A Primer on International Trade by Jan Pen. Random House, New York, 1967.

Jan Pen attempted to deal with the basic questions and institutions of international trade. His main objective was to find out whether trade between countries is a matter of common interest or of conflict. His answer depends on the local situation of each country, *i.e.*, whether they are enjoying full employment and prosperity, or unemployment and depression.

The book is divided into three parts. Part one deals with the concepts and philosophy of international trade viewed by the mercantilists and the classical economists, especially Adam Smith and David Ricardo. This part also covers further development and modification of the Ricardian theory of comparative cost, which states that the value of a commodity is solely determined by the amount of labour needed to produce it. There are some developments made on the Ricardian analysis, and specifically those by Haberler and Heckscher-Ohlin philosophy. Professor Pen points up that the Ricardian theory and the Heckscher-Ohlin theory supplement one another; Heckscher-Ohlin theory takes the demand aspect into account — the relative scarcity of labour and capital results from the interaction of supply and demand; the Ricardian approach stresses the supply side. Professor Jan Pen does not go further to state the modifications to the Heckscher-Ohlin theory made by Professor Leontief and others in recent studies in the area of international economics. Professor Leontief in his input-

output studies came up with different implications resulting from the Heckscher-Ohlin theory. The Heckscher-Ohlin theory stated that a country exports a product for which there are abundant factors of production. On the other hand, the Leontief paradox maintains that a country like the United States, which is a capital-abundant country, exports labour-intensive products and imports capital-intensive goods.

Part two concerns itself with the concept of equilibrium of the balance of payments. Professor Pen defines the concept of balance of payments to be the sum of money that flows back and forth across the borders of a country. The incoming stream consists of payments for exports of goods and services, plus income earned abroad by the country's subjects and companies. The outgoing stream consists of payments for imported goods and services, plus the income of other countries' subjects and companies earned in the country itself. Professor Pen maintains that the analysis of the balance of payments only covers current account, and not capital account. His main purpose is to emphasize trade, specifically on the equilibrium of the current account and on ways in which it may be disturbed.

Part three talks about the blocs — whether nations are building blocs or stumbling blocs with the aim of arriving at an international order. The areas of American trade policy, the European Common Market, the role of France, and the influence of nationalism and neo-mercantilism are discussed.

One point in this book needs to be discussed. Professor Pen states that in Ricardo's period, England had a comparative advantage in the production of textiles and Portugal in the processing of wine. This is a clear-cut situation of a natural advantage. The differences between Portugal and England are determined by their respective climates. He goes on to say that climate is important in many sectors of agriculture, but agriculture's share in total production in most Western countries is well below 10 per cent of their gross national product. In the industrialized economies, the pattern of economic life is dominated by manufacturing and by various kinds of services, such as transportation and travel and, most important, by the "knowledge" industry, such as schools, the press, radio, and television. Therefore, in these sectors, comparative advantage is not an important fact of nature. But Professor Pen, in his analysis, ignores the fact that the classical school stressed a comparative model that leads perfectly and sufficiently to an efficient allocation of resources.

To accept what Professor Pen has stated, then, the comparative-cost advantage is not applicable to the explanation of trade movement between developed economies. And this fact will not rule out the consideration that the principle of comparative cost can be applied to the analysis of trade patterns within underdeveloped economies. This is especially true if the major proportion of the population of these economies is engaged directly and indirectly in

agriculture. This proportion has been estimated to be between 60 and 80 per cent of the population. As the case for the Middle East region, about two-thirds of its population derive their livelihood from agricultural pursuits. The agricultural sector contributes nearly 20 per cent of the gross national product. In the underdeveloped economies, the pattern of life is not dominated by manufacturing and the services. In the Middle East, the petroleum industry is dominant and some light industry and semi-heavy industry can be found, while major marketing and transportation facilities are still inadequate. If these are the conditions of the underdeveloped economies, then the comparative advantage should be more important in these economies than in the developed economies. But the present conditions of the underdeveloped economies are characterized by market imperfections, and limited political and social institutions, which handicap the application of the comparative-cost analysis to explain the pattern of trade within these economies. If this is the case, then it is better to consider the trade pattern between developed and underdeveloped economies. If the comparative-cost analysis is not the answer, then other tools are needed to explain the behaviour of international trade. These tools should be concerned with problem-solution which reflects real issues, such issues as tariffs and other restrictions which limit free-trade policy among nations.

On the whole, the book covers some areas of international economics, but does not analyze them in depth.

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