

Incidence Analysis of Balance of Trade of Korea

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Abstract

This study examines the impact of modern global production chains and the growth of multinational companies on trade gains, highlighting the limitations of traditional gross-based trade balance calculations. It advocates for a more nuanced approach, considering the value-added and income-based methods to better capture the complexities of contemporary international trade. These methods account for the value added in production and the distribution of income to production factors by nationality, offering a more accurate reflection of trade gains in the context of globalized production factors, including foreign labor. The paper compares the balance of trade calculated using these advanced methods with the conventional gross-based approach, drawing policy insights from the findings. A comparative analysis of data from 2014 and 2020 reveals a shift in the trade patterns among Korea's trading partners, with a notable increase in countries yielding higher value-added. Specifically, Korea's trade surplus with China is smaller when assessed through value-added and income bases, in contrast to the gross basis. Conversely, the surplus with the U.S. appears larger under these advanced methods. This discrepancy underscores the importance of adopting a broader perspective in measuring trade gains, moving beyond the gross-based approach to capture the true essence of global trade dynamics.

Keywords: International Trade, Value-added Trade, Income-based Trade, Balance of Trade, Trade Policy