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Global Production Networks and Foreign Direct Investment by Small and Medium Enterprises in ASEAN

Henry Wai-chung Yeung*

This paper examines cross-border investments by small and medium enterprises (SMEs) from member states in the Association of South-East Asian Nations (ASEAN). It explains this relatively under-researched topic from the perspective of SMEs' strategic coupling with or "plugging into" regional production networks coordinated by global lead firms. Facilitated by growing regional integration, these SMEs create and capture significant value added from their involvement in these production networks. The paper first highlights the different drivers of SME-specific FDI activities in ASEAN that contribute to strengthening regional economic integration through intra- and inter-firm activities in the region. The paper then explains the working of their strategic coupling with ASEAN-based production networks through different coupling mechanisms, such as international partnership, industrial specialization and production platforms. The key challenges confronting SME regionalization are highlighted. Finally, the paper considers the policy and practice of promoting SME regionalization so that they can plug into the growth dynamics of different regional production networks.

Key words: small and medium enterprises, regional production networks, strategic coupling, South-East Asia

1. Introduction

Global production has become much more organizationally fragmented and spatially dispersed since the 1990s. In its *World Investment Report 2013: Global Value Chains: Investment and Trade for Development*, UNCTAD (2013) estimates that some 80 per cent of global trade is now organized through global production networks (GPNs) that

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are coordinated by lead firms investing in cross-border productive assets and trading inputs and outputs with partners, suppliers and customers worldwide. Analysed in depth in Coe and Yeung (2015), GPNs and global value chains (GVCs) are now the most critical organizational platforms through which economic production in primary, manufacturing and service sectors is structured on a global basis (see also Neilson et al., 2015). A 2010 World Bank report on the post-2008 world economy further claims that “given that production processes in many industries have been fragmented and moved around on a global scale, GVCs have become the world economy’s backbone and central nervous system” (Cattaneo et al., 2010: 7).

GPNs and GVCs are highly relevant for understanding economic development and industrial change in the member states of the Association of South-East Asian Nations (ASEAN). To date, some of the more advanced ASEAN economies, such as Singapore, Malaysia and Thailand, have played major roles in global trade, producer services and manufacturing, and served as the key locations for the regional operation of GPNs – known as regional production networks (RPNs) – oriented towards the regional and the global market. This in turn creates ample opportunities for small and medium enterprises (SMEs) in various ASEAN countries to be involved or “plugged” into these production networks located in their home countries (UNCTAD, 2010; ASEAN Secretariat, 2013; 2014; Asian Development Bank, 2015a).¹

Facilitated by the regional integration of ASEAN economies, cross-border investment by a growing number of ASEAN SMEs from different member states serves as another important mechanism through which such “plugging in” works. In trade and services, SMEs in leading ASEAN hubs for transport (sea and air), logistical, legal and accounting, and financial services have invested regionally in order to offer value added activities to lead firms and their strategic partners in cross-border production networks. In manufacturing, ASEAN SMEs with greater technological and production capabilities have established operations in the region to provide critical and high-value

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