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The History and Changes in the Theory of International Trade

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Abstract: International trade theory can be roughly divided into traditional type classical trade theory, neoclassical international trade theory and contemporary international trade theory. Traditional type classical trade theory includes absolute advantage theory, comparative advantage theory, relative demand theory. Neoclassical international trade theory takes factor endowment theory as the main content. Traditional type classical trade theory and neoclassical trade theory are together called traditional international trade theory. Contemporary international trade theory includes scale economy theory, demand similarity theory, intra-industry trade theory, product life cycle theory.

Keywords: International trade;Comparative advantage;Factors of production; Economies of scale;Intra-industry trade

1. Introduction

Many economists based on their own existence of the times, the international trade theory of multiple additions, relaying the development of international trade theory. The development of international trade theory has gone through three stages from traditional classical trade theory to neoclassical trade theory and then to contemporary international trade theory.

2. The Traditional Classical Trade Theory

2.1. Absolute Advantage Theory

Assuming the existence of two countries and two kinds of commodities, in which country A in the production of A commodity costs and expenses compared to country B less, and country B in the production of B commodity costs and expenses compared to country A less, the two absolute cost of the difference between the two countries of the absolute advantage corresponding to the different commodities, at this time, countries should be based on their own absolute advantage of the division of labor for specialization, the production of different commodities and carry out Mutual exchange, so that both countries can profit from it. [1]

2.2. Comparative Advantage Theory

Assuming the existence of two countries and two kinds of commodities, in which country A in the production of two kinds of commodities in the cost and expense are less than country B, in an absolutely favorable situation, but for the two kinds of commodities is not the same degree of favorable; and country B in the production of two kinds of commodities in the cost and expense are more than country A, in an absolutely unfavorable situation, but for the two kinds of commodities is not the same degree of unfavorable. Country A, in a position of absolute advantage, does not have to produce both goods, but only has to specialize in the good with the greater advantage, while country B, in a position of absolute disadvantage, does not have to give up production, but only has to specialize in the good with the smaller disadvantage. Each produces goods with lower relative costs and then exchanges them with each other, so that both countries can be profitable. [2]

2.3. Relative Demand Theory

The domestic exchange ratio is the basis of the international exchange ratio, and the domestic exchange ratio of the two commodities of the two countries determines the upper limit and lower limit of the international exchange ratio of the two commodities of the two countries, and the international exchange ratio must be within this interval. What determines the international exchange ratio is the mutual demand intensity of the two countries. The greater the intensity of demand for a commodity in a country, the higher the value of international exchange of this commodity, which affects the formation of the international exchange ratio.[3]

3. Neoclassical International Trade Theory

3.1. Factor Endowment Theory

Factor endowment theory is mainly divided into two parts: factor supply ratio theory and factor price equalization theory.

Factor supply ratio theory mainly has three points of view: First, assuming the existence of two countries and two kinds of goods, the direct cause of international trade is that the price of goods in different countries is different. Second, the difference in commodity prices between countries exists because the cost of production of commodities is different, and the cost of production is different because there is variability in the factor endowment of each country. Third, the proportion of factors of production determines the establishment of specific industries.[4]

Factor price equalization theory is that the factor endowment of each country will produce dynamic changes with the depth of international trade, when the ownership of factors of production in each country will gradually converge, the price of factors of production will also converge.[4]

4. Contemporary International Trade Theory

4.1. Economy of Scale Theory

Economies of scale refers to the fact that within a certain range of output, due to the proportion of increase in output is greater than the proportion of increase in factor inputs (i.e., increasing economies of scale), which in turn leads to the average cost of production of the product with the increase in output decreasing. The theory of economies of scale holds that when the existence of economies of scale allows manufacturers to produce a product with a significant cost advantage, then manufacturers will choose to specialize in the production and export of this product, which promotes the emergence and development of international trade.[5]

4.2. Demand Similarity Theory

The core content of the demand similarity theory has three main points: First, a country's production should firstly meet the domestic demand, and the export trade of products should be considered only after meeting the domestic demand. Second, the most important factor affecting a country's demand structure is the level of per capita income. Third, overlapping demand affects trade flows between countries and the volume of trade between two countries expands with overlapping demand.[6]

4.3. Intra-industry Trade Theory

The theory of intra-industry trade on horizontally differentiated products assumes that the factor intensities of different product varieties are the same or similar, and discusses intra-industry trade among developed countries by analyzing factors such as economies of scale, product diversification, and consumer preferences under the structure of imperfectly competitive markets; the theory of intra-industry trade on vertically differentiated products assumes that the factor intensities of different product varieties are different, and discusses intra-industry trade between developed countries by analyzing the factor endowments under the structure of competitive markets under the structure of perfect competition. The intra-industry trade theory on vertically differentiated products assumes that the factor intensities of different product varieties are different, and discusses the trade between developed and developing countries by analyzing the comparative advantages of factor endowments under the competitive market structure.[7]

4.4. Product Life Cycle Theory

Product life cycle theory that products have the same "life" as living creatures, will also experience "birth" "growth" "demise "Life cycle" - Vernon the product "life cycle" is divided into new products, mature products and standard products in three stages of production, the level of technology in the different stages of production presents a different trend, and the production factors of the The proportion of inputs will change with the changes in the production stage, and thus the comparative advantage of countries in the cost will change dynamically.[8]

5. Conclusion

Adam Smith's theory of absolute advantage explains the fundamental causes of international trade, but there are certain defects - first, the measurement of absolute advantage is only a simple comparison of the level of labor productivity between countries, it is difficult to explain the more complex production situation; Second, the absolute advantage of the conditions of international trade The nature of the trade between evenly matched countries can only be regarded as a relatively ideal model, in the real world at that time, more is the strength of the countries between the commercial exchanges, and for this reality, the theory of absolute advantage does not give an answer.Comparative advantage theory makes up for the defects of absolute advantage theory, but there are still some defects: one is only applicable to short-term analysis; two, it is only elaborated on the supply side and fails to consider the international division of labor and international trade from the demand side.

The theory of comparative advantage answers the question of whether countries with huge differences in labor production levels can engage in international trade, makes up for the defects of the theory of absolute advantage, and becomes the cornerstone of international trade theory together with the theory of absolute advantage. However, there are still some shortcomings in the theory of comparative advantage: firstly, the static analysis method adopted by the theory of comparative advantage does not match with the dynamic changes in the world, so it is only suitable for short-term analysis; secondly, the theory of comparative advantage is only elaborated on the supply side, and it fails to consider the international division of labor and international trade from the demand side, so it fails to provide an explanation of the principle on which the exchange of commodities is based.

Factor endowment theory extends the traditional theory of comparative advantage to further explain the basis of international trade. There are two main deficiencies in the theory: first, the factor endowment theory negates the labor theory of value and does not delineate the boundary between labor income and property income; second, the factor endowment theory is built on a large number of assumptions, which makes it difficult to explain complex economic phenomena.

Economy of scale theory reveals the causes of international trade patterns other than labor productivity and resource endowment, and the problems are: first, it is unrealistic to require that all input factors increase in equal proportions during the production process; second, in the assumptions of the theory of economies of scale, the production function can only express the results in terms of quantities, and the input factors are limited to the two factors of production, capital and labor; third, the economies of scale theory in the measurement of the size of the size of the scale, the production function can only be expressed in terms of quantities, and input factors are limited to capital and labor. theory in the measurement of the size of the size of the more importance to the accounting total and the total value of assets, blurring the real level of manufacturers and core competitiveness.

Most of the theories on intra-industry trade analyze and explain it from the reading of supply, while the demand similarity theory takes a different approach and explains the causes of intra-industry trade from the perspective of demand. The demand-similarity theory is also deficient in that it uses only a single variable, the level of per capita income, to explain why trade occurs, and fails to take into account that other influences also have a significant impact on demand.

Due to the adoption of more realistic premise assumptions and more diversified explanatory factors, the theory of intra-industry trade is more persuasive than the traditional international trade theory. However, in terms of comparison within the theory of intra-industry trade, the theory of intra-industry trade in horizontally differentiated products is not as explanatory and influential as the theory of intra-industry trade in vertically differentiated products.

The product life cycle theory has two major innovations: first, technology is regarded as an independent factor of production, examining the role of technological innovation, technological progress and technological diffusion in international trade, and combined with other factors such as raw material prices, labor wages, and so on, to jointly explain the formation and change of comparative advantage; second, it is to take a dynamic perspective to explain the changes in the factor intensity and comparative advantage of the product throughout the product life cycle. The second is to take a dynamic perspective to explain the changes of product factor intensity and comparative advantage throughout the product life cycle. However, the product life cycle theory is not universal and inevitable, and may not be able to guide and explain every kind of industrial development phenomenon.

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