

# ADBI / RSIS CONFERENCE

## TRADE IN VALUE-ADDED, GLOBAL VALUE CHAINS AND DEVELOPMENT STRATEGY

### CONFERENCE REPORT

6-8 May 2014  
Traders Hotel  
Singapore



**S. RAJARATNAM SCHOOL  
OF INTERNATIONAL STUDIES**

A Graduate School of Nanyang Technological University



# TRADE IN VALUE-ADDED, GLOBAL VALUE CHAINS AND DEVELOPMENT STRATEGY

Report of a conference jointly organised by the Asian Development Bank Institute and the Centre for Multilateralism Studies, S. Rajaratnam School of International Studies

6–8 May 2014  
Traders Hotel  
Singapore

S. Rajaratnam School of International Studies (RSIS),  
Nanyang Technological University

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*This report summarises the proceedings of the conference as interpreted by the assigned rapporteurs and editors of the RSIS Centre for Multilateralism Studies. Participants neither reviewed nor approved this report.*

*The conference adheres to a variation of the Chatham House rule. Accordingly, beyond the points expressed in the prepared papers, no other attributions have been included in this conference report.*

# OPENING REMARKS

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**Ambassador Barry Desker** noted the growing importance of global value chains (GVCs) and global production networks (GPNs) and their impact on innovation, industrialisation and economic development in emerging Asian economies. Due to the fragmentation of global production, trade in value-added brings new opportunities and challenges for growth and development. As such, 21<sup>st</sup> century trade policies would have to be designed with a better understanding of cross-border trade and trade in value-added. This is particularly important for emerging Asian economies as policymakers strive to improve their positioning in GVCs, which could bring dynamic benefits to their respective countries.

These benefits include: (i) job creation; (ii) expansion of domestic industries; (iii) building longer-term productive capabilities through technology dissemination; (iv) skills building; and (v) industrial upgrading. In order to achieve these benefits, there is a need to increase productivity and upgrade to activities with higher value-added. It was observed that while many East Asian economies have successfully plugged into GVCs, some countries such as Cambodia and Laos as well as a number of South Asian countries continue to lag behind. To arrive at an informed strategy, countries would have to learn to adapt these economic principles to fit their own specific needs and factor endowments.

**Dr Xing Yuqing** highlighted the highly integrated nature of the world today and the emergence of “borderless” production systems that spanned the globe. The increasing internationalisation of production, particularly in Asia, demonstrates how a country can benefit from participating in GVCs. However, such participation is not automatic. Xing emphasised that it is not a question of *when* to participate in GVCs but *how*.

Policies should lock-in reforms to support GVC participation, including streamlining regulations, improving connectivity and liberalising FDI. Xing cited the need to manage the demands of globalisation as the biggest challenge for countries and their respective economies. He also highlighted the role of policymakers as a country’s ability to participate in GVCs is only as good as the ability of policymakers to fully understand the issues concerning GVCs and trade in value-added.

# SESSION I

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## GLOBAL SUPPLY CHAINS AND TRADE IN VALUE-ADDED

### **Global Value Chains and Global Production Networks: Organising the World Economy**

**Henry Yeung** observed that today's economy is defined by fragmented supply chains, with internationally dispersed tasks and activities coordinated by a lead firm. With about 60 per cent of total world trade consisting of intermediate goods and services conducted through GVCs and GPNs, there is a need to look beyond national economies and basic trade data, to more complex organisational structures involving intra-firm trade and inter-firm strategic partnerships, among others. Yeung also highlighted intra-Asian trade as a significant component of global trade and commented that while GVC participation is important in itself, there is also a need for countries to increase their domestic value-added share.

Yeung mentioned four key dimensions that need to be studied. They are: (i) input-output structure; (ii) territoriality; (iii) governance; and (iv) institutional context. In reworking these, it was proposed that more complicated structures, more global geography, more complex modes of governance and a more supportive regulatory regime are needed. Drivers of GVCs and GPNs include the need to have financial discipline to manage uncertainty and risk and to balance costs and capabilities.

Yeung noted the differences between a producer-driven and buyer-driven model within GVCs. These differences mean that firms would have to calibrate their operational understanding so as

to maximise the possibility of success. Product, functional and chain upgrading are also important to achieve the goals of the firms.

On the policy implications, Yeung observed the need to move from national industries to specialised niches in GVCs, to possess detailed knowledge and analysis of regional and global production networks and to leverage GVCs for local firm and market development, among others. However, certain factors such as skills, infrastructure, logistics and tax regimes remain constant and resistant to change.

### **Open Discussion**

Issues on free trade agreements (FTAs) and rules of origins (ROOs) were discussed. Typically, FTAs come after the partner countries are embedded in the same GVC as firms push for a more liberal trade regime. It was noted that ROOs are problematic due to the fact that negotiations would not benefit negotiating parties equally and governments would try to safeguard their national interests.

On the continued relevance of a developmental state, it is unlikely that such a model would be replicated by other countries in the 21<sup>st</sup> century. It is also unlikely that states could create "national champions" simply by investing heavily into firms. In fact, firms have now increased opportunities to obtain capital without relying on state funding, thus diminishing the state's influence.

# SESSION I

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Participants also discussed whether the “flying geese” model was applicable, with some expressing the view that it was less relevant today due to the “truncated” nature of the global economic landscape. On whether cost competitiveness is an important factor in GVCs, it was noted that low cost per se would not be enough and that it would only buy time as other competitors start to catch up and be able to produce the same goods or provide the same service at a cheaper rate or with better quality.

## Measuring Trade in Value-Added

**Meng Bo** emphasised the importance of focusing on GVCs and trade in value-added in light of the increasing complexity of fragmented production. He commented that “almost everything” is made in GVCs and that the value creation and distribution depend on the degree and position of the country’s participation in GVCs. As such, policies would have to be aligned in order to capitalise on comparative advantages and improve competitiveness. He also gave suggestions on the measurement of trade in value-added, noting that if this was factored in, the U.S. trade deficit with China would be lower than if it were based on traditional methods of measurement.

Meng pointed out that GVCs in Asia are far more connected today than before and that it is necessary to study the strength of linkages between industries as well as the “length”, i.e. the level of technological sophistication, in order to come to a fuller understanding of these networks. In the region, other East Asian economies supply high value-added intermediate products to China

which are subsequently assembled into goods for final consumption and exported to the U.S. and EU markets.

On policy recommendations, Meng commented that policies can facilitate a firm’s entry into GVCs, from production and sales to coordinating and synchronising processes. In this case, the value-added would depend on the degree of GVC participation and its product position. There is also a need to liberalise investment and eliminate tariffs. In order to move up GVCs, capabilities should be developed and governments should provide a supportive investment climate in their respective countries.

## Open Discussion

Participants noted the declining per unit gains of value-added. According to OECD data, this trend applies to 90 per cent of all countries, developed and developing alike. However, per unit gains is only one measure; it is more important to focus on the absolute gains. In this case, absolute gains are rising for several developing countries.

On the need for governments to provide better support, it was highlighted that processes, not just product outcomes, are important components of GVCs and that policy impacts would need to take this into account. Initiatives should improve regulatory measures, system designs and information flows. It is important that government officials provide a supportive environment and be involved in GVC processes as much as possible.

## SESSION II

### PARTICIPATION OF DEVELOPING COUNTRIES IN GLOBAL VALUE CHAINS: SERVICE AND AUTOMOTIVE SECTORS

#### **Service Sector: Call Centre and Business Processing Service in the Philippines**

**Ana Maria S. Bongato** traced the development of the Philippine Information Technology Business Process Management (IT-BPM) industry. The domestic IT-BPM industry has grown rapidly from a handful of firms providing mainly voice-support services to customers around the world in the late 1990s to a multi-billion industry providing more complex services and contributing nearly 7.8 per cent to GDP in 2012. The successful participation of the Philippines in the GVC for services, particularly in IT-BPM can be attributed to five key characteristics: (i) scalable educated talent pool; (ii) cost competitiveness; (iii) excellent infrastructure; (iv) government support and public-private partnership; and (v) a proven track record.

Bongato shared that the Philippines is trying to move up the value chain by attracting investments for more-than-voice IT-BPM services. In particular, a lot of effort has gone into attracting large multinational companies to start their operations in the Philippines. Bongato underscored the importance of government support and collaboration in ensuring that the Philippines remain a competitive destination for IT-BPM investment. In addition to tax breaks and incentives, Bongato said that the government should continue to provide credible, consistent and appropriate policies for the sector.

#### ***Discussant (Philippines)***

**Angelica Mapua Cayas** shared her experience as part of the government team that pioneered investment promotion for the Philippine IT-BPM

industry. She emphasised the importance of having a good value proposition for investors. In the case of the Philippines, these factors include low cost, reliable telecom infrastructure, skilled manpower and sufficient government incentives.

#### ***Discussant (Vietnam)***

**Khanh Duy Do** noted the positive gains derived from the Philippines' participation in the GVC for the service sector. He also raised the possible negative social impacts of being plugged into this type of industry, especially with regard to worker welfare and the adjustments they have to make, such as working odd hours. As Vietnam is also interested to attract investments in this field, he wanted to know which policy measures the Philippines undertook to become competitive in this area.

#### **Automotive Industry: Role of Production Network and Global Chains in the Development of Automotive Industry in Thailand**

**Kriengkrai Techakanont** discussed the roles of government policies, domestic production and demand for automobiles, foreign firms and production clusters in the development of Thailand's automotive industry. While the country has been producing cars since the 1960s, it was only in the mid-1990s that the automobile industry was able to export. This was partly due to the Asian Financial Crisis which triggered a change in the economic growth strategy of Thailand to an export-oriented model.

Specific and clear goals to support the automotive industry in Thailand coupled with consistent and

## SESSION II

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sound policies were instrumental in the success of the automotive industry. These policies include the abolition of local content requirements, promotion schemes by the Board of Investment and the creation of industrial estates which led to the rise of the “automotive belt” in the eastern part of Thailand. Thailand’s participation in the automotive GVC has led to industrial upgrading and the subsequent deepening of the country’s technological capabilities in the sector. Techakanont noted some future challenges that would impact Thailand’s competitiveness in the sector, such as the foreseen structural changes after the ASEAN Economic Community is realised in 2015 and the development of road networks particularly in mainland Southeast Asia.

### *Discussant (Thailand)*

**Budthree Tiamtiabrat** commented that there is no single factor that made Thailand’s automotive industry successful but the government played a critical role as designer of policies and investment structure. Looking ahead, Thailand would need to invest more on its people, noting the shortage in the number of skilled engineers and technicians that can support the industry. Thailand would also need to further upgrade technologies used in the industry to world-class levels to remain competitive.

### *Discussant (Indonesia)*

**Rolly Rochmad Purnomo** lauded the policies implemented in Thailand that led to the

success of the domestic automotive industry. Purnomo shared that Indonesia is keen to learn from Thailand’s experience in improving the productivity of its automotive sector. One specific area where Indonesia hopes to draw from Thailand’s experience is human resource development.

### **Open Discussion**

Participants highlighted the importance of having and retaining an adequate pool of competent and skilled workers for the industries discussed in order to meaningfully participate in GVCs. This is crucial for countries to be able to move up the value chain especially for the IT-BPM and automotive industry.

The discussions also tackled the importance of striking a balance between the role of the government and the role of market forces and other stakeholders in encouraging the development of specific industries. While industry associations played a significant role in the development of the IT-BPM sector in the Philippines, the same cannot be said of the automotive industry in Thailand.

Participants also highlighted the vulnerability of GVCs to external shocks, citing the impact of the flooding in Thailand and tsunami in Japan in 2011 as examples. The role of innovation in moving up the GVC was also discussed.



## SESSION III:

### PARTICIPATION OF DEVELOPING COUNTRIES IN GLOBAL VALUE CHAINS: TEXTILE AND SOFTWARE INDUSTRIES

#### **Textile: Supply Chains of Textile and Clothing Industry**

**Chris Koh** gave an overview of recent developments in the textile industry and presented policy recommendations to better promote the industry and create employment. He challenged the traditional perception of textiles as a “sunset” industry in developing economies suggesting that there are no “sunset” industries only “sunset” organisations. Koh highlighted various opportunities for further developing the industry. These strategies though can only be realised when policymakers identify their countries’ strategic positions in GVCs.

The global textile industry is still growing at 20 per cent per annum, as the United States, the European Union and Japan continue to be major export destinations. Koh presented a framework for analysing value proposition which can help guide policymakers in developing countries in identifying their comparative advantages. Factors to be considered include geographical location (e.g. market proximity), infrastructure (e.g. available transport systems), political climate (e.g. supportive labour laws) and cost (e.g. low utility rates).

Countries should build their unique strategies for growth based on the results of their value proposition analysis. Most importantly, governments have to focus on improving productivity, lowering costs, identifying buyer markets and spotting competition from new market entrants. Koh’s supply chain analysis illustrates that no single country can endeavour to do everything on its own and it is advisable to pinpoint specific segments to add value to GVCs.

Governments of developing economies should develop infrastructure, review labour laws,

foster bilateral and multilateral trade facilitation and provide incentives for FDI and capability development, among others. Global agencies could assist developing countries, possibly by funding or co-sharing the cost of feasibility studies, helping develop FDI marketing kits or providing trade financing.

#### ***Discussant (Cambodia)***

Cambodia’s textile industry shows big potential for faster export growth and greater participation of private investors. **Chamroeum Sok** shared that the government of Cambodia has negotiated with workers and owners of foreign firms to settle minimum wage issues and established special economic zones (SEZs) near borders and seaports.

#### ***Discussant (Laos)***

**Kavin Saiyavong** noted that, at present, ASEAN member states are the main trading partners of the textile industry in Laos. The government has put in place a number of laws to boost the textile industry. However, the country is still lacking an efficient transportation system, trade facilitation mechanisms, export promotion agencies and training centres to assist industry development.

#### **Software Industry: Indian Software as Part of Global Software Value Chains**

In India, the fast growing IT-BPM industry is a major contributor to national GDP and the main driver of Indian exports since 1998. Three-quarters of Fortune 500 companies outsource IT services to India, helping the country capture 55 per cent of global market in 2013. **Jayatirtha Asundi** presented an overview of India’s leading

## SESSION III

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role in the global IT-BPM industry and the challenges the government should address to encourage further industry growth.

The boom of India's IT-BPM industry started in Bangalore and Mumbai back in the early 1990s, when the government encouraged the development of software technology parks and other infrastructure facilities meant for software exports. The government also allowed duty-free imports of software and hardware products used for export production, exempted exporters from taxes on profits and reinforced the focus on process improvements and reliability such as ISO and Capability Maturity Model certifications. Asundi noted that government support in the IT-BPM industry was characterised by a relatively more passive role ("benign neglect") which actually served to help the sector grow in the 1990s-2000s.

Asundi compared and contrasted four models of software outsourcing, namely: (i) onsite project model; (ii) onsite-offshore project model; (iii) offshore development centre model; and (iv) subsidiary model. His discussion emphasised the competitive, fast evolution of the global software industry that increasingly calls for recruitment of IT talents around the world as well as the establishment of capital-intensive product-based companies in India. Besides these challenges, the Indian domestic market remains small and therefore has the potential to become a growth engine for the industry by serving as a base for product or prototype development. The Indian government should create nurturing policies to increase market share in Asia Pacific

countries and encourage innovation at various IT development stages.

### ***Discussant (China)***

**Dai Liangjun** compared the Chinese IT industry to India's experience. In contrast to the case of India, China's IT industry has mainly focused on the domestic market, translating to low export performance and a small share of global outsourcing market. China pursues a different development model and industry policies because of its unique culture and language limitations. Chinese IT hardware exports account for more than half of global shipments, but imported intermediate goods make up a majority of Chinese exports. Therefore, China's value-added in the IT value chain remains very small, relies on low skills and technology and lacks independent innovation.

China is actively searching for opportunities for further technological upgrading by initiating overseas merger and acquisitions as seen with Huawei and ZTE. However, the country is encountering difficulties in the United States due to national security issues. Therefore, Dai inquired on how Indian companies could take on U.S. companies in their globalisation efforts. In addition, Dai looked at the implications for China-India trade relations and prospects for competition or cooperation in the IT GVC since China specialises in the IT hardware sector and is not directly competing with India in the software sector.

## SESSION III

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### ***Discussant (Philippines)***

**Angelica Mapua Cayas** noted that despite the Philippines' success in the IT-BPM industry, it lags behind India in software development. India has proven that it has the right talent to support the industry's human resource needs. Cayas also raised questions on how the Indian government is dealing with intellectual property issues and what kind of incentives it is offering to the Indian expat community working in IT firms overseas, to entice them to return to India.

### **Open Discussion**

The discussion concerning the textile industry centred on the challenges encountered by developing Asian economies. Examples cited include labour volatility, maintaining competitiveness and difficulties in keeping up with global standards and trends. As frequent strikes can debilitate the industry, it was suggested that governments should work closely with both employees and business owners to ensure that

labour laws are fair and benefit all parties involved. On maintaining competitiveness, countries should invest in lean production. Lastly, while it is important to be aware of the latest global trends, there are opportunities for local textile industries to cater to niche markets by adjusting traditional designs to meet the standards and tastes of such markets.

On the software industry, participants focused on the implications of and lessons from India's experience. Despite the success of the software industry, India cannot bypass industrialisation and jump straight to be a service-oriented economy. A vast majority of the Indian population still relies on labour-intensive agriculture. Development will continue to rely on the manufacturing and construction sectors. Another challenge the IT industry faces in India is the downward trend in IT enrolment. Participants emphasised that MNCs will go to where the talent is. Therefore, it is important for local firms to maintain and enforce global standards to stay relevant in the global arena.

# SESSION IV

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## GLOBAL VALUE CHAINS AND NEW INDUSTRIALISATION STRATEGY

### **Plugging into Global Value Chains: An Alternative Path for Industrialisation and Innovations**

**Xing Yuqing** shared his views on how GVCs have transformed trade relations among countries and questioned the validity of conventional trade rules and principles. Trade relations among countries have become more complex, moving beyond simple consumer-producer concerns. Since multiple countries are involved in GVCs, multilateral partnerships among these countries have superseded bilateral trade relations. Conventional economic concepts on trade also need to be reviewed. The relationship between exchange rates and trade, and technology innovations and domestic employment are some of the concepts that need to be revisited. In the era of GVCs, Xing argued that for countries to industrialise, domestic industries need not cover all stages of production or service processes. Plugging into GVCs would be an alternative path towards industrialisation.

For developing countries, Xing listed the following opportunities when participating in GVCs: (i) access to global distribution networks and markets; (ii) transfer of technology from advanced countries; (iii) association with respected global brands; and (iv) reduction of information costs related to reverse engineering and catching up. Using China, Vietnam and Thailand, Xing showed different strategies adopted by these countries to successfully participate in GVC.

### ***Discussant (Pakistan)***

**Sohail Ahmad Khan** highlighted the need to re-examine how current trade statistics are being collected in light of the new era of GVC trade. He believed that the World Trade Organization

and the United Nations Conference on Trade and Development, among others, should take the lead in this matter. With regard to technology transfer, Khan underscored the need to balance developing domestic industries through technology and encouraging domestic firms to outsource as these factors have important implications on local employment.

### ***Discussant (Mongolia)***

**Bekhbat Sodnom** shared that Mongolia is a newcomer to GVC participation but despite being a landlocked country, it wants to capitalise on its close proximity to huge markets (e.g. China). The government has established SEZs in the country and invited firms to invest there. Mongolia's status under the EU Generalised Scheme of Preference provides exporters from Mongolia preferential market access to the EU market. This preferential market access status is currently being used by the country to attract investments in Mongolia.

### **Linking South Asia to Production Networks in East Asia**

**Pradumna B. Rana** discussed the trends of South Asia and East Asia trade linkages and the critical role of domestic reforms in South Asia to link production networks in South Asia with East Asia. Trade between the two regions has been increasing in recent years albeit from a low base. The growth of production networks has transformed trade patterns in the region. Rana identified the following drivers behind this process: (i) advances in technology; (ii) reduction in logistics and transport costs; and (iii) developments in ICT; which made it easier for companies to manage supply chains.

## SESSION IV

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However, in order for South Asian countries to link to production networks in East Asia, they would have to implement a second round of Look East Policies (LEP2). LEP2 is composed of five overlapping policies: (i) completion of the economic reform programme started in the 1990s; (ii) improvement of ICT systems to coordinate supply chains; (iii) reduction of logistics costs; (iv) enhancement of physical connectivity between South Asia and East Asia; and (v) participation of India in regional cooperation efforts in East Asia. The benefits of implementing LEP2 include the re-invigoration of growth and integration within South Asia and the re-emergence of a prosperous and integrated Asia.

In conclusion, Rana provided a few policy recommendations for countries joining GVCs such as: (i) strengthen market intelligence in key export markets; (ii) enhance conformance to standards; (iii) review existing non-tariff barriers and remove unnecessary ones; and (iv) improve labour market laws and restrictions, among others.

### ***Discussant (Sri Lanka)***

**Thotagamuwage Yasantha Lakmani Munasinghe** shared Sri Lanka's efforts to increase its competitiveness in GVC trade. These efforts include (i) upgrading existing ports and constructing new ports; (ii) improving the aviation sector and positioning its airports as a hub to connect South Asia to East Asia; and (iii) strengthening the country's commercial and energy industries. All these are in line with Sri Lanka's "five-hubs strategy" which aims to transform the country into a strategic economic regional hub in five sectors: (i) naval; (ii) aviation; (iii) commercial; (iv) energy; and (v) knowledge.

### ***Discussant (Nepal)***

**Navaraj Dhakal** admitted that the "2<sup>nd</sup> round" of LEP was not carried out effectively in Nepal but this is expected to change as the country becomes more politically stable. He shared that there is a need for countries to have a change of mindset when it comes to integration. To better integrate South Asia as a region, countries should look beyond bilateral approaches and focus more on regional or multilateral approaches such as the South Asia Free Trade Agreement.

### **Open Discussion**

The participants discussed the difficulties of accurately measuring value-added trade and defining ROOs. In the case of ROOs, suggestions such as adopting a cumulative ROOs approach and creating a customs union in the region have been raised but some participants noted that cumulative ROOs may increase compliance costs and a custom union may be difficult to achieve in the region due to political concerns. Beyond ROOs, participants also discussed the possibility of rethinking other conventional trade concepts such as trade creation and trade diversion.

With regard to South Asia-East Asia integration, participants considered the prospects of greater cooperation in areas such as tourism which could possibly spillover to trade relations in the future. The participants agreed that while South Asia integration has been weak, there is significant potential and domestic reforms in South Asian countries via LEP2 are important. The participants agreed that linking with other regions to foster closer integration within South Asia could be one route to closer integration that South Asian countries could explore.

# SESSION V

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## GLOBAL VALUE CHAINS: OPPORTUNITIES AND CHALLENGES

### Moving Up the Global Value Chains: China's Effort

**Peng Jing** gave a brief overview of China's ascent in GVCs. In the 1980s, China succeeded in labour-intensive industries as it capitalised on the country's low operating costs and abundant land, natural resources and labour supply. Supportive policies included establishment of export processing zones (EPZs) and SEZs and gradual liberalisation of trade and FDI flows. The government intensified its efforts in the following decades. During this period, China's electronics and chemical industries were embedded into GVCs and the country gained technical and managerial skills to support its growing manufacturing sectors. However, these developments came with worsening pollution, weak presence of local brands and low R&D investment.

As China undergoes a new round of reform and liberalisation agenda, Peng listed several opportunities for the country to move up further in the GVC. These include acceleration of high-standard bilateral and regional trade agreements, expansion of the service sector and increasing the number of Chinese firms investing and operating overseas. Peng also pointed out that China must deal with a number of challenges, such as increasing labour costs, rising inequality and deficient IPR protection.

China's experience in moving up the GVC demonstrates the importance of smart policy design and a responsive policy regime that adjusts as a developing country's comparative advantage changes. Peng also emphasised the advantages of establishing EPZs and SEZs and the need to combine participation in GVCs with environmental protection.

### Global Value Chains in Indonesia: Experiences, Policies and Strategies

**Rolly Rochmad Purnomo** gave an overview of the current state of GVCs in Indonesia, highlighting signs of de-industrialisation and the government's long-term plans for national industrial development.

Indonesia's role in GVCs involves more forward participation as the top industries are mining and chemicals and minerals. Trade in Indonesia largely involves resource-based exports. As opposed to the experience of other developing countries where efficiency-seeking investment in GVCs is the most common, Purnomo noted that the case of Indonesia demonstrates that resource- and market-seeking investments are more prominent. He expressed his concern that this is related to the emerging trend of de-industrialisation in the country.

These concerns are addressed in the Indonesian government's Medium-Term Development Plan (RPJM) and the Acceleration and Expansion of Indonesian Economic Development (2011-2015). One key objective is to increase the productivity of and value-added in natural resource industries through the expansion and creation of a sustainable upstream and downstream activity chain. This would involve improving national connectivity, strengthening human resources and national science and technology capabilities and improving regional economic potential through the development of six economic corridors across Indonesia.

## SESSION V

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### Global Production Network Participation and Government Initiatives Towards Industry Development

**Ma. Corazon Halili-Dichosa** reviewed the latest developments in the Philippine automotive, electronics and semiconductors industries and the various government initiatives to facilitate deeper integration in GVCs.

The Philippines is already considered a global hub for electronics assembly and testing, with strong growth in certain subsectors such as automotive electronics and electronic data processing. Halili-Dichosa noted the similarities between the country's top exports and imports (including integrated circuits, semiconductor devices and electrical transformers), suggesting participation in both upstream and downstream processes and significant intra-industry trade.

With regard to the automotive industry, while sales in passenger and commercial vehicles have been increasing since 2002, the Philippines is trailing behind its fellow ASEAN member states. The country's niche is in parts and components production. Most of the exports in this sector include wiring harness, lead-acid storage batteries and intake air filters.

Halili-Dichosa also presented the long-term strategies of the Philippine government to encourage participation in GVCs. The government listed Five Pillars of Growth: (i) sustaining growth in existing revenue streams; (ii) pursuing SME countryside growth; (iii) development of new revenue streams; (iv) recapturing sectors for employment generation; and (v) revisiting backbone sectors. The government also launched a Manufacturing Resurgence Program which aims to increase manufacturing contribution to 30 per cent of total value-added and 15 per cent of total employment by 2025. Halili-Dichosa emphasised the importance of strong private sector ownership in these initiatives.

### Global Value Chains: Opportunities and Challenges

Thailand is among the region's top performers in GVCs but there remains significant room for improvement. **Bonggot Anuroj** shared her views on opportunities for further growth in the automotive, hard disk drive and electronics industries and the long-term strategic direction for Thailand's industrial strategy.

Anuroj highlighted the missing links in the automotive, hard disk drive and electronic industries. In the automotive industry, she suggested that Thailand should also look into producing missing components such as automatic transmissions and traction motors for hybrid or fuel cell cars. There are also opportunities to regain Thailand's top status in production and exports of hard disk drives. One way is to take over production of certain imported materials (e.g. wafers) so that local firms can reduce reliance on imports and be involved in other parts of the production process aside from assembly. The case is similar in the electronics industry. Anuroj argued that Thailand is losing its competitiveness in assembly given the significant rise in the country's minimum wage.

The main challenge now is how Thailand can promote investment to support restructuring and sustainable development whilst avoiding the Middle Income Trap. To this end, the government is promoting its industrial development agenda (Thailand 4.0) focused on moving into a knowledge-based economy, supporting the creative and green industries and making the country a logistics hub. There are also plans to establish new regional industrial clusters and support Thai overseas investment.

## SESSION V

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### Open Discussion

Questions were raised regarding the low wages and tax losses cited as negative consequences of GVC participation in China. It was argued that perhaps there are misconceptions about these particular effects as it fails to consider the initial state of wages and taxes in China. Some participants felt that in relative terms, there is still space for improvement.

On Indonesia, some participants expressed doubts about the extent of de-industrialisation in the country in light of growth in the textile and automotive industries.

Comments on the Philippines' industrial development focused on the need to generate employment and capitalise on the country's significant talent pool. The government should step up their efforts to address the job-skills mismatch.

Lastly, it was noted that it might not be advisable for Thailand to produce certain components instead of importing them as the country does not have a comparative advantage in this area.

## CLOSING REMARKS

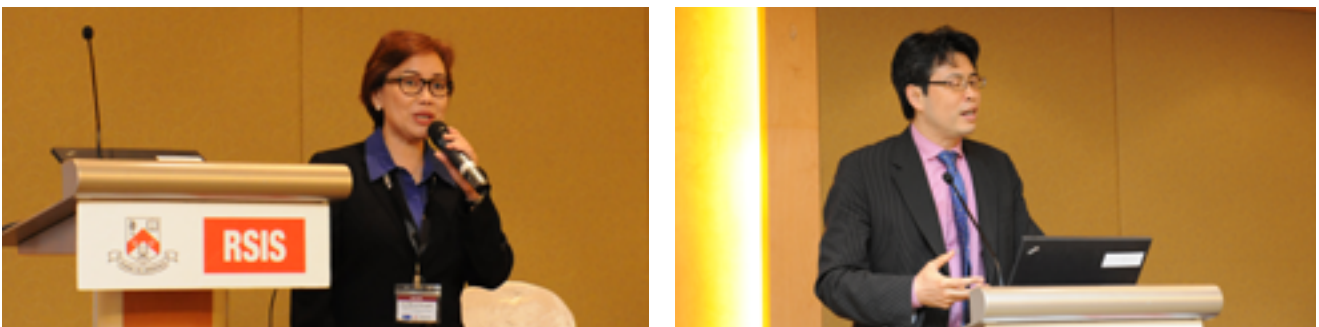
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**Tan See Seng** and **Xing Yuqing** expressed their gratitude to the conference speakers and participants for sharing their knowledge and insights on the key concepts, case analyses and country strategies.

Xing commented that the discussions helped deepen the participants' understanding of the aforementioned topics and will be useful as the region's economies embark on the next steps for improving participation in the global economy at the firm and country levels. Participation in GVCs is not without risks but the experience in Asia demonstrates that the benefits outweigh the costs. Re-thinking industrial development strategies and forging stronger trade partnerships among Asian countries are the first steps to maximising the benefits from GVC participation.







# CONFERENCE PROGRAMME

Tuesday, 6 May 2014

<p><b>0900hrs</b>      <b>Registration</b></p>	<p><b>Session II: Participation of Developing Countries in Global Value Chains: Service and Automotive Sectors</b> <i>Moderator: Aladdin Rillo, Senior Economist, ADB Institute, Japan</i></p>
<p><b>0930hrs</b>      <b>Opening Remarks</b> <i>Ambassador Barry Desker, Dean, S. Rajaratnam School of International Studies (RSIS), Singapore</i></p> <p><i>Dr Xing Yuqing, Director of Capacity Building and Training, ADB Institute, Japan</i></p>	<p><b>1400hrs</b>      <b>Service Sector: Call Center and Business Processing Service in the Philippines</b> <i>Ana Maria S. Bongato, Executive Director for Talent Development, IT and Business Processing Association of the Philippines (IBPAP)</i></p>
<p><b>Session I: Global Supply Chains and Trade in Value-Added</b> <i>Moderator: Pradumna B. Rana, Associate Professor, S. Rajaratnam School of International Studies, Singapore</i></p>	<p><b>1430hrs</b>      <b>Discussant (Philippines)</b> <i>Angelica Mapua Cayas, Director, Internal Investment Promotion Service, Board of Investments</i></p>
<p><b>0945hrs</b>      <b>Global Value Chains: Structure and Basic Concepts</b> <i>Henry Yeung, Professor of Economic Geography, National University of Singapore (NUS), Singapore</i></p>	<p><b>1445hrs</b>      <b>Discussant (Vietnam)</b> <i>Khanh Duy Do, Official, Multilateral Trade Policy Department, Ministry of Industry and Trade</i></p>
<p><b>1015hrs</b>      <b>Open Floor Discussion</b></p>	<p><b>1500hrs</b>      <b>Open Floor Discussion</b></p>
<p><b>1045hrs</b>      <b>Group Photo and Coffee Break</b></p>	<p><b>1530hrs</b>      <b>Coffee Break</b></p>
<p><b>0945hrs</b>      <b>Measuring Trade in Value-Added,</b> <i>Meng Bo, Deputy Director, Development Studies Center, Institute of Developing Economies, JETRO, Japan</i></p>	<p><b>1600hrs</b>      <b>Automotive Industry: Role of Production Network and Global Chains in the Development of Automotive Industry in Thailand</b> <i>Kriengkrai Techakanont, Associate Professor, Faculty of Economics, Thammasat University, Thailand</i></p>
<p><b>1145hrs</b>      <b>Open Floor Discussion</b></p>	<p><b>1630hrs</b>      <b>Discussant (Thailand)</b> <i>Budthree Tiamtiabrat, Plan and Policy Analyst, Office of Industrial Economics, Ministry of Industry</i></p>
<p><b>1215hrs</b>      <b>Lunch Break</b></p>	<p><b>1645hrs</b>      <b>Discussant (Indonesia)</b> <i>Rolly Rochmad Purnomo, Deputy Director, Directorate of Trade, Investment and International Economic Cooperation, National Development Planning, Agency (Bappenas)</i></p>
	<p><b>1700hrs</b>      <b>Open Floor Discussion</b></p>
	<p><b>1900hrs</b>      <b>Cocktail Dinner (hosted by ADBI)</b></p>

# CONFERENCE PROGRAMME

Wednesday, 7 May 2014

## Session III: Participation of Developing Countries in Global Value Chains: Textile and Software Industries

Moderator: Xing Yuqing, Director of Capacity Building and Training, ADB Institute, Japan

- 0900hrs**      **Textile: Supply Chains of Textile and Clothing Industry**  
*Chris Koh, Chairman, Textile and Fashion Training Centre, Singapore*
- 0930hrs**      **Discussant (Cambodia)**  
*Chamroeun Sok, Deputy Chief, Office of Notification and Legal, Compliance, Ministry of Commerce*
- 0945hrs**      **Discussant (Laos)**  
*Kavin Saiyavong, Deputy Director of Planning Development Division, International Cooperation Department, Ministry of Industry and Commerce*
- 1000hrs**      **Open Floor Discussion**
- 1045hrs**      **Software Industry: Indian Software as Part of Global Software Value Chains**  
*Jayathirtha Asundi, Principal Research Scientist, Center for Study of Science, Technology and Policy (CSTEP), India*
- 1115hrs**      **Discussant (China)**  
*Dai Liangjun, Principal Staff Member, Tariff Policy Department, Ministry of Finance*
- 1130hrs**      **Discussant (Philippines)**  
*Angelica Mapua Cayas, Director, Internal Investment Promotion Service, Board of Investments*
- 1145hrs**      **Open Floor Discussion**
- 1245hrs**      **Lunch Break**

## Session IV: Global Value Chains and New Industrialisation Strategy

Moderator: Sarah Tong, Senior Research Fellow, East Asian Institute, National University of Singapore

- 1400hrs**      **Plugging into Global Value Chains: An Alternative Path for Industrialization and Innovations,**  
*Xing Yuqing, Director of Capacity Building and Training, ADB Institute, Japan*
- 1430hrs**      **Discussant (Pakistan)**  
*Sohail Ahmad Khan, Director, Board of Investment, Prime Minister's Office*
- 1445hrs**      **Discussant (Mongolia)**  
*Bekhat Sodnom, Director General, Department of Innovation and Public Private Partnership, Ministry of Economic Development*
- 1500hrs**      **Open Floor Discussion**
- 1530hrs**      **Coffee Break**
- 1545hrs**      **Linking South Asia to Production Networks in East Asia**  
*Pradumna B. Rana, Associate Professor, S. Rajaratnam School of International Studies, Singapore*
- 1615hrs**      **Discussant (Sri Lanka)**  
*Thotagamuwage Yasantha Lakmani Munasinghe, Assistant Director, Department of National Planning, Ministry of Finance and Planning*
- 1630hrs**      **Discussant (Nepal)**  
*Navaraj Dhakal, Undersecretary, Export Promotion, Trade and Transit, Ministry of Commerce and Supplies*
- 1645hrs**      **Open Floor Discussion**
- 1900hrs**      **Dinner Reception (hosted by RSIS)**

# CONFERENCE PROGRAMME

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Thursday, 8 May 2014

## Session V: Global Value Chains: Opportunities and Challenges

*Moderator: Jayathirtha Asundi, Principal Research Scientist, Center for Study of Science, Technology and Policy (CSTEP), India*

0900hrs

### Country Presentations (China, Indonesia)

*Peng Jing, Deputy Director, Policy Research Department, Ministry of Commerce*

*Rolly Rochmad Purnomo, Deputy Director, Directorate of Trade, Investment and International Economic Cooperation, National Development Planning, Agency (Bappenas)*

0940hrs

### Open Floor Discussion

1010hrs

### Coffee Break

1030hrs

### Country Presentations (Philippines, Thailand)

*Ma. Corazon Halili-Dichosa, Director, Industrial Policy Service, Board of Investments*

*Bonggot Anuroj, Executive Director, Office of the Board of Investment, Ministry of Industry*

1110hrs

### Open Floor Discussion

1140hrs

### Closing Remarks

*Tan See Seng, Associate Professor, S. Rajaratnam School of International Studies, Singapore*

*Xing Yuqing, Director of Capacity Building and Training, ADB Institute, Japan*

End of Programme

# LIST OF CHAIR PERSONS AND SPEAKERS

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- 1) **Aladdin Rillo**  
*Senior Economist, Capacity Building and Training*  
Asian Development Bank Institute  
Japan
- 2) **Ana Maria S. Bongato**  
*Executive Director for Talent Development*  
IT and Business Processing Association of the Philippines
- 3) **Barry Desker**  
*Dean, S. Rajaratnam School of International Studies*  
Director, Institute of Defence and Strategic Studies  
Nanyang Technological University  
Singapore
- 4) **Chris Koh**  
*Chairman*  
*Textile and Fashion Training Centre*  
Japan
- 5) **Henry Yeung**  
*Professor of Economic Geography*  
National University of Singapore  
Singapore
- 6) **Jayatirtha Asundi**  
*Principal Research Scientist*  
Center for Study of Science, Technology and Policy  
Singapore
- 7) **Kriengkrai Techakanont**  
*Associate Professor, Faculty of Economics*  
Thammasat University  
India
- 8) **Meng Bo**  
*Deputy Director*  
International Input-Output Analysis Studies Group,  
Development Studies Center  
Institute of Developing Economies –  
Japan External Trade Organization  
Thailand
- 9) **Pradumna B. Rana**  
*Associate Professor*  
Coordinator of MSc in International Political  
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- 10) **Sarah Tong**  
*Senior Research Fellow*  
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National University of Singapore  
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- 11) **Tan See Seng**  
*Associate Professor*  
*Deputy Director and Head of Research,*  
*Institute of Defence and Strategic Studies*  
*Head, Centre for Multilateralism Studies*  
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- 12) **Xing Yuqing**  
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- 1) **Aidonna Jan Ayub**  
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- 2) **Angelica Mapua Cayas**  
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*Officer of Trade Policy and Coordination*  
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- 4) **Bekhbat Sodnom**  
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- 5) **Bonggot Anuroj**  
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- 10) **Kavin Saiyavong**  
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Laos
- 11) **Khanh Duy Do**  
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- 12) **Dai Liangjun**  
*Principal Staff Member, Tariff Policy Department*  
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- 13) **Ma. Corazon Halili-Dichosa**  
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Board of Investments  
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- 14) **Navaraj Dhakal**  
*Undersecretary, Export Promotion, Trade and*  
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- 15) **Peng Jing**  
*Deputy Director, Policy Research Department*  
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- 16) **Rolly Rochmad Purnomo**  
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- 17) **Sohail Ahmad Khan**  
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Prime Minister's Office  
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- 18) **Tandin Wangdi**  
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- 19) **Thotagamuwage Yasantha Lakmani**  
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## ABOUT CMS

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The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training, and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in Asia Pacific. It aspires to be an international knowledge hub for multilateral and regional cooperation.

The Centre's research agenda includes international and global forms as well as expressions of cooperative multilateralism:

- **Economic multilateralism**

Research areas include trade, monetary, and financial integration in ASEAN, ASEAN+3, South Asia, and Central Asia; evolving linkages between various Asian sub-regions and with countries/sub-regions outside the region; and developments in the global economic architecture to ensure complementarity between global and regional initiatives.

- **Diplomatic and security multilateralism**

Research areas include inter-governmental and non-official arrangements such as the ASEAN Regional Forum, ASEAN+3, East Asia Summit, Shanghai Cooperation Organisation, Six-Party Talks, the Council for Security Cooperation in the Asia Pacific, and the like. Initiatives in defence diplomacy include the ASEAN Defence Ministers' Meeting (ADMM) and ADMM Plus, the Shangri-La Dialogue, and alliances.

For more information about CMS, please visit [www.rsis.edu.sg/cms](http://www.rsis.edu.sg/cms).

## ABOUT RSIS

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The S. Rajaratnam School of International Studies (RSIS) is a professional graduate school of international affairs at the Nanyang Technological University, Singapore. RSIS' mission is to develop a community of scholars and policy analysts at the forefront of security studies and international affairs. Its core functions are research, graduate education and networking. It produces cutting-edge research on Asia Pacific Security, Multilateralism and Regionalism, Conflict Studies, Non-Traditional Security, International Political Economy, and Country and Region Studies. RSIS' activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific.

For more information about RSIS, please visit [www.rsis.edu.sg](http://www.rsis.edu.sg).



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