Marxian theory of international trade: theory of international value and unequal exchange --beyond the terms of trade theory (abstract)

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In this paper, we address the theoretical findings of the theory of international trade based on classical and Marxian economics, specifically Ricardo's theory of comparative costs, the theory of international value, the theory of unequal exchange, and Lewis's terms of trade theory.

On the chapter "On Foreign Trade" in *On the Principles of Political Economy and Taxation*, Ricardo stated "The same rule which regulates the relative value of commodities in one country does not regulate the relative value of commodities exchanged between two or more countries." This claim is inseparable from the theory of comparative costs, which is one of the great developments in economics.

In response to the challenge how the terms of trade are determined in international commodity exchange, J. S. Mill(1848) modified the theory of comparative costs and provided an explanation according to the principle of supply and demand that precedes the principle of cost of production. However, as a result, the value theory became bifurcated, namely the principle of cost of production in one country and the principle of supply and demand in the international commodities exchange. In the 1930s, two unrealistic theories appeared. One is Haberler's trade theory. Based on the opportunity cost, Haberler(1933) demonstrated the benefits of trade using the production possibility frontier and the indifference curve. However, it was an unrealistic model in which the factors of production move in different employments at different times instantaneously and the factors of production will be fully utilized. The other theory is the Heckscher-Ohlin model, which assumes identity of the production function and indifference curve between two countries and predicts that complete equalization of factor prices will be realized between two countries if the prices of goods are equalized by free trade.

For a long time, Marxian economics, which understood the world economy in the framework of Lenin's *Imperialism*, did not have the means to theorize the world economy in the same dimension as modern economic theory. It is not until in the 1950s that Marxian economics embarked on theorization of the world economy. At that time, what became the key to Marxian economics is the proposition regarding the modification of the law of value in Chapter 20, Part 6, Volume Ⅰ of *Capital*, "National Differences of Wages." Through interpretation of this proposition, Marxian economics clarified that due to the national differences in the value of money, one unit of labor in each country received different monetary expressions, and therefore one unit of labor in developed countries was exchanged for more than one unit of labor in developing countries. Marx described this as exploitation of poor countries by rich countries.

In the 1970s, the theory of unequal exchange took over the place of the Marxian school, who could not fully realize the discussion. Emmanuel(1969[1972]) emphasized the fact that although the

content of the labor and production technology did not differ, there were more than a dozen wage gaps in developed and developing countries. He stated that there was international value transfer behind the unequal reality, and explains this through the worsening of terms of trade in developing countries due to the low wages of these countries on the basis of international application of production price theory. The theory of unequal exchange was heavily criticized, and in extreme cases it was even used as a representative example of a foolish theory. The problem with this theory is that it is limited to the terms of trade theory. By providing the basis of the circuit of economy or structure of reproduction, which is one of the core concepts of classical and Marxian economics, the theory of unequal exchange becomes a legitimate theory. It is the theory of international division of labor which is formed on purpose to overcome the obstacles of capital accumulation, which is in opposition to the principle of comparative advantage.

The same applies to the Lewis model, which uses food as a numeraire and clarifies that it is necessary to raise agricultural productivity to improve the terms of trade in developing countries. The significance of food (agriculture) should be understood from the viewpoint of the significance of agriculture in social reproduction rather than as a numeraire.