

Foreign Direct Investment, Global Value Chains, and Economic Growth

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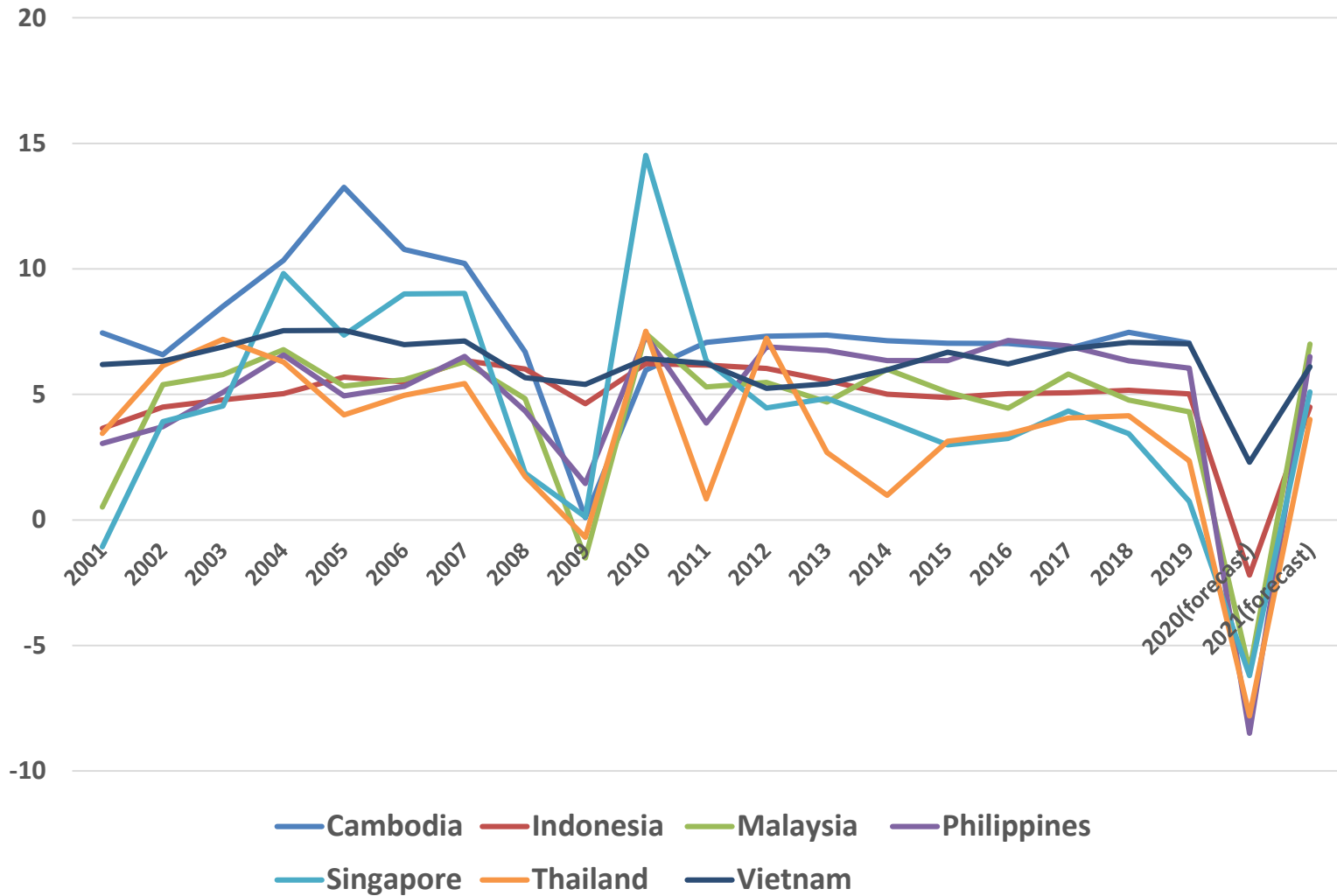
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Background and the Objective of the Project

- **Background:** ASEAN member countries, like the rest of the world, experienced negative economic growth in 2020 due to the impact of the COVID-19. This year, the progress of countermeasures against COVID-19 is expected to bring about a relatively high rate of growth. However, return to full-fledged high growth achieved before pandemic outbreaks appears very difficult because of various risks: continuing COVID-19 pandemic, emergence of new virus, US-China rivalry, rising protectionism, etc.
- **Objective:** This project aims to clarify the pre-pandemic situation of economic growth led by foreign direct investment (FDI) and global value chains (GVCs), and explore the post-pandemic economic growth strategy for ASEAN member countries.

GDP Growth Rates (%)



List of papers

1. *Overview of FDI, trade, GVCs in East Asia*

- Ayako OBASHI (Aoyama Gakuin University)

2. *Investment Policy in terms of Facilitation and Promotion in Cambodia: Impact on the Manufacturing Global Production Value-Chain*

- Shandre Thangavelu (University of Adelaide)

3. *Foreign Direct Investment, Agglomeration, and Production Network in Indonesian Manufacturing*

- Dionisius A. Narjoko (ERIA)

4. *GVCs and Premature Deindustrialization in Malaysia*

- Cassey Lee (ISEAS)

5. *Understanding FDI and Productivity of the Philippine Manufacturing Industry: Policy Interventions that Government Should Pursue*

- Rafaelita Aldaba, (PIDS)

6. *Structural Changes, Unbundling Effects and FDI in a Global Production Value-Chain: Case of Singapore*

- Shandre Thangavelu (University of Adelaide)

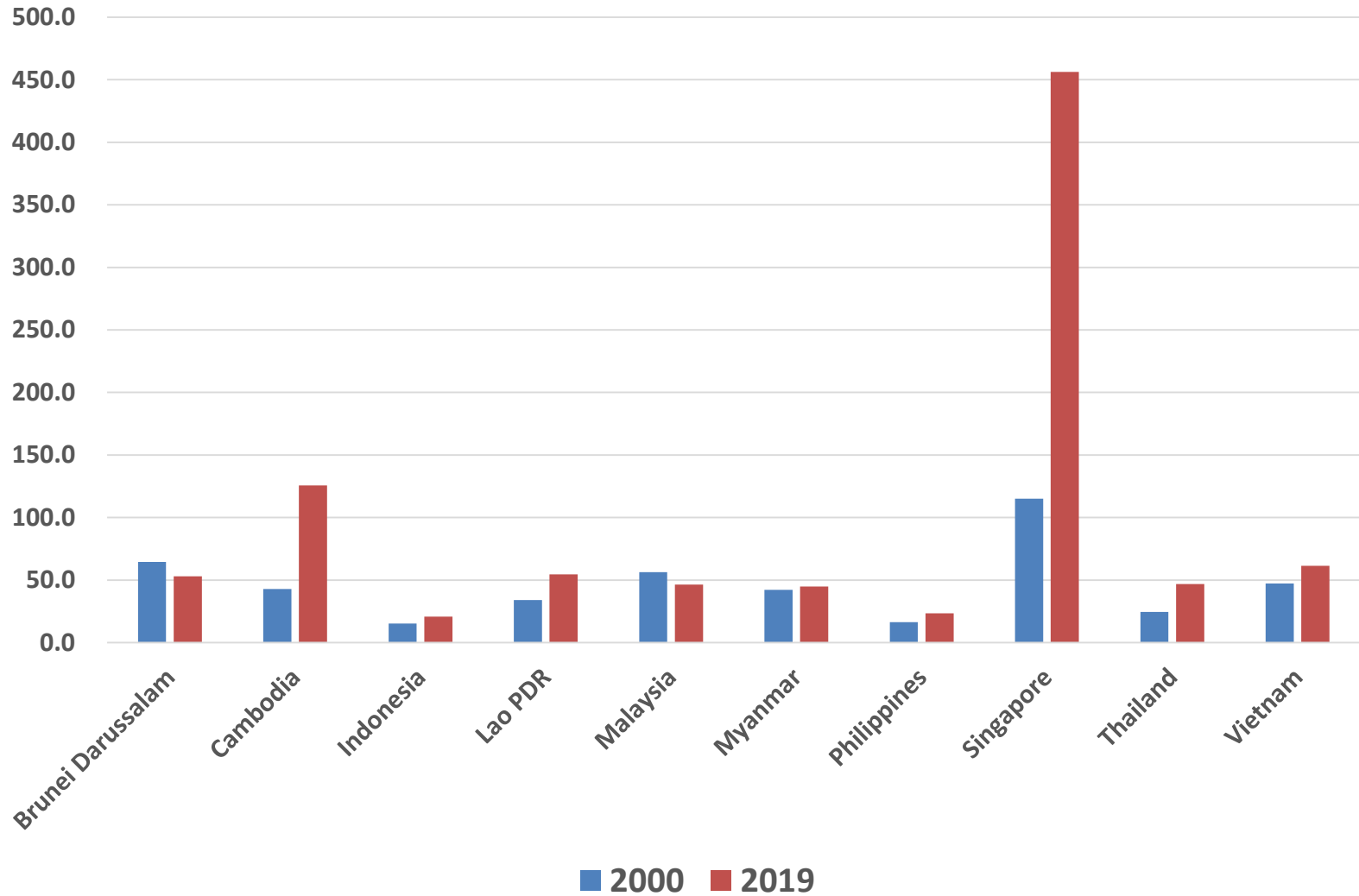
7. *Recent Development of Trade and Investment Policies in Thailand*

- Archanun Koppaiboon (Thammasat University)

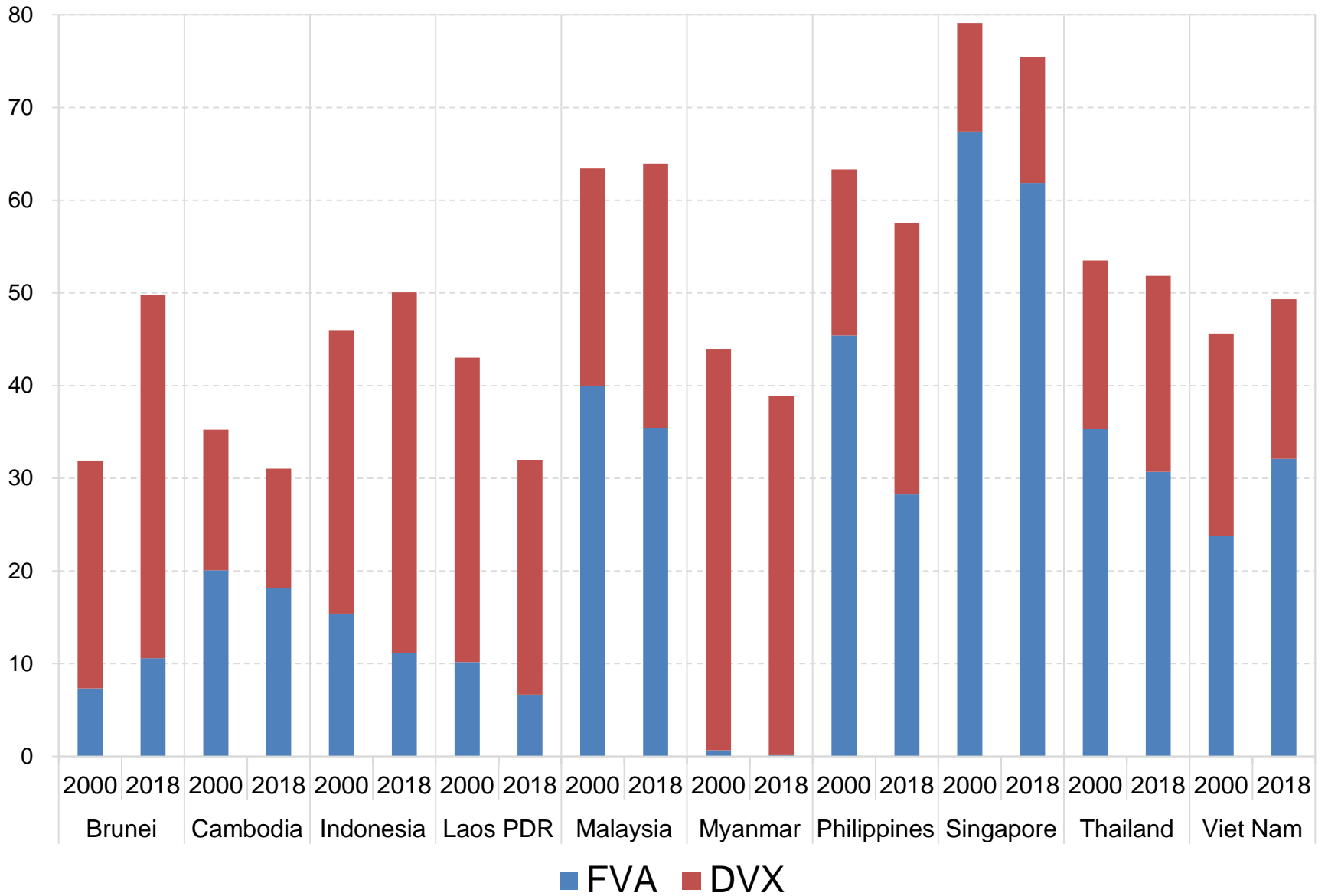
8. *The Nexus between Inward Foreign Direct Investment and Global Value Chains in Developing Countries: A Case Study of Vietnam*

- Nguyen Huy Hoang (Institute for Southeast Asian Studies)

Inward FDI Stock to GDP Ratio (%)



GVC Participation (%)



Important Common Findings and Policy Recommendations

- **Main drivers of economic growth and structural upgrading**
- Foreign direct investment (FDI)
- Global value chains (supply chains)
- Foreign trade
- (Increasing importance in the future: digital transformation)
- **Policy recommendations**
- Implementing open trade and FDI policy
- Building soft and hard infrastructure
- Developing human resources
- (Research and development)

Overview of FDI, trade, GVCs in East Asia

(Ayako Obashi, Aoyama Gakuin University, Japan)

- **Major Findings**

- East Asian countries have been integrated into regional and global value chains (GVCs), particularly intensively in machinery sectors.
- East Asian countries trade manufactured parts and components intensively with each other in GVCs.
- As to their trade with outside the region, East Asian countries export capital goods and consumption goods
- There is a complementary relationship between trade and foreign direct investment (FDI) in GVCs

- Attracting FDI is not merely the hosting of foreign exporting firms but enables the recipient country to participate in GVCs, form industrial agglomeration, and benefit from transfers of management know-how, and technology
- FDI is a key for industrial upgrading
- **Policy Recommendation**
- Liberalize and facilitate trade and investment, in order to participate in GVCs.

Investment Policy in terms of Facilitation and Promotion in **Cambodia**: Impact on the Manufacturing Global Production Value-Chain (Shandre Thangavelu, University of Adelaide)

- **Objectives:**
- Examine FDI policy of Cambodia in terms of investment promotion and facilitation.
- Examine the impact of investment policy on multinational activities by examining their effect on firm performance in special economic zones (SEZs).
- Examine the regional and provincial differences in attracting FDI.
- Identify policy gaps and also discuss forward-looking investment policy for Cambodia to move the industries to the next phase of growth in GVCs.

- **Major Findings**

- Positive impact of connectivity through national and provincial road networks on attracting FDI.
- At the provincial level, electricity supply, rainfall, land area, and young working population have positive impact on attracting FDI

- **Policy recommendations**

- Build infrastructure: road and highway construction
- Develop skills of young people as young people with skills can play an important role in absorbing and diffusing key knowledge and technologies from FDI

Foreign Direct Investment, Agglomeration, and Production Network in Indonesian Manufacturing (Dionisius Narjoko, ERIA)

- **Background information**
- Factors affecting FDI inflow to Indonesian economy has changed a lot since 2000, as Indonesia recovered from the 1997/98 economic crisis.
- **Objective of the analysis**
- Examine the importance of globalization such as the presence of international production network, IPN) in determining FDI inflow to Indonesian manufacturing by examining regional FDI patterns.

- **Findings**
- IPN and agglomeration are two important industry activities that determine the extent of FDI inflow
- Important insight provided by this study is the critical role played by agglomeration
- **Policy recommendations**
- Provide support for creating clusters/agglomeration

Structural Changes, Unbundling Effects and FDI in a Global Production Value-Chain: Case of Singapore

(Shandre Thangavelu, University of Adelaide)

- **New challenges**
- Declining growth rate
- Declining growth rate in gross fixed capital formation
- Shift towards services sector and declining share of manufacturing
- Falling exports in manufacturing
- Weaker growth in productivity
- Aging population
- Lack of indigenous technology and entrepreneurship

- **Keys to overcome challenges**
- **Human resource development**
- In fragmented growth (greater vulnerability and external shocks) greater destruction than creation in jobs – greater creation of new types of jobs leads to greater depreciation of human capital, indicating the development of flexible and capable human resources/workers
- Flexible and capable human capital allows workers to undertake value-added tasks, which is increasingly becoming important for GVC activities
- Importance of life-long learning and learning for all
- Education and Training and Re-tooling
- **Manufacturing and Services Linkages**
- Balance between services and manufacturing sector is important for the Singapore economy to remain “hooked” to GVCs

The Nexus between Inward Foreign Direct Investment and Global Value Chains in Developing Countries: A Case Study of Vietnam

(Nguyen Huy Hoang & Truong Quang Hoan, Institute for Southeast Asian Studies)

- **Objective of the paper**

- Provide an overview of Vietnam's economic integration
- Examine Vietnam's industry development policy and its GVC participation
- Examine relationship between FDI and Vietnam's GVC participation
- Identify the determinants of Vietnam's GVC participation
- Draw policy recommendations

- **Industry Development policy**

- Promotion of FDI inflows by providing tax and other incentives
- Promotion of developing supporting industry (supplying parts and components) for attracting FDI and for

- **Findings**

- Vietnam's exports contain value added created by unskilled labor
- FDI contributes to Vietnam's exports growth, but integration with Vietnamese local firms is limited

- **Policy recommendations**

- Promote inward foreign direct investment for facilitating local firms' GVC participation
- Improve technological and managerial capability of local firms not only in manufacturing sector but also in service sector, which play an important role in improving competitiveness of manufacturing sector
- Develop supporting industries