

A Presentation of GSC and FDI, a perspective from Singapore For ADB on 13 November 2013

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PART ONE : Relationships between GSC and FDI



Foreign Direct Investments



Definition

- Classical
 - A company from one country making a physical investment in another country
- Recent Years
 - Include acquisition of a company in the host country by a company from the home country

Foreign Direct Investments



Construction of
Buildings and Fixture



Setting Up
Production Facilities



Forms of Foreign Direct Investments

Direct
Acquisition

Joint Venture
or Strategic
Alliance

Greenfield
Investment

Cross-Border Mergers and Acquisitions



Growing trend in investment

Commonly financed by an exchange of stock between the acquiring and acquired firms

Concentrated in developed countries

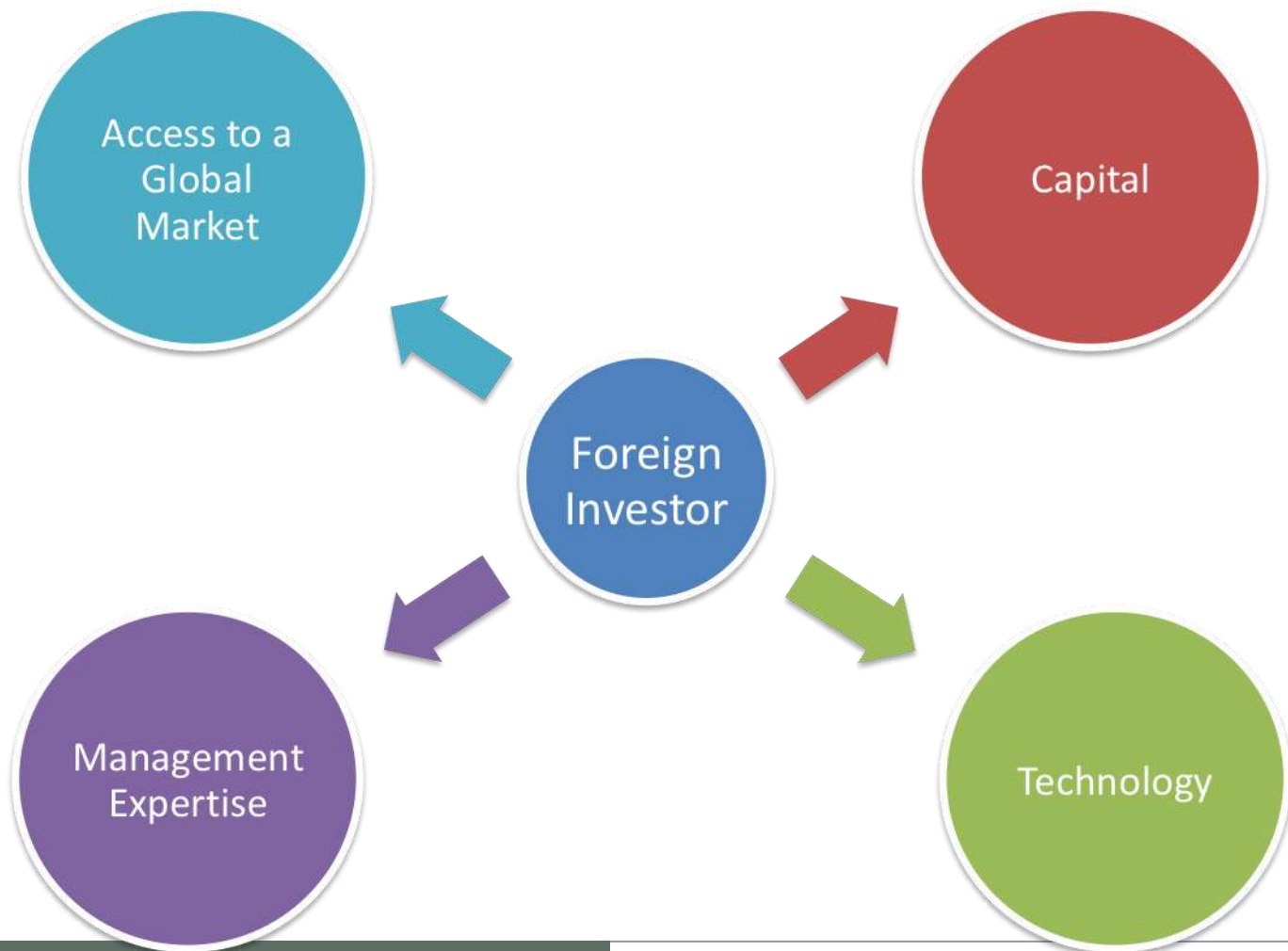
Increasingly common in developing countries as a result of deregulation and privatisation

Portfolio Investment

- Indirect investment
- Involves largely acquiring shares in a company in the host country



Proponents of FDI



Opponents of FDI



MNCs wield great power over smaller and weaker economies

Drive out small companies in the host country

Impacting the social fabric of the host country

Importance of FDIs



Providing jobs



Technology transfer



Human resource and skills development

GLOBALISATION



Globalization

By Guille3691

Globalisation

What is it?

- Greater movement of people, goods, capital and ideas due to increased economic integration
- Propelled by increased trade and investment
- Accelerated by improved technologies and a reduction of barriers means the speed of exchange is much faster
- Akin to living in a borderless world



Globalisation



Benefits

- Faster economic growth
- Improved living standards and reduction of poverty
- Enabled international political and economic tensions to be resolved on a "rules based" approach



Problems

- Social and economic costs to globalisation
- Individual countries need to undertake economic restructuring and reform
- Increased interdependence increases vulnerability
- Inadequate environmental codes resulting in the exploitation of agricultural, forest, mining and fishing resources in developing countries

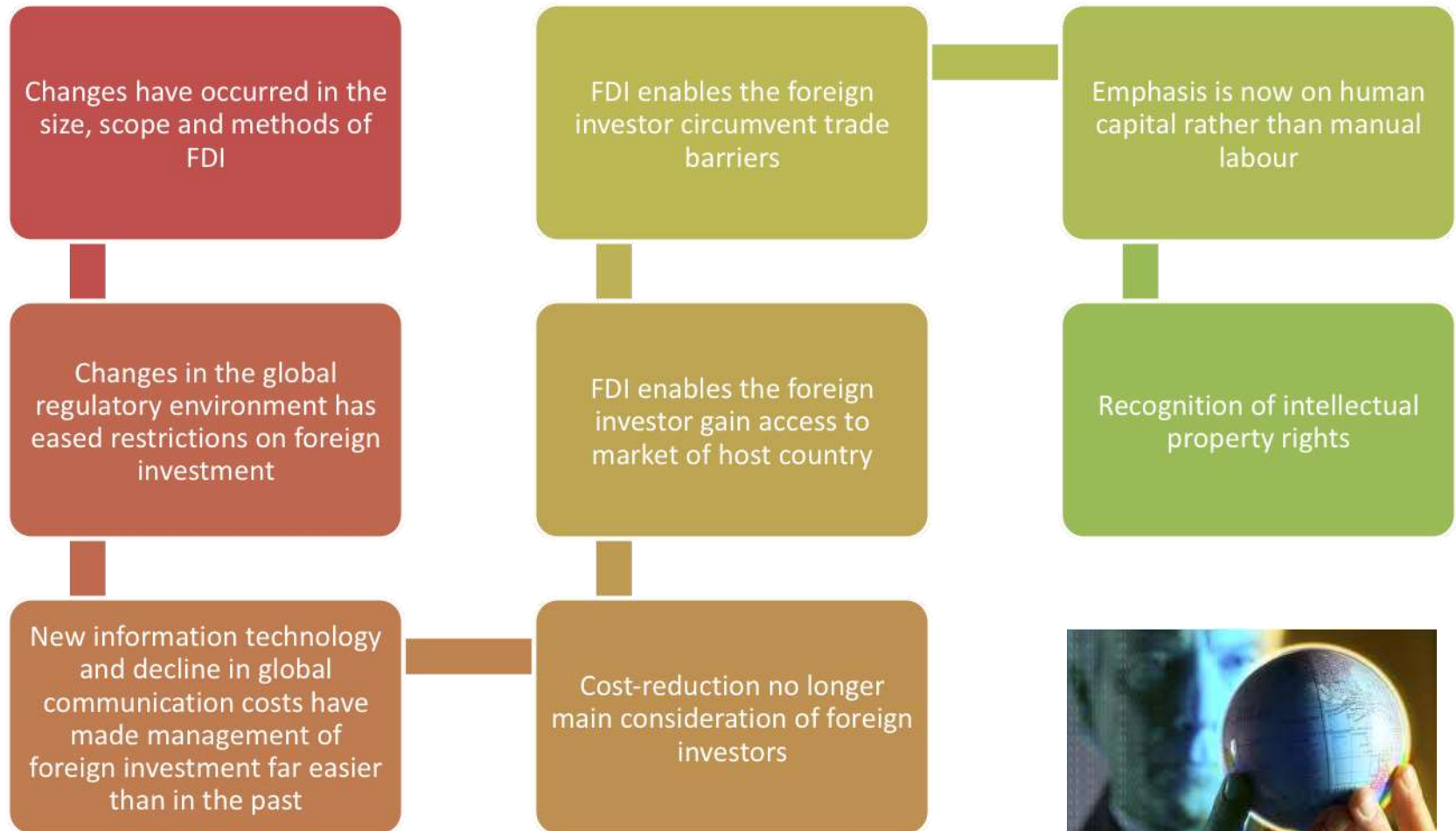
Changing Patterns of FDI

Changes have occurred in the size, scope and methods of FDI

Changes in the global regulatory environment has eased restrictions on foreign investment

New information technology and decline in global communication costs have made management of foreign investment far easier than in the past

Trends in Foreign Direct Investment



Traditional Impact of FDI

- Clear evidence of technological upgrading and catching-up in terms of productivity of emerging economies are related to the inflow of FDIs
- **Flying Geese Model** : a lesser developed country is able to catch up, depending on the upgrading process in the lead country. As the lead country moves on up the technology ladder, it relocates via FDI industries at a lower level of technology to lesser developed countries
- Explains the catching-up process with relocation of labour intensive industries and the relocation of sectors.

Economics of Global Supply Chain (GSC)

- GSCs entities trade between ‘headquarter’ and ‘factory’ economies or between “headquarter” economies
- Influenced by **vertical specialization** and **Horizontal Specialization**



Economics of Global Supply Chain (GSC)

- Interwinning of **trade-investment-services-intellectual property**
- All these are contributed by the influence of MNCs (Multinational Companies)
- MNCs play a significant role in the flow FDI and it impacts the economics of GSC



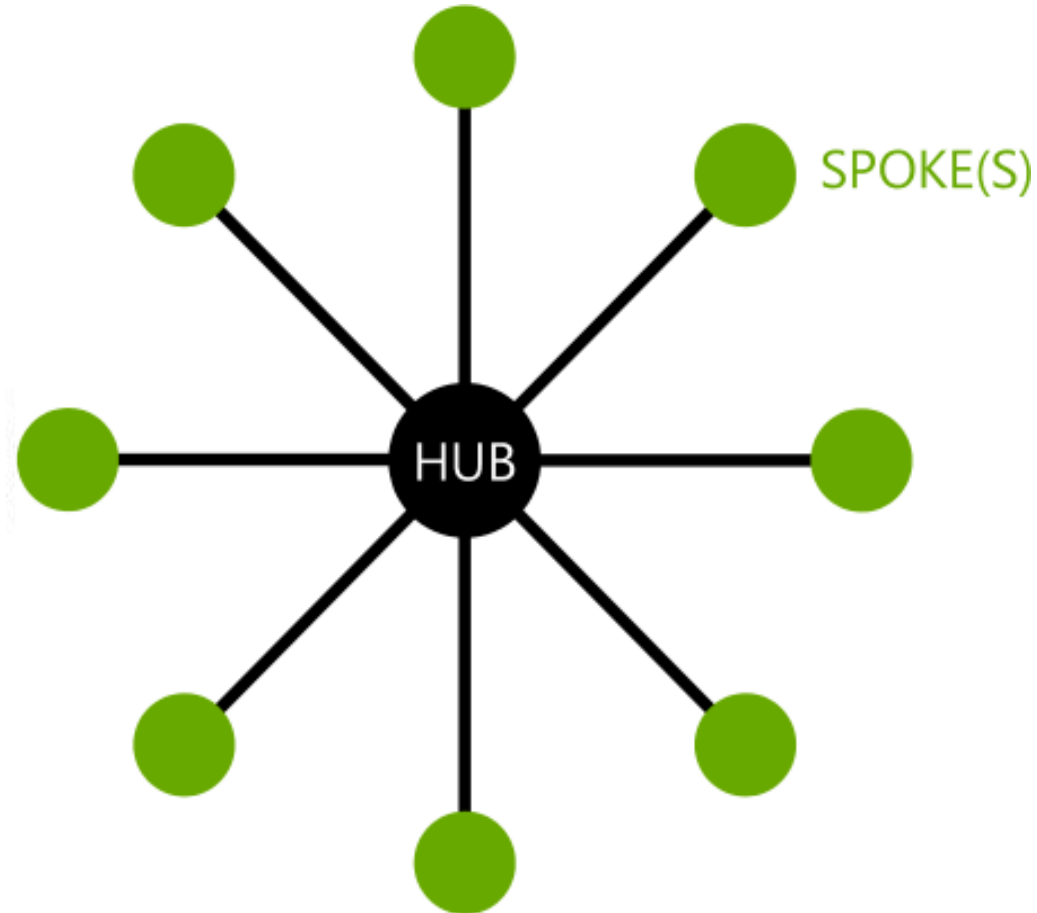
GSC Specialization within MNCs

- Vertical – Predominant, based on Wage/Cost Differences
- Horizontal – Firm Specific Advantages or Key Strengths



Hub-and-spoke model

- Exports of 'headquarter' economies contain little imported intermediates;
- While exports of 'factory' economies contain a large share of imported intermediates



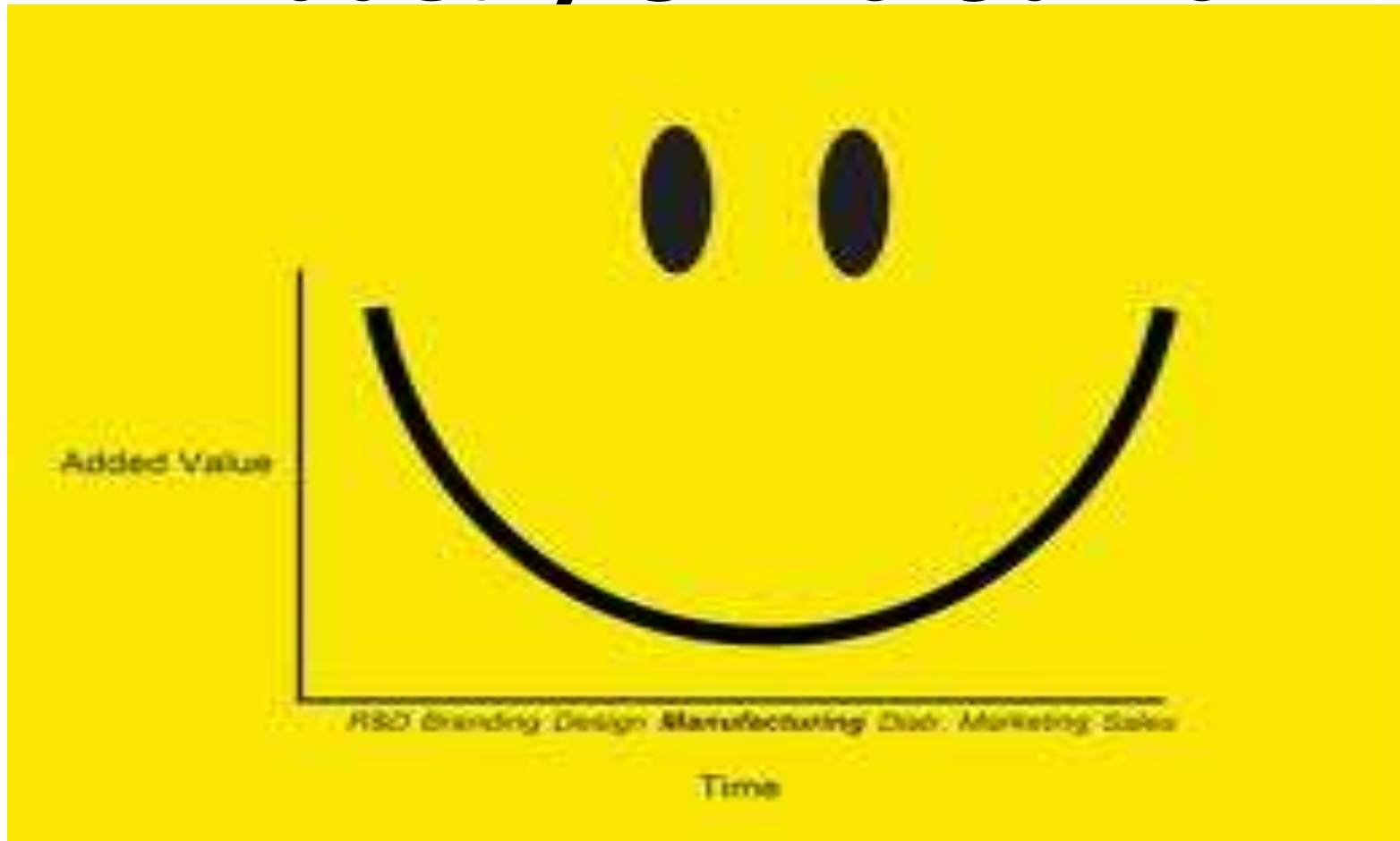
Risks of GSCs for “factory” economies

- Technology lending instead of technology transfer;
- Performing of low value added activities (smile curve);
- MNCs activity may quickly move to another (low wage) location.

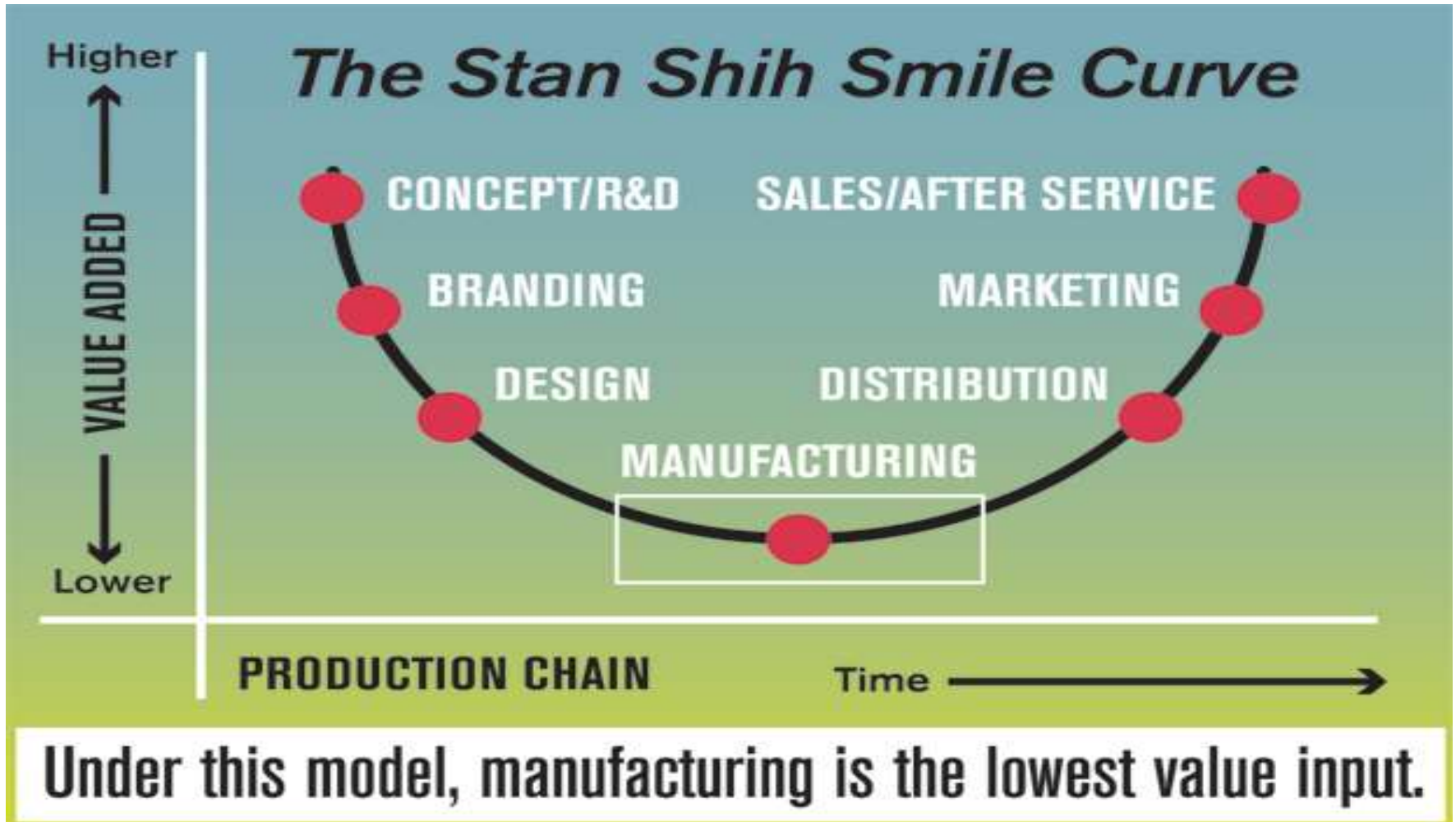
Relationship of FDI and GSC

- GSC taps on FDI to use offshoring of stages and not industries and goes beyond the labor intensive stages.
- With the ICT revolution, it became increasingly economical to geographically separate manufacturing stages, i.e. to unbundle the factories (“globalization”), where production stages previously performed in close proximity were dispersed to reduce production costs, whereby ICT enabled control over the dispersed manufacturing processes.

Understanding Industry Smile Curve



Manufacturing Industry Curve



Key Advantage of FDIs with GSCs

With the industry curve, FDI is the most effective tool or means to bring about the full integration with GSCs as the main “conduit” to build the up the capacity of a country’s economic development.

FDI Has a Significant and Positive Impact on Export Performance

FDI influences:

- The composition of exports
- The technological content of exports
- The development of export supply capacity in knowledge-based industries

Successful FDI contribution to Capacity Building

- FDI significantly contributed to export restructuring.
- The effects are not similar across different countries because :
 - More developed countries are able to increase exports predominantly in higher-end technology industries
 - Some other countries remain stuck with export specialisation in exports of lower-end technology industries
- Therefore, where FDI flows to be directed is of key importance
- Countries that attracted or developed industries of higher-end technology intensity usually attain higher productivity growth and are mostly more successful in attracting FDIs.

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PART TWO :

A perspective from Singapore

With the influx of FDI since 1965,

Singapore's Trade is 2.5 times of our GDP



Singapore Today

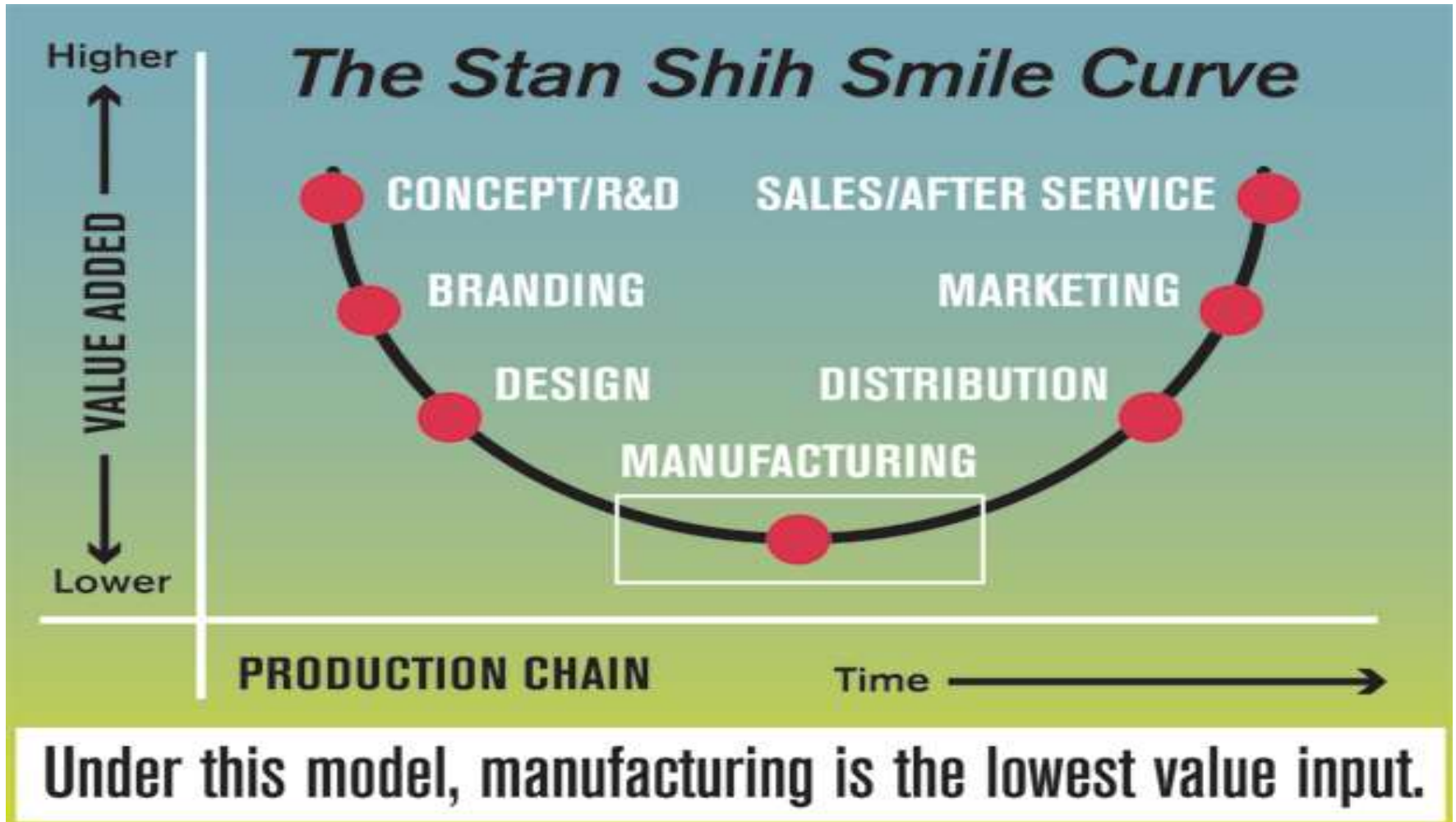
Our Population has grown 3.5 time since
Independence

Singapore Today

- GDP (Dec 2011) : US\$ 266.5 billion
- GDP per capita (2011) : US\$59,900
- Real Growth Rate (2011) : 4.9%
- International business hub for multinational companies
- 5.5million population, of which 1.2 million are foreign talents
- Stable, diversified economy
- Stable & pro-business government



Manufacturing Industry Curve



Mapping The Singapore Model

TOTAL VALUE CHAIN

Intellectual Property, Technology based innovation Testbedding

Market-based innovation, sales & treasury functions



R&D



Manufacturing



Regional Management, SCM, e-Commerce

Existing Industry Clusters...

Electronics

Photonics

InfoComms & Media

MEMS

Biomedical Sciences

Nanotech

Chemicals

...New & Emerging Industries

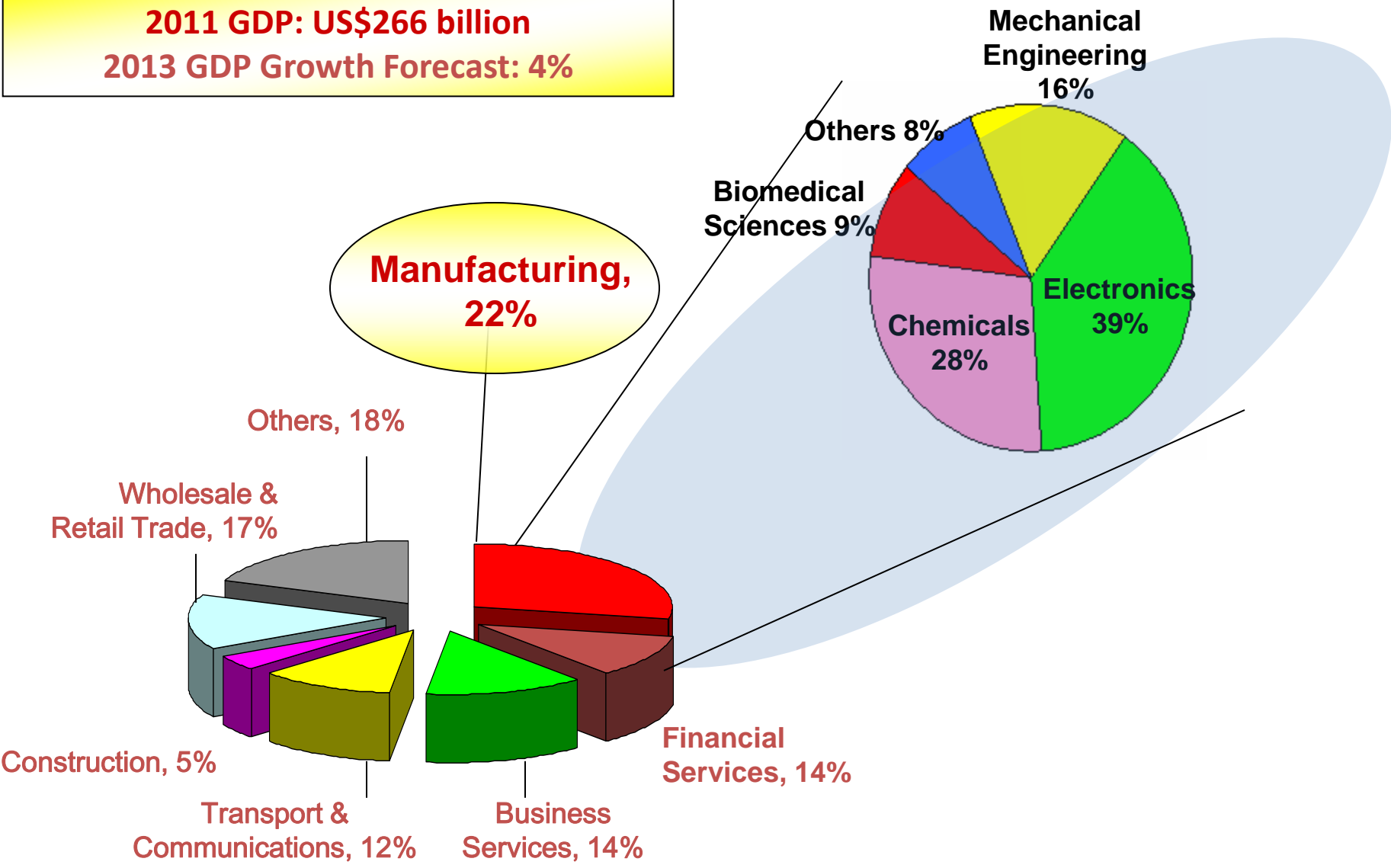
Logistics & Transport

v

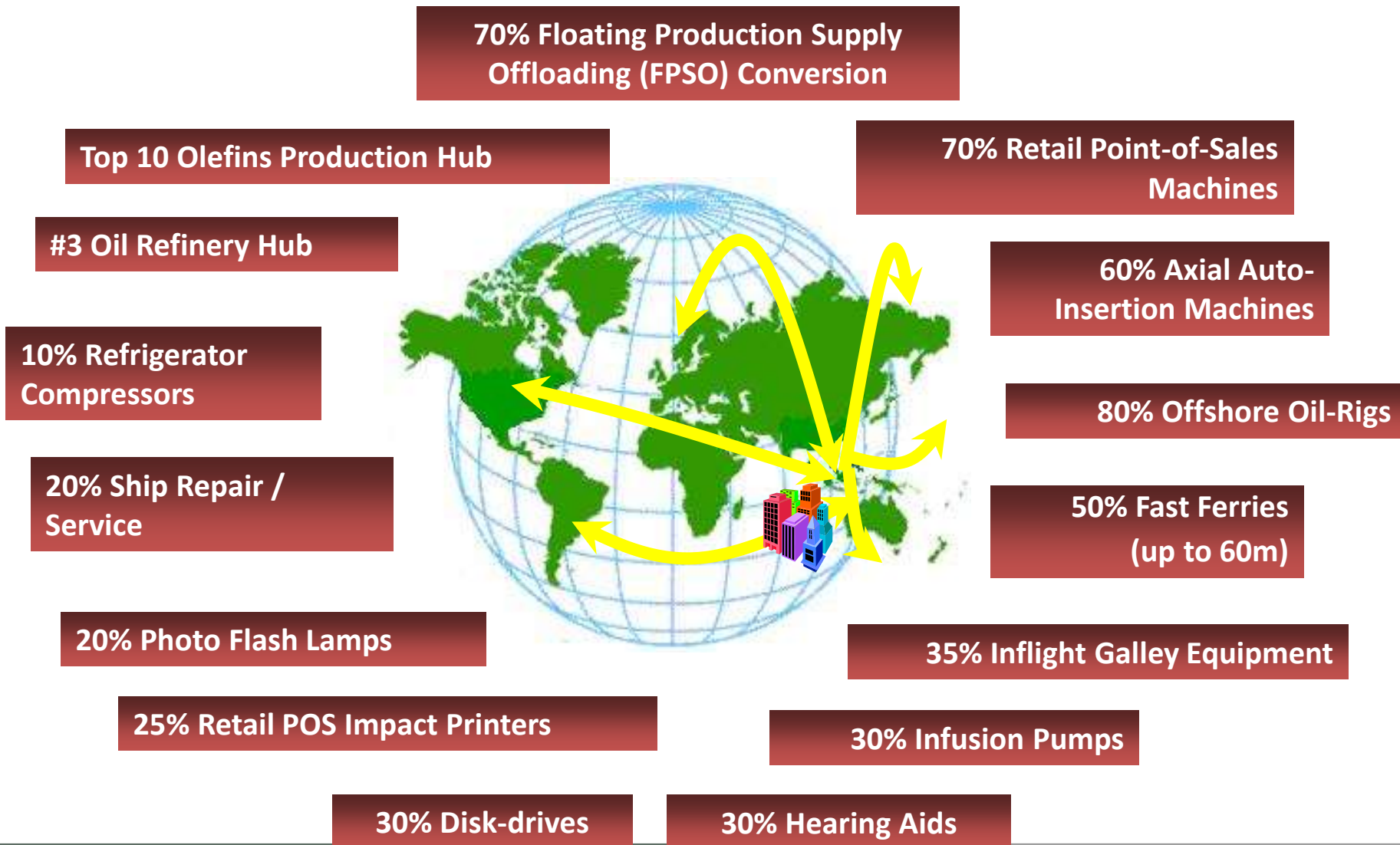
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Manufacturing - Key Pillar of Economy

2011 GDP: US\$266 billion
2013 GDP Growth Forecast: 4%



Manufacturing – Global integration to the GSC



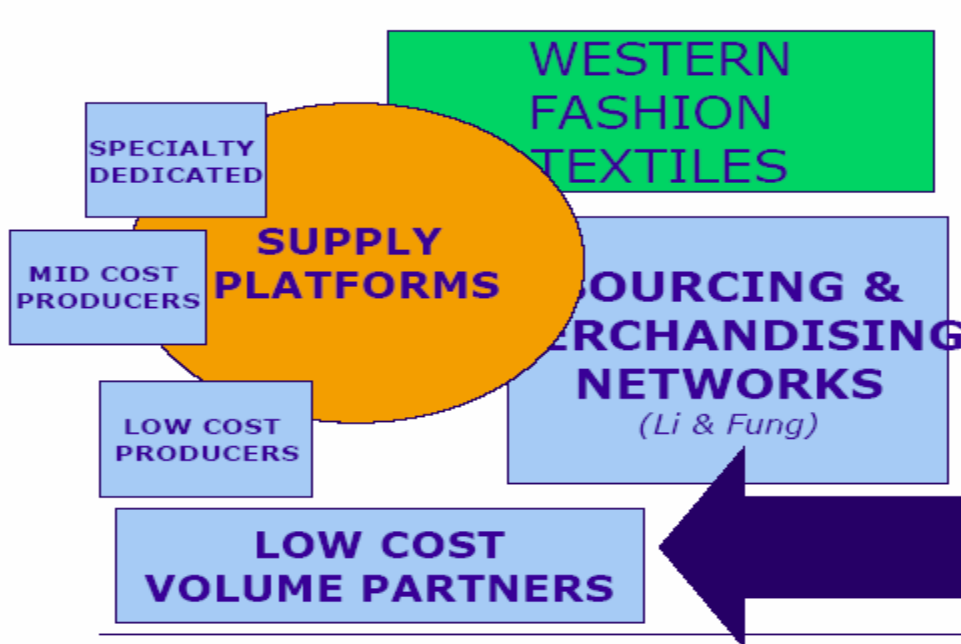
Integrated Hub



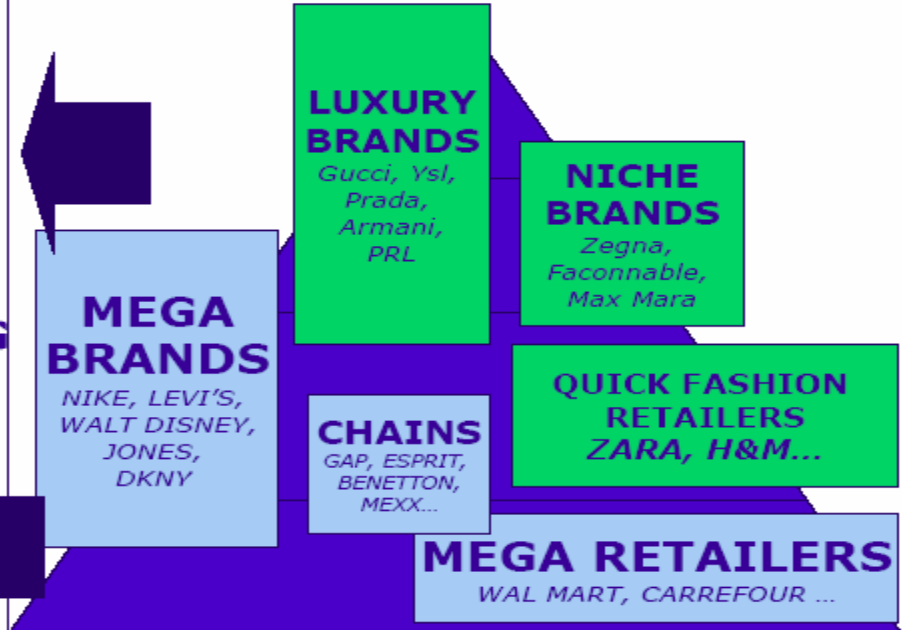
Global Supply Chain Models

SUPPLY CHAINS

REMOTE ↔ PROXIMITY



MARKET CHAMPIONS



Textile & Apparel - A Regional Hub



A Global Business Hub

7,000 Multi-national Corporations
60% with headquarters

37,400 International Companies,
including 3,200 from China, 4,400
from India, 7,900 from ASEAN
(excluding Singapore)

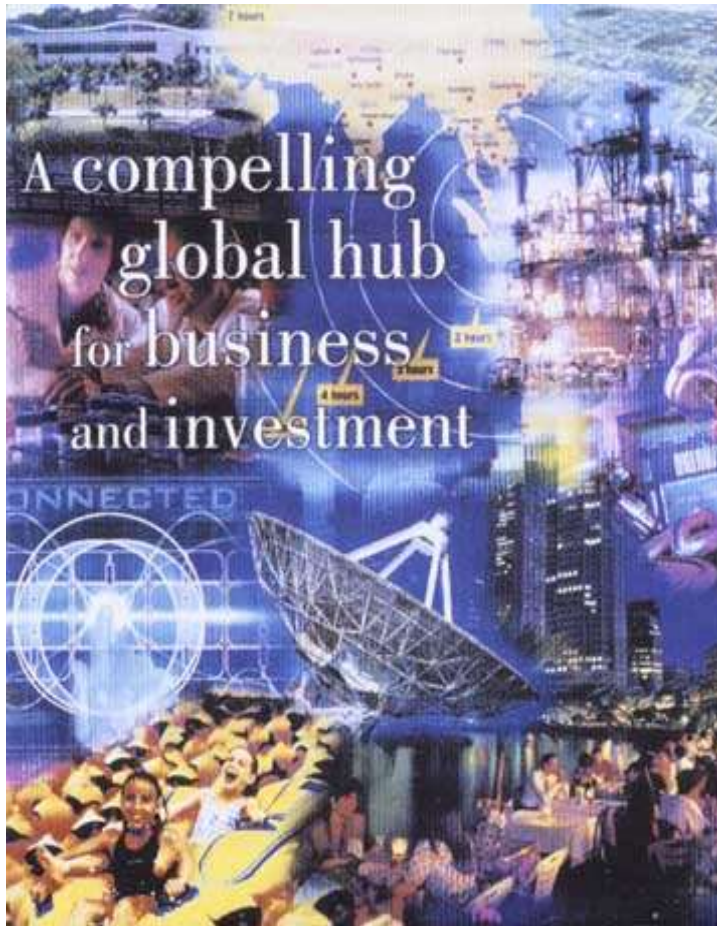
Source: Accounting and Corporate
Regulatory Authority, 2Q2010



INDUSTRY SECTORS IN SINGAPORE



Effective implementation of Hub-Spoke model



Regional HQs in Singapore

- IT & Shared Services
- HR & Training
- Finance & Treasury

Headquarters Activities

Corporate Shared Services

- Strategic Business Planning
- E-Commerce
- Finance and Treasury
- Legal Advisory
- Administration
- Human Resource

Pre-Product/Service Activities

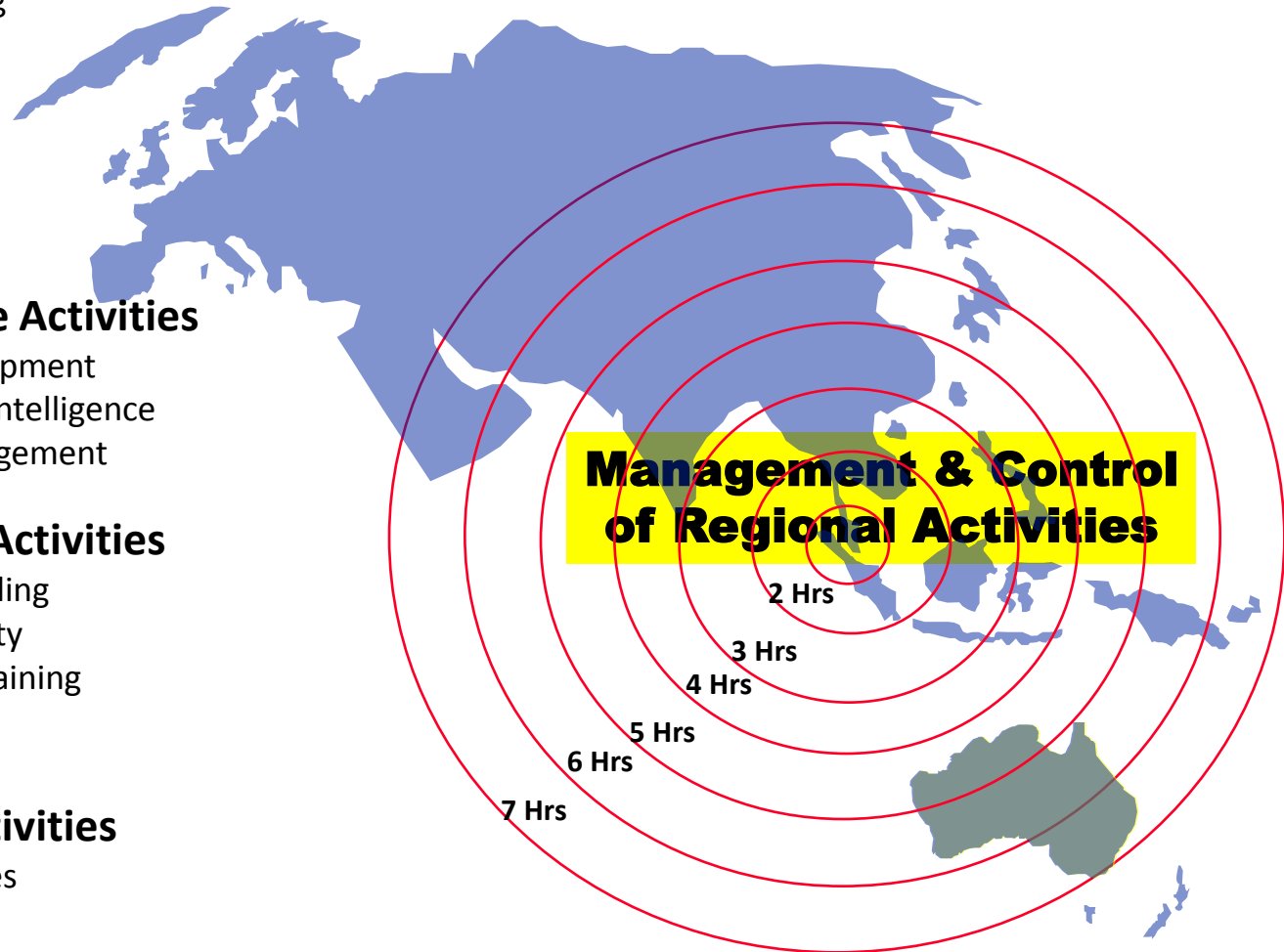
- Research & Development
- Technical and Market Intelligence
- Supply Chain Management

Post-Product/Service Activities

- Marketing and Branding
- Intellectual Property
- Technical Support & Training
- Logistics
- Trading

Industry Specific Activities

- Professional Services
- Outsourcing
- Supplier Quality Assurance



Logistics & Supply Chain Management



**DATA HUB
MANAGEMENT**



**SUPPLY CHAIN
CONSULTING**



**MATERIALS /
VENDOR MANAGED HUB**



**RETURNS &
REPAIRS CENTRE**

**INTEGRATED
LOGISTICS SERVICES**



**MULTI-LINGUAL
CALL CENTRE**



**POSTPONEMENT &
CONFIGURATION**



**IT / E-COMMERCE
DEVELOPMENT**



TRADE FINANCING

Levi Strauss Asia Pacific

- Levi Strauss & Co. is one of the world's largest brand-name apparel marketers, with leading global presence in the jeans and casual pants markets under the Levi's® and Dockers® brands
- Asia Pacific (include Japan) HQ in Singapore with 100 staff and the following key functions:
 - Brand management & marketing
 - Legal for trademark protection
 - Regional training, finance, IT and communications
 - Supply chain management





OSIM 



OSIM International

- Household name in healthy lifestyle products especially in Asia
- 500 outlets in Asia, Middle East and North America
- Expanding franchise into UK, Ireland, Canada and Australia
- Acquired USA retail company called Brookstone to enter US market and recently acquired TWG, a tea-brewing company
- Global HQ in Singapore - centralized point for product development, sales and marketing, service quality, procurement, logistics and planning and control of the Group's operations worldwide

Four Seasons



Hotel Management and Advisory Services



Financial Management and Corporate Financial Advisory Services



New Business Development



Information Technology



Plus:
Collaboration with Singapore Polytechnic to develop training curriculum

Free Trade Agreements

18 FTAs Enforced



2 Soon-to-be



GCC



Costa Rica

4 Upcoming FTAs



EFTA - Switzerland, Norway, Iceland, Liechtenstein
 GCC - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE

SINGAPORE'S BUSINESS ENVIRONMENT



Singapore-Batam/Bintan: Complementary



- Established global business network
- Comprehensive and efficient telecom/transport network
- Management and technical expertise
- Financial network
- Strong government support
- Competitive labour cost
- Excellent infrastructure
- Attractive incentives & benefits
- Inclusion into US-S'pore FTA

Taking Advantage of FTAs

- Shuttling of parts/components between Singapore and Outsource Processing areas
- Stage 1 Stage 2 Stage 3
- Singapore ---> OP (e.g. Bintan) ---> Singapore ---> Exported
- Stage 1 + Stage 3 => Singapore origin
- Higher value activities in Singapore, complemented by outsource labour/skill-intensive processes to create more job opportunities in Indonesia



Key in
Attracting FDI
and plug into
GSC
= Provide the
value to make
the supply
chain efficient
😊

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PART THREE (OPTIONAL) :
Experiences of countries successful in
attracting foreign investments,
China and India

China's Inherent Advantages in Attracting FDI



Huge population
(=huge local
market)



Abundance of
low-cost and
skilled labour



Adoption of
open-door policy

China's Key Policy in Attracting FDI

- Opening of most sectors and gradual opening of other previously restricted sectors
- Incentives such as tax refunds to promote export
- Gradual fine-tuning of laws and policies to guide FDI into regions or sectors requiring FDI inflow for development



Initial Efforts in Attracting FDI

Efforts Started with the creation of
Special Economic Zones

Open Coastal Cities in the
southeastern coastal region

Facilitated FDI by offering market
access, land use and tax incentives

Initial Efforts in Attracting FDI



Problems

- FDI flowed to the coastal regions
- Inflow of nearly 88% of FDI led to the skewed economic development of the coastal region
- Creation of a widening economic gap between the coastal region and the rest of the country



Remedy

- Launch of the Great Western Development strategy in 2000 to spearhead development of the poorer central and western regions
- Gradual removal of tax refunds to stimulate economic restructuring

Policy Trends




India's Key Policy in Attracting FDI

- Driven by domestic companies
- Promotion of services-led industries especially in software outsourcing
- Gradual tuning of laws and policies to guide FDI into regions or sectors for manufacturing



Initial Efforts in Attracting FDI



Problems

- FDI flowed to mainly the software IT sector
- Most of investments are partners with local giant enterprises
- Poverty and lack of physical infrastructure to promote investments



Remedy

- Launch of Special Economic Zones to promote manufacturing and supply chain

THANK YOU !!!

Presentation by:

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