

Trade and imperfections 2009

*A briefing and some recent observations by
Peter Lohmander*

With trade, the total wealth can
improve

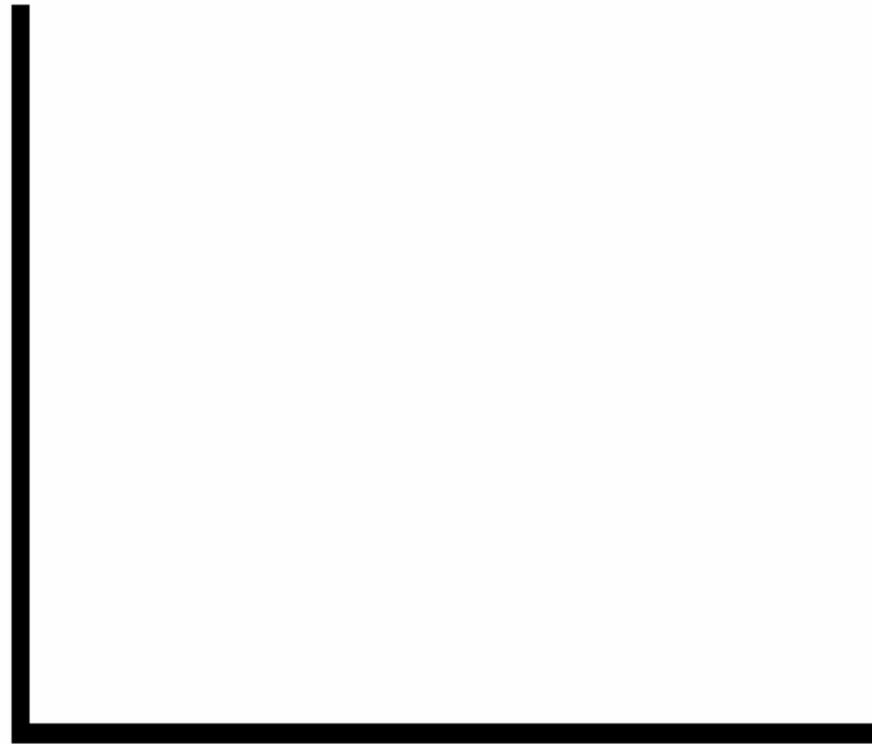


David Ricardo
(18 April 1772
– 11 September
1823)

David Ricardo

- (18 April 1772 – 11 September 1823) was a political economist, often credited with systematizing economics, and was one of the most influential of the classical economists, along with Thomas Malthus and Adam Smith.^[1]
- He was also a member of Parliament, businessman, financier and speculator, who amassed a considerable personal fortune.
- Perhaps the most important of his contributions was the theory of comparative advantage, a fundamental argument in favor of free trade among countries and of specialization among individuals.
- Ricardo argued that there is mutual benefit from trade (or exchange) even if one party (e.g. resource-rich country, highly-skilled artisan) is more productive in every possible area than its trading counterpart (e.g. resource-poor country, unskilled laborer), as long as each concentrates on the activities where it has *relative* productivity advantage.
- http://en.wikipedia.org/wiki/David_Ricardo

Pine timber

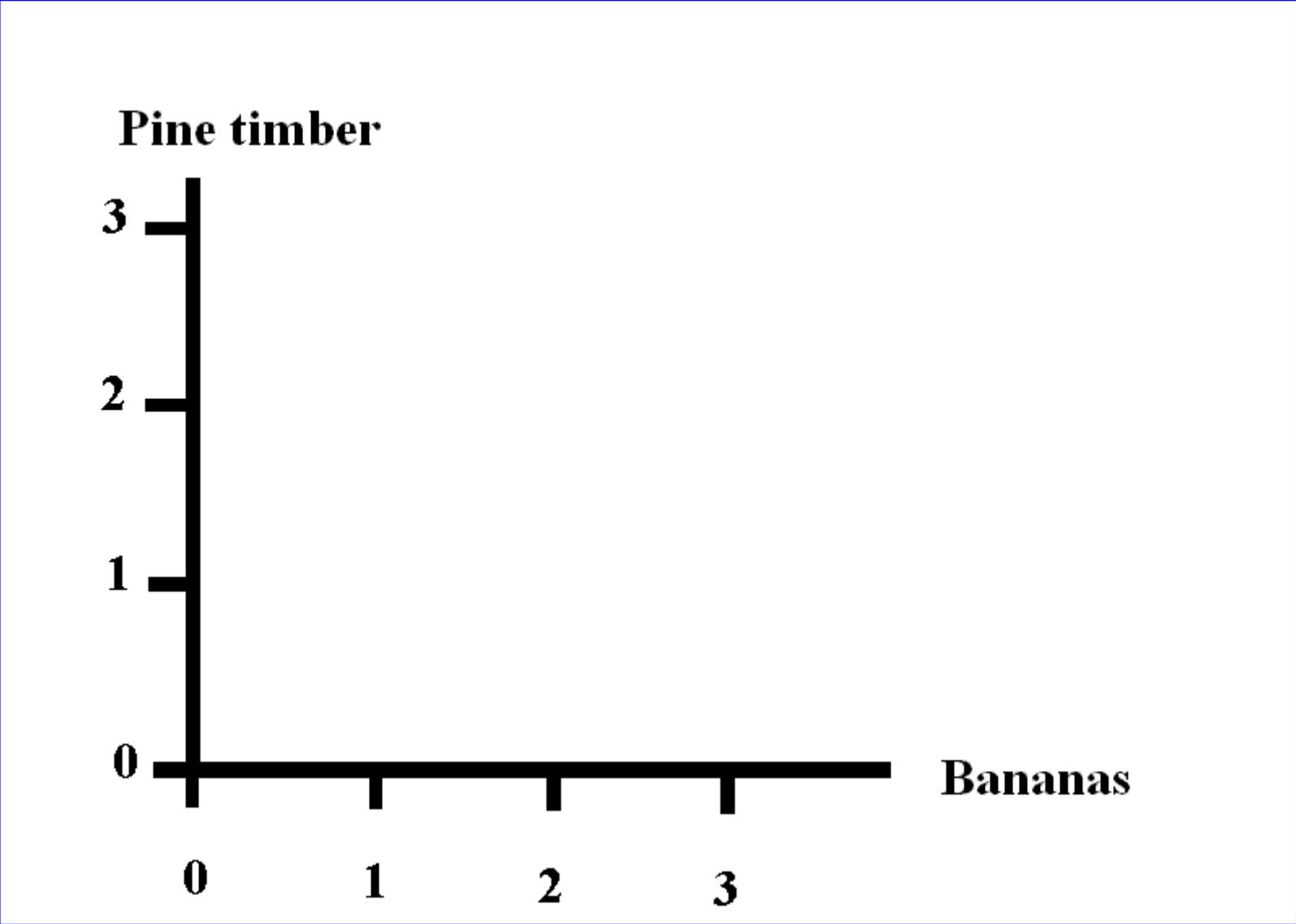


Bananas

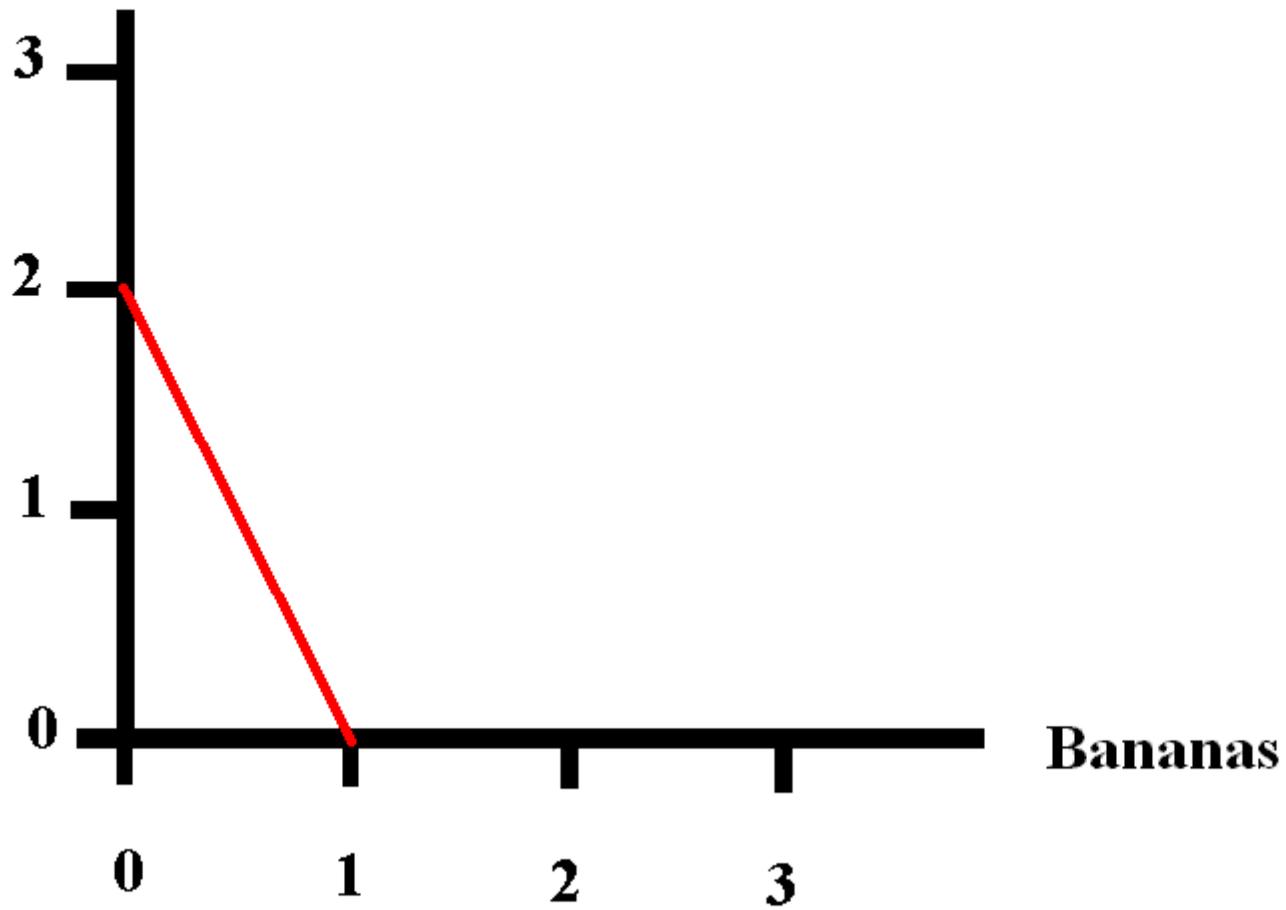
Pine timber

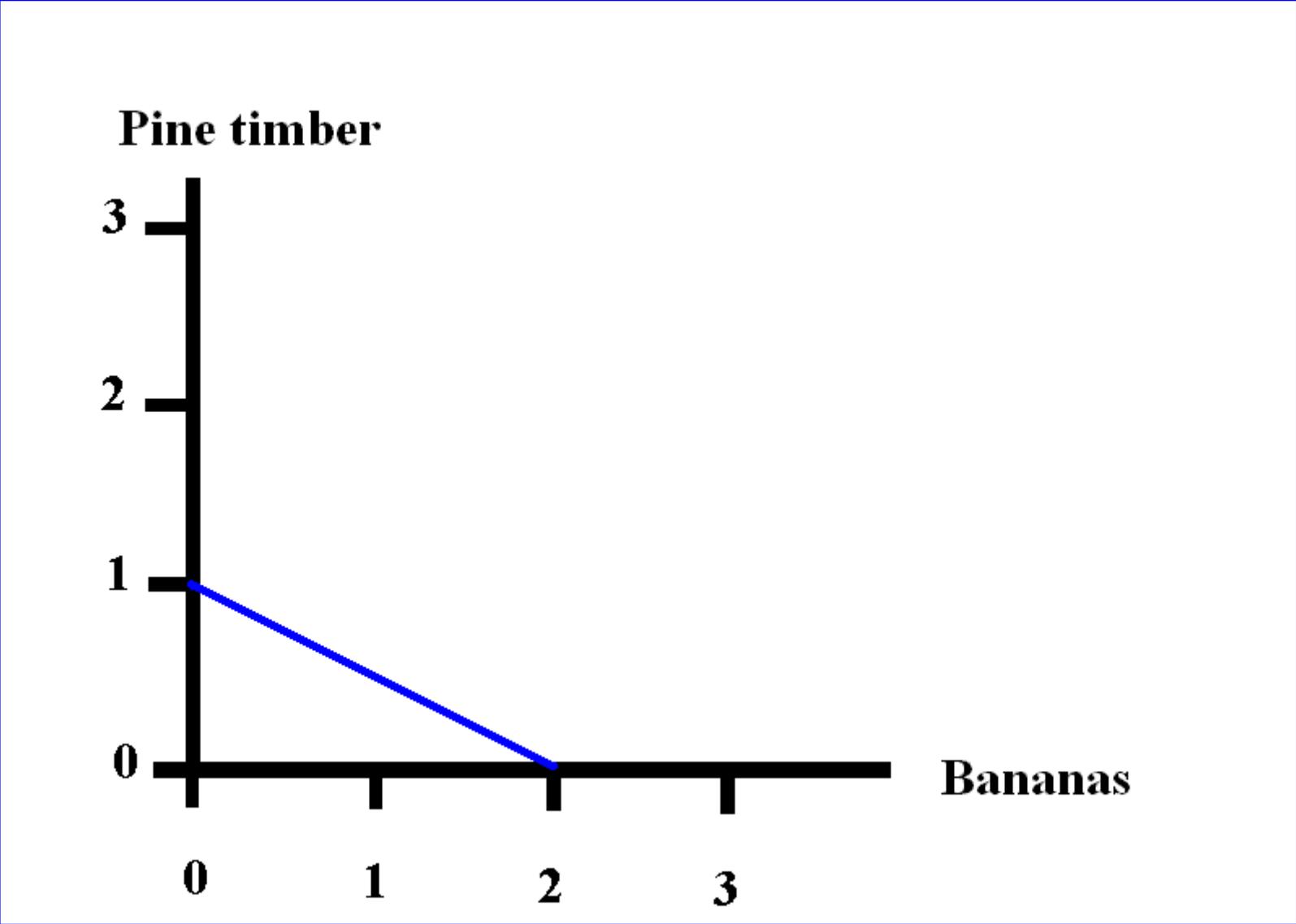


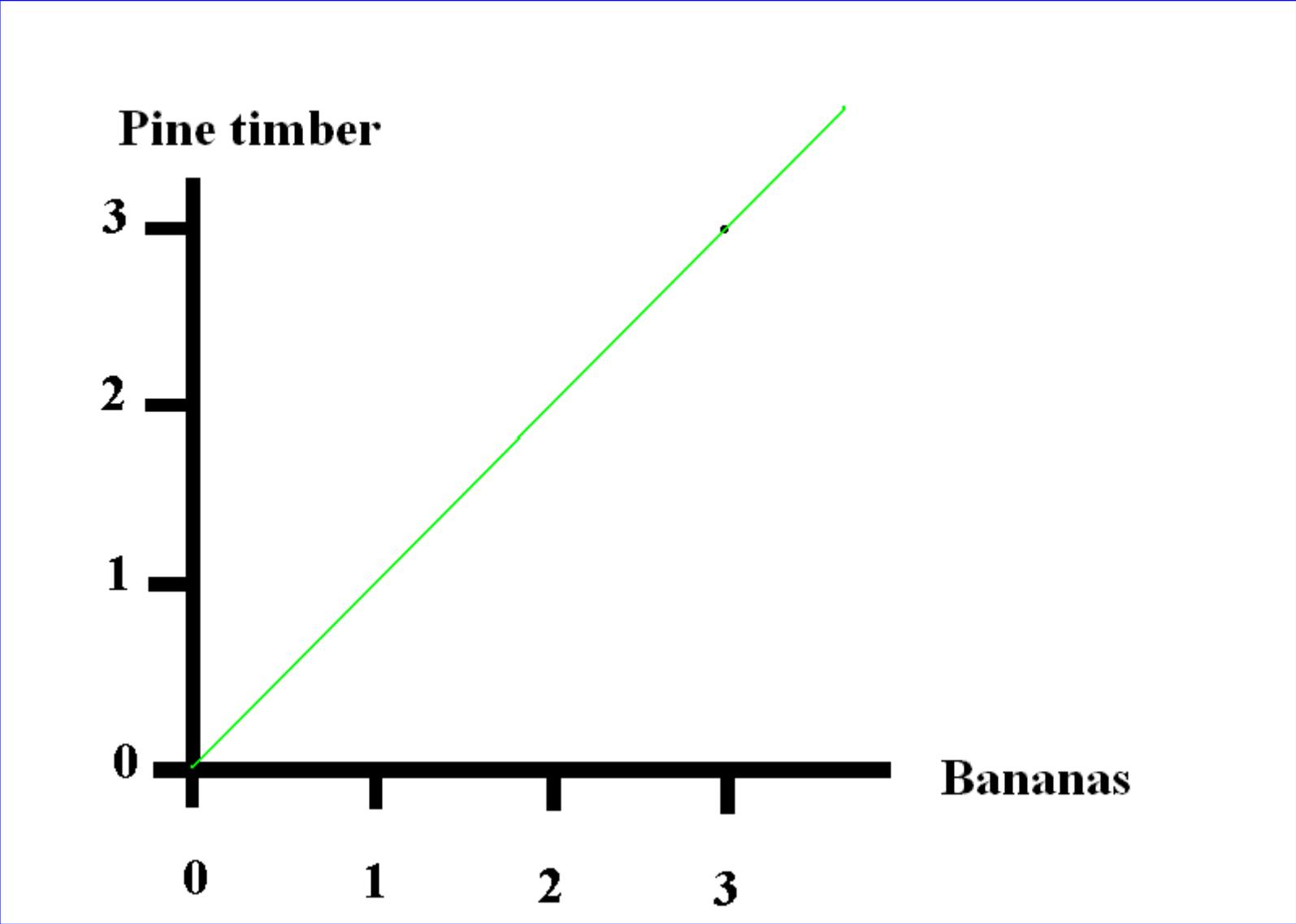
Bananas

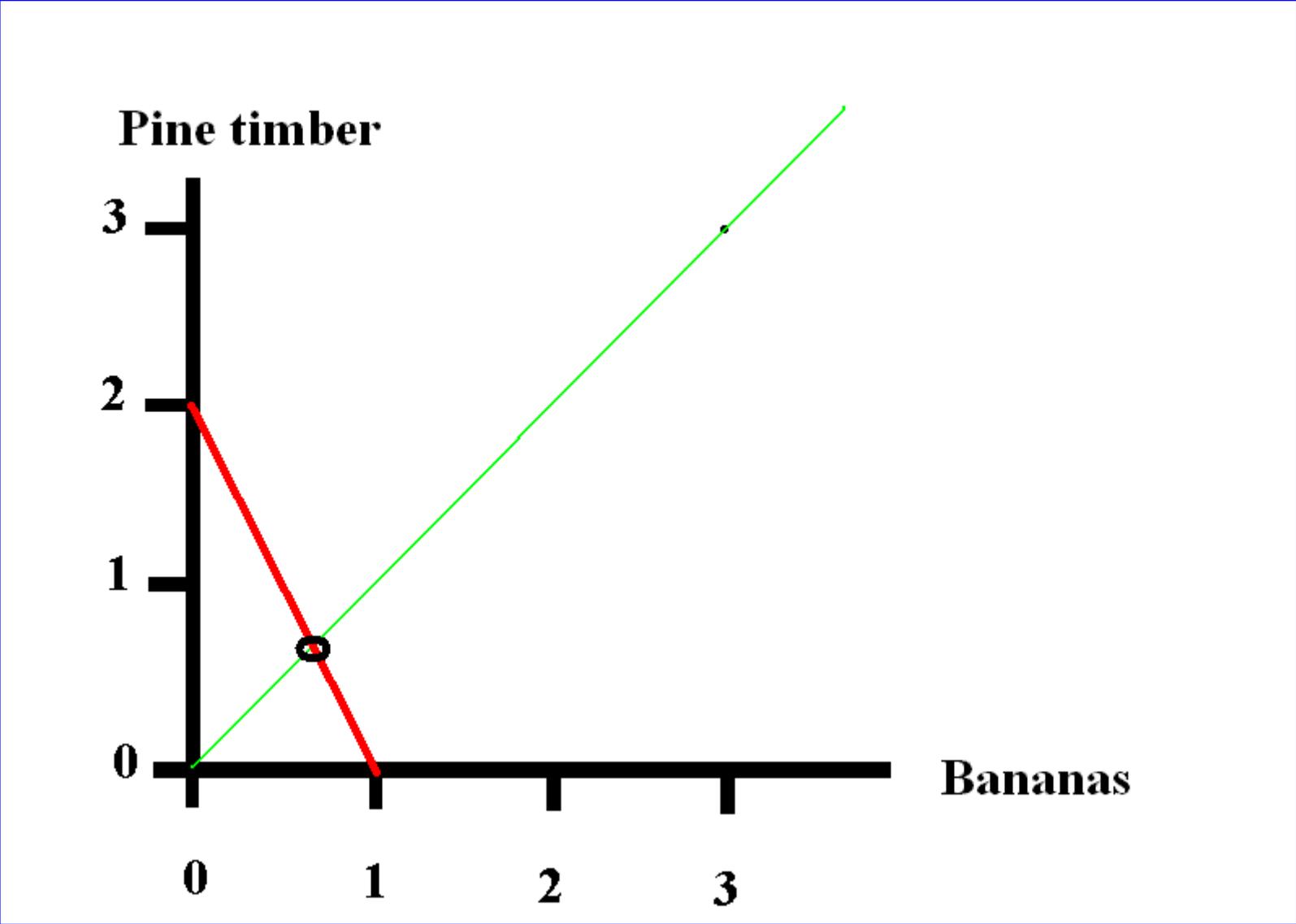


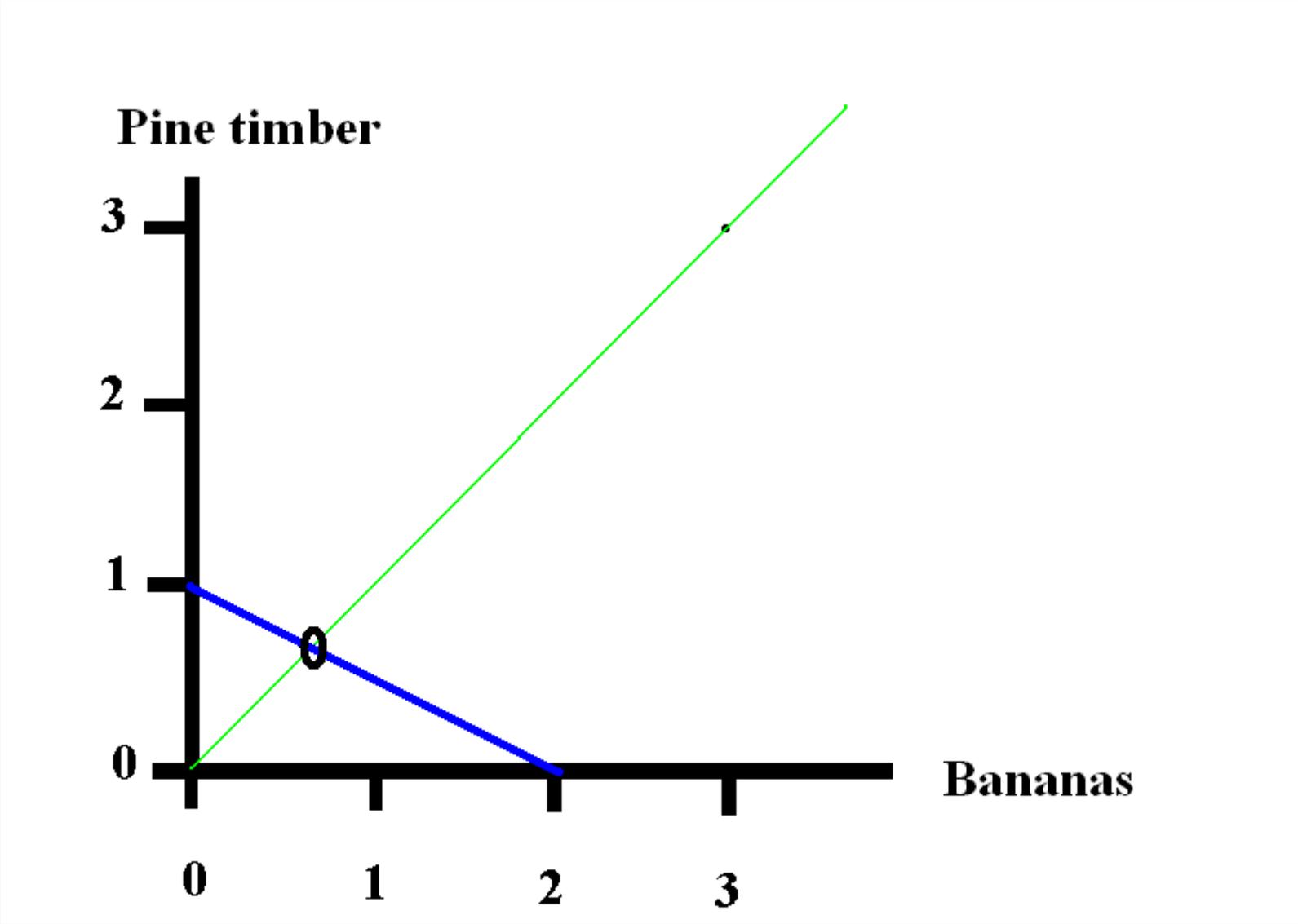
Pine timber

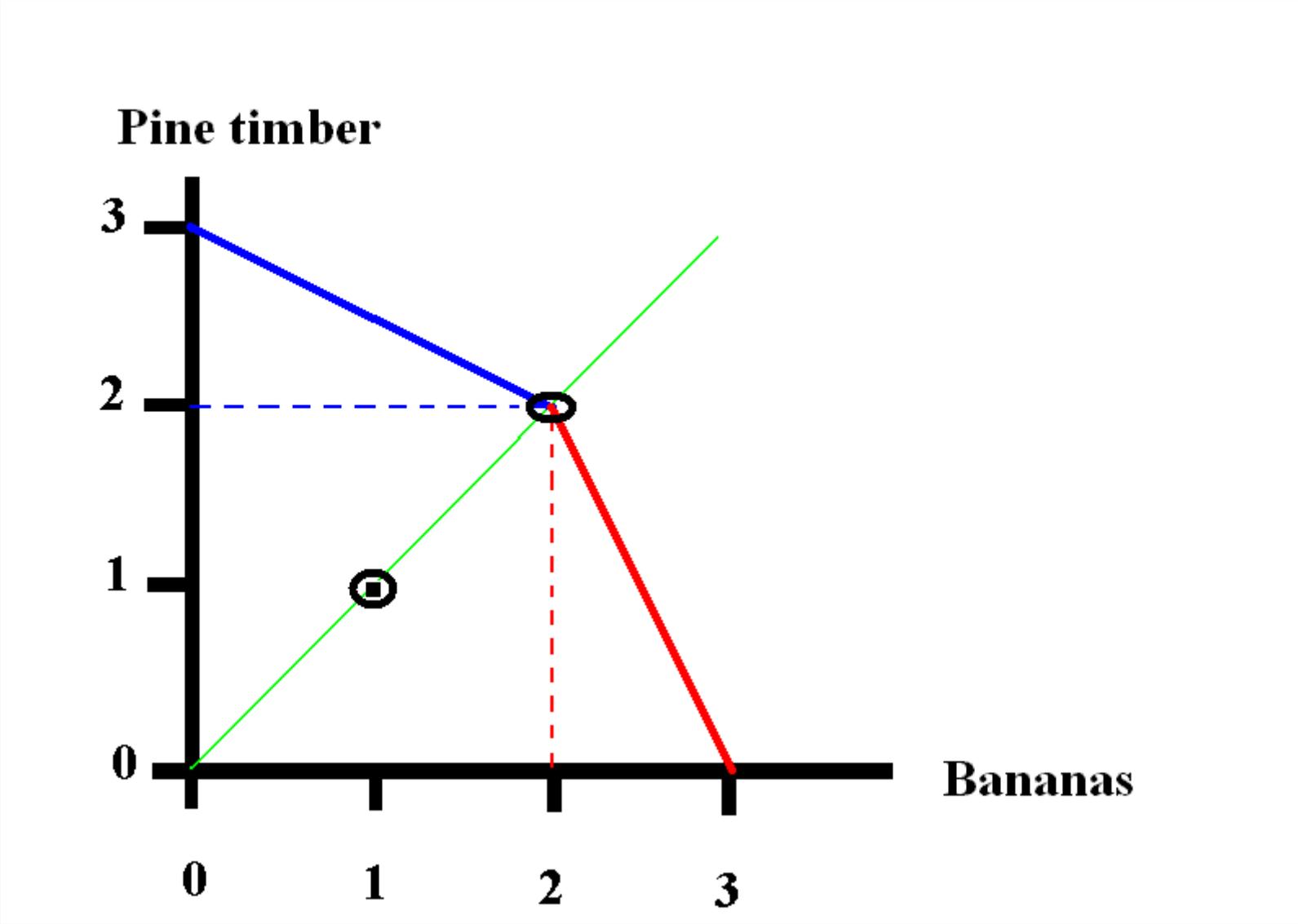


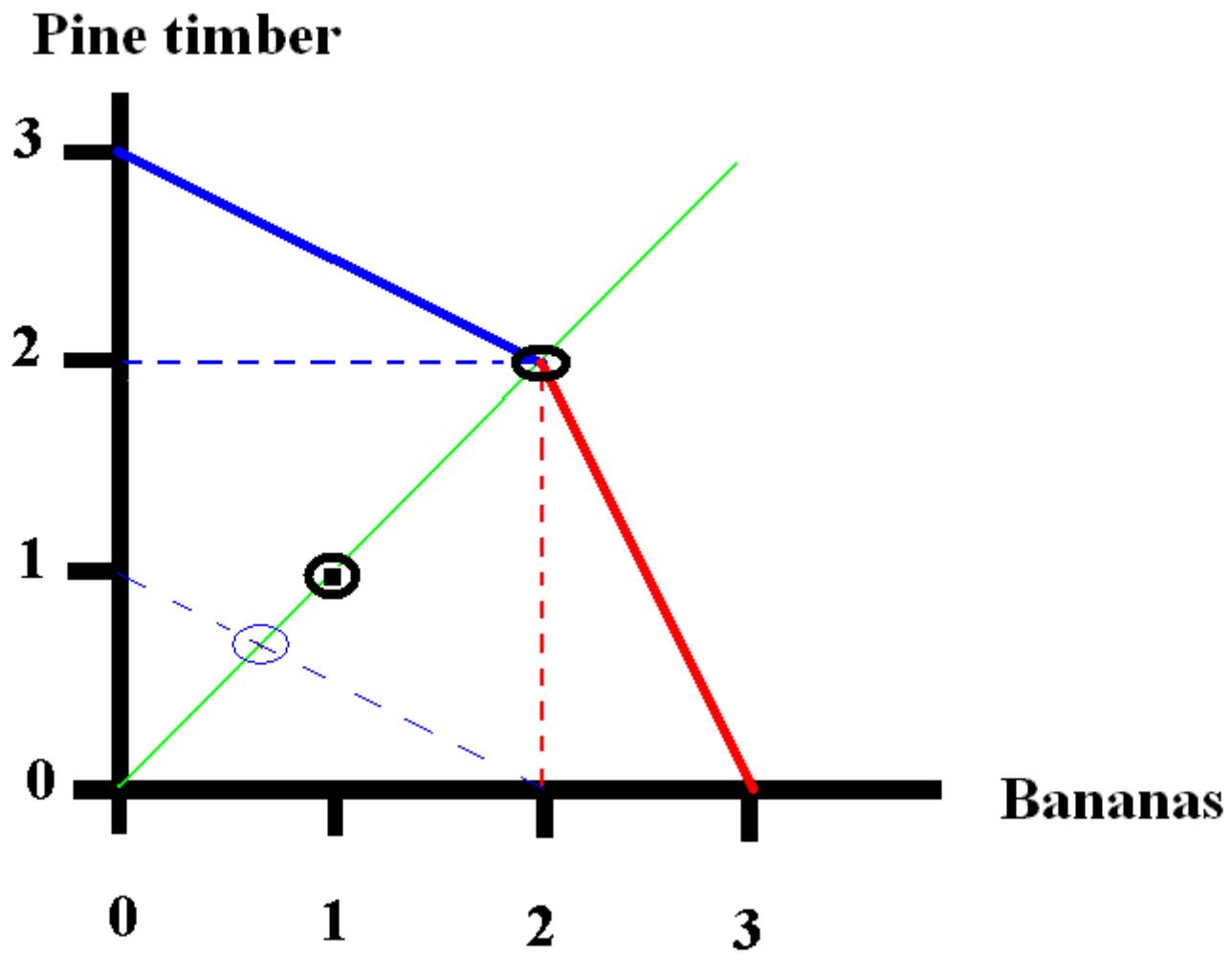




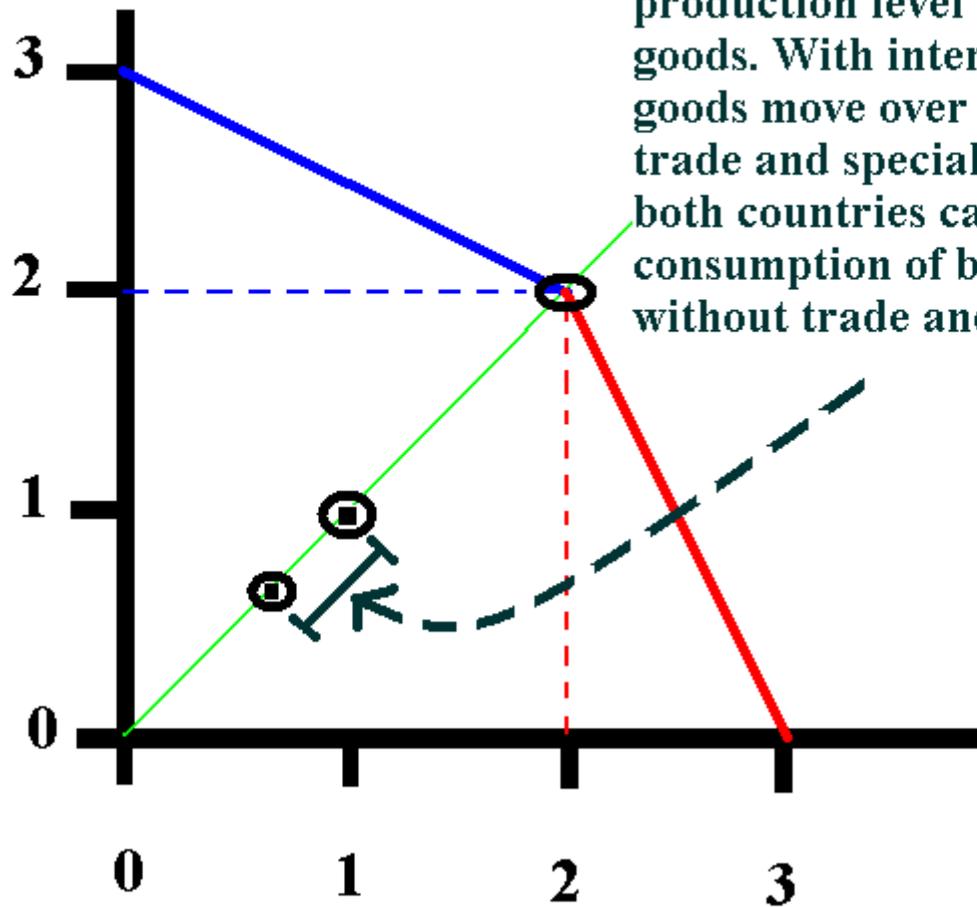








Pine timber



If each country specializes in the production of the good where it has a comparative advantage, the total production level increases of both goods. With international trade, these goods move over the borders. With trade and specialization, the people in both countries can have higher consumption of both goods than without trade and specialization.



Bertil Ohlin

(23 April 1899 – 3 August 1979)

http://en.wikipedia.org/wiki/Bertil_Ohlin

Bertil Ohlin

- was a Swedish economist and politician. He was a professor of economics at the Stockholm School of Economics from 1929 to 1965.
- He was also leader of the People's Party, a social-liberal party which at the time was the largest party in opposition to the governing Social Democratic Party, from 1944 to 1967.
- He served briefly as Minister for Trade from 1944 to 1945 in the Swedish coalition government during World War II.
- Ohlin's name lives on in one of the standard mathematical model of international free trade, the Heckscher-Ohlin model, which he developed together with Eli Heckscher.
- He was jointly awarded the Nobel Memorial Prize in Economic Sciences in 1977 together with the British economist James Meade "for their pathbreaking contribution to the theory of international trade and international capital movements".

The Heckscher-Ohlin Theorem, which is concluded from the Heckscher-Ohlin model of international trade, states:

- trade between countries is in proportion to their relative amounts of capital and labor.
- In countries with an abundance of capital, wage rates tend to be high; therefore, labor-intensive products, e.g. textiles, simple electronics, etc., are more costly to produce internally.
- In contrast, capital-intensive products, e.g. automobiles, chemicals, etc., are relatively less costly to produce internally.
- Countries with large amounts of capital will export capital-intensive products and import labor-intensive products with the proceeds.
- Countries with high amounts of labor will do the reverse.¹⁸

More about trade theory:

Krugman, P.R., Obstfeld, M., International Economics, Theory and Policy, Fifth edition, Addison-Wesley Publishing Company, ISBN 0-321-07727-X, 2000
www.awlonline.com/krugman_obstfeld

What is the WTO?

- The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
- At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.
- The goal is to help producers of goods and services, exporters, and importers conduct their business.
- Location: Geneva, Switzerland
- http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

BBC News
2009-03-28

'This is another nail in coffin of capitalism'

The stream of thousands of people marching through London to protest ahead of the forthcoming G20 summit was an unusual beast.

http://news.bbc.co.uk/2/hi/uk_news/7969932.stm



PUT PEOPLE FIRST: DEMANDS

- Democratic governance of the global economy
- Decent jobs and public services for all
- An end to global poverty and inequality
- Establishment of a green economy

http://news.bbc.co.uk/2/hi/uk_news/7951179.stm



BBC News 2009-04-02

G20 leaders tackle final hurdles

<http://news.bbc.co.uk/2/hi/business/7978171.stm>

Frictions

The Moscow Times » Issue 4114 » Business

IKEA Rethinks Investment

30 March 2009 By The Moscow Times / The Moscow Times

IKEA, the world's biggest home-furnishings retailer, said Saturday that it was reconsidering new investment in Russia and that it would have to lay off 245 employees after months of delays kept it from opening a store in Samara.

The Swedish company has invested more than \$3 billion in the country in the past decade and was planning to add four stores this year to the 11 it already runs. Officials have often delayed the openings of major foreign retailers' outlets, insisting on compliance with various regulations. The Samara opening has been held up since late 2007.

The store and accompanying mega-mall are finished, but IKEA is still waiting for a host of documents permitting them to open, IKEA Russia said in an e-mailed statement. "Since we cannot foresee the end of this process, we are forced to notify the 245 employees of the IKEA store in Samara that the company will no longer be able to continue their employments," IKEA said.

The company's board is "questioning future IKEA investments in Russia due to unpredictability of the administrative processes in some regions," Russia general director Per Kaufmann said in the statement. No one answered the phone Sunday at the number provided in the statement.

<http://www.themoscowtimes.com/article/1009/42/375756.htm>

Observations and comments by Peter Lohmander

- Trade is very important in many ways. With trade and connected exchange and communication, we may also avoid wars and other conflicts.
- Trade and specialization in combination influence production, wealth and the environment all over the world.
- Trade theory describes the principles and effects of trade.
- In the real world, you may find imperfections of different kinds.
- We have to deal with the real world of the future in a rational way. If we are interested in the total wealth and peace, we have to make sure that international trade and other international exchange and communication are OK.