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A Note on International Trade Theory

Before "Made in China" evoked images of huge factories, inexpensive labor, and questionable quality, it had an entirely different meaning. For centuries, Europeans had traded with China and other countries in the Far East, hungry for exotic and rare products such as tea, silk, and spices. Ceramic dishes were particularly in demand because of their high value and inimitable quality. European artisans had tried and failed repeatedly to reproduce the thin, durable dishware, succeeding only at the dawn of the Industrial Revolution.

China's current status as the largest merchandise trader in the world,[1] therefore, ought to be viewed as only a single stage in the country's long and storied history of international trade. It only hints at the size and composition of international trade that occurs at the global level today. According to the World Trade Organization, its members imported and exported US$17.3 trillion in merchandise in 2012.[2] International trade—defined as a voluntary exchange of goods and/or services between two countries—accounted for more than 25% of the gross world product.[3]

But why does international trade occur? What explains the importing and exporting of merchandise? This note discusses various international trade theories that have been developed in the disciplines of economics and business. Very simply, an international trade theory attempts to explicate the voluntary exchange of goods and/or services between two countries.

The various trade theories are presented in (somewhat) chronological order, highlighting their fundamental characteristics. The discussion begins with country-based international trade theories that define international trade according to the features of the countries that are trading. It then continues with firm-based international trade theories, which shift the focus from countries to firms, underlining instead the features of an industry instigating international trade. The discussion concludes with a single company-based international trade theory aiming to explicate international trade from a company perspective.

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