

**Comparing Strategic Trade Theory and neoclassical trade theory  
– How the world view of theories is bound to its assumptions**

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## I. International trade theory

*“No other area of economics displays such a gap between what policy makers practice and what economists preach as does international trade” (Rodrik 1995, 1458).*

The monolithic world view of neoclassical trade theory is the most powerful and influential theoretical concept in international trade theory. It demonstrates the superiority of free trade in terms of efficiency. Nevertheless, trade interventions and protectionist policies remain an important part of many governments repertoire (Milner & Yoffie 1989, 239). This discrepancy is addressed by Dani Rodrik’s statement, critically examining the status of international trade theory. The observation points towards the limitations of the explanatory power of neoclassical theory and thus to the question, whether a neoclassical approach is sufficient to deal with globalisation, deeper economic integration an increasingly complex reality.

The alternative approach of Strategic Trade Theory explains reasons for trade interventions and thus challenges the neoclassical perspective on international trade. As both theories cover the same question but offer diverging answers, the comparison of these approaches illustrates the reasons for differences between and the limitations of theories.

The assumptions of the theories serve as the foundation for different theoretical concepts. This will be examined in the first chapter, concentrating on the structure of markets, the role of the government and the effects of economies of scale. To show how influential the theoretical concepts are, the second part deals with the policy implications of the theories, focussing on how to achieve domestic as well as global welfare. As a last step, I will discuss the results of the analysis in the context of the current design of international trade theory. The chapter shows how the influential role of assumptions and thus the limitations of theories serve as a reason for more pluralism in international trade theory.

## 2. Strategic Trade Theory compared to the neoclassical view

The analysis of international trade, factor movements and the implications for domestic welfare and income distribution is defined as the task of international trade theory. The dominant neoclassical view is challenged by the Strategic Trade Theory, which emerged during the 1980's (Stegemann 1989, 74). In this chapter, I will show the differences in assumptions and key concepts of the two theories. Even though both theories at hand offer extensive concepts (Feldmann 1993, 524), I will just concentrate on the most relevant aspects: The structure of markets, the role of the government and the effects of economies of scale.

### 2.1. The structure of markets

Neoclassical trade theory assumes, that all markets are characterised by perfect competition (Gandolfo 2014, 64). The factors of production in the markets are labour and capital, which are mobile within the country but not mobile across national boundaries (Leamer 1995, 1). These assumptions offer the foundation for the development of neoclassical trade theory.

Connected with the thought of Robert Torrens and Adam Smith's idea of absolute advantages, David Ricardo developed the theory of comparative advantages. The Ricardo-Torrens theory identifies comparative advantages as the reason for trade, illustrated by the exchange of clothes and wine between Portugal and England (Gandolfo 2014, 8-13). This model shows, that even though England possesses an absolute advantage in the production of both goods, the comparative advantage of Portugal in producing wine leads to the fact that Portugal exports wine and England exports clothes (Gandolfo 2014, 12-13).

As an advancement of Ricardo's theory, the Heckscher-Ohlin-Samuelson factor proportions theory also explains international trade by comparative advantages among nations. But the reason for advantages is not a superiority in terms of technology, it is the different factor endowment of countries (Gandolfo 2014, 8). In a two goods, two countries model, Heckscher and Ohlin show, that labour-intensive goods are exported by labour-abundant countries and that capital-intensive goods are exported by capital-abundant countries (Gabler Wirtschaftslexikon 2017b). This leads to a single equilibrium with a

Pareto optimal<sup>1</sup> employment of production factors, which would in the long-run lead to an equalization of the prices of factors between countries (Gilpin 2001, 134; Krugman & Obstfeld 2003, 86). An important condition for achieving the status of Pareto optimal employment of production factors, is international free trade (Gandolfo 2014, 12).

The Heckscher-Ohlin-Samuelson theory is currently the most influential model in neoclassical trade theory. Nevertheless, many economists do not perceive comparative advantages as the one and only reason for trade, therefore the dimension of differences in taste and technology is frequently also included in the analysis (Krugman & Obstfeld 2003, 86).

In comparison of the neoclassical view with Strategic Trade Theory, the most important difference is the perspective on competition in markets. The latter perceives perfect competition as far away from reality and for this reason assumes markets as imperfectly competitive (Stegemann 1989, 73). Accordingly, Strategic Trade Theory describes markets as oligopolistic (Irwin 1992, 134). As each firm tries to increase its own share of the rents in an oligopoly, the power of the firm and the strategic actions towards the competitors affect the outcome of the market process (Gilpin 2001, 132-133).

Brander (1995, 1405) chooses a game-theoretical approach to model the oligopolistic market. He develops a third-market-model, that consists of one domestic and one foreign firm producing a good for a third-country-market. Under the conditions of a Cournot oligopoly<sup>2</sup>, the situation between the two firms is described as a non-cooperative one-shot game, as the firms choose their output simultaneously (Spencer & Brander 2008, 8). Taking the influence of power and strategy into account, multiple equilibria are possible market outcomes in this model (Gilpin 2001, 134).

Assuming perfect or imperfect competition changes the nature and functioning of markets significantly (Gilpin 2001, 132-133). For this reason, the neoclassical trade theory develops the model of comparative advantage with a single equilibrium solution, while Strategic Trade Theory is based on an oligopolistic model with multiple possible equilibria. While neoclassical theory neglects the dimensions of power and strategy, they play a crucial role in the Strategic Trade Theory.

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<sup>1</sup> A Pareto optimum describes a status of distribution, that makes it impossible to increase the welfare of one or more subjects by altering the distribution without decreasing the welfare of other subjects (Brockhaus 2014a).

<sup>2</sup> A Cournot oligopoly is one model of describing an oligopolistic market. It is assumed, that each participating firm tries to anticipate the amount of goods produced by the competitor. On this basis, it is modelled that the firms simultaneously choose their own amount of produced goods, which leads to a Nash-equilibrium of price and quantity of goods in the market (Spencer & Brander 2008, 3).

## 2.2. The role of the government

Besides the assumptions concerning market structure, the relationship of economics with the dimension of politics is an important factor for the design of a trade theory. Concerning the two theories at hand, the possible influence of the government plays a crucial role for the development of the key concepts.

Veseth (2002, 5) describes neoclassical economics as “essentially stateless and therefore apolitical”. It applies similarly to the branch of neoclassical trade theory, which neglects the interests of the political sphere (Veseth 2002, 2). This could be labelled as an isolating approach, rooting in the thought of David Ricardo. With his model of trade between Portugal and England he was the “first economist to use the abstract method so fully” (Milonakis & Fine 2009, 25) and did not include the government as an economic actor. This demonstrates his rather isolating approach, perceiving economics as a separated sphere (Feenstra & Taylor 2012, 54).

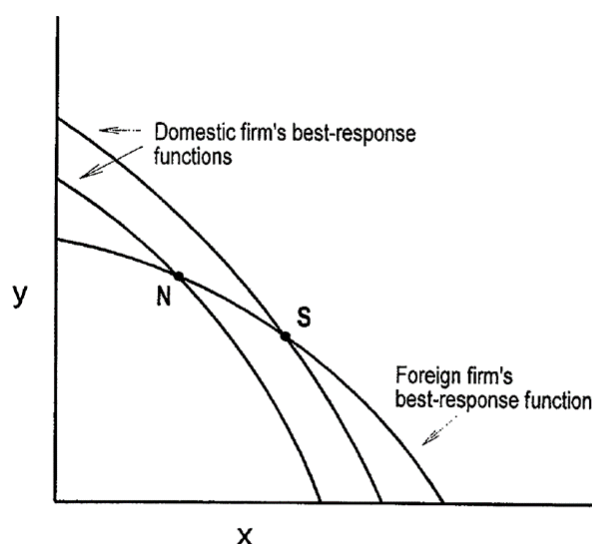
Current neoclassical economics is shaped by an isolating perspective and the paradigm of methodological individualism (Arnsperger & Varoufakis 2006, 8). It assigns the government the role of a night watchman, which is responsible for establishing rules for economic activity, providing a good economic environment and dealing with market failures, but is not at all an economic actor (Higgott 1999, 26; Gilpin 2001, 103). Therefore, the government does not have any influence on the neoclassical models of international trade. Accordingly, neoclassical trade theory is concerned with market efficiency, but does not include the question of where or by whom production takes place (Veseth 2002, 5).

By contrast, governments are included as important economic actors in models developed by Strategic Trade Theory. This perspective roots in the thought of the German economist Friedrich List. He perceives the nation as a central actor, as “between each individual and entire humanity, however, stands THE NATION” (List 1841, 102). From his point of view, economics is intimately connected with the political sphere, which serves the goal of augmenting the “welfare of the human race” (List 1841, 108).

Strategic Trade Policy is in accordance with this perspective and assumes, that governments generally attempt to increase domestic welfare. As a larger domestic market share leads to more wealth and thus domestic welfare, governments profoundly care about the place and the conductor of production (Spencer & Brander 2008, 2). Therefore, governments intend to increase the domestic production of traded goods in imperfectly

competitive markets (Hart & Prakash 2002, 185). By including the government in the above described third-market-model, it is demonstrated how export subsidies, Research and Development (R&D) subsidies, import tariffs and investment for firms facing global competition have strategic effects and lead to increasing domestic production of a good (Spencer & Brander 2008, 3). I will discuss the effects of export subsidies and R&D subsidies briefly.

As a government intervention affects the behaviour of the firms, the government is perceived as the first-mover in the game (Spencer & Brander 2008, 5). This first move is the simultaneous selection of trade interventions by the two governments. An export subsidy applied by the domestic government supports the domestic firm. As



**FIGURE 1: THE EFFECTS OF A DOMESTIC EXPORT SUBSIDY IN A COURNOT OLIGOPOLY (BRANDER 1995, 1405).**

the conditions for the domestic firms become better than those for the foreign firm, the output function of the domestic firm shifts as it is shown in Figure 1. This leads in the second stage of the game to a rise in domestic exports as well as profits necessarily accompanied with falling exports and profits of the foreign firm. This converts the two firms into a Stackelberg leader<sup>3</sup> and Stackelberg follower firm. The application of an export subsidy shifts profits towards the country, therefore the government increases national welfare. To achieve this, it should choose the optimum level of subsidy, which is the level of subsidy shifting sufficient profit to the domestic firm to more than compensate the costs of the intervention (Spencer & Brander 2008, 4).

The processes of this model do as well apply to an intervention by establishing R&D subsidies, which leads to a three-stage game. In the first stage, the R&D subsidy is implemented. Secondly, the subsidy leads to a higher level of R&D in the domestic firm. Under the assumption that R&D possesses cost-reducing effects, the R&D subsidy causes

<sup>3</sup> Stackelberg described the situation of a non-cooperative oligopoly with a leader firm, choosing its strategy first, and a follower firm, adapting to the action of the leader firm (Gabler Wirtschaftslexikon 2017c).

in the third step a more efficient production of goods, which leads to a similar profit-shifting towards the domestic firm as described above (Brander 1995, 1412-1415).

But the positive effects of government intervention in the third-market-model convert into a Prisoner's Dilemma structure, if the domestic as well as the foreign government choose to make use of trade interventions. Both governments face an incentive to intervene, therefore the trade intervention, for example subsidizing exports, becomes the dominant strategy. Accordingly, a Nash-equilibrium of subsidizing exports arises. This prohibits successful profit-shifting, as the output functions of both firms are shifted. While the distribution of the rents remains unchanged, both governments carry the costs of the intervention. Therefore, both nations are in comparison to free trade worse off (Brander 1995, 1421).

While neoclassical trade theory neglects the role of the government, the Strategic Trade Theory perceives the government as a central economic actor. Accordingly, that neoclassical trade theory is concerned with the efficiency of production, while the Strategic Trade Theory includes the question of where and by whom production takes place (Spencer & Brander 2008, 2). For this reason, the governments and its interests are represented as the first-mover in the game-theoretical models of Strategic Trade Theory.

### 2.3. The effects of economies of scales

In neoclassical trade theory, perfect competition is assumed, which implies that the size of the firms does not have any impact. Therefore, the neoclassical trade theory neglects static as well as dynamic economies of scale (Hart & Prakash 2002, 184).

Contrastingly, Paul Krugman (1987, 132) includes the effects of economies of scale in Strategic Trade Theory. As the theory assumes imperfect competition, it offers the possibility that the size of firms makes a difference. Krugman (1987, 132) assumes, that increasing returns to scale serve as an independent cause for specialization and trade. With the term economies of scale, he covers three different forms of increasing returns to scale: static effects (e.g. specialization due to an intensified division of labour), the impact of R&D and dynamic effects, as well described as learning-by-doing (Feldmann 1993, 529).

Taking this into account, the first-mover in an industry possesses an advantage over new firms trying to enter the market, because the economies of scale benefit the already existing firm (Krugman 1994, 22). From Krugman's (1996, 25) point of view, these

effects frequently lead to the fact, that only a few, highly profitable firms dominate a market. The aircraft manufacturing sector serves as an example for a market, that possesses the characteristics described by Strategic Trade Theory. The large economies of scale lead to the fact, that the world market only offers sphere for a few, very efficient producers. Thus, an oligopoly between Boeing and Airbus arises, featuring production centres in few countries and intensive trade to serve the world market (Spencer & Brander 2008, 5).

In a reciprocal market model with a domestic and a foreign firm, Krugman shows how trade interventions might lead to gains in the context of increasing returns to scale (Krugman 1994, 23). Protecting domestic industry allows for an advantage in scale of production compared to foreign rivals. Thus, the domestic firm lowers its marginal costs, which leads to a higher market share even in unprotected markets. As the higher market share in unprotected foreign markets again causes lower marginal costs, the government intervention is intensified by market forces until a new Nash-equilibrium is reached (Krugman 1994, 23-27). Due to this effect, the gains generated by raising exports exceed the loss of consumer surplus caused by protection. For this reason, protection of a domestic industry offers the possibility to increase domestic welfare (Stegemann 1989, 92).

Considering the effects of economies of scale, the Strategic Trade Theory shows, that an individual country protecting its industry may shift world specialization in a way favourable for the country. But Strategic Trade Theory supports the claim of neoclassical theory, that protectionism in all countries leads to a fragmented world economy, being unable to specialize according to comparative advantages and suffering from inefficient scale production (Krugman 1994, 27).



### 3. Policy implications

As described above, the two theories rely on different assumptions and thus develop diverging key concepts. Strategic Trade Theory shows, that the “classical harmony between national and cosmopolitan welfare maximization may disappear” (Stegemann 1989, 81). Instead of believing in the efficiency of the markets, Strategic Trade Theory supposes that government interventions sometimes improve market outcomes (Krugman 1987, 133). As economists have a considerable influence on policy making (Ferraro, et al. 2015, 11), the diverging perspectives on free trade and protectionism lead to different policy implications.

#### 3.2. How to raise domestic welfare

The neoclassical perspective demands free trade as the optimal solution for international trade (Leamer 1995, 7). As Ricardo claimed in his Principles on Political Economy and Taxation, “under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each” (Ricardo 1817, 284). This optimal employment of production factors connected with an intensification of competition among firms leads to the production of goods according to the needs of the consumer for the lowest possible price. Furthermore, a broader variety of products is available (Coughlin, et al. 2002, 305). These factors maximize domestic welfare.

This strong claim for free trade implies an abolition of domestic trade interventions and favours small governments (Feldmann 1993, 527). Trade interventions are perceived as a threat to national welfare, because from a neoclassical point of view, the protection of an industry raises the price of the protected good. Therefore, protectionism favours the protected industry, but harms the consumers and the other industries of a country (Coughlin, et al. 2002, 308). Furthermore, protectionism leads to an inefficient allocation of resources, causes entrepreneurial slack and harms innovation (Deraniyagala & Fine 2001, 810-812). Accordingly, trade interventions generate far more costs than benefits in terms of domestic welfare (Coughlin, et al. 2002, 308).

In contrast to this, the Strategic Trade Theory offers considerable scope for government intervention (Krugman 1987, 138). In imperfectly competitive markets, governments possess the ability to favour domestic over foreign firms and shift profits towards them by making use of trade interventions (Coughlin, et al. 2002, 314). Support for domestic firms could even lead to the fact, that foreign firms are not entering the market or are dropping out of it, which even intensifies the reasons for trade interventions (Feldmann

1993, 527; Krugman 1987, 135). The international rivalry in case of the so called “leading edge” or “high tech” industries serves as a good example. Many programmes to promote high-technology industry in Europe could be interpreted as trade interventions, trying to ensure that the share of the rents for Europe keeps up with the shares of Japan or the United States (Hart & Prakash 2002, 186).

International organizations, such as the World Trade Organization (WTO) and the General Agreement on Trade and Tariffs (GATT), are an important mediator for the scope of government intervention (Gabler Wirtschaftslexikon 2017a). As WTO and GATT are conducting the mission of reducing barriers to free trade by multilateral negotiations, the neoclassical theory implies a supportive policy for these institutions (Feldmann 1993, 527). While a membership in WTO and GATT causes losses in sovereignty and with other political costs, the theory argues that the gains by free trade more than compensate these losses (Veseth 2002, 5). Additionally, neoclassical theory favours bilateral trade agreements, as they are also leading to an intensification of free trade.

Strategic Trade Theory also acknowledges the positive impact of WTO and GATT in cases with countervailing government interventions in a market. Assuming two active governments, the Prisoner’s Dilemma structure of the models of the Strategic Trade Theory shows, that trade interventions on both sides arise, which leads to an inferior situation compared to free trade (Krugman 1987, 133). The international food and agricultural markets serve as a good example for markets characterised by countervailing government interventions (Reimer & Stiegert 2006, 17-19). But as governments perceive reducing trade barriers as “giving up” something, they are only willing to lower trade barriers in accordance with other nations (Spencer & Brander 2008, 8). Following Ossa (2009, 2-3), particularly the WTO principles of reciprocity and non-discrimination allow governments to escape the Prisoner’s Dilemma and to avoid global protectionism. The principle of reciprocity ensures, that all countries withdraw equivalent concessions and the principle of non-discrimination enforces, that all countries profit from concessions negotiated in bilateral trade agreements (Ossa 2009, 23-27).

In terms of raising domestic welfare, neoclassical theory implies to support free trade by withdrawing trade interventions and supporting bilateral trade agreements as well as the WTO and the GATT. The Strategic Trade Theory also acknowledges free trade as a good policy, but it is not the policy recommendation of the theory for every case, as there are possibilities for governments to raise domestic welfare by applying active trade policy (Krugman 1987, 133).

### 3.5. How to raise cosmopolitan welfare

From a neoclassical point of view, free trade does not only raise domestic welfare, but it leads to economic growth, higher outputs and hence higher incomes (Stiglitz & Squire 2002, 383). Therefore, it expands the choices available to individuals in all countries and thus raises global welfare (WTO 2003, 82). For this reason, the policy implication of neoclassical theory for achieving cosmopolitan welfare is to strive towards international free trade. This includes not only the policies discussed above, but also development policy according to the measures proposed by the Washington Consensus<sup>4</sup>, including export-oriented growth, open borders for foreign direct investment, privatization of state enterprises and a reduction of welfare programs (Wallerstein 2013, 6). Between 1950 and 1996 the paradigm of free trade as the central economic policy appeared to be a great success, as the volume of international trade expanded sixfold (Higgott 1999, 26).

But even though trade expanded, the growth rates of many countries are diverging, which leads to highly uneven global economic development (Gilpin 2001, 141). Furthermore, there exists evidence, that free trade oriented measures do not necessarily lead to more growth and thus welfare in developing countries. The free trade agreement NAFTA between the US and Mexico is a good example. Under NAFTA Mexico took large reforms, which led to disappointing results for the country. The increases in trade and foreign investment only caused slow economic growth and a weak job creation (Zepeda, et al. 2009, 5).

Wallerstein describes the situation caused by these inequalities in the effects of free trade as an international structure of core and periphery<sup>5</sup>, characterised by strong economies and a concentration of wealth coexisting with weaker or peripheral economies (Gilpin 2001, 142). This is a perspective supported by Strategic Trade Theory. It shows that more advanced nations are more likely to gain profits in certain industries. Economies of scale, learning-by-doing and technological advantages are frequently caused by the agglomeration processes taking place in stronger economies (Gilpin 2001, 143). This

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<sup>4</sup> The Washington Consensus is a package of economic reforms, promoted by the IMF and the World Bank to achieve economic stability in developing countries. The concept was a reaction to the debt crisis in Latin America during the 1980's. (Wallerstein 2013, 6).

<sup>5</sup> The terms core and periphery are part of Immanuel Wallersteins World Systems Theory and describe different economic structures. Core like industries are highly monopolized industries, existing mainly in strong states, while periphery describes industries in the absence of quasi-monopolies. By this economic structure, also different states could be characterised as core, semi-peripheral and periphery states (Wallerstein 2004, 28/29).

leads to a powerful advantage of certain regions and shows, that the accumulation of capital could lead to growing divergence between core and periphery (Wallerstein 2004, 36). Poznanska & Poznanski (2015, 236) modify the model of Strategic Trade Theory by including two advanced and one less advanced country, which is characterised by firms being not competitive in terms of technology. If the advanced countries employ tariffs in oligopolistic industries, the gains from trade are equitable between the two advanced countries, but a transfer of wealth from the less advanced to the more advanced countries occurs. The outflow of capital of the less advanced country is even higher, if the possibility of foreign ownership exists (Poznanska & Poznanski 2015, 23).

For this reason, Strategic Trade Theory does not perceive free trade as the way to achieve cosmopolitan welfare. Thus, the theory emphasizes the importance of protecting certain industries in periphery countries. Trade restrictions allow the less advanced nations to develop complex industries instead of the low technology product industries they could develop under the conditions of free trade (Deraniyagala & Fine 2001, 816). The most important effect examined by Strategic Trade Theory, is that protectionism allows firms to move down the learning curve and thereby become more competitive (Krugman 1987, 130). This effect is particularly of importance for new firms entering a market, where competing firms already exist. This situation arises in less advanced countries, as firms from these countries frequently try to enter a market which is already dominated by firms from advanced nations. The firms from advanced countries have an advantage in terms of economies of scale. As they already gained from economies of scale or learning-by-doing, they have an advantage over the new competitors. By protecting the new firm, the governments of less advanced nations have the possibility to increase the scale of the firm and support the movement down the learning curve, leading to international competitiveness of the firm (Gilpin 2001, 200).

This appears as a modern version of the “infant-industry-argument”, developed by Nationalists such as List and Hamilton in opposition to Classical Political Economy (Hart & Prakash 2002, 188). List demands Protectionism for nations “which are retarded in their progress by the competition of a foreign manufacturing power which is already farther advanced than their own” (List 1841, 104) and Hamilton claimed 1791 that the new American manufacturing industries needed protection (Stegemann 1989, 85).

In this special situation, even some neoclassical economists accept protectionism. If a new industry, that is already present in foreign countries, is established in a country, it might be unable to realize its comparative advantage due to cost and other advantages of

foreign firms. To facilitate this market entrance, export subsidies could be employed to protect the firm from some foreign competition. After this starting period, free trade should be re-established. Additionally, in many cases neoclassical economists argue, that there is no need for protection, because the infant industry is likely to be internationally competitive, thus just borrowing from the private capital markets could support the expansion (Coughlin, et al. 2002, 313).

Concerning global welfare, neoclassical theory recommends free trade and believes that countries will be rewarded with their share of welfare gains for opening product and capital markets, as market forces replace the inefficient state power (Poznanska & Poznanski 2015, 238). In contrast, Strategic Trade Theory points towards the international divergence and argues that the market is not enough. Optimal solutions to increase welfare globally do not concentrate on the dichotomy between free trade and protectionism, but search for country specific solutions including the possibility of trade interventions (Deraniyagala & Fine 2001, 821). Particularly in case of infant-industries, Strategic Trade Theory recommends protectionism.

#### 4. The influence of assumptions as a claim for more pluralism

The assumptions of the two discussed theories are dichotomous: perfect versus imperfect competition, the government as an economic actor versus the government as a night watchman and constant versus increasing returns to scale. They lead to different concepts of international trade and policy implications for the achievement of domestic and cosmopolitan welfare.

The observations made by this analysis could be summarized in a rather polemic way with the words of Diaz-Alejandro (1975, 97), who states that “by now, any bright graduate student, by choosing his assumptions regarding distortions and policy instruments carefully, can produce a consistent model yielding just about any policy recommendation he favoured at the start” (Diaz-Alejandro 1975, 97).

A theory is never able to cover the whole, merely complex, world. Therefore, assumptions are a necessary instrument to simplify the real world and thus narrow the scope of the theory. But the price for simplifying assumptions is, that the explanatory power of theories is limited. “Theories are neither true nor false” states Leamer (1995, 2), as theories are necessarily incomplete. According to the covered excerpt of the world, distinct concepts and implications evolve from theory to theory.

Various theories and individuals with different knowledge and world views thus constitute the life of a science. It is characterised by different heuristics, competing with each other (Heise 2016, 22). This conception of science could be described as a “marketplace of ideas” (Garnett 2006, 532). A lively exchange on this marketplace includes a discourse of a plurality of theories, each covering distinct features of the real world. The equitable discourse offers fruitful exchange and by that an improvement of the relationship between theories and real-world phenomena.

But the weakness of economics as a science and particularly international trade theory is, that a constant market failure is characterizing the scientific discourse. Instead of a free competition of theories, one could observe a monopoly of neoclassical theory (Dürmeier 2012, 3). Neoclassical trade theory dominates international trade theory and is deeply institutionalized as the hegemonic theory (Quaas, 2014).

This one-sided perspective is nothing else than a dominance of a single incomplete world view, that is widely accepted as a true description of reality. This harms scientific discourse, leads to potentially dangerous policy implications and to a variety of “blind spots”. A particularly profound example for a “blind spot” is political power, being

neglected by neoclassical theory, but possessing an undeniable influence on economics (Ehnts & Zeddies 2016, 773-774).

For this reason, the prevailing structure of international trade theory inadequately deals with the effects of deeper economic integration or the question of global development (Ehnts & Zeddies 2016, 772). The neoclassical free trade paradigm dominated the actions of governments for decades and was perceived as the one and only true policy recommendation. It still serves as the reason for institutions, trade agreements and development measures. An equivalent treatment of the theories, and thus more pluralism in international trade theory would allow for a more comprehensive evaluation of the consequences of trade liberalizations, as the different world views of the theories complement each other (Rodrik 1992, 99; Ossa 2009, 4).

Therefore, the influential role of assumptions leads to a claim for a more “pluralistic, multi-perspectival (hetero-doxa) economics” (Garnett 2006, 539). Ontological as well as paradigmatic pluralism becomes a “scientific imperative” (Heise 2016, 22), as it prevents a discipline to suffer from one-sidedness. A plural discourse offers fruitful exchange between and thus further development of theories, an elimination of “blind spots” and the essential reflection of the limitations of theories. As a strategic trade theorists view might be summarized with the words, the market is not enough, this analysis shows, that the monopoly of neoclassical theory in international trade theory is not enough.

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