
VI Special Feature

The Rise of Global Value Chains

by Aaron Sydor¹

Introduction

There is a dramatic change occurring in the global economy that most Canadians are probably not aware of. The growing importance of large, low-wage countries, most notably India and China, is an important part of what is occurring, but is not the only change. The way that businesses are organizing themselves is also changing – to form vast global value chains. This has a lot to do with why countries like China and India are gaining in importance at this particular time. How Canada responds to this change could have significant implications for the future prosperity of all Canadians.

A *value chain* describes the full range of activities that are required to bring a good or service from its conception to its end use and beyond. This includes

activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms, and can be contained within a single geographic location or spread over wider areas. A *global value chain* describes the fragmentation of the value chain over geographic space and the linkages between firms and between parts of the same firm performing different stages of the value chain.²

Alan S. Blinder, former vice chairman of the Federal Reserve and economic advisor to U.S. President Clinton has called this phenomenon the third industrial revolution,³ the first being the shift from agriculture to manufacturing and the second from manufacturing to services. While that may be overstating the case somewhat, it highlights the potential

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2 For a more detailed description of the *global value chain* and how it relates to similar concepts, please refer to Appendix One.

3 Blinder, Alan S. (2006) "Offshoring: The Next Industrial Revolution?"