Measuring Trade Balance and Competitiveness under the Perspective of Income Flow through Global Value Chain

Topic: Input-Output Analysis: Trade and Global Value Chains Policies - V
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The current misunderstanding of trade imbalance is mainly caused by the inconsistency between the assumptions of traditional trade statistics and modern trade based on global value chains. While traditional trade statistics are premised on goods crossing their own borders, in the era of global value chains, goods crossing borders is no longer a necessary condition for trade realization. The factory-less manufacturing method of multinational enterprises and the sales method of entering other countries' markets through foreign direct investment have become typical features and prevalent phenomena of global value chain trade. In view of this, this paper follows a new concept of "Trade in Factor Income ", that exports are defined as the exporterâ€™s factor income used to meet importer's final demand, based on the characteristics of global value chains. This paper constructs a long series global input-output model based on the OECD's AMNE-ICIO database that takes into account firm heterogeneity and a bilateral FDI stock database covering 20 sectors in 35 countries. It further decomposes factor income in value added formation, forms a new measure of bilateral trade balance accounting, and re-estimates the trade balance and competitiveness of main economies from 2005 to 2018. The scientific measurement of bilateral trade between main economies is important for resolving bilateral trade disputes, comprehensively assessing the true extent to the benefits from trade and promoting bilateral trade cooperation.