

# Improving global trade performance indicators in transition economies

## Abstract

In this paper we argue that governments base their information on unreliable global trade performance indicators. More than others, economies in transition have to reassess their competition policy. Governments that base their competition policy on those indicators to guide their economies in transition are as such misled.

Several theories explain why international trade occurs, ranging from Adam Smith's absolute advantage and Ricardo's revealed comparative advantage until Heckscher-Ohlin and many other modern theories. Although their approaches differ enormously from each other, trade specialization remains for all of them a main driver in this global trading process. Economic research on trade specialisation and comparative advantage of countries poses conclusions, which are based on well-established trade performance indicators (TPIs). Common measures like the Balassa, Michaely and Lafay indicators use somehow a ratio between the export and import to show the degree of trade specialization. Those TPIs are the result of calculations based on comparative advantage theories and act as yardsticks. Those calculi or formulas are meant to transform rough data in useful statistic information. This information is then used by governments and politicians to develop appropriate trade policies. Given the impact of their results, it is of high importance that those calculi can be relied on. But many authors are sceptical and those TPIs have been a pray for many critics since their first publications. They are criticised for being grounded on unrealistic assumptions. They are also considered unreliable, since they include the wrong trade parameters or lack the right parameters. Therefore, in this paper we discuss the deficiencies of the different TPIs and propose adjustments. Not only do we introduce here the concepts of phantom trading and hidden trade opportunities that are distorting the net result of the current TPIs, but we also propose two new TPIs: the Heckscher-Ohlin indicator and the factor prices (or unrevealed) comparative advantage indicator.

**Keywords:** *Revealed comparative advantage, International Specialization model, international trade, Balassa, Ricardo, Heckscher-Ohlin.*

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