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Free trade and e-commerce: is there any influence on each other?

1. Definition of Free Trade, WTO functions and principles.

The internet has created new foreign trade opportunities. The geographic gap between buyer and seller has shrunk in value and has shifted the way organisations and individuals do the business, exchange and communicate.¹

Free trade is a norm that considers trade in goods, services, labour and capital between or within sovereign states as a flow without state discrimination. The free trade norm constitutes the political economy of jurisdictions.²

Simply put, free trade is the complete absence of government policies restricting the import and export of goods and services. Free trade is the unlimited import and export of goods and services between countries. The opposite of free trade is protectionism - a tough trade policy aimed at eliminating competition from other countries. Today, most industrialized countries are participating in free trade agreements (FTAs), multinational pacts that allow but regulate tariffs, quotas and other trade restrictions.³

Free trade increases the well-being of citizens of all participating countries and enables consumers to buy higher quality products at a lower cost. This contributes to economic growth, increased efficiency, innovation and equity, which are inextricably linked to a rule-based system. And as a result of the total trades increase, especially the exports, but the imports decrease.⁴

The World Trade Organization (WTO) is an international body whose goal is to promote free trade by convincing countries to remove import duties and other obstacles. As such, it is closely linked to globalization. WTO is the only international organization dealing with the global rules of trade between nations. In 1947, 23 countries signed the General Agreement on Tariffs and Trade (GATT). GATT was created to reduce tariff barriers. WTO

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¹ National Board Of Trade, *E-commerce – New Opportunities, New Barriers: A survey of e-commerce barriers in countries outside the EU*. Komerskollegium. 2012. p. 1.

² PUIG, GONZALO, VILATTA: *The Constitutionalisation of Free Trade in Federal Jurisdictions*. Madrid, 2010, p. 1.

³ LONGLEY, ROBERT: "What Is Free Trade? Definition, Theories, Pros, and Cons.", Thought Co, 2020, p. 1. thoughtco.com/free-trade-definition-theories-4571024 (last accessed June 2020)

⁴ BOUDREAUX, DONALD J. – GHEI, NITA.: *The Benefits of Free Trade: Addressing Key Myths*. Mercatus Center at George Mason University. 2017. p. 1.

has replaced by GATT in 1995. It is concerned with not only reducing or eliminating tariff barriers but also non-tariff barriers such as quotas. Here some functions of WTO related to international free trade:

1. Take care of the management of the agreements signed in the Uruguay Round.
2. Perform controls to lower tariffs and reduce non-tariff measures.
3. Examine Member States' foreign trade policies and ensure that these policies comply with WTO guidelines.
4. Develop methods to achieve a harmonious solution to trade conflicts.
5. Give the member countries the advice they need to develop the global economy.
6. Provide a global platform on which the Member States constantly negotiate trade concession exchanges.⁵

According to the WTO, agreements are long and complex because they are legal texts that cover a wide range of measures and activities. They relate to: agriculture, textiles, clothing, banking, telecommunications, public procurement, industry standards and product safety, food hygiene, intellectual property and regulations and much more. However, with all these powers a number of simple elementary principles apply. These principles form the basis of the multilateral trading system. The main principles of the WTO are as follows:

- Non-discrimination - national treatment means equal treatment of foreign and national companies and it is unfair to prefer domestic companies to foreign companies. Most countries have a most favoured nation treatment, but the policy under the WTO is that all countries are treated equally in terms of trade. Any trade concessions proposed by the nation should be offered to others.
- Reciprocity- nations try to make concessions equal to each other.
- Transparency — Negotiations and the process must be fair and open, with rules that are the same for everyone.
- Special and differential treatment. Acknowledgement that developing countries may require “positive discrimination” due to unequal historical trade.⁶

Free trade is a system in which trade in goods and services between or within countries is not constrained by government-imposed restrictions and interventions. Interventions involve taxes and tariffs, non-tariff trade barriers such as administrative rules and quotas, and even intergovernmental trade agreements such as the North America Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA).⁷

E-commerce will also have a significant impact on trade in services. The most important change in trade in services is the ability of e-commerce and information technology to turn non-tradable services into commercial ones. Activities that were not previously traded (for example, research and development, computers, inventory management, quality control,

⁵ SOLANKI DR. GUIRISH A.: *Globalization and Role of WTO in Promoting Free International Trade*. IOSR Journal of Humanities and Social Science (JHSS). Volume 3. Issue 1. 2012. pp. 11–14.

⁶ IRSHAD, MUHAMMAD, SAQIB et al., *The Role of Charismatic World Trade Organization and the expansion of Free International Trade*. International Journal of Management Science and Business Administration. Volume 2. Issue 3. 2016. p. 17–23.

⁷ FOUDA, REGINE, ADELE, NGONO: *Protectionism and Free Trade: A Country's Glory or Doom?* International Journal of Trade. Economics and Finance, vol.3., No.5, October 2012. p. 351.

accounting, personnel management, marketing, advertising and sales) are traded through electronic commerce. It is only necessary that the quality, speed and cost of communication between the buyer and seller are appropriate. International cross-border trade with a wide range of services, financial, legal, telecommunication and client software is increasingly carried out in the electronic form.⁸

So, free trade can be defined as a mechanism of importing and exporting goods, products and services without government intervene policies, restrictions and restraint limitations.

2. Advantages and disadvantages of free trade.

Free trade happens when two or more countries have agreements to and barriers to the import and export markets. Usually these treaties entail a reciprocal reduction in duties , taxes and tariffs so that every country's economies can benefit from the different trade opportunities. Free-trade agreements allow a nation to enter more markets worldwide. It may enable local businesses to perform better, while relying less on government subsidies. It is a mechanism that can lead to the opening up of new markets, an increase in GDP figures and new opportunities for investment. Free trade 's advantages and disadvantages remind us that every nation that agrees to sign an agreement must take reasonable measures to defend its wealth and citizens against exploitation without resorting to protectionism. Here is the list of advantages:⁹

1. Free trade creates opportunities for economic growth.

Free trade agreements helped the economy grow by an average of 0.5% a year more than usual. If countries are free to move products across borders, each country will benefit from the productive, commercial and industrial advantages of another agreed economy. That ensures that with each purchase, there are fewer cost charges to think about, prices stay fewer and there can be healthy market competition.

2. There are more opportunities for foreign direct investment.

If nations eliminate the obstacles to free trade that are in place, then more businesses want to invest in other countries. Because of this strategy, new projects, alliances, and prospects arise in markets of any size. That means you can concentrate on building stronger, more satisfying partnerships with other governments that today hold the same global perspective. Countries with common boundaries will foster decent living conditions because it's harder to go to war with someone who's your business partner.

3. It reduces taxes paid by consumers and enterprises.

The incorporation of tax and investment rights in free trade agreements allows for more effective safeguarding of the interests of local business owners. If these protections vanish, the outcome appears to benefit the customer, because at the level of demand, more

⁸ TERZIAA, NURAY: *The impact of e-commerce on international trade and employment*. Procedia Social and Behavioral Sciences volume 24. 2011. p. 745–753.

⁹ MILLER, KEITH: *19 Advantages and Disadvantages of Free Trade*, <https://futureofworking.com/6-advantages-and-disadvantages-of-free-trade> (last accessed June 2020).

competition from global agencies will happen. This benefit reduces market competition but at the expense of removing smaller companies from the equation. Lower appraisals and less entry limitations may also minimize consumer costs.

4. Fewer government expenditures are due to free trade.

Several domestic industries earn government financial benefits including agriculture and other agricultural areas. This money goes from the consumer to the manufacturer as a way to offset the effect tariffs have on the markets for import and export. By introducing new best practices into the domestic distribution networks and building new competencies, less government funding is required to keep rates competitive at the local level. This benefit means that tax revenue can be diverted to infrastructure needs, social services, security, or other community priorities without floating unprofitable business projects.

5. It creates better products.

If free trade happens, then each consumer gets more access to products of higher quality at lower prices. For example, because of the American relations with China and Mexico, cheaper imports help to ease the burden of inflation in the United States. Prices are kept down by more than 2 percent for every 1 percent market share of imports coming from lower-income countries. That means the average household in the United States has more money to spend on other items. The need for innovation here mean companies are continually finding ways to solve customer problems.

6. Free trade is more than just consumer goods.

At least 50 percent of annual imports to the United States are not consumer goods. They are the baseline for manufacturers based in the United States, so domestic production costs can be reduced. This advantage also contributes to economic growth, as it diversifies the supply chain for an organization of any size. Also micro-businesses, freelancers and contract specialists may take advantage of this benefit because the Internet offers instant access to cheaper products, new research and opportunities for market expansion.

7. It helps people who have the least money.

Some people assume that only when a country can sell more of its products or services to other nations does more money come in. The economic fact of free trade is that growth is correctly expressed by the overall volume of imports and exports. If citizens at the national income level's lower level have more money to invest, so the whole economy profits. For this reason, the elimination of tariffs is an essential part of this process.

8. Free trade creates more opportunities to attract experienced workers.

Because of NAFTA, car manufacturers sent jobs to Mexico, and then chose to ship the vehicles back to the United States due to favourable tariff policies. While this problem took some jobs from American labourers, it also offered businesses the ability to find employees with the right levels of experience from almost anywhere in the world. By aiming for this aid at international markets, the prices remain down for the production process in order to keep demand competitive. The advantage also means that this strategy will support several economies around the world. It is one of the reasons that India today has one of the world's fastest-growing Middle Class sectors.

9. Experts have access to most free trade resources.

Free trade deals are attempting to place the most leverage in the hands of individuals who can deliver good results. To that advantage there are no boundary constraints. That is why if they have access to an economy founded on this idea, everyone can become whoever they want to be in life. The level of competition that becomes available is the main driver of what the local population thinks is possible. Everyone can become what they want to be in life if they work hard enough to achieve their goals thanks to the less economic constraints associated with this opportunity.

There is also the list of disadvantages of free trade:¹⁰

1. Free trade no longer creates jobs.

It's a fallacy to say free trade is pushing workers to send their jobs abroad. It would also be misleading to assume that increasing competition would create more opportunities for jobs. It decreases the amount of chances available in inefficient industries. The remaining workers will see a rise in their average pay and an improvement in living conditions, but it does not ship the undesirable employment abroad. It removes the strategy of saving a job at any expense, even though prospects in that industry are diminishing.

2. This contributes to greater urbanization.

Households who live in urban areas tend to lean to the left to political, while in rural areas they vote more to the right. Free trade inspires families to abandon agricultural work because it is more efficient to allow factory farms to take care of the food. This ensures that more people migrate to the cities and promote urbanization so that no money is saved from the attempts to keep trade routes open.

3. Currency manipulation poses more risks.

The stock market had the worst day in 2019 when China reportedly made an attempt to devalue the currency in response to U.S. tariff demands. Then for investors the truth of the situation is set in. Lower yuan values are making Chinese products cheaper for US consumers. It counteracts a tariff mechanism by monetary policy producing lower prices. That also means that Chinese consumers who buy American goods must pay more for their posts. If this drawback is taken into account, so one group of customers always win and the other always lose. Free trade aims to control this mechanism, but the agreements cannot account for unintended exploitation outside the framework.

4. Due to free trade, protection of intellectual property may be less.

Foreign governments or business competitors may not always take IP rights as seriously as they do in a firm's home country. Patents, methods, and other technologies are often replicated in the free trade setting, including branding, graphic displays, and photography. This drawback diminishes the potential an organization has to create new jobs at the local level while offering competitive salaries. And though IP rights security is in effect due to a free trade agreement, there are assurances that the rules will be applied by international governments with the same rigor as local government.

¹⁰ Ibid. 2020, p. 2.

5. Protective measures for workers in developing countries are not always available.

Developing countries and developing economies seldom have the same regulations in place that safeguards employee salaries or working-place conditions. Some nations also allow hiring children for factory jobs or heavy labour-related needs that placed them in hazardous, under-standard conditions. Some employees in Jordan who produce clothing for American retailers may work 20-hour days, not receive monthly paychecks, and then face bosses with jail time or physical assault if they complain. The reason for this disadvantage is due to the need of free trade competition. The aim is to establish an overall lack of constraints so that customers can control their expenditure. That means compromises will be made, fostering bad working conditions that employees would have to tolerate if they want to continue making a living for their families.

6. Environmental protection in free trade is minimal.

Free trade deals seldom shelter environmental safeguards. The goal for developed nations companies is to access the natural resources in other regions where constraints or regulations might not be as stringent. Then the focus becomes on the easiest, cheapest methods of producing products or providing services. Strip mining, clearcut logging, and other problematic practices may increase global emissions, while their domestic scoreboard does not report on the activities. Developing countries often sell short-term benefits for long-term problems. Natural resource trading money may finance government operations or facilitate corruption, enabling the rich to profit while the poor worker struggles to survive. The money from that initial investment would gradually vanish unless new industries grow.

7. Free trade may have fewer income opportunities.

Higher levels of competition in industries most affected by free trade will generate lower sales potential. Some companies, including Walmart, are big enough to work on a large scale to escape the drawback. These slim margins make it difficult for small business owners to provide quality services. And, the freelance economy has this downside to it. When a service provider in the United States charges \$30 for a service, a purchase of \$5 could give someone in a developing world the same value. The cost differential makes it difficult for one company to remain competitive when service quality is comparable.

8. This may increase international competition for the domestic economy.

Free trade agreements guarantee that profits will be made only through increased activity in the import and export markets. It is not possible to determine who benefits most from an agreement with little or no limit. Growing competitiveness in foreign countries may contribute to the growth of induced changes, suggesting that international competition in certain industries will place additional pressure on the overall market. Since free trade does not allocate specific industries to any particular nation, there is no way to predetermine if a positive outcome is possible.

9. Customers continue to be dominated by main suppliers.

When businesses grow bigger then they can raise more revenue. If an organization has additional resources, then there is more power available to start influencing economic policies. Large multinational corporations have the ability to provide cheaper rates, but many prefer not to do so there is no reason for such action to take place. Customers are

pushed into an economy of scale, buying goods from an oligarchy where there may be no price controls. That means that for every sector, your personal access to affordable products depends entirely on the kindness of each agency's C-Suites.

Free trade provides a chance for countries of any scale to generate new economic opportunities for themselves. It is a way to increase competition at the domestic level, reduce prices, and promote creativity in the targeted industries and commercial sectors. The overall advantages and disadvantages of free trade demonstrate that the global economy can gain momentum as many countries can work together to generate reciprocal benefits. So trade wars can also be such a devastating problem. Only a business can carry domestic consumption up to now.

3. The impact of e-commerce on free trade and logistics.

The Internet and e-commerce are changing the way companies work and redefining the way they perform internal operations – product design and development, purchasing, manufacturing, inventorying, sales, customer service, and even marketing. In this process, the Internet and e-commerce are changing the roles and relationships of different parties and promoting new supply chains, services and business models. The end result is greater efficiency, more efficient use of assets, faster time to market, shorter overall lead time, and improved customer service.¹¹

The more companies choose to work online, and e-commerce goes beyond the internal territory of the country, the more important is the inclusion of e-commerce rules in regional initiatives, including regional trade agreements (RTAs) and wider agreements on economic partnership.¹²

According to M. G. I. Pardo, the rapid growth of cross-border e-commerce poses serious challenges in the field of logistics (moving from containers to small packages), information and data management (a small package contains as much information as containers), as well as tariffs with customs and tax taxes, inspection and safety for every delivery. All this requires new individual solutions. Free trade zones around the world are preparing for this and are becoming an important link in the chain of online transactions.¹³

In its simplest form, “electronic commerce” is the purchase and sale of products and services by companies or consumers over the Internet. The term e-commerce is used to describe the process of searching for and selecting products in online catalogues and then buying with a credit card or processing encrypted payments. As the e-commerce business is growing rapidly and is expected to continue to grow, it has also become an important factor in changing the shape of the global logistics industry. Solutions such as physical storage locations and the execution of e-commerce orders from individual enterprises, in a store, from existing warehouses, or taking into account a combination of all three factors,

¹¹ TERZIAA, NURAY 2011, pp. 745–753.

¹² DARSINOUEI, AMIR, EBRAHIMI: *Understanding E-Commerce Issues in Trade Agreements: A Development Perspective Towards MC11 and Beyond*. Cuts International. Geneva, 2017. p. 9.

¹³ PARDO, MARTIN, GUSTAVO, IBARRO: *Free Zone Focus: how free zones are powering e-commerce*. 2019. <https://www.fdiintelligence.com/article/74005>(last accessed June 2020).

are some strategic decisions faced by manufacturing companies competing with companies such as Amazon, eBay, and Newegg.¹⁴

The growth of e-commerce and the digital market phenomenon, also known as the Amazon Effect, has changed the structure of consumer behaviour and expectations, as consumers now expect fast, free delivery and competitive prices. This complex delivery schedule casts doubt on traditional logistics models and supply chains, and now companies are forced to adjust their strategies to provide a cost-effective on-demand delivery service that is now in demand by consumers. In fact, it is expected that by 2021, sales in electronic commerce will reach 17.5 per cent of global retail sales. This exponential growth and demand will definitely affect logistics and the transport industry, as they must be prepared to cope with the increased volumes and expected supplies.¹⁵

In order to keep up with the growing demand from e-commerce channels and meet consumer expectations, companies need to invest in their warehouses and distribution centres and stimulate the development and implementation of advanced supply chains and logistics processes. New technologies such as augmented reality, drones, advanced robotics and intelligent glasses for capturing, packaging and shipping without manual labour are the keys to reducing costs and ensuring the company's competitiveness and customer satisfaction. Companies that cannot keep up with logistical trends run the risk of losing their competitive advantage and losing popularity among consumers.¹⁶

Before the advent of e-commerce, traditional logistics was as simple as moving goods from production centres to consumption centres using a linear routing system. However, e-commerce logistics services should use a combination of one-to-many, one-to-one, and many-to-one routing mechanisms based on the availability of goods and delivery destinations. As e-commerce markets continue to grow in large cities and suburbs, the continuing need for logistics markets to expand their activities remains of paramount importance.¹⁷

Logistics controls how resources are received, stored and delivered to their final destinations. The planning, implementation and control of the movement and placement of these goods and services should be done systematically. The system was developed to achieve certain goals, which may vary from industry to industry. At the macro level, the search and identification of potential suppliers and dealers to determine their availability and effectiveness play a crucial role. At the production level, growth depends on efficient logistics management. Building relationships and finding the most cost-effective solutions for companies is the introduction of e-commerce in the logistics business. An e-commerce company needs to know about logistics, especially supply chain management is an important part of an e-commerce business. You do not have to maintain a permanent

¹⁴ SAHINER, OZAN: *E-commerce impact on Logistics*. 2015. <https://www.morethanshipping.com/e-commerce-impact-on-logistics/> (last accessed June 2020).

¹⁵ SASSO, ANTHONY: *The Impact of E-Commerce Growth on Logistics Companies*. October 01. 2019. <https://www.inboundlogistics.com/cms/article/the-impact-of-e-commerce-growth-on-logistics-companies/> (last accessed June 2020).

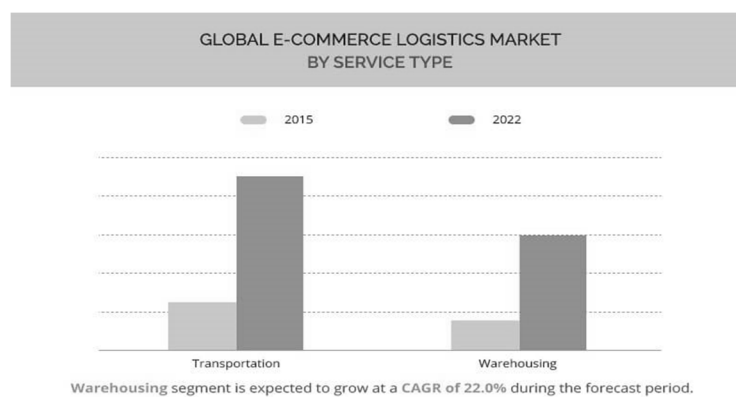
¹⁶ ATKINS, BETSY: *Logistics in The E-Commerce Era*, 2019 <https://www.forbes.com/sites/betsy-atkins/2019/05/06/logistics-in-the-e-commerce-era/#7b6cd8b574d4> (last accessed June 2020).

¹⁷ ROGERS, DAVID: *Impact of Growing E-Commerce on Logistics Service Providers*. http://www.bpinetwork.org/thought-leadership/views-commentary/452/impact_of_growing_e_commerce_on_logistics_service_providers (last accessed June 2020).

storefront in order to place inventory. However, you must rely on third parties to do business, and time management plays an important role.¹⁸

Previously, when e-commerce companies weren't so popular, the only logistics function we knew of was courier delivery. Logistics work mainly in two ways. Forward and reverse direction. The direct direction includes delivery from the seller's point to the customer's point. From the time of dispatch until the delivery of a product of any kind, the seller is obliged to provide the exact place of the order to the respective recipient by tracking using this logistics. The reverse process includes steps such as exchanging, replacing, or waiting for damaged and improper deliveries. This includes a hassle-free exchange or replacement process that is critical to building trust between buyer and seller.¹⁹

Figure 1



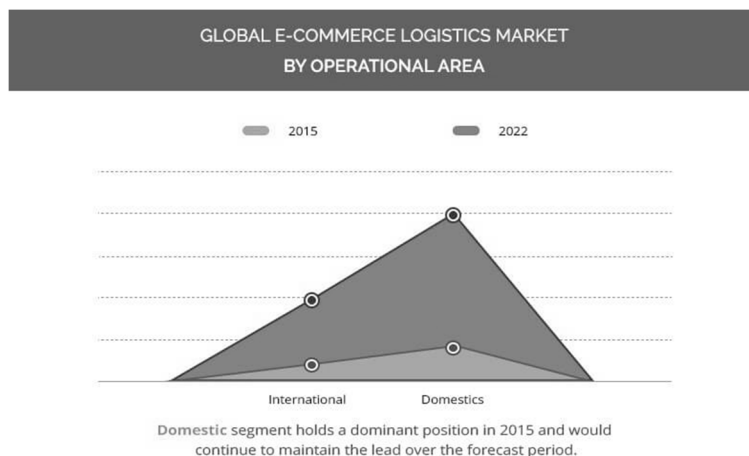
As can be seen from the report which includes the analysis of the global e-commerce logistics market and focuses on different types of services on the market. The market for e-commerce logistics is segmented into warehousing and transportation, depending on the form of operation. The warehousing segment considers hubs / distribution centres, return processing centres, and mega centres, while the transport segment is divided into trucking / over the road, air / express delivery, freight / rail, and maritime transport. The market is segmented into national and international (cross-border) e-commerce logistics services, depending on the operating area.²⁰

¹⁸ SUNDARI, SIVAKAMA S.: *Impact of E-commerce on Logistics*, *Eurasian Journal of Analytical Chemistry*, volume 13. 2018. pp. 226–229.

¹⁹ ITHINK, LOGISTICS: *The Powerful Impact of e-commerce on the logistics sector*. July 17. 2019. <https://ithinklogistics.com/blog/impact-of-e-commerce-on-the-logistics-sector/> (last accessed June 2020)

²⁰ MUTREJA, SONIA: *E-Commerce Logistics Market by Service Type (Transportation, Warehousing)*. Operational Area (International, Domestic) – Global Opportunity Analysis and Industry Forecast 2014–2022. <https://www.alliedmarketresearch.com/e-commerce-logistics-market> (last accessed June 2020).

Figure 2



Consumers are used to extremely fast deliveries, and as more and more retailers offer fast and free delivery options, logistics companies have to adapt to the ever-increasing delivery pressure, which is in line with changing customer expectations and preferences. At the same time, the dynamics of the supply chain is fundamentally changing as companies complement traditional long-distance delivery with just-in-time (JIT), and suppliers switch from several warehouses to separate warehouses to meet local requirements. This often means that the fleet needs to be changed and invested in smaller lorries and vans that allow for shorter and more frequent flights, which are necessary to ensure better last-mile delivery. In fact, 44 percent of fleet managers surveyed by NAFA Institute & Expo in April (2019) said they had invested in various asset classes to meet these priorities. Seventeen percent said they plan to adjust the composition of their fleet to ensure last-mile delivery, and 33 percent await the expansion of their fleet.²¹

With the growing popularity of e-commerce, high product requirements have risen sharply. Therefore, it became necessary for buyers to track their goods from the time of shipment until they reached the target buyer. Logistics and e-commerce go hand in hand, and when it comes to business, one is literally useless without the other. From now on, logistics companies decided to introduce some advanced technologies to reduce errors and improve the management system. The model of this e-commerce logistics is so advanced that everything can now be followed at the push of a button.²²

Therefore, whether physical or online business commercial companies, in order to profit from trade, should offer the best logistics packages, especially free shipping and delivery options, because only with these flexible methods can companies meet the changing expectations and demands of the consumers and also remain profitable in the marketplaces.

²¹ SASSO, ANTHONY 2019, p. 2.

²² ITHINK, LOGISTICS 2019, p. 1.

4. Conclusion

With the advent of the Internet and advanced technology, the impact of e-commerce on free trade has become an integral part of the market. In short, free trade can be seen as a mechanism to eliminate and remove barriers, taxes and tariffs between countries and continents. As a result, free trade transactions also move from their original status to a more digital world, concluding online trading agreements or controlling the logistics process using new technological results. As e-commerce continues to grow, it is likely that companies will have to continue adjusting business models to provide the fast, free, and convenient delivery service that consumers demand and expect.

MIRIYEVA, NARMIN

SZABADKERESKEDELEM ÉS ELEKTRONIKUS KERESKEDELEM: HAT-E A KÉT TERÜLET EGYMÁSRA?

(Összefoglalás)

A tanulmány az elektronikus kereskedelem szabadkereskedelmi összefüggéseit vizsgálja. A tanulmány elsőként áttekinti a szabadkereskedelem alapvető jelentését és jelentőségét, összefoglalva mind az előnyeit, mind a hátrányait. A második részében e meglátásokat alkalmazza széleskörű statisztikai adatokra támaszkodva az elektronikus kereskedelem területére, és igazolja, hogy az elektronikus/online kereskedelem alapjaiban változtatja meg a szabadkereskedelem dinamikáját, ide értve különösen a logisztikai kérdéseket.