The Evolution of Global Value Chains

Introduction

The world economy has undergone significant transformation over the past two decades. During the 1990s, productivity growth, stagnant since the 1970s, appeared to reassert itself, especially in the United States, driven by advances in computing and information technologies. In the early part of the decade, many developing economies experienced a period of rapid economic growth, only to be cut short with the Asian financial crisis in 1997 followed by similar crisis in Russia, parts of Latin America and the OPEC countries. The 2000s, which began with a high-tech bust and the terrorist attacks of 9/11, subsequently entered a period of great economic stability that became known as the "great moderation" during which a number of developing economies became known emerging economies,[1] and a few of the largest and fastest growing were singled out as the BRICs.[2] The "great moderation" ended, however, and the final years of the decade were arguably even more eventful than the early years with a global financial crisis and resulting sharp decline in global trade. Post crisis, the gap in economic performance between rich and emerging economies has widened, the weakness in the fiscal situation among many of the former has become more pronounced, and the global imbalances that had been growing for a number of years have moved to the forefront of many policy debates.

Over these two decades another, but much more gradual, change was also taking place as firms reorganized their business operations into global value chains (GVCs). Although not as apparent as some of the other changes taking place, as this special feature will show, GVCs have exerted a huge impact on world trade and have likely played an important role in many of the developments noted above. For example, GVCs have likely contributed to the rapid growth of the emerging economies, sharpened the decline in world trade during the recent financial crisis but may have also moderated its impact, and will influence the response to global imbalances. And most importantly, GVCs impact on productivity growth, competitiveness, and therefore the standards of living within economies – the fundamental goal of economic progress and policy.

The concept of global value chains (GVCs) was introduced in the special feature contained in *Canada's State of Trade 2007*.[3] Since then, a significant amount of research

1 Coined by Antoine W. Van Agtmael during his tenure with the International Financial Corporation of the World Bank in 1981, the term "emerging economies" came into widespread use in the 2000s.

2 Originally coined by Jim O'Neill of Goldman Sachs in a 2001 paper "Building Better Global Economic BRICs" but made popular in O'Neill's 2003 paper "Dreaming in BRICs."

3 "The Rise of Global Value Chains" by Aaron Sydor, in the *Seventh Annual Report on Canada's State of Trade*, "Trade and Investment Update – 2007." Available at http://www.international.gc.ca/economist-economiste/performance/state-point/2007.