

# Introduction

The collection of papers in this special issue is dedicated to Ronald W. Jones, as a mark of respect for his pioneering and continuing work in international trade. During a career that has spanned almost five decades, Ronald Jones has relentlessly contributed to strengthen the basic foundation of trade theory. Jones's razor sharp analytical mind and amazing personality continue to influence his students and many other well known scholars in the field. This issue brings together a set of papers presented by his students and friends in a special symposium recently held at the City University of Hong Kong. The papers address a variety of contemporary issues related to the frontiers of trade theory and policy, building mostly on Ron Jones's earlier work, which continues to have a lasting impression in the profession.

The first three papers look at the dynamic versions of simple general equilibrium models, the cornerstone of Jones's contribution to the field. **Bond** and **Driskill** return to the classic problem of distortions in two sector general equilibrium model and introduce dynamics. In the static version, comparison of value and physical intensities matters crucially for the comparative static results. They find that in the dynamic context such comparisons do not matter for the steady state, but continue to be significant for the adjustment towards the steady state. **Hu**, **Nishimura** and **Shimomura** extend the specific factor model in a dynamic environment with time varying preferences, suggesting differential impact on wage of a commodity price change in the static and dynamic context. **Fujio** and **Khan** elaborate a geometric technique interpreting the value loss line, well researched in models of undiscounted optimal growth, as delineating the cone of diversification familiar in 2x2 Jonesian models of trade theory.

The following set of papers point towards the restraining elements operating on goods and factor trade. **Laussel** and **Riezman** argue that fixed transport costs restrict north-south trade and lead to multiple equilibria. One can get into a "low-volume of trade" trap requiring a big push in terms of infrastructural investments. **Yomogida** brings in the demand factor as a controlling element in international capital flow. He extends the well known model of footloose capital articulated by Jones in the 1980s and gets interesting results by incorporating the demand factors. Demand plays a crucial role in determining the extent to which factors of production gain from international capital mobility.

**Marjit** and **Chao**, **Laffargue** and **Yu** demonstrate the utility of simple general equilibrium models and look at the theoretical aspects of policy making in open developing economies. **Marjit** argues that in the absence of credit market for financing education and skill formation, historical ownership of capital becomes critical in determining the extent of skill formation and income inequality. This shows how Jones's static model is capable of addressing essentially dynamic issues. Protection in this model may aggravate inequality and hurt human capital formation. **Chao**, **Laffargue** and **Yu** assert that the provisioning of public inputs is crucial for urban development and employment. Optimal provisioning of public input relative to the full employment benchmark depends on the externality effect of unemployment. In some cases negative externality of unemployment may imply poor provisioning of public input.

Among the policy related papers **Ethier** provides a critique of the existing models of political economy and trade policy. He rightly points out that there is very little discussion in the literature as to why countries do not actually impose export tax to alter their terms of trade. In cases where exporters are very powerful politically, why don't the governments provide export subsidies instead? He provides some answers to these puzzles.

It is well recognized that countries usually impose tariffs on some selected import items rather than setting up an across the board tariff. Also countries encourage imperfect competition in the non-traded service sectors. **Yano, Takahashi** and **Kenzaki** extend the well known Sanyal-Jones middle product model, analyzing tariff and competition policy. They argue that if political compulsions do not allow the countries to set optimal tariffs, they will combine the competition policy with selective tariff policy to reach the constrained optimum.

**Kowalczyk** revisits the literature on gains from trade between small and large countries and compares welfare levels of unilateral policy with that of a bilateral free trade agreement and small country's preferential access to large country's market. He narrates an interesting result that if the small is really too small to affect local prices of the large partner, then a reduction in tariff in the small country may hurt the larger nation. Hence, unilateral free trade may not be desirable from larger country's perspective.

The beauty of serious analytical research lies not necessarily in devising fresh and unrelated models, but in fine tuning our understanding of deeper frameworks designed by our formidable predecessors such as Ronald Jones. Fresh insights embedded in classical structures can do wonders. I am sure some of the papers included in this special issue will lead to interesting new works in the near future.

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