From Trade in Value Added to Trade in Income

Topic: Trade in Value Added and â€œservicificationâ€• of the Global Value Chains
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This paper investigates how much value-added created in a country translates into income gains for this countryâ€™s residents as opposed to income gains for foreign suppliers of capital and labor. First, I deconstruct the GDP of 42 countries in the years 2013 and 2014 into bilateral exports of income by making novel use of the Balance of Payments, national accounts, and data on cross-border investment positions. The resulting redistribution matrix indicates what share of GDP is part of the same countryâ€™s national income and what shares end up as part of the national income of partner countries. The relation between GDP and GNI reveals that highly developed countries are the main beneficiaries of exports of income, largely at the expense of developing and emerging countries.

Next, I estimate the contribution of trade to GNI by applying the constructed matrix of bilateral trade in income. First I calculate the value-added generated in trade worldwide and then I redistribute all of this value-added into gains in income for each country. I find that in 2014 the contribution of trade to US GNI (the novel part based on the redistribution) was US$ 184 billion higher than the contribution of trade to US GDP (based on only US exports of value-added). Furthermore, I find that the US trade deficit decreased by more than 75% when trade balances are defined in terms of GNI instead of GDP. The results across all countries show that the discrepancy between GDP and GNI matters for who ultimately gains from trade. The national income implications of trade should thus be given greater attention by trade economists and policymakers.