Making the most out of GVC participation in ASEAN

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BETTER POLICIES FOR BETTER LIVES

Background

- Value chains refer to:

  "…the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer." (Gereffi and Fernandez-Stark, 2011)
- They are not new, but they now involve developing and emerging economies:

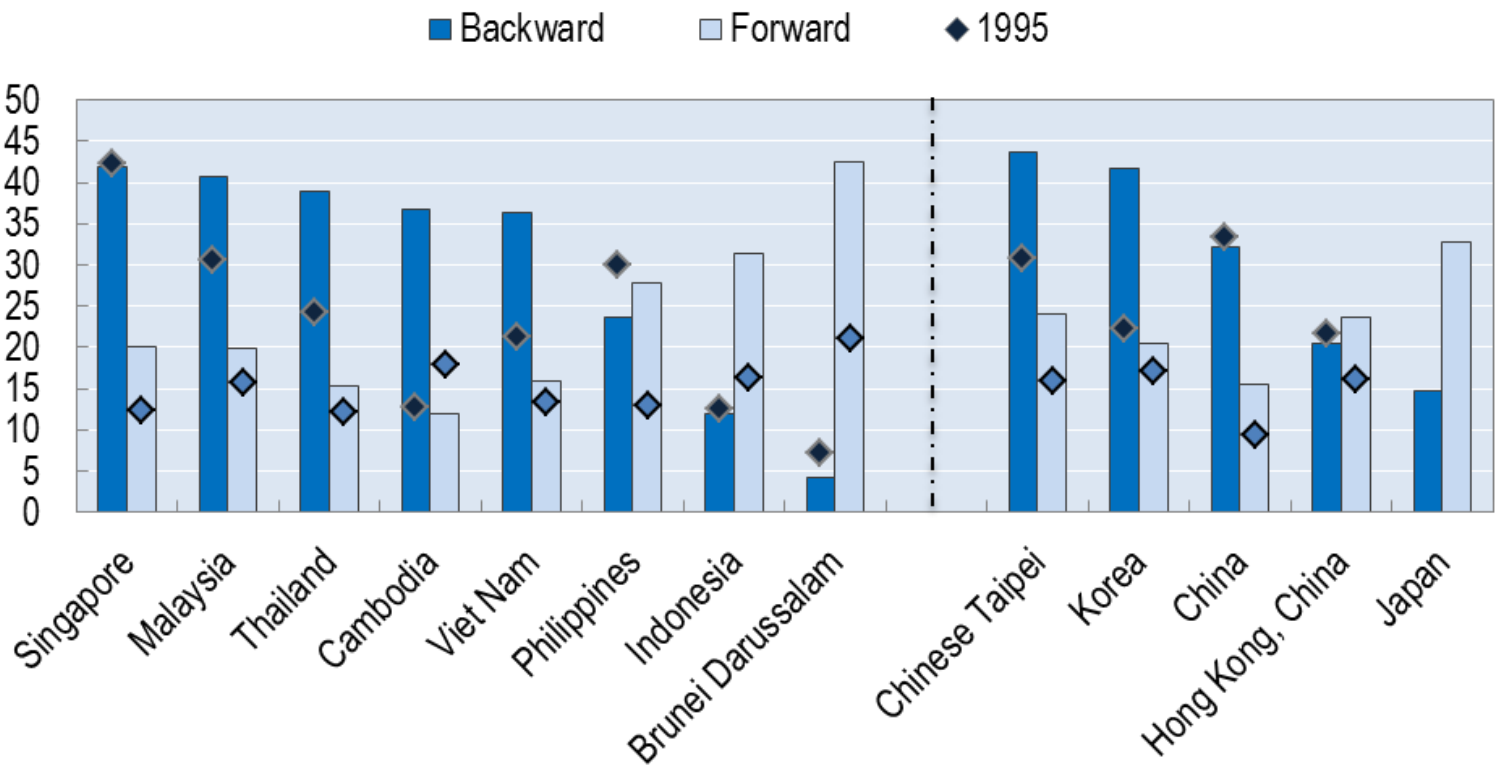
  In the early 1990's G7 countries held 67% of global GDP, by 2010 this fell to around 50%.
- Spurred by reductions in ICT and coordination costs, factories are now unpacked across international borders… This has implications for the way we think about trade:
  - No longer one country one product; and
  - policy not just market access but about the trade-investment-service-knowledge nexus.
- One key challenge has been to capture this fragmentation of production.

Source: adaptation of Baldwin (2012)

New tools needed to identify the value added in traded products

- iPhone example (moving from gross to value added measures)
- OECD-WTO Trade in Value Added (TiVA) database
- Statistical approach used to estimate the source(s) of value (by country and industry) that is added in producing goods and services.
- Current revision: 61 countries, 34 sectors, 7 points in time (1995, 2000, 2005, 2008, 2009. 2010, 2011).
- Indicators of GVC participation:
  - Backward Participation: foreign value added content of exports (*buying* element of GVCs); and
  - Forward Participation: the domestic value added sold to other countries for these to produce exports (*selling* element of GVCs)

Participation in GVCs is growing in ASEAN…



…and creating jobs at home and abroad

- Globally, jobs related to exporting activities grew over 2 times faster that total jobs, but jobs associated to producing intermediates used in GVCs grew just over 6 times faster → true in many ASEAN countries…

	2011			Changes 1995-2011		
country	total employment	Employment in exports	GVC jobs	total employment	Employment in exports	GVC jobs
BRN	188 000	37 442	9 047	47%	72%	156%
SGP	2 826 000	1 509 607	378 667	66%	60%	156%
KHM	8 235 000	2 615 104	463 168	81%	105%	46%
MYS	12 012 000	5 528 904	1 287 411	51%	60%	91%
PHL	37 534 000	8 361 848	2 238 441	47%	47%	150%
THA	38 842 000	16 502 280	3 677 286	24%	75%	148%
VNM	52 108 000	23 246 610	5 348 009	39%	203%	336%
IDN	108 725 000	19 089 300	5 519 080	31%	18%	97%

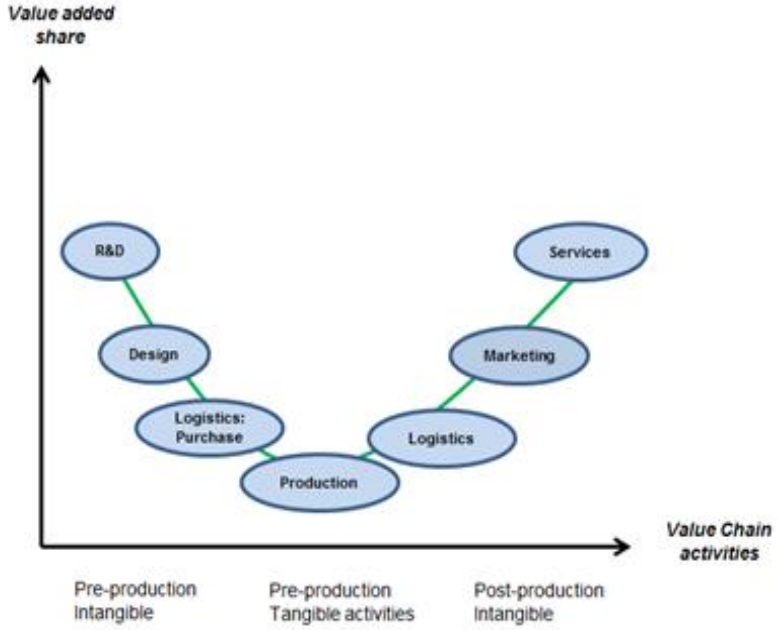
- ASEAN supplies 17% of global GVC jobs. Importantly, ASEAN exporting success benefits partner countries → 14 million workers in other countries provide intermediates that ASEAN uses…

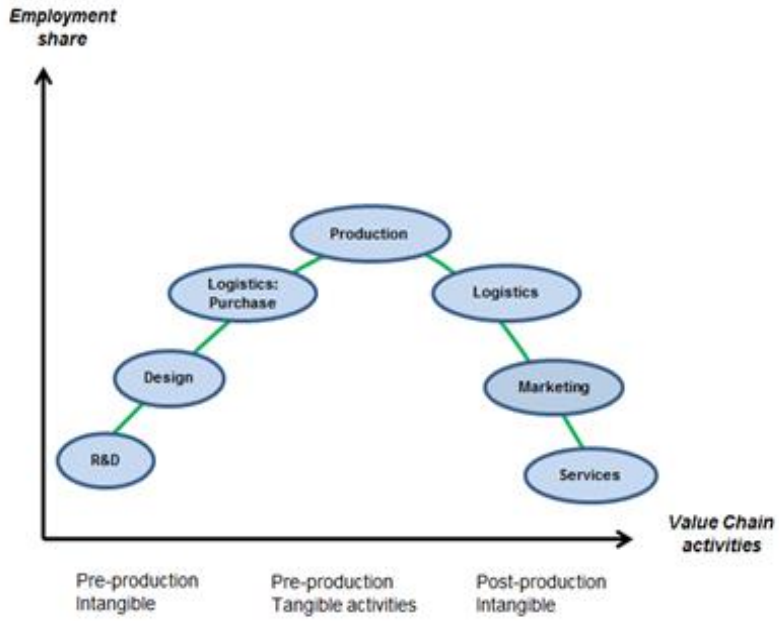
Source: Own computations from OECD-WTO TiVA database 2015 and ILO data

BENEFITTING FROM GVCS

Joining or upgrading in value chains?

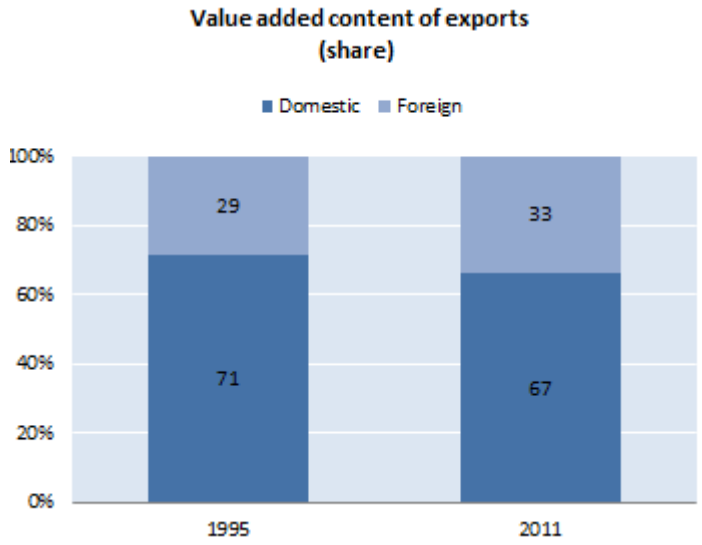
- Smiley curve has often been used, although helpful presenting concepts, can be misleading.
- A country's position depends on its comparative advantage or the mix of skills and resource endowments it brings to international production
- But not limited any longer to one product!.
- Upgrading paths are important (process, product, functional and chain) but all should lead to higher domestic value added in exports.

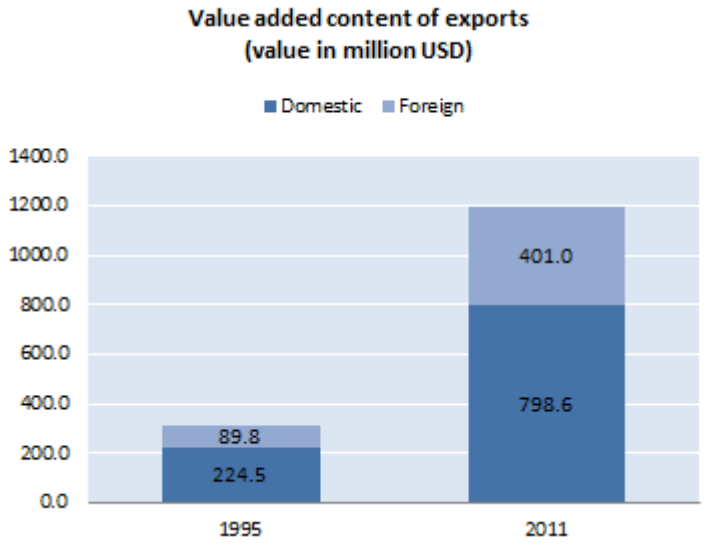




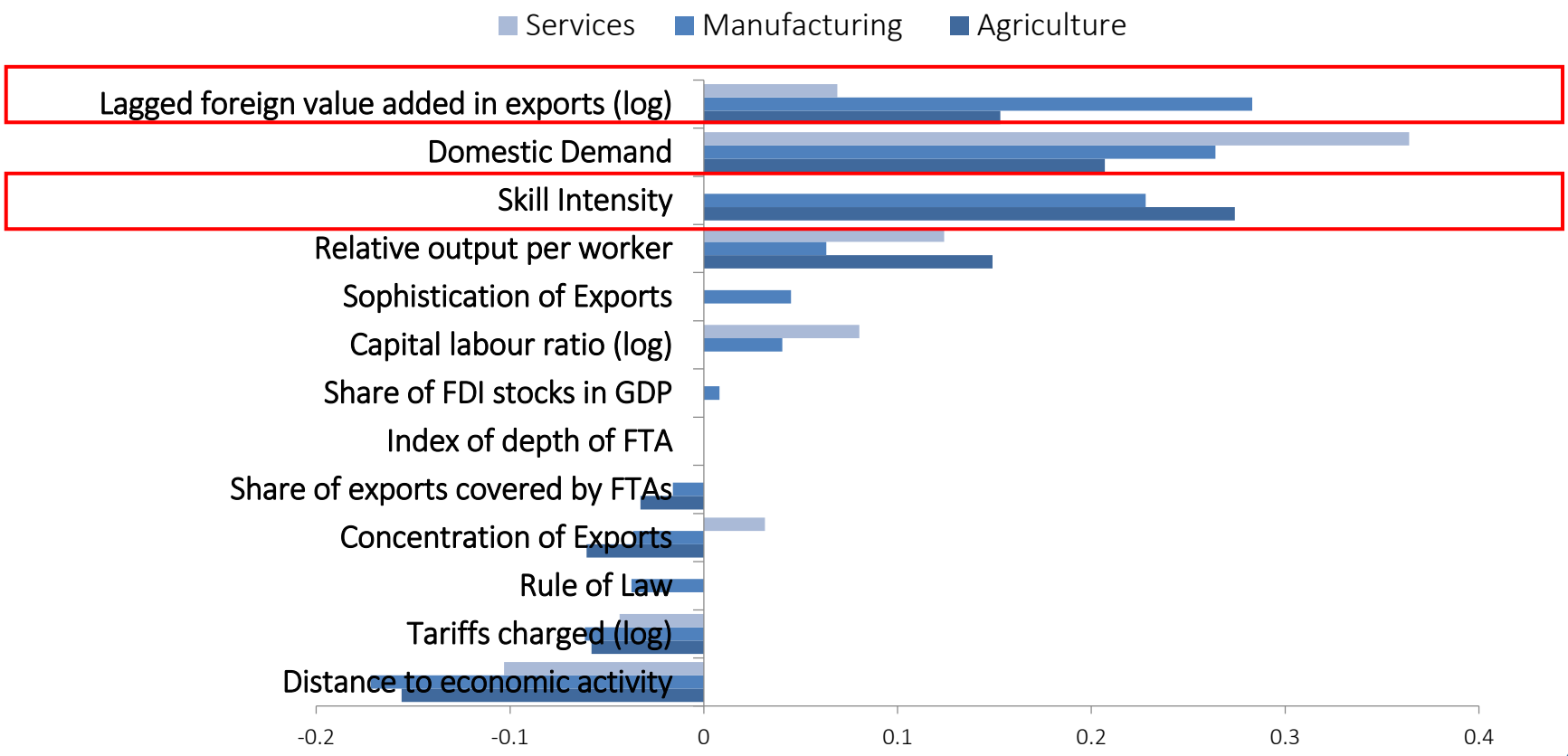
Enjoying a smaller share of a bigger pie

- Even as the *share* of domestic content of exports has fallen its value has grown considerably over the last decade.
- Ultimately, benefits of engaging in GVCs do not relate to the position held within the value chain, but rather on to the extent to which companies can leverage this position to attain greater efficiency → higher value added

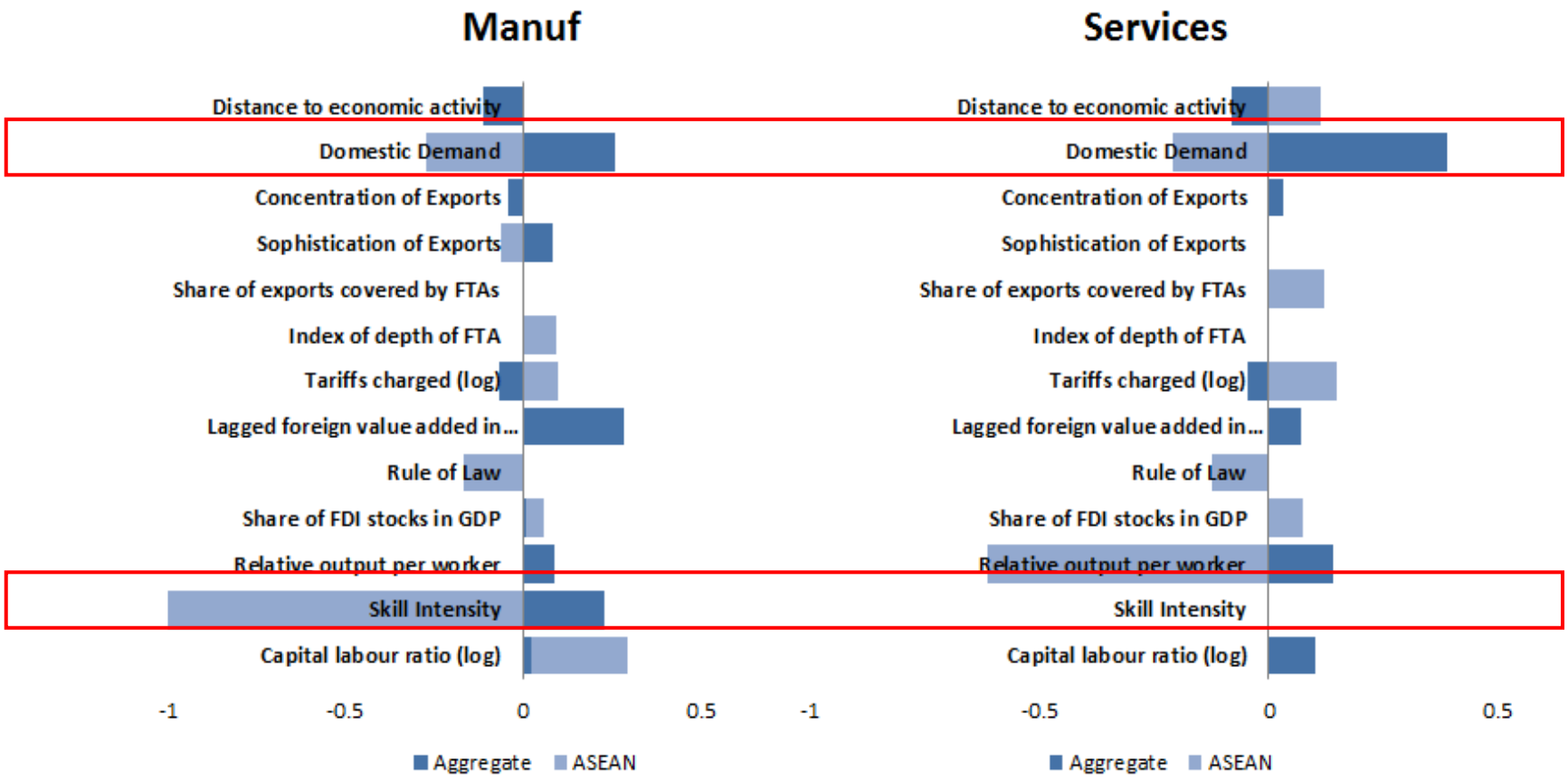




Determinants show that Importing is an essential ingredient for export success



How are ASEAN countries different?

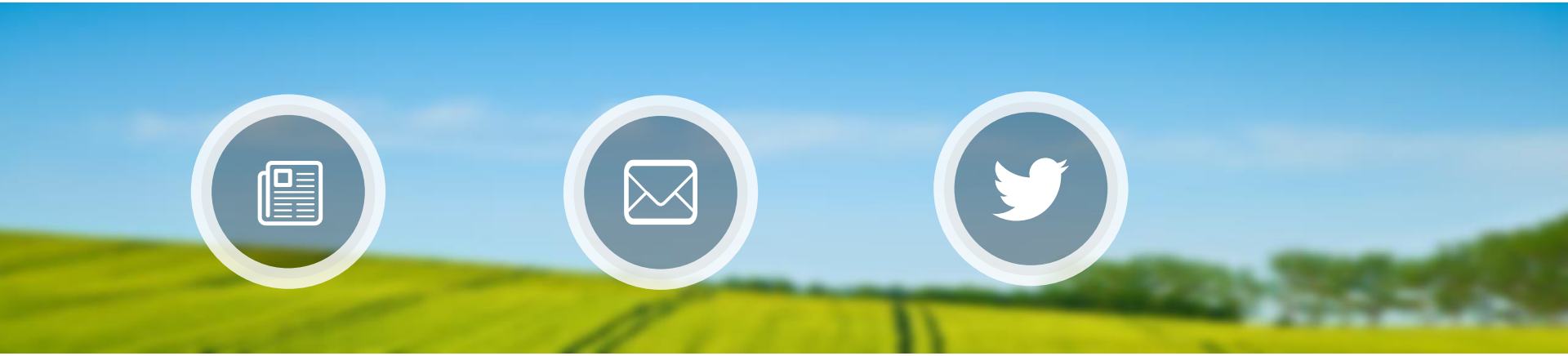


Conclusions and way forward

- With GVCs, importing is inextricably linked to export competitiveness.
- ASEAN countries can benefit from GVCs by facilitating access to more sophisticated and competitively priced imported intermediates through open trade and investment policies.
- The AEC (ASEAN Economic Community) has helped deliver a better domestic performance (particularly in agriculture and manufacturing activities). However, tariffs in the region, although low, may still be creating trade diversion and, in the longer run, could be harmful.
- While ASEAN's successful integration into GVCs owes much to the ongoing process of regional integration, continued reform is necessary in light of mounting competitive pressures from other countries attempting to join GVCs.
- ASEAN participation is largely based on a comparative advantage in low-skilled tasks along the value chain and a process of upskilling will assist in managing the rising competitive pressures.

Contact us

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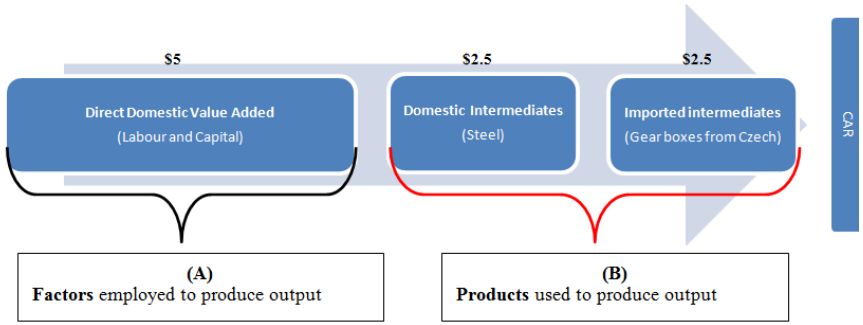
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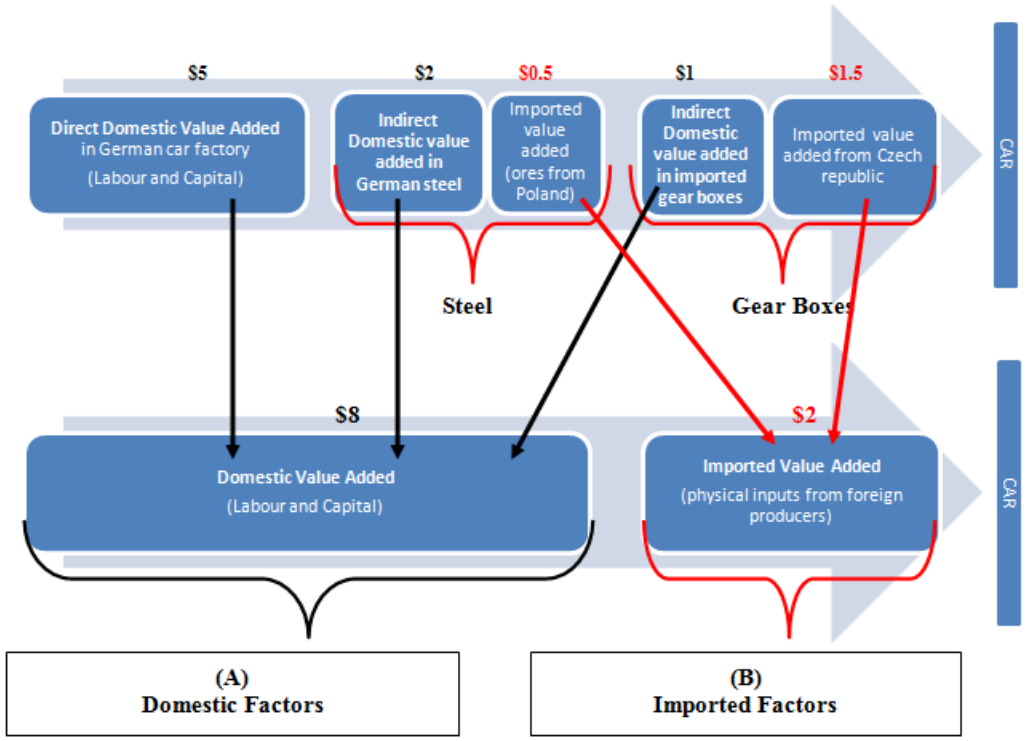
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From gross to value added measures

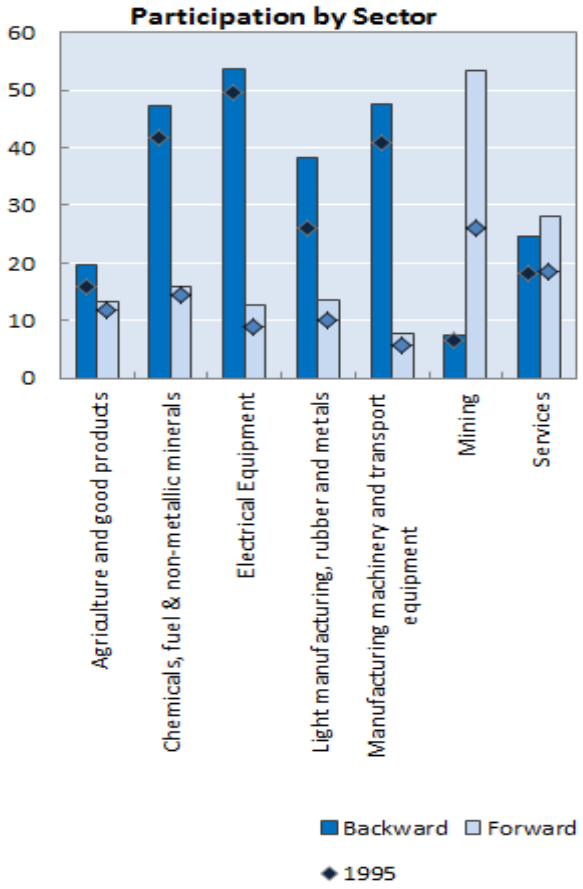
a) Gross decomposition

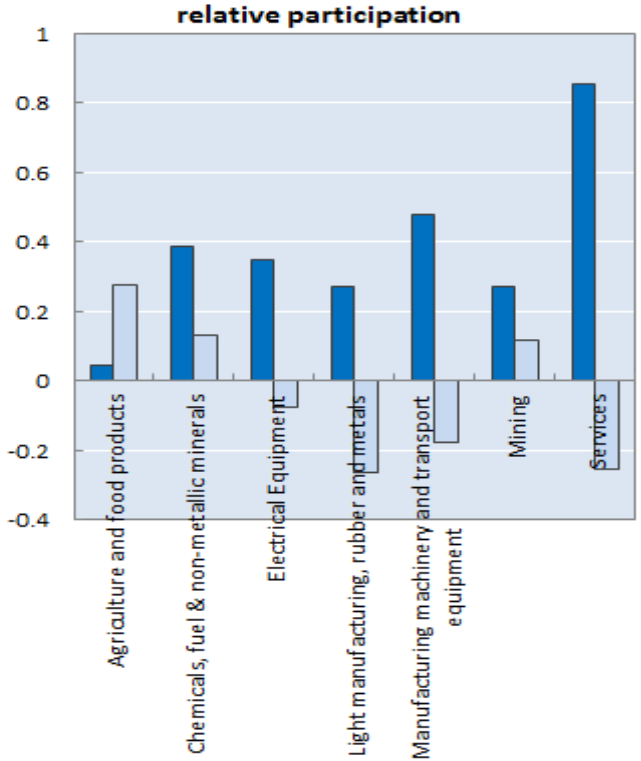


b) Value-added decomposition



Sellers of natural resources and assemblers of final products (on aggregate)…





- Participation varies by sector.
- Higher backward participation that world average in all sectors
- Higher forward participation in natural resources
- High reliance on imported services.

Note: The left panel shows aggregate SEA participation by sector. The right panel is a comparison of this aggregate participation with respect to that of the rest of the world, negative values imply that SEA participation in a particular sector is lower that the world average (and vice versa).

GVCs take advantage of different costs associated with labour endowments and skills

Country	Domestic workers making exports	Domestic workers making exported intermediates	Foreign workers used to produce exports
FRA	95.7	109.8	46.6
DEU	88.8	101.7	43.6
GBR	93.2	109.8	48.2
RoEU	64.6	71.3	50.5
TUR	28.5	30.4	36.0
ZAF	34.9	44.9	38.6
RUS	30.8	36.8	33.6
IND	5.0	5.7	56.9
CHN	7.7	8.7	73.6
KOR	48.0	70.0	32.3
JPN	92.8	124.9	27.1
ASEAN	10.3	13.5	27.3
RoAsia	47.6	71.4	29.4
ANZ	141.6	176.2	36.6
LatAm	24.9	28.8	39.0
MEX	24.2	31.1	49.6
USA	106.8	131.1	33.1
CAN	112.0	135.5	48.1

- GVCs partly driven by productivity (or wage) differentials.
- High wage source from low-wage (and vice versa) reflecting complementarities.
- ASEAN and attractive offshoring destination.

Note: numbers show the value added per worker engaged in different types of production in thousand USD. The first column identifies domestic workers engaged in producing gross exports whilst the second identifies those that are exclusively engaged in producing intermediates used by other countries to produce exports (those engaged in forward participation). The final column shows the average value added per *foreign* worker used to produce exports. All values are estimates derived from a model that combines the information in the TiVA ICIO with ILO data on employment by sector