economics of foreign countries;
- b) a set of one-time international economic relations;
- c) the system of standard and typical international economic relations forming certain patterns;
- d) international trade between countries.

### **3. The science of international economic relations studies:**

- a) economic integration of domestic firms;
- b) international trade regulation;
- c) actual international economic relations and mechanisms of their realization;
- d) international labour division.

### **4. Subjects of international economic relations at the supranational level are:**

- a) individual countries and their subjects, international economic organizations and megalopolises;
- b) international economic organizations and supranational institutions;
- c) transnational and global corporations;
- d) small and medium enterprises, cooperatives, individuals.

### **5. The mechanism of implementing IER includes:**

- a) multi-level complex of economic relations between countries;
- b) international transport and international customs relations;
- c) legal norms and instruments for IER fulfilment;
- d) international monetary-financial and credit relations.

### **6. Subjects of international economic relations at the micro level are:**

- a) individual countries and their subjects, international economic organizations and megalopolises;
- b) transnational and global corporations;

- c) small and medium enterprises, cooperatives, natural persons;
- d) international economic organizations and supranational institutions.

**7. The main object of international economic relations is represented by:**

- a) international trade in goods and services;
- b) international transport relations;
- c) the economic ties between economic entities of different countries and mechanism for implementing those links;
- d) the exchange of goods and services between countries.

**8. Subjects of international economic relations at the macro level are:**

- a) small and medium enterprises, cooperatives, natural persons;
- b) individual countries and their subjects, international economic organizations and megalopolises;
- c) transnational and multinational corporations, states;
- d) international economic organizations and supranational institutions.

**9. The main specific features of modern IER are:**

- a) low degree of mobility of production factors;
- b) emergence and development of the closed national economies;
- c) nationalization of production and capital;
- d) global character of international exchange of commodities, capital flows, migration and information.

**10. The primary condition for the development of economic relations is:**

- a) intensification of globalization and migration of capital;
- b) the geographic and historical uneven global allocation of labour, natural resources, capital, scientific and technical potential;
- c) accelerating and expanding the process of economic integration;
- d) transformation of bilateral international economic relations into multilateral ones.