The Fragmentation of Global Production and Trade in Value-Added –
Developing New Measures of Cross Border Trade
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The views expressed are those of the author and may not represent the views of the USITC or its Commissioners.
Request from Congressional staff – help explain fast growing imports from China and the bilateral trade deficit with China:


Fast growth, changing composition - role of macro environment - recessions?
What we initially pointed out to Congress inquiries starting in 2002 – Shift in Asia largely from Japan to China, but no increase in share.

China's share increased, while those of Japan and the rest of Asia fell – Asia share of total imports down slightly

Mexico's share in U.S. imports also increased from 6.7% to 10.3%


<table>
<thead>
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<th>Table 3 Shares of domestic and foreign value added in total exports (%)</th>
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<tr>
<td><strong>The HIY Method</strong></td>
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<td><strong>All Merchandise</strong></td>
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<td>Total Foreign value-added</td>
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Note: The HIY method refers to estimates from using the approach in Hummels, Ishii, and Yi (2001). The KWW method refers to estimates from using the approach developed in this paper that takes into account special features of processing exports.

In paper with Justino De La Cruz we find VA in Mexico’s exports to US even lower than China’s, providing solid insights on the NAFTA integrated market.
Recalculating based on VA trade shows some dramatic reallocation of the U.S. trade deficit.

From Johnson and Noguera 2011
WTO, IDE JETRO show similar impact
Decomposition of value added in global gross exports – KPWW 2011

Advanced economies

Emerging Asia

Asia NICs

Other emerging

Share of Gross Exports

0 20 40 60 80 100

World average

Australia, New Zealand
Japan
EU 15
United States
EFTA
Canada

India
South Asia
Rest of East Asia
Indonesia

China
Vietnam
Thailand
Malaysia
Philippines

Hong Kong
Korea
Taiwan

Russia
Brazil
Rest Latin America
Rest of the world

South Africa
EU accession countries

Mexico

Advanced economies

Domestic VA
Domestic VA returned
Foreign VA
Gross exports to GDP ratio is a misleading indicator of exports contribution to economic growth.

Export/GDP for large economies in the world 1977-2006

Mexico – high ratio of exports to gdp, but mediocre Economic growth
Macro Factors – Asia and Oil Exporters running big surpluses – US running big deficit

IMF World Economic Outlook Database, April 2009, IMF Exchange Rates, and USDOL
Some reasons why this matters for US policy development

- It will help us better understand, among other things;
  - Trade’s net contribution to economic growth.
  - Impact of exchange rate revaluation on trade flows.
  - Employment impacts of trade and value chains.
  - Better understand global effects/linkages of economic shocks, including natural disasters such as Japan’s earthquake and tsunami.
  - Full range of interested parties in trade disputes – including unexpected third country interest, or downstream domestic concerns in Anti Dumping/Counter Veiling Duty cases.
  - Better understanding of true distribution of environmental impact/Green House Gas emissions resulting from trade.
  - Better estimates of the true sources of sophistication in a country’s exports.
  - Real size/impact of tariffs and Non Tariff Measures on trade.
  - Better estimates of concepts from “revealed comparative advantage” to gravity models of trade.
  - Better understand and measure role of quality institutions and policy transparency/stability, implications for deep vs. shallow Regional Trade Agreements (RTAs).
Thank you.