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*Global Health Security:
COVID-19 & Its Impacts*

ASEAN & the Post-Pandemic Economy: Role of Global Value Chains

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SYNOPSIS

Developing resilience and sustaining and consolidating participation in global value chains (GVCs) in a post COVID-19 world calls for significantly greater coordination amongst ASEAN member states. They must boost their regional free trade agreements with each other and their partners beyond Southeast Asia.

COMMENTARY

SINCE THE mid-1990s the manufacture of goods has been increasingly reorganised along production chains that may span several countries. Such global or regional value chains (GVCs or RVCs) are facilitated by deregulation; falling barriers to trade and foreign direct investment; improvements in telecommunications and information flows; efficient logistics; and steadily improving and cheaper transportation infrastructure. These attributes have enabled ASEAN to be at the forefront of manufacturing GVCs.

Managed by large multinational corporations, GVCs bring cutting edge management skills, upgraded technology and services needed to manage complex production lines. The objective is to produce the best quality goods at the lowest cost, by sourcing components from locations where they are produced most efficiently. In particular, GVCs develop in the automobile, electronics and even garments sectors because different parts of their production can be carried out in different locations at very competitive pricing levels.

ASEAN's Participation in GVCs

ASEAN states have consolidated their industrial growth and deepened their participation in GVCs. Factors that favoured ASEAN are its regional free trade agreements leading to lower trade barriers; an export and investment friendly ecosystem; prudent monetary and fiscal policies; steadily improving logistics infrastructure and regional connectivity; as well as close relations with China and the United States, the world's two largest economies. In the process, Singapore, Malaysia, Thailand, and more recently Indonesia and Vietnam developed sizeable manufacturing bases.

The benefits of participating in GVCs are manifold: expediting the transition from agriculture to manufacturing and services; stimulating industrial development; boosting employment, incomes and growth; and catalysing growth in productive capacity and skills development. All this helps ASEAN states move up the value chain.

Global Instability and ASEAN Advantage

The Global Financial Crisis of 2008-09 was a significant setback to manufacturing and trade. The path to recovery was halted by the trade dispute between the US and China triggered by President Donald Trump's imposition of tariffs in January 2018. The COVID-19 pandemic comes on the back of an already unsettled environment for GVCs since the onset of the trade dispute.

The impact of the trade dispute has been particularly severe and disruptive for value chains, including those with operations in the ASEAN states. As tariffs on goods produced in China raised prices of Chinese exports to the US, rendering many of them uncompetitive, companies are increasingly relocating production to countries relatively unaffected by tariffs.

For the multinational corporations, relocating out of China is not an easy decision. It entails sacrificing substantial sunk costs, the deadweight loss of installed capacity and a breakdown of relations with local suppliers.

Contrary to what President Trump may have hoped for, firms affected by the tariffs are not relocating from China back to the US, but shifting base to neighbouring economies in Southeast Asia and beyond. Few firms moved production to the US.

The evidence thus far shows that ASEAN economies have benefited from investments shifting out of China. Vietnam has succeeded in attracting the most diverse and arguably, the most significant volume of investment, as have Malaysia and Thailand.

Post-COVID-19: Shorter Supply Chains

The COVID-19 pandemic and geopolitical tension between China and the US will only make the regional environment ever more fraught. Expectations of a potentially volatile international trade and investment environment in the post COVID-19 era will compound uncertainties and risks to global trade and investment.

Complicating matters will be uncertainties on the demand as well as supply side, stemming from a fall in incomes and demand, and poor prospects about the future.

The world after COVID-19 is likely to see shorter supply chains, with resilience and reliability taking precedence over profitability. The manufacturing paradigm will transform from just-in-time to one with emphasis on securing reliable inventories of inputs. This will lead to a concentration of manufacturing in proximate locations.

Opportunities for ASEAN

In the midst of the endemic uncertainty, clear opportunities lie ahead. Despite the COVID-19 pandemic, ASEAN continues to draw increased investment from Northeast Asia and the West.

In the first quarter of 2020, ASEAN surpassed the European Union to become China's largest trading partner, though this was largely due to lockdowns over much of continental Europe. At a time when countries are increasingly turning inwards, ASEAN remains open as an attractive investment destination.

While the immediate post COVID-19 period will be one of painful adjustment, the energies of policymakers, going forward, should focus on building resilience in the face of ongoing uncertainties. To attract investment, ASEAN should accelerate the agenda towards the vision of the ASEAN Economic Community 2025 and update policies in the face of the new risk perspectives of investors.

The arena of public health, with its various deficiencies and opportunities, will be a major concern for investors. Since intra-ASEAN travel is integral to business and tourism, there is a pressing need to develop information sharing and infection control protocols for individual member states and ASEAN as a whole.

ASEAN's Immediate Tasks

In a world of rapidly shifting comparative advantage, ASEAN will do well to develop coherent region-wide policies to upgrade skills, and coordinate policies to attract investment, enhance competitiveness and build resilience. ASEAN should develop protocols and mechanisms for managing reserves of essential inputs, and sharing crucial resources in the event of contingencies.

It is time for ASEAN to dovetail trade facilitation measures with the ASEAN Digital project such that this can cut trade costs and boost competitiveness. To this end, ASEAN should enhance digital penetration and tackle the digital divide within the less advanced ASEAN economies which is crucial for intra-regional connectivity.

Going forward, four issues post COVID-19 warrant ASEAN's urgent consideration:

- Forge closer coordination between government and business on digital development, especially on policies regarding skills development and the facilitation of cross-border trade and investment;
- Improve coordination of efforts to assist collaboration among SMEs within ASEAN to boost their engagement with GVCs;

- Continue to develop an agenda for defining national industrial policies and upgrading value chains and manufacturing;
- Strengthen public private partnerships for developing platforms for knowledge sharing in manufacturing and supporting sectors.

ASEAN has a welcoming ecosystem for investments. It also enjoys advantages in many sectors, including electronics, automobile, food processing. These strengths can be leveraged for deployment in other industries. Going forward, ASEAN's multiple free trade agreements, including the Regional Comprehensive Economic Partnership (RCEP) contains substantial frameworks favourable to the growth of RVCs and GVCs. These should be fully leveraged.

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