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MODERN THEORY OF INTERNATIONAL TRADE

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Formulation of the problem. International trade is a system of international commodity-monetary and economic relations, consisting of foreign trade of all countries of the world. International trade is the central link of the link of global economic relations, mediating almost all types of international division of labor and connecting all countries of the world into a single international economic system. *The purpose of the article* is to highlight the problematic aspects of the modern theory of international trade. *Methods used in the research:* comparison, comparative analysis, systematization and logic, etc. *The hypothesis of the study* was the assumption that trade is a means by which countries can develop specialization, increase the productivity of their resources and, in general, increase the total volume of production (develop as a whole). *Presenting main material.* Economic and political risks in international trade are determined by geographic, political, and demographic factors. Modern international trade is dynamic. The structure and volumes of exports and imports of the turnover of various countries and regions of the world are rapidly and continuously changing. *Originality and practical significance of the research.* Modern theories of international trade either develop the principles of classical theories, extending them to a larger number of goods, countries and factors of production, or study certain aspects of international trade that for some reason remained unexplained by classical theory. *Conclusions.* The competitiveness of large national firms is certainly oriented towards national ones. To analyze their activities, Porter's concept of the value chain (value chain, production chain) is used, i.e. the set of business operations of the firm during which it creates added value. Concentration on the company's most expensive links of this chain (for example, R&D and sales) and the transfer of other operations to partner firms (foreign or domestic small and medium-sized enterprises) allows TNCs to maximize the production of added value. For example, the American company Nike dominates the world market of sportswear and shoes, but it almost does not produce them itself, because it distributes orders mainly to foreign partner companies and specializes in design and logistics.

Key words:

the theory of absolute advantages, D. Ricardo's theory, Heckscher-Ohlin's theory of the ratio of production factors, Leontiev's paradox, Rybchinsky's theorem, the theory of the product life cycle.

СУЧАСНА ТЕОРІЯ МІЖНАРОДНОЇ ТОРГІВЛІ

Постановка проблеми. Міжнародна торгівля — система міжнародних товарно-грошових і економічних відносин, що складається із зовнішньої торгівлі всіх країн світу. Міжнародна торгівля є центральною ланкою ланки світогосподарських зв'язків, опосередковуючи практично всі види міжнародного поділу праці і зв'язуючи всі країни світу в єдину міжнародну економічну систему. *Метою статті* є висвітлення проблемних аспектів сучасної теорії міжнародної торгівлі. *Методи, використані в дослідженні:* порівняння, компаративного аналізу, систематизації та логіки тощо.

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Гіпотезою дослідження стало припущення, що торгівля є засобом, за допомогою якого країни можуть розвивати спеціалізацію, підвищувати продуктивність своїх ресурсів і, загалом, збільшувати загальний обсяг виробництва (розвиватися в цілому). *Виклад основного матеріалу.* Економічні та політичні ризики в міжнародній торгівлі зумовлені географічними, політичними, демографічними. Сучасна міжнародна торгівля динамічна. Структура та обсяги експорту, імпорту товарообігу різних країн і регіонів світу швидко і безперервно змінюються. *Оригінальність та практична значимість дослідження.* Сучасні теорії міжнародної торгівлі або розвивають принципи класичних теорій, поширюючи їх на більшу кількість товарів, країн і факторів виробництва, або вивчають певні аспекти міжнародної торгівлі, які з якихось причин залишилися непоясненими класичною теорією. *Висновки.* Конкурентоспроможність великих національних фірм, безумовно, орієнтована на національні. Для аналізу їх діяльності використовується концепція Портера про ланцюжок вартості (value chain, production chain), тобто сукупність бізнес-операцій фірми, під час яких вона створює додану вартість. Концентрація на найдорожчих для фірми ланках цього ланцюга (наприклад, НДДКР і збут) і передача інших операцій фірмам-партнерам (іноземним або вітчизняним малим і середнім) дозволяє ТНК максимізувати виробництво доданої вартості. Наприклад, американська компанія Nike домінує на світовому ринку спортивного одягу та взуття, але сама їх майже не виробляє, оскільки роздає замовлення переважно іноземним фірмам-партнерам і спеціалізується на дизайні та логістиці.

Ключові слова:

теорія абсолютних переваг, теорія Д. Рікардо, теорія співвідношення факторів виробництва Хекшера-Оліна, парадокс Леонтьєва, теорема Рибчинського, теорія життєвого циклу товару.

Formulation of the problem. One group of recent theories considers international trade mainly from the side of the supply of goods. Another group of theories completely denies the classical theories, declaring them obsolete, and offers their own explanation of international trade. This group of theories usually focuses on the analysis of supply and demand for goods in international trade. In the last decade, significant shifts (both positive and negative) have taken place in the directions and structure of world trade, which are not always amenable to exhaustive explanation within the framework of classical trade theories. This encourages both further improvement of existing theories and the development of alternative theoretical concepts. The reasons are as follows:

1. The transformation of technological progress into a dominant factor in world trade;
2. The ever-increasing share in trade of counter deliveries of similar industrial goods produced in countries with approximately the same supply of production factors;
3. A sharp increase in the share of world trade attributable to intra-company trade.

The theory of absolute advantages of A. Smith.

The outstanding scientist and founder of economics, Adam Smith, in his book “An Inquiry into the Nature and Causes of the Wealth of Nations”, paid attention to the division of labor based on the specialization of economic activity.

In his work “An Inquiry into the Nature and Causes of the Wealth of Nations”, in a polemic with the mercantilists, Smith formulated the idea that countries are interested in the free development of international trade, since they can benefit

from it regardless of whether they are exporters or importers. Each country should specialize in the production of the product where it has an absolute advantage - a benefit based on the different value of production costs in individual countries participating in foreign trade. The refusal to produce goods in which countries do not have absolute advantages, and the concentration of resources on the production of other goods lead to an increase in total production volumes, an increase in the interchange between countries of the products of their labor

Analysis of recent research and publications. Adam Smith's theory of absolute advantage suggests that a country's real wealth consists of the goods and services available to its citizens. If any country can produce this or that product more and cheaper than other countries, then it has an absolute advantage. Some countries may produce goods more efficiently than others. The resources of the country flow into profitable industries, as the country cannot compete in unprofitable industries. This leads to an increase in the productivity of the country, as well as the qualifications of the workforce; long periods of creating homogeneous products provide incentives for the development of more efficient methods of work.

Natural advantages for a single country: climate; territory; resources, political position. Benefits obtained for a single country: production technology, that is, the ability to manufacture a variety of products.

Arguing with the then dominant theory of mercantilism, Adam Smith showed that the well-being of the people depends not so much on the amount of resources they have accumulated, but on

their ability to produce final goods and services. Therefore, the main task is not to acquire and accumulate a resource, but to develop production through participation in the division of labor and its cooperation. Adam Smith paid considerable attention to the study of the advantages of the division of labor based on the specialization of economic activity. At the same time, A. Smith extended the conclusions about the division of labor to the sphere of international trade, for the first time theoretically substantiating the principle of absolute advantages (or absolute costs):

"The basic rule of every prudent head of the family is not to try to make things at home that will cost more to make than to buy them on the side ... What seems reasonable in the course of action of any private family can hardly be unreasonable for all states. If any foreign country can supply us with any commodity at a cheaper price than we are able to manufacture it, it is much better to buy it from it with some part of the product of our own industrial labor applied in that area in which we have some advantage".

The purpose of the article is to highlight the problematic aspects of the modern theory of international trade.

Presentation of the main research material. An Inquiry into the Nature and Causes of the Wealth of Nations. Another classic, David Ricardo, in his book "Principles of Political Economy and Taxation" (1817) convincingly proved that interstate specialization is beneficial not only in cases where a country has an absolute advantage in the production and marketing of a given product compared to with other countries, i.e. it is not necessary that the cost of producing this product be less than the cost of similar products produced abroad.

The main factor in international trade, according to Ricardo, is the principle of a country's comparative advantage in the cost of production of a particular commodity.

The principle of comparative advantage characterizes the opportunity cost of producing a product in a country, which shows the relative costs of producing various goods and services. Countries specialize in the production and export of goods that are relatively cheaper to produce. The goal of international exchange is to minimize the opportunity cost of production or, if you look at the situation from the other side, to maximize the productivity of the resources available to the country. The directions of trade flows are determined by comparing opportunity costs. The country with the lowest opportunity cost will be the exporter of a good, and the country with the highest opportunity cost will be the importer of that good.

D. Ricardo saw the main task of political economy in determining the laws governing the distribution of the product between classes.

D. Ricardo, distinguishing between use and exchange value, believed that the latter is determined by the amount of labor expended, as well as the magnitude and duration of investment.

The price of a good in the short run is determined by supply and demand, and in the long run by the cost of producing the good.

A change in the wages of workers leads to a change in the profit of the entrepreneur, and not in price, and an increase in wages leads to a decrease in profits, and vice versa. This provision is called the "system of dissension between classes."

The decrease in the value of money as a commodity leads to an increase in wages and an increase in the prices of goods.

Wages, according to D. Ricardo, is the income of a wage worker, payment for labor. Wages depend on demographic processes. The greater the supply of workers, the lower the wages of workers, and vice versa. Wages are kept within the subsistence level by virtue of the natural law of population - the "iron law" of wages. He consistently describes the principle that wages depend on the movement of population. He believed that the movement of wages under the influence of demand and supply of labor returns to the "natural" rate, i.e. to the cost of livelihood. These reasonings were based on the law of population of T. Malthus.

In contrast to A. Smith, Ricardo was of the opinion that the position of workers with the development of society would worsen due to rising prices for agricultural products. The position of the working class, despite economic growth, will worsen due to the rise in prices for agricultural products. The downward trend in wages can be stopped by the control of wages by the state.

Profit, according to D. Ricardo, is an excess of value over wages; it is the product of the worker's unpaid labor.

Increasing productivity is one way to increase profits. D. Ricardo formulated "the law of the falling rate of profit." Its essence is as follows: a drop in the productivity of agricultural production will lead to an increase in food prices and an increase in the minimum wage, which will occupy a large part in the cost of production, and consequently, the rate of profit will decrease.

Rent is based on land ownership. To the factors that form the rent, D. Ricardo attributed:

- different fertility of plots;
- site location relative to the product sales market.





D. Ricardo correctly characterized differential rent as the difference between the value of agricultural products on the best and worst plots.

D. Ricardo recognized the "law of diminishing fertility of the soil."

The main condition for economic growth is stable money circulation. D. Ricardo considered gold to be the best base of the monetary system. It is possible to replace gold with paper money, but at a fixed rate. The value of paper money depends on its quantity in circulation.

D. Ricardo formulated the theory of comparative advantage. In this theory, D. Ricardo proved the profitability (advantage) of international trade on the basis of a comparison of comparative costs. That is, if different countries have a comparative advantage in different export commodities, then the international division of labor and trade between these countries is mutually beneficial.

If A. Smith was the author of the theory of absolute advantages, then D. Ricardo substantiated the theory of comparative advantages in international trade.

From the theory of A. Smith it followed that the factors of production have absolute mobility within the country, i.e. move to those areas where they get the greatest absolute advantage. Ultimately, the advantage of some regions over others will disappear, and incomes from factors of production will even out. It would seem that trade should stop. However, D. Ricardo managed to show the profitability of international trade, justifying an alternative price, showing a possible price ratio in trade, which then allowed John Stuart Mill to substantiate the theory of mutual demand, the gain from trade between the two countries. Ricardo considered the principle of relative advantage on the example of England and Portugal. Based on the same advantages as the theory of absolute advantages, the theory of comparative advantage uses the concept of opportunity price or replacement cost.

The importance of the comparative advantage theory cannot be overestimated. For many decades it remained the dominant theory that explained international trade and had a strong influence on all economics science. Together with all the additions made by the followers of the classical economics school, the theory of comparative advantage, in fact, for the first time described the balance of the aggregate demand and aggregate supply.

The most important achievement of the theory of comparative advantages is that it clearly proved the existence of gains from trade for all participating countries. At the same time, the wider the opportunities for developing trade, the fewer

artificial barriers piled up in the way of trade flows, the greater the opportunity to gain for all countries.

The theory created by the classics, including the theory of comparative advantage, is of enduring importance in our days. And although a number of provisions are simplified, they are a scientific basis for the development of mutually beneficial relations both between market entities within the country and abroad (Table 1).

Further development of the classical theory of international trade is associated with the creation in the 20s. 20th century Swedish economists Eli Heckscher and Bertil Ohlin the theory of the ratio of factors of production, which was most fully set out in the Ohlin's book "Interregional and International Trade" (1933). This theory is based on the same premises as Smith and Ricardo's theories of absolute and comparative advantage. The main difference is that it proceeds from the presence of not one, but two factors of production: labor and capital. According to the views of Heckscher and Ohlin, each country is endowed with these factors of production to varying degrees, which gives rise to differences in the ratio of prices for them in countries participating in international trade. The price of capital is the interest rate, and the price of labor is wages.

The level of relative prices, namely the ratio of capital and labor prices in countries more saturated with capital will be less than in countries where there is a shortage of capital and relatively large labor resources.

And, conversely, the level of relative prices for labor and capital in countries with excess labor resources will be less than in other countries where they are deficient. This in turn leads to a difference in the relative prices of the same goods, on which national comparative prices depend. Benefits. Hence, each country tends to specialize in the production of goods that require more factors with which it is relatively better endowed.

In the theory of the world economy, this concept is seriously transformed. The essence of the transformation is that the "commodity" is considered not as a product of production in a particular country, but as an object of supply and demand in the world market. At the same time, its price is determined in the dominant specialized international commodity markets, which, unlike national markets, are abstract. The product does not enter this market (since the "world market" is an abstraction, it is sold in national markets), therefore, the product is fixed in the corresponding "papers". Thus, the level of abstraction in the world market increases many times over. This is the property of a classic international good (this applies equally to a service, which is also considered a good).

Table 1 – The Heckscher-Ohlin factor ratio theory of production

Author	Theory	New, factors taken into account in the theory	Main theoretical conclusions	Scope of modern application
1	2	3	4	5
A. Smith 1776	Absolute benefits		International trade is mutually beneficial in the presence of absolute advantages of one country over another in the production of all goods	
D. Ricardo 1817.	Comparative costs	Product differentiation	It is advisable for each country to specialize in the production of those goods for which it has a relatively lower cost of labor and capital.	The sphere of international exchange associated with differences in natural and climatic conditions and mineral resources
G. Haberler early 20th century	Opportunity cost	National production possibilities curve, production of alternative goods	A country's comparative advantage in the production of alternative goods is determined by the volume of goods that must be reduced in order to increase the production of another.	Production of alternative goods for export
E. Heckscher B. Olin 20-30 years of the 20th century	Heckscher-Ohlin model	The uneven distribution of material and human resources between countries and the intensity of their costs	A country exports goods whose production requires more of the resources it has in abundance. In the process of international trade, the prices of factors of production are equalized.	Directions of international exchange related to the use of skilled labor, capital and farmland
Leontiev 1947 year	Leontev's paradox: The United States exported labor-intensive goods and imported capital-intensive ones	The paradox is resolved if more than two factors of production (types of labor) are taken into account	A relative surplus of skilled or unskilled labor leads to the export of goods that require a large input of the corresponding labor.	The same as for the Heckscher-Ohlin model.

Source: compiled by the authors

From this follows a seemingly paradoxical conclusion: the growth of one of the factors of production can lead to a fall in the production of one of the goods. Let us assume that due to demographic reasons, there has been an increase in the supply of labor in the country. In accordance with the Rybchinsky theorem, production volumes in labor-intensive industries will increase, while in capital-intensive industries they will decrease.

Product life cycle theory. This theory helps to explain why a country that previously exported a product abandons production and begins to import it. According to this theory, a product goes through four stages in its development:

1) Birth; 2) Height; 3) Maturity; 4) Dying

Stage 1 - the product appears in one of several countries.

Stage 2 - the country begins to export it, as it wins fans both in the country of origin and abroad.

Stage 3 - period of saturation, standardization; the product is no longer a novelty and it is required to maintain the production of this product at a reduced cost. Production is transferred from the exporting country to the consumer country, where the factor of low cost of labor is used.

Stage 4 - most often there is a new product that replaces this product.

The theory of international trade based on economies of scale in the early 80s. 20th century Economists P. Krugman and K. Lancaster proposed a theory as an alternative to the classical explanation of international trade. This theory was based on economies of scale. It was based on the truth that countries that are provided with the main factors of production in similar proportions will



benefit from trading among themselves while specializing in those industries that are characterized by the presence of the effect of mass production. In such situations, specialization makes it possible to increase production volumes and produce a product at a lower cost, which ultimately will reduce the price. This effect can be realized only in a sufficiently capacious market. International trade in this process significantly affects this activity, since it allows expanding sales markets. In other words, the formation of a single integrated market, which is much larger than the market of a single country, is in the power of international trade. Thus, it allows to offer consumers more products at more attractive prices. However, it should be noted that the creation of economies of scale leads to the violation of perfect competition, since it is based on the concentration of production and the consolidation of companies, which later become monopolists. As a result, the structure of markets changes, becoming oligopolistic with a predominance of inter-industry trade in homogeneous products or markets of monopolistic competition, where intra-industry trade in differentiated products is actively developed. This is the situation when international trade is concentrated in the hands of giant international companies, transnational corporations. Unfortunately, this leads to the fact that the volume of intra-company trade inevitably grows, which is aimed at realizing the goals of the company itself, and not on the basis of comparative advantages or differences in the availability of factors of production.

Conclusions and prospects for further research. The competitiveness of large national firms is certainly focused on national ones. To analyze their activities, Porter's concept of the value chain (value chain, production chain) is used, i.e. the set of business operations of the firm during which it creates added value. Concentration on the most expensive links of this chain for the firm (for example, R&D and sales) and transfer of other operations to partner firms (foreign or domestic small and medium-sized) allows TNCs to maximize the production of added value. For example, an American company Nike dominates the world market of sportswear and footwear, but it almost does not produce them itself, because it is handing out orders mainly to foreign partner firms and specializes in design and logistics. In general, theories of

world trade reflect different prerequisites, factors and consequences of international exchange of goods and services. In addition, theoretical optimums are not always indicate achievements in practice. Obstacles can be both internal factors (not only economic) and external changes (for example, changes in demand for exported products in foreign markets). Efficiency of use theoretical tools depends on what limitations there are in practice. The choice of theory in solving applied problems is also determined by specific goals which are set to the participants of the international trade relations. In any case, the application of particular theory primarily pursues the task of optimizing actions in the international arena.

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