

Abstract for “Trade in Value-Added, Jobs and Investment”

Nadim Ahmad (OECD)

The increasing international fragmentation of production that has occurred in recent decades driven by technological progress, cost, access to resources and markets, trade policy reforms, and indeed emerging economies, has challenged our conventional wisdom on how we look at and interpret trade. Traditional measures of trade, record gross flows of goods and services each and every time they cross borders leading to what many describe as a ‘multiple’ counting of trade, which may lead to misguided policy measures. To respond to this challenge a number of initiatives have been launched in recent years that attempt to measure, or perhaps more accurately ‘estimate’, what has become known as ‘trade in value-added’. These have all helped to shed light on the importance of accounting for global value chains and have helped raise awareness of a growing need to mainstream the production of these estimates within the international statistics system.

Responding to these challenges the OECD and WTO have collaborated to develop a database on trade in value-added. This paper describes some of the key results of that work, and the methodology used. It also describes the detailed assumptions behind the methodology to necessarily deal with the treatment of data, and also the initiatives launched to improve the quality of those assumptions and the underlying data, as well as the challenges that remain. The paper also describes extensions of the work to consider trade in jobs and the importance of property income flows between affiliated enterprises, referred to here as ‘trade in investment’. It also considers the data issues relevant to both strands of work as well as the conceptual challenges.

Trade in value-added estimates have been able to shed important light on our understanding of international trade and its relation to activity and competitiveness, in particular the importance of recognising the importance of imports to exports, and, so, the hitherto hidden costs of protectionism as well as the benefits of trade liberalisation, particularly in services. But, with significant shares of exports being driven by foreign affiliates, they have also revealed the importance of going beyond just value-added towards income, in order to capture flows outside of conventional international trade statistics, such as the repatriation of profits related to the use of knowledge based assets (brands, R&D, etc).