RESEARCH ARTICLE

Conceptual Foundations of Foreign Trade Research

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Abstract

Actuality of the Research

Foreign trade has become one of the most crucial components of national economic development in the context of increasing globalization and interdependence among states. The integration of countries into the global economy has amplified the need for a comprehensive understanding of foreign trade mechanisms, dynamics, and policy implications. Contemporary economic challenges—such as trade wars, protectionist tendencies, supply chain disruptions, and evolving trade agreements—highlight the growing importance of systematically analyzing foreign trade. Given the strategic role that trade plays in GDP growth, employment generation, and the balance of payments, a thorough conceptual framework is essential for policymakers, economists, and researchers. This study addresses the urgent need for a deeper theoretical and methodological understanding of foreign trade, making it highly relevant in the current global economic climate.

Objectivity of the Research

The primary objective of this research is to examine and systematize the conceptual foundations that underpin foreign trade analysis. It aims to:

- Define and clarify the key theoretical approaches and paradigms used in foreign trade research.
- Identify the main indicators and metrics used to assess foreign trade performance.
- Explore how foreign trade theories inform policy decisions and economic modeling.
- Establish a methodological basis for evaluating the effectiveness and structure of trade flows at national and international levels.

The study endeavors to offer a theoretical synthesis that supports practical applications in trade policy, academic analysis, and international economic relations.

Background of the Research

The evolution of foreign trade theory has been deeply influenced by classical, neoclassical, and modern schools of economic thought. From Adam Smith's theory of absolute advantage to David Ricardo's theory of comparative advantage, and from the Heckscher-Ohlin model to new trade theories focusing on economies of scale and innovation, foreign trade has always been a central subject in economic discourse. Over time, empirical approaches have become increasingly important, particularly with the development of international databases, econometric models, and real-time trade monitoring tools. Additionally, the growing complexity of global trade systems—characterized by multinational production networks and trade in services—has necessitated a re-examination of foundational trade concepts. This article builds on this theoretical and empirical legacy to provide a structured and updated conceptual framework for foreign trade research.

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Introduction

The system of indicators characterizing foreign trade includes factors such as the country's foreign trade balance, trade turnover, export and import volumes, trade partners, and product range. These indicators also reflect the composition of imports and exports, the state of the trade balance, and its connection to overall economic development. The analysis of foreign trade indicators plays a crucial role in shaping economic policy, optimizing trade relations, and enhancing the country's competitiveness in international markets.

The main indicators characterizing foreign trade are as follows:

- Export
- Import
- Foreign trade turnover
- Foreign trade balance

These indicators are important elements that demonstrate the depth of a country's international economic relations and its level of participation in the global economy. They also play a key role in determining the success of a country's foreign trade policy and the sustainability of its economic development [5, p.49].

One of the Key Indicators Characterizing Foreign Trade: Export

Export is one of the main indicators characterizing foreign trade. It occupies a significant place in a country's economy and plays a vital role in shaping international trade relations. The volume and composition of exports reflect a country's position in the international market and the strength of its economic relations with other countries. An increase in exports also indicates growth in production capacity, improvement in product quality, and advancements in technology and innovation.

The value of exports is generally assessed using two main methods: **FOB (Free On Board)** prices and **franco-border** prices. These valuation methods reflect the trade conditions of the exporting country and its position in international markets.

- **FOB price** indicates the value of goods after they have been delivered to the port or border of the exporting country and loaded onto the ship. This price includes the production cost of the goods as well as the expenses of delivering them to the port and loading them. In other words, FOB price covers all costs incurred to deliver the goods to the national border or port and prepare them for international shipment. However, it does **not** include additional expenses such as shipping costs and insurance required to deliver the goods to the destination country.
- **Franco-border price**, on the other hand, is based on the price at which goods exported by a country are presented to a trade partner at the border. This price includes all the costs of bringing the goods to the buyer's border and making them ready for shipment, but does **not** account for transportation, insurance, or other extra services beyond the exporting country's border.

These indicators are crucial when evaluating exports, as they help shape a country's international trade policy and assess the trade balance. An increase in export volume enhances a country's competitiveness in global markets, stimulates economic growth, and raises employment levels. Moreover, a high export value contributes to increasing the country's foreign currency reserves and may help reduce external debt.

A **positive trade balance** (when exports exceed imports) is considered a sign of a country's economic strength and is an important factor for ensuring economic stability. Conversely, a **negative trade balance** (when imports exceed exports) may lead to economic imbalances and a reduction in foreign exchange reserves. Therefore, export evaluation also assists in defining long-term economic strategies and in properly structuring foreign trade policy [1, p.60].

These indicators allow for the analysis of both the volume and structure of exports. The **export price and quantity index** is used to evaluate changes in market prices and product output within a country. Such analyses help properly shape a country's foreign trade policy and enhance its competitiveness in international markets [3, p.169].

An **increase in imports** sometimes indicates the weakness of domestic production and dependency on foreign markets, which can lead to both **positive and negative economic outcomes**. For example, the import of certain goods might stimulate domestic production. However, on the other hand, **substituting local production** and increasing reliance on foreign markets can lead to a **negative trade balance** and **depletion of foreign exchange reserves** [6, p.78].

Foreign trade turnover is an indicator that reflects the **total volume of a country's international trade relations** and is calculated as the **sum of imports and exports**. This indicator is essential for measuring and evaluating a country's foreign trade activity. It shows how active the country is in global markets and how developed its foreign economic relations are.

An increase in foreign trade turnover indicates that a country holds a **strong position in international trade** and that its **participation in the global economy is growing**. The volume of exports and imports reflects a country's **production capacity, industrial development**, and the **scope of its consumer market**. Furthermore, high foreign trade turnover suggests that the country is becoming more competitive in the world market and is adapting better to **global economic trends**.

The analysis of foreign trade turnover is crucial for **evaluating the trade balance**, **formulating appropriate economic policies**, and **developing trade relations**. Growth in turnover also has **positive effects**, such as discovering new markets, signing trade agreements, and increasing exports. As a result, evaluating foreign trade turnover is of vital importance in terms of strengthening a country's **economic development** and **international position**.

The formula used to calculate foreign trade turnover is as follows:

FTT = X + M
Where:
FTT – Foreign Trade Turnover
X – Total value of exports
M – Total value of imports

Let's calculate the foreign trade turnover for a country in 2023 using the following data:
Export (X) = 15 billion USD
Import (M) = 10 billion USD

FTT = X + M = 15 billion + 10 billion = 25 billion USD

So, in 2023, the country's foreign trade turnover was **25 billion USD**, reflecting the **total volume of its export and import activities**.

Foreign trade balance is an economic indicator that reflects the **difference between a country's exports and imports.** It is used to measure the balance of a country's international trade relations and shows the overall state of trade activity in the economy. The trade balance reveals whether a country's trade is **in surplus or deficit** in the global market [4, p.52].

The formula to calculate foreign trade balance is:

TB = X - M
Where:
TB – Trade Balance
X – Total value of exports
M – Total value of imports

If the volume of exports exceeds that of imports, the foreign trade balance becomes positive. This situation indicates that the country exports more goods than it imports. As a result, the country earns foreign currency, which is a **positive indicator for the national economy**. A **positive trade balance** is generally considered a desirable condition for a country's economy, as it encourages **economic growth**, supports the **development of domestic production**, and increases **foreign currency reserves**.

On the other hand, **if the volume of imports exceeds that of exports**, the foreign trade balance becomes **negative**. This implies that the country is importing more goods than it is exporting. A **negative trade balance** reveals a **greater dependence on foreign products** and indicates that domestic production does not meet internal demand. This increases the country's **need for foreign currency**, and a persistent trade deficit can lead to a **depletion of foreign exchange reserves**. Over the long term, a negative trade balance can pose a **potential threat to economic stability**, leading to issues such as **rising debt and financial instability**.

The **foreign trade balance plays a crucial role** in shaping **economic policies**. A **positive balance** demonstrates a strong economic position in global markets and contributes to the **appreciation of the national currency**. It also boosts **foreign reserves** and helps the country become more **resilient to economic crises**.

Conclusion

In contrast, a **negative trade balance** reflects weaknesses in certain sectors of the economy and suggests that **domestic production is insufficient** to meet demand. As a result, the country may be **forced to rely on foreign loans**, and pressure on the national currency may increase. A persistent trade deficit also signals that the **current foreign trade structure is unsustainable** and that **structural reforms** are needed [2, p.12].

Furthermore, the **foreign trade balance reflects the country's economic development and structural transformation**. A **positive trade balance** is often associated with **economic progress**, **job creation**, and **expansion of production sectors**. A **negative balance**, however, shows that domestic production is **inadequate** and that dependence on imports is increasing. Additionally, the trade balance—whether positive or negative—also affects the country's **external debt status**. A **positive balance** can help reduce foreign debt and lessen **economic dependency**, whereas a **negative balance** can lead to increased debt and **jeopardize financial stability**.

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