

Value Added Trade and Wage Stagnation in Taiwan

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Taiwan has witnessed wage stagnation for almost two decades. The reasons contributing to this stagnation are many. Among them, globalization, production outsourcing, the shift of factories to neighboring countries, and decreasing labor share of national income are frequently mentioned ones that deserve further investigation. This paper contributes to this area of research by trying to incorporate the concepts of value added trade into the analysis of identifying the most important factors that caused wage stagnation in Taiwan. Our analysis will be divided into two parts. First, we make use of the world Input-Output Database compiled and maintained by the European Union and the decomposition approach developed by Koopman et al. (2014) to decompose the sectoral gross trade data and gain the value added that are attributable to domestic factors by sectors, and across periods. Second, we set up an empirical estimation equation based on an index decomposition procedure for the share of labor income in GDP by sectors, and then estimate the equation econometrically as a panel data model. Our analysis results for Taiwan will be compared to that of Japan to figure out the similarities and differences between the two countries.