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INTERNATIONAL TRADE MODELS: TRADITIONAL VS MODERN

The research suggests the comparative analysis of classic trade models and theories against more recent models.

Introduction. Contemporary economics science currently defines two types of international trade models (or theories): classic and modern ones. The purpose of them is to describe the relations between two or more economies or individuals trading in the international scale. If we talk about international trade, it is a process of exchange of goods, service or money between two subjects from different economic environments [1]. The fact they are from different initial conditions has formed a new area of economics called international trade to explore.

<u>Classic models.</u>**<u>The most outstanding classic theories are:</u>**

- Absolute advantage theory
- Comparative advantage theory
- Heckscher-Ohlin Theory (factor-proportion)

1. First model was elaborated by Adam Smith. It is focused on the ability of a country to produce a good more efficiently than another nation. Smith reasoned that trade between countries shouldn't be regulated or restricted by government policy or intervention. He stated that trade should flow naturally according to market forces.

If one country produces one type of goods cheaper and faster than others, so it has an absolute advantage in a quantity of those. Consequently, first country can specialize on producing this good.

2. The theory of comparative advantage has appeared as a logic developed continuance of the AA theory by David Ricardo. The problem is that some economies may have an absolute advantage in several goods, while others do not have any. However, those less developed countries can produce one type of goods more efficiently that other, so they still can have a specialization in industry they are relatively good at.

3. The theories of Smith and Ricardo didn't help countries determine which products would give a country an advantage. Therefore, Eli Heckscher and Bertil Ohlin, focused their attention on how a country could gain comparative advantage by producing products using those factors of production (land, labor, and capital) economy is abundant in. The good produced mostly by highly supplied factor will be exported abroad.

<u>Modern models.</u> **<u>They are mostly focused on industry trade.</u>**

There are more contemporary theories of international trade than traditional, here are the most important ones [2]:

- Linder (country similarity) theory
- Product Life Cycle Theory
- Scale effect theory
- Competitive Advantage Theory

1. Country similarity theory was developed in 1961. S. Linder assumed that countries of the same or similar level of development will have close consumer preferences. So, while going global the product will be sold better in countries with similar macro indexes.

2. Product Life Cycle Theory.

Was developed by Raymond Vernon in 1960s. The theory, originating in the field of marketing, stated that a product life cycle has four stages: new product, growing product, maturing product, decline.

Vernon made efforts to explain the production success of some countries with Life cycle model, stating it a good is originally produced in home country on the early stages and is globally produced on later stages.

3. Scale effect theory.

Paul Krugman and Kelvin Lancaster found out a model of scale effect in 1980s. It was based on the average expense attribute to decrease expenses for every single item while the whole production is increasing. It happens because of specialization growth, manufacturing integrality, technological saving economy.

Thus, the theory of economies of scale is a theory, according to which countries with the same factors availability benefit from foreign trade by specializing in those industries in which economies of scale are met.

4. Competitive Advantage Theory

Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. His theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants that he linked together. The four determinants are local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, local firm characteristics.

Conclusion. Summarizing all above, we can note that traditional theories are dedicated to the international trade as a whole, while modern ones observe mostly industry scale. Nevertheless, there is no any single model able to completely describe the process of international trade from the beginning to the end, but just particular aspects of those.

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