**Title of Essay: Redesign of value chains and opportunities of backshoring for the service sector**

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**Introduction**

Backshoring has become a popular and frequently misused term in recent years.

Global consulting firms consistently identify it as a growing trend in corporate relocation, providing impetus for 'western' governments to quickly respond with policies encouraging firms to return from offshore in the hope of reversing years of deindustrialisation. Firms that successfully offshoot all or a portion of their operations redesign their marketing campaigns to emphasize the fact that their products are 'made locally.' This is frequently the picture that emerges from reading the popular and specialized press, as well as some sections of academic research. A more thorough examination of the broader literature, on the other hand, suggests that the situation is far more complex and nuanced. Based on the evidence that is currently available, the picture is hazy and dominated by inconclusive observations.

For several decades, the emphasis on manufacturing, and later on services, relocation, and global value chain reconfigurations, has been subsumed by outsourcing and offshoring decisions, reflecting dominant trends driven by multinational corporations.

The desire of multinational enterprises (MNEs) to benefit from the efficiency advantages provided by low-cost ( Apte and Mason 1995, Gereffi 1999, Capik and Drahokoupil 2011, Coe Peng 2013; 2011). Recently, the corporate focus has shifted to investigating whether low-cost locations continue to offer optimal conditions for competitive and profitable business operations (UNCTAD 2013, Dicken 2015). Simultaneously, one of the consequences of the recent global recession has been a noticeable increase in support for 'made locally,' expressed by both customers and politicians, particularly in advanced nations (Canham & Hamilton 2013, Shih 2014, Grappi et al 2015). Both the recession and 'made locally' attitudes contribute to the reconfiguration of global value chains, changing MNE sourcing and production strategies, and a shift toward reshoring or backshoring of economic activity (McKinsey & Company 2012, Fratocchi et al 2014, Kinkel 2014). While the global shift-back has yet to fully materialize, such emerging trends in firm relocation and the reconfiguration of value and production networks of manufacturing and service branches have extensive managerial implications and influence trade and inward investment directions and volumes, resulting in a variety of developmental outcomes.

**Backshoring**

Reshoring is the process of returning offshored industrial processes to their original location (Goldense, 2018, pp. 179-183). It is best viewed simply as a site decision, regardless of whether the manufacturing operations in question are carried out by suppliers or parent companies (Gray et al., 2013). It is critical to remember that the reshoring phenomenon does not mean that offshore is dead. It is simply not feasible to reintroduce all activities that were previously offshored for some manufacturing activities, particularly those requiring a high labor content (De Backer, et al., 2016, p. 211).

In general, the terms 'reshoring' and 'backshoring' have been defined in the literature as an MNE's decision to relocate a previously offshored production operation back to the home economy: such relocations can include foreign investment or domestic outsourcing (Bailey and De Propris, 2014b ). As a result, the terms reshoring and backshoring have become interchangeable.

We would argue, however, that such ambiguity must be addressed. To conceptually clarify the phenomenon, we will look at two dimensions: geography and function. The geography of a firm's production organization is important. In the International Business literature, there is a great deal of discussion about firms' location decisions (FDI theories and MNE theories). However, the majority of it has relied on cognitive categories to explain firms' internationalization strategies. The 'where to' and 'where from' of movements in firms' production locations are important in the context of reshoring because they can be linked to the motivations and drivers of such changes.

**Global Value Chain**

According to The Organisation for Economic Co-operation and Development (OECD) in 2013, A global value chain involves all the activities that firms engage in, at home or abroad, to bring a product to the market, from conception to final use. Global value chains are increasingly organizing global trade, investment, and production (GVCs). A value chain is the entire set of activities that a company undertakes to bring a product to market, from conception to final use. Design, production, marketing, logistics, and distribution, as well as customer support, are examples of such activities. They may be performed by the same firm or by a group of firms.

Value chains have become increasingly global as they have spread. GVCs are based on some fundamental characteristics of today's global economy:

1. The growing interdependence of economies. Economic activities in GVCs are fragmented and dispersed across countries. Today, intermediate goods (primary goods, parts and components, and semi-finished products) account for more than half of global manufacturing imports, and intermediate services (such as business services) account for more than 70% of global service imports. Imported value added is increasingly being included in exports.
2. Firms and countries specialize in tasks and business functions. Today, the majority of goods and a growing share of services are "made in the world," with various firms and countries specializing in the specific functions and tasks that comprise a GVC. However, many policies continue to be based on the assumption that goods and services are produced in a single location.
3. Global buyer and supplier network Firms control and coordinate activities in networks of buyers and suppliers in GVCs, and multinational enterprises (MNEs) play a key role. Policy influences how these networks form and where their activities take place.
4. New economic performance drivers. Trade and growth in GVCs are dependent on the efficient sourcing of inputs abroad, as well as access to final producers and consumers abroad. Production fragmentation in GVCs is a means of increasing productivity and competitiveness. GVCs also have an impact on the labour market, primarily by influencing demand for various skill groups.

For all of these reasons, it is critical to comprehend how global value chains operate, how they affect economic performance, and how policy can assist countries in reaping the benefits of global value chains (OECD, 2013).

**Upgrading in a Global Value Chain**

In a value chain, there are several ways to upgrade:

1. Firms can upgrade their processes when they can process tasks more efficiently and with lower defect rates than their competitors, or when they can process more complex orders. Hon Hai Precision (or Foxconn), the world's largest original equipment manufacturer (OEM), is renowned for its ability to complete large-scale production under tight deadlines and with highly specific requirements from major electronics brands such as Apple, Dell, Samsung, and Sony.
2. Product upgrading occurs when a company's technological sophistication and quality allow it to provide higher value-added products than its competitors. It also entails the ability to launch new products faster than competitors. The so-called "hidden champions," or companies with large global market shares in very specific products, are examples, as are ASUSTek, the inventor of netbooks, which tapped into the demand for low-cost, easy-to-use portable PCs, or Toyota, which introduced the Prius, the first mass-produced hybrid vehicle.
3. When companies can offer competitive products with higher value-added in new segments of a GVC, they are said to be functionally upgrading. For manufacturing companies, this means branching out into upstream and downstream activities like design and marketing. Through its acquisition of IBM's PC division, Lenovo, for example, developed more sophisticated R&D capabilities, including the ThinkPad brand. IBM, on the other hand, transitioned from a PC manufacturer to technology and consulting firm. By acquiring product development, marketing, and branding functions, Li and Fung, a Hong Kong-based consumer goods intermediary, has advanced from a supply chain management firm.
4. When firms can participate in or shift the locus of their activities to new GVCs producing higher value-added products/services, this is referred to as chain upgrading. These capabilities include managerial talent, which aids in the identification of potential opportunities and threats and allows businesses to reconfigure their resources and organizational structures promptly. Recent examples include Samsung, the world's largest semiconductor producer, which decided to invest USD 20 billion over ten years in new industries such as solar panels, light-emitting diodes (LEDs), and electric-car batteries, and Nestlé, the food industry behemoth, which has made significant investments in health-oriented processed foods, which have higher profit margins and more room for disruptive innovation than conventional food products.

**The Role of Services in Global Value Chains**

Services, in some ways, play a role similar to goods. However, their roles are distinct in that services facilitate the emergence of GVCs in ways that goods do not. Services can be viewed as components of GVCs that differ from the typical cross-border or arm's length trade that is typically examined in the case of goods (Miroudot, 2016).

**Services global value chains**

The rise of GVCs has expanded opportunities for international specialization not only in finished goods and their components but also in services and service tasks. In many cases, services are the final stage of a GVC, with service firms opting to source their inputs from around the world. Financial services providers, for example, have outsourced and offshored their back-office data-management and analytical tasks, architects their basic design tasks, and doctors their radiological image reading. Direct interaction with the client occurs in each case through locally based service providers. It has been proposed that value is sometimes created differently in fragmented service production processes than it is in goods value chains. Rather than following a linear value chain, in which products move sequentially from upstream to downstream, adding value at each stage (a "snake" formation in Baldwin and Venables 2013 terminology), value creation in services value chains can take the form of a network of activities, such as platform-based communication or transportation networks (a "spider" formation in Baldwin and Venables 2013 terminology). Multiple parts come together to add value in the form of a final product or component in such cases—or through alternative models like facilitated user networks (which create value by connecting customers, as in insurance or banking services) and solution shops (which create value by solving customer problems; Miroudot 2016).

**Services as links in global value chains**

One reason to separate some services from goods in GVCs is their role in allowing GVCs to emerge. Changes in transportation, logistics, and information and communication technology services contributed to the international fragmentation of production. Lower costs and improvements in these services, in particular, enabled companies to manage geographically dispersed production processes (Jones and Kierzkowski 2001a, 2001b). Even though the anecdotal evidence is compelling in and of itself, there is a serious gap in the literature in terms of rigorous empirical evidence on how better access to these connecting services across space and time has facilitated the emergence of GVCs.

**In global value chains, services are used as in-house inputs**

Another aspect of services as inputs appears in the concept of GVCs, which extends beyond arm's length market-based transactions to functions within the firm. Firms frequently develop their support services in-house, such as research and development of information technology capacity. This means that services are produced not only by service firms but also by manufacturing firms (Kelle 2013), which frequently export a wide range of headquarters services to their affiliates. According to some analysts, this "servicification" within firms may need to be considered to fully assess the impact of services on trade and value creation (Miroudot 2016).

**Services as links in global value chains**

One reason to consider some GVC services separately from goods is their role in allowing GVCs to emerge. Changes in transportation, logistics, and information and communication technology services contributed to the international fragmentation of production. Lower costs and improvements in these services, in particular, enabled firms to manage geographically dispersed production processes (Jones and Kierzkowski 2001a, 2001b). Even though anecdotal evidence is compelling, there is a significant gap in the literature in terms of rigorous empirical evidence on how improved access to these connecting services across space and time has facilitated the emergence of GVCs.

**Conclusions**

Some studies take a broad view of backshoring, including supply chain and capacity relocation to home or 'closer to home' countries, in extreme cases. Other research distinguishes between ownership modes and geographical dimensions, instead of focusing on three distinct processes. As a result, the ambiguity in the definition has an impact on the scale of the phenomenon's estimations and measurements. There appears to be a significant discrepancy between consulting predictions and the measured extent of backshoring. The identification and understanding of the motivations underlying firms' backshoring decisions are also hampered by a lack of clear scope delimitation.

Finally, current research is dominated by small-scale exploratory studies, which are often limited in scope due to data availability and national reporting standards differences.

However, it is precisely these facts that offer a once-in-a-lifetime opportunity for further investigation, potentially leading to significant contributions, particularly in international business and economic geography theory. The search for answers to the identified questions may represent a once-in-a-lifetime opportunity for theoretical advances, methodological advances, and practical improvements in corporate and policy areas.

Regardless, backshoring poses inherently multidisciplinary research challenges, and future research should reflect this. It's a broad field that includes economics, labour relations, and planning. It's primarily concerned with international business and economic geography. A multidisciplinary and mixed-method investigation is required to gain a better understanding of its various facets.

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