addition to the two countries and two goods of the classical economists, two factors of production—usually stylized as capital and labor. Further, the two output goods were assumed to have different factor intensities—one using more capital than labor, the other more labor than capital—but the production technology used was assumed to be the same in both countries. If the countries have different resource endowments—one country has relatively more capital than the other—neo-classical theory predicts that the capital-rich country will specialize in the production of capital-intensive goods and then export them. The labor-intensive country would specialize in and export labor-intensive goods. For example, Mexico, with its abundant labor, would be expected to export labor-intensive goods to the United States and Canada, while labor-short Canada and the United States would export capital-intensive goods to Mexico. A further neo-classical conclusion was that in capital-abundant countries, labor productivity (and hence income) would be high because labor had more capital to work with. This conclusion of neo-classical trade theory led to a host of government policies designed to increase capital accumulation as a way to improve a country's standard of living. Another important conclusion of neo-classical trade theory was that if countries were opened up to international trade, labor in the capital-intensive country would shift out of the production of labor-intensive goods and into the production of capital-intensive goods—for example, out of producing textiles and into the production of cars.

While it offered powerful arguments to explain comparative advantage, neo-classical trade theory does not provide an all-encompassing explanation of comparative advantage. It has been argued (Keesing 1966) that nations whose populations include a large proportion of highly skilled labor and professionals will specialize in the export of skill-intensive goods. Countries with large quantities of unskilled labor will export goods requiring little skill, producing little reward for labor. As skills can be altered through education—often called investment in human capital—governments have initiated programs to improve the skills of their workforces.

Efficiency can be affected by the size of industrial enterprises. To a point, large industrial enterprises tend to be more efficient than smaller enterprises—they embody *economies of scale*. If a country can gain the lead in attaining economies of scale, they will have a lower unit cost than foreign competitors and export those goods. Government