

TRADE IN VALUE ADDED: ICELAND

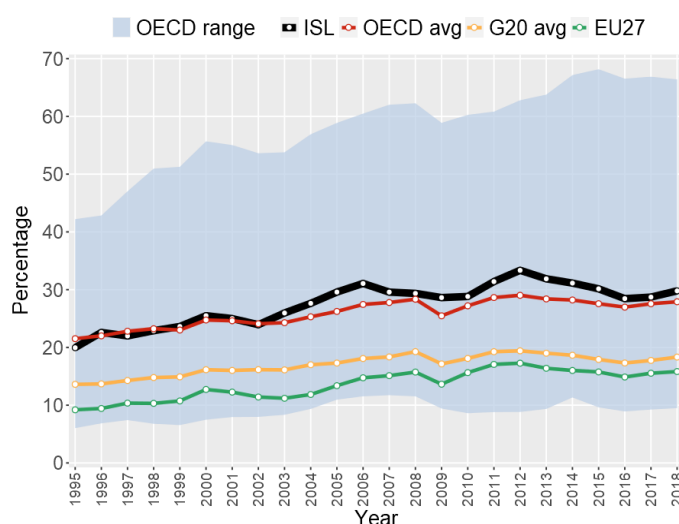
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Trade in Value Added (TiVA) indicators offer new insights into the commercial relations among economies and provide a broad view of where value is created along each stage of global value chains (GVCs). Painting a more complete picture than gross trade measures alone, the TiVA approach better reflects the significantly higher contribution made by services in GVCs, the role of imports in export performance, and the true nature of economic interdependencies. The 2021 version of the TiVA database covers 66 economies and 45 industrial sectors, for the years 1995 to 2018, and brings together indicators based on the value-added origins (both country and industry) of exports, imports and final demand. This note highlights the trade patterns in value-added terms for Iceland, with a view to informing policy making for a range of areas including trade, innovation and investment.

Key findings

- ▶ Following a peak in 2012, the foreign content of Iceland's exports was at 29.8% in 2018, remaining slightly above the OECD average of 27.9%. *Transport and storage* accounted for the largest shares of both domestic and foreign value added embodied in gross exports at 17% and 10.6% (Figure 3b).
- ▶ *Basic metals* and *Other transport equipment* were the most export-oriented economic activities with the highest shares of domestic value added driven by foreign final demand at 92.7% and 81.4%, respectively (Figure 2). The two sectors also had among the highest shares of imported intermediate inputs subsequently used in exports, reflecting the importance of imports for exports (Figure 4).
- ▶ The United States, Germany and Saudi Arabia were Iceland's main export destinations in 2018 (both in gross and value-added terms), with the United States also being Iceland's most important import partner (Figure 5). The Netherlands, Norway and Denmark were the main sources of re-imported Icelandic value added, highlighting some integration in European GVC networks (Figure 6).
- ▶ Services accounted for 63% of Iceland's gross exports in 2018 - significantly above the OECD average of 55.7% (Figure 7). The high services content came from both direct exports of services (e.g. *Transport and storage*, accounting for 27.6% of gross exports in 2018) and indirect exports of services embodied in goods. In 2018, the services content of manufactured exports was 37.1% (Figure 7).

Figure 1. Foreign value-added content of gross exports
As a percent of total gross exports, 1995 to 2018



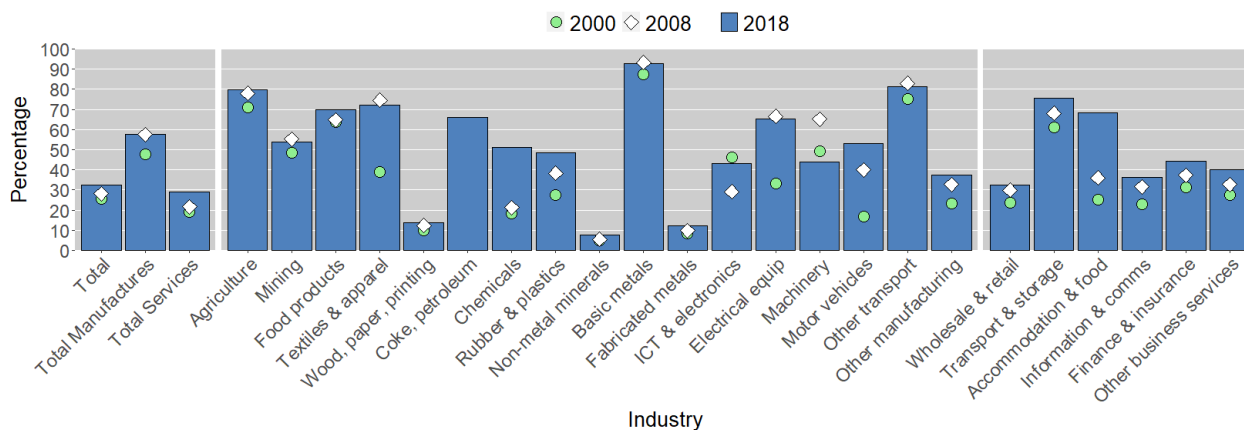
At the global level, the new TiVA indicators confirm that there has been a slowdown in GVC integration since the Financial Crisis in 2008-2009 (Figure 1). However, in general, foreign value added in trade increased between 2016 and 2018.

Between 2008 and 2018, the foreign content of Iceland's exports is estimated to have increased from 29.4% to 29.8% - close to the OECD average of 27.9%. Compared to 2008, the foreign content of exports in 2018 was 0.4 percentage points higher.

The role of foreign final demand in domestic production

Overall, in 2018, 32.6% of Iceland's domestic value added was driven by foreign final demand, up from 28.2% in 2008. By industry, the shares ranged from *Basic metals* (92.7%) and *Other transport equipment* (81.4%) at the higher end to *Other non-metallic mineral products* (7.5%) at the lower end.

Figure 2. Iceland - domestic value added in foreign final demand
As a percent of value added, by industry, 2000, 2008 and 2018



The importance of imports for exports

The industries with the most foreign value-added contents in their exports (Figure 3a) were *Electrical equipment* (45.8%), *Basic metals* (44.5%) and *Transport and storage* (38.4%). *Transport and storage* generated the greatest source of domestic value-added content of exports in 2018, accounting for 17% of gross exports (Figure 3b), followed by *Food and beverages* (13.7%) and *Accommodation and food services* (8.3%). The most foreign content in total exports came from *Transport and storage* (10.6%).

Figure 3a. Iceland - foreign value-added content of gross exports
As a percent of gross exports, by industry, 2000, 2008 and 2018

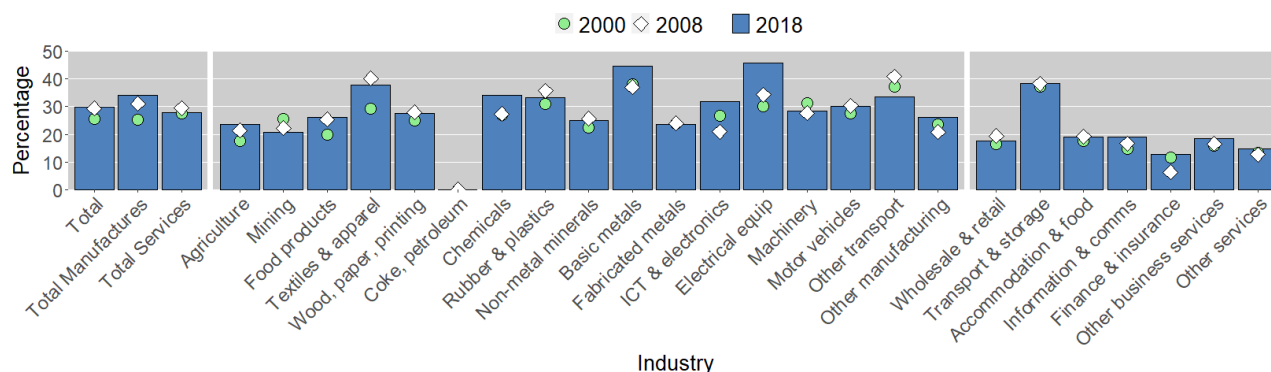
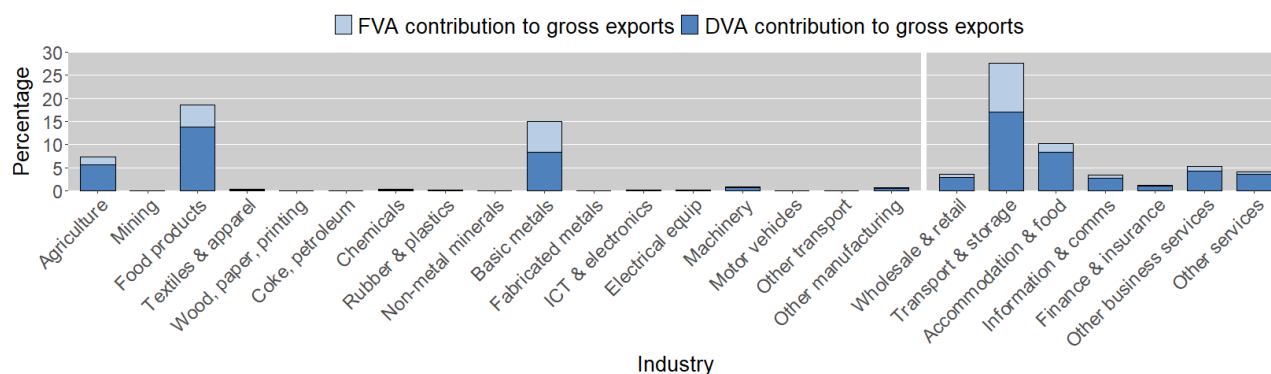
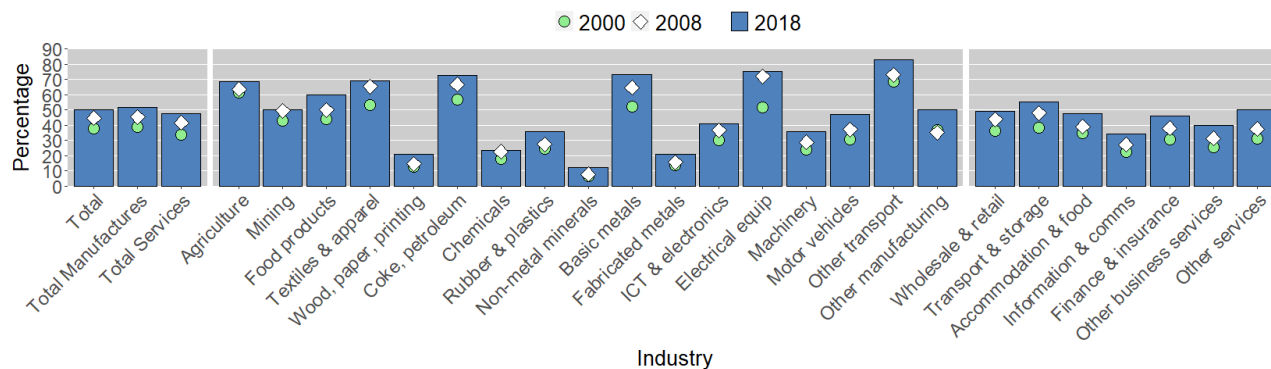


Figure 3b. Iceland - industry share of domestic and foreign value-added content of gross exports
As a percent of total gross exports, 2018



Of the total value of Iceland's imports of intermediate goods and services in 2018, 50.3% was subsequently embodied in exports, above the OECD average of 47.9%, and above the share in 2008 (44.5%). The originating industries with the highest shares of intermediate imports used in Iceland's exports were *Other transport equipment* (83.1%), *Electrical equipment* (75%) and *Basic metals* (73.1%).

Figure 4. Iceland - imported intermediate inputs used for exports, by industry-origin of imports
As a percent of intermediate imports, 2000, 2008 and 2018



Iceland: international flows of goods and services, main players

In gross terms, the United States (15.7%), Germany (11%) and Saudi Arabia (8.6%) were the three most important Icelandic export market destinations in 2018. The top three final destinations for Iceland's value added were the United States (18.3%), Germany (8.7%) and Saudi Arabia (7.5%).

For imports in gross terms, Iceland's top three partners in 2018 were the United States (13.9%), Denmark (8.3%) and the UK (8.3%), while in value-added terms, the top three were the United States (15.3%), the UK (8.1%) and Germany (8.1%).

Figure 5 Iceland - exports and imports: main partners
As a percent of total gross and value-added exports and imports, 2018

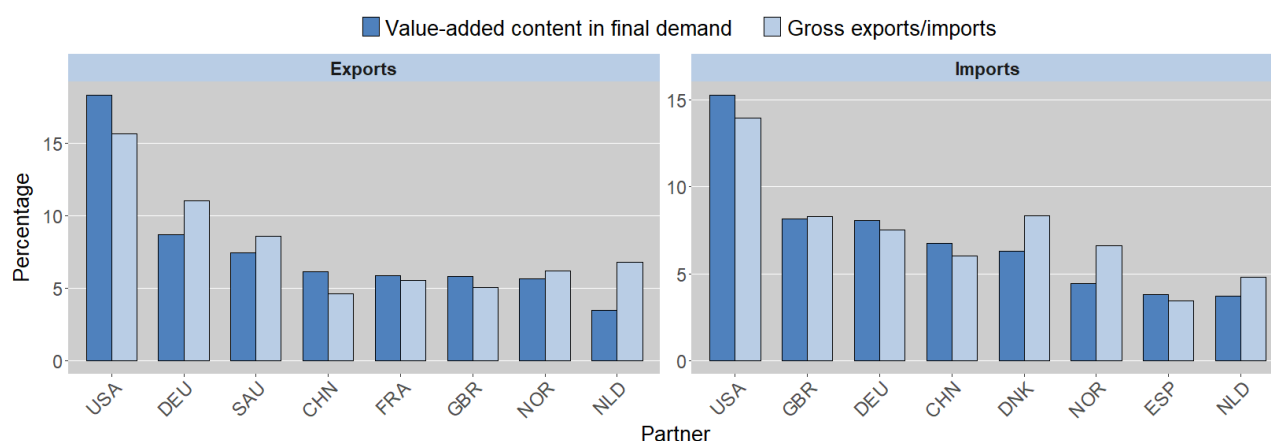
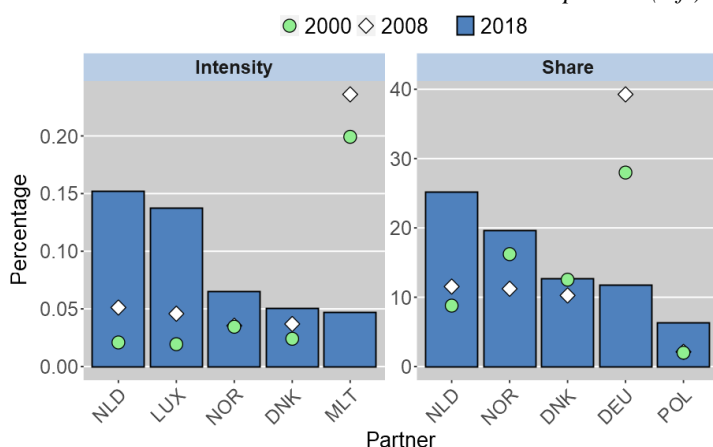


Figure 6. Iceland's domestic value-added content of manufactured imports, top 5 partners

As a share of total Iceland's value added embodied in Iceland's imports (right) and as a percent of total imports by partner (left)



In 2018, the highest shares of Iceland's domestic value added embodied in Iceland's manufactured imports (Figure 6, right) came from the Netherlands (25.2%), Norway (19.6%) and Denmark (12.7%).

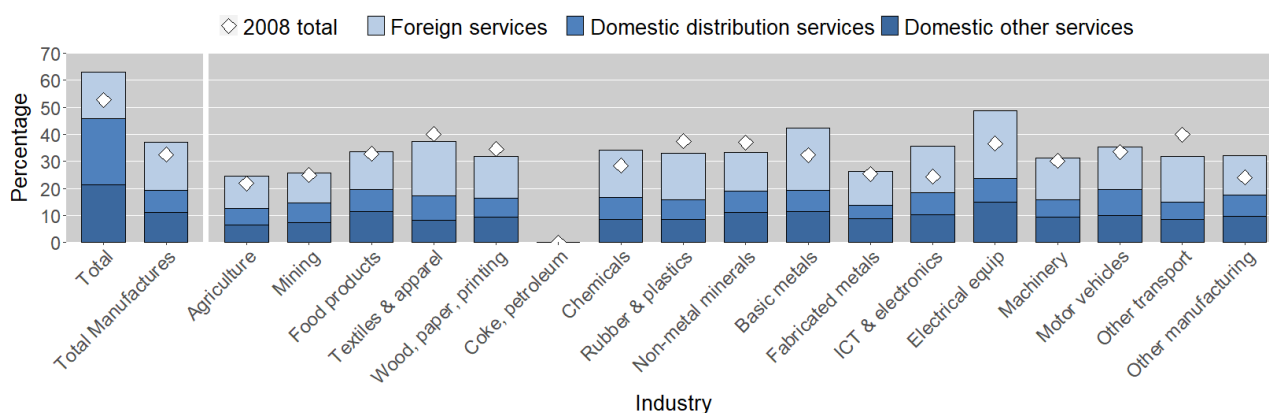
The trading partners with the highest shares of Iceland's value added in their exports of manufactures to Iceland (Figure 6, left) in 2018 were the Netherlands (0.2%), Luxembourg (0.1%) and Norway (0.1%).

The importance of services in international trade

Services are a major contributor to Iceland's economy, accounting for 63% of Iceland's gross exports in 2018 (Figure 7) - above the OECD average of 55.7%. Foreign services contributed 17.2% to the value of total gross exports. For manufactures, services value-added content was 37.1% of gross exports, with the highest shares in Electrical equipment (48.6%), Basic metals (42.2%) and Textiles and apparel (37.3%).

Figure 7. Iceland - services content of gross exports

As a percent of gross exports by industry, 2018



Further information is available to supplement this country note:

- ▶ Access the data at: <http://oe.cd/tiva>
- ▶ Guide to TiVA 2021 Country Notes: www.oecd.org/sti/ind/tiva-2021-guide-to-country-notes.pdf
- ▶ TiVA indicators are based on the 2021 version of ICIO tables: <http://oe.cd/icio>
- ▶ Related indicators of Trade in Employment <http://oe.cd/io-emp> and Trade in Embodied CO2 <http://oe.cd/io-co2>
- ▶ Trade policy implications of global value chains: <http://www.oecd.org/trade/topics/global-value-chains-and-trade/documents/trade-in-value-added-2021.pdf>

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