How Important are Global Value Chains?

Global value chains are not new. They have, to some extent, existed as long as there has been trade in intermediate inputs. The Hudson's Bay Company (1670)[4] or the East India Company (1602)[5] can be thought of as managing a global value chain; sourcing inputs from around the world to be processed in Europe and sold globally. But the importance of global value chains has been limited by barriers to trade and investment, by high transportation costs and a limited ability to communicate between far-flung operations. Far more common was the production of end products in one country for sale in another (traditional trade) or branch-plant production (products produced in many markets around the world largely for sale in those markets). But, this is now changing; the import content of exports is increasing in most countries, international trade is increasingly in the form of intermediate inputs, trade in services is becoming ever more important and investments are increasingly part of a regional or even global production networks forming vast global value chains. And, with a growing number of activities able to be traded and a growing share of the world's population actively taking part in this trade, the impact may be huge.

There is no one statistic available that can capture the extent to which global value chains exist or have increased in importance in recent years. The diagram below illustrates a hypothetical global value chain and illustrates this point. This diagram depicts a fictitious Canadian company; the firm's headquarters is located in Montréal, research and development (R&D) is conducted in California, the company's lawyers are located in New York, and call-centre and information technology (IT) services are provided from India. The final product is sold globally, including in Canada, while assembly is based in China with intermediate inputs coming from Eastern Europe.

In this example, if we were only able to measure merchandise trade flows, all we would see is exports of intermediate inputs from Eastern Europe to China and then Chinese exports to countries across the globe. Canadian statistics would register only imports from China. When we add services trade, we would presumably see payments of services from the Canadian headquarters to R&D and lawyers in the U.S., the call-centre in India and management services from manufacturing operations in Eastern Europe and China. But all of this would depend on how the company is structured. There would also be the profits made in countries around the world that would be returned to the HQ in Montréal. Finally, adding foreign direct investment (FDI) we would expect to see outward flows of investment (also called Canadian direct investment abroad) as these facilities are established around the world and as new investments in machinery, equipment and so on are incurred. If portions of the value chain are outsourced to other companies, such as the IT

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*1982 to 2005 for exports and FDI, 1982 to 2004 for FA and Royalties.

Data: UNCTAD WIR and WTO

4 Establishment date from Encyclopaedia Britannica on-line.

5 Ibid