

METHODOLOGY FOR DESIGNING GLOBAL VALUE CHAINS AT THE LEVEL OF ECONOMIC ENTITIES

Shomurodov Tokhir Boymurod ugli

Senior lecturer Fundamental economics department

Tashkent State University of Economics

e-mail: tohirbek0206@gmail.com

Abstract

This thesis presents a methodology for designing global value chains at the level of economic entities. This technique can be applied both to companies that already have foreign economic relations, and to those entities that are only planning to organize production with the participation of foreign partners. GVC design refers to the process of identifying several potential chain options and choosing the most efficient one. The design of chains by Russian companies is possible both in relation to an already released product, and to a product that is only planned for release. The scientific basis of GVC design is the analysis of inter-industry chains, from the development / improvement of the product to the finished product delivered to the end user.

Significant investments are required to transform existing chains, and therefore it is important to choose the most effective option at the very beginning, which will take into account not only the requirements of today's realities, but also the competitive needs of the future.

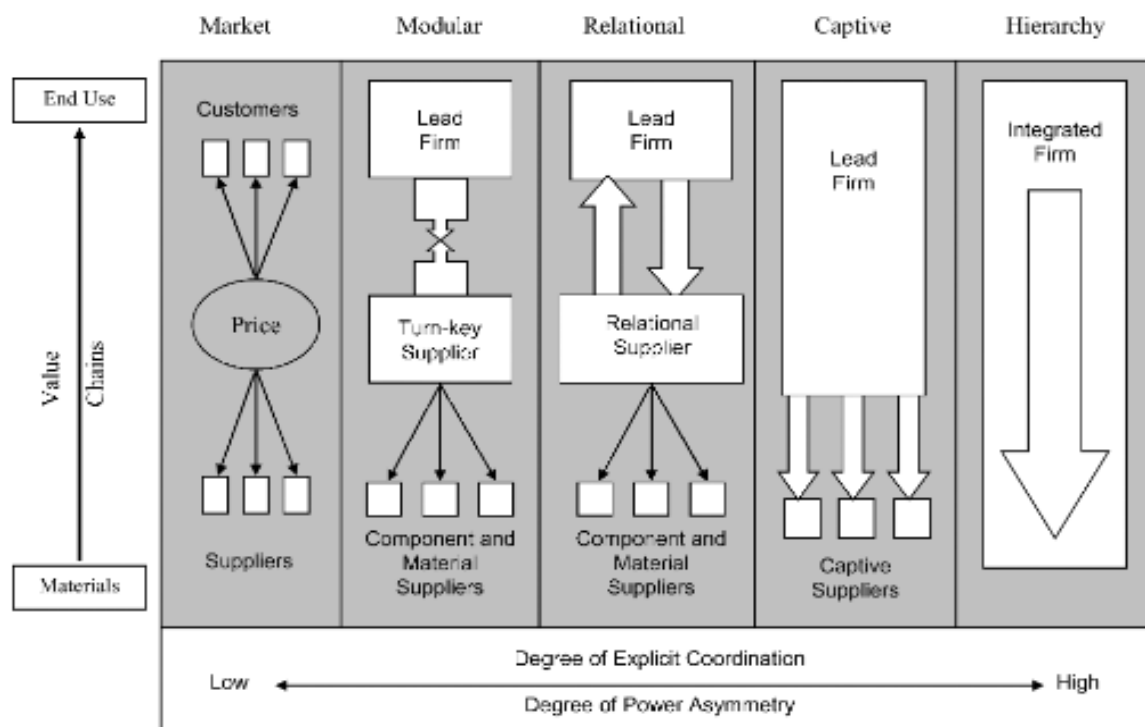


Figure 1 Five global value chain governance types

Source: Gereffi, Humphrey, Sturgeon The governance of global value chains

In modern literature, researchers provide numerous recommendations for designing value chains of the final product, presenting them in the form of algorithms or a simple list of key stages.

In particular, such proposals are considered in the works of foreign scientists R.M. Grant (Grant R., 2016), D. Shank and V. Govindarajan (Shank J. and Govindarajan V., 1993), A. Thompson and A. Strickland (Thompson A. and Strickland A., 2003). The development of this issue was also carried out by V.N. Zuev, T.A. Meshkova and other Russian researchers (Zuev V.N., 2014; Meshkova T.A., 2015).

The analysis of the options for the formation of value chains presented by foreign and domestic researchers identified a number of significant shortcomings:

- insufficient validity of the criteria for determining key activities in value chains, as the main requirements are a significant share of costs and a high percentage of influence on differentiation;
- lack of a full analysis of the competitive advantages and characteristics of the enterprise;
- incomplete argumentation of the criteria for evaluating the choice of the most effective option of the value chain;
- use as the main indicator of the effectiveness of the chain - the total profit of its links, which in turn has a significant degree of dynamism;
- national orientation, lack of consideration of international and regional peculiarities, regulatory framework of foreign economic activity.

The design of a GVC product for an industrial enterprise as a process consisting of eight logically completed stages that have their own task and end result. The proposed final product GVC design scheme for research purposes has a number of advantages over the general value chain scheme developed by M. Porter (1985):

- defines non-standard activities that relate to the production of a particular product (with the exception of ancillary activities);
- Identifies material flows and key GVC processes for a specific GVC product activity;
- groups the value chains of suppliers, manufacturers and distribution channels;
- establishes a list of all entities that participate in the phased creation of the value of the final product;
- determines the competitive advantages of the enterprise at all stages of the formation of the final product;
- takes into account the international characteristics of economic entities;
- establishes a list of states - potential partners for each GVC link.

GVC design is proposed to be carried out in the following sequence. At the first stage, the effectiveness of the current value creation chain of the final product of the enterprise is assessed in dynamics according to the methodology.

The second stage is the formation of an intersectoral GVC, starting with development and improvement (when creating a new product), or from the original sources of raw materials (when analyzing an existing production process) and ending with the delivery of the final product to the consumer, including after-sales service. This stage is focused on identifying the key activities (GVC links) involved in the formation of the value of the final product.

Profitability analysis of each end product GVC activity is performed in the third step. This stage is aimed at identifying the GVC control link - the type of activity that has the maximum share of added value. The identification of the control link occurs when analyzing the average retail price of a unit of production in the local or foreign market, where the entity is already selling, or is just planning to sell its product.

The fourth phase of the design is to identify potential areas for expansion of GVC for the enterprise based on a study of factors in the internal and external environment. At this stage, the activities that the enterprise can or cannot carry out independently are determined.

The fifth stage involves conducting an analysis of the transfer prices of each type of activity (potential or carried out by the enterprise) to determine the profitability of the GVC links of the final product.

At the sixth stage, a potential GVC partner country is selected based on the PESTLE analysis and the terms of contractual relations with foreign counterparties are determined. This stage involves an analysis of favorable conditions for partnership and the availability of infrastructure for participation in the GVC.

The main goal of the seventh phase of the design is to identify alternative GVC options and evaluate their effectiveness. At this step, all the areas of activity identified in the framework of the preliminary analysis, which are more profitable for the subject to perform independently, are systematized in stages.

At the last (eighth) design stage, the optimal GVC option is determined based on a comparison of the value added quality assessment indicators of the current GVC option with the values of alternative options. The maximum values of the integral indicators characterize the most preferable variant.

The described stages of GVC design, based on the study of the retail price, the definition of a control link in the chain, the choice of a country and the analysis of foreign counterparties, allow us to develop alternative options for the enterprise and determine the most effective ones.

References

1. Gereffi, G. (1999). International trade and industrial upgrading in the apparel commodity chain. *Journal of International Economics*. 48(1). Pp. 37—70. DOI: 10.1016/s0022-1996(98)00075-0.
2. Gereffi, G., Humphrey, J. and Sturgeon, T. (2005). The governance of global value chains. *Review of International Political Economy*. 12(1). Pp. 78—104. DOI: 10.1080/09692290500049805.
3. Grant, R. (2016). *Contemporary strategy analysis: text and cases edition*. 9th ed. Hoboken, NJ: John Wiley & Sons.
4. Isard, W. (1951). Interregional and Regional Input-Output Analysis: A Model of a Space-Economy. *The Review of Economics and Statistics*. 33(4). P. 318. DOI: 10.2307/1926459.
5. Kaplinsky, R. (2013) *Global Value Chains: where they came from, where they are going and why this is important*. IKD Working Paper. 68(1). UK: The Open University.
6. Leontief, W. and Strout, A. (1963). Multiregional Input-Output Analysis. In: Barna T, editor. *Structural Interdependence and Economic Development*. Pp. 119—149. DOI: 10.1007/978-1-349-81634- 7_8.
7. Porter, M. (1985). *Competitive advantage: creating and sustaining superior performance*. New York: Free Press.
8. Shank, J. and Govindarajan, V. (1993). *Strategic cost management: the new tool for competitive advantage*. New York: The Free Press.
9. Thompson, A. and Strickland, A. (2003). *Strategic management: concepts and cases*. Boston: McGrawHill Primis.
10. Rasulev A. New opportunities on economic development of Uzbekistan /A. Rasulev, S. Voronin, T. Shomurodov // *Часопис економічних реформ.*— 2022.— No 1(45).— С. 30 – 38
11. Sadullayevna, K. L., & Rashidovna, Q. G. (2021). Analysis of Relationship Between Trade Costs and Uzbekistans Bilateral Trade: Theories and Concepts. *International Journal on Economics, Finance and Sustainable Development*, 3(3), 132-140.
12. Shomurodov Tokhir Boymurod ugli, Kuziyeva Gulnoza Rashidovna “A STUDY ON THE REGIONAL LEVEL OF ECONOMIC GROWTH AND THE PRINCIPLES OF ITS CHANGE” *Asian Journal of Research in Business Economics and Management* ISSN: 2249-7307 Vol. 12, Issue 4, April 2022 SJIF 2022 = 8.529 A peer reviewed journal
13. SHOMURODOV, T., & HONGEN, Y. (2020). A Gravity model study on trade cost and foreign trade nexus: case of Uzbekistan and its selected partners. *ECLSS Online* 2020c.
14. UGLI, S. T. B., LATOFAT, K., SADULLAYEVNA, O. O. U. Q., GULNOZA, Q., & RASHIDOVNA, R. B. S. U. (2021). An empirical analysis on financial development and bilateral trade flow nexus. *Journal of Contemporary Issues in Business and Government* Vol, 27(3), 107.