Global Value Chains: Economic And Policy Issues

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1. Introduction

"Companies no longer compete – Value Chains Compete" (Murphy, 2007, p.11)

In the past few years, a fairly substantial literature has emerged addressing the phenomenon of global value chains (GVCs). While one can find various definitions of GVCs, the simple concept proposed by Lunati (2007) seems to capture the spirit of most definitions. Namely, GVCs are international supply chains characterized by fragmentation of production activities across sites and borders. In effect, the whole process of production, from acquiring raw materials to producing and delivering a finished product, has increasingly been "sliced", so that each activity that adds value to the production process can be carried out wherever the necessary skills and materials are available at competitive cost (OECD, 2007; Feenstra, 1998). A related explanation of the GVC phenomenon is provided by Borga and Zeile (2004) who characterize the GVC phenomenon as the increasing divisibility of production activities. That is, production activities can be increasingly divided into different stages that can be performed in different locations.

The GVC phenomenon has, in turn, been linked to the concept of international outsourcing ("offshore outsourcing"), although they are conceptually distinct. In the vertically integrated firm, the production process is divided into separate stages with different units of the firm specializing in particular stages of production. The two phenomena are linked, since there is a perception that value chain activities that are sited overseas are increasingly being carried out by independently owned companies, rather than by affiliates linked by ownership to the companies doing the contracting-out.[1] Coombs, *et. al.* (2003), among others, argue that products are nowadays provided to the market through iterative sequences and complex interactions among a variety of agents. The modern corporate model involves firms focusing on "core competencies" with greater specialization combined with strategic sourcing and partnering.

The claim that global value chain activities are increasingly being carried out by independently owned firms rather than by overseas' affiliates of the outsourcing

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[1] Antras (2005) links the GVC and off-shoring phenomena as related strategic decisions in noting that in developing their global sourcing strategies, firms not only decide where to locate the different stages of the value chain, but also the extent of control they want to exert over those processes.