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**Benefits of Comparative Advantage for Global Economy**

Since the theory of comparative advantage was created in the eighteenth-century by economist David Ricardo, it has been widely used by some of the worlds most successful economies. Having a successful economy is largely dependent on knowing your strengths and weaknesses of production, and that in a sense is what comparative advantage is all about. As described by economist Adam Smith, comparative advantage is “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage." (Adam Smith, The Wealth of Nations, New York: The Modern Library 1937, p. 424)1. This theory in summary is recognizing what products and services your nation can produce for less than other nations, and then exporting whatever your nation has comparative advantage on.

The original example used by Ricardo was a trade relationship between Portugal and England: Portugal having the comparative advantage in producing wine and England having the comparative advantage in producing cloth. He basically stated that although both countries were able to produce goods on their own, they would both benefit by focusing their production on the good that they can produce at the lower cost and then trade with the other nation for the other good. Comparative advantage is not to be confused with absolute advantage, which is being able to produce something quicker, but not necessarily at a lower cost. This important difference has not always been recognized and is explained in the textbook as “The early logic that free trade could be advantageous for countries was based on the concept of absolute advantages in production” (Saylor Academy, International Economics: Theory and Policy)2.

In todays economy we see nations utilizing comparative advantage like never before. India has recognized their comparative advantage of over the phone customer service, countries in the middle east have recognized their comparative advantage of producing oil, many Asian countries take advantage of their comparative advantage in producing clothes and textile goods, as well as many other examples all around us. Comparative advantage is especially important in today’s economy because as many places were cutting down business or closing up completely due to the Covid-19 virus, the importance of global trade has been made even more apparent. Many countries were having to reevaluate what they’re producing and make the decision whether or not it would be more cost effective to either produce something else or to outsource/import the product or service.

Comparative advantage has become an essential theory in the way the global economy functions today. By using this theory nations are able to evaluate what they’re able to produce at the lowest cost and engage in trade for things that it doesn’t benefit them to produce in-country. Now more than ever it is important to recognize ways to lower costs and to engage in beneficial trade, both of which are core objectives of comparative advantage.

References

Adam Smith, The Wealth of Nations, New York: The Modern Library 1937, p. 424. http://www.princeton.edu/~reddings/thoughts.htm#:~:text=If%20a%20foreign%20country%20can,The%20Modern%20Library%201937%2C%20p.