

Balance of Payments

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Globalization

- Globalization refers to the increase in trade as a percentage of world GDP (20% in 1950 to 280% in 2010)
- This is consistent with the idea of comparative advantage and the gains from trade
- We can increase world output and make both nations better off
- Why then are so many people against globalization, specifically the US trade with China and India?
- The short answer is that they don't understand how trade works, or they have trouble seeing the gains from trade
- The biggest reason that there is a negative connotation to trade is that there is a "loud minority" that is negatively affected by trade

Globalization Cont.

- Looking at the situation with the US and China, China has a huge population of workers willing to work for low wages, giving them a comparative advantage in manufacturing
- But they can't have a comparative advantage in everything! Comparative advantage is relative Ex
- So what is the comparative advantage of the US? It is service industries, research and development, marketing
- With specialization and trade the US gets access to cheap manufactured goods and has high paying service jobs, good things
- Unless your the guy who was making the T-shirts and sneakers, (load minority) then your out of a job
- The key is to remember that higher GDP doesn't mean that every person in the nation is strictly better off