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REVIEW OF MASSIMO ROCCAS, *THEORY AND REALITY OF INTERNATIONAL TRADE*, MILANO: EGEA – BOCCONI UNIVERSITY PRESS, 2021

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This book is a long journey through the theory of international trade, from Ricardo to globalization, from global value chains to the development of Chinese economy.

Our journey begins with the "killing" of the father of the theory of comparative advantage, David Ricardo, who formulated his thesis in 1817 in the Principles of Political Economy. According to Ricardo, whose thesis is at the origin of research on the determinants of international trade, countries specialize in the production and exchange of goods in which they have a comparative advantage. Ricardo presents a scenario involving two countries, A and B, and two products, with country A producing both products more efficiently than country B. This situation doesn't compromise the feasibility of international trade, as long as A's superiority differs in the production of the two products. A will indeed find it beneficial to specialize, exporting the product in which it has a relatively greater advantage and importing the good in which its advantage is smaller.

The first part of the book does not merely illustrate Ricardo's theses but also questions the very hypotheses on which they are based, as well as analysing the scholarly contributions that have put forth different hypotheses. Massimo Roccas doesn't align with the stereotype of Italians described by Umberto Saba: "Italians aren't patricidal; they are fratricidal […]. Italians want to offer themselves to their father […]". In brief, the Ricardian assumptions – as well as those of the broader Ricardo-Heckscher-

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Ohlin model, the core of modern international trade theory – are unrealistic: full employment of production factors within a country and their full mobility within national borders, but at the same time immobility of the same factors between countries; balance of trade equilibrium; absence of economies of scale; no externalities; equal political power of the two trading countries. Additionally, a significant portion of trade between countries does not involve entirely different goods, as Ricardo believed, but rather products belonging to the same production sector. For instance, Italy simultaneously exports and imports clothes and shoes to and from China. Moreover, the fragmentation of production processes, the emergence of global value chains, and the political power of different actors – states and multinational corporations – have created international exchanges not so much based on comparative advantages but on other factors, a rediscovery of absolute advantages "*à la* Adam Smith".

Hence, while the first part of the book delves into theory, the second part focuses on the reality of international trade, as indicated by the title, discussing many current topics in international economics. The events that have characterized the evolution of international trade in goods and services in recent decades reveal, according to Massimo Roccas, the limitations of economic theory. Not only has it failed to anticipate developments, but it has also often struggled to identify them as they were occurring, not fully grasping their relevance and consequences. The author scrutinizes the concepts and theories of economists whose ideas were not duly considered by proponents of traditional thinking on international trade.

For instance, new theories of international trade were developed between the 1960s and the early 1970s, which introduced the concepts of consumer choice variety and monopolistic competition among firms, highlighting the crucial role of economies of scale in explaining trade between countries. These theories had to wait for the subsequent development of the "New Trade Theory", associated with Krugman's contribution, to find a place in the body of international trade theory. Similarly, the theories of Richard Posner and Raymond Vernon, which focus on technological differences between countries as fundamental trade drivers, despite sparking debates, were considered marginal compared to traditional theories. They didn't lead to the expected exploration of technology's central role in trade. It is a recurring theme in the history of economic thought that some scholars identify new trends and propose innovations in economics but clash with long-established theories and interpretations of facts. International economics, as the author demonstrates, is no exception.

Take the concept of power, for instance. International economists, with few exceptions, have overlooked it in their models of economic relationships, both within and between countries. This is not the case for scholars who have focused on economic history: think of Marcello De Cecco's "Moneta e impero" and Ronald Findlay and Kevin O'Rourke's "Power and Plenty". Instead, according to Roccas, international economists have belatedly comprehended the historical significance of China's economic rise, dismissing it as to a matter of unfair competition from a new market competitor. This led them to overlook profound shifts in global economic power in favor of China and other emerging economies, to the detriment of previously hegemonic nations. The fact that the concept of power is subject to various interpretations and measurement challenges isn't sufficient reason to exclude it from theoretical analysis of international trade.

Among the various forms of power in international trade, there's that relating to setting standards. The term "standard" has diverse meanings, from basic economic activity regulations – such as in labor, setting a maximum work duration, minimum wage, or the role of unions – to defining technical specifications for goods, services, software, infrastructure, and networks, enabling a broader range of operators to produce / use them. The way standards are established is a significant source of market distortion because it can crucially influence both the success of international businesses, and the choices in locating production activities. The author interprets the adoption of new global standards linked to the IT revolution as another event that has opened further avenues for exerting power over international trade, which economic theory hasn't adequately accounted for.

However, Massimo Roccas' most severe criticism of international economists is their delayed understanding of the importance of geographical production fragmentation through global value chains. The challenge of incorporating this phenomenon into theoretical models has led to underestimate the negative consequences of globalization, resulting in failure to propose solutions to address issues such as tax havens or the incredibly low taxation on overseas activities of New Economy giants. Only when certain important economists – the author mentions Samuelson, Stiglitz, and to some extent, Krugman – provided more realistic analyses of globalization did the debate open up to proposals for intervention aimed at managing its outcomes, so as to favor the collective good over that of a limited group.

Similarly, international economists have failed to promptly offer constructive responses to advanced countries on the emergence of new economies, especially China. These nations were alarmed and anxious about this new reality. The debate focused on aspects such as the influx of low-quality, low-cost mass goods produced through illegal practices (*e.g.*, counterfeiting or patent violations). However, central issues such as the offshoring of industrial structures from advanced economies to emerging ones – driven by multinational corporations seeking higher profit margins – have been long overlooked. The growth of international trade is a straightforward consequence of this reallocation, which, coupled with fears of further offshoring, has led to a significant reduction in employment within the industrial sector and weakened workers' bargaining power in advanced countries. While globalization did contribute to reducing extreme poverty worldwide (from nearly 2 billion to less than 700 million people) during a period of demographic boom in emerging economies, it has also brought about unanticipated redistributive consequences within nations. Inequalities have increased, and the share of income allocated to labor has contracted in favor of capital in its various forms. This, ultimately, is one of the book's key messages.