STUDIES IN TRADE, INVESTMENT AND INNOVATION NO. 94

OUTWARD FOREIGN DIRECT INVESTMENT AND UPGRADING BY EMERGING MARKET FIRMS IN GLOBAL VALUE CHAINS

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

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Introduction

Global value chains, the set of activities distributed across countries that enable the development, production, distribution, and sale of goods and services, have been crucial for linking emerging markets to the global economy. The traditional conceptualization of a global value chain sees multinational companies from advanced economies acting as 'lead firms' that orchestrate a network of subsidiaries, suppliers, or subcontractors in emerging markets to arbitrage cost advantages across countries. This results in lead firms in advanced economies focusing on the more sophisticated and higher value-added activities, such as research & development, and marketing, while supplier companies in emerging economies concentrate on more standardized and lower value-added activities of production and assembly (Kogut, 1985; Gereffi, 2018, 2019; Mudambi, 2008).

However, many emerging market companies are breaking away from being mere suppliers to advanced economy lead firms and have improved their positioning within global value chains by upgrading their capabilities. Some of this supplier upgrading has taken place domestically by exporting (Blalock & Gertler, 2004; de Loecker, 2013; Salomon & Shaver, 2005) or by becoming local suppliers to foreign multinationals from advanced economies (Chosky, Sinkovics & Sinkovics, 2017; Kano, Tsang & Yeung, 2020; Kumaraswamy et al., 2012; McDermott & Corredoira, 2010). Nevertheless, outward foreign direct investment from emerging economies can be used as a strategic tool for their indigenous firms to access and strengthen their position within the value chains (Pananond, 2016; Pananond, Gereffi & Pedersen, 2018).

This process enables emerging market firms to use regional and international expansion as an alternative route toward global value chain upgrading (Lee & Gereffi, 2015). Despite this logical rationale, such a topic remains under-researched and misunderstood because the lead firm-centric approach to global value chain studies often perceives suppliers in emerging economies as incapable of upgrading due to their weak firm-specific advantages (Buckley & Verbeke, 2016). This is problematic for the design of economic development policy, as it excludes outward foreign direct investment from the home country's policy agenda. Only with a few exceptions (for example, Lazzarini et al., 2015; Luo, Xue, & Han, 2010), most global value chain-related policy analyses have focused on the promotion of exports (Czinkota, 1982; Krugman, 1986; Welch et al., 1986), or inward foreign direct investment (Blomstrom, Kokko, & Mucchielli, 2003; Morisset & Pirnia, 1999; Tavares-Lehmann et al., 2016).

Hence, this article analyzes how emerging market firms upgrade their capabilities to become leading global competitors through international expansion. It argues that emerging market firms can upgrade their capabilities and position in global value chains by strategically using outward foreign direct investment. The article introduces a typology of upgrading strategies based on two dimensions: the type of global value chain expansion, and the governance relationships between emerging market firms and advanced country lead firms. The first aspect distinguishes between international expansions that replicate activities done in the domestic markets and those that extend the range of activities not previously undertaken. The second dimension differentiates expansions of firms that are already integrated into global value chains led by advanced economy lead firms from those that are autonomous from lead firms. This classification results in four upgrading strategies: dependent, breakaway, replicative, and independent.

This framework is illustrated by comparing the experience of four Thai firms that have been actively expanding overseas and joining the growing ranks of emerging market multinationals: the seafood manufacturer Thai Union Group, the retailer Central Group, the agribusiness Charoen Pokphand Food, and the rubber glove manufacturer Sri Trang Group. The analysis of four Thai firms facilitates the comparisons by controlling for country effects and a reflection of the role of government policy. The Thai government's export promotion approach appeared to facilitate exports and the connections to lead firms from advanced economies through their inward foreign direct investment, but it did not have outward foreign investment promotion policies until recently.

The reflection on the strategies and examples helps identify how government policy can support each of the upgrading strategies elsewhere. It suggests the rethinking and integration of existing and new policies that promote exports, inward foreign direct investment, and outward foreign direct investment within the general driver of facilitating upgrading of emerging market firms.

These ideas contribute to a better understanding of the upgrading of capabilities of emerging-market firms in their global value chains. The article brings attention to the strategic use of foreign investments as an upgrading mechanism in global value chains. This complements the traditional alternatives for upgrading capability development in emerging market multinationals, such as imitation, acquisitions, alliances, and internal development (Chittor et al., 2009; Cuervo-Cazurra & Ramamurti, 2014; Cuervo-Cazurra & Wang, 2020; Luo, Sun & Wang, 2011; Luo & Tung, 2007; Madhok & Keyhani, 2012; Williamson et al., 2013). The ideas discussed here supplement these general mechanisms by analyzing the use of global value chains as upgrading mechanisms for emerging market companies (Pananond, Gereffi & Andersen, 2020).

Looking at upgrading via foreign direct investment provides a better understanding of how supplier firms can improve their positioning in global value chains through strategically expanding overseas, complementing the improvement of their innovation and learning capabilities in the home market (Su, Ma, & Zhang, 2020).

The ideas also have important policy implications for home country governments. The upgrading of emerging market firms' position in global value chains can help improve the home country's competitiveness via the direct upgrading of capabilities of domestic firms to become multinationals (Cuervo-Cazurra & Ramamurti, 2014), and indirect spillovers to local suppliers and competitors in a similar manner as is achieved through inward foreign direct investment (Blomstrom & Kokko, 1998). Only recently have a few governments designed policies to support outward foreign direct investment (Lazzarini et al., 2015; Luo, Xue, & Han, 2010). These attempts have been driven by a combination of objectives, ranging from the nurture of national champions to enhance the country's prestige to the need to strengthen a country's competitiveness in strategic industries (Nolan, 2001; Rodrick, 2004).

In the last section, the article suggests an integration of existing and new internationalization policies in support of exports, inward foreign investment, and outward foreign investment with the idea of helping domestic firms become globally competitive. This will help design more coherent policies and reduce duplication of effort across agencies. It also facilitates additional spillovers to the local economy that will enhance upgrading in the home country. The upgrading of emerging market firms in global value chains can provide significant spillover effects to emerging economies for the achievement of the United Nations 2030 Agenda for Sustainable Development, in particular in the Sustainable Development Goals number 4 (quality education), 8 (decent work and economic growth), and 9 (industry, innovation, and infrastructure).

UPGRADING THROUGH OUTWARD FOREIGN DIRECT INVESTMENTS IN GLOBAL VALUE CHAINS: EMERGING MARKET FIRMS' PERSPECTIVE

Emerging Market Firms' Upgrading in Global Value Chains

Upgrading in global value chains generally refers to the process by which economic actors move from low-value to relatively high-value activities in global production networks (Gereffi, 2005: 171). Viewed from the emerging economy's perspective, upgrading in value chains has often been prescribed as a catch-up strategy for supplier firms in developing economies to move to higher activities along the value chain of global industries (Gereffi, 2019). Suppliers firms can capture higher benefits from their global value chain participation through four different paths (Humphrey & Schmitz, 2002): product, process, functional, and chain upgrading. First, product upgrading takes place when firms move into more sophisticated product lines with increased unit values. Second, process upgrading happens when firms can transform inputs into outputs more efficiently through superior technology or improved production systems. Third, functional upgrading emerges when firms can acquire new functions in the chain and increase their overall skills in a broader range of activities. Finally, intersectoral upgrading takes place when firms can apply the competence acquired from a position in one industry and apply that in a different industry.

The usual upgrading process of emerging market firms in global value chains starts with these firms joining the global value chains of lead firms from advanced economies as suppliers and progressing in the sophistication of the activities and products undertaken for the lead firm. A typical pattern observed among many East Asian companies (Gereffi, 1999) has been one in which supplier firms upgrade their role from original equipment manufacturing to original design manufacturing and original brand name manufacturing, collaborating more with advanced economy lead firms in the emerging market as their capabilities progress. More specifically, emerging market firms traditionally join global value chains by becoming lower-tiered suppliers of lead companies, providing parts and components that other firms then assemble into final products. The more capable ones become primary suppliers of advanced economy multinationals and collaborate in the product and process innovations (Takeishi, 2001). This collaboration may take place in the forms of subsidiaries, alliances, or joint venture partners, all enabling local firms to upgrade through direct interactions with advanced economy multinationals (Mathews, 2006). Emerging market companies benefit from the guidance and opportunity to gain from technology transfer (Kumaraswamy et al., 2012; McDermott & Corredoira, 2010). Such upgrading process is of mutual interest to both parties as advanced country multinationals can benefit from gaining better inputs and maintaining control over the extent of technology transfer.

However, these arrangements may leave emerging market companies in a precarious position. They are not only dependent on the continuation of contracts with lead firms in advanced economies, but also subject to constant competition from suppliers in other lower-cost emerging economies. Additionally, participating in global value chains may not enable emerging market firms to improve their competitiveness, as the upgrading potential can be restricted by the specific governance structure of the global value chains (Gereffi, Humphrey & Sturgeon, 2005).

Upgrading through Foreign Direct Investment

The core message of this article is that emerging market firms can strategically use foreign direct investment in global value chains to upgrade their capabilities and become global competitors. This enables emerging market firms to reduce their dependence on the advanced economy lead companies and carve their path.

There is an increasing recognition that the traditional view of emerging market firms as suppliers in global value chains needs updating. Some studies have highlighted how suppliers can become more independent of lead firms and how their strategic decisions increasingly reflect both their domestic and international contexts (Barrientos, Gereffi & Rossi, 2011; Chosky, Sinkovics & Sinkovics, 2017; Sinkovics, Hogue & Sinkovics, 2018; Su, Ma & Zhang, 2020). Leveraging on upgrade technological, innovation, and managerial capabilities, supplier firms can reap more benefits from their participation in global value chains. Strategies that suppliers can use strengthen relationships and trust with lead firms, breaking out of captive relationships through diversification into other value chains, and adaptation to adverse environments (Chosky et al., 2017).

As emerging country firms increasingly undertake outward foreign direct investment, opportunities to expand their role in global value chains grow, shifting from serving merely as suppliers in global industries to becoming lead firms in their industry. Through outward foreign direct investment, emerging market firms are becoming global or regional players, challenging established competitors from advanced countries (Cuervo-Cazurra & Ramamurti, 2014; Guillen & Garcia-Canal, 2012; Ramamurti & Singh, 2009; Sauvant, 2008; Boston Consulting Group, 2018).

Some of these emerging market companies have reconfigured their position in the global value chains and actively sought to upgrade their capabilities using outward foreign direct investment (Williamson, 2014; Williamson et al., 2013). For some, such investments enable them to expand their roles from merely focusing on lower value-adding stages, such as assembly or manufacture, to gaining a broader control of the entire value chain of their products and services. For others, international expansions through mergers and acquisitions of firms in advanced economies enhance their internal process of knowledge and capabilities accumulation (Hu, 1995; Madhok & Keyhani, 2012). All these possibilities confirm a need for studies on emerging market firms' role in global value chains to shift from a passive, one-way and lead firm-driven paradigm to one in which these supplier firms play a more proactive and comprehensive role in global value chains (Williamson, 2014; Pananond, 2015; Pananond, Gereffi & Andersen, 2020).

Upgrading Strategies of Emerging Market Firms

Hence, this article analyzes the process of emerging market firms' upgrading in global value chains through outward foreign direct investment. It proposes a typology of upgrading strategies based on two dimensions: the type of global value chain expansion that emerging market firms follow (repetition or extension), and the governance relationships between emerging market companies and advanced country lead firms (collaborators or autonomous).

The first dimension examines the type of global value chain expansion, differentiating between international expansions that replicate existing activities emerging market firms already perform in their domestic markets, and those that extend abroad additional activities to what are already undertaken at home. Analyzing the type of global value chain expansion reveals whether and how foreign direct investments alter the positioning of emerging market firms along the value chain. The international expansion can be aimed at deepening their skills in specific areas or undertaking new activities in the value chain. The normative view of the literature on global value chain upgrading often implies that moving into more value-added activities, or functional upgrading, brings most benefits to emerging market firms because it helps create new capabilities (Kaplinsky, 2000; Humphrey & Schmitz, 2002). However, another strand of the literature challenges this idea and proposes that upgrading should be considered merely a better deal for firms no matter which activities along the value chain they choose to undertake (Ponte & Ewert, 2009). As such, upgrading could result from deepening firm-level capabilities in one segment of the global value chain without necessarily having to move into more value-adding activities.

The second strategic dimension is the governance relationship between the emerging market firm and lead firms from advanced economies in the global value chains. This aspect distinguishes whether emerging market firms had participated in the value chain of an advanced economy lead firm or whether they have remained relatively autonomous and established value chains independently. This dimension highlights the contingent nature of supplier firms within global value chains, as well as how their foreign direct investments may improve their power against the existing lead firm. Joining global value chains that are already established does facilitate and accelerate the development of supplier firms' technological capabilities. However, the lead firm's dominance may inhibit emerging market firms from further upgrading into higher value-adding activities for fear of creating challenges to the lead firm's control. This 'glass ceiling' of global value chains may confine domestic firms from developing economies only to peripheral roles within the chain networks while higher value-added activities remain under the control of lead firms from advanced economies (McDermott & Corredoira, 2010). Under such limitations, domestic firms may opt to use international investment as a strategic move to improve their position against lead firms. Internationalization can be an alternative route for supplier firms to improve their positioning by expanding the scope of their global value chain activities or deepening the same activities in other countries (Giroud & Mirza, 2015; Cho & Lim, 2016; Pananond, 2016; Yeung, 2016).

These two dimensions result in four types of global value chain upgrading strategies that emerging market firms: dependent, breakaway, replicative, and independent.

Table 01 Outward foreign direct investment and global value chain upgrading in emerging market firms

		Global value chain governance	
		Collaborator (Supplier to advanced economy lead firm)	Autonomous (Separate operator in global value chains)
Global value chain expansion	Repetition (Reproduction of domestic activities abroad)	DEPENDENT UPGRADING Upgrade operations through the transfer of technology from advanced economy multinational and refinement through foreign expansion	REPLICATIVE UPGRADING Upgrade operations through the investment in the refinement of processes and products in the home country and abroad
	Extension (Expansion into new activities abroad)	BREAK AWAY UPGRADING Upgrade operations thought the transfer of technology from advanced economy multinational and the learning from the expansion into new activities abroad	INDEPENDENT UPGRADING Upgrade operations through the investment in the refinement of processes and products in the home country and the learning from the expansion into new activities abroad

First, the dependent upgrading strategy occurs when emerging market firms build on collaborations they established as suppliers to advanced economy lead firms and undertake foreign direct investments to replicate the activities that they already perform in the home economy. Upgrading arises when emerging market firms enhance their skills as suppliers through international expansion. To start, these suppliers already undertake product and process upgrading in their operations at home to meet the more sophisticated demands of global lead firms. Obtaining knowledge and technology from the lead firm is crucial in this initial part of supplier upgrading (Blomstrom & Kokko, 1998). As these emerging market firms improve their domestics operation capabilities, they may choose to invest in other countries to increase scale, to achieve proximity to the lead firm's operations or benefit from location capabilities, using the knowledge and innovation they have generated in the home country. Foreign direct investments require them to identify and sharpen their sources of advantage to the level that can be successfully transferred abroad (Cuervo-Cazurra, Maloney & Manrakhan, 2007). Having to re-create operations in other countries forces managers and employees to distill the sources of advantage and improve upon them, enabling a further upgrading. Additionally, with this type of outward foreign direct investment, firms from emerging economies can use their international expansion to strengthen their competitive position as suppliers by having several production units to serve lead firm buyers in multiple locations. They replicate and improve their value chain to become leading global suppliers, while remaining dependent on lead firms from advanced countries.

Second, the breakaway upgrading involves supplier firms from emerging economies using foreign direct investments to expand into segments of the global value chain beyond what they have done previously in their home country. Like the dependent upgrading strategy, these emerging market companies initially benefit from their collaboration with lead companies from advanced economies. Their integration in established global value chains helps them access knowledge and technology that facilitates the improvement of existing operations. Unlike the dependent upgrading, these companies later choose to undertake outward foreign direct investment to integrate new activities and engage in functional upgrading in the value chain. This can be done by backward integrating into the supply of raw materials, parts, or components available in better conditions in other countries. Such integration enhances their production quality by ensuring better access and control of the supply chain. Alternatively, upgrading can be done by forward integrating into the distribution, design, branding, marketing, and sale of products directly to the final customers. This helps emerging market firms establish direct contact and learning from customers abroad about their needs and desires to innovate products to match them. Building a deeper presence in the downstream or upstream segments of the value chain reduces their degree of dependence on lead firms from advanced economies and strengthens their position in the value chain. Ultimately, this upgrading strategy enables emerging market firms to break away from lead firms and become global competitors within their industry.

Third, emerging market firms engage in the replicative upgrading strategy when they expand abroad independently of lead firms' influence. This strategy reflects a somewhat independent domestic development process in which emerging market companies build their competitive advantages on their own through a process of learning and refinement. Different from suppliers that are dependent on global lead firms, these firms achieve their efficiency and innovation by better serving the changing needs of domestic customers. Once they reach a level of sophistication, they use their newly developed competitiveness to expand abroad. Therefore, outward foreign direct investments enable the replication and refinement of their domestically honed skills, along with a further improvement on operational efficiency thanks to an increase in scale. Operating abroad also enrich their international experience as they learn to serve the varying needs of new customers in diverse geographic areas.

Finally, the independent upgrading strategy is achieved by emerging market firms that build up their capabilities in the home country on their own and further improve them through an expansion of value chain activities in other countries. In line with the replicative strategy, emerging market companies' initial sharpening of competitive capabilities is done on their own in the home market. The company invests in the refinement of production and distribution processes to ensure efficiency in operations, and at the same time, improves and innovates existing products and services to match the needs of customers at home better. Foreign direct investment can be undertaken to enhance its competitiveness and control of its value chains through backward integration.

Similarly, forward international expansion into other markets enables these firms to obtain more sophisticated capabilities that can be useful in the home country. Such foreign direct investment expansion across the segments of the global value chain allows these firms to refine and strengthen their competitiveness through both functional and inter-sectoral upgrading processes. The exposure to new conditions allows them to build new marketing and innovation capabilities that enhance their competitive advantages in their home operations. The exposure to more sophisticated consumers in advanced economies and associated learning gained in the design and marketing of products for these consumers, or the exposure to more advanced innovation systems in developed countries, push emerging market companies to improve competitiveness and reach the international frontier as global competitors.

These four upgrading strategies are not mutually exclusive. Companies can choose to start their upgrading processing in one strategy and then switch to another as the conditions of local and global customers and competitors evolve, and as they upgrade their capabilities. Thus, for example, an emerging market firm can start with the dependent strategy, actively seeking the creation of an alliance or joint venture with lead companies from advanced economies at home to not only facilitate sales but also learn and improve competitiveness. Once it has become a highly reliable and reputable global supplier to lead companies around the world from its multiple facilities, it can then switch the strategy. It can move towards the breakaway model, for example, entering new segments of the global value chain with a double objective of learning and operating operations and reducing dependence on lead firms.

Companies do not have to move across strategies, however. They can choose to remain in the selected strategy, becoming the best firms within their desired scope of activities. The ultimate objective is for emerging market firms to become highly competitive global leaders. This can be achieved within a single segment, across multiple segments, or complete control of global value chain activities, and with global lead firms as partners or competitors.

CASE STUDIES

Research Design

The analysis of leading Thai companies as they transformed from small domestic players into global competitors illustrates the four upgrading strategies. Studying Thai companies is desirable for three reasons. First, studying firms in one country helps control for country effects. Analyzing companies from more than one country may introduce confounding effects from home country differences, hence clouding the implications on upgrading mechanisms and policy directions. Second, the lessons gained from Thai firms can be generalized to a broader set of emerging countries, particularly those in the mid-sized and upper-middle-income range—the increasingly important home countries of outward investment flows. In 2019, Thailand had a gross domestic product of USD 543.6 billion and a population of 69.6 million, and a gross national income per capita of USD 7,260 (World Bank, 2020).

Analyzing companies from very large emerging countries, like China or India, limit the generalization of upgrading patterns. The economies of scale these firms can achieve in the domestic market, and the strong role of state-owned companies, especially in China, are not typical in most emerging economies. Finally, Thai firms have experienced an increasingly significant international expansion, and some have joined the rank of leading emerging market multinationals. For example, there are 15 Thai companies in the Forbes Global 2000 of large publicly traded firms (Forbes, 2020): Advanced Info Service, Airports of Thailand, Bangkok Bank, Bangkok Dusit Medical Services, Charoen Pokphand Foods, CP All, Indorama Ventures, Kasikornbank, Krung Thai Bank, PTT, PTT Global Chemical, Siam Cement, Siam Commercial Bank, Thai Beverage, and TMB Bank. There are five Thai firms among the list of global challengers created by Boston Consulting Group of leading emerging market multinationals (Meyer et al., 2018): Charoen Pokphand Foods (CPF), Indorama Ventures, PTT, ThaiBev, and Thai Union Group.

The four companies selected for analyzing their upgrading strategies in global value chains are the seafood manufacturer Thai Union Group, the retailer Central Group, the agribusiness Charoen Pokphand Food, and the rubber glove manufacturer Sri Trang Group. Table 2 summarizes their main characteristics within the framework. These four companies are drawn from the sectors with the most active outward investment activities, particularly agribusiness and food, industrials, and services, according to the Stock Exchange of Thailand (SET, 2020). In addition to their different upgrading strategies, these firms were selected due to data availability. Because they are all publicly listed in the Stock Exchange of Thailand, these firms are subject to stronger requirements and scrutiny from the capital market to disclose their domestic and overseas activities. Studying large and publicly listed firms helps identify new insights on the upgrading strategies but may not offer a representative view of the actions of smaller enterprises. However, large and publicly listed firms are representative of the most active Thai multinationals. From 2006 to 2019, the number of listed companies with foreign direct investment increased from 13 to 42 per cent of the total number of listed companies (SET, 2020). In contrast, small firms are less likely to invest abroad as they lack the financial resources to support such expansions.

Table 02 Examples of firms using outward foreign direct investment and global value chain upgrading

		Global value chain governance	
		Collaborator (Supplier to advanced economy lead firm)	Autonomous (Separate operator in global value chains)
Global value chain expansion	Repetition (Reproduction of domestic activities abroad)	DEPENDENT UPGRADER Rubber glove producer Sri Trang Group Third largest glove producer in the world Started in 1987 Revenues of USD 1.92 billion (2019) Operations in Indonesia, Myanmar, and Thailand	REPLICATIVE UPGRADER Retail operator Central Group Runs three of the top ten shopping malls in the world Started in 1947 Revenues of USD 12.7 billion (2018) Operations in Denmark, Germany, Indonesia, Italy, Japan, Malaysia, Maldives, Oman, Qatar, Sri Lanka, Switzerland, Thailand, and Viet Nam
	Extension (Expansion into new activities abroad)	BREAKAWAY UPGRADER Seafood producer Thai Union Group Largest seafood producer in the world Started in 1977 Revenues of USD 4.03 billion (2019) Operations in Canada, China, Dubai, Ghana, France, Germany, India, Italy, Lithuania, Norway, Poland, Portugal, Seychelles, Thailand, UK, USA, and Viet Nam	INDEPENDENT UPGRADER Food producer Charoen Pokphand Foods Largest animal feed producer in the world Started in 1921 Revenues of USD 17 billion (2019) Operations in Belgium, Brazil, Cambodia, China, India, Lao PDR, Malaysia, Philippines, Poland, Russian Federation, Sri Lanka, Taiwan Province of China, Thailand, Turkey, UK, USA, Viet Nam

Data come from multiple sources. Secondary information was gathered from newspapers, magazines, stock market information, and company reports and communications. Primary information comes from interviews with managers of the companies to get a better understanding of their actions.

Suggestions on conducting case studies available in Yin (2003) guided the identification, data collection, and data analysis. Data were analyzed by first creating the timeline of each company's key milestones to understand the sequence of actions that have contributed to their upgrading trajectories and internationalization. From there, the theoretical and conceptual links on how these outward investments contribute to the global value chain upgrading of emerging market companies were refined, as well as the role that government policy played in promoting upgrading through global value chain participation.

Dependent Upgrader: Sri Trang Group

In 2020 Sri Trang Group was Thailand's largest vertically integrated natural rubber company and third-largest glove producer globally. It had a market share of 8 per cent in natural rubber consumption and 7 per cent of global glove consumption. It was created in 1987, and by 2019 it had revenues of USD 1.92 billion. It operates 36 mid-stream processing facilities in Indonesia, Myanmar, and Thailand, producing around 2.86 million tons per year of natural rubber products of block rubber, ribbed smoked sheets, and concentrated latex. In the downstream segments, the group's main subsidiary, Sri Trang Gloves is the country's largest glove producer and ranked the world's third-largest, accounting for 33 billion gloves and exported to 145 countries. Table 3 presents the major milestones of the company.

Sri Trang Group's experience exemplifies a dependent upgrading strategy, in which emerging market supplier firms are integrated into global value chains as suppliers to lead firms from advanced economies. Lead firms are crucial for the operations of these supplier firms, not only for their development of technological capabilities but also for broader access to overseas markets. Foreign direct investments by dependent upgraders aim at serving the multinational lead firms better, replicating abroad what they do well in their domestic market.

Sri Trang Group's strength lies in the efficiency derived from its vertical integration of the natural rubber industry in Thailand, from the upstream of rubber plantations, to mid-stream rubber processing plants, and downstream production of consumer products such as rubber gloves, vehicle tires, condoms, and shoes. However, the group considered the mid-stream processing activities as its core strength (Interview on September 25, 2020).

Table 03 Key events in Sri Trang Group

Date	Company events
1987	Commenced operations producing ribbed smoked sheets in Hat Yai, Thailand, with an initial registered capital of THB 31.0 million Established Anvar Parawood for the production of rubber wood for the furniture industry
1988	Established Rubberland Products for the production of Concentrated Latex, the Group's first First-ever Latex Powdered Disposable Glove
1989	Official founding date of first Hat Yai factory
1990	Jointly established Thai Tech Rubber with Southland Rubber and Itochu Corporation to expand product mix to cover TSR block rubber
1991	Made an initial public offering in Thailand and listed Sri Trang Agro-industry on the Stock Exchange of Thailand
1993	Start Latex Powder-Free Examination Gloves Completed 1 billion pieces of gloves production
1994	Established Starlight Express Transport to provide logistical support to the Group's business Established Premier System Engineering to support Group's research and development and provide engineering services
1995	Established Startex Rubber to invest in upstream business into the ownership of rubber plantations in the southern region of Thailand

Date	Company events
1996	Jointly established Semperflex Asia with Semperit Technische Produkte to produce high-pressure hydraulic hoses Established Siam Sempermed, the group's joint venture with Austria's Semperit group Certified ISO9001:1994 from Tüv Product Service
1999	Started Nitrile Gloves production
2002	Established Sri Trang International in Singapore, a purchasing hub for key users of Natural rubber, for the distribution of the Natural Rubber Products to global market
2003	Certified ISO13485:1996 from Tüv America
2004	Established Sri Trang USA to focus on the distinction of the Natural Rubber Products in the US market Expanded substantially in China by establishing sales teams in Qingdao and Shanghai to conduct direct sales of the Natural Rubber Products to customers in China
2005	Established PT Sri Trang Lingga, the firm's first natural rubber procurement and processing facility outside of Thailand
2007	Sri Trang International, was awarded the first prize in the top trading volume award by the Singapore Commodity Exchange Established Sri Trang Rubber & Plantation to invest in rubber plantations Certified ISO/IEC 17025:2005 from Bureau of Laboratory Quality Standards Ministry of Public Health Certified ISO13485:2003 from Tüv Product Service
2008	Sri Trang International awarded second prize in the top trading volume award by the Singapore Commodity Exchange Certified Thai GMP from Food and Drug Administration Ministry of Public Health, Thailand

Date	Company events
2009	Acquired PT Star Rubber as a second Indonesian TSR processing facility STA received Prime Minister's Export Award 2009 (Best Exporter) for being the top Thai exporter into China by export volume under the Natural Rubber Category Start Construction of 3rd Glove Factory phase 2 (Line 79-84)
2010	Established first China subsidiary, Shi Dong Shanghai in Shanghai, to expand operation into China
2011	STA made an offering of its newly issued shares to the public in Singapore, including institutional investors and listed its shares on the SGX-ST. STW is the first Thai listed company dually listing in Singapore
2012	STA won Prime Minister's Export Award 2012 for being a best exporter with the export value exceeding BHT 5000 million Surat Thani factory Certified ISO9001 and ISO13485:2003 from Tüv Product Service
2013	PT Sri Trang Lingga completed production capacity expansion of 60000 tons per year, becoming the largest block rubber producer in Indonesia with a total production capacity of 166000 tons per year STA's new block rubber factory with a production capacity of 60000 tons per year in Ubon Ratchathani Province started production Jointly established Sri Trang Ayeyar with Ayeyar Hinthar Holdings Company to expand natural rubber processing base in Myanmar Established first Viet Nam subsidiary, Sri Trang Indochina in Ho Chi Minh, to trade and export Natural Rubber Products SuratThani factory Certified Thai GMP from the Food and Drug Administration Ministry of Public Health, Thailand Complete 14 production lines in SuratThani plant

Date	Company events
2014	Deliver product to 100 countries, Ecuador being the 100th country
2016	Disputes between Sri Trang and Semperit group over the price of raw materials supplied to Siam Sempermed and over the glove distribution rights in Europe Surat Thani plant Certified ISO/IEC 17025:2005 from Bureau of Laboratory Quality Standards Ministry of Public Health
2017	Complete demerger from the Semperit group, with the Sri Trang group taking full ownership of the glove manufacturing company, while Semperit takes control of all overseas affiliated companies: Semperflex Shanghai, Shanghai Semperit Rubber & Plastic Products, Sempermed USA, Sempermed Singapore, and a call option to purchase shares in Semperflex Asia Corporation Examination gloves manufacturing company, Siam Sempermed, changed its name to Sri Trang Gloves (Thailand)
2019	STA's subsidiary, Sri Trang Gloves (Thailand) completed the amalgamation with Thaikong Public Company (TK), which was a glove producer based in Trang and transformed to become Sri Trang Gloves (Thailand) Public Company (STGT)
2020	Sri Trang Gloves (Thailand) listed in the Stock Exchange of Thailand

Source: Company websites and documents

Sri Trang Group's history started in 1987 with mid-stream rubber latex processing activities, focusing on the production of ribbed smoked rubber sheets, rubber blocks, and concentrated latex. The outputs of processed rubber latex serve as raw materials for two major industries—automobile and rubber gloves. Sri Trang advanced their integration into the value chain of these two industries with a partnership with leading multinationals in each industry. To supply to the vehicle tire industry, the group established a tri-party joint venture with another Thai company, Southland Rubber, and one of Japan's leading trading companies, Itochu Corporation, in 1990 to produce in Thailand block rubber—the key raw material for the vehicle tire industry. Sri Trang Group's development in the late 1980s and the early 1990s was concentrated in the rubber processing stage of the value chain, with Itochu as the primary lead firm to which Sri Trang supplied. During this period, Sri Trang's upgrading activities were concentrated mainly on improving their product and process capabilities to meet export standards required by their international buyers.

In the mid-1990s, Sri Trang extended its activities by backward integrating into rubber plantation and forward integrating into rubber gloves. Through its partnership with the Semperit group of Austria, one of the world's leading business-to-business providers of medical care supplies with a strong background in the rubber industry, Sri Trang group integrated forward into rubber gloves and high-pressure hydraulic hose production. Although this relationship ended in 2017, it marked a crucial step in Sri Trang's upgrading ability to supply into Semperit's global value chain. With partnerships with lead firms in two downstream industries -rubber tires and gloves- Sri Trang upgraded its product and process capabilities and successfully rose to become Thailand's largest manufacturers of natural rubber products.

The group's international expansion began in 2002 by establishing Sri Trang International in Singapore, a regional purchasing hub for natural rubber products. Subsequent international expansions were concentrated in expanding its sales and distribution, with subsidiaries established in the US and China. Their first international expansion in rubber processing took place in 2005 when the group established a natural rubber procurement and processing facility in Indonesia, another major source for natural rubber. Sri Trang's outward foreign direct investment activities were primarily driven by their attempt to become a significant supplier in the rubber industry. The Indonesian investment grew Sri Trang's scale in rubber block production, strengthening its positioning in the global value chain of the vehicle tire industry. Complementing this, the group's overseas investment in sales and distribution in major markets of the US and China also strengthens its positioning in the value chain of the rubber glove industry.

Sri Trang's forward integration into the downstream sales and distribution activities can be considered the group's functional upgrading. While diversification into both the upstream and downstream ends of the rubber industry strengthens Sri Trang's positioning in global value chains, it also led to conflicts with their major lead firm buyer, the Semperit group. In 2017, both the Austrian company and Sri Trang announced their demerger of all their joint activities in the rubber glove industry, ending a two-decade-long relationship. The disputes stemmed from conflicting views on the price of raw materials supplied to the Thai glove manufacturing facilities, and on the rights over glove distributions in Europe. The demerger resulted in Sri Trang group taking full ownership of the glove manufacturing company, while Semperit controlled all overseas affiliated companies in China, Singapore, and the US. The only remaining joint interest between the two groups was Semperflex

Asia Corporation, the high-pressure hydraulic hose production unit, but with a call option for Semperit to buy out Sri Trang between 2019 to 2021.

After the demerger, Sri Trang group placed a much stronger emphasis on expanding its activities in the rubber glove industry through capacity expansion and brand creation. Although the group's sales of its brand contributed only 10 per cent of total revenues, in contrast to 90 per cent from original equipment manufacturer contracts, Sri Trang was committed to strengthening its position as one of the world's largest glove producers. With the rapid demand for protective gloves following the outbreak of COVID-19, the group saw its revenue increased exponentially in 2020. This led to a successful listing of Sri Trang Gloves in the Stock Exchange of Thailand, joining the sister firm Sri Trang Agro-Industry, which focused on the midstream activities in the rubber value chain.

Sri Trang's international expansion reflected a strategy dependent on the sales and distribution activities of lead firms. While Sri Trang was increasingly engaged in downstream activities, particularly at home, their outward foreign direct investments were more concentrated on strengthening their role as a supplier to similar lead firms with which they already have established relationships prior to their international expansion.

Break Away Upgrader: Thai Union

Thai Union was the largest seafood manufacturing company in the world in 2020. Its 2019 annual sales were USD 4.03 billion and employed more than 46 thousand people. It was founded in 1977 as a canned tuna producer and exporter. Its major upgrading was thanks to the 1992 agreement to become an original equipment manufacturer provider to Japanese distributors. This provided the firm with the pressure to match international standards of quality and help from its Japanese partners on how to achieve them. From there, it moved forward in the global value chain by purchasing brands in advanced economies, starting with the US brand Chicken of the Sea in 1997, that provided it with direct contact with the retailers that sold the products and the consumers who bought them as it marketed both branded and unbranded products. It relied on a network of independent shrimping and fishing suppliers, but a 2015 labor abuse scandal led it to integrate the shrimping operations while establishing tighter control over the fishing suppliers. Its quality of operations was recognized by its inclusion in the United Nations Global Compact in 2013 and the Dow Jones Sustainability Index in 2014. Table 4 provides a timeline of its key events.

Table 04 Key events in Thai Union Group

Date	Company events
1977	Founding of Thai Union Manufacturing to process and export canned tuna
1981	Creation of first subsidiary, Songkla Canning
1988	Establishment of Thai Union Frozen Products to produce and export frozen seafood
1992	Joint venture with Mitsubishi Corporation and Hagoromo Foods Corporation, Japanese customers that help the firm upgrade to meet international standards
1994	Initial public offering in Thailand's stock exchange as Thai Union Frozen Products (TUF)
1997	Purchase of US canned tuna brand Chicken of the Sea, first foreign investment
2003	Purchase of US distributor Empress International
2006	Creation of Sea Frozen Food to market frozen seafood in the US, merged with Empress International and renamed Tri-Union Frozen Products
2008	Purchase of majority stake in Vietnamese canned shellfish and tuna producer Yueh Chyang Canned Food Purchase of minority stake in Indian shrimp-feed and shrimp products Avanti Feeds
2009	Co-founding of International Seafood Sustainability Foundation to study management of tuna stocks Purchase of minority stake in Papua New Guinea processing facility Moresby International Holding

Date	Company events
2010	Purchase of French MW Brands (renamed Thai Union Europe), producer and distributor of original equipment manufacturer and branded (John West, Petit Navire, Parmentier and Mareblu) canned tuna and seafood Creation of US Pet Nutrition to produce and market original equipment manufacturer and branded pet-food and pet-care products in the US
2012	Purchase of large minority stake in Thai seafood and ready-to-eat food processor Pakfood Public Company, a large local competitor
2013	Joined the United Nations Global Compact Creation of pre-schools for Thai Union workers and local communities
2014	Purchase of French smoked salmon producer MerAlliance, the largest in France and fourth-largest in Europe Purchase of Norwegian canned sardine firm King Oscar, a leading brand in Australia, Norway, and the US Inclusion in the Dow Jones Sustainability Indices Emerging Markets
2015	Reorganization and corporate rebranding as Thai Union Creation of R&D facility in Thailand Joint venture with Saudi consumer goods producer and distributor Savola Foods Company, the largest distributor in the Middle East, owners of Afia, Alarabi Ladan, and Yudum brands Purchase of US lobster supplier Orion Seafood International, expanding Chicken of the Sea Frozen Foods into lobster, shrimp, and crab

Date	Company events
2016	Purchase of majority stake of German Rügen Fisch Joint venture with Indian shrimp processing unit Avanti Frozen Foods Private Limited India Purchase of majority stake in Canadian lobster processor Les Pecheries de Chez Nous (Chez Nous) Purchase of minority stake in US seafood restaurant firm Red Lobster Seafood, obtaining direct-to-consumer channel Change in recruitment practices of workers in Cambodia, Myanmar, and Thailand, eliminating recruitment fees and licensing agents Nominated for Thomson Reuters Foundation's inaugural Stop Slavery Award Design of sustainable tuna sourcing strategy
2017	Reorganization and integration of international operations Integration of Thai brands with emerging market brands Creation of Chinese sales and distribution firm Thai Union China, to supply restaurants, hotels and food firms, and retail online live lobsters with Chinese retailer Alibaba Creation of Thai Union Trading Europe in the Netherlands to coordinate private label activities in Europe Creation of US regional office in Los Angeles to coordinate operations Sale of fishing fleet in Ghana, exiting from owning fishing boat operations Increase from majority to full control of Thai firm Pakfood and Vietnamese firm YCC Promotion of sustainability and innovation managers to top management team

Date	Company events
2018	Purchase of minority stake in Thai professional management services to seafood retailers Thammachart Seafood Retail Purchase of large minority stake in Russian retail fish and seafood and canned tuna firm TUMD Luxembourg, owner of Dalpromryba; Torgovo-Promyshlenny Kompleks "Dalpromryba"; and Maguro. Increase from minority to majority stake in Thai Union Feedmill Increase from majority to full control of EHS Training and Services (previously T-Holding) Creation of tuna oil refinery in Rostock, Germany, becoming only end-to-end refiner Creation of The Lobster Lab, a premium seafood store in Shanghai, China Increase of stake in Thai Union Feedmill Closure of Scottish chilled salmon The Edinburgh Salmon Company
2019	Expansion of stake in Thammachart Seafood Retail Purchase of minority stake in Icelandic cod liver firm Aegir Seafood Company Partnership with Shanghai Win-Chain Supply Chain Management to supply seafood online and offline Creation of private venture capital fund for food technology, investing in startups Resolution of UK lawsuit against subsidiary John West Foods, found not guilty of doing business directly connected to illegal, unreported and unregulated fishing Settlement of US antitrust lawsuit against subsidiary Chicken of the Sea
2020	Full acquisition of US restaurant Red Lobster

Source: Company website and documents

The initial upgrading of Thai Union was thanks to operations with foreign companies as a supplier in their global supply chains. Thai Union started as a small tuna cannery near Bangkok that processed tuna caught by local fishermen. It exported much of its production because, at the time, tuna was considered pricey in Thailand. Producers from Republic of Korea, Japan, and the United States started looking for suppliers in Thailand as labor costs and competition were making canning in advanced economies uneconomical. Thus, in 1988 it expanded into frozen seafood, changing its name from Thai Union Manufacturing to Thai Union Frozen Products. The 1992 joint venture with the Japanese trading firms Mitsubishi and Hagoromo Foods became crucial for helping Thai Union upgrade its production processes to meet the stringent quality standards of the Japanese and global markets. In the process, Thai Union expanded its global customer base and became a supplier to advanced economy producers such as Nestle, Purina, Safeway, and Unilever.

The lessons gained as a supplier to lead firms in advanced economies helped not only to upgrade its capabilities, but also to spark the desire to expand towards higher value-added activities in the value chain. Hence, in 1997 Thai Union started expanding into advanced economies by purchasing Chicken of the Sea, the third-largest canned tuna brand in the United States. This acquisition provided direct access to the retailers and helped the group understand how to market seafood products in advanced economies. This allowed the group to develop its non-manufacturing capabilities along the value chain further. In 2003 it purchased the US distributor Empress International, which it merged in 2006 with a newly created frozen seafood operation to expand beyond canned fish and market frozen seafood in the United States. In 2010 it took advantage of the impact of the Great Recession of 2008 in Europe and purchased the French MW Brands, which was a producer and distributor of original equipment manufacturer and branded canned tuna and seafood. This acquisition gave Thai Union well-established international brands such as John West, Petit Navire, Parmentier, and Mareblu. In the same year, it continued its diversification in the United States by creating US Pet Nutrition to produce and market original equipment manufacturer and branded pet-food and pet-care products in the United States.

The firm also increased in scale in its home market by buying a large minority stake in a large local Thai seafood and ready-to-eat food processor Pakfood in 2012. This gave it not only a larger size but also new capabilities in a related food segment. The 2014 acquisition of French smoked salmon producer MerAlliance, the largest in France and fourth-largest in Europe, as well as the purchase of Norwegian canned sardine firm King Oscar, a leading brand in Australia, Norway, and the United States, propelled it into the top of the league of seafood producers in the world. It also gave it a large dominance in retailers as it controlled multiple brands while still producing for others.

Its global expansion broadened in 2015 when it entered the Middle East through a joint venture with Saudi consumer goods producer and distributor Savola Foods, the largest distributor in the Middle East, owners of Afia, Alarabi Ladan, and Yudum brands. The same year it entered a new market segment by purchasing US lobster supplier Orion Seafood International, which enabled it to expand Chicken of the Sea Frozen Foods into lobster, shrimp, and crab. The year 2016 saw continued geographic and product expansion. It purchased a majority stake of German Rügen Fisch, established a joint venture with Indian shrimp processing unit Avanti Frozen Foods Private Limited India, and purchase a majority stake in Canadian lobster processor Les Pecheries de Chez Nous. It also acquired a minority stake in US seafood restaurant firm Red Lobster, obtaining a direct-to-consumer channel.

The year 2016 led to a significant reorganization of sourcing practices in response to allegations that suppliers used slave labor in fishing and shrimping facilities that supplied to Thai Union. The threat of losing contracts with major retailers and manufacturers in advanced economies led the firm to upgrade its control and traceability of suppliers.

In 2017 it continued its geographic expansion by entering China with a sales and distribution firm Thai Union China, to supply restaurants, hotels and food firms, and retail online live lobsters in collaboration with the Chinese online retailer Alibaba. The year 2018 was a continued expansion after the consolidation of operations in 2017, leading to the purchase of a large minority stake in Russian retail fish and seafood and canned tuna firm TUMD Luxembourg, owner of three Russian firms. It also created a tuna oil refinery in Rostock, Germany, becoming the only end-to-end refiner, and established The Lobster Lab, a premium seafood store in Shanghai, China. In 2019 it purchased a minority stake in Icelandic cod liver firm Aegir Seafood, and established a partnership with Shanghai Win-Chain Supply Chain Management to supply seafood online and offline. To continue the upgrading of capabilities in Thailand, it created a private venture capital fund for food technology, investing in local startups.

The experience of Thai Union exemplifies how a local supplier firm can use foreign direct investments to break away from the control of lead firms and break into higher value-adding activities that lead firms may not want to give access to suppliers. Thai Union not only used overseas mergers and acquisitions to gain more control in the marketing and distribution activities, the group has also been able to integrate backward to take more control of its supplies and to diversify into other seafood-related product lines. These international expansion activities strengthened the group's positioning in the global value chain of seafood industries.

Replicative Upgrader: Central Group

The Central Group was the leading retail space operator in Thailand and a top shopping mall operator globally, managing three of the largest ten shopping malls in the world in 2020. It started operations in 1947 with a shophouse in Bangkok selling assorted merchandise. By 2018 it had sales of USD 12.7 billion and operated shopping malls and hotels in thirteen countries. Table 5 provides the key events in the history of the Central Group.

Table 05 Key events in Central Group

Date	Company events
1947	Started the first Central Group business in a small shophouse in Bangkok selling local and international books and magazines and other general merchandises
1950	Founded Central Trading and expanded the product range to include imported goods such as ready-made clothes and cosmetics
1956	Opened the first Central Department Store in Wang Burapa district, the biggest department store in Thailand at that time
1974	Opened Central Chidlom, Thailand's first full-scaled department store, and a flagship store today
1978	Opened Mister Donut, a donut franchise form Japan - the commencement of Central Group in fast food business, later becoming Central Restaurant Grou
1980	Established Central Plaza (renamed later Central Pattana PCL) to undertake retail property development and management business

Date	Company events
1983	Opened Central Plaza Ladprao, Thailand's first mixed-use complex comprises a department store, retail shops, hotel, and office building
1990	Central Retail Corporation incorporated to extend the Group's retail businesses Central Plaza Hotel Public (CENTEL) listed on the Stock Exchange of Thailand
1992	Opened Central Department Store - Kad Suan Kaew, Chiang Mai - The first Central Department Store in upcountry
1995	Acquired Robinson Department Store, the second top department store chain at that time
1996	Launched new specialty format Tops Supermarket - now the largest supermarket chain in Thailand
1997	Launched new specialty format PowerBuy, which became the top retailer of electrical appliances, IT products, mobile phones, and gadgets in Thailand Launched new specialty format Supersports – later becoming Thailand's top sporting goods retailer
2001	Launched new specialty format B2S, Central Group's books, entertainment, and stationery specialty store
2002	Acquired World Trade Center property and renamed to CentralWorld
2005	His Majesty King Rama IX granted Central Department the right to use the Royal Garuda Emblem - the Royal Warrant of Appointment granted to firms that show exceptional services and commitment to the economic and social development of the nation
2006	Launched The1Card, Central Group's loyalty program (now the largest program in Thailand)

Date	Company events
2010	Launched the new specialty format Thai Watsadu, a one-step shopping store for building supplies and construction materials, the first large standalone specialty format of Central Group
2011	Acquired the Rinascente collection of luxury department stores in Italy, the first entry into Europe
2012	Purchased Officemate, Thailand top B2B e-business and total business solution Purchased FamilyMart, Thailand's second top convenience store chain
2013	Acquired ILLUM Department Store, Denmark - a luxurious Scandinavian department store Debuted Central Online, first webstore for Central Department Store
2014	Opened Central Embassy, the iconic landmark of luxury retail
2015	Acquired Nguyen Kim, a leading electronics retailer in Viet Nam, and Lanchi Mart, a modern retail pioneer in rural Viet Nam Acquired KaDeWe Group and its three luxury department stores in Germany - KaDeWe, Oberpollinger, and Alsterhaus
2016	Acquired Big C Viet Nam, and later renamed to GO!
2017	Opened Park Hyatt Bangkok Hotel Forged alliances with JD.com, Dusit, Hongkong Land, IKEA
2018	Launched JD Central and Central JD Fintech
2019	Invested in Grab Thailand - a leading online-to-offline mobile platform

Date	Company events
2020	Acquired Swiss luxury department store chain GLOBUS through the joint venture with SIGNA Group Debuted Central Retail Corporation PCL (CRC), largest-ever initial public offering in the history of the Stock Exchange of Thailand Acquired 100% shares of FamilyMart, one of Thailand's major convenience stores chains

Source: Company website and documents

The Central Group began as a small shophouse in Bangkok, selling local and international books and magazines and other general merchandise in 1947. In 1950 it founded Central Trading and expanded the product range to include imported goods such as ready-made clothes and cosmetics, and this expansion was followed in 1956 with the opening of the first Central Department Store in Wang Burapa district, the biggest department store in Thailand at that time. Subsequent replications of the expertise in shopping malls followed with the opening in 1974 of Central Chidlom, Thailand's first full-scaled department store, and a flagship store today, and in 1983 opening of Central Plaza Ladprao, Thailand's first mixed-use complex comprises a department store, retail shops, hotel, and office building. In 1992 it opened Central Department Store -Kad Suan Kaew, Chiang Mai- its first Central Department Store outside Bangkok. It further cemented its position with the 1995 purchase of Robinson Department Store, the second-largest department store chain in Thailand at the time. Having both chains allowed the Central Group to cover more retail segments. The group used Central for its more upscale department stores, and Robinson was kept for more moderate locations. With the opening of the posh Central Embassy in 2014, the Central group completed its portfolio of department stores covering the mid, luxury, and ultra-luxury segments.

Central Group also expanded into related businesses starting in 1978. With the opening of Mister Donut, a donut franchise from Japan, the group made a foray into the fast-food segment and later in restaurant businesses under the control of Central Restaurant Group. In 1980, the group established Central Plaza, later renamed Central Pattana, as its retail property development and management arm. Expanding further into a variety of modern retail sectors in the 1990s, the group launched Tops Supermarket in 1996, which later became the leading supermarket chain. PowerBuy was launched in 1997 and soon became the top retailer of electrical appliances, information technology products, and mobile phones in Thailand. A similar strategy was adopted for sports products when the group launched Supersports, which later became the top sporting goods retailer. In 2001 it launched a new specialty format B2S, a specialty store for books, entertainment, and stationery. The expansion into new retail formats continued with the 2010 launch of Thai Watsadu in building supplies and construction materials. In 2012 it purchased Officemate, the leading business-to-business e-business solution, and FamilyMart, Thailand's second-largest convenience store chain. In 2017 it opened Park Hyatt Bangkok Hotel, forged alliances with foreign retailers like JD.com, Dusit, Hongkong Land, and IKEA, and in 2018 it launched JD Central and Central JD Fintech, and in 2019 it invested in Grab Thailand - a leading online-to-offline mobile platform.

Central Group's international expansion replicated its expertise in shopping malls. In 2011, it acquired the Rinascente collection of luxury department stores in Italy, the first entry into Europe, using its expertise in retail and real estate to renovate the declining brand (Interview on October 26, 2020). In 2013 it acquired ILLUM Department Store, Denmark - a luxurious Scandinavian department store. In 2015 it purchased Nguyen Kim, a leading electronics retailer in Viet Nam, and Lanchi Mart, a modern retail pioneer in rural Viet Nam. Also in this year, it bought the German KaDeWe Group and its three luxury department stores in Germany: KaDeWe, Oberpollinger, and Alsterhaus. In 2016 it acquired Big C Viet Nam, later renamed GO!. In 2020 it purchased the Swiss luxury department store chain GLOBUS through a joint venture with SIGNA Group.

The Central Group's international experience is characterized by its ability to replicate in overseas markets the activities it has learned and developed in the domestic market. The growth and development of Central Group were independent on gaining access to multinational lead firms in their value chains, and instead, it was driven by its domestic expansions. As a result, their international activities reflect their attempts at extending their knowledge and capabilities into newer geographical destinations.

Independent Upgrader: Charoen Pokphand Food

Charoen Pokphand Foods was the largest animal feed producer in the world in 2020. It started in 1921 with a seed shop in Bangkok. By 2019 it had sales of USD 17 billion, of which 27 per cent were sales in Thailand, 6 per cent exports from Thailand, and 67 foreign sales, and operated in 17 countries. Table 6 outlines the key events in the company's history.

Table 06 Key events in Charoen Pokphand Foods

Date	Company events
1921	Opened Chia Tai seed shop in Bangkok by Chia brothers and launch of Airplane brand for seeds
1953	Started animal feed mill
1956	Chia Tai vegetable seed experiment farm
1970	Start of poultry farming
1976	Registered Charoen Pokphand Group to manage domestic and overseas expansions
1978	Registered under Charoen Pokphand Feedmill Company to produce and distribute animal feed in Southern Thailand
1979	Entered China with Chia Tai Conti co, an animal feed operation in a joint venture with US firm Continental Grain
1984	Joint venture Ji Lin Chia Tai Co in China in animal feed
1985	Joint investment with Japan's Mitsubishi Group to farm Black Tiger Prawn
1987	Listed ordinary shares on the Stock Exchange of Thailand with the trading symbol CPF Created animal feed firms in Turkey, later expanded into integrated chicken
1990	Joint venture with Japan-based Meiji to produce and sell pasteurized dairy products in Thailand.

Date	Company events
1993	Established C.P. Viet Nam Livestock and a livestock feed mill in Dong Nai Province, Viet Nam
1996	Built the first aquaculture feed mill in Chennai, India
1998	Acquired three agro-industrial public companies in Thailand from Charoen Pokphand Group
1999	Renamed as Charoen Pokphand Foods Public Company and announced vision of becoming the 'Kitchen of the World' Acquired nine firms from Charoen Pokphand Group, becoming nationwide fully integrated, agro business
2001	Expanded operations in Viet Nam to aquaculture, beginning with a fishmeal production plant and shrimp processing plant
2002	Invested in China to manufacture and distribute animal feed and aquatic farming Invested in the United Kingdom to produce chilled food products for supply in the EU market
2004	Invested in Turkey to manufacture and distribute livestock feed, and a fully-integrated chicken business
2005	Invested in Malaysia to operate a fully integrated shrimp business Increased stake in Indian firm to 71.2%, manufacturing and distributing animal feed and doing animal farming Acquired Five Star, which operates a chain of food kiosks based on a franchise system

Date	Company events
2006	Began production of ready-to-eat products under CP brand and distributed domestically and internationally Invested in Lao PDR and Russian Federation in livestock feed and livestock farming Started CP Fresh Mart, a retailer of fresh and cooked meat and ready-to-eat products
2007	Invested in the Philippines in animal feed and animal farming
2009	Acquired 32% of Taiwanese firm in animal feed, animal farming, and food processing
2010	Re-classified CPF's sector from Agribusiness to Food and Beverage on the Stock Exchange of Thailand
2011	Started CP Kitchen, a fast-food restaurant and CP Fresh Mart Plus, and super convenience store Acquired 25% of Cambodian firm in animal feed, and animal farming and food processing
2012	Started CP Food World, a food court business in Thailand Acquired 99.99% of Chester's Food, which operates fast-food restaurants in Thailand Purchased 74.18% of Hong Kong, China firm, which operates in animal feed in China, and agro-industrial and food business in Viet Nam Acquired 99.99% of a Malaysian firm, which perates in swine farming, abattoir and retail in Malaysia
2013	Bought Russia Baltic Pork Invest ASV, which holds stakes in swine businesses in Russia. Acquired C.P.-Meiji, producer and distributor of milk products, and healthy dairy products under Meiji and Meiji-Paigen Invested in China in manufacturing and retailing of processed food products, processed meat, and ready-to-eat products

Date	Company events
2014	Acquired Hefei Chia Tai and Kaifeng Chia Tai, Chinese firms that produce and distribute animal feeds. Purchased 80.02% of Belgian firm Tops Foods NV, producer and distributor of chilled and ambient ready-to-eat foods Acquired 29.00% of Swedish BHJ Kalino Food AB, which trades chilled and frozen meat and food products Sold 25.00% of C.P. Pokphand to the Japanese firm Itochu Corporation Issued Exchangeable Bonds of USD 290.4 million to investors outside Thailand and listed in Singapore Exchange Securities.
2015	Acquired 80% of British food kiosks firm CP Chozen Bought 80% of Russian chicken firms CJSC Poultry Production Severnaya and CJSC Poultry Parent Stock Production Woyskovitsy Acquired 75% of C.P. Cambodia, which operates an integrated livestock business. Established the Seafood Task Force, an alliance of US and EU retailers and Thai firms, for sustainability in Thai seafood industry Selected as a member of DJSI Emerging Markets
2016	In China, purchased 100% of Hubei Chia Tai, which makes animal feed, breeder animals and processed food, 30% of infant milk powder firm Banner Infant Diary Products, 12% of Qingdao Yi Bang Bio-Engineering which manufactures and sells animal vaccine, 70% of Fujian Sumpo Foods Holding operating in animal feed and poultry and poultry products, 16.54% of Ningxia Xiao Ming Animal Husbandry, which manufactures and sells day-old-layer, 100% of COFCO Meat (Suqian) chicken products Purchased 80% of Sri Lankan Norfolk Foods, which manufactures and distributes ready-to-eat foods under Crescent trademark Purchased 100% of Bellisio Parent, which manufactures and sells single-serve frozen entrée in the United States and Canada, under Michelina's, Boston Market, Chilli's, and Atkins, providing entry and increase distribution in North America Purchased 33% of SuperDrob Zakłady Drobiarsko - Mięsne in the agro-industry and food business in Poland

Date	Company events
2017	Purchased English firm Westbridge Food Group, which sells meat and ready-to-eat products to retail, food services and food manufacturers in the United Kingdom and countries in the European Union. Purchased 95% of German firm Paulsen Food, seller of meat to food services and manufacturers in Germany and the EU
2018	Purchased 40% of Camanor Produtos Marinhos, a shrimp farm and shrimp processing business in Brazil Investment in International Buffet Restaurant in Thailand. Joint venture CP Hilai Harbour, to operate buffet restaurant Harbour at ICON SIAM in Bangkok, Thailand Opened Culineur, School of Culinary Arts and Entrepreneurship to groom world-class food experts and entrepreneurs Investment in FSI, Pizza Bite Production, North American frozen pizza producer in wholesaling and retail and private label producer.
2019	Establishment of new shrimp farm, Homegrown Shrimp (USA) in the USA Increase investment in Korean restaurant Dak Galbi in Thailand to 60% Full control of Charoen Pokphand Foods Canada, and Berice in the USA. Purchased 70% of a restaurant business in Viet Nam, AHM Lifestyles-Creative Hospitality Purchased 75% of Lotus Aquaculture Lanka (Private) in Sri Lanka, operator of shrimp hatchery, farm and cold storage Established PetRepublic in Poland to operate feed production and distribution Purchased HyLife Investments, which operates a fully integrated pig business in Canada
2020	Purchase of British retailer Tesco's operations in Thailand and Malaysia

Source: Company website and documents

Charoen Pokphand Foods is one of the leading subsidiaries of the Charoen Pokhand Group, Thailand's largest private conglomerate with operations in food, retail and distribution, media and telecommunications, e-commerce, automobiles, pharmaceuticals, and finance. Only the expansion into food-related businesses is discussed to ensure consistency in the analysis. Although Charoen Pokphand Food was official registered in 1978 under Charoen Pokphand Feedmill Company to produce and distribute animal feed in Southern Thailand, the firm traces its origins to 1921 and the opening of the Chia Tai seed shop in Bangkok by the Chia brothers. They were Chinese immigrants engaged in import-export with China and Hong Kong, China, and launched the Airplane brand for seeds as an early branding to ensure quality. In 1953 they expanded into an animal feed mill and in 1956 into a vegetable seed experiment farm. In 1970 the company started poultry farming, and in 1976 it was registered as Charoen Pokphand Group to manage the growing diversity of business. Charoen Pokhand Foods was formally created with the 1978 registration of Charoen Pokphand Feedmill Company, a producer and distributor of animal feed in Southern Thailand.

The firm expanded abroad in the same animal feed business it knew. In 1979, it entered China with Chia Tai Conti, an animal feed operation in a joint venture with US firm Continental Grain, becoming the first foreign firm in animal feed established in Shenzen. The Chinese operations were expanded in 1984 with a joint venture with the Chinese firm Ji Lin Chia Tai in animal feed. In 1985, it established a joint investment with Japan's Mitsubishi Group to farm Black Tiger Prawn and in 1990 with the Japanese firm Meiji to produce and sell pasteurized dairy products in Thailand; the latter joint venture was fully acquired in 2013. Charoen Pokphand Foods continued its internationalization in animal feed with a 1987 entry into Turkey and an expansion in Viet Nam in 1993 with the C.P. Viet Nam Livestock, a livestock feed mill. In 1996 it expanded the aquaculture business to India by building the first aquaculture feed mill in Chennai. In 1999 it was renamed Charoen Pokphand Foods Public Company and announced CPF vision of becoming the 'Kitchen of the World' after purchasing agro-industrial public companies in Thailand from its parent firm Charoen Pokphand Group, becoming a nationwide fully integrated, agro-business in livestock and aquaculture.

Subsequent foreign expansions were done in the related businesses of animal feed and animal production. Thus, in 2001 it expanded the business in Viet Nam to aquaculture business, beginning with a fishmeal production plant and shrimp processing plant, and in 2002 it invested in China to manufacture and distribute animal feed as well as aquatic farming and also invested in the United Kingdom to produce chilled food products and supply the European Union market. In 2004 it grew its operations in Turkey by investing in the manufacture and distribution of livestock feed, and a fully integrated chicken business. In 2005, it invested in Malaysia to operate a fully integrated shrimp business and increased its stake in its Indian animal feed operation. In 2006 it invested in the manufacturing and distribution of livestock feed and livestock farming in Lao People's Democratic Republic and Russian Federation, followed by similar investments in the Philippines in 2007, Taiwan Province of China in 2009, Cambodia in 2011, Hong Kong, China in 2012, and China in 2014. It expanded its foreign operations in swine with investments in Malaysia in 2012 and Russian Federation in 2013. In 2015 it deepened operations in Russian Federation with the purchase of chicken companies, and in Cambodia with the acquisition of an integrated livestock business. In 2016 it undertook several acquisitions in animal feed and production in China, as well as infant milk powder, and animal vaccine. The 2017 purchase of the meat producers Westbridge Food Group in the UK and Paulsen Food in Germany provided access to the European market and import quotas. In 2018 it purchased Camanor Produtos Marinhos, a shrimp farm, and shrimp processing business in Brazil, and in 2019 it established a new shrimp farm, Homegrown Shrimp in the USA, and a Sri Lanka operator of shrimp hatchery, farm, and cold storage.

A significant transformation began in 2006 when it started producing ready-to-eat products under CP brand, which it distributed domestically and internationally, and CP Fresh Mart, a meat and ready-to-eat retailer. This was a deepening of the 2005 entry into food kiosks by purchasing the Five Star chain. In 2011 it further expanded into restaurants by starting a fast-serve restaurant business in Thailand called CP Kitchen and a convenience store called CP Fresh Mart Plus. This was followed in 2012 by starting the food court CP Food World and purchasing the fast-food restaurant firm Chester's Food in Thailand. In 2013 it invested in manufacturing and retailing of processed food products, processed meat, and ready-to-eat products in China. In 2014 it acquired the Belgian firm Tops Foods, a producer and distributor of ready-to-eat foods, and the Swedish BHJ Kalino Food, a meat and food product trader. In 2015 it purchased the British food kiosks firm CP Chozen. In 2016 it entered the North American market by buying Bellisio Parent, which manufactured and sold single-serve frozen entrée in the US and Canada, under the Michelina's, Boston Market, Chilli's, and Atkins brands. It also purchased a Polish agro-industry and food business. In 2018 it invested in International Buffet Restaurant in Thailand and opened Culineur, a School of Culinary Arts and Entrepreneurship. It also invested in FSI, Pizza Bite Production, a North American frozen pizza producer. In 2019 it purchased a Korean restaurant in Thailand, and a restaurant business in Viet Nam.

The CP group's food business growth illustrates how international expansions can extend the capabilities that have long been cultivated in domestic operations.

Although the group engaged with foreign multinationals throughout its development, it did so with many foreign multinationals in various food segments, enabling it to remain relatively independent from any particular lead firm. Their earlier international expansions have been driven by the need to exert complete control in the value chain through vertical integration of feed production, animal farming and production, and retail distributions of those products. Their later overseas expansions have been strongly driven by the need to gain control in food retail formats, to strengthen their reign in food production further. These overseas undertakings take place rather independently from the control of any specific multinational lead firms.

GLOBAL VALUE CHAIN POLICY DEVELOPMENT FOR UPGRADING

This article argues that the global value chain perspective requires policymakers to rethink a country's competitiveness in a holistic and comprehensive manner, in which various state actions lead to synergies and not siloed actions. In addition, it is argued that policymakers pay attention not only to macro-economic externalities and spillovers, but also to the firm-level consequences of global value chain participation. In particular, global value chain-driven policies can benefit from paying more attention to domestic firms' strategies and actions, which are the main agents undertaking initiatives in upgrading and competitiveness development.

Internationalization Policy, Upgrading Strategies, and the Sustainable Development Goals

The four strategies and cases discussed earlier illustrate how emerging market firms can use outward foreign direct investment to upgrade their capabilities and position in global value chains. Each path reflects a different strategy that these firms have taken not only to integrate into global value chains, but also to become a global leader in the activities they selected. While some firms, like Sri Trang, expand abroad to improve their role as leading suppliers to lead firms from advanced economies, others, like Thai Union, may use international investment as a way to compete with existing lead firms and gain more control in the global value chain. The four upgrading strategies are based on firm-level choices made by managers in response to their strategic vision and the specificities of their value chain. These strategic choices traditionally reflect Thailand's policy and institutional support for international trade and inward foreign direct investment, as outward foreign direct investment policy has only been recently introduced

The proposed strategies and case studies have important implications for policymaking, not only in Thailand but also in other countries. To create a policy framework that supports upgrading via foreign direct investment, this paper argues, first and foremost, that policymakers need to have a clear and specific objective: using the global value chain perspective to turn their domestic companies into global leaders in their respective value chains. This objective involves a wide range of policy areas, including industrial policy, export promotion policies, inward foreign direct investment attraction, and outward foreign direct investment promotion. While these policies are already in place in many emerging economies, they may not have been perceived to be sharing the same purpose. Analyzing these policies through the global value chain lens clarifies how they could be implemented in a comprehensive manner to help enable domestic firms to become significant players in their respective value chains.

Reconsidering Internationalization Policies as Drivers of Upgrading

Traditionally, global value chain participation of emerging market firms are perceived to be restricted to activities undertaken at home. As a result, global value chain-related policies in emerging economies tend to revolve only around export promotion, inward foreign direct investment attraction, and domestic capability improvement measures, designed to promote the participation of domestic firms in chains driven by external multinational companies. For example, Taglioni & Winkler (2016) urged emerging economies that seek to take part in global value chains to create a world-class environment to attract inward foreign direct investment from foreign multinationals, to create links between global value chains and the local economy, and to develop domestic absorptive capacity through improving local skills. In simpler words, these policies urge home economy governments to prepare their domestic firms and environment to be better at participating as suppliers in existing global value chains led by foreign lead firms.

Global value chain policies already are part of the broad set of policies relating to the overall development of the economy. Rethinking economic development policies from the global value chain perspective can improve their effectiveness by providing the more 'micro' view of how countries and firms are interconnected (Taglioni & Winkler, 2016). Development policy directions involve measures toward industry institutionalization, export promotion, inward foreign direct investment attraction, development of local absorptive capacity, improvement of the business environment, and infrastructural upgrading (Gereffi & Fernandez-Stark, 2016). However, to make these policies relevant to global value chain development, policymakers need to consider how stages of internationalization of the firms leads to varying emphasis on global value chain level policies. To put it differently, global value chain-driven policy framework requires not only a broad understanding of how countries and industries can be integrated globally through a mixture of economic development policy, but also a better understanding of what is needed the most in the variety of trajectories different firms can pursue to upgrade themselves.

Considering internationalization policies as a tool for upgrading requires some reexamination of the traditional objective of these policies. Instead of setting a specific goal for each type of policy, governments can rethink and repackage the variety of policies under the overarching objective of enabling the upgrading of domestic firms to become global competitors. Hence, in addition to setting the traditional objectives of increasing exports in the export promotion policy, or new investments by foreign firms in the inward foreign investment policy, additional objectives of upgrading domestic firms can be incorporated in these policies. Specifically, export promotion policies can be rethought as tools for developing the skills of domestic companies in meeting the demands of overseas customers, and not only as measures to increase levels of exports. This policy shift can, for example, prompt policymakers to place more emphasis on pushing exporting companies to improve the quality standards of their products and services, rather than relying on lower prices or keeping the exchange rate favorable to exporters. On its part, inward foreign investment attraction can also be reconsidered as a mechanism for upgrading. In addition to generating local employment and contributing to export revenues, inward foreign investment policies can be viewed as mechanisms for facilitating the transfer of superior organizational and technological capabilities through knowledge diffusion to local companies. Through this perspective, the internationalization policy framework can integrate the macroeconomic indicators of increased exports and investment with the need to strengthen the microeconomic indicators of local companies' competitiveness.

The common approach to policies toward global value chains is to undertake them from the lead firm-centric perspective, in which the main objectives for governments in emerging economies are to seek ways for their industries and firms to become part of those lead firm-driven chains. Generally, these policies aim to promote global value chain participation by facilitating the entry of domestic firms into global value chains through export or by attracting foreign investors to locate part of their value chain in the country. The ultimate objectives of these policies are to turn domestic companies into suppliers or final producers in global industries through two areas of internationalization policies—export promotion and inward foreign direct investment attraction. These two groups of policies require the creation of a world-class business environment that fosters the development of internationally competitive local firms, while attracting competent foreign investors. Relevant measures may entail the reduction of protectionist practices, the transparent enforcement of legal principles such as competition policy, and intellectual property rights protection. At the same time, the equally crucial course of action is to nurture local firms to become more internationally competitive through factors beyond low costs. This requires investment in labor skills, incentives for firms to undertake research and development activities, as well as financial support for smaller and medium-sized companies. Naturally, these measures are domestic-oriented, with the focus on improving activities done at home.

This report, however, argues that upgrading measures for domestic companies need not be restricted to activities done at home only. Rather, international expansions and outward investment should be considered as part of the upgrading strategy for domestic companies. Outward foreign direct investment promotion can be viewed as a mechanism to transform local companies into global competitors with more control in their value chains. Policies toward outward investment are relatively new, as many countries perceive outward investment flows take place at the expense of domestic investment and employment. However, more studies confirm that outward investment flows do not necessarily crowd out domestic ones. For example, a survey from the publicly listed firms in Thailand indicated that despite the increase in overseas investment flows from 2006-2019, domestic investment continued to grow year-on-year (SET, 2020). Although it is not the government's role to select or support a specific type of upgrading for particular firms, it is necessary to understand how policy can nudge firms' actions. Following this line of argument, the internationalization policies can help facilitate firms to upgrade their capabilities in the four upgrading strategies we discussed—dependent, breakaway, replicative, and independent. Each of the arena strategies will require some particular policies that fit the objectives of the upgrading strategy, but they do share many commonalities.

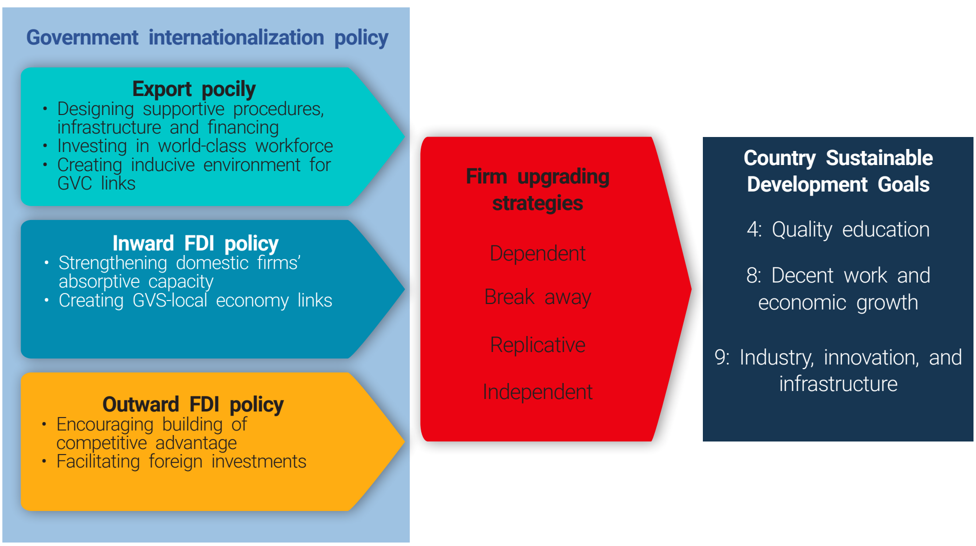
The above discussion reinforces the need to view internationalization and global value chain policies as mechanisms toward the upgrading of domestic firms. This entails policymakers to have a better understanding of firm-level strategic decisions. Miroudot (2020), for example, argued that a better comprehension of firm choices is necessary for policymakers to draw the line where their role ends and where businesses make their own decisions. The need to understand firm-level actions has posed further challenges to the traditional international production ecosystem. Given the ongoing changes and challenges posed by the coronavirus pandemic, policymakers, especially those in emerging economies, can no longer rely on a similar set of the narrow mix of export-oriented and investment promotion measures and have to be able to adapt their approach based on a reassessment of how multinational firms in global industries react (UNCTAD, 2020).

Finally, these upgrading strategies and the underlying internationalization government policy can also contribute to the achievement of the United Nations' Sustainable

Development Goals (SDGs) in the country. Firm-level foreign direct investments can lead to the upgrading of the investing companies, while indirect spillovers and other positive externalities can benefit other local companies. These policies complement the general industrial development policy in the creation of hard infrastructure that facilitates effective economic operations, such as advanced transportation and communication linkages and reliable electricity and water provision. They also complement investments in creating the soft infrastructure that enables efficient economic transactions, such as clear and well-designed market supporting regulations, and efficient and reliable contractor resolution disputes. While these policies are needed to create an eco-system that can nurture all firms to be able to take part in global value chains, they have already been discussed elsewhere as part of the broader economic development.

Figure 1 illustrates the interconnection among policies, upgrading strategies, and their impact on the achievement of the SDGs we have discussed in the previous paragraphs. The next part discusses the process by which internationalization policies can help support upgrading strategies.

Figure 01 Government policy, firm upgrading, and country sustainable development goals



Supporting upgrading Strategies

To discuss policy directions toward upgrading in global value chain through outward investment, the four upgrading trajectories can be used as a framework to develop specific policy objectives and strategic actions to achieve each type of upgrading. As illustrated in Figure 1, all four upgrading trajectories require a combination of internationalization policies. To determine policy priority, it is necessary to establish the end goal policymakers want to achieve in each scenario. These end goals are based on different roles in global value chains emerging economy firms can target. Therefore, the end goals of home-country government to support dependent, breakaway, replicative, and independent upgraders are: to encourage dependent upgraders to become dominant suppliers in the value chain; to enable breakaway upgraders to become lead firms in their own value chains; to support replicative upgraders to become a niche competitor in a specific sector or activity in the global market; and to strengthen independent upgrader to become a dominant global player in their specific industry. Table 7 summarizes the suggested policies for governments to facilitate such upgrading.

Supporting dependent upgraders

For dependent upgrading, in which emerging market firms remain dependent on the lead firm in the global value chain, the end goal should be to encourage these dependent upgraders to become dominant suppliers in their respective global value chain. To enable this, home country governments can aim first to facilitate connections for technology access and integration into global value chains. Policymakers can design inward foreign policy and incentives to facilitate the entry of foreign firms and connections with local companies to transfer technology. This can be achieved by going beyond the traditional provision of subsidies and tax advantages to foreign companies to locate in the home country. For instance, home country governments should focus on creating a world-class environment[1] to attract foreign investors to locate their more value-adding activities in the country. Such policies should be driven by the desire to create links with local companies through the development of their own second- and third-tier suppliers to create deeper value chains in the home economy and the upgrading of capabilities in those lower-tier suppliers.

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1 Among other things, such an environment should include open, transparent and dependable conditions for business. Meaning transparent and well-functioning administrative processes and a regulatory environment as well as appropriately balances fiscal, financial and other non-financial incentives for FDI. Beyond this, well established infrastructure, a skilled workforce, a good educational system, and political, economic and legal stability are also critical factors.

Table 07 Government policies to support value chain upgrading in emerging market firms

		Global value chain governance	
		Collaborator	Autonomous
Global value chain expansion	Repetition	**DEPENDENT UPGRADERS** **End goal:** Dominant global supplier in global value chains of advanced economy lead firms **Policy steps:** Enable inward connections: Design inward foreign policy and incentives to facilitate entry of foreign firms and connections with local companies to transfer technology Enable local connections: Create special economic zones to facilitate agglomeration of local and foreign producers to ease direct and spillover technology transfer Enable outward expansion: Facilitate exports and investments by domestic firms to integrate within global value chains and achieve size to become dominant global supplier	**REPLICATIVE UPGRADERS** **End goal:** Niche global competitor dominating one activity **Policy steps:** Enable local upgrading: Facilitate investment in advanced skills and technology to promote technological development. Enable local connections: Facilitate agglomeration and concentration to support global scale Enable outward expansion: Facilitate investments by domestic firms to become dominant niche global competitor
	Expansion	**BREAKAWAY UPGRADERS** **End goal:** Lead firm controlling a global supply chain **Policy steps:** Enable inward connections: Design inward foreign policy and incentives to facilitate entry of foreign firms and connections with local companies for technology transfer Enable local connections: Create special economic zones to facilitate agglomeration of local and foreign producers to ease direct and spillover technology transfer Enable outward expansion: Facilitate exports and later investments by domestic firms to integrate and expand across segments to become lead firm controlling a global supply chain	**INDEPENDENT UPGRADERS** **End goal:** Dominant global competitor in one industry **Policy steps:** Enable local upgrading: Facilitate investment in advanced skills and technology to promote technological development. Enable local connections: Facilitate agglomeration and concentration to support global scale Enable outward expansion: Facilitate investments by domestic firms to connect to become dominant global competitor.

The government can also reinforce this process by facilitating local connections. The government can deepen the technological upgrading of local suppliers by establishing special economic zones to facilitate the agglomeration of local and foreign producers close to each other. These agglomerations are designed not only to facilitate the coordination of related activities within geographic proximity but also to ease direct and spillover technology transfer from co-located companies to others, through the mechanisms of employee mobility, superior training, and competitor demonstrator (Blomstrom & Kokko, 1998).

The third step towards creating a dominant global supplier is to support the outward expansion of local companies and their dominance in global supplier markets. This can be facilitated by supporting exports with the traditional financing of exports and devolution of taxes. It can also be aided with the provision of exporting infrastructure with more efficient ports, airports, and broad connections, as well as the supportive soft infrastructure of speedy permits inspections. These are policies that are commonplace. Additionally, the government can help the company invest abroad to achieve global scale by providing information on host country characteristics and regulations, facilitating the connection with financing for investment, and enabling insurance and diplomatic support to protect investments.

The objective for encouraging outward expansion should be driven by clear strategic direction in deepening the role of these suppliers in global industries. Policymakers could encourage domestic firms to invest in strategic moves that make them indispensable to the lead firm in their industry. This can be derived from size and capabilities of suppliers. When domestic suppliers can increase their scale and capabilities through international expansion, they can yield stronger power within their industry value chain.

Take the rubber glove industry, for example. The role of government policies in strengthening downstream suppliers plays an important role in turning domestic suppliers into globally competitive ones. In the case of Thailand, Sri Trang Glove is the only domestic company whose size is large enough to become the world's third-largest producer. Malaysia, on the other hand, is home to the other four of the world's largest glove manufacturers. One of the key policy differences between the two countries is the focus on the downstream activities in the value chain. While Thailand focuses more on the upstream and midstream end due to the wide availability of rubber latex, Malaysia places much more importance on the downstream activities. The Malaysian government has put in place plans to boost domestic and international investment activities of key players in order to turn them into global players (The Edge Markets, 2020). As a result, Malaysian glove manufacturers play a much stronger role as a global supplier in the value chain of the rubber glove industry when compared to those from Thailand. Despite a similar start with abundant natural rubber latex, Malaysia appears more successful in supporting rubber glove dependent upgraders.

Supporting breakaway upgraders

In the case of breakaway upgraders, the end goal is to encourage domestic suppliers to become global lead firms in their industry. This could be a necessary growth path for domestic suppliers that may find that undertaking only manufacturing activities restricts their future potentials. In this case, governments can facilitate the transformation of these companies by initially supporting connections to existing global value chains and later encouraging the expansion across segments of the value chain so that the companies become lead firms in their own industry. This requires enabling the connections to lead companies at the beginning of the process and then the expansion of the companies beyond their position as suppliers.

The initial set of policies to support linkages to global lead firms is similar to those used in promoting the dependent upgraders discussed above. Facilitating connections with global industries through export and inward foreign investment promotion measures are necessary steps to take. However, policies to support local firms to diversify their activities in global value chains differ from those aiming to support investment as global suppliers. To encourage domestic firms to expand across activities in the value chain, policymakers can use fiscal and financial stimuli to incentivize them to invest in research and development or other higher value-adding activities of the value chain. Doing so could help motivate domestic firms to extending their control in other segments of the value chain beyond manufacturing.

As emerging market firms improve operations and expand across segments, the government can further provide incentives to extend such a strategy overseas. Seeking control of the value chain through foreign expansion would enable domestic firms to gain more power vis-à-vis the lead firm. While this strategy might be more applicable to large local firms that have reached a sizeable scale through mergers and acquisitions, home country governments can further support their expansion by providing information and opportunities for international investments, especially in countries with more advanced capabilities.

As decisions to expand abroad are taken at the firm-level, outward foreign direct investment incentives should therefore be comprehensive and accommodating to various types of international expansions and geographical distributions. A broad-based range of incentives that apply to all types of investments, such as overseas investment information and international investment insurance, should be promoted to support outward investment. At the same time, specific incentives to urge domestic firms to expand abroad in search of control in the value chain should be encouraged. Motives of these investments could be, for example, to gain access to more sophisticated technologies or better-recognized brands, or to expand distribution channels to final customers.

In the case of Thailand, this policy may not be as prevalent as government's incentives are geared more toward foreign expansions in neighboring countries and other emerging economies. The Thai Overseas Investment Promotion Division of the Board of Investment placed emphasis on foreign expansions to expand markets and to search for lower costs of raw materials and labor costs in their objectives (see TOI, 2020). While this approach may be appropriate as most of Thai outward foreign investment is geared toward the Southeast Asian region, restricting support only to low-cost seeking outward investment may not be inducive to suppliers in search of higher value-added activities in more advanced economies. Policymakers should be more aware of different types of outward investment by Thai firms.

For this type of upgrading process, supplier firms from emerging economies break away from being restricted only to the role of supplier and become lead companies with their own global value chain through outward investment in a broader range of value chain activities. Different from lead companies from advanced economies, emerging market firms are less likely to subcontract the low-end segments to other firms. Their initial and, in most cases, continued advantage is in their expertise in process technologies in the low-end operations in emerging markets. They are likely to retain control in such activities and can therefore use outward investment to seek control of higher value-adding activities both in the upstream and downstream end of the value chain.

Supporting replicative upgraders

Governments can support replicative upgraders to become global niche leaders by supporting their technological development and foreign expansion. This requires supporting investments in the development of more sophisticated internal capabilities and process technologies and later in facilitating the transfer of those capabilities to other countries. The end outcome of this process is the transformation of the emerging market company into a niche competitor that dominates one activity globally.

Unlike the former two patterns, replicative upgraders tend to be less dependent on foreign lead firms in their initial development of technology and competitive advantages. This may result from being an early mover in a specific industry and being able to hone their skills in the domestic market, like in the case of the Central group discussed earlier. For this type of upgrading, the home government should focus on encouraging domestic firms to create competitive advantages from factors beyond low costs. Incentives could be targeted in areas contributing to the development of more advanced skills and technology among local firms. In addition to promoting higher labor productivity and more advanced skills through investment in education, policymakers should set in place an appropriate incentive framework to create a conducive environment for local companies to strive forward to improve their home operations to meet international standards. This combination of internal investments with access to more qualified personnel helps local companies to move closer towards the international frontier within the industry in their home operations.

The second step towards the upgrading of replicative upgraders is to facilitate their achievement of economies of scale that support reaching not only the necessary size to compete globally, but also take advantage of the economies of scale in the creation and use of knowledge and technologies. Different from physical investments, investments in the creation of knowledge and technology have unlimited economies of scale, given that the costs of transfer and replication are relatively low to the cost of generation. This can be reinforced by supporting the connections among local firms and their collaboration for technological development can help improve the refinement of knowledge needed to compete globally.

The final step towards the creation of a global niche competitor is the facilitation of overseas investments by domestic firms. Similar to the earlier discussion, overall support through providing information, insurance facilities, and financial support can be used to prompt local firms to view the outward investment as an option for growth strategy. This further reinforces the advantage of economies of scale in knowledge accumulation, generated from both home and overseas operations. Additionally, facilitating investments in countries with more sophisticated innovation systems and competitors can further help the company define its technological capabilities through exposure to better technology, helping it become a global niche competitor.

Policy directions along this line may not have been widely successful in the case of Thailand. Unlike the success of the more advanced economies of East Asia, notably Republic of Korea and Taiwan Province of China, Thailand has been much slower in nurturing indigenous firms to become more globally competitive. Some analysts attributed this to the country's fundamental structure. For example, Siriprachai (2012) explained that Thailand's industrialization process lacked depth in productivity improvement because the country's land abundance and weak state allowed outputs to be increased by simple measures of expansion of cultivated areas or low-skilled labor force rather than technological development. This leads to the country's lack of the necessary industrial transformation that could nurture a more productive and competitive private sector. Others highlighted different challenges in implementing these measures. Kohpaiboon (2011), for instance, argued that the tendency of Thai policymakers to rely on a one-size-fits-all type of industrial policy, with lofty and generic objectives, makes it more difficult to achieve realistic implementation. While a broad-based upgrading of production factors, such as skill enhancement, policy prioritization, and infrastructural improvement is needed to increase a country's participation in global industries, there is an increasing call for attention to strengthening the firm-level competitiveness to enhance further domestic firms' capabilities in global value chain participation (Barnes, Black & Techakanont, 2017). Upgrading domestic firms to become more competitive in global value chains necessitates a more micro level industrial policy to assess and develop skills of local firms to become more tuned in with their upgrading strategy (Taglioni & Winkler, 2016), not simply picking the 'winner' sectors.

Supporting independent upgraders

In the case of independent upgraders, governments can support local companies by urging them first to develop highly sophisticated technological capabilities in the home country and to use them abroad as a base to launch into new segments of the global value chain, or new chains altogether. Foreign expansions can be used to facilitate the upgrading of capabilities and the expansion into new segments of the global value chain. This support can enable the transformation of the domestic company into a dominant global player in the industry.

The initial steps in the process are similar to those of replicative upgrading. Thus, the first stage is to enable local upgrading by creating a conducive environment for local firms to develop their competitiveness from factors beyond low costs. Policy directions should encourage local firms' investments in advanced technology and skills. Measures in support of strengthening the national innovation system that helps domestic companies get close to the technological frontier should be among policy priorities.

The second step is to facilitate local connections that help achieve the needed global scale to benefit from economies of scale in knowledge and technology. As many leading firms from emerging economies operate as diversified conglomerates or business groups, domestic policy directions should also urge these groups to maximize their economies of scope in operating across different activities along the value chain, or even across different value chains. Doing so could enhance the capabilities of local firms in strengthening their productivity and economies of scale in new technologies. At the same time, it could encourage inter-sectoral upgrading and enhance the firm's ability to synthesize their knowledge across segments of the global industry, or across different industries.

The third step is the facilitation of the outward expansion in quest of more overseas prominence. Emerging country governments can encourage domestic firms' efforts to invest in new segments of the global value chain abroad, especially those in advanced economies that provide access to more sophisticated technologies. Similar to the earlier discussion, such support can be in the form of broad-based insurance and informational support. In addition, specific backing through cultivating diplomatic and international relationships at the country or regional levels can provide a more conducive environment for investments in and acquisition of high-tech companies in advanced economies.

Selection of Strategies to Support Value Chain Upgrading

The selection among the four different alternatives depends on the objectives of the government as well as on the characteristics of the companies and supporting infrastructure. The four alternatives are not mutually exclusive. They can be used with different industries and companies based on how strategic they are considered by the government and how internationally capable the companies are in comparison to global competitors.

The four strategies can also be considered as part of an evolution in the support that the government provides. For example, the government could start with helping companies upgrade their capabilities to achieve success as the dependent upgraders. It can later switch support to enable the dependent upgraders to become breakaway upgraders and move into more sophisticated value-added activities in their global value chains. Once these companies have become highly dominant in the value chain, the government can switch to gain their support to enable them to become independent upgraders and achieve global dominance.

CONCLUSIONS

This article analyzes how companies can upgrade their capabilities to improve their positions in global value chains by using outward foreign direct investment strategically. The main message is that there are alternatives for companies in emerging markets to rethink their competitiveness and use international connections in global value chains to upgrade their capabilities and enable both global competitiveness of the companies as well as facilitate the local development of the home country. Outward foreign direct investment can be used as a tool to improve and strategic competitiveness of companies and support their ability to compete on a global scale, contributing to the sustainability of their domestic operations and continued success. Although the strategies were presented here are driven mainly by company investments, governments can support these strategies by providing complementary investments and facilitating the access and transfer of superior technology through targeted policies with high spillovers to the country.

In addition to the policies specific to each type of upgrading discussed in this article, the policies that are needed to support emerging market firms' entry and performance in global value chains in the area of broader industrial policies also lead to additional spillover effects that contribute to the United Nations 2030 Agenda for Sustainable Development. In particular, Sustainable Development Goals (SDG) number 4 (Quality education: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all) can be promoted both through the concerted effort to upgrade the underlying labor skills via better education. Moreover, the specific policy of enabling the transfer of advanced technologies and skills from lead firms from advanced economies and their diffusion in the country is equally significant in attaining SDG 4.

In the case of SDG 8 (Decent work and economic growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all), government policies on export promotion and foreign investment attractions are highly relevant as export sales and inward foreign investment contribute positively to local employment. Similarly, the upgrading of domestic firms, as argued in this report, can contribute to higher value-added jobs that support a more sustainable economic growth. As domestic firms become global leaders in their industries, they increase the sophistication of their operations, which contribute to a larger and more sustained economic development. Finally, the reconsideration of policies as part of upgrading in global value chains contributes to SDG 9 (Industry, innovation, and infrastructure: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation). Both the upgrading of emerging market firms in global value chains and the government policies to facilitate such upgrading contribute to an increase and improvement in the industrialization of the country. More importantly, such policy directions can encourage the level of innovation among domestic firms, not only in the traditional product innovation but also in the more subtle process of organizational and managerial transformation that is required in sustaining competitive industry clusters. Taking a more holistic approach, the government policies and firms' strategies can be considered as part of a causality chain among the Sustainable Development Goals. Investing in education and the innovative capacity of the country to support the upgrading of the competitiveness of firms has a direct impact on SDG 4, which in turn leads to SDG 9, and ultimately SDG 8.

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