

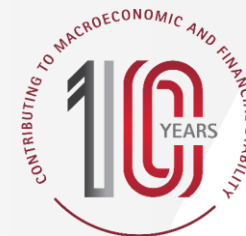
AREO 2021 Thematic Chapter: Global Value Chains in the Post-Pandemic “New Normal”

Dr. Hoe Ee Khor

Chief Economist

AREO 2021 Webinar

April 7, 2021



Presentation outline



Recent GVC developments



ASEAN+3 in post-pandemic GVCs



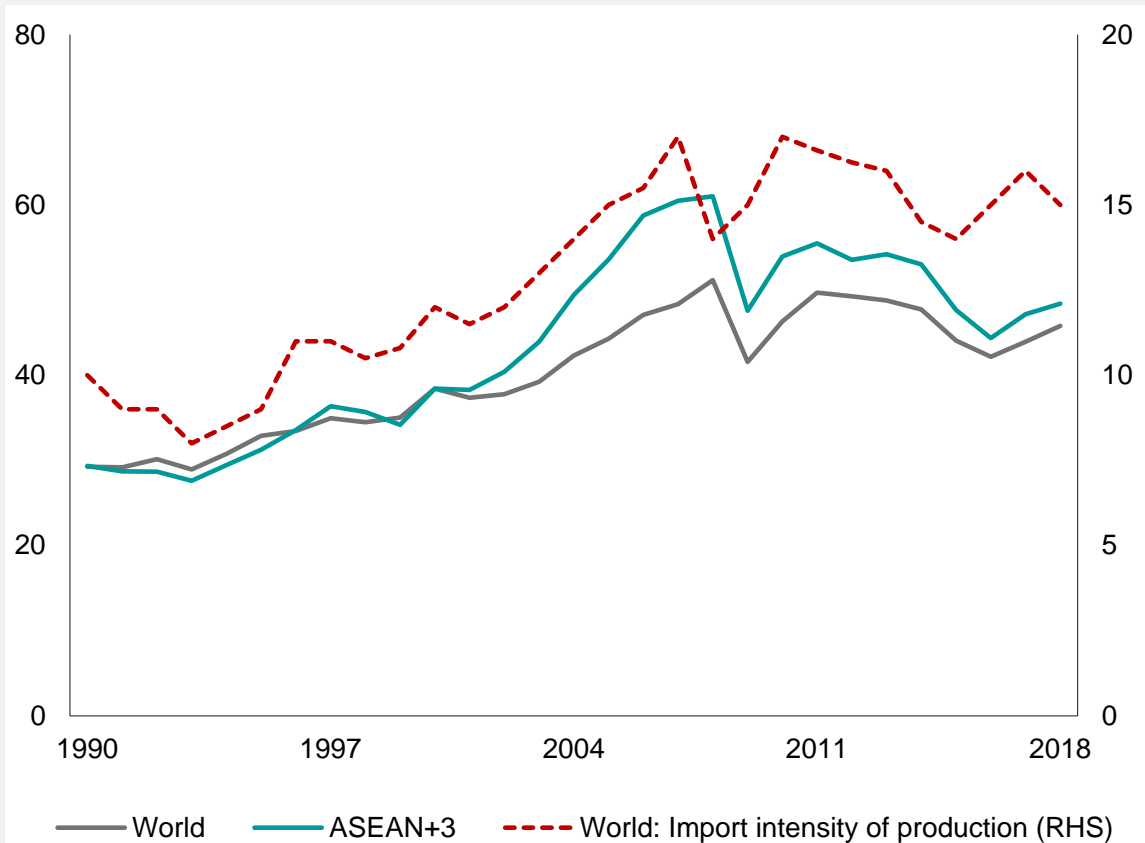
Technology and GVCs



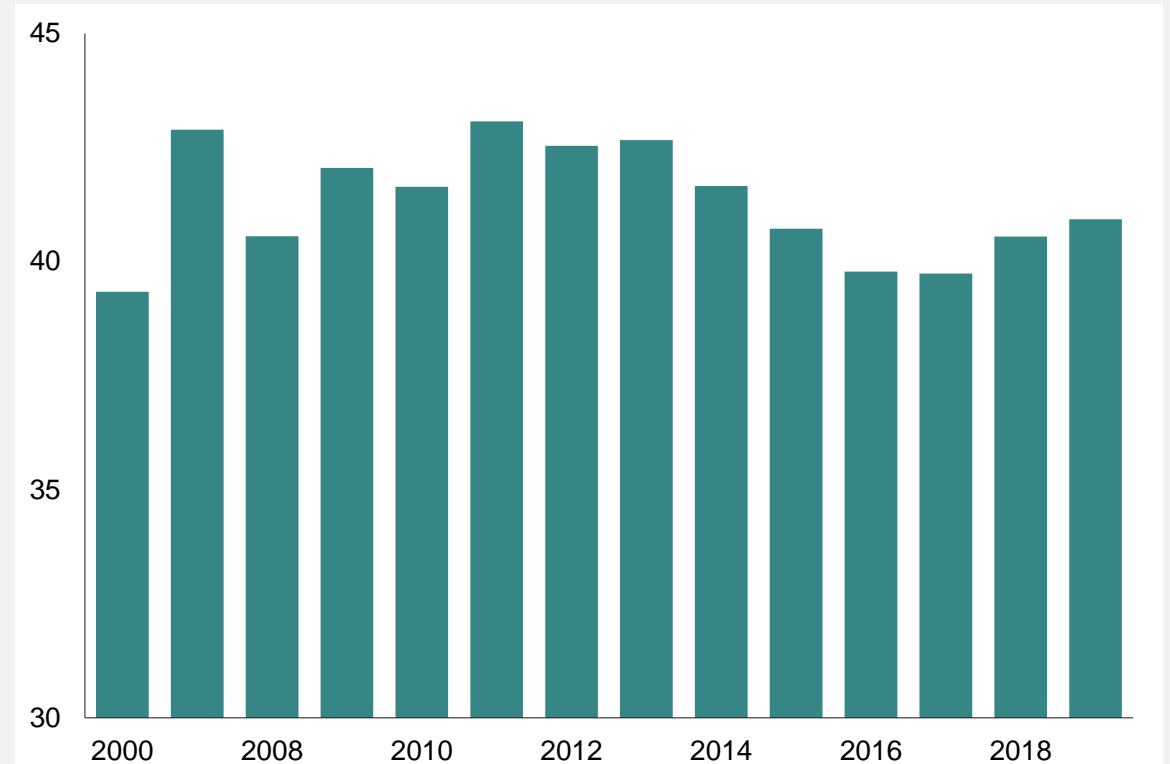
Key Takeaways

With trade and GVCs slowing, COVID-19 shocks further fueled speculations of a reconfiguration

World and ASEAN+3: Annual Trade
(Percent of GDP; Percent of final products)



ASEAN+3: GVC Participation
(Percent of total exports, 3-year moving average)

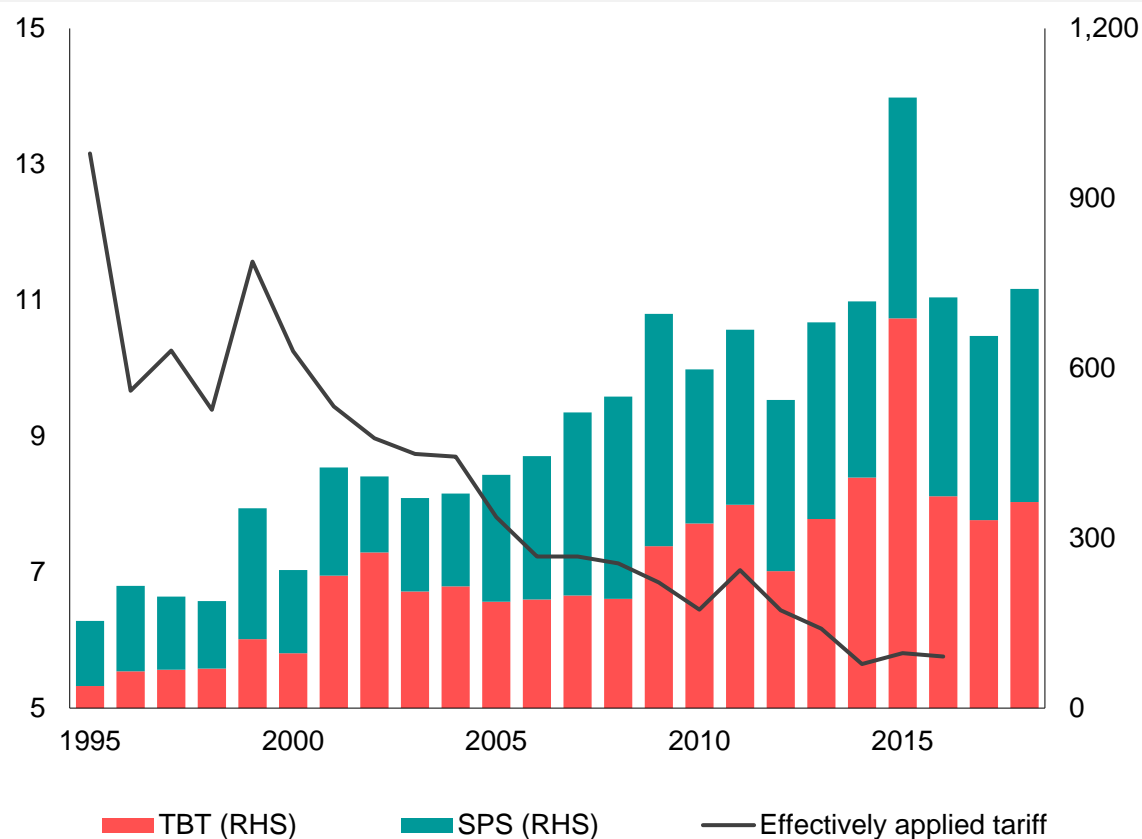


Sources: Mirodout and Nordström (2020); UNCTAD; World Bank; and AMRO staff calculations.
Note: Trade refers to the sum of exports and imports. Import intensity of production is defined as the ratio of GVC-related imports to the output of the final products.

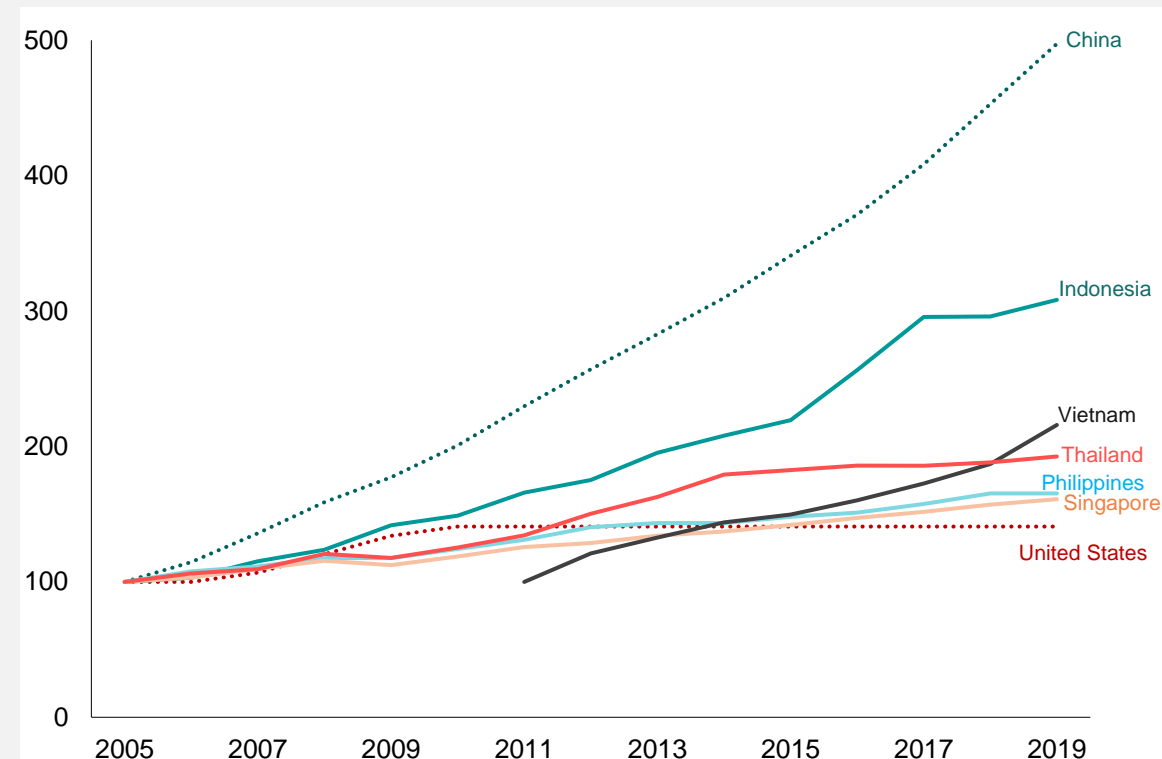
Sources: Asian Development Bank; and AMRO staff calculations.

Rising protectionism and the call of reshoring are already shifting GVCs away from host economies

World Trade Organization: TBT and SPS Notifications and Effectively Applied Tariff Rates
(Percent; Number of notifications)



Selected Economies: Wages
(2005 = 100)

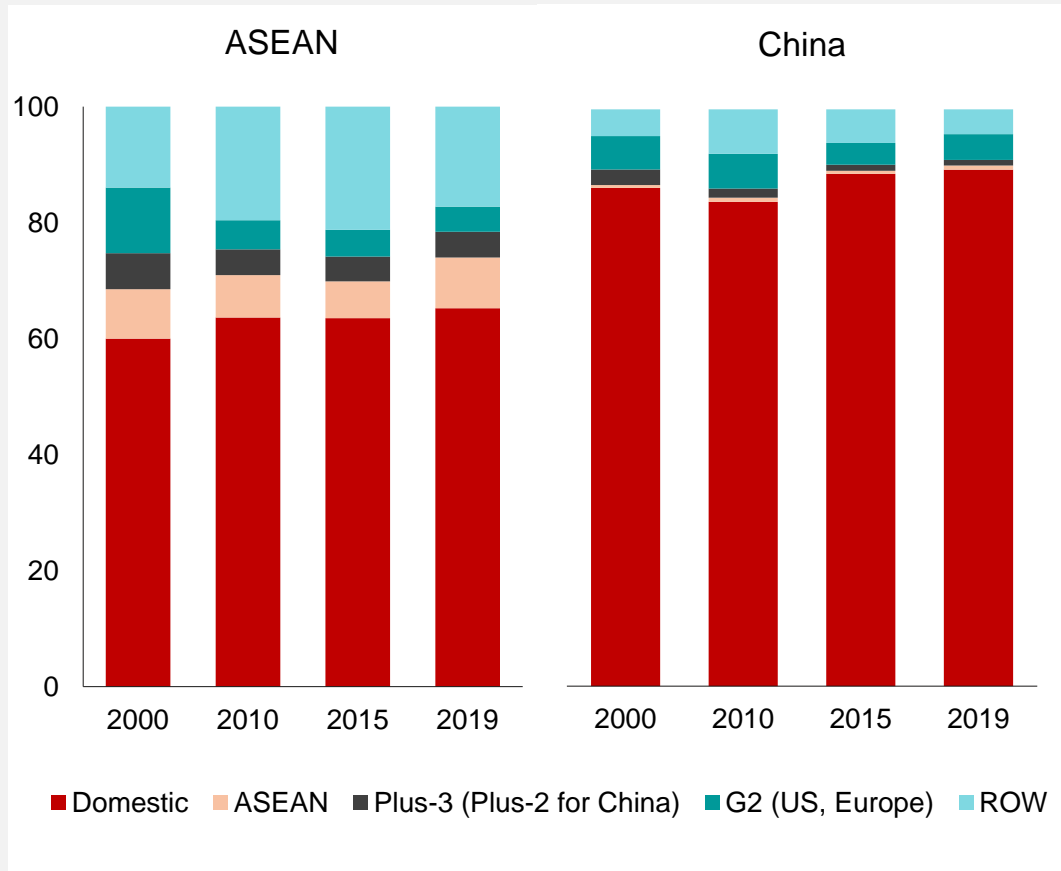


Sources: Autor, Mindell and Reynolds (2020).
Note: TBT = technical barriers to trade; SPS = sanitary and phytosanitary.

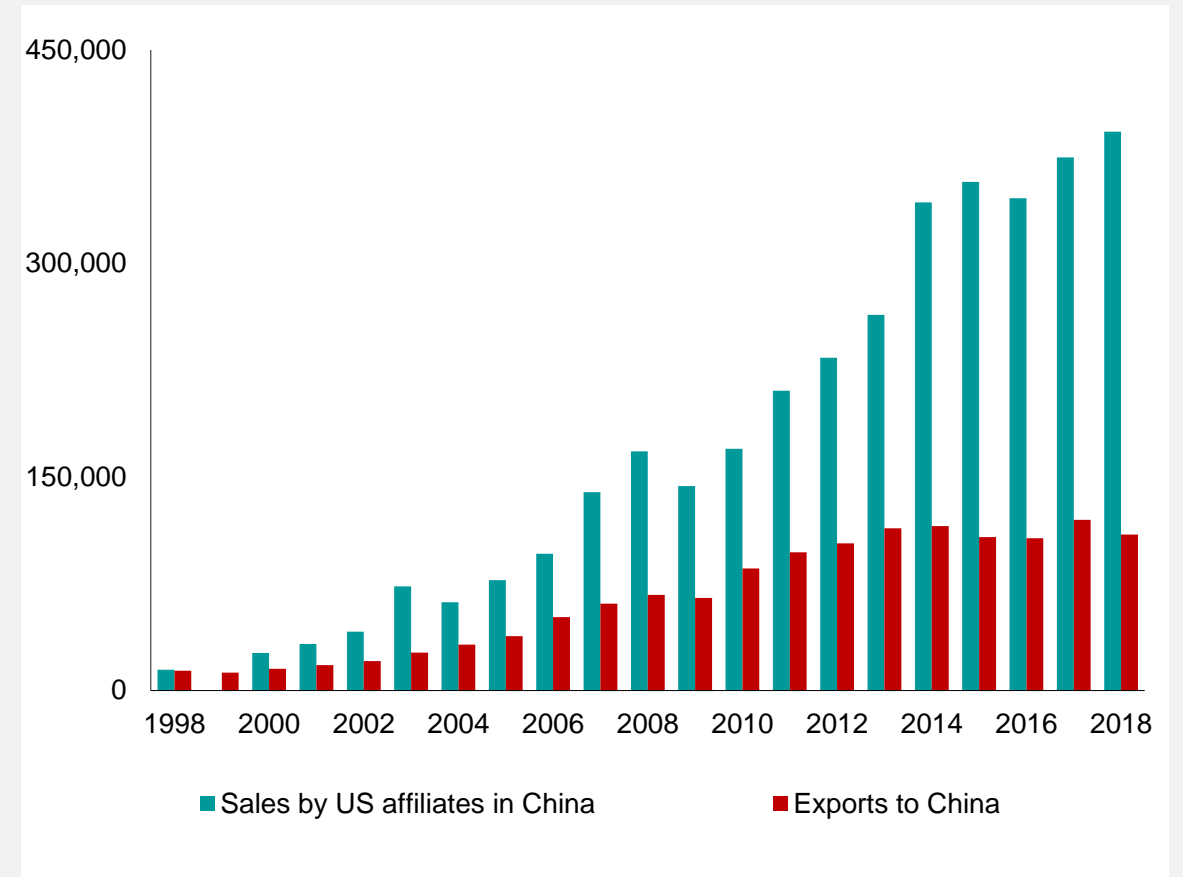
Sources: National authorities via Haver Analytics; and AMRO staff calculations.
Note: Data for China and India refer to the average nominal annual wage of all units; for Indonesia, average net wages of employees; for the Philippines, the legislated daily wage rate; for Singapore the average resident monthly earnings of Industry; for Thailand, the average monthly wages per person; for the United States, the minimum hourly wage rate; and for Vietnam, the average monthly earnings.

Reshoring poses a risk to FDI, which has helped increase ASEAN+3's domestic value-added activity

Sources of Value-added in Exports
(Percent of total value-added exports)



United States: Sales of MNE affiliates vs. Direct Exports
(Millions of US dollars)



Sources: Asian Development Bank; and AMRO staff calculations.
Note: ROW = rest of the world.

Sources: US Bureau of Economic Analysis; World Bank's World Integrated Trade Solutions; and AMRO staff calculations.

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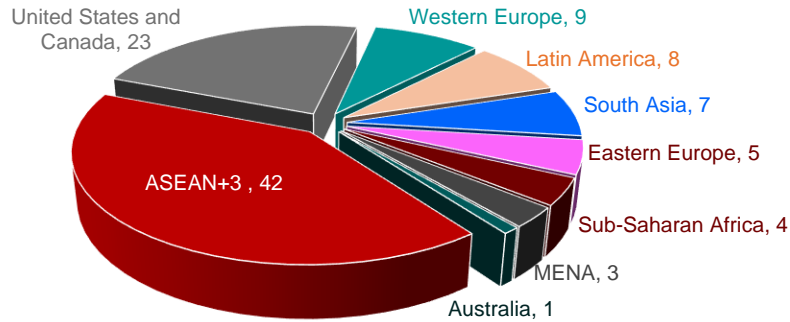
Technology and GVCs



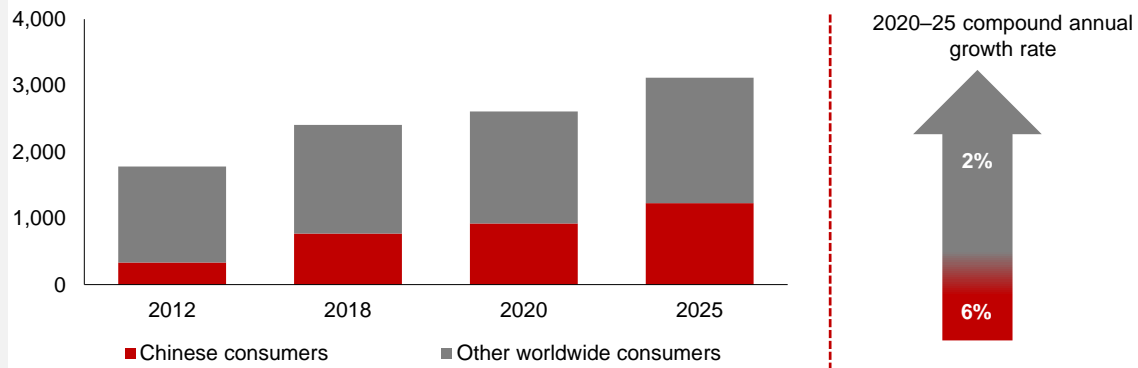
Key Takeaways

Shifting GVCs away from the ASEAN+3 will prove to be difficult

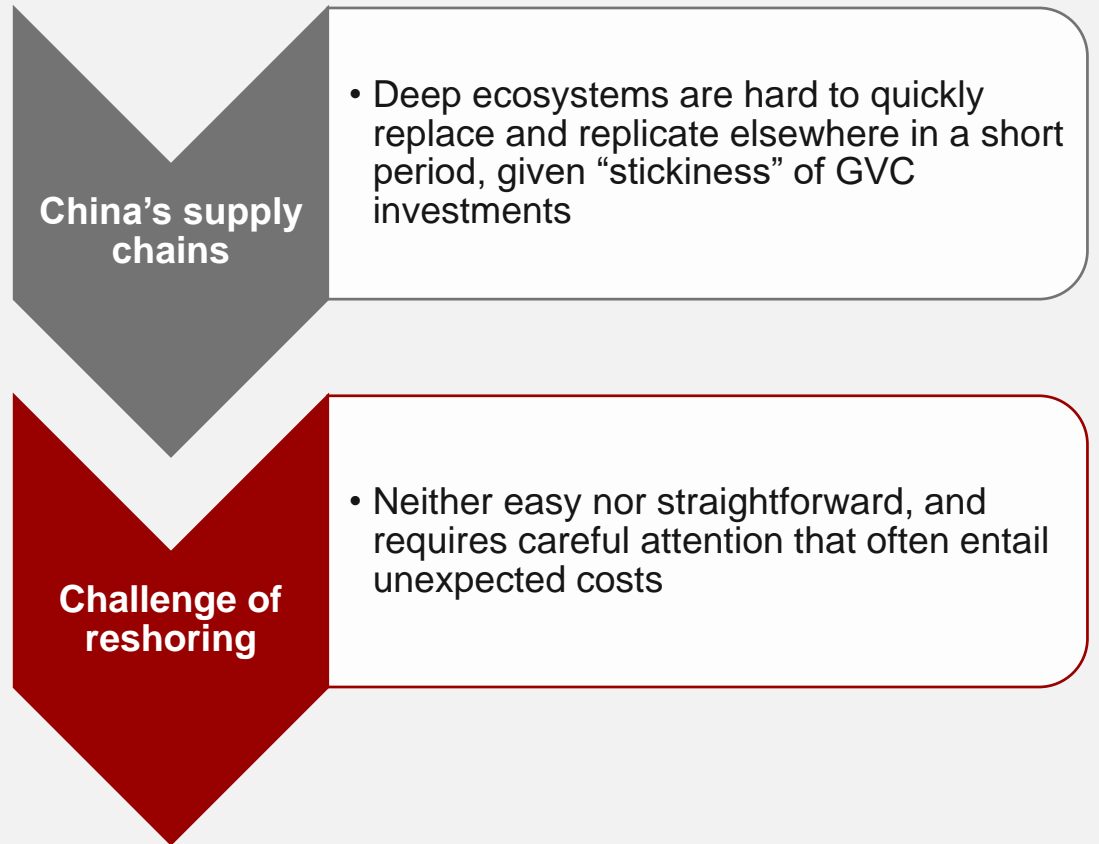
Demand Side: ASEAN+3's Large Consumer Market
(Percent Share of Urban Consumption Growth, 2015 to 2030)



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



Supply Side: ASEAN+3's Well-Developed GVC Ecosystem

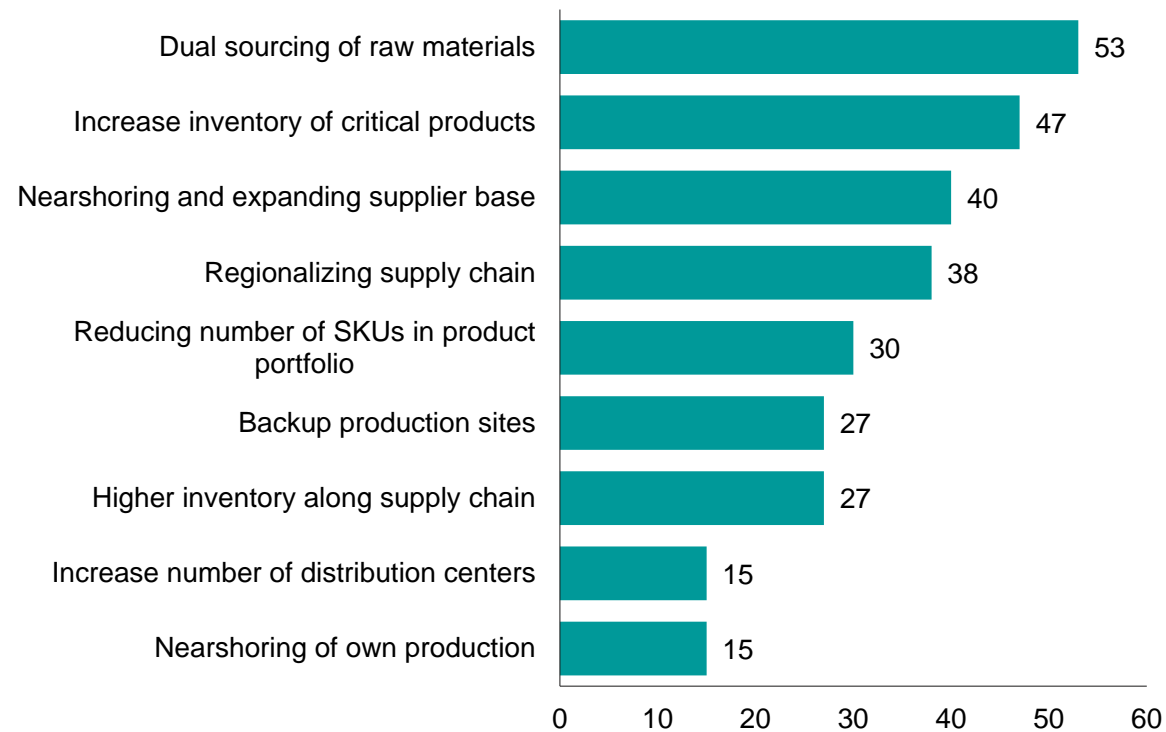


Sources: United Nations Economic and Social Commission for Asia and the Pacific (2019); and AMRO staff.

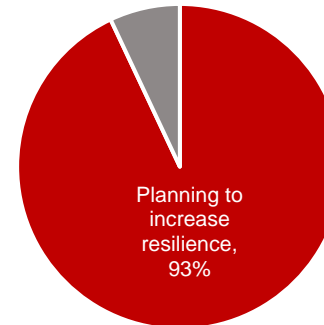
Sources: AMRO staff.

Only a few consider a “China de-risking” strategy as key in building supply chain resilience

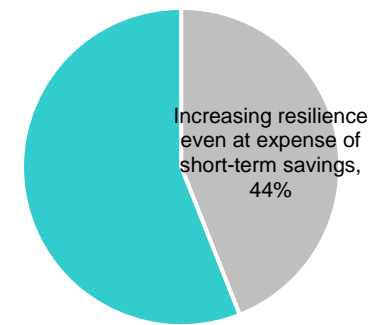
McKinsey & Company Corporate Survey: Planned Actions to Build Resilience (Percent of total respondents)



Global supply chain leaders survey



Business executives survey

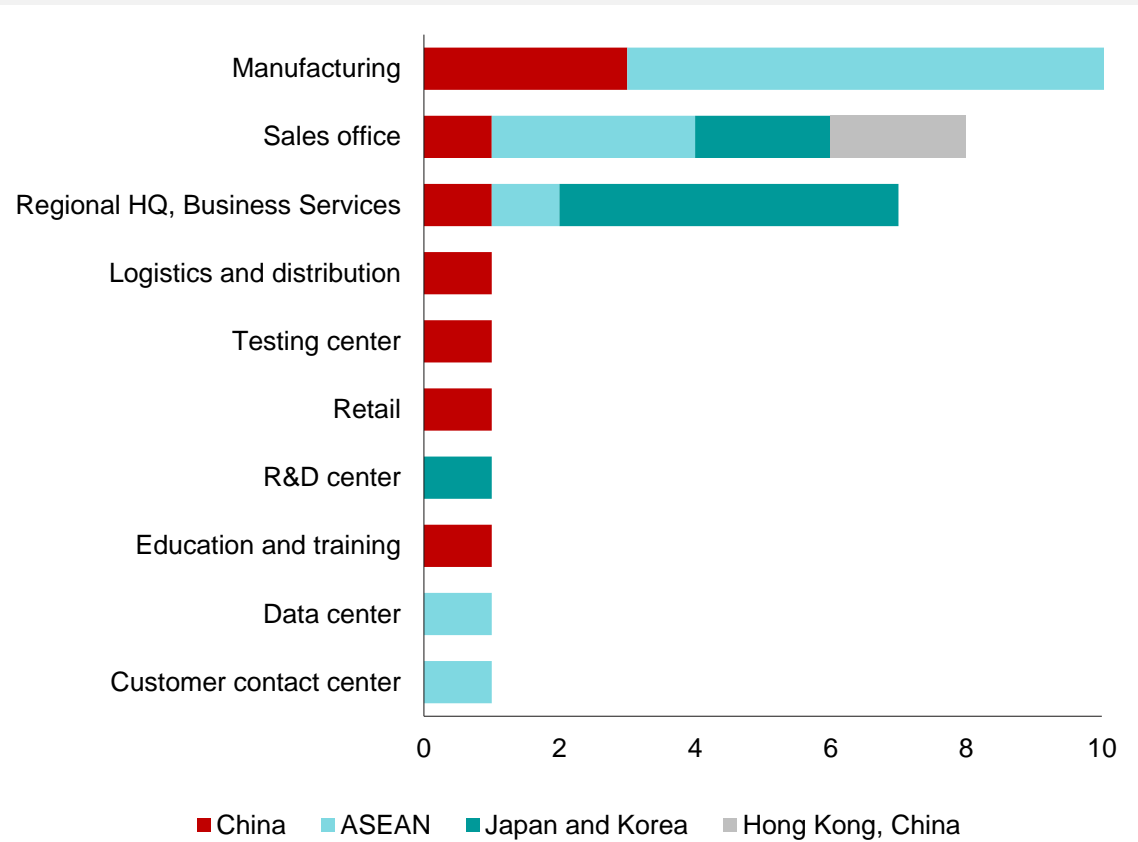


- 79% of MNEs in China { •No change in planned investment actions
- 29% of MNEs in China { •With planned increase in investments in China, down from 47 percent in 2019
- 5.6% of MNEs in China { •Will commence, continue, or consider a China de-risking strategy

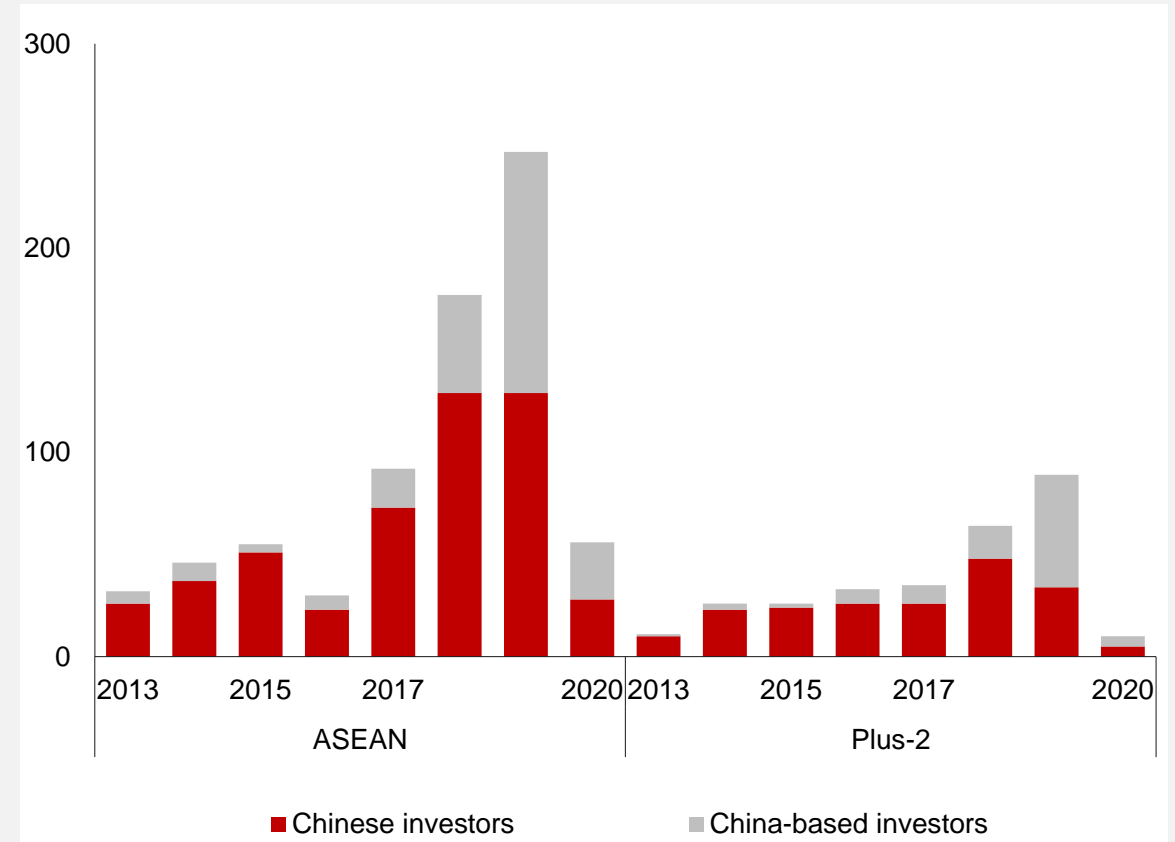
Source: McKinsey & Company.
Notes: SKUs = stock-keeping units. Global supply chain leaders and business executives' surveys from May to December 2020.

Inward relocations remain strong, with foreign firms in China showing increasing interest in ASEAN

ASEAN+3: Relocation Announcements by Sector, 2020
(Number of projects)



Investment Announcements from China to the rest of ASEAN+3, by Ownership
(Number of projects)



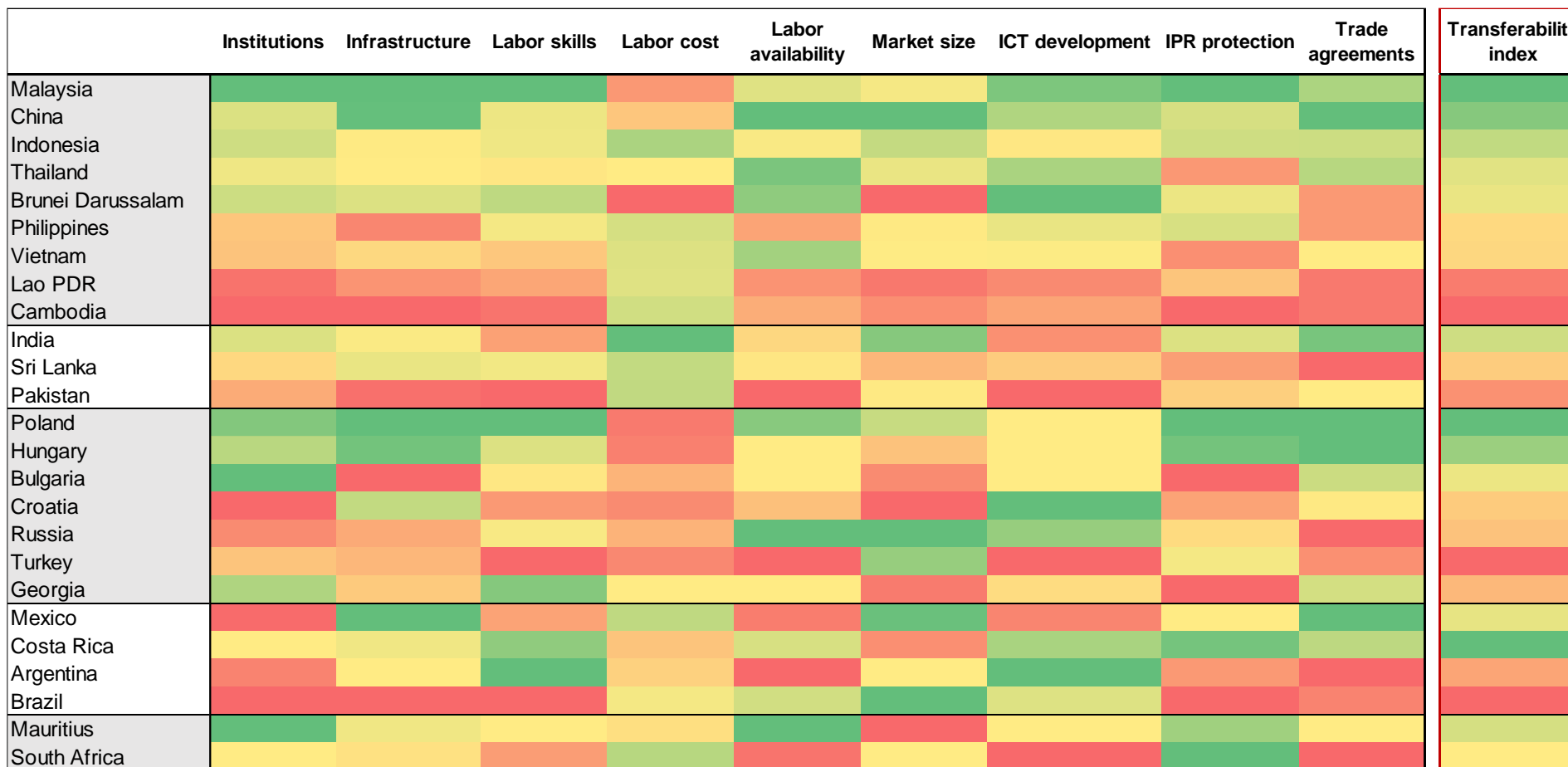
Sources: Orbis Crossborder; and AMRO staff calculations.

Notes: HQ = headquarters; R&D = research and development. Logistics and distribution include transportation.

Sources: Orbis Crossborder; and AMRO staff calculations.

Even with the likely reconfiguration, ASEAN+3 remains an attractive location compared to peers

Heatmap for GVC “Transferability”



Sources: Asia Regional Integration Center, ADB; International Labour Organization; World Economic Forum; World Bank; World Trade Organization; United Nations International Telecommunication Union; United Nations Population Division; national authorities via Haver Analytics; and AMRO staff calculations.
 Notes: The overall Transferability index is a simple average of the nine indicators for each economy. The greener the color, the higher its relative z-score and the greater the GVC transferability to that economy or location; the redder, the lower the attractiveness for GVC relocation. See “Which GVC Sectors can be Easily Reconfigured?” in AREO 2021 for details.

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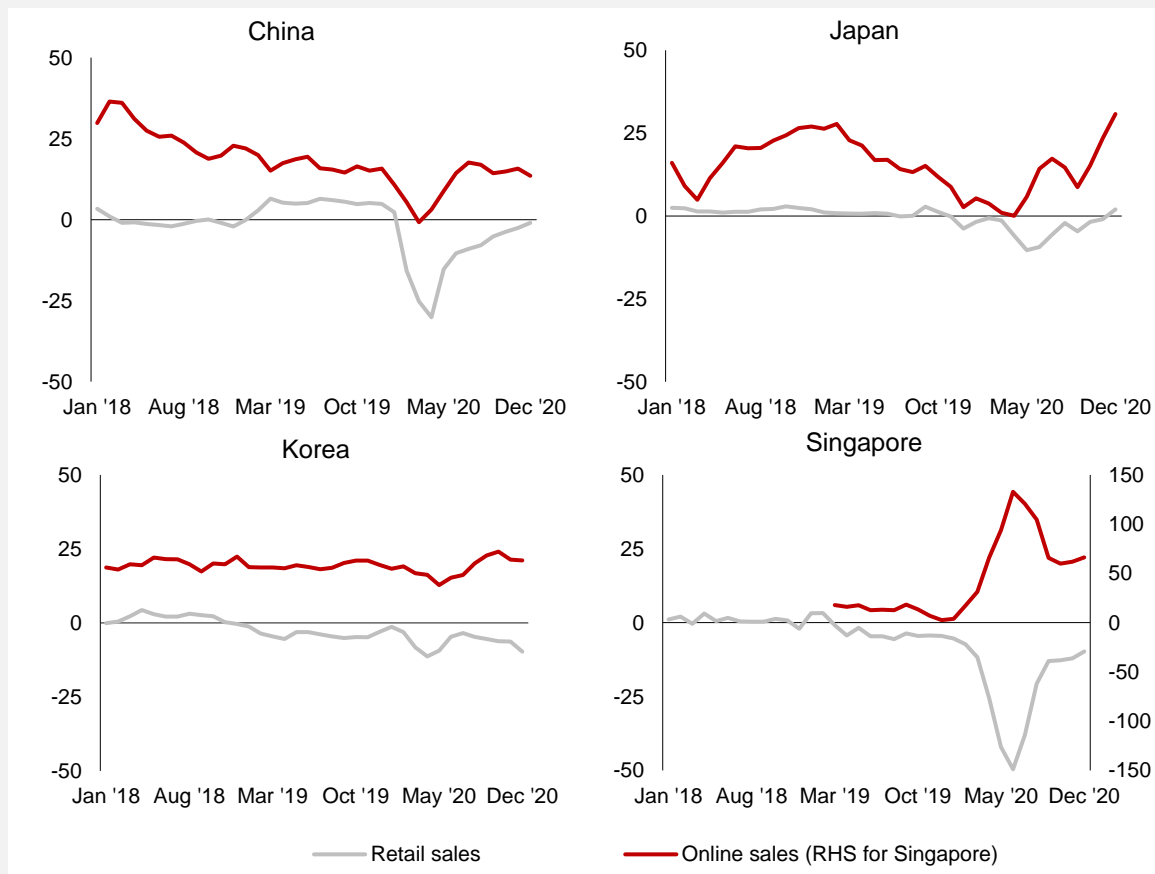
Technology and GVCs



Key Takeaways

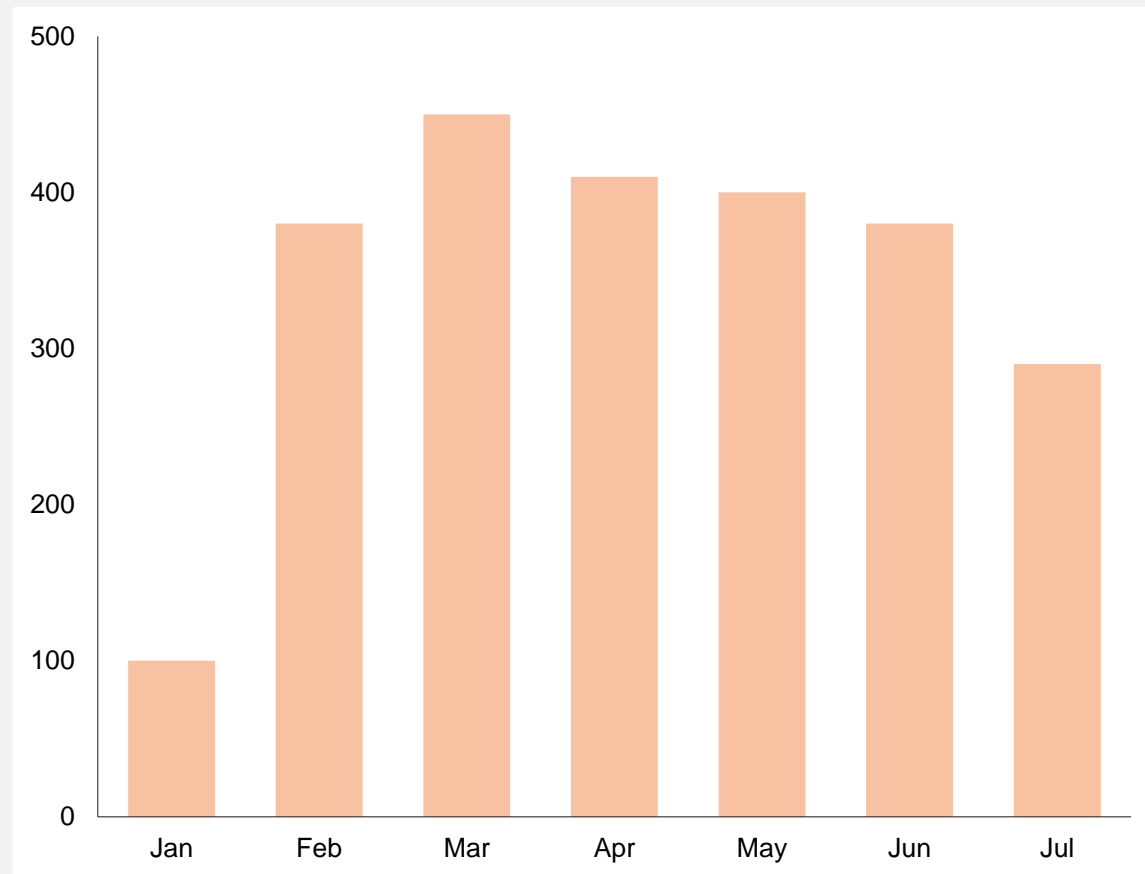
The pandemic accelerated the flight to digital, a behavior unlikely to be reversed

Selected ASEAN+3 Economies: Retail and Online Sales
(Percent year-over-year, 3-month moving average)



Sources: National authorities via Haver Analytics; and AMRO staff calculations.
Note: Retail sales exclude online sales.

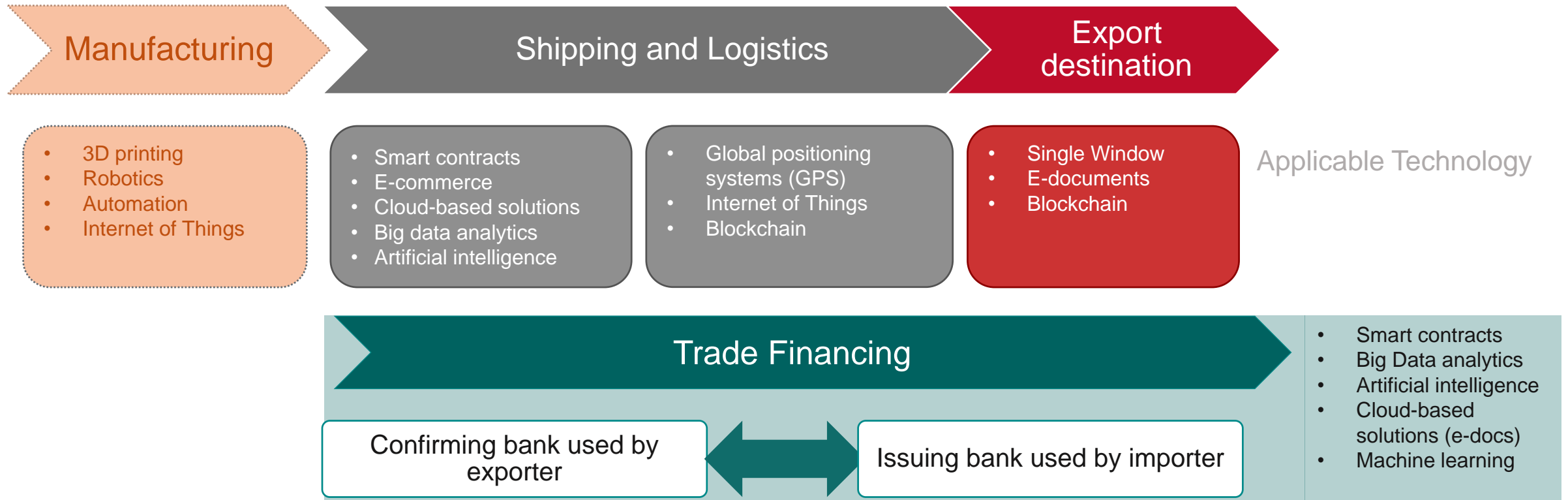
Number of Active ASEAN Users of Telemedicine Platforms, 2020
(January 2020 = 100)



Sources: Google, Temasek, and Bain & Company (2020); and AMRO staff calculations.

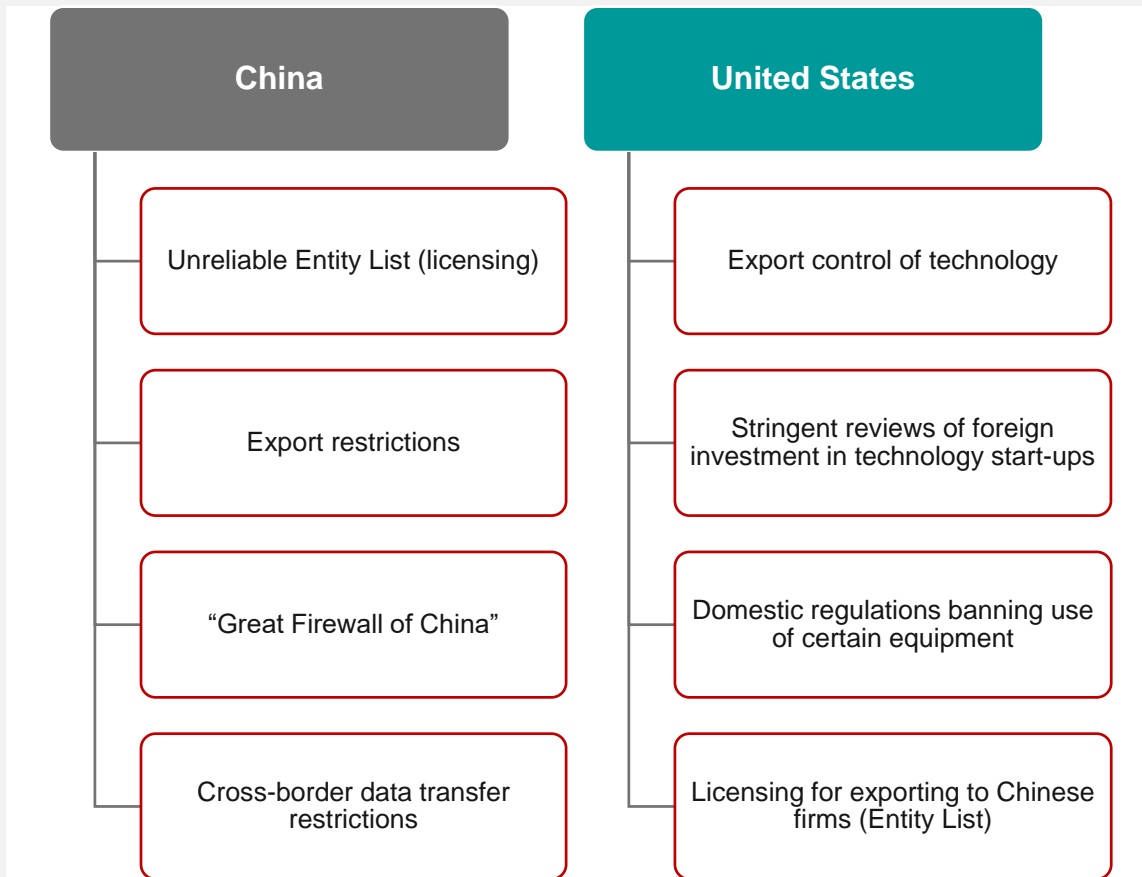
GVCs will increasingly be driven by technology, from production to trade to finance

Technology in Trade and Supply Chain Finance



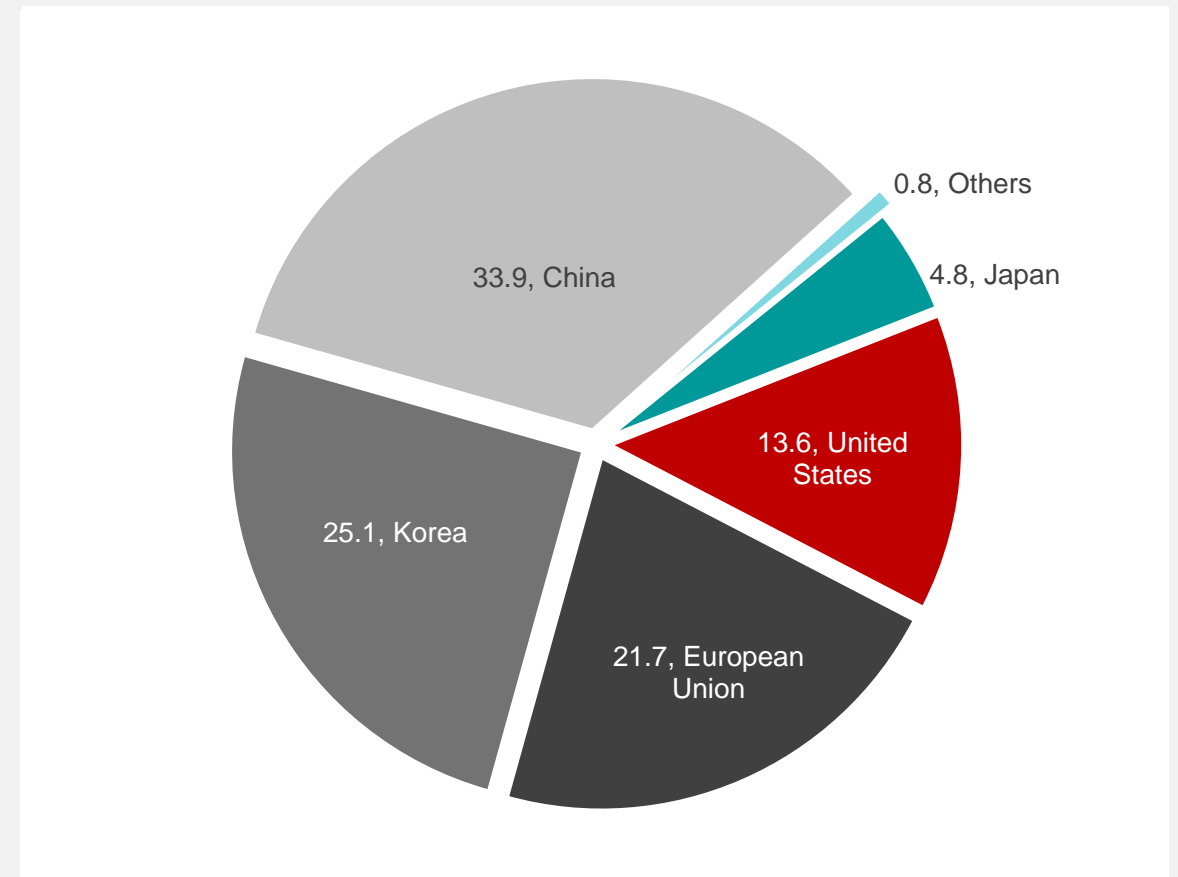
But US–China tech tensions, and global standards competition, could lead to technology bifurcation

United States and China: Selected Tech Measures and Countermeasures



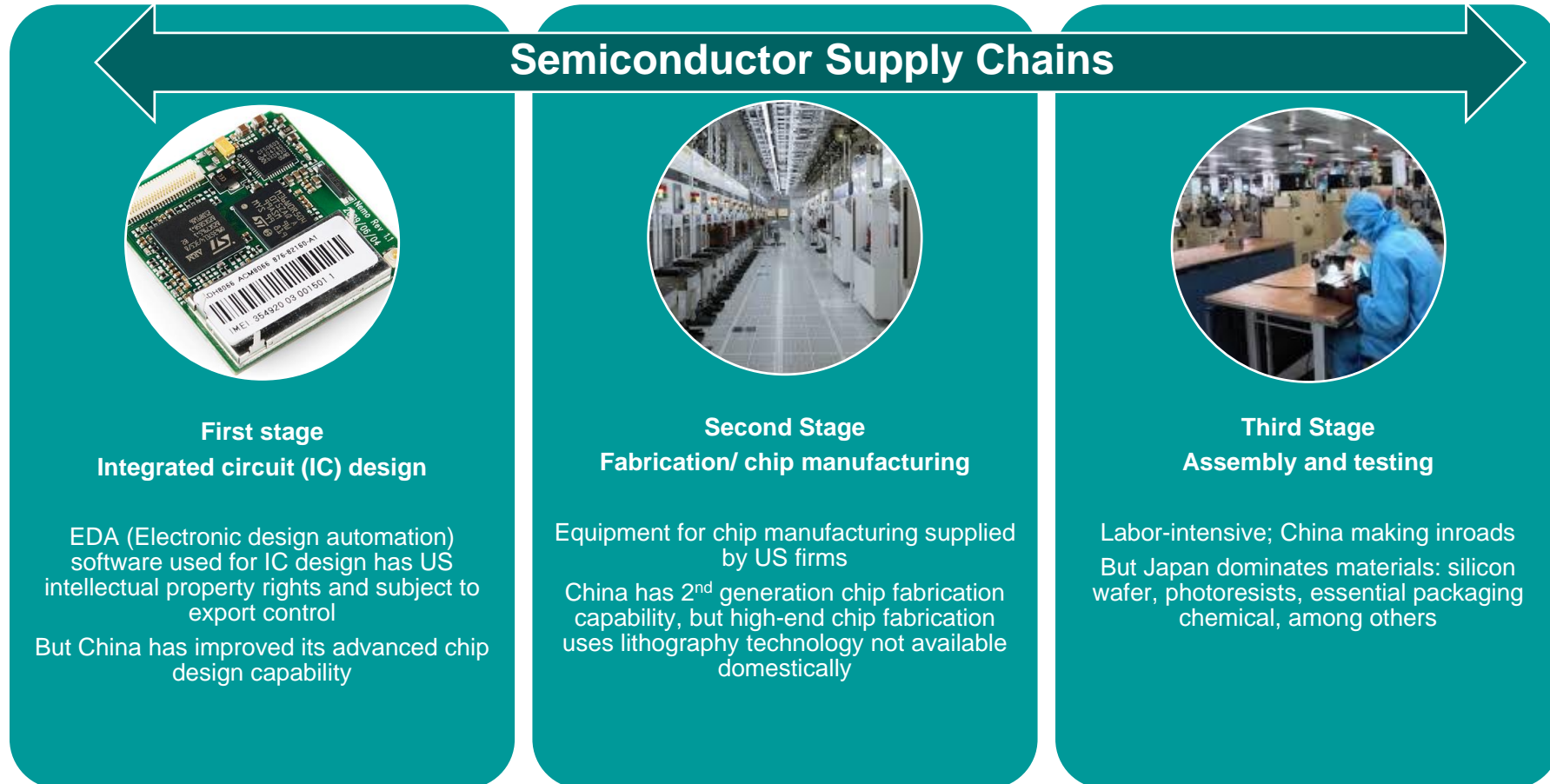
Sources: Ferracane and Lee-Makiyama (2017); various media articles; and AMRO staff.

Selected Economies: Shares in 5G Standard Essential Patents (Percent share to total)



Sources: AMRO staff.

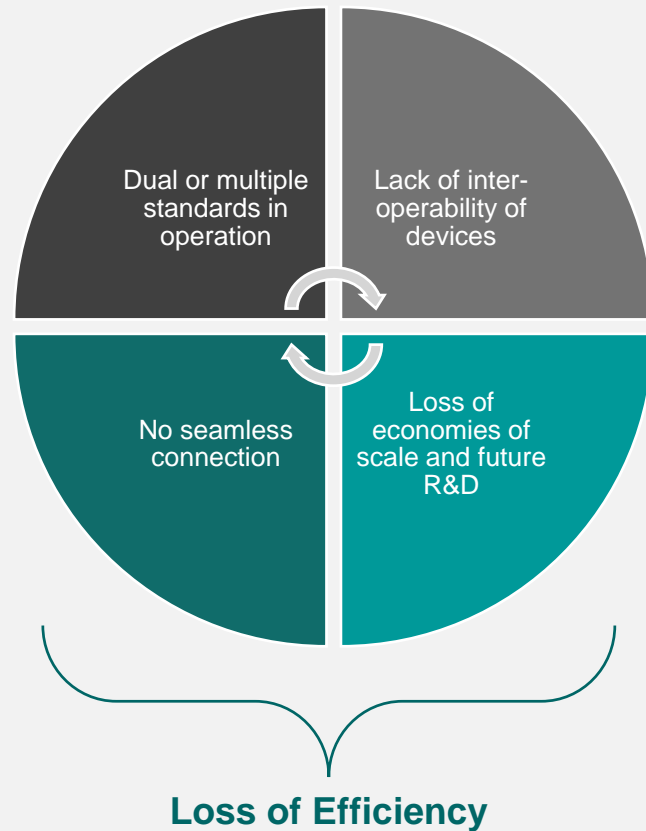
The semiconductor sector is a significant area of strain



Source: Adapted from Kotasthane and Seth (2020).

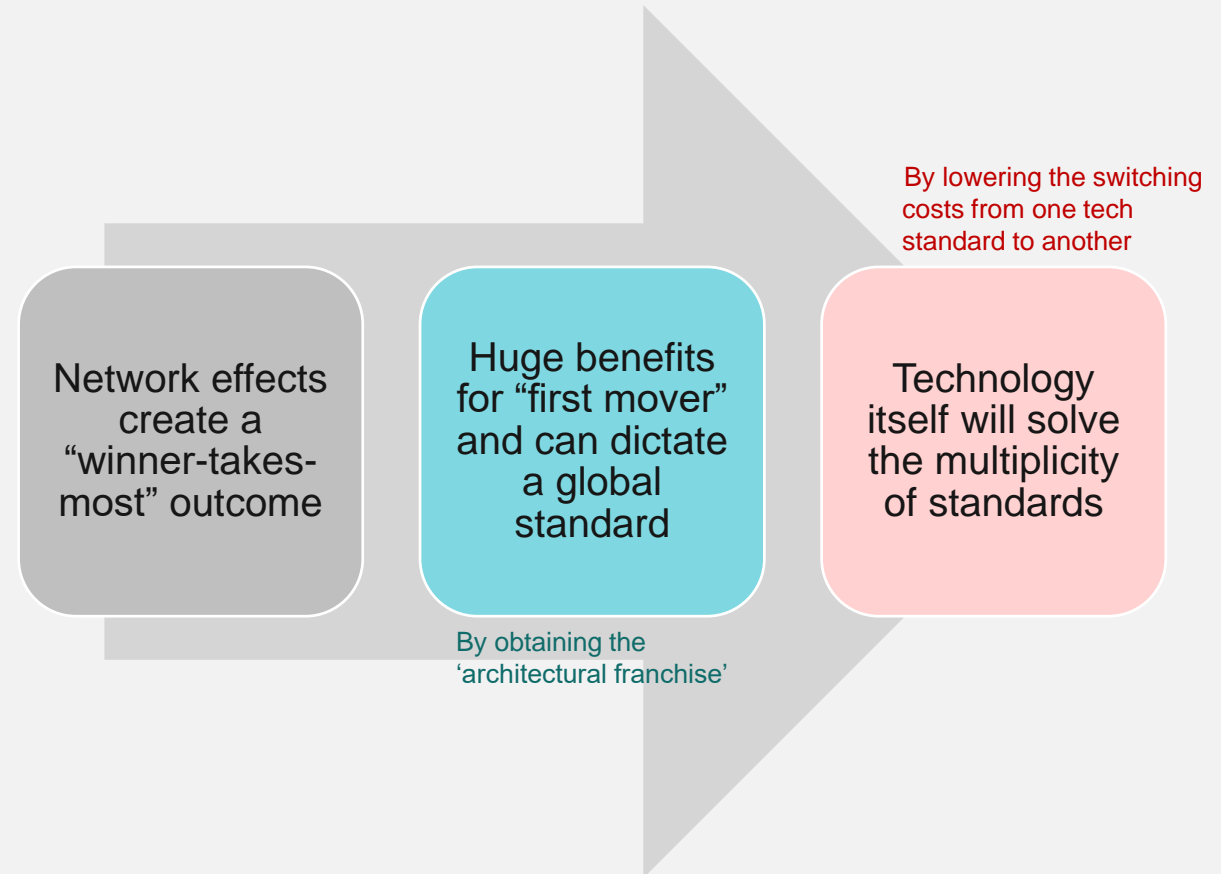
The impact of tech bifurcation will take time to be fully resolved

Short-term Impact of Bifurcated Technology



Sources: AMRO staff.

Long-term Impact of Bifurcated Technology



Sources: AMRO staff.

Key takeaways

- No evidence so far of wholesale reshoring, nearshoring or transfers of manufacturing out of the ASEAN+3 region.
- The region remains an attractive location for GVCs in the case of a reconfiguration, given “sticky” GVC investments.
- The pandemic-induced “flight to digital” could see GVCs powered by new technology, in the areas of trade, logistics and finance.
- Tech tensions can result in technology bifurcation and stymie new innovations, but over time, technology itself can solve the problem of divergent standards.

Thank you.



Contact Us

Add: 10 Shenton Way, #15-08/9, Singapore 079117

Tel: +65 6323 9844

Email: ong.lilian@amro-asia.org

Website: www.amro-asia.org

Growth projections: AMRO 2021 and WEO 2021 (April)

Economy	WEO APRIL 2021		
	2020e/	2021p/	2022p/
World Output	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
Other Advanced Economies	-2.1	4.4	3.4
Emerging Market and Developing Economies	-2.2	6.7	5.0
Emerging and Developing Asia	-1.0	8.6	6.0
Emerging and Developing Europe	-2.0	4.4	3.9
Latin America and the Caribbean	-7.0	4.6	3.1
Middle East and Central Asia	-2.9	3.7	3.8
Sub-Saharan Africa	-1.9	3.4	4.0
<i>Memo:</i>			
<i>Emerging Market and Middle-Income Economies</i>	<i>-2.4</i>	<i>6.9</i>	<i>5.0</i>
<i>Low-Income Developing Countries</i>	<i>0.0</i>	<i>4.3</i>	<i>5.2</i>

Sources: World Economic Outlook, April 2021.

Note: e/ = estimate; p/ = projection.

Economy	AREO 2021		
	2020e/	2021p/	2022p/
ASEAN+3	-0.2	6.7	4.9
Plus-Three	0.7	7.2	4.7
China	2.3	8.7	5.5
Hong Kong, China	-6.1	4.8	6.5
Japan	-4.8	2.7	1.8
Korea	-1.0	3.2	3.0
ASEAN	-3.4	4.9	5.7
Brunei Darussalam	0.9	3.1	4.0
Cambodia	-3.0	4.7	6.1
Indonesia	-2.1	4.9	5.3
Lao PDR	0.5	4.6	4.8
Malaysia	-5.6	5.6	6.2
Myanmar	3.2	-2.6	4.5
Philippines	-9.5	6.9	7.8
Singapore	-5.4	6.0	4.7
Thailand	-6.1	2.3	4.8
Vietnam	2.9	7.0	6.8

Sources: AREO 2021.

Note: e/ = estimate; p/ = projection.