intervention in the economy has often been focused on aiding industries to achieve economies of scale, "picking the winners" and supporting them.

Innovativeness has also been suggested as a means of generating a comparative advantage. Countries that develop new products are able to gain a technological advantage (and possibly economies of scale) over other countries. Profits are gained by exporting before the competition catches up (Posner 1961). Vernon (1966) postulated that traded industrial goods go through a *product life cycle* whereby production and exporting ability gradually move from innovating countries to countries with abundant low-skilled labor. This would seem to fit the pattern observed for many electronics goods developed in the United States and other developed countries whose production gradually moves offshore. In part, the *maquiladora* sector along Mexico's border with the United States is a manifestation of this phenomenon. The mature "stages of production" have moved to Mexico while the development of new products and manufacture of components remain situated in the United States.

These theories suggested that comparative advantage could be generated by being more innovative than competitors. Programs designed to encourage or directly fund *research and development* (R & D) have been put in place by most governments in developed countries.

Neo-classical theory, as well as the theories that followed it, predicted that countries would trade goods produced in different industries—e.g., wheat for steel. But during the 1960s it became obvious that trade was growing fastest between advanced industrial countries and that this trade was in goods from the same industries, albeit in differentiated products—e.g., Budweiser for Heineken (Balassa 1975).

Consumer tastes are, at least in part, determined by income. As people become wealthier, they desire better quality goods and greater variety. These are often only available from abroad, but at a premium. As incomes rise, consumers may well be willing to pay these premiums (Barker 1977). The opening up of trade and the commensurate larger market will allow firms to specialize in the production of varieties.

Clearly there is no single trade theory that can explain all aspects of trade. Success as a trading nation is likely to depend on a large number of factors.