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**THE THEORETICAL BASIS FOR THE INTERNATIONAL TRADE. THE MODERN TRENDS OF THE INTERNATIONAL TRADE DEVELOPMENT**

**TERM PAPER**

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**Introduction**

The traditional and most advanced form of the international economic relations is the foreign trade. On a share of trade it is necessary about 80 % of all volume of the international economic relations.

Theories of the international trade beginning from the English classical political economy, have passed a number of stages together with the development of the world economic science.

The chosen theme is actual as theories of the international trade benefit since they help to explain what competitive production it is possible to make in a particular country or region, where the company can organize effective manufacture of given products and whether the state will interfere with barter between the countries.

The basic **purpose** of this term paper is studying both theories revealing the principles of optimum participation of national economies in the international barter, and objective laws of development of the world trade, including Russia’s foreign trade.

**The primary goals of this term paper are:**

1. To consider what international specialization is the most effective and beneficial for the separate countries and regions.

2. To define the basic directions of commodity streams between the countries and factors of competitiveness of separate countries in the world market;

3. To analyse the role of Russia in the world trade.

**Area of research of the international economic relations** is theoretical problems of organizing foreing trade in Russia and abroad. **Object of research** is *the external world.*

The theoretical and methodological basis of the term paper are the of founders of the economic science, modern domestic and foreign scientists. However this theme is widely discussed in the periodic economic editions, such as « the Russian External Economic Bulletin », "Expert".

The practical importance of the term paper is s that its results can be used in the educational process while studying economic disciplines.

The term paper consists of the introduction, three chapters, the conclusion and the list of the literature. In the *introduction* the urgency of the chosen theme is proved, the purpose, problems, area and object of the research is defined, scientific novelty, theoretical and practical values of work are considered.

In *chapterI* « Theories of the international trade » classical and modern theories of the world trade are considered; in *chapter II* the concept of the world trade, and also the law of development of the international trade and the basic directions of the foreign trade streams between the countries; in *chapter III* the role of Russia in the international trade has been analysed. *In the conclusion of* the term paper the basic results of the carried out researches are stated, conclusions and practical recommendations are made.

Active participation of the countries in the foreign trade allows them to use resources available in the country more effectively, to join the world achievements of science and technology.

**Chapter I. Theories of the international trade**

* 1. ***Classical theories of the international trade***

**A.Smith’s Principle of absolute advantage**

The policy of free-trade has been developed by English economist A.Smith. He has created the new theory of the world trade. Не considered, that it is necessary to import the goods from the country where costs absolutely it is less, and to export that goods, which costs below exporters.

A.Smith's approach has received the name « the Principle of absolute advantage ».

*Each country should specialize on manufacture of the goods which average costs it is less, than average costs in other countries.*

Smith has proved, that free trade will be favourable to its all participants.

If a country makes some goods more on a unit of cost than its competitors do, it has the absolute advantage in manufacturing these goods. It is favourable for the country– manufacturer to export these goods, and it is favourable for other countries to buy them since it would be more expensive to produce them.

**D.Rikardo’s Principle of comparative advantage**

D.Rikardo has formulated the theory of comparative costs.

He has defined a price zone inside of which the exchange will be favourable to everyone. D.Rikardo has shown, that the international exchange is possible and desirable in interests of all countries.

An economic theory which claims that all countries will be better off if each of them concentrates on doing the things it does best.

So, most countries have one thing they do better than anyone else. By concentrating on one activity they can import the things they produce less well.

Foreign trade should be free.

**Theory of Hecksher - Olin**

The new model has been created by the Swedish economists Ales Hecksher and Bertel Olin.

Theory has received the name *of the theory of proportional factors*.

*The countries aspire to export that goods in which production they have superfluous factors of manufacture. And to import the goods in which scarce factors for the country are used.*

They considered, that it is possible to induce the countries to development of manufacture and export of that production where superfluous and cheap factors of manufacture are used.

**Leontiev’s Paradox**

Vasily Leontiev an American economist. He investigated structure of export and import of the USA.

He has found out, that in export трудовое потребление goods prevailed, and in import prevailed capital-intensive. The theory has received the name «Leontiev’s paradox ».

V. Leontiev has assumed, that greater productivity of the American work is connected with higher qualification of the American workers.

So, V. Leontiev has found out, that the branches being successful exporters, possess higher labour input. And other branches colliding with a competition of the import goods, not so are successful.

***1.2 Modern theories of the international trade***

**The theory of the technological break**

The theory of the technological break is the modern theory of the world trade. The theory was developed by the American economists G.Hafbauer, R.Vernon.

If in branch technological innovations are applied, country will receive comparative advantages. If the country makes the goods with smaller costs, it will receive additional profit in the world market. Therefore exporters are interested in increase in manufacture of the given goods and its realization in the world market. While break exists, it renders positive influence on export of goods in which manufacture new technologies are used.

**The theory of the product life cycle**

R.Vernon, C.Kindelberger, L.Uels have developed the theory of the product life cycle. This theory explains development of the world trade by finished goods on the basis of stages of its life in the market.

Development of the world trade by finished articles depends on stages of a life.

The product life cycle is a familiar one in marketing. A product is launched, developed, goes through a period of growth, enters maturity, declines, and eventually dies.

At the first stage there is a development of new production. Manufacture of a new product has small-scale character, demands high qualification of workers and concentrates in the country of an innovation.

At the second stage *of growth* demand for a product grows also its manufacture extends. The product becomes more standardized, the competition between manufacturers increases and export extends.

The large-lot production is typical of *a maturity.* The product life cycle passes in a stage *of decline,* demand is reduced.

The theory of the product life cycle is realistic enough reflects evolution of many branches. However is not a universal explanation of tendencies of development of the international trade .

**Michael Porter’s the theory of competitive advantage**

In 2-nd half XX centuries in the world trade have occured changes. In commodity structure of the world trade, sale of finished goods began to prevail. In 1990 the American economist M.Porter has published research « Competitive advantages of the countries ».

M.Porter has created the original theory of competitive advantage of the country. The central place in his concept is occupied with idea of a national rhombus.

***Determinants of competitive advantage*** is characteristics of the most significant sources of competitive advantage of the companies of processing industries.

1. The Factor of a condition

2. Conditions of the internal demand, causing a scale effect

3. Presence of adjacent and supporting branches

Thus, the theory of a competition connects inclusion of the country and separate firm in the world trade with conditions of a competition.

**The Theory of a scale effect**

P.Krjugman, R.Drize, G.Hafbauer have developed the theory of a scale effect.

*At the certain technology and the organization of manufacture long-term average costs are reduced in process of increase in output, i.e. there is an economy caused by mass production.*

The effect of mass production was realized, necessary capacious enough market. International trade allows to expand commodity markets. It is offered to consumers to more production and lower prices.

The theory of a scale effect is not universal.

So, nowadays the advantages in the competition are determined neither by the size of the country, nor by rich natural resources or by the power of the financial capital. The determinatives are the educational level and volume of the knowledge accumulated by a society.

**Chapter II. The international trade at the present stage of development**

***2.1 Concept and laws of development of the international trade***

Basis of economic relations in the world economy is international trade.

**International trade** is sphere of the international commodity and monetary relations on an exchange of products of work (the goods and services) between sellers and buyers of the different countries».

International trade includes export and import of the goods. *Trading balance* is parity between export and import

The structural shifts occuring in economy of the countries under influence of a scientific and technological revolution, specialization and cooperation of industrial production, strengthen interaction of national economy.

It promotes activization of the international trade. International trade grows faster production. Foreign trade became the powerful factor of economic growth.

International trade influences economy of each country.

International trade is mutually advantageous, as conducts to specialization and an exchange. Benefit is taken from a difference in costs in the different countries. It allows to receive economy from scale.

International trade is characterized by three basic *parameters are*: commodity circulation, commodity structure and geographical structure.

The term **"foreign trade"** is understood as trade between the countries, consisting of export and import of the goods and services.

***Kinds of the foreign trade are:***

1. sale of finished goods;
2. sale of machines and the equipment;
3. sale of raw material;
4. sale of services.

The parameters reflecting participation of the country in the international trade, are *quota of export and of import.*

Participation of the country in the international trade is caused by a level of its economic development, the sizes of territory, a population, problems and the purposes of economic policy.

**Law of the world trade development**

World trade grows very quickly. Export shares of the countries increase. Densities of ready industrial, high technology production grows. The export prices of machines and the equipment quickly grow.

For an estimation of advantage of the international trade for the country, economists use **an index of conditions of trade.**

The important tendency in the international exchange is the increase in the world market of services, especially tourist, transport, financial. Leaders of this market are the advanced countries.

***2.2 Structure and the basic commodity streams of the international trade at the present stage of development***

Considering structure of the world trade in the beginning of XXI century, it is possible to see essential changes. The share of the trade of a manufacturing industry has increased with 1/3 up to 3/4, on the foodstuffs and raw material it is necessary about 1/5 commodity circulations. More than 40 % of all modern world export are machines and the equipment.

The commodity structure of the world trade changes under influence of a scientific and technological revolution, a deepening of the international division of labour. Now the share of such kinds of production, as production of a manufacturing industry, machines, the equipment, chemical production, the high technology goods especially quickly grows.

One of quickly developing spheres of the international trade is trade in chemical production.

Consumption of raw material and power resources has increased. However rates of growth of trade in raw material noticeably lag behind the general rates of growth of the world trade.

Active trade in machines and the equipment has generated a number of new services, such as engineering, leasing, consulting, information services.

Export of the electrotechnical and electronic equipment quickly grows. On its share it is necessary more than 25 % of all export of machine-technical production.

The commodity structure of the international trade testifies to a level of economic development of the state.

In 2005, according to WTO, there was a growth of the international commodity circulation more than on 13 % at cost up to a level of 10,4 bln. dollars.

The important role in commodity structure of the world trade is played oil and other fuel goods. The share of fuel raw material has increased up to 16 %. For example*, Norway* is the third in the world the exporter of oil and gas. *The Incorporated Arab Emirates* the fourth in the world exporters of oil and gas.

The basic share in the international trade in the goods is occupied with the advanced countries with market economy. The leader of the world trade by the goods are the USA, on 2-nd place the Germany, on 3-rd place the Japan.

*The leading countries – exporters of the world are*: 1 place - Germany (10 % of the world export); 2 place - USA (9,7 %) and further places are distributed as follows: Japan (6,3 %); China (5,9 %); France, the Great Britain (4,1 %); Netherlands (3,9 %); on 11-th place Hong Kong, and Russia on 17-th place (1,8 %).

*The leading countries – importers* are: the USA - 16,8 % (1 place); Germany – 7,7 % (2); the Great Britain – 5,3 % (3); Japan – 4,9 % (7); and Russia in the given list occupies 23 place – 1 %.

According to WTO, the largest manufacturer, the exporter and the importer of an industrial output remains the USA. On their share 14 % of the world export and 19 % of import are necessary. The USA is the world's largest pure importer of production of mechanical engineering.

The tendency of the international trade is the increase in volumes of trade between less developed countries.

The share of the countries of the Western Europe in the world export made 32 %. On EU 85 % of export and 77 % of import of the industrial goods are necessary.

The beginning of XXI century was characterized by significant shifts in the external economic sphere of Spain. In 2004 on its share was necessary 4,1 % of the world trade, including 1,9 % on export and 2,2 % on import.

The commodity structure of the Russian export to last years keeps the raw orientation. Dominating positions occupy the fuel and energy goods, black and nonferrous metals and chemical fertilizers.

It is necessary to note, that on structure of the international trade the greatest influence render a scientific and technological revolution, a deepening of the international division of labour. In the world trade growth of chemical production, a manufacturing industry, a machine engineering industry, power resources is observed, that is the precondition for development of new services.

**Chapter III. Foreign trade of the Russian Federation**

***3.1 Features of Russia’s trade at the present stage***

The Russian economy has crossed a threshold of a new millenium in a stage of steady economic rise.

According to customs statistics, the foreign trade turnover of Russia in January - June, 2006 has made 199,7 billion dollars. It has increased for 31,8 %, including the countries CIS – 28,7 billion dollars.

The volume of the world trade has increased in January – June, 2006. It is connected to growth of export deliveries of energy carriers and with growth of import increase of internal demand.

It is necessary to note, that, despite of fluctuations of volumes of import and export, invariable positive remains to balance of the international trade.

The active balance of trading balance of Russia has made 86,3 billion dollars and has increased for 19,9 billion dollars. The factor of a covering of import by export has made 252 %. Thus the balance has essentially exceeded import (in 1,5 times).

The high level of balance has provided updating currency reserves of the country. According to Bank of Russia, the international reserve actives of the country for June, 1, 2006 have made 250,6 billion dollars and have increased in comparison with 2005 in 1,7 times.

In the foreign trade of Russia a special place as the largest economic partner occupies the European Union. On its share in January - June, 2006 it was necessary 52,1 % of the Russian commodity circulation.

The basic trading partners in a circulation of Russia were Germany – 10 %, Netherlands – 8,9 %, Italy - 7,5 %, Ukraine – 5,4 %, China – 5,9 %, Turkey – 3,8 %, the USA - 3,4 %, France -3 %, Japan -2,6 %.

The foreign trade turnover of Russia in I half-year 2006 has made 213,5 billion dollars, including export – 144,1 and import – 69,5 billion dollars.

**Development of export**

The Russian export in January – June, 2006 against January – June, 2005 has increased for 31,3 %. Thus total export has made 143 billion dollars. 84,1 % of a gain of export is received due to growth of contract prices.

Physical volumes of export have increased by 5,0 %. The average export prices have increased for 25,1 %.

The relation of commodity export to gross national product of Russia under the mid-annual exchange rate of the Central Bank of the Russian Federation has made 41,5 %.

The export quota (a share of export in manufacture) has increased on oil, mineral oil, coal and has decreased on natural gas, a paper newspaper, automobile and to lorries.

The basic trading partners of Russia in export were Netherlands – 11,6 % (in 2005 -10,4 %), Germany – 8,6 (8,8), Italy – 8,8 (8), China – 5,1 (5,3), Turkey – 4,6 (4,4), Poland-3,5 (3,4), the USA – 2,9 % (2,8 %).

The structure of the basic export positions in comparison with the last year practically has not changed and includes the major energy carriers (oil, gas, mineral oil), base metals, jewels, a round wood.

In *a fuel and energy complex* cost the volume of export of fuel and energy resources has increased for 44,1 %.

The world prices for oil URALS in June, 2006 have made 469,3 dollars for one ton.

In *a metallurgical complex* cost the volume of export of production in the accounting period has increased for 3,3 %.

In *a wood and pulp-and-paper complex* in January - June, 2006 the standard item of wood and pulp-and-paper production has increased for 11,8 %.

In *a chemical and petrochemical complex* cost the volume of export of the basic goods in 2006 has increased for 15,4 %.

In *a machine-building complex* it has been put on a foreign market of machines, the equipment on 6889,2 million dollars.

**Development of import**

The Russian import January - June, 2006 has made 56,7 billion dollars and has increased for 33,2 % .The basic trading partners of Russia in import were Germany – 13,4 % (2005 – 13,4 %), Ukraine – 6,6 % (8,3), China – 7,9 % (6,2), Japan – 5,7 % (5,5), the USA – 4,6 (4,9), Italy – 4,1 % (4,3), South Korea – 5,7 % (3,2), France – 3,9 % (3,7), the Great Britain -2,7 % (2,9 %).

Growth of import was provided due to increase in physical volumes of import. In the accounting period the physical volume of import has grown on 28,3 %. The increase in import volumes promoted expansion of internal demand.

The increase in import volumes promoted expansion of internal demand. The real salary of one worker in June, 2006 has raised on 15,2 %, and a turn of retail trade on 13,7 %. In 2006 monetary incomes of the population have made 1417,8 billion roubles.

Real effective strengthening of rouble to foreign currencies in 2006 on 8,4 % promoted import. In the accounting period import of machines, the equipment and vehicles has increased for 48,6 % and has made 26196,4 million dollars.

So, the analysis of growth of the world trade of Russia has shown, that in *export activity* the volume of export has increased due to contract prices.

In *import activity*, on the contrary, in the accounting period of 85,1 % - due to physical volumes, and 14,9 % - due to a rise in prices. Really the economy of Russia has shown good rates of economic growth.

***3.2 Russia’s role in the international trade***

Russia is one of the largest countries in the world. It possesses unique natural resources, large industrial, scientific and personnel potential.

Russia plays the important role in a mineral and raw complex of the world. From depths of Russia 10 % of oil, 30 % - gas, 10 % - coal, 14 % - commodity iron ore, 15 % – color and rare metals from all volume of minerals extracted are taken by the world community.

On a share of Russia 85 % of oil, 84 % – a gas condensate and gas, 70 % – coal, 66 % – iron ore, 53 % – are necessary approximately to copper, 95 % – nickel, 70 % – bauxites from stocks of the CIS.

Russia is one of the world's largest owners of power resources. According to the international economic organizations, Russia also has strong competitive positions in export black and nonferrous metallurgy, the wood and defensive industry, the machine industry, the chemical industry.

Positions of Russia in the international trade have a little improved.

Now the share of Russia in world export of goods makes 1,8 % (17 place among the leading countries – exporters of the world. In world import of the goods the share of Russia made 0,9 % (23 place).

Under the foreign trade turnover Russia occupies 20 place in the world. The share of gross national product of Russia in the world economy in 10 times is less, than the USA, and in 5 times there is less than China. On total amount of gross national product Russia occupies 15 place in the world. On stocks of the nuclear weapon Russia occupies 1 place in the world (55 %).

Foreign trade remains the important source of receipt of the investment goods.

So, the sphere of the foreign trade gives huge opportunities for becoming and developments of economy, formation of the budget of the country, maintenance of well-being of people.

**Conclusion**

Development and complication of the international trade has found reflection in evolution of the theories explaining driving forces of this process. Traditional foreign trade theories are insufficient for an explanation of a modern international exchange of the goods, but they are base in theoretical researches of the western scientists and explain occurrence and an orientation of the world trade by the goods.

In modern conditions it is possible to analyse distinctions in the international specialization only on the basis of set of all key models of the international division of labour.

International trade influences economy of each country. All that is made in the country goes on export, and in volume of consumption the increasing role is played with import.

Theories revealing principles of optimum participation of national economies in the international barter and law of the world trade development, including the world trade of Russia are investigated.

The term paper can be used in educational process at studying economic disciplines.

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