A Global Value Chains View of North American Trade and Trade Policy

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National production view
Traditional view of trade

Value chains are local (national production view)

- Firms internationalize to reach foreign consumers (market access)
- Exports reflect a country’s international competitiveness, imports its weaknesses
- Demand for mercantilist trade policy:
  - Export promotion to increase competitiveness of domestic firms
  - Import protection to reduce competition from foreign firms
There has been a **trade deficit** every year since 1974, and it has grown by hundreds of billions since then.

Source: Census Bureau
Today’s Globalized Toy

Topper the Trick Terrier is a robotic dog that can talk and stand on its head. But the real trick is where its parts come from. This year 75,000 copies of the dog were made by Qualiman Industrial Co. in Nanhai, China for a Li & Fung American customer, the Original San Francisco Toymakers. It sells for $29.99 in the U.S.

PLASTIC EYES: Shenzhen, China

PLASTIC BODY: Malaysia
MICROFIBER FABRIC FOR COAT: Korea

SPEAKER FOR TOY’S VOICE: Dongguan, China

TRANSISTORS: Shenzhen, China
IC CHIPS: Taiwan
WIRING: Dongguan, China
PACKAGING: Hong Kong

VOICE-RECOGNITION REQUIREMENTS: San Francisco
VOICE-RECOGNITION PROGRAMMING: Taiwan

Sources: Qualiman Industrial Co. Ltd.; Li & Fung.
GVCs and Rethinking Trade

• Paradigm shift 1:
  – Conventional trade data capture poorly the value added that Canada exchanges with other countries

• Paradigm shift 2:
  – Companies with GVCs have developed a supply chain mindset when thinking about international trade and trade policy.
Conventional versus value added trade data
Share of foreign value added in gross exports (%), 1995 and 2011
Insight 1: Canada’s exports not all “Made in Canada”

Origin of value added embodied in Canadian gross exports (%)

- Canada
- NAFTA
- EU28
- East Asia

Years: 2000 to 2011
Insight 2: Canadian exports less dependent on U.S. market than traditionally thought

Canadian value added exports consumed in U.S.
Canadian gross exports to United States

Author’s calculation
Network view of Canada’s integration in the global economy

- Canadian firms are part of a network of local linkages, which is embedded in a larger global network of linkages.
- Competition between regional value chains, not between national firms.
- Canada’s export performance is not merely driven by its firms’ productivity, but also by the connectedness of its firms to key value chain partners.
Rise of a supply chain mindset
Traditional view of trade and trade policy

Market access, market access, market access!
New trade incentive: creating or joining GVCs

- **Efficiency seeking**: gain access to cheaper or higher quality inputs.
- **Knowledge seeking**: tap into foreign knowledge pockets that are unavailable locally.
- **Flexibility seeking**: develop bi-sourcing strategies to build resilience.
Paradigm shift: 
Rise of a supply chain mindset

Market access, market access, market access!

Connectedness, connectedness, connectedness!

Today’s Global
Topper the Trick Terrier is a robotic dog. The real trick is where its parts come from. This model was made by Qualiman Industrial Co. in Nanhai, China, as a customer, the Original San Francisco Toymakers. It sells for $9.99 in the U.S.

**Today’s Global Supply Chain**
- **Plastic Eyes:** Shenzhen, China
- **Plastic Body:** Malaysia
- **Microfiber Fabric for Coat:** Korea
- **Motor for Legs:** Shaoguan, China
- **Plastic Legs:** Taiwan
- **Speaker for Toy’s Voice:** Dongguan, China
- **Transistors:** Shenzhen, China
- **IC Chips:** Taiwan
- **Wiring:** Dongguan, China
- **Packaging:** Hong Kong

Sources: Qualiman Industrial Co. Ltd.; Li & Fung.
New trade policy demands

• Liberalize trade not only on the exports side, but also on the import side.
Shoe wars

- New Balance and Nike Inc. have diametrically opposed views on whether the U.S. should uphold high tariffs on shoes imports from Vietnam under the TPP.

**New Balance:** “it is already 25 to 35% more expensive to produce in the United States than in Vietnam. A tariff diminution is not necessary to make manufacturing activities in Vietnam viable, and would only chip away the tariff buffer that allows New Balance to produce in America.”

**Nike:** The tariff reduction will allow U.S. footwear manufacturers to save on production costs, thus allowing them to reinvest the savings into modern, high-value added jobs in America. As Erin Dobson, a Nike Inc. spokesperson said: “The question comes down to, is one kind of job more important than another? What are the jobs for the 21st century? They’re not necessarily jobs that existed 30 years ago.”
New trade policy demands

• Liberalize trade not only on the exports side, but also on the import side.

• Facilitate the transmission of goods and information across borders
  – at-the border trade facilitation (e.g. WTO Trade Facilitation Agreement)
  – beyond-the-border trade facilitation (e.g. Asia-Pacific Gateway and Corridor Initiative)
In 2008-10, 6.4% of Canada’s aerospace exports to non-NAFTA left Canada by road or rail.
New trade policy demands

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• Help companies identify and connect to strong GVCs.
Car loans

- EDC loans Volkswagen $525 million in bid to open doors for Canadian suppliers

Unifor: “It is absolutely incredible that a Canadian government agency is helping to facilitate and accelerate the migration of the continental auto industry to Mexico.”

EDC: “This financing is really about relationship building, both for EDC and Canadian SMEs in the tooling and automotive supply industries. The value here is that Canadian SMEs get a real chance to be considered by a major industry player, where they might not have an opportunity to gain that kind of access on their own.”
Should policymakers listen?
Growth in GVC participation versus growth in real GDP per capita, 1995-2008

Source: Van Assche (2015, IRPP Redesigning Canadian Trade Policies for New Global Realities) based on data from the OECD-WTO TiVA database
Traditional views on trade

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Conclusion

Policymakers should consider GVCs carefully in the NAFTA renegotiation for three reasons:

1. They illustrate the strong dependence of NAFTA countries’ exports on that of their neighbors.
2. They show the changing corporate interests that companies have related to trade policy (import liberalization, trade facilitation)
3. There is growing evidence that GVC trade is good for growth.