

B.A PART 2

INTERNATIONAL ECONOMICS

TOPIC :- THEORY OF INTERNATIONAL TRADE

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Introduction to Theories of International Trade:

The exchange of goods across national borders is termed as international trade. Countries differ widely in terms of the products and services traded. Countries rarely follow the trade structure of other nations; rather they evolve their own product portfolios and trade patterns for exports and imports. Besides, nations have marked differences in their vulnerabilities to the upheavals in exogenous factors.

Trade is crucial for the very survival of countries that have limited resources, such as Singapore or Hong Kong (presently a province of China), or countries that have skewed resources, such as those located in the Caribbean and West Asian regions. However, for countries with diversified resources, such as India, the US, China, and the UK, engagement in trade necessitates a logical basis.

The trade patterns of a country are not a static phenomenon; rather these are dynamic in nature. Moreover, the product profile and trade partners of a country do change over a period of time. Till recently, the Belgian city of Antwerp, the undisputed leader in diamond polishing and trade, had witnessed a shift of diamond business to India and other Asian countries, as given in Exhibit 2.1.

It is also imperative for international business managers to find answers to some basic issues, such as why do nations trade with each other?

Is trading a zero-sum game or a mutually beneficial activity?

Why do trade patterns among countries exhibit wide variations?

Can government policies influence trade?

Theories of international trade provide the *raison d'être* for most of these queries.

Trade theories also offer an insight, both descriptive and prescriptive, into the potential product portfolio and trade patterns. They also facilitate in understanding the basic reasons behind the evolution of a country as a supply base or market for specific products.

The principles of the regulatory frameworks of national governments and international organizations are also influenced to a varying extent by these basic economic theories