

# International Business

## Chapter Six

### International Trade and Factor Mobility Theory

# International Trade Theory

- Why nations (or companies in a nation) trade? What factors determine trade? How much and with whom should a nation trade?
- Trade theories are as follows.
  - Mercantilism
  - Adam Smith's Absolute Advantage
  - Ricardo's Comparative Advantage
  - Heckscher-Ohlin's Theory of Factor Proportion
  - International Product Life Cycle (IPLC)
  - Porter's Diamond and International Competitiveness of Nations

# Mercantilism

- Initial trade theory that formed the foundation of economic thought from 1500 – 1800
- The mercantilists believed that the way for nations to become rich and powerful was to have a **favorable** balance of trade.
- They advocated strict government control of all economic activity and preached **economic nationalism**.
- Neomercantilism preaches export surplus to achieve a country's social and political objective. It supports colonialism—it is alright to have colonies to generate trade surplus.