NEW FOREIGN TRADE THEORIES
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Abstract
A new trade theory which is suggested at the end of 1970’s is an important development in international trade area. A main facility of new trade theories have left pure competition and steady returns to scale which was a main assumption in traditional trade theories. New trade theories accepted a main assumption of increasing returns to scale and imperfect market analysis. The main reason of calling “new” is mathematical explanation of foreign trade theories including economies of scale and imperfect market frame has made at the end of 1970’s.

New trade theories bring up a lot of important questions again likewise reason of foreign trade, determination of international specialization tend, profitability of foreign trade, influence of protectionism etc. The answers which are given under the assumptions of increasing returns to scale and imperfect market give a new dimension to foreign trade theories.

In this article factors in the emergence of new trade theory will be explained in chapter I and new foreign theories will be explained in chapter II. In first chapter, traditional theory deficiencies will be explained, and criticism against the assumptions of the traditional theory will be made. Factor that requires a revision of the traditional theory is expressed. In second chapter, monopolistic competition in international trade theory and its concept, assumptions, variables, and mechanism is illustrated. In continue of the article, product cycle theory, preference similarity theory, and its assumption, definition, and classification is made. Technology Gap theory and qualified labor theory are explained. The understanding of these theories is important to perceive the variation between traditional trade theory and new trade theories and this give a new perspective the literature.

Keywords: International Trade, Foreign Trade Theories, Traditional Trade Theories, Trade, Commerce, Economy

Özet
1970’lerin sonunda ortaya çıkma başlayıp yeni ticaret teorileri uluslararası ticaret alanında önemli bir gelişmedir. Yeni ticaret teorilerinin temel özelliği daha önce geleneksel dış ticarette var olan tam rekabet ve ölçüne göre sabit getiri varsayımini terk

Yeni ticaret teorileri bir çok önemli soruyu tekrar gündeme getirmiştir mesela dış ticaretin nedenleri, uluslararası uzmanlaşma eğiliminin belirleyicileri, dış ticaretten elde edilen kazanç, korumacılığın etkileri gibi. Ölçekte göre artan getiri ve eksik rekabet piyasalarının altında verilen cevaplar dış ticarette yeni bir bakış kazandırılmıştır.


**Anahtar Kelimeler:** Uluslararası Ticaret, Dış Ticaret Teorileri, Geleneksel Ticaret, Ticaret, Ekonomi

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**CHAPTER I**

**FACTORS IN THE EMERGENCE OF NEW TRADE THEORY**

1.1 TRADITIONAL THEORY DEFICIENCIES

Traditional trade theory was insufficient to explain trade flows in today's complex world. This deficiency has been demonstrated since the 1970s as: If comparative advantages were decisive, the majority of international trade was realized among the economies of countries that are not similar. Yet it has been just the opposite (Dura, 2000; 2).

Two cases have showed that the theory of comparative advantage does not reflect the objective reality.

The majority of world trade has made between industrialized countries with a similar factor structure since the 1940 (Dura, 2000; 3). In recent years, economists drew attention to the emerging trends in international trade that are unexpected. This trend was the realization of the major foreign trade between factor endowment and demand structure similar countries. Rich countries in terms of labor make trade neither with countries scarce in terms of labor mostly or entirely nor countries rich in natural resources, they just make trade with countries scarce in terms of natural resources. For example, trade between the countries of the old European Free Trade Partnership formed from different countries such as the UK, Norway, Denmark and Ireland is less than trade between the countries in the European Economic Community. We can also give the example of trade between Mexico, the USA and Canada. Labor costs are very high in the US and Canada, while labor costs are lower in Mexico. Nevertheless, trade between the US and Canada are five times more trade between the US and Mexico. In fact, only automobile exports from US to Canada are more than the total exports to Mexico. In addition, most industrialized 12 countries are engaged in 66% trade with each other (Hogendorn, 1979; 237).

Countries as USA, Germany, Britain, France and Italy are both import and export the same products (Dura, 2000; 3). A large
portion of world trade includes both the export and import of the same products. So most of the trade took place in recent years is in the form of intra-industry trade (Hogendorn, 1979; 238). Intra-industry trade is a form of foreign trade based on the import and export of the same industry group but show some differences in terms of brand, appearance, quality and usage characteristics.

Between 1963 and 1984, Japan increased from fifth to first position in world exports as an exporter of manufactured goods. At the same time, the US fell to third place from the first place and UK fell to the eighth place from third place. While newly industrialized countries such as Hong Kong, South Korea and Taiwan had a very low share of exports in 1963, they were among the top 15 exporting countries in 1984. Manufactured goods trade increased faster than any other trade goods. Since 1975, only exports of manufactured goods increased faster than production (Black and Macbean, 1989; l).

After all, there are attempts to understand international trade flows in a broader context. The shortcomings of the Ricardo model have begun to be seen. Classical theory has significantly lost its validity at the end of the 1980s. Traditional trade theory explains only the trade on raw materials, agricultural products and labor-intensive manufactured goods. The trade in manufactured goods cannot explain.

1.2 CRITICISM AGAINST THE ASSUMPTIONS OF THE TRADITIONAL THEORY

The results of observation and implementation have led to controversial case on assumptions of the classical theory. Criticisms directed to this assumption are as (Dura, 2000; 3):

The Assumption of Homogeneity

D Production Functions: Neoclassical trade theory assumes that countries are homogenous in production function. However, production function is not homogeneous; in other words, production function of the country is different from each other. For example, the production function in developing countries must take into consideration the labor and capital as well as natural resources (land). Moreover, human capital and technology differences between countries are concerned.

The Assumption of Substitution of Production Factors: “Production factors may be substituted for each other” assumption is not realistic. From that respect, labor rather than capital is not easily mobile because of the production technologies within their borders is not full motion.

The Assumption of Inactivity International Capital: “Capital is immobile on the international scale” assumption has largely lost its accuracy. Currently, very extensive and effective international capital markets have occurred. Therefore, - especially because of the activities of multinational companies- capital must be regarded as no longer active on an international scale.

The Assumption of Constancy of Factor Intensity: In contrast to the neoclassical approach, factor intensity has changed and reversed. In particular, the reversal of the density factor is quite common in agriculture. This is related with the development level of the country and the price of land and labor. Such as agricultural production compared to the industrial production is more capital-intensive in the USA; whereas it is more labor-intensive in Southeast Asia.

The Assumptions of Perfect Competition: “The excellent work of the market” (perfect competition) assumption of neoclassical theory was rapidly lost strength. “Multinational companies” are in the world markets and they are becoming stronger. Large “economies of scale” is
concerned. Companies apply “differentiation” strategy. Company strategies and government policies affect world trade. There are risks and uncertainties in the markets.

The Assumption of Identity of Demand Structure: Demand structure of the country is not the same. Variations in the demand structure may cause the reversal of trade flows.

1.3 FACTOR THAT REQUIRES A REVISION OF THE TRADITIONAL THEORY

Some economic changes occurring in the international trading system in the 1980s has required a revision of international trade theory. (Hazard and Yoffie, 1994).

Mutual-Dependency and the United States: The first of these changes is increased inter-dependence between countries and the increasing importance of international trade in the United States. Rapid growth in US imports has become a matter of primary importance in the eyes of foreign trade, economic managers and politicians. On the one hand, while many US firms were facing a serious competition in their own countries; on the other hand, the US government saw they could not be considered antitrust and innovation related policies separate from the world economy. In addition, foreign governments were providing some help and support to domestic firms and it has brought the issue of US government’s need to help their own innovative companies.

Dramatic collapse occurred during the Reagan administration in the US foreign trade and continuation of it in the 1980s increased interest in the foreign trade theory. US share of world exports has fluctuated around 11 per cent during the period 1980-1988. In contrast, the share of imports has increased from 13 percent to 16 percent. As a result, while the current account balance sheet was giving a surplus of $ 2 billion in 1980, it has $ 120 billion deficit in 1988. If the international trading system was based on the traditional theory, changes in exchange rate was quickly lowered the US balance of payments deficits. Moreover, experimental observations made in the 1980s showed that a large and expanding part of international trade cannot be explained by comparative advantage.

Changes in Economic Policy: The second case requires a revision of international trade theory was changes in policy. Especially demand for protectionist policies towards creating a regional trade block was increased in Europe and in the United States. For example, the United States and Canada signed a free trade agreement in 1988 to remove all trade barriers between them until 1998. European Union countries have agreed among themselves to remove trade barriers until 1992 at the latest in 1985. Meanwhile, there was an explosion in the demand for protection in US and European markets. Demand was developed in two areas:

1. Advanced industries have continued lobbying for greater protection.
2. Areas as semi-conductors production and telecommunication - Normally free traders - actively began to demand government help.

CHAPTER II
NEW TRADITIONAL THEORIES
2.1 THEORY OF MONOPOLISTIC COMPETITION

P. Krugman’s and E. Helpman articles can be counted as first studies about Monopolistic competition hypothesis (intra-industry trade) (Helpman and others, 1981-1987). Other authors contributed to the theory can be given as H. G. Grubel, P. J. Lloyd, D. Greenaway and G.C. Hufbauer (Dura, 2000: 12).

Clearly inclusion of the imperfect market structure and economies of scale to
foreign trade models have realized by the market as a model of alternative forms due to improvements in industrial organization theory. The relation between development of industrial organization theory and international trade has studied by R. E. Caves (Caves, 1980; 113-117). In parallel, monopolistic competition theory that aims to explain intra-industry trade in differentiated products at the end of 1970 developed independently by K. Lancaster (1975), H. Spence (1976) and Dixit and JE Stiglitz AK (1977).

In fact, economies of scale are taken into account partly in the traditional theory. Ohlin and Matthews combined static economies of scale with standard two goods and two-country model by showing the relationship between increasing returns to scale and offer curve. However, the Heckscher-Ohlin model did not take into account the scale economies by assuming a linear homogeneous production function (Corden, 1992; 31).

Increasing returns to scale as a result of foreign trade is shown in the theory of monopolistic competition (Akkoyunlu, 1996; 75).

2.1.1 MONOPOLISTIC COMPETITION IN INTERNATIONAL TRADE THEORY

Monopolistic Competition Concept

For a better understanding of the new trade theory based on imperfect competition, it is useful to explain the characteristics of monopolistic competition before.

Monopolistic competition models was proposed firstly by American economist Edward Hastings Chamberlin (1889-1967) and British economist Joai Robinson (1903-1983) in 1933 as an independently form. However, nowadays Chamberlin model is widely used. Monopolistic competition theory is different from a fully competitive market in terms of differentiation of goods and the monopoly in terms of its large number of vendors. It is known that there was the assumption of homogeneity of goods in a perfectly competitive market. Single vendor assumption was in the monopoly.

Assumptions of the theory of monopolistic competition are:

- There are a large number of buyers and sellers.
- Market entry is free and free exit from the market.
- Households and other decision makers have complete information.
- Factor fluidity is full.
- A large number of goods produced by companies are differentiated. The main feature of monopolistic competition is the differentiated goods.

Differentiated goods means that the goods produced by a firm are different from the goods produced by other companies in terms of content and / or appearance. These differences will lead each consumer to prefer goods produced by one company to goods produced by other companies. Thus, each company will have a unique group of recipients. If we think on an international scale, goods produced by countries will vary and each country will have unique consumer group. After all, even though the goods produced by countries are the same, they will be different in terms of content and / or appearance and thus, they will be tradable.

The goods are not perfect substitutes but close substitutes, companies and / or countries will have less competitive than the monopole (Ünsal, 1998; 387-388).

Assumptions Of Theory

In theory, the basic assumptions are as follows:

- Full employment is the subject of promise.
- Labor and capital are used as production factors and these are assumed
to be homogeneous. These factors are also accepted that fluid among industries.

- The increasing returns to scale and monopolistic competition is dominant in the industrial sector.
- The industrial sector is not homogeneous. It produces differentiated goods.
- A large part of international trade consists of the buying and selling of differentiated goods.

**Variables Of Theory**

The foreign trade is determined by the differentiated goods and economies of scale according to the theory of monopolistic competition.

As it is well known, companies in the industrial sector mostly work under “increasing returns to scale” conditions. Increasing returns to scale is the situation of the increase in production more than the increase in production factors. The natural result is the emergence of monopolistic competition. In this case, firms tend to produce one or more types of goods instead of producing many different kinds of goods. Thus specialization begins; more efficient technologies are used; economies of scale are utilized. It means that country start to export the types of goods that specialized. Other types of goods are imported from other countries (Dura, 2000; 13).

**Mechanism Of Theory**

In the theory of monopolistic competition, the reason for trade is “increasing returns to scale.” Markus J and J Rauch’s articles can be given as an example for the studies on the increasing returns to scale (Markusen and the Others, 1981-1990).

In case of increasing returns to scale, comparative superiority between countries is losing to be the only reason for trade. Even the tastes and preferences, technological levels and factor endowments of countries are the same, foreign trade can be made due to increasing returns to scale. In case of economies of scale, the advantage of not producing large amounts lead to specialization of countries and trade with each other. Country’s specialization in order to benefit from economies of scale also explains the construction of two-way trade in goods with similar factor intensity which means intra-industry.

There are two reasons for intra-industry trade and increasing returns to scale’s being trade evidence.

Increasing returns to scale’s being cause of foreign trade which is one of the most fundamental issues of monopolistic competition theory and intra-industry trade can be described based on two assumptions. First, there are sectors where the product differentiation in both countries and there is demand for each type of product. The second, increasing returns to scale are a subject in each type of differentiated products. This assumption leads to a monopolistic competitive market structure in the industry where differentiated products manufactured (Akkoynunlu, 1996; 75-79).

There are mainly three models to explain the relationship between the theory of monopolistic competition and international trade. These are Spence-Dixit-Stiglitz model, Lancaster model and Helpman-Krugman model. Lancaster Model and Spence-Dixit-Stiglitz model will be summarized here; Helpman-Krugman model will be discussed in detail in the above. The reason for this is that Helpman-Krugman model explains both inter-industry and intra-industry trade(Dixit and Stiglitz, 1977; 297-308).

**Spence-Dixit-Stiglitz (S-D-S) Model**

Consumers according to Dixit and Stiglitz with Spence like to consume a large number of types of goods. So, all varieties of a commodity are demanded by consumers(Akkoynunlu, 1996; 76). It is assumed that each consumer's utility function is the same in the model. While the total expenses for a property and the price of existing varieties of goods are data, the increasing
diversity of goods increases the overall benefit of consumers.

According to this model, the demand for differentiated goods is mainly caused by the charm of diversity. SDS model is used in Krugman's a lot of work about the theory of international trade in differentiated goods based on monopolistic competitive.

According to Dixit and Stiglitz model, consumer preferences expressed as utility functions of a two-stage. Accordingly, the utility function of the differentiated product,

\[ U_i(.) = u; (xu, xi2, xik) , \]

\( i = \) Number of goods, \( k = \) Type of goods
\( i = 1 ; \quad 1 \) and \( k = 1, N; \) It is shown as a sub-utility function derived from the consumption of goods varieties in the \( i \)'th sector.

All kinds of goods are recognized as symmetrical to the utility function in the model. Product differentiation in the case of defining as consumer choice in Dixit-Stiglitz models is in the shape of producing a variety of products which are not consumer’s utility function.

**Lancaster Model**

In Lancaster model, there are different characteristics of different types of goods and an “ideal property” that is the mix of features most desired by each consumer is available. If consumers can not consume the ideal property which is the closest, they will prefer to consume goods which feature theirs closest.

In Lancaster model, lower utility function of differentiated products is expressed as;

\[ U (x_i, d_i) = X_j / HJ (d_i) \]

\( x_i = \) The amount of types of goods consumed

In Lancaster-type approach, consumers constitute a heterogeneous group because each prefers different specifications goods.

**Helpman-Krugman model**

The Helpman-Krugman model combines monopolistic competition theory with factor endowment theory. Because the comparative advantage as a result of the trade and economies of scale are taken into account together.

This model predicts the two different trade flows. These are “intra-industry trade” and “inter-industry trade”. While intra-industry trade involves the trade of differentiated goods, inter-industry trade may include manufactured goods and foodstuffs. While Intra-industry trade is based on specialization in different types due to the economies of scale in the manufacturing sector, inter-industry trade reflects specialization due to differences in the countries’ factor endowment.

**2.2 PRODUCT CYCLE THEORY**

A. Product cycle theory is a form of generalization of the technology gap theory. According to some authors, it is a form that is applied of Heckscher-Ohlin theory to technological change model. The problem is to explain trade between innovative countries and copycat countries. It was suggested in 1966 by Raymond Vernon.

B. Goods are classified as “old goods” and “new goods”. Countries are divided into two as “innovative country” and “copycat country”. Innovative countries are the industrialized countries suggested that technological innovation and development of new goods, including particularly the USA. The reason for this ability is research and development spending on high level with a highly trained workforce. The following is a critical assumption: While goods are crossing from old goods to new goods, the geographical location of production also changes.
C. Theory takes “time” factor into account. It ties international trade services to cases of technological innovation and explain in two stages:

1. Trading is firstly based on new technology developed in industrialized countries. This technology developed by factors that are abundant in the country.
2. Then, the least developed countries imitate the same goods. It is entered in the standardization process. These countries have a comparative advantage based on relatively cheap labor. Thus, some countries (also innovative countries) is specialized in the production of new goods, some (copycat countries) is specialized in the production of still existing goods (old goods).

D. A new property has periods of the following products;

1. 1st Period: The new innovative goods produced in the country. Production is minor. Products developed gradually. Production is for domestic demand, not exports. The manufacturer has a new technology alone.
2. 2nd Period: The product has matured. While sales to the domestic market, export starts. Accelerated production growth is coming from external demand. The manufacturer continues to have the new technology alone. Production technology and production become standard.
3. 3rd Period: Innovative companies start to sell the new technology’s license to inside and out because of finding it more profitable. Research and Development spending and labor with high engineering skills are no need. Production will shift to other countries (copycat countries). These countries are the countries where factor endowments are favorable to reduce the production costs. Production continues in innovative countries, but export growth slows. Because copycat countries began to take over export markets.

4. 4th Period: While the production continues in innovative countries, exports begin to decline. Production is accelerated in copycat countries, export gradually increases.
5. 5th Period: Innovative country’s domestic demand begins to be met by imports rather than domestic production. Domestic production drops rapidly. Now, technology is spread all over the world. Technology has now become used by all countries. However, innovative country continues to pursue the innovation in other areas, produce new goods and be the first exporter.

E. Products that have the product periods are so many. Here are a few examples: Textiles, radio, television, electronic products, microchips ...

British textile made great superiority on XVIII. century. When standardization techniques began to spread out of the country, production has shifted firstly to USA and later South East Asian countries (Hong Kong, Singapore). These countries as straight labor-rich start to cost textiles much cheaper. When the wages are increased in these countries, textile industry has moved to the new center such as Malaysia, the Philippines and China.

Another classic example is the radio product:

1. American manufacturers were dominated the international radio market in 1945. The source of the rule was “vacuum radio tubes”. The Japanese copy American technology. They seized a major part of the same product market by producing cheap labor.
2. Then USA began to produce radio with transistor technology and regained the lead. Japanese has overtaken the US as the re-copying this technology. Later, USA has become the break-even situation with Japan by finding “the printed circuit technique”.
2.3 PREFERENCE SIMILARITY THEORY

Preference similarity theory was suggested in 1961 by Staffan Linder Burenstam (Burenstam, 1961). Linder is one of the first economists who added the phenomenon of demand for foreign trade pattern. According to Linder, while factor endowments of countries were playing an important role in determining the trade of primary goods, demand structure of the country play a more active role in the trade of manufactured goods.

Linder tried to explain the trade in manufactured goods with preferences. This theory shows significant differences from the Heckscher-Ohlin theory. While the Heckscher-Ohlin theory is fully supply-side because of focusing on the factor endowments and the factor intensity, the preference similarity theory is completely demand-side. Linder believes that Heckscher-Ohlin theory is sufficient to explain the trade of primary goods, but not sufficient trade in manufactured goods (Appleyard and Field, 1992; 226).

Preference similarity theory explains especially the trade of inhomogeneous, economies of scale and pleasures of important industrial products.

Research and observations made after World War II are revealed that the international trade is in the direction of exchange of manufactured goods. Linder has constructed the theory on the lack of public disclosure of the international trade. Linder’s handling the income distribution and per capita income levels are due to become effective if it is supported by the tastes and preferences of purchasing power. Demand for industrial goods will be effective demand only when supported by income (Appleyard and Field, 1992; 227).

Preference similarity theory (hypothesis) is given the names of “The theory of income” and “demands of conflict hypothesis”. The reason for calling this theory as “the theory of income” and “demand of conflict hypothesis” is because of the demand’s being function of per capita income. Because, countries with similar levels of per capita income, demand structure will also be similar when demand depends on per person income. Thus, countries will demand almost the same products.

2.3.1 THE ASSUMPTIONS OF THEORY

- Countries with similar income levels have similar tastes.
- Products are differentiated.
- Increasing returns to scale is a subject.

2.3.2 DEFINITION AND CLASSIFICATION OF THEORY

It is wise to give a description of the two concepts: Similar preferences and representational demand.

Similar preferences: It refers the existence of consumers who want to buy the product from a particular product exporter country and another comparable country.

The consumers of country are divided into two parts as “majority” and “minority” according to the similarity in preferences. Minorities are people layer living within the country’s borders who are the very rich or very poor and majorities are outside of them.

Representational demand: It is a commodity that should be demand in the domestic market for being potentially exported goods (Yılmaz, 1992; 178). For example, although there is a demand for Ferrari, Rolls and Cadillac in Saudi Arabia, this demand is not a representational demand. Therefore, the luxury cars cannot be potential exported goods to Saudi Arabia (Gandolfo, 1998; 237).
2.3.3 THE VARIABLES OF THEORY
Explanatory variables are demand conditions rather than the production costs. Demand conditions mean the similarity of tastes and preferences between the countries. The main factor that determines the tastes and preferences is relative income levels (Dura, 2000; 10).

2.3.4 MECHANISMS OF THEORY
The reason of trade between the countries is not different factors equipment; they are similar in terms of per capita income and demand. Theory explanation of the mechanism is as follows: Trade of industrial products is concentrated among countries with similar preferences and income levels. More alive trade relations are established in countries with similar tastes. In other words, how much the countries are close to each other in terms of per capita income and income distribution, namely demand structure; trade between them will be that intense. In short, the trade is because of country’s dependent demand (Carbaugh, 1991; 19).

Trade in manufactured goods develops very quickly among advanced industrial countries. Linder’s theory can explain better the world trade today because of that reason. Linder also shows the geographical proximity and cultural similarity among the factors that increase trade between the countries. Exports of products that meet domestic preferences to countries with similar cultures will be easy (Carbaugh, 1991; 21).

Linder argued that Barrier Law which is applied to foodstuffs was not being applied because of diversification of foodstuff. As it is known, according to Barrier Law, the share allocated to food decreases with higher income. However, wide variety of foodstuffs is a subject here; their share has not decreased by increasing income. For example, when there is a certain level of demand for potatoes, launching of its diversification as chips will increase the demand for potatoes. Although demand for capital goods initially appears disconnected with revenue, rich countries in terms of capital goods also have a higher income. So, there is a linear relationship with the stock of capital goods and income level.

2.4 TECHNOLOGY GAP THEORY
A. The theory is opposed to the assumption about Heckscher-Ohlin model of “technology”. These assumptions are as follows: All trade countries freely reach the same production techniques. There is no obstacle to use them. Assumption is not realistic in terms of many industries. Most companies keep the production technology. There are legal support as patents, industrial and intellectual property rights legislation. According to some authors, the technology gap theory is Heckscher-Ohlin theory’s application in the form of technological change models. It has been suggested by M.V. Posner in 1961.

B. The theory assumes that technical information cannot be achieved instantly by each country. It creates a concept as the propagation time of innovation. The definition is as follows: It is the time between finding a new property in a country (innovation) and imitation of this good by other countries. This time is connected to the four variables: External response delay, domestic response delay, learning time and request delay. The first three variables constitute the total copycat delay. The difference between “total copycat delay” and “request delay” is called as “distinct copycat delay”.

C. Theory takes “time” factor into account. International trade is explained by the technological gap concept. It is suggested that there is an innovation processes taking place in a certain time period on the
basis of international trade. Description mechanism is as follows: An industrialized country which finds a new product and produces is the monopoly and the first exporter of this product. However, new technology, after a while, passes into the hands of other countries through imitation. These countries can produce these products cheaper with the reasons as the abundance of natural resources or cheap labor. So, this product began to be exported by less developed countries other than the first country. Therefore, the first country becomes the importer of the same product because of not competing anymore. If the “total copy-cat delay” is small than “request delay”, there is no trade.

D. Supporting evidence of technology gap theory include:

- The UK as the world’s largest textile exporter in the past became the importer of textiles today. Britain’s manufacturing started to decrease after the least developed countries’ textile production.

- Most new commodity production technologies in practice are being developed in the advanced industrial countries. But a short time later, other countries are able to move into mass production of these goods. In addition to textiles; electronics, chemicals, iron and steel can be given as samples.

- USA is the world’s most advanced countries in terms of technology. Hence, it is exported many high-tech products. However, after a short delay, other countries will get these new technologies. They seize world market, and even the US market particularly based on the advantage of cheap labor. However, the US continues the process of finding new technologies without interruption.

- The United States has half of the world of research and development personnel (51% in 1980). The rate is much higher than in other industrialized countries (for example, 9% in the UK). These data is confirmatory of the theory: US comparative advantage is especially in products containing advanced technology.

- Technological gap theory has been tested especially on the US economy many times. Studies have revealed that: There is a high correlation between the amount of net exports of an industry and research and development investments in that industry. Theory has been generalized by Vernon. This enhanced form is known as “product era theory” (Gandolfo, 1998; 238).

2.5 QUALIFIED LABOUR THEORY

A. The problem with the theory is to explain the comparative advantages among industrialized countries. It was suggested by such authors as Irving Kravis, Keesing, Kennan and Leontief.

B. Explanatory variables are the factors of human capital and skilled labor. In other words, they are labor qualifications difference. According to the theory, the cause of most of the foreign trade between industrialized countries is the qualified labor differences between the countries. A country that is rich in certain skilled workforce specialized in the production of goods that are connected to these factors and make the trade of them. Two approaches were used to examine the decisive role of foreign trade in labor quality differences. In the first approach, import and export content was measured and compared. In the second approach, proportionate share of physical capital, lean workforce and human capital inputs are determined in the goods subject to import and export.

C. The theory has tested by Keesing in the USA. The conclusion of Keesing reached in the first study is that: USA has a comparative advantage in the most intensive use of skilled labor industries. In the US exported products, skilled labor content
is higher than the capital content. He had the following results in the second study: Three industrialized countries (US, UK and Germany) are exporting goods including skilled labor and correspondingly import goods including simple labor. The results of the two studies can be summarized as follows: US and other industrialized countries are exporting labor-intensive goods compared to the products they import. However, this workforce is a skilled workforce. The theory also adopted the second approach has been particularly tested in the US and Germany economies. These studies have also got the following results (Carbaugh, 1991; 23):
1. The United States exports are human capital-intensive compared to import.
2. Germany’s imported goods are more capital intensive than their exports. Human capital-intensity of exports is higher.

CONCLUSION
A new foreign trade theory is important radical change in trade theories which is suggested in 1970’s. A main reason of this change is leaving the assumptions of perfect market and constant returns to scale. Alternatively, increasing returns to scale and imperfect market model is putting up, a lot of empirical fact is explained especially which is not possible to explain in tradition trade theories likewise intra industrial trade. Although new trade theories can’t explain all international trade, it supplies to deficiency of traditional trade theories.

After Second World War, especially with free trade, industrial countries which have similar factor endowment have increased intra industrial trade. Factor endowment theory has given paradox result which support new foreign trade theories after 1960’s.

Globalization of international trade condition involves hundreds of countries, and ten thousands of goods and services. Thus, explanation of international trade with one theory is not possible, and each theory explains specific group goods. Accordingly, factor endowment theory explains intra industrial trade of standard goods between different countries which have different endowments. Then new trade theories explain intra industrial trade of discriminating goods between similar countries. Therefore, new foreign trade theories are complement qualification of traditional trade theories.

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