Determinants of Trade in Value-added: Market Size, Geography and Technological gaps

Topic: Global Value Chain Analysis
Author: Eiichi Nakazawa
Co-Authors: Colin Webb, Norihiko Yamano

Using productivity by industry databases developed by various KLEMS projects worldwide and Trade in Value Added (TiVA) indicators derived from the latest version of OECD's Inter-Country Input-Output (ICIO) system, this paper examines reasons why participation in global value chains (GVCs) varies across economies. For selected economies, we focus on factors that may influence the share of domestic value added in exports and in foreign final demand. In particular (1) home market effects; (2) geographical location; and (3) technology gaps between economies. We present the methodology used, based on typical New Economy Geographical (NEG) models, to analyse possible determinants that separate "headquarter economies" and "factory economies", after controlling for market size and spatial proximity. Identifying such determinants, requires the combination of a "knowledge capital model", often used to explain organisation of multinationals, together with certain gravity equations.