

lower-value administrative duties.⁷ The implication here is that more routine tasks can be moved abroad while higher-value tasks will be performed domestically. An additional difference between the Feenstra and Hanson and the Grossman and Rossi-Hansberg models centres on the role of the firm itself. In the former, trade is assumed to be conducted at arm's length (i.e. outsourcing) while in the latter it can be interpreted as a transaction within the firm (i.e. offshoring). Antras (2003, 2005) provides an important link between the two by enhancing our understanding of how firms decide where to locate various activities and whether or not to exert direct control (i.e. the decision to perform the activity within the firm or to source it from outside the firm). While these models rely mostly on the H-O framework, Baldwin (2011) incorporates trade in tasks into the economic geography framework of new trade theory developed by Krugman and how this relates to Canada's place within North America.

Thus, while some may argue that with the rise of global value chains, comparative advantage no longer applies, it is clear that, as with prior innovations, each new theory builds on the previous rather than replaces it. The modern structure of trade supports this assertion. As would be expected under the classical models, Canada exports resource and resource-based products because Canada has been "endowed" with significant natural resources such as oil, natural gas, minerals and forests, as well as land and water for producing agricultural products. By contrast, countries with an abundance of cheap labour tend to export labour-intensive products. The gradual shift in production location of labour-intensive products (e.g. textiles, clothing and toys) from advanced economies like the United

States to economies like Hong Kong and subsequently to developing economies like China and then increasingly to emerging economies in South-East Asia, seems to support the outcome predicted by classical trade theory. The agglomeration of industries predicted by new trade theory can also be observed, for example, in the auto sector in Southern Ontario, the aerospace sector near Montreal and similar industrial clusters across Canada and around the world. This in turn is augmented by new trade theory which can explain the observable differences in success between firms within industries and why some firms thrive in certain industries despite apparent odds and can even evolve into global champions. As Globerman (2011) points out, adding the concept of GVCs to theories of trade does not render comparative advantage irrelevant. On the contrary, trade occurring at an increasingly finer level raises the potential for gain. Similarly, if there are gains from economies of scale, then being able to aggregate specialized activities (think for example of the rise of firms specializing in HR activities, operating call centers or providing IT support) may allow for increased gains from scale. In this way, GVCs actually magnify rather than diminish comparative advantage and its associated trade gains.

The Drivers

Declining cost of transportation and communications technologies are widely believed to have driven the rise of GVCs. While this may be the case, little work has actually been undertaken to test this or to understand the drivers of GVCs more generally. This is an important gap for a number of reasons, but possibly most critically, if it is not known what drove the rise of GVCs, it will not be possible to know if the trend will

⁷ This special feature refers to *activities*. Distinguishing between *tasks* and *activities* is important but beyond the scope of this article.