

# Global value chain



Some factors that enabled the emergence Of global value chains are: I. Technological advances Firms today can disperse production across the world because trade costs have decreased significantly, primarily owing to technological advances. Cheaper and more reliable telecommunications, information management software and increasingly powerful personal computers have markedly lowered the cost of co-coordinating complex activities within and between companies over long distances enabling better communication between the participants in the supply chain.

I.

Liberalizing of trade and investment Trade liberalizing has resulted in falling trade barriers, in particular for tariffs, and has further reduced costs.

Liberalizing of investment has allowed firms to disperse their activities, and liberalizing in emerging economies has helped to extend production beyond industrialized countries. Regulatory reforms in key transport and infrastructure sectors, such as air transport, have also brought down costs.

III.

Access to foreign market and knowledge Demographic shifts and rapid growth in several large non-COED economies like India and China means that an increasing amount of global economic activity is taking place outside the COED area. In order to benefit from new growth centers, companies notably set up distribution and production facilities to exploit markets abroad. Moreover, investments abroad often help companies gain access to strategic knowledge assets, whether these are skilled workers, universities, research centers or other sources of expertise.

Governance of global value chains Global value chains (Gives) can exhibit a wide array of characteristics and impact communities in a variety of ways.

Five different C. V.

governance patterns are: Market The Gives governed by markets involve individuals exchanging goods and services for money and the mechanism is governed by price. The linkage is not very thick because the information and knowledge shared are straightforward. ' V. Modular Suppliers in modular value chain provide products and services as per customer specifications'. The use of generic machinery makes investment in these Gives widely spread and cost effective.

Buyer supplier interactions are complex due to the high volume of information flow. I Relational Here the C. V. is governed by dependence and social ties. Subsequently, trust and mutual dependence take long time to build and effects Of social and spatial proximity are limited to a relatively small set of co-located firms, thus asking switching partners cost and time consuming.

Interactions are usually supported by the deep understanding between trade partners. V. Captive In this network, small suppliers tend to be dependent on larger buyers. Often the lead buyer monitors and controls the suppliers.

For the suppliers, switching costs are high.

VI. Hierarchy This governance pattern is characterized by vertical integration. The dominant form of governance is managerial control.

EVOLUTION OF C. V.

Globalization was driven, historically, from advances in two kinds of connective technologies: transportation and transmission. The steam revolution introducing railroads and steamships, made it feasible to spatially separate production and consumption, starting from the sass and accelerating in the sass when the Trans-America line was completed in 1869.

Once feasible, scale economies and comparative advantage made separation profitable transforming the world. The first unbinding of Globalization was marked by the following: North (Europe, North America and Japan) industrialization and South (mainly India and China) De-industrialization Growth take-off – Modern growth, characterized by a self-sustaining cycle of production, innovation and income gains, was triggered by the steam power's dramatic impact on trade costs which had made it profitable to produce at vast scales. Big time" international income divergence/convergence – Innovation, scale and specialization gave Northern industry a powerful cost-advantage over industry in the South. In addition to favoring the location of more manufacturing in the North, the shift also destroyed incentives for innovation in the South.

International trade and labor migration boomed Production clustered locally as it dispersed globally – . The world's economic geography went from homogeneous (subsistence agriculture everywhere but a few cities) to “spiky” (Florida, 2005).

The second unbinding of Globalization included: The CIT revolution made it possible to coordinate complexity at distance and the vast wage differences between developed and developing nations made separation profitable.

Some production stages previously performed in close proximity were dispersed geographically. CIT facilitated control that reduced the costs and risks of combining developed-economy technology with developing-nation labor.

Reversal of the big income divergence – The offspring of labor-intensive stages of manufacturing and heightened international mobility of technology produced spectacular growth in emerging markets whose economic reforms fostered and were fostered by rapid industrialization.

It is reshaping every aspect of international relations. Denationalization is a pervasive trend among developed nations but the South's rapid industrialization has been driven by the excellent performance of just a dozen nations – all of them heavily involved in international supply chains and most of them in Asia.

The performance of Chinese manufacturing alone accounts for much of the reversal. 1 SST century trade consists of trading parts and components as well as finished goods, long-term business relationships, using infrastructure services to coordinate the dispersed production, and transferring knowledge across borders New industrialization path: Before the rise of global supply chains, nations had to build a deep and wide industrial base before becoming competitive, as done by the United States, Germany and Japan.

After the second unbinding, nations could industrialized by joining international supply chains (Baldwin, 201 1 b), drastically faster and surer than the old import-substitution route. The developing nations that adopted this new strategy are called “ emerging market economies”. The new join-

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instead-of-build development paradigm also transformed the political economy of policy reform, I. E. The new political economy of liberalizing. The political economy became mostly unilateral.

Many emerging economies unilaterally liberalized tariffs, embraced pro-business and pro-investor policies.

Importance of Global Value Chains As businesses go global their interdependence increases considerably. With planning, sourcing, manufacturing, distribution, auxiliary services spread out cross the world the value chain integration is tighter than ever. A small change in one location can have far reaching consequences of unprecedented magnitudes.

While some aspects of PVC is quite simple in most cases it is a complex story interwoven with co-ordination and co-operation between economies in the East and the West. The study of global value chain enables us to better understand the contribution of each economy in value of the final product.

It helps us understand not only where a product comes form but also where it is used and how it is disposed. In addition a study of global value chains shows the preferences between the countries at different stages of development and the direction in which they are moving. In today's' world where change is happening faster than we can adapt study of the global value chain is essential for any individual firm or industry or economy that is a part Of it.

Understanding the flow Of goods and services allows us to see emerging trends in the global market and predict changes that are already on their way.

This in turn provides an opportunity for the companies and economies to prepare for the challenges and adapt to the changing conditions. Global value chain and Trade Policy Global value chain is causing the economies to become more interconnected and increasingly specialized in specific activities rather than in industries. This has led to extensive flow of intermediate goods and services. Imports have become essential for exports especially in case of electronics and transport.

For instance, 60% of trade in goods is now in intermediaries.

It is an important consequence Of integration Of production networks that imports matter as much as exports in job creation and economic growth. In 1990, 20% was the import content in exports; it has increased to 40% in 2010 and is keel to increase to 30% by 2030. For this reason, the import barriers can have an adverse reaction in economies that are increasingly reliant on imports to complete their exports.

Tariff and non-tariff barriers prevents opening of new trade opportunities and has magnified the effect on global value chains especially when parts and components cross border multiple times.

Also, the effective functioning of C. V. is hampered along with raising costs.

In order to facilitate global value chains, efficient port and custom procedures have become crucial. Convergence of standards and certification

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acquisition among economies can help alleviate burdens on exporting firms. Global value chain and Investment Policy Success of global value chains depend on both inward and outward investment. Government should avoid wars to attract stages of global value chain that add more value, but focus on activities that the economy can perform, to ensure investment system supports growth.

MNEs (Multinational enterprises) as well as SOEs (State Owned Enterprises) are key players in global value chains which have raised policy concerns regarding effects on competition and market further downstream. In some developing economies, particularly the less developed, there remains much work to be done to address specific obstacles to effective participation in GVCs. Aid for trade initiatives and trade facilitation can play an important role in supporting the efforts of those economies.

Aid for Trade initiative encourages developing country governments and donors to recognize the role that trade can play in development and take initiative to mobilize resources and to overcome trade-related infrastructural obstacles to address the trade-related constraints identified by developing and least-developed countries. Today, governments are keen to attract foreign investment and reinforce the regulatory environment for foreign investment. Global value chain and Competitiveness Competitiveness is enhanced by offshoring and outsourcing in global value chains, by acquiring access to cheaper, better quality inputs.

GVCs increasingly challenge the policy thinking on national competitiveness as companies and countries have become embedded in international



networks of production. Countries' exports increasingly rely on technology, labor and capital embodied in intermediate goods imported from other countries. The drivers of competitiveness therefore increasingly include factors outside the scope of national policies, limiting the direct influence of policy makers on growth and job creation within their national borders. Competitiveness in GVCs requires strengthening factors of production that are "sticky" and unlikely to cross national borders.

This implies investment in people, education, skills and high-quality infrastructure and encouragement of strong industry-university linkages. The manufacture of goods remain a core activity in global value chains, government help by anchoring production and value addition through investment in skills and manufacturing technologies and policies that strengthen network and cooperation. The emergence of GVCs confirms one economic view which is labor-intensive tasks in GVCs take place primarily in emerging and developing economies with abundant labor, while knowledge-intensive activities are still concentrated in developed economies.

Addressing Risks associated with Global value chain Access to global value chains and realizing upgrading opportunities require a structured approach that includes embedding global value chains in industrial development policies. Global value chain growth can be achieved by creating a favorable environment for trade and investment, by fulfilling infrastructural prerequisites and by building productive capacities in local firms.

However, C. V. participation involves certain risks; UNCTAD (United Nations Conference on Trade and Development) proposes three initiatives:

Synergistic trade and investment policies and institutions Trade and investment policies are often not aligned thus may bring counterproductive reciprocal effects. To prevent this, policy instruments affecting investment and trade simultaneously must be reviewed.

Furthermore, at the institutional level, the trade and investment links in Gives call for closer coordination and collaboration between trade and investment promotion agencies.

Regional industrial development compacts Regional value chain would be based on regional cooperation. For regional industrial development, joint trade and investment promotion mechanisms and institutions should be established. Cross border industrial clusters may also be created through joint financing for C. V.

-enabling infrastructure and joint productive capacity-building. Establishing such compacts requires working in partnership between governments in the region, between overspent and international organizations, and between the public and private sectors. L.

Sustainable export processing zones (Peps) Sustainable Peps can be of significant importance by attracting global value chains by offering benefits to Tans (Transnational companies) and suppliers in global value chain. They could also expand their support for corporate social responsibility (CARS) to become catalysts for CARS.

Policymakers could consider setting up relevant services, including technical assistance for certification and reporting, support on occupational safety and

health issues, alternative energy facilities, transforming Peps into centers of excellence for sustainable business.

VII. Others: Relocation of activities across countries would require adjustment costs. In order to become integrated in international production networks, countries need to adjust their border as well as 'behind the border' policies, in areas such as innovation, skills and infrastructure. Greater international co-operation will increasingly be needed to help reconcile national policies with the global nature of economic activity.

Given the broad welfare implications of global value chains, governments, enterprises and other stakeholders need to remain mindful of their respective roles and responsibilities with respect to the governance of global value chains. Global value chains have led to greater interdependencies between economies, which has increased the risk of breakdowns in the system. Global value chains can facilitate the spread of local risks into global risks, as was demonstrated in 2011 following the earthquake tsunami in Japan and more recently after the flooding's in Thailand.

C. V.

in developed economies C. V. in Developing Economies As a result of increased outsourcing and broader markets most developing entries participate in Gives, even the least developed ones, with few exceptions. Studies conducted by UNCLAD have found that Gives bring in new opportunities as well as challenges for developing countries. Opportunities Participating in trade has a positive effect on growth and productivity through increased competition, access to knowledge and technology,

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increased specialization and access to cheaper and better input goods and services.

Traditionally, a production chain was located more or less entirely within one nation.

Today if the product is to be competitive and to benefit from demand in that sector outsourcing is a must. So companies enter a link in an established production chain, regardless of the nationality of the manufacturer(s). Firms in developing countries need not acquire the full range of capabilities needed along the entire value chain; they can still participate by specializing in only one component of the whole.

Some well-known cases are assembly of information and communications technology in China, clothes manufacturing in Cambodia, and IT services in India.

Many analyses show the positive effects of transferring technology through global production chains. Countries may to a lesser extent receive investments of entire production complexes, but instead the fragmentation of production gives a larger number of countries the opportunity to attract investment leading to technology transfers.

Global sourcing also leads to increased knowledge transfer, even when tasks are performed by networks of subcontractors and not within actual subsidiaries. For instance, sourcing companies often support suppliers by facilitating their adherence to the technical requirements and health standards of end markets.

Such transfer of technology and knowledge leads to increased productivity and thus to opportunities for economic growth. VIII. Challenges Developing (as well as developed) countries face several challenges as a result of the increasing fragmentation and diversification of production.

New innovations leading to rapid technological obsolescence or changes in consumer demand are two of the factors creating risks for companies participating in international trade. Knowledge of trends in end markets and buyer/consumer contacts are valuable tools in planning production and investments.

A developing country's participation in a global production chain at a distance from the end markets risks becoming obsolete. Being loosely tied to the multinational companies governing value chains might mean that the value created nationally to a larger extent is kept there, but this distanced position also entails a higher degree of risk.

Contracts can be terminated or not renewed on rather short notice.

Multinational companies might invest in subsidiaries in order to adapt to changing technology or demand (most of the very low foreign direct investment inflow to Greece in 2012 is believed to be directed towards subsidiaries of multinationals but are likely to seek new suppliers if the necessary goods or services required are not available in-house or with existing collaboration partners. Another risk is that of rapidly changing conditions for trade and competition between markets.

After NONFAT went into force in 1994, Mexico became the main production hub for television sets for the US market.

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But when China joined the WTO in 2001, investors shifted their funds there, rendering the Mexican production sites obsolete. A slower change might be that of increased wages in a country that once attracted investment and trade with a competitive labor market. In order to avoid losing economic gains when investors seek other production actions with lower labor costs, innovation and diversification of production are essential.