Firms Strategy and Investment Policy for Value Added in Southeast Asia: Case on Japan-ASEAN4 Automotive and Electronics Production Network

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Abstract

The paper aims to explore responses by stakeholders of Japan-ASEAN4 (Indonesia, Malaysia, Singapore and Thailand) automotive and electronics production network amidst its dynamic changes that have altered trade pattern and trends in value added of the two industries in the past decade. Inter-regional (between Japan and ASEAN4) and intra-regional (within ASEAN4) trade relations have eventually transformed in parallel to such shifts where trade in parts and component is the major feature. Strategy of firms and investment policy of hosting ASEAN4 governments evolve hence due to changes in supply and value chains of the two industries.

Seen from global production network (GPN) and value chains (GVC) perspectives, firm-level strategies for value added are driven by typical value chains. In automotive sector, recurrent hierarchical and captive regional value chains persist where lead firms –along with their suppliers and local subsidiaries— endeavor value added in both upstream (especially in design, research and development, and advancement in production processes) and downstream business activities. Electronics sector features less hierarchical and less captive regional value chains where lead firms concentrate more on downstream business activities (particularly in product development and marketing) than the upstream ones for value addition activities.

Firms-level strategies are equally contingent upon policy schemes and incentives offered by the hosting countries. The scheme –which is closely related to investment policy carried out by the ASEAN4 host governments— is primarily formulated in recognition to competitive dynamics risks when participating in the networks. In response to that, ASEAN4 governments formulate and implement investment policy that spans beyond conventional industrial clustering and free trade zone schemes. In automotive sector, value added is captured via incentives targeted to firms engaging in upstream upgrading. In electronics sector, policy incentives are diverse in parallel with each country's particular positions in the network and in response to latest electronics production network that is much more fragmented than the automotive one.

The study identifies key policy issues essential for relevant stakeholders in each country-case under study. Thailand case suggests bold FDI promotion move in which their so-called "super clusters" are to initiate immersion of value chains activities among local subsidiaries and suppliers in parallel with the lead firms' responses to the policy. Malaysia-Singapore cases present resemblance in their FDI policies due to spatial proximity, shared advanced development in industrial clusters that transmit a dilemma of whether they could serve complement or substituting value addition activities. Last but not least, Indonesia offers a case in point where FDI policy is served mainly for inner-directed value added due to its large market size and dispersed policy schemes –which eventually compel the country to look beyond domestic value addition.

Keywords: Production Network, Value Added, Investment Policy, Automotive and Electronics