Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
10-11 October 2017 | Yangon, Myanmar

The new economy and changing market structures

Andrew CROSBY, Managing Director, ICTSD
Why are we here?

Trade and investment as key tools for achieving sustainable development Rio to MDGs to SDGs

**Context** of a rapidly transforming production and trade policy landscape ICTSD instituted to achieve sustainable development in context of trade / investment policy

- Using research / dialogue ICTSD helps trade actors identify and pursue their SD objectives
- Nonpartisan, nonprescriptive.

**Goal:** ensure SE Asian trade / investment stakeholders leave this workshop with better defined national and regional priorities on trade and investment, based on their own sustainable development objectives.

**AND:** that you bring it back into your own policy formation processes, at all levels
Why are you here?

You face the demand / opportunity for inclusive economic growth -- SDGs

Rapidly developing economies, but facing the challenge of building appropriate regulatory systems and physical infrastructure

Trade is part of your national strategies, but which trade? The nature of production is also changing rapidly; increasing servicification, digitisation and structures of production are changing the nature of trade and the relevant policies for competitiveness.

You are faced with multiple negotiations with the need for interlocking / complementary strategies ASEAN, RCEP, WTO, APEC, TPP

You seek to understand the global and regional context of these issues and negotiators in order to better set your own policy and coordinate with regional partners.
The [new] economy: some drivers

- **Value chains**: distributed production has opened room for trade in tasks
  - Driven by opportunities for value addition / cost reduction among different actors
  - Distributed production can transform national economies internally, and also provide opportunities for foreign trade if national producers are competitive and up to standards

- **Servicification**: services are increasingly a factor in value addition and competitiveness.
  - Consider, Agriculture, precision farming; logistics; OR tourism infrastructure

- **Digitisation**: amplifies these trends AND opens opportunities for entirely new participation of SMEs in the global economy.
  - Cross-border services; or ecommerce
  - Empowered by core services including telecom, financial, logistics, knowledge processing

ALL OF THESE TRENDS DEMAND DOMESTIC REGULATORY AND TRADE STRATEGIES AND SUPPORTING INTERNATIONAL POLICY FRAMEWORKS – WHAT ARE THE OPTIONS?

What does it look like?
Value added has shifted from goods to services over time

Heuser & Mattoo: Services facilitate the emergence of GVCs in a way that goods do not.
Figure 3.7 Distribution of Value Added by use and per industry. South and East Asia. 1990 and 2011.

Note: I. Ex = Exports of Intermediate goods; F. Ex = Exports of final goods; F. Dm = Final domestic consumption.

Source: UNIDO estimations based on Eora Multi-Regional Input-Output Database.
## Value chain challenges and opportunities

<table>
<thead>
<tr>
<th></th>
<th>National focus</th>
<th>International focus</th>
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<tbody>
<tr>
<td><strong>CHALLENGES</strong></td>
<td>• Cheaper imports / investment may challenge domestic producers</td>
<td>• Erosion of competitive advantages via non-membership in preferential agreements (tariffs, coordination, increase exports / imports)</td>
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<td>• Regulatory and infrastructure capacity to build exports, requires substantial financial inputs and political coordination.</td>
<td>• Uncoordinated rules and regs (e.g. rules of origin cause friction)</td>
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<tr>
<td><strong>OPPORTUNITY</strong></td>
<td>• SDG outcomes (jobs, inclusion, growth, education)</td>
<td>• SDG outcomes (health, env, etc)</td>
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<td></td>
<td>• Growth through more efficient dynamic domestic business</td>
<td>• Growth through greater engagement in global / regional markets</td>
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### Value chains: Trade-related strategies

<table>
<thead>
<tr>
<th><strong>Unilateral / Coordination</strong></th>
<th><strong>International / Negotiation</strong></th>
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<td><strong>Unilateral</strong></td>
<td><strong>Negotiation</strong></td>
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<tr>
<td>• Good governance policies (predictable rule of law)</td>
<td>• Common tariffs</td>
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<tr>
<td>• Regulatory proportionality, transparency, and accountability.</td>
<td>• Sectoral negotiations (ie on transport, telecom, financial services around particular sectors).</td>
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<tr>
<td>• investment protection</td>
<td>• Trade facilitation framework for services.</td>
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<tr>
<td><strong>Coordination</strong></td>
<td>• Negotiate rules of origin allowing for cumulation, etc.</td>
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<tr>
<td>• Regional regulatory cooperation (e.g. competition)</td>
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<td>• Regional approaches to quality infrastructure.</td>
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<tr>
<td>• Trade facilitation coordination bodies (e.g. customs, standards for transport, telecom, financial, etc)</td>
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McKinsey study growth of B2C transaction volumes and shoppers illustrates growth in one part of digital economy.
Cross border transactions: 27%
Cross border shoppers: 21%
Power of platforms to create and export x SMEs

SHARE OF EBAY-ENABLED MSMES EXPORTING

Ebay public policy lab of 66% of ebay sellers (with > $10,000 in sales)
## Digital / E-commerce challenges and opportunities

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<tr>
<th>CHALLENGES</th>
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<tr>
<td>Export: infrastructure,</td>
<td>• Export: infrastructure, physical and regulatory</td>
<td>• Potential for diversionary and less preferential agreements elsewhere.</td>
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<tr>
<td>physical and regulatory</td>
<td>• Import: generating domestic capacity / benefits</td>
<td>• Rules of Origin</td>
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<tr>
<td>• Digital strategy</td>
<td>• Digital strategy coordination</td>
<td>--------------------------------------------------------------------------------------</td>
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<tr>
<td>coordination</td>
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<td>OPPORTUNITY</td>
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<tr>
<td>• Growth through more</td>
<td>• Growth through more efficient dynamic domestic business</td>
<td>• Engagement in global / regional markets</td>
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<td>efficient dynamic</td>
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<td>• Regional / intl scale and growth</td>
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<td>domestic business</td>
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### Digital / E-commerce Trade-related strategies

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<tr>
<td><strong>Unilateral</strong></td>
<td><strong>Regional</strong></td>
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<tr>
<td>• Good governance policies (consumer protection, privacy)</td>
<td>• WTO+ commitments to deepen regional markets and key trade relationships.</td>
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<tr>
<td>• Digital payment facilitation (financial transactions, data flows).</td>
<td>• Dispute settle mechanisms</td>
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<td>• Data management and security</td>
<td><strong>WTO</strong></td>
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<td>• Enhance govt private sector coordination</td>
<td>• Digital trade facilitation</td>
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<td><strong>Coordination</strong></td>
<td><strong>TPR</strong></td>
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<tr>
<td>• Regional regulatory cooperation (e.g. financial, common data / consumer protection coordination).</td>
<td>• Transparency / TPR</td>
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<td>• Telecom reference paper</td>
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<td>• Strategic GATS commitments</td>
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What role for trade and investment policies?

Global rules matter for businesses from smaller countries; but regional agreements can help on shared priorities in a way that global rules cannot.

- **Update at home / internationally**: Realising opportunities depends on enabling environment particularly on *regulatory structures* domestically and on appropriate *fair rules* internationally.

- **Complexity = exclusion**: Currently the dynamic is toward regional agreements, than unless these are aggregated will make it more difficult and will likely divert trade.

- **Relevant but behind**: The WTO has a powerful rule base that affects new economy issues including GATS, TRIPs and others. These provide market access rights and protections, but they need updating

  **Strategically**: bad policy or no policy will impose a cost on businesses making them less competitive.

- **Finance, ICT, knowledge processing and new business structures** can lead to new market access and scale. National and international enabling regulation can be a key competitive factor.
Southeast Asia is included and implicated in these changes

Highly dynamic economies that are in the midst of these structural changes.

Active efforts underway in each of countries here to adapt the domestic regulatory environments.

Active negotiations: ASEAN; RCEP; TPP, WTO

Our agenda will explore many of these issues

• We’ll do so from your own perspective, coming back to the issue of national and negotiating priorities on each topic.
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
The new economy and changing market structures

Deborah VORHIES, Managing Director, ICTSD
Public and private regulations and standards increasingly incorporate sustainability objectives.
Why do we care?

Not whether developing countries’ participate in GVCs, but how long-term competitiveness and sustainability rests on economic, social and environmental upgrading

**Key questions**

• What are the dynamics of developing countries’ firms participation in standards-intensive GVCs?
• What are the benefits in terms of SDGs?
• Which firms are excluded, why and what can be done?
Opportunities of sustainability standards: Supporting SDGs

• SDG1 (ending poverty in all forms)
• SDG2 (ending hunger/sustainable agriculture)
• SDG12 (sustainable consumption and production)
• SDG5 (gender)
• SDG8 (inclusive and sustainable growth, employment and decent work)
• SDG10 (reducing inequality)
• SDG13 (climate change)
• SDG14 (impact on the marine sector)
• SDG15 (impact on the terrestrial physical environment)
• SDG16 (peaceful environment/justice for all)
But also....

- Sustainable use of natural resources → long term competitiveness
- Compliance can be part of upgrading processes → enhance productivity and access to new markets for producers
- Leverage → brands and reputational risks
- Lead firms and supplier development programmes
- Compliance can result in best practices diffused to domestic markets and institutional capacity that benefits other players
Challenges

• Societal considerations → awareness, education, poverty
• Compliance costs → too high for small producers
• Weak managerial and organisational capacity → market knowledge, making changes to production processes
• Weak institutional capability within government and industry bodies
• Gaps in standards testing and compliance infrastructure
• Multiple standards adding costs for developing countries’ producers
• Fragmented GVCs → multiple players and degree of compliance
Questions

• Credibility and transparency of sustainability standards?
• Are costs feasible for developing countries’ producers?
• What does it take to ensure significant impact on SDGs?
• What can be done at multilateral and plurilateral level?
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Value chains: a puzzle with more than one solution

Judith FESSEHAIE, Trade and Development Manager, ICTSD
Focus of ICTSD research

GVCs and upgrading opportunities for firms in developing countries

Dynamics and governance of specific GVCs
Role of lead firms (TNCs)
Role of international and domestic policies
Not only whether LDCs participate but how

Sustainability implications
SDG 1 End poverty
SDG 10 Reduced inequalities
SDG 5 Gender equality
SDG 8 Decent work and economic growth
SDG 9 Industry, innovation and infrastructure
SDG 12 Responsible consumption and production
SDG 13 Climate Action

Policy implications
International trade and investment policies and agreements
Domestic policies
## Approach

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<td>Ethiopia</td>
<td>Nexus with SDGs and inclusiveness</td>
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<td>Myanmar</td>
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<td>Tea GVC</td>
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<td>Fisheries GVC</td>
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<td>Cambodia</td>
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<td>Mapping priorities in West Africa</td>
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Some countries struggle to participate in GVCs

- low supplier capabilities to meet standards set by global buyers (quality, price, sustainability)
- weak quality, physical and services infrastructure
- Nepal, Cambodia

Upgrading → critical for countries that cannot compete on cost, to maximise impact on SDGs

- Sri Lanka had to compete with Africa’s low cost tea producers in 1970s
- Lesotho vulnerability to AGOA preference margin vis a vis end of Multi-Fibre Agreement
Different upgrading strategies

• Improving firm productivity: organisational capability, skills, reducing operational costs
  → Ethiopia – success in attracting increasing FDI

• Improving product quality: large scale certification, reputation, sustainability standards
  → Kenya – world largest producer by volume

• Moving up: more sophisticated, profitable activities (processing, marketing, branding)
  → Sri Lanka – world largest producer by value, reputable Lion brand
End markets shape upgrading trajectories

- Myanmar: EU buyers (Just in Time, labour standards, productivity, FOB production) vs. Japanese buyers (quality, intensive quality control)
- Lesotho: US buyers (large volumes, simple products) vs. South African buyers (short production runs, high fashion content products)
- Standards-intensity varies across end markets and within end markets
Standards influence upgrading

• International standards
  • product and process upgrading
  • access to large markets
  • high certification costs, good quality infrastructure required, reputational assets

• Social and environmental sustainability standards
  • product upgrading
  • multiple standards, certification costs for SMEs and small producers
  • price premium but critical to work with global buyers for access to markets  Nepal vs. Kenya
  • sometimes they become de facto mandatory

• Basic safety standards in regional markets
  • facilitate exports from SMEs
Domestic and foreign investment

• Domestic investors are playing an important role in production, but exports driven by foreign investors
  → Cambodia fisheries sector lacks agents of change – need for FDI
  → Sri Lanka upgrading driven by domestic firms supported by the right incentives
  → constraints related to infrastructure, finance, skills
  → struggle to develop linkages to buyers

• Foreign investment
  → critical role of trade preferences: simple rules of origin, high preference margin
  → low labour cost and supplier diversification strategy
  → knowledge spillover, technology transfer and training not automatic
  → the governance of GVCs matters!

Example of triangle manufacturing in apparel
GVC governance – Triangular manufacturing

South-South FDI flows

Rapid expansion of production capabilities

Process upgrading to meet buyers’ expectations

Deepening of production capabilities?

Need for incentives
GVC governance – Independent foreign firms

Access to know how and technologies → firm owners and managers

Interest in exploring alternative input sources

Direct links to buyers

Investment in functional upgrading (new tasks) and deepening of capabilities

Need for support and incentives
**Economic Sustainability**

SDG1. End poverty in all its forms everywhere

SDG9. Resilient infrastructure, inclusive industrialisation, fostering innovation

SDG10. Reduce inequality within and among countries

GVCs and SDGs $\rightarrow$ direct impact from job creation and income growth

Myanmar’s garment exports increased from US$ 340 million in 2010 to US$ 1.6 billion in 2016

Employment - 300,000 workers, 16% of manufacturing employment

Preferential market access and low labour cost do not make for fundamental bottlenecks $\rightarrow$ infrastructure, productivity, inputs
Social and Environmental Sustainability

**Social sustainability**
SDG4. Gender
SDG8. Inclusive and sustainable economic growth, decent work
SDG10. Reduce inequality within and among countries

**Environmental sustainability**
SDG7. Reliable, sustainable and modern energy
SDG9. Resilient infrastructure
SDG12. Sustainable consumption and production
SDG13. Climate Change
SDG14. Oceans and marine

Service sectors critical for inclusiveness and upgrading

Complex linkages between economic, social and environmental SDGs

Gender → opportunities, inequalities, critical for upgrading

Sustainability standards support SDGs → exclusion of small producers
Some policy implications

No *one size fits all* policy but some issues for consideration

Partnership between private and public sector stakeholders

FDI promotion should be complemented by a more strategic approach

- FDI policies → strategic in identifying markets and priorities for upgrading
- Complementary policies from an early stage to promote knowledge spillovers, technology transfer and upgrading
- Leverage domestic investors but coherent support package is needed, including linkages to buyers

Policy packages change with time and capabilities level

Example of Sri Lanka
Sri Lanka tea upgrading strategy: 1980s and 1990s

- preventing poor-quality exports / setting up a domestic auction centre / privatization
- Custom Duty Rebate Scheme – tax refund to exporters moving into higher value added tea products
- Export Expansion Grant Scheme - grants to undertake export expansion programs
- allowed imports of CTC and filler-grade teas for blending and re-export
- tax-free incentives - increase in export of teabags and tea packets
- interest subsidies on loans for capital investment in tea-bagging machines
- export promotion - Lion Logo developed for global markets
- matching grants up to 50% of expenses for the promotion of Sri Lankan brands, priority to high-value specialty teas, teabags, and retail packets
Sri Lanka tea upgrading strategy: now

Sri Lanka exports over 50% of tea exports in value-added form

- tea research
- promote Sri Lankan tea overseas
- promote upgrading amongst smallholders (extension services, fertilizer subsidy)
Duty Free Quota Free market access to developed and developing markets

Rules of origin taking into account GVCs

Deepening RTAs

*Servicification* of GVCs → trade in services and domestic regulations

Trade facilitation → technical and financial assistance under the TFA

Targeted measures to support inclusiveness and sustainability

Upgrading is difficult, takes time and continuous process → Aid for Trade
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
How can value chain participation help to advance the SDGs: the role of trade and investment related policies

Sherry STEPHENSON, Senior Fellow, ICTSD
Global investment and trade are inextricably intertwined in today’s economies through international production networks.

The majority of trade today consists of inputs, not final goods and is composed of Global Value Chains (GVCs).

GVCs are estimated to account for some 80% of global trade.

GVCs have become the major feature of the 21st century trade system and they can be leveraged to realize the SDGs. But this requires an understanding of how trade & investment policy function in a GVC world – the numerous interdependencies – and what policy makers can do in this context to be most effective.
Trade is driven by Foreign Direct Investment

Global Trade by type of TNC involvement, 2010

Ratio between global FDI stock and trade

I. How can participating in GVCs promote positive SDG outcomes?

- GVC participation may generate two types of positive impacts on the attainment of various SDGs, namely

- **Direct impacts**: where providing inputs into GVCs directly affects economic outcomes related to growth, employment and levels of poverty

- **Indirect impacts**: that enhance sustainability and development effects
  - gender equality,
  - water and sanitation,
  - energy access,
  - education,
  - climate change and
  - environmental impacts.
SDGs most affected by GVC participation

SDG 1 – ENDING POVERTY: GVCs can contribute to faster economic growth on the part of developing countries, helping to end poverty

SDG 5 – GENDER EQUALITY: GVCs can expand the contribution of the service sector which employs relatively more women, thus giving women greater opportunity to participate in the work force

SDG 8 – INCLUSIVE ECONOMIC GROWTH: GVCs can foster the greater participation of SMEs into the global market through linking these firms into chains, allowing small entrepreneurs and individuals to share in growth

SDG 10 - REDUCING INEQUALITY: GVCs can help raise the income levels of developing countries through expanding employment levels and bringing more people out of poverty; GVC participation can reduce the gap in income levels between developed and developing countries
GVC participation leads to faster economic growth for developing countries (SDG 1 and 8)

Positive correlation exists between participation in GVCs and GDP per capita growth rates. Developing countries with the fastest growing GVC participation have shown GDP per capita growth rates some 2 percentage points above the world average.

Source: UNCTAD (2013)
GVC participation allows developing countries to increase their share of world value-added

The role of investment critical: Countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and a greater relative share in global value added trade compared to their share in global exports (SDG 1)

Evolution of developing country share in World Value-Added

- 20% (1990)
- 30% (2000)
- 40% (Today)
GVC participation can lead to more trade by SMEs from developing countries (SDG 8)

- This is especially true at the regional level, from where SMEs start to engage in international trade and GVCs are formed

- SMEs can supply an “input” into a global value chain, rather than having to make the entire product
- Most SMEs are services producers

Over 95% of the companies that exported from developing countries are SMEs
GVC participation reduces the competitiveness gap between large and small firms (SDG 8)

Note: The IVC participation variable is defined as the sum of the exported domestic value added that re-exported to third countries and the foreign value added in gross exports. The estimates on the gap are significant in a random effects error component model. Competitiveness gap compiled from several rounds of the World Bank Enterprise Survey using ITC’s methodology.

Source: Boffa, Jansen and Solleder (2017a).
However, these potential benefits from GVCs are not automatic.

Such potential benefits of GVCs are not automatic

POLICIES MATTER
Need reinforcing trade and investment policies as well as targeted development strategies in order to achieve better GVC development outcomes.
2. TRADE & TRADE-RELATED POLICIES are important to support GVC participation and positive SDG outcomes
Tariffs and Non-tariff Measures work against GVC participation

TARIFFS/ NTM on goods and Services restrictions : do not protect in GVC world

- **Tariffs**: «Do Not Protect” OECD, World Bank and other studies show large gains in productivity for several developing countries when tariffs on intermediate inputs are lowered or removed

- **Non-Tariff Measures**: “Impede Value Addition” Can have large and negative impacts on supply chain trade. Especially local content requirements, quotas, and restrictive services regulations.

- **Services Restrictions** are particularly harmful; services barriers are relatively high in developing countries and **negatively impact ability of firms to participate in GVCs**
Services Restrictiveness by Sector is high in Southeast Asia: services barriers negatively impact GVC participation

- Professional services is the most restricted sector across all six countries
- Restrictions in the other four sectors are high as well for most countries

Source: World Bank, STRI Database
Foreign Direct Investment Policy impacts GVC Participation

An open investment regime is important: positive correlation exists between FDI levels and GVC participation

Source: UNCTAD (2013)

Note: data for 187 countries over 20 years. The regression between the annual GVC Participation growth and annual FDI Inward (stock) growth, in logs, shows a positive and significant correlation, at the 5% level. This relation also holds, at the 5% level, dividing the sample in developed and developing countries, and in two time periods (1990-2000 and 2001-2010). All regressions use lagged (one year) inward FDI stock growth rates.
Efficient logistics and customs are critical for trade in a GVC world (telecoms & transport)

Potential increase in trade and GDP to be derived from improvement in logistics six times higher than eliminating tariffs

Negotiating RTAs may help facilitate GVC participation

Source: www.oecd.org/trade/valueadded
Deepening RTAs results in higher value chain participation and more inclusive trade

- For every 1 additional policy area covered in an RTA, there is a 2.5% increase in the country’s integration into value chains.

- This benefits both large and small firms – especially small → resulting in 1.25% reduction in competitiveness gap (the difference in performance) between large and small firms.
HOW investment is incorporated in agreements also matters

Preferential trade agreements with investment provisions have a stronger effect on value chain integration than stand-alone bilateral investment treaties.

Dealing with trade and investment under one legal umbrella (rather than BITs) has a greater positive effect on trade, both imports & exports.

Source: ITC (2017), SME Competitiveness Outlook 2017 – The region: A door to global trade
Participation in GVCs does not automatically lead to outcomes which result in the achievement of SDGs.

The sustainable development impact of value chain is likely to differ depending on the geography and the sector of the value chain as well as the characteristics of the value chain (Kaplinsky, ICTSD 2016)

Factors that will impact the outcomes from GVC participation: (1) Governance Structure; (2) Standards in the Value Chain; (3) Possibilities for Innovation and Upgrading; (4) Distribution of Rents
Open markets are critical for trade and investment flows and to avoid inefficiencies and penalizing domestic producers.

Tariffs on goods and restrictions on services punish domestic producers who use imported “inputs” because those inputs are re-exported and cross borders several times during GVC operations before a finished product.

Investment drives trade, so a supportive and open investment policy is critical to attract FDI and generate GVC participation.

With GVCs “Tariffs and services restrictions no longer protect, and FDI flows need to be encouraged”
Summarizing what we know about Trade Policy & GVCs: Huge role for efficient Logistics; RTAs may facilitate deeper trade

- **Operation of GVCs places a large emphasis on logistics**
  Among the logistics barriers, efficient services play a key role, especially telecoms and transport

- **Negotiating RTAs may help firms to participate in GVCs**
  RTAs deepen trade flows with partners in trade agreements, especially at the regional level. RTAs with deeper disciplines can facilitate potential gains from GVCs.
Summarizing what we know about Trade Policy & GVCs: Several factors affect LDC/LIC’s ability to benefit from GVCs

1) TRADE & TRADE-RELATED POLICIES: Trade & Investment Framework; Customs Procedures

2) COST CONSIDERATIONS: Quality of Labour; Human Skills

3) ENABLING DOMESTIC ENVIRONMENT: Digital Infrastructure; Quality of Institutions; Efficiency of Domestic Regulation; Competition and IP Regimes

TRADE AND INVESTMENT POLICIES ARE ONE SET OF THESE FACTORS BUT THEY ARE VERY IMPORTANT
THANK YOU!

SHERRY STEPHENSON, Senior Fellow ICTSD

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Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Comments on “How can value chain participation help to advance the SDGs: The role of trade and investment related policies”

Nguyen Anh Duong
Central Institute for Economic Management
Promoting FDI as a strategy to participate in GVCs

- Access to foreign capital in early stage of development is important, but not the only benefit induced by FDI;
  - *In digital era: should not prohibit outward investment in innovation*;
- Trade and investment liberalization to induce spillover effects from FDI (backward and forward linkages, technology transfer, HRD);
  - *Cost of trial-and-error may be overwhelming*.
- Benefits also from unilateral liberalization
  - *Vietnam had Foreign Investment Law since 1987*;
  - *Myanmar enacted Foreign Investment Law in 2012*. 
Trade and investment liberalization: necessary, but insufficient for SDGs

- Building capacity for:
  - Industrial policy vs. Trade policy (Incentive structure; “Smaller share of a bigger pie”);
  - Linkage between FDI and local enterprises;
  - Innovation & HRD for moving up value chains.

- Regional coordination to avoid “race to the bottom”
During 1995-2011:

- **Foreign VA contents of Vietnam’s exports rose from 21.1% to 36.3%;**
- **But Vietnam’s exports rose by 17.8 times.**
Ample room for structural reform in services, but also reflect the fact that progressing in this area is not easy.

- Services development helps create employment → may induce protection of services

### Key recommendations of AEPR 2016 on Structural Reforms and Services

1. Pay more attention to services.
2. Pursue reforms on a unilateral basis.
3. Focus on productivity.
4. Rely on market mechanisms and competition.
5. Recognize and measure the positive spillover effects of structural reform.
6. Apply value chain perspectives to leverage services reforms.
7. Adopt a whole of government outlook to anticipate potential silo problems.
8. Consider need to address adjustment costs.
9. Design reform programs to be flexible to reflect learning by doing.
10. At the APEC level, pursue cross-fora collaboration and joint work programs.
11. Implement measures to measure progress and impacts of structural reforms.

*Source: APEC Policy Support Unit (2016).*
THANK YOU
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Can sustainability standards and ‘aid for trade’ create opportunities for private sector firms to access GVCs and gain a competitive edge?

Jim REDDEN, Senior Lecturer, Institute for International Trade, University of Adelaide (virtual participant)
Overview: Aid for trade and sustainability standards

1. Opportunities for private sector firms in developing countries: gaps, needs and importance of services trade
2. The Role of Aid for Trade
3. How can aid for trade assist in private sector compliance with standards: Case-Studies
4. Lessons so far, suggested priorities and questions

Don’t jump to conclusions too early!
1. Standards and Global Value Chains

Four Sets of Sustainability Standards Widely Observed in GVCs

In general, two important factors are to be taken into consideration when looking at the relationship between GVCs and SDGs:

- **Corporate standards internal to the chain.** They typically address quality, cost, and delivery procedures and, increasingly, environmental processes. They specify the requirements of the lead firm (at the buying end of the chain) for supplier firms to ensure systemic chain competitiveness.

- **Generic standards.** They are industry specific or relevant across a range of sectors, such as ISO9000 on quality and ISO14000 on the environment.

- **Standards set by governments.** They include food safety and energy efficiency, and those set by international bodies including the EU “farm-to-fork” food standards and vehicle emission standards.

- **Standards designed by civil society.** They include labour standards, organic standards, and Fairtrade certification.
1. Opportunities for small private sector firms in developing countries

- For many larger and formal sector producers, who benefit from scale and who already possess many of the necessary capabilities required to perform to required standards, the rise of sustainability standards had produced a net positive balance.

- However the global fragmentation of production processes and services through GVCs has also enabled a number of SMEs to benefit from niche market access producing intermediate inputs and services and/or specialist expertise regardless of location. GVCs have provided an increase transfer of technology and skills enhancement with flow on welfare effects for SME families and communities.
Share of World Trade in Services

Others 60%

Services 40%
Swedish National Board of Trade: “servicification”
The example of Sandvik – heavy tools manufacturer

Picture 1: Services needed for effective supply chain and delivery of goods

Legal services
Accounting, book-keeping etc.
Taxation services
Medical services
Computer services
Research and development
Rental/Leasing
Advertising
Market research
Services incidental to manufacturing
Placement of personnel
Maintenance and repair
Convention services

Security services
Packaging
Printing, publishing
Design
Building-cleaning services
Photographic services
Courier services
Logistic services
Postal services
Telecommunications
Audio-Visual services
Educational services
Environmental services
Banking services

Insurances
Health related services
Hotels and restaurants
Travel agency services
Maritime transport - freight
Inland waterways - freight
Air transport - freight/passenger
Road transport - freight/passenger
Cargo-handling services
Storage and warehouse services
Freight transport agency service
Feeder services
Energy services
Services SMEs are well positioned to take advantage
However, for some SME producers, particularly small scale and informal sector producers, they struggle to meet the increasing number of sustainability standards required by global value chains.

Arguably one of the most pressing challenges confronting global leaders and policy makers today is how to make globalisation and international trade more inclusive. Growth that is inclusive and benefits SMEs, low income communities, young workers and women in developing countries is more likely to led to decreased inequality and reduced conflict.
Survey of the Needs of SMEs re Standards Compliance

1. Awareness of sustainability standards
2. Market information – market intelligence tools / competitive analysis / which markets / which standards?
3. Cost of compliance – laboratory testing, HACCP certification can cost in the thousands
4. Conformity assessment – textile toy faced around 12 compliance test (pull test, humidity test)
5. Culture of documentation and customs compliance – lack databases, trade map, SPS certificate etc
6. Gender discrimination – access to finance, facilities, cultural and legal barriers
7. Access to quality infrastructure and related servicing
8. Lack of skilled or semi-skilled, literate and numerate workers both inside and outside the company

Role of GVC lead firm vs Industry association/standards organisation vs Government intervention?

So how and where might Aid for Trade fill the gaps?
2. Increased trade, competitiveness and growth

Aid for Trade

- Trade reform
- Trade-related capacity and infrastructure
- Catalyst
- Entrepreneurship, private investment
2. Aid for Trade: Top Ten Recipients (OECD 2006-13)

Current USD billion

Top 10 receive 41% of total AFT

India
Viet Nam
Turkey
Afghanistan
Iraq
Egypt
Indonesia
Morocco
Ethiopia
Tanzania

0 2 4 6 8 10 12 14

Top 10 receive 41% of total AFT
Donors and recipients already focused on TF, inclusive sustainable growth and PSD – so no paradigm shift here, more about collaboration and tailoring to address SME standards compliance, n’est-ce pas?

eg. collaboration between EIF, WFTO, ISO, STDF, ISEAL, UNCTAD, ITC, Donor and Recipient Governments, Industry Associations, SME representative bodies and NGOs like Oxfam, WWF etc
3. How Can AfT be more Effective? Case-Studies & Evidence

- Tonga watermelons
- Mangoes in Burkina Faso
- Shrimp industry Bangladesh
- Everest potters in Nepal
- Cambodia garment industry and labour standards
- Environmental standards compliance Bangladesh textiles
- ASEAN regional services program – agricultural IT services
- Vanuatu and tourism standards
- South Asia Regional Trade Facilitation Program (TF, Infrastructure and Gender)
- SME training for Indian Ocean States

*ICTSD paper soon to be released.*
Everest Pottery in Nepal: Fair Trade Certification
ASEAN and Agricultural Services Case-Study

The role of setting international standards for phytosanitary measures, including pest identification, is the responsibility of the UN Food and Agricultural Organisation (FAO). Under its guidance it has developed the International Plant Protection Convention (IPPC) which consists of a series of sustainability standards, guidelines, principles and frameworks for countries to follow.

In ASEAN countries, there is a shortage of in-country taxonomic expertise services to identify plant pests and diseases. This shortage in services is often compounded by difficulties in accessing taxonomic expertise from outside of the region and a lack of quality infrastructure available locally for conducting tests and disease prevention activities. For SMEs and small producers this often means an inability to comply with export standards required and so excluded them from key markets in the region.
The ASEAN Regional Diagnostic Network (ARDN)

The ASEAN, Australia, New Zealand Free Trade Agreement’s (AANZFTA) Economic Cooperation Support Program established in 2010 as part of an aid for trade package.

The ASEAN Regional Diagnostic Network (ARDN) is a multi-year project set up to enhance the capacity of ASEAN Member States to comply with sustainability standards; certify plant pests and diseases; promote regional networking; and support the adoption of new diagnostic techniques.

ARDN provides training workshops, in-country mentoring activities, mentored field surveys, and procurement of imaging equipment and high-resolution microscopy equipment. It has also facilitated the use of the Centre for Agriculture and Biosciences (CABI), based in Malaysia, as a Clearing House for the Network.

While remote microscopy is a valuable tool to aid in identification and diagnosis, the Network’s broader aim is to create a community of plant health stakeholders to share information and exchange knowledge. To achieve this and to provide a platform for experts to communicate with one another, an ARDN website was set up and offers a forum to host discussions between stakeholders.
Organisational relationships in the delivery of ASEAN services and early evaluation

The networked services of ARDN have improved the capacity of government, customs and quarantine officials as well as SME exporters to identify pests and disease and manage their relationship with business and government departments in other countries.

In a recent review of the AfT program undertaken by the Australian Government (2016), it found that a common benefit identified was the ability to network with other ASEAN members.
SOUTH ASIA REGIONAL TRADE FACILITATION PROGRAM (SARTFP)

GEOGRAPHIC SCOPE OF PROGRAM ACTIVITIES

1. SAARC Road Corridor 2
2. Inland Waterways (IWT)
3. Kaladan Multimodal Corridor
4. SAARC Road Corridor 6
5. India — Myanmar — Thailand Triangular Highway Corridor

BORDER CROSSINGS
MAIN ROADS
SELECTED CITIES
NATIONAL CAPITALS
INTERNATIONAL BOUNDARIES

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.
4. How Can Aid for Trade Assist SMEs in the Future?

1. Focus on SMEs and Small Producers - particularly SMEs trading in services
2. Appropriate quality infrastructure - servicing and upgrading issues
3. Targeted training – SMEs, standards organisations, industry and government
4. Gender and sustainability standards – flow on multiplier effects
5. Leveraging trade agreements
6. Market access: North-South and South-South
7. Donor collaboration and coordination – lead firms, standards bodies, NGOs etc
8. Local ownership, financial sustainability and the SDGs
9. Further research
10. Suggestions and observations from you?
Direct training of SMEs in standards compliance
4. Services sector is SME intensive

- Despite significant levels of concentration in services industries with high historical levels of government ownership, the bulk of the services sector is, everywhere, chiefly made up of SMEs.

- Increasingly it is SMEs in the services sector which are most engaged in global and regional value chains and business-to-business B2B activities.

- Globally since 1997, more services SMEs have been involved in international alliances than manufacturing SMEs.

- OECD data shows that in 2000, there were nearly 4 times as many services SMEs engaged in international alliances than manufacturing SMEs.

- Firm size and production scale tend to matter less in services markets than “nimbleness” and project by project flexibility, presenting particular opportunities to smaller firms.

- Smaller firms also face big challenges, especially bearing the burden of trade costs, compliance with sustainability standards and navigating the regulatory regimes at both domestic and regional level.
Ultimately services reform has to be driven by domestic stakeholders, especially SMEs, with Aid for Trade help from donors.

My study shows that aid for trade programs can effectively intervene to assist SMEs to comply with sustainability standards and that significant new opportunities are opening up for SMEs.

To this end, the research, consultations and case-studies point to the importance of a strong focus on AfT programs in support of assisting SMEs and vulnerable workers with standards compliance.

The recommendations should help to strengthen the impact of aid for trade in assisting with more inclusive trade and sustainable development.
Contact information

Jim Redden
Mobile: +61 414 257 446
Email: james.redden@adelaide.edu.au

Thank you and thanks to ICTSD!
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Exploring the role of services in value chains

Judith FESSEHAIE, Trade and Development Manager, ICTSD
Mapping Services Inputs into GVCs

INPUTS AT MULTIPLE STAGES OF THE GVC
ICT, Financial Services, Professional Services, Transportation, Logistics, Energy
# Servicification of manufacturing

Sandvik Tooling

## SERVICES ACQUIRED

<table>
<thead>
<tr>
<th>Category</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal services</td>
<td>Accounting, book-keeping etc.; Taxation services; Placement of personnel</td>
</tr>
<tr>
<td>Computer services</td>
<td>Educational services; Environmental services; Banking services; Insurance</td>
</tr>
<tr>
<td>R&amp;D; Design</td>
<td></td>
</tr>
<tr>
<td>Advertising; Market research</td>
<td></td>
</tr>
<tr>
<td>Services incidental to manufacturing; Maintenance and repair; Energy services</td>
<td></td>
</tr>
<tr>
<td>Packaging; Printing; Publishing; Photographic services; Audio-Visual services</td>
<td></td>
</tr>
<tr>
<td>Courier services; Logistic services; Postal services; Telecommunications; Hotels and restaurants; Travel agency services; Maritime transport – freight; Inland waterways – freight; Inland waterways – freight; Air transport – freight/passenger; Road transport – freight/passenger; Cargo-handling services; Storage and warehouse services; Freight transport agency services; Feeder services</td>
<td></td>
</tr>
<tr>
<td>Rental/Leasing; Security services; Building cleaning services; Medical services; Health related services</td>
<td></td>
</tr>
</tbody>
</table>
## SERVICES OFFERED

<table>
<thead>
<tr>
<th>R&amp;D; Design; Computer services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental/leasing; Financial services</td>
</tr>
<tr>
<td>Management consulting; Technical testing and analysis services; Services incidental to manufacturing</td>
</tr>
<tr>
<td>Maintenance and repair</td>
</tr>
<tr>
<td>Environmental services; Logistics; Warehouse services</td>
</tr>
</tbody>
</table>

Sweden National Board of Trade, 2010
Drivers of *servicification* of manufacturing

**Profits** → for ex. aftermarket sales

**Strategic** → to differentiate, customise and upgrade products

**Response to external factors** → for ex. recycling services to meet new regulations

**Technology** → communication and transport innovations increase the tradability of services inputs

**Modularisation** → implies that activities are formalised, codified and standardised

(Sweden National Board of Trade, 2010; Low, 2013; Stephenson and Drake-Brockman, 2014)
### Governance of Services Inputs Supply

<table>
<thead>
<tr>
<th></th>
<th>HOME COUNTRY</th>
<th>OFFSHORING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IN-HOUSE</strong></td>
<td>Within the same firm</td>
<td>Within the same enterprise group but located in foreign countries</td>
</tr>
<tr>
<td><strong>OUTSOURCED</strong></td>
<td>To third parties in home country</td>
<td>To third parties in foreign countries</td>
</tr>
</tbody>
</table>
Why does it matter?

- Services account for 23% of world trade, but **43% in value added terms**
- Impact on firm productivity and value chain competitiveness in LDCs and LICs
- Support upgrading into more remunerative functions in GVCs such as product design
- Indirect job creation effects – South Africa automotive exports (Farole 2015):
  - 1 direct job / 1 indirect job in 2001
  - 1 direct job / 3 indirect jobs in 2013
- SDGs
  - SDG 1 - ending poverty
  - SDG 5 - gender equality
  - SDG 8 - inclusive economic growth
  - SDG 10 - reducing inequality
Services highest value added functions in GVCs

<table>
<thead>
<tr>
<th>Components</th>
<th>Value (€)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processors</td>
<td>134.6</td>
<td>6%</td>
</tr>
<tr>
<td>Memories</td>
<td>15.3</td>
<td>3%</td>
</tr>
<tr>
<td>Integr. circuits</td>
<td>32.6</td>
<td>6%</td>
</tr>
<tr>
<td>Display</td>
<td>22.4</td>
<td>4%</td>
</tr>
<tr>
<td>Camera (5 mp)</td>
<td>17.3</td>
<td>3%</td>
</tr>
<tr>
<td>Other parts</td>
<td>59.1</td>
<td>11%</td>
</tr>
<tr>
<td>Licenses</td>
<td>21.4</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>224.5</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Nokia N95 retail price € 546 2007

Source: Ali-Yrkkö et al., 2011
Professional Services

GVCs
- In-house, outsourced, offshored
- Offshoring opportunities for developing countries

SDGs
- Firm-level and Economy-wide productivity gains
- High impact on SMEs development as buyers and providers

Trade and investment policy
- Linked to investment in ICT and education
- Deepen regional integration across all Modes, especially 1 and 4
- Domestic regulations (transparency, simplification)
- Regional cooperation (Mutual Recognition Agreements)
Aftermarket Services

GVCs
- Linked to BPO – important opportunities for entry and upgrading
- Linked to maintenance and repairs – locational advantages, large market

SDGs
- Significant opportunities for low skilled, female employment in call centres
- Significant opportunities for youth employment
- Opportunities for skills development

Trade and investment policy
- Linked to investment strategy in ICT and education
- Encourage trade under Mode 3 (FDI) in BPO
# Aftermarket Sales: Examples from mining machinery

<table>
<thead>
<tr>
<th>Processing equipment</th>
<th>Initial USDM</th>
<th>Total Stay In Business USDM</th>
<th>Ratio Stay In Business:Initial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grinding mill, rod &amp; ball</td>
<td>5.5</td>
<td>197.6</td>
<td>35 :1</td>
</tr>
<tr>
<td>Cone crushers</td>
<td>4.0</td>
<td>65.0</td>
<td>16 :1</td>
</tr>
<tr>
<td>Mobile crushing plants</td>
<td>1.2</td>
<td>17.7</td>
<td>15 :1</td>
</tr>
<tr>
<td>Gyratory crushers</td>
<td>13.0</td>
<td>170.0</td>
<td>13 :1</td>
</tr>
<tr>
<td>Underground loaders (LHDs)</td>
<td>1.9</td>
<td>27.0</td>
<td>14 :1</td>
</tr>
<tr>
<td>Shovels, hydraulic</td>
<td>15.9</td>
<td>179.3</td>
<td>11 :1</td>
</tr>
<tr>
<td>Continuous miners, u/ground</td>
<td>3.2</td>
<td>35.9</td>
<td>11 :1</td>
</tr>
<tr>
<td>Roof bolters</td>
<td>1.4</td>
<td>16.5</td>
<td>11 :1</td>
</tr>
</tbody>
</table>

Source: Virgo, Armstrong and Alftan, 2013
Marketing, Branding and Distribution

**GVCs**
- Large source of rents, especially in buyer-driven VCs
- Regional markets offer important opportunities due to lower entry barriers
- Increasing role of retail chains in food and consumables

**SDGs**
- Entry of smallholders in supermarket-driven VCs
- Significant opportunities for low skilled, female employment in retail
- Expansion of retail chains could potentially displace traditional retailers (SMEs, women)

**Trade and investment policy**
- Improve regional market access for goods → deepening capabilities
- Partnerships with supermarkets to increase local content
- Encourage Mode 3 market access in retail → regulations on competition
Conclusions

• Services $\rightarrow$ competitiveness and upgrading in GVCs / contribute to SDGs
• Trade negotiations need to take an holistic view across goods and services
• No ‘one size fits all’ strategy
• Trade policy design needs to be informed by detailed value chain analysis:
  • Broad stakeholder consultations
  • Taking into account overall competitiveness and each services input
• Domestic regulations important to ensure access by SMEs, women, youth
• Regional integration and regional cooperation
• LDCs services waiver $\rightarrow$ Preferences and measures to ensure LDCs take advantage
Exploring role of services in value chains

Gloria O. Pasadilla, Senior Analyst
APEC Policy Support Unit

ADBI Workshop on SMEs in GVCs, Mongolia
14-15 September 2017
Context: services, manufacturing, and productivity

What services are heavily used in manufacturing: case studies

Policy issues
2. Productive economies are those with high manufacturing exports

High correlations between labor productivity and manufacturing exports per capita
3. Productive economies are those whose manufacturing exports employ a large share of services

Positive correlations between share of services value-added in manufacturing and labor productivity
4. Economies with high use of services in manufacturing are also high exporters

Positive correlation between use of services with manufacturing exports

Economies with high use of services in manufacturing are also high exporters. Positive correlation between use of services with manufacturing exports.
What specific services are used? Results from case studies

22 case studies
14 from Asian economies, 8 from North American and Chilean economies
9 MNCs, 10 medium-to-large, 1 SME, 2 non-manufacturing

Aircraft control systems, auto component, computer servers, construction machinery, electronic appliances, printed circuit boards, telecom equipment, wastewater treatment, watch, welding services, fresh cherry, wine, integrated logistics
Sample case study: Aircraft control systems (A)

• **Designer** and **manufacturer** of high performance precision motion control products and systems.

• **Headquartered** in United States but has its largest manufacturing site for aircraft controls in Philippines.

• A **servo actuator** – a device that transforms an input signal (usually electrical) into motion.

• Comes in **various sizes** and the largest one can weigh **up to 200 pounds**.

---

**Servo actuator and its locations in B787**

- **Primary Flight Control System**
  1. Aileron servo actuator
  2. Flaperon actuator and control module
  3. Inboard spoiler servo actuator
  4. Outboard spoiler servo actuator
  5. Electromechanical spoiler actuator and motor control unit
  6. Horizontal stabilizer trim actuator and motor control unit
  7. Elevator servo actuator
  8. Rudder servo actuator

Source: Courtesy of the firm
Sample case study:
Aircraft control systems (A)

Dimension of the value chain covered by the case study

A. Pre-manufacturing
- Knowledge transfer from design centres to manufacturing facility during transition
- Minor iteration between design centres and manufacturing facility (if any) and design finalization
- Procurement of materials and production equipment
- Logistics and customs
- Inspection and testing of materials
- Training of production staff
- Identification of providers of outsourced services such as simple machining
- Planning of production

B. Manufacturing
- Outsourcing of non-proprietary steps
- In-house core manufacturing activities
- Inspection and quality control of products

C. Post-manufacturing
- Transfer of products to third-party logistics provider located on site
- Delivery of products to customer

D. After-sales
- Maintenance, repair and overhaul services of products
- Guaranteed parts supply contracts

Note: Optional activities in the value chain are indicated by green boxes. Source: APEC Policy Support Unit based on firm interview.
Sample case study:
Aircraft control systems (B)

Breakdown of services by stages and examples of key services

**Back-office:**
- Headquarters services
- Financial services
- Legal services

**After-sales:**
- Government after-sales certification services
- Maintenance, repair and overhaul (MRO) services

**Post-manufacturing:**
- Packaging services
- Transport/logistics services
- Certification services

**Pre-manufacturing:**
- Engineering services
- Design services
- Procurement services
- Transport/logistics services

**Manufacturing:**
- Engineering services
- Production management services
- Maintenance and repair of equipment
- QA/QC services

Source: APEC Policy Support Unit based on firm interview.
Sample case study: Aircraft control systems (C)

Reasons for outsourcing:
- Government services
- Required by laws and regulations
- Lack of expertise or specialization in-house
- Need access to best services
- Lack of feasibility to supply services in-house
- Economies of scale
- Need strong relationship with government agencies
- Network economies

Reasons for not outsourcing:
- Core services activities
- Necessary to ensure quality
- Involve proprietary technology

Source: APEC Policy Support Unit based on firm interview.
Firm D – Fresh cherry exporter (Chile)

• **One of Chile’s top fresh fruit exporters** including cherries, apples, avocados, blueberries and grapes **to over 50 different markets around the world.**

• Cultivated fresh fruits **through production owned by its business partners** and **ran large contract grower operations.**

• Began **producing cherries for export** in 2008 and had **expanded to almost 10 different varieties** by 2015.
Firm D – Fresh cherry industry

Sources of supply

Contract grower 1
(More hands-off approach)

Contract grower 2
(Firm is more involved in the plantation operation)

Production owned by business partners

Firm D

Over 50 different export markets

Direct sales to supermarkets
(Common for big buyers like Walmart)

Independent importers or brokers
(Common for some markets like China)

Subsidiary or joint venture with other fruit exporters
(Common for some markets like European Union)
Firm D – Fresh cherry industry

Typical value chain for fresh cherry industry

- Orchard establishment
  - Variety development & selection services
  - Installation services
- Cherry production
  - Agronomic services
  - Pest control services
  - Financial services
- Packing
  - Certification services
  - Packing services
  - Maintenance and repair services
- Distribution, marketing & sales
  - Logistics services
  - Market research services
  - Customs clearance services
Results of case studies

No. of services entering the case study value chains

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power plant equipment; Japan</td>
<td>74</td>
</tr>
<tr>
<td>Mining and construction equipment; Japan</td>
<td>74</td>
</tr>
<tr>
<td>Telecommunications equipment; China</td>
<td>72</td>
</tr>
<tr>
<td>Fresh cherry; Chile</td>
<td>71</td>
</tr>
<tr>
<td>Electronic appliances; Indonesia</td>
<td>70</td>
</tr>
<tr>
<td>Wine; Chile</td>
<td>70</td>
</tr>
<tr>
<td>Car assembly; Philippines</td>
<td>70</td>
</tr>
<tr>
<td>Automotive components; Mexico</td>
<td>62</td>
</tr>
<tr>
<td>Construction machinery; United States</td>
<td>57</td>
</tr>
<tr>
<td>Home appliances; Japan</td>
<td>55</td>
</tr>
<tr>
<td>Oil and gas equipment; Singapore</td>
<td>55</td>
</tr>
<tr>
<td>Brake hose end fittings; Mexico</td>
<td>54</td>
</tr>
<tr>
<td>Wastewater treatment services; Thailand</td>
<td>54</td>
</tr>
<tr>
<td>Computer servers; Chinese Taipei</td>
<td>54</td>
</tr>
<tr>
<td>Aircraft control systems; Philippines</td>
<td>53</td>
</tr>
<tr>
<td>Car antenna; Mexico</td>
<td>51</td>
</tr>
<tr>
<td>Printed circuit boards; Canada</td>
<td>50</td>
</tr>
<tr>
<td>Watch; Hong Kong, China</td>
<td>43</td>
</tr>
<tr>
<td>Integrated logistics; Mexico</td>
<td>42</td>
</tr>
<tr>
<td>Precision die and machine parts; Thailand</td>
<td>38</td>
</tr>
<tr>
<td>Welding services; Thailand</td>
<td>38</td>
</tr>
<tr>
<td>Automotive components; Japan</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: APEC Policy Support Unit computation.
Results of case studies

Incidence of services at different stages in the case study value chains

- Shares refer to **number of services**, not value contribution.
- **Value contribution** – significant in post-sales stage for some products, e.g. construction equipment manufacturing.

*Source: APEC Policy Support Unit computation.*
Results of case studies

In-house vs. outsourced services

Outsourced services range between 38 to 91 percent of total services.

Note: Number in bars refer to number of services. Source: APEC Policy Support Unit computation.
Policy issues:
Investment policy incoherence: welcoming to manufacturing FDI but not to services FDI

- FDI equity restrictions are higher in services (relative to manufacturing sectors).
- Other forms of FDI restrictions include screening of foreign investments, restrictions on key personnel and limitations on firm’s operations.
Policy implications
1) Investment policy incoherence

<table>
<thead>
<tr>
<th>Without investment restrictions</th>
<th>With investment restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company X</strong></td>
<td><strong>Company A</strong></td>
</tr>
<tr>
<td>100% or Joint Ventures</td>
<td>Manufacturing/Sale 100%</td>
</tr>
<tr>
<td>Manufacturing/Sale</td>
<td>Installation service</td>
</tr>
<tr>
<td>Installation</td>
<td>Maintenance/Repair service</td>
</tr>
<tr>
<td>Maintenance/Repair</td>
<td></td>
</tr>
<tr>
<td><strong>Clients</strong></td>
<td><strong>Clients</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Company B</strong></td>
</tr>
<tr>
<td></td>
<td>Installation 49%</td>
</tr>
<tr>
<td></td>
<td>Installation service</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Company C</strong></td>
</tr>
<tr>
<td></td>
<td>Maintenance/Repair 60%</td>
</tr>
<tr>
<td></td>
<td>Maintenance/Repair service</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Shiino (2015).

- Prevent firms from operating the most efficient business model.
- Prevent services providers from following the footsteps of their lead firms.
- An alternative would be to partner with domestic providers but it is challenging to find the right ones.
Policy implications
Effect on business structure and efficiency

Without investment restrictions

Company X
100%
orJoint Ventures
Manufacturing/Sale
Installation
Maintenance/Repair

Manufacturer of cored wire and welding equipment

Clients

With investment restrictions

Company A Manufacturing/Sale
100%

Sale of welding eqpt

Company B Welding services and maintenance
49%

Clients

Source: Adapted from Shiino (2015).

- Influences firm’s choice of efficient business model.
- Lucky if firm finds a domestic **partner that adds relevant and additional value**
Policy implications

2) Labor-related restrictions

Types of restrictions

- Quotas
- Economic needs test/conditions
- Complex entry requirements & discretionary decisions
- Recognition of qualifications

- Possibly cause missed opportunities e.g. Welding case in Thailand – welder’s certification (Malaysia/Thailand).
- Hamper firm’s ability to provide the best service for their customers.
Policy implications
2) Labor-related restrictions

- **Visa requirements** among APEC economies **vary**. Nationals of some economies have relative freedom to travel visa-free, while their economy imposes visas to other APEC economies.
- Mobility of persons have impact on business cost and delivery of service
Concluding words

- It is important to understand the importance of manufacturing-related services in different firms: What they are and how they enter the value chain.
- Growth in manufacturing competitiveness needs efficient services.
- Implementation challenges: certification, smes, and silo issue in services.
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Getting to national and regional priorities: potential and constraints
## Opportunities in ICT Services

<table>
<thead>
<tr>
<th>Potential of subsector/industry (low, medium, high)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>E-government services – to consumers</td>
</tr>
<tr>
<td>High</td>
<td>eCommerce – consumer and business shopping online</td>
</tr>
<tr>
<td>Medium</td>
<td>Startups – in ICT sector</td>
</tr>
<tr>
<td>Medium</td>
<td>Education</td>
</tr>
<tr>
<td>High</td>
<td>App Development / Coding / Big Data</td>
</tr>
<tr>
<td>Low</td>
<td>Smart Cities / related to Internet of Things</td>
</tr>
<tr>
<td>Medium</td>
<td>ISPs</td>
</tr>
<tr>
<td>Medium</td>
<td>FinTech / Alternative Currencies</td>
</tr>
</tbody>
</table>
## Constraints in the ICT Sector

<table>
<thead>
<tr>
<th>Severity of Constraint (low, medium, high)</th>
<th>Type of Constraint (regulatory, infrastructural, skills, market access, other)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Infrastructure</td>
<td>Payments – mostly cash only</td>
</tr>
<tr>
<td>High</td>
<td>Infrastructure</td>
<td>Logistics – eCommerce shopping delivery (lack of address finding, lack of services for SMEs)</td>
</tr>
<tr>
<td>Medium</td>
<td>Regulatory</td>
<td>Cross-border trade – customs clearance / LCL clearance in Cambodia</td>
</tr>
<tr>
<td>Medium-High</td>
<td>Regulatory</td>
<td>Consumer Protection / Trust</td>
</tr>
<tr>
<td>Medium</td>
<td>Market Access</td>
<td>Access to app stores (Apple / Google)</td>
</tr>
<tr>
<td>Medium</td>
<td>Infrastructure / Market Access</td>
<td>Standard product IDs (UPC codes)</td>
</tr>
<tr>
<td>High</td>
<td>Skills</td>
<td>Lack of Skilled / Trained Workers</td>
</tr>
<tr>
<td>Low</td>
<td>Market / Regulatory</td>
<td>Privacy and Data Protection / access to US and EU markets / data localization?</td>
</tr>
</tbody>
</table>
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Getting to national and regional priorities: potential and constraints
# Opportunities in Financial Services

<table>
<thead>
<tr>
<th>Potential of subsector/industry (low, medium, high)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>-</td>
</tr>
</tbody>
</table>
## Constraints in the Financial Services Sector

<table>
<thead>
<tr>
<th>Severity of Constraint (low, medium, high)</th>
<th>Type of Constraint (regulatory, infrastructural, skills, market access, other)</th>
<th>Description</th>
</tr>
</thead>
</table>
| Medium                                   | Financial Banking (Cambodia)                                                 | - Lack of applicants knowledge  
- Low awareness of banking policies  
- High interest rate (particularly micro finance)  
- Limited types of Collaterals accepted by different banks. |
| High                                     | High interest rate, high competitive (Laos)                                  | - Many micro finance banks and international banks  
- International Financial Institutions also provide funding to the local banks.  
- High interest rate (10%) for the loan  
- Central Bank needs to have more strict laws and regulations to monitor financial service sectors |
| High                                     | (Myanmar)                                                                    | - No international bank for transaction  
- Limitation of financial Law  
- 7% interest rate per annum (government to farmers) but very limited to access in amount and time frame  
- SME cannot access as special loan from bank  
- Interest rate is 13%-14% with collateral for business loan  
- Microfinance cannot access the loan from bank  
- Microfinance interest rate is 30% p.a |
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
Getting to national and regional priorities: potential and constraints

Transport Services
## Opportunities in Transport Services

<table>
<thead>
<tr>
<th>Potential of subsector/industry (low, medium, high)</th>
<th>Description</th>
</tr>
</thead>
</table>
| Road                                             | Improve of road infrastructure: NSEC EWEC SEC  
Number of existing cross border points  
Early harvest CBTA---GMS transport permits     |
| Railway                                          | Express ways connecting major destinations in the region  
Kunming-Singapore project---lots of opportunities for economic activities |
| Air                                              | Open sky policy among GMS          |
| Maritime                                         | Lower cost  
Most efficient mode of transportation, particularly for big/heavy cargo  
Connecting Pacific Ocean to Indian Ocean  
Part of One Belt One Road                        |

AEC Vision
## Constraints in the Transport Sector

<table>
<thead>
<tr>
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<th>Type of Constraint (regulatory, infrastructural, skills, market access, other)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td>Regulatory constraints</td>
<td>- Size of trucks&lt;br&gt;- Single Stop Inspection&lt;br&gt;- CCA&lt;br&gt;- Conformity and compatibility of standards&lt;br&gt;- Market access for truck companies&lt;br&gt;- Route limitation&lt;br&gt;- Lack of regulatory enforcement---protectionism&lt;br&gt;- No free navigation of waterway&lt;br&gt;- No basic regional agreement related to maritime transportation</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Infrastructural constraints</td>
<td>- Lots of needs for infrastructure&lt;br&gt;- Maintenance problems---Regional funds for road maintenance is needed.</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Skill constraints</td>
<td>- Computerized system---we should have pilot implementation of Single Window&lt;br&gt;- Insufficient inter-ministerial coordination</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Institutional constraints</td>
<td>- ASEAN Sec does not have enforcement power</td>
</tr>
</tbody>
</table>
Trade and Investment Policies in the New Economy: Opportunities for Inclusive Transformation in Southeast Asia
10-11 October 2017 | Yangon, Myanmar

Getting to national and regional priorities: potential and constraints

Tourism Services
## Opportunities in Tourism Services

<table>
<thead>
<tr>
<th>Potential of subsector/industry</th>
<th>Description</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Marketing</td>
<td>Integrate the region as a single destination through the regional tourism products</td>
<td>2</td>
</tr>
<tr>
<td>Regional Tour Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification of Tourism Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficient allocation of skilled labour (in terms of skills and prices)</td>
<td>Enhance the mobility of skilled tourism professionals across ASEAN Member States</td>
<td>3</td>
</tr>
<tr>
<td>Increase competition in subsectors relevant for tourism</td>
<td>Regional and international competition can help drive prices down in e.g. aviation, accommodation etc.</td>
<td>1</td>
</tr>
</tbody>
</table>
## Constraints in the Tourism Sector

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<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Regulatory / market access</td>
<td>High prices for e.g. aviation and accommodation</td>
</tr>
<tr>
<td>Medium</td>
<td>infrastructural</td>
<td>Limited connectivity</td>
</tr>
<tr>
<td>Medium</td>
<td>Regulatory</td>
<td>Multiple visa regimes in the region</td>
</tr>
<tr>
<td>High</td>
<td>Skills</td>
<td>Varying services and qualification standards across ASEAN; common standards implemented at relatively slow pace</td>
</tr>
<tr>
<td>Medium</td>
<td>Regulatory</td>
<td>Right of establishment / mutual recognition of service standards partially limited</td>
</tr>
</tbody>
</table>