

International Trade Theory of Hyper-Globalization and Hyper-Information Flow Conceived

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Abstract

A new trade theory, “International Trade Theory of Hyper-Globalization and Hyper-Information Flow,” has been proffered in this paper, which elaborates on the vast globalization concept and the vast information flow that exist today. Many international trade theories that are known today were developed many years ago, and newer ones are more relevant in today’s era of globalization in unprecedented information flow. How was this new theory conceived? Beginning with the barter system of trade, which was around for thousands of years, this paper briefly describes the theory of mercantilism through the theory of national advantage, but then discusses the “paradigm shifters”: A) “Fall of Communism” and the B) “Birth of the Internet,” to which the birth of a new international trade theory is conceived: “International Trade Theory of Hyper-Globalization and Hyper-Information Flow.”

Keywords: mercantilism, absolute advantage, comparative advantage, Heckscher-Ohlin theory, Leontief paradox, product life cycle theory, new trade theory, Porter’s diamond of national advantage, hyper-globalization, hyper-information flow

Introduction

Since the 1990s, with the “Fall of the Soviet Union” (i.e., communism) and “Birth of the Internet,” we have lived with ever-growing globalization and with ever-increasing speed at which we must absorb (take in), digest, regurgitate, and promulgate information, which is rarely tested or fully analyzed and considered. Some people do this well, and advance; some do not. Thus, the world is not only flat (Friedman 2005) and shrinking due to globalization and significant information flow. For instance, in the aftermath of the 9-11 tragedy, details emerged which when studied were available before the 9-11 event on the Internet, but the Internet was too “crowded” with other “noise” (i.e., over-information flow) the information was never discovered. Sometimes the effects of this information flow and globalization are very positive (e.g., emerging democracies, emerging economies (e.g., BRIC countries) and sometimes the effects are very negative (e.g., offshoots of the Arab Spring, ISIS).

Throughout the course of modern history, there have been ever changing theories regarding trade between countries. International trade in particular, has been the subject of much controversy regarding the potential benefits and detriments that may come along with certain practices. This paper will present how a new trade theory was conceived and furthered, by briefly analyzing the evolution of trade theory beginning with the mid-1500s and mercantilism, progressing through the 20th Century trade theories. The proposed new theory of international trade for the 21st century is called: “International Trade Theory of Hyper-Globalization and Hyper-Information Flow.”

Many trade theories exist today that were developed many years ago, and newer ones are more relevant in today’s era of globalization. Beginning with the barter system of trade, which was around for thousands of years, this paper begins with the theory of mercantilism. The trade theories covered herein are as follows:

- Mercantilism
- Absolute Advantage
- Comparative Advantage
- Heckscher-Ohlin Theory (with Leontief Paradox)
- Product Life Cycle Theory
- New Trade Theory
- National Advantage (Porter’s Diamond)

Each of these trade theories have pros and cons, rights and wrongs, benefits and costs, which can only be displayed when looked at over the last four- to five-hundred years. It is now the 21st century, and hence another trade theory is proposed to help explain the how and why nations trade, or maybe: How and why trading blocs trade? In either case the new trade theory proposed here is called: “International Trade Theory of Hyper-Globalization and Hyper-Information Flow.” However, first this paper will explain the theories which explained international trade up until now.

All of the above theories of international trade have contributed over time to the knowledge of international trade. None were all right and none were (are) all wrong. These theories were all conceived at different points in time when trade was developing and undergoing different attributes. The theories were right for the their time, though, obviously, when we look now, may have to be tweaked or replaced by new theories as we learn more about international trade and its standing in the 21st century.

The “International Trade Theory of Hyper-Globalization and Hyper-Information Flow,” which is conceptualized in this paper, is hereby proposed for study and consideration. This new theory, which must be fleshed-out with hypotheses which could be empirically tested, is hopefully a step in looking at globalism, globalization, new technology, information flow, and other external environmental factors that are prominent today. Surely, there will be more theories as time evolves, and countries either integrate (or segregate) the things which are traded, for better or worse.

Past Theories of International Trade

Mercantilism

Mercantilism began in the 1500s and lasted as a popular theory, until the late 1700s. Mercantilism was a theory whose main focus was to push for more exports and to limit imports. The purpose of mercantilism was to create a “wealthy and powerful state” (Czinkota, et al. 2009; Hill 2012). The logic behind this theory, although flawed, stated there was no such thing as a win-win solution. Trade was a “zero sum game,” where one country’s gain must result in the other country’s loss

(Hill). This theory caused governments especially in Western Europe, to create policies that would strive to increase capital and business strength.

Absolute Advantage (“The Wealth of Nations”)

Adam Smith’s “The Wealth of Nations” was published in 1776 and from that point on mercantilism began to slowly fade into obscurity among developed countries. The new theory of absolute advantage was proposed in this work. Adam Smith’s “The Wealth of Nations” helped lead to the end of mercantilism and the start of a new trade era. In this publication, Smith writes on a variety of topics starting with the division of labor and continuing through to his ideal role of government. Smith outlined many ideas that would help change cultural and economic norms, and lead to a new way of conducting both international and domestic business.

What was perhaps most important to economic theory, in “The Wealth of Nations” was the idea of absolute advantage. This idea was unique and revolutionized economic thinking. Smith stated that countries should produce any good that they can make more efficiently than any other country. This concept is based on the idea that different countries have different strengths and weaknesses when it comes to the production of goods (Morgan, et al., 1997; Smith 1776).

Comparative Advantage

David Ricardo developed the Theory of Comparative Advantage and published his findings in his 1817 book, “Principles of Political Economy and Taxation.” Ricardo was able to answer the question of what happens when a country or entity has an absolute advantage in producing all goods. Comparative advantage states that countries should produce goods that they can manufacture most efficiently and buy the goods that they produce less efficiently (Czinkota, et al. 2009; Hill 2012; Morgan, et al., 1997; Ricardo 1817). Even if a country can produce both goods more efficiently at home, comparative advantage states that a country should only produce those goods that they produce most efficiently. This theory allows for total output to rise and benefits both countries involved.

Heckscher-Ohlin Theory

Eli Heckscher and his student, Bertil Ohlin, added a complexity to Ricardo’s theory, and this rationale explained why comparative advantage occurs. Through their work Heckscher and Ohlin found that advantages resulted from “factor endowments,” such as land, labor and capital (Czinkota, et al. 2009; Hill 2012; Morgan, et al., 1997). The more plentiful a resource is, the lower that resource costs. Heckscher and Ohlin predicted that a country or an entity would export goods that use locally abundant materials (Hill), and conversely, they will import goods that are not abundant locally. However, the Leontief Paradox must be cited as a contradiction of the Heckscher and Ohlin Theory. The Leontief Paradox, which shows that a country with the world’s highest capital per worker, e.g., United States, has a lower capital per labor ratio in exports rather than in imports. In other words, the USA exported labor-intensive commodities and imported capital-intensive commodities, which is a contradiction of the Heckscher-Ohlin Theory, which would have predicted otherwise.

Product Life-Cycle Theory

The Product Life-Cycle Theory was introduced in 1966 by Professor Ray Vernon. This theory is much more relevant to modern times given the fact the theory calls for the production of goods to move to and from different countries. The product life-cycle for international economics is broken into three stages. The first stage is a new product is manufactured and sold only in, for example, the United States. The second stage of the life cycle is the maturing product stage. Think of the product life-cycle of a new product: introduction, growth, maturity, decline, and death. The second stage is

the time where product standards and the perfection of mass production take place. In doing things over and over again, an expertise develops and, now, “economies of scale” take hold, and this efficiency allows the product to be produced accurately, with quality, and quickly, at minimal cost, and thus allows the product to be exported internationally for sale and profit (Czinkota, et al. 2009; Hill 2012; Morgan, et al., 1997; Vernon 1966).

New Trade Theory

New Trade Theory (Krugman 1983) came about in the 1980’s with a whole new way of understanding the global economy. New trade theory states that the country or the firm’s ability to achieve economies of scale can be incredibly important when it comes to international trade. This theory suggests that international trade can cause the average cost of goods to drop because of the variety of goods available. International trade is beneficial to all parties involved because it helps consumers connect with economies of scale, allows them greater variety, and achieves lower, more competitive prices (Czinkota, et al. 2009; Hill 2012). New Trade Theory brings along the concept of “first mover advantage.” First mover advantage is often achieved by the first few firms to enter an international industry, who, of course, face many profound risks. This first mover advantage often creates barriers to entry for future entrants and sometimes allows for many more monopolistic benefits on the international landscape for the specific industry involved.

National Advantage (Porter’s Diamond)

Michael Porter published his findings on competitive advantage in his 1990 book “The Competitive Advantage of Nations.” Porter is a professor of economics and strategy at the Harvard Business School. “Porter’s Diamond” of international advantage aims to figure how competitive a specific nation is in the international market by using four points (Dunning 1993, Porter 1986, 1990). These points affect four different ingredients that go into the national competitive advantage. The four ingredients are: 1) Availability of resources, 2) Information used in deciding which opportunities to pursue for the company, 3) Goals of individuals in companies, and 4) Innovation and investment pressure on companies.

“Paradigm Shifters”: The “Fall of the Communism” and the “Birth of the Internet”

All of the theories mentioned above thus far -- Mercantilism to National Advantage (Porter’s Diamond) -- were conceived before the period that exist now: “Hyper-Globalization and Hyper-Information Flow.” Now being in the 21st century, with ever-increasing issues regarding globalization and ever-increasing issues regarding information flow, a new theory is hereby conceived. In the 1990s, “there has been wide acceptance of a claim that traditional trade theories, based on comparative advantage, etc. cannot account for observed intra-industry trade,” (Davis 1995, p. 204), nor can traditional trade theories account for the effect on trade, without considering hyper-globalization and hyper-information flow.

International Trade Theory of Hyper-Globalization and Hyper-Information Flow

Professor George L. De Feis and his son, George N. De Feis, began discussing with each other, then with students, and then with academic and business colleagues a new international trade theory to help explain today’s way of trading. Hyper-globalization began in 1991 after the demise of the Soviet Union (communism), which resulted in a greater shift towards democracy, certainly in countries influenced by the Soviet Union, and hyper-information flow began more recently, as the Internet became publicly available in the mid-1990s and now is everywhere. Hyper-globalization has been accelerating since the end of the Cold War, as a result of the fall of communism, growth in democracy and freer speech in some countries, and market integration in some regions (European Union, North American Free Trade Area, ASEAN, Mercosur, etc.), where free market concepts

have been spread far and wide. Note, the EU, China joining the World Trade Organization, trade agreements around the world, and the Arab Spring, for instance, all began after the Cold War ended -- that 50-year war of ideologies. China, for instance, is not the same China that it was before the end of the Cold War. In the 1970s, China was well-described as Red China (i.e., communist China)

With the acceleration of communication, birth of social media, blogging, Facebooking, and cloud computing hyper-information flow has also become ubiquitous in most developed and many developing countries. Something “going viral” has a different meaning today than fifty years ago. One example is the Arab Spring, which developed rapidly due to Facebook and other social media. Hence, a new theory is proposed in this paper: “Trade Theory of Hyper-Globalization and Hyper-Information Flow.”

The authors of this paper suggest that this new trade theory -- Trade Theory of Hyper-Globalization and Hyper-Information Flow - mandates the following:

“Trade will flow increasingly to and from a country which can best deal with changing globalization trends through the processing of relevant information, and flow decreasingly to and from a country which does not deal with globalization nor processes information efficiently.”

If a country is at the “cutting-edge” of these “post-2000” life givens, according to this theory, it will advance more than those that do not. Research on developing issues in and among various countries and regions needs to be done in the future to see if this trade theory will adequately explain whether more democratic free market entities will be more successful than entities that are more totalitarian and or socialist. The “International Trade Theory of Hyper-Globalization and Hyper-Information Flow” will require firms and other interested parties to pay more attention to external environmental factors that affect organizations of all kinds.

Further, in looking the general environment and the natural environment of business, there are social and cultural factors, which will grow increasingly more important. Firms will need to know whether in a particular country or cultural environment, the use of the internet and new information sources is encouraged or discouraged. Also, in some cultures, attitudes toward gender may influence where work is done, for example, women may be discouraged from using the Internet and social media; thereby, negatively affecting the attitudes toward that country. This will affect globalization and the ability of using new information sources to be able to communicate with women in such a culture. Countries where it is difficult to change one’s class status may also discourage innovation in business and international trade and upward mobility.

Political and legal factors will also be important. Political democracy may ease communication and may also encourage foreign investment in business and social enterprises compared with a country where a dictator or a small junta controls the courts. Foreign investments may be more likely to be expropriated without just compensation. Lack of free speech will also impede globalization in some countries.

Economic and competitive factors may also help entities that are located in countries or regions where free enterprise is encouraged. Discriminatory taxation of foreign owned enterprises and government contracts that favor government owned enterprises over corporate enterprises or favor giving contracts to local vendors rather than allowing free global competition for all contracts, except in national security areas, may also affect globalization in a particular region or country.

Technological factors are also very important. In a globalized world, technology may favor some regions or countries over others. The presence of modern internet facilities in a particular country may encourage globalization compared with a country where the internet facilities are very limited.

Some countries and regions may benefit by an educational system that encourages education in technology such as engineering, and science or math education for its citizens. Education in business is also very important to technological advancement.

Forces involving the natural (physical) environment and its preservation and sustainability are also highly important for success in globalization in the long run future for many countries and entities. For example, allowing the building of pipelines to ship natural gas and oil may benefit the environment compared to shipping natural gas and oil by railroads or boats where there may be more spills, accidents, and incidents (e.g., terrorist action), than by using pipelines to ship oil and gas. Oil and gas may be needed to generate enough electrical energy until research and development will allow new sources of electricity such as fuel cells and more efficient solar panels to replace oil and natural gas without raising the cost of electricity. Windmills may generate some electric power, but may kill many birds which may adversely affect the beauty of our natural environment.

Summary and Conclusion

All of the above theories of international trade have contributed over time to the knowledge of international trade. None were all right and none were (are) all wrong. These theories were all conceived at different points in time when trade was developing and exuding different attributes. The theories were right for the their time, though, obviously, when we look now, may have to be tweaked or replaced by new theories as we learn more about international trade and its standing in the 21st century.

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