

Comparative advantage



Comparative Advantage With reference to Table 15 what characteristics of national resources explain the different patterns of comparative advantage for the US and Japan?

United States and Japan vary greatly in their natural resources and this is predicted in the patterns of comparative advantage of the two countries as indicated in the table. United States has significant comparative advantage in cereals over Japan. This is mainly because United States has relatively strong agricultural base and it produces large number of grain, rice, wheat, maize, barley, oats, etc which are all cereal crops (Trading Economics, 2012). These cereal crops require fertile land and rainfalls and there is no shortage of both in United States. This is probably not true for Japan because agriculture land is not massively available for cultivation in the country. Japan and United States have no comparative advantage in mineral fuels, pharmaceuticals, and apparel. Both countries have shortage of mineral fuel reserves and this is why they cannot export or neither fulfills all its energy needs. Pharmaceutical industry of United States is stronger than Japan but neither country has any comparative advantage in these industries. Both the countries have developed enough therefore they have no more labor intensive industry and this is why textile industry is not a comparative advantage for Japan and United States of America.

Japan has competitive advantage in automotive industry and this is because of the innovative and technological capital of the country. Japanese automotive companies are famous all over the world for the quality of their product. Automobile industry started to grow in early 20th century in Japan and therefore the foundations of the industry were strong. Today, Japanese industry is ranked third all over the world in the automotive sector (BBC, <https://assignbuster.com/comparative-advantage-essay-samples/>

2012). United States enjoyed comparative advantage initially but later on lost to Japan, China, and Germany.

On the other hand, United States has an extremely developed aerospace industry compared to Japan. The comparative advantage of United States in the aerospace industry is mainly due to large domestic consumer base and highly advanced military sector. This bolstered the aerospace industry of United States and gave the country comparative advantage over other countries.

Electronics equipment is an area where Japan is well known all over the world. Again the intellectual and technological infrastructure the country has gives rise to the strength of the country in the sector. Electronics and electrical equipment are built on a large scale in Japan and are exported all over the world. Strong competition within Japan is contributed towards a strong domestic consumer base which is responsible for comparative advantage of the country in this sector (Togo, 2005). United States has lost its comparative advantage in this area because of lack of innovation and increasing costs of production.

Even in optical and scientific equipment, Japan has a comparative advantage greater than United States. Again the technological reserves of the country are the main drivers of growth in this sector. Japanese companies use sophisticated technology that allows them to enjoy competitive advantage over other countries. United States enjoys a little comparative advantage in this area but is far behind Japan.

The finance and insurance sector also indicates Japanese dominance over United States. United States lost a great deal of comparative advantage in the economic recession of 2008 and this is why it is behind Japan in this

regard. Japan has an established financial system which supports the growth of finance and insurance industry.

References

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