

New Estimates of the Size of Tradable and Nontradable Sectors Based on World Input-Output Tables

Topic: Global Value Chain Analysis

Author: Luca Cherubini

Co-Authors: Michele Benvenuti

The ongoing globalization process and the rise of new global players, which act as both producers and consumers, make the distinction between tradable and nontradable sectors more and more important, not only for research purposes but also for its policy implications. In their seminal paper of 2005, J.B. Jensen and L. Kletzer developed a new empirical approach to identify tradable and nontradable sectors in the USA, using the geographic concentration of activities. Further works have highlighted some drawbacks of this classification. The most relevant one refers to a particular feature of globalization, i.e. the international unbundling of tasks: a good or service is produced and delivered to the final consumer in a series of steps, which together define a Global Value Chain (GVC). Each task of the process can be either classified as tradable or nontradable, thus influencing the tradability of the final product. In classifying economic activities one should therefore consider the linkages among all sectors (wherever they are located) that participate in the GVC. This issue can be properly addressed by using world input-output tables.

To this end, we use the publicly available World Input-Output Database (WIOD). It provides time-series of world input-output tables for 40 countries worldwide and 35 industries, as well as "satellite" accounts on labour and capital inputs at the industry level, covering the period from 1995 to 2011. Our contribution is twofold: first, we add a time dimension to the estimates of the size of tradable and nontradable sectors, including the most recent years of crisis, in terms of several economic variables (value added, investments, and employment); second, we compare the economic structure of several countries, taking into account the dynamics of international fragmentation of production processes.