

HOV with technology and consumption dissimilarity

Topic: Special WIOD-session 3: Economic Effects of Globalization

Author: Robert Stehrer

Co-Authors: Neil Foster

It is now widely accepted that when controlling for international differences in production techniques the predictions from the Heckscher-Ohlin-Vanek (HOV) theorem are largely satisfied. However, a large amount of 'missing trade' remains. The aim of this paper is twofold: First, the HOV is tested for various production factors including labor by educational attainment levels (high, medium, low) and capital. Second, when allowing for a more general structure of final consumption in the HOV framework with technology differences the amount of missing trade is reduced. We test for the effects of non-homothetic preferences, home-bias of consumption and the role of distance at the country and industry level. We discuss how this can be tackled in the analytical framework both for a country's total exports but also in a bilateral way. Results are shown both for total trade and bilateral trade. Empirically we draw on the recently released World Input-Output Database (WIOD) and show the reductions in the 'missing trade' caused by the various assumptions and restrictions on demand structures.