

# Rebuild stronger: ASEAN global value chains can become more resilient

There has been a series of calls at the international and regional levels for strengthening and rebuilding value chains since the outbreak of COVID-19. Although this is a natural consequence of efficient procurement, when their supply or distribution chains are concentrated in a few firms and a few countries, companies always have a legitimate concern as to whether they will continue to receive required materials and inputs from suppliers. Then, the question is where and at what stage the value chain is concentrated.

In response to this question, ASEAN-Japan Centre (AJC), an intergovernmental organisation established by the ASEAN Member States and Japan in Tokyo, calculated the degree of risks of value chains to external shocks and identified which industries tend to be more vulnerable to risks in the report "Resilient Global Value Chains (GVCs) for ASEAN and its Relationship with Partner Countries". Two types of risks – risks that affect the upstream part of GVCs (supplier market concentration) and those that affect the downstream part of GVCs (buyer market concentration) – are considered.

Looking at concentration by partner in the supplier market, China is by far the most important supplier to many industries in ASEAN. China occupies a market share that enhances its market power enough to cause a competitive concern in more than half of ASEAN Member States' standardised 222 industries (129). Japan occupies 38 industries. With regards to the buyer market concentration, China does not figure as the main buyer in many

**[Table 1] Partner countries that may influence vulnerability of GVCs by ASEAN industry, 2017**

Upstream part of GVCs (supplier market)		Downstream part of GVCs (buyer market)	
Partner country	Number of ASEAN industries (n = 222) with HHI of more than 200	Partner country	Number of ASEAN industries (n = 222) with HHI of more than 200
China	129	Australia	4
Japan	38	China	11
Republic of Korea	1	Japan	24
United States	18	Republic of Korea	17
ASEAN	71	Germany	26
Indonesia	12	Netherlands	7
Malaysia	8	ASEAN	98
Singapore	10	Indonesia	2
Thailand	38	Malaysia	9
Viet Nam	3	Singapore	52
		Thailand	34
		Viet Nam	1

*Source:* AJC, Resilient Global Value Chains for ASEAN and its Relationship with Partner Countries.  
*Note:* According to U.S. Department of Justice, an increase of HHI by 200 points is the level by which market power is enhanced in highly concentrated markets.

industries (only 11 industries where its market concentration is influential). Japan occupies 24 industries (table 1).

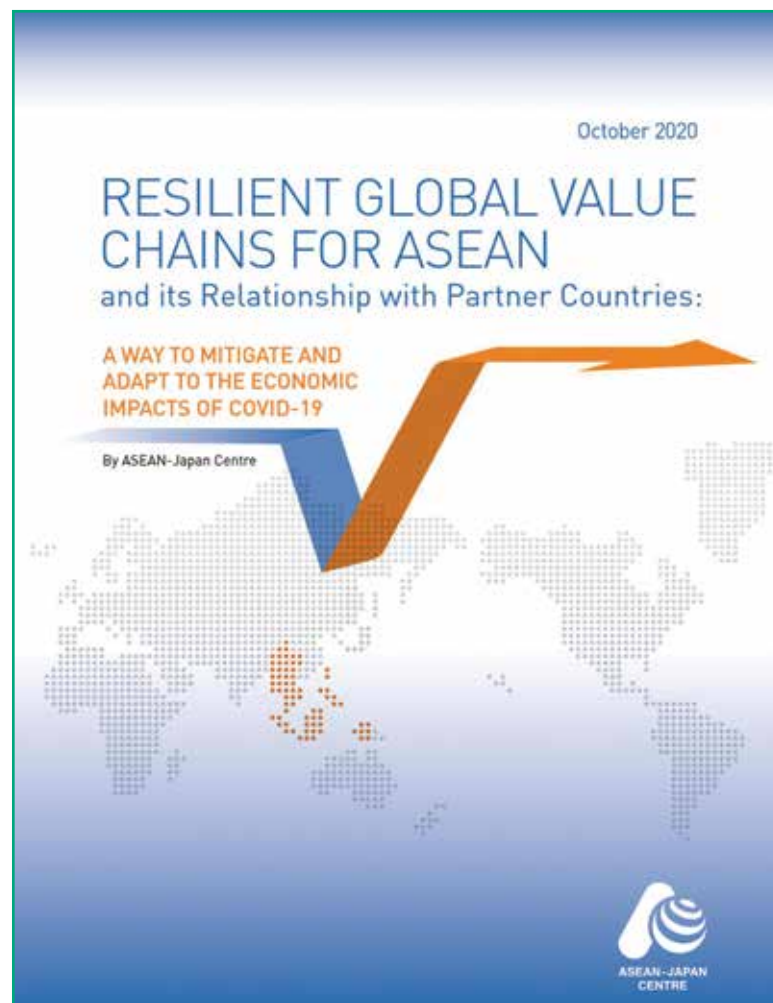
Further, the AJC proposed a set of five strategies to build resilient GVCs in ASEAN. They include:

- Utilisation of pandemic-related policy measures and actions implemented by ASEAN Member States
- Improvement in risk management by the private sector
- Strong push for digital transformation by both public and private sectors
- Promoting new and crisis-resistant industries
- Reconsidering company strategies for international production: offshoring or reshoring

In some industries in ASEAN, GVCs have reached a level of market concentration that may cause some concern about the healthy operation of GVCs. Reducing vulnerability means losing efficiency of production, which is necessary for further resilience and robustness of GVCs.

Expanding the DVA (domestic value added) share in exports while recognising the important role that foreign inputs (FVA) play in increasing export competitiveness is a common policy agenda item for all countries. At the same time, diversification of export destination, rather than concentration, is required in the case of high concentration of the downstream market of GVCs.

For effectively dealing with the



The report identified vulnerable industries in ASEAN.

COVID-19 crisis and its economic aftermath, it is important for policymakers to resist the temptation of quick-fix solutions or protectionism and to maintain an overall favorable business climate.

To view/download the report, please visit the AJC website: [https://www.asean.or.jp/en/centre-wide/resilient\\_gvcs/](https://www.asean.or.jp/en/centre-wide/resilient_gvcs/)



## Viet Nam still has room for expanding its supplier market and finding more buyers to maintain or strengthen resilience of their GVCs, but should avoid too much reliance on specific countries

In its efforts to produce and disseminate the evidence-based and policy-oriented papers on Global value chains in ASEAN, the AJC has prepared one for Viet Nam in May 2020 ("Global Value Chains in ASEAN: Viet Nam", [https://www.asean.or.jp/en/centre-wide-info/gvc\\_database\\_paper11/](https://www.asean.or.jp/en/centre-wide-info/gvc_database_paper11/)). GVCs of Viet Nam indicate the extent to which the country is involved in world and regional production networks. During the period of nearly three decades, the share of contribution of foreign countries to value added exports from Viet Nam fluctuated from 23 to 42 per cent before stabilising at 32-33 per cent.

However, the spread of GVCs in Viet Nam is limited to select industries. Ten out of 23 industries in Viet Nam (textiles, clothing and leather; petroleum, chemical and non-metallic mineral products; electrical and general machinery; other manufacturing; metal and metal products; wood and wood products; motor vehicles and other transport equipment; construction; publishing, printing and reproduction of recorded media; and unspecified) show value chains that use high shares of foreign materials in its exports and in which these materials are widely sourced. As there are many suppliers abroad, these industries can obtain required materials widely. Country representative industries of Viet Nam such as textiles and clothing, and electronics are included.

**[Table 2] Risk intensity of Viet Nam's supplier market concentration and buyer market concentration of its GVCs by six levels**

Industry	Supplier market concentration	Buyer market concentration
Agriculture, hunting, forestry and fishing	0.01	0.01
Community, social and personal service activities	0.01	0.01
Construction	0.1	0.1
Education, health and other services	0.01	0.01
Electrical and general machinery	0.1	0.05
Electricity, gas and water	0.01	0.05
Financial intermediation and business activities	0.01	0.01
Food, beverages and tobacco	0.05	0.01
Hotels and restaurants	0.01	0.01
Metal and metal products	0.1	0.05
Mining, quarrying and petroleum	0.01	0.05
Motor vehicles and other transport equipment	0.1	0.05
Other manufacturing	0.1	0.01
Other services	0.01	0.1
Petroleum, chemical and non-metallic mineral products	0.1	0.05
Precision instruments	0.05	0.01
Public administration and defence	0.01	0.01
Publishing, printing and reproduction of recorded media	0.1	0.05
Recycling		
Textiles, clothing and leather	0.1	0.01
Trade	0.01	0.05
Transport, storage and communications	0.05	0.01
Unspecified	0.1	0.01
Wood and wood products	0.1	0.05

*Source:* AJC, Resilient Global Value Chains for ASEAN and its Relationship with Partner Countries.  
*Note:* Shaded area indicates the absence of data. Degradation of the colour implies the degree of the risk intensity. The more strong the colour is, the greater the risk. There are six levels of risk (1, 0.5, 0.25, 0.1, 0.05, 0.01).

The concern is that high reliance on foreign countries may cause vulnerability in the functioning of GVCs as, while it

is unthinkable to assume that all supply links with foreign countries could be cut off, it is not healthy to rely so much

on foreign sources to produce export products. Domestic production is more required and even more important, as it constitutes a country's GDP.

Generally speaking, Viet Nam does not face severe market concentration in both upstream and downstream parts of GVCs. The highest level of risk intensity according to six levels is 0.1 (table 2), the middle of the intensity range (1, 0.5, 0.25, 0.1, 0.05, 0.01). It implies that the country hardly experiences the supply cut-offs and the buyer's chain disruption. In other words, Viet Nam can exploit more suppliers and buyers of their GVC products that contribute to the competitiveness of these products.

Nevertheless, the country may be threatened by specific partner countries that have higher market occupation that may influence the market competition. China and Japan are the most important suppliers to Viet Nam. Both China and Japan occupy a market share of foreign value added (FVA) in trade that enhances its market power enough to cause a competitive concern in all industries except unspecified (22 out of 23).

Unlike in the upstream part of GVCs or suppliers, neither China nor Japan figures as the main buyer for Viet Nam's GVC products, except in one industry (mining, quarrying and petroleum) in which China predominantly occupies the market. Japan is a market influential buyer only in precision instruments.

## About ASEAN-Japan Centre



ASEAN-JAPAN CENTRE

The ASEAN Promotion Centre on Trade, Investment and Tourism, or the ASEAN-Japan Centre (AJC) for short, was established in 1981 in Tokyo, Japan with an agreement between the governments of the ASEAN Member States and Japan in order to embody the "Fukuda Doctrine" (1977) into their relationship that emphasised, among others, the significance of "heart-to-heart understanding" and "equal partnership".

Towards this mission, the AJC has been working to strengthen economic partnerships between the ASEAN Member States and Japan in the areas of trade, investment, and tourism, as well as promoting exchanges of persons between the two parties. Furthermore, as ASEAN-Japan relations evolve and assume greater importance over the years, the AJC has been expanding the scope of its activities in order to better address new issues faced by ASEAN and Japan, including production of substantive publications.

URL: <https://www.asean.or.jp/en/>

