

GVC based Comparative Advantages in the Context of International Fragmentation Production

Topic: Global Value Chain Analysis

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Given the increasing presence of fragmentation production and vertical specialization trade in Global Value Chains (GVC), foreign contents has been getting to account for much larger portion in many countries' exports. This means that the gross-export-based indicator of Revealed Comparative Advantage (RCA) can no longer reflect the reality of relative competitive advantage of a certain country in international trade. This paper uses international input-output based decomposition techniques newly developed in GVC analysis to propose some alternative indicators for measuring a country's "real" RCA. The proposed GVC based RCA indicators can not only show a country's comparative advantage in value-added exports by different route of value chains, but also can reveal a country's comparative advantage in absorbing foreign value-added and providing fragmentation capacity in GVC. The OECD international input-output database is fully used in our estimation. We also use an econometric model to check how a country's real RCA in GVC contribute to its value added gain from foreign trade.

Keywords: Comparative advantage, trade in value added, input-output, global value chains