OECD - ERIA Joint Regional Symposium

Making Global Value Chains more inclusive for ASEAN

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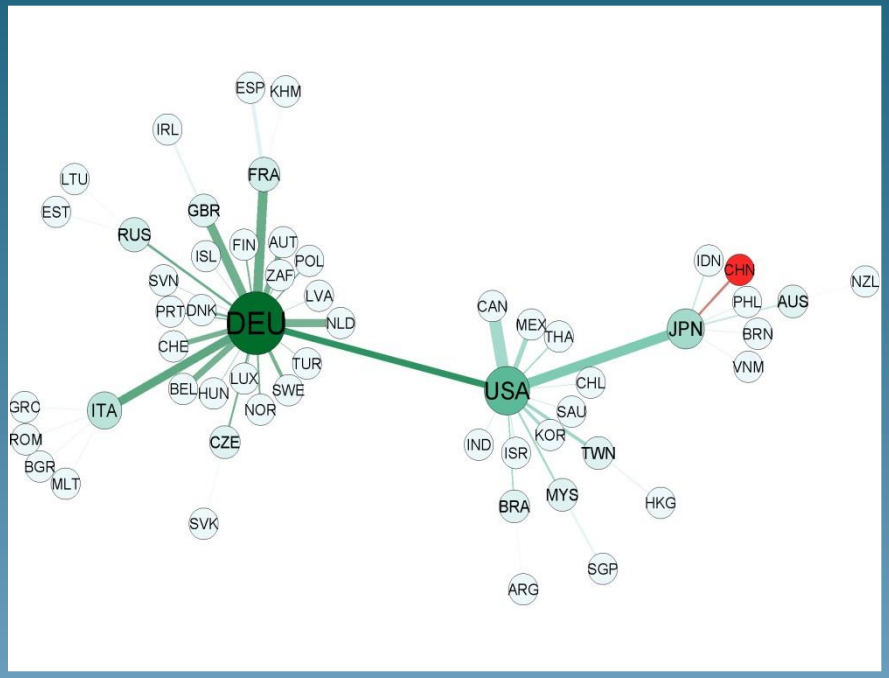
Why have GVCs emerged?

- Not a new phenomenon – what has changed in the last 20 years is the scale and scope of participation
- Firms can now disperse design, production, assembly, marketing, logistics, distribution and support – largely because trade transaction and coordination costs have decreased
- Cheaper and more reliable ICT – including new management, logistics and inventory control software - have lowered the cost of coordinating complex activities within and between companies
- Containerized shipping, standardization of data, automation of procedures, improved investor protections, trade and transport facilitation reform, all help to make GVCs more reliable and economical than in the past

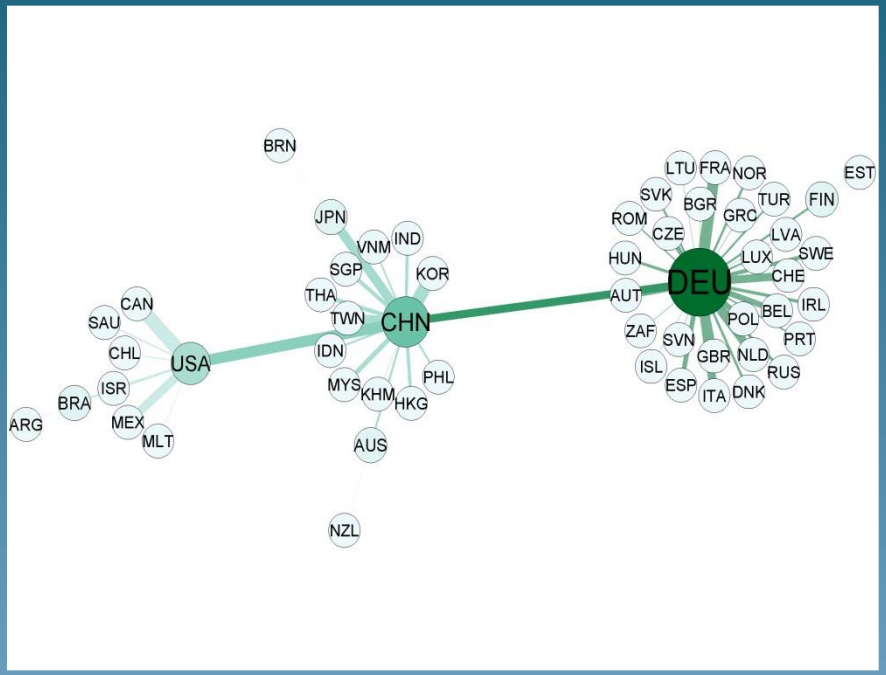
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New Growth Poles

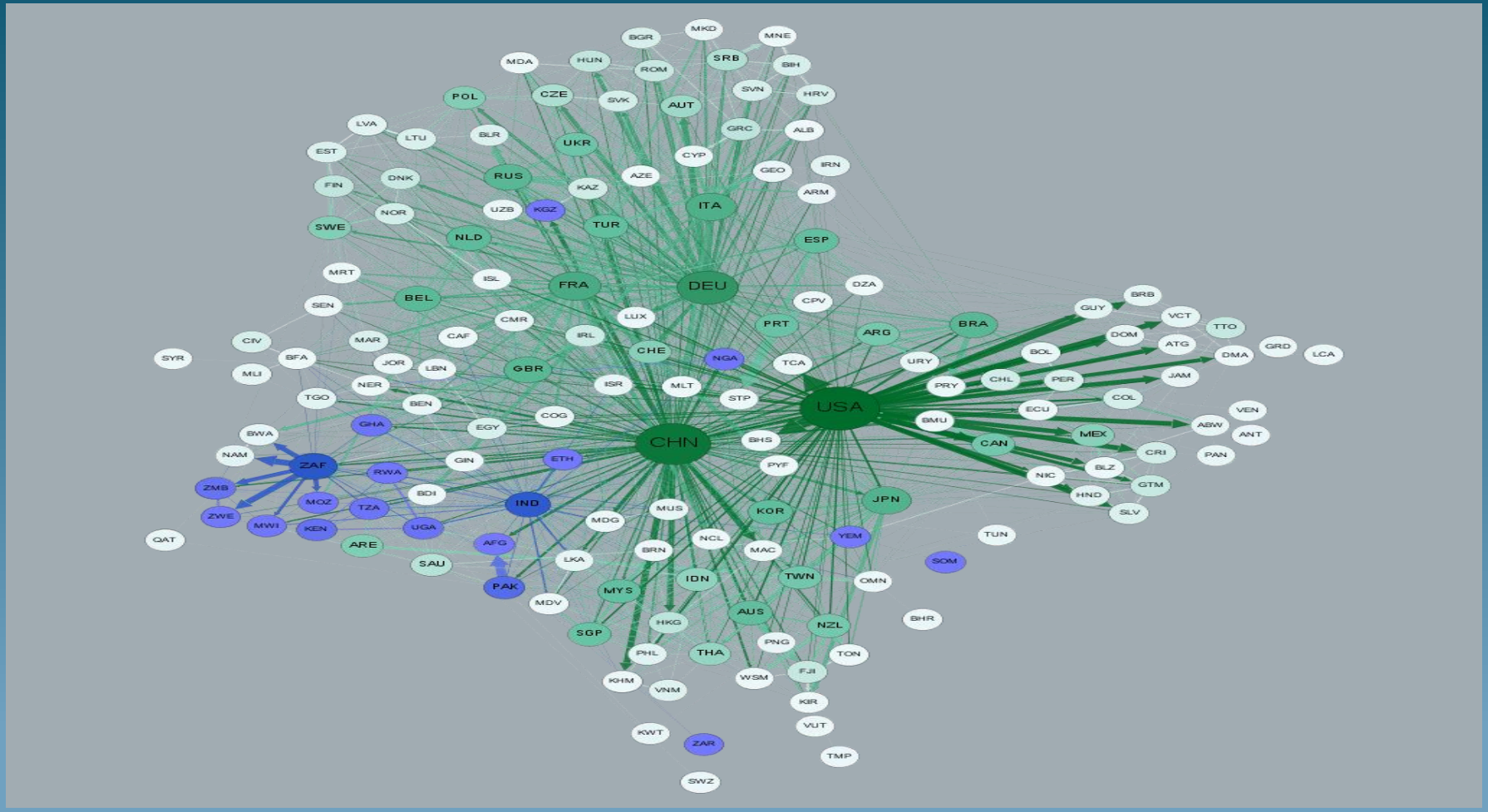
1995



2010



GVCs are a dominant economic reality of the 21st century



Why should ASEAN economies embrace GVCs?

- Extensive research has demonstrated the vital role GVCs play in enhancing economic integration and liberalizing trade - the very agenda being pursued under the AEC
- Participation in GVCs drives productivity growth, creates jobs and improves living standards
- From a GVC perspective, this also means that imports are just as important as exports and products may undertake several 'value-adding' journeys across borders before reaching their final markets.
- However, many trade and economic policies are still based on the assumption that goods and services are produced in just one country

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Global Value Chains (GVCs) – Main trends

Outsourcing

- Vertical unbundling and specialization: work and risk passed from lead firms to suppliers
- Strategic search for high value business functions by lead firms
- From manufacturing to services to R&D and other knowledge-intensive functions

Offshoring

- More countries enter the global trading system, but more specialization and functional coordination
- Rising intermediate goods and services trade

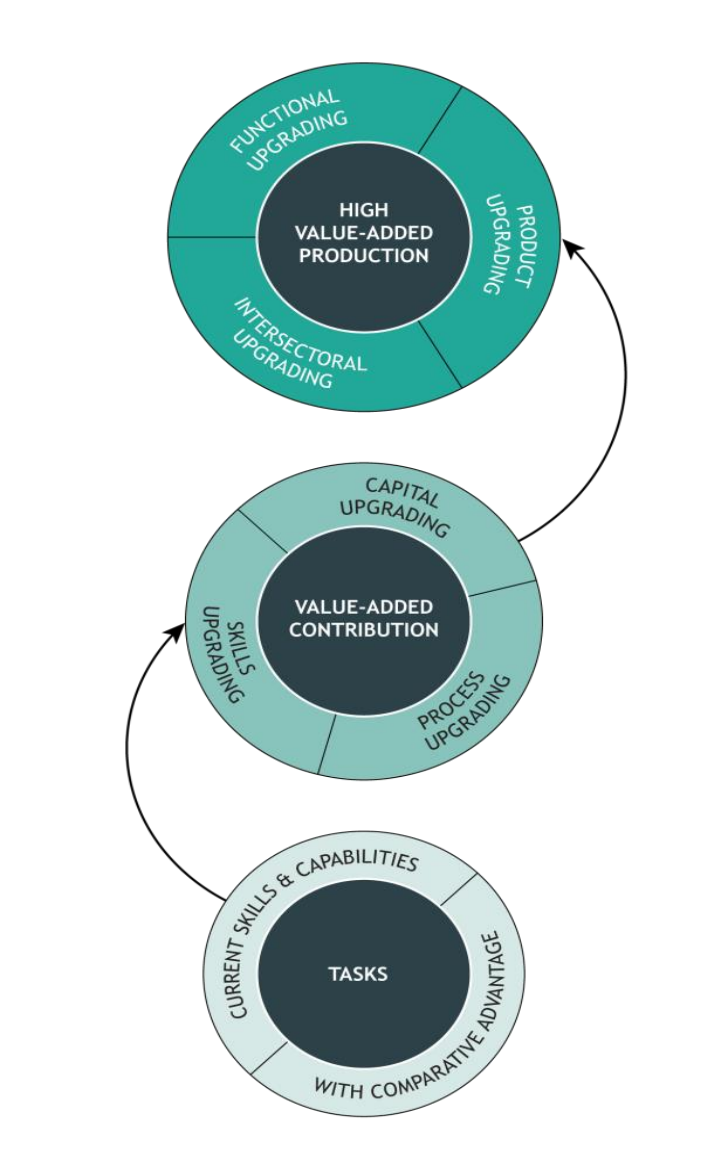
Rising foreign direct investment (FDI) by:

- Branded lead firm MNCs
- Global supplier MNCs…
- …but also "global buying" without FDI (e.g. Nike) through intermediaries and directly from an increasingly competent global supply base

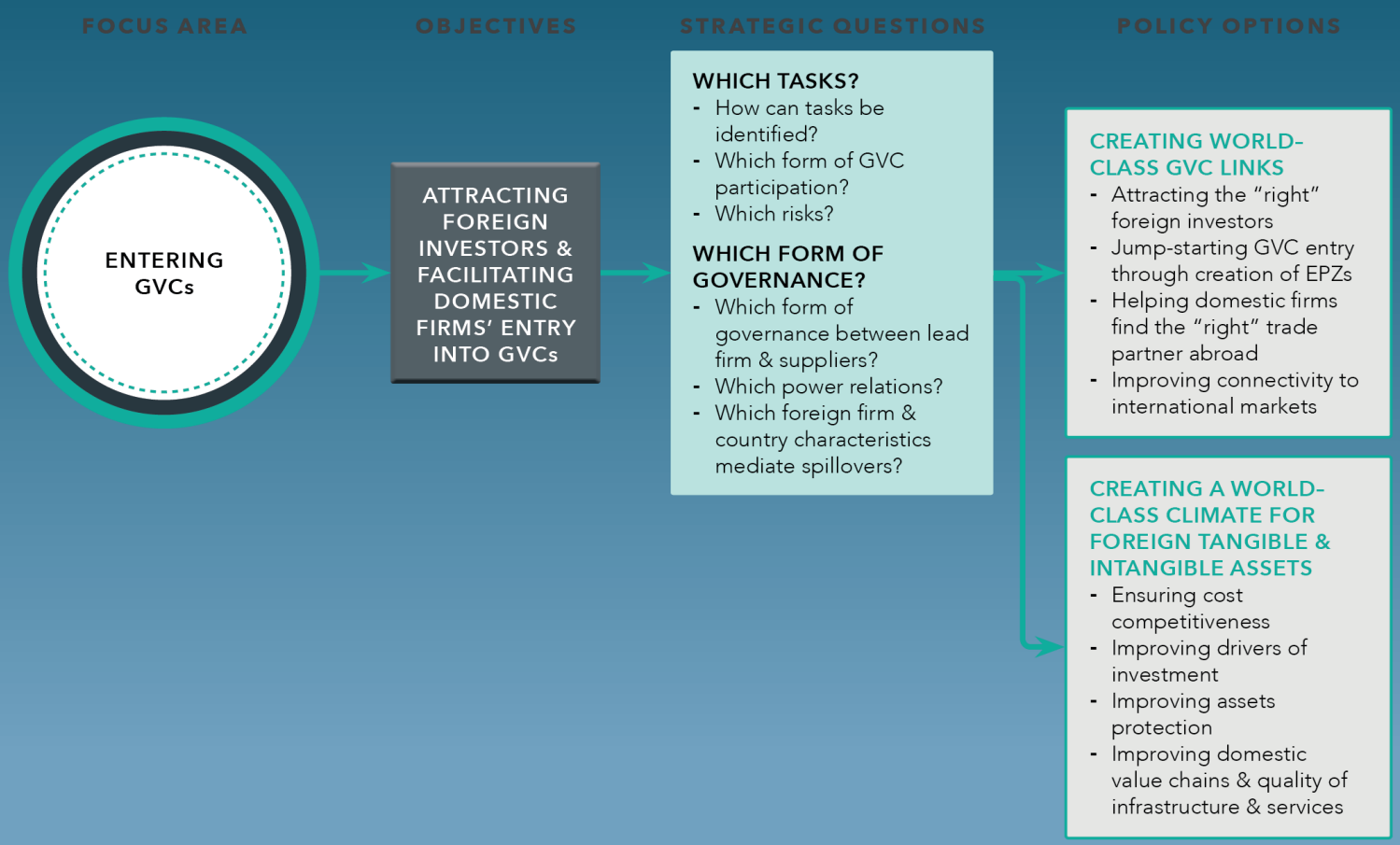
Economic growth and upgrading through GVCs

GVCs contribute to development and economic growth in three key ways:

- Push: high standards of quality, sophistication, timeliness, scale, and efficiency are required to sell in GVCs
- Pull: access to imported inputs, capital, technology and skills
- Accelerator: minimum scale achievements allow infrastructure upgrading otherwise not economical

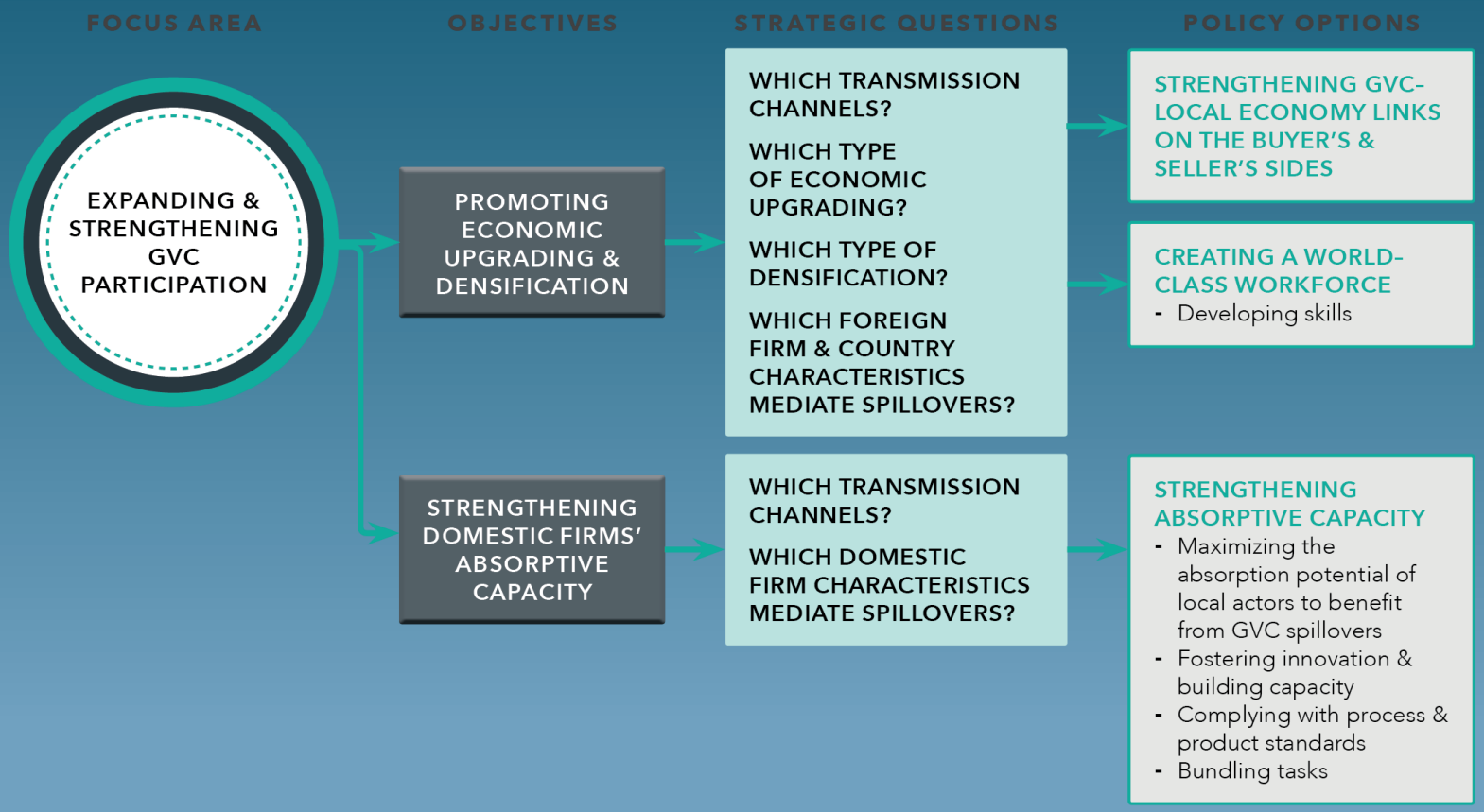


Entering GVCs



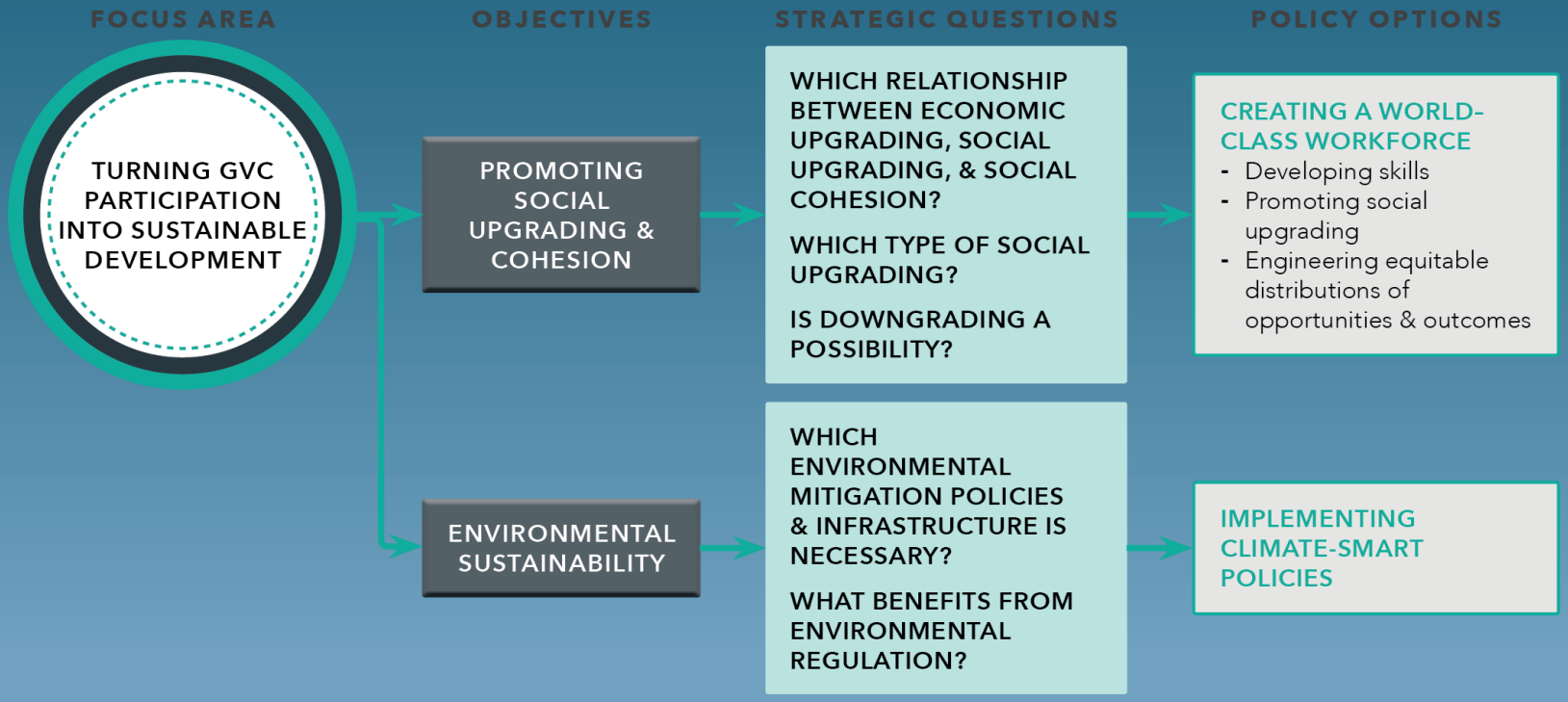
Source: Taglioni and Winkler (2016).

Expanding and Strengthening GVC Participation



Source: Taglioni and Winkler (2016).

Turning GVC Participation into Sustainable Development



Source: Taglioni and Winkler (2016).

Implications for policy makers

- Distance matters but trade facilitation measures, such as fast and efficient port and border processing procedures, permit the smooth operation of value chains that require goods to cross borders – sometimes many times – High impact on SMEs
- Domestic logistics matter
- Convergence of standards, certification requirements and mutual recognition agreements can help alleviate burdens on exporting firms
- Rationalization of NTMs is critical to GVC participation
- Services, such as business services & transport and logistics, account for over half of value creation in GVCs - Therefore liberalization of services regimes are essential to enhance competition and increase the productivity and quality of services

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Implications for policy makers

- Developing economies can enter GVCs by opening their markets to trade and FDI, improving their business environment, and strengthening domestic infrastructure
- Since GVCs involve activities contracted within and between lead firms and suppliers, the ability to enforce contracts and protect intellectual property is crucial
- Countries with sound legal systems tend to export more and in more complex industries
- Governments can support the participation of SMEs by encouraging linkages with international firms, fostering their supply capacity and facilitating the adoption of product standards

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Implications for policy makers

- Competitiveness in GVCs requires investment in people, education, skills and high-quality infrastructure
- The quality of institutions and government are also important long term factors in firms' decisions to invest and engage in economic activities in a country
- HRM matters – Better managed firms are more likely to export, sell more and better products to more markets, and have higher profitability
- Training matters - a 1% increase in training is associated with a 0.6% increase in value added per hour and a 0.3% increase in hourly wages - Role for government sponsored training centers and incentives for private sector to invest in vocational skills development

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Implications for policy makers

- International competition in GVCs will entail adjustment costs for many countries, as some activities grow and others decline and as activities are relocated across countries
- But this shouldn't 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

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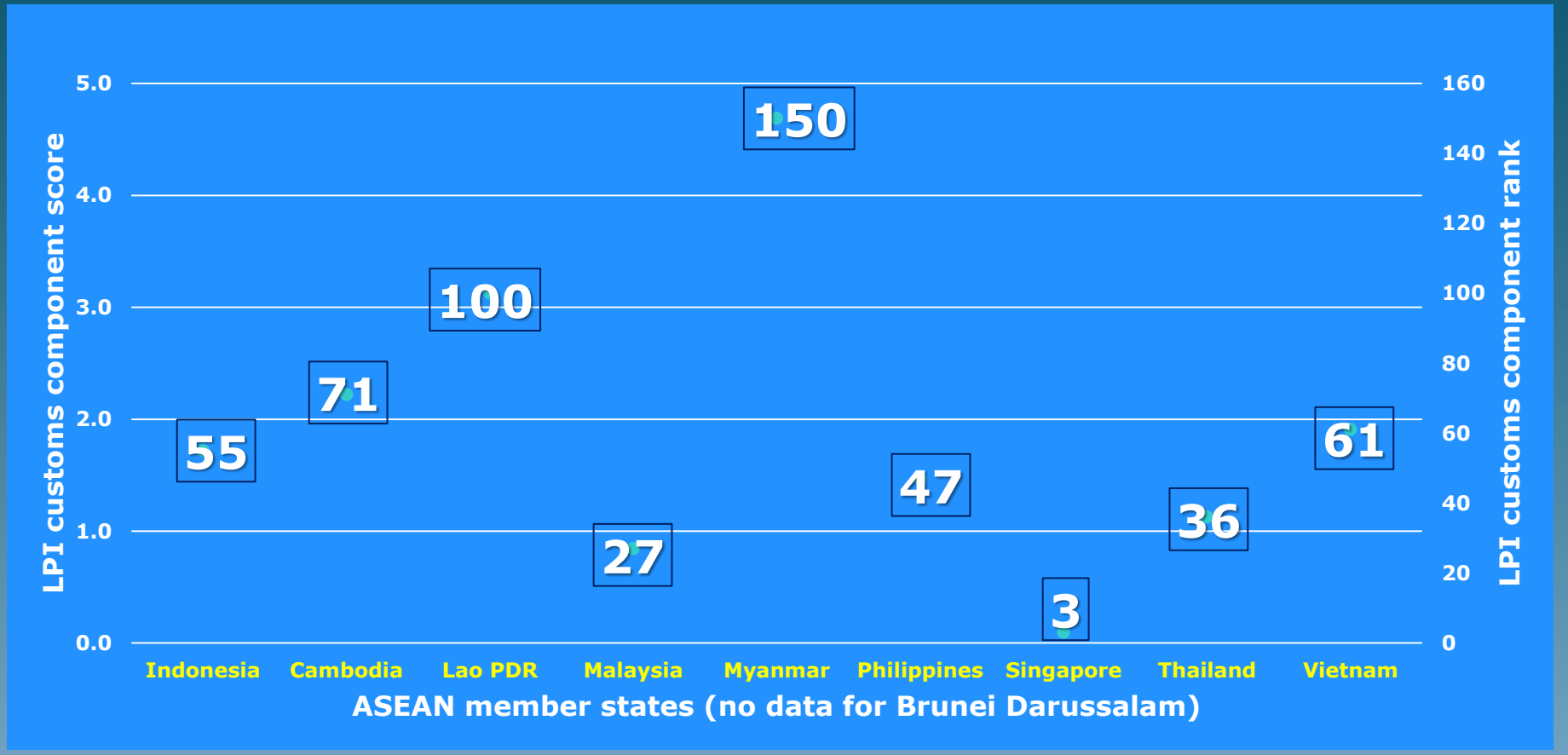
Barriers to GVC participation

- Inadequate vocational skills
- Lack of necessary infrastructure and backbone services
- Poor institutional quality and inadequate transparency
- Inadequate investor protections and contract enforcement
- Poorly designed competition policies
- Lack of access to finance
- Business and investment enabling environments that do not facilitate FDI and GVC participation
- Unnecessary red tape - including outdated border management regimes and poorly conceived or executed NTMs

All these can be tackled by well designed and implemented policies supported by A4T interventions by development partners

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ASEAN Trade facilitation performance



WBG: Logistics Performance Index 2014

ASEAN Trade Facilitation performance



Consistent commitments on trade facilitation in:

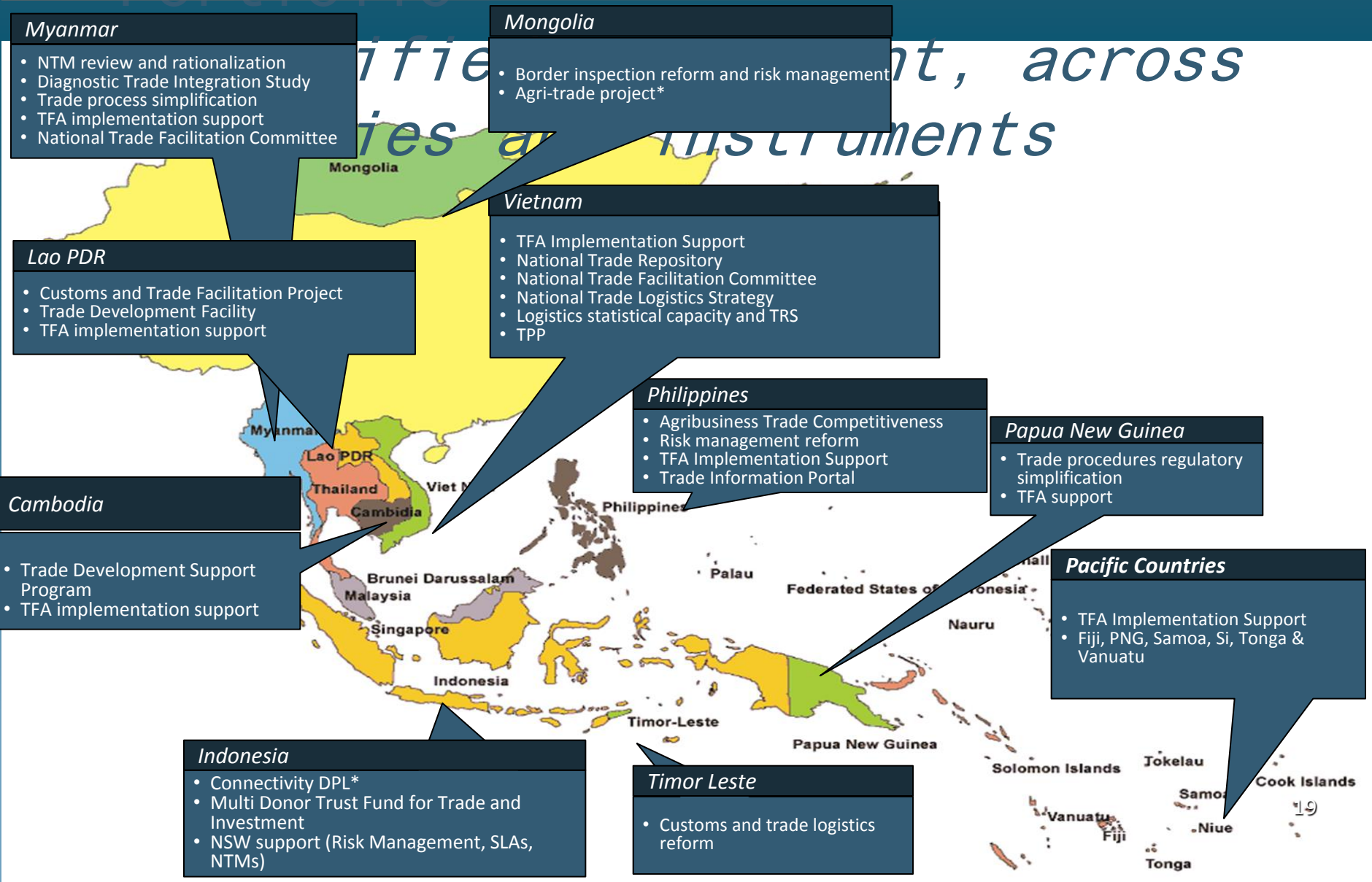
- WTO TFA
- ASEAN
- APEC
- WCO Revised Kyoto Convention
- TPP
- EVFTA

WBG: Logistics Performance Index 2014

Trade Facilitation and Logistics - three focus areas

- Before the border -Improving market access, trade policy reform (NTMs) & tariff liberalization
- At the border - Regulatory and procedural harmonization & simplification, transparency, automation and institutional reform of border management agencies
- Behind the border - Business and investment climate, improving trade and transport infrastructure, dealing with supply side constraints

National trade facilitation programs



Myanmar

- NTM review and rationalization
- Diagnostic Trade Integration Study
- Trade process simplification
- TFA implementation support
- National Trade Facilitation Committee

Mongolia

- Border inspection reform and risk management
- Agri-trade project*

Lao PDR

- Customs and Trade Facilitation Project
- Trade Development Facility
- TFA implementation support

Vietnam

- TFA Implementation Support
- National Trade Repository
- National Trade Facilitation Committee
- National Trade Logistics Strategy
- Logistics statistical capacity and TRS
- TPP

Philippines

- Agribusiness Trade Competitiveness
- Risk management reform
- TFA Implementation Support
- Trade Information Portal

Papua New Guinea

- Trade procedures regulatory simplification
- TFA support

Cambodia

- Trade Development Support Program
- TFA implementation support

Pacific Countries

- TFA Implementation Support
- Fiji, PNG, Samoa, Si, Tonga & Vanuatu

Indonesia

- Connectivity DPL*
- Multi Donor Trust Fund for Trade and Investment
- NSW support (Risk Management, SLAs, NTMs)

Timor Leste

- Customs and trade logistics reform

For further information

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