

How does globalization impact comparative advantage?

By Investopedia

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A Globalization has made the concept of comparative advantage more relevant than ever. Comparative advantage is defined as one country's ability to produce a good or service more efficiently and inexpensively than another. Economist David Ricardo defined the theory of comparative advantage in the early 1800s. Some of the factors that influence comparative advantage include the cost of labor, cost of capital, natural resources, geographic location and workforce productivity.

Comparative advantage has influenced the way economies work from the time that countries first started trading with each other many centuries ago. Globalization has brought the world together by encouraging more trade among nations, more open financial institutions and a greater flow of investment capital across international borders. In a globalized economy, countries and businesses are connected in more **ways** than ever before. Rapid and efficient transportation networks have enabled the cost-effective shipment of goods across the world. The global integration of financial markets has dramatically lowered barriers to international investment. The near-instantaneous flow of information over the Internet enables companies and businesspeople to share knowledge about products, production processes and pricing in real time. Together, these developments improve economic output and opportunities for both developed and developing nations. These factors also cause greater specialization based on comparative advantage.

Less-developed countries have benefited from globalization by leveraging their comparative advantage in labor costs. Corporations have shifted manufacturing and other labor-intensive operations to these countries to take advantage of lower labor costs. For this reason, countries such as China have seen exponential growth in their manufacturing sectors in recent decades. Countries with the lowest labor costs have a comparative advantage in basic manufacturing. Globalization has benefited developing countries by providing jobs and capital investments that would not have otherwise been available. As a result, some developing countries have been able to progress more quickly in terms of job growth, educational attainment and infrastructure improvements.

Advanced economies, such as the United States, Canada, Japan and much of Europe, have benefited from globalization in numerous ways. The concept of comparative advantage has provided the intellectual basis for most trade policy changes in developed nations over the past half-century. These nations have a comparative advantage in capital- and knowledge-intensive industries, such as the professional services sector and advanced manufacturing. They have also benefited from low-cost manufactured components that can be used as inputs into more advanced devices. Additionally, shoppers in advanced economies save money when they are able to buy consumer goods that cost less to produce.

Opponents of globalization argue that middle-class workers cannot compete with low-cost labor in developing countries. Lower-skilled workers in advanced economies are at a disadvantage because the comparative advantage in these countries has shifted. These nations now have a comparative advantage only in industries that require workers to have more education and to be flexible and adaptable to changes in the global marketplace.



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