

# International Trade Theory: A Comparison Between Three Schools of Thought

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## Abstract

This paper critically compares three different theorisations of trade based on the factoral Heckscher-Ohlin-Samuelson model (Rogowski, 1987), the sectoral Ricardo-Viner model (Hiscox, 2001) and the firm-related New Trade Theory model (Baccini *et al.*, 2017). Indeed, all three papers seek to explain why some interest groups favour trade openness while others prefer protectionism. Respectively, each article explained trade based on the differences in the factor-endowments between various social groups, the domestic factor mobility (which can increase the importance of industrial-sectoral disparities), or the international competitiveness level of individual firms. Although the theorisation backgrounds and the research designs differ between the analysed papers, this article argues that, in the end, these contributions are an integral part of a bigger vision that support researchers in assessing to what extent some interest groups influence policy-making processes in contemporary democracies. Finally, this review noted the significant contribution of the microeconomic New Trade Theory: winners from trade liberalisation are not diffuse as presumed by macro-level analyses but highly concentrated and limited.

**Keywords:** international trade, international political economy, H-O-S model, R-V model, New Trade Theory.

## Introduction

After the first essay by Strange (1970), International Political Economy (IPE) started to analyse the multiple interactions between the global political system and economic capitalism. However, one topic captured the majority of scholarly attention: international trade. Indeed, many theories study the numerous relationships between political variables and global commercial and financial exchanges, especially regarding diverse regime types like democracies and autocracies (e.g., Nielson, 2003; Kono, 2006; Hollyer and Rosendorff, 2012). Moreover, the IPE literature distinguished itself from IR for its capacity to build a cumulative knowledge that can simultaneously implement and modernise preceding theories with new arguments and hypotheses or invent original and innovative models, which replace the former ones, to explain the global economic behaviour as normal sciences typically accomplish (Rickard, 2021). Although all IPE literature shares the general assumption that interests are exogenous and one of the predominant drivers of actors' decisions (Lake, 2009), Bearce (2021) divided the literature on trade policies into three separate scholarships. Indeed, he differentiates assumptions and theories based on factoral differences (Heckscher-Ohlin-Samuelson model), on sectoral-industry disputes (Ricardo-Viner model), or on firm-based characteristics (New Trade Theory).<sup>1</sup> Consequently, this review examines three different articles, one for each school of thought, comparing and evaluating their capacity in explaining trade preferences, globalisation coalitions, and protectionism, i.e., which factor-owning classes, sector-based industries, or individual firms benefit from economic liberalisation, and how they use this comparative advantage to influence policymakers and legislators. For the factoral model, this article will analyse the canonical paper by Rogowski (1987), while, for the sectoral-industry model, it will examine the article by Hiscox (2001), and, finally, it will consider the essay by Baccini *et al.* (2017) for the firm-related model.

## Argument and Research Question of the Papers

All three papers share an argument: international trade. However, they differ in how their hypotheses consider and implement it. Indeed, liberalisation and protectionism are studied either

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<sup>1</sup> Therefore, international trade is a result of different production functions in the R-V model, various relative factor endowments in the H-O model (Schmitz and Helmberger, 1970), or profit from lower production costs and new market opportunities in the firm-level model (Berry, 2010).

as the independent variable (Rogowski, 1987; Baccini *et al.*, 2017) or as the theoretical background in their papers (Hiscox, 2001). For instance, Rogowski (1987) argued that exposure to trade improves the political power and lobbying outcomes of specific political movements or ideologies based on the different factor-endowments (capital, labour, and land) in the country.<sup>2</sup> Indeed, Stolper and Samuelson (1941) theorem revealed that “in any society protection benefits – and liberalization of trade harms – owners of factors in which that society is poorly endowed, relative to the rest of the world, as well as producers who use the scarce factors intensively [...]. Thus, in a society rich in labor but poor in capital, protection would benefit capital and harm labor; and liberalization of trade would benefit labor and harm capital” (Rogowski, 1987, p. 1122). Therefore, social classes alter their relative political power since they can economically gain from exogenous shifts in international trade.<sup>3</sup> For instance, workers benefit from increased commercial relationships when the country is labour-abundant since they principally possess the labour factor. By contrast, protectionism harms and deteriorates their political status and economic wealth. Likewise, Baccini *et al.* (2017) demonstrated that Preferential Trade Agreements (PTAs) favour only the most internationally competitive companies – i.e., the largest and most productive firms since lower international tariffs enhance the profitability of subsidiary enterprises in service abroad. Therefore, free trade policies boost revenues only for leading businesses, broadening the gap with the smaller ones which cannot successfully compete in a new post-PTAs environment with lower prices for manufactured goods and higher production costs (Baccini *et al.*, 2017). Furthermore, this mechanism is not dissimilar to the one unveiled by Rogowski (1987) since they both contend that exogenous shocks in trade only benefit particular social sectors or profitable companies in the system.

By contrast, Hiscox (2001) reasoned that both the factoral-based and the sectoral-based theories have robust explanatory capacities, and they are not contrasting approaches but the outcome of different political-economic environments due to diverse degrees of factor mobility. Indeed, Hiscox (2001) tried to resolve one empirical and theoretical puzzle in his research question: why in certain

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<sup>2</sup> Factors are the inputs necessary for the production system, usually identified by labour, capital, and sometimes land. Therefore, factor endowment is the stock of factors of production possessed by different individuals or countries (Hashimzade *et al.*, 2017).

<sup>3</sup> Indeed, social classes are merely defined and include individuals that share common, well-supplied ownership of one factor relative to the others.

economies do we find class-based cleavages in the attitude toward trade openness, and why in others do we notice industry-based divisions? He found an answer by implementing the domestic factor mobility variable as a mediating variable, where high mobility (H-O-S model)<sup>4</sup> denotes cleavages based on class identification since the gains or losses from factor returns are equally shared by all the owners of it, concluding that same-factor holders disclose identical inclinations over trade (Hiscox, 2001). At the other extreme, with low factor mobility in the economy (R-V model),<sup>5</sup> predispositions over commerce are based on industries because they employ factors with different ratios, improving or damaging their total returns based on their factor consumption in their production techniques (Hiscox, 2001). Likewise, Baccini *et al.* (2017) started their papers by detecting a notable gap in the literature that does not explain “which are the firms that primarily benefit from preferential agreements, or why” (p. 374). Indeed, they considered this omission significant for the IPE improvement and academic expansion, especially regarding the phenomenon of firms’ lobbying (Baccini *et al.*, 2017). Finally, Rogowski (1987) tried to investigate the origins of the diverse cleavages inside countries by providing a new theorisation, corroborated by a detailed historical and empirical analysis, to enrich the comparative politics literature, more thoroughly exposed in its canonical book “Commerce and Coalitions” (Rogowski, 1989).

### Data and Scholarly Position of the Papers

In their attempt to answer their questions, all papers tried to evaluate the robustness of their assumptions in various empirical contexts. Both Rogowski (1987) and Hiscox (2001) implemented a more qualitative research design that used historical data on the enforced policies, trade coalitions, economic developments, and other international and domestic political and economic observations from several countries. Numerous pieces of literature accredited and demonstrated the validity of qualitative research methods in hypothesis testing (Lijphart, 1975; Eckstein, 2009) because they can

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<sup>4</sup> The combination of the Heckscher-Ohlin model, which examines the patterns of trade and its optimisation, and the Stolper-Samuelson model, which analyses the effect of those patterns on price levels and income distribution (Khan, 1970), relies on the assumption that factors are perfectly transferable inside the domestic economy, while immobile in the international system. Indeed, factor mobility is “the ease with which owners of factors of production, particularly labor and capital, can move between industries” (Hwang and Lee, 2014, p. 92).

<sup>5</sup> According to the R-V trade model, industries cannot alter or exchange their factors of production. Therefore, productive inputs are immobile inside the domestic economy (Samuelson, 1971).

highlight, as reliably as quantitative studies, the indispensable conditions necessary to corroborate theories and empirical patterns: logical soundness and empirical consistency (Mearsheimer and Walt, 2013).<sup>6</sup> However, the hypothesis testing process in the two papers is quite different. Indeed, the former gathered a substantial number of empirical facts and measures, both in time and space,<sup>7</sup> collecting information from the 16<sup>th</sup> century until the Cold War in various regions such as Europe, America, and Asia, regarding industrial, demographic, and territorial statistics, despite sometimes being a challenging categorisation (Rogowski, 1987). In a different way, the latter collected more in-depth and detailed data but only from six Western and “developed” countries (namely, the US, the UK, France, Switzerland, Canada, and Australia), creating concerns about the external validity and generalisation of the findings (Hiscox, 2001).<sup>8</sup> Indeed, many researchers argued that small-N qualitative design could generate bias problems in the results, hampering the possibility to replicate the findings in other geographical or temporal contexts (Collier *et al.*, 2004). Instead, Baccini *et al.* (2017) adopted a quantitative approach, using regression analysis over the data of firms and PTAs in the US between 1989 and 2009, which infers greater internal validity to the study, but that creates various concerns over its replicability in different contexts, primarily due to issues in the data-gathering process.

Finally, even though we cannot pinpoint Rogowski in a clear scholarly position since he was one of the pioneers of IPE theory, we can argue that he was a pioneer of a new way of analysing economic models through political lenses and assessing their socio-political repercussions. By contrast, other academics employed Rogowski’s (1987; 1989) findings to investigate and deepen his theorisation or criticise his emphasis on the macro-tendencies rather than the microeconomic firm-

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<sup>6</sup> In reality, the authors described three evaluation methodologies, but this essay summarised them in two. Indeed, they argued for the necessity of logical consistency, covariation of the variables surveyed, and tracking of the causal mechanism involved (Mearsheimer and Walt, 2013). However, this article encapsulated the last two strategies into their common denominator: empirical consistency, i.e., the ability to correctly conceptualise, operationalise, and derive conclusions from the observed phenomena.

<sup>7</sup> Indeed, the theoretical background of Rogowski’s (1987, pp. 1132-33) analysis is the Stolper-Samuelson theorem that “obtains [results] at any margin” and “is generally, almost universally, embraced” indifferently of the country size. However, this article should emphasise that, as noted by the same author, the survey is “still sketchy, [...] serv[ing] principally to suggest directions for further research; it can in no way be described as conclusive” (Rogowski 1987, pp. 1127). For more conclusive findings, see: Rogowski (1989).

<sup>8</sup> The researcher selected those countries because they demonstrated a substantial variation in their factor mobility during the surveyed period and the presence of democratic institutions that allowed the formation of free trade and protectionist political cleavages and coalitions (Hiscox, 2001).

related trends. Indeed, Hiscox (2001) tried to explain why two different explanations, the class-factorial theory of (Rogowski, 1987; 1989) and the group-sectoral theory of Gourevitch (1986), have both convincing empirical support. However, Hiscox (2001) did not favour one hypothesis over the other but instead combined them together in a theorisation in which a third variable decides which one can better explain the empirical studied phenomenon. Conversely, Baccini *et al.* (2017, p. 376) identified and acknowledged the contribution of the macro-literature over political analyses of trade but supported and employed the New Trade Theory based on firm-level studies since “debates over the politics of trade policy are best informed using evidence at the micro level”.

### **Implications for IPE and Conclusion**

Each study has numerous and distinct conclusions and implications for understanding international trade theories and political phenomena. However, their general and applicable findings are not as contrasting as scholars usually contend or predict in their studies. Firstly, Hiscox (2001) emphasised that the “classical” and most-studied variables implemented in IPE literature, such as unionisation, taxation, and redistribution (e.g., Ahlquist *et al.*, 2014; Alessandria *et al.*, 2021), are insufficient or even spurious if not implemented together with the significant economic and political effects that technological innovations generate.<sup>9</sup> Further, different coalitions will gain or lose political influence according to the economic development level at the moment when they are first exposed to trade (Rogowski, 1987). Therefore, various political groupings are influenced and affected by the economic (degree of development) and technological (degree of factor mobility) environments and by the distribution effects of preferential liberalisation (Baccini *et al.*, 2017). Additionally, these conditions can change over time, explaining the fortunes and failures of political movements, like fascism, socialism, and populism, in various democracies. Finally, economic and technological variables are influenced by politics and policies, creating an endogeneity, a circular argument between politics, economy, and technology, as investigated by Wildasin *et al.* (2000). However, all three papers can invaluablely support researchers in their comprehension of which groups and to what extent they influence the policy-making process in contemporary democracies. Additionally, Baccini *et al.* (2017) aided us in unveiling and understanding the dangerous vicious cycle that the

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<sup>9</sup> Indeed, the author demonstrated that technological innovation altered factor mobility levels in the domestic economy and, consequently, the winners and losers of exogenous transformations at the trade level (Hiscox, 2001).

liberalisation process generated, creating significant concerns for policymakers and scholars. Indeed, based on microeconomic analysis, only the most competitive firms gain from preferential liberalisation, thus increasing their political influence and lobbying capability, coercing further preferential liberalisation that additionally broadens the gap with smaller firms that are constrained “to either contract or exit the market – a process known as selection or churn” (Baccini *et al.*, 2017, p. 379).

In conclusion, the research on trade policies and coalitions is vast. Recently, we are witnessing a new focus on the micro-level of this analysis, especially regarding multinational corporations (MNCs). However, this theorisation contrasts with all the previous findings since micro-level explanations argue about highly concentrated winners from trade while macro-theories assert about a diffuse number of winners (especially consumers for the general decrease in the price level). Differently, macro-level analyses interpreted trade as a means for political coalition formation but did not resolve two concerns. Firstly, the general public does not understand or personally experience trade (Kono, 2006). Secondly, trade cannot explain every phenomenon when we ignore the political and electoral institutions, different types of markets (mainly because today there is an oligopoly of the largest MNCs), international factor mobility, and the “irrationality” of human and social behaviour expressed as the cultural and religious beliefs or historical reminiscences (Naoi and Kume, 2011; Head and Spencer, 2017; Gigerenzer, 2018). Despite the differences, all the three analysed papers attempted to explain how trade influences political mobilisation and grouping formation, why countries differ in their political attitudes, and how these changes affect our societies and economies.

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