

What Conclusions Can Be Drawn from Trade Theories?

While no comprehensive trade theory has yet been developed, trade theories are useful in explaining trade patterns in certain groups of goods. Those that require unsophisticated labor inputs, a heavy degree of natural resources, or a favorable climate will be traded according to absolute or comparative advantage. Thus trade in goods coming from the extractive industries (i.e., petroleum, minerals, timber) or basic agricultural commodities such as wheat and corn can be explained adequately by classical trade theory. Goods whose production requires standardized technologies and no specific factor inputs will be produced in countries that offer the best combination of factor prices: textiles or unsophisticated electronics will trade according to simple neo-classical trade theory. More sophisticated goods will be produced in innovative countries with highly skilled labor forces. As these goods require efficient supporting industries, they will be produced in advanced countries and exported both to other advanced countries and to developing countries.

Theoretical explanations of trade patterns feed directly into policy debates concerning what governments can do to improve a country's competitiveness. The main classical conclusion—that countries gain from trade—has stood both the test of time and considerable intellectual scrutiny. Totally open economies, however, have not often been observed.

Protectionist Arguments and Managed Trade

While trade theories suggest there are gains to be made from an open international trading regime, protectionist sentiments are deeply rooted and have considerable political appeal.

The Benefits of an Open Trade Regime

It is common to think of success in trade as arising from increases in exports. Exports are “good” while “imports” are somehow “bad.” This is a fallacy. A general increase in international exchanges—both imports and exports—is desirable. The gains from trade arise from moving resources out of relatively inefficient industries and into efficient industries, with part of the extra production from efficient industries exchanged for the