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
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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’

- Increase in intra-regional Trade and investment
- China plus x strategy
- Growing middle class

Regional market and value chains

US-China tensions

Increased emphasis on regional integration
As a single source, ASEAN is the number one trading partner for 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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