MODERN MECHANISMS OF FOREIGN TRADE LIBERALIZATION

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ABSTRACT

In a market economy, countries seek to maximize the benefits of international exchange within their capacities. Small countries, unable to change world trade conditions for their benefit, liberalize markets in anticipation of benefiting from increased economic efficiency. Meanwhile, different countries choose different ways of foreign trade liberalization.
After studying the international experience, two main ways of foreign trade liberalization have been distinguished - mutual and unilateral trade liberalization, each of which has its own varieties. Mutual liberalization of trade is carried out on a bilateral, regional and multilateral basis, and unilateral liberalization is manifested in two ways: autonomous and unilateral preferential liberalization. Mutual multilateral and unilateral autonomous forms of foreign trade liberalization are favorable in terms of ensuring free competition in international trade, whereas differentiated approaches to bilateral, regional and privileged forms of liberalization have patronage elements.

Introduction. At the stage of economic reforms foreign trade liberalization has become an objective necessity. On the one hand, liberalization of imports ensures the domestic market with the necessary consumer goods and largely solves the problem related with deficit of goods, and on the other hand, liberalization of exports is an important factor of development and expansion of domestic production. At the same time, the use or elimination of trade regulation tools has a different effect on separate countries and the volumes of goods imported by them.

Numerous analyzes show that free trade regime is the key to the fastest growth of the economy, but not all countries succeed in gaining a high position in the global market, relevant to the level of liberalization achieved by their economy. At the same time, experience shows that the freedom of trade in the country is closely linked to its position in the global economy. As a rule, countries with a relatively small size in the global economy are characterized by a more open economy, perhaps due to the fact that "the best policy for maximizing prosperity for a small country is free trade"[1].

Research results. If a protectionist policy is characterized by a growing variety of restrictive tools, the same can not be said of a free trade policy, the main task of which is to task is to arrange foreign trade transactions as far as possible without barriers. Economists distinguish three main forms of trade liberalization: bilateral, regional and multilateral. Nonetheless, studying the global experience allows us to identify the possible ways of foreign trade liberalization and present its hierarchical structure (see Figure 1).

According to the number of involved parties, we can distinguish two main forms of foreign trade liberalization: unilateral and mutual liberalization, each of which has its own varieties.

Unilateral trade liberalization implies removal of trade barriers by one country or group of countries without mutual expectations. Two forms of unilateral liberalization can be separated - autonomous liberalization and unilateral preferential liberalization.

The *autonomous liberalization* of foreign trade is an internal reform aimed at improving the efficiency of the national economy. Argentina, Brazil, China, Pakistan and India have successful experience in autonomous trade liberalization.

As a result of studies on the effectiveness of unilateral and mutual trade liberalization, Professor of Columbia University Jagdish Bhagwati concluded that if the unilateral trade liberalization is an ideal option in any case for a small country that is unable to influence its own commercial terms

[1]Limao N., Panagariya A. “Why is there an Anti-Trade Bias in Trade Policy?”, University of Maryland, December 2002, p. 2

(the export and import price ratio), the same can not be said about the countries that occupy leading positions in the global market, which give preference to the principle of reciprocity among trade liberalization processes[2].

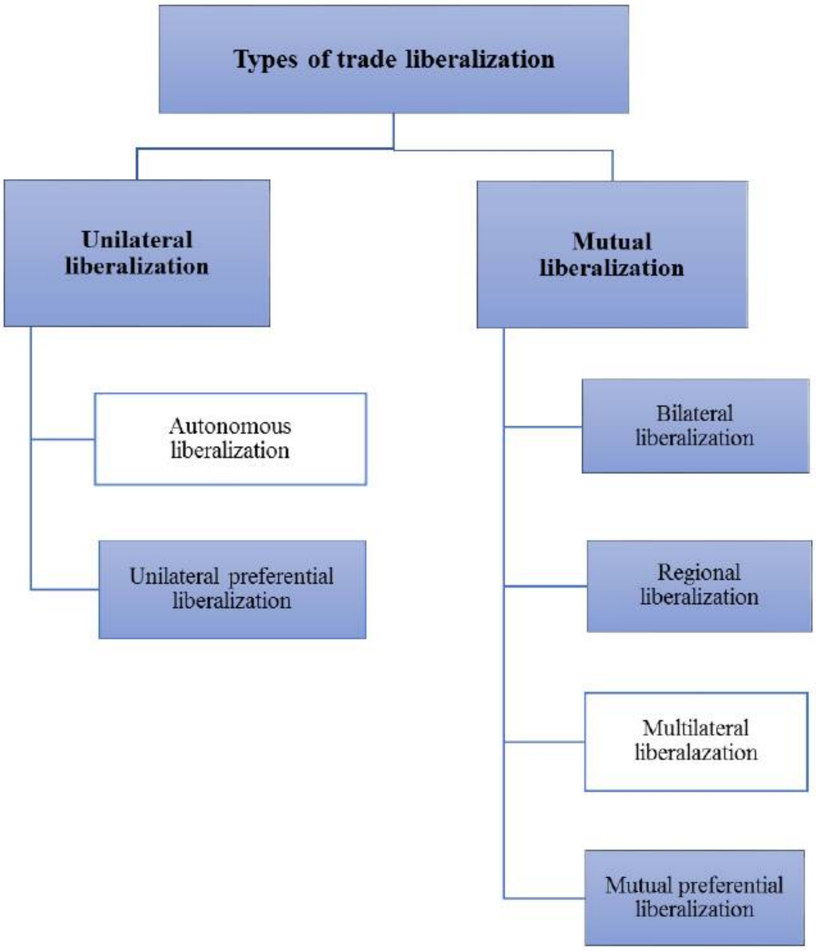

Fig. 1. Classification of foreign trade liberalization types

NOTE: Among presented trade liberalization types only autonomous liberalization and multilateral liberalization suppose impliementation of non-discriminatory trade with the establishment of equal conditions for all countries

Unilateral preferential liberalization is implemented by non-reciprocal definition of trade privileges by any country (group of countries) for other countries. These preferences usually appear in the role of low customs duties or their absence. Vivid examples of unilateral preferential liberalization are the Cotonou Agreement, Andean Trade Preference Act (ATPA), which was replaced by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Generalized System of Preferences (GSP / GSP +), the Everything but Arms (EBA) Agreement and The African Growth and Opportunity Act (AGOA).

The European Union set up non-reciprocal trade preferences to 79 countries from Africa, Caribbean and the Pacific (ACP countries) on the basis of Cotonou Agreement which was signed in June 2000 between EU and ACP countries, and entered into force in 2003.

Trade preference system, called the Andean Trade Preference Act (ATPA) was enacted in 1991 to encourage the Andean countries of Bolivia, Colombia, Ecuador and Peru to reduce drug-crop cultivation and trafficking through granting tariff preferences to Andean origin products in the US market. The U.S. authorities granted tariff preferences in order to foster trade and to help four Andean countries develop and strengthen legitimate industries. In 2002 ATPA was replaced by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), providing duty-free access to U.S. markets for approximately 5,600 products which meet certain criteria. The ATPDEA expired on July 31, 2013,

[2]Bhagwati J. Going Alone: The Case for Relaxed Reciprocity in Freeing Trade; Cambridge, Mass.: MIT Press, 2002. pp. 4-7

due to the fact that Colombia and Peru implemented Free Trade Agreements with the U.S., and Bolivia and Ecuador become ineligible.

Generalized System of Preferences (GSP) aimed at provision of preferential tariff rates for developing countries in certain markets was first suggested by UNCTAD in 1968 at the New Delhi Conference, the main goals of which were to contribute to the growth of export earnings industrialization of economies and acceleration of economic growth in the least developed countries. According to the GSP (GSP +) scheme, imports of certain products originating from developing countries enjoy privileges of lower customs duties (lower than MFN tariffs or even zero duties).

Although GSP preferences provided by the European Union are the most discussed, there are a number of other GSP donor countries. Currently, there are 13 GSP national scheme registered by the UNCTAD secretariat. Donor countries providing GSP preferences (see Table 1.) are Australia, Belarus, Canada, Estonia, the European Union, Iceland, Japan, New Zealand, Norway, Kazakhstan, Russian Federation, Switzerland, Turkey and the United States[3].

Table 1. Donors and Beneficiaries of GSP Trade Preferences[4]

GSP Donors		GSP Beneficiaries				
		Total Quantity of Beneficiary Countries	Including the following vulnerable groups	Least Developed Countries (LDC)[5]	Landlocked Developing Countries (LLDC)[6]	Small Island Developing Countries (SIDC)[7]
Australia		167		47	22	38
Belarus		151		47	22	37
Canada		173		47	30	38
European Union	GSP	88		47	23	15
	GSP-LDCs (EBA)	47		47	16	10
	GSP+	34		3	3	5
Iceland		46		43	15	11
Japan		151		47	29	32
Kazakhstan		151		47	23	37
New Zeland		140		47	22	32
Norway	GSP	132		47	30	32
	GSP+	26		0	7	8
Russian Federation		151		47	22	37
Switzerland		133		47	26	34
Turkey		176		46	29	37
United States	GSP	126		44	25	26
	AGOA	42		26	13	4

Everything But Arms (EBA) trade agreement, which came into force on March 5, 2001, is applied by EU in the favour of the 's weakest developed countries by enabling them to export any

[3]UNCTAD, Generalized System of Preferences: List of Beneficiaries, New York and Geneva 2015, UNCTAD/ITCD/TSB/Misc.62/Rev.6, pp. 3.

[4]UNCTAD, Generalized System of Preferences: List of Beneficiaries, New York and Geneva 2015, UNCTAD/ITCD/TSB/Misc.62/Rev.6, pp. 3-9.

[5]Among 47 Least Developing Countries 16 are also Landlocked Developing Countries and 9 are Small Island Developing Countries.

[6]According to the United Nations Office of the High Representative for the Least Developed Countries, the Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS) classification, 31 of the World's countries are landlocked. Those countries are: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, the Former Yugoslav Republic of Macedonia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia, and Zimbabwe.

[7]According to the UN-OHRLLS classification, there are 38 UN member Small Island Developing Countries (SIDC), which are the following: Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Federated States of Micronesia, Mauritius, Nauru, Palau, Papua New Guinea, Samoa, Sao Tome and Principe, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Seychelles, Solomon Islands, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, Vanuatu. The Alliance of Small Island States recognizes 20 more small island countries, non-UN members.

goods other than ammunition without customs duties and quota. It is part of the EU GSP system. Although the EBA provides duty free import possibilites, the rules of origin are rather strict. Particularly, the import of goods is prohibited in EBA mode, unless all stages of their production have not been implemented in weak developed countries. The goal of the project is to contribute to the development of the world's poorest countries.

The African Growth and Opportunity Act (AGOA) is a United States Trade Act, with the objective of expanding U.S. trade and investment with sub-Saharan Africa, to stimulate economic growth, to encourage economic integration, and to facilitate sub-Saharan Africa's integration into the global economy. AGOA enacted on 18 May 2000 and after completing its initial 15-year period of validity, the it was extended on 29 June 2015 by a further 10 years, to 2025. AGOA provides trade preferences for quota and duty-free entry into the United States for certain goods (especially textile and clothing) produced in AGOA-eligible countries, expanding the benefits under the Generalized System of Preferences (GSP) program.

GSP donor and beneficiary countries are presented in the Table 1, according to which among GSP scheme donor countries Turkey, Canada, Australia, Japan, Russian Federation, Kazakhstan and Belarus have the most number of beneficiaries – more than 150 countries, including all Least Developing Countries and the most of the Landlocked Developing Countries and the Small Island Developing Countries. While the Least Developed Countries represent the poorest and weakest segment of the international community, Landlocked and Small Islands were recognized as a distinct group of developing countries facing specific social, economic and environmental vulnerabilities. These countries face economic disadvantages due to difficulties with access to the international market.

Mutual trade liberalization is carried out on a bilateral, regional and multilateral basis with the conclusion of relevant trade agreements. Bilateral agreements may form a good basis for trade with one or more trading partners, but they are unable to provide favorable conditions for development of free competition in the global market. For instance, the Republic of Armenia has bilateral free trade agreements with the Russian Federation, Ukraine, Belarus, Georgia, Moldova, Turkmenistan, Kirgizstan and Tajikistan.

Regional trade liberalization is carried out among the member states of integration groups by maintaining a differentiated approach to the remaining trade partners (third parties). Although regional economic integration contains elements of sponsorship, nevertheless, its impact on the global economy can and should be positive if, after integration, countries do not hamper their foreign trade policy towards third countries. Vivid examples of regional trade liberalization are the European Union, the North American Free Trade Agreement, partially the Commonwealth of Independent States (CIS). Although World Bank experts have shown that the CIS can not be considered effective in terms of facilitating trade. Moreover, the same experts argue that foreign trade could be more productive between the countries, if they were not members of the CIS[8].

The most effective way of mutual liberalization is the *multilateral liberalization* within the framework of the World Trade Organization aimed at ensuring free competition in international trade. Multilateral trade liberalization shifts the national reform to a global platform, allowing greater number of competitors to benefit from international trade.

Autonomous (as well as multilateral) liberalization can be described as "non-discriminatory" way of liberalization, as internal reforms for both cases aimed at eliminating barriers to trade and simplifying procedures create equal competitive conditions for all partner countries.

The World Bank survey results show that, in terms of real income, multilateral liberalization is more profitable compared to the bilateral or regional trade liberalization[9]. Bilateral and regional free trade agreements reduce trade barriers by forming a preferential trading environment among the participating countries, whereas multilateral agreements focus on eliminating transparency and discrimination exclusion in commercial relations.

As a separate form of foreign trade mutual liberalization, we can observe the mutual preferential liberalization of trade, which implies trade-related privileges on the basis of reciprocity by a group of countries. In essence, it is similar to the unilateral preferential liberalization of trade, but only with the principle of reciprocity. One of the best manifestations of mutual privileged liberalization is the GSTP trade system.

[8]Global Economic Prospects 2005: Trade, Regionalism, and Development; The World Bank, Washington, D.C., 2005, p. 62
[9]Global Economic Prospects 2005: Trade, Regionalism, and Development; p. 42

Global System of Trade Preferences among developing countries (GSTP) is aimed at promoting trade between developing countries. The GSTP system involves 43 countries[10], including seven least developed countries (Bangladesh, Benin, Guinea, Mozambique, Myanmar, Sudan and Tanzania).

The agreement on the Global System of Trade Preferences among developing countries was signed in 1988 (entered into force in 1989) as a framework for "trade-offs" between developing countries aimed at promoting mutual trade among them. The agreement serves as a dynamic tool for economic cooperation.

The idea of creating the system was first officially voiced G77 countries' ministerial meeting in Mexico City in 1979.

The following principles and specifications are enshrined in the Agreement:

– The GSTP system has been created for the exceptional participation of the G77 countries and China which mainly benefit from the system.

– The system is based on the principle of reciprocity, allowing equal access to participants and at the same time taking into account their economic development and commercial needs.

– The system recognizes the special needs of Least Developed Countries (LDC) and urges to set a preferential approach in favor them. At the same time, Least Developed Countries (LDC) are not required to make mutual concessions. Particular attention is paid to the requirements on customs duties and other measures to facilitate trade for LDCs, for which the country of origin may also be more flexible.

– The duty-paying privileges are set out in an integral part of the Compact to ensure a sustainable basis for a preferential trade within the GSTP system.

– The global system of trade privileges has developed in the result of negotiations, with a requirement for regular review.

– GSTP should take into account the peculiarities of present and future sub-regional, regional and interregional economic groups of developing countries and do not conflict with their commitments.

In terms of promoting international trade and ensuring free competition conditions, reciprocal multilateral and unilateral autonomous forms of foreign trade liberalization can be considered the most favorable, whereas bilateral, regional and privileged forms of liberalization are based on a discriminatory and differentiated approach, combining elements of protectionism.

At different stages of historical development, countries have preferred this or that type of foreign trade policy, but international trends suggest that trade liberalization is preferable.

Conclusions. Economists have identified a number of ways to liberalize foreign trade: bilateral, regional and multilateral. However, the study of international experience allows us to distinguish two main directions of trade liberalization: unilateral and on the reciprocal basis, each of which has its own forms of expression. At the same time, bilateral, regional and preferential forms of liberalization are based on discriminatory and diverse approach, combining elements of protectionism, while the mutual multilateral and unilateral autonomous forms of trade liberalization are more favorable in terms of promoting international trade and ensure free competition conditions.

[10]GSTP Participating Countries:

1. Algeria	12. Ecuador	23. Mexico	34. Sri Lanka
2. Argentina	13. Egypt	24. Morocco	35. Sudan
3. Bangladesh	14. Ghana	25. Mozambique	36. Thailand
4. Benin	15. Guinea	26. Myanmar	37. Trinidad and Tobago
5. Bolivia	16. Guyana	27. Nicaragua	38. Tunisia
6. Brazil	17. India	28. Nigeria	39. United Republic of Tanzania
7. Cameroon	18. Indonesia	29. Pakistan	40. Venezuela
8. Chile	19. Islamic Republic of Iran	30. Peru	41. Viet Nam
9. Colombia	20. Iraq	31. Philippines	42. Zimbabwe
10 Cuba	21. Libyan Arab Jamahiriya	32. Republic of Korea	43. Mercosur group (Argentina, Brazil, Paraguay, and Uruguay)
11. DPR of Korea	22. Malaysia	33. Singapore	