OECD - ERIA Joint Regional Symposium

Making Global Value Chains work for ASEAN

13 June 2016 – Hanoi, Viet Nam

SUMMARY RECORD

Key Findings and Policy Recommendations

- Imports are just as important as exports in global value chains (export competitiveness is inextricably linked to importing).
- ASEAN has benefited from its ambitious regional integration initiative, but continued reform is necessary in light of rising competitive pressures.
- Prioritise ratification and implementation of the WTO Trade Facilitation Agreement
- Services (particularly logistics and backbone services) are critical to GVCs.
- Most firms in ASEAN are SMEs; therefore understanding how SMEs engage in GVCs is critical to spreading the benefits from participation. Beyond financing, continued support is needed to bridge information gaps and allow SMEs to thrive.
- Complementary policies are needed to facilitate the adjustment process, such as well-designed labor market and social policies, investment in education and skills.
- Better policymaking requires better data; in particular firm-level data.

Proceedings

The Organisation for Economic Co-operation and Development (OECD) and the Economic Research Institute for ASEAN and East Asia (ERIA) organised a half-day seminar on *Making Global Value Chains Work for ASEAN* on the afternoon of Monday, 13 June 2016 in Hanoi, Viet Nam. The aim of the symposium was to take stock of the current evidence base related to the participation of member states of the Association of Southeast Asian Nations (ASEAN) in global value chains (GVCs) so as to better guide policymakers in their efforts to make participation more inclusive, both internally and with respect to new member states. The symposium was organised around three main panel discussions (see agenda for the full list of moderators and speakers), and was attended by 70 delegates from the ASEAN region and OECD member countries.

Opening Session

Welcoming remarks were offered by Stephanie Lee, New Zealand's Ambassador to ASEAN, who set the stage for the afternoon's discussion by underscoring why we should we care about value chains, and what they represent for ASEAN. Ambassador Lee highlighted the iPhone example as a reminder of how GVCs have changed our view of trade policy and trade negotiations, and emphasised that ASEAN recognizes that GVCs are a driver of growth. In the complex world of GVCs, policymakers must respond differently; as tariffs are reduced, non-tariff measures and regulatory differences can nevertheless create real friction along the value chain.

Keynote remarks were then provided by Dr Susan Stone, Director Trade and Investment of the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP). Dr Stone noted that GVCs have been around for a long time, but there are tremendous opportunities for deeper engagement, including in regions like ASEAN. Policymakers must recognise that imports are as critical as exports in a GVC environment, and manufacturing requires sound regulatory regimes and support from efficient services sectors. Dr Stone stressed that transparency and predictability are as important as the regulations themselves, and that policies that support foreign direct investment likewise help underpin GVCs. In order for countries to upgrade in GVCs, they must offer reliable and stable services sectors, including, but not limited to, ICT and financial services. In addition, training and capacity building for human resources are an inevitable and valuable part of upgrading in GVCs. Finally, Dr Stone highlighted the need for more consistent and well-founded data to support GVC policymaking, especially firm-level and consumer-level data.

Session 1: Making the most out of GVC participation

Panel speakers in the first session presented a broad overview of issues related to GVC participation and the implications for policymaking in the context of ASEAN. Underpinned by the ASEAN Economic Community (AEC) and AEC Blueprint 2025, ASEAN integration in regional and global value chains is growing; what actions can policymakers take to increase the benefits from participation?

Dr Javier Lopez Gonzalez from the OECD provided an overview of how GVCs originated and have arisen over the last few decades, referencing the OECD-WTO Trade in Value Added (TIVA) database, which helps identify where value is added along value chains. Dr Lopez Gonzalez noted that GVCs are engines for job creation, both at home and abroad, and that ASEAN's GVC participation is growing. His research also highlighted that importing is an essential element for export success. The AEC has helped to deliver a better domestic performance among the countries, but continued reforms are necessary in light of rising competitive pressures.

Professor Fukunari Kimura of ERIA then offered a framework based on his research for considering a new development strategy for ASEAN and East Asia around different tiers of GVC development. Professor Kimura noted that the move towards "Tier 1" is identified with sophisticated supply networks where countries tend to join international production networks; and that a country could have various tiers of GVC in operation simultaneously. He offered the example of Vietnam's participation in the Trans Pacific Partnership (TPP), which will help it deepen participation in GVCs.

The final panel speaker for this session was Mr Nguyen Anh Duong of Viet Nam's Central Institute for Economic Management (CIEM). Mr Nguyen informed that integration has been a key pillar of Vietnam's economic reforms, as exports and foreign investments are key drivers of growth. To achieve continuous export growth, Viet Nam depends on imported inputs, as deeper participation in GVCs requires a greater dependence on suppliers. He highlighted that in a GVC environment, competitiveness is not just limited to price and quality, but also to volumes, timeliness (of delivery) and distribution channels, as well as resilience to natural disasters. While engaging SMEs in the GVC is important, it is not easy.

Session 2: Making GVCs Inclusive for ASEAN

Panel speakers in the second session discussed spreading the benefits of participation to the grander population, and included a focus both on extending benefits of participation internally with respect to involvement of SMEs, but also on ensuring that New Member States in ASEAN also benefit from GVC participation.

Dr Cassey Lee of ISEAS - Yusof Ishak Institute gave an overview of ERIA-ISEAS joint work on SMEs participation in ASEAN and East Asia regional integration, highlighting that the propensity of SMEs to export differs across industries, and that the size of the SME matters in GVCs. Dr Lee noted that government support could be useful for SMEs to connect with potential partners at home and abroad, and through financial support (i.e., grants, loans) to encourage greater SMEs participation in GVCs.

Dr Leeber Leebouapao of the Lao PDR National Economic Research Institute underscored that most firms in Laos (and ASEAN) are SME firms, and contribute to around 30 percent of GDP, 40% of which are in service sectors. However, most firms in Laos still do not participate in GVCs, or do so at a lower level, which is particularly due to country's level of development. Much of the industrial sector is dominated by foreign investors, leading to concern about which firms actually benefit from Laos participation in GVCs. Dr Leebouapao highlighted the need to promote GVCs for development, and to increase the GNI.

The final panel speaker for this session was Mr Gerard McLinden of the World Bank. Mr McLinden underscored the importance of GVCs in enhancing economic integration and liberalizing trade, the agenda being pursued under the AEC. He noted that participation in GVCs drives productivity growth, creates jobs and improves living standards, where policies that support GVC integration include trade facilitation measures, convergence of standards, rationalization of NTMs, and services liberalization. As countries open markets to trade and FDI, international competition in GVCs will entail adjustment costs for many countries, but this should not drive protectionist responses. Policies need to facilitate the adjustment process through well-designed labor market and social policies and through investment in education and skills, all of which can be achieved by well designed and implemented policies supported by development partners, as appropriate.

Session 3: Making better connections in 'Factory Asia'

Panel speakers in the third session discussed the connections that are needed for regional and global value chain participation, from interconnected modes of production, to structural factors, to the role of services in helping make these connections possible. A particular focus of this discussion was on reducing "distance" both through trade facilitation policies and thanks to investment in infrastructure.

Dr Yasushi Ueki of presented findings from ERIA studies that show that firms which implement lean manufacturing practices (Kaizen) are more likely to enter interactive relationships with their partner firms; knowledge transfer involves international and domestic movements of people between the firms; and distances between firms affect domestic interactions among people. These findings indicate that trade and FDI promotion are not sufficient for making better connections in factory Asia; freer movement of people to facilitate knowledge transfer and capacity building of local firms to realise continuous improvements are necessary.

Ms Evdokia Moïsé of the OECD discussed the importance of trade facilitation to GVC participation, and provided an overview of the OECD Trade Facilitation Indicators, which can serve as a basis for prioritising trade facilitation reforms and targeting aid interventions. Ms Moïsé informed that trade facilitation measures, along with intellectual property protection, institutional quality and infrastructure availability and quality, create highest estimated impact on foreign input sourcing decisions. While ASEAN's performance in trade facilitation has been growing over the years, there remains much scope for improvement. The WTO Trade Facilitation Agreement (TFA) has a huge potential positive impact on trade cost reductions for ASEAN members. Depending on the country's income group, the TF measures that offer the greatest impact in the region include reduction in the number of documents; automation for customs declarations; single windows; and information availability.

Dr Susan Stone of UN-ESCAP focused her presentation on the importance for policymakers in the region to continue to focus on reducing trade costs, which have come down in recent years but can still benefit from efforts towards policy reforms. Dr Stone highlighted that reductions in trade costs help firms to participate in GVCs, or to upgrade or deepen their roles in GVCs. She echoed other speakers in encouraging full compliance with the TFA, and informed that a new voluntary UN Treaty for UN-ESCAP members on *Cross-Border Paper less Trade in Asia and Pacific* is under preparation.

The final panel speaker for this session was Dr Massimo Geloso Grosso of the OECD, who provided an overview logistics services in GVCs. Dr Geloso Grosso noted that international integration of economic activities, in particular for advanced manufacturing that requires complex production networks, "just-in-time" production and distribution management, requires efficient, and increasingly outsourced, logistics services. The OECD Services Trade Restrictiveness Index (STRI) identifies major bottlenecks to services trade (restrictions on foreign entry, barriers to competition and regulatory transparency) and can support reforms at national and international level, as an opportunity to improve connectivity.

Concluding Remarks

Concluding remarks were provided by Ms Moise, Dr Stone, and Ms Christine Schaeffer of Australia's Department of Foreign Affairs and Trade, who highlighted the importance of free trade, the ASEAN region, and support from organisations like the OECD as an organisation of peer-learning. Ms Moise underscored that the OECD is interested in learning from the ASEAN experience, and that the region is moving forward towards GVC participation through effective contributions like national single widows. Dr Stone reinforced the message that while trade is seen as an opportunity for growth in East Asia, underlying restrictiveness exists and can cause a slowing of trade. There is a need for new avenues of growth around multi-dimensional platforms, including GVCs and services.

The seminar was concluded with a 45-minute presentation by the experts on how to access our tools and resources, including relevant OECD's databases (TiVA, TFI, and STRI), OECD publications through iLibrary, and ERIA's new ASEAN NTM database.