

# **THEORIES AND CONCEPTS IN THE STUDY OF TRADE AND ECONOMIC RELATIONS BETWEEN COUNTRIES**

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## **Introduction**

The modern world economy began to form systematically in the late nineteenth and early twentieth centuries. At present, the world economy is a global economic system based on the principles of a market economy, the international division of labor, and the internationalization of production and exchange. The modern world economy has been formed as a whole system, but this integrity is gradually developing. Thus, the world economy is formed and developed through the improvement of the international division of labor, the process of internationalization of economic life, the regional economic integration of interstate socio-economic regulation of the formation and development of groups of countries, and the transnationalization of production.



First of all, it should be noted that the history of the formation of the world economy begins with the international division of labor, which is associated with the exchange of goods in terms of territory. The international division of labor, or international division of labor, is based on the socio-territorial division of labor. It is based on the specialization of production, saving the production and exchange costs of each country, and to a certain extent manifests itself in the exchange of production results. In this sense, the specialization of production is at the forefront of the countries.

International specialization is based on the concentration of similar production activities, and the progressive differentiation of national production as a form of the existing division of labor between countries. Specialization in the international division of labor ensures the specialization of countries and regions in the production of certain products and components for the global market.

International production cooperation in this direction attracts more attention. International production cooperation is the result of the specialization of national industries that interact in the international division of labor. International production is based on specialization and is formed by the special and social division of labor in the global economy. International production cooperation is called the vertical model of the international division of labor, that is, it involves entering the international division of labor while maintaining the autonomy of the production process within national borders. The international division of labor found its justification and development in the classical school of political economy, especially in the theories of its founders, Adam Smith and David Ricardo. These theories have focused on solving the problem of comparative production costs (Y. Kozak, T. Shengelia, T. Sporek, S. Lebedeva, and others, March 2014). At the heart of these theories is the idea that there are differences between countries in the costs associated with the production of certain goods. This situation leads countries to conclude that it is more profitable to focus on products with lower production costs than on products required for foreign trade.

### **International trade as a part of the international economy**

Foreign trade and international trade as a whole is the main and leading form of international economic relations, and the sphere of international trade is constantly expanding. Because international trade acts as a complement to all spheres of economic activity. According to statistics from international think tanks, the share of international trade in the world economy in 2020 is estimated at around 56%. Thus, in 2020, the volume of world trade will reach 39 trillion. The US dollar accounted for 25% of electricity, computers, nuclear reactors, and other science-intensive products, 9% of all types of automobiles, and 14.4% of mineral resources

such as oil, gas, and coal (WTO annual report). The flow of international trade flows is expressed through international trade. According to research, due to an 8% increase in world production, world trade has fallen by 14% (Al-Sulaim Mesaad Ibrahim, February 2020). Such correlation creates favorable conditions for the development of foreign trade and international production cooperation.

If there are problems in international trade, then the development of production is slowed down. Recent economic crises and political tensions in the world have a negative impact on international trade, which directly leads to a decline in production.

International trade is the most important tool of the world economy in terms of building ties between countries and strengthening their interaction in the international exchange of goods, services, and intellectual labor products. Not only different countries of the world but also their economic entities have used and gradually improved various forms of trade, which are of great importance to meet their needs. At present, the scope of trade has expanded, and bilateral and multilateral trade relations between countries have shaped international trade. International trade, which is an element of the international economy, is a complex and multifunctional sector, so there are many definitions of international trade.

Of these, we can specifically note the following:

- *it is a set of trade relations and international trade relations of many countries that trade with each other.*
- *it is a system of international commodity-money relations arising from the foreign trade of all countries.*
- *it is the sum of trade relations and foreign trade relations of all countries of the world that trade with each other.*
- *it is the exchange of goods and services between economic and market entities of different countries.*
- *trade between residents of different countries, which can be individuals or legal entities, companies, non-profit organizations.*

In our opinion, international trade can be considered as a set of trade relations, commodity-money relations arising in the process of world exchange of goods and services, trade, services provided by economic entities of different countries to residents from the total foreign trade.

Summarizing the above, it should be noted that at this stage, international trade plays an important role in the development of individual economic entities of the world economy, both as a factor of economic growth as a whole and as a factor of increasing interdependence.

International trade is the material basis of the world economy, providing not only the external features of the world market but also the growing integration of world trade. Since international trade is a form of communication between producers and consumers of different countries, the development of the international division of labor is based on interaction. In order for national economies to integrate into the world economy, they must participate in international trade.

In general, the foreign trade of different countries has given rise to international trade, which is a complex socio-economic sector. There is a dual approach to international trade, such as economic and financial operations and public-political activity.

From the point of view of economic and financial operations, international trade is a process of direct exchange of goods and services between economic entities of different countries, states and international organizations.

This process depends on the movement of goods, tools and mechanisms to expand trade, improve the structure of imports and exports, forecast and assess world trade markets, plan export opportunities and import demand, organize contacts, control supply and load, organize monetary and financial transactions. In this case, the field of research includes the subject of international trade, the organization of the implementation of import-export operations, and the object, respectively, the export or import operations.

Since the process of exchange of goods and services between countries pursuing independent foreign and domestic policies takes place in the world economic system, from the point of view of state policy, international trade can be considered a special type of global relations. Such relations are regulated by special international regulations - treaties, agreements, acts, and other norms of international law. However, if public relations cannot depend on the domestic and foreign policy of the country, then exchange relations in the world market are significantly regulated by political activities and acts.

In the process of historical development, foreign trade was influenced by the following factors: natural and geographical features of the country, global economic structure, level of development of national production and living standards, level of scientific and technological progress, development of the global monetary and financial system, political processes, international emergence of organizations and integration associations, migration processes (International economic relations, available at <https://www.rand.org/topics/international-economic-relations.html>).

In addition, the historical development of foreign trade has been accompanied by the development and formation of its theory and practice. Many well-known economists have studied the main approaches to foreign and international trade and

have proved that there are many theories on various aspects of the regulation and development of foreign trade and foreign relations.

### **Theories of international trade**

Modern international trade theories have a rich history. For a long time, beginning with the emergence of economics (early 17th century), scientists have tried to answer the following questions:

- *Why international trade exists and what is the economic basis?*
- *How profitable trade is for the participating countries?*
- *Which choice is more important for economic development: free trade or protectionism?*

Mercantilism was the first trend to offer a theoretical understanding of these questions. He claimed that the static of the existing world and the wealth of nations have always been a stable phenomena. Therefore, the proponents of this doctrine (T. Man, A. Serra, A. Montchrestien) believed that the prosperity of one country is possible through the redistribution of existing wealth, that is, through the impoverishment of another country. Mercantilists associated wealth with precious metal (gold, silver) reserves. According to them, the more precious a country has, the richer it is. From their point of view, having more money in circulation also stimulates the development of national production and employment. However, as economic theory shows, an increase in cash in circulation causes money to depreciate - leading to inflation. According to mercantilists, every country:

- *should stimulate exports and export more than imports. This approach will provide more gold to the country;*
- *should restrict the import of goods, especially those that will ensure the export balance of trade;*
- *should ban the production of the last responsible in their colonies;*
- *should ban the export of raw materials from colonizers to the colonies, create conditions for free import of raw materials not found in the country;*
- *should stimulate the export of cheap raw materials from the colonies;*
- *should prohibit the colonies from trading with countries other than the colonizers, and the colonizer must sell the goods of the colony to other countries.*

Thus, the mercantilist policy of large countries is based on trying to save as much money as possible and minimize imports, that is, the country should sell as many products as possible in foreign markets and buy as little as possible. At the same time, the country must collect gold. Mercantilists also needed state control over all economic activities and justified economic nationalism.

The main contributions of mercantilism to international trade are:

1. For the first time, an attempt was made to create an international trade theory that directly linked trade relations with the country's domestic economic development and economic growth.
2. Mercantilists have developed one of the possible models for the development of international trade based on the commodity nature of production. They laid the foundations of modern international trade theory.
3. In modern economics, the concept of balance of payments is established.

However, the mercantilists did not understand that the only way to make one country rich was not through the impoverishment of the countries in which they traded, that is, through economic redistribution of existing wealth, but through accumulation. In other words, they believed that a country could make money from trade only at the expense of another country that did not make money from trade (Y. Kozak, T. Shengelia, T. Sporek, S. Lebedeva and others, March 2014).

The school of mercantilism has dominated the economy for 150 years. At the beginning of the 18th century, international trade had many possible restrictions. Trade rules were contrary to the needs of production and there was a need to move to free trade.

The next development of the theory of international trade was found in the works of classical school representatives. The development of international trade during the transition of developed countries to large-scale machine production led to the emergence of the theory of absolute advantages developed by Adam Smith. He criticized mercantilism in *The Study of the Nature and Causes of the Wealth of Nations* (1776).

Smith believed that the wealth of nations did not depend on the reserves of precious metals but on the ability of the economy to produce the final products and services. Therefore, the main goal of the country is not to collect gold and silver, but to ensure the development of products based on cooperation and division of labor. "Why is a country interested in an international exchange?" is the first person to answer the question. He believed that as long as the two countries were trade partners, both countries would benefit from trade. One of them stops trading if he can't earn anything. The state can benefit not only from sales but also from the purchase of goods in foreign markets. Smith also sought to determine which products were more efficient for export and import and the benefits of trade.

Smith's theory of international trade is based on the following preconditions:

- *labor is the only factor in the production of goods. This only affects the productivity and price of goods;*
- *full employment, means all available labor force should be used in production;*

- *international trade involves only two countries that trade two products with each other;*
- *production costs are stable and its reduction increases the demand for the product;*
- *the price of one product is expressed by the amount of labor expended in the production of another product;*
- *Transportation costs of goods transported from one country to another are not taken into account;*
- *Foreign trade is carried out without any restrictions;*
- *international trade is balanced (exported instead of imported);*
- *factors of production are not transferred between countries.*

The law of international specialization, which depended on absolute preference, excluded countries that did not have an absolute preference in international trade. On the basis of D.Ricardo's "On the Principles of Political Economy and Taxation" (1817) the theory of comparative advantage was formed and it was proved that the absolute advantage of any product in national production is not a necessary condition for the development of international trade - international exchange is possible and desirable.

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

- *free trade;*
- *fixed costs of production;*
- *lack of international change of place of work;*
- *lack of transportation costs;*
- *lack of technological development means the technological level of each country remains unchanged;*
- *full employment;*
- *labor is the only factor of production.*

In Ricardo's model, local prices are determined only by cost. However, as proved by the British economist John Stuart Mill, world prices are also determined by world demand. In his book "Principles of Political Economy", he shows the prices at which goods are traded between countries.

Thus, this theory is the basis for determining the price of a commodity, given its comparative advantage.

The most important points of the theory of comparative advantage are:

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

- *This theory is valid for any quantity of a product and for any number of countries, as well as for trade between different enterprises. In this case, the specialization of the product in certain countries depends on the ratio of wages in each country;*
- *The theory is based on the existence of trade benefits for all participating countries;*
- *It was possible to develop foreign economic policy on a scientific basis.*

The study of factors affecting the scope and volume of international trade in the 1930s allowed Swedish scientists E. Heckscher and B. Ohlin to clarify the main points of the theory of comparative advantage, make additions and form the concept of factors of production. Since David Ricardo's views were based on the possibility of fixed production costs in each country, it was necessary to look for a new concept of international trade. However, in practice, along with production growth and product diversification, marginal costs have also increased, and leading Swedish economists have decided that replacement costs (relative costs) should be included in the models. The theory is based on the following preconditions:

- *there are two countries, one labor-intensive and the other capital-intensive, and two factors of production - labor and capital;*
- *technology is the same for both countries;*
- *both countries have different levels of production factors;*
- *there is no international displacement of factors of production;*
- *there can be no full specialization in the production of any product in the countries.*

The main condition of this theory is that individual commodities have different factor intensities (one commodity is based on labor and the other is based on capital) and countries have different factor richness (one country has more capital and the other has relatively less capital).

The essence of Heckscher-Ohlin's theory is that each country will export its products using many cheap factors of production, and import products that require scarce and expensive resources.

Heckscher-Ohlin's theory holds that trade should be conducted on the basis of comparative advantage, and shows that the difference between the relative values of products and the comparative advantage is due to the difference in the supply of factors.



Modern international trade theories have emerged mainly for the following reasons:

- *on the one hand, as an alternative to the Heckscher-Ohlin theorem, conditions that are not covered by the theory of factor ratios are investigated. These theories characterize the characteristics of international trade, mainly based on the supply of goods.*
- *on the other hand, as an alternative to classical theories that are considered obsolete. These theories mainly analyze demand-driven international trade in terms of consumer preferences.*

Key alternative theories include product life cycle theory, country similarity theory, and economic measurement theory (Amr Sadek Hosny, January 2013).

The basics of product life cycle theory were developed in 1966 by Raymond Vernon. Based on the product life cycle concept proposed by Harvard Business School experts since the early 1960s, he stated that product sales and profits have changed over time.

According to the theory, the product goes through 4 consecutive life cycles:

1. The stage of the arrival of a new product on the market shows low sales.
2. The growth phase is characterized by an increase in sales and revenues.
3. The development of competition during the period and the saturation of the market stabilize sales and revenues.
4. During the crisis, the product wears out, and sales and revenues fall.

The theory of country similarity was developed in 1961 by the Swedish economist Stefan Linder. Here, without taking into account the Heckscher-Ohlin theorem, the volume of trade in similar goods between countries with comparable levels of development is taken as a basis. A new approach has been developed in theory based on the following principles:

- *Production conditions depend on demand conditions. When demand is high, production efficiency increases;*
- *Local production conditions depend on local demand. This represents domestic demand, which is the basis of production and is necessary, but not sufficient for the export of goods.*
- *The foreign market is just a continuation of the domestic market and international exchange is just a continuation of interregional exchange.*

The measurement theory of economics is not related to the theory of comparative advantage and the ratio of factors of production. This is based on different levels of market monopoly and inefficient use of factors of production.

As factors of production growth, the cost per product decreases depending on:

- *increasing specialization in the production;*
- *relatively slow growth in auxiliary departments in the field of production;*
- *technological economy.*

The measurement economy is the development of production that leads to an increase in the production of more than one unit with the growth of specific production factors.

Economic measurement theory explains trade between countries with similar or technologically similar products.

## **Results**

Foreign trade is a special field of research for any country, as the entry of countries into foreign markets and their integration into global integration processes has a significant impact on the well-being of nations. Foreign trade, being an integral part of the foreign economic complex, is considered one of the priorities that contribute to the creation and stabilization of the country's economy, as well as improving the welfare of the people. The development of the country's foreign trade directly depends on the effectiveness of government management decisions, which in turn are based on the results of analytical research conducted at the macroeconomic level.

After studying the theories and concepts of trade and economic relations between countries, it becomes clear that the main factors influencing the development of international trade can include factors of production, demand for products, costs, technological changes, and others. However, summarizing the above, the main specific features of international trade can be summarized as follows:

- a) different currencies;*
- b) prevention and control by the state;*
- c) the diversity of the ability of factors of production to move both within and between countries;*
- d) multilevel nature of world trade;*
- d) the global nature of competition and the multiplicity of prices;*
- e) the existence of two interrelated types of trade operations, such as exports and imports.*

Speaking about the role of foreign trade in the system of functioning of the national economy, it should be noted that it is an important factor in the economic development of any state:

- *contributes to the ongoing initial accumulation of capital in economically backward countries, so foreign trade has not lost its importance as a factor of development;*
- *is based on the international division of labor and, accordingly, promotes the specialization of countries in the production of commodity groups of certain countries and thus strengthens economic ties between different countries;*
- *performs the functions of attracting resources inaccessible for internal use by integrating them into all spheres of economic activity;*
- *contributes to overcoming and developing the economic backwardness of developing countries;*
- *assists in the creation of a modern production structure due to the need to export competitive products;*
- *contributes to raising the living standards of the population through the development of the productive forces of a particular country;*
- *the use of natural resources of developing countries by developed countries through foreign trade channels;*
- *promotes the normalization of the process of national reproduction, taking into account the possibility of accumulating inaccessible resources through the import and export of manufactured products;*
- *globalization processes stimulate the exchange of advanced technologies between countries and, accordingly, the development of foreign trade channels engaged in the development of national economies;*
- *is a source of additional profit through value added in foreign markets with absolute and relative advantages in the production of a particular product;*
- *helps to save money on imports of goods, the production of which is not expedient within the country;*
- *strengthens the role of investment activities and therefore increases potential profits;*
- *affects the process of distribution of national income between countries in foreign markets by influencing exchange rates.*

On this basis, foreign trade is one of the key factors in the inclusion of national economies in the process of global reproduction and the mechanism of international trade relations. Foreign trade contributes to the economic development of the country as a whole through the expansion and deepening of specialization, the concentration of production, and integration into the world economic system.

The goals, methods and means of foreign trade are determined by the goals and objectives of the foreign trade policy of the state and in turn, are an integral part of the foreign policy of the state and are formed in accordance with the general economic and political goals and priorities.

The strategy of foreign trade policy is determined by its goals and the solution of conceptual problems of development and regulation of foreign trade of the state.

In addition, it takes into account the national interests and economic security of the country, so many countries adopt special legal documents that help to create favorable conditions for local businesses in foreign trade. The content of foreign trade policy (protectionism, liberalization policy) depends on the implementation of the state and socio-economic conditions and reacts to changes in the system of international relations, which determines the nature of foreign trade activities to ensure economic security and a set of methods and tools.

In addition, it should be noted that the rapid development of science and technology since the beginning of the XXI century has changed the form of international trade, and the process of digitization of the world economy is underway. An obvious example of digitalization is e-commerce. E-commerce is a type of activity carried out for the purchase and sale of goods, services and work using information systems. In other words, any individual or legal entity can get any goods and services from any country through the e-commerce platform. As a result, this opportunity facilitates international trade and increases the number and volume of transactions. It should be noted that according to statistics provided by the World Trade Organization, in 2020, 1.9 billion people have acquired products and services online, and this amount is 2.9 trillion US dollars. This amount will be estimated at 5.8 trillion US dollar in 2023 (Basics of the Mechanics Behind Electronic Trading, available at <https://www.investopedia.com/articles/investing/110713/basics-mechanics-behind-electronic-trading.asp>). As can be seen, technological changes in the world have a significant impact on all sectors of the economy.

## **Conclusion**

The article explains in detail the essence of the world economy, the history of its formation, the international division of labor, and international production cooperation. The role and economic significance of international trade were determined and its role in the country's economy was indicated. Then, detailed information was given about the classical and modern theories of international trade, the initial conditions of each, their main contribution to international trade, features, shortcomings, in the most important points.

At the end, after studying the trade and economic relations between the countries, the main factors influencing the development of international trade were analyzed, the main specific features of international trade were identified and the impact of foreign trade on the economic development of the country was identified.

### **Disclosure statement**

No potential conflict of interest was reported by the author.

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## XÜLASƏ

### ÖLKƏLƏR ARASINDA TİCARƏT-İQTİSADI ƏLAQƏLƏRİN ÖYRƏNİLMƏSİNƏ DAİR NƏZƏRİYYƏ VƏ KONSEPSİYALAR

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İlkin olaraq məqalədə beynəlxalq iqtisadiyyatın və beynəlxalq əmək bölgüsünün mahiyyəti izah edilmiş, onların formalaşmasını zəruri edən amillər təhlil edilmiş, beynəlxalq iqtisadiyyatın əsas tərkib hissəsi olan beynəlxalq ticarətin əsas spesifik xüsusiyyətləri və onlara təsir edən amillər müəyyən edilmiş, klassik (merkantilizm, mütləq üstünlüklər, müqayisəli üstünlüklər və Hekşer-Olin nəzəriyyələri) və müasir (məhsulun həyat dövrü, ölkə oxşarlığı, iqtisadi ölçü nəzəriyyələri) beynəlxalq ticarət nəzəriyyələrinin hər biri tədqiq edilmiş və onların əsas xüsusiyyətləri, beynəlxalq ticarətə töhfələr və çatışmazlıqlar təhlil edilmişdir. Sonda tədqiqatlar əsasında beynəlxalq ticarət nəzəriyyələri üzrə konkret nəticələr əldə edilmişdir.

**Açar sözlər:** beynəlxalq iqtisadiyyat, beynəlxalq ticarət, nəzəriyyələr, beynəlxalq əmək bölgüsü

**РЕЗЮМЕ****ТЕОРИЯ И КОНЦЕПЦИИ ИЗУЧЕНИЯ ТОРГОВО-  
ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ МЕЖДУ СТРАНАМИ****Месаад Ибрагим АС-СУЛЕЙМ***Азербайджанский государственный экономический  
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Первоначально в статье разъяснялась сущность международной экономики и международного разделения труда, анализировались факторы, необходимые для их формирования, выявлялись основные специфические черты международной торговли, являющейся главной составляющей международной экономики и факторы, влияющие на них - классические (меркантилизм, абсолютные преимущества, сравнительные преимущества и теории Хекшера-Олина) и современные (жизненный цикл продукта, сходство стран, теории экономического измерения) были изучены каждая из теорий международной торговли, их основные особенности и проанализированы вклад и недостатки в международную торговлю. В итоге на основе исследований были получены конкретные результаты по теориям международной торговли.

**Ключевые слова:** международная экономика, международная торговля, теории, международное разделение труда