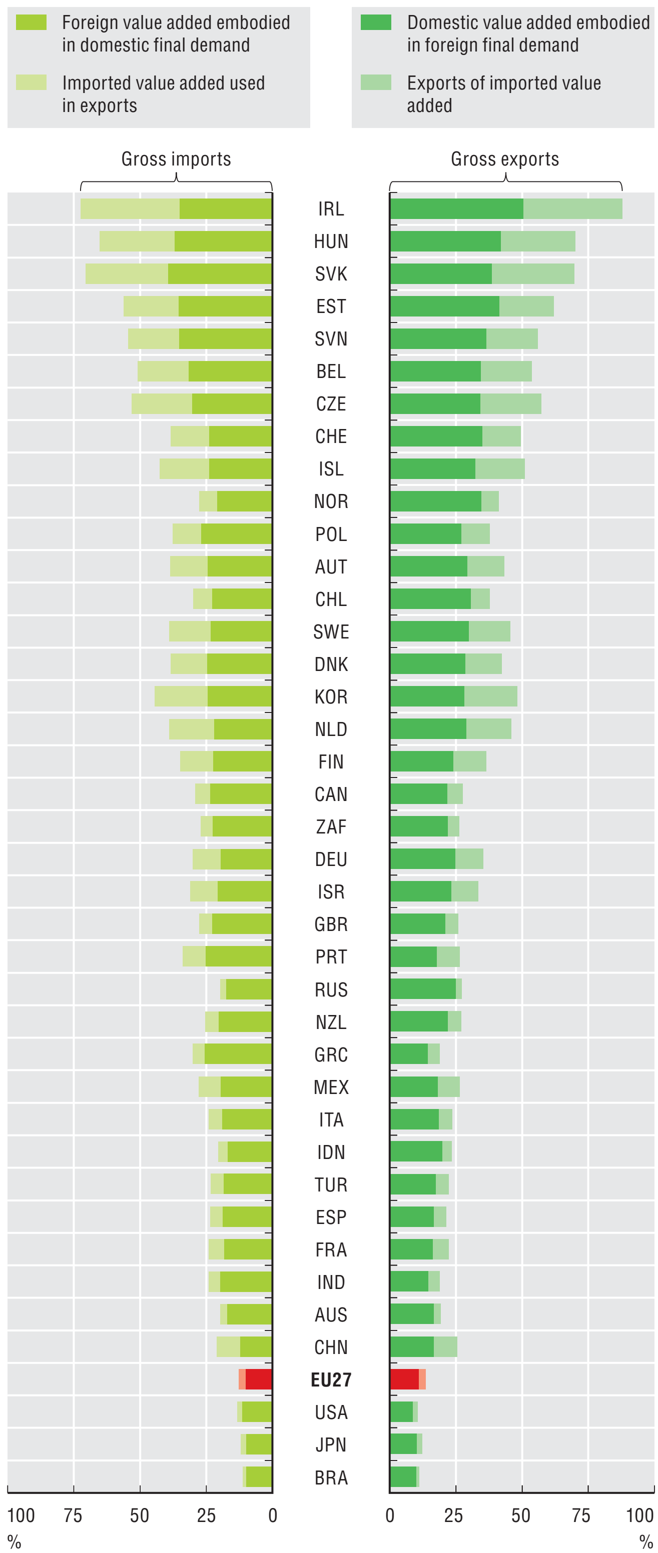
6. Trade and global value chains

Trade linkages in global value chains, 2009

Decomposition of gross imports and exports as a percentage of GDP



Source: OECD-WTO, Trade in Value Added (TiVA) Database, *http://oe.cd/tiva*, May 2013. StatLink contains more data. See chapter notes.

StatLink http://dx.doi.org/10.1787/888932904355

A country's integration in the global economy can be summarised in terms of the imports of value added required to meet its domestic final demand and produce its exports and in terms of the extent to which its domestic value added is sustained by foreign demand, both directly, via exports of final goods, and indirectly, via exports of intermediates subsequently embodied in its partners' exports.

Countries with relatively open and liberal trade regimes and high levels of foreign investment will typically have more foreign content in both their exports and their domestic consumption. A number of other factors affect a country's integration, and its specialisation, in global value chains (GVCs). Economies that are large, have significant mineral resources, or are relatively far from foreign markets and suppliers, tend to have higher domestic (and lower foreign) value added content in their exports than others. Similarly, countries that specialise in activities at the beginning of the value chain (upstream), such as mining and agriculture, or that specialise in services will typically have higher domestic value added content in their exports.

The increasing interdependency of the global economy is reflected in the general increase in the foreign content of exports since the mid-1990s, interrupted only by a widespread fall between 2008 and 2009 when the impact of the global financial crisis on trade peaked.

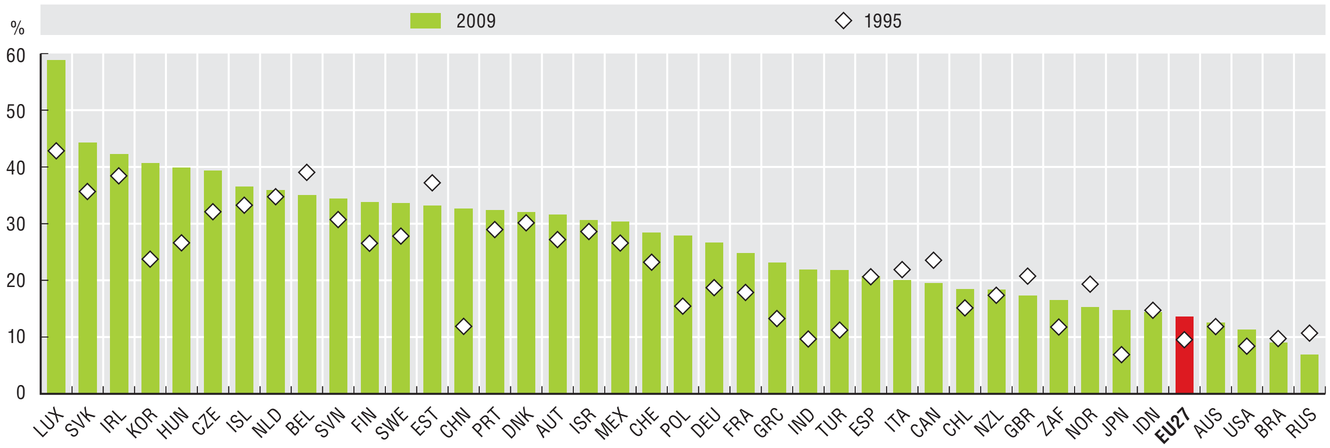
A country's integration in GVCs can also be seen in the share of imported intermediate inputs embodied in its exports following their incorporation in the production of goods and services. The indicator can demonstrate the importance of imported products for a country's export performance and the potential counterproductive effect of tariffs.

Definitions

Indicators of the origin of value added embodied in final demand are principal outputs of the new OECD-WTO Trade in Value Added (TiVA) collection of indicators. *Domestic value added embodied in foreign final demand* shows how industries export value both directly through exports of final goods and services and indirectly via exports of intermediates to other countries which are then embodied in further exports to final consumers abroad. It reflects how industries (upstream in a value chain) are connected to consumers in other countries even if no direct trade relationship exists. Similarly, *foreign value added embodied in domestic final demand* ultimately shows how industries abroad are connected to consumers at home. The measure of foreign value added content of exports considers the foreign content of gross exports as measured "conventionally" and thus includes intermediate as well as final goods and services.

Foreign value added content of exports, 1995 and 2009

As a percentage of total exports of goods and services

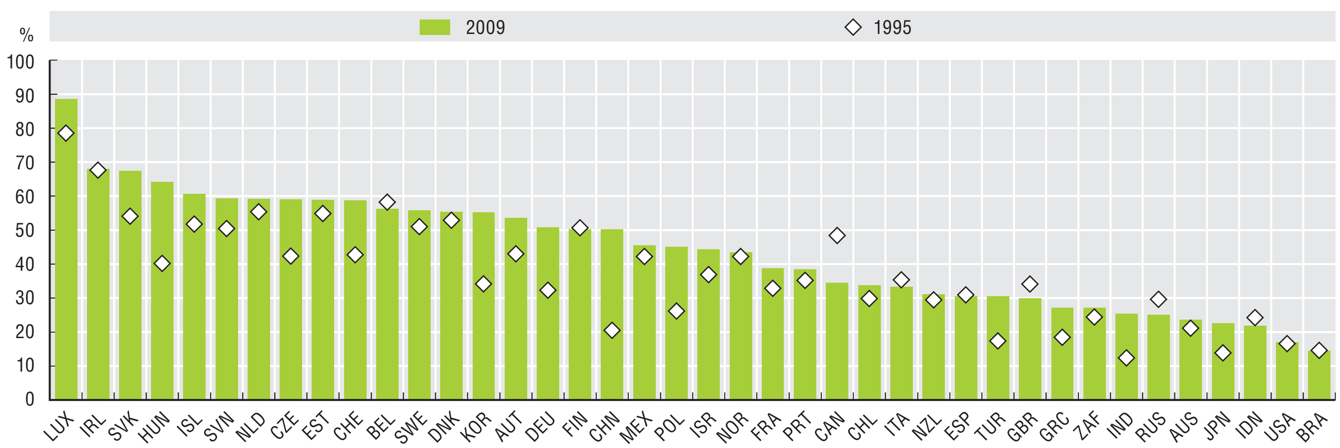


Source: OECD-WTO, Trade in Value Added (TiVA) Database, *http://oe.cd/tiva*, May 2013. StatLink contains more data. See chapter notes.

StatLink http://dx.doi.org/10.1787/888932904374

Imported intermediate inputs used in exports, 1995 and 2009

As a percentage of total imports of intermediate inputs



Source: OECD-WTO, Trade in Value Added (TiVA) Database, *http://oe.cd/tiva*, May 2013. StatLink contains more data.

StatLink http://dx.doi.org/10.1787/888932904393

Measurability

Official statistics on international trade are measured in gross terms so that the value of products that cross borders several times for further processing are counted multiple times. For example, the production of goods for export may require intermediate inputs from manufacturers abroad, who may also require significant imports of intermediates. Thus, much of the revenue, or value added, from selling the exported good may accrue to other countries, leaving only marginal benefits in the exporting economy.

The OECD and WTO recently developed a set of Trade in Value Added (TiVA) indicators based on the OECD Inter-Country Input-Output (ICIO) Database. The theory for developing such indicators is well established. The main challenge is data availability and the need to create balanced matrices of international flows of trade in goods and services that are consistent with official National Accounts. Reported exports by country A to country B often do not match reported imports by country B from country A. The global balancing of the ICIO essentially removes inconsistencies but resulting bilateral gross trade flows may not match some countries' perceptions of their trading patterns.

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