

- **Principle of Comparative Advantage**

When one entity (be it a firm or a country) is able to produce more efficiently than another entity it has an **absolute advantage**; that is, assuming equal inputs, the entity with an absolute advantage will have a greater output.

However, the *relative costs* of producing those two goods are different in the two countries. If one country has a *relative costs* of producing X, this country has a comparative advantage in producing X.

Example: Suppose there are two countries, Northland and Southland. Both have a wine-making industry and a clothing industry.

Production capabilities per day

Country	Clothes	wine
Southland	1	1
Northland	0.33	0.2

Southland has an "absolute advantage" in both industries – it is more productive at making both **wine** and clothes. However, it is 5 times more productive than Northland in wine making and only 3 times more productive than Northland in Clothes making. That is, it has a *comparative advantage* in wine making. While Northland is worse at making either kind of goods, it is least deficient at making clothes.



TABLE: China's Trade Statistics

Year	RMB (100 Million)				US\$ (100 Million)			
	Trade	Export	Import	Trade Surplus	Trade	Export	Import	Trade Surplus
1978	355	167.6	187.4	-19.8	206.4	97.5	108.9	-11.4
1980	570	271.2	298.8	-27.6	381.4	181.2	200.2	-19
1985	2066.7	808.9	1257.8	-448.9	696	273.5	422.5	-149
1989	4156	1956.1	2199.9	-243.8	1116.8	525.4	591.4	-66
1990	5560.1	2985.8	2574.3	411.5	1154.4	620.9	533.5	87.4
1991	7225.8	3827.1	3398.7	428.4	1357	719.1	637.9	81.2
1992	9119.6	4676.3	4443.3	233	1655.3	849.4	805.9	43.5
1993	11271	5284.8	5986.2	-701.4	1957	917.4	1039.6	-122.2
1994	20381.9	10421.8	9960.1	461.7	2366.2	1210.1	1156.1	54
1995	23499.9	12451.8	11048.1	1403.7	2808.6	1487.8	1320.8	167
1996	24133.8	12576.4	11557.4	1019	2898.8	1510.5	1388.3	122.2
1997	26967.2	15160.7	11806.5	3354.2	3251.6	1827.9	1423.7	404.2
1998	26849.7	15223.6	11626.1	3597.5	3239.5	1837.1	1402.4	434.7
1999	29896.2	16159.8	13736.4	2423.4	3606.3	1949.3	1657	292.3
2000	39273.2	20634.4	18638.8	1995.6	4742.9	2492	2250.9	241.1
2001	42183.6	22024.4	20159.2	1865.2	101904.2	2661	2435.5	225.5
2002	51378.2	26947.9	24430.3	2517.6	75987.99	3256	2951.7	304.3
2003	70483.5	36287.9	34195.6	2092.3	8509.88	4382.28	4127.6	254.68
2004	95539.1	49103.3	46435.8	2667.5	11545.5	5933.2	5612.3	320.9
2005					14,221	7,620	6,601	1018.81
2006(1-7月)					9,418	5,089	4,329	759.64

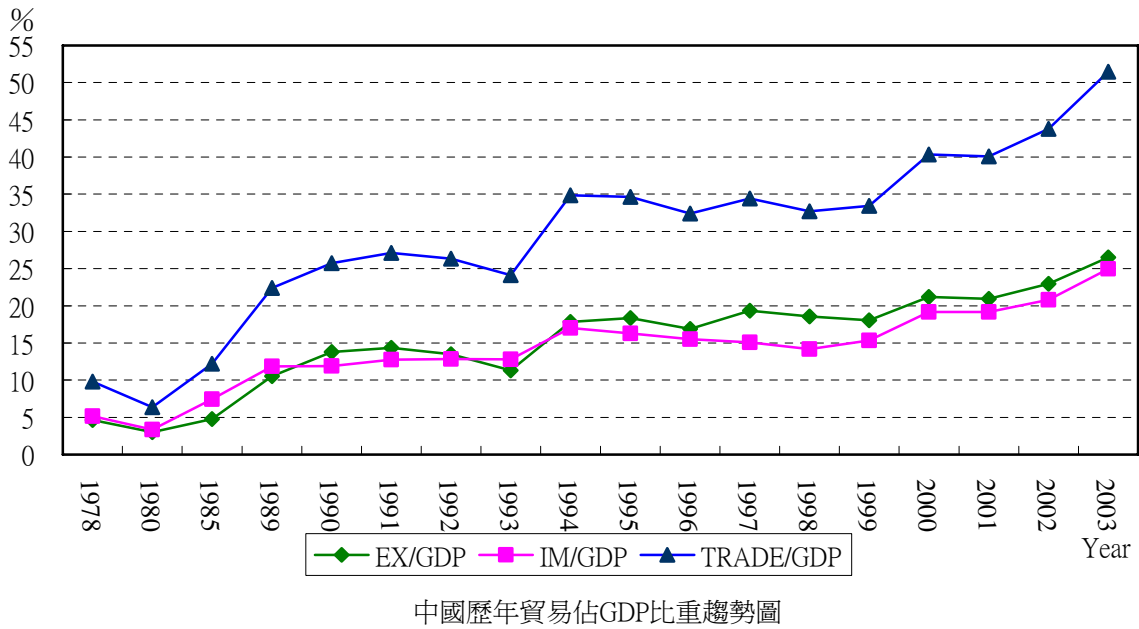
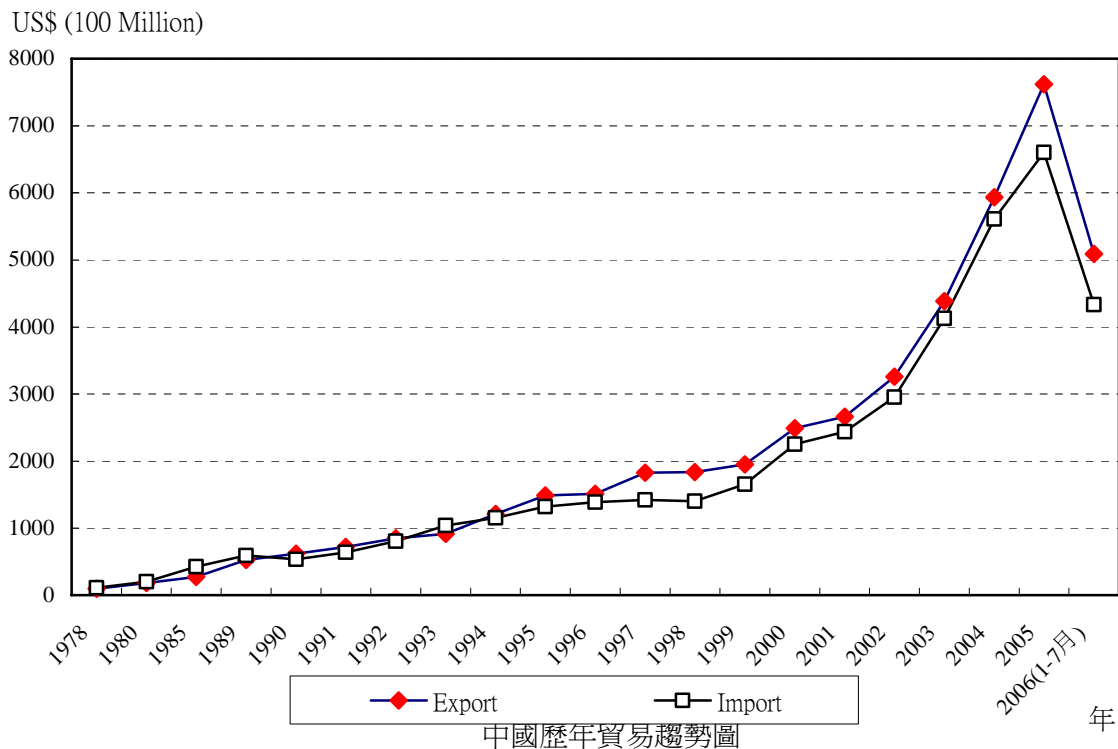
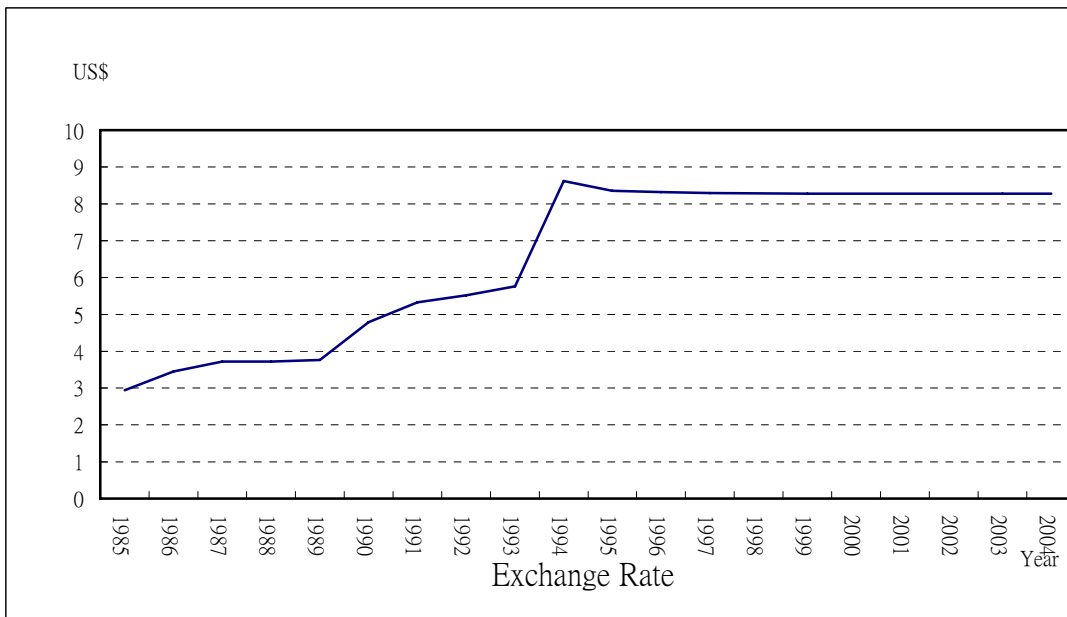


TABLE 2: China's Trade Dependence Ratio (%)

Year	Trade/GDP (trade dependence ratio)	EX/GDP	IM/GDP
1978	9.80	4.62	5.17
1980	6.36	3.03	3.33
1985	12.22	4.78	7.44
1989	22.41	10.55	11.86
1990	25.72	13.81	11.91
1991	27.13	14.37	12.76
1992	26.33	13.50	12.83
1993	24.10	11.30	12.80
1994	34.85	17.82	17.03
1995	34.62	18.34	16.27
1996	32.41	16.89	15.52
1997	34.42	19.35	15.07
1998	32.72	18.55	14.17
1999	33.42	18.06	15.35
2000	40.36	21.20	19.15
2001	40.11	20.94	19.17
2002	43.77	22.96	20.81
2003	51.49	26.51	24.98



Year	Exchange Rate
1985	2.9366
1986	3.4528
1987	3.7221
1988	3.7221
1989	3.7651
1990	4.7832
1991	5.3233
1992	5.5146
1993	5.762
1994	8.6187
1995	8.351
1996	8.3142
1997	8.2898
1998	8.2791
1999	8.2783
2000	8.2784
2001	8.277
2002	8.277
2003	8.277
2004	8.2768