

Macro Roundup Article

Headline: [No, Trade Surpluses Aren't Caused By Comparative Advantage](#)

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Author(s)	Michael Pettis
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Summary: Chinese workers are much less productive than American workers, so it's to be expected that they earn lower wages. The problem is that even adjusting for differences in productivity, Chinese wages are low. It is these relatively low wages — not comparative advantage — that explain China's weak domestic demand as well as its low export prices across the board. This would change if China were to raise its wages in line with its productivity, as it has been promising to do for nearly two decades. In that case, it would still export products in which it had a comparative advantage, like electric vehicles, but because Chinese households would be able to consume more, it would import just as much as it exported, and so would contribute as much demand to the world economy as it absorbs. Americans would pay for their Chinese imports with exports to the world. This isn't what is happening. China exports far more than its population can afford to import. And so while most economists support free trade under comparative advantage because this maximises the value of goods and services produced by the economy, excess savings and persistent trade surpluses are not signs of comparative advantage.

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Primary Topic: Savings Glut/Trade Deficit

Topics: China, GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Trade (not deficits)

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