

well as trade in intermediate inputs. Some of these issues will be addressed later in this paper while others will have to be left for another venue.

### The Impact of Global Value Chains

In the popular press, much of the impact of the rise of global value chains has been focussed on the offshoring of jobs – ceasing an activity at a domestic location in order for it to be performed at a foreign location, often in a low-wage country.<sup>8</sup> For some, the increasing possibility of these offshored activities being service sector jobs that would have been previously considered non-tradable has added to the concern.

Estimates of the huge number of jobs that are potentially internationally mobile have grabbed the headlines: Blinder (2006), for example, estimated that as many as 41 million jobs in the U.S. are potentially offshorable. McKinsey Global Institute (2005) put the figure at 160 million world-wide. Van Welsum and Vivkery (2005) estimate that potentially affected occupations account for 18.1% of employment in the U.S., 19.2% in the EU-15 and 18.6% in Canada. Bardhan and Kroll (2003) put the figure at about 15 million service sector jobs for the U.S. (11.7% of total employment in 2003). Other estimates put the range at between 10-21% for the U.S. For an overview of these estimates see Kirkegaard (2007). Another way to read this is that these estimates represent the upper limit of the number of jobs that have or could potentially become tradable. They are usually based on what jobs require a physical presence such as; taxi drivers, waiters and doctors, and which do not such as; financial analysts and computer programmers. This has added to fears relating to offshoring as many of the jobs thought to be potentially offshorable are ones that had previously been believed

to be immobile. Furthermore, they tend to carry attractive salaries, and are either filled by members of the middle class that had previously been immune to the effects of offshoring or are filled from among those who had been displaced from manufacturing jobs that had migrated earlier.

But these fears seem largely unfounded. An update to an often cited study by Forester Research predicts that for the U.S. as many as 3.4 million service sector jobs may move offshore by 2015.<sup>9</sup> A simple scaling and adjusting for differences in industrial structure would suggest that for Canada this would be about 240,000 service sector jobs. While this may seem like a large figure, this would represent about 2% of U.S. employment in the service sector in that year (and a similar amount for Canada).

Data from the U.S. Bureau of Labour Statistics show that 3.9% of mass-layoffs in a given year are from work moved offshore (not just services, but manufacturing as well). These 33,200 job losses are extremely small compared to the total 7.4 million jobs that were lost in that same year for a wide variety of reasons and even less when compared to the 8 million that were created. This is similar to an estimate for the EU which puts the figure at 4.5%.<sup>10</sup> It is also important to note, that while the absolute number of lay-offs due to offshoring may be small, those that do lose their job for this reason are, on average, unemployed for a longer time and when they do find work it is more likely to be for lower pay.

Although the media have often highlighted the challenge associated with the rise of global value chains, namely the movement of jobs abroad through offshoring, the benefits have largely been ignored. It is a too simplistic view of the world to believe that a purchase of an activity from abroad is a loss of a

8 For a definition of offshoring and related terms as they are used in this study please refer to Appendix Two.

9 As reported in Levine (2004)

10 U.S. figure is from the Bureau of Labour Statistics Mass Layoff Program which captures job separations affecting 50 or more employees. Data from the EU is from The European Restructuring Monitor as reported in "Offshoring, Outsourcing, and Production Relocation – Labour Market Effects in the OECD Countries and Developing Asia" Kirkegaard (2007)