

# DOES GLOBAL VALUE CHAIN THEORY ACCURATELY REFLECT THE CURRENT NATURE OF THE AUTOMOTIVE INDUSTRY?

## INTRODUCTION TO GLOBALIZATION

Globalization is a phenomenon, a method, a state, or a notion. It has developed partially owing to the tendency towards increased global trade across domestic borders and company operations in many countries—and the shifts in the different elements of the global company setting that have been addressed during this novel. In short, it is a method that relates to the increase in international interrelationships between domestic economies and sectors (Gereffi and Fernandez-Stark, 2011). This increased interdependence has led to a tendency towards worldwide and international markets, output and global competition. A value chain defines the whole variety of operations undertaken by companies and staff to take a product to its end and after-sales service from inception. The value chain includes operations such as architecture, manufacture, commercialization, delivery and customer support after-sales services. The value chain structure demonstrates how products and services are generated, distributed or distributed in a single geographical place (Keane, 2008).

## INTRODUCTION TO GLOBAL VALUE CHAIN

This report will undertake the analysis of global value chain as a theory for international business it can be explained as all of the operations which are undertaken by companies, at home or overseas, to market a commodity from conception to final use are part of the global value chains. The global value chains are organized increasingly around world trade, investment, and manufacturing. The global value chain is the complete variety of operations companies undertake, from conception to final use, to put a brand on the market (Keane, 2014). These operations vary from layout, manufacturing, advertising, logistics, and delivery to customer support. They could be carried out by or distributed between several firms or by the same firm. Value chains are becoming increasingly international as they stretch out (Van Dijk, 2008). Economic activities in the global value chain are divided and scattered across nations. Today, the intermediary goods (major goods, parts, elements, partially finished products), are more than half the world's manufactured imports, while more than 70% of the global exports, for example, are supplementary services. Value-added imported from overseas increasingly covers exports. Today, the majority of products and an increasing share of facilities are "produced in the country," with distinct companies and nations focused on the particular functions and duties of global value chain. Many policies are, though, still based on the premise that only one nation produces goods and services. The monitoring and coordination of businesses in global value chain play a key position in purchaser and supplier networks as well as multinational enterprises (Elms and Low, 2013). The policy impacts the forming and the location of these networks. Efficient procurement of outputs overseas and access to initial manufacturers and customers overseas are the basis for trading and development. Production fragmentation in the global value chain is a way to boost productivity and competitiveness.

## WHY GLOBAL VALUE CHAIN?

Production fragmentation between nations is not a fresh occurrence where the fresh thing is the scale and scope of its development. Today, companies can distribute their manufacturing worldwide because the cost of trade, primarily due to improvements in technology, has fallen considerably. Cheaper and more efficient telecommunications, information management software and ever stronger personal computers have significantly reduced the expense of organizing complicated operations between and within businesses (OCED, 2013). Rapid developments in ICT have improved the tradability of a large number of products and facilities. The result of trade liberalization, trade barriers, especially for tariffs, have fallen and expenses have been further lowered. Investment liberalization has enabled enterprises and liberalization in emerging economies have contributed to the expansion of global value chains across the industrialized countries (Satoshi, 2017). Cost reduction has also resulted in regulatory changes in important industries of infrastructure and transport, such as air transport. These innovations have allowed firms to examine comparative expenses and factor endowments and create an effective value chain across businesses and places. Inputs obtained domestically or abroad by low-cost or more effective manufacturers within or beyond the company's border can have significant cost benefits. Production externalization also allows companies to enjoy the scale and range savings which specialist providers can provide. Cost and effectiveness factors are not only guided by the distribution of global value chains. Access to overseas economies is also a significant motive. In several major non-OECD countries, demographic changes and fast development imply a growing quantity of worldwide financial activity outside OECD (Draper and Freytag, 2014). In order to make full use of these fresh development centres, businesses need to be present, particularly through distribution and manufacturing installations, as local existence enables them to comprehend and utilize international economies. Increased external presences do not necessarily mean that existing production from advanced economies can be closed or physically off-shoot but often involve the development and development of foreign affiliates. Access to expertise is another motivation for the spread of global value chains. Companies invest increasingly abroad, whether they are skilled workers, university, research centres, or other sources of expertise, in access to strategic knowledge. Competitor proximity and supplier proximity are a further factor in the growth of global value chains because it helps companies to learn and collaborate from others. Different products have different global value chains depending on the whole process.

## EVOLUTION OF GLOBAL VALUE CHAIN

The evolution of worldwide value chains in a variety of industries such as commodities, apparel, electronics, tourism, company outsourcing and the integration of emerging countries' companies, manufacturers and employees into the global economy. This global value chain framework helps one to comprehend the composition and dynamics of distinct performers engaged in a specified sector, organizing worldwide sectors. Global value chain assessment examines six fundamental measurements split into global (top-down) and local (bottom-up) components (Jara and Escaith, 2012). The first series of measurements relate to international components, which are determined by sector dynamics worldwide. The second collection is about how each country participates in global value chains. The international elements of the six fundamentals of global value chain are (1) input-output structure which describes the method by which raw materials are transformed into end goods, (2) geographic scope which explains how the sector is spread worldwide and in which countries the various global value chain processes are performed, (3) governance structure which describes how companies control the value chain. The local elements of the six fundamentals are (4) upgrading which describes the dynamic flow in the value chain by investigating how manufacturers move between different chain stages, (5) institutional context where the value chain of sector is integrated into local cultural and financial components, (6) industry

stakeholders which explain how the various local value chain performers communicate to improve the sector (Inomata, 2017).

## CRITIQUE OF GLOBAL VALUE CHAIN

Global value chain researchers too easily depended on the classical understanding, which is supposedly inconsistent with anti-colonial and equitable development objectives in literature from major economic and business studies. In the framework of a rather wide, coherent document defining clear financial advantages for nations specializing in global manufacturing while trading in other nations, the strategy problems concerning GCVs and overseas externalization can appear to be broken into two comparatively concentrated and conceptual problems, which often use MNCs as a tool for global trade, (1) Why could the closely specified value chain businesses be reduced if the specialization's net financial advantages from specific global manufacturing are reduced?, (2) Why could the net economic benefits of offshoring by MNCs be reduced if the production abroad is externalized to independently owned companies instead of being carried out by foreign affiliates of the MNC? (Globerman, 2011). The global value chain theory has focused on the condition of value chain management and not so much on promoting competition in order to make the profits fairer. The framework of chain management can be defined as a network approach, an arm's length business relationship or oligopoly condition. In the chain, a company sometimes performs a very significant part. Market authority is sometimes evaluated, but seldom is a competition regulator involved (Gardin, 2016). They tend to concentrate on individual companies rather than on value chains. It seems reasonable to say that most critics of global value chain implementation of relative benefit modelling are based not on theoretical factors but on the empirical fact that global value chain specialization progressively includes R&D, consumer construction and other white-collar intensive operations being moved to nations that are historically involved.

## THE AUTOMOTIVE INDUSTRY

Since the 1980s, there has been a revolutionary change in the worldwide business system. This method was led by the automotive industry. The high-speed industrial consolidation of the major "system integrator" companies in both the passenger car industry and the strongly connected commercial vehicles has led to a drastic cycle of trans border fusions and purchases. A few companies now monitor the worldwide vehicle market almost entirely (Wong, 2017). There is a stagnant market in nations with high revenues. In emerging nations, vehicle property is far behind that of developed countries. This enormous and fast-growing market will be used by a tiny number of businesses with their offices in high-income countries. In addition to a considerably higher rate of industrial consolidation among the "system integrator companies," the stress from these companies has spurred the whole supply chain to be revolutionized. The system integration companies have compelled an extensive change to the organizational framework of this industry's enormous supply chain thanks to their enormous procurement expenses. The system integration companies' intense stress compelled their major vendors to construct worldwide supply chains just in time, to spend heavy in R&D, as well as to reduce cost on their own supply chains (Sturgeon, 2004). A couple of gigantic integration systems companies have regulated every aspect of the supply chain of worldwide cars. Unprecedented technological change has been motivated by the ferocious oligopolistic rivalry throughout the whole supply chain of that vast sector. Another age of revolutionary changes is entering the automotive industry powered by the passage of information technology into the vehicle industry. The rivalry of major companies in the IT hardware sector and software industry is possibly serious for traditional car assemblers and suppliers in the supply chain. It is still in its infancy that information technology and traditional producers relate to each other. Whether this connection is one of profound collaboration or fierce rivalry remains to be seen. In the years to come, in

this huge sector, how this connection is developing will be the central organizational and technological shift (Sturgeon, Van Biesebroeck, and Gereffi, 2008).

## CURRENT AUTOMOTIVE INDUSTRY VALUE CHAIN

Consolidation and globalization of the production base were one of the primary causes of worldwide inclusion. In the past, multinational companies either have shipped components to overseas companies or have depended on local providers at each place, but today worldwide distributors in a variety of sectors, including automobiles, have appeared. Automakers installed final assembly facilities in different sites and attempted to exploit popular platforms through various goods and pressed their current vendors in various economies to migrate overseas (Sturgeon and Van Biesebroeck, 2011). The capacity to generate is increasingly a prerequisite for a venture in all significant manufacturing areas. The need for the complete co-location of the finished parts varies according to the type of part or even at the production stages of a single component or sub-system. Providers with an international presence can focus their quantity manufacturing of particular parts in one or two places and dispatch them to factories close to the initial assembly stations of their clients (Wong, 2017). A number of national industries or a simple network of clusters cannot reduce the automotive industry. Business relations now extend to several stages in the value chain worldwide. Car manufacturers and first-class providers have established such partnerships, and the smaller, bigger, existing companies have become very varied in their services to a broader spectrum of clients. With the rising consolidation and crisis, we need to challenge the continuity of lower, lower-level local providers, however well-supported local organizations and intercompany networks are, particularly given that many providers of upstream products such as the PPG car paint provider are also large firms operating globally (Sturgeon and Van Biesebroeck, 2011).

## EVOLUTION GLOBAL VALUE CHAIN IN AUTOMOTIVE INDUSTRY

Global inclusion has progressed, as companies have tried to leverage the efforts of engineering through products marketed in several end economies. And since providers play an even bigger part in the design, they have set up their own design centres in close cooperation with their leading clients. The dominant trend on the manufacturing hand is regional inclusion, a pattern that, for both political and technical purposes, was intensifying since the mid-1980s. Political pressures on local manufacturing have led automakers, in many of the main developed markets and in the biggest emerging markets like Brazil, India, and China, to establish final assembly facilities. As a pre-condition for a fresh manufacturing component, lead companies increasingly demand their biggest suppliers' worldwide existence, because, in many areas, buyer-supplier relations typically extend over many manufacturing areas. Naturally, automotive components are traded between areas more strongly than completed cars (Humphrey and Memedovic, 2003). Automotive manufacturing and jobs are usually grouped in one or more manufacturing areas within nations. In some instances, such clusters focus on certain company elements such as car layout, final installation or the production of components that have a prevalent feature such as electronic material or labour intensity. Regional automotive clusters tend to be very long-standing due to profound investment in capital facilities and abilities. In summary it can conclude that the evolution of automotive global value chain has continued the most extensively in the context of buyer-supplier relations, not because of its complicated economic geography. The production of heavy, large and model-specific components tends to be organized at the regional or national level to ensure prompt shipment (e.g., motors; transmissible, seats and other internal components), as well as smaller and more generic components manufactured over distances in order to profit from the economies of magnitude and the small cost of work. A few design centres are focused on the growth of vehicles.

## BENIFITS OF GLOBAL VALUE CHAIN IN AUTOMOTIVE INDUSTRY

The complete advantages of globalization rely on enhancing the standardization of designs across the industries for worldwide car producers. In the contemporary car industry, economies of scale are no longer mainly to be found in assembly, although the quest for economies of scale is still essential in the production and design sectors of parts in many emerging markets. Economic manufacturing scales achieve millions of units per year for certain parts. The increasing complexity of cars leads to more sophisticated and complicated production components like motors, gearboxes and electronic systems. The purchase of more advanced components for passenger vehicles assembled in developing states, especially electronic products, has changed from domestic production to imports, as a result of trade liberalization in developing countries and the introduction of tariff drawback schemes. The knowledge of effective providers in emerging nations indicates three goals in turn. The first objective is to attain global norms of performance (Humphrey and Memedovic, 2003). This is a needed prerequisite to begin providing competitive supply chains globally. The second objective is to increase efficiency. There is already a lot of automation to achieve quality standards. The level of productivity must be adequately large for a feasible provider to increase at the same pace as the average technology advancement in the industry in order to suit the norm of continuously declining prices. Third, companies must obtain design skills—a needed move towards higher autonomy and also a prerequisite for becoming leading suppliers in the launching of fresh car programs. Working in the value chains of external companies' speeds up the method to attain the first two objectives. For the third objective, research for national lead companies is often highly important, as they tend to offer local providers more possibilities.

## VALUE OF GLOBAL VALUE CHAIN IN CURRENT CONTEXT

Trade and manufacturing have become ever more structured over the last two centuries around what is frequently called global value chains. Advances in data and transport technology and dropping trade obstacles have made it possible for companies to unplug manufacturing into activities carried out at distinct sites to benefit from various factor expenses. Such a fragmentation in manufacturing implies that mid-term products and services travel across the chain several times, often more than once, across several nations. The nature of trade has altered through complicated worldwide manufacturing agreements. The study indicates that the involvement in global value chains can have a positive impact on the financial performance of nations rather than standard trade, though the benefits may be heterogeneous. This involvement seems to benefit the middle-and high-income nations, where there are strong consequences for poor and middle-income nations. While global value chain involvement increases efficiency and earnings, it does not appear automatic or common for "shifting" to more hi-tech industries. We paper that there is little change in the sectoral structure of its involvement in many nations that add to significant worldwide supply chains. Global value chains are a strong driver of productivity and development and promote the development of jobs. However, some classes of employment and abilities may be influenced and offshore by trade in worldwide value chains. Imports, in particular in complicated value chains, like shipping and electronics, are crucial for exports (Keane, 2014). Tariffs and non-tariff obstacles actually impose export tax in the worldwide value chain. The effective working of worldwide value chains and cost increases are also possible with export restrictions. When components and elements cross boundaries many time, the adverse impacts of trade security are compounded in the worldwide value chain. Trade-facilitating measures, such as quick and effective port and custom processes, enable value chains to operate smoothly, which force freight to cross boundaries several times. Convergence of norms and conditions for accreditation and mutual recognition contracts can assist to reduce burdens on exporting companies. Regulatory changes and trade in services are crucial to improve competition and improve productivity and quality of services through the introduction of trade facilities and investments in

facilities. Global value chains reinforce the economic case for further multilateral trade negotiations as obstacles to upstream or downstream trade between third countries as well as obstacles to direct trading partners and best addressed together. Due to MNE's key position in worldwide value chains it is an effective way to integrate a nation into worldwide value chain by reducing investment obstacles (Kawakami and Sturgeon, 2011). Impediments to cross-border investment may have adverse effects beyond home or host nation by inhibiting the effective operation of worldwide value chains. Based on thousands of bilateral / regional investment contracts, the present international investment system does not represent sufficiently the interrelated nature of countries in worldwide value chains. In order to preserve an accessible and predictable worldwide business climate that endorsed international investment in worldwide value chains, Multilateral Cooperation and coordination, like the OECD Policy Framework and the OECD Codes for Liberalization, are necessary. The operations in the worldwide value chains rather than in the industry need to be more carefully focused in order to gain the complete benefit of international investment, investment advancement and facilitation measures. These strategies must acknowledge that achievement in worldwide value chains relies on investment both inside and outside. Governments should prevent war incentives for the attraction of high-value phases in the worldwide value chain and operate together to guarantee the continuing development promotion of the multilateral investment scheme (Wong, 2017). Large MNEs are prominent participants in worldwide value chains, including in some instances state-owned companies (SOEs). Outsourcing and offshoring improve the competitiveness of exports through access to cheaper, more distinguished and superior performance outputs across worldwide value chains. Production of products continues to be a key business in worldwide value chains, although utilities are now involved in the production of great value. Advanced economies governments can assist to anchor production and the development of value by encouraging investment in skill and technological advances, including in the traditional sectors and by implementing measures to reinforce networks and collaboration (Ignatenko, Raei, and Mircheva, 2019). Governments will need to encourage the upgrade by enhancing company environments, promote investment in knowledge assets such as R&D and layout, and promote the growth of significant financial competence, especially skilled and leadership, in order to reinforce the advantages that nations, including developed economies, gain from engaging in world value chains. In conclusion it is essential to understand that the current context of GVC is still relevant for industries and especially automotive industry, the critiques are not strong and the benefits that reaped from the theory outweigh its critique. The GVC accurately reflects the current nature of the automotive industry.

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