INTERNATIONAL TRADE THEORY

International Trade Theory

- What is international trade?
  - Exchange of raw materials and manufactured goods (and services) across national borders
- Classical trade theories:
  - explain national economy conditions--country advantages--that enable such exchange to happen
- New trade theories:
  - explain links among natural country advantages, government action, and industry characteristics that enable such exchange to happen
- Implications for International Business

New Trade Theory

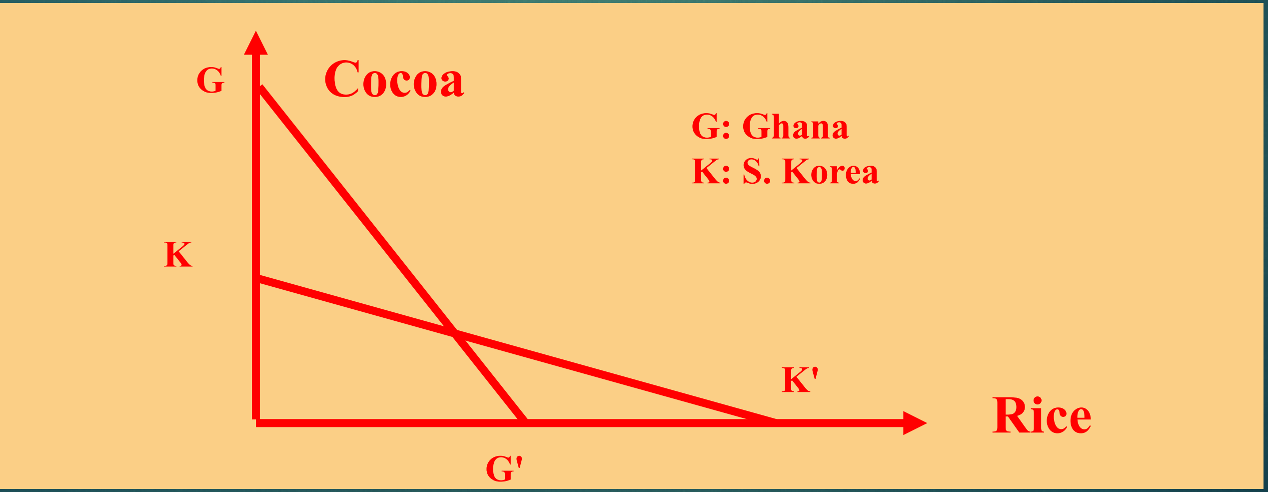
- **Global Strategic Rivalry**
  - **Firms gain competitive advantage trough: intellectual property, R&D, economies of scale and scope, experience**
- **National Competitive Advantage (Porter, 1990)**

Mercantilism/Neomercantilis

- **Prevailed in 1500 - 1800**
  - **Export more to "strangers" than we import to amass treasure, expand kingdom**
  - **Zero-sum vs positive-sum game view of trade**
- **Government intervenes to achieve a surplus in exports**
  - **King, exporters, domestic producers: happy**
  - **Subjects: unhappy because domestic goods stay expensive and of limited variety**
- **Today neo-mercantilists = protectionists: some segments of society shielded short term**

Absolute Advantage

- **Adam Smith: *The Wealth of Nations*, 1776**
- **Mercantilism weakens country in long run; enriches only a few**
- **A country**
  - **Should specialize in production of and export products for which it has absolute advantage; import other products**
  - **Has absolute advantage when it is more productive than another country in producing a particular product**



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Comparative

- David Ricardo: *Principles of Political Economy*, 1817
- Country should specialize in the production of those goods in which it is relatively more productive... even if it has absolute advantage in all goods it produces
- Absolute Advantage is a special case of Comparative Advantage