

Research on International Trade Theory and the Status Quo of World International Trade

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Abstract

This paper studies the traditional international trade theory which developed preliminarily since the fifteenth century and analyzes strengths and weaknesses of various theories. With the time development, and the progress of science and technology, driven by explosive growth in productivity, these theories no longer fit in with newer international trade. Then it led to the current mainstream theories of international trade and the various characteristics of current international trade, including multinational corporations, the international monopoly, the emergence of trade protectionism, and the implementation of various trade policies in different countries. Thus, this paper tries to discuss the endogenous problems of trade protectionism and trade opening policy. This paper thinks that regional economic development should pay attention to the guiding role of policy in the opening, so as to avoid the adverse effects of opening and achieve the purpose of sustainable and healthy development.

Keywords

International Trade Theory, World Trade Situation, Trade Policy

1. Introduction

The degree of openness or protection plays a key role in the long-term stability and sustainability of regional economic growth. In recent years, especially since the 2008 world financial crisis, the process of world integration has been stalled, and even shown a trend of anti-globalization. Due to the Schumpeter effect and the hypothesis of flight from competition effect, not only developing countries, but also developed countries have become advocates of trade protectionism. The populist and xenophobic ideas caused by Brexit and Trump's coming to power have become prevalent (Wang, Yuan, & Ji, 2021). Indeed, developed countries

used to be supporters of economic globalization, with their powerful industry and perfect social security, gained a lot in free trade. While for the same reason, after suffering the financial crisis, solidified welfare policy is difficult to have substantive change, therefore, implementing trade protectionism has become the only choice to maintain social stability and ensure the employment of workers. Developing countries, on the other hand, can respond to the crisis by improving social welfare (Li & Zheng, 2018). However, developing countries that have adopted the open policy for a long time rely heavily on open trade after receiving many production facilities. In fact, the benefits of opening are nothing more than the accumulation of capital and the natural economic development in line with the world economy, the introduction of foreign capital, the rise of trade, the development and application of resources and the development of industry or service. However, to a large extent, it still cannot change the reality of backwardness and exploitation. If there is no sufficient policy guidance, it is difficult for the freely developed national and inland capital to invest in technological innovation and scientific progress within a short period of time. Although it will make the whole country integrate into the world financial and industrial system, only turn into a manufacturing factory for developed countries at the expense of the health of the nation.

At present, the academic circle is generally concerned about the impact of the open protection policy on economic development. One literature believes that the open policy can achieve economic growth by attracting foreign investment, and the open policy will expand the size of the government and reduce the volatility of the fiscal policy (Zheng, 2018), and further maintain the stability of currency exchange rate, create a more stable financial environment, continue to attract foreign investment, so as to achieve a healthy circular state, continue to promote regional economic growth. Another document regards that protection can be achieved by a specific industry policy support to perfect the system of industry and realize the economic system sound. Through subsidies and tariffs adjustments, this way government could protect vulnerable industries under the competition of foreign advanced large-scale enterprises and make them still seek a certain degree of market. At the same time, corporates ought to vigorously strengthen science and technology by leaps and bounds to catch up or push existing technologies in new directions. Then the industries have the chance to overtake on corners in weak areas. Although it will affect the activity of foreign enterprises in the short term, it will play an important role in supporting the long-term development of regional economy.

All trade theories share the same but peculiar and ambiguous understanding of the effect of open policies or protectionist policies on the development of underdeveloped regions. That is, openness will undeniably promote regional economic development, which is fully confirmed by theoretical studies as well as practical examples of national development. However, according to theoretical research, the open policy will also cause many negative effects on backward areas, such as product dumping or resource plunder. It is these contradictory

phenomena that arouse the further study of the endogeneity caused by openness and protectionism in this paper. This paper argues that policy guidance can greatly restrain adverse effect brought by openness. On this basis in China, for example, this paper studies the policy to guide the development of China's good side, at the same time, in view of the current policy is missing or cannot be interpreted, the article makes policy recommendations to better adapt the changing international environments. The article is organized as follows, the second part is classical trade theory introduction, the third part is current situation of world trade and mainstream trade theory, the fourth part is China's trade dilemma and policy suggestions. The last part is the conclusion.

2. Classical International Trade Theory

International trade theory has gone through a long period of development, roughly through four stages: classical, neoclassical, new trade theory and emerging classical international trade theory. In the early stage, the world was dominated by classical and neoclassical theory, which promoted the occurrence of international trade due to the gap between human cost and product resources of various countries. The main theory was Adam Smith's theory of absolute superiority, Ricardo's theory of comparative advantage based on its development, John Mill's theory of mutual need (Hong, 1997). The above theories are divorced from the political economy at the national level to some extent. In 1841, the German economist, List, put forward the theory of trade protection. He combined trade with national economic development from the perspective of protecting productivity, took nationalism as the fundamental tone, and made the policies more objective and practical. With the development of science and technology, the production of single goods is no longer limited to single factor input. Classical trade theory can no longer explain many important trade phenomena well, so Heckscher, a Swedish economist, put forward factor endowment theory, and Ohlin, his student, substantiated it and formed H-O theory. According to the theory, the United States is an abundance of capital and labor under the relative scarcity of countries, the structure of foreign trade should be to export capital and technology intensive products, imported labor-intensive products, and the truth, in contrast, Leontief, an economist at the Leontief statistics of the United States in 1947, 200 industry statistical data to validate the structure of import and export trade, The exact opposite of h-O, known as Leontief's paradox. This paradox also means that the classical neoclassical trade theory has been difficult to adapt to the post-World War II international trade pattern.

3. International Current Trade Situation

After the Second World War, the international system was gradually established and improved, the trade volume of similar products and developed industrial countries increased greatly, the leading position of the industry was constantly

transferred, and the emergence of multinational companies and foreign investment gradually rose. Moreover, both classical and neoclassical international trade theories assume that the product market is perfectly competitive, which is quite different from the reality of contemporary international trade, therefore new trade theories emerge at the historic moment. Today's international trade landscape is increasingly regional, with the EU, NAFTA, ASEAN, RCEP and various other regional trade agreements or cosmopolitan organizations (Lu, 2021; Cai, 2003). Geopolitics will continue to play a dominant role in economic development until energy shortages are completely resolved or transportation energy consumption is drastically reduced (Yang, Shi, & Du, 2021; Lu & Du, 2013), on this basis, the close ties between regional economies will lead to regional blockade and trade discrimination has been repeated (Zhang, 2007), developed countries use antidumping to prevent labor-intensive products from destroying their industries system, and developing countries use tariffs to protect vulnerable manufacture industries (Wang et al., 2014; Yu et al., 2018). However, as developing countries use their competitive advantages and accumulate capital to narrow the industrial gap with developed countries (Liu, 2007), there is reason to believe that free and equal trade can be achieved, to alleviate the unfair economic phenomenon in international trade (Udo, Alexander, & Vivekananda, 2019). On the other hand, as the world economy becomes more closely connected, a debt crisis in one country is likely to trigger a worldwide financial crisis (He et al., 2021), Exchange rate fluctuations will also have a greater impact on global trade liquidity (Miao, Hao, & Yang, 2021). Moreover, in today's world, only monopoly can be effectively competitive. Under the situation of economic globalization, each monopoly enterprise can expand its commercial territory infinitely by increasing the market across borders (Gai et al., 2015). All kinds of monopolistic transnational enterprises accumulate many resources, technology and capital, hence continue to consolidate their leading position by operations of accumulated advantages, which can exert unimaginable influence on the world economy (Wang, Li, & Ran, 2009). To some extent, although monopoly enterprises can enhance economic vitality, promote technological progress, and facilitate people's life, at the same time, they have much potential harm, such as unlimited profiteering and forcing users to achieve their desired goals. Therefore, in terms of policies, governments of various countries have imposed numerous penalties and controls on large monopoly enterprises.

Mainstream Trade Theory

In this complex and constantly changing international trade situation, new factors of production theory, preference similarity theory, dynamic trade theory, intra-industry trade theory and other theories are booming, among which the development of industrial organization theory has laid a solid theoretical foundation for the emergence of new theories of international trade. In fact, the idea of economies of scale was put forward by Adam Smith in his famous assertion that trade increases the size of markets and thus productivity of labor. However,

with the rise of neoclassical school, scale economy has been excluded from the general equilibrium theory with competitive equilibrium as the core because it is opposite to the perfectly competitive market structure. Although Cournot, Chamberlain and other economists have made great contributions to imperfect competition analysis, imperfect competition analysis has been free from mainstream economics for a long time. The theory of industrial organization emerged in the 20th century to fill the gap in this respect. To put it simply, the theory of industrial organization can be regarded as a follow-up development of the market structure theory in microeconomics. It mainly investigates the imperfect competition market structure and analyzes the causal relationship among the market structure, firm behavior, and market performance. In the mid-1980s, the theory of industrial organization witnessed a great development, especially after the game theory was introduced into the theory of industrial organization. The description and research on the behavior of firms in the oligopoly market under the imperfect competition market structure achieved great success, which greatly enriched the theoretical basis of economics. The rise of the new industrial organization theory has greatly promoted the development of many branches of economics, and the international trade field is no exception. In his doctoral thesis of MIT, Krugman first extended the monopoly competition model of differential products and internal economies of scale jointly proposed by Dixit and Stiglitz to open conditions, and proposed a new set of trade theories, namely the new theory of international trade. While with the further research of theoretical studies, the appearance of New-New (NN) Trade Theory illustrates current trade situations from the point of heterogeneous firms, which is the combination of Trade-Models-with-Heterogeneous-Firms (HFTM) and Endogenous-Boundary-Model-of-the Firms. In other words, these two theories change the research scope of international trade from the traditional theoretical study of inter-industry trade to the study of the choices made by enterprises with differences within the same industry in trade. The NN trade theory explains international trade and investment from the perspective of enterprises. From the microscopic point of view, it tries to explain the route of internationalization made by the multinational companies, whether choose to produce locally then export or directly invest to build a factory and set a subsidiary corporation. The NN international trade theory mainly has two models, one is the heterogeneous firm trade model proposed by scholars represented by Melitz, and the other is the endogenous boundary model proposed by scholars represented by Antras. The former shows that different enterprises in the same industry choose whether to export or not. The latter describes an enterprise's choice in the way resources are allocated.

4. China's Current Trade Situation

In such a complicated international situation, China's demographic dividend has gradually disappeared (Cai, 2010). The aging problem is also emerging, and labor costs are rising year by year (Mu & Zhang, 2011). Despite the opening of a

two-child policy in 2016 and a three-child policy in 2021, China's fertility rate fell below 1 percent for the first time in 2020, even lower than Japan's (Yuan, 2021). Not only domestic problems continue to be exposed, in recent years, the number of trade friction cases in the world is also increasing (Huang, Wang, & Meng, 2018), the restrictions of technical barriers to China are also rising (Maggi, Mrazovaa, & Neary, 2021). The difficulty for Chinese enterprises to go out has always been high, which of course ought to be blamed by its insufficient brand capacity, but the foreign restrictions have always been like a pair of invisible hands trying to limit the globalization of Chinese enterprises. Under such situation, the last forty years have witnessed the remarkable achievements made by China. And obviously different from other Southeast Asian countries, many western manufacturing enterprises still do not choose to leave China in the case of significantly rising labor costs, among which the most important is policy support and guidance. The Chinese government has not completely lost in the high economic growth in the open, through the introduction of foreign capital in the short term accumulated great wealth, and through timely cut subsidies of the private enterprises to achieve the purpose of quick guide private enterprises in science and technology innovation. Now China in many areas has even reached the world leading position, especially in the online field, Alibaba Cloud and TikTok are leading the trend of the world. However, in combination with the status of trade, and looking back at China's current part of the trade policy, we find that there are many areas that need to be adjusted and supplemented.

In this paper, the literature retrieval strategies for the above trade theories and trade status mainly adopted direct literature retrieval and literature traceability. Relevant literatures in English and Chinese before February 2022 were searched by CNKI, Wanfang, VIP, PubMed, and other databases. The main search words are trade theory, trade situation, and trade policy. To obtain a comprehensive grasp of trade theory, and analyze its development status, to find the incomplete part, and combined with the world's complex trade status, put forward more supplementary explanations for specific policies.

Policy Recommendations

This article has the following suggestions on China's foreign trade policy: 1) Adhere to the policy of opening to the outside world, adhere to the strategic policy of bringing in and going out, and intensify efforts to overcome many technical difficulties, always grasp the national security, and prevent foreign countries from blocking any way forward for economic development. Continue to strengthen the independence of technology, technology innovation ability. 2) Formulate the managed free trade policy under the FRAMEWORK of WTO. The core of implementing the managed free trade policy is to implement the free trade policy for most industries, while carrying out moderate protection and mild export encouragement policies for a few industries. It emphasizes the government's active intervention in the transformation of economic structure, emphasizes the mixture of zero-intervention trade policy and countervailing trade

policy based on industry classification, and moderate protection policy refers to the use of tariffs, safeguard anti-dumping, countervailing, anti-monopoly, government procurement and other measures. 3) According to the special needs of the international structure, the implementation of strategic policies, one is the gradual emphasis on regional free integration. The Central Committee and The State Council are determined to make progress with ASEAN as quickly as possible and with the utmost sincerity. The Chinese government is also seeking cooperation with Japan and the ROK to establish a 10 + 3 free trade body. This is in the interest of the 13 countries, in the interest of East Asia and, in the long run, in the broader economic interest of the region. 4) Policies for different industries are different, which is based on the interests of the national economy. To develop China's economy, competition must be introduced. However, under the circumstance that China's economic strength and economic structure are far behind that of developed countries, it cannot be completely opened in all industries and sectors. We should encourage the export of high-tech industries but restrict the export of certain resources. This can also be called strategic trade policy to some extent.

5. Conclusion and Future Trend of International Trade

International trade theory has developed from the original classical trade theory to the current NN trade theory, and it is not difficult to find the trend of trade diversification. This paper focuses on the relative dualistic elements of openness and protection, and studies the important role of policy orientation in promoting economic development in the open economic form. The theory of international trade is always following the new situation of international trade, especially with the rapid development of productivity. However, history has proved that in most cases, international trade changes quietly before the theory changes. The international trade environment nowadays is particularly complex, the monopoly of developed countries accounted for most of the profits of most industries in the world, and many of the new industrial countries are in the process of industrialization of trying to get rid of the middle-income trap, the fragility of international trade is beyond imagination, but also the vitality of international trade has been a steady stream. Some protectionism is meant to make world trade fairer when industry is well developed, rather than being held down unilaterally by strong productivity. Therefore, this paper argues that all countries should stick to the open trade policy and encourage a certain degree of freedom of trade protection. For China, based on the current situation of China's economic development, we can only continue to develop our productive forces under the existing international trade order as far as possible, pursue technological innovation, and solve various development problems such as the aging of population in the process of innovative development.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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