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The necessity for developing countries to develop an entire supply chains in the trends of globalisation

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Abstract: *Globalisation, as a term, was first coined in the 1980s. Following the development of global transportation method and the communication technology, globalisation has made twice leaps forward in human history. The most important advantage of globalisation is reducing the cost of product and knowledge, which helped countries to involve in the construction process of global value chain. Based on this background, this study aims to identify the necessity for a country to be a part of the global value chain or to develop independent entire supply chain. To achieve the objective, examples, such as China, Russia, South Korea and Thailand, will be provided. The unique value of this research lies in the detailed illustration of the importance of building an entire supply chain for a country.*

Keywords: *Globalisation, FDI, Thailand, China, Russia, South Korea, Global Value Chain, Supply Chain*

1. Introduction

This report will focus on the globalisation and global value chain. Baldwin (2016) indicated that globalization has made twice leaps forward in history. Based on that, there will be an explanation of how the two phases of globalisation differ from one another by illustrating the process and different impacts of each of them. After that, this report will discuss that is it necessary for a developing country to involve the globalisation.[1] Then there will be a description of what policies that developing countries has launched for attracting foreign direct investment. Some examples will be given. In addition, the report will determine whether those policies are successful and provided some factors that might influence the situation.[2]

2. Critically explain how the two phases of globalisation differ from one another.

The first arose in the industrial revolution era when the new energy lowered the cost of moving goods and made the transportation easier. The second time was in the late 20th century followed with the development of the information and communication technology (ICT) which enabled people to share different knowledge and ideas between different nations with lower costs. [3]Baldwin (2016) described the first and second leaps as the old and new globalisation, respectively. Both two leaps have led to significant and unprecedented changes in the world with different results.[4]

2.1 The process and impacts of the old globalisation.

Before the old globalisation started, people lived in different continents or areas was isolated by the distance between each of them. At that time, trade transactions only existed between some dominated ancient countries, such as China and the Rome Empire. Businessmen of the Tang Empire of China needed to spend more than 200 days to cross the silk road from Central Asia to Europe for selling their silks and other limited types of expensive goods to the nobilities of Byzantine Empire (Islam, 2019).[5] The cost of moving people, goods and ideas between different areas was significantly high and the type of products that could be transferred was relative less (Baldwin, 2016).[6]

In the 1800s, the British started the industrial revolution. Later on, some other countries, such as the United States, Germany, Japan, France and Italy also begun their industrialisation. The technologies of transportation and the production efficiency were improved and the cost of moving goods was lowered dramatically. The new technologies provided people with lots of opportunities to expand to the global market even they still need to produce locally due to the remaining high cost of moving people and

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ideas. However, most of the people could try different food, clothes and other goods from different countries with an acceptable price since that time. The old globalisation started (Hahn, 2020 and Baldwin, 2016).[7]

The first leap of globalisation changed the way of trade and brought a considerable level of income to those industrialised countries which are the current members of G7. In 1960, the GDP of those countries represented nearly 62% of the world economy (World Bank, 2020). Moreover, even the cost of moving people and ideas at the old globalisation period reduced by new technologies, it still remained at a high level, which means, the communication method between people were not changed significantly. The technologies and idea transfer between nations was hard to implement. Therefore, a huge gap appeared between those industrialised regions and the rest of the world during the old globalisation period.[8]

2.2 The process and impact of the new globalisation

At the end of the 20th century, the information revolution has begun to change the world with the development of new ICT technologies, such as computers and smartphones. This revolution and its outcomes changed the way of communication between people in different countries and decreased the cost of sharing ideas within the world (Wilson, 2004). Moreover, after nearly 50 years of development, the gap created by the old globalisation led to a huge difference in the labour cost between those industrialised countries and the rest of the world. People have begun to describe those industrialised countries as developed countries, and use the term ‘developing countries’ to represent others.[9] When most people were able to use technologies to share information, they just realised how huge the gap between those two types of regions was (Rosling, 2018).[10]

Those developing countries with low labour cost attracted G7 countries and promoted G7 companies and factories to offshore some labour-intensive stages of production to those developing countries. At the same time, because those firms had to ensure that those offshore production stages could achieve and fit their onshore standards, they sent their knowledge and technology along with those offshore firms to those developing countries. [11]Baldwin (2016) described this period as a new globalisation. During this period, some countries and regions became to be the newly industrialised countries (NIC), such as China, Korea, India and Indonesia. Those countries combined their cheaper labour forces with the knowledge of those developed countries, created their own advantages and developed their manufacturing industry. China was the most representative country among them. As shown in Figure 1:

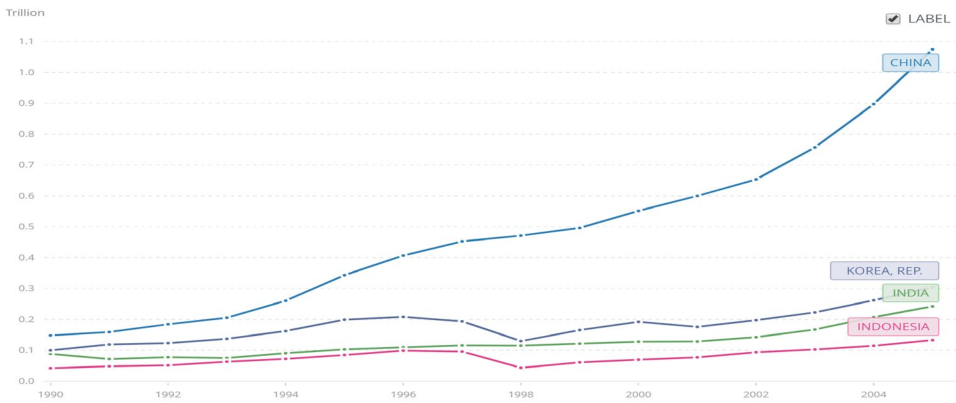

Figure 1: The Industry value added of some developing countries from 1990 to 2015 (World bank, 2020).

Furthermore, because G7 countries were not willing to share their knowledge and technologies with all countries over the world due to the consideration of keeping their intellectual property within their production networks and the cost of moving people also limited their abilities (Baldwin, 2016). All of those reasons and restrictions explained why the new globalisation only sparked the growth of a few developing countries.[12]

2.3 Differences between two phases of globalisation

The old globalisation was more about goods and trade, it made some countries to enter a wider

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market and sell globally. It also created a huge gap between those industrialised countries and other countries which did not start their industrial revolution. In addition, the old globalisation could be realised was because the cost of moving goods was decreased by technologies and new transportation method. However, moving people and their ideas were still costly and it led to the local innovation which narrowed the opportunities for other regions. Therefore, some researchers called this period 'The Great Divergence' (Pomeranz, 2009).[13]

Compared with the old globalisation, the new globalisation was described as the 'Great Convergence' by some researchers. The conversion not only occurred between goods but also the human's ideas and information. The new globalisation enabled countries to use something that they do not need, to exchange with others for something that they do not have and innovation could also be implemented by collecting ideas from different countries. Furthermore, Baldwin (2016) indicated that even the globalisation only sparked a few countries' developments, it still created a global value chain due to the knock-on effect. Those newly industrialised countries could industrialise faster by absorbing manufacturing firms and new technologies and ideas from developed countries, and that would increase their demand of raw materials for manufacturing, at that time, some exporting nations would have opportunities to involve the new globalisation. Moreover, some governments lowered their tariffs or achieved a free trade agreement with other countries for developing their import and export market, which also accelerated the process of new globalisation (World trade organisation, 2020). [14]To some extent, the second leap of globalisation achieved globalisation in its truest sense (Pedersen, Devinney and Camuffo, 2017).

3. Is that necessary to develop entire Supply chains in developing countries?

Since the beginning of the 21st century, most countries in this world involved the new globalisation. When the market became much wider and the organisations involved were much more than before, people realised that they need a new method to manage the purchasing, production, distribution and sales rather than seeking trade-off among them as what the traditional method did. Oliver and Webber (1982) indicated that supply chain management can be the new approach to manage those functions as a whole. What is the supply chain? Christopher (2016) defined it as 'a network of interdependent organisations that are involved to work together to control, manage and improve the flow of materials and information from upstream suppliers to the ultimate consumers'. However, in this new century, countries faced two different options that are building a whole supply chain or joining the international production arrangements as a part of the global value chain (Baldwin, 2016).

When the new globalisation has created a global value chain and most developed countries have moved parts of their productions to developing countries, it seems that developing entire supply chains is not necessary for developing countries because they can still gain profits from the globalisation by obtaining a huge amount of production jobs within the value chain. In fact, the decisions made by different countries are different due to various objectives and reasons.

3.1 Countries developed supply chain

Some ambitious developing countries want to develop an entire supply chain to improve their competitiveness during this new globalisation period. That is not a new idea, in fact, some countries have developed their supply chain in last century and achieved considerable success. For example, South Korea has worked to develop its domestic supply chain in the car industry. It integrated all the production and assembly works locally and use a small percentage of import materials to produce a low-cost car. At the same time, its cost advantage also attracted customers of other markets, especially the United States. Therefore, the demand for Korean car in the United States boomed and that made the Korea car companies success at the 20th century. Something happened later changed this situation (Baldwin, 2016). However, the experience of Korea has made other countries feeling confident in developing its domestic supply chain. Malaysia is one of those countries. The Government of Malaysia has launched a new low-cost car project and the products of this project dominated the local market, nevertheless, its strategy was failed from a long-term viewpoint, as Baldwin (2016) said, in the 21st century, the cost-competitiveness created by the second globalisation that countries moved parts of their production to low-labour cost regions with their technologies destroyed the Single-nation production strategy.

Furthermore, China, as the most representative developing country, has also tried to build several entire supply chains in particular industries. The most significant difference between China and

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Malaysia is that before tried to build its own supply chain, China obtained a huge amount of production jobs from other countries' car industry due to its low-labour cost, that helped China to get the technologies from other countries and used those technologies to develop its own supply chain. China's car industry has experienced a dramatical growth for the past decade and Chinese Geely and Chery Automobile companies were established at that period. However, currently, most Chinese car companies decide to import materials worldwide and assemble locally instead of building an entire supply chain (Zhao and Lv, 2009).

From those examples, the result of those countries which want to develop an entire supply chain in some industries did not achieve their expectation. The main reason is that the cost advantage of single-country production is no longer exist in the new century. Therefore, most countries tend to join the global value chain instead of developing their entire supply chain (Baldwin, 2016).

3.2 Countries joined global value chain

Compared with those countries which have tried to build their supply chain, Thailand has claimed that it was willing to join the global value chain and its strategy enticed foreigner companies, such as Japanese, to invest and bring their technologies to Thailand. Thailand could sell their products to the global market and develop its advantages by joining the international production arrangement. As Baldwin (2016) said, there are some countries try to raise scale economies by focusing on a particular market segment rather than trying to produce a whole range of models.[15]

3.3 Do developing countries need to develop an entire supply chain?

From all of those examples above, it seems that there are enough evidences to convince all countries to join the global value chain in the new century rather than building their own supply chain. However, the disadvantages of the globalisation and the global value chain should not be ignored (Christopher, 2016).

At the end of 2019, the coronavirus outbreak started. This unpredictable issue forced the Chinese government to lock down the entire country and all the factories and industries in China had to stop their production. As a major industrial country in the new century, China's lockdown led to chaos in the global supply chain. Many companies in other countries had to find new suppliers and informed their customers that there would be a shortage of stock. Nevertheless, after 3 months, when China's economy is moving back towards capacity, many western countries start to lock down and stop production and sales due to the outbreak of the virus in Europe. At the same time, Chinese companies which just had abilities to start their work were told by their global customers that some production orders have to be cancelled. That is huge damage for all the Chinese industries. When there is a lack of domestic supply chain, they could not have any methods to deal with their products which are already finished (Karabell, 2020).[16]

Overall, when talking about the globalisation, it is not correct if everyone only mentions the advantages of the new globalisation. When the disadvantages of the globalisation appeared, it is worth to spend some time to think that is that the disadvantages of globalisation too harmful for companies and developing countries? However, the advantages of the globalisation still outweigh its disadvantages and it is not necessary for developing countries to develop their supply chain during the normal period but it is necessary that developing countries should have the ability to develop their own supply chains when they need to.

4. Developing country governments' policies

As mentioned before, the new globalisation created a global value chain over the world and most developing countries are willing to be part of it in the new century. It involves the question about how the governments of those countries render their countries more attractive to foreign companies that might want to offshore part of their production jobs to them. Most countries will try to achieve their goals by introducing new policies to attract foreign direct investment (FDI) and technology transfer. Generally, different developing countries will have different policies.

4.1 China

Since 1978, China has started its economic reforms for more than 40 years, this policy was also

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known as the 'Open policy'. This policy allowed the government to build some special economic zone and opened some Chinese industries and markets to Foreigner direct investment. Furthermore, compared with the policies of the Chinese government, the Chinese market which have a huge population base is more attractive for foreigner companies and investors. The government knew and took advantage of that. At the beginning of the new century, China needed to develop new technologies to achieve the country's next five-year goal. The technology transfer from other countries and improvement of its own innovation in some particular industries were therefore essential for the government. By considering the objectives and desires of itself and foreigner companies, China claimed that in some particular industries, such as the automobile industry, companies which wanted to entre China and sell their products to Chinese market should establish a joint venture company with Chinese local company. Moreover, China has abolished its requirement on the foreigner exchange balance and export level in order to minimise the barriers of its market. In 1984, the Chinese government granted this policy to almost all of its coastal cities. In addition, the government has also lowered some types of taxes of the JVC, such as the income tax (Ye, 2014 and Klaseri, 2020).[17]

China's policy not only made it a part of the global value chain but also provided lots of opportunities for it to develop its own supply chain and technologies, at the same time, foreigner companies were also benefited from those policies and made a considerable level of profits since the beginning of the economic reform.

4.2 Russia

At the beginning of the new century, the foreigner investors' interesting on Russian economy was increased rapidly. The Russian government, at that time, has launched several new laws and rules to attract foreigner direct investment (Ogutcu, 2002).

Initially, the government claimed that it will offer the reduction or exemption of import tariffs and budget to all foreigner investors who have imported fixed assets, such as the technical equipment. Moreover, for investors who provide investment amount of over 10 million US dollars can apply for the exemption of their income tax for the first two years. Furthermore, Russia also established some special economic zone (SEZ) for attracting foreign investors. Those foreign companies will be benefited by the rules in those SEZs, those rules included the exemption of certain types of taxes, such as the value-added tax, the income tax and import tariffs (Fischer, 2000).[18]

In addition, Russia has also launched some laws to protect those foreigner companies. As introduced by the government, foreign investors and companies will have the right to claim compensations for losses caused to them due to illegal behaviours of the local government. At the same time, those foreign investment projects will not be affected by changes in policies and laws during the operation period (Ogutcu, 2002).

4.3 Thailand

Foreign direct investment is one of the most important elements of the development of Thailand's economy. Thailand has launched a lot of laws to support FDI flows. For example, it has made the new businesses' setting-up processes easier and reduced the time of the processes from 29 days to 6 days. Furthermore, Thailand has also established some special economic areas and it provided support to foreign investors by offering tax subsidies, rights to land ownership and issuing of required visas (Nordea, 2020).

In addition, the government of Thailand has claimed that they want to be a part of the global value chain rather than establishing its independent supply chain and the government has introduced some laws to support the collaboration between the foreign companies and local companies (Nordea, 2020). The attitude of the government will help Thailand to attract technologies and investment from other countries and make investors more confident to invest to Thailand because all investors will be more willing to invest to a partner instead of a potential competitor.[19]

5. The impact of some factors on FDI.

Although those policies mentioned above launched by different developing countries were attractive, those countries are not always successful in attracting foreign direct investment from abroad. Some countries, such as China and Thailand, have attracted a considerable level of FDI but others, such

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as Russia, did not. There are some factors that might lead to this situation.

Initially, the political risk is a significant factor that will have a huge influence on the decision made by foreign investors. Foreign investors may concern about the political environment of the developing country that they want to invest. If there are too many uncertainty issues in this country's political environment, such as the inconsistent policies and political battles, those foreign investors may not dare to invest in this country. Moreover, if the government of the target country is a corrupt or a bureaucratic government, that will also change the investors' mind. For example, the political environment of North Korea is a huge barrier for FDI (Khan and Akbar, 2013).[20]

Furthermore, the economic condition is also one important factor that will impact the foreigner direct investment. If foreign investors have confidence in the local economy, they will be more willing to invest in this country. On the other words, if they cannot predict any profits from their investment and cannot foresee a good development of the country's economy, they will not invest in this country. In addition, even a developing country has attracted a considerable level of FDI, the economic recession or depression in this country will also decrease the amount of the FDI and the existing investors will withdraw their capital.

When talking about developing countries, the technology factor cannot be ignored by foreign investors. Most developing countries will not have the ability to provide high-quality materials and services. Moreover, the lack of infrastructure and innovation will also make the operation of foreign businesses more complicated. The shortage of developing countries' technology will be a barrier for FDI and will influence the investment flows. The foreigner direct investment in some middle east and Africa countries are limited by their technology and infrastructure level (Macmillan, 2016).

Competition is also one important factor that investors will consider. After a developing country attracted a huge amount of investment from abroad, the pressure of competition in some industries in this country will be significantly higher than before. Therefore, for other investors who want to invest in this country in the future, this developing country will not be a good choice. This leads to a situation that when the FDI of a developing country reached a certain level, the speed of the increasing of the investment amount will slow down.

Moreover, as time goes on, there will be some new developing countries which will be more attractive than others and will replace the position of the existing developing countries. If it happened, the outflow of investment in some countries will be inevitable. For example, the labour cost of China is one attractive factor for foreign investors and if there is another country which has lower labour cost than China, such as Vietnam, the foreign investment in China may flow into this country.

6. Conclusion

This report has compared the two different phases of globalisation by comparing their impacts and history. Furthermore, the report has analysed whether a developing country should develop its own supply chain or not by comparing the advantages and disadvantages of globalisation. The examples of China, Russia and Thailand's policies for attracting FDI was provided, followed by some factors that lead to the failure of attracting FDI of some developing countries.

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