Global Value Chains: Impacts and Implications
Editor's Overview

Aaron Sydor
Foreign Affairs and International Trade Canada

Introduction

It is increasingly rare that a good or a service is entirely produced at one location and then exported to a final consumer. Rather, production of a good or even service involves an increasingly complex process with intermediate inputs and supporting activities sourced globally from wherever it is most efficient to do so. These complex international production arrangements have come to be known as global value chains (GVCs), a commonly cited definition of which is the following:

> *A global value chain describes the full range of activities undertaken to bring a product or service from its conception to its end use and how these activities are distributed over geographic space and across international borders.*[1]

Although difficult to measure, there is a growing body of evidence supporting the growing importance of GVCs. One of the most compelling pieces of evidence is that the ratio of trade to world GDP expanded from about 16 percent in 1990 to 27 percent in 2008, the year before the global financial crisis fully impacted global trade. With the onset of the global financial crisis, trade as a share of GDP fell to 22 percent in 2009 and has since rebounded to just over 24 percent as of the close of 2010.[2] Sturgeon and Gereffi (2009) show that increased trade in intermediate inputs, resulting from the global fragmentation of production, accounts for a considerable share of that growth.[3] More rigorous measures have also been developed and show similar trends, such as indexes of vertical specialization developed by Hummels, Ishii and Yi (2001) and Yi (2003).

Multinationals (MNEs) play an important role in the development of GVCs through their decisions about where to source, what suppliers to use and what they will produce themselves. Statistics on the growing importance and scope of MNEs further supports the rise of GVCs. Between 1990 and 2008, total sales by MNEs increased form US$6 trillion to more than US$31 trillion – a roughly five-fold increase. Total assets increased by even more, rising by 1100% to nearly US$72 trillion in 2008 while employment reached almost

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[1] Adapted from the definition of global value chains used by GVC Initiative at Duke University http://www.globalvaluechains.org/

[2] Authors calculations based on data from the International Monetary Fund (IMF) and World Trade Organization (WTO). Reported as the ratio of imports to GDP.

[3] Although trade in intermediate inputs accounts for a large share of growth in global trade, by a number of measures, its share has not increased. Sturgeon and Memedovic (2011) attribute this to a misclassification of certain goods and show that under an updating of the classification system, intermediate inputs indeed grow more quickly the total trade.