

ISRG Journal of Arts, Humanities and Social Sciences (ISRGJAHSS)



ISRG PUBLISHERS

Abbreviated Key Title: ISRG J Arts Humanit Soc Sci

ISSN: 2583-7672 (Online)

Journal homepage: <https://isrgpublishers.com/isrgjahss>

Volume – III Issue-I (January- February) 2025

Frequency: Bimonthly



Irving Kravis International Trade Theory: Postulates, Illustrations and Weaknesses

OBUYORI Joseph Bidemi^{1*}, BRIGGS David Theophilus²

^{1,2} Institute of International Trade and Development University of Port Harcourt, Nigeria

| **Received:** 27.01.2025 | **Accepted:** 03.02.2025 | **Published:** 04.02.2025

*Corresponding author: OBUYORI Joseph Bidemi

Institute of International Trade and Development University of Port Harcourt, Nigeria

Abstract

The paper examined Irving Kravis international trade theory. The objective of the study is to x-ray the postulations and the relative importance of Irving Kravis theory in international trade and policy. Thus, Irving Kravis approach to international trade is one of the new trade theories which states that availability or non-availability of goods that governs the pattern of trade. Kravis' (1956) model averred that, technological innovation is the basis through which trade operates via product availability in that, the availability of goods influences trade through demand and supply forces. According to Kravis (1956), a country produces and exports those commodities available goods which are developed by its entrepreneurs and innovators. By means of explanation, Kravis availability of goods means an elastic supply. Therefore, international trade takes place because of differences in the availability of certain products among countries. Nevertheless, the theory is weak in that, it recognizes that the bases of availability factor are natural resources, technical progress, product differentiation and the government policies, but overlooked consumer preferences in foreign countries as factor that influences trade pattern. Also, the theory is not relevant to trade among advanced nations, this is because advanced nations generally have similar factor endowments and technical know-how.

Keywords: Availability, Entrepreneurs, Kravis, Postulates Technological and Weaknesses.

1. INTRODUCTION

Early on, every nations strived for “economic independence” but this led to wars but it was predictable that, in order to allay the incidence of wars, there is the need to establish a system of “economic interdependence” amongst nations of the World. Thus, intellectuals like Adam Smith after the Second World War, promulgated international trade theories which acted as the catalyst in bringing about the needed change in the World economy. These

trade theories can be broadly classified into; mercantilist theories, classical theories of trade such as; Adam Smith, David Ricardo, Robert Torrens and John Stuart Mill trade theories, modern theory of trade such as; Eli Heckscher and Ohlin trade theory or Heckscher – Ohlin theory as well as the new theories of trade such as the theory of availability, Linder's theory of volume of trade and

demand pattern, Posner's imitation gap or technological gap theory and Vernon's product cycle theory.

Meanwhile, an important extension of international trade theory given by Heckscher and Ohlin (H-O) is the availability approach to international trade. This is one of the new approach to trade theory given by Irving B. Kravis in the year 1956. According to Kravis (1956), domestic availability or non-availability of goods directs the form of trade. Kravis (1956) in an attempts to validate H-O approach to trade that, labour-abundant nations export labour-intensive goods, found that, the exporting-industries invariably had been paying relatively high wage rates even in those countries. He therefore affirmed that, the nations would export those products which were readily available in the domestic country, and import on the contrary, such products the domestic supply had been short of their demand.

According to Kravis (1956), the essential basis of international trade has been the 'non-availability of goods at home'. The non-availability of goods in the home country may either be in the absolute or the relative sense. In the former case, certain goods may not be available at all in the home country such as diamonds in the economy. The non-availability in the relative sense signifies that the domestic supply of products is short of their demand and the additional output of those goods can be possible in the home country at much higher costs. The principle of comparative advantage in such a case comes into its own and countries prefer to import such products from abroad rather than to produce them at home at the prohibitive costs.

2. POSTULATES OF IRVING KRAVIS THEORY

2.1. Domestic availability or non-availability of goods directs the pattern of trade: In an effort to authenticate Heckscher-Ohlin assumption that, labour surplus nations export labour intensive goods revealed that, the exporting-industries perpetually had been paying relatively high wage rates even in those countries. Kravis in his summation stressed that, the nations would export readily available products in the home country and import such products the domestic supply of which had been in short of their demand (Kravis, 1956). "Thus, "it is the domestic availability or non-availability of goods that directs the form of trade"

2.2. Non-availability of goods at home is the essential basis of international trade: According Kravis (1956), the critical basis of transnational trade has been the 'non-availability of goods in the home nation. The non-availability of goods in the home nation may either be in the absolute or the relative term. For instance, absolute non-availability signifies that, a particular good may not be available at all in the home country such as crude oil in the Nigerian economy or gold in the South African economy.

2.3. The non-availability shows that the domestic supply of products is short of demand: Non-availability in the relative sense signifies that, the domestic supply of products is short of their demand and the supplementary output of those goods can be possible in the home country at much higher costs. The principle of comparative advantage in such a case comes into play and countries will therefore prefer to import such

products from abroad rather than to produce them at home at the outrageous prices.

2.4. Domestic availability of specified products in a particular country is governed by four factors: Kravis upholds that, the domestic availability of certain products in a particular country is governed by: natural resources, technical progress, product differentiation and government policy. Thus, in the terms of natural resources, the form of trade of a given nation is subjected by the relative abundance or scarcity of natural resources. Also, technical progress can have a significant impact upon factor utilisation, factor costs, expansion in the scale of production and improvement in the quality of product. Also, it can increase considerably the domestic availability of certain kinds of products, the surplus quantities of which can be shipped abroad. On product differentiation, the producers in different nations are liable to produce different ranges of goods. The production of such goods confers temporary monopoly to a specific innovating nation and it disposes of its special product variety in the foreign markets. Finally, government policy in terms of tariff and non-tariff trade restrictions tend to limit the international flows of goods. The international cartels like OPEC too follow restrictive policy measures and the availability of a large range of products gets affected on the international plane.

3. ILLUSTRATION OF IRVING KRAVIS TRADE THEORY

Kravis' availability theory of trade can be explained through a hypothetical example. It was proposed that, four nations; X_1 , X_2 , X_3 and X_4 exists. In the existence of the aforementioned four nations, two basic commodities which are wheat and steel the usually produced. Nevertheless, the production of these commodities involves two factors of production which are labour and capital. Furthermore, the production of wheat also needs arable farm land while the construction of steel needs iron ore. Three out of the four nations; X_1 , X_2 and X_3 are blessed with arable farm land. While three nations; X_2 , X_3 and X_4 are also blessed with iron ore.

Given that, these nations are endowed with the aforementioned factors of production; the first nation (X_1) is proficient in the production of only wheat and fourth nation (X_4) can conveniently produce steel. But the good things about these two nations, X_3 and X_4 is that, they can produce both wheat and steel. At this moment, according to the availability doctrine, nation X_1 will export wheat to nation X_4 , while X_4 will export steel to X_1 . Since nations X_2 and X_3 are capable of producing both the commodities, the trade between them will be governed by their respective comparative cost advantages.

4. WEAKNESSES OF THE IRVING KRAVIS TRADE THEORY

There is no gain saying in the fact that, Kravis' trade theory provides a more detailed clarification of the pattern of trade. It is, in some respects, even better than both comparative costs and factor proportions approaches. But there are certain weaknesses in this model of trade.

(i) **Limited Applicability:** In this model, the pattern of trade is explained on the basis of availability of

factor of production such as more land in one country and more iron ore in the other country. The number of product-specific resources may be quite large. The determination of the trade pattern, in such a situation, is likely to be very difficult and complex. The multi-commodity approach based on comparative advantage may seem to be more suitable in such a situation.

- (ii) **Methodological Weakness:** Although Jagdish Bhagwati attempted to derive a number of hypotheses concerning the availability theory such as: domestic inelasticity of supply of importable goods; excess of foreign over domestic elasticity of supply of importable goods; higher rate of technical progress in export industries of the home country than the overall average rate of technical progress in the country; and the intensity of use in export goods of those materials which are relatively abundant in the home country. However, neither such hypotheses have been systematically formulated, nor these have been scientifically tested.
- (iii) **Neglect of Demand Pattern:** This theory recognizes that the bases of availability factor are natural resources, technical progress, product differentiation and the government policies. The pattern of demand or consumer preferences in foreign nations is a very crucial factor that influences the pattern of trade. This factor, however, has been ignored in Kravis' approach.
- (iv) **Not Relevant to Trade among Advanced Nations:** The advanced nations generally have similar factor endowments and technical know-how. The availability factor may not exercise a significant impact upon their pattern of trade. In the same way, the trade among less developed countries may also not be based on availability factor as they also generally have similar factor endowments. It is only in the case of trade between the North and the South that the availability factor may have some relevance.

5. CONCLUDING REMARKS

There is no gain saying that, interdependence amongst nations of the World brings about growth and development in the global economy. Thus, numerous theories of trade have been propounded in order to show that, international trade is an essential determinant of growth and financial development. While, some of the earlier theories (prior to 1970s) assumed only two products, two commodities, two factors, two nations, perfect competition, constant returns to scale, constant technology etc, the new theories which were developed after 1970s were based on more realistic assumptions like – change in technology, imperfect competition and changing returns to scale.

Hence, the new trade theories are quite capable of explaining the pattern of world trade in today modern economy. Thus, the gains from intra – industry trade are considered to be over and above that from comparative advantage. In view of the background above, the paper examined the Irving Kravis trade theory with focus on the postulates, weaknesses and relative importance of the theory in the

international trade and policy. Thus, the Kravis approach to international trade is one of the new trade theories which states that, availability or non-availability of goods governs the pattern of trade. Thus, Kravis' (1956) model averred that, technological innovation is the basis through which trade operates via product availability in that, the availability of goods influences trade through demand and supply forces. According to Kravis (1956), a country produces and exports those commodities available goods which are developed by its entrepreneurs and innovators. Therefore, international trade takes place because of differences in the availability of certain products among countries. Nevertheless, the theory is weak in that, it recognizes that the bases of availability factor are natural resources, technical progress, product differentiation and the government policies, but overlooked consumer preferences in foreign countries as factor that influences trade pattern. Also, the theory is not relevant to trade among advanced nations, as advanced nations generally have similar factor endowments and technical know-how.

REFERENCES

1. Brander, J. (1981). Intra-industry trade in identical commodities, *Journal of International Economics*, 11(1), 1 – 14.
2. Brander, J. & Krugman, P. (1983). A reciprocal dumping model of international trade, *Journal of International Economics*, 16(3 – 4), 313 – 321.
3. Dixit, A. K. & Stiglitz, J. (1977). Monopolistic competition and optimum product variety, *American Economic Review*, 67(3), 297-308.
4. Heckscher, E. (1919). The effect of foreign trade on the distribution of income. *Ekonomisk Tidskrift*, 497–512. Translated as chapter 13 in *American Economic Association*.
5. Kravis I. B. (1956). Availability and other influences on the commodities composition of trade, *Journal of Political Economy*, 64, 143 – 155.
6. Krugman Paul R. (1984). *Import promotion as export promotion* in - Henry Kierzkowski (Ed) - *Monopolistic Competition and International Trade* – Oxford, Oxford University Press.
7. Ohlin, B. (1933). *Interregional and international trade*, Cambridge: Harvard University Press.
8. Patel, A. (2017), International trade & economics law: Theories of international trade and economics, *Journal of Legal Studies and Research*, 3(5), 1-15
9. Posner, M. V. (1961). International trade and Technical change, *Oxford Economic Papers*, 13(3), 323 - 341.
10. Stolper, W. F. & Samuelson, P. A. (1941). Protection and real wages, *Review of Economic Studies*, 9(1), 58 -73.