

Domestic value added content of exports: a cross-country comparison for the major European economies

Topic: Vertical specialization and outsourcing 2

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The increase in the fragmentation of production across countries has led to a growing awareness that conventional trade statistics may be misleading when measuring a country's export performance. Since inputs cross the borders several times, trade flow statistics, in gross terms, have become less reliable to evaluate the value added that exports create in a given country.

The development of global production chains has affected the European countries as well, with a large amount of intermediate inputs imported from other countries. The process has been particularly strong for Germany and Italy and has implied a reduction of domestic value added generated by exports. Although efforts have been made in theoretical and empirical studies to trace value added in international trade, a few attempts have been made to quantify and evaluate the effects of international fragmentation of production on the aptitude of European economies to generate domestic value added and labour income. This paper tries to fill this void by tracing the value added content and the content of its main component, labour costs, in the exports of France, Germany and Italy from 2000 and 2007.

By matching data from input-output tables, foreign trade statistics and National Accounts, two indicators, the direct and the domestic value added content of exports, are calculated to measure the domestic effects generated by exports. In the same vein, the paper proposes two metrics of direct and domestic labour share in the three countries' exports. Moreover, the domestic value added created by each sector's exports is split in two parts: the one directly generated within sector and the one indirectly created in the upstream sectors including services. The quantification of this indirect component constitutes a first step to verify whether the strengthening of the global production chains has increased activities in sectors not considered as exporters.