Mercantilist bargaining proved a politically successful way to harness the power of comparative advantage and its benefits can be clearly explained on the basis of conventional trade theories, particularly the Heckscher-Ohlin-Samuelson model. But these models rely on a stylized explanation of the mechanics of production and international trade that is increasingly far removed from current experience in the real economy. The way firms are organized to produce goods and services for either domestic consumption or export is of little moment to trade theory; industrial organization (IO) theory can be used to describe it, but few bridges were built to integrate the theories developed in these two branches of micro-economics until recently. Industrial organization theories explain the organization of production while international trade theories explain the exchange across national borders of the resulting goods and services. Traditional trade policy thinking and practice continues to rely on this division of labour and remains poorly informed on emerging IO theory.

The old trade policy assumed that international trade, investment, and other cross-border transactions took place largely between firms and individuals in one country and unrelated firms and individuals in another. It regarded the large, vertically integrated, horizontally diversified, managerially coordinated enterprise famously described by Alfred Chandler as typical[14]. With the exception of raw materials, machinery, and luxury products, experience suggested that goods and services were primarily consumed in the country in which they were produced by such firms. Goods and, to some extent, services were also produced for export but the successful penetration of a market often led to import-substituting investments and a return to the

[14] Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Harvard University Press, 1977) and *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge: Harvard University Press, 1990). Chandler's work was given important theoretical underpinnings in Oliver Williamson, *The Economic Institutions of Capitalism* (New York: The Free Press, 1985), relating the structure and operation of these firms to emerging theories about transaction costs, imperfect competition, and more.