Double-Counting in Computations of Factor Contents of Trade

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The factor content of trade calculates the difference in the amount of a production factor (e.g. labor, capital, land) that is embodied in the exports of country and the amount embodied in the country's imports. If a single-country input-output table is used, all exports are typically viewed as final goods and the answer is relatively simple. Because the recent waves of globalization led to increasing shares of intermediate inputs in total trade flows, trade theorists started paying a lot of attention to incorporating intermediates into their recent empirical work. It has well been recognized that for including trade in intermediate goods, world input-output tables (WIOTs) are necessary. Several measures to determine the factor content of trade using a WIOT have been proposed. In this paper, we will argue that they suffer from double-counting. We will propose a proper factor content of trade measure that avoids the double-counting problem and give indications of the empirical magnitude of the difference between this measure and the incorrect measures proposed so far.