

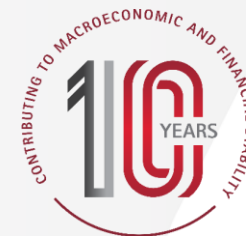
Global Value Chains in the Post-Pandemic “New Normal”

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AMRO-HKUST IEMS Webinar

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Presentation outline



Recent GVC developments



ASEAN+3 in post-pandemic GVCs



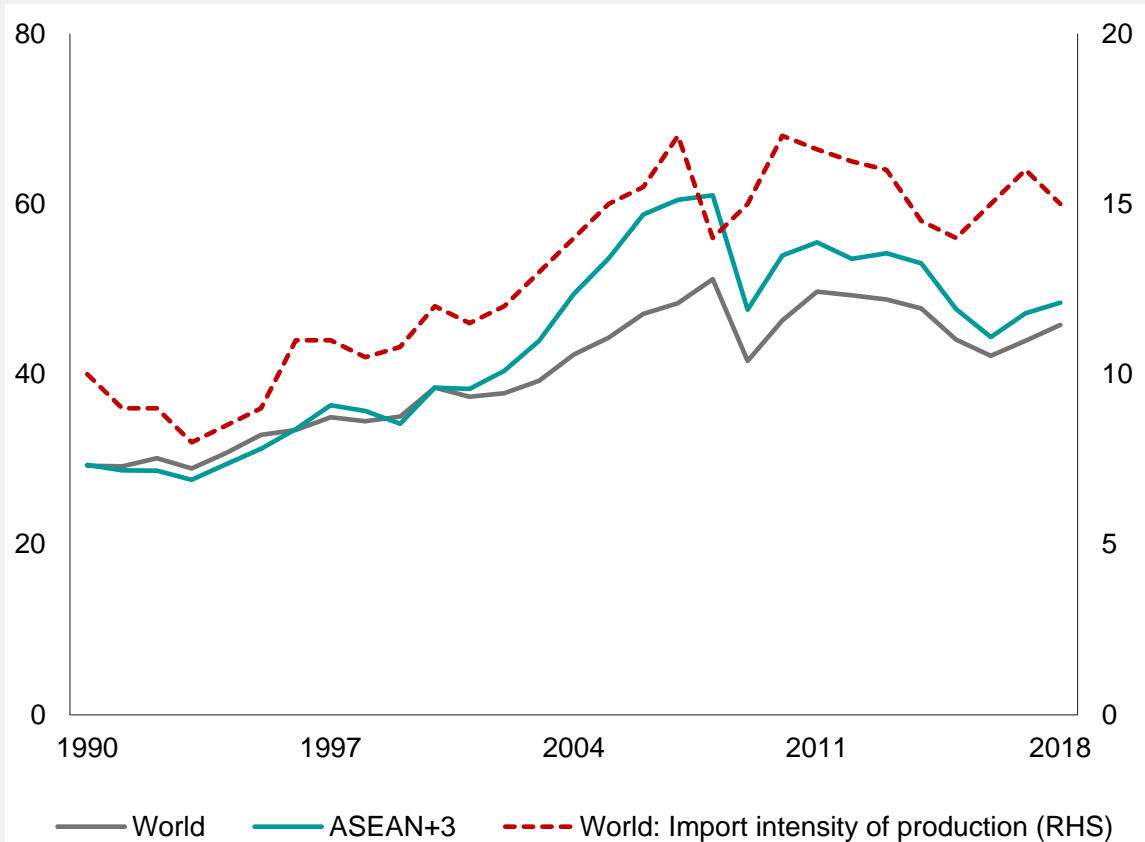
Technology and GVCs



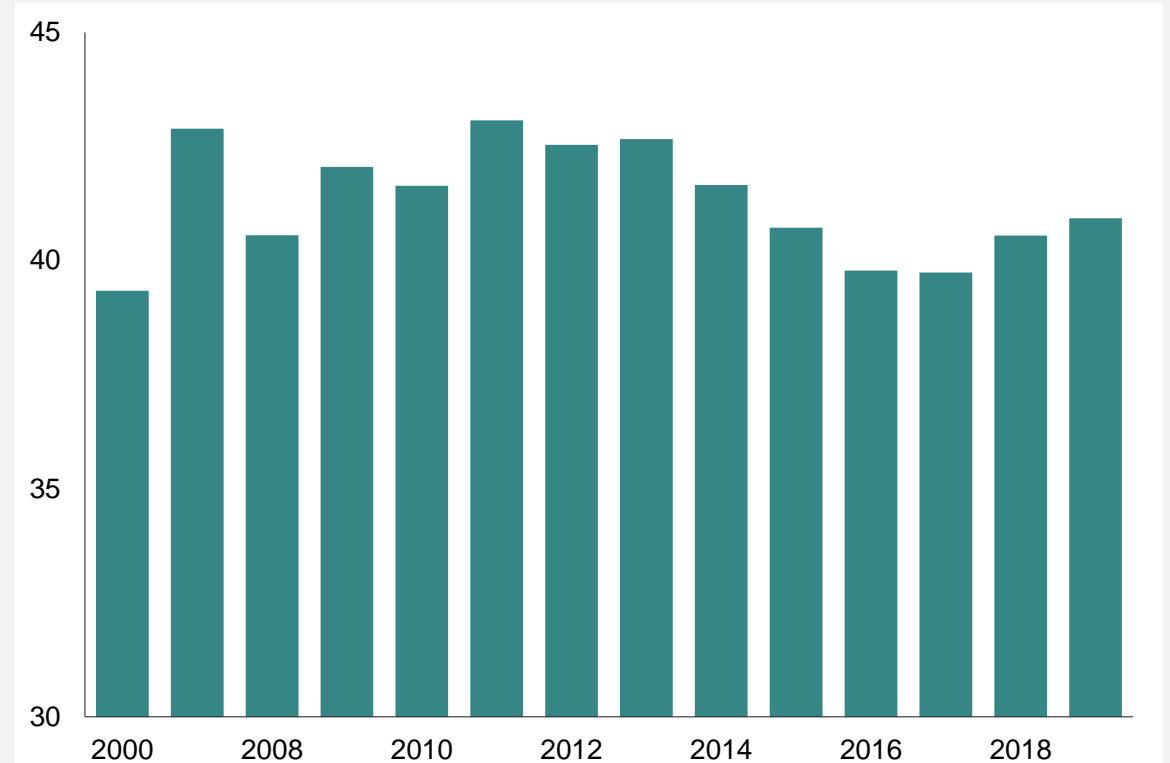
Key Takeaways

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)

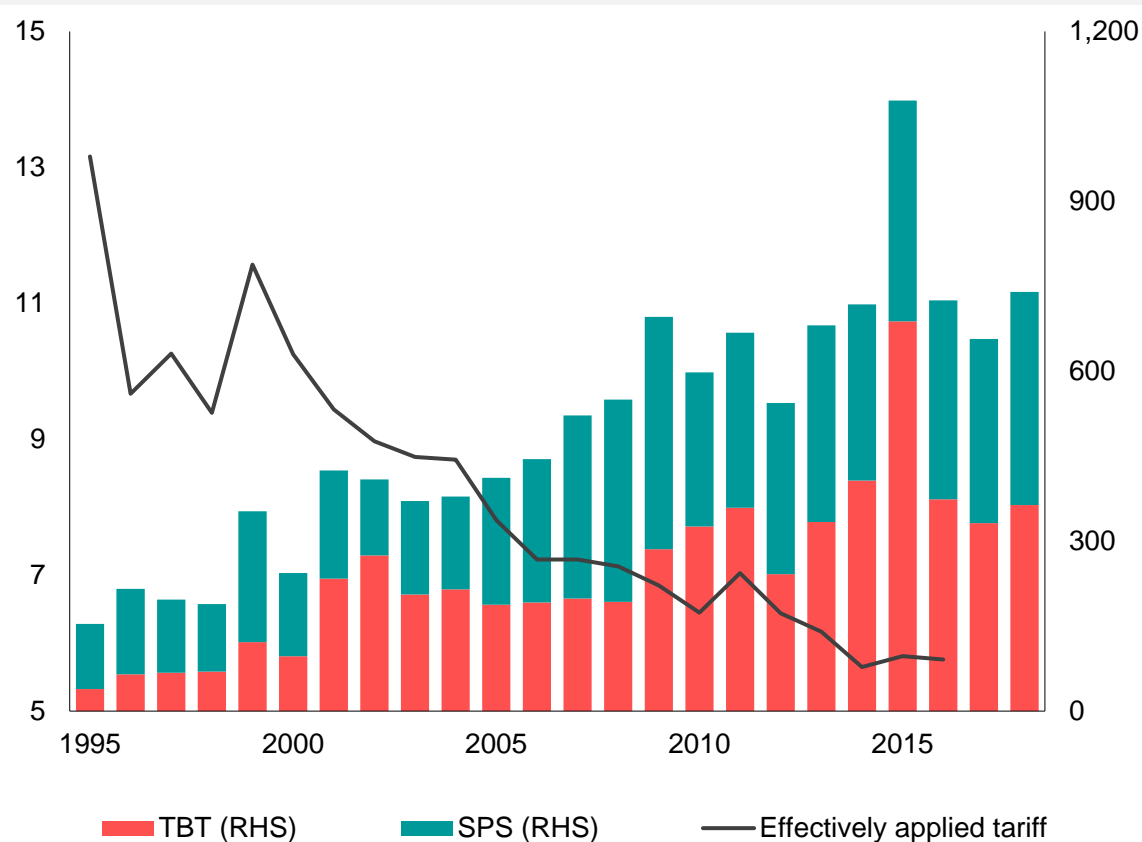


Sources: Mirodout and Nordström (2020); UNCTAD; World Bank; and AMRO staff calculations.
Note: Trade refers to the sum of exports and imports. Import intensity of production is defined as the ratio of GVC-related imports to the output of the final products.

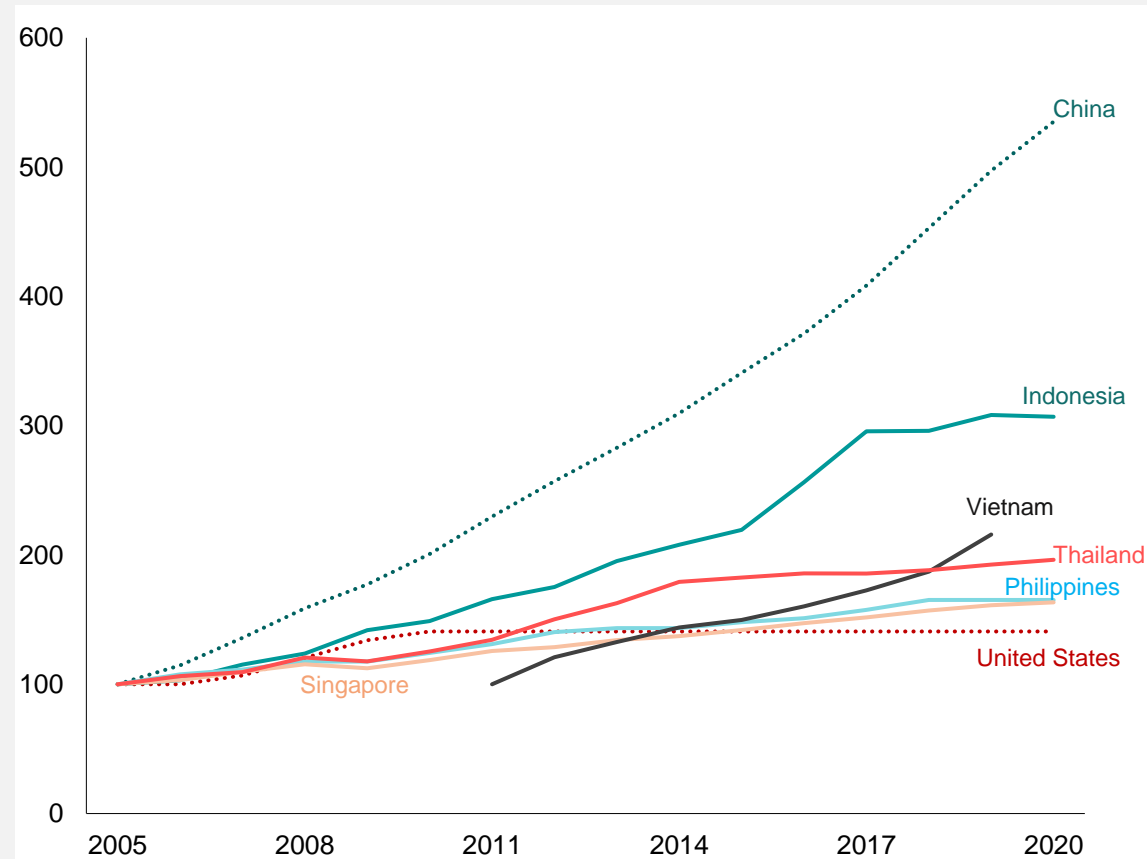
Sources: Asian Development Bank; and AMRO staff calculations.

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)

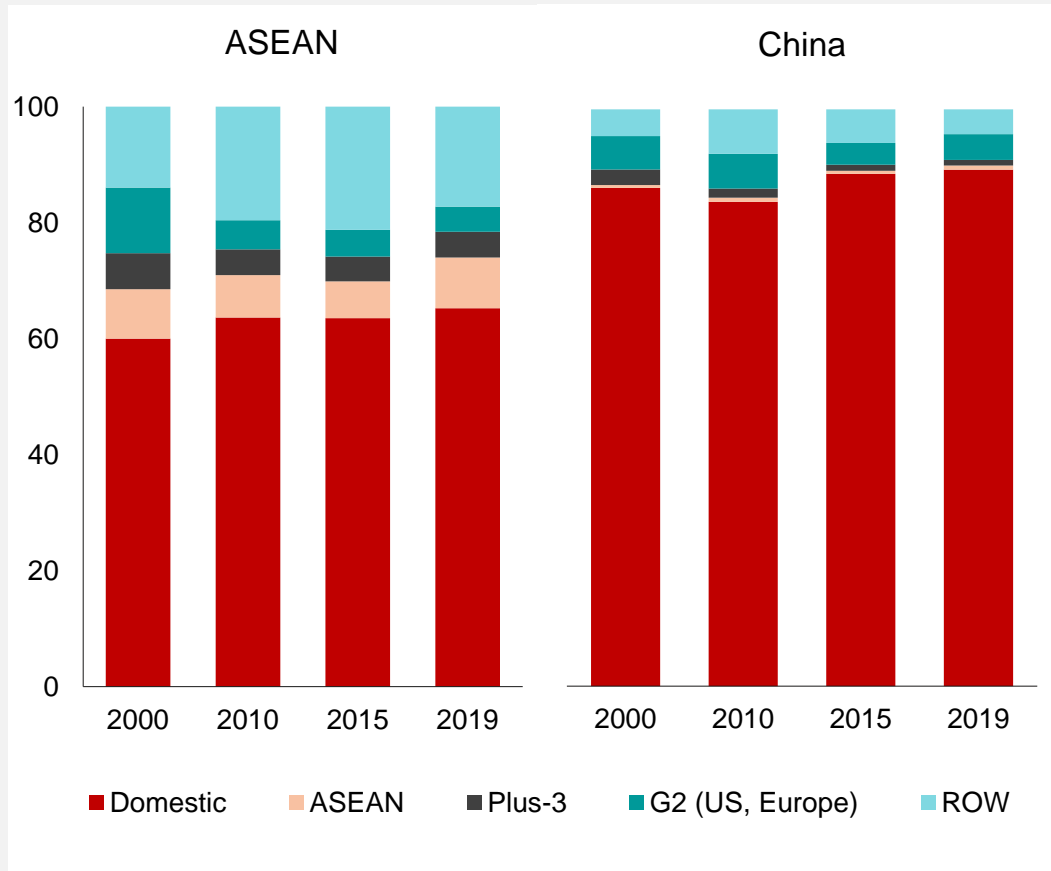


Sources: Autor, Mindell and Reynolds (2020).
Note: TBT = technical barriers to trade; SPS = sanitary and phytosanitary.

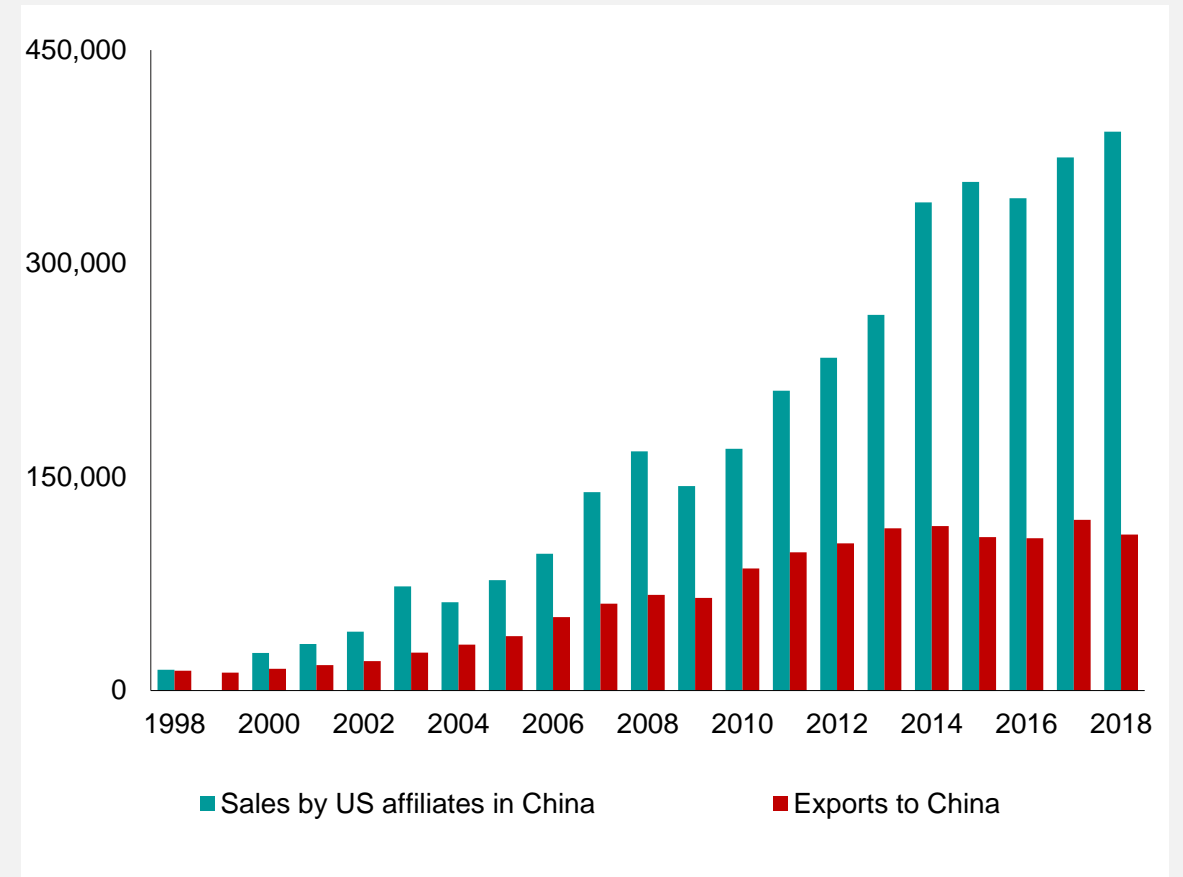
Sources: National authorities via Haver Analytics; and AMRO staff calculations.
Note: Data for China and India refer to the average nominal annual wage of all units; for Indonesia, average net wages of employees; for the Philippines, the legislated daily wage rate; for Singapore the average resident 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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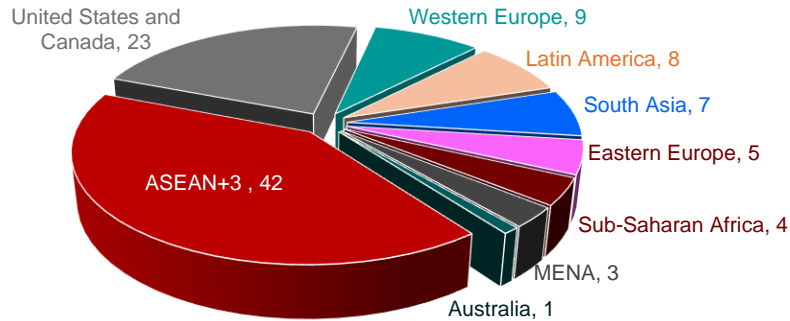
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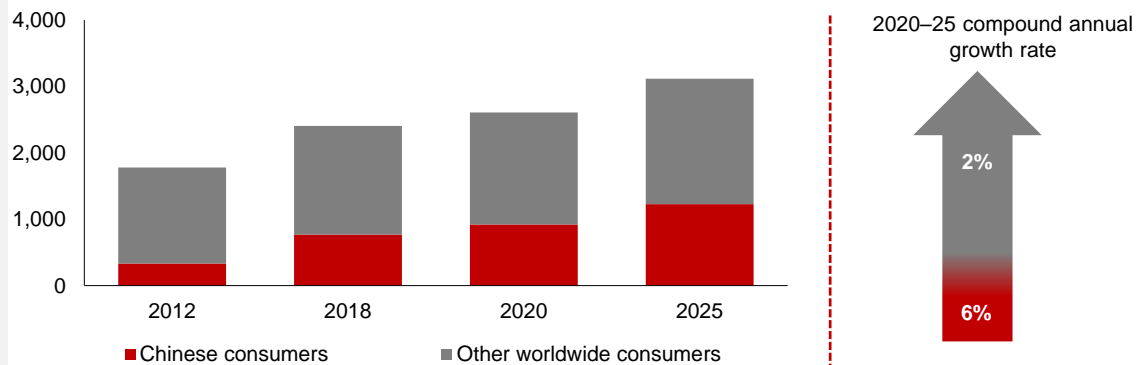
Key Takeaways

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

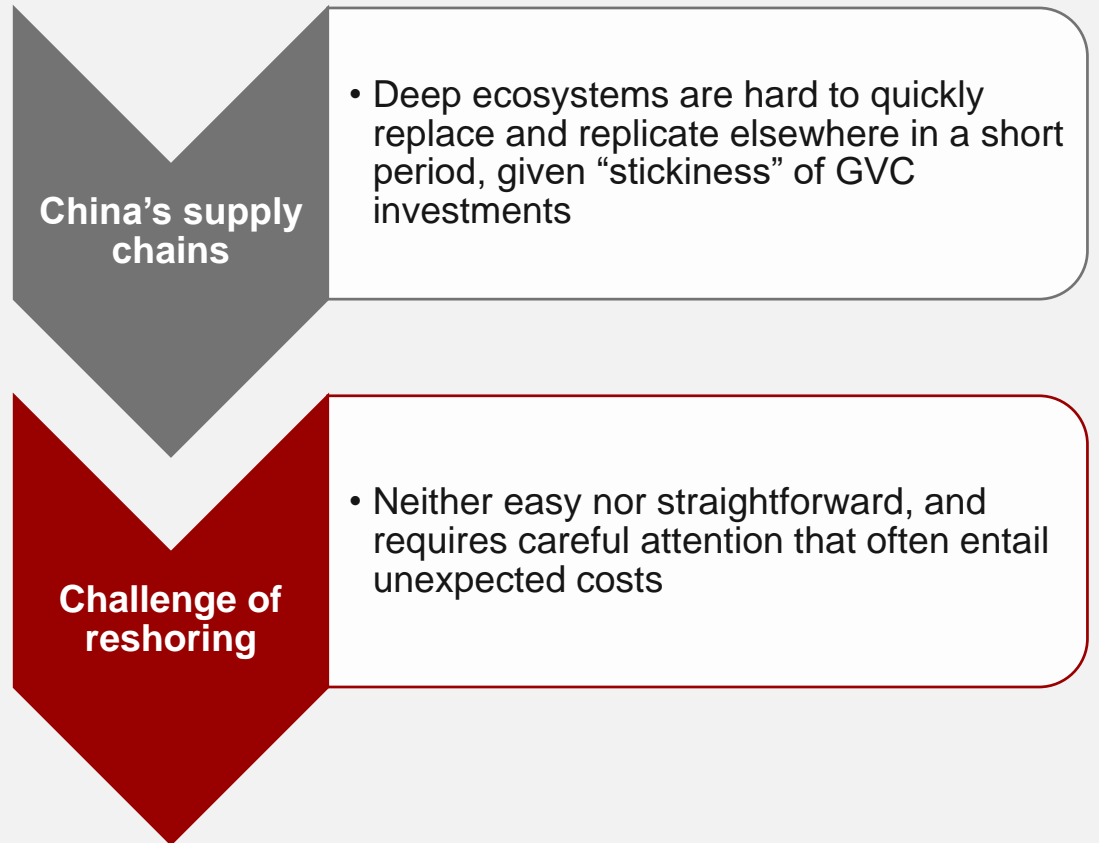
Demand Side: ASEAN+3's Large Consumer Market
(Percent Share of Urban Consumption Growth, 2015 to 2030)



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



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

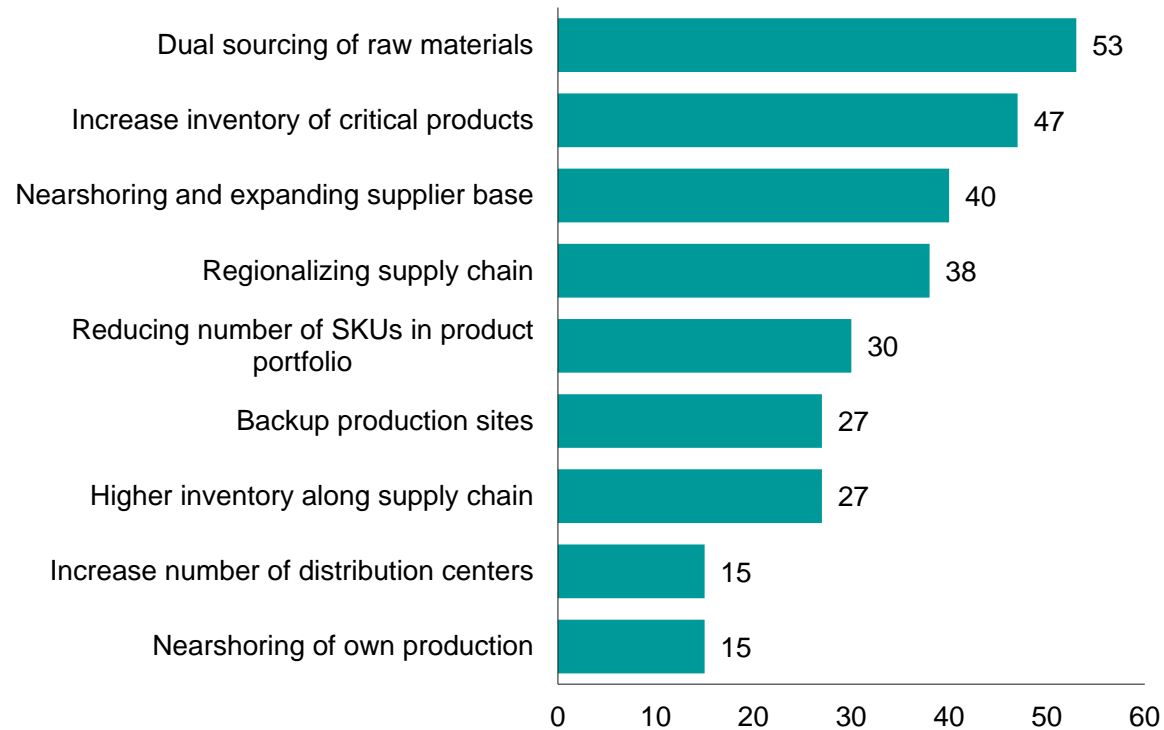


Sources: United Nations Economic and Social Commission for Asia and the Pacific (2019); and AMRO staff.

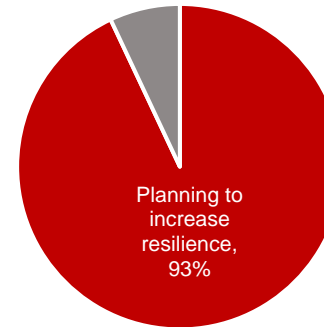
Sources: AMRO staff.

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

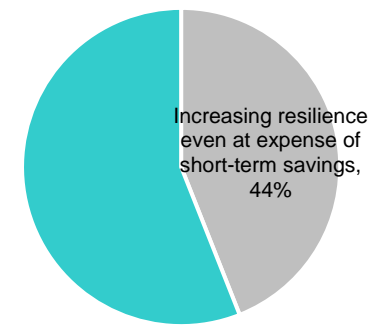
McKinsey & Company Corporate Survey: Planned Actions to Build Resilience (Percent of total respondents)



Global supply chain leaders survey



Business executives survey

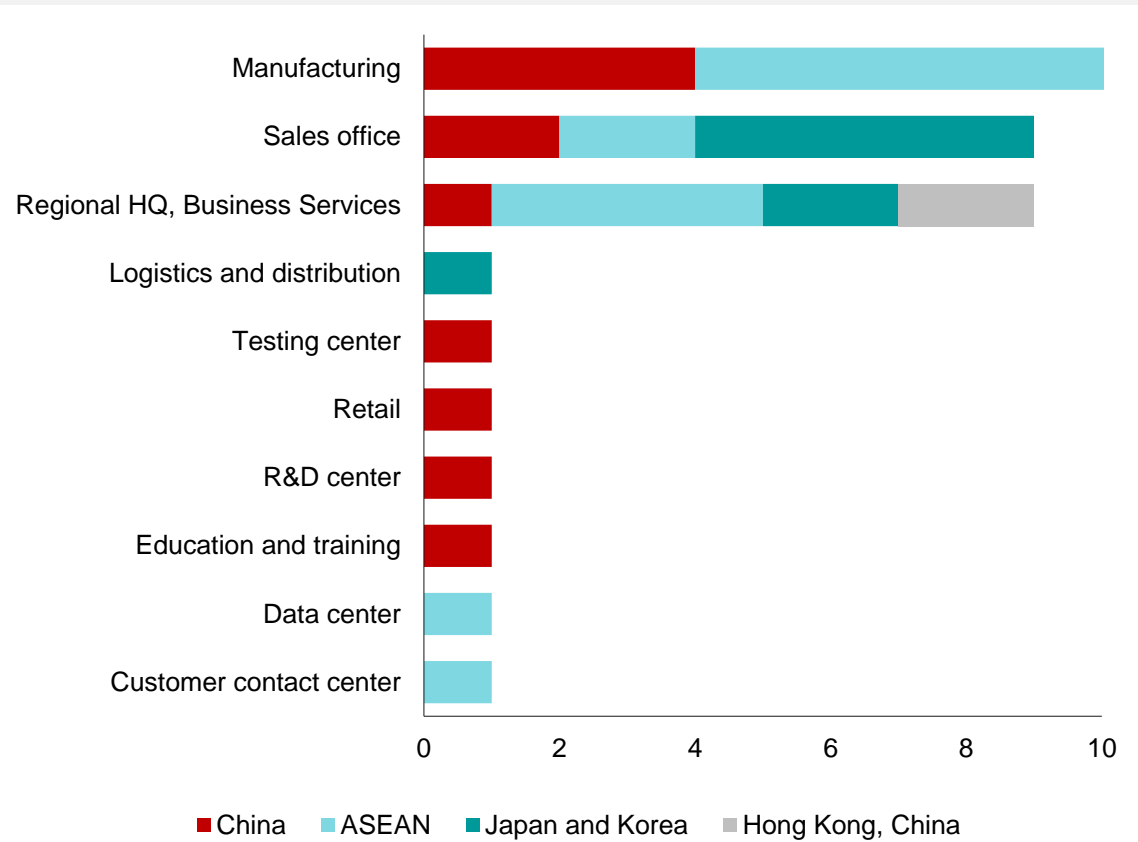


- 79% of MNEs in China { •No change in planned investment actions
- 29% of MNEs in China { •With planned increase in investments in China, down from 47 percent in 2019
- 5.6% of MNEs in China { •Will commence, continue, or consider a China de-risking strategy

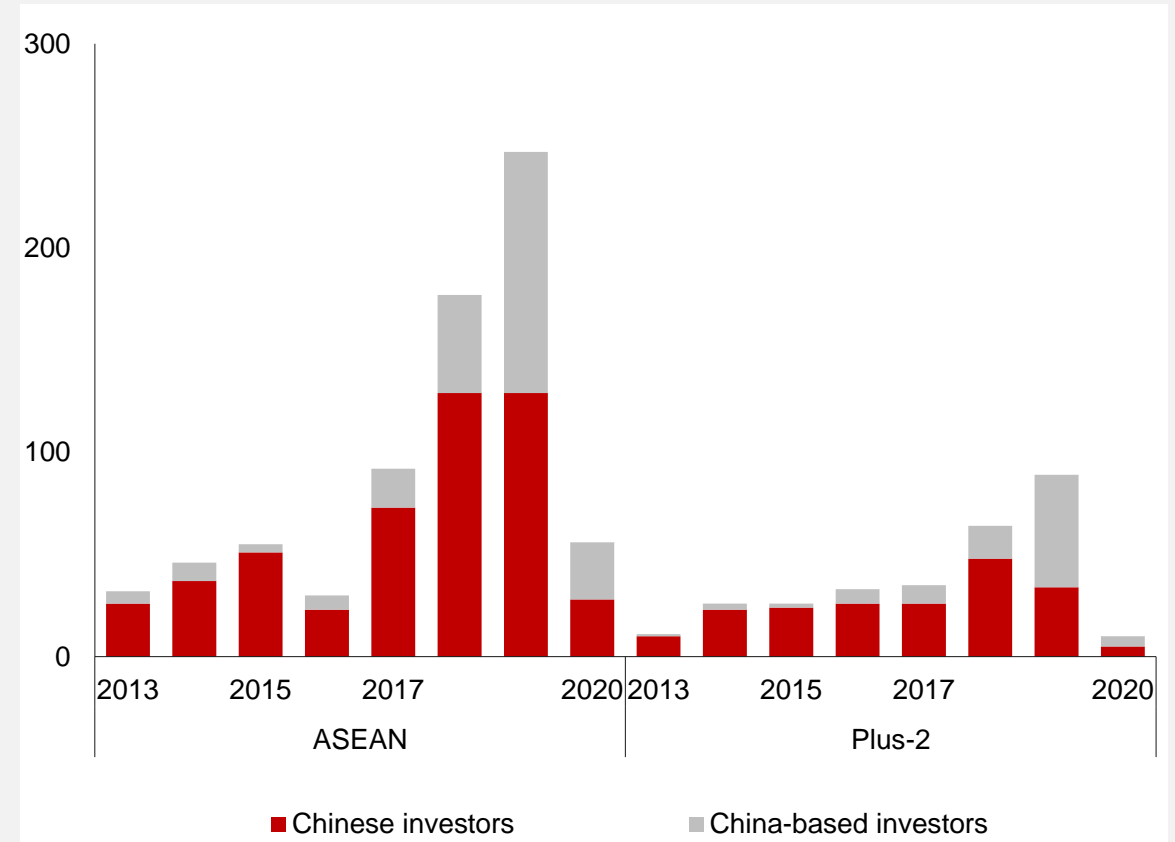
Source: McKinsey & Company.
Notes: SKUs = stock-keeping units. Global supply chain leaders and business executives' surveys from May to December 2020.

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

ASEAN+3: Relocation Announcements by Sector, 2020–21
(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”

	Institutions	Infrastructure	Labor skills	Labor cost	Labor availability	Market size	ICT development	IPR protection	Trade agreements	Transferability index
Malaysia	Green	Green	Green	Red	Yellow	Green	Green	Green	Green	Green
China	Yellow	Green	Yellow	Red	Green	Green	Green	Green	Green	Green
Indonesia	Yellow	Yellow	Yellow	Green	Yellow	Green	Yellow	Green	Green	Green
Thailand	Yellow	Yellow	Yellow	Yellow	Green	Yellow	Green	Red	Green	Yellow
Brunei Darussalam	Green	Yellow	Green	Red	Green	Red	Green	Yellow	Red	Yellow
Philippines	Red	Red	Yellow	Green	Red	Yellow	Yellow	Red	Yellow	Yellow
Vietnam	Red	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Red	Yellow	Yellow
Lao PDR	Red	Yellow	Yellow	Yellow	Red	Yellow	Yellow	Yellow	Red	Red
Cambodia	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Red	Red
India	Yellow	Yellow	Red	Green	Yellow	Green	Red	Yellow	Green	Yellow
Sri Lanka	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Red	Yellow
Pakistan	Red	Red	Red	Green	Red	Yellow	Red	Red	Yellow	Red
Poland	Green	Green	Green	Red	Green	Yellow	Green	Green	Green	Green
Hungary	Green	Green	Yellow	Red	Yellow	Yellow	Yellow	Red	Green	Yellow
Bulgaria	Green	Red	Yellow	Yellow	Yellow	Yellow	Red	Red	Yellow	Yellow
Croatia	Red	Green	Yellow	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Yellow
Russia	Red	Yellow	Yellow	Yellow	Green	Green	Yellow	Yellow	Red	Yellow
Turkey	Yellow	Yellow	Red	Yellow	Red	Yellow	Red	Yellow	Yellow	Yellow
Georgia	Green	Yellow	Green	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Yellow
Mexico	Red	Green	Yellow	Green	Red	Green	Red	Yellow	Green	Yellow
Costa Rica	Yellow	Yellow	Green	Yellow	Yellow	Yellow	Green	Green	Green	Green
Argentina	Red	Yellow	Green	Yellow	Red	Yellow	Green	Red	Red	Yellow
Brazil	Red	Red	Red	Yellow	Green	Green	Yellow	Red	Red	Red
Mauritius	Green	Yellow	Yellow	Yellow	Green	Red	Yellow	Green	Yellow	Yellow
South Africa	Yellow	Yellow	Yellow	Green	Red	Yellow	Red	Red	Red	Yellow

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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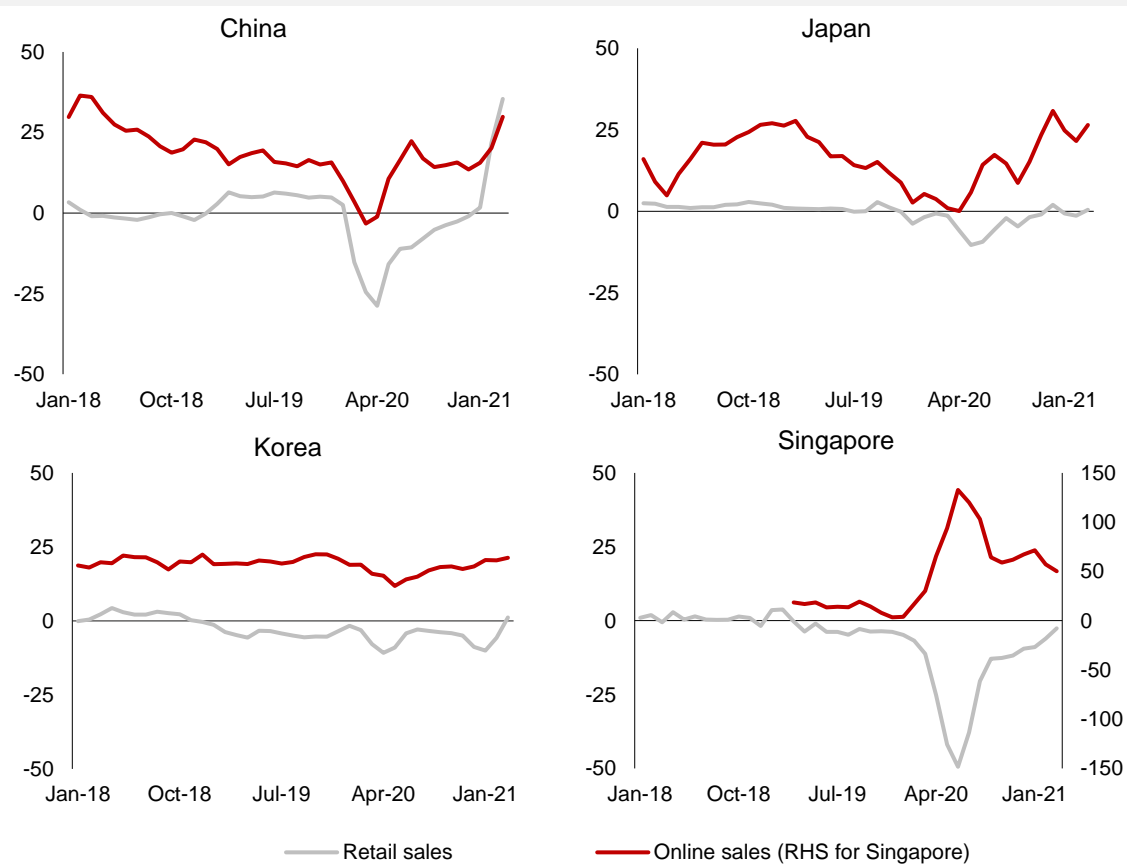
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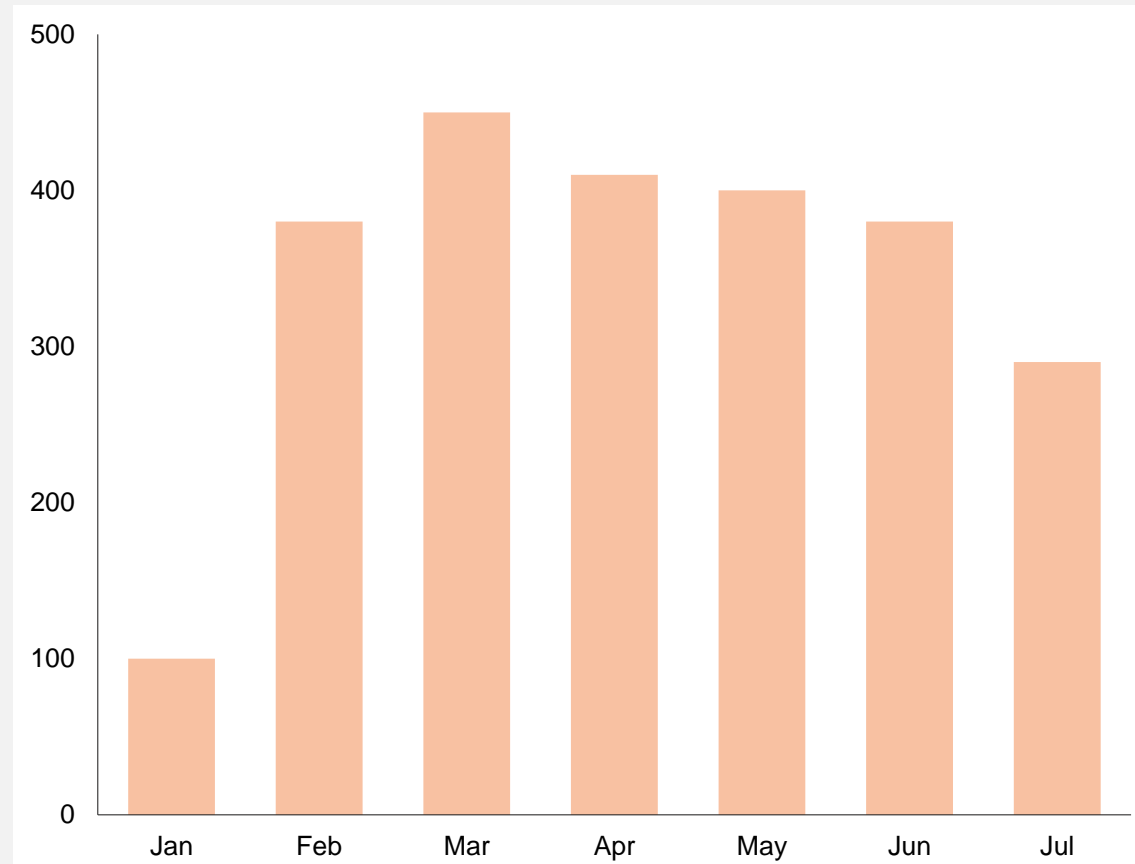
Key Takeaways

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)



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

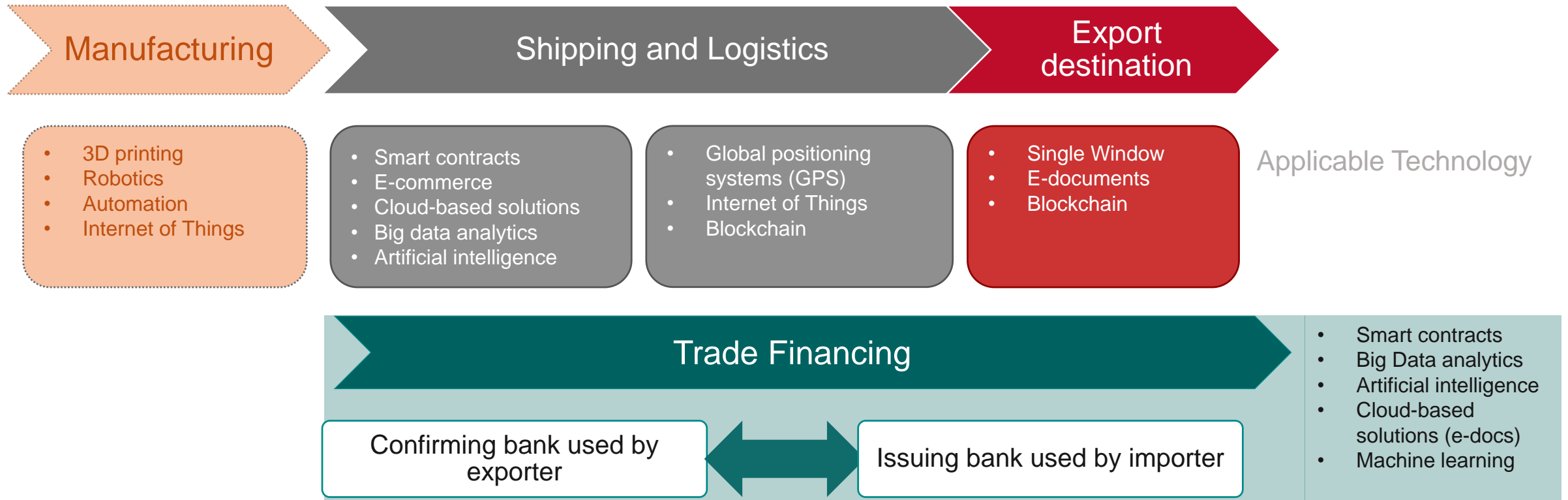


Sources: National authorities via Haver Analytics; and AMRO staff calculations.
Note: Retail sales exclude online sales.

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

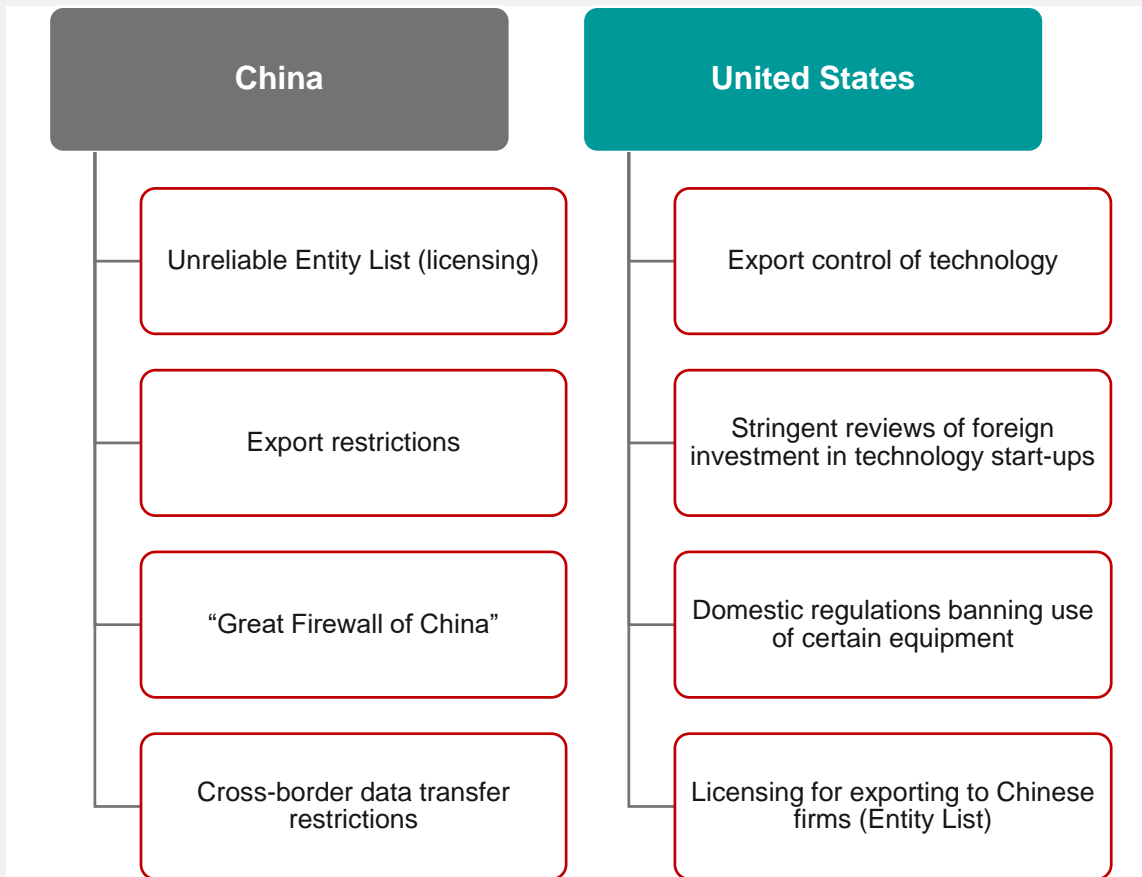
GVCs will increasingly be driven by technology, from production to trade to finance

Technology in Trade and Supply Chain Finance



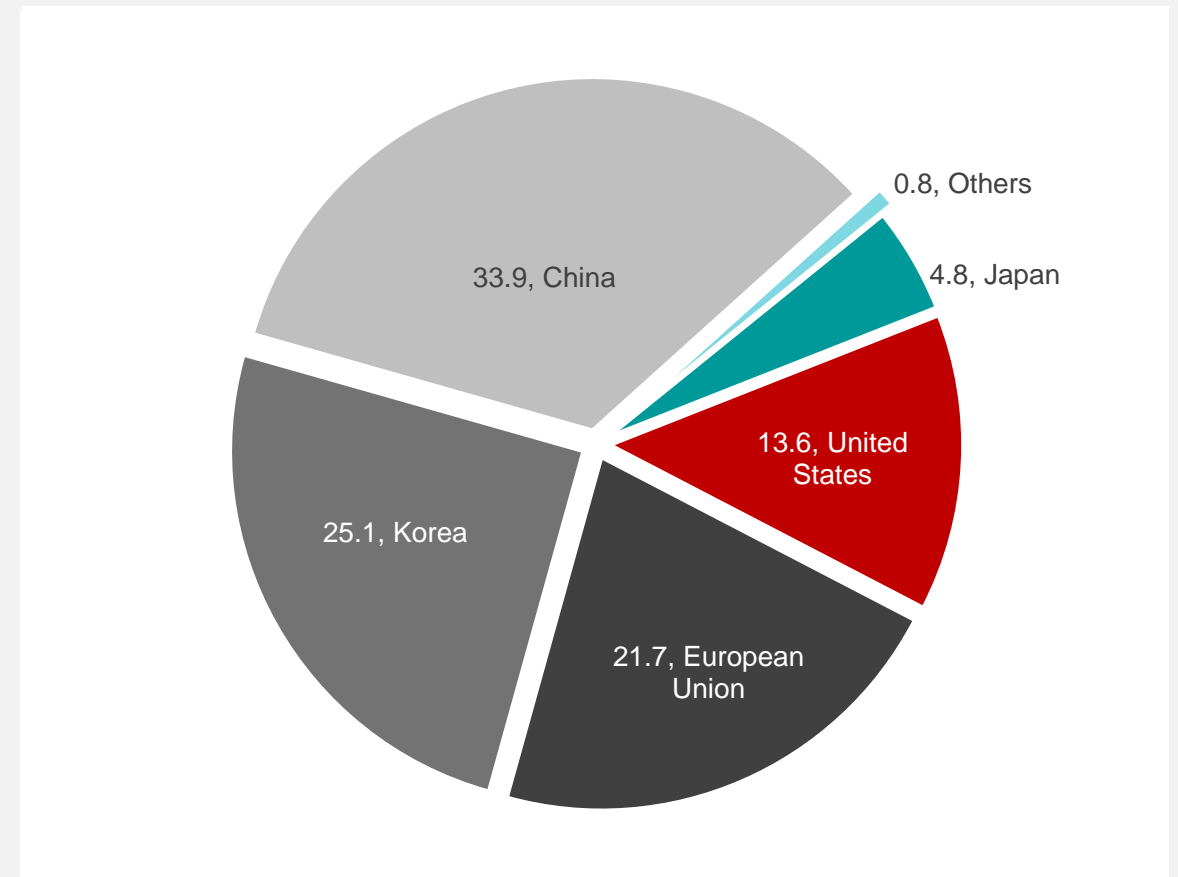
But US–China tech tensions, and global standards competition, could lead to technology bifurcation

United States and China: Selected Tech Measures and Countermeasures



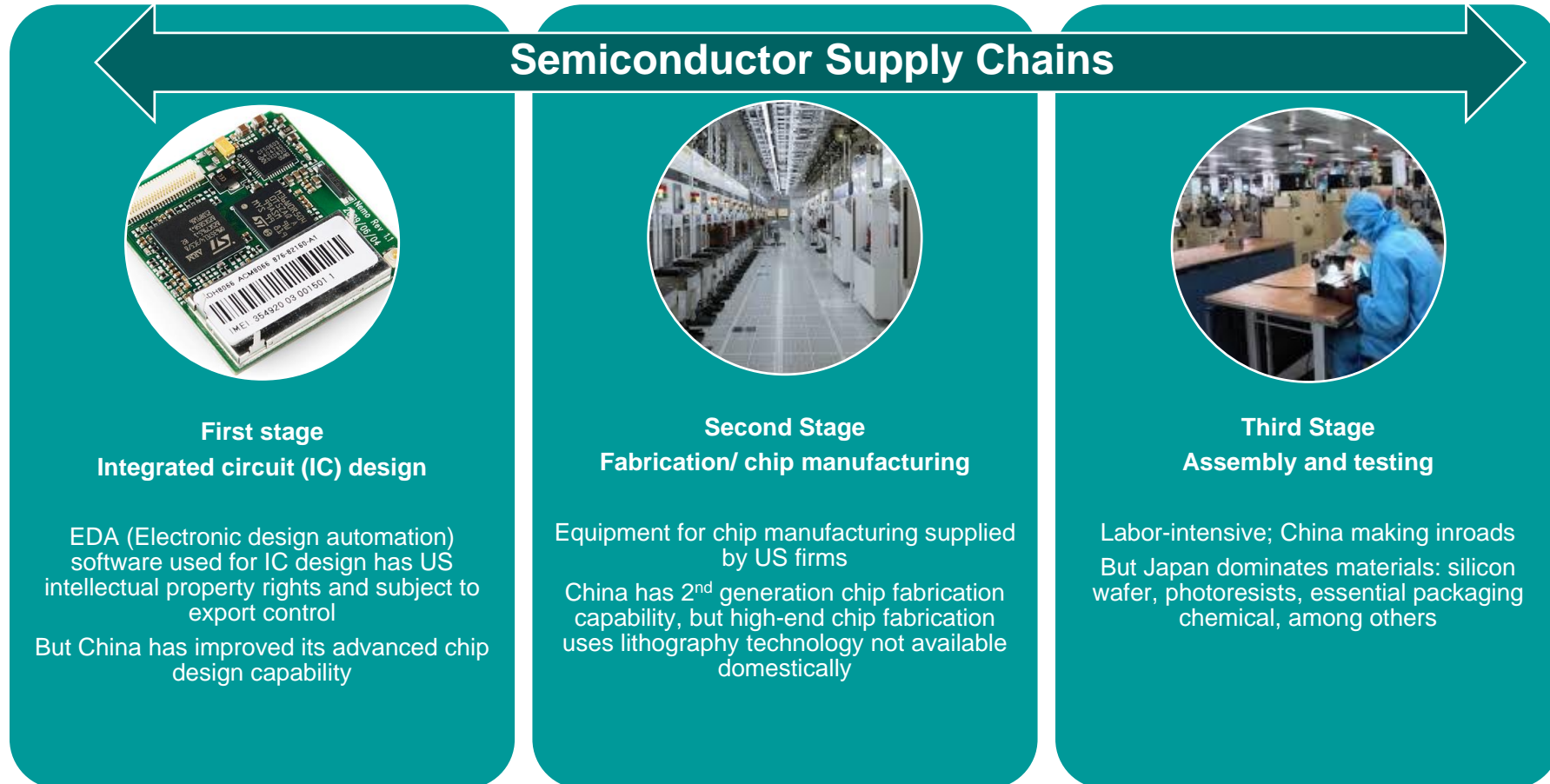
Sources: Ferracane and Lee-Makiyama (2017); various media articles; and AMRO staff.

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



Sources: AMRO staff.

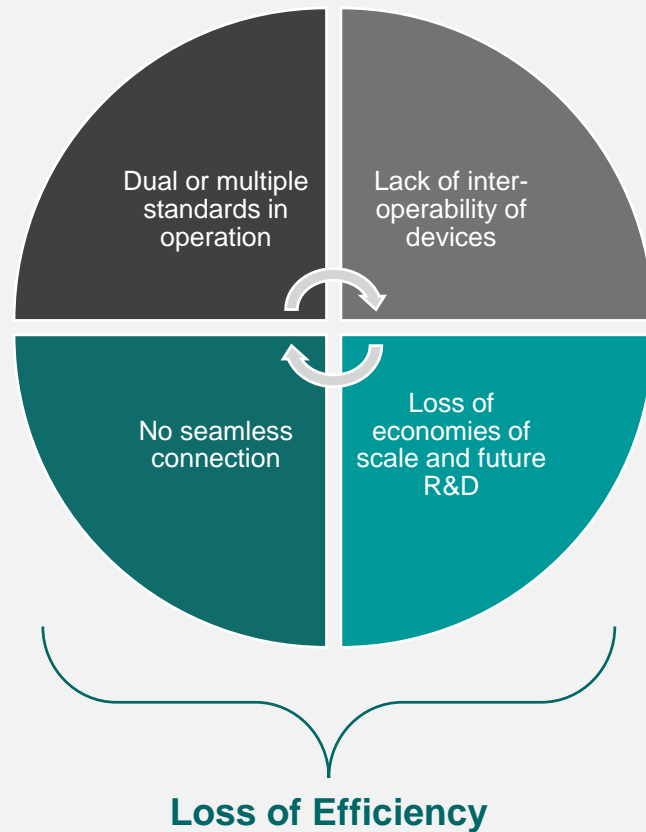
The semiconductor sector is a significant area of strain



Source: Adapted from Kotasthane and Seth (2020).

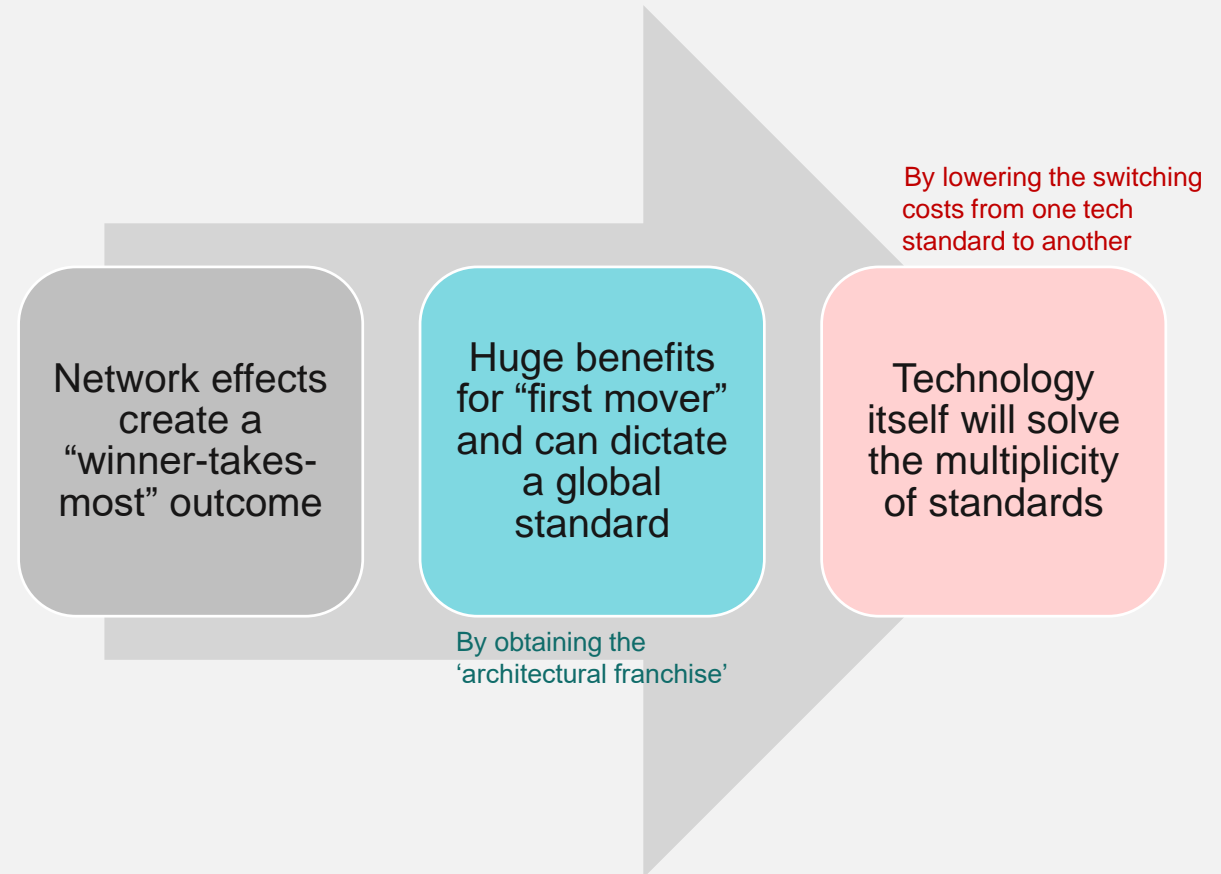
The impact of tech bifurcation will take time to be fully resolved

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.



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