ISSN 1392–1258. EKONOMIKA. 1999. 47

The Basic For Trade According to International Trade Theories and Their Relation with Trade Policies

Gražina Jatuliavičienė

Doktorantė
Vilniaus universiteto Įmonių ekonomikos katedra
Saulėtekio al. 9, 2040 Vilnius
Tel. (370 2) 76 93 64

In the article is presented an overview over some of the competing theories aimed at explaining the basis and gains of international trade. Key classical concepts such as absolute and comparative advantage are explained and extended to include modern-day realities. The article also deals with important new trade theories, which base trade on economies of scale and imperfect competition, as well as on competitive advantage. This leads to the theoretical evaluation of a country's trade policies and their impact on export performance.

Introduction

Problem formulation. The aim of any theory is to describe and forecast real events, simplifying reality through general principles and using them to present logically based conclusions. International trade, as the first international business activity between nations, has been conducted through the ages but for a long time was not based on any theory. Only during the last two hundred years, a wide range of theories have developed to explain the nature of international trade and to ground it. Using an historical approach, we can see the logical development of theories as a consequent outcome of the developing world economic system. Different theories served as an analytical framework in the particular historical period and stage (or stages) of involvement in international business, and were adapted to separate circumstances in different periods of time. Their development could be compared with a spiral, some of their ideas (for example, protectionism or free trade, the need for government export promotion, etc.) were rejected and returned again together with changing conditions and specific problems facing a country and explaining the current realities of internation transactions.

The objectives of the article. The main objective of the article is to present a comprehensive, up-to date, and clear exposition of the international trade theories evaluating not only differences between these theories but also limitations of each of them. Their principles are essential to help to identify the group of international trade theories compatible with different trade policies and for understanding, evaluating, and suggesting solutions to important international economic problems and issues facing a country.

Mercantilism

The economic philosophy named mercantilism was the earliest comprehensive International Trade Theory created in the late seventeenth and early eighteenth centuries. The mercantilist period is not associated with any single writer. A good coverage of the philosophy of the era may be found in Hecsher (1935).

Mercantilism stressed that a country's wealth and self-sufficiency can benefit from international trade if its balance of trade is favourable. The main aim of national policy was regulation of international trade discouraging imports and encouraging exports. In the process it might become necessary to use many detailed regulations applied to exports and imports: largely conducting trade through state monopoly; intervention in the market through restrictions on imports, and active encouraging and support of domestic export industries through export promotion in order to increase volumes of manufacturing and exporting.

The wrong assumption of the mercantilist philosophy is that the theory of mercantilism ignores the concept of production efficiency through specialisation emphasising sheer volumes of exports and imports [Smith (1776), Daniels *et al* (1992), Salvatore (1995)]. A disregard for the concept of efficient production was addressed in subsequent theories, notably the classical theory of trade which rests on the doctrine of comparative advantage.

Classical Theory of International Trade

Mercantilism was the dominant international trade theory till the Classical Theory of International Trade was created. The theory introduces, as the main reason for trade and international activities, the concept of **economic advantages.** Classical trade theory's theoretical development encompasses three different situations in which international differences in costs were considered: Smithian equal and absolute advantages and Ricardian comparative advantage theories. **Equal advantage** exists when a country has advantages in production of all products, but the advantages are at the same level for all products. Than none of the countries would lose or gain from trade. In this case trade could not exist as would be no incentive.

Absolute Advantage Theory

The concepts of absolute advantage and specialisation were introduced more than two hundred years ago by Adam Smith in his book "The Wealth of Nations" (1776). **Absolute advantage** exists where the exporting country holds a superiority in the availability and cost of certain goods over its trading partner. The crux of the argument was that different countries can produce different goods more efficiently than others and the costs of production should dictate what should be produced by each nation or trading partner. Thus the specialisation must be accompanied by trade.

Smith denied that international trade was fundamentally different from the exchange of goods within the domestic economy, thus, exports can not be treated more meritorious than imports. Based on this theory, he questioned why the citizens of any country should have to buy domestically produced goods that they could purchase more cheaply from abroad.

The absolute advantage concept explained that trade is voluntary. Concerning the govern-

ment role Smith introduced the "laissez faire" (leave us alone) doctrine of no interference of the state. According to Smith, mercantilist government restrictions cause ineffectiveness, wrong resource allocation and a fall of living standards, thus retarding trade and industrial development.

Smith reasoned that if trade was unrestricted, each country would specialise in those products for which it had a absolute advantage. Each country's resources would shift to the efficient industries because the country could not compete in the inefficient ones. Through specialisation, countries could increase their efficiency because: (1) labour could become more skilled by repeating the same tasks; (2) labour would not lose time in switching from the production of one kind of product to another; and (3) long production runs would provide incentives for the development of more effective working methods [Daniels *et al* (1992)]. A country then could use the excess of its specialised production that it was uniquely suited for to buy more imports than it could have otherwise produced. If a country has absolute advantage in all products, it should not trade at all. But such instances are few.

Comparative Advantage Theory

The concept of comparative advantage was developed by David Ricardo (1817), enlarging and broadening Smithian absolute advantage theory. Ricardo theory reasoned that still it made sense to trade even when there was no absolute advantage in any product. As with Smith, for Ricardo other production factors, i. e. land and capital, were of little significance in evaluating product value, labour being the sole factor of production. But he emphasised that relative rather than absolute cost predetermines benefit from trade for all countries.

Expanding free trade and specialisation ideas, he introduced the **concept of comparative advantage**: a country was said to posses comparative advantage in those products for which its labour was relatively productive and states that countries specialise in producing and exporting the goods that they produce at lower relative cost than other countries [Ricardo (1817), Begg *et al* (1991), Wonnacot *et al* (1990)].

Ricardo's arguments have a modern ring because he used a model, including only two countries producing two goods and clearly stated the limited number of assumptions on which the classical trade theory is based: i.e., traditional exporting and importing are the only ways of transferring products and services across the borders; an international trade takes place in perfectly competitive markets, so no one country can affect the level of world prices; immobility of production factors among the countries; the same technology, using labour and capital in the same quantities to produce the same product in different countries; absence of scale economies and transportation costs; all production costs are constant and the only input is labour.

Such assumptions being in force, ideas of free trade and international specialisation in a certain sphere of activity are more efficient than policies of national self-sufficiency. Contrary to mercantilists, Smith and Ricardo denied that benefits from trade are one-sided. All nations will benefit from unregulated, free trade that would allow individual countries to specialise in goods they were best suited to produce thus giving rise to the possibility of mutually beneficial trade. Extensive trade with

other countries is motivated by the recognition that this kind of specialisation increases total output, equalises prices of goods among countries and can be the most optimal, wealth generating policy for every country. Such a policy stimulates a country's production effectiveness and quality improvements and raises its real income and standard of living through widening the choice of goods.

Neo-classical International Trade Theories

Factor Endowment Theory

Classical trade theory, based on absolute and comparative advantages, was widely accepted till two Swedish economists Bertil Ohlin (1933) and Heckscher (1949) further developed them, introducing "factor endowment" or "factor proportions" theory. In their theories Smith and Ricardo showed how output could be increased if countries specialised in the products for which they have an advantage. However, their theories did not help to identify which types of products would be most likely to have an advantage.

The classical theory of international trade treated the labour as a single, homogenous factor of production. Heckscher and Ohlin based their theory on a more modern concept of production, one that raised capital to the same level of importance as labour. Relative price levels among countries differ because countries have different relative endowments of factors of production and different commodities require that the factor inputs be used with differing intensities in their production. Countries would be expected to produce goods that require large amounts of the factors they hold in relative abundance. Because of the availability and low costs of these factors each country should also be able to sell its products on foreign markets at less than international price levels. Heckscher and Ohlin further developed the proposition that a country exports those goods that use most intensively in their production the country's most abundant factors of production (land, labour, capital, etc.) or one factor of production.

The relative factor abundance is an important determinant of comparative advantage. In many less developed countries, the factor with which they are relatively most abundantly supplied is land. This suggest that they can best take advantage of the world economy by exporting goods that use land relatively intensively. Conversely, in small-land-mass countries with high populations, export products would centre on labour-intensive articles. Similarly, rich nations might centre their export base on capital intensive production.

Although this more recent theory seemed to go far in explaining why nations trade, it has come under criticism. Recent empirical tests have failed to support the theory convincingly, because it was found inadequate in explaining real international trade flows. Some of these criticisms take a form of the **Leontief paradox**.

An exception to the Heckscher-Ohlin theory, or the Leontief paradox, was discovered by W.W. Leontief in the 1950s, when he tested whether the factor endowments theory could be used to explain the U.S. merchandise exports and imports. Leontief (1953) have found that U.S. exports were less capital intensive than imports, although the presumption according to the Heksler-Ohlin theory would have been that of capital rather than labour intensive export goods. Baldvin

(1971) applied 1958 data to U.S. trade and got the same result just the opposite of what would have been anticipated according to Heckscher-Ohlin theory for an capital-abundant country such as the US.

The classical theory of international trade treated the labour as a single, homogenous factor of production. A possible explanation of the Leontief paradox is that human capital endowment will not be homogenous and will differ both in composition and quality from the human capital endowments of other nations [Root (1984)]. The evidence indicates that the relative abundance of professional and other highly skilled labour in the U.S is a major source of its comparative advantage in manufactured products. Labour skills may, therefore, be regarded as human capital and offers an explanation of the Leontief paradox. Rather than a separate theory, the human-skills approach may be regarded as a refinement of the conventional theory of trade. It has added a new factor of production (labour skills) to the Hekscler-Ohlin theory and for that reason is sometimes called a " neofactor" theory [Root (1984), p. 262].

Factor endowment theory, or the neoclassical model of free trade, replaced Ricardo labour value theory with the theory of many factors (land, labour, capital, natural resources, skills, etc.) on the cost side, attributing differences in comparative costs to differences among countries in differences in relative factor endowments [Robbock (1989), Root (1984)].

Factor endowment theory is the major theory of international trade that is widely accepted today. However, concerning this theory's application, Yoffie (1993) pointed out that the factor endowment theory was "*most useful for understanding trade in raw materials and the location of labour-intensive activities. For other types of industries and for most trade between industrial nations, such conventional trade theory was difficult to apply*" [Yoffie (1993), p. 5]. This theory can best explain international trade patterns, when factors costs and relative factor endowments predetermine international specialisation. Analysing development of trade in transitional countries it is often pointed out that their trade is based on a cheap labour force producing labour intensive goods.

International Product Life Cycle Theory

Because of the new phenomena in international economic relations from rapid technological advancements, the transfer of technological and management knowledge, there was a need to search for a new international trade theory to fit the changing realities of the trading world. Product life cycle (PLC) theory is more recent being developed in the 1960s, and relates demand (income levels of consumers) and supply (cost of production) side variables, paying attention not to the costs but to the product itself and puts forth a different explanation for the fundamental motivations for trade between and among nations.

Like classical theory, Heksler-Ohlin theory makes two implicit assumptions about technology (1) the existence of a given state of technology; and (2) the same access to technology everywhere; that is, all countries use the same production functions [Root (1984)]. These assumptions do not hold in the real world.

[Root (1984), p. 263] points out that technological innovations assume two basic forms: (1) new and more economical ways of

producing existing products, and (2) the production of wholly new products as well as improvements in existing products. In its first form, innovation increases factor productivity for the individual nation utilising it. But it also creates technology gaps (dissimilar production functions) among nations. The second form of innovation can provide a nation with new export products that for a time do not face foreign competition. These two forms are closely related; many new products, for example, are capital goods that make possible new production functions.

Technological innovations that come mainly out of systematic research programs, especially in advanced industrial economies, affect not only production but also domestic and international trade and act as an agent of change in factor endowments thus making implications for the theory of comparative advantage. Although the significance of product innovations has been largely ignored by economic theorists until recently, marketing scholars had earlier introduced the concept of the product life cycle. Vernon (1966), Wells (1968) PLC theory joined together trade and foreign direct investments on the basis of stages in a product's life. Briefly, one version of this concept of the theory of product life cycle (PLC) states that certain kind of products go through a cycle consisting of four stages (introduction, product growth, maturity, and decline) and that the potential export possibilities of a product and the location of production will shift internationally depending on the stage of the cycle.

1. In the first stage, innovation, the innovator country starts producing a new product that is entirely or partially differentiated from old products. Product development is more apt to be in response to domestic than to foreign needs [Root (1984), p. 265]. Vernon asserts that the innovator country producers are likely to be the first to exploit market opportunities for high-income and labour saving new products. This new manufactured item requires a lot of capital for R & D expenses (comparative advantage in R & D activity) and skilled labour force in the domestic market. In this stage, producers have a monopoly in export markets and they proceed to build up sales with no concern for local competition.

2. In the second stage, the growth of the product, when the production process becomes increasingly standardised, requiring a less skilled labour force, sales tend to increase, and unfortunately so does competition, as other producers in the other advanced countries enter the arena breaking the monopoly position. In this stage, some product differentiation is maintained through promotion, packaging, and services (non-price competition). Brand competition now gives way to price competition. Foreign markets are the means to expand sales and receive profit.

3. As the product enters the third stage, maturity, product models and the production process become highly standardised, making cost the most important competitive weapon. At this point, minimising costs becomes an important objective of the producers. Production and sales shift to overseas locations, especially to less developed countries to take advantage of cheaper production factors, especially lower labour costs. Increased production in overseas locations decreases exports from the innovator country and displaces its exports in the remaining export markets.

4. In the final stage of the product life cycle the products enter a period of decline. At this point the innovator country may even decide

to discontinue all domestic production, produce only in the third world countries, and re-export the product back to the home country and to other markets [Root (1984)]. In short, the export effects of product innovation are undermined by technological diffusion and lower costs abroad.

Thus, during the trade cycle, which can be described in various stages, the innovator country is initially an exporter, than loses its competitive advantage vis-à-vis its trading partners, and may eventually become an importer of the product. As Yoffe (1993), points out, "*Vernon- Vells theory can explain intra-industry trade for technology-based products, when different products in the same industry are in different stages of the product cycle*" [Yoffe (1993), p. 6]. These four stages are on a continuum rather than fully differentiated from each other.

In recent years there have been a number of attempts to verify the PLC theory. Studies have found that this holds for many industries, and primarily for such products as certain consumer durables, syntethic materials, and some electronic equipment, that is, those products that have long lives in terms of the time span from innovation to eventual high consumer demand [Daniels *et al* (1992), Lutz *et al* (1983), Sebastian (1983)]. Trade policy depends on the current stage of product development in the industry. For example, using product life cycle theory Japan's MITI define "sunrise" and "sunset" industries, and uses those classifications for helping to determine subsidies and grants.

Strategic Trade Theory

Strategic trade theory is a new way to explain international trade. Since World War II the largest growth in trade appears to be taking place among similar products between comparable countries. In order to interpret this sharp rise in intra-industry trade and increasing importance of high-technology products, which have been of the fastest growing in the 1970s and 1980s, two assumptions of the traditional trade theory need to be abandoned, i.e. perfect competition and constant economies of scale.

These assumptions are far removed from today's trade environment. Many industries in many countries are not operating in perfectly competitive markets (monopolists, oligopolists and so forth). This may allow them to "best" international rivals in foreign markets. "*In the modern world, economies of scale provide the second important reason for specialisation and exchange-along with comparative advantage. Economies of scale help to explain why the manufacturers of automobile and mainframe computers are few in number and large in scale.*" [Wonnacott *et al* (1990), p. 43] This cost advantage can lead to specialisation and thus to trade between comparable countries. The existence of economies of scale tend to create oligopolistic industries, dominated by a small number of firms, which under protection and support can acquire complete international specialisation.

Supporters of strategic trade theory maintain that protectionist government intervention (introduction of incentives (subsidies, tax rebates) for domestic producers and restrictions for importers, can create comparative advantages in the specific industries under imperfect market conditions and bring welfare gains for a country [Baldvin (1992), Spencer (1986), Krugman (1986)]. This call for more protection is implemented throughout strategic trade policy.

Due to the specific characteristics of a sector that a government wishes to support, strategic

trade theory has only a limited area of application: the commercial aircraft sector, the semiconductor industry and the telecommunications equipment sector. There are different views on this theory. [Krugman (1995), p. 132] points out, that *"The strategic trade policy is not an argument for protectionism per se. It is in reality an argument for limited government industrial policy consisting of carefully targeted subsidies, not for tariffs and import quotas"*. Opponents of strategic trade theory argue, that it is a theory justifying unfair trade practices and thus more politically acceptable than traditional protectionism [Bergeijk (1993), Nedergaard (1991)].

Porter's Competitive Advantage Theory

Many trade theorists argue that the work of Porter (1990) is in many ways the synthesis of all that came before it, presenting trade theory in a new, more applicable way [Daniels *et al* (1992), Yoffe (1993), Robbock (1998)]. The focus on the industry is different from the focus of early trade theories on country specific factors. Porter (1990) sees classical trade theories as being deficient in explaining trade and investment because of globalisation, comparable factor endowments of many nations, technological advance and the transfer of technologies among nations.

Arguing that countries have "competitive advantages", created at meso, i.e. industry level, Porter (1990) presents four country-specific determinants critical to the competitiveness of specific industries in a country. These determinants are presented in Figure 1 constituting the "diamond of competitive advantage".

It is not sufficient, however, to examine each of these elements in isolation. Each of the four determinants comprise a dynamic system influencing the others and all in turn are influenced by two additional elements: "chance" and "government". When this interaction is positive, one factor supporting another, industries improve competitiveness.

Factor conditions encompass the nation's factors of production available to compete successfully in a specific industry. Porter notes, that factor conditions are not the only source of competitiveness in exporting as suggested by classical or factor proportions theories of trade. Porter's key departure from standard neo-classical trade theory is to posit a quali-

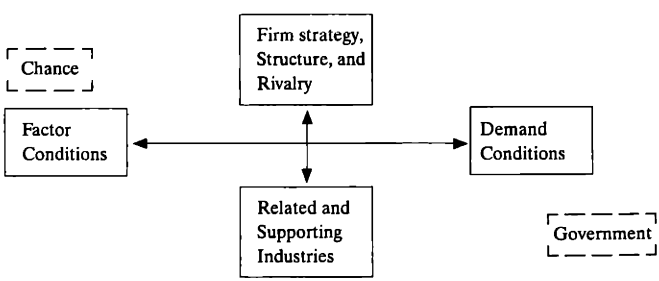

Figure 1. Determinants of National Competitive Advantage

Source: Porter M. The Competitive Advantage of Nations. Macmillan Press Ltd., 1990, p. 127.

tative differences between "basic" factors and "advanced" factors. For the former, which include physical resources and unskilled or semiskilled labour, standard theory applies. But for the latter, which are more specialised, and include highly trained personnel with specific human capital and "knowledge resources" such as government and private research institutes, leading universities and industry associations, Porter argues, standard theory can be misleading. Most important to Porter is the ability of a nation to continually create, upgrade, and deploy these "advanced" factors.

Demand conditions are the nature of home-market demand for the industry's product or service. *"...firms develop competitive advantage if domestic buyers are among the world's most sophisticated and demanding buyers for the product or service"* [Porter (1990), p. 95]. Porter argues that the size of the home market is only of secondary importance; and that large size is more valuable in the presence of large research and development costs and large uncertainty, as well as economies of scale in production. Also important in determining national advantage is the rate of growth and saturation of home demand, forcing firms to export to expand or survive.

Related and supporting industries include the presence in a country of internationally competitive supplier and related industries. Their interaction is mutually beneficial to both parties. A firm that is operating within a mass of related firms and industries gains and maintains advantages through close working relations, proximity to suppliers and timeliness of product and information flows. The close and constant interaction is successful if it occurs not only in terms of physical proximity, but also through the willingness of firms to work at it.

Firm strategy, structure and rivalry define the environment and the conditions in which firms compete in the home country that either hinder or aid firm's creation and maintenance of international competitiveness.

These four determinants can be critical in helping the country to build and maintain competitive advantage. However, two other variables, chance and government, also play important roles. Chance events are largely outside the firm's sphere of influence. They occur because of developments such as political decisions by foreign governments, wars, new inventions, discontinuities in input costs such as oil shocks, significant shifts in world financial markets or exchange rates, etc. [Porter (1990), p. 134] notes, that *"unexpected events could be of advantage to a nation's firms"*, nullifying the advantages of some competitors and bringing about a shift in the overall competitive position.

Government can influence all four of the major determinants and country's competitive advantage through actions such as (1) subsidies, (2) education policy, (3) the regulation or deregulation of capital markets, (4) the establishment of local product standards and regulations, (5) the purchase of goods and services, (6) tax laws, and (7) anti-trust regulation [Porter (1990), p. 69–130]. According to Porter, competitive advantage in industries is built largely by the efforts of individual firms which may be helped or hindered by government, but government has no power to create advantage itself. It is better where the firms are self-sustaining and competing independently.

In support of his model, Porter (1990) delineates four distinct stages of national competitive development, presented in Figure 2.

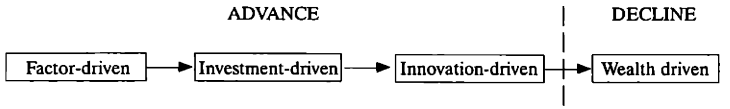

Figure 2. The Four Stages of National Competitive Development

Source: Porter M. The Competitive Advantage of Nations. Macmillan Press Ltd., 1990, p. 563.

Porter identified four major stages in competitive developments, three-where advance may take place and a fourth where decline is probable.

In the first stage basic factors such as natural resources and cheap labour are the essential source of competitive advantage. Although successful internationally, the industries competitive position is established largely on prices. It is often a weak position, sensitive to the exchange rates, recession in importing countries, vulnerable to the loss of factor advantage to other countries, and unlikely to lead to sustained productivity growth.

Progress from this factor driven stage requires a shift to an investment-driven economy. The second stage is characterised by the beginnings of more advanced factor creation, growth of domestic demand, very intense domestic rivalry, and high motivation. Building on basic factors, major investments are made by firms/government in facilities, the purchase of technology, infrastructure, general and specific education and training and the beginnings of foreign marketing channels. Investment in related and supporting industries is required as well.

The third stage, in which competitive advantage is driven by innovation is of the greatest relevance to the developed economies. In successful competitive industries the many determinants of the diamond are in place. Competitive advantage shifts to the complex patterns of differentiation in the total package bought by the customer, productivity rises due to product and process driven innovation. Firms compete globally, foreign manufacturing develops, and the firms become less sensitive to macro-economic fluctuations. The role of government needs to change drastically from direct intervention to indirect stimulation of rivalry, assisting with creation of advanced factors, improving the quality of domestic demand and encouraging new business formation.

The fourth stage, wealth driven, is related to decline. Firms begin to lose their competitive advantage. Success factors in the diamond of the third stage turn sour and the firm becomes an extensive lobbyist of Government to protect and preserve its current position.

The diamond is useful in focusing attention on key competitive parameters of a country. The stage of development greatly influences the country's competitiveness and trade policies. So too is the logic that countries move from one stage to another, rather than spanning two or more of these stages because there are likely to be industries or companies in all major economies that are operating at each of these stages.

Conclusions

International trade theories can be analysed stressing various aspects. There are two pos-

sible ways to divide international trade theories into groups. Looking at the reasons or basis for exchange of goods it is possible to divide trade theories into two groups according to supply-demand differences, i.e. differences in advantages inherent to a country.

Theoretically, as Kefal (1994) points out, supply differences between countries led to exporting of surpluses over the domestic demand, and domestic demand over domestic supply leads to importing the goods. But recently demand-supply differences between countries can only partly explain the causes of international trade. Countries export goods even if domestic supply is not satisfied, and intra-industry trade in substitutes between the countries with similar production resources and technologies contradicts any explanation based on differences in resources.

The second reason or basis for trade is concerned with different advantages. "*Absolute where a product is only available in a particular place, or comparative where it is more economically produced in one place than another.*" [Brooke (1996), p. 22] Advantages stem from international differences in factor endowments, leading to production costs and export price differences for goods. Economies of scale achievable in an individual national market is one more source of advantage. An advantage in product and process technology refers to an ability to produce a different or differentiated product in a new, more efficient way. These advantages lead to the specialisation of a country in the international markets. The present overview of international trade theories in this chapter allows to present International Trade Theories defining reasons for trade in Table 1.

The second way is to divide international trade theories from the possible degree of government regulation of international trade seeking increased exports and economic growth. The first chapter in part two helps to divide international trade theories into two main groups.

*Table 1. **Reasons for International Trade***

Theory	*Supply or demand oriented*	*The source of advantage*	*Area of applicability*
Mercantilism	Supply		All products
Absolute advantage	Supply	Labour costs	Products with absolute advantage
Comparative advantage theory	Supply	Relative costs	Products with comparative advantage
Factor endowment theory	Supply	Factor endowments	Raw materials, basic commodities location of labour intensive industries
Product life cycle theory	Supply and demand	Product differentiation	Innovative, technology-based products with long product life cycle, technologies
Strategic trade theory	Supply	Economies of scale	Industries with economies of scale and high-technology products
Porter competitive advantage theory	Supply and demand	Competitive advantage	Products with competitive advantage

Source: own perception

The first group of theories are related to the free trade concept rejecting government intervention into international trade according to "laissez faire" principle. The second group of theories are connected with possible gains from the intervention of government in international trade, seeking different national interests and thus affecting and changing natural trade patterns. Both groups of theories have had a strong impact on international business.

This leads to the theoretical evaluation of trade policies and their impact on export performance and gains from export promotion. The policy of free trade can be defined as an absence of any form of government interference with the free flow of international trade. Any departure from free trade designed to give some protection to domestic industries from foreign competition is called protectionism.

Only two theories of international trade can be given as example of these extremes. **Mercantilism** is related with strong protectionism, where all export promotion activities are used to increase a country's exports and growth. The another extreme, the **classical trade theory,** is the usual basis for advocating free trade. Trade is a form of international economic activity essentially left to the forces of the market mechanism and brings gains to every trading country. Consequently, there is no basis to use export restrictions and give incentives to exporters.

In the debate on trade policy-free trade versus protectionism-the gains from trade represent the case for free trade. International trade gains in using free trade policy can be defined as: (1) possibility to maximise total world production output; (2) greater availability of goods permitting a wider consumer choice and resulting in greater satisfaction of consumers; (3) possibility to acquire goods more cheaply. Through trade consumers get less expensive foreign goods because of lower production costs through comparative advantage, economies of scale, etc. in foreign countries; (4) international trade is a source of income and profits; (5) international trade increases competition and prevents the monopolistic control of the home market [Begg *et al* (1991), Wonnacot *et al* (1990), Robbock *et al* (1989), Root (1984)].

Many of the concepts first elaborated by Smith still dominate trade theory and policy today and continues to shape the actions of governments. The Classical Trade Theory is the ideological foundation of the Treaty of Rome on economic co-operation in the EC. Free trade ideas are implemented in GATT/WTO activity, seeking to lower tariffs.

In the real world international trade policy can be regarded as the result of opposing forces of free trade and protectionism. Although later international trade theories contradicted mercantilist arguments in the twentieth century their ideas were reborn as new/neo-mercantilism, or sometimes called "economic nationalism" or "new protectionism". A number of countries actively pursue these policies seeking to maintain a favourable balance of payments (or balance of trade) through trade restrictions not only for economic but to a larger extent for social or political reasons. Because of the greater openness of world trade, implemented through multilateral treaties, the impact of supranational organisations (WTO, WB, etc.), new protectionism is implemented not through tariffs, but through means that are more difficult to observe and control, for example voluntary export restraints, import licensing procedures, domestic requirements, etc. [Pass *et al* (1988), Daniels *et al* (1992)].

National trade policies include some degree of protectionism for acquiring gains, possibly at the expense of other countries. These gains from protectionist trade policies could be defined as: (1) the desire to increase one country's national output, profit and income; (2) upgrading existing advantages; (3) protection of specific industries or firms; (4) increasing export earnings to pay for imports of raw materials and other industrial goods needed to modernise the production and thus lowering domestic costs of production; (5) to widen the range of products, avoiding to narrow specialisation of a country; (6) increasing employment in a country.

International trade theories shape business thinking and governments are constantly reshaping the environment within which the firm operates. Thus, familiarity with International Trade Theories allows us to better understand, analyse, predict, and influence government actions in the international business field. A grasp of theory enables us also to analyse events occurring in the world economy and to evaluate the wisdom of national policies.

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TARPTAUTINĖS PREKYBOS PAGRINDIMAS REMIANTIS TARPTAUTINĖS PREKYBOS TEORIJOMIS IR JŲ RYŠYS SU PREKYBOS POLITIKOMIS

Santrauka

Straipsnyje pateikiama išsami, šiuolaikinė ir nuosekli tarptautinių prekybos teorijų apžvalga ir principai, kuriais vadovaujantis suprantamos ir vertinamos svarbios šaliai tarptautinės ekonominės problemos ir pateikiami konkretūs sprendimai.

Nagrinėjama tarptautinių prekybos teorijų raida, siekiant paaiškinti tarptautinės prekybos tikslus ir naudą. Pagrindinės sampratos, kaip absoliutus ir lyginamasis pranašumas, nagrinėjamos atsižvelgiant į šiuolaikinio verslo aplinką. Taip pat apžvelgiamos naujos prekybos teorijos, pagrindžiančios tarptautinę prekybą masto ekonomija ir netobula konkurencija, konkurenciniu pranašumu. Tai leidžia teoriškai įvertinti prekybos politikas ir jų įtaką eksporto veiklos rezultatams.

Įteikta 1998 metų spalio mėn.