U.S.-Russian and U.S.-Ukrainian Trade Relations and Foreign Direct Investment Effect

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1 Introduction

International trade contributes significantly to a country's development through the full utilization of domestic resources; expansion of market size; the transfer of new ideas, technologies, and skills; and stimulation of capital transfer. The elimination of trade barriers, reduction of transportation costs, and the upsurge in telecommunication upsurge all promote trade benefits. The level of internal conditions in the state affects a country's economic performance. The stability and prosperity of Eastern Europe would significantly affect global development. Successful economic reforms, continued opening-up, and the liberalization of policy will all enhance competition and export growth by positively affecting intratrade growth.

The broad debate between free trade economists and their opponents emphasizes the weak and strong points of free trade development. The existence of two points of view in trade policy results in two concepts: free trade, which purports that trading nations will enjoy privileged benefits, and protectionist, which argues that countries will have gains and loses based on a game theory approach. Global free trade enhances the further opening up of international markets, trade benefits in the long-run, and enforces international institutional settings.

The traditional trade theory provides static and irrelevant analysis to the countries' interchange of commodities. Ohlin (1967, p. 309) pointed out that a good many factors do not exist at all in developing countries, and the quality of others differs from factors in the industrialized countries. This is the explanation for why a simple method of analysis – such as the factor proportions model which does not take this into account – is to some extent unrealistic. Statist theory is itself flawed, because it has no theory of the politics of foreign policy choices (Cowhey, 1993, p. 225).

Neoclassical trade theory is based on conditions related to bounds of relevancy and credibility. Scientists argue on the one hand that assumptions exist by which all nations have homogeneous production functions and the same level of economic development, and, on the other hand that obvious asymmetries in the comparative levels of technology and development exist between the United States and its Mexican neighbor (Brinkman, 2004, p. 117).

The huge variety of approaches explains the different scientific methods applied to new trade theories. Scientists make attempts to resolve this complexity through methodological rationalism, economic rationality factors, profit maximization, and the creation of a complex model. The successful transformation of East European countries to market economies is based on efficient foreign trade policy and the application of a complex trade theories approach. Transition countries need to provide policy changes in the pattern of trade and the development of further international economic relations in order to increase trade and foreign capital movement benefits.