government services; however, in 2010, the country posted its first trade surplus for commercial services.

The appreciation of the Canadian dollar against the other major currencies caused substantial downward revaluations of Canadian direct investment abroad in 2010, lowering the value of direct investment holdings abroad by $35.5 billion. Thus, despite the net acquisitions and the strong investment in existing affiliates during the year, there was an overall 0.7-percent decrease in the value of Canadian direct investment abroad last year. At the same time, foreign direct investment inflows into Canada picked up in 2010, and increased the stock of inward direct investment in Canada by 2.6 percent. Notwithstanding these movements, the stock of Canadian direct investment abroad still exceeded that of foreign direct investment in Canada.

Special feature: The evolution of global value chains

A key structural change in the global economy in recent decades has been the rising importance of global value chains (GVCs). It is increasingly rare that a good or service is completely produced in one location and then the final good exported to the end consumer in another. Rather, value chains are fragmenting with different stages being performed in different jurisdictions based on cost competitiveness. For example, design and research could be conducted in one place, the assembly done in another with parts coming in from around the world, and the entire process managed from a third, all to serve a global market. This implies growing trade, particularly in parts, but also in services, as well as increased flows of people, ideas, and investment.

The factors driving the growth in GVCs are not completely understood, hence it remains unclear whether or not the impact of GVCs will continue to grow, or stagnate—or even decline. Claims that GVCs have arisen due to declining transportation costs and improving information and telecommunications technologies (ICTs) have not yet been substantiated. Indeed, recent research indicates that the current rise of the GVC may be less influenced by the costs of transportation in a traditional sense, and more by the increased speed of transportation. This argument is supported by evidence showing that a growing share of trade, particularly in intermediate inputs, occurs by air—a fast, yet relatively expensive mode of transportation. Likewise, the role of enhanced ICTs in trade remains unconfirmed. Other key factors, which include declining tariff rates and the opening to trade of a large portion of the global economy, may be more significant and, more importantly, under the control of policymakers.

Three trends are increasingly associated with the rise of the GVC: outsourcing, offshoring, and inshoring involve the movement of production activities out of a firm, out of a country, and into a country, respectively. Despite the prominence that they receive in the media, according to recent evidence, offshoring and inshoring are relatively rare occurrences. Furthermore, they tend to balance each other out when they are used. Offshoring of low-skill activities benefits Canadian companies and workers by increasing their productivity and competitiveness, which in turn translates into more and better-paying jobs for Canadians. Evidence also suggests a corresponding net movement into Canada of a number of key high skill activities. The extent to which Canada can prosper within the rapidly changing global economic landscape will depend on Canada's ability to create an economic environment that attracts and retains high value-added activities aimed at improving the standard of living for all Canadians.