

Enhancing ASEAN Engagement in Global Agro-Food Value Chains

- In the Association of Southeast Asian Nations (ASEAN) region, global value chains (GVCs) are increasingly important both for farmers and those involved in food manufacturing.
- The region has strong agro-food GVC linkages to countries in other parts of Asia and to Europe. However, there appear to be gaps in intra-regional linkages and a decline in the use of service sector inputs, which could reduce domestic value added from participation in GVCs in the longer term.
- Major commodities exported rely significantly on inputs sourced from other countries: foreign value added plays an important role in generating domestic benefits from agro-food exports.
- Open trade policies across a wide range of products, regional integration of agro-food markets, non-distortive agricultural policies, and investments in the enabling environment are all important for ASEAN to gain the most from participation in agro-food GVCs.

What's the issue?

Global value chains (GVCs) have changed the nature of production and specialisation around the world. Simply defined, GVCs represent all activities involved in transforming raw materials into the final consumer product, including production, marketing and delivery to the final consumer. The fact that these activities are increasingly spread over several countries is what makes these value chains “global”.

Regional and global value chains are becoming increasingly important for both ASEAN farmers and those involved in food manufacturing activities. ASEAN has witnessed considerable growth in agricultural production in recent years, which has translated into an increasing presence in world markets. Net agro-food exports rose from around USD 6 billion in 1990 to close to USD 50 billion in 2014.

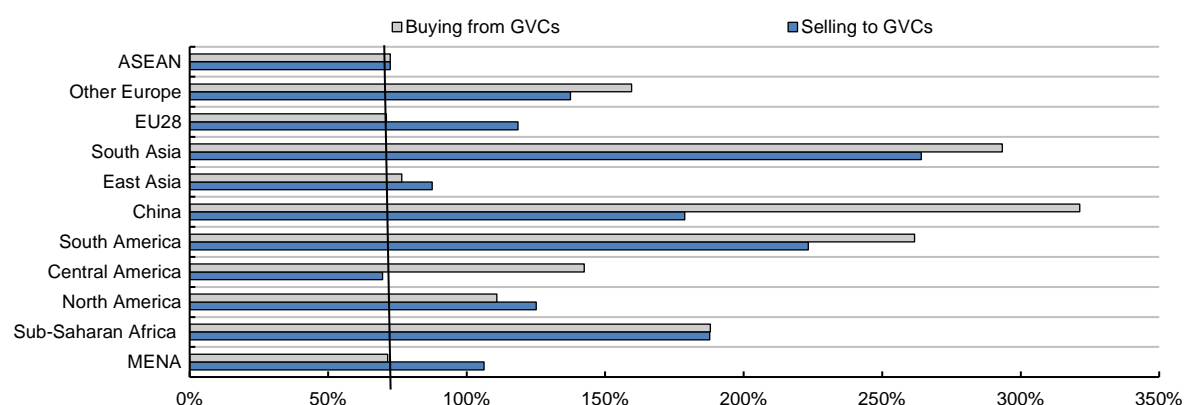
As agriculture and food sectors have expanded in the region, so too have incomes. This, coupled with rising populations, has seen consumers increasingly turn to regional and international markets to satisfy their demand for food. For the region as a whole, between 1990 and 2014, agro-food imports increased approximately nine-fold.

Data on trade in value added reveals that ASEAN is heavily integrated in agro-food GVCs, with global linkages increasing over time (figure below). Between 2004 and 2014, growth in buying inputs from other regions to use in ASEAN agro-food exports (buying from GVCs), and the rate of other regions using ASEAN agro-food products in their own exports (selling to GVCs) increased faster than intra-regional links.

ASEAN member states use many imported inputs – from both agro-food and other sectors – to produce their agro-food exports. For example, close to 35% of the export value of food products is comprised of foreign inputs, indicating the importance of foreign inputs in underpinning the sector’s competitiveness. Imported inputs range from agricultural products to products supporting domestic agricultural production, such as chemicals, and, importantly, services such as logistics and business services.

ASEAN agro-food GVC linkages are becoming more global

Growth in sourcing and sales by ASEAN of agro-food value added for use in own and other exports, % change 2004-2014 in nominal value bought and sold by ASEAN to different regions



Source: Greenville and Kawasaki (2018), “Agro-food trade, GVCs and agricultural development in ASEAN”, OECD Food, Agriculture and Fisheries Papers, OECD Publishing, Paris

Similarly, fishery product exports from Thailand and Viet Nam rely on foreign raw materials, often sourced from within the region; these countries have higher backward integration into value chains than the ASEAN or world average. The important fisheries processing industries in these two countries significantly contribute to job creation and trade. Thailand and Viet Nam are also significant suppliers of inputs for other countries' exports (forward linkages).

For the region, participation in agro-food GVCs has led to stronger growth of the agro-food sectors and promoted more robust growth in the returns to workers – farmers included – in these sectors. Furthermore, greater use of services in the production of agro-food exports has also promoted growth in the total returns to the sector, showing that linkages between agro-food and other sectors in the economy are important.

That said, between 2004 and 2014, revealed comparative advantage in a number of agro-food products began to stall, and links among countries in the region grew only slowly and remain patchy. There is thus scope to deepen agro-food GVCs in ASEAN and thereby capture greater benefits for agro-food sectors and consumers alike.

What should policy makers do?

The growing significance of regional and international markets for producers and consumers underlines the need for policies to support efficient agro-food value chains. In particular, the significant linkages between ASEAN and other regions mean that the competitiveness of agro-food exports is strongly influenced by policies that raise the cost of imported goods.

For a number of sectors, including the large export sectors, foreign inputs are an important part of the value of exports. Such inputs, drawn from a diverse array of industries, help to improve competitiveness and can improve sector productivity. Analysis of policy influences on agro-food GVC participation and the benefits derived indicate that both agricultural and non-agricultural policy settings matter.

- **Trade and investment policies strongly influence GVC participation and domestic value added creation.** Tariffs on imports and those faced by exports reduce a sector's participation in GVCs, but – importantly – also reduce value added creation. Tariffs charged on imports act as a brake on agro-food export earnings. There is scope for reductions both in tariffs applied to regional agro-food trade and those on imported agro-food products from other regions if ASEAN's competitiveness in agro-food GVCs is to be enhanced.
- **Non-tariff measures can similarly reduce participation and export earnings** if they lead to frictions between trading partners. The cost-raising effect of possible trade barriers reduces industry competitiveness and its ability to participate in value chains. For some, they can also reduce domestic value added creation. However, non-tariff measures can also have positive effects when they improve consumer trust. Reductions in the cost-creating aspects of non-tariff measures, through better harmonisation of measures across ASEAN, has the potential to enhance domestic value added creation and increase participation in regional agro-food value chains.
- **Enabling policies in agriculture are important.** Transport infrastructure, education and agricultural research and development are all positively related to participation and domestic value added creation from GVC participation.
- **Distortive agricultural policies have a negative influence on the benefits of GVC participation:** policies – such as market price support or payments based on outputs – that lead to distortions in both output and input markets within domestic economies actually decrease the domestic value added generated.
- **High levels of services trade restrictions** negatively influence agro-food GVC engagement and similarly decrease the domestic value added generated. Enhancing the openness of services markets, and improving the operating environment for services will enhance value addition in agro-food sectors.

»» Further reading

- » Greenville, J. and K. Kawasaki (2018), "Agro-food trade, GVCs and agricultural development in ASEAN", *OECD Food, Agriculture and Fisheries Papers*, OECD Publishing, Paris.
- » Greenville, J., K. Kawasaki, D. Flaig and C. Carrico (2018), "Influencing GVCs through agro-food policy and reform", *OECD Food, Agriculture and Fisheries Papers*, OECD Publishing, Paris.