Chapter 2
Contemporary Challenges of International Economic Relations:
Global Trade and Investment Trends

Vesna Petrovic
University of East Sarajevo, Bosnia and Herzegovina

ABSTRACT

The main aim of this chapter is to analyze the contemporary challenges that have affected movements in the global trade and investments, as well as their interdependence. The focus is on the causes and consequences of the fundamental changes in international economic relations. The analysis is based on the following data: value of world trade, dynamics, and structure of exchange. Contemporary faces of the world economy such as transnationalization, intra-sector trade, increasing discourse on whether foreign trade and FDIs represent substitutes or complements, have also been an unavoidable part of this chapter. Depending on the stage of development, global changes have specific consequences on developed countries and developing economies. The chapter in its final part focuses on the analysis of how global value chains are directly affecting the growth of international trade and flows of foreign capital through the inevitable role of multinational companies.

INTRODUCTION: CHALLENGES OF INTERNATION ECONOMIC RELATIONS

The studying of the international economy has never been as important as at the beginning of the 21st century, as trade in goods and services, money and investment flows have led to a globalised world economy and connections among economies closer than ever before in the history. At the same time, the first and second decade of the 21st century brought a number of challenges for the creators of economic policies, the leaders of the world's leading companies, or generally for the world economy due to the consequences of globalisation, the attitudes of its followers and opponents, as well as the unprecedented number of financial shocks that have instantly spread all over the globalised world. The basic economic

DOI: 10.4018/978-1-6684-7460-0.ch002

models and primary concepts have been put into question, and propagated economic policies for decades have required detailed analysis and re-examination. Economic history has shown that Western developed countries have managed to achieve high rates of economic growth based on international trade during the 19th and 20th centuries. In the last few decades, the growth of the world economy has also been relatively high, contributed by the high growth rates of some Asian countries, in particular Southeast Asia and Japan, then the countries of the European Union, the United States and, of course, BRICS countries: Brazil, India, China and South Africa.

However, the experiences of individual countries in the transformation of their economies at the end of the 20th and the first two decades of the twenty-first century varies largely depending on their level of development - developed countries record moderate, but constant growth rates with occasional disruptions caused by financial and political crises; some developing countries have experienced enormous growth rates and an increase in per capita income, while some underdeveloped countries have plunged into an almost vicious circle of poverty from which there is no predictable positive exit. Economic experts in the countries in transition also deal with issues that are universal and inevitable, and on a global scale: the participation of a particular country in international trade, the indisputable role of foreign capital as an engine of economic development, the acquisition of foreign technology and knowledge, privatization with the great importance of foreign direct investment, share in the international division of labor, and the like. All the above-mentioned priority areas for the launch of economic development contain elements of foreign factor, i.e. there are few economic policies that are exclusively oriented towards internal or domestic measures in the modern economy. Likewise, it can be noted that the volume of international trade has steadily increased as a percentage of GDP, as the amount of foreign direct investment and other financial flows has significantly increased. In addition to the phenomenon of globalisation and its numerous factors, including the advancement of technology, telecommunications and transport, the greatest incentive to the above-mentioned changes in the international economy has been achieved due to changes in economic policies aimed at opening up national markets. Almost all countries have introduced significant reductions in restrictions on international exchanges in many areas.

BACKGROUND

Development of international economic relations and the growth in the volume of foreign trade brings about a debate in academic circles about the impact of international economic relations with foreign countries on economic growth and development. In the literature, basic terminology in the field of theory and policy of economic development explains dynamic categories of economic growth and development, in the sense that economic growth signifies a constant increase in the value of production at the national economy level, expressed in absolute levels of aggregates such as social gross product, national income or per capita over a longer period of time (Đerić, 1997, p. 3), and the essential basis for growth should be increased production in a particular economy. On the other hand, economic development includes, besides changes in the scope of production and explanation of complex transformations in the composition and structure of the economy, that is, changes in the relative relation of certain factors of production, changes in technological, organisational, institutional and political character. Therefore, economic development involves economic growth and, moreover, complex transformations of the structure of the economy that contribute to the growth of living standards and changes in the distribution of created income. The goal of development is to fully satisfy the needs of a large social system as a whole, then