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Russia – ASEAN: increasing industrial cooperation through GVCs enhancement

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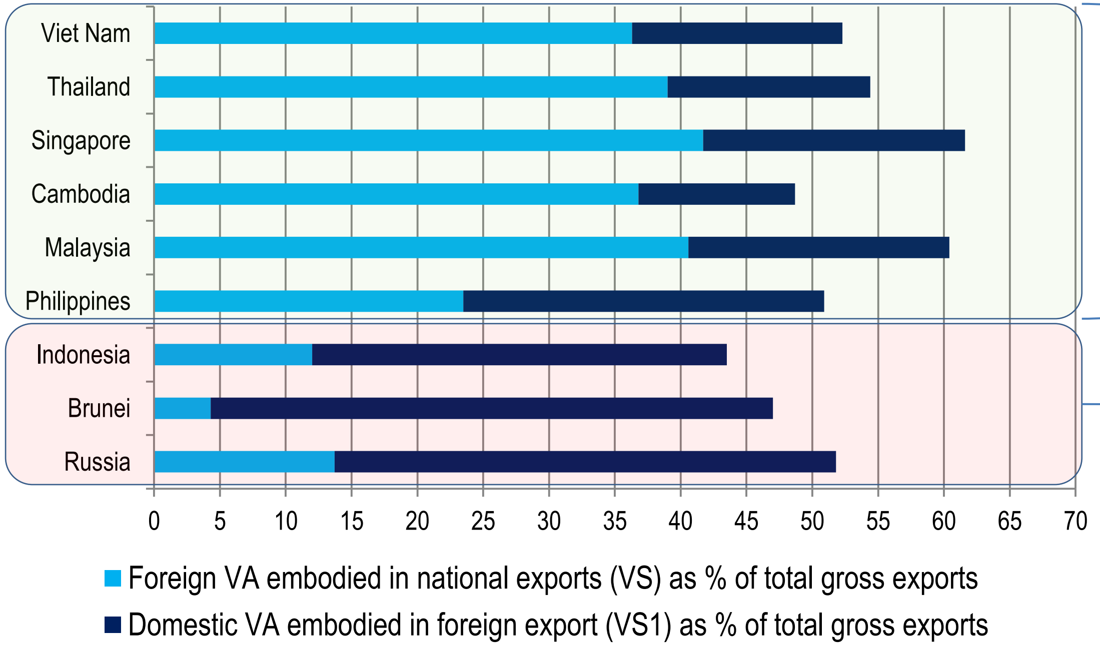
Comparative analysis of the participation of ASEAN countries and Russia in global value chains



Note: except Lao PDR and Myanmar

Source: OECD TiVA database

The majority of ASEAN countries nowadays are **suppliers of high-tech goods with high value added** or they are **engaged in the processing of imported goods**

This group of countries specializes in the **production and export of unprocessed goods or goods with a low degree of processing** (mineral oils/fuels, metals and etc.)

- Indonesia – 20% of gross exports – mineral fuels, oils
  12,5% - animal or vegetable fats and oils
  4,3% - precious stones
- Brunei – 85% of gross exports – mineral fuels, oils
- Russia – 47% of gross exports – mineral fuels, oils

Source: ITC Trade Map (2016 data)

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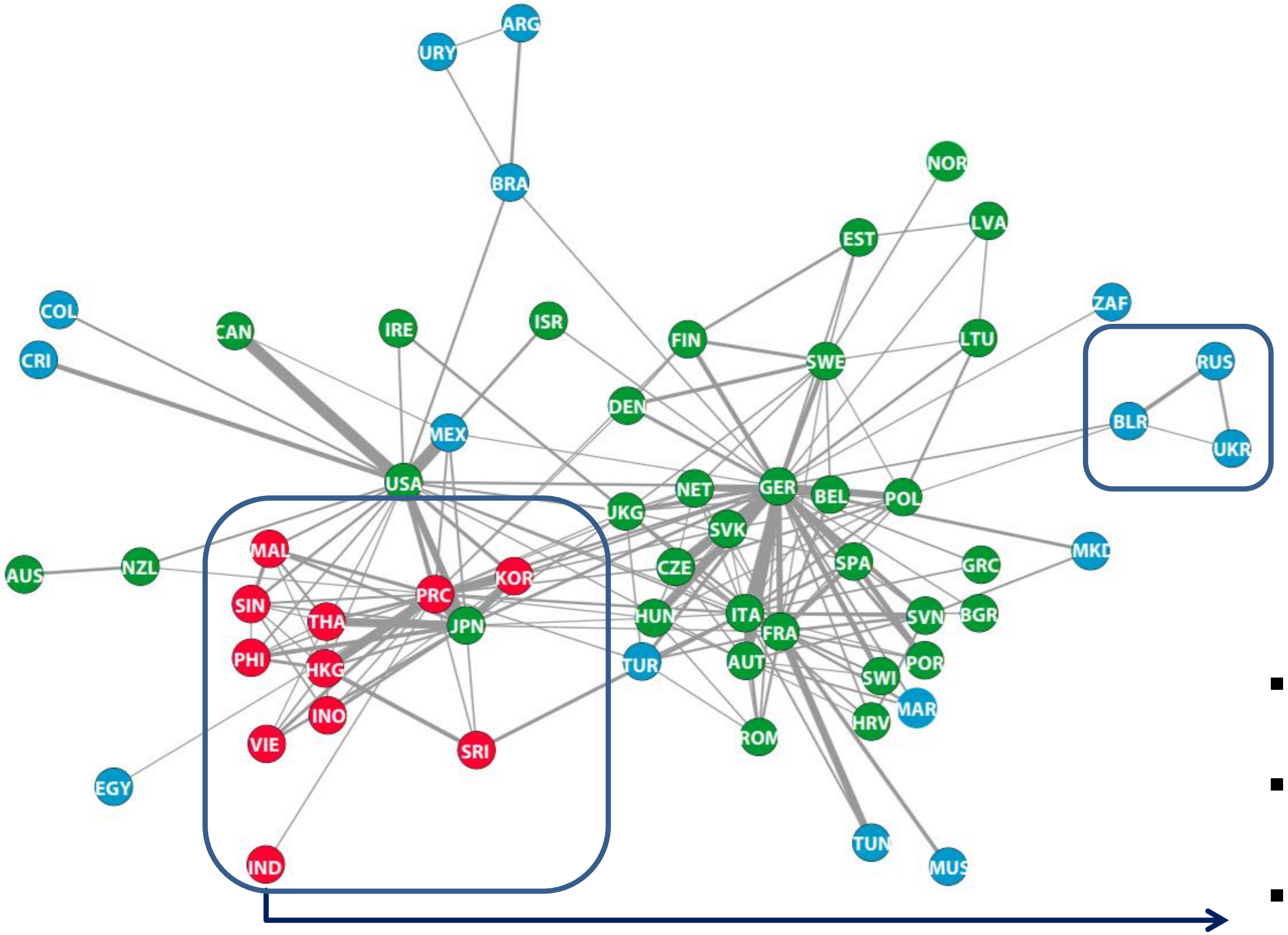
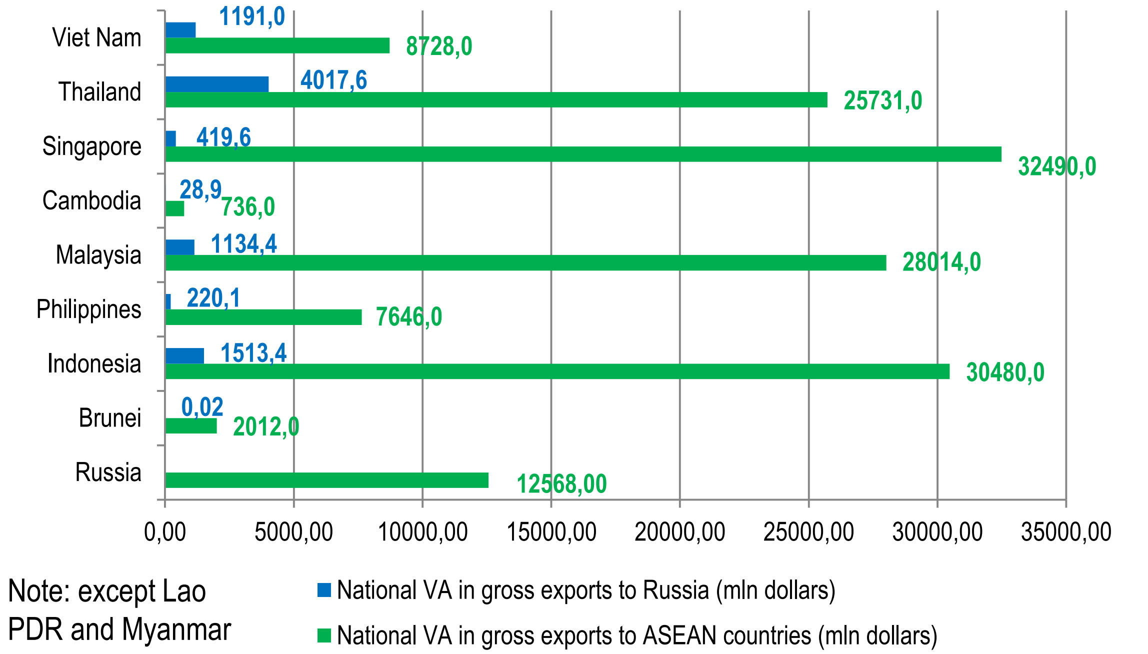
22.01.2018

Network Trade Index— All industries— Global



Source: ADB Mapping Vertical Trade



Note: except Lao PDR and Myanmar

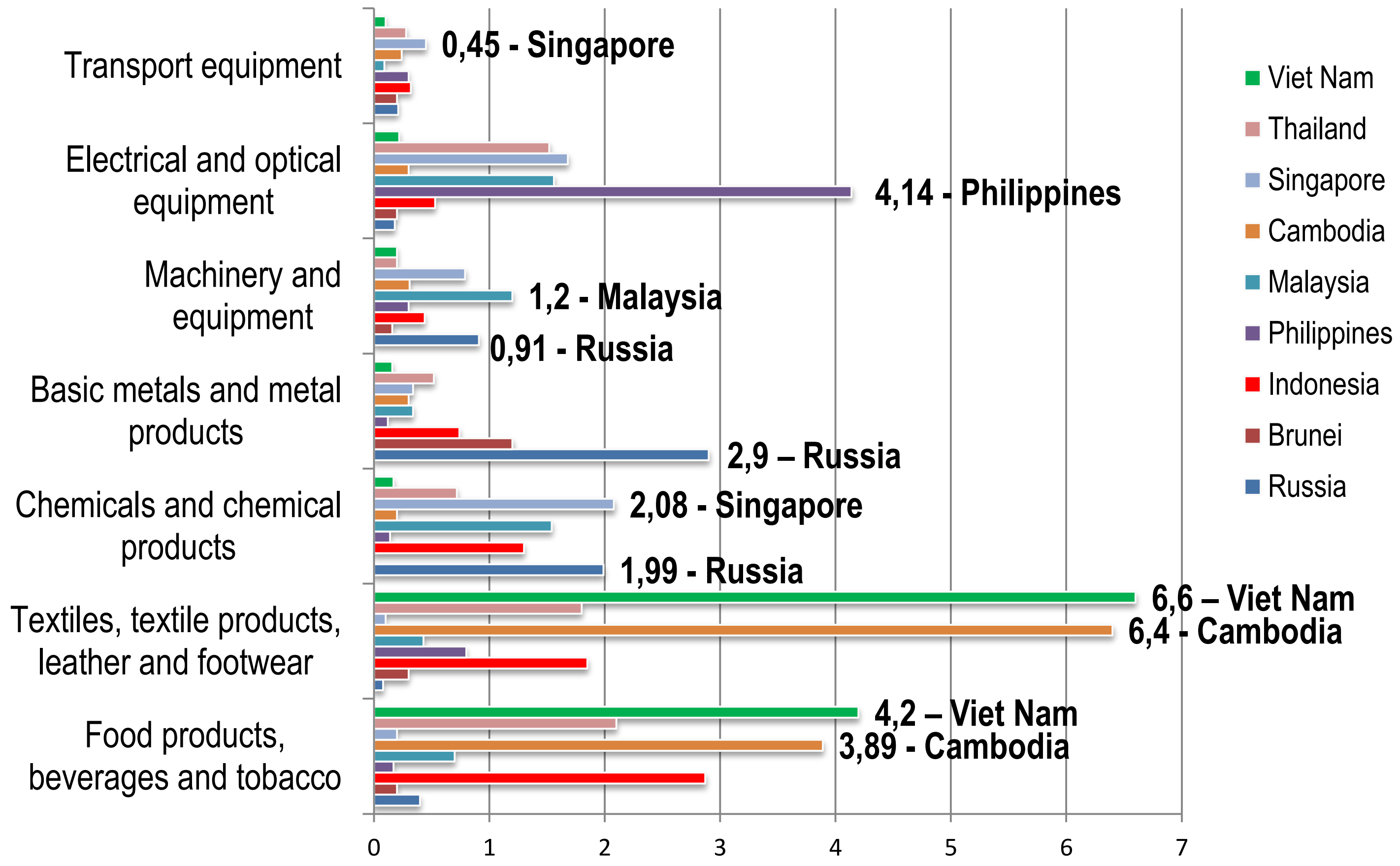
Source: OECD TiVA database

- The level of mutual trade between Russia and ASEAN remains at a low level both in gross indicators and in value added;
- ASEAN countries and Russia are weakly involved in the value chains of each other
- Strong industrial cooperation between Malaysia, Singapore, Thailand, Viet Nam and Philippines

Prospects for the development of industrial cooperation between ASEAN countries and Russia

22.01.2018

Calculated RCA index for non-primary sectors with high export potential:



Note: except Lao PDR and Myanmar

- Russia has relatively less competitive **transport equipment, electrical and optical equipment industries**. However ASEAN countries have - it is advisable to increase international cooperation in the above mentioned sectors in order to obtain technological and production experience and form a narrow niche in the market;
- Russia and a number of ASEAN countries have competitive **machinery, chemicals and metal industries** – these are priority industries for ongoing cooperation in the context of GVCs;
- **Food and textile sectors** - very competitive in the ASEAN markets, little chance for russian companies to integrate into existing GVCs.

Russian industries with export potential and comparative advantage, suitable for inclusion in the value chains of ASEAN members

Chemicals

- 19 products with competitive advantage (RCA>1)
- significant reserves of oil and gas resources provide Russian chemical companies with a competitive advantage in the production of basic chemistry and simplest kinds of fertilizers;

Pharmaceuticals

- 7 products with export potential
- Mostly finished pharmaceutical products
- The majority of manufacturers do not have international GMP certificate

Machinery

- Power Engineering
  - 4 products with competitive advantage – 3 of them are intermediate goods
- Agricultural Engineering
  - 13 products with export potential

Transport equipment

- 10 products with competitive advantage and 17 with export potential
- Both finished and intermediate goods
- Non-compliance with the international environmental standard Euro-6 (vehicles)

Electrical and optical equipment

- 16 products with competitive advantage
- Both finished and intermediate goods

Metals

- 10 products with high competitive advantage (RCA>5)
- Mostly intermediate goods

- **export potential** - in cases where the product has export potential, Russia's exports of this product are quite large and growing at a rate higher than the average world trade, but nevertheless, the growth rates of world imports of this product are higher than the growth rates of exports of this product by Russia

Existing barriers which impede integration of competitive products from Russia in ASEAN GVCs (one of the key findings)

22.01.2018

Tariffs

Transport equipment:

Internal combustion piston engines with compression ignition (diesels or half-diesel engines) used to propel vehicles of Group 87 for industrial assembly (HS Code 8408 20 10) – 25% (in Viet Nam)

Metals

Hot-rolled Flat Products – 15% (Indonesia)
Hot-rolled Flat Products in coils and not in coils – 5% (Thailand)

Barriers for intermediate goods imported from ASEAN:

Chemicals:

Acrylic polymers in primary forms (HS Code 3906 90 900 9) – 6,5% (Indonesia)

Pharmaceuticals

Other vegetable saps and extracts (HS Code 1302 19 800 0) – 5% (Malaysia)

Metals

Hot-rolled Flat Products – 15% (Indonesia)
Hot-rolled Flat Products in coils and not in coils – 5% (Thailand)

Non – tariff measures

Electrical and optical equipment

Other measuring and monitoring instruments, appliances and machines (HS Code 9031 80) - for the importation or manufacturing of electrical appliances or equipment a certificate of conformity is required

Barriers for intermediate goods imported from ASEAN:

Pharmaceuticals

Other vegetable saps and extracts (HS Code 1302 19 800 0) - this product can only be released only if importer has a license (in Malaysia)

Anti-dumping measures

Metals

Hot-rolled flat products with a certain content of alloyed elements – from 27th February 2017 to 26 February 2018 – 40,42%, 27th February 2018 – 26 February 2019 – 39,21% (Thailand)

How to address these barriers and promote industrial cooperation?

- Formation of **non-preferential trade-economic agreement (example EAEU – China)**
  - **With ASEAN as a whole**
  - **With individual members of ASEAN**
  - Measures to enhance regional GVCs can be addressed in the following chapters

Chapter 1 General Provisions
Chapter 2 Measures to protect the internal market
Chapter 3 Customs Administration and Trade Facilitation
Chapter 4 Technical Barriers to Trade
Chapter 5 Sanitary and phytosanitary measures
Chapter 6 Intellectual Property
Chapter 7 Competition
Chapter 8 Public Procurement
Chapter 9 E-commerce
Chapter 10 Final Provisions

- Formation of **free trade agreement (example EAEU – Viet Nam)**
  - **Partners: ASEAN as a whole or individual ASEAN members**

At this stage, the Eurasian Economic Commission does not have the authority to discuss **services and investment** in the framework of regional trade agreements

Trade in goods + exceptions
Trade In services + exemptions
Investment + limitations

Possible solution:
- Separate agreements of EAEU members within the framework of FTA on services and investment (EAEU – Vietnam: russian commitments)

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Thanks for your attention!