

The ASEAN+3 Region in Global Value Networks

Singapore
April 7, 2020

- Protectionism and regional integration
- 4th Industrial Revolution
- Rise of Factory Asia – regional supply chain
- Shopper Asia – rising middle class

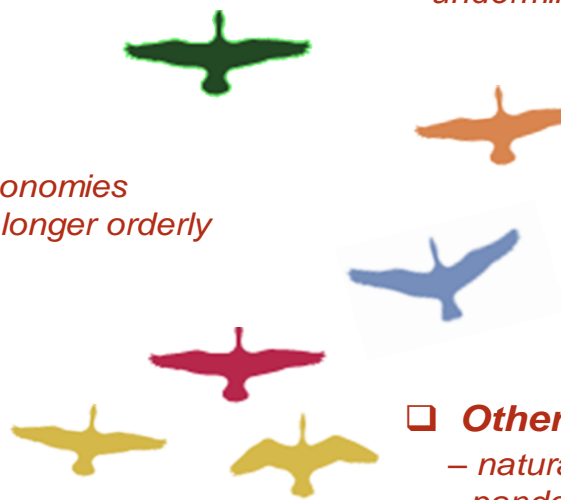
Asia's Growth Catch-up Through Globalization: Navigating Complex Challenges

❑ **Disruptive technology**

- leapfrogging, not incremental upgrading
- first mover advantage, network scale economies
- evolution of comparative advantage: no longer orderly

❑ **Emergence of China**

- huge consumer market
- huge (low cost) labor force
- disrupting the status quo...
- a more insecure US, Europe



❑ **Trade tensions, protectionist policies globally**

- undermine export strategy?

❑ **New economy**

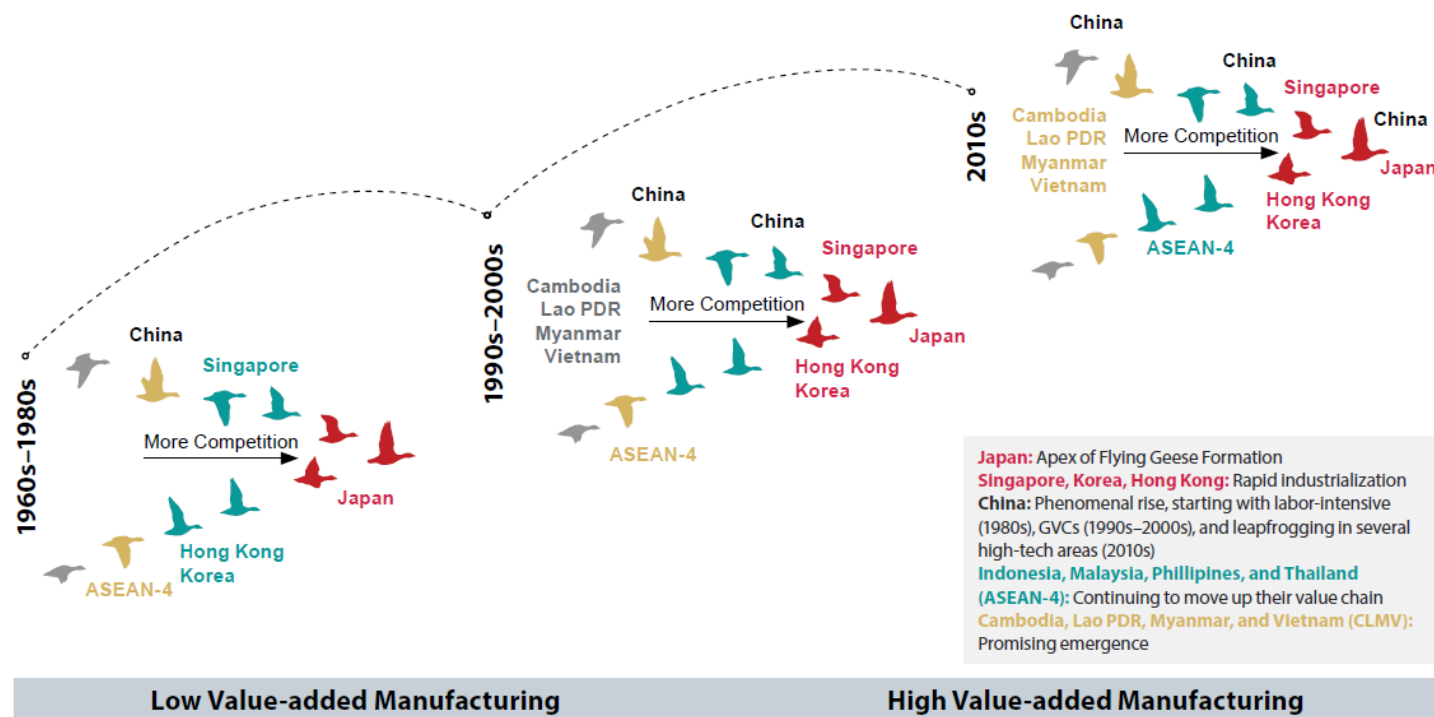
- shift from manufacturing to services

❑ **Other**

- natural disasters
- pandemics

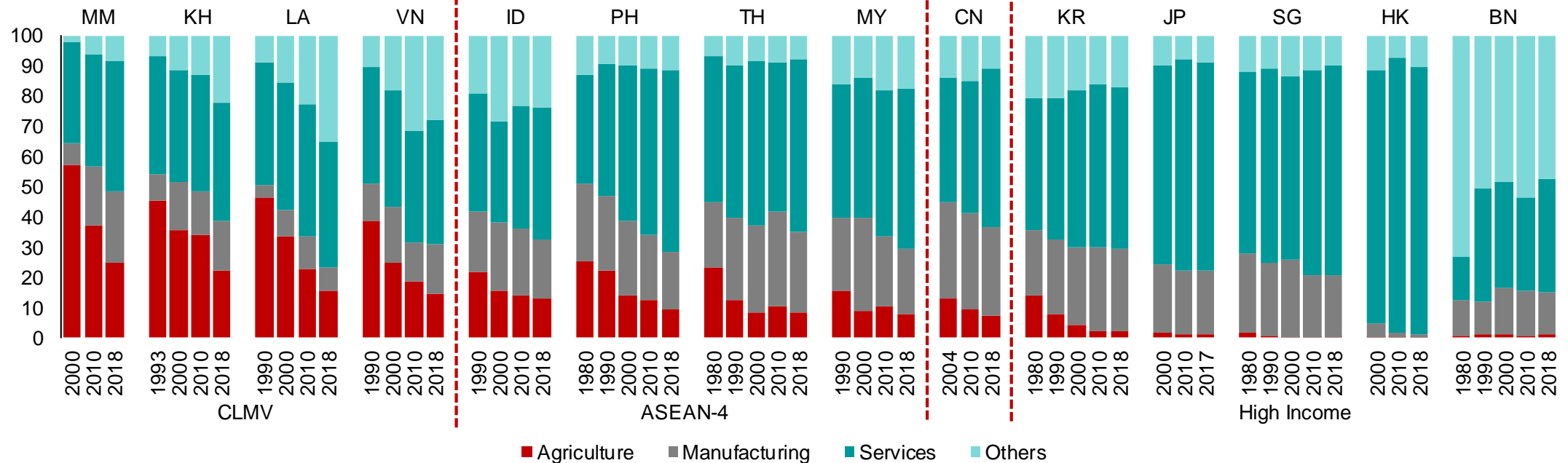
- Maximizing gains from comparative advantage: Heckscher-Ohlin (H-O)
- Developing new competitive advantage: Ricardian elements
- Development of the Regional Supply Chain

Evolving comparative advantage (H-O-R) flying geese model



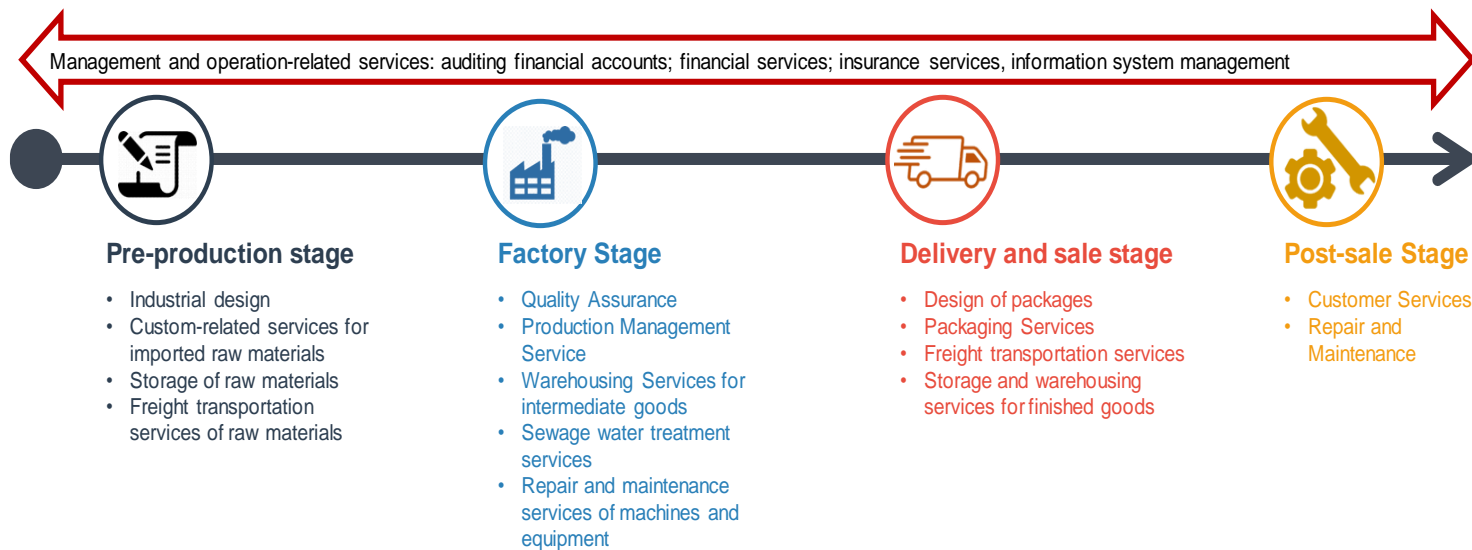
- Advanced ASEAN+3 countries and then the upper-middle income ones gained much from the conventional manufacturing-for-exports growth model.
- Manufacturing's contribution to growth and jobs will peak earlier and lower.

ASEAN+3 Economies: Shares of GDP by Sector (Percent)

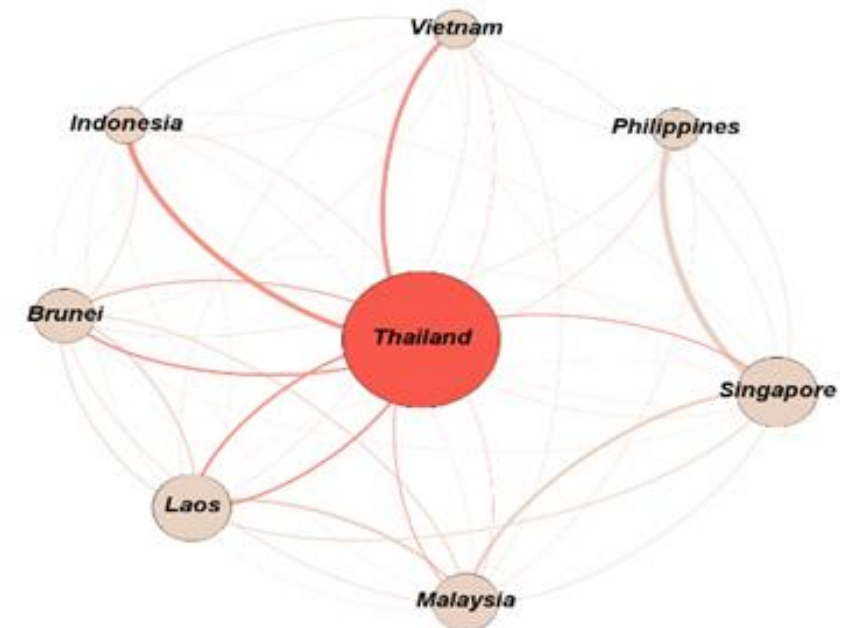


- Thailand's automobile industry also involves increasing integration between manufacturing and services. Domestic VA of Thai automotive services exports in 2018 was nearly double that of other ASEAN countries combined.
- Its production network is most connected with that of Indonesia and Vietnam.

Services along the Automotive Value Chain

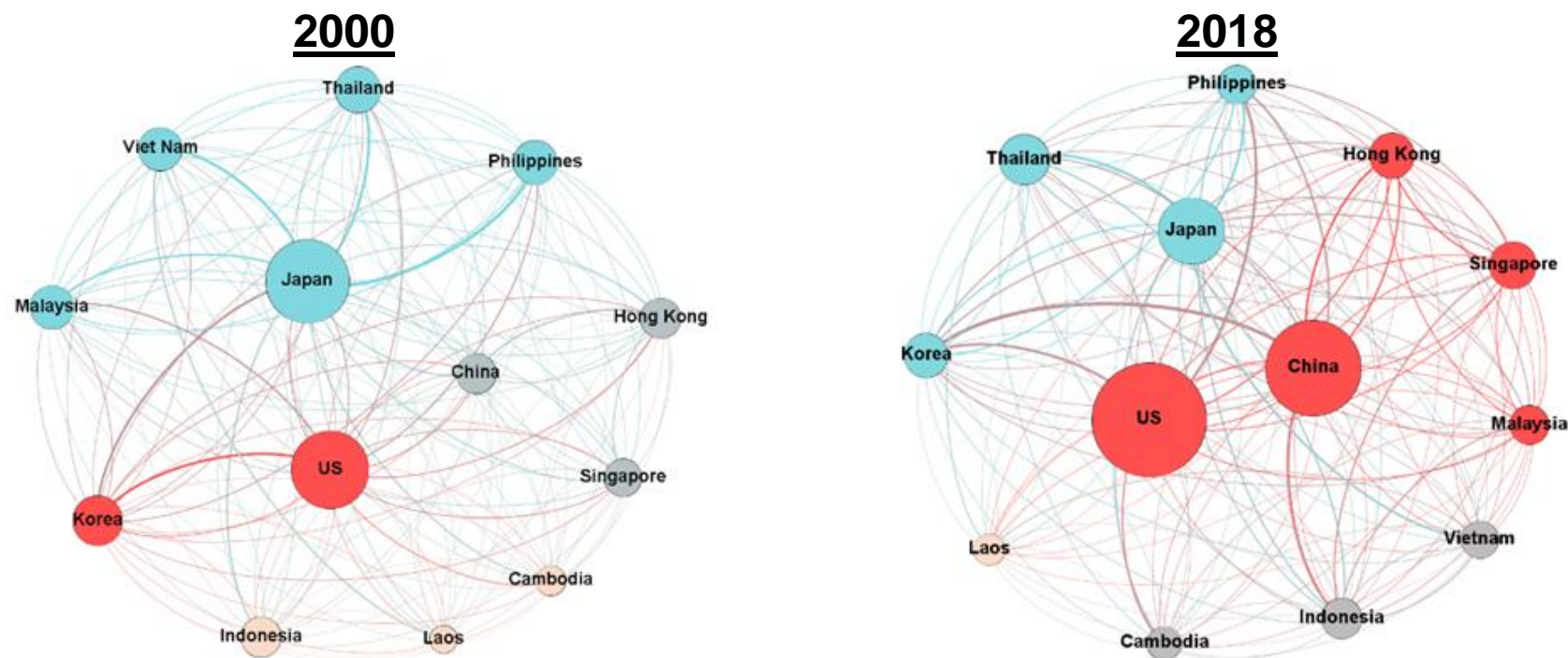


Thailand's Automobile Value Chain



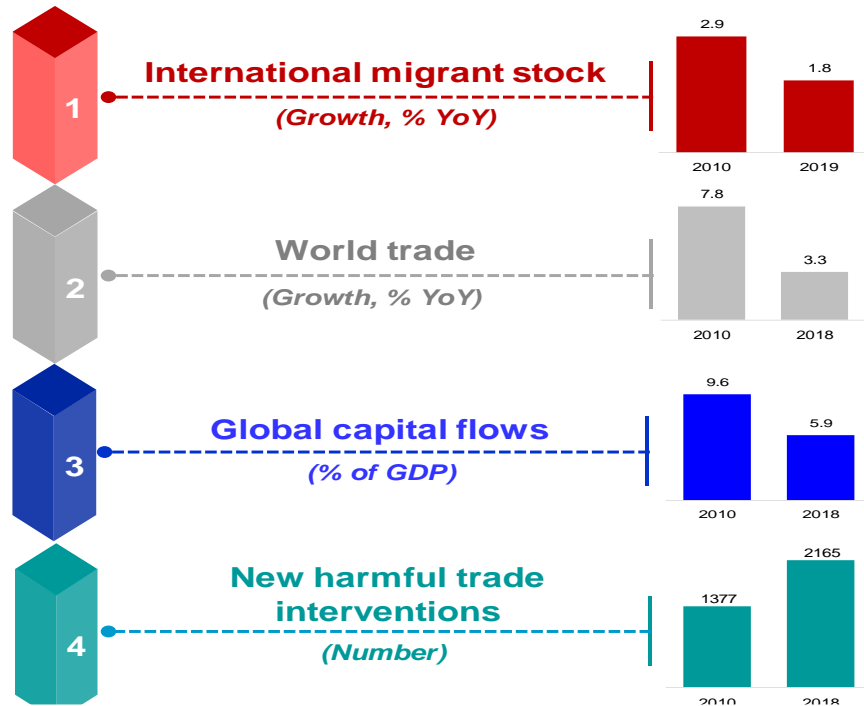
- **Factory Asia increasingly resembles a services hub, and is much more involved in value creation through R&D, product designs, and customizing service experiences.**
- **China becoming a key node in GVN for services is a prime example.**

China's integration into GVN for service exports

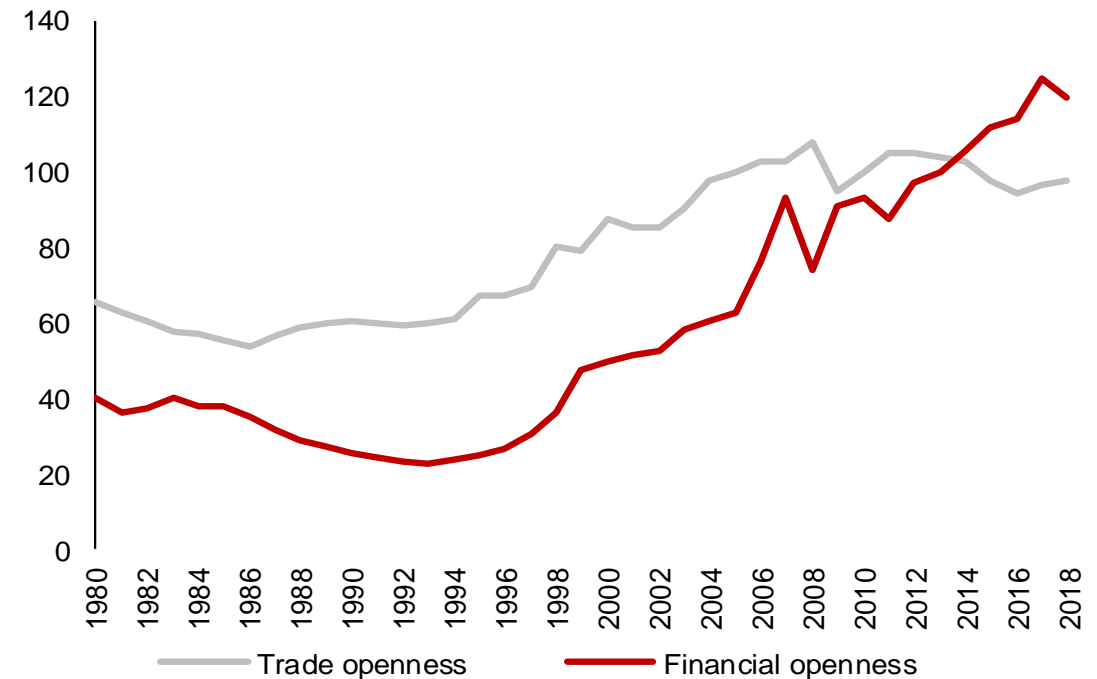


- As a large EM region, and the fastest-growing in the world, our region has a responsibility to be a key counterweight to the rise of protectionist tendencies in some parts of the world in recent times.
- Elements of protectionism need to be addressed, and those trends reversed.

Selected Indicators of Globalization

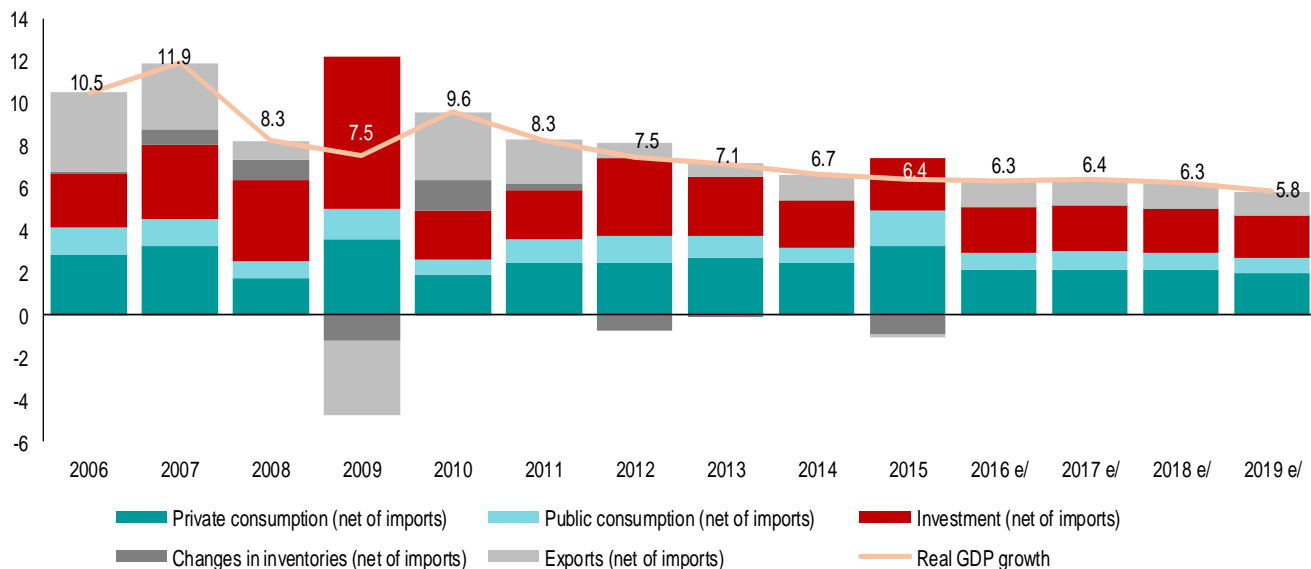


EMEs: Trade and Financial Openness

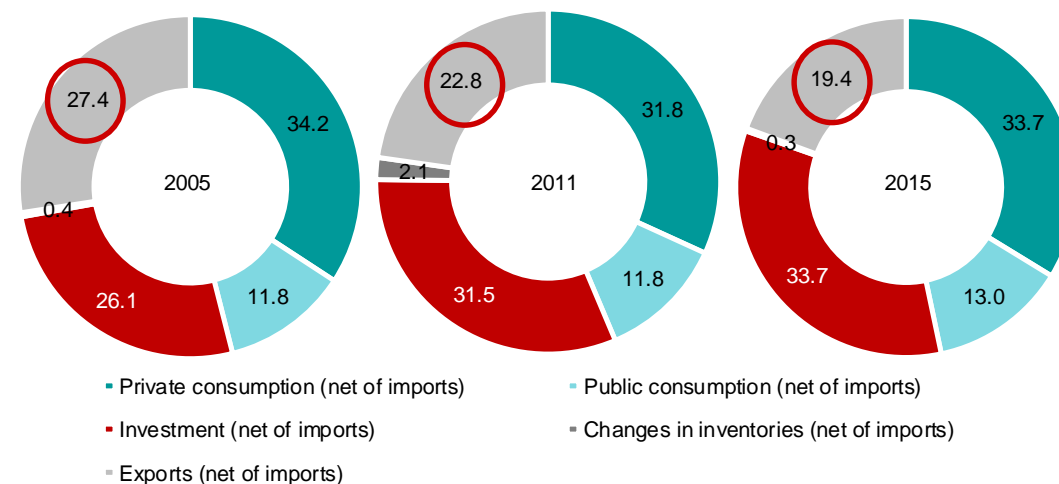


- At the aggregate level, domestic demand has become a much stronger driver of growth, especially in ASEAN-4, China, and Vietnam.
- Global Financial Crisis and European Sovereign Debt Crisis led to a collapse in external demand and major growth rebalancing towards domestic demand.

ASEAN-4, China, Vietnam: Contribution to GDP Growth, Import-Adjusted Method (Percentage point)

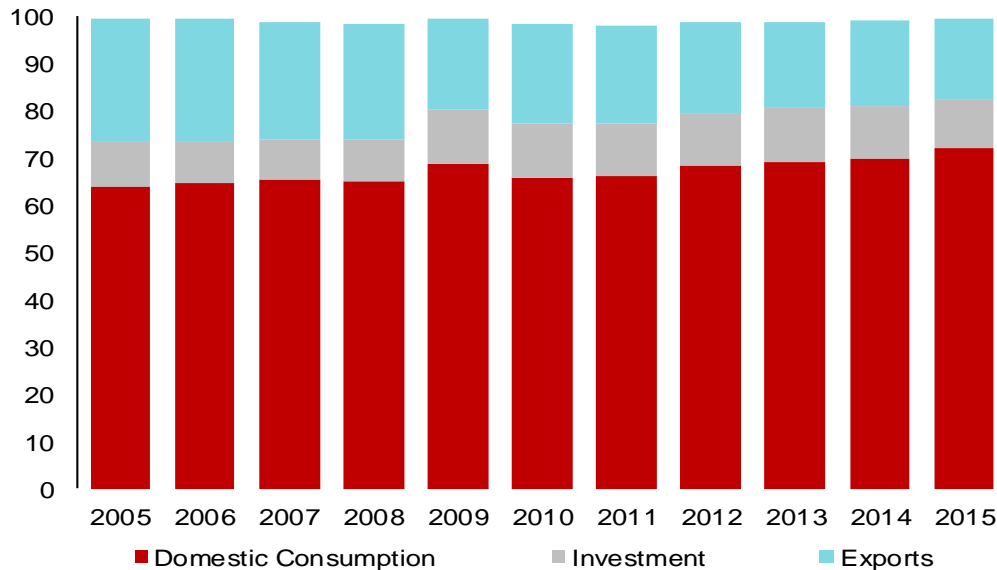


ASEAN-4, China, Vietnam: Share of GDP Components, Import-Adjusted Method (Percent)

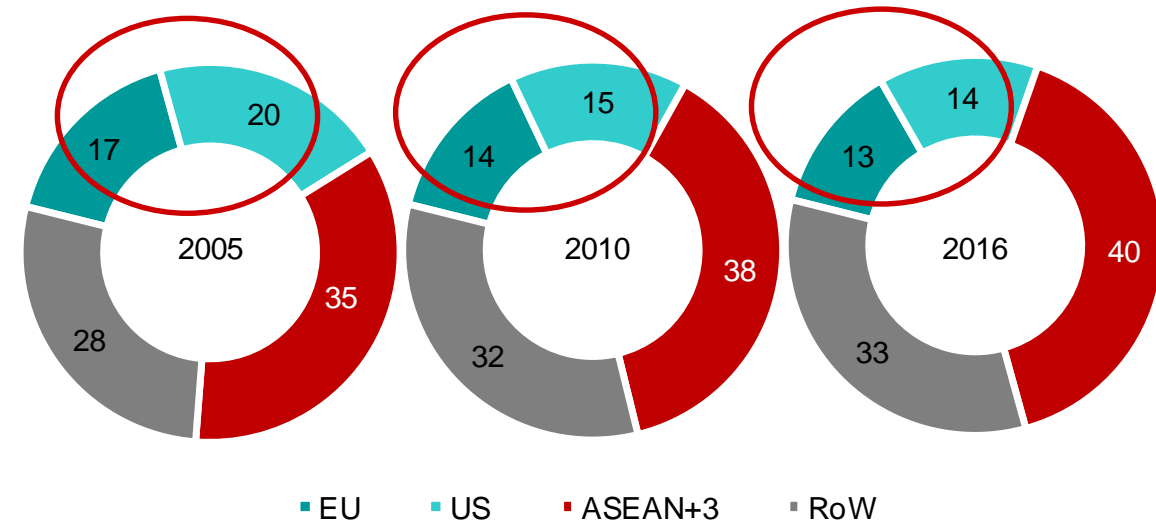


- But the rise of Factory Asia has been very much a broad region-wide phenomenon, not limited to China and ASEAN.
- Furthermore, besides domestic demand, intra-regional demand has also strengthened markedly within a decade.

ASEAN-4, China, and Vietnam: Shares of Domestically Manufactured Goods for Domestic Demand and Exports (Percent of total output)

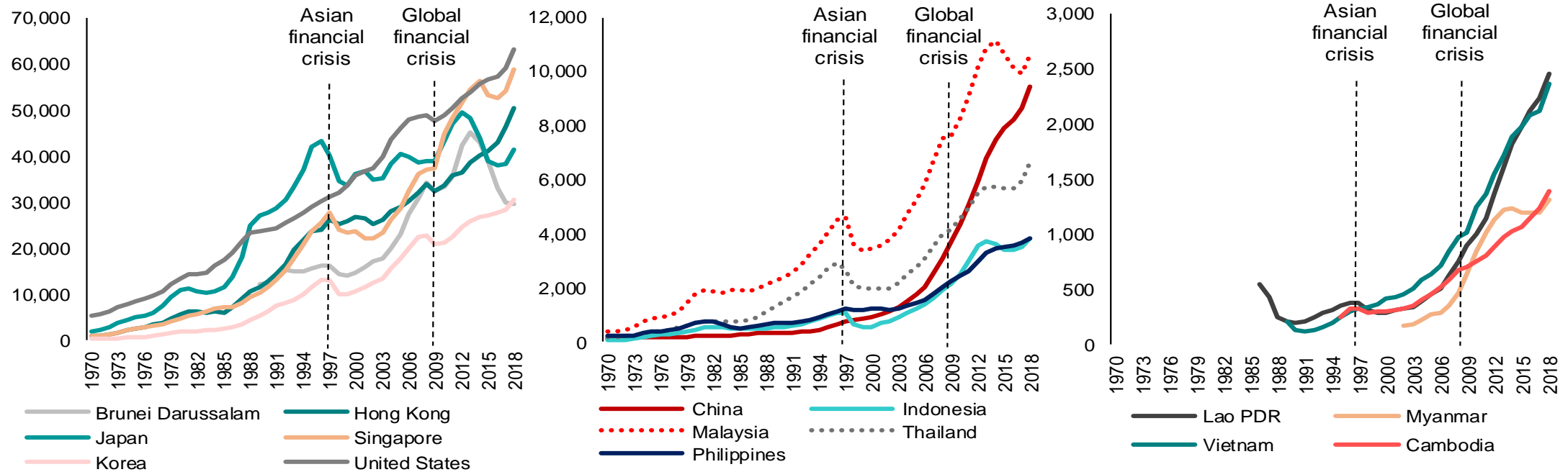


ASEAN: Share of Value-Added Exports (Percent)



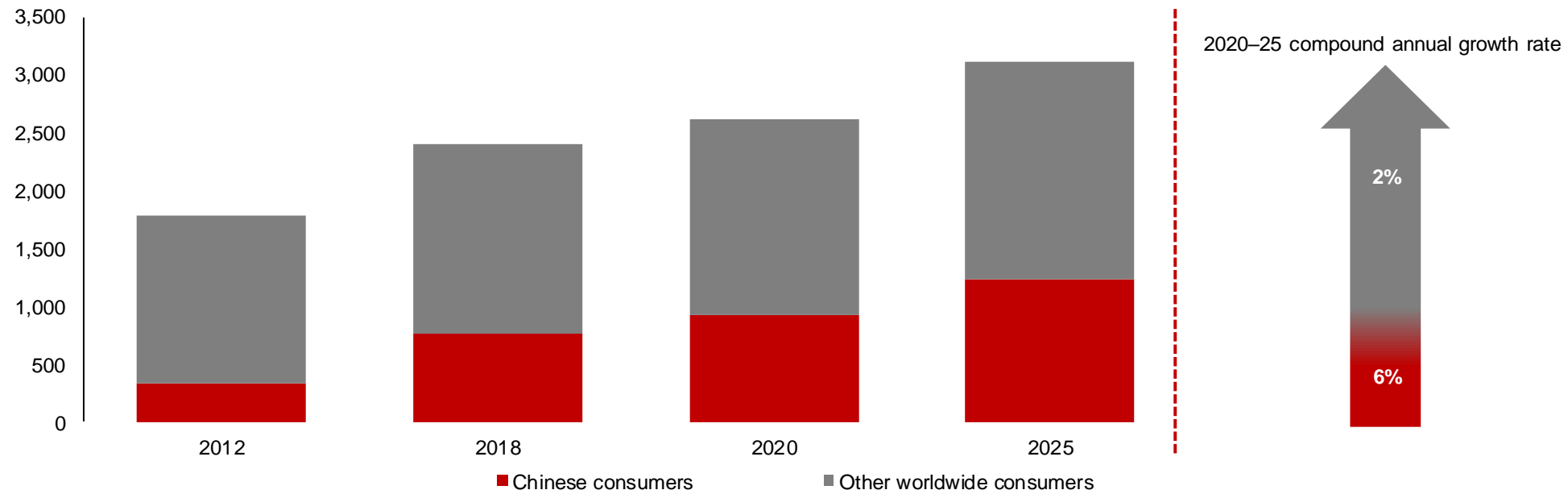
- The rise of Factory Asia has enabled the emergence of Shopper Asia.
- ASEAN+3 economies have been highly successful in using the manufacturing-for-exports strategy to industrialize and move up the production value chain – and just as importantly, climb the income ladder.

Gross National Income Per Capita (US dollars)



- **China is at the core of this: Its demand for luxury goods is anticipated to double within the next five years, from about RMB 770 billion to RMB 1.23 trillion – accounting for some 40 percent of the global market.**
- **This is about manufacturing. And global demand remains highly important.**

China and the Rest of the World: Spending on Luxury Goods (RMB Billions)



- The new growth paradigm of Factory Asia serving Shopper Asia also involves the rapid development of certain sectors that enables the production capacity of the former to meet the pent-up demands of the latter.
- Need to put in place or strengthen public infrastructure, including that for financial safety nets and social safety nets.

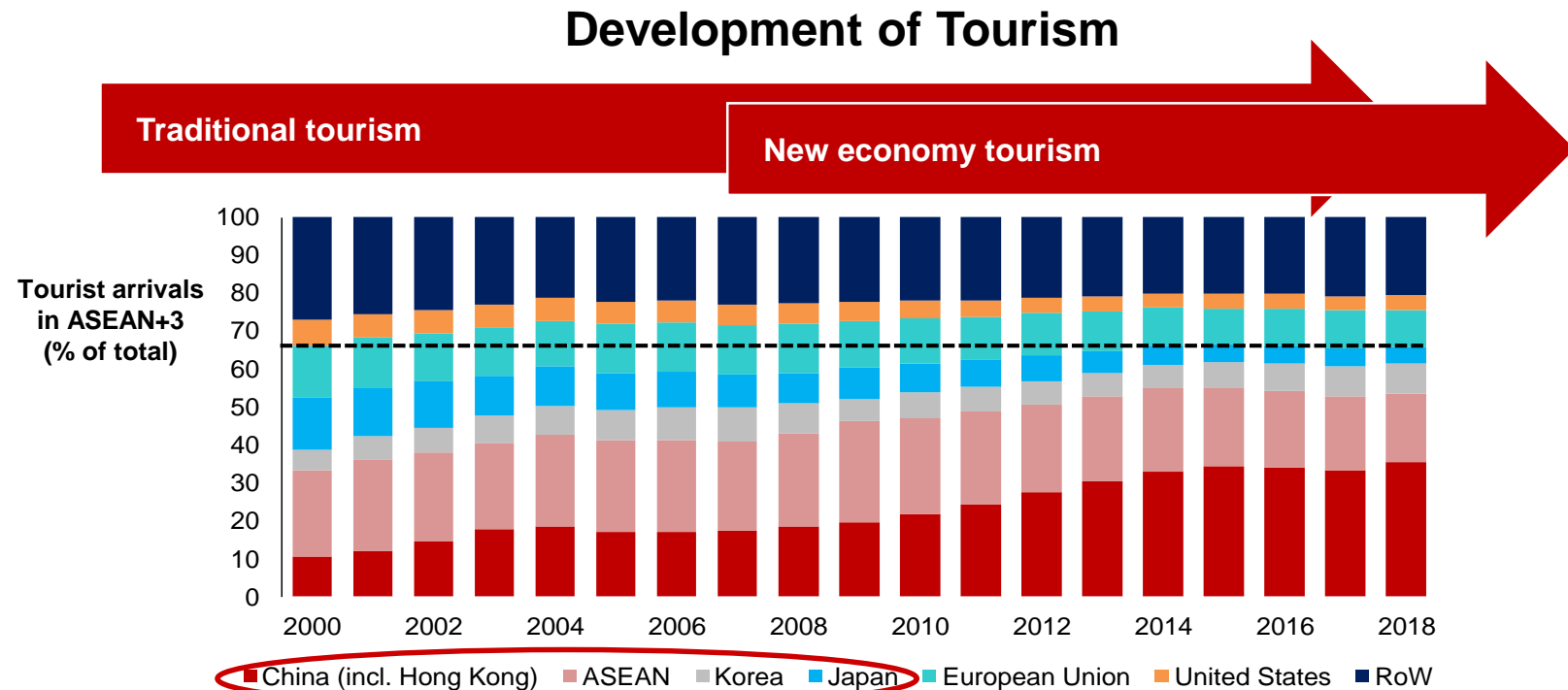
Traditional manufacturing for export

- **Comparative advantage based on production costs**
 - *Global value chains (GVCs)*
 - *Physical goods*
 - *Specialization for cost efficiency; penalty for product differentiation (less scale economies)*
- **External demand, export-driven growth**
- **Growth: orderly, upward progression**
 - *Primary to manufacturing to services*
- **Capacity & connectivity**
 - *Labor upgrading, technology adoption*
 - *Physical infrastructure*

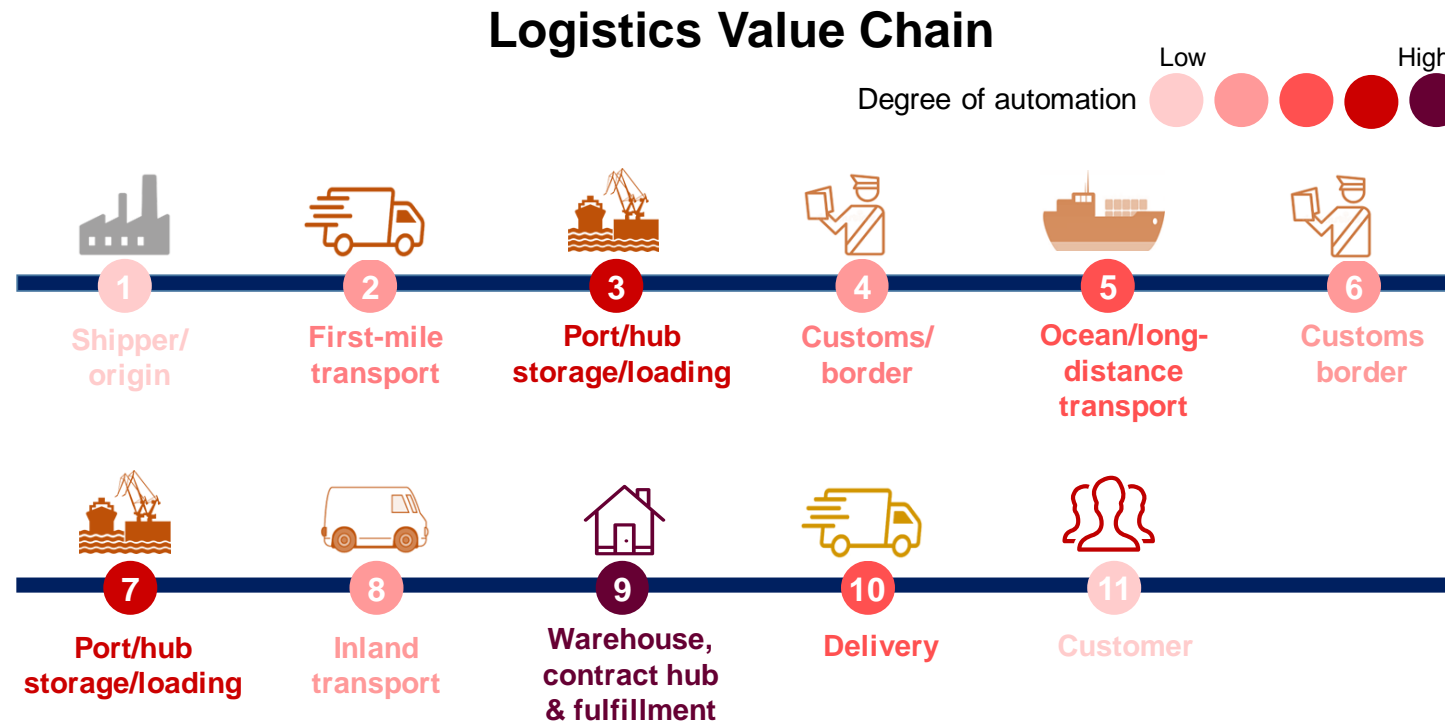
New growth paradigm

- **Competitive advantage driven by (cost efficiency and) demand drivers**
 - *Global value networks (GVNs)*
 - *New Economy: services and experiences, gig economy*
 - *Customization to demand; product differentiation by bundling goods with (different) services*
- **Rebalancing: domestic & final demand in ASEAN+3**
- **Eclectic growth: lateral & upward progression**
 - *Leapfrogging, potentially disruptive*
- **Capacity & connectivity**
 - *Innovation, data analytics, new services*
 - *Physical, soft, digital, financial infrastructure*

- **Case study: tourism: Customizing new economy services to Shopper Asia (e.g. medical tourism)**
- **Studies highlight that apart from its growing role in ASEAN countries' growth, tourism exhibits extensive linkages with other sectors of economies.**



- E-Commerce will give a boost to the logistics industry
- The conventional logistics value chain is not highly automated, but new technologies are creating potential for automation and productivity gains.



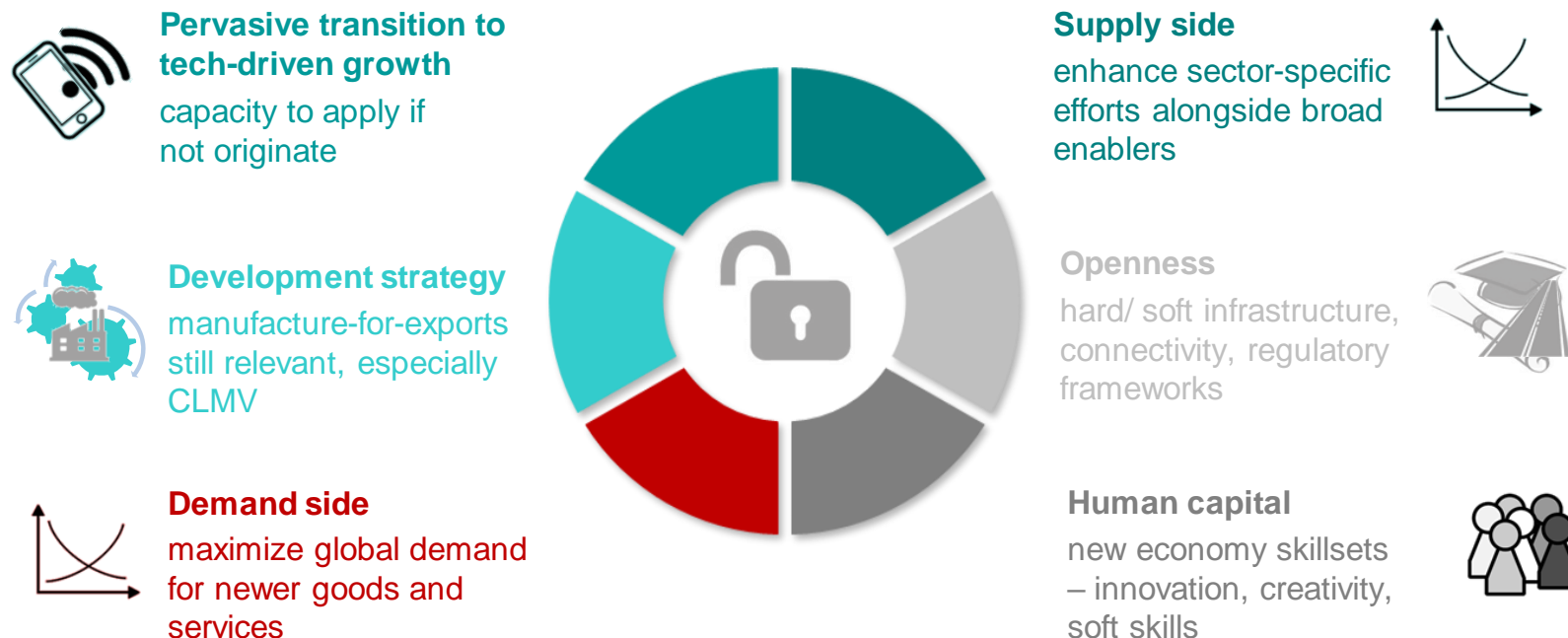
- **Factory Asia – Shopper Asia in the new growth paradigm will shape sustainable growth for ASEAN+3 region**
 - ❑ **Jumpstart (post-covid19) growth; address middle-income stagnation, flying geese "congestion"**
- **Disquiet about inclusiveness of technology-driven growth**
 - ❑ **Distributional concerns; economic and social disruptions**

Job Creation and Job Destruction in ASEAN-6



- Tech-driven GVCs: nowhere to hide
- Services: supply and demand story
- Manufacturing still key: esp. for CLMV
- Integration, disruption, and protection

Challenges and Policy Implications



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