International trade operations - latvia

Business

INTERNATIONAL TRADE OPERATIONS Article Review …………………. College/ …………. ………… International Trade Operation- Latvia

This piece of research paper examines the very basic two international-trade theories, namely comparative advantage and the Heckscher-Ohlin theorem, in relation to the empirical evidences detailed by Fedotovs (2010) in his writing titled ‘ A small nation’s comparative advantage: The case of Latvia’. Comparative advantage is an economic principle that states that each good should be produced by the country that has the smaller opportunity cost of producing the same good. David Ricardo’s writings in early 19th century about comparative advantage explained that a country will export the goods and services that it is able to produce at a lower opportunity cost and import those goods and services that it would otherwise produce a higher opportunity cost (Pugel, 2003, p. 39).

Eli Heckscher, a Swedish economist, developed the core idea in 1919 about the international trade pattern. According to him, a country would export the products that use its abundant factors intensively and import the products that use its scarce factors intensively (Pugel, 2003, p. 39). To be more succinct, as Fedotovs (2010, p. 52) noted, a country will export goods whose production is intensive in factors that the country is abundantly endowed. Fedotovs (2010) explained international trade patterns of Latvia, based on the evidences of Latvia’s access to European Union and related how both the theories, comparative advantage and Heckscher-Ohlin theorem explain the case of Latvia. His work has proved the validity of both the theories and concluded that both the theories can be said to be applicable to the case of Latvia.

Comparative Advantage in relation to Latvia’s case

A comparison between the major sectors of minibuses, cement, timber and Livestock etc of both Latvia and European Community, it can be observed that Latvia could claim to have comparative advantage in some areas despite the fact it lagged behind the EC. The productivity of Latvia in some sectors like milk, livestock, grain and meat has proved 17 to 25 times below the level of EC, and same time the productivity in some other sectors were found to be only 5 to 6 times less, and therefore, it can be explained with the theory of comparative advantage.

Fedotovs (2010) has given Timber as an example for Latvia’s export to European Market, because Latvia gained comparative advantage in producing timbers as the productivity ratio to other countries was higher than in other industries. Between the periods of 1920s and 1930s, timber was the major export of Latvia and, during this period, the market share of timber has been reported to be 25 to 35 % more of the total value of exports. Based on these statistical and qualitative analysis, Fedotovs (2010) described that Ricardian model sought to be successfully corroborated for Latvia’s case.

Heckscher-Ohlin theorem in relation to Latvia’s case

Fedotovs (2010) compared Latvia to other European countries in respect to the richness in land. Latvia’s population is smallest in the Europe, and therefore it can be demonstrated that Latvia had to produce more of the land-intensive products like wood. As his work concluded, the Heckscher-Ohlin theorem proves applicable as long as Latvia’s trade with more developed countries is concerned.

References

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Pugel, T. A (2003), International Economics, Twelfth Edition, McGraw Hill Companies