

**Report of Network of ASEAN - China Think Tanks (NACT) Working
Group Meeting on**

***“Shifting global and regional supply chains: Implications for sustainable
development of ASEAN and China”***

Co-Organized by NACT Vietnam and NACT China

30 June 2021

BACKGROUND

1. The Network of ASEAN-China Think Tanks (NACT) Working Group Meeting was held on 30 June 2021 via the Zoom videoconferencing platform. It was co-organized by the Diplomatic Academy of Vietnam and the China Foreign Affairs University as co-chairs.
2. The meeting was attended by scholars, researchers, and government officials in their private capacities from Cambodia, China, Lao PDR, Malaysia, the Philippines, Singapore, and Vietnam.
3. Recognizing the shifting of supply chains are increasingly developing under the impacts of Covid-19, the WG Meeting aims to provide policymakers a deeper understanding of the major trends in the global supply-chain and key drivers of supply chain change, thereby ultimately enable policymakers to formulate and implement evidence-based policies and regulations on cooperation framework in regards to supply chain at both domestic and regional levels.

MAJOR TRENDS OF GLOBAL AND REGIONAL SUPPLY CHAINS

4. ***The global supply chains have been experiencing some major shifts in recent times.*** The global supply chain has become shorter as companies are moving from off-shore manufacture to re-shore or near-shore production. By relocating production processes (i.e. resources, concept, design, manufacturing, packaging, marketing, distribution and retailing) in different countries, transnational corporations can take advantage of the best available human or physical resources in different territories, with a view to maintaining their competitiveness by augmenting productivity and minimizing costs.
5. ***The emergence of global and regional supply chains shifting is related to many drivers,*** including trade cost, technological change, trade and investment liberalization (such as regulatory reforms), demand change, strategic competition, environmental factors, etc.
6. With withdrawal of the United Kingdom from the European Union, the tariff imposed by the previous U.S. administration against China, the change in the government's policy in the host country such as the rise in minimum wages in China and the COVID-19 pandemic have contributed to the increasing disrupted global supply chains, causing multinational enterprises to reconsider their supply chain.
7. The emergence of advanced technologies such as 3D printing, the internet of things (IoTs), big data, autonomous robots and artificial intelligence (AI), which are being adopted throughout the supply chains by numerous high-tech firms. Industrial 4.0 also pushes the process of creating new economic patterns. The digitalization of economies, the servicification of manufacturing and consumer preferences for more sustainable production processes, and providing better products and services are important reasons why firms are tending to produce closer to consumers and may rely less on off shoring
8. The rise in environmental concerns and sustainability is equally crucial, forcing enterprises to be much more conscious about their carbon

footprints. Therefore, companies aim for shorter transport distances by moving closer to the end-users as well as the suppliers of their raw materials.

9. ***The COVID-19 pandemic has accelerated responses to the shift of supply chains.*** It can be seen as a classic “exogenous shock” to the existing economic and institutional equilibrium across the region. Fundamentally, the pandemic made abundantly clear the weaknesses and vulnerabilities of existing global supply chains, particularly the enormous risk of single-sourcing models and overconcentration of investment. As a result, many had to rethink about their supply chain strategy and diversify their production base. This creates significant changes in global supply chain configurations:
10. In supply side, the direct impact of Covid -19 is that production was stopped or disrupted because firms were directly affected by the presence of the virus at production sites. Besides, there are some indirect impacts, including: (i) supply chain risk contagion through global supply chains; (ii) disruption in international transport networks; and (iii) measures taken by governments limiting the movement of people or reinforcing border controls led to the disruption in international trade.
11. In demand side, the COVID-19 brings: (i) a surge in demand for some key medical supplies; (ii) a shift in demand for health, green food products; and (iii) transmission of economic shocks through demand channels. As a result, lower demand for final products in a given country reduces demand for inputs produced in other countries
12. ***The creation of new production supply chains is a complicated, multi-year process.*** This is time of changing, both in terms of politics, economics and society. A set of “known unknowns” that certainly impact the trajectory of supply chains in the region but the future develop of which remains unclear, including: (i) the duration of the Covid-19 pandemic and whether the economic impacts thereof have been already

been fully felt; (ii) the question of the future of US-China economic relations; (iii) the increasing mainstreaming of climate change concerns into infrastructure provision.

OPPORTUNITIES AND CHALLENGES

13. ***Both ASEAN and China should take advantage of shifting global supply chain to strengthen their manufacturing capacities and improve overall competitiveness.*** Some advantages of China can be named as increasingly skilled labor force, high productivity, and prospect to recover quickly, rapid growth of middle class, having strategic raw materials, and its plan to develop high-tech fields.
14. ***ASEAN has been a leading destination for multinational companies seeking to relocate their operation bases.*** There are a number of reasons leading ASEAN to be an attractive destination for firms when they opted for diversification.
15. First, ASEAN as a whole is its strategic location, which is extended across the vital sea routes such as the Indian Ocean, South and East China Sea. This will be advantageous for international firms seeking to locate their manufacturing sites to be in closer proximity to the ports as it reduces distance and saves much of their shipping time and thus, lowers cost of transportation of goods.
16. Second, economic growth in ASEAN has been impressive over the past two decades, with an average growth rate of 5.3% annually since the year 2000. The ASEAN's GDP per capita has also been experiencing a similar trend, leading to expectation of almost half of the ASEAN's population will become middle class by 2030, which would drive consumption growth and increase consumer purchasing. A rise in spending power

allows ASEAN to become its own big market which is expected to attract larger international investors to invest in the region.

17. Third, ASEAN has become a hub for Free Trade Agreements (FTAs), bring numerous benefits to foreign investors such as improved custom clearance, reduced import costs and access to products eligible for preferential treatment, among others.
18. Finally, ASEAN has a relatively young population, where over 50 percent of the population or around 380 million people are below the age of 35, ranging from unskilled to high-skilled industry workers. This translates to an enormous potential in strong labor force in ASEAN. Despite the region's rise in the cost of living, the minimum wage rates across ASEAN member countries remain significantly lower than those developed economies of Asia and the world.
19. ASEAN's strategic location, its robust economic growth, rise in middle income households, digital opportunity and favorable demography coupled with relatively cheap labor cost, all of which combined have made ASEAN such a lucrative investment destination for multinational companies seeking their new operation base for cost savings that will enhance their competitive advantages.
20. ***Although there are opportunities to unleash, supply chains are vulnerable to disruption.*** The supply and demand shocks as the global economy shut down and exposed to vulnerabilities in the production strategies and supply chains of firms just about everywhere. The series of US-China trade conflict combined with the COVID-19 pandemic highlighted their weaknesses. As a consequence, manufacturers worldwide are going to be under greater political and competitive pressures to increase their domestic production, grow employment in their home countries, reduce or even eliminate their dependence on sources that are perceived to be risky, and rethink their use of lean manufacturing

strategies that involve minimizing the amount of inventory held in their global supply chains.

21. ***ASEAN faces with many obstacle in realizing opportunities of global and regional supply chains shifting***, including: (i) availability of skilled labor within ASEAN; (ii) ASEAN lacks the presence of specialized supply chains as well as the accessibility to capital-intensive machineries; (iii) lesser-developed logistic infrastructure in ASEAN make investors worry about the risks of shifting their manufacturing and business to the region; (iv) ICT infrastructure gap among ASEAN members and China. A key challenge for increasing ICT interconnectivity in ASEAN and as the better background of regional supply chains is the lack of financing schemes for infrastructure projects, making ASEAN increasingly lag behind China; and (v) climate change poses significant risks to supply chain continuity in all levels. Disruptions created by extreme weather threaten the continuity of products' flow across the various agents within supply chain networks. The Lack of inventory, carrier delays, transport congestion, and volatility of costs are among the basic impacts of disruptions.

POLICY RECOMMENDATIONS

22. For ASEAN as a whole, in order to ensuring supply chain connectivity, ASEAN will need to: (i) optimize the role of trade in post-pandemic economic recovery; (ii) leverage on digital technologies to boost trade; (iii) take a more proactive role in the reform of the global trading system; (iv) support the role of the private sector and other stakeholders in restoring confidence in the post-pandemic world; and (v) improve both hard and soft connectivity to enable capacity to participate in regional and global supply chains. The initiatives such as the Master Plan on ASEAN

Connectivity (MPAC) and the ASEAN East-West Economic Corridor have progressed and should be integrated into national development plans.

23. In order to ensure supply chain resilience, it is necessary to: (i) implement stimulus package for ensuring business continuity; (ii) maintain the economic linkage by competitive advantage, focusing on the role of global logistic hub and the important of intellectual property regime; (iii) enhance bilateral and multilateral free trade agreement; and (iv) accelerate the transform of digital economy.
24. The participants to the Working Group Meeting noted that the pandemic has accelerated supply chains shifting across the region and the world, and this is an opportunity for ASEAN and China to enhance their cooperation. In order to harness the potential, it is essential for ASEAN and China to consider the following points:
 25. Strengthening regional cooperation under the Belt & Road, RCEP, ACFTA to maintain an open trade and investment environment. This can be done through: (i) trade facilitation such as the smooth functioning of international transport and customs; (ii) include provisions for the smooth operations of supply chains into agreement negotiation if possible.
 26. Building a multi-tiered industrial cooperation to secure supply chain and distribution channels by promoting standards and regional cooperation mechanism of medical products on R&D, production and logistics etc.
 27. Strengthening regional cooperation on digital economy/E-commerce, especially in improving information system for risk management. Besides, it is necessary to enhance capacity for scientific and technological innovation and increase the added value of products.
 28. ASEAN-China should eliminate cross-border bottlenecks by reforming border formalities, simplifying customs and improving trade facilities and create inductive environment for investment among ASEAN and China.

29. ASEAN and China should deepen cooperation on the pandemic responses, especially in the chains of production.