Integration in digital services around the world: a value-added approach

Topic: Trade and Global Value Chains Policies
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This paper addresses the integration in digital services around the world, attempting to identify its main drivers and barriers. In the past decade, this sector production and exports have been growing at larger than average rates reflecting the increasing use of digital services in our everyday lives and production processes. In a world characterized by global value chains, the application of gravity models using gross trade has various shortcomings and does not reflect correctly the fact that several countries intervene in the production of other goods and services. Taking into account that issue, the research project considers value-added flows of digital services embedded in bilateral gross exports calculated from OECD's ICIO. It then proposes a gravity model that starts out from the standard formulation and considers other digital services related variables such as OECD's Digital Services Trade Restrictiveness Index (DSTRI). The equation is estimated using the Poisson Pseudo-Maximum Likelihood (PPML) method, to address missing bilateral trade data and heteroscedasticity issues. The paper can be understood as an updated version of other studies conducted at the global level. It also puts the focus on Latin American countries to assess on integration in digital services, for which no similar studies has been conducted so far.