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INTERNATIONAL ECONOMIC RELATIONS

Textbook

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Reviewers:

Ganushchak L.M., Doctor of Economics, Professor; Vice-Rector for Research and Innovation, KNUTD

Guzhva I.Yu., Doctor of Economics; Deputy Director of the Institute of Informatization and Modeling of Economy

Gutkevych S.O., Sheremet O.O., Khmara M.P.

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In the context of globalization, international economic relations are formed on the basis of changes in the structure of international trade, internationalization of the economy, exchange of scientific and technological achievements, the creation of international financial centers and more. This causes an increase in the level of training of specialists in international economics in the specialty «International Economic Relations».

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TOPIC 1

GLOBALIZATION AND ECONOMIC DEVELOPMENT

Review The essence of globalization. Causes and main signs of the globalization. Contradictions of the globalization process. Financial globalization. World financial crises. Global problems and ways to solve them. Demographic explosion and related problems. Problems of human development. The problem of uneven development of the world. International regulation of global problems. The role of the UN in resolving important problems of mankind.

TOPIC 2

THE ESSENCE OF FOREIGN ECONOMIC ACTIVITY IN UKRAINE

Review Foreign economic activity as an economic category includes the concept of formation of foreign economic relations between Ukrainian enterprises and foreign economic entities on the basis of economically justified advantages based on the legally established principles of foreign economic activity.

TOPIC 3

REGULATION OF FOREIGN ECONOMIC ACTIVITY OF UKRAINE

Review Regulation of foreign economic activity can be seen as a function of international management and a tool in the mechanism of maintaining and forming a positive foreign trade balance, streamlining the commodity structure of exports and imports, integration into the international community and, given the processes of internationalization and globalization, keeping the world economic balance.

TOPIC 4

INTERNATIONAL CONTRACT. TERMS AND CONDITIONS OF PERFORMANCE OF FOREIGN TRADE CONTRACT

Review. Foreign trade contract is considered as a key condition for foreign economic transactions, which regulates organizational, technical, economic and administrative relations in the purchase and sale of goods and services in foreign markets

TOPIC 5 INTERNATIONAL FINANCIAL CENTRES AND THEIR ROLE IN INTERNATIONAL ECONOMIC RELATIONS

Review. General theoretical and practical achievements of world and domestic scientific thought in the field of international economy and foreign economic activity are highlighted. The main indicators of evaluating the effectiveness and efficiency of cooperation of different countries in the context of internationalization and globalization are systematized and generalized. The main provisions on the vectors of interaction of national economies in the world coordinate system are stated.

TOPIC 1
GLOBALIZATION AND ECONOMIC
DEVELOPMENT

Plan

- 1.1. The essence and main features of the process of globalization of the modern world economy
- 1.2. Causes of global problems
- 1.3. International regulation of global problems
- 1.4. Globalization as the basis of international business

1.1. ESSENCE AND MAIN FEATURES OF THE GLOBALIZATION PROCESS

One of the main features of the modern development of the world economy is the development of globalization, which have a significant impact on the system of international economic relations, transform directions and determine trends in national economies.

Globalization (from the English *globe*) is a complex, multifaceted process that has many manifestations and involves many problems. In modern conditions, there is no single unambiguous definite concept of globalization which would cover all its aspects and its planetary scale. Let us consider different definitions of globalization.

Globalization is a long process of integration of the world's national economies in order to solve the global problems of mankind.

Globalization is a complex phenomenon of interdependence of economies arising in connection with the exchange of goods and services and capital flows.

Globalization is the process by which the achievements, decisions, and activities of people in one part of the globe have a significant impact on individuals and their communities in all parts of the world.

Globalization is a set of challenges and problems of today.

The *globalization* of the world economy is understood as a process of strengthening the inter-relationship of national economies of the world reflected in the formation of the world market of goods, services, and finance; formation of the global information space, transformation of knowledge into the main element of social wealth, business going beyond national borders through formation of TNCs, introduction and dominance in the daily practice of international relations and domestic political life of fundamentally new and universal liberal-democratic values, etc.

**It would be
interesting to
know**

*Theoretical understanding
of the essence of the
globalization process*

The first attempts to comprehend and optimize the social development at various levels were closely connected with the emergence and development of the first religious and philosophical

systems. The most specific were the so-called *utopias*, starting with the utopias of Plato, Thomas More, Tomaso Campanella and ending with the utopias of Marx, Lenin and their followers.

Already from the XVII-XVIII centuries, the work aimed at objectifying intuitive and subjective by nature theories and models of social development was slow but consistent. Development of natural sciences, special mathematical and econometric methods, statistics, demography and especially applied sociology, forecasting and general theory of measurements played an important role in this process.

In fact, in the middle of the XX century, development of the principles of analysis and forecasting of the main processes of social development at the regional level was completed. The futurological literature of this period stimulated the development of systems thinking and a system approach to consideration of processes at the global and regional levels.

If in the first global models of J.W. Forrester (1971) and D. Meadows et al. (1972), based on simplification of extrapolation of five parameters of development of the modern world – population growth, acceleration of industrialization, deterioration of food, depletion of natural resources and environmental pollution, physical, demographic and environmental factors of development, and socio-political, cultural and even scientific and technical factors were virtually ignored, the subsequent developments were characterized by a much more objective approach to the description of global and regional processes.

Already in the second report of the Club of Rome "Humanity at the Turning Point" (1974), its authors M. Mesarovic and E. Pestel made an attempt to take into account the specifics of socio-political development of different regions.

In this regard, the world was divided into 10 regions. The hierarchical system of models consists of 3 levels: causal, organizational and the level of formation of norms, values and goals of society. M.Mesarovic and E.Pestel's approach proved to be very productive and was the basis for a large number of other models and developments, including a model aimed at studying the problems of urbanization in Mexico City, the *China-2000* model and the *Forecast* model complex.

Multilevel hierarchical structuring of the world reproduction model as a set of interconnected regions, and most importantly, introduction of

management factors through selection of alternative development scenarios have been reliably included in the methodological arsenal of models and strategies of global and regional development models of recent decades. Among them are the UN V.Leontiev's *The Future of the World Economy* model, L. Klein *Wharton*, the model of the Japanese Center for Economic Research, the of UNCTAD model, the UN Department of International, Economic and Social Affairs, OECD periodic models, Chase Manhattan Bank, the World Bank models, etc. Today, these models and developments are an important tool for analysis and formation of regional and world policy not only in the economic field but also in broader international issues. However, it was the success in developing fairly adequate models of economic and environmental processes that made the artificiality and helplessness of attempts to formalize political and social processes quite obvious.

The emergence and formation of a new branch of scientific knowledge in the last decade of the last century, called globalism, is quite obvious. It tries to systematize and generalize a set of studies on this issue. Globalization, as one of the youngest sociological structures, requires a thorough understanding in all areas of human life. The term *globalization* was introduced into scientific usage by R. Robertson, who first used it in 1983; in 1985 he gave its detailed interpretation, and in 1992, laid the foundations of this concept in a special study.

According to A. Nekles, in the modern global world, a world construction is being formed – a megainfrastructure – where all the total world income is redistributed between geoeconomic figures, closely connected by different types of economic activity. On the basis of the latest technologies, a dominant global infrastructure is being formed, receptive to a certain class of economic entities and much less friendly to the others – the infrastructure whose essence is not production, but the distribution and redistribution of resources, income, and profits. This redistribution is focused on the northern countries ... it is a kind of global tax on economic activity.

According to M. Castells, "the structure of the economy is characterized by the combination of an enduring architecture and a variable geometry. The architecture of the global economy features an asymmetrically interdependent world, organized around three major economic regions and increasingly polarized along an axis of opposition

between productive, information rich, affluent areas, and impoverished areas, economically devalued and socially excluded”. Globalization takes on different meanings depending on whether it is a single company, industry, country, or the world economy. For an individual company, globalization is determined by the extent to which the company has expanded the geography of its revenues, and the proportions at which it has distributed its assets in different countries, as well as its involvement in exporting capital, goods and know-how.

The Essence of Globalization

The reasons for the formation of globalization processes are:

- the process of internationalization leading to deepening cooperation between countries and strengthening their interdependence;
- scientific and technological progress: the emergence of information technology, which radically changes the entire system of socio-economic relations, transfer to a qualitatively new technical level of organizational and economic relations, transport and communication links (reduction of transaction costs);
- exacerbation of problems common to all people and countries of the world and important in terms of preservation and development of the human civilization.

The Main Features of the Globalization Process are:

- interdependence of national economies and their interpenetration, the formation of international production complexes outside national borders;
- financial globalization – growing financial unity and interdependence of financial and economic systems of the world;
- weakened capacity of nation states to form their independent economic policy;
- the expanding scale of exchange and intensification of the processes of movement of goods, capital, and labour resources;
- creation of institutions of interstate and international regulation of global problems;
- the world trend to common standards, values, principles of functioning.

At the industry level, globalization is determined by the extent to which a company’s competitiveness within an industry in one country is interrelated with its competitiveness in another country. The more globalized the industry is, the more benefits the company receives from the

introduced technology, production process, or brand. Globalized industries tend to dominate each market with the same set of global companies that coordinate strategic actions in all countries of their activity.

At the country level, globalization is characterized by the degree to which its economy is interconnected with the world economy as a whole. Despite the growing globalization of the world economy, not all countries are equally integrated into it. There are several main indicators that determine the degree of integration of different economies into the global economy, including:

- the ratio of foreign trade turnover and gross domestic product (GDP);
- foreign direct investment (FDI), which is directed to and from the economy of the country, and portfolio investments;
- the flow of royalty payments to and from the country associated with the transfer of technology.

Globalization at the world level is determined by the growing economic links between countries which are reflected in the ever-increasing flow of goods, services, capital and know-how.

The main feature of the globalization process is the formation of a globally functioning production process, the core of which are the formed internationalized reproduction cycles – nuclei acting as a kind of locomotive of the world economy. Within these cycles, world income is formed whose redistribution is the main strategic guideline and the basis of foreign policy of any state.

In today's world, globalization has a dominant impact on the development of any state. On the one hand, it helps to increase the efficiency of national economies through the spread of innovations in technology and management, active exchange of goods, services, investments, and on the other, it increases the unevenness, asynchrony and disproportion of development.

At one pole of the modern world economy, global leaders with US dominance are concentrated. Based on successful long-term expansion in all segments of the world market, and an unprecedented scale of accumulated capital, the key determinants of their success are intellectualization, socialization, greening, deindustrialization of the economy, priority of knowledge and information, development of *human capital*.

At the other pole of the world economy are the majority of the countries for which economic globalization is manifesting itself as

qualitatively new conditions of development, which are practically impossible to influence, but must be taken into account. It is especially important to take into account the scale and dynamics of the process of formation of the system of global management of planetary resources and the redistribution of world income, which is not equal.

Globalization is closely linked to the regionalization of the world economy. On the one hand, these are two contradictory trends, divergent in nature and practical consequences. On the other hand, consolidation of the global market is intensified by the activities of powerful regional coalitions of countries that, having primarily common economic interests, unite their efforts to providing the most favourable conditions for implementation of international cooperation on a regional scale, which allows them to achieve a multiplier effect from cooperation with other members of the group and effectively implement a wide range of strategic interests in the international arena. The most intensive economic interaction is observed within such powerful integration groups as: EU, NAFTA, APEC, ASEAN, MERCOSUR. Thus, NAFTA, EU and APEC account for about 80% of world GDP, 82% of all state budgets and 85% of exports.

Regionalisation is a kind of manifestation and form of globalization, exacerbating the contradictions of global development. On the one hand, the removal of barriers to the movement of goods, services, capital, and labour within the integration associations is a catalyst for the growth of international cooperation on a global scale. On the other hand, the positive effect of the introduction of such liberalisation is limited by the common borders of the regional integration association and is accompanied by the introduction of restrictive measures in relations with countries that are not members of the regional integration group. At the present stage, regional integration is developing more dynamically than the processes of global integration.

Contradictory Globalization Process

Globalization is an objective process on a planetary scale that has both progressive and negative consequences. As for the positive, we can include: the spread of new information technologies and related benefits (reduction of time and transaction costs; and improvement of working and living conditions); transition to resource-saving technologies; increasing attention to important problems of mankind, etc.

However, the globalization of the economy does not only include the benefits from a country's increasing participation in the world economic

processes, but also the high probability of losses and increasing risks. Globalization means that countries become not only interdependent due to the formation of a system of international integrated production, growth in world trade and foreign investment, intensification of technological innovation, etc., but also more vulnerable to the negative impact of the world economic relations. World practice shows that the benefits of globalization are not evenly distributed between countries and economic actors.

Thus, the negative consequences of the globalization include: the increasing uneven development of the world; the imposition by strong countries of their will, irrational economic structure, political and economic dependence.

That is why as a controversial process the globalization needs to be regulated at the national and interstate levels.

1. The main contradiction of the global economic system is related to the formation of a closed economic system within the leading Western states. This process can be traced in the following areas:

1. concentration of most of the intellectual and technological potential of mankind in the post-industrial world;
2. concentration of major trade flows within the commonwealth of developed countries;
3. closure of investment flows;
4. migration flows directed from the "third world" countries to developed regions of the planet.

The *first* is the most obvious. By 1990, the G7 countries controlled 87% of all patents registered in the world, and in terms of investment in high-tech technologies, the United States was 36 times ahead of Russia. During the 1990s, OECD member countries spent an average of about \$400 billion on research and development annually, of which 44% accounted for the United States. These trends are expressed primarily in the growth of technological power of the post-industrial world. They are also manifested in their growing investment attractiveness, which provides an inflow of foreign investment.

The *second* is related to the outpacing growth rates of the world trade compared to the growth rates of production in most developed countries. Thus, from 1870 to 1913, the volume of exports of European countries increased by 43% compared with the growth of their GDP, and in the 1950-60s – already by 89%.

The *third* is related to the new quality of investment activity in the developed countries. The growth of investment flows and their concentration within the post-industrial world today is more noticeable than ever. An example is the distribution of US investment by sector and source. If in 1970 about 1/3 of all American investment went to Europe, today – they invest already 50%, while Japan and the newly industrialized countries of Asia account for no more than 8, and Mexico – less than 3%. Characteristically, companies representing the developed economies (the USA and Europe) invest up to 80% of all funds in the field of high-tech production, as well as in banking and insurance.

The *fourth* is associated with a significant decrease in migration flows within the post-industrial world with a steady increase in the number of illegal immigrants from "third world" countries. If in the 1950s 68% of legal immigrants in the United States came from Europe or Canada and belonged mainly to the middle class, in the 1980s and 1990s more than 83% of them were of Asian or Latin American descent and generally did not have a sufficient level of education.

In the context of globalization, not only economic but also political and social inequality between countries is significantly increasing. The income gap between 1/5 of the population living in the richest countries and 1/5 living in the poorest countries in 1997 was 74/1, compared with 60/1 in 2011 and 30/1 – in 1960. For comparison, this gap was 11/1 in 1913, and in 1900 – 3/1.

In countries lagging behind in their socio-economic development, annual losses from unfavourable trade conditions, as well as differences in access to labour and finance, amount to \$500 billion, which is 10 times the amount of state foreign aid.

Thus, the global economy does not exist today: there is an economic system where the economic and social development of most of humanity is heavily dependent on the progress of the post-industrial world and its ability to influence events in the rest of the world. Of course, economic and information ties are becoming more intense, but their amount within different socio-economic systems remains diametrically opposed. Within the post-industrial world, global trends are ultimately leading to the convergence of the levels of development of individual countries and their fierce confrontation with the rest of the world. On the global scale, each new manifestation of globalization catalyzes the formation of a unipolar world where only its centre as a post-industrial component can acquire

global significance.

1.2. GLOBAL PROBLEMS: CAUSES AND SOLUTIONS

Globalization of the world economic relations exacerbates the global problems of mankind, which can be defined as a set of links and relations between states and social systems, the society and nature on a global scale, which affect the vital interests of peoples around the world and can be solved only as a result of their interaction.

The global problems can be classified as:

1. Political problems (prevention of world nuclear war, military and regional conflicts, ensuring stable peace, and disarmament).
2. Natural and environmental problems (the need for effective and comprehensive environmental protection, disease control, the problems of the oceans, energy, raw materials, food, natural disasters, climate, etc.).
3. Socio-economic problems (stability of the world community, elimination of backwardness of developing countries, the problem of human development, crime, refugees, unemployment, poverty, etc.).
4. Scientific problems (space exploration, long-term forecasting, etc.).

Each of these global problems is caused by specific causes due to peculiarities of development of productive forces, geographical location of countries, the level of technological progress, natural and climatic conditions, i.e. the material content of social production, on the one hand; and specific social forms, and features of development of property relations on the other. Numerous global problems are characterized by causal links that determine the development of technological production.

Demographic problem The most common cause of exacerbation of global problems is the intensive growth of the world's population in recent years, or the so-called *demographic boom*, which is also accompanied by uneven population growth in different countries and regions, with the highest population growth in countries with low productive forces. Thus, if the population growth rate in developing countries was about 2.5% per year during the XX century, in the developed countries it did not exceed 1%. As a result, some 1 billion people in Africa, Asia and Latin America live in absolute poverty, about 250 million children are chronically malnourished, and nearly 40 million people die of famine and malnutrition each year.

The demographic explosion is exacerbating such global problems as food, environmental, raw materials, and energy. An important reason for the

aggravation of global problems in terms of material content is the low level of implementation of resource- and energy-saving, as well as environmentally friendly technologies. As a result, only 1.5% of the natural substance involved in the production process takes the form of the final product.

Environmental problem An important component of global problems is environmental caused by the barbaric attitude of man to nature manifested in mass deforestation, destruction of rivers, creation of artificial reservoirs, and freshwater pollution by hazardous waste. 15 million hectares of forests are destroyed every year in the world, there are 10 felled trees per one planted tree.

Compared with the beginning of the XX century, fresh water consumption has increased more than 7 times and in the 1990s it was almost 300 cubic meters per year per person. Given that a quarter of humanity lacks fresh water, the problem of providing the population with quality drinking water is coming to the fore. At the same time, according to the World Health Organization, about 80% of various diseases are associated with the consumption of poor quality drinking water.

Criminal negligence of people to nature is observed in the loss of vast tracts of land. For the last 100 years, humanity has lost 200 million square km of land, and today annually loses about 6-7 million hectares of fertile land.

In the early 1970s, the ecological crisis began, which means a sharp exacerbation of the contradictions between man and nature, their conflict, a global imbalance in the natural cycle of matter.

Important signs of this crisis are global climate change and the emergence of the greenhouse effect. As a result of the unprecedented scale of human impact on the environment, human activity outside the planet in the outer space, involvement of all components of the biosphere (air, water, flora and fauna) in production processes, sharp decrease of the ozone layer above the planet, which could lead to global warming, melting of polar ice caps, flooding of most settlements of the Earth, intensification of natural disasters, etc.

Another sign of the environmental crisis is the problem of human production waste. Significant waste is being accumulated in the world ocean. Ocean plankton annually absorbs about 50 billion tons of carbon dioxide, much of which settles to the bottom. This process significantly affects the growth of carbon dioxide in the planet's atmosphere. Emission of

toxic substances currently amounts to more than 3 million tons per year.

Ways to solve the environmental problem The main ways to solve the environmental problem in terms of the material content of the social mode of production are:

- rapid development and use of such basic types of self-renewable energy as solar, wind, ocean, hydropower, etc.;
- structural changes in the use of the existing non-renewable energy sources, namely: increasing the share of coal in the energy balance while reducing the share of oil and gas, as the latter's reserves on the planet are much smaller and their value to the chemical industry is much greater;
- the need to create environmentally friendly coal energy which would work without harmful gas emissions. This requires significant government spending on environmental measures. But if in the USA and Germany up to 2% of GDP, in Japan – 3%, is used annually for these purposes, in the former USSR, only 1.2% is used;
- development by all countries of specific measures to comply with environmental standards – clean air, water basins, rational energy consumption, improving the efficiency of their energy systems; study of stocks of all resources using the latest R&D achievements. As we know, today only a shallow layer of the Earth – up to 5 km – has been explored. Therefore, it is important to discover new resources at greater depths of the Earth and at the bottom of the oceans;
- intensive formation by developing countries of their own raw materials, including processing industries. To solve the problem of famine in these countries it is necessary to expand sown areas, introduce advanced agricultural techniques, highly productive livestock and crop production;
- search for effective methods of managing the population growth in order to stabilize it at the level of 10 billion people at the beginning of the XXII century;
- suspension of deforestation, especially tropical, ensuring the rational use of wood;
- formation of people's ecological worldview which would allow to consider all economic, political, legal, social, ideological, national, labour issues both within individual countries and at the international level;
- comprehensive development of legislation on environmental protection, including waste. For example, in the United States, France, and some other countries, the government is required to provide technical and financial assistance to businesses and organizations in recycling waste,

extracting valuable components, conducting research in this area, disseminating best practices, and so on. For this purpose, they use tax benefits, subsidies, reduction of tariffs for transportation of recycled materials, etc.;

- increasing environmental investment. For example, such investments account for more than 15% of all investment in Austria.

Fuel and energy and raw materials global problems The consumption of fuel, energy and raw materials is growing rapidly. 2 kW of energy is produced for each inhabitant of the planet, and 10 kW is required to ensure the generally accepted standards of quality of life. This figure is achieved only in developed countries. In this regard, the irrational use of energy in combination with population growth and uneven distribution of fuel and energy resources around different countries and regions are leading to the need to increase the power production.

However, the planet's energy resources are limited. At the planned pace of development of nuclear energy, the total uranium reserves will be depleted in the first decades of the XXI century. Furthermore, if energy consumption is at the level of the thermal barrier energy, all stocks of non-renewable energy sources will burn up in the first decades. Therefore, in terms of material content, the main reasons for the aggravation of fuel and energy and raw materials problems are the growing scale of natural resources' usage in the production processes and their limited amount on the planet.

The main ways to solve fuel and energy and raw materials problems in terms of material content of the social mode of production are:

- change of the pricing mechanism for natural resources. Thus, their prices in underdeveloped countries are dictated by large TNCs which have concentrated control over natural resources in their hands. According to UNCTAD, three to six TNCs control 80-85% of the world copper market, 90-95% of the world iron ore market, 80% of the cotton, wheat, corn, coffee, cocoa, etc.;
- the strategy of combined actions of energy and fuel resources' exporting countries to oppose joint efforts of developed countries. This strategy should relate to the volume of extraction of all types of resources, quotas for their sale in foreign markets and more;
- as developed countries and TNCs try to carry out only primary processing of mineral raw materials in developing countries, the latter

need to increase the output of finished products, which would allow them to significantly increase export earnings;

- carrying out progressive agrarian transformations;
- uniting the efforts of all countries to solve global problems, and to significantly increase the cost of resolving the environmental crisis by weakening the arms race and reducing military spending.
- use of a set of economic measures for environmental quality management, including subsidies and grants for production of environmentally friendly products, implementation of national environmental projects, etc.