

Lectures on International Trade by Jagdish N. Bhagwati, Arvind Panagariya and T. N. Srinivasan, 2nd edition, Oxford University Press, New Delhi, 2003; 602 pages, Rs. 750.

Undoubtedly this is the best graduate level (post-graduate level in India) text book on the pure theory of international trade that is currently available. It is written by three top-rated international trade theorists of Indian origin—Jagdish Bhagwati, T. N. Srinivasan and Arvind Panagariya – who have made significant fundamental contributions to the pure theory of international trade. There are a few other top quality text books on international trade theory such as *International Economics* by Paul Krugman and Maurice Obstfeld and *World Trade and Payments* by Ronald Jones, Richard Caves and Jeffrey Frankel. But those are targeted at undergraduate students and are deliberately less technical and more verbal in their presentations.

The format of the present book is that of lectures (but with no jokes or anecdotes). This helps both the instructor and the students to present and understand the basic points of trade theory and its applications in precise step-by-step fashion. The job of the instructor should then be to explain and elaborate the points, mentioned in a somewhat cryptic manner in the book, when teaching in the class room. In this sense, it is not an easy book to read by students without some help from instructors.

The book is very comprehensive in its coverage of topics. It is a 602-pages book, having 39 chapters plus 3 technical appendixes. Each chapter has a long list of recommended further readings which, if pursued, would enable the students (and the instructor) to reach the frontiers of knowledge in the respective areas. The book is divided into 4 parts.

Part-I deals with alternative theories explaining the pattern of trade. The chapters cover the basic Ricardian and Heckscher-Ohlin theories, the specific factors model, their extensions to higher dimensions and empirical verifications, new theories and models of trade built on the assumptions of imperfect competition, economies of scale, product differentiation and highlighting the importance of geography in explaining trade.

Part-II discusses the comparative statics of the effects of growth, transfer, tariffs, quota and other non-tariff barriers on trade and other economic variables. It also

discusses the concept, theory and predictive power of effective rates of protection.

Part-III is concerned with trade and welfare issues – so called normative or prescriptive theory of trade. It covers gains from trade, ranking of policies in the presence of different types of distortions, non-economic objectives, capital mobility and labour migration, and the theory of preferential tariff reductions.

Part-IV deals with some of the recent theoretical developments such as directly unproductive profits-seeking (DUP) activities (including lobbying, smuggling etc), issues connected with outward-oriented trade-reform strategies being tried in many developing countries (like India), the implications of endogenous growth and uncertainty for trade theory and shadow prices for project evaluation (specially under what conditions the Little-Mirrlees method of using world prices as shadow prices would be appropriate). These are issues which are not usually found in standard American or British textbooks. The reason why some of these commonly neglected issues have found places in this book is perhaps because the authors of this volume have themselves done significant original work in these areas and they have also been involved with policy debates in developing countries. They have also undertaken studies on country experiences with alternative trade policies. All these make it a book with a particularly rich blend of theory, policy and practice. The book discusses the theoretical underpinnings of many standard policy prescriptions and often brings out the logic (or the absence of it) behind some of the popular policy proposals. For example, the book discusses at length the questionable theoretical case for uniform tariffs (which is often advocated by World Bank and others). But it does not stop there. It also brings out many important political economy considerations which may justify a small number of tariff rates, though not necessarily one (pp. 509-10). Further, it addresses the interesting puzzle; why reforms that favourably affect large and/or politically powerful groups in society may, nonetheless, be resisted? (pp. 513-14). The attention to such issues is the reason why students and teachers in developing countries like India will find this book specially useful and relevant.

Another merit of this book is its development of ideas in a step-by-step fashion – starting with the most basic model, explaining it in terms of geometry and simple

algebra and finally moving to n-dimensions using more high-powered mathematical tools. The policy implications of the theory are also brought out clearly. This gives the instructor the freedom to decide where to stop, given the interest and the absorptive capacity of the students (and also the instructor). In this sense, it can also be used in undergraduate classes. Most of the results are explained using geometry, algebra and verbal intuitive logic. Sometimes the intuitive explanations may seem a bit too sketchy. But, then, this is perhaps unavoidable as a graduate textbook already running over 600 pages can not afford to spend more space to each and every result. It has to presuppose a certain level of knowledge of the fundamentals and some further elaboration by the instructor in the classroom. Do not forget it is in the nature of lecture notes. It also covers materials not usually discussed in today's textbooks such as how to draw and use trade indifference curves a la James Meade – which was such an ingenious method but the current generation of students is often not aware of this.

Now, I would talk about a few omissions. Sometimes theorems are stated but no proof or reference is given (see, for example, p. 41, specially footnotes 3 and 4). One also wonders why the authors discuss “hat calculus” in a separate chapter (Ch. 10) but then does not make any further use of it. If it is convenient (which it is), then why not use it, wherever possible, to derive the results instead of doing it in more cumbersome ways?

But, these are minor blemishes in an otherwise excellent textbook. Researchers in many areas in trade theory may benefit a lot by reading the specific chapters. In most cases that would bring them close to the research results at the frontiers of knowledge. All considered, I would strongly recommend the book to all serious students, teachers and researchers in international trade theory and policy anywhere in the world, but more specially in developing countries like ours.

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