Theory

The first section of the volume further explores the relationship between global value chains and trade theory. Steven Globerman in his chapter "Global Value Chains: Economic and Policy Issues", reviews the theoretical underpinnings of international trade and firm location. He does not see a need for a new theory to explain GVCs as they can be fit into existing trade theory. Globerman suggests that GVCs in essence are trade at a more granular level and increasingly in services, but would be driven by the same factors that we have come to understand under standard trade theory and as outlined in the previous section - including comparative advantage. As such we would also expect trade under GVCs to produce the same benefits that would be expected from any international exchange but by trading at a finer level and extending trade to include more services should result in additional gains from trade.

Following this line of argumentation, that GVCs do not need a new theory, Globerman argues that it is then also unlikely that there are significant impacts for policy, at least overall. Improvements to infrastructure, investments in R&D and education, and reducing barriers to trade would all be beneficial under GVCs, just as they would with traditional trade. However, he does note that the greater level of competition at a finer level might strengthen the case for such policy actions and require policy to become more granular as well.

In his paper "Integration of the North American Economy and New-paradigm Globalization" Richard Baldwin analyzes the potential implications of the rise of GVCs using a new trade theory framework. This compliments the aforementioned models developed by Feenstra and Hanson (1996, 1997) and Grossman and Rossi-Hansberg (2008) which are based on the classical models of trade. New trade theory is Baldwin's model of choice as it allows for analysis of the distribution of activity within North America[14] which can be characterised as a core (the U.S.) and periphery (Canada) rather than high-wage location and low-wage location as in the classical trade models. In this framework, the rise of GVCs is seen as changing the balance of forces that determine the geographical distribution of economic activity; toward the forces of dispersion and away from those of agglomeration. To put this in another way, the increased ease of coordinating activities across space and reduced costs of communication, that are thought to be behind the growth of GVCs, reduce the benefit of clustering activities (such as in the larger U.S. market) thus allowing them to become more disperse and to take better advantage of geographical differences such as in wages.

Baldwin finds that this "new paradigm globalization" has a number of important implications. Firstly, and consistent with the Rossi-Hansberg trade in tasks model, it becomes more difficult to predict who will be the winners and losers from globalization. This has implications for the ability of the winners of globalization to be able to compensate the losers and generally increases uncertainty for workers. These, in-turn, increase the difficulty for governments to prepare their populations for globalization such as through training as well for building the support for trade policy. A second impact is that as production becomes more mobile, policy differences between jurisdictions can have a greater impact. Baldwin calls this the "multiplier effect" and is similar to Globerman's finding that competition takes place at a more granular level. Within a North American context, this multiplier would be expected to magnify positive (negative)

[14] North America here refers specifically to Canada and the United State of America