

Real life examples of the leontif paradox assignment



| International Marketing Assignment | | Real Life Examples of the Leontief Paradox | | Course Instructor: Dr. Abu Yousuf M Abdullah | | | |

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Introduction The Heckscher-Ohlin theory states that each country exports the commodity which uses its abundant factor intensively. The HO theory was generally accepted on the basis of casual empiricism. Moreover, there wasn't any technique to test the HO theory until the input-output analysis was invented. The Leontief Paradox The first serious attempt to test the theory was made by Professor Wassily W. Leontief in 1954.

Result: Leontief reached a paradoxical conclusion that the US—the most capital abundant country in the world by any criterion—exported labor-intensive commodities and imported capital-intensive commodities. This result has come to be known as the Leontief Paradox. [para = contrary to, dox = opinion] Leontief took the profession by surprise and stimulated an enormous amount of empirical and theoretical research on the subject. The US seems to have been endowed with more capital per worker than any other country in the world in 1947.

Thus, the HO theory predicts that the US exports would have required more capital per worker than US imports. However, Leontief was surprised to discover that US imports were 30% more capital-intensive than US exports. In 1956 Leontief repeated the test for US imports and exports which prevailed in 1951. In his second study, Leontief aggregated industries into 192 industries. He found that US imports were still more capital-intensive than US exports. US imports were 6% more capital-intensive.

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More recently, Professor Robert Baldwin (1971) used the 1962 US trade data and found that US imports were 27% more capital-intensive than US exports. The paradox continued. Paradoxes outside the US Japan Tatemoto and Ichimura (1959) studied Japan's trade pattern and discovered another paradox. Japan was a labor-abundant country, but exported capital-intensive goods and imported labor-intensive goods. Japan's overall trade pattern was inconsistent with HO. Explanation: They said that Japan's place in the world was somewhere between advanced and LDCs. 25% of Japan's exports went to advanced industrial countries. 5% of exports went to LDCs. For the US: With regard to trading with Japan, the trade pattern was consistent with HO prediction. Japan: With regard to trading with LDC, trade pattern consistent was consistent with HO prediction. India Bharawaj (1962) studied India's trade pattern. India's exports were labor-intensive. This was consistent with HO theory. However, Indian trade with the US was not. Indian exports to the US were capital-intensive. Malaysia/Singapore Singapore can be considered capital abundant and Malaysia can be considered labor abundant.

We also find that the two countries are closely linked economically, politically, and geographically, giving them high relative proportions of bilateral trade, and thus making them a worthwhile country pair to compare when testing the Heckscher-Ohlin Theorem. When comparing the relative factor intensities of sectors for which data was available, a questionable yet not entirely unreasonable method of comparing the export category with the corresponding labor category, and finding the capital output for each unit of labor employed.

When applying this method to the two available sectors—manufacturing and agriculture/mining—Singapore's exports were found to be relatively capital intensive and Malaysia's exports were found to be relatively labor intensive. This meets the hypothesis of the H-O Theory. However, when looking at the factor intensity ratios of these two sectors in comparison with the factor abundance ratio, we found that Singapore's exports were relatively lower in terms of capital intensity than would be expected by H-O.

Singapore's capital/labor abundance ratio was found to be 297, while Malaysia's was 59. Therefore Singapore can be considered approximately five times more capital abundant. However, for manufactured goods exports, Singapore's exports were only 3.5 times as capital abundant as Malaysia's, and for agriculture/mining exports, Singapore's were only 2.5 times as capital abundant. Therefore, this finding suggests that Malaysia is exporting more than their expected share of capital intensive goods to Singapore.