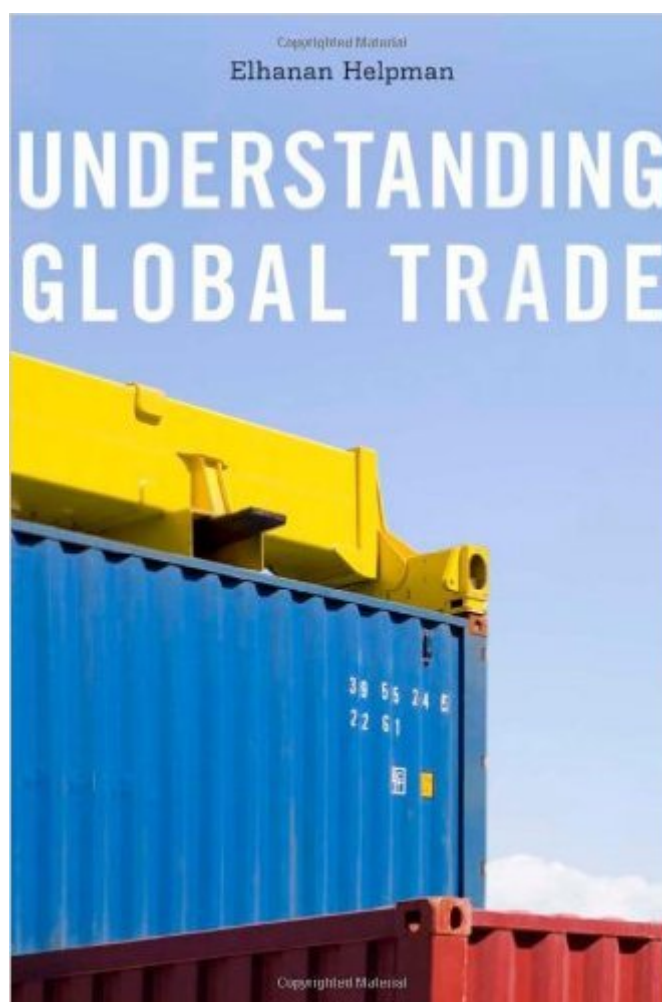


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# Understanding Global Trade



## Synopsis

Global trade is of vital interest to citizens as well as policymakers, yet it is widely misunderstood. This compact exposition of the market forces underlying international commerce addresses both of these concerned groups, as well as the needs of students and scholars. Although it contains no equations, it is almost mathematical in its elegance, precision, and power of expression. Understanding Global Trade provides a thorough explanation of what shapes the international organization of production and distribution and the resulting trade flows. It reviews the evolution of knowledge in this field from Adam Smith to today as a process of theoretical modeling, accumulation of new empirical data, and then revision of analytical frameworks in response to evidence and changing circumstances. It explains the sources of comparative advantage and how they lead countries to specialize in making products which they then sell to other countries. While foreign trade contributes to the overall welfare of a nation, it also creates winners and losers, and Helpman describes mechanisms through which trade affects a country's income distribution. The book provides a clear and original account of the revolutions in trade theory of the 1980s and the most recent decade. It shows how scholars shifted the analysis of trade flows from the sectoral level to the business-firm level, to elucidate the growing roles of multinational corporations, offshoring, and outsourcing in the international division of labor. Helpman's explanation of the latest research findings is essential for an understanding of world affairs.

## Book Information

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## Customer Reviews

Buy this book if you are interested in the latest economic trade theories coming out of academia. This may be because you are a student wishing to improve your competence, or you are someone who is really into economics and international trade issues. But be cautious in buying this book if you are just an interested citizen, perhaps coming to this subject through an interest in the moral, inequality or world poverty dimensions of the subject. Perhaps the title "Understanding Global Trade" could be misleading in implying it is a suitable introduction for the complete novice, when in fact perhaps a more suitable title should be "Understanding the Progress Being Made in the Academic Theories of Global Trade". The premise and tone of this book I would say are firmly within the pro free trade economic establishment, as there is little mention of any contention or dissatisfaction with the status quo. The book deals in the objective empirical questions of why global trade patterns form in a certain way, and not in the more reflective or moral questions of where these patterns are leading different countries, which are the questions which appeal more to me and perhaps also the general interest reader. The first part of the book deals with the fundamental and essential foundation principle of comparative advantage, which in my view everyone should be taught at school. But if you are not already hot on this subject perhaps a standard textbook would be more appropriate. As an example of its content, the later part of the book deals in detail with summarising the academic progress made in understanding and predicting when and where international production patterns involve offshoring through owned foreign subsidiaries or outsourcing to independent firms.

Elhanan Helpman, Harvard professor of international trade, is definitely among the foremost economists of his generation. In a mostly non-technical language, the present book reviews the evolution of trade theory from Adam Smith to the most recent decade. In particular, Helpman provides a clear account of the ground-breaking developments of the 1980s and most recent approaches that explain today's world of trade - of why some firms become multinationals and others remain firmly local. Many readers will welcome that the book, which targets a broad audience, is equation-free. While there is indeed no maths, I have, however, my doubts whether readers without the necessary technical background will really find it accessible. "Hicks-neutral TFP differences" or "melting iceberg trade frictions" are not exactly self-explanatory notions. The selection of topics is, as Helpman admits, somewhat biased and reflects his personal research interests. A lot of emphasis is put on "pure" trade theory (including the extensions and ramifications of the classical and neoclassical approaches), as well as the impact of trade on income distribution and labour markets. There is much less coverage of policy issues or the political economy of protectionism.

Although there is a long chapter on classical trade theory, Paul Samuelson's 2004 article on potential drawbacks of globalization in a Ricardian model, as well as the subsequent debate, is surprisingly missing. Equally astonishing, not a single piece of work by Dani Rodrik, trade and development specialist at Harvard, is quoted. On the other hand, the book's simplified presentation of the Melitz model on trade with heterogeneous firms, rather hard stuff in its original version, is just brilliant.

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