79 million.[4] It is estimated that the 500 largest multinationals now account for nearly 70 percent of global trade.[5]

The rapid growth and enormous scale of these figures illustrate the extent to which GVCs and multinationals have expanded over the past two decades. But, multinationals are not the entire story. They fail to capture all of the purchases, both domestic and local that are made as part of GVCs. Firms of all sizes, including small and medium sized firms (SMEs), are linked to global value chains as suppliers and customers, and in many instances will lead GVCs on their own.

GVCs During and After the Crisis

Although GVCs have been steadily gaining traction in policy and academic circles, they have achieved a new importance during and following the global financial crisis.[6] Global value chains (GVCs) appear to have played an important role in the recent global economic crisis; they likely magnified the impacts of the crisis on trade flows, spread the impacts more quickly and among a greater number of countries but may have also moderated the impact of the crisis.

Although the global financial crisis initially started in the financial and housing sectors and in a limited number of countries, it quickly transformed into a global crisis. A significant amount of that spread was through the linkages within the financial sector and there are likely other conduits through which the crisis spread such as through impacts on consumer confidence and by acting as a demonstration effect.[7] But, there is little doubt that linkages between countries through GVCs also contributed to the spread. As demand in the U.S. shrank, for example, production in China was reduced which was transmitted throughout the value chain reducing production in supplier countries as well. As a result, the collapse in global trade was far more severe than was expected and far greater than the fall in global GDP. This too can partially be explained by other factors such as the disproportionate impact of the crisis on demand for goods, which are more heavily traded, and even on export financing. But, there is considerable evidence that the coordination and extent of the collapse in world trade had a lot to do with GVCs.[8] On the positive side, however, there is also evidence that by spreading the pain, the existence of GVCs reduced the overall impact of the crisis.[9]

Following the crisis, GVCs continue to garner attention. Pascal Lamy, Director-General for the World Trade Organization (WTO), has recently emphasized on a number of occasions the importance of global value chains and the need to develop value-added measures of world trade. In this vein, the WTO has recently launched the "Made in the

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[4] A figures from UNCTAD's World Investment Report 2010.

[5] World Trade Organization, http://www.gatt.org/trastat_e.html

[6] Within the economic literature, the term "global value chain" is rarely used. However, we are treating the various languages of offshoring, outsourcing, trade in tasks and others all as falling within the rubric of GVCs.

[7] The bursting of the housing bubble in the U.S., for example, may have brought attention to and caused similar bubbles to burst in other countries.

[8] See, for example, Escaith, Lindenberg and Miroudot (2010), Cheung and Guichard (2009), and Bems, Johnson and Yi (2009)

[9] See, for example, Freund (2009) and Conference Board of Canada (2010).