Title: Comparative Advantage

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Introduction

In this contemporary world, countries have been trading with each other for many years for profit and other purposes because some of them do not have enough resources such as land, labor and capital to satisfy the demand of their consumers. When trading, many countries have utilized the concept of comparative advantage. In this essay, I would like to explain, first, the concept of comparative advantage; second, I am going to discuss weaknesses of this concept; third, I am going to analyze if the theory of comparative advantage yields positive results for all countries.

The concept of comparative advantage

The concept of comparative advantage was first defined by a classical economist David Ricardo (1817). Comparative advantage appears in a time when one nation can produce a good or service better than another nation at a lower opportunity cost, and suggested that they should specialise for producing the good. Opportunity costs are what we have to given up in order to consume and create another good. This means, that country can produce the good that is lower price of labor, resource and capital than another one. To demonstrate the concept of comparative advantage in effective way, it required at least two goods and minimum of two places where each good could be produced with scarce resources in each place, so there will be an example between USA and UK on producing computers and shrimp in the table 1 below. The USA and UK have followed the theory of comparative advantage with producing the computers and shrimps, and the result of this, they both gain the quantity of the product as well as the number of consumption.

Table 1 (Riley, 2012)

	Digital Camera	Vacuum Cleaners
UK	600	1200
USA	2400	1000

In this table, the exchange ratio for the USA is digital camera = 2.4 and vacuum Cleaners = 1. The opportunity cost of producing 1 vacuum cleaner is 2.4 digital cameras. This mean that USA has lower opportunity cost of producing digital camera, so USA should specialise in the production and export of digital camera. In contrast, the exchange ratio for UK is digital camera = 1 and vacuum cleaner = 2. The opportunity cost of producing 2 vacuum cleaners is 1 digital camera. This mean, UK has lower opportunity cost of producing shrimp, so UK should specialise in the production and export vacuum cleaner. Hence, the table above is the example for the definition of the concept of the comparative advantage.

The weaknesses of the concept of comparative advantage

Allowing countries to utilize and manipulate their natural abundant resources is the strength of the theory of comparative advantage. However, the weaknesses of this concept are that there will largely losses in output when the demand declines. Blanchard & Quah (1988) have pointed out that when the demands decrease, this brings negative impact to output and unemployment. This mean, when the number of consumer has fallen down, the output will remand in the stock and then the company will lost their profit because they cannot sale their product or export to other country that they used to trade. Additionally, when the companies no longer of selling the product or cannot get anymore profit, they will be bankrupt or business collapse. Then, all workers will lost their employment. Hence, the declining of consumption is the weakness of this concept.

Does the theory of comparative advantage yield positive results for all countries?

The theory of comparative advantage offers both positive and negative results. Next, I will first address how the theory provides positive results. Then, I will provide some criticism about the theory. The countries that follow the concept of comparative advantage yield several positives result for the nation such as highly increasing the number of production and the quantity of consumption. Thus, this will lead economic more development. The table 2 below will show how the theory of comparative advantage provides benefit to two countries – Spain and Norway.

	Spain	Norway	World Total
Before Trade			
Fish			
Production	75	100	175
Consumption	75	100	175
Grain			
Production	350	100	450
Consumption	350	100	450
After Trade			
Fish			
Production	0	200	200
Consumption	100	100	200
Grain			
Production	500	0	500
Consumption	350	150	500

Table 2 (Chapter 7, Global Trade and Trade Policy)

This table shows the differences between Spain and Norway before trade and after trade. As we can see in this table, under autarky, Spain has number 75 of productions and consumptions of fish, and 350 of productions and consumptions of grain whilst Norway has 100 productions and consumptions for fish as same as for grain. When they follow this concept which Spain specialise for producing grain and Norway specialise for producing fish, after trade, they gain the benefit of increasing number of good and consumption. By looking at these two countries together, the total world output of both fish and grain has grown as a result of trade. Therefore, one country can produce good more than before with lower opportunity cost and the number of demander has risen up too, this bring advantages for the economic to help country become more development. Porter (1990) have stated that the deference of source between one nation to another such value of nation, economic structure, natural endowment, currency's value, institution, environment, and culture all are contribute to competiveness success. For instance, Cambodia is a country that has weather as always humid as well as a lot of fertilise soil. These natural resources allow pepper to grow as a part of agriculture for farmer to do this. Moreover, Cambodia has exported many tons of pepper to many countries around the world such as Korea and some of countries in Europe. Unlike Japan is a country that has high technology in producing car and export to all countries around the world, but not fruitful for producing pepper like Cambodia. Thus, in this example, it is clearly demonstrate that Cambodia and Japan have different natural endowment. They have their own specialise for producing good, then each country can export what they can produce for profit and import the good from other country what they are not good at producing that production. Consequently, the concepts of comparative advantages yield positive result for some countries. After viewing how the theory of comparative advantage offers positive results, I will explain how it can also yield negative results. Chand (2014) argue against that Ricardo ignored the cost of transport which it plays as an important role in the world trade. For instance, shipping good from one country to another require cost of transportation. So the product that import from other country will also increase the price due to the cost of trading. In this case, we can see that the good that produce by local people is cheaper than the good that import from abroad.

Conclusion

In conclusion, all information above has reflected the definition of the concept of comparative advantage, the weaknesses of this theory and this theory yield positive and negative for all countries. As I mentioned overhead that comparative advantage bring benefits for all countries in terms of increasing manufacturing capability and pushing number of consumptions. The theory of comparative advantage also provides negative results when not carefully considered. All nations should focus on natural endowment and follow this concept in an attentive way in order to get more profits for expanding economic scales.

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