

Dynamic Development and Stability of International Trade

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International trade is of special importance for development of economy in the country. In the process of regulation of the international trade the state actively uses tariff and non-tariff measures. The mechanism of their use is regulated by the interstate domestic legal acts and international law. In the frames of law of the World Trade Organization (WTO), in compliance with reduction of the tariff rates, importance grows of non-tariff measures. As of today, in Georgia the international trade is regulated in compliance with those norms of international law, which have been established by the acts of WTO and international law. It is clear that the state system of licenses and permits plays an important role in this process. The regulatory bodies, formed with this aim in view, provide dynamic development and stability of the international trade. However, the problems existing in this field should also be especially mentioned.

Key words: international trade; stability; tariff regulation; monopoly; tariffs; competition.

It is known fact that international trade is relatively earlier and accepted form of international economic relations. International trade is different from foreign trade; the latter implies export- import operations between two countries. Foreign trade plays an important role in economic development that is why governments are trying to regulate trade relations. Main argument of state regulation is defending the rights of participants. It must be noted that trade regulation does not involve the reduction of budgetary revenues but social cost from this regulation is distributed on the whole society. The necessity of trade regulation and especially one of its forms tariffs are often justified by the existence of natural monopoly. Natural monopoly means such production conditions under that the increase in production volume results in the reduction of average costs that ultimately makes one supplier market more efficient than market with several suppliers. The unique participant takes the benefit for no existing of the substitute of its production and sets monopolistic price. It is worth to note that during the existence of natural monopoly theory there was not observed a single case in practice when there was market with several participants and one of them used the economy of scale, reduced the costs and as a result others left the market and finally was formed the natural monopoly. Each natural monopoly is created by the governmental concessions; consequently the only way to reduce costs and improve quality is supporting of competition and abolishing the exclusive rights assigned for certain companies. Among such measures especially important is to ensure the equal service delivery to every firm from the owners of electricity power stations, from the owners of pipelines and natural monopolists, there exists the strive for higher prices if price increase involves higher revenues. This fact is observed in practice when the product has no substitute that is they are taking advantage from the exclusive delivery rights from government. Contrary if there is a substitute product on the market it triggers suppliers to set the minimal, non-monopolistic price. Consequently the natural monopoly and monopolistic prices are result of exclusive rights of firms granted from the government. From the measures of monopoly regulation, tariffs regulation is not effective because first of all the price is determined by market forces and its determination from the third side is impossible. Imprecise and fixed prices deteriorate market outcomes, causes artificially deficit or excess supply, on the other hand ineffective tariffs is initially imposed by the governments that is it can be abolished ultimately by the governments itself to support the competition on the market.

The second argument of tariff regulation is defending the national market from dumping. That is to prevent the other outer suppliers to sell their products below the actual costs of production. Dumping method is used from certain supplies to make other firms to leave market and get more market share. This approach makes real impediment for functioning of the competitive market. Using of dumping is irrational against competitors because it involves a lot of costs (losses for the long run) and risk –it is possible that competitor leaves the market for specified time, awaits the rising of prices, the other option is to sell its products to the other firm which will return on the market as more profitable one.

Easier way for getting the competitive edge is merging with other firms which are more common in practice compared with dumping. Consequently setting the lower ceiling is inefficient for eliminating of dumping and causes significant costs. This result can be explained by the fact that consumer is made to pay higher price only for preventing the events that may not happen on the market. Such approach on Georgian telecommunications market caused the fact that call to America (50 Georgian Tetri per minute) is rather cheaper than call to Europe (70 Georgian Tetri per minute) despite the fact that America is rather long distant than Europe. This fact can be explained by existence of the bottom lower ceiling of prices [3, p.110]

It is notable that lower ceiling of prices is chosen by the companies itself. It means that they are willing to lower prices. Besides the above mentioned tariff regulations involves the other costs as well. The most important implicit cost which is associated with all regulations is the costs spent on lobbying to get monopolistic agreements [7,p.3] . In

case of free competitive market supplies are only concerned to satisfy consumers demand but if this is obstacle by regulation firms try to use funds in order to avoid the regulation measures. As the result consumer satisfaction level is decreasing. The letter provokes the additional measures of regulation which creates the inefficiency cycle. The only way to overcome this is to give freedom to market.

The fact that international trade benefits both sides and provokes economic development was affirmed by David Ricardo by using the theory of comparative advantage. But in spite of this some governments of industrialized countries apply protectionist measures. These measures are aimed for protecting the local market from the foreign competitors. The main instrument of protection as we already mentioned are customs duties and subsidies for the local entrepreneurs. Today there are a lot of examples of import restrictions and production subsidies [8,p129].

As for global crises it must be noted that better alternative compared with protectionist measures is coordination methods between the environments of industrialized countries. This method benefits the export capacities of involved states. The essence of effective conjuncture program of industrialized countries is maintaining liberal trade. The possibilities of enacting the protection measures are increasing in the whole world. This is dangerous and irrational policy but is especially harmful in conditions of economic crises that involve the problems to the whole world economy. Protectionist's argument implies that the local benefits increase if the national firms will be protected from the foreign competition and they get the monopolistic concessions from government.

Two hundred and fifty years ago as Montesquieu noted freedom is the result of free trade. Nations that have trade relations become interrelated, if for the first participant is profitable to buy and for other to sell and this processes benefits both sides. Trade promotes peace because it connects different people with the common business. Also it creates basis for everyday relations among different people, it also provokes to study the different languages and culture, respect other nation's needs and expectations, get information's about others possibilities and demand. Via trade not only Paris and lion, Boston and Berlin, Calcutta and Tbilisi has the common interests but it is true for all the nations that are involve in international trade [12, p. 14].

There are a number of research which proves that trade is beneficial. The most vivid and tragic example on the consequences of breaking the principles of free trade is the Second World War. From 1929 to 1939 international trade was decreased by 70 percent. Important factor contributing in this situation was enacting the law which increased import duties in United States of America, which altimetry caused respective reaction from the other states.

In today's Georgia every sphere of economic activity is under regulation. Regulations are realized in practice by setting tariffs and licensing. Tariff regulation is carried out by special organs which are financed by their own revenues in order to insure their independence. Main revenues for these organs are percentage share from the company's profits that are served by these organs. As a consequence we get that tax which is aimed to protect consumer's interests against the producer does not need any regulation. Such approach is absolutely illogical.

The majority of scholars claim that tariff regulation is an anti-economic action. They assert that with assistance of the state policy barriers are created artificially for entering in the market, which causes monopolization of the field and de-motivation of the market participants. As a result, it breaks customer's rights as well as has a negative impact on development of the field. Consequently, the only goal of its applying in the regulating process is to maintain public stability in the transitive period. That's why it is so important to reach this non-economic goal with as little money expenditure as possible. For this process it is very significant to secure some tariff principles, specifically, supplier's economic interests and customer's financial ability to buy. It is also important that both sides to be equal under the legislation. Therefore, customer must not be forced pay such additional costs that is unacceptable for him. On the other hand, supplier must not be forced to function in unprofitable conditions for him. Regulator defines only the top selling for the owner of special asset who pay for tariff for the service and for the final consumption made by him. According to this circumstance, supplier is automatically given a right to set the price on the other stages of manufacture, as for these concrete stages – freedom to set the price only in the top selling.

The explanation of the tariff regulation for above noted stages will be the following: special ownership, in the defined period of time is truly the same, it has no alternative and in short-run its doubling is nearly impossible; though in the long-run, in case of profitability, - it is quite possible. Consequently, in the short-run there is restriction for the competitive environment and for recovering this situation it is valuable to enter third side on the marketplace for establishing the competitive space. This is quite possible by obligating owner of special asset to set equal principles for all potential suppliers and serve for them. By this way, before setting competitive environment the top selling will be defined. As for the final consumption tariff, the necessity for its regulation comes from the providing of transitional society.

To regulate international trade the state along with tariff activities applies non-tariff activities. The right to apply them is defined by internal law acts and in the sources of international law. As well as the World Trade Organization within the framework of the law to reduce tariff rates on non-tariff measures in accordance with the increasing value. Non-tariff restrictions of the regulation are applied not only in the import cases but also in the export cases. For example, on the scarce goods, military destination goods and others taxes are playing a role for

specific type of non-tariff restrictions. For example, excise, value-added tax, port taxes and so on, that are based on the *manufacturing principles, when the good is rated according to its manufacturing place. They are also based on the *destination principle, when the good is rated according to its consuming place. Requirements connected to the standards, measuring systems, quality, technical safety, sanitary and veterinary norms, packaging and marking rules are included in the technical barriers. They are applied to regulate imported good [9.p 12].

Technical barriers are especially strict in the developed states. Concretely, on electric good in Japan, also on the automobiles, alcoholic drinks in France and shoes in Italy, etc. Only in the United States nearly 20 000 standards are acted. The same number can be estimated in the Euro Union space. With close estimation, one third of the world trade concerns such barriers. The solutions connected to the technical barriers can be developed into three directions: *harmonization of norms and standards, their international unification, recognition of the national norms and standards. International rules' setting in the applying of technical norms and standards [11,p.23].

An agreement on the technical issues in the trade field is included in the manual documents package of the World Trade Organization. The issues of standards are included in the competence of the International Organization for Standardization, International Organization for Measurement, etc.

Setting and regulating to apply technical standards are included in the state's competence. Every state has a right to set technical regulating-standards and apply them for recovering quality of exported production, to secure human beings, as well as flora and fauna. Also it has a right to change international standards whether this is required by its geographic-climatic and technological conditions. Simultaneously, every state is obliged: *to set such standards that don't restrict international trade;*to apply national standards in regards with imported commodity; to spread the same standards in regards with similar good from the different countries [5, p.11].

In the international trade system sanitary norms are often shown in the role of non-tariff regulators. Their major goals are: to secure health of the society, to ensure agricultural sector from the risks, to restrict spreading of poisonous substances, etc.

Sanitary norms are set by sanitary-veterinarian, health defense and agricultural state organs. They are intended to be effective in regards with food products, medicines, perfumery, chemical matters, etc. Modern attitude towards this issue is the following: like the technical standards it must be the same for foreign and national production and it must not restrict artificially development of international trade. Given issue is included in a law package of the World Trade Organization.

And finally, it must also be noted that in the international trade customs formalities and complicated requirements of documents for flow of goods and commodities are often perceived as an additional barrier. Nowadays, 600 types of documents are served to the international trade. Many countries actively apply this situation to restrict import. That's why their unification is needed.

A general agreement on trade and tariffs admits freedom of transit (Article 5), make easier declaration procedure (Article 7) and requires simplification of the documentation about export and import [10, p.82].

The row of international agreements also concern to this problem, concretely, - *Kyoto Convention On the "Simplification of the Customs Procedures", International Convention About the "Harmonized System Goods Coding and Estimating," etc [12, p.228].

Therefore, nearly every sphere of the international trade is subordinated to the regulation, but the opinions around this subject are different. Some people/scholars consider that state involvement in the economy hinders development of the trading, because of this trade must be free, - only in this case will development be unrestricted. For example, Adam Smith and David Ricardo were supporters of the free trade and they were explaining the advantage of this factor by their absolute and comparable advantageous theories and also by proving advantages of the free trade. Other scholars implied that the state must be actively involved in the international trade, setting some actions to regulate this sphere, etc.

Finally, for efficient regulation of the international trade, should be found balance between those mechanisms of regulation, which are used by the state.

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