

From 'Factory Asia' to 'Factory AND Market Asia': The Changing Dynamics of Asian Value Chains

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Value Chain Development for Deeper Integration of FEALAC:
Asian Perspectives

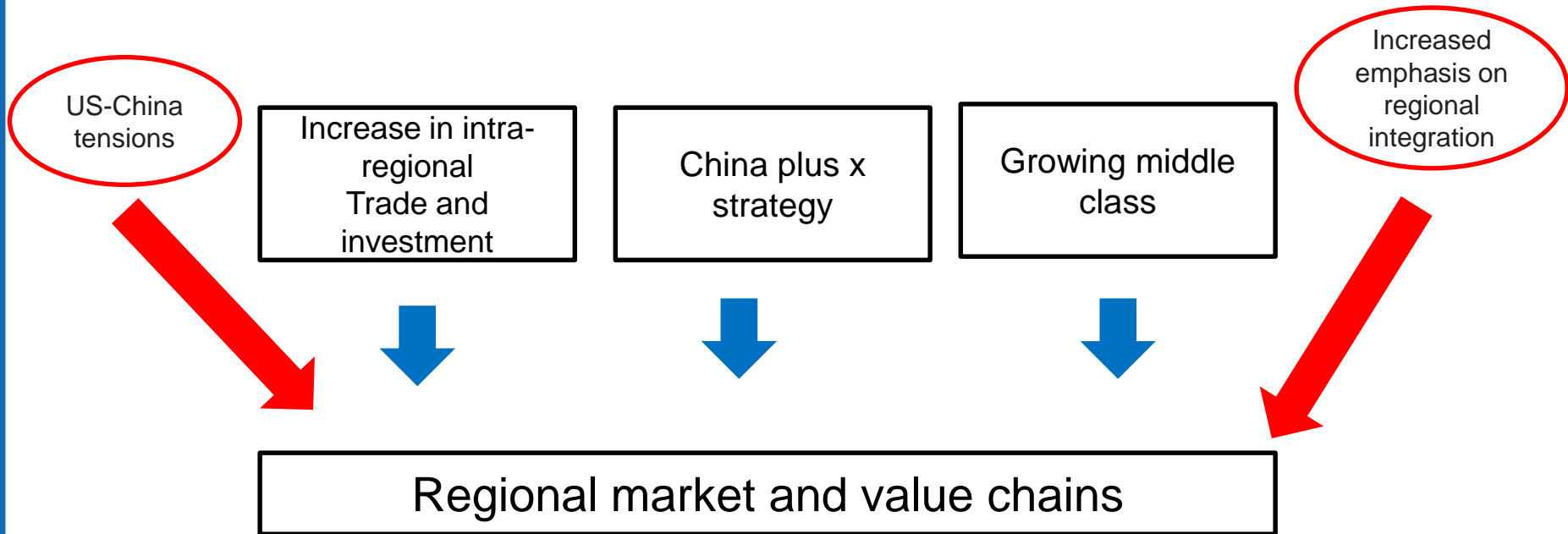
Technical Workshop

UNESCAP, Bangkok, 10 July 2019

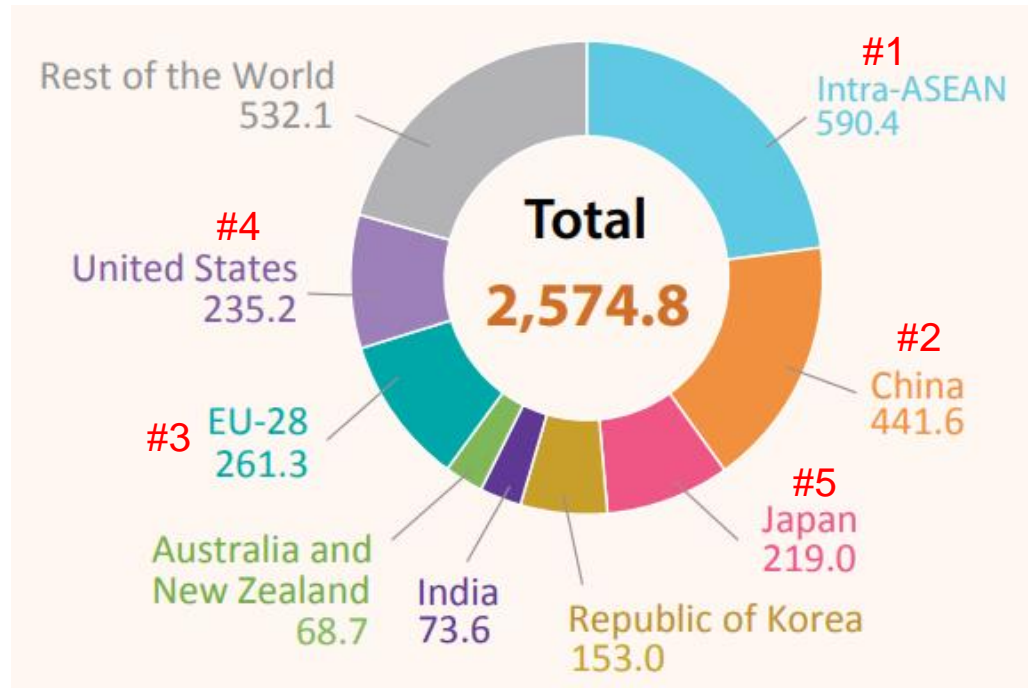
Geo-political and geo-economic changes

- **New (different) hegemonic power:** China's influence in political, economic, social and security issues
- **New (different) types of regional integration mechanism:** Supra-national regional (Regional Comprehensive Economic Partnership-RCEP); Sub-regional (CLMVT); Infrastructure-related (BRI)
- **New players:** Lead firms from emerging economies; Emerging market multinationals; Regional online platform players (e.g. Alibaba, JD.com, Grab, Go-Jek)
- **More South-South trade and investment flows:** Layers of domestic, regional, and global value chains

Factors affecting 'Factory Asia'

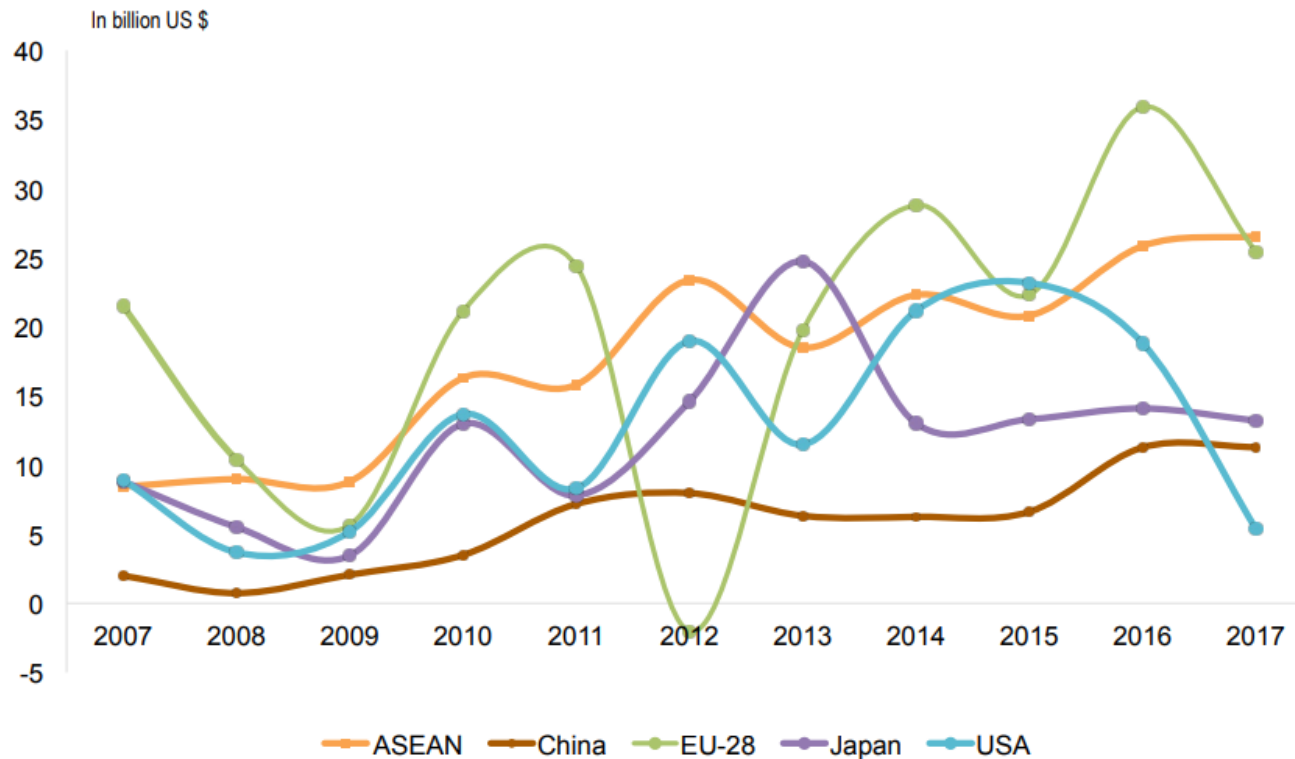


ASEAN Trade Partners (2017, US\$ billion)



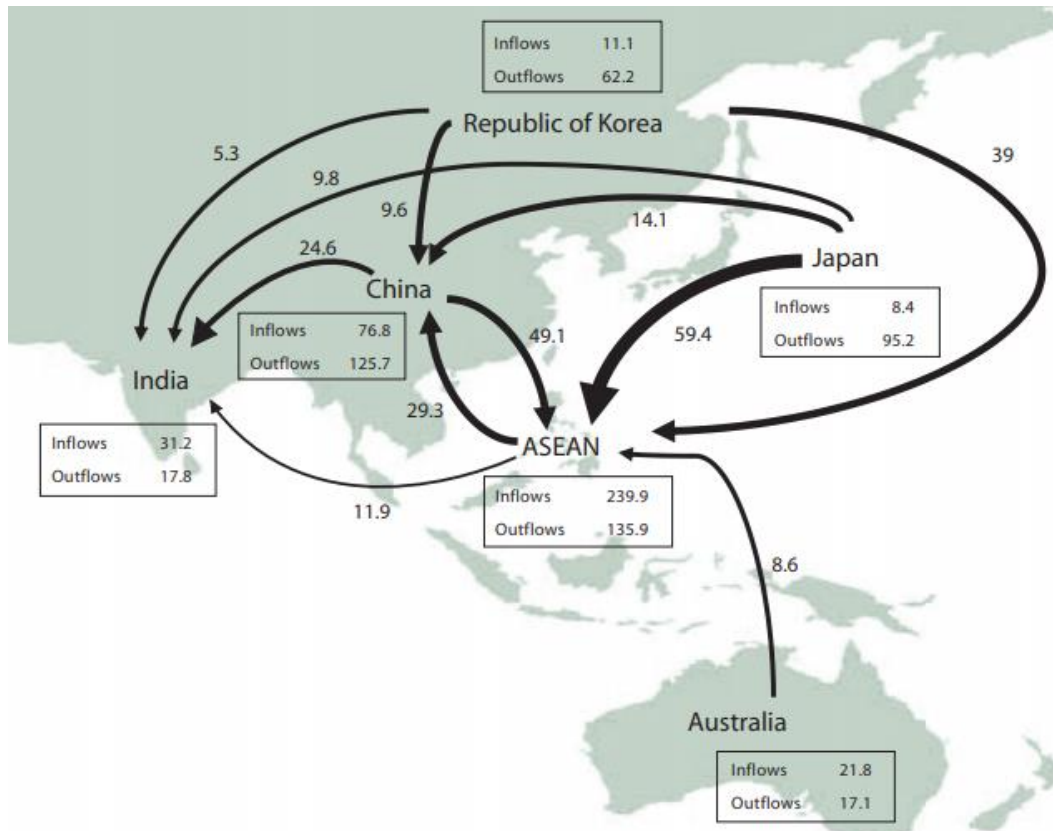
As a single source, ASEAN is the number one trading partner for ASEAN

Net FDI Inflow Sources to ASEAN



ASEAN and China are the only two with positive growth trend

Asian Regional FDI Flows (2014-16)



Intra-regional FDI flows reflecting the increasing significance of regional value chains

Source: Asia-Pacific Trade and Investment Report 2017

Strategic Implications

- **Variety of value chains:**
 - Layers: domestic, regional and global
 - Industry: from traditional sectors (e.g. agriculture, agribusiness, manufacturing) to digital economy value chains
 - Players: State-owned enterprises, EMNEs, family-owned conglomerates
- **From lead firm-centric to supplier-centric:**
 - Governance mechanism: participation and/or disarticulation in layers of value chains
 - Upgrading beyond lead firm-led channels (e.g. internationalization of supplier firms)
 - Local capacity building beyond value chain integration

Policy challenges for emerging market governments

- **How to self-empower:** Taking more control of their own destiny (in their own backyard)
- **How to break policy silos:** Integrating inward FDI, local capacity development, AND outward FDI
- **How to be value chain literate:**
 - Where firms/countries fit in to domestic, regional and global value chain
 - How different types of domestic firms participate in value chain dynamics

Policy Implications

- **OFDI Policy framework:** Understand different types of internationalization among regional MNEs.
- **IFDI linkages and OFDI:** Understand the need to link IFDI policy to OFDI development
- **Industrial development:** Upgrading of industrial capacity and local absorptive capacity
- **Regional integration:** Understand the need from bottom-up, business-facilitating perspective, not just top-down from government policy

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THANK YOU!!

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