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Risk Management in Dual Banking Systems: Islamic Ethical and Conventional Banking

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Abstract

The author makes comments on the state of the problem in part of the English-speaking scientific thought. The authors present a comparative analysis of risk management conducted in countries where the dual banking system is practised — Islamic (ethical) banking and conventional (western) banking. The study showed that a risk profile of an Islamic bank is not significantly different from the one of the conventional banks in practices. In the beginning, they point out the central thesis and prospects for the development of conventional and Islamic banking. The central part of the comments begins with the historical aspect of the comparison. According to him, despite the differences, they are based on the priority of financial and human values. Further, the authors carefully discuss the risk profile of Islamic banks and the unique risks facing Islamic banks. It was confronted with conventional risk management of banks based on the Basel Committee on Banking Supervision (BCBS). Today, the regulation applies to credit risk, market risk, operational risk and liquidity risk (Basel II and Basel III). After all, the author reaches two essential conclusions for his research.

Keywords: Islamic (ethical) banking; conventional (Western) banking; risk profile of Islamic banks; concept and principles of banking

JEL Classification: C 14, G11, G21, G24, G32.

Instead of an Introduction

The scientific paper attempts to compare the elements of Islamic (ethical) banking and conventional banking in Western countries. Some points of view are discussed, discussing the advantages and disadvantages of each type of banking. It emphasises some of the key points of the various author's opinions. We also showed the peculiarities of commented viewpoints.

In the Islamic world, Islamic finance is emerging as a fast-growing component of the financial sector. However, it is not restricted to Islamic countries but is spreading in communities where there is a substantial number of Muslims.

We defend the thesis that, despite the differences between conventional and Islamic banking, each one is based on specific financial and human values. The flexibility and resilience of financial crises will show which of the two banking systems is more promising.

Basic Part

To fully appreciate the phenomenon of Islamic finance, it is necessary to understand the historical evolution of the foundations of the global banking system, i.e. the historical aspect of comparison (Grimarenko, 2015).

The traditional banking system originated in the Middle Ages in Europe in countries with the Christian religion. In the XVI–XVII centuries, merchant guilds of several cities (Venice, Amsterdam, Hamburg) created specialised giro banks for cashless settlements between their clients. *Therefore the activity of commercial banks in the modern sense was developed with the beginning of the industrial revolution in the West*.

But there is another type of banking model based on the religious principles of Islam. Since the advent of Islamic civilisation, there have been such operations as currency exchange, money transfers and the use of checks. As a result of colonial expansion, Muslim countries assimilated the Western banking model, and Islamic banking, which emerged in the early period of Islam, ceased to exist. Significant changes occurred only in the early twentieth century (Naама, 2001, 2006).

The first ideas for creating independent Islamic banks appeared much later in the late ‘40s of the 20th century. Practical steps were taken only in the early ‘60s with the first successful experiment to set up a financial institution working without interest through the Mit-Ghamr project. In 1963, the first local Savings Bank “Mit-Ghamr Islamic Savings Bank” was established in the Egyptian town of Mit Ghamr based on interest-free financing.

Therefore, autonomous Banking in Muslim countries is developing significantly later. The turbulent development of trade and colonialism is likely to force Muslim countries to adopt the traditional banking system.

According to the research “*A Modern Comparison of Western Banking to Islamic Banking*” Western and Islamic banks structure their financial products differently. The highlights we placed on the following elements:

(a) Shariah law prohibits charging or paying interest, called riba in Arabic. It also discourages investments or banking that is connected to products or industries that Islam considers sinful or haram. Credit card services and any situation where interest is paid and/or charged to benefit one party and not the other are not permitted.

(b) Islamic banking resembles conventional Western banking with its overall objective of making money by lending capital. Like conventional banking, it focuses on ethical investment and non-predatory lending.

(c) Shariah-compliant finance creates its financial products based on Islamic contracts and profit-sharing. Islamic banks offer loans based on a project’s viability and contracts signed by both parties. Islamic financial products include investment accounts, portfolio management, commodity and equity-based fund management facilities and mortgages as well as investment banking and corporate finance.

(d) Islamic banking, in comparison with Western banking, conveys an intent to accomplish moral purposes through financial services. The goal of the Institute of Islamic Banking and Insurance is “a financial system based on Islamic belief that truly embodies the concept of socio-economic justice in commercial dealings”.

(e) Companies considered to be dealing in haram, or sinful products, services or sectors include those that produce, use or deal with alcohol, pork or pork by-products, pornography, gambling or interest-based finance.

In our opinion, the foremost stand out:

First, *Islamic Business Ethics*.

Shariah-compliant banking ideals derive directly from the Quran and from the life and statements of the Prophet Muhammad, sources that also drive Islamic law regarding diverse issues. Ethics, justice, equity and truth, are mentioned frequently in the Quran. Muhammad proclaimed extensive rulings and laws regarding business ethics, trade, pricing and financial transactions, as well as warnings to avoid debt.

Secondly, *Cross-Cultural Influence*.

Islamic banking is not limited to Muslim-owned companies. Western banks have been responding to the demands of many Muslim clients by incorporating and offering Shariah-compliant services. Indeed, Islamic banking is influenced by Western banking.

Third, *Research in Islamic banking incorporates lessons and successful components from Western financial systems*. Shariah banking organisations review and adopt Western techniques focused on business ethics and codes of conduct. For example, they use the U.S. Department of Commerce’s Model Business Principles and research produced by The International Society of Business Economics and Ethics (Lake, 2017).

It is considered that, but the major twist in the story came with the advent of Islamic Banking. Before, Capitalism and Marxism were two main Giant concepts. Then the middle of the road concept came what almost astonished Western World and Encouraged Eastern World to contribute to the banking industry.

Gearing up at fast pace, grabbing the market share of Conventional banking and now leadingly called as Ethical Banking in Western World, Islamic Banking has changed the shape of Industry as a whole.

The main difference between the Conventional and Islamic Financing is of Interest, called “Riba” in Islam. Conventional Financing asks lenders to charge a profit from borrowers on the principal amount, and this profit is termed as “Interest”. The rate of interest can be fixed, or it can vary with the inflation rate. (Floating rate, i.e. Base

Lending Rate, Karachi Interbank Offered Rate or London Interbank Offered Rate.) On the other hand, Islamic Banking defines Profit on some different dimensions. Here, the borrower and lender decide on a contract where the lender purchases something on borrower's behalf initially and then selling it back to the borrower with some amount charges as "Profit".

The second main difference is the Payments procedure. Conventional Financing defines payments in a decided time frame in terms of instalments with the determined rate of interest. In each instalment, a portion carries the interest amount, whereas the remaining adjusts the principal amount.

The third significant difference between both financing systems is the time frame. Conventional Financing defines complete instalment system, interest payment and principal amount to be paid within a certain time frame. On the contrary, Islamic Financing believes in one-time contract system. In Islamic Banking, no one party can gain benefit over the loss of another and this why it is far more superior to the conventional banking system. (*Islamic Finance…,* 2019)

Therefore, of course, it is necessary:

(i) More than 75 countries have Islamic banks, of which only 45 are Muslim countries, the rest being non-Muslim nations

(ii) Although, there are some advantages and disadvantages of both systems, it depends on the nature of the country a bank or any financial institutions are operating as well as the current position of the economy of particular Region. Conventional Banking is somewhat the pioneer of the financial world, and we can not ignore its importance, and it still imposes large footprints in the Financial Corporate World.

Clearly, the conclusion is that, World is moving towards this new interface, and Financial World is now seeing a totally new form of Financing.

According to Jessica Margolin, the major conceptual differences are:

• Islamic finance fundamentally rejects business that is considered bad for (a religious) society

• You can not decouple risk and revenue; in other words, you must share risk, rather than transfer it (Margolin, 2014).

The main differences are concentrated in the following several directions:

(a) Deposit/Liabilities CASA[1] & Term Deposit.

Islamic Banks offers deposit products based on the following structures:

• "*Oard*" — Current accounts are provided under this contract where the risk of the funds lies with the bank, and no added benefits are provided to the client solely based on this facility. However, clients may be allowed to avail those facilities which are offered across the board;

• "*Mudarabah*" — a type of partnership where client funds are invested in various businesses, and returns are shared between the bank and client as per the agreed profit sharing ratio whereas, the loss is shared as per the investment ratio. Term Deposit and Savings Accounts are offered based on Mudarabah.

Conventional banks accept deposits based on a loan for all types of deposit accounts including Term Deposit, Savings and Currents accounts. Interest-based returns are provided for the Savings accounts and Term Deposits, whereas Current Accounts may offer free banking facilities. In addition to this, the conventional bank invests the deposits in non-shariah compliant avenues and subsequently earns non-shariah compliant returns.

(b) Lending/Financing.

Islamic banks offer financing/leasing facilities to their clients to fulfil their business requirements based on the following contracts depending on the requirements of the client:

Islamic Banks Financing Transactions Characteristics:

Islamic bank takes the risk of the asset;

Income is earned through sale or leasing contracts

Share profit & bear Loss as the case may be

In case of late payment or default by the client, there will be no penal charges. However, to instil a payment discipline, Bank is authorised to recover an amount at a predetermined percentage as compulsory contribution to Charity Fund constituted by the bank approved Shariah Board. This contribution to Charity Fund shall not constitute income of the bank

[1] CASA is the acronym for Current and Savings account, which is commonly used in the banking industry across West Asia and South-East Asia. CASA deposit is the amount of money that gets deposited in the Current and Savings Accounts of bank customers. The bank pays very low or no interest for deposits in current accounts whereas the deposits in Savings Accounts receives slightly higher interest rates.

The bank will deploy the Islamic Funds in only Shariah Compliant avenues.

Where the relationship between the Bank and client is that of lender and borrower respectively, conventional banks offer lending facilities to their clients to fulfil their cash requirement based on loan contracts. Conventional Banking Loan Contracts Characteristics are as follows:

No risk of underlying assets

Income through Interest

Late Payment charges on delayed payments and shall constitute the bank's income.

(c) Trade Finance.

Islamic banks offer trade finance related operations under the concepts of services, guarantee and financing with the following conditions:

Islamic Banks Trade Transactions Characteristics:

Commission based Income as per the guidelines of Shariah

Income through payment and documents facilitation services

Income through sale or lease of assets

Share Profit & bear Loss as the case may be

In case of late payment or default by the client. There will be no penal charges.

Conventional banks offer trade finance related operations under the concepts of services, guarantee and lending. Conventional Banks Trade Transactions Characteristics:

Commission based Income

Income through guaranteeing payments

Income through Interest on loan payments

Additional interest income on delayed payments.

According to Faleel Jamaldeen, "Islam is more than a religion; it's also a code of life that deals with social, economic, and political matters. Every Muslim is expected to live according to the Islamic code, or sharia. Each issue addressed by sharia is entwined with all other issues; therefore, economic matters are related to religion, culture, ethics, and politics" (Jamaldeen, 2019).

Islamic finance, then, is a financial system that operates according to sharia. Just like conventional financial systems, Islamic finance features banks, capital markets, fund managers, investment firms, and insurance companies. Notwithstanding this, these entities are governed both by Islamic laws and by the finance industry rules and regulations that apply to their conventional counterparts.

The central vision of Islam is that Allah is the owner of all wealth in the world, and humans are merely its trustees. Therefore, humans need to manage wealth according to Allah's commands, which promote justice and prohibit certain activities. At the same time, Islam allows for a free-market economy where supply and demand are decided in the market — not dictated by a government. But at the same time, Islam directs the function of the mechanism by imposing specific laws and ethics.

Consequently, *Islam and social justice are inseparable, and it's a key concept of the Islamic finance industry*.

In this regards, by reminding Muslims of their obligations, Islam seeks to promote stronger relationships between each person and Allah, between people and the earth, and among individuals.

Emphasis is placed on:

Requiring zakat: To promote justice related to the distribution of wealth, Islam imposes a property tax called zakat. Every Muslim who meets specific criteria regarding the accumulation of wealth must pay zakat, which is distributed to people in need

Prohibiting usury (interest): For the sake of social justice, Islam prohibits interest-based transactions. No individual or business entity should hoard money to earn interest (or riba); instead, that money should be used to support productive economic activities

Encouraging shared risk: Islam encourages risk-sharing in economic transactions. When a risk is shared among two or more parties, the burden of the risk faced by each party is reduced.

Avoiding gambling: Two Arabic words refer to transactions that involve gambling:

"Maysir" — The acquisition of wealth by chance and not by effort

"Qimar" — In modern gambling, any game of chance.

Both types of transactions are prohibited because they are based on uncertainty (gharar). So, the Islamic prohibition against transactions that involve gambling prevents Muslims from purchasing conventional insurance products because those products are a gamble. Instead, Islamic insurance, called "takaful", is based on a very different model of risk management that involves shared risk and mutual responsibility.

The predominant part of Islamic financial facilities is Islamic banking. From this general status quo, more accurate data is available to us from the Islamic Financial Services Board in 2018, namely:

Firstly, after two years of marginal increases, the Islamic financial services industry (IFSI) returned to healthy (8.3 per cent) growth, and its total worth slightly surpassed the USD 2 trillion. The main growth drivers were "sukuk" issuances by sovereigns and multilateral institutions. The volume of "sukuk" outstanding grew by 25.6 per cent, and assets of Islamic funds grew by almost 19%. Islamic banking assets grew by only 4.3 per cent, reducing the share of Islamic banking in the total value of the IFSI to 76 per cent.

Secondly, the market shares of Islamic banks (i.e. shares in the total domestic banking assets) increased in at least 19 jurisdictions and remained constant in seven other ones. Six jurisdictions reported declines of market shares. Islamic banking is categorised as systemically important in 12 jurisdictions where the market shares have reached 15 per cent. Collectively, they account for 92 per cent of the global Islamic banking assets. Apart from two jurisdictions with market shares of 100 per cent (Iran, Sudan), the shares in most of the ten jurisdictions with dual banking systems increased, while it decreased in only one country (Qatar). Collectively, these 12 jurisdictions account for 92 per cent of the global Islamic banking assets. The largest are Iran (34.4 per cent of global Islamic banking assets), Saudi Arabia (20.4 per cent), United Arab Emirates (UAE) (9.3 per cent), Malaysia (9.1 per cent), Kuwait (6.0 per cent) and Qatar (6.0 per cent). (Islamic.., 2018)

Ayman Abdal-Majeed Ahmad Al-smadi, Faizul Hamdan and Mahmoud Khalid Almsafir (Ahmad Al-smadi, Hamdan, & Almsafir, 2013) highlight nine differences that include:

Islamic Banks

The functions and operating modes of Islamic banks are based on the principles of Islamic Shariah

promotes risk-sharing between the provider of capital (investor) and the user of funds (entrepreneur)

It also aims at maximising profit but subject to Shariah restrictions

In the modern Islamic banking system, it has become one of the service-oriented functions of the Islamic banks to be a Zakat Collection Centre, and they also pay out their Zakat

Participation in partnership business is the fundamental function of the Islamic banks. The customers' business has to be understood

Islamic banks have no provision for charging any extra money from the defaulters. The only small amount of compensation and these proceeds is given to charity. Rebates are given for early settlement at the Bank's discretion

It gives importance to the public interest. Its ultimate aim is to ensure growth with equity

The status of Islamic bank concerning its clients is that of partners, investors and trader, buyer and seller

Islamic bank can only guarantee deposits for a deposit account, which is based on the principle of al-wadiah; thus the depositors are guaranteed repayment of their funds, however, if the account is based on the mudarabah concept, clients have to share. A loss if it occurs.

Conventional Banks

The functions and operating modes of traditional banks are based on wholly humanmade principles

The investor is assured of a predetermined rate of interest

It aims at maximising profit without any restriction

It does not deal with Zakat

Lending money and getting it back with compounding interest is the fundamental function of the conventional banks

It can charge additional money (penalty and compounded interest) in case of defaulters

Very often it results in the bank's interest becoming prominent. It makes no effort to ensure growth with equity

The status of a conventional bank, concerning its clients, is that of creditor and debtors

A conventional bank has to guarantee all its deposits.

We could highlight the following two findings:

First, Islamic banking is more humanising than conventional banking (Confirmed and by Shamsher Mohamad, Taufiq Hassan, & Mohamed Khaled I. Bader, 2008).

Secondly, Islamic banking provides a more human approach. It had been proven that many consumers choose Islamic banking rather than conventional.

In a more detailed and detailed scientific study "*The Hundred Differences Between Islamic and Conventional Banking Systems*" (2017) outline the concepts and principles of Islamic banking. It focuses on differences between the conventional and the Islamic banking system (Basha, 2017).

Islamic Banking can be described as a system of banking that adheres to the principles of Sharia, i.e. the Islamic Law. In other words, it can be viewed as a financial system which identifies itself with the spirit of Sharia (The Islamic Law), as laid down by the Holy Qur'an and Sunnah (the practices of Prophet Mohammed, as regards its objectives, principles, practices and operations).

There are the following differences between the conventional and the Islamic banking system, including:

(a) Differences in the Assumptions

(b) Differences in the Operations

- Financing
  - Long Term Loans
  - Leasing
  - Short Term Loans
  - Overdraft
  - Personal Consumption Loans
  - Short-term Agricultural Loans
- Investments
  - Investments in Central Banks and Other Banks
  - Investment in Shares
  - Investment in Bonds
  - Investment in Derivatives
  - Liquidity Management Practices

(c) Impact of the Banking System.

Unlike conventional banking, Islamic, also called ethical banking, is based on the following principles of its activity:

Prohibition of receipt and payment of Interest

Emphasis is on profit and loss sharing

Prohibition of "Qimar" (gambling), "Iktinaz" (hoarding), "Ihtikar" (monopoly), "Israf" (extravagance), "Fasad" (corruption), "Mujazafah" (speculation), "Ghish" (deception), "Tadlees" (fraud), "Kathib" (lying) etc.

Prohibition of contracts involving "Gharar" (excessive risk)

Prohibition of financing socially detrimental projects that deals with "Khamr" (intoxicants), "Khinzir" (Pork), and all unethical dealings such as prostitution, stealing etc.

Prohibition on selling what is not owned or possessed

Prohibition on selling fruits before they are ripe

Prohibition on selling debts

Asset Backing Principle: It is required that financial transactions should be unpinned by an identifiable and tangible underlying asset. It means financial transactions must be accompanied by an underlying productive economic activity that generates legitimate wealth.

Conventional banking is governed by all the human-made principles, and these banks have followed no divine guidance. The capitalist economy supports traditional banking. It allows all type of transactions for the purpose of earning a higher profit. It may be riba, hoarding, gambling, dealing in illicit goods and services, short sales, in short, all the speculative transactions can be deal in this banking system. The purpose of conventional banking is to maximise profit only.

According to the capitalist theory, capital and enterprise are factors of production. Capital gains fixed returns in the shape of interest, and the enterprise receives its return in the shape of profit or loss as the case may be. In the conventional banking system, only the guidelines or rules are followed, which are made to earn a profit.

Therefore, the conventional banking system provides loans to every business and earns a profit. Thus, in the business model of the conventional banking system, the aim is receiving money from people who have it in excess and lend the same money to the people who need money for the establishment and enhancement of their businesses.

Conclusion

From the comments presented, the following more essential conclusions can be made:

First, Conventional banking system considers economic methods of wealth creation but ignores social, ethical and moral practices. Islamic banking system gives first priority to social, ethical and moral methods of wealth creation; economic attractiveness of business is the next priority. Islamic banking is not a mere copy of conventional banks. It has its way of doing business, and all operations are duly certified by Sharia experts Islamic Fiqh Academy (IFA).

Secondly, In conventional financing, lenders lend to borrowers to make a profit from interest charged on the principal amount. At the other pole — at the very heart of Islamic Finance is the prohibition of collection and issuance of interest/riba. The ban on interest in all economic activities is so explicitly defined and remains non-compromising in Islamic literature as Allah divinely forbids it. The functions and operating modes of Islamic banks are based on the principles of Islamic Shariah. In other words, it can be viewed as a financial system which identifies itself with the spirit of Sharia (The Islamic Law), as laid down by the Holy Qur'an and Sunnah.

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Управление рисками в двойных банковских системах: исламской этики и традиционного (западного) банкинга

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Аннотация. Сравнивая особенности риск-менеджмента, проводимого в странах с двойной банковской системой — исламской (этической) и традиционной (западной), авторы констатируют: профили риска исламского банка и обычных банков практически существенно не отличаются. Авторы констатируют: несмотря на некоторые различия, обе системы основаны на приоритете финансовых и человеческих ценностей. Сравнивая профили традиционных и уникальных рисков исламских банков с традиционным управлением рисками банков на основе Базельского комитета по банковскому надзору (БКБС), авторы приходят к выводу, что принципы регулирования кредитных, рыночных, операционных рисков и риска ликвидности (Базель II и Базель III) используются в той или иной мере исламской банковской системой.
Ключевые слова: исламский (этический) банкинг; традиционный (западный) банкинг; профили риска исламских банков; концепция и принципы банкинга

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Social and Psychological Predictors of Investment Activity of Russians

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Abstract
The level of investment activity among Russians is rather low; that is why the understanding it predictors is of great importance. First, I presented an overview of Russian and international studies of psychological aspects of investment behaviour. Further, I discussed the results of the empirical research using the following sample: 360 respondents from 18 to 68 years old (average age 26 years). In my research, I used methods: socio-demographic characteristics, investment activity, including cognitive and behavioural readiness to invest in different financial instruments, and calculated index of investment activity. As concerns implementation of specific psychodiagnostic methods, I used the Questionnaire of tolerance and intolerance to ambiguity, Personal factors of decision-making, Semantic differential, and Big Five short portrait questionnaire (BF 5–10). The predictors of Russians' investment activity, including their willingness to invest in cryptocurrencies, show a positive perception of bitcoin, high emotional stability, low intolerance to uncertainty, low rationality, and low kindness to other people.
Keywords: economic psychology; investment activity; financial instruments; crypto-currency, psychological factors of investment activities
JEL Classifications: D81, D84, D87, E22, G02

The Relevance of the Study and Background

Investments of people in financial market instruments are one of the conditions for its stable functioning. In this regard, it is necessary to develop a unified strategy for attracting public funds and intensify the process of creating new types of investment products (Bezsmertnaya, 2016). Experts link new directions in the development of psychology primarily with digital technologies (Yurevich et al., 2018). At the same time, the active introduction of informational and digital technology in our life brings not only new opportunities for economic development, but also new threats, and, therefore, requires studying the attitude of people to these phenomena and determining the degree of understanding of the processes.

The development of new financial technologies, the emergence of cryptocurrencies opens up new opportunities for investment to a wide range of Internet users. It also expands the investment opportunities for non-professional traders. However, there is a danger that the influx of unqualified investors into the financial market will result in their unjustified use of financial instruments with a high level of risk. It can lead to significant losses and undermine the already low public confidence in the stock market. Many foreign authors already see in Bitcoin the features of a financial pyramid. So, the head of the European Central Bank, Yves Mersch and the head of the World Bank, Jim Yong Kim, criticised cryptocurrencies and compared them with the form of financial pyramids created by Charles Ponzi in the early XX century. In the scientific article, Eng-Tuck Cheah and John Fry (2015) raise the issue of the actual cost of Bitcoin and the symptoms of a bubble in the cryptocurrency market. The authors argue that the actual value of bitcoin is zero, and its growth is mostly determined by speculation (Fry & Cheah, 2015). Robert Schiller, 2013 Nobel Laureate in Economics, author of the theory of speculative bubbles, also advocates that Bitcoin is a bubble that is based on promises, hopes and optimism (Shiller, 2014). Thus, we approach the problem of the relationship between psychological and economic phenomena. It is essential to understand the psychological predictors of investment behaviour as well as other types of economic behaviour to make situation at the financial market more predictable.

In the field of the psychology of money, particular empirical material has already been accumulated. Attitude toward money and behaviour associated with money depends on the ongoing social changes and the individual psychological characteristics of people (Dejneka, 2002).

Many studies confirm the relationship of investment behaviour with personality traits — in particular, negative ones with extraversion, neuroticism, agreeableness and positive with consciousness (Brown & Taylor, 2014; Nyhus & Webley, 2001; Sutin et al., 2009). In previous works, we examined the motive of investors and found out that the respondents focused on saving, were more risk-taking and more rational than those oriented on consumption. They were also characterised by greater emotional stability (Gagarina & Sulejmanova, 2017). Personality is undoubtedly an essential factor in determining consumer preferences and financial decision-making. Personality traits, in turn, are associated with a willingness to take risks to receive money. Consciousness also includes the ability to plan, self-discipline and the ability to defer satisfaction of needs. Lauriola and Levin (2001) suggest that emotionally stable people make more informed financial decisions. However, in laboratory experiments, it was shown that emotionally stable respondents are more prone to risk to gain profit; and respondents with high neuroticism are more likely to avoid losses (Lauriola & Levin, 2001).

Based on the literature review, we formulated the following assumption.

Research hypothesis. The predictors of investment activity will be a positive attitude toward currencies and cryptocurrencies, emotional stability, willingness to take risk and tolerance to uncertainty.

Methodology

Following the hypothesis put forward, we developed a plan for its empirical verification. The study involved 360 people living in the Russian Federation (Moscow (75 per cent), the cities of the Moscow region — Khimki, Balashikha, Dzerzhinsk, Elektrostal (14 per cent) and others, Ufa, Kazan, Tver and the region, Nizhny Novgorod, Saratov, Samara (11 per cent)), 80 per cent women, aged 18 to 68 years, average age 26.

We surveyed information about socio-demographic characteristics of the respondents taking into account education, occupation, employment, place of residence, gender. Our study involved students, people working in organisations and individual entrepreneurs. We also assessed respondents' investment activity. Investment activity, following Zhuravlev and Poznyakov (2014) economic activity, we understand as a concept integrating various phenomena of economic consciousness and economic behaviour but limited by the area of investments. Our survey included questions about awareness of cryptocurrencies, investment experience, representations about financial instruments, experience with financial pyramids, the probability of investment behaviour in the future under certain conditions.

We intentionally included questions not only about real investment behaviour but also willing to perform it in the future (under certain conditions), as well as the desire to receive information about financial instruments, as a prerequisite for readiness for the investment behaviour. In total, ten questions were suggested: 1) Do you participate in tenders on the exchange? (yes — 1, no — 0), 2) How do you assess the reliability of investing in assets that are traded on the exchange? (the presence of an assessment, regardless if it positive or negative — 1, the answer "I do not know" — 0) 3) What financial market products are you ready to invest/are investing in? (none — 0; one product — 1; two products — 2; three or more — 3)) 4) Have you participated in financial pyramids in the past? (no – 0; yes — 1); Are you ready to invest in financial instruments with a high level of risk and profitability? (no – 0; yes — 1); 5) A question on understanding the concept of "stock" (the wrong answer is 0; the

Table 1
What financial market products are you ready to invest/are already investing in, and how do you assess their reliability?

	High risk of losing investments	**Unreliable, but despite the risks, it is possible significantly to increase the invested funds**	**Do not know**	**Reliable. I myself (or through a broker) manage the invested funds**	**I want to start investing in such assets**	**Total**
Gold and other metals	26 (27%)	64 (66%)	2 (2%)	4 (4%)	1 (1%)	97 (17%)
Any of instruments	35 (45%)	33 (43%)	10 (12%)	0 (0%)	0 (0%)	78 (13%)
Currency	38 (32%)	72 (60%)	2 (1%)	6 (5%)	2 (1%)	120 (21%)
Bonds and stocks	36 23%)	97 (67%)	6 (4%)	13 (9%)	2 (1%)	154 (27%)
Futures and options	3 (13%)	17 (77%)	0 (0%)	1 (5%)	1 (5%)	22 (4%)
Monetary instruments	2 (10%)	15 (75%)	0 (0%)	3 (15%)	0 (0%)	20 (3%)
Cryptocurrency	19 (23%)	54 (64%)	3 (4%)	8 (9%)	0 (0%)	84 (15%)
	159 (28%)	352 (61%)	23 (4%)	36 (6%)	6 (1%)	575

Source: Compiled by the authors based on the survey.

correct answer is 1) 6) Do you know what cryptocurrency is? (no – 0; yes — 1); 7) What sources of information about cryptocurrencies do you use? (not specified — 0; indicated — 1); 8) Do you mine? (no, I don't know what it is — 0; no, I know what it is — 1; yes, but I have little idea of the mechanism — 2; yes, I fully understand the mechanism — 3); 9) What factors would have a positive impact on your decision to engage in investment activities (none — 0; factors indicated — 1); Are you interested in information about new financial instruments? (no – 0, yes — 1)

We calculated the aggregate index of investment activity. The minimum empirical value is 1, and the maximum is 15. The average value is 6.5.

We used the method of semantic differential (SD) to identify the features of the relationship to currency and cryptocurrency. To assess personal characteristics, we used the short portrait questionnaire "Big Five" adapted by Egorova and Parshikova (2016). 157 respondents additionally were given the questionnaire "Personal decision-making factors" by Kornilova (1994), and 203 respondents were additionally given the questionnaire "Tolerance and Intolerance uncertainty by S. Badner's" adapted by Kornilova and Chumakova (2014).

Results and Discussion

Investment Experience

To begin with, we analyse the data on the investment experience of the respondents. To establish which assets are most popular among the respondents, they were asked the question "What financial market products are you ready to invest/are already investing in?". We presented the results in Table 1. We calculated the frequency of responses; the number of options may be more than one, so the total number is particular than the number of respondents.

It is important to note, the table above presents precisely the idea of peoples' willingness to invest in financial market products (and their reliability), rather than the real actions we will describe below. Most of our respondents (27 per cent) are willing to invest in stocks and bonds, while most of them assess such investments as unreliable, although with the potential to generate income. The next are investments in foreign currencies (21 per cent),

Table 2
Investment preferences of respondents

Currency	1 (3%)
Futures and options, Currency	1 (3%)
Stocks and bonds	4 (11%)
Stocks and bonds, Currency	6 (16%)
Stocks and bonds, Gold and other metals	5 (14%)
Stocks and bonds, Futures and options	1 (3%)
Monetary instruments	5 (13%)
Currency	3 (8%)
Stocks and bonds, Futures and options, Currency	3 (8%)
Cryptocurrency	5 (13%)
Stocks and bonds, Currency, Gold and other metals	2 (5%)
Stocks and bonds, Currency, Monetary instruments	1 (3%)
Total	37

Source: Compiled by the author.

then precious metals (17 per cent) and cryptocurrencies (15 per cent). As for the reliability of investment, the most popular answer is "unreliable, but despite the risk, there is an opportunity to increase the investment significantly".

Now let's turn to real investment behaviour (see table 2). Only 37 people (10 per cent) of the total respondents have such experience and think about investment activity as a source of income. Real experience has 3 per cent of women and 23 per cent of men. Results, indicating low investment activity of Russians, are in agreement with studies of Bezsmertnaya (2016), showed that national characteristics are of particular importance. Most Russians characterised a saving rather than an investment model of behaviour. It is most likely due to historical circumstances, the peculiarities of our country's economic and political development, fear of losses, and a low level of literacy in the field of financial instruments (Bezsmertnaya, 2016).

Among respondents having investment experience, the most popular are investments in stocks and bonds, as well as foreign currency (frequency are 37 per cent and 28 per cent, respectively). Further, follow gold and precious metals (12 per cent), monetary instruments (10 per cent); the least popular are cryptocurrencies (8 per cent) and futures and options (5 per cent).

The results of comparing investors in financial pyramids, in traditional financial instruments and cryptocurrencies we gave in our previous article prepared as part of this study (Gagarina & Lopanova, 2018). Since the work is not translated into English, we briefly cite them in this work. Respondents who take part in trading on the stock exchange and choose stocks and bonds for investments differ from those who do not take part in such trading because of personality traits — lower level of Consciousness and Agreeableness and do not change in the level of Tolerance and Intolerance to uncertainty. Respondents who invested in financial pyramids differ from those who do not invest in financial pyramids only at a lower level of Tolerance and Intolerance to uncertainty and do not differ in personality traits.

Respondents investing in cryptocurrencies and mining equipment differ from those who do not invest, both in terms of Tolerance and Intolerance to uncertainty, and in several personality traits. Investors are characterised by lower levels of Tolerance and Intolerance to uncertainty, lower levels of Extraversion, Openness to Experience, Consciousness and Agreeableness.

Predictors of Investment Activity

To evaluate the predictors of investment activity, we performed a linear regression analysis using

Table 3
Regression analysis model 1

Model	R	R^2	Adjusted R^2	Standard Error of the estimate	F	p.
1	.505	.255	.229	2.5715	9.863	.000

Dependent var.: Investment activity index
Predictors: constanta, Openess to experience, Rationality, Agreeableness, Evaluation (Bitcoin), Evaluation (Dollar),

Table 4
Regression analysis model 2

Model	R	R^2	Adjusted R^2	Standard Error of the estimate	F	p.
2	.410	.168	.147	2.2948	7.965	.000

Dependent var.: Investment activity index
Predictors: Constanta, Intolerance to uncertainty, Agreeableness, Evaluation Bitcoin, Strength Dollar, Neuroticism

the inverse step method. The Investment Activity Index we choose as the *dependent* variable. The *independent* variables were age, the scales of the semantic differential “Strength”, “Evaluation”, “Activity”, the Big Five questionnaire “Extraversion”, “Neuroticism”, “Openness to experience”, “Consciousness”, “Agreeableness”.

Since one part of the subjects completed the questionnaire “Personality Decision Making Factors”, and the other — the questionnaire “Tolerance and Intolerance to Uncertainty”, we built two models. Model 1 (Table 3) included, in addition to the independent variables indicated above, “Rationality” and “Risk-taking”, and model 2 (Table 4) “Tolerance” and “Intolerance” to uncertainty.

In each case (Model 1 and Model 2), a linear regression analysis was performed using the reverse step method, and the model with the best performance was selected.

Investment activity directly depends on openness to experience (betta = 0.2), the positive evaluation of bitcoin (betta = 0.3) and the dollar (betta = 0.2) and negatively on agreeableness (betta = –0.3) and rationality (betta = –0.2).

Thus, when we include the rationality/willingness putting risk factors in the model, significant predictors of investment activity will be as follows: high openness to experience; willingness to try and learn new; high positive value of the dollar and bitcoin; the idea of them as “good” currencies; low kindness to other people manifested in the priority of their own interests; being persistent, competitive or even aggressive; and low rationality. The causal relationship between the attitude to the asset and the willingness to invest (investment activity) is perceived as quite natural. The connection with low rationality — can be understood as a lack of need to act with the complete information. It is vital to be able to work in a situation of uncertainty and ambiguity when operating in the financial market. As concerns the connection between “agreeableness and openness” and “experience and investment activity”, the result can be compared with the work of Brown and Taylor (2014). They have found that “agreeableness will” is negatively, and “openness to a new experience” is positively correlated with “investing in stocks”.

Investment activity directly depends on the positive assessment of bitcoin (betta = 0.3) and indirectly on neuroticism (betta = –0.2), agreeableness (–0.2), dollar strength (betta = –0.2) and intolerance to uncertainty (betta = –0.3).

That is, when we include into the model of investment activity factors “tolerance/intolerance to uncertainty”, low agreeableness and a positive assessment of bitcoin remain significant, as well as high emotional stability in situations of stress and uncertainty, low intolerance to the uncertainty and perception of dollar as a weak currency (that means dependent on some external circumstances). When comparing the two models, it is necessary to account for the concepts of intolerance to uncertainty and rationality — low indicators of which are predictors of investment activity. These two variables are interconnected: rationality, as the focus on the maximum collection of information, accompanies intolerance to uncertainty as a desire for clarity of judgment. Model 2 focuses on the ability to act in a stressful situation and withstand a high degree of uncertainty. We can conclude that high investment activity depends on emotional stability and low tendency to perceive and interpret the environment as a threatening or as a source of discomfort. Our results are consistent with Lauriola and Levin (2001), who showed in laboratory experiments that emotionally stable respondents are more prone to risk to get money.

Conclusions

Based on the study, we have drawn the following conclusions can. The investment activity of Russians is quite low. The most popular among people with investment experience are investments in stocks and bonds, as well as foreign currency. However, most of the respondents assess such investments as unreliable, although with the potential to generate income.

Men are more inclined to consider investment activity as a source of income and practice this activity.

The predictors of Russians' investment activity, including their willingness to invest in cryptocurrencies, are a positive perception of currency and cryptocurrency, high emotional stability, low intolerance to uncertainty, low rationality and high persistence and competitiveness.

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Социально-психологические предикторы инвестиционной активности россиян

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Аннотация. Представлен обзор российских и зарубежных исследований психологических факторов и коррелятов экономического, в том числе инвестиционного, поведения и обсуждаются результаты их эмпирического исследования. Информационной базой исследования стала выборка 360 респондентов от 18 до 68 лет (средний возраст 26 лет). Исследование проведено с помощью анкетирования, в ходе которого собраны социально-демографические характеристики, выявлена инвестиционная активность (когнитивная и поведенческая готовность инвестировать в различные финансовые инструменты). Рассчитан индекс инвестиционной активности. Анкетирование проводилось с использованием психодиагностических тестов: опросника «Толерантность и Интолерантность к неопределенности», «Семантический дифференциал» (понятия «Доллар» и «Биткоин»), короткого портретного опросника «Большая пятерка» и опросника «Личностные факторы принятия решений». Предикторами инвестиционной активности россиян, включая их готовность инвестировать в криптовалюты, являлись позитивное восприятие биткоина, высокая «Эмоциональная Стабильность», низкая «Интолерантность к неопределенности», низкая «Рациональность» и высокая «Настойчивость».

Ключевые слова: экономическая психология; инвестиционная активность; финансовые инструменты; криптовалюты; психологические факторы инвестиционной активности

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International Currency Conflict in the Contemporary World Monetary System

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Abstract

The article addresses international currency conflicts. The research has found that currency conflict has extensive economic effects, especially on the United States and the weak peripheral countries of the Eurozone, as well as Canada, and some other countries that do not intervene in the currency markets. The author has revealed that these developments and ill-effects of global currency manipulation stem from a gaping hole in the international economic architecture. The theoretical significance of the article's outcomes is that the most fundamental flaw in the entire global regime encompasses both the monetary and trading systems, and indicates a massive failure of international cooperation. The practical significance of the paper is that it has outlaid a feasible set of effective systemic reforms that can be adopted to counter the objectionable practices today and deter them in the future. The author concludes that it is very much in the interest of all the world's countries to initiate a multilateral effort to work out a constructive solution to a significant international and systemic problem.

Keywords: international monetary system; currency wars; international monetary and currency conflict; foreign-exchange intervention; countervailing currency intervention; countervailing import duties; competitive currency intervention

JEL Classification: F37

The Origins, the Purpose and the Essence of International Currency Conflicts

The international monetary system faces a clear and present danger, the danger of currency wars. The reason for this is that virtually every major country is seeking weakening or at least non-strengthening of its currency to strengthen its economy and create jobs (Afontsev, 2009). In the world today, there are more than twenty countries that have been intervening directly in foreign exchange markets to raise the competitiveness of their products. It resulted in cumulative build-ups of foreign exchange reserves. They exceed 10 trillion dollars and averaging about one trillion dollars per year in recent years to keep their currencies weak and push other countries' currencies too strong with the comparative effects and economic effects for national competitive positions in the international marketplace. These countries do so mainly by buying dollars and euros, internationally used currencies, to keep those currencies overly strong and their currencies chiefly weak to boost their international competitiveness and trade surpluses. Most of these countries have continued this practice straight to the recent bout of unwelcome currency weaknesses in a few other emerging markets, and that makes the problem even worse (Avdokushin & Ivanova, 2014). The list of these currency manipulators includes some of the largest economies in the world, both developing and developed. This group of countries is, of course, led by China which has been the manipulator above all for a decade. It also includes some other Asian countries, several oil exporters and even a few European countries. The country that has practised this egregious behaviour accounts for almost one-third of the world economy, and two-thirds of global trade surpluses coming from their practices. China is thus the centrepiece of the international currency conflict (Anrdonova, 2012).

Currency Manipulation Effects

The currency manipulation and therefore the distortion of competitiveness between countries enables the manipulators to increase their trade surpluses by somewhere between half a trillion and a trillion dollars per year. When they do that, they create corresponding trade deficits in the countries on the other side of the equation. So, China, on the one hand, and the US on the other side, are having these massive trade imbalances in large part because of the currency manipulation (Chorev & Babb, 2009). When countries are adversely affected like the US, Canada, the Eurozone countries, they then run significant deficits. That subtracts their economic production and destroys jobs. Since all of them are primarily concerned with creating jobs in this period of relative economic weakness and prolonged recovery from the Great Recession, that is a grave matter indeed (Arner & Taylor, 2009).

The most significant loser in absolute terms by far is the United States. Its trade deficits, as a result, have been several hundred billion dollars per year larger. The US has also lost anywhere from one to five million jobs as a result. Europe is the second-largest loser with trade deterioration in the range of a hundred billion dollars. Results of some research published by the International Monetary Fund and the European Commission shows that the currency manipulation, particularly by the Asian countries (but also by some European countries like Switzerland), have been significant factors in weakening the economies of the weak states in the Eurozone such as Italy, Spain, Portugal and Greece (Beder, 2009). In other words, this currency manipulation, in addition to shifting vast amounts of production and jobs, has been a significant causal factor of the euro crisis which has brought the world close to a financial brink of collapse in recent years. On top of all this, the global trade imbalances and the currency manipulations as one of their major causes also played a central role in bringing in the global financial and economic crisis. It can be explained as follows. The trade imbalances reached their peaks back in the middle part of the previous decade, i.e. 2005–2007. At this point, the countries that were running these big surpluses had to do something with their earnings from those surpluses. When they have a trade surplus, they pile up reserves, and they have got the industrial reserves somewhere, most of them in dollars, some in euros (Braterski, 2011).

These countries invest their money in the United States. It had the impact of increasing the supply of money there, making it very difficult to tighten the monetary policy as the Federal Reserve wanted to in 2004–2005. It created a loose set of monetary conditions that both inflated the economy and weakened the incentive for financial regulation.

Of course, China and other countries piling up the surpluses did not force the US banks to make sub-prime loans and do the kinds of things that immediately produced the crisis. However, their currency manipulation played a central role in creating the economic and monetary environment for the crisis foundation. It has had devastating effects on the world economy as well as the United States as its epicentre.

These reserve build-ups and imbalances have declined a bit lately. China, in particular, has let its currency go up substantially and sharply reduced its trading surplus. But the Chinese currency remains substantially undervalued, including by enormous amounts.

Moreover, a lot of the reduction in the deficits on the US part, for example, had been caused by the Great Recession. In a recession, the demand for imports like everything else declines, the trade deficit falls, but that is a temporary factor. The IMF projects that these trading imbalances are going to start getting bigger again, and the problem is likely to rise further. China's reserves went up more than 150 billion dollars in the first half of the year 2019. It means they are intervening to the tune of more than one billion dollars per day in the currency markets while keeping their exchange rate weak. The aim was to keep US exchange rates strong and distort as a result of competitive positions. The latest estimates of exchange rates show that the Chinese currency would need to rise by at least 15 per cent on a trade-weighted average to eliminate these distortions. That means it would have to go by about twice that amount against the US dollar or the Canadian dollar and some of the other key currencies (Yefremenko, 2007).

The point is that they are massive imbalances. The international institutions worry about this. The G20 and the G7 have continued to invade against the global imbalances and emphasise again at their meetings to avoid exchange rate targeting. Brazil, in fact, has taken the issue to the World Trade Organisation but nothing much has happened.

The outlook suggested is most worrisome, because some of the world's largest and wealthiest economies have already joined or seem to be contemplating joining the currency wars. The world's largest currency manipulator in the year 2018 was Switzerland, a little country, but a big player in the world trade, one of the dominant trade partners of the European Union that has virtually pegged its exchange rate, kept it from going up against the euro, even though it is running the most prominent trade surpluses in the world at a time when its major trading partners in the Eurozone is in the recession. Japan did trigger the latest wave of concern. The new government very aggressively said that it wanted a weaker exchange rate for the yen. It used what is called in the business 'verbal intervention'. It drove the yen down 30 per cent against the dollar. That among other things enraged the US auto industry which competes with the Japanese automakers. But more widely it gave Japan an enormous leg-up in international competition. They subsequently adopted the policy of monetary policy expansion. It ratified what they had done before, but it was their initial intervention that had knocked the yen down (Chen, Milesi-Ferretti, & Tressel, 2012).

The President of France has called for a weaker euro. Some perceptive British observers believe that its officials have been suddenly talking down the pound. So, there is a lot of intervention occurring, big countries as well as small, wealthy countries as well as poor. It is a very wide-spread practice.

There should have been greater exchange rate flexibility in the world. One argument that one could make for greater flexibility is that it is actually in China's interest, not in the interest of everybody else. Look at the accumulation of foreign assets that are required to prevent the appreciation of the Renminbi, much of it is in low-yielding US Treasury bills, sitting in a sizeable huge stock of that, the prospect of the US dollar declining overtime. There is a considerable capital loss on the stock of assets that China is holding. China has been fairly effective in sterilising those inflows. However, it has not been perfectly purified.

One could argue again that China is now over-dependent on export industries. Taking the huge stocks of foreign capital, sterilising it, putting it in the financial system, lower interest rates in China coupled with problems in the financial intermediation system in China. And they have potentially huge issues of misallocation of capital in China, and the exchange rate regime being part of the problem for that. Household savings in China are very high. Part of that has to do with the demographic situation in China and the ageing population or the lack of social safety nets in China. So, people are seeing low rates of return on their savings in financial institutions and then seeking other places to put their funds, including housing with the potential for housing bubbles to develop in China. One could credibly get the case that greater flexibility of the Renminbi is actually in China's interest, not only in the interest of the United States or other flexible-exchange-rate countries. China's latest five-year plan has basically recognised that it wants to move in that direction. Indeed, the Renminbi has appreciated by about a third over the last number of years (Chinn & Ito, 2008).

The second series of questions has to do with the economy and the political economy of the United States. How much of the manufacturing loss in the United States has to do with currency manipulation? A large part of it is due to currency manipulation. Another argument could be made that other countries in the world are just more efficient manufacturers of consumer goods than the United States. So part of the decline in those industries and the United States may be due to currency manipulation, but some of it could also be because other economies are more efficient in producing those goods.

The other thing is that the export subsidy of having a fixed exchange rate regime does have the effect of subsidising consumer goods in the United States and elsewhere. While there seems to be a strong coalition in the United States, what the impact would be in the United States when people realise that probably the outcome of all of this is now an increase in consumer goods that people have become used to in the United States at a certain price? Alternatively, one could see dealing with China as being a currency manipulator. But is that production going to shift from China to the United States, or is it going to shift from China to somewhere else? So, one does not see the gains that one might expect in terms of production in the United States itself. It comes down to a question of the political economy in the United States. China has been brilliant in terms involving itself in global supply chains. Despite a lot of foreign investment in Chinese enterprises, only about 50 per cent of export freights of goods in China is Chinese valued-added. It is value-added from elsewhere in the world that they put together in China (Dorrucci & McKay, 2011).

The other thing is that the savings are a subsidy for the rest of the world in terms of investment as well. Cheap savings have had a positive effect potentially in terms of investment elsewhere. Some of that investment, though, has to be done with strict financial regulation and very prudent regulation, or supervision of financial markets, but one could argue when they say that at least part of what has been happening with the Chinese situation is that they are providing cheap savings for investment elsewhere in the world as well.

The only point here is being not to deny many of the concerns that one raises, but there are also countervailing forces that would suggest that one has to think about what are the net consequences of it all.

Finally, there are perhaps more technical issues. Economists determine the equilibrium of exchange rate. There are many models. It is a difficult thing to do. The IMF itself has three models for exchange rates. What is the equilibrium exchange rate determination? One could leave this to the technicians and the econometricians. One has to be careful when one thinks of these kinds of regimes about avoiding substituting a degree of arbitrating a foreign degree of fairness. That would have to be done very carefully (Vaubel, 2018).

There are countervailing forces. Real, the US and Canadian consumers benefit from cheaper Chinese products because the Chinese are subsidising their consumption. That is correct. But they are also subsidising their job creation in much higher unemployment-area countries. So, they then have to make a value choice. It comes out of value judgement at the end of the day (Elyanov, 2009).

Many of the American firms have invested in China, and there are no problems with the Chinese government because they know that the Chinese government may retaliate against them. The Chinese government is adamant. When a country — be it the US, Canada or the EU — criticises them and predicts taking action against them, they will frequently retaliate against the companies based in their country. They will buy Airbuses instead of Boeings. So, the US companies are afraid, but they are very reluctant to attack the Chinese government. Besides, a lot of the American firms in China benefit from the underlying Chinese currency for the export competitiveness out of China.

Contrary to that the bulk of the American companies oppose what the Congress is now doing. And why the US has been so slow to act, this is one of the reasons, because the US companies have not been active at all in pushing the issue. China has been incredibly smart in taking hostages. They have opened to foreign investment in a big way. Incidentally, US investment in China is a tiny share of the total foreign investment in China — about 10 per cent. American firms are very modestly represented in China. When there is a significant policy issue in Washington, many of the American companies side with the Chinese. When Congress does what it has now suggested, it will do it going against the interest of the American companies. If the companies thought they bottomed, they would not buy very much. They lost now at least on this way. There are a lot of high costs to the US economy from the result. The most tangible cost is lost jobs because of Chinese currency manipulation (Sinn, 2014).

There have been lots of economic analyses that tried to distinguish between the volatility of exchange rates meaning bouncing around some more or less constant level and misalignments of exchange rates when they are at levels for long periods that do not accurately reflect underlying economic fundamentals. All the studies show that volatility is a minor factor in affecting trade flows and competitiveness, whereas misaligned levels are critical. The point in practical corporate terms, companies can usually hedge against the volatility. Most companies that are active in international business do that. One cannot hedge with total effectiveness of eight, ten years or more, but if one is talking in short to medium run, even to five years or so, there are foreign markets, there are derivative products of all types that can be used to hedge currency exposure. That protects against volatility, and most companies do that. That is a reason why the economic analysis then shows the minimal impact of volatility. Companies or individuals that have concerns could avail themselves of the hedging opportunities to banks, other financial institutions, and therefore be able to obviate the effect of volatility (Gourinchas & Obstfeld, 2012).

Eric Helleiner raised an excellent question about the motivation of the countries that build these reserve levels and intervention practices (Helleiner, 2009). The origin of the activity lies in the late 1990s and the early part of the last decade. It certainly reflects at least a substantial portion — the experience of the Asian crisis and subsequent crises in Brazil, Russia, etc., where countries felt they had inadequate reserves to defend themselves against being forced into austerity programmes and adjustment efforts by the IMF in terms of the Washington consensus that they did not like. In its origins, the policy had a lot of that element in it. However, the extent to which the reserve bills have occurred has not anything to do with that self-insurance motive. The countries that got a habit of running surpluses realised that export-led growth was something they both could get away with and would be cost-free domestic employment policy. There may be some countries like the Philippines and a few others who have built reserves and are still relatively weak and do not have vast amounts of reserves. They are not in the list of currency manipulators. But there are the ones that have reserves that way above what is generally viewed as needed. The IMF rule is a country should have reserves equal to three months of its imports. There is a much more conservative rule associated with Alan Greenspan that says a country should have reserved a hundred per cent covering its short-term currency liabilities. The countries mentioned massively exceed both those tests. That is the degree to which those policies have been carried in those countries that create the problem of international currency conflict (Griesgraber, 2009).

The foreign manipulators tend to invest very conservatively with a high emphasis on liquidity. Most of their investments do come in the US government securities, including short-term Treasury notes, Treasury bills, and a little bit longer-term paper, but most of it goes into government securities, which is one of the reasons that hold down the costs of borrowing to the government. It encourages the government to run significant deficits, even in periods of a boom when it should be running surpluses like before the crisis. The big US budget problem is really that the US went into the crisis with a lousy budget position. It had terrible boom management. When the economy was booming, they should have run surpluses. As early as 2000–2001 the US was running budget surpluses. If the US runs these significant surpluses for too long, the government would have to start buying private stock, and somehow the economy becomes nationalised. It was a ridiculous theory. It led to the Bush tax cuts, approved by Alan Greenspan. It put the US on the road to huge budget deficits when the economy was booming. So, when it went into the crisis when it needed stimulus spending, the country was in terrible shape. By contrast, China went into the crisis with big-budget surplus and therefore had lots of manoeuvrability and lots of room for credit to them. They did run their boom period economy very sensibly and prudently. As a result China did not go off the track like the US (Hankel & Isaak, 2011).

The currency manipulators should stop relying on significant trade surpluses and expand domestic demand. It has been agreed in principle by the G20 since it started meeting to deal with the crisis in 2008, that to get a sustainable world economy, there has to be a significant rebalancing. For the world it is impossible to have the US running substantial deficits, China running big surpluses, Germany running big surpluses, Japan running big surpluses. It is impossible to have a sustainable world economy with big imbalances of that time reflecting budget deficits of the type that the US has been running now for the last several years. So, as the US has to reduce its trade deficit, export more, invest more, China and other currency manipulators have to stop relying on foreign markets and expand their domestic markets, which most of them are in good position to do. There are reasonably large countries in Asia which as a group is a vast economy. They can export more to each other, but they have lots of opportunities to build domestic demand. China is expected to start serious reform actions, which would shift the focus of its economic development strategy away from foreign markets into domestic markets. Per capita income is meagre in China. Consumption is insufficient as a share of total national income (Schäffler, 2014).

There is an enormous opportunity for China, in particular, to shift away from relying on the export market to rely on the domestic market. They have got plenty of alternatives. They have enunciated and desired to go that way. What the world needs now are policy actions of which a number are entirely possible for the particular. This question is about consumer choice and the impact on the consumer. Since any economic variable has two sides to it, and the positive side of the Chinese manipulation for the US or Canada or any importing country is the cheaper imports. But the theory of consumer choice and the libertarian thinking that goes on around it, and the straight economics which frankly any economist believes in, market economics — all say that consumer choice is typically thought of as responding to market prices. And the problem with currency manipulation is that it distorts the market. In this case, it distorts the market in favour of the consumer, because the cheaper is the products from China or Malaysia or anywhere else, the cheaper they can buy at the Wal-Mart or some other store. But people do not usually think of that as a reflection of consumer subsidy, that the consumer is being subsidised by somebody, which is excellent for the consumer, but it has some very adverse effects on the other side of the equation. So, if one is thinking in terms of consumer sovereignty, consumer choice is typically articulated by this economic analysis and most political philosophy as well. It is consumers' reacting to market prices, not distorted prices. That is why it always seems that the people that ought to agree with the ought to be the most conservative and almost reactionary economists and politicians. It ought to be the right winners because they are the ones who put the great emphasis on the market and responding to market forces and avoiding big government intervention in the market. That is — about what the manipulation is. That is the governments of these manipulating countries injecting themselves into the market, distorting market prices for a government purpose, violating all the principles of libertarians and free-market economists, and those who frequently choose to be seen as conservatives on the economic spectrum. When a government of the size and power of China, Japan, Malaysia, Switzerland, any of the other countries that are on this list, inject their enormous resources into the market to distort prices that ought to be public enemy number one to the conservatives, and so it ought to be they on the right-wing who would be leading the charge against these practices (Jordà, Schularick, & Taylor, 2011).

The US Congress now is seized with the importance of the manufacturing sector and jobs in manufacturing, and that is what is being the driving force now in the political economy of the United States. The US is proposing some of the very robust measures in the international system to enforce that. The outcome is going to be what one is looking for in the United States. If it works out the system of international rules, it has got to be based on measurements of certain kinds, e.g. some metric that one can have confidence in that to have a system of international rules that the countries are going to apply (Robleh, Haldane, & Nahai-Williamson, 2012).

There is a growing sense that the adverse effects on the US economy outweigh the benefits, and therefore something has to be done about that. One of the elements is partly philosophical and partly political, and that is simply the element of fairness. International trade is supposed to be based on a series of widely agreed rules. The World Trade Organisation, for example, has got a lot of rules. It has got a dispute settlement mechanism. When somebody violates the rules to deal with, the WTO steps in. And that is why this currency manipulation issue is a massive gap in the international system because there are prohibitions against it, but there is no enforcement of that. So, in the US Congress and extensive parts of the society in the US, there is a sense of elemental unfairness that other countries including some large ones are cheating and violating the rules. They have not been called in the court for it. But they are still viewed as being cheaters. That is essentially where the debate is going now (Rousseau & Wachtel, 2011).

Counter-vailing Currency Intervention Strategies

The concept of defensive intervention enters the picture at this point. There are several countries whose currencies have become overvalued and pushed up by the practices described above and produced extra deficits for those countries. Those countries had to intervene defensively to keep their exchange rates from going up even higher pricing them even more and more out of their markets. That is justifiable because otherwise they would be pushed further into deficit, taking higher economic costs. Brazil has been a noteworthy case in point. New Zealand has done it recently. Australia and the United States, the biggest deficit country, have not done it, as well as the Eurozone (Griesgraber, 2009).

The systemic problem arises with the maintenance of significant and continuing currency under-valuations generated primarily through substantial and prolonged intervention. The global macroeconomic picture heightens those risks considerably. As a fiscal policy and budget policy are constrained, almost all of the rich economies are by substantial debt burdens. Most rich countries cannot expand fiscal policy to deal with their economic weaknesses. Indeed they had to tighten their fiscal policy because of budget problems. The result is widespread reliance on monetary policy, including QE — quantitative expansion in the United States, in Japan, and elsewhere. That reliance on monetary policy to expand economies has led the charges against the United States and Japan, the British and a few others that they too are practising competitive devaluation because when they expand money supply, they do issue interest rates that tend to weaken the currency (Reinhart & Rogoff, 2011).

The reason is that monetary policy is carried out for domestic purposes, with domestic instruments and in a way that has a spill-over in the currency markets, but it is primarily an internal policy device, whereas the intervention is directly in the currency markets aimed pure and simple at international pricing and national competitive positions. Nevertheless, if countries are on the receiving end of the reserve and capital flows like Brazil and some others, it looks like what the US is doing with monetary policy is not so different from what China is doing with foreign exchange intervention policy. Therefore one can be somewhat excused for conflating the two and throwing the defensive intervention too.

So, there are three different kinds of policy actions which are often conflated in public understanding and even the policy debate, all of which adds to the risk of currency conflict because it makes it appear that the problem is even worse than it is. The bottom line is that we have witnessed extensive competitive currency depreciation for several years, and the practice is widespread. Much more seems quite possible soon. The economic damage that has already resulted is immense and could become much worse.

It is worth noting that this is quite similar to what happened in the 1930s when a wave of competitive currency depreciations deepened and broadened the Great Depression. Indeed, many historians believe that it was the transmission of national recessions from country to country — England, US, France, Germany and back — that brought on the Great Depression and globalised the problem at that time (Kemenyuk, 2009).

When the architects of the post-war economic system got together to create the International Monetary Fund, the World Bank, the so-called Bretton Woods System, their central concern was to avoid a replication of that problem from the 1930s. And so they wrote steadfast rules into the charters of the IMF, the World Trade Organization or again as that was then to prescribe this kind of currency manipulation. Unfortunately, they failed to put any enforcement mechanisms into the rules. Though the rules were there, the implementation was absent at all, and the system has entirely failed to deter or respond to the practices described. It is a single most significant flaw in the entire international financial architecture. It is a failure to effectively sanction trade-surplus countries, especially to counter and deter competitive currency policies. Indeed, this systemic failure almost assures that the problem will continue because the manipulators get away with it and thus presented a policy option especially attractive in tough economic times through which they could subsidise their exports, subsidise domestic competition of their imports, thereby subside their jobs without any budget costs domestically or without any effective restraint internationally. It is just too good an alternative to pass up, and many countries have now learned that fundamental fact (Kose, Prasad, Rogoff, & Wie, 2009).

International Currency Cooperation

Why is it that the system has failed so badly even without good enforcement rules in the IMF and WTO, the charters that could have done it? Why could not the big countries get together and do something about it as they have on some other issues in the post-war period? There are two plausible and complementary explanations. One is primarily political, and one is predominantly financial. Charles Kindleberger from the MIT had a straightforward but very persuasive thesis of why the world economy did collapse back in the 1930s and what we had to watch out for now. His thesis was that a world economy could function cooperatively and effectively only under firm enlightened leadership by whatever country or small group of countries that had the economic cloud to lead that system and exercise that cloud in a constructive way. It is inside what happened in the 1930s is that the traditional and previous global leader — the United Kingdom — was no longer able to exercise that leadership. It had lost World War One, and its finances had been designated, its economy was weak. It could not do it anymore. But the rising power — the United States — was unwilling to step into that breach, exercise a leadership role and thereby keep the world together. That explanation, of course, is political economy, not theoretical economics. But it is quite powerful and quite persuasive. The analogy today would, of course, be that the United States has declined in its economic cloud and so can no longer lead the system, but that the rising power — China — is certainly not yet willing or able to do so. Therefore there is a vacuum of leadership. Nobody is to see to it that the rules do get implemented, take matters into own hands to do that if necessary as the US has done in some previous periods. Therefore nobody minds the store, and things devolve and fail. That is a rather persuasive explanation of what happens (Lane & Milesi-Ferretti, 2011).

It is worth a word about why China cannot do it yet because China is the rising power. It will be the world's largest economy within the next five to ten years. It is already a prominent trader. It is by far the biggest surplus country. Three and a half-trillion dollars in reserves — more than three times as much as anybody else — all these ill-gotten to a large extent for the reasons described, but it means that China has become a global economic superpower at this relatively early stage of its development. But it is a unique economic superpower. It remains a relatively poor country — its per capita income is about 10 per cent of the US, even though its entire economy is getting quite close to the US in absolute magnitudes. Its economy has not yet fully marketised or privatised. It retains extensive capital controls, a currency that is not yet convertible. So, it is not a modern economy, however. Its political system, of course, is hardly compatible with those of the traditional economic powers. So, it would be a bit premature, to put it mildly, to expect China to shoulder a kind of global economic leadership that is needed to deal with the problem of this type. Indeed, as is suggested, China is a large part of the problem rather than a leader in resolving it (Pisani-Ferry & Sapir, 2010).

The US side of the equation, though, is worth a short description. The United States is caught in something of a scissors' movement in terms of its role in the world economy. On the one hand, the United States has become increasingly and in some sense critically dependent on the world economy, at least four times as much as in the early 1960s. At that time, the international dimension represented about 10 per cent of the US economy. Today it is 40 per cent. It has quadrupled in fifty years.

On the other hand, the US has become decreasingly able to influence, let alone dominate, the outcome of global economic developments, with half the share of global output it had half a century ago. At that time, the US share of the world economy was 40 per cent, and now it is 20 per cent. So, the US GDP has gone from ten to forty. Its cloud has gone from forty to twenty, ensured the scissors' movement that is crossed, with the US much more dependent and much less able to exercise the kind of leadership it did in the past. That has severely truncated the ability of the United States. Both chores have accelerated over the past decade. From the US standpoint time is not on its side in seeking to promote its global economic interests. But that it is even more fundamental with very saddle reason for both the systemic erosion and its adverse consequences for the United States, and that is the international role of the US dollar. Whether one is talking about fixed exchange rates way back before 1971 or floating rates since there is a fundamental asymmetry in the way the exchange rate system works. The dollar is of course by far the most widely used currency, and therefore there is a world of what can be called in technical terms in currencies, the number of currencies in the world, but only in minus one exchange rates, because one exchange rate has to be the residual of all the others. So, the United States is expected to remain passive in the currency markets, and the exchange rate of the dollar is to a substantial degree determined by the combined actions of other countries including this direct–indirect verbal intervention (Lane & Milesi-Ferretti, 2007).

Global monetary arrangements are based on the implicit grand bargain in which the US accepts the deficits that result from the dollar's role, and that other countries finance those deficits without complaining too much. Conventional wisdom is that the international role of the dollar is very much in the interest of the United States and bad for the world. However, the opposite is true. Other countries benefit from the convenience in cost reduction of a single world currency, and for the manipulators — the ability to set the dollar's price in terms of their currencies. The United States has two very tangible costs. As indicated, other countries can determine the exchange rate between their currencies and the dollar by buying dollars in the foreign exchange markets, and on the monetary side the build-up of dollar balances by other countries comes very directly from the result of intervention meaning that a big flood of money comes into the United States, inflates the money supply, weakens the ability of the monetary policy to cope and therefore can lead to results like the global economic and financial crisis that occurred over the last ten years.

Interestingly, the Chinese recognise the validity of that. The governor of the central bank had a famous speech about ten years ago on the monetary system. And he seemed to be inviting the United States to get out of the business of running an international currency by noting that "when a country's currency is no longer used as the benchmark for other economies, the exchange rate policy of the country would be far more effective in adjusting its economic imbalances". In other words, he was saying, if Americans complain about the Chinese currency manipulation wearing significant surpluses, but that is because the dollar is the currency in which they do it. If the US gets out of that business, the Chinese can no longer do it. The US would be more independent and autonomous. And it would not have the problem. That was a provocative and far-reaching suggestion. It has not been operated on to this point. But it is probably got a lot of truth (Melyantsev, 2015).

The US to be certain benefits to some extent from the international role of the dollar. It makes it easier to finance trade deficits over short periods, which is always very attractive to politicians. The problem is that the international role of the dollar represents the auto-moral hazard for the United States. It is an absence of market pressure on the US to adjust its economic policies, when it should be doing so, like the boom period of the early and middle 2000s, to keep its imbalances both its trade imbalance and its internal budget imbalance which are strictly related to keep those imbalances from reaching unsustainable levels that may require very sharp and very costly correctives as can be seen now (Perskaya & Eskindarov, 2015).

The US budget problem and the US trade deficit are directly related to the failure to act earlier, which was permitted by the build-up of dollar balances by other countries financing the United States. There is some similarity between huge inflows of capital to the United States described and the considerable inflows to southern Europe in the early years of the euro that brought on the euro crises. Both of those big capital flows reflected market judgements driven by keeping essential institutional framework that kept interest rates very low in the capital importing area. What happened in Europe is that once the euro was created, the markets treated Greek debt the same as German debt. The market said these are all members of the Eurozone. There is not going to be any exchange rate movement. These are all part of the same economic union. So, they priced the government paper pretty much the same. And so, the Greeks were able to borrow at the same rates the Germans were able to borrow. It is no surprise therefore that the Greeks went on a huge spending splurge, shopping spree, overspent, over-borrowed their books, lived way beyond their means and finally crashed. And that although the time fuses longer because the US is a much bigger economy with much greater resilience, there are some similarities that the US runs large external deficits, based on large internal deficits. The rest of the world because it "does not have anywhere else to go" tends to finance those for a long time until it decides to stop financing them. And then as happened with Greece, Italy, etc. the interest rate would jump, the shoe will be again pinched, and then all of the US, Canada given its proximity to the United States, will be in big trouble. However, lots of Americans believe that the international role of the dollar is a good thing for the United States. The others call it dollar primacy mentality. There is a wise recognition that at best, the dollar is a mixed blessing for the United States and probably on balance a weak factor and the negative. Until that is overcome, the world will not get a termination of the currency manipulation problem and remedial action (Ostry, 2012).

What is interesting is that the Congress of the United States seems to understand this. The Congress of the United States is typically thought of as being pretty chauvinistic and pretty nationalistic and pretty narrow-minded and even xenophobic and isolationist. It is just throughout a few adjectives that generally describe the Congress. But in this case the Congress seems to have recognised that this dollar primacy mentality is rampant on Wall Street, and some parts of US business community is a huge mistake in terms of the strength of the US economy, the creation of jobs, the maintenance of external and internal balance and the sustainability of the American economy. It is fascinating when Congress gets it, and the Administration does not. The US Administration has been short-sighted on this issue, and finally, Congress is beginning to force them to act.

The Policies that Should Be Adopted to Deal with the International Currency Conflict

So, what's to be done? Systemic reform is required. It needs to include both changes in the rules and particularly much stricter enforcement of those rules. The governance structures through which the rules are implemented must, of course also be substantially revised to legitimise a new regime and to promote both its initial acceptability and thus its sustainability. These systemic changes deal with the substantial systemic problem which needs to occur both through the International Monetary Fund and the World Trade Organisation. It is a problem that cuts across monetary issues and trade issues — both need to be deployed in response. Both these institutions have rules against competitive currency undervaluation. The IMF rule is clear, but it has no enforcement mechanism. The World Trade Organisation does have an enforcement mechanism, but its provision is much more ambiguous, and it has never been attempted and probably would not work if it did. The United States has been trying for a decade to persuade China to let its currency go much faster by significant amounts, but its success has been very modest, importantly due to the absence of effective international rules and procedures that it could mobilise for that purpose. In the case of the IMF the chief need is to add effective policy instruments to enforce the two existing rules. The prescription of significantly undervalued exchange rates that are maintained by protracted large-scale intervention in one direction and a failure by violators to consult with the country in whose currency they plan to intervene. The IMF rules should thus be reinforced to provide for the first time effective sanctions against countries that wanted to protest.

First, the maintenance of a significantly undervalued exchange rate.

Second, through extensive intervention in the currency markets described.

What can be proposed is that a new sanction is brought into the toolbox. It is what can be called countervailing currency intervention. If Japan — to take one of the most recent local cases — buys a billion dollars to keep the dollar overvalued and the yen undervalued, why should not the United States do the reverse? By a billion dollars of yen to push the yen back up and the dollar back down and to offset, counteract, countervail the effect of what the Japanese have done. That would be meeting the punishment, or matching the punishment to the crime. It would not be a huge cataclysmic on global financial markets. And if the United States did it two or three times, it would successfully deter other countries from carrying out the practice because then they would know they will have no benefit, and everybody would wind up where they started. A measure of that type — and it is deliberately called countervailing currency intervention — would parallel a very wide-spread trade policy rule under which countries can apply countervailing import duties and tariffs against export subsidies that are prohibited.

This currency manipulation is the same as an export subsidy. It keeps the price of exports low and therefore a similar response in kind, but this time through the currency markets, which seems to make perfect sense should be done and would be a directly applicable remedy. If the country that was being intervened against felt that it was unjustly treated, it could protest to the International Monetary Fund. If it was found to be right, and the countervailing was found to be wrong, the IMF could tell them to cease, and they will have to do so. That is why it is crucial to embed the new rules in the international system so that nobody will try to bully anybody else in the process.

A second new policy instrument would be to tax the build-up of foreign currency reserves that are the results of the intervention. As was said before, when China buys dollars to keep its currency weak, it has to invest those dollars somewhere back in the United States, and it gets interested in those. The US could tax those, or it could even stop paying interest, or it can even prohibit their increasing holding amounts of dollars from making clear that it wanted no part of their currency manipulation. That too would be a perfectly logical response, and for technical reasons one might need to do that with countries that have inconvertible currencies like China. So, those would be the new instruments on the monetary side.

Two changes could also be made on the trade policy side. Some would immediately say that is protectionism. But what the US is responding to here is protectionism. It is anti-protectionism because when countries manipulate their currencies, keep them undervalued when they have trade surpluses, it is the equivalent of big export subsidies or big import barriers. The Chinese currency intervention over the last decade is the most prominent protectionist policy in the history of humankind. It is much more significant than the smooth early tariff that the United States put on in the 1930s or any other trade policy device that one could ever find in the history of the world economy.

So, if one wants to deter it and/or respond to it to protect economic interests in the short run, the two things one could do on the trade side. One would be to add manipulated currency intervention described to the list of prohibited export subsidies against which countervailing import duties could be levied. Currency manipulation is just like any other export subsidy in terms of driving down the price of the exported product. That is legitimate under the trading rules that still exist today to put on a countervailing tariff against those. The only issue is whether the currency intervention counts as an export subsidy. That is a hotly debated topic. It has not been defined as such by most countries, although Brazil has begun to do so. The United States, Canada and others should do so. Again, the deterring effect on the countries that manipulate would be quite significant.

A second and even more significant trade action would be to invoke an existing rule on the WTO. There is a rule that says any country that frustrates the intent of the agreement, the trade agreement through currency manipulation, justifies the erection of across-the-board import barriers against it, and across-the-import surcharge or some equivalent measure that reacted across the board not just case by case as with the countervailing duties to a country that was manipulating its currency for trade reasons, but again it would have major deterred effect. One could make those changes either through amending the charters of the IMF with the WTO — or by more likely just developing a consensus on the issue and doing it through a coalition of the willing mentioned before — a subgroup that was willing to move ahead in that way if one could not get a wide-spread agreement.

Another tactic is to build rules of this type, including sanctions into new trade agreements. And this, of course, can directly relevant to Canada because Canada is a participant in the Transpacific Partnership negotiation that is trying to forge modern trade rules, open markets, expand trade and investment among all the major countries of the Pacific Rim. If it succeeds, it will be the biggest trade deal in history next to the European Union. And it will be a major game-changer in terms of Transpacific security, political as well as economic relations. That is the agreement that the Congress is now saying they will only approve if it addresses this currency issue. So what can be suggested is that as developed countries, including the US and Canada negotiate this new trade agreement that they add one more chapter. There are twenty-nine chapters in the agreement now. It is a very complex and far-reaching trade agreement which is its virtue, although it is difficult, congressmen are saying — add one more crucial chapter that would address this currency issue. And the chapter, though nobody has worked out the details of it yet, would repeat the prohibitions on currency manipulation as in the IMF now would subject the issue to the dispute settlement mechanism of the whole trade agreement. In other words, if one participant, say, Australia, feels it is adversely affected by another participant, Mexico, Australia can take Mexico to the dispute settlement agreement, and say, it is violating the prescription on currency manipulation. If the multilateral dispute settlement mechanism says Australia is right, then Mexico will have to cease, or Australia is authorised to withdraw all the trade concessions it gave Mexico in the agreement. That is called in the trade policy jargon 'a snapback' of the trade liberalisation that had been implemented, and nobody wants to de-liberalise trade. But if there is no effective deterrent in practice, then the practice continues. So, the idea would be to start using new trade agreements. The Congress says not just that they pass partnership, but all future US trade agreements should have effective mechanisms to deal with this currency problem or else the Congress is not going to implement that.

Obviously, it would be better if one could negotiate these reforms internationally and multilaterally. But as is known from the last decade of trying to get international agreement on this issue that it is not very likely one could do so. There is a potential pretty wide-spread coalition of countries that are adversely affected — the United States, the Eurozone, some emerging markets like Mexico, Brazil, India have been very vocally critical of China and the other manipulators. So, there are several candidates for a coalition of that type which then could begin to put those new international concords into practice and start to deal with the problem. Hopefully, once that happened, one could then formalise the multilateralisation of the rules, put it into the institutions and make it a new feature of the system.

As is indicated the fathers of the post-war monetary system, way back at Bretton Woods, tried to prescribe these practices to avoid a replication of what happened in the 1930s. They failed to do so. Now would be the time to complete that process seventy years later.

The conclusion is that such systemic reforms and/or plurilateral actions along the way to terminate the contemporary currency wars would have a substantial payoff for the countries that are adversely affected by the current competitive depreciations. The US, for its part, could see a straight deficit cut by several hundred billion dollars per year. And its unemployment rolls drop by at least a couple of million. The Eurozone would be the second-largest beneficiary to the tune of a hundred billion dollars or so and a considerable number of jobs. And if the issue could be put to rest in these relatively constructive ways, the threat of protectionist trade policies and hard landings in deficit countries with overvalued currencies should recede substantially.

For the longer run, the benefit of all this is that the greatest flaw in the global economic order of the past seventy years would be overcome. The system would become much stronger in response to large imbalances and to head them off by deterring predatory currencies. These institutional pillars of the world economy, the International Monetary Fund, the World Trade Organisation would become far more effective and far more credible.

The US addressed another vital issue of US interests in which China also plays an essential role back in the State of the Union Message — cyber-security. And it is said that one cannot look back years from now and wonder why they did nothing. When there is a breach of enormous importance, and the international community is frozen and does not act, then the norm begins to unravel. One should adopt the same attitude to a wide-spread currency manipulation which violates the most basic precepts of the international economic system or destroying growth and jobs in diverse economies.

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Международные конфликты в современной мировой валютной системе

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Аннотация. В статье рассмотрены вопросы, связанные с так называемым феноменом международного валютного конфликта. Исследование позволило выявить его влияние на экономику различных стран мира, включая США, Канаду, слабые периферийные страны зоны евро и ряда других государств, которые не прибегают к использованию инструментов интервенции на валютный рынок. Выявлено, что эти тенденции и отрицательные внешние эффекты глобальных валютных спекуляций проистекают из системных проблем международной финансовой архитектуры. Теоретическая значимость результатов исследования заключается в том, что фундаментальная проблема глобального режима валютных курсов охватывает одновременно и валютную, и внешнеторговую системы, а также указывает на дефицит международного сотрудничества для решения валютных проблем. Практическая значимость результатов работы состоит в том, что в них изложены подходы к принятию системных реформ для воспрепятствования целенаправленной валютной политики отдельных стран сегодня и в будущем. Сделан вывод о том, что в настоящее время складываются предпосылки для международных действий по выработке конструктивных решений международной системной валютной проблемы.
Ключевые слова: международная валютная система; валютные войны; международный валютный конфликт; валютная интервенция; оборонительная валютная интервенция; противодействующие импортные пошлины; конкурентная валютная интервенция

Статья подготовлена по результатам исследований, выполненных за счет бюджетных средств по государственному заданию Финуниверситету.

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The Overview of the Evaluation Methods of the Company's Creditworthiness

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Abstract

The activity of any commercial organisation is of high risk. It is often connected with the fact that companies tend to take various risks to achieve their own goals for the sake of which they operate and perform their activities. Understanding and determination of whether a company is financially stable require us to conduct the so-called creditworthiness analysis of an entity. Moreover, it is expedient for any profit-making company to analyse and perform monitoring its creditworthiness. All of this makes such a kind of an analysis pretty relevant and useful. This research may be regarded as an attempt to examine theoretical fundamentals and some existing methodologies of creditworthiness analysis.

Keywords: creditworthiness; financial analysis; commercial organisation; credit risk; financial coefficients; bankruptcy
JEL Classification: G32

Today's economy of any country is full of risks. All economic agents often have to operate in uncertainties. Profit-making companies are especially exposed to risks since they are supposed to function for the sake of generating profit. As we know, such activities are crucially risky. Taking into consideration the fact that entities interact not only with their customers and business partners but also with other economic agents including investors, shareholders and other stakeholders, the activity of these companies may have a vast, or at least some, influence on economic subjects with which a particular company collaborates. In addition to it, the success of any commercial company largely depends on its financial stability, profitability and other factors of a finance area. As a result, it is imperative to use a creditworthiness analysis for the reasons mentioned above as this enables a company to manage its business in the most proper and financially safest way. As for all economic agents interacting with a company, this analysis gives an excellent opportunity to make right decisions. That is why it shows that such a kind of investigation may be considered to be a very effective tool in the field of finance.

The creditworthiness analysis is quite complex and multi-faceted since it has a lot of aspects to be analysed. In other words, people who conduct this analysis need to examine business in question from a lot of perspectives. It should be noted that the main elements of a study are connected with liquidity ratios, debt indicators, activity coefficients, profitability indicators and indicators of cost-effectiveness. These aspects are very informative and crucially important.

It is essential to learn and analyse the main techniques used for the creditworthiness analysis. There are a lot of methods to evaluate the creditworthiness of a company, but we will examine those that are the most widely used and deserve due regard.

The most known analytical techniques of creditworthiness and the risk of bankruptcy were elaborated by economists Duran, Altman, Dupon, Lis, Taffler, Springate, and others [Corazza, 2016, p. 20]. All of these methods are based on different approaches and use various coefficients, but all of them are aimed at the

Table 1
Comparative analysis of the methods used to asses companies' creditworthiness [Aralica, 2013, p. 141]

Name of a method	CAMPARI	"C-1–6" rules	PARSER
Countries of application	In banks of Europe and the USA	In Western countries	In the USA
Indicators studied	Character — customer's reputation; Ability — ability to repay a loan; Means — something that guarantees your solvency; Purpose — for what a loan is taken out; Amount — a loan amount; Repayment — conditions of loan repayment; Insurance — protection against risks of failing to repay a loan	C 1 — character — lender's reputation; C 2 — capacity — solvency; C 3 — capital — capital adequacy of a borrower; C 4 — conditions — terms of loan repayment; C 5 — collateral — some ownership needed in case of failure to give a loan back; C 6 — control — supervision	P — person — a borrower's reputation; A — amount — a loan amount; R — repayment — conditions of repayment; S — security — an estimate of loan collateral; E — expediency — the aim of taking out a loan; R — remuneration — interest rate
Main weaknesses	Appropriate coefficients are not sufficient to assess the company's creditworthiness.		
Result	It is impossible to assess the creditworthiness of a company thoroughly.		

same aim, namely, the analysis of creditworthiness or the risk of bankruptcy. As for the method applied in the Russian practice, PJSC "Sberbank" elaborated the technique for evaluating companies' creditworthiness as well.

We need to emphasise the fact that whichever technique we use for the analysis, the indispensable part of creditworthiness evaluation is vertical and horizontal analyses of financial reports. The first analysis represents stakes that each financial position has in total assets or liabilities. The second one shows deviation, specifically, reduction or increase in values of position in financial reports. These aspects are informative since they give some understanding about changes and fluctuations in the financial position of a company under consideration.

Before we move on to the analysis of the existing methods of the creditworthiness analysis, it is expedient to pay attention to the general procedure for conducting such an investigation. It is needed to stick to this way as following this may enable us to obtain the more objective and accurate results in terms of the creditworthiness of a company under investigation. It is so because of the lack of technique that could perfectly examine the creditworthiness of an enterprise. In other words, we cannot rely on only one particular method. We have to resort to using some different techniques.

The general procedure for the creditworthiness analysis is quite simple but complex as it consists of some parts. There are four parts, each of which includes a set of indicators characterising one aspect of the business. The first part is related to the general analysis of the balance sheet liquidity and liquidity ratios of a company [Eskindarov, 2018, p. 251]. This step is one of the key stages of the evaluation of entity's creditworthiness. It shows if a company can pay off its liabilities by respective assets. The second stage pertains to turnover ratios that reflect how effectively a company uses its resources — the higher asset turnover, the higher the usage effectiveness of them, consequently, the higher creditworthiness. The next step is supposed to include profitability indicators which demonstrate how much money different kinds of assets generate. One of the final stages is the analysis of financial stability. It displays to what extent a company in question is dependent on trade credits, loans and raised capital. Besides, it is expedient to evaluate an enterprise with the help of some scoring models,

Table 2

Classification of enterprises by solvency level following Duran's methodology [Dmytryshyn, 2014, p. 53]

Indicator	Limits for classes according to criteria				
	1st class	2nd class	3rd class	4th class	5th class
The profitability of assets, %	30 and higher — 50 scores	From 29.9 to 20 — from 49.9 to 35 scores	From 19.9 to 10 — from 34.9 to 20 scores	From 9.9 to 1 — from 19.9 to 5 scores	Less than 1– 0 score
Current liquidity ratio	2.0 and higher — 30 scores	From 1.99 to 1.77 — from 29.9 to 20 scores	From 1.69 to 1.4 — from 19.9 to 10 scores	From 1.39 to 1.1 — from 9.9 to 1 score	1 and lower — 0 score
Autonomy coefficient	0.7 and higher — 20 scores	From 0.69 to 0.45 — from 19.9 to 10 scores	From 0.44 to 0.3 — from 9.9 to 5 scores	From 0.29 to 0.2 — from 5 to 1 score	Less than 0.2– 0 score
Limits for classes	100 scores	From 99 to 65 scores	From 64 to 35 scores	From 34 to 6 scores	Zero score

authors of which I mentioned at the beginning of this paper. Such models give a possibility to classify companies by bankruptcy risk.

Also, it is quite reasonable and informative to provide a table with a comparison of existing methods for companies' creditworthiness evaluation. We will examine some well-spread techniques bringing together their main features in the table presented below.

As we can see, the techniques mentioned above are quite similar to each other because of the approaches used. All of them may be effective if properly using them. However, the main drawback is that the indicators applied are not adequate to evaluate entities' creditworthiness fully.

Another and one of the most popular methods of the analysis of companies' creditworthiness is the technique elaborated by Duran [Garcia, 2013, p. 2012]. This method is considered to be an integral estimate of financial stability based on a scoring analysis. In this case, the method might add up to summarising three leading indicators characterising creditworthiness of a company. Each of these indicators has weight coefficients. According to this model, each considered entity is supposed to be related to a particular class taking into account the results of an analysis. Table 2 presents this classification.

As can be seen, there are five classes of creditworthiness of companies. The first-class means that a company can give its loans back. The second one pertains to a company that has some negligible risks connected with its indebtedness [Ivanickova, 2016, p. 389]. The third class of companies implies that enterprises are quite risky in terms of their ability to pay off debts. The next class indicates that a company has high risks of bankruptcy, even in spite of having taken special measures concerning the so-called financial recovery. The last class shows that a company is too risky and almost not solvent [Patlasov, 2014, p. 499].

The calculation formula for the integral estimate of creditworthiness under Duran's method is the following:

$$D = b_1 * ROA + b_2 * CR + b_3 * EtTA, \qquad (1)$$

where:

D — the estimate of creditworthiness;

b_1, b_2, b_3 — set coefficients;

ROA — return on assets;

CR — current ratio;

EtTA — equity to total assets.

As a result of summarising scores obtained and using the formula mentioned above, we need to conclude concerning what class of cred-

Table 3
Classes of entities by their creditworthiness following the model elaborated by Altman [Coser, 2019, p. 156]

Indicator of Altman (Z)	**Entity's creditworthiness**	**Bankruptcy risk**
less than 1.8	too low	too high
from 1.81 to 2.7	low	high
from 2.8 to 2.9	moderate	moderate
more than 2.99	high	low

itworthiness the company in question might be related to.

The next part of our research I connected with determining what the analysis of creditworthiness elaborated by Altman includes. It is another technique for assessing bankruptcy risk.

This model is the formula constructed by the American economist Edward Altman. This formula is supposed to forecast companies' bankruptcy probability [Lozinskaia, 2017, p. 845]. Altman's model indicating bankruptcy risk was built on the sample of 66 entities, 50% of which are successful companies, and another half is related to enterprises that went bankrupt. Altman elaborated several models. The main distinction is that they have a different number of indicators based on which we can calculate the final result in respect of bankruptcy risk. The first model encompasses two factors, namely, quick ratio and the coefficient of share weight of borrowed funds in a total amount of assets [Rowland, 2019, p. 328].

By the fact that a two-factor model does not ensure a complex estimate of financial position of a company, professional analysts are much more willing to use a five-factor model:

$$Z = 1{,}2 * x_1 + 1{,}4 * x_2 + 3{,}3 * x_3 + 0{,}6 * x_4 + x_5, \quad (2)$$

where:

x_1 — working capital to total assets ratio

x_2 — retained earnings to total assets ratio

x_3 — EBIT to total assets ratio

x_4 — the market value of equity to total liabilities ratio

x_5 — sales figures to total assets ratio.

As a result of computing the integrated indicator (Z), we estimate the company's bankruptcy risk [Zhdanov, 2019, p. 18] as shown in Table 3.

After an analysis of existing methods of assessing creditworthiness, I conclude that there are a lot of ways to evaluate companies' creditworthiness. In spite of the availability of various techniques, there are no methods that could enable us to obtain very objective results. It is so because each of them is based on different approaches that are not impeccable. As a result, these methods do not take into account all aspects connected with creditworthiness.

Moreover, even though we have lots of methods, it is a long way to go. Flaws of already applied methods might make us think of elaborating new techniques and designing models. It could enable us to estimate creditworthiness in a better way since there is no limit to perfection.

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Обзор методик анализа кредитоспособности компании

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Аннотация. Деятельность той или иной коммерческой организации несет в себе многочисленные риски. Зачастую это связано с тем, что компании берут их на себя для достижения своих целей, ради которых они осуществляют свою деятельность. Для того чтобы установить, насколько компания является безопасной в финансовом плане, необходимо проводить не только внешнюю оценку ее кредитоспособности, но также целесообразно самостоятельно и систематически производить мониторинг и анализ своей кредитоспособности. Анализируя и оценивая теоретические основы и существующие методики анализа кредитоспособности компаний, автор пришел к выводу, что при наличии альтернативных методов оценки кредитоспособности предприятия ни один из них в полной мере не отвечает требованиям комплексности при учете фактора рисков.

Ключевые слова: кредитоспособность; финансовый анализ; коммерческая организация; кредитный риск; финансовые коэффициенты; банкротство

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Attitudes to Social and Political Advertising Among Russian Youth

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Abstract

The article presents the results of an empirical study of the characteristics of the evaluation of social and political advertising by young men and women. In total 96 respondents aged 18 to 22 years (M = 18.7; SD = 0.92) took part in research. The semantic differential was used as a research method; respondents were asked to evaluate two photographs depicting social and political advertising on public transport. By comparing the average estimates of social and political advertising, it was found that political advertising as a whole is evaluated more negatively than social advertising. Young men evaluate social advertising more positively than young women. There were no significant differences in the assessment of political advertising between the two genders.

Keywords: political advertising; social advertising; youth; semantic differential
JEL Classification: Y 80

The Relevance of the Study and Background

The study of people's attitudes to various forms of advertising exposure in different periods of history was an urgent task of social psychology and the psychology of marketing communications (Lebedev & Gordyakova, 2015; Lebedev-Lyubimov, 2007). Currently, researchers set themselves the task of studying the impact of various types of advertising on the population, increasing its effectiveness, taking into account the interests of both advertisers and consumers. Some researchers, for example, Orlova and Gordyakova (2019) and Gordyakova and Lebedev (2017) raise fundamental issues such as the impact of advertising on social norms, values and the development of society and vice versa. Currently, commercial, social and political advertising has become widespread in the Russian advertising market. In terms of content, technology and the principles of psychological impact on the population, these types of advertising differ significantly. In this article, we focused on two types of advertising — political and social to figure out peculiarities of youth attitudes.

The purpose of social advertising is "to change the public's attitude to any social problem, and in the long term — to develop new social values" (Horoshkevich, 2015, p. 10). The subject of social advertising can be considered a socially significant idea, a social project, a certain standard of behaviour. The object of social advertising is the totality of socially significant ideas, social projects, certain standards of behaviour and socially significant actions [ibid.]. As a form of interaction, social advertising involves the creation of a positive image of a society struggling with injustice and vices. It sets as its primary goal to draw attention to emerging social problems and calls for moral values. Partly, social advertising is a reflection of the views of the state. However, topics related to the health and safety of citizens can be broadcast, namely issues of alcohol and drug use, AIDS, attitudes towards abortion, smoking, etc. Any of these topics are of particular importance for the state, but they have a less political connotation. The mechanism of social advertising, like any other, implies the presence of two components: rational and emotional and efficiency is mostly associated with the emotional component. That is why we concentrated our attention on attitudes to advertising. Several Russian authors note that the psychological impact of low-budget social advertising, on which Russian public activists had high expectations a decade ago, is insignificant when compared to commercial advertising (Lebedev & Gordyakova, 2015; Lebedev-Lyubimov, 2007; Orlova & Gordyakova, 2019). And this is not only since following the Law on Advertising of the Russian Federation, the ratio of social advertising to a commercial one is approximately equal from 5 per cent to 95 per cent. The psychological effectiveness of social advertising is, in many ways not high enough because it is most often based on negative emotions. Its plots are usually associated with problems of society (anti-smoking, careless and drunk driving, environmental problems, raising children, helping people with disabilities, older people, etc.). Social advertising addresses mainly socially relevant issues. On the contrary, other types of advertising appeal to the apparent benefits, pleasures, and advantages of an individual, which he “will definitely receive” after purchasing the advertised product or electing a specific political candidate. In this regard, the question arises of the perception of social and political advertising by young people and their willingness to make socially-oriented choices.

On the one hand, political advertising is a concept very close to social advertising for it addresses problems of society. On the other hand, it sets completely different goals. Political advertising also forms certain psychological attitudes in the mass consciousness, while they are aimed at realising the rights and freedoms of citizens in society. It should be noted that political advertising contains a call to action and participation in the political process, the adoption of a particular point of view and appropriate behaviour concerning the accepted position. The purpose of political advertising is to “induce people to participate in any political processes ... to encourage people to a particular type of political behaviour, including electoral behaviour” (Horoshkevich, 2015, p. 71). Its object is the participants in the political process, who have to make this or that choice, to determine for themselves this or that political orientation. The subject is “a candidate, a party, their programs, as well as a political rally, support or protest movement” (Androsova, 2008, p. 7).

Psychological studies that raise the question of the role of the individual in the perception of political advertising are at particular interest. In the articles by Lebedev (Gordyakova & Lebedev, 2017; Lebedev, 2017) consider the problem of the influence of information and political marketing on the formation of different types of patriotic behaviour of Russians. Using the developed questionnaire, we identified three types of patriotic behaviour: ideological, problematic, and conformal. Ideological patriotism is characterised by excessive, often demonstrative activity and even aggressiveness of the subject. It emphasises initiatives, lack of reflection and self-criticism. It is also insensitive to logical contradictions, unwillingness to listen to the opponent and inability to hear him. The other features are peremptory judgments, ostentatious resentment, excessive moralization, “impaired” self-esteem; declared readiness to “sacrifice oneself for one’s homeland, even when there is no sense to do so”; search for external and internal enemies, intolerance to another’s the point of view, etc. Such a person rarely reconsiders his views and seldom from them refuses, since they are based not on rational logic, but faith. This form of patriotic behaviour in some cases may transform into conformal patriotism but never into the shape of the problematic patriotism. Problematic patriotic behaviour: this type of behaviour based on a sense of duty.

Subjects with this type of patriotic behaviours tend to have broad erudition and developed intellectual abilities. As a rule, these are people with higher education, but working in areas that are not associated with business, big politics or top government posts. These are people with a particular spectrum of emotions and a sense of justice. They are ready to

Fig. 1. On the left is social advertising: "Cardio-route is a route of life"; on the right is political advertising: "Liberal-Democratic Political Party of Russia: We are for Great Russia".

listen to the opponent, put self on his place and look at the problem from the opponent's point of view. Conformal patriotism: people with this type of patriotic behaviour externally manifests itself in a wide range (from demonstrative reactions to complete indifference to what is happening). However, in reality, such a person is entirely free and without severe psychological consequences for himself refuses earlier declared beliefs when situation is changed. This form of patriotic behaviour is a social adaptation. An analysis of the results allowed authors to conclude that ideological and conformal types of patriotic behaviour are formed to a greater extent under the influence of marketing technologies. The problematic kind of patriotic behaviour is a characteristic of people who are least affected by the impact of advertising and propaganda. Respondents with a problematic type of patriotic behaviour in the Kettell 16PF test (factor Q1) are more likely to show radicalism. Respondents with a predominance of ideological and conformal types of patriotic behaviour are more likely to show conservatism ($p<0.05$). The tendency of people to irrational decisions makes it possible to use information and political marketing to form a sense of patriotism (Gordyakova & Lebedev, 2017; Lebedev, 2017).

The processes of psychological perception of advertising by men and women are very different. Research in the field of advertising says that women are more susceptible to advertising slogans, and they are the consumers of most of the offered goods and services. However, social and political advertising is somewhat different, and its aim is not the creation of a separate, physically existing product. Therefore, we need to consider the impact of advertising from the side of the channels and methods of communication. In the advertising text, the attention of women is attracted to male characteristics. It means that when the text contains such adjectives as strong, reliable, brave, faithful, a woman carries the image and perceives it as qualities inherent in a man. Accordingly, it forms a subconscious sense of trust. An advertisement that contains references to the characteristics of a man, a woman perceives more willingly. From the position of visual broadcasting of advertising, there are also significant differences in perception, since men and women tend to focus on entirely different things. Naturally men are more active, work-oriented and inclined to change the world around them, while women have a more relaxed lifestyle, finding happiness and harmony. So, an advertisement reflecting active actions is aimed at the attention of men. Contrary, an advertisement showing "quiet family happiness" attracts the attention of women. In this regard, we hypothesised that young men and young women would have different opinions on social and political advertising.

Hypothesis: The attitude of young women to political advertising is more negative, and to social — more positive than that of young men. Social advertising is perceived more positively than political.

Table 1
Descriptive statistics and t-test for attitudes to social advertising of male and female respondents

Characteristics	Males		Females		T	p
	M	SD	M	SD		
Aggressive/Benevolent	1.2	1.7985	1.9	1.0999	1.98	0.052
Hostile/Friendly	1.0	1.6897	2.0	1.0776	2.795	0.007
Unpleasant/Pleasant	0.7	2.1144	1.1	1.4687	1.01	0.316
Stupid/Clever	0.6	1.6652	1.0	1.4606	1.122	0.266
Ugly/Nice	0.7	1.8686	1.2	1.306	1.209	0.231
Deceitful/Sincere	0.5	1.6529	1.2	1.3545	1.953	0.054
Indifferent/Caring	1.1	1.7223	1.8	1.6064	1.668	0.1
Sad/Joyful	0.7	1.7399	1.2	1.4167	1.108	0.272
Relaxing/Annoying	0.2	1.8245	-0.3	1.0545	-1.305	0.196
Unconvincing/Convincing	0.3	1.7555	0.8	1.4167	1.37	0.175

Table 2
Descriptive statistics and t-test for attitudes to social advertising of male and female respondents for attitudes to social advertising of male and female respondents

Characteristics	Males		Females		T	p
	M	SD	M	SD		
Aggressive/Benevolent	-0.682	1.9141	-0.531	1.3675	0.38	0.705
Hostile/Friendly	-0.023	1.9349	0.125	1.3854	0.368	0.714
Unpleasant/Pleasant	0.14	2.1222	-0.323	1.3512	-1.066	0.29
Stupid/Clever	-0.25	1.8568	-0.313	1.4242	-0.159	0.874
Ugly/Nice	-0.209	2.0419	-0.469	1.2948	-0.63	0.531
Deceitful/Sincere	-0.512	1.8692	-0.344	1.2078	0.443	0.659
Indifferent/Caring	-0.659	1.7777	-0.438	1.4354	0.581	0.563
Sad/Joyful	0.163	1.7719	0	1.0473	-0.463	0.645
Relaxing/Annoying	0.477	1.8107	0.719	1.114	0.667	0.507
Unconvincing/Convincing	-0.386	2.0025	-0.25	1.3678	0.333	0.74

Methodology

Respondents: 96 students of the Financial University, from 17 to 22 years old (M = 18.7; SD = 0.92), of which 58 are young men. Most of the respondents were from Moscow: 90 per cent of girls and 97 per cent of boys. At the same time, the posterior distribution we observed in other cities: 3 per cent of the girls surveyed from Ramenskoye, 3 per cent from Elektrostal, 2 per cent from Domodedovo and Zelenograd.

Along with socio-demographic data, we received respondents' answers to questions that characterise the social, political and economic situation in the country. To identify attitudes toward social and political advertising, we used the method of semantic differential. As an incentive, we presented to respondents images of social and political advertising placed on public transport (Fig. 1). Both pictures were coloured.

Evaluating advertising (Fig. 1) for each pair of opposite characteristics (ten in total), respondents had to choose the one that more closely matches their perception. Thus, the range of answers was from "-3" to "3".

Results and Discussion

First, we will consider the gender differences in the assessments of the political and social advertising. The results we present in Table 1.

We noted that for almost all characteristics of social advertising, the values lie in the field of positive values. It means that respondents evaluated advertising positively. An exception is a value for females on a scale of relaxing/annoying. Here, women rated social advertising as "a little annoying".

Significant differences in the evaluation of social advertising between males and females we identified as concerns the characteristics of Aggressive/Benevolent, Hostile/Friendly, Deceitful/Sincere. Although estimates of social advertising for subjects of both groups of respondents are in the field of positive values, females tend to rate social advertising as less, and males as more benevolent. Since both average ratings are positive, it is more likely not about evaluating advertising as aggressive, but about the degree of the emotional reaction. On a scale Hostile/Friendly, a similar situation: females on average rated advertising as less, and males as more friendly.

On a scale of Deceitful/Sincere, the average rating among girls is close to neutral, and boys rated advertising as more honest. On the whole, we can say that women are less likely to assign an emotional rating to an advertisement. Men are more interested in advertisement and tend to attribute positive ratings to it.

A similar procedure was carried out by us for evaluating political advertising; the results we show in Table 2.

Compared to social advertising, political advertising is evaluated more negatively, as indicated by the negative values of most scales. Comparison of the average values of the ratings of political advertising by boys and girls according to the Student criterion, did not reveal significant differences.

Conclusions

Based on the study, we have drawn the following conclusions. Firstly, political advertising as a whole provokes an adverse reaction, equally among males and females. Secondly, social advertising as a whole is evaluated positively. Thirdly, males tend to rate social advertising as more benevolent, friendly, and sincere than females. Thus, our hypothesis of a more positive assessment of social advertising compared to political advertising was confirmed. We have not found substantiated the hypothesis of a more emotional advertising evaluation by girls than by boys. Here, we obtained opposite results. Differences in the assessment of political advertising were also not received. The perception of advertising is influenced not only by the content but also by the colour scheme, context, possible associations, previous experience of respondents, and many other factors that we may not have taken into account.

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Отношение к социальной и политической рекламе российской молодежи

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Аннотация. В статье приводятся результаты эмпирического исследования особенностей оценки социальной и политической рекламы юношами и девушками. Респондентов (были опрошены 96 респондентов в возрасте от 18 до 22 лет) просили оценить с помощью методики семантического дифференциала две фотографии с изображением социальной и политической рекламы, размещенной на общественном транспорте. Сравнивая средние значения оценок социальной и политической рекламы юношами и девушками авторы установили, что в целом политическая реклама оценивается более негативно, чем социальная. При этом юноши оценивают социальную рекламу более положительно, чем девушки. Достоверных различий в оценке политической рекламы не выявлено.

Ключевые слова: политическая реклама; социальная реклама; семантический дифференциал; молодежь

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Perspectives of the Transatlantic Free Trade Agreement between the EU and the US after BREXIT

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Abstra ct

In this article, the author presents the legal nature and economic effects of Free Trade Agreements (FTA or RTS according to WTO terminology) on economies of members and third countries. The second aim was an evaluation of the economic effect of TAFTA (TTIP) on the United States and the European Union in the case of Brexit as well as some potential impact on third countries and alternative FTAs as counterweights to TTIP. To identify the mathematical and statistical relationships, I constructed correlation and regression models between dependent and independent variables. The dependent variables are GDP, independent variables of GDP per capita, unemployment, exports and imports, price index and investment, as well as the country's participation in the free trade zone. To evaluate the independent variable (specifically the participation in the free trade zone), a "dummy variable" I used with values "0" during ten years prior the entrance intro free trade zone and "1" during ten years after the entrance of a particular country into the free trade zone. The general conclusions following from my study is that RTS allows many countries to negotiate and achieve much more preferential trade conditions than is possible at the multilateral level.

Keywords: Brexit; EU; trade agreement; NAFTA; WTO; TBT Agreement
JEL Classification: F13, F 42, F53

Influence of FTAs on GDP and National Stock Market Index

The impact of FTAs on the economy in the case of the EU and NAFTA

NAFTA is a comprehensive regional agreement uniting three countries with different levels of economic, social, and political development; regulates their relations in various aspects — trade in goods and services, investment cooperation, protection of intellectual property, ecology. The agreement was signed in 1994 to smoothly reduce trade barriers in various sectors of the US economy. Canada and Mexico to ensure and facilitate the access of goods and services to the markets of the participating countries and formally meant a single continental system of free trade. NAFTA is a free trade zone, all the conditions of which apply only to NAFTA members, and concerning third countries, each state develops an independent foreign economic policy.

The terms of reference for a tripartite agreement include:

The removal of barriers to trade in goods and services

Creation of a system for the protection of intellectual prop erty rights

The liberalisation of investment flows (non-discriminatory treatment)

The formation of a dispute settlement mechanism between member countries.

Tariff reductions occur in stages while preserving protectionist measures for the "sensitive goods" of each country. There are still exceptions (exemptions) from the rules of free trade, especially for agricultural products. For example, Mexico protects domestic production of beans from imports, vegetables and fruits in the USA, and dairy products in Canada. Seizures in the services sector include transportation (air, sea, and land), broadcasting, health care, legal services and some others.

It is essential that in the framework of NAFTA established general rules for determining the country of origin of goods. It is a country where the product has undergone substantial processing, and the share of the local component is not less than 50 per cent.

The agreement does not provide for the creation of a customs union, although it includes elements that go beyond the free trade zone.

NAFTA has six significant benefits. According to a Congressional Research Service report drawn up in 2017, this agreement has more than tripled the volume of trade between Canada, Mexico and the United States since its adoption. The agreement reduced and cancelled tariffs (Villareal & Fergusson, 2017).

Secondly, the growth of trade increased production. Although the assessment of the effect of NAFTA on various factors is difficult, experts believe that the full implementation of NAFTA will enhance the growth of the United States to 0.5 per cent per year.

Third, although there are different estimates, stronger growth created jobs. According to the 2010 report, the US free trade agreements — part of the list obtained from the NAFTA agreement — supported direct support for 5.4 million jobs, while trade with these countries supported 17.7 million.

Fourth, foreign direct investment (FDI) is more than tripled. The United States increased its foreign direct investment in Mexico from $ 15.2 billion. The United States in 1993 to 104.4 billion dollars. The USA in 2012 and from 69.9 billion dollars. US in Canada in 1993 to 352.9 billion dollars. The United States in 2015. Mexico increased its investment in the United States by 1283 per cent over the same period, while Canadian FDI increased by 911 per cent.

Fifth, NAFTA reduced prices. Importing oil from the United States of Mexico is cheaper because NAFTA got rid of tariffs. Reduces US dependence on Middle Eastern oil. Inexpensive oil lowers gas prices, reducing transport costs. Prices for products, in turn, are lower.

Sixth, the agreement contributed to government spending. Government contracts in each country were awarded to suppliers in all three Member States. This increased competition and reduced costs.

On May 18, 2017, the USTR sent Congress 90 days note to begin negotiations with Canada and Mexico on the revision of NAFTA as requested by the WTO (TPA) (PL 114) –26). Some trade issues that the USA may consider as concerns NAFTA and potential revisions to the agreement include the financial implications of withdrawing from the agreement, the impact on relations with Canada and Mexico, requests that Canada and Mexico may make for negotiating and evaluating how to "modernise" or revise NAFTA. Another problem is the implications of the United States withdrawal from the Pacific Partnership (TPP), a free trade agreement between the United States and 11 other countries, including Canada and Mexico. Some TPP members are moving forward under a similar agreement without the USA involvement, which may affect the USA competitiveness in some markets (Fergusson & Williams, 2016). It also has implications for the revision of NAFTA, since NAFTA did not have several new problems. Some trade policy experts and economists give credit to NAFTA and other FTAs for expanding trade and economic ties between countries, creating more efficient production processes, increasing the availability of cheaper consumer goods, and improving standards and living conditions and conditions of work. Some other scientists and experts assess negatively free trade agreements for worsening employment trends, lower wages in the USA and not making enough efforts to improve labour standards and environmental conditions. NAFTA has influenced other free trade agreements that the USA concluded later, as well as multilateral negotiations. NAFTA has initiated a new-generation trade agreement in the region and other parts of the world, influencing negotiations in areas such as market access, rules of origin, intellectual property rights, foreign investment, dispute resolution, labour rights and environmental protection.

At the time of the implementation of NAFTA, the Canadian Free Trade Agreement in the United States was already in place, and American tariffs on most Mexican products were low, while Mexico had the most protected trade barriers. Under the agreement, the United States and Canada gained greater access to the Mexican market, which at that time was the largest expanding market for exports of goods and services to the United States (Brookhart & Wallace, 1993). The agreement led to the creation of one of the largest single markets in the world. Some of the most important provisions of NAFTA included liberalisation of tariff and non-tariff trade, rules of origin, trade in services, foreign investment, and protection of intellectual property rights, government procurement and settlement of disputes. Labour and environmental regulations were included in separate NAFTA agreements.

The provisions of the Market Opening Agreement led to the phasing out of all tariffs and most non-tariff barriers on goods produced and sold in North America within 15 years of their entry into force. Some tariffs were cancelled immediately, while others were cancelled in various programs for 5–15 years. Most fares have been withdrawn for ten years. Import-sensitive US industries, such as glass, shoes, and ceramic coatings, have received more extended phase-out plans (Alexander, 1993). NAFTA offered an opportunity to speed up the tariff cuts if the countries concerned agree (Blecker, 2018). The agreement included guarantees under which importing countries could raise tariffs or, in some cases, import quotas during the transition period, if domestic producers were severely affected by the increase in imports from another country, NAFTA.

The European Union (EU) is political and economic. The goal of the union is to create uniform rules and improve trade management and living conditions in Europe. The European Union includes 27 member countries; in other words, most European countries. Member countries are independent states. However, they undertake to comply with the decisions and orders adopted in the European Union.

The EU's gross domestic product (GDP) is about 14 trillion euros and is at the same level as the GDP of the United States; The EU accounts for 20 per cent of world trade. The EU is the world's largest exporter, ahead of China and the United States.

The single internal market is one of the key qualities of the EU. He assumes that goods, services, money and people can move freely between EU member states without restrictions — these are often referred to as the "four freedoms". Among other things, it allows to increase economic efficiency and increase the variety of goods.

EU member states adhere to a set of general laws, rights, obligations and court decisions, which are usually referred to as the French term Acquis Communautaire (community property). In general terms, EU legislation exceeds national laws and regulations and deals with all areas where Member States have determined that actions at the EU level are more effective or more effective than at the national level.

Following the current Multi-Year Financial Development Program (Anania et al., 2015), almost 86 per cent of the EU budget is spent on development and employment, supporting competitiveness, regional cohesion (eliminating imbalances in regional development) and implementing agricultural policies. The development program, which accounts for 47 per cent of the budget, includes education, research and innovation, infrastructure improvement and support for small and medium-sized enterprises (SMEs). It means recognising that a prosperous economy needs a highly skilled workforce and that a dynamic labour market, in turn, brings direct social benefits for the people of Europe. Also, all Member States and regions should be able to compete on an equal footing with more developed geographic areas.

The single European market, launched in 1992 as a modernisation of the common market, is an entirely legal and political project created and supported to improve performance in Europe. Thanks to free mobility of production goods and services in a broader market, European companies had to and at the same time had an opportunity to develop innovative products and to improve production cycles for successful competition inside the common economic area, thereby increasing economic growth. When the debate on "European value-added" is high, and questions are being asked about the possibility of free restriction movement, it is important to understand what has been improved within the common market and what has not been improved.

The overall result of the analysis is that the critical market has had a significant positive impact on GDP. Besides, this effect appears to have arisen mainly due to the free circulation of assets and capital — EU trade and investment flows have increased since the introduction of the common market. It, in turn, has increased competition, expanding innovation, and various product options that improve growth and well-being. However, the common market did not seem to have a significant impact on the flow of services and people (Dahlberg, 2015).

There is no convincing evidence of an increase in trade in services between the Member States that can be attributed to a single market, and there is no evidence of increased competition or productivity in the service sectors. However, there is currently no further analysis of the impact of the Services Directive, which aims to eliminate the problems associated with the free movement of services. Preliminary evidence suggests that the implementation would have significant positive effects, but has not yet been finally resolved using adequate econometric techniques.

To achieve the goal of this study, a research has been done to check the results, observed in the literature, on the example of two free trade zones of different level of integration that has been chosen: the North American free trade zone "NAFTA" and the European Union (Tregub & Raudsepp, 2018) Particularly, the influence of involvement in a free trade agreement on members' GDP. On the one hand, the European Union is a union with a profound level of integration; therefore, multiple factors may have an actual impact on GDP, except the presence in the free trade zone itself. Moreover, Western and Eastern European countries within the European Union also might experience a different impact of FTA. The same may refer to NAFTA due to the substantive GDP variation between the USA, Canada and Mexico. On the other hand, when compared the results of the analysis with a less integrated NAFTA free trade zone, some conclusions might be made of integration level effect on the economies of the participating countries.

In each of the selected free trade zones (the EU and NAFTA), two pairs of countries are selected: economically more developed and economically less developed for assessing the influence of free trade agreement on the countries with different GDP. In the NAFTA, the United States and Mexico are chosen for further research, and Spain and Poland are selected in the European Union. In the European Union particular countries has been chosen due to low availability of information as some countries do not provide reliable information on some macroeconomic indicators within the time before joining the EU (for example, Germany and France). Additionally, a vital bias for this specific research is that a limited sample, used in the study, does not allow making a generalisable conclusion on the impact of the free trade zone on all member countries of the unions (especially in the case of the EU). However, this research does not include the objective of making a generalisable conclusion. One of the main goals of the research is comparing more and less economically strong countries within one FTA to achieve results that would demonstrate the extent of the impact of free trade zones on countries with different economic potential.

The period of the study is chosen ten years before and ten years after the country's factual entry into the free trade zone. This time horizon is determined to identify the long-term effect of a free trade zone on member's GDP. The cumulative study period is 20 years. A particular period was chosen primarily because of the availability of information and the time when countries entered the free trade zones (for example, Poland joined the EU only in 2004).

To identify the mathematical and statistical relationships, I constructed correlation and regression models between dependent and independent variables. The dependent variables are GDP, independent variables of GDP per capita, unemployment, exports and imports, price index and investment, as well as the country's participation in the free trade zone. To evaluate the independent variable, specifically the participation in the free trade zone, a "dummy variable" is going to be used with values "0" during ten years prior the entrance intro free trade zone and "1" during ten years after the entrance of a particular country into the free trade zone.

The results of econometric studies in the USA and Mexico demonstrate a positive linear relationship between countries' participation in the North American free trade zone and members' GDP. Correlation analysis showed that between these indicators, there is a strong positive correlation between these two factors (US – 0.85; Mexico — 0.85). In the US regression model, the NAFTA factor turned out to be significant and had a positive coefficient (Tables 1 and 2). In the regression model of Mexico, the NAFTA factor also turned out to be substantial and had a positive coefficient (Table 3 and 4). In both cases, this indicates about a positive relationship between GDP and the country's presence in a trade union. Under the coefficients, it can I concluded that the presence of the USA and Mexico in NAFTA brought in both economies 172 billion and 18 billion dollars, respectively. The

Table 1
The regression model for the USA

	Coefficients	Standard Error	t Stat	P-value
Intercept	-9.25609E+12	9.11589E+11	-10.1538035	1.50679E-07
Unemployment, %	3.4848E+11	27564973962	12.64212027	1.11557E-08
Import, $	1.88448E+11	25971159556	7.256038565	6.4008E-06
Export, $	1.581111062	0.398524492	3.967412525	0.001607844
Inflation,%	1.101089744	0.315200536	3.493299081	0.003964667
FDI, $	-1.320075655	0.406888762	-3.244315835	0.006397848
NAFTA	1.72214E+11	62434022174	2.7583376	0.016276436

variation of benefits between the two countries is evident and might be linked with the difference of sizes between the two economies, representing a scale effect. Overall, the result suggests that both countries have benefited from the creation of a single trade zone. Autocorrelation of data during the Durbin-Watson test and heteroscedasticity were not identified during the Golfeld-Quandt test.

An analysis of data from Spain and Poland in both cases showed a lack of connection between the country's presence in the European Union and the dynamics of GDP. The dummy variable, which shows the country's presence in the EU, is insignificant in the correlation model for both counties, Spain (Tables 5 and 6) and Poland (Tables 7 and 8). On the other hand, the correlation analysis showed a high positive linear relationship between GDP and the fact of being in the EU (0.9 in Spain and 0.92 in Poland).

On the one hand, this may mean that the factor of the country's presence in the EU does not have a sufficient effect on the GDP of the countries studied. On the other hand, it is necessary to pay attention to the fact that the EU has closer cooperation between countries, therefore in future studies, it is essential to study the influence of EU on other macroeconomic indicators. Other macroeconomic indicators (such as FDI, for example), which have proved impact on the country's GDP, may be influenced by FTA. The results of the correlation analysis show that there is a high positive linear relationship between the variables.

Table 2
The regression statistics for the USA

Regression Statistics	
Multiple R	0.999754403
R Square	0.999508866
Adjusted R Square	0.999282189
Standard Error	59779855673
Observations	20

The results are generally consistent with previous studies that did not reveal the relationship between free trade zones and GDP. However, the results for the EU cannot generalise, since only two countries were studied; therefore, it is not possible to conclude all Euro-

Table 3
The regression model for Mexico

	Coefficients	Standard Error	t Stat	P-value
Intercept	-28630629212	5822458560	-4.917274879	0.00018598
GDP per capita, $	86273771.95	2616946.416	32.96734371	2.06094E-15
Import, $	0.447248772	0.082204216	5.44070354	6.82454E-05
$ FDI	1.53502676	0.54006199	2.842315862	0.012357057
NAFTA	18189236523	5806428369	3.132603274	0.006845597

zone countries. In a future study, the countries of the European Union should be considered in more detail using a larger sample. Autocorrelation of data during the Durbin-Watson test and heteroscedasticity were not identified during the Golfeld-Quandt test.

The recent study of Andersen and Vanhuysse (2019) investigated the effects of the EU on members' rate of growth in contrast to some countries outside the Union. Authors compare growth in the EU with the USA and countries of OECD comparable to wealth level outside the EU. Besides, the growth rate was compared with the growth in the number of former Soviet countries inside and outside the EU, and then the growth in several EU countries. Finally, it was impossible to demonstrate the presence of an obvious growth benefit for members of the EU: the European Union as a complex FTA shown approximately the same growth rate in comparison with external countries, and in some cases, the Union showed the lower rate of growth.

Authors highlights that, perhaps, the EU membership has a higher economically positive effect than it seems. GDP could be not a sufficient measure of measuring the economic impact. Another probable explanation of the study's results might be the complexity of the European Union as well as the complexity of benefits that could be not appropriately represented in the data.

Inability to detect significant positive economic benefits from EU membership contradicts many formally opposing relationships as noted the authors of this particular study. For example, the OECD Brexit report issued in 2016 states that the EU had a positive impact on the prosperity of the UK (Kierzenkowski et al., 2016). In 2008, the Dutch Economic Policy Review Agency, an independent part of the Netherlands Ministry of Finance, found that EU membership made the Dutch much richer (Straathof et al. 2008).

Table 4
The regression statistics for Mexico

Regression Statistics	
Multiple R	0.999508938
R Square	0.999018117
Adjusted R Square	0.998756281
Standard Error	6656426524
Observations	20

As this particular study has been focused on the EU average growth, the results might be different from those obtained in separate countries. Some countries may show the growth rate above the EU's average, while other countries demonstrate a slower tempts of growth. Therefore, the effect of the EU should be further investigated.

The overall results for four countries prove that being in a trade union can have a positive economic effect on GDP as well as have no effect. In the future, more detailed studies should be conducted to assess more accurately the impact of the country's presence in a trade union not

Table 5
The regression model for Spain

	Coefficients	Standard Error	t Stat	P-value
Intercept	1.28177E+11	76549404960	1.67443552	0.11622929
Unemployment, %	-2751506168	2413925098	-1.1398474	0.27347649
Import, $	1.810611123	1.602724006	1.12970862	0.27758388
Export, $	1.447248007	1.43274698	1.01012114	0.32957765
Inflation,%	-1861236919	3153266425	-0.5902568	0.56442521
FDI, $	13.12721686	4.069369628	3.22586004	0.00609865
EU	3501526520	26043874039	0.13444722	0.89496266

Table 6
The regression statistics for Spain

Regression Statistics	
Multiple R	0.995677816
R Square	0.991374313
Adjusted R Square	0.987677589
Standard Error	20790754735
Observations	21

only on GDP but also on other macroeconomic indicators characterising the economy.

The Effect of Integration within FTAs on Stock Markets

European stock market integration phenomenon is important for investors and the economy overall. Deregulation, the abolition of cross-border rules on banking and securities transactions, as well as the abolition of monetary risk have contributed to cross-border investment and accelerated capital flows in the European common market. As exchange rates are no longer barriers to stock trading in the euro area, the European Commission is currently working to harmonise and remove regulatory and structural barriers such as restrictions on transactions, accounting systems and financial reporting in cross-border transactions.

It is expected that the gradual emergence of a single stock market increased the level of competitiveness through the effective capital allocation, the attraction of savings to broader and more flexible capital markets and managerial disciplines.

Indeed, the creation of an integrated European capital market is considered as one of the strategies developed to achieve the Lisbon agenda by 2010 and to overcome the USA economy. However, a high degree of integration with the reduction of the exchange rate risk has a significant positive effect on the competitiveness of the economy of the European Union.

There are three effects of monetary integration on the stock markets and trade. First, with increasing market openness and the level of trade between countries, the profitability of cross-border corporations will become higher. Another important mechanism of synchronicity is that the real economy converges as a result of strengthening the monetary policy. A more similar business cycle and increased interdependence through trade can mean a convergence of expected cash flows and volatility, which can lead to a joint movement of profits and dividends in European companies. Consequently, the correlation between equity estimates and capital estimates in different countries increases the price of an asset. The second achievement of economic integration is the impact of monetary policy convergence on corporate valuation. As inflation and interest rates approach the European level, corporate dividends and net income rates may be discounted to similar levels, which may lead to an aggregate price for domestic stocks. Also, exchange rate fluctuations diminish over time; therefore, exchange rate risk factors included in stock prices must also be eliminated.

Third, value fluctuations of exchange rates are mainly caused by national economic policies, and at the same time, they are an important source of risk priced in capital markets as exchange rate

Table 7
The regression model for Poland

	Coefficients	Standard Error	t Stat	P-value
Intercept	27039368804	6792996981	3.980477	0.001825
Unemployment, %	-995550452	232755064	-4.27725	0.001074
Import, $	0.072282745	0.16318392	0.442953	0.66568
Export, $	0.261095139	0.09318882	2.801786	0.015991
Inflation,%	57029771.7	111475620	0.51159	0.618221
FDI, $	0.202411023	0.1344751	1.505193	0.158134
EU	5179420283	3234894383	1.60111	0.135334

volatility increases in a country, the country risk premium increases because investors require higher returns to offset uncertainty. The presence of exchange rate uncertainty can be an important means of market segmentation. The more volatile and unpredictable the exchange rate is, the higher the insurance against uncertainty, the stronger the market segmentation and the less the market correlation. Similarly, reducing or eliminating the currency risk associated with the introduction of the common European market and a common currency can increase the degree of financial integration between countries.

With the development of computer and communication technology, adjustments to international price delays have become shorter, and the stock market has become more synchronised. Moreover, since control over capital mobility and foreign exchange operations has been eased, shocks affecting the valuation of many assets around the world are easily transferred to various countries in the integrated market. Thus, since the transmission path to the financial market is gradually disappearing, it can be expected that the impact on general risk factors (as planned in terms of financial services) will increase, affecting more countries in the same range.

To achieve the goal of this study, second research has been done to check the influence of free trade zone on the national stock index on the example of two free trade zones of different level of integration that has been chosen: the North American free trade zone “NAFTA” and the European Union. On the one hand, the European Union is a union with a profound level of integration; therefore, multiple factors may have an actual impact on the growth of national stock index. Moreover, Western and Eastern European countries within the European Union also might experience a different impact of FTA. The same may refer to NAFTA due to the substantive GDP variation between the USA, Canada and Mexico.

In each of the selected free trade zones (the EU and NAFTA), two countries are selected: economically more developed and economically less developed. In the NAFTA, the United States is chosen for further research, and Poland is selected in the European Union. These countries have been chosen due to low availability of information as some national stock indexes information prior the entering into trade zone is limited or inaccessible (for example, in Spain and Mexico). Additionally, an important bias for this specific research is that a limited sample, used in the research, does not allow making a generalisable conclusion on the impact of the free trade zone on the national stock index. However, this

Table 8
The regression statistics for Poland

Regression Statistics	
Multiple R	0.999936542
R Square	0.999873089
Adjusted R Square	0.999788482
Standard Error	2310214639
Observations	21

Table 9
The regression model for Poland

	Coefficients	**Standard Error**	**t Stat**	**P-value**
Intercept	44266.49997	24450.5851	1.81044747	0.097598181
GDP, $	4.87082E-08	6.8212E-07	0.071407064	0.944355538
Unemployment,%	-235.7649376	873.863995	-0.269795917	0.792311502
Import, $	-1.24827E-07	3.8873E-07	-0.321113797	0.754142673
Export, $	4.36705E-07	2.8321E-07	1.541997794	0.151335665
Inflation,%	-713.5000908	266.266263	-2.679648874	0.021421625
FDI, $	4.64495E-07	3.4646E-07	1.340706876	0.207046123
EU	22038.70502	8420.81716	2.617169402	0.023949263

research does not include an objective of making the generalisable conclusion.

The period of the study is chosen ten years before and ten years after the country's factual entry into the free trade zone. This time horizon is chosen to identify the long-term effect of the free trade zone on the members on the national stock index. The cumulative study period is 20 years. A particular period was chosen primarily because of the availability of information and the time when countries entered the free trade zones (for example, Poland joined the EU only in 2004).

In Poland WIG national stock index (Warsaw Stock Exchange) have been chosen to be included on the research (tables 9 and 10). In the USA, the domestic stock index S&P 500 has been chosen to be included in the study (tables 11 and 12). S&P 500 is a domestic stock market index in the USA, which is based on the market capitalisation of 500 large enterprises with their common stock to be listed on the NYSE, NASDAQ, or the Cboe BZX Exchange.

According to the build model of the impact of economic integration on the stock index, there is a significant positive dependence between entering the EU by Poland and the growth of its national stock index. In the USA, this connection was not substantial. The results might be explained by the size of the countries. In the case of Poland, the integration with the European Union, which is a much larger economic union, contributed to the inflow of investments in the national economy reflecting in the growth of local enterprises capitalisation. At the same time, the inclusion of the USA in NAFTA (including Mexico and Canada) might not have a significant effect on the inflow of capital in the country as by its nature NAFTA as a trade agreement does not have such deep economic integration between members in contrast to the European Union. Due to the limited number of scope used in this research, the results cannot be generalised; however, they demonstrate the existence of a particular relationship between the national stock indexes and participation on trade zones of particular countries; therefore, further research is required. More profound research based on the broader scope may obtain results that are more generalisable in the future. Autocorrelation of data during the Durbin-Watson test and heteroscedasticity were not identified during the Golfeld-Quandt test.

Table 10
The regression statistics for Poland

Regression Statistics	
Multiple R	0.96916251
R Square	0.939275971
Adjusted R Square	0.889592674
Standard Error	5458.878576
Observations	21

The Problem of Globalization in the Context of Launching Free Trade Agreements

International trade may be limited by tariff as well as by non-tariff barriers to trade. Examples of tariff barriers are importing tariffs, taxes and other commissions implied on imported goods from abroad. Tariff barriers are eliminating by

Table 11
The regression model for the USA

	Coefficients	Standard Error	t Stat	P-value
Intercept	10134.1536	3627.041019	2.79405541	0.0152017
GDP, $	1.2169E-09	3.72578E-10	3.26626824	0.00613317
GDP per capita, $	-397.38358	134.4099182	-2.9565049	0.01113183
Unemployment, %	-194.70658	76.94413008	-2.530493	0.02510153
Import, $	-2.348E-09	7.5311E-10	-3.1179358	0.00816011
Export, $	-3.928E-10	5.46736E-10	-0.7184956	0.48516584
Investment, $	4.1197E-09	6.68223E-10	6.16508564	3.4042E-05
NAFTA	-179.72546	105.7832304	-1.6989977	0.1131084

the efforts of international organisations such as the WTO. Examples of non-tariff trade barriers are laws and regulations that require certain products to be produced and distributed specifically to obtain access to the local market. In addition, non-tariff barriers include standards, special certificates, inspection requirements, and some bureaucracy procedures that make it challenging to import certain types of products; therefore, non-tariff barriers are also considered as trade barriers. An important distinction between trade tariff and non-tariff barriers is that non-tariff barriers are more difficult to detect and quantify. There might be a situation when official import tariffs are reducing while non-tariff barriers are increasing at the same time. It means that protectionism may intensify if it is not perceived when the volume of non-tariff barriers to trade increases. By recent statistics, it is shown that the total volume of non-tariff trade measures has increased over the past decades. For example, according to the WTO (2014), the number of technical regulations that countries submit as part of technical barriers to the WTO has increased significantly after the financial crisis of 2007–2009 (WTO, 2014). There are also indications that non-tariff barriers are a relatively significant barrier to international trade flows. Bratt (2014) states that non-tariff barriers increase global trade costs by more than 15 per cent.

Different types of administrative costs consist of an unusually significant cost element in international trade. These costs are usually classified as non-tariff barriers and comprise, for example, in complex customs procedures and border controls, in various national regulatory requirements for the production and distribution of industrial products and differences in national product rules. Two important trade barriers in this regard are international requirements for the health and safety of food, animal and plant products, which entered into force in the 1995 WTO Agreement, and technical barriers to trade in the form of various standards for product standardisation. The costs have a significant negative impact on world trade, although it is difficult to estimate the real value of these trade policies at an aggregate level.

In general, international trade has a positive effect on GDP growth. It is also clear that non-tariff trade barriers are an important element of trade policy in most countries, in particular, the implementation of administrative costs in the form of technical barriers to trade and international requirements for health and food safety, animals and plants. It indicates that reducing administrative costs in international trade may increase GDP growth. This conclusion is confirmed by the so-called Checchini report, which was published by three independent researchers on behalf of the European Commission to analyse the expected consequences of creating a domestic market. The report estimates the total gains from the free movement of goods, services, capital and labour from 4 to 6 per cent of the GDP of twelve EU countries at that time (Cecchini et al., 1988). According to the report, it is expected that the main effects will manifest themselves based on harmonised national standards for the production and distribution of goods and services and less intensive border controls in international trade (Pataki, 2014).

Table 12
The regression statistics for the USA

Regression Statistics	
Multiple R	0.98800191
R Square	0.97614777
Adjusted R Square	0.96330426
Standard Error	80.461022
Observations	21

Non-tariff barriers to international trade include:

Regulation: all the rules that determine how a product can be manufactured, processed or advertised

Rules of origin: rules that require confirmation of what products are produced from the country

Quotas: rules that limit the amount of goods that can be sold on the market. Different non-trade tariff barriers may limit trade than actual tariffs. In the second half of the twentieth century, multilateral trading rounds led to a sharp decline in rates. In 1949, the United States had an average tariff level of 33.9 per cent. Today it is 3.5 per cent. The EU is 5.3 per cent, and China is 9.5 per cent (Institute, 2019).

In addition to a range of sensitive products, where the rates are still high, there are non-tariff

Table 13
The UN Conference on Trade and Development classification of non-trade barriers with explanations

Non-tariff barrier classification	Meaning
Sanitary and phytosanitary measures	Plant and animal health regulations
Technical barriers to trade	Regulations on the contents of products, the process by which they were manufactured, their labelling, etc.
Pre-shipment inspection and other formalities	Requirements that goods be checked or licenses secured before they can be imported
Contingent trade-protective measures	Policies that protect the economy from the impact of certain imports, such as anti-dumping measures, safeguards for agriculture, etc.
Non-automatic licensing, quotas, prohibitions and quantity control, measures other than for SPS or TBT reasons	Policies that limit the total number of imports of a particular good, such as quotas, rules stating that imported goods can only be used in certain industries or temporary bans on certain products
Price-control measures, including additional taxes and charges	Charges or taxes (other than tariffs) that change the price of imports, for example, by ensuring that imports do not undercut the price of domestically-produced goods
Finance measures	Policies that regulate access to foreign exchange for imports, for example, by requiring deposits to be paid in advance or those customs duties must be paid ahead of time
Measures affecting competition	For example, compulsory requirements to use national services, or use of a single state-owned importer for some goods
Trade-related investment measures	Requirements that goods should contain a certain proportion of locally-produced content, or policies that limit imports based on the performance of exports
Distribution restrictions	Measures which make it harder to sell imported goods in all parts of a market, for example, by stating that goods can only be sold in areas that meet certain conditions
Non-tariff barrier classification	Meaning
Restrictions on post-sale services	Policies stating that post-sales services (customer services, repair services, etc.) must be provided by a local company
Subsidies	Money from the government for domestic producers, making it harder for importers to compete
Government procurement restrictions	Ensuring that governments buy goods from domestic producers
Intellectual property	Ensuring that imports comply with patents, trademarks, industrial designs, copyright, geographical indications
Rules of origin	Rules requiring products to be able to demonstrate in which countries they were produced, often so that it can be determined whether the good can benefit from preferential access under a bilateral free trade agreement
Export-related measures	Policies undertaken by the exporter's government, for example, to limit exports to a certain country through trade embargos, or to reduce exports to keep domestic prices low

Table 14
Tariff rate, applied, weighted mean, all products (%), 2013–20171

	2013	2014	2015	2016	2017
United States	1.7	1.7	1.7	1.7	1.7
European Union	1.4	1.8	1.9	2	1.8
Low & middle income	5.4	5.9	5.9	5.5	4.3
Low income	9.3	8.2	9.1	7.4	9.8
Upper middle income	5.4	4.3	4.6	4	3.7
World	3	2.9	3.1	3	2.6

barriers that are a real barrier to international trade. A study of trade policy in 2009 in 91 countries showed that non-tariff barriers comply with the tariff limit of 12 per cent for the entire sample (Dean et al., 2009). The United Nations Conference on Trade and Development stated that non-tariff barriers more than twice as higher as common market trade limits.

Non-tariff measures are usually understood as unconventional tariffs that may have an economic impact on international trade in goods, exchanged quantities or prices, or both, (UNCTAD/DITC/TAB/2009/3). Since this definition is broad, detailed classification is crucial for better identification and delineation of non-tariff measures. The classification of non-tariff measures presented in the UNCTAD report is a taxonomy of all measures that are considered relevant in the current context of international trade. It is based on the UNCTAD coding system and was developed by several international organisations, the Multi-Agency Support Group (MAST), in support of the Secretary General of the UNCTAD Group on Irregular Obstacles in 2006. Field data collection is verified by UNCTAD and ITC. Work varied between 2007 and 2012. This version was presented in 2012 as a result of discussions and tests. The classification will be developed and should be adapted to the needs of international trade and data collection.

The classification includes technical measures such as sanitary or environmental protection, and others traditionally used as instruments of trade policy, such as quotas, price controls, export restrictions or conditional trade protection measures, as well as other transnational measures such as investment, government procurement or distribution restrictions. This classification does not assess the legality, adequacy, necessity, or discrimination of political interference in international trade. It recognises the existence and is designed to organise data in a database format. Transparent, reliable and comparable data can help to understand this phenomenon and help exporters around the world use data such as tariffs. Transparency information is also necessary for any negotiations that may lead to harmonisation and mutual recognition and thus increase trade.

The small growth of the world trade after the financial crisis cannot be explained by higher tariffs. In this regard, it is necessary to find out whether non- tariff barriers to trade have increased. However, there are few sources of information on non-tariff barriers to trade. The quantitative assessment of non-tariff barriers hampers lack of resources, and their purpose and functions vary by country and time. However, one of the most reliable sources of information in the region is the World Trade Organization (WTO).

In general, the WTO collects detailed information as well as general information on trade barriers in various countries and regions in the Integrated Trade Intelligence Portal (I-TIP) database. By collecting materials on non-tariff barriers to trade, recent protectionism might be analysed. The I-TIP dataset works with UNCTAD and the World Bank to report based on common standards for determining and quantifying non-tariff barriers to trade. The initial figures were used in several research reports that analysed the economic impact of non-tariff barriers to trade.

The WTO is distinguishing between early and unrecognised non-tariff barriers to trade to determine whether it can introduce or contradict trade agreements under the WTO standards. According to practice, up to 12 months might pass after the implementation of protection measures (their introduction) and the investigation being launched. It means that the number of measures entered is less than the number of actions initiated. The number of measures announced (initiated) can now be an indicator of protective measures, and the number of measures taken is real protectionism. The progressive tendency of countries to report trade barriers to the World Trade Organization (WTO) cannot rule out that the number of initial trade barriers has increased over time. Therefore, there is a necessity to pay more attention to the number of non-tariff barriers to trade.

The WTO Agreement on Technical Barriers to Trade (the "TBT Agreement") entered into force on January 1, 1995, as the WTO Agreement following Annex 1A to the Agreement establishing the World Trade Organization. The TBT Agreement confirmed and clarified the provisions of the "standard code" — the original Tokyo Round Agreement of 1979 on technical barriers to trade and standards. TBT is one of 16 non-tariff measures (NTMs) chapters.

The TBT Agreement binds all WTO members. It has different starting points with other WTO agreements: non-discrimination, promoting predictability of market access, technical assistance and a special and differentiated approach to developing countries in implementing the agreement. However, the TBT agreement contains specific features for the preparation and implementation of regulatory measures affecting trade in goods: it strongly recommends the use of international standards and stresses the need to avoid unnecessary barriers to trade. It also contains detailed provisions to clarify the entire process of preparing, approving and applying measures of TBT (regulatory life cycle). These provisions — along with guidelines that members have gradually developed over the years — have made it possible for the TBT agreement to become a single multilateral instrument for addressing trade-related regulatory measures.

The TBT Agreement is part of a broad WTO agreement on non-tariff measures. The NTM system, including technical regulations, standards and conformity assessment procedures, is a series of tasks for the WTO. On the one hand, governments rely on NTM systems to achieve public policy objectives, including public health and environmental protection. Trade efficiency is a normal and legitimate consequence of such rules. On the other hand, NTM can be used to protect domestic producers from foreign competitors or to unduly restrict trade. NTM systems are also technically complex, less transparent, and more difficult to quantify than tariffs. The TBT Agreement has been accurately designed with these issues in mind.

Its field helps WTO members distinguish between 'legitimate' motives and defensive motives for action against TBT. Therefore, this agreement is an important technique for enchasing coherence and mutual support between domestic policies used by the state to achieve common trade policy and public goals. In short, the rules of the TBT Agreement are designed to help governments achieve legitimate regulatory policy objectives under WTO rules, including avoiding unnecessary barriers to international trade and adhering to fundamental principles of multilateral trade.

The TBT Agreement distinguishes three categories of measures: technical regulations, standards and conformity assessment procedures. A precise definition of these measures can be found in the TBT agreement.

The technical regulations set out requirements that require compliance. Types and product range can vary widely. For example, there may be a specific ban on the use of lead in paints used in toys, or on the use of certain additives in tobacco products. For example, other measures related to setting labelling standards for organic products or setting emission requirements for diesel engines may be more general. They have widespread evidence that access to the market through any form of government intervention (law, regulation, law, action) depends on the fulfilment of the requirements outlined in the technical regulations.

To confirm the existence of technical rules, today the WTO law has established the following three criteria: (I) The requirements described in the document containing the technical provisions shall apply to the product or group of products being identified. It is recognised in the document). The requirement of the paragraph. (II) Identifies the characteristic of the product (it may be intrinsic to the product itself, or it may be connected, prescribed, or applied in the form of gender or voice). (III) Compliance with product specifications should be mandatory.

When technological requirements vary from market to market, traders compete for the cost of adapting a product (or its redesign) and conformity assessment for each market they are trying to enter. It can disrupt the market, distort competition and reduce international trade. International standards can help solve these problems. International standards create economies of scale, efficiency and trade in the production, ensuring interoperability between countries and informing consumers about products manufactured abroad or processes carried out in other countries. It is an important means of promoting regulatory convergence. Also, international standards, the development and use for systematisation of relevant scientific and technical knowledge developed around the world, are an important means of promoting the dissemination and innovation in knowledge.

Transparency is one of the bases of the TBT Agreement. Transparency in the context of the TBT Agreement consists of three core elements (WTO, 2014) (Figures 1 and 2):

Provisions on the notification of draft technical regulations (Articles 2.9, 2.10, and 3.2) and conformity assessment procedures (Articles 5.6, 5.7 and 7.2), as well as the "one-time" notification of each member's organisational "set-up" for the implementation of the Agreement (Article 15.2)

The establishment of enquiry points (Article 10.1) and a notification authority (Article 10.10)

Publication requirements for technical regulations (Articles 2.9.1 and 2.11), conformity assessment procedures (Articles 5.6.1 and 5.8) and standards (Annex 3, paragraphs J and O).

These three elements have been further developed in the decisions and recommendations of the TBT Committee.

Where they are intended, the conditions of the region may differ due to changes in assessment and cost, since the provisions of the members correspond to the same policy objectives. However, regulatory cooperation not only reduces the unnecessary variety of regulations between countries but also diminishes or eliminating the costs associated with the required level of regulation, so differences always make coordination, not a failure. Regulatory cooperation helps reduce unnecessary trade barriers and linked with the negative economic impact.

In practice, regulatory cooperation consists of formal or informal contacts between government officials from various governments. The level of ambition may vary. For example, regulatory cooperation between two economically close trading partners can achieve high levels of convergence and bring harmony. A common regulatory tradition and institutional structure can lead to greater integration. On the other hand, regulatory cooperation between two other countries with limited trade flows and levels of development, instead of promoting complete regulatory convergence, may create trusting relationships that deepen understanding and facilitate trade.

A typical base for all forms and degrees of regulatory cooperation is an orientation toward the future. Early recognition of potential regulatory friction is an important part of regulatory cooperation to avoid introducing friction legislation into national legislation. It is often difficult to change a particular action. Effective cooperation should act informally, formally, in the TBT committee or in the process of resolving disputes as a means of predicting trade problems that arise between members.

Estimation of TAFTA's Effects and its Perspectives in the Case of Brexit

Probable Effect of TAFTA on Economies of the EU and the USA

In general, according to the quantitative analysis, provided by the European Commission in 2017, TTIP would positively influence the economy of the EU and will increase the EU's GDP by 0.5 per cent each year after 2030. The national income is going to increase by 0.3 per cent, and wages would be increased by 0.5 per cent for both highly professional and low professional employees. EU's export to the USA will rise by 27 per cent and, oppositely, the USA's exports to the USA will increase by 35.7 per cent.

Forecasts also show that among sectors the motor vehicles industry would gain the most from the TTIP in the percentage terms (1.5 per cent), leather/textiles and clothing (1.8–2.7 per cent), and beverages and tobacco (1.1 per cent) sector. Some industries are expected to face a negative influence on the agreement. Particularly, industries with the most significant adverse effect from launching TTIP is going to become the electrical machinery (−7.9 per cent), non-ferrous metals (−1.1 per cent) and iron and steel (−2.5 per cent) sectors. The research has been done for meet-

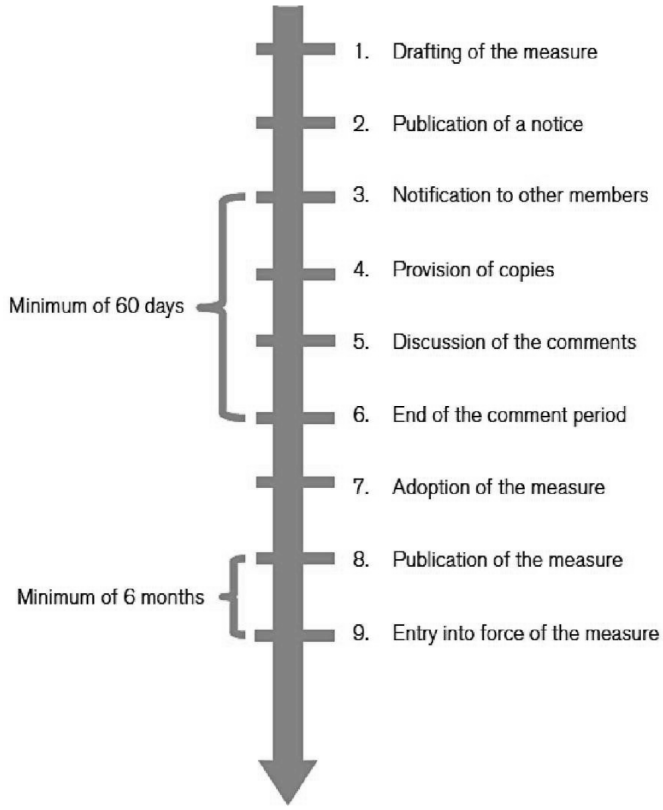

Figure 1. TBT transparency requirements.

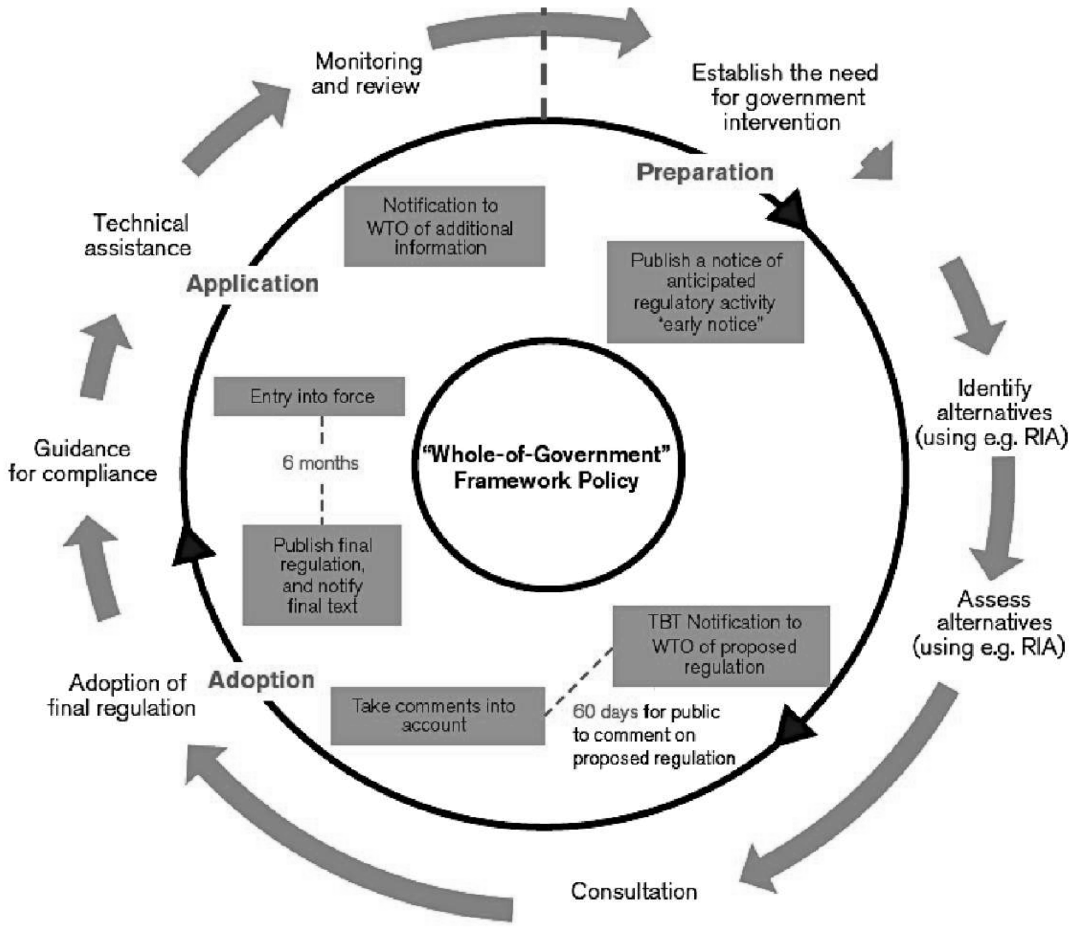

Figure 2. Regulatory practice, the lifecycle of a TBT measure.

ing the concerns of stakeholders who wanted to obtain more information regarding the impacts of this specific trade agreement on the following industries. Nevertheless, due to the limitations linked with information availability, the results of the forecasts might be biased and not accurate.

It is important to recognise that the results, expressed as a percentage, reflect the real size of the sector; and therefore, the impacts of TTIP implementation. The reason why some sectors experience losses in the model is still disputable. The effect of TTIP is to support growth in areas that have a competitive advantage within this agreement. It might have an effect of resources reallocation, which means that the resources from the less competitive sectors would be transferred to sectors that are more competitive and grow faster. In the case of electric machinery, both the EU and the USA are less competitive in contrast to third parties in some areas of the electrical machinery sector. Potentially, it might have some side effects, for example, a decline in the sector, both the EU and the USA, in 2030 if compared with an alternative of further sectors development without launching TTIP between parties. On the contrary, other parts of the machinery sector (e.g. medical, scientific and technical equipment) would grow on 0.4 per cent in the EU. Therefore, the authors suppose that TTIP will have a positive effect on the sector overall.

The decline in steel production, which is reflected in the report, also reflects the methodology of the research and should be correctly examined and interpreted. As tariffs between the EU and the USA are low in this sector, and regulatory requirements and policies are relatively the same, the sector benefits from TTIP due to increased demand in sub-sectors such as machinery production. On the other hand, this sector will also transfer resources for other industries, which may have a more positive impact from launching TTIP between parties.

The results of the member states differ from the EU's average GDP increase by 0.5 per cent. Some EU's members, such as Ireland (1.4 per cent), Belgium (1.2 per cent) and Lithuania (1.1 per cent), will gain the most from the TTIP in terms of GDP growth, while other countries, such as the Czech Republic (0.2 per cent), Poland (0.1 per cent) and Malta (0.1 per cent) will be less affected by TTIP. The variation of prospected GDP growth might be linked with different intensities of the mutual trade relationship between the EU's members and the USA. It is also reflected in other reports (for example, WTI/European Parliamentary Research Service). It is expected that for countries with the strong trading relationship with the United States, such as Ireland, Belgium and the United Kingdom, the elimination of trade barriers and tariffs, as well as the harmonisation of policies, will have a much stronger effect on the economy. In the case of countries that are less interconnected in terms of trading relationship with the USA, such as Malta, Hungary, etc., the effect is going to be weaker, because it takes time to create new trade links between these countries and the USA. Besides, the tight economic connections between countries inside the European Union might also be a factor that may boost economic growth. As the EU is strengthening and improving its functions continually as well as the functioning of the common internal market (especially in the service sector), higher positive effect in expanded trade relations with major trading partners such as the United States can be expected from all member states.

Additionally, the benefits of different requirements and policies changes during the implementation of TTIP will be unequally distributed among member countries. For example, countries that are more specialised in higher tariff industries may expect a more significant impact from tariff cancellation between the European Union and the USA. Those countries, which are specialised on sectors where TTIP is expected to agree on the new regulatory framework, can expect to have a greater impact on these changes (for example, the automotive sector in Eastern Europe).

The report shows that the impact of TTIP on most developing countries is neutral or low. In low-income countries, GDP does not change, while exports increase (0.3 per cent). Meanwhile, as a result of the role of its members in the global supply chain, ASEAN will see a significant increase in GDP of 0.5 per cent, taking advantage of secondary effects. This relationship depends on the type of trade with the EU and the US, so a review of the literature confirms that it is difficult to determine the apparent impact on developing and least developed countries. Some third countries (Brazil, Mexico, and Canada) that have close trade relations with the United States may be distracted. This report provides examples of sectors in developing countries that may increase or decrease as a result of the use of TTIP (for example, cars in South Africa, cocoa from Côte d'Ivoire may benefit, while Brazilian fruit juices may suffer, etc.).

For Turkey, TTIP is expected to significantly increase imports from the United States (23.7 per cent), but despite the absence of a free trade agreement between the United States and Turkey, in general, the report assesses the potential influence of TTIP on Turkey as positive. Turkey's GDP will increase by 0.1 per cent, as well as household incomes and wages of both highly skilled and low-skilled employees.

On the other hand, the theory of traditional trade and recent developments in the field of economics and industrial economics support the possibility of ambiguity: when trade agreements lead to a decrease in trade costs and elimination of trade barriers with a vast third country, such as the United States, for example, it might influence other trade partners unequally as economically weaker partners may not receive the same benefits in contrast to economically stronger partners (Czarny & Felbermayr, 2017). It is still a disputable question within the EU, which was proved by the research, provided by the European Commission, and other studies on this topic.

The combined power, as well as market power and global market share of the EU and the USA, is significant. Therefore, their ability to regulate standards in such areas usually leads to decision-makers in other countries to accept the same rules and policies to gain market access (Korteweg, 2015). For other countries, this might be a rational choice, as they want to prevent their domestic companies from incurring the costs of complying with international standards or because they want to avoid the costs of developing their own rules (Irwin, 2016). Non-tariff barriers of this kind limit trade, as do tariffs in many countries (Looi Kee, Nicita, & Olarreaga, 2008). The potential characteristics of the transatlantic market for others are evident in key sectors such as cars, where the EU and the US represent 32 per cent of the market, production and 35 per cent of global sales (Parker, 2015).

Finally, based on the results of the 2015 SME survey, the report makes an overview of the economic impact of TTIP on this very diverse group of companies. It also briefly describes the impact on SMEs operating in key sectors, such as food and automobiles. SMEs account for 88 per cent of EU exporters and 28 per cent of EU exports to the USA. TTIP facilitates the entry of these SMEs-exporters into the US market and helps transatlantic and US supply chains, reducing export costs and trade barriers. They also benefit from cheaper imports of intermediate products from the United States, which will improve the quality and competitiveness of their export prices.

In the report, a slight increase in consumer prices in the EU in 2030 is forecasted; however, the rise in household income is going to compensate for this. According to the latest CEPR analysis, the real wages of highly skilled and low-skilled workers will increase by 0.5 per cent — and this already takes into account the prospect of a rise in consumer prices. The second model (model E 3MG), used by social and environmental impact assessors, confirms this result and the fact that the average increase in household income after taking into account the influence of consumer prices is 0,4 per cent. For households, this increase in income is much more important than the increase in consumer prices, which is in the range of fluctuations in the normal CPI used to calculate inflation. The importance of TTIP as a trade agreement between the two leading countries, in which consumer purchasing power is comparable, is the main reason for the insignificant increase in consumer prices in the EU. The opening of the European market for American manufacturers will lead to the import of many American products in the EU at lower prices. It will reduce the prices of many products in the EU. At the same time, the rapid increase in US demand for products that give the EU a competitive advantage over the US manufacturers means that EU producers will significantly increase exports. Depending on the rate at which these products can keep up with demand, this may lead to a slight increase in prices in the domestic market. Thus, the overall impact on consumers depends on the relative importance of what they buy regularly.

Documents published by the European Commission in July 2014 combine topics are covering three broad areas: access to markets; specific regulation; and broader rules and principles and forms of cooperation.

Specific sectoral agreements include:
Textiles
Chemicals
Pharmaceuticals
Cosmetics

Medical devices
Cars
Electronics and information technology
Machinery and engineering
Pesticides
Sanitary and phytosanitary measures (SPS)—i.e., barriers to trade in food and agricultural products.
Specific heads for discussion include:
Energy and raw materials
Trade and Sustainable Development/Labour and Environment
Public procurement
Intellectual property
Geographical indications
Competition policy: antitrust and mergers
Treatment of state-owned or subsidised companies vis-a-vis private companies
Small and medium-sized enterprises (SMEs)
Trade remedies: e.g., anti-dumping practices
Customs and Trade Facilitation.

The introduction of TTP and TTIP can have a significant impact on trade with ACP members (The African, Caribbean and Pacific Group of States). The extent of this effect depends on the structure of trade and the structure of trade between ACP countries and each participant in a regional trade agreement. The higher the level of trade between member countries and mega-regional agreements, the deeper is the interests of the ACP countries. Similarly, if the export structure of the ACP country is similar to that of the mega-regional countries, the ACP country may face increased competition in the existing market (Draper, Lacey, & Ramkolowan, 2014).

From a regional perspective, TTIP is likely to bother Africa, as almost 40 per cent of African exports go to the US and EU markets. In the Caribbean, both the TTIP and the TTP should have a significant impact on trade, with the United States accounting for about 35 per cent of Caribbean exports, and the EU and the rest of TTP countries for 11 per cent and 8 per cent respectively. It is evident that in the Pacific region, TPP plays an important role in the formation of trade indicators — more than 40 per cent of Pacific exports flow to the rest of the TPP countries.

However, several studies suggest that the overall impact of TPP or TTIP in non-member countries should be small. Cheong's results show that the creation of TPP will lead to a decrease in GDP in the rest of the world by 0.07 per cent due to the transition from a more efficient producer outside of TPP to a less efficient exporter in TPP (Cheong, 2013). Estimates by the Peterson Institute, including the potential impact of non- tariff measures, show that if TPPs are implemented, GDP will decrease by about 0.07 per cent of GDP by 2025 (Petri & Plummer, 2016).

However, the Bertelsmann Institute results demonstrate that the impact of the TTIP affects the number of large developing countries and low-income countries (Felbermayr et al., 2015). According to the tariff liberalisation scenario, real per capita income in developing countries ranges from 0.5 per cent to negative −7.4 per cent. According to the substantial liberalisation scenario, income is expected to decline, while per capita income in developing countries will decrease by −0.1 per cent to −7.2 per cent. It is mainly the result of erosion and trade transitions that are favourable in developing countries, and in some countries, the negative impact is evident depending on these liberalisation scenarios.

On the contrary, a study conducted by the European Union (EU) Commission shows that low-income countries will benefit from the creation of TTIP. Under the ambitious scenario, GDP will increase by 0.09 per cent from the base level and by 0.2 per cent in the case of less ambitious scenario. The positive impact of this study is to see the convergence resulting from the mutual recognition of global standards and standards with broader trade effects and positive effects resulting from the rationalisation of the EU and the USA rules in negotiations and the convergence of EU and US standards. This cascading effect is expected to counteract the adverse effects of trade diversion.

Mega-regional agreements have several channels that can affect ACP countries. Firstly, it is a direct impact that mega-regional agreements can have on existing ACP access approaches to the EU and the USA markets, subject to preferential conditions that are inaccessible for middle-income and high-income countries. The second channel is the reduction of non-tariff measures and the harmonisation of standards of mega-regional agreements that can increase or decrease the export costs of the ACP countries.

Potential Influence of Brexit on the FTA between the EU and the USA

On March 29, 2017, the United Kingdom notified its intention to leave the European Union based on Article 50 of the Treaty on European Union. As a result, March 30, 2019, the United Kingdom will become the third country and will cease to be a member of the EU. Four situations are possible (Holmes, Rollo, & Winters, 2016):

UK releases are based on an agreement on a contract; this scenario is not discussed further in this policy

The UK leaves the EU without an agreement; this so-called "disagreement", Brexit, underlies this policy (at the request of the parliamentary committee of members)

The United Kingdom requests that the two-year deadline following Article 50 be maintained, leaving it until the end of the expansion period. This extension will require the consent of the EU. If the extension exceeds several months, the United Kingdom must also participate in the European Parliament elections in 2019

The United Kingdom may unilaterally decide to revoke the notification referred to in Article 50. The EC Court has confirmed that this can be done without EU consent. It will mean that the United Kingdom will remain a full member of the EU in the current circumstances.

Over time, integration between the 27 EU countries and the UK was strengthened, reflecting the distribution of benefits from the EU single market, on the other hand, if Britain leaves the EU (Brexit), losses for both parties are expected to arise inevitably. Using various approaches models, IFM experts noticed that production levels in EU 27 countries fell by 0.06 to 1.5 per cent in the long run. The breadth of the assessment depends on the case of 'soft' or 'hard' Brexit, and commercial or other transmission channels are affected. Given the significant uncertainties that characterise empirical estimates, they should be interpreted with caution, and the probability of loss is high. As trade barriers grow, states such as Ireland, the Netherlands and Belgium are significantly affected.

European Union-United Kingdom trade integration was beneficial for both sides. For example, the euro area (EA) represents a modest surplus in trade with the UK, while the UK has a small surplus in trade in financial services with the euro area. In recent years, the trade balance of the EU with the UK has steadily increased, following the increase in exports of goods. In 2016 it was around 1 per cent of the EU GDP. Overall, the total trade in goods and services between the European Union and the United Kingdom was about 6 per cent of the EU's average GDP over the past 20 years. Trade with the UK is more viable for Ireland, the Netherlands, Belgium and Luxembourg. The UK is the leading provider of financial services in the euro area, supported by large exchanges between the two countries with Ireland. The trade in financial services between the European Union and the UK, except for Ireland, is almost the same.

Trading with the UK involves complex supply chain links. Today, most of the trade, 50 per cent of goods and almost 70 per cent of services are linked to the intermediate goods supply chain. Therefore, it is important to detect indirect links through such supply chains in the countries of assessment. Trade with the United Kingdom is also important, given the added value of third countries in evaluating exports and imports to the United Kingdom and from the UK, which suggests that supply chains also play an important role, since direct and indirect high value-added export goods pass through third countries. Small but open economies, such as Ireland, Luxembourg and the Netherlands, are most susceptible to the effects of value-added in the United Kingdom; however, this is lower than the general trade statistics demonstrates.

In the case of no-deal Brexit, the United Kingdom will be a third country for the EU without consent, and the current tariffs of WTO are expected to be implied. The United Kingdom has already informed the WTO that it will fulfil the duty of the most favoured nation of the EU after it leaves the EU and that there is no difference to the WTO.

The EU has agreed tariff quotas in the WTO, which should be divided between the EU-27 and the UK. In order to preserve the clarity and predictability of the multilateral trading system, the EU and the United Kingdom sent a joint letter to all WTO members on October 11, 2017, outlining the main justifications and principles for this separation. However, negotiations with WTO members are not yet completed, and some members do not agree with this approach. The Commission proposed a proposal for an order (COM/2018/312 final), which allows it to take the necessary measures against third countries. Although this adjustment took place before Croatia joined the EU, the Brexit agreement will not create any uncertainty. In practice, the EU and the UK apply new quotas when they leave the UK, but later the legal problems of the WTO cannot be ruled out.

The total amount of loans and liabilities in the euro area in the United Kingdom is approximately 55 per cent of EU GDP in 2016. Ireland, the Netherlands and Luxembourg have the highest economic position relative to their economic size. In particular, bilateral direct investment between the Netherlands and the United Kingdom is about 120 per cent of GDP in the Netherlands. An interactive investment portfolio between Ireland and the United Kingdom is less than 230 per cent of Irish GDP.

Bilateral banking liabilities between Luxembourg and the United Kingdom account for about 220 per cent of Luxembourg's GDP.

In the euro area, the net economic capital of the United Kingdom is about 9 per cent of the euro area's GDP. However, the total number hides the heterogeneity between countries. The Netherlands and Ireland account for the majority of FDI (about 2.1 per cent of eurozone GDP in 2016). Ireland and Malta have a sizeable net investment target with the United Kingdom, while most other countries are net recipients. Finally, Luxembourg and Ireland have received considerable international bank lending from the United Kingdom (more than 170 per cent of GDP in Luxembourg and 58 per cent of GDP in Ireland).

The strength of the European Union and the inclusion in the UK means that there will be no winners for Brexit. First, the United Kingdom is one of the three most important trading partners in the euro area. Secondly, the trade opening masks generally encompass complex supply chain links. Thirdly, capital flows between the United Kingdom and the euro area are high. Finally, migration flows are important for some countries. Higher trade barriers, capital flows and the movement of people after Brexit can break these connections, reduce trade, investment and labour mobility. All empirical studies have so far agreed that the economic costs of both parties will be significant. However, the EU-27 supports a disproportionately smaller share of total costs due to its larger size.

Brexit long-term impact may be unequally distributed across countries, while the impact on Ireland is the highest. Losses will depend on bilateral integration with the UK, industry specialisation, investment in the global supply chain, and the degree of substitution of the UK and the euro as financial centres. Integrated countries (Ireland, Luxembourg, the Netherlands, Belgium, Malta and Cyprus) are threatened to suffer disproportionately from Brexit. Other countries, such as Germany, may also be affected by connections in the supply chain.

In general, the fact that Brexit does not offer an agreement will create important short-term problems in trade relations between the EU and the UK, which can be avoided by mutual agreement. The long-term impact will depend on political relations and the conditions of future economic relations. Assessing the medium-term impact requires measurement against a benchmark, such as an ambitious business report included in the program document attached to the revocation agreement. It is probably fair to assume that the inappropriate Brexit will make it difficult for the EU to enter into trade negotiations with the UK. The use of preferential WTO tariffs will affect trade in certain sectors, but the overall impact may be limited in macroeconomic terms (Belke & Gros, 2017).

Economic analysis shows that the UK is in a worse off-balance economic situation than the EU, in the most reliable cases. The main problem in Britain is how much worse it is after Brexit.

The failure of the UK to open up trade and investment after the EU after Brexit will harm the UK and the EU.

The ability to leave the EU without trade and apply the rules of the World Trade Organization (WTO) will lead to substantial financial losses for the United Kingdom. An analysis of this scenario shows that trade following WTO rules will reduce future GDP by about 5 per cent in ten years, compared with $ 140 billion in the Brexit countries in the European Union.

The results of the World Trade Organization's activities in the United Kingdom are likely to be far from EU standards and have led to a significant non-tariff increase to the detriment of British service sales companies in EU countries. In the financial services sector, the UK economy dominates, accounting for about 80 per cent of GDP.

According to WTO rules, the EU will also lose financially, but not as much as the UK. EU economic losses could be about 0.7 per cent of total production after ten years of Brexit.

Seven other business scenarios would be much better for the UK than WTO rules, but most of them will still result in economic losses compared to current EU membership status.

Of all the analysed scenarios, a trilateral agreement between the UK and the EU would be beneficial, especially an agreement such as TTIP. The UK would have been 7.1 percentage points of GDP better than the WTO rule scenario, which is even slightly better than continuing EU membership. It is because the UK will receive preferential access to US markets. The EU will benefit from their higher economic growth thanks to TTIP. However, an agreement similar to the TTIP agreement is considered very unlikely in the current political context.

None of the Brexit soft scenarios will be useful in the United Kingdom, such as a tripartite agreement between the United Kingdom and the EU. All three scenarios can lead to limited economic losses for the UK economy compared to the current regime of the EU.

After Brexit, the political and security implications will be more important to the United States. The potential financial gains and losses of the United States at Brexit are small, except for an agreement like TTIP, which will lead to significant economic benefits for the United States. The United States is losing influence and the global perspective that the UK creates when making decisions in the EU, especially in the areas of foreign policy, security and defence.

The EU is likely to come into contact with the UK during Brexit negotiations but may see benefits from introducing zero level rules. The most important political priority in Europe is to prevent the withdrawal of other member states.

For the UK, it is important to find ways out of the "zero-sum" and "positive-sum games" during the negotiations to ensure a better agreement for all parties. The United Kingdom's strategy of trying to divide European unity is unlikely since all EU member states are interested in working together.

In general, the United Kingdom and, to a lesser extent, the EU is interested in working together to achieve any open trade and investment relations after Brexit. The choice "without agreement/ WTO rules" will not cause financial damage to both parties.

When the UK is no longer a member of the EU, the country will need to build other relations with the EU. The UK also will not be able to participate in the US-UK relations, those, the UK will not be able to participate in negotiations on a new trade agreement between the USA and the EU (Delimatsis, 2017). It would create the necessity for the UK to start negotiations by its own about the inclusion in the free trade zone or creating bilateral agreements with both, the EU and the USA. The UK's sustained attractiveness for US investment depends on several factors. In particular, if the United Kingdom does not negotiate equal national treatment or obtain clear advantages in the single market, the investments flows from the USA to the UK will remain to keep access to the rest of the EU single market. However, uncertainty is expected to increase because of the interdependence of the three relationships and in the form of trade tariffs and non-tariff barriers, which will have a significant impact on all corporate issues from entrepreneurship and innovation. For example, the UK seems to have a tough Brexit to refuse access to the privileged group of the EU single market and negotiate new trade negotiations with the EU. It remains the agreement that will be reached in the customs agreement, and that some departments may have a more flexible Brexit than other departments if the segment approach is adopted. Companies in the United States have already responded to uncertainties regarding tripartite relations. According to the Gowling WLG survey (Gowling, 2017), more than a third of US companies in the UK are considering moving to other areas of the EU due to Brexit. The higher the value of exports to Europe, the more US companies are likely to be transported to mainland Europe in the United Kingdom.

Alternative Free Trade Agreements in the World as a Counterweight to TAFTA

The Agreement on Trade in Services (TiSA) is aimed at maximally liberalising services and reducing the national rules and regulations that apply to them. It includes 23 countries, including the US and the EU (considered to be only one country) (Sauvé, 2017). Services account for 60 per cent of GDP in most developed countries. It was deliberately designed to create a service agreement that prevents the opposition from other WTO members, but it acquires such dynamism that eventually other countries will join it. For this, the agreement was prepared very carefully. It includes language based on the WTO Agreement on Trade in Services (GATS) to facilitate integration into the WTO later. However, this will eliminate most of the flexibility available to the poorest countries in the current WTO GATS. The main service areas that TiSA secretly negotiates are e-commerce, financial services, telecommunications, energy services, environmental services and health-related services. However, while TiSA focuses more on the exchange of services than the other two agreements discussed here, it still has a broad-based interdisciplinary approach, including government procurement, liberalisation and access to decision making through "transparency") TiSA's attention to services can have serious implications for new areas, such as labour law, banking regulation, and the privatisation of public services, such as electricity and water supply. There is also a strict liberalisation clause on state enterprises. As in the case of TPP, it seems that TiSA also intends to neutralise the influence of China and the BRICS countries. TiSA does not include all five countries of BRICS — Brazil, Russia, India, China and South Africa, and 27 ASEAN countries and China refused to participate in TiSA.

However, the rapidly developing TiSA restrictions on state-owned companies could have a significant impact on China if it joins later.

China is currently negotiating a global Regional Comprehensive Economic Partnership (RCEP), which includes members of ASEAN and other major Asian countries, such as Australia, South Korea, Japan and India (Xiao, 2015). If this agreement is reached, it will become the largest number of people in the world as more than 50 per cent of the world's population will participate in the negotiations. Like other trade agreements, these negotiations are aimed at liberalising trade and addressing various areas of regulation. It also aims to harmonise rules that facilitate plant production in Asia. Although this agreement will be of great importance for its economy and the goals of liberalisation and regulatory convergence, it is more flexible than other new-generation agreements. However, like TPP, it also includes Investor-State arbitration mechanism (ISDS), which allows companies to sue governments in private and often secret courts if they believe that new laws or policy changes will affect their profits.

TiSA, however, was criticised for the character of negotiations. The experts suggested that the following "official factors" require 'difficult immigration":

Negotiations are conducted without a larger number of WTO members

Negotiations are conduction out of the WTO umbrella

The WTO Secretariat does not have official observer status, although the WTO must become the ultimate guardian of the agreement

The group of countries, "The Good Friends of Services", are conducting negotiations in a closed form, not allowing observers from third countries to participate.

There are no signs of change in the current situation. After Uruguay and Paraguay withdrew themselves from the negotiation, there are raising concerns about the goals of the European Union on the attraction of more participants as well as the prospects of the Convention in practice.

The Comprehensive and Progressive Agreement on the Trans-Pacific Partnership (CPTPP) was launched on December 30, 2018. This agreement is currently in force for exchanges between Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam. (With Brunei Darussalam, Chile, Malaysia and Peru on a negotiations stage.) It is also called "TPP-11", signed on 8 March 2018, has been gradually progressing since the United States withdrew from the transpacific partnership (TPP) in January 2017 and is now underway (Ciuriak, Dadkhah, & Xiao, 2018).

The expected impact of the CPTPP, which represents 11 countries with a population of around 500 million people and 14 per cent of the world economy, will be enormous as reduced rates stimulate significant changes in the global links between countries. Furthermore, the high standards of the CPTPP for the digital economy, investments, financial services, labour and the environment establish new "traffic rules" that have far-reaching national and collective impacts. The full impact of the agreement is difficult to estimate due to geographical and physical coverage is broad and new for governments and companies.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) provides a new free trade agreement (FTA) between Canada and other ten countries in the Asia-Pacific region (Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Vietnam and Singapore). As soon as the agreement is implemented and ratified by its members, 11 countries, participating in the agreement, will create a common trade area, including 495 million consumers and accounting 13.5 per cent of world GDP.

On December 30, 2018, the first CPTPP members began to ratify agreements, such as Canada, Australia, Japan, Mexico, New Zealand and Singapore. On January 14, 2019, CPTPP was ratified and start operating in Vietnam. Despite the US withdrawal and small changes in the text of the TPP, CPTPP is a significantly important trade agreements, that changes the existing trade framework, because it will undermine institutional and rule-framework reforms, establish new standards for future free trade agreements (FTAs) and provide incentives for improving the integration and reorganisation of supply chains in the Asia-Pacific region.

CPTPP, like the previous agreement "TPP" (Trans-Pacific Partnership), is promoted as a "next generation" trade agreement by establishing additional WTO and FTA rules based on the existing WTO Agreement and the central structure of bilateral FTAs, already launched between the members. Covering such important spheres as digital commerce and e-commerce as well as state-owned enterprises (SOEs), the CPTPP, therefore, has a substantial impact on trade in goods and services between the Parties and may have a cascade effect, since the provisions are used as a model for other conventions. For example, the recently signed US-Mexico-Canada Agreement (USMCA), a successor to the North American Free Trade Agreement (NAFTA), has used some TPP's chapters in its structure. CPTPP's massive tariff reductions apply to almost 90 per cent of items after entry into force, virtually all items within ten years, and have an immediate impact on the relative competitiveness of exporters. For example, if taking into consideration countries outside the CPTPP agreement, the US exporters will be at a disadvantage compared to competitors in the CPTPP region, especially in Canada, Japan and Australia. Similarly, exporters in Thailand, Korea and Taiwan will suffer disadvantages compared to competitors in Japan, Malaysia and Vietnam (Urata, 2018).

In addition to tariff reductions, the CPTPP includes a high-level chapter dealing with customs and trade facilitation. Standards and technical barriers to trade; Investment; Service; Intellectual property rights; E-commerce; Government purchases; State-owned enterprises; Job; Environment; Regulatory consistency; Transparency; And more. The CPTPP differs from other FTAs where some developing member countries (e.g. Vietnam) have a more extended period to implement some of the agreements, but the provisions are more in-depth and broader and apply equally to all FTAs main signatories.

When CPTPP Agreement entered into force on December 30, 2018, the original six members, which ratified the agreement the first, immediately benefited from its provisions, but only for the other Ratified Members. For example, a company based in Australia may reduce import tariffs in Japan, but not in Malaysia. Provisions affecting intellectual property rights, investment, labour and other areas have also been automatically activated. Vietnam signed on January 14, 2019.

Overall, three new-generation agreements (including TTIP) are intended to create the institutional and regulatory framework for optimising the conditions of multinational corporations. Regardless of whether they concentrate on goods or services, they are complex in all approaches and apply to various industries that are all "tax" (tax) on internal rules for goods and/or services. It includes trade-friendly rules for areas of cross-trade in various sectors, such as government procurement, competition, regulatory cooperation, investment, and intellectual property (Bakulina & Raudsepp, 2016). In particular, the agreements aim to shift the balance of government decision-making into the hands of the company, reducing the ability of governments to implement new bounding rules. Governments also decrease their ability to use "government procurement" funds to promote local economies, environmental and social indicators. The TiSA Convention also develops new proposals that act in the same way as private sector companies for state-owned enterprises, which does not matter for social purposes.

There is a particular purpose on policies aimed at deregulation in international trade for contributing the growth. For example, both TPP and TiSA introduce a "mandatory test" form. It means that governments adopting standards have to prove that they need a proposed standard in the relevant trade department. TTIP institutionalises business lobbying activities, including processes that can adopt the public interest provisions proposed by the business (or to use veto for some proposals). These closed unregulated approaches threaten the process of setting democratic standards and have a broad impact on every aspect of daily life, from rules that ensure that we eat safe food, to the ability to regulate and gradually eliminate toxic chemicals.

Both TTIP and TTP offer a new arbitration mechanism between investors and states. If it turns out that companies are the beneficiaries of new laws or policy changes and incur losses or the decrease profits, they can sue the government in private and often confidential courts. For example, in TTIP, this is called the Investment Court System (ICS). It is a reformed but equally dangerous version of the controversial dispute resolution system between Investor State or ISDS. The proposed TTIP includes special powers for foreign investors. TiSA, TPP and TTIP include a version of the resolution of disputes between countries. It is similar to how governments can challenge each other in connection with violations of WTO trade agreements.

Conclusion

Based on the conducted analysis, I made certain conclusions about the legal nature and economic effects of Free Trade Agreements (FTA or RTS according to WTO terminology) on economies of members and third countries. Obtained results allow making conclusions and common projections of the economic effect of TAFTA (TTIP) on the United States and the European Union in the case of Brexit as well as some potential effects on third countries and alternative FTAs as counterweights to TTIP.

The following general conclusions might be made. RTS has allowed many countries to negotiate and achieve much more preferential trade conditions than is possible at the multilateral level. Some of these rules paved the way for agreement at the WTO level. Policies on services, intellectual property, the environment, investment and competition — all of these issues were the subject of regional negotiations and then turned into consultations or topics for discussion at the WTO level. On the other hand, there are fears that a sharp increase in the number of RTAs can lead to problems of consistency and transparency, placing developing countries in a less favourable position in the RTS negotiations and, in general, reject resources and energy for negotiations. Negotiations To limit the number of problems and maximise the benefits of localism, it is important to promote the transparency of the RTS and to ensure communication of the RTS with WTO rules.

Multilateral trade rules provide the best guarantee that trade liberalisation will bring visible benefits to all WTO members. WTO rules also allow for regional integration and bilateral negotiations with member countries seeking liberalisation at a fast pace. In this sense, regional trade agreements (RTAs) should be considered as additional provisions of multilateral agreements and should not be used as alternatives.

When launching free trade agreements and during the assessment of its impacts, there is a problem of the absence of the common legal definition of the term "transnational corporation". Many states' legislation systems do not contain this term at all. The lack of an appropriate definition influences the international agreements that are giving mostly rights to corporations, but not liabilities or restrictions. It requires the development of the common legislation on the international level to fill the existing legal gap and to avoid negative consequences of opening markets.

One of the most significant prospective trade agreements is the TTIP agreement between the USA and the European Union. Although tariff-free trade already exists in about half of the US and EU product lines, and the average import tariff is low, tariffs for certain types of agricultural, textile or engineering products exceed 15% that create considerable barriers for trade in these spheres for both parties. It is expected that TTIP will not altogether cancel the import tariffs of the parties. In the case of some sensitive industries, as in other EU, free trade zones, partial liberalisation will be achieved using the tariff quota system.

In addition to eliminating trade barriers, countries also seek to facilitate trade in services significantly. The parties expect the negotiations to lead to liberalisation in areas such as telecommunications, e-commerce, financial services, mail and postal services, shipping, fair competition between European and American companies and increased cooperation between regulators in the future. As in the case of goods, the provision of certain services is considered delicate and is excluded from the negotiations on TTIP. For example, in March 2015, delegates from the EU and the United States declared their right to provide public services of their choice. Government procurement is the third element of market access negotiations. One of the main advantages of TTIP is to ensure a non-discriminatory approach to national tenders, and there seem to be no reservations regarding the opening of the market on this issue.

The direction of regulatory cooperation includes negotiations for convergence and cooperation in regulatory processes through the development of common rules and improved information sharing. Technical barriers to trade, the protection of human, animal and plant health, food safety and the harmonisation of regulations in individual sectors are an important part of the Negotiating Group's efforts to reduce non-trade barriers.

In general, according to the quantitative analysis, provided by the European Commission in 2017, TTIP would positively influence the economy of the EU and will increase the EU's GDP by 0.5 per cent each year after 2030. The national income is going to increase by 0.3 per cent, and wages would be increased by 0.5 per cent for both highly professional and low professional employees. EU's export to the USA will rise by 27 per cent and, oppositely, the USA's exports to the USA will increase by 35.7 per cent.

Two-round research was conducted within this master thesis. The first research was aimed to check the influence of free trade agreement on members' GDP, and the second research was intended to identify the influence of free trade agreement on members' national stock index. In general, the results of econometric studies in the USA and Mexico demonstrate a positive linear relationship between countries' participation in the North American free trade zone and members' GDP. An analysis of data from Spain and Poland in both cases showed a lack of connection between the country's presence in the European Union and the dynamics of GDP. The obtained results are consistent with the existing scientific literature, observed in the first chapter of this work, which indicates that there could be a positive dependence between members GDP and participation in the trade union as well as no dependence at all. Such controversial results might be linked with the methods of research and variables that were used in the study.

According to the build model of the impact of economic integration on the stock index, there is a significant positive dependence between entering the EU by Poland and the growth of its national stock index. In the USA, this dependence was not significant. It could be potentially linked with different level of integration within NAFTA and the European Union as well as with the size of economies.

Both pieces of research have met the outlined hypothesis in the introduction part of this work. Conducted research demonstrates the probable high economic effect in the case of TTIP launching between the USA and the European Union in terms of both influences on GDP and influence of national stock exchanges.

Overall, the research reached the aim and ultimately met the research objectives. However, it is vital to notice that due to limited scope, the results cannot be generalisable and further research is required.

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Перспективы Трансатлантического соглашения о зоне свободной торговли между ЕС и США после Брекзита

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Аннотация. В данной статье автор представляет правовую природу и экономические последствия соглашений о свободной торговле (FTA или RTS по терминологии ВТО) для экономик государств-членов и третьих стран. Вторая цель заключалась в оценке экономического эффекта TAFTA (TTIP) для Соединенных Штатов и Европейского Союза в случае Brexit, а также некоторого потенциального воздействия на третьи страны и альтернативные FTA в качестве противовесов TTIP. Для выявления математических и статистических зависимостей автор построил корреляционные и регрессионные модели между зависимыми и независимыми переменными. Зависимыми переменными являются ВВП, независимыми переменными — ВВП на душу населения, безработица, экспорт и импорт, индекс цен и инвестиции, а также участие страны в зоне свободной торговли. Для оценки независимой переменной (в частности, участия в зоне свободной торговли) автор использовал "фиктивную переменную" со значениями "0" в течение десяти лет до вступления в зону свободной торговли и "1" в течение десяти лет после вступления конкретной страны в зону свободной торговли. Общий вывод, вытекающий из исследования, заключается в том, что RTS позволяет многим странам вести переговоры и достигать льготных условий торговли в гораздо большей степени, чем это возможно на многостороннем уровне.
Ключевые слова: Brexit; ЕС; торговое соглашение; НАФТА; ВТО; соглашение по ТБТ

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