

Diversity with Proximity: Opportunities and Challenges of ASEAN Value Chains

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Summary of the paper

1. ASEAN is a major supply chain hub with a 'diversity with proximity' advantage (named as ASEAN Value Chains (AVC))
2. Paper's aim: Demonstrate the dynamism of AVC, and how integration can be supported further by AEC
3. AVC has economic (factor endowment, wages) and institutional fundamentals (trade & investment policies)
4. Two representative industries chosen to demonstrate AVC, namely textile (for labour and resource intensive countries) and automotive (high tech and skill intensive countries), selected through authors's own selection criteria.
5. Findings: Individual ASEAN countries are not able to compete globally without regional integration, and increasing ASEAN integrated production network will enhance the region's comparative advantage that each country by itself does not have.

Summary of the paper

6. Empirical analysis : Panel data, using 'gravity model' to approximate bilateral trade relationship between any two countries in textile and auto.

7. Result:

- Bilateral trade greater if countries are richer, but less if distant
- Textile: Better infrastructure and innovation needed to offset declining competitiveness amid rising costs
- Automotive: Costs matter as innovation remains in the importing countries
- Regulatory harmonization needed to reduce business cost arbitrage among countries

8. Policy recommendations:

- ASEAN needs to leverage on different comparative advantages in the AVC
- Improvement in infrastructure to reduce trade costs
- Intensify harmonisation of rules and regulations
- Flexibility in adapting to any possible external challenges

Comments

1. The selection of textile is laudable

- Paper's richness seen in the exhaustive analysis of the textile industry in ASEAN
- AVC in textile a good choice by authors in perfectly representing manufacturing the low-income nations of ASEAN (CLMV)
- A unique analysis which explains the post-Multi Fiber Agreement evolution in textile industry (however, effect of MFA quota abolition not explicitly stated)

2. The selection of automobile, not so much

- Automobile industry is highly protected within ASEAN and depends mostly on domestic ASEAN market
- Not the best representative of AVC for high-tech, high-skills manufacturing
- As authors themselves concede, RCA for automotive is the lowest of the top 10 exports (textile is no.4)

3. Selection of time series period between the panel data and change in product shares not consistent

- Panel data : 2001-2012 (acceptable)
- Change in product shares and RCA: 2010-2014 (too short)

Suggestions

1. Electronics and electrical a better representative of high-tech AVC
 - E&E is ASEAN's gateway to the present exposure to global trade exposure, esp. in GVC (bilateral and multilateral free trade agreement)
 - Though there are many available literature in E&E GVC, an AVC perspective on E&E would have been unique and enrich existing literature
 - E&E is much better representative industry in high tech, high wages ASEAN
2. Resource based industries also needed in the AVC analysis
 - Chemical products, rubber-related, food or vegetable oil-related industries (esp. palm oil) would have been excellent samples in the AVC analysis
 - Would be fascinating to examine an AVC that combines factor endowment and high-tech manufacturing and its differing effect on richer vs. poorer ASEAN nations
 - Resource-based industries can serve as a conduit for many ASEAN nations (esp CLMV) to move up to manufacturing value chain (as seen in Malaysia)

Thank you

