Trade facilitation and supply chain resiliency to strengthen recovery

Jayant Menon

ISEAS-Yusof Ishak Institute

Singapore

jmenon1@gmail.com

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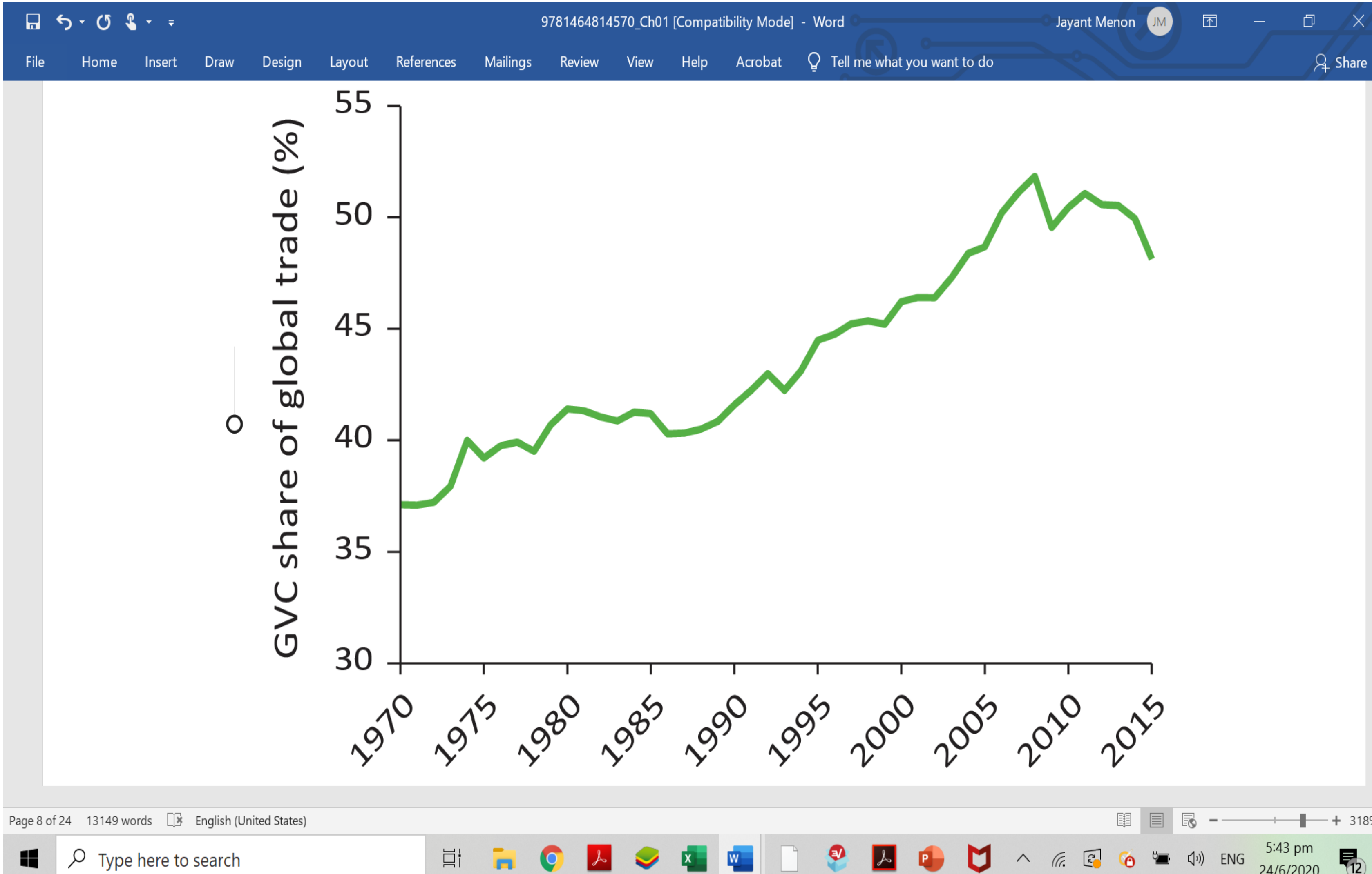
Outline

- Global Supply Chains – An Overview
- Trade Costs vs Trade Wars
- Value-Added, Fixed Costs and Resilience
- Conclusion

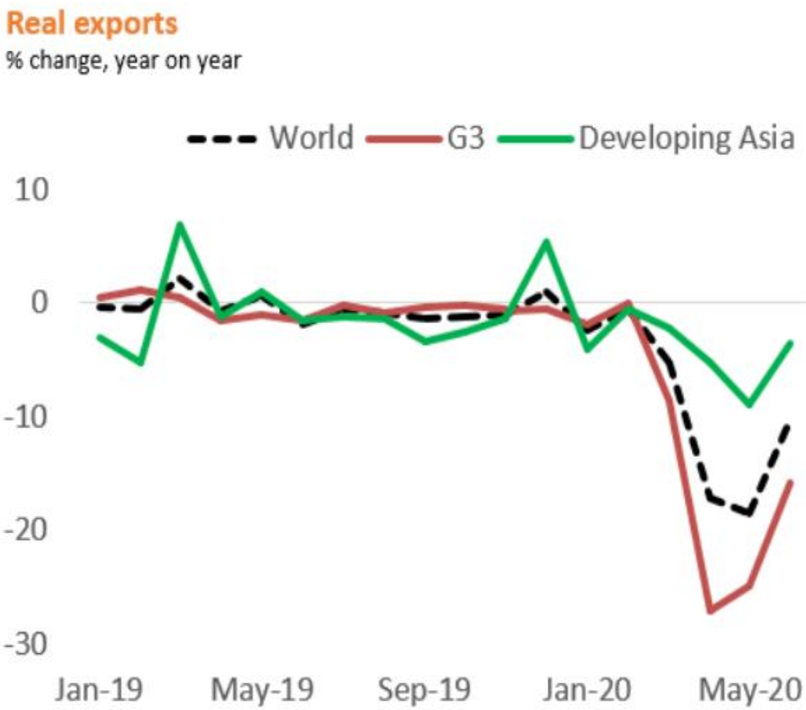
Global Supply Chains

- Global value or supply chains (GVCs or GSCs) account for almost 50% of global trade today.
- A 1% increase in GSC participation is estimated to boost per capita income by more than 1% - about twice as much as conventional trade. (WDR 2020).
- Backbone of ASEAN economic integration and the source of interdependence among RCEP members.
- GSC share of global trade has been declining for a while now.

GSC share of Global Trade (%)



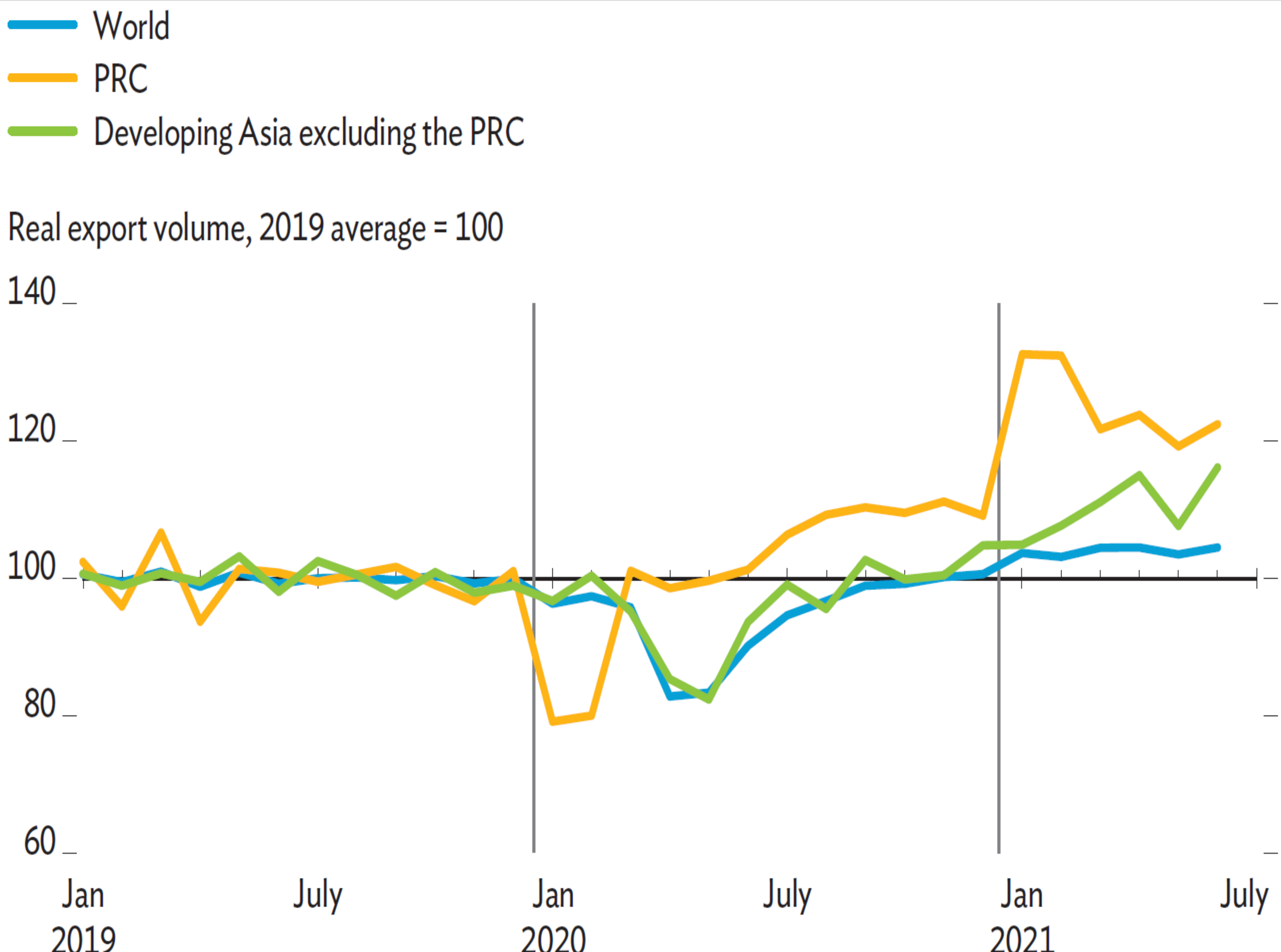
Asia's trade falling by less than global trade due to strong demand in health supplies and electronics



Notes: *G3* refers to the weighted average of US, Japan, and Euro area. *Developing Asia* refers to the weighted average of PRC; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Pakistan; Philippines; Singapore; Taipei,China; Thailand; and Viet Nam.

Source: ADB, ADOU 2020

Figure 1.1.14 Sector contributions to nominal export growth by developing Asia subregion


World
PRC
Developing Asia excluding the PRC
Real export volume, 2019 average = 100
140
120
100
80
60
Jan
2019
July
Jan
2020
July
Jan
2021
July

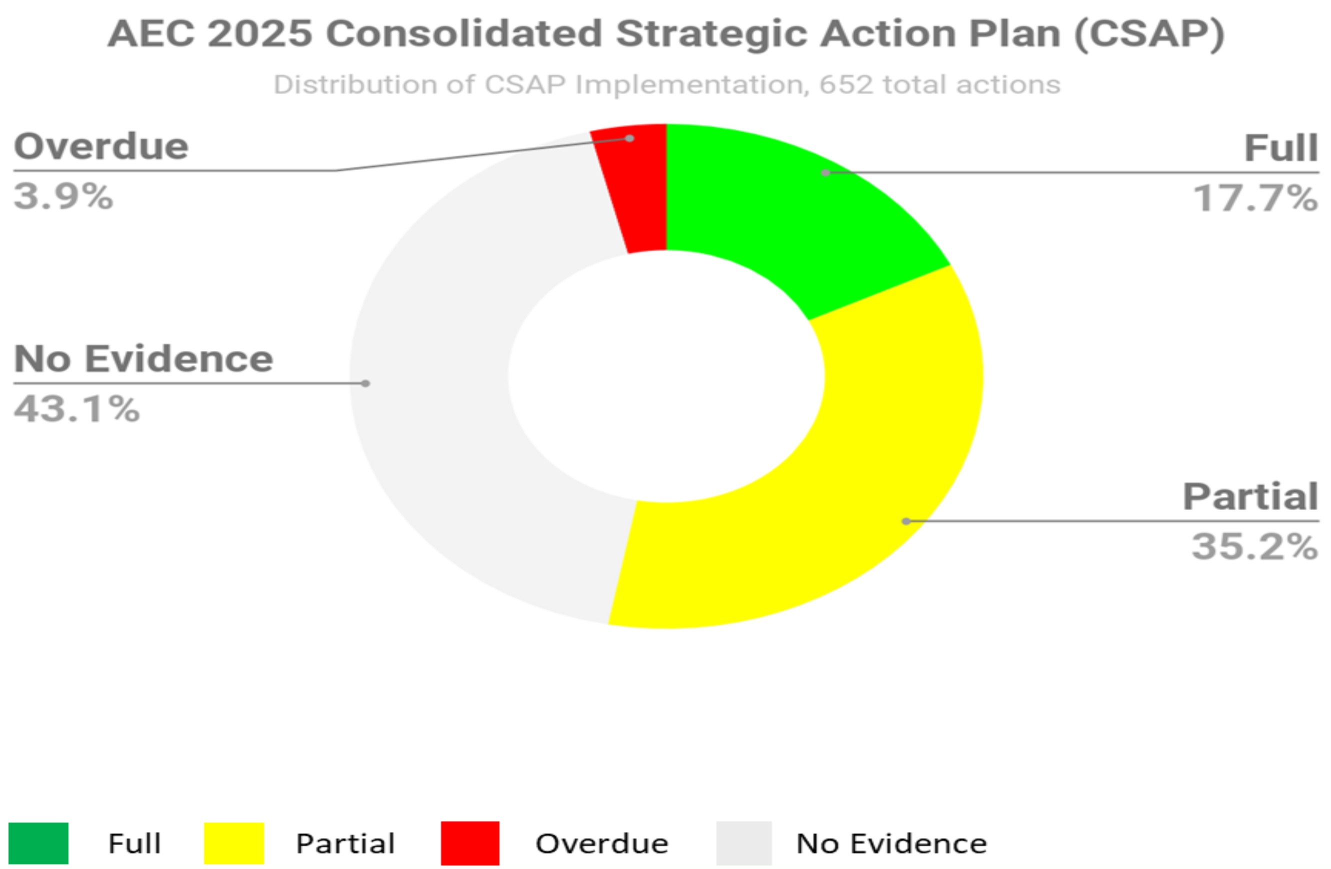
Global Supply Chains

- GSCs are born out of disruption, and are continuously evolving- restructuring and relocating is their lifeblood
- For this region, the US-China trade war is arguably the main factor affecting GSCs
- COVID-19 may increase the amount and hasten the pace of restructuring, but it does not account for all of the observed disruption.

Global Supply Chains

- The trade war and COVID-19 are **accelerators more than inducers**.
- The restructuring started much before the trade war, or COVID-19, with rising wages and tightening of environmental regulations in China.
- A small change in cost competitiveness can result in entry or exit of GSCs, depending on industry.
- By promoting trade facilitation, AEC and RCEP can potentially support GSCs

AEC implementation progress 2019 (IDEAS)



AEC implementation progress 2019 (IDEAS)

Pillar	Element	Implementation (%)
A1	Trade in Good	7 (12.3%) · 23 (40.4%) · 3 (5.3%) · 24 (42.1%)
A2	Trade in Service	2 (22.2%) · 1 (11.1%) · 6 (66.7%)
A3	Investment Environment	4 (26.7%) · 4 (26.7%) · 3 (20%) · 4 (26.7%)
A4	Financial Integration, Financial Inclusion and Financial Stability	3 (9.1%) · 7 (21.2%) · 23 (69.7%)
A5	Facilitating Movement of Skilled Labour and Business Visitors	2 (100%)
A6	Enhancing Participation in Global Value Chains	2 (33.3%) · 1 (16.7%) · 3 (50%)

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Trade Facilitation vs. Trade War

- If a small change in trade costs can have an impact on GSC relocation, then a small bilateral tariff can have an even greater, amplified effect.
- There is no equivalence or one-to-one relationship between changes in trade costs and changes in bilateral “trade war” tariffs
- While the tariff is applied on total value of the product, it is the VA share from China that results in the punitive tariff being imposed.

Value Added (VA) in China of Exports to the US, and Effective Rate of Spillover Protection (ERSP), 2018

Column1	Column2	Column3	Column4	Column5	Column6
	VA ($ m)	**VA (%)**	**ERSP 1**	**ERSP2**	**ERSP3**
	2018	**α**	**T=15**	**T=25**	**T=30**
Food, Beverages, and Tobacco	6,273	7.4	203	338	406
Textiles and Clothing	41,329	31.9	47	78	94
Leather and Footwear	24,037	52.1	29	48	58
Wood and Wood Products	3,220	22.3	67	112	134
Paper, Printing, and Publishing	3,620	10.4	145	241	289
Chemicals and Chemical Products	20,479	9.9	151	252	302
Rubber and Plastics	11,093	21.1	71	119	142
Other Non-Metallic Minerals	6,992	27.4	55	91	110
Basic Metals and Fabricated Metal	23,231	14.5	103	172	207
Machinery, Nec	33,736	22.3	67	112	135
Electrical and Optical Equipment	159,459	40.5	37	62	74
Transport Equipment	20,296	5.4	279	465	558
Manufacturing, Nec.	29,660	28.1	53	89	107
TOTAL	**383,424**	**30.9**	**49**	**81**	**97**

Source: Author's calculations. Data from ADB Multi-Regional Input–Output Tables; methodology by Wang, Wei, and Zhu (2017)

Shares of VA and Fixed Costs and Relocation

- Apart from the VA share, need to consider shares of fixed (sunk) versus variable cost in total cost.
- 3 years later, we have more than anecdotal data.
- In labour-intensive industries like TCF, low shares of sunk costs makes them more footloose, unlike complex, capital-intensive industries like machinery & transport equipment
- Therefore, GSCs less likely to relocate if shares of VA and/or fixed costs are high (less divisible technology)
- Despite bilateral tariffs having a magnified impact within GSCs, disruption reduced by eco-system-related fixed costs. GSCs may be more resilient than they appear

Conclusion

- GSCs are dynamic and always evolving
- Reducing trade costs through TF via AEC/RCEP critical to retaining and expanding GSCs
- But US-China trade war is having the much greater impact.
- This is because the tax imposed on adding value in China is a multiple of the tariff rate
- But GSCs are more resilient than they appear

Thank you for listening!

Comments and questions to:

jmenon1@gmail.com

jayant_menon@iseas.edu.sg

+65 8727 6420