PREDICTING THE FACTOR CONTENT OF TRADE: THEORY AND EVIDENCE[1]

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Abstract

This paper examines the multi-cone specification of the factor proportion theory of international trade. I show that Helpman's (1984, Economic Journal) bilateral restrictions on the factor of content of trade, which have found recent empirical support by Choi and Krishna (2004, Journal of Political Ecnomy), need to be amended to account for multilateralism. I identify additional restrictions and show that these restrictions form the building block for a multi-lateral specification which extends Alan Deardorff's (1979, Journal of International Economics) two-country, two-factor, multiple goods chain of comparative advantage prediction to multiple countries and factors. Applying Choi and Krishna's data set to the multi-lateral specification, I find little empirical support for the prediction of the model.

"It is not possible through merely bilateral comparison to develop a…theory of efficient multilateral specialization". (Lionel McKenzie, 1954, p. 180)

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