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Global Value Chains - What are the Policy Questions -

Expert Group on International Trade and Economic Globalization Statistics
United Nations Statistical Commission

January 26, 2016

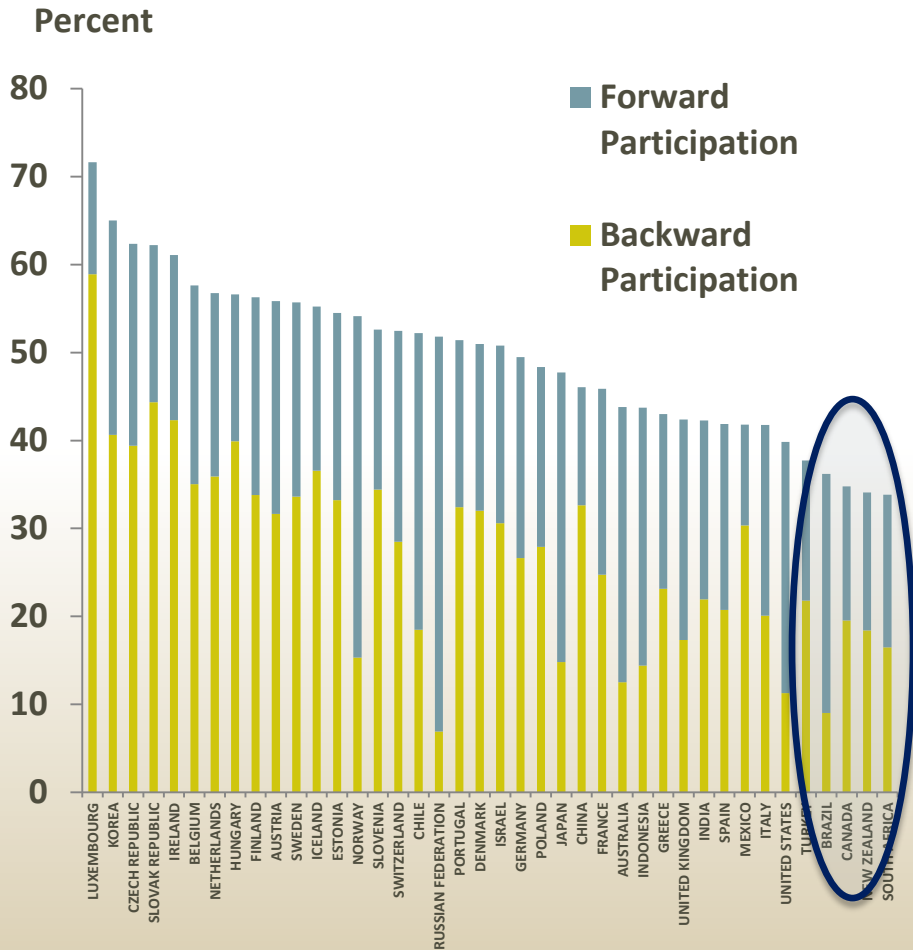
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Key Policy Questions

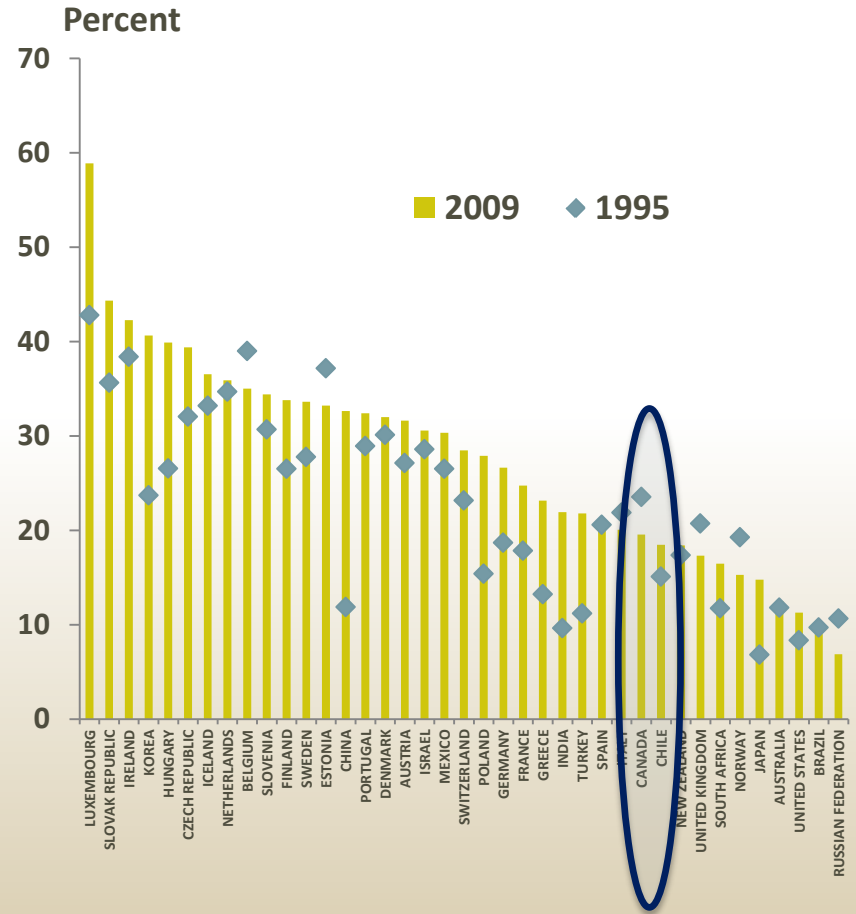
- **To what extent are firms and industries involved in GVCs?**
- **What is the impact of GVC involvement?**
- **What factors influence the level of GVC participation?**
- **What factors influence the outcomes?**

To what extent do industries and economies participate in GVCs?

GVC participation across countries, 2009



Share of Foreign Value-added in Gross Exports



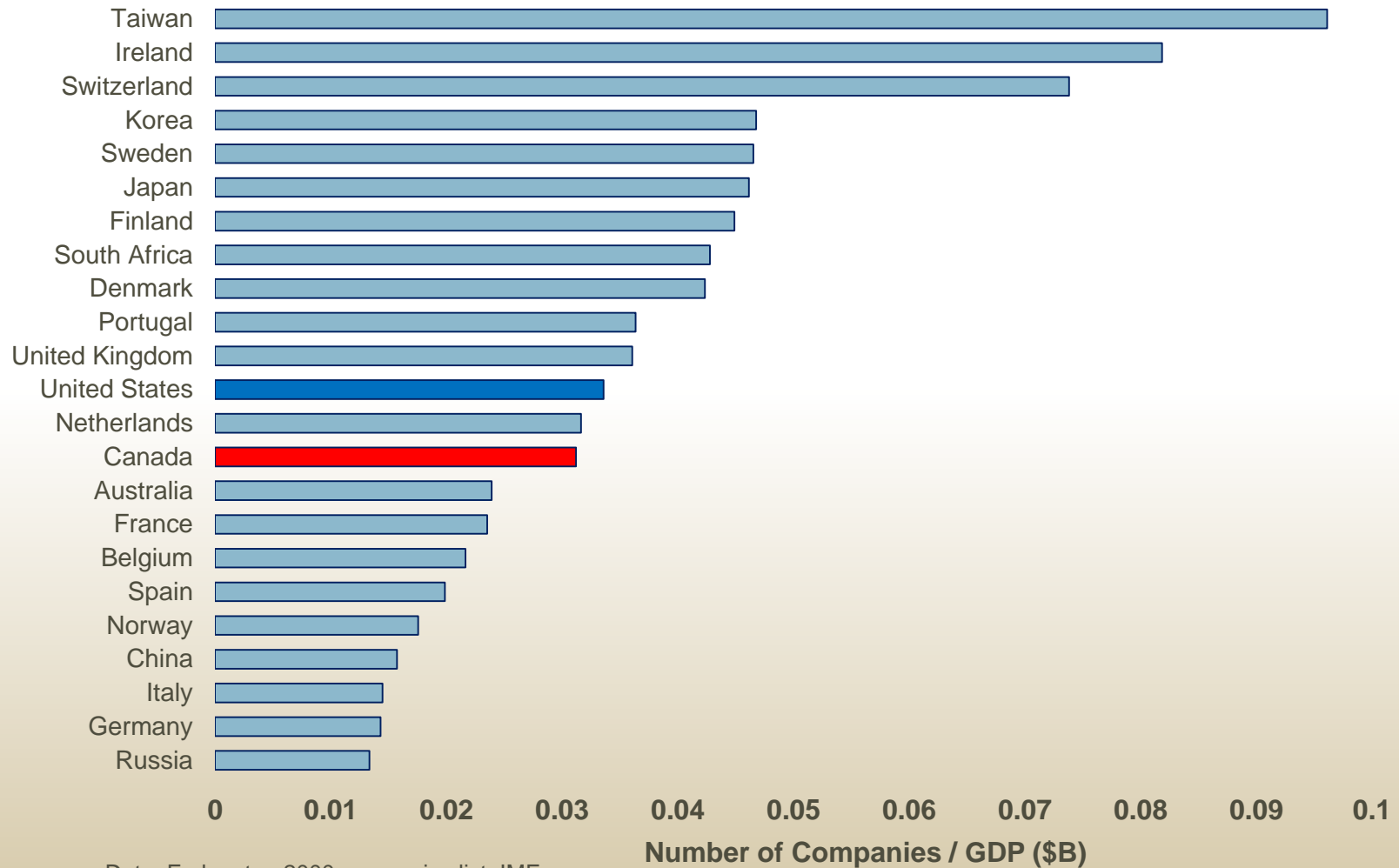
- Are Canadian firms under participating in GVCs?

What is the impact of participating in GVCs?

- **Type of firm:**
 - **Lead firms, foreign controlled firms and supplying firms**
- **Impacts on :**
 - **Productivity**
 - **Employment**
 - **R&D/Innovation**
 - **Competitiveness**

It is unclear what a lead firm is

Number of Companies Relative to GDP



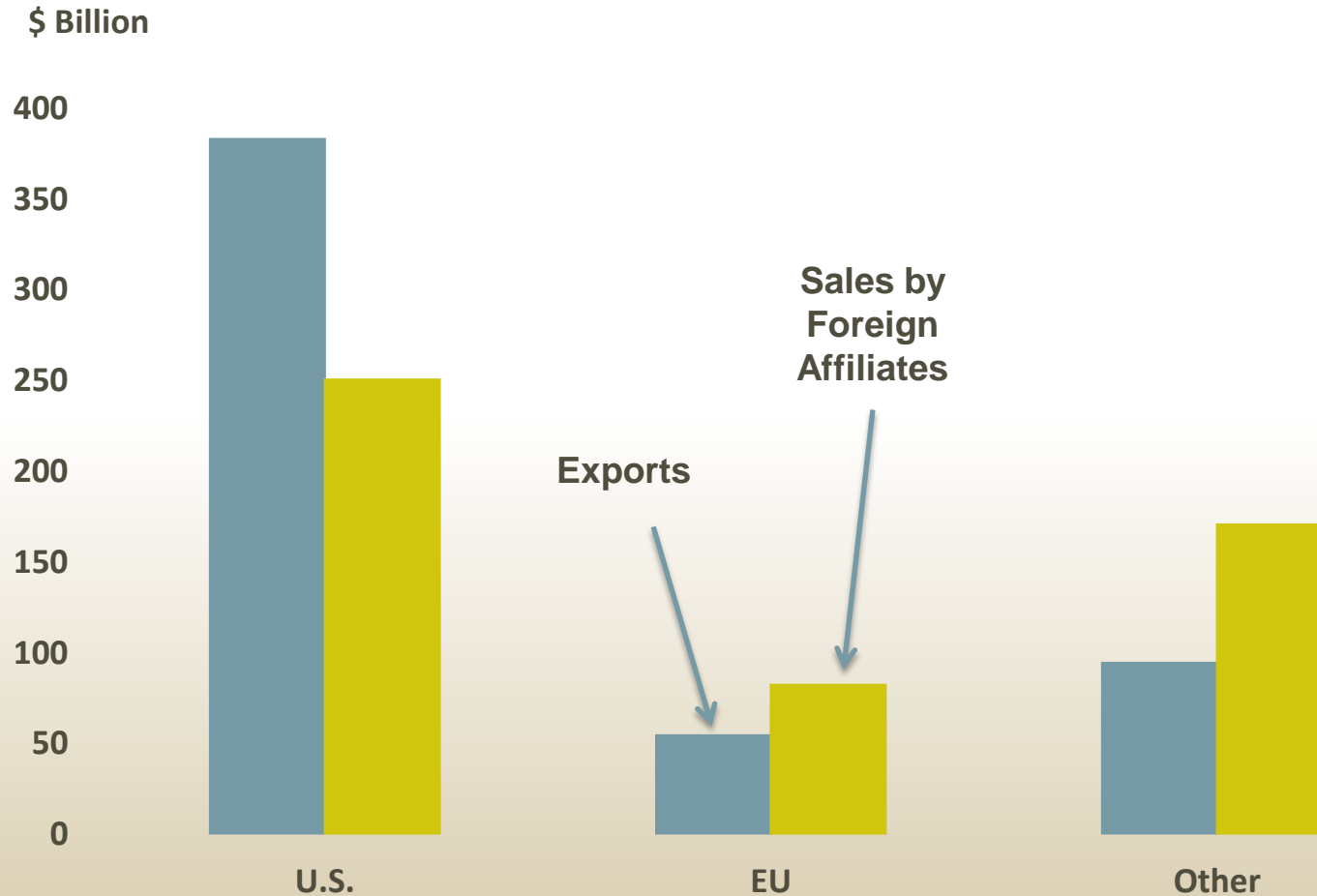
Data: Forbes top 2000 companies list, IMF
Source: Office of the Chief Economist, DFATD

The impact of lead firms

- **Foreign-controlled firms are more productive and pay higher wages and are more innovative than purely domestic firms.**
- **Foreign-controlled firms are an important source for positive economic spillovers.**
- **MNEs (domestic firms with investments abroad) are the most productive domestic firms and pay the highest wages. They generally look similar to foreign-controlled firms.**
- **Foreign controlled firms and MNEs account for most exports.**
- **The impact of these firms on SME participation in GVCs is unclear.**

Sales by foreign affiliates are more important than exports for most markets

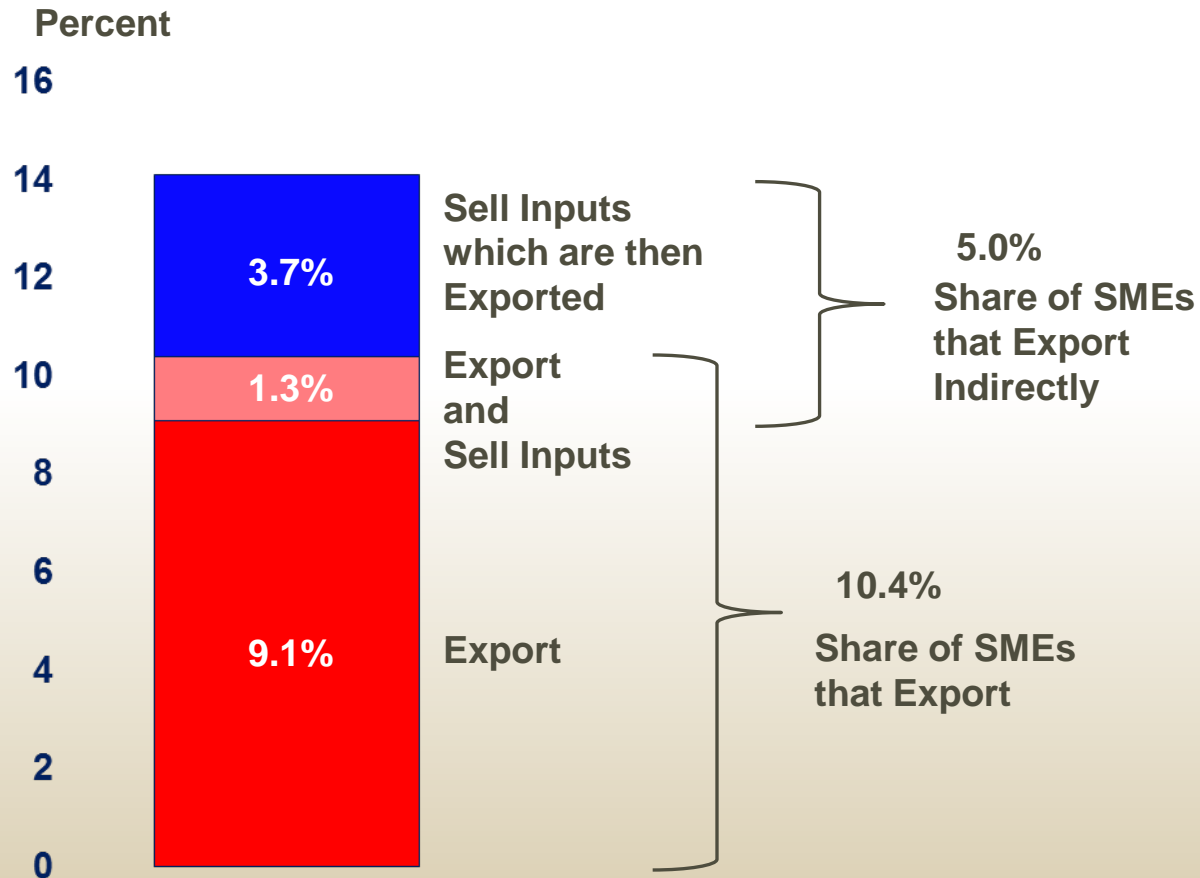
Canadian Exports and Foreign Affiliate Sales



Data: Statistics Canada , 2012
Source: Office of the Chief Economist, DFATD

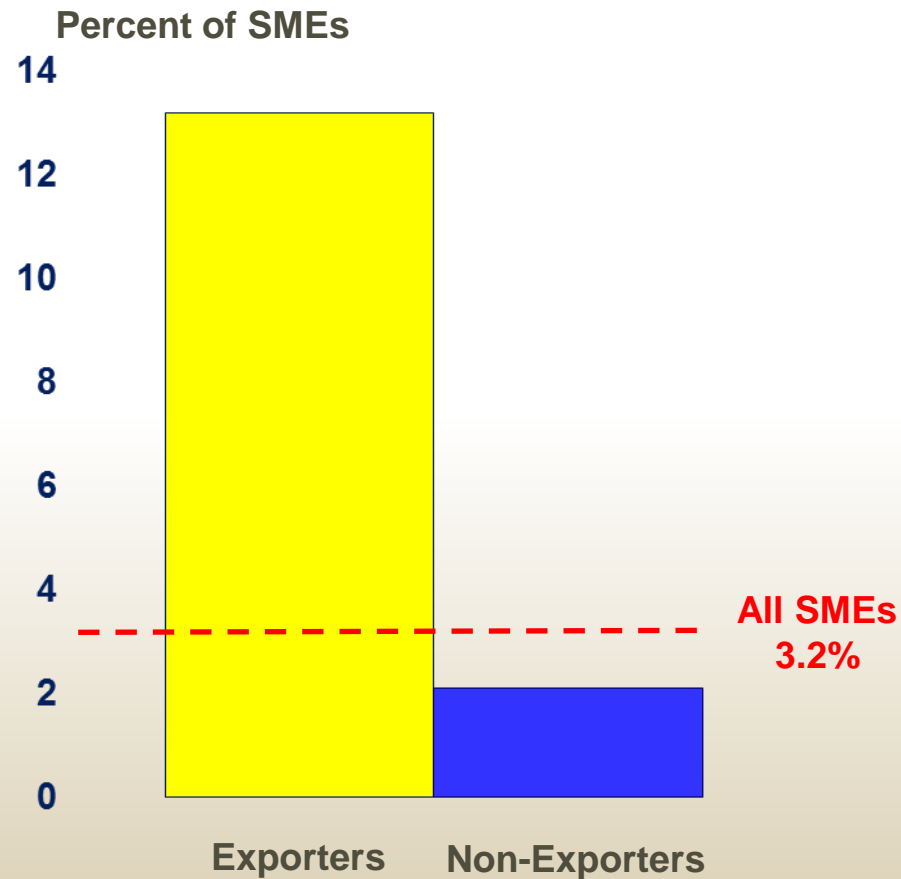
Many SMEs export - directly or indirectly...

Direct and Indirect SME Exporters



...and a few outsource

Outsourcing by Canadian SMEs



Data: Survey on Financing and Growth of SMEs, data for 2011.
Source: Office of the Chief Economist, DFAIT

The impact of SME participation in GVCs

- SMEs account for most employment, but only about 30% of exports
- SMEs are less productive, less innovative and pay lower wages
- 10.4% of SMEs exports (increases to over 30% in manufacturing)
- SMEs that export are more productive than those that do not.
- SMEs that import are more productive than purely domestic firms.

Depth of International Engagement

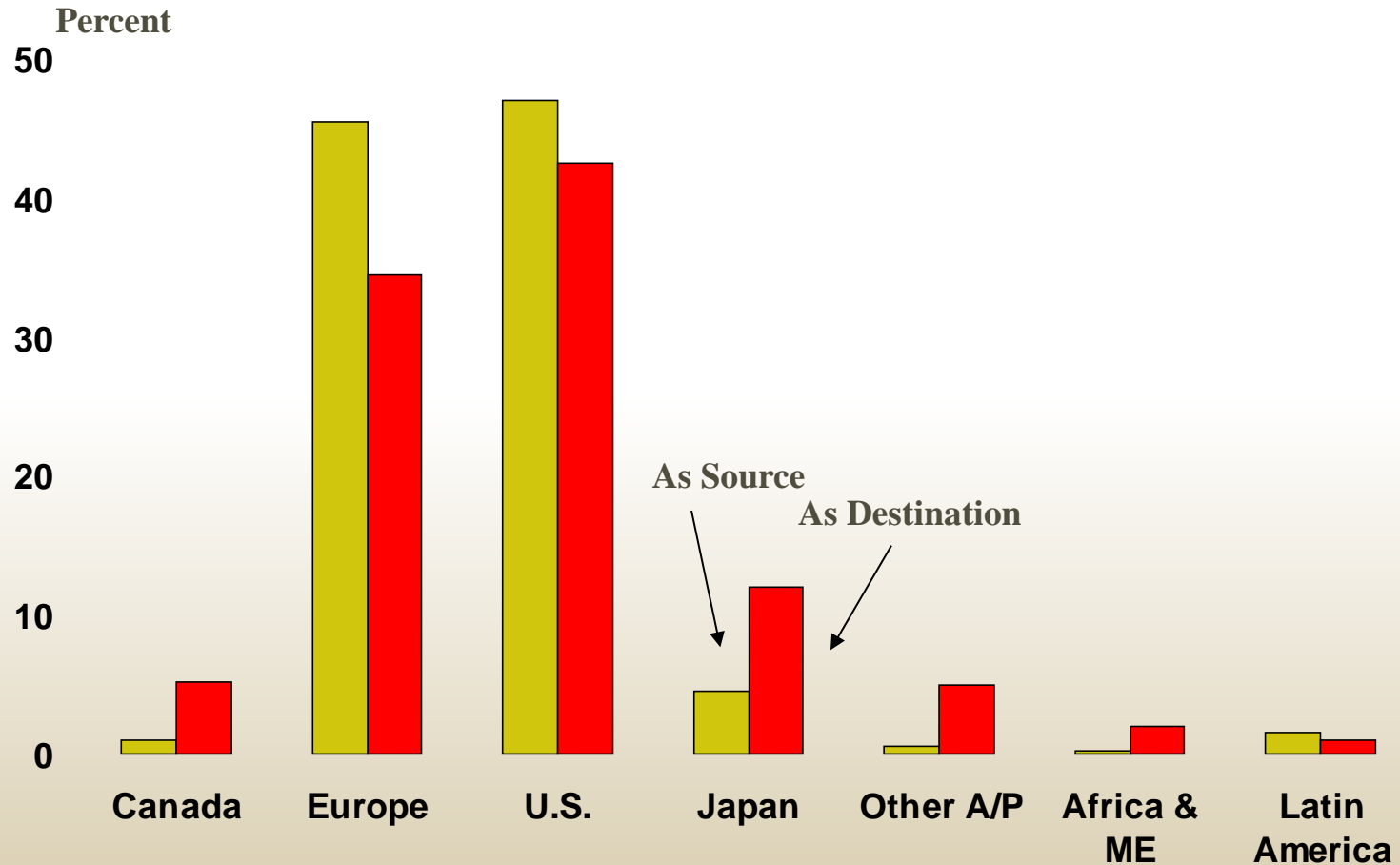


Level of Productivity and Innovativeness?

- How to get more SMEs to internationalize or participate in GVCs?
- How to increase their depth of internationalization / GVC participation?

Canada is more important as a destination than as a source of R&D

Cross-Border R&D Shares



Data: OECD
Source: Hall (2011)

What factors influence the level of GVC participation?

- **GVC participation largely seen as a positive – international activity that contributes to more effective allocation of resources, increased pressure to innovate, and improved productivity leading to higher wages and standards of living.**
 - **SMEs appear to realize the risks and benefits of supplying large firms/MNEs.**
 - **An opportunity to expand sales, gain economies of scale and become more competitive.**
 - **The risks associated with serving a dominant customer.**
- **Primary policy focus has become a perceived lack of GVC participation, and in particular, by SMEs.**
- **Barriers identified are varied and differ by industry (and how GVC participation is defined).**

Trade policy

- In budgets 2009 and 2010, Canada unilaterally eliminated tariffs on all intermediate manufactured products and machinery and equipment.
- FTAs concluded with EU (CETA), Asia (TPP)
- Taken with NAFTA will result in agreements with three main GVC regions
- But, overlapping rules of origin and gaps (government procurement).
- Services, movement of people and investment not as free.
- Evolution of NAFTA is telling:
 - Declining use of NAFTA by Canadian exporters
 - Remaining areas for further liberalization are in areas traditionally considered to be “domestic”. (North American Competitiveness Work Plan, Beyond the Border)

Trade promotion

- **Increasing focus on SMEs**
- **Increase internationalization of SMEs, including through GVC participation**
- **What is the path to internationalization?**
 - **Import => indirect export => direct export**
 - **U.S. first vs born global**
 - **Multinational pull**
- **What are the barriers?**
 - **Informational (trade commissioner service)**
 - **Financial (Trade finance, general access to capital)**
 - **Risk aversion, managerial skill/experience**

“Domestic” economic environment

- **Blurring of the line between domestic and international.**
- **Firms must compete not just in foreign markets but in domestic markets as well.**
- **“Domestic” economic environment is the most important factor for international competitiveness and to attract foreign investment.**
- **Most “domestic value-added” in exports is from supporting industries.**
- **Many barriers to increased trade openness are the responsibility of “domestic ministries”.**

What factors influence the outcomes of GVC participation?



Other issues

- **The risks of GVCs**
 - **Natural disasters**
 - **Complexity**
 - **Contagion**
- **Evidence suggests that slowdown in growth of global trade was due in part to slowing GVCs**
 - **Maturity of the business strategy?**
 - **Changing in driving factors:**
 - **Innovation (containerization, telecommunications)**
 - **Trade Openness (trade deals, opening of closed economies)**
 - **Geographic (China)**