Trade-led Growth in Times of Crisis
Asia-Pacific Trade Economists’ Conference
2-3 November 2009, Bangkok

Session 1

Regional Aspects of Linkages between International Production Networks and Regional Trade Agreements

Dr. Mochamad Pasha

Asia-Pacific Research and Training Network on Trade
www.artnetontrade.org
ARTNeT Regional Study Theme III

On the Relationship Between Regional Trade Agreements and International Production Networks: Evidence from Five Case Studies

Presented by
Mochamad Pasha
CSIS, Jakarta
Introduction

• Change in global trade pattern, increase in trade in parts and components, most of it contributed by trade activities in East Asia: Ando and Kimura (2003), Kimura and Ando (2005)

• Existence of international production networks (IPN), growing fragmentation in production activities

• Proliferation of RTAs

• To what extent regional trade arrangements affect the development of international production networks.

• Does it neutral, moderate, inhibit, or expand international production networks?
Introduction

• Five case studies:
  – Automotive industry (China, India and Indonesia)
  – Hard Disk Drive industry (Thailand)
  – Textile and Clothing Industry (Bangladesh)

• Contribution:
  • Adds to the empirical stylized facts on the subject of international production network
  • To gain better understanding on the ‘mechanics’ behind the international production networks, particularly in its relation to the growing agenda of regional integration in the world
Presentation Outline

- Introduction
- IPN in East Asia
- Highlights
  - Automotive industry
  - Hard Disk Drive industry (HDD)
  - Textile and Clothing (TC)
- Conclusion
- Policy Recommendation
IPN in East Asia

- ‘Hollowing-out’ of Japanese Firms (Baldwin, 2007)
- ‘Dual-track’ approach toward industrialization by East Asian developing countries (Kimura, 2006)
- Liberalization of trade and investment in East Asian developing economies, i.e. incentive policies to attract foreign MNCs
- IPN emerge, through market initiatives
- Domino effect of FTA
Automotive Industry

- China and Indonesia are well integrated in the IPN in East Asia, while India is less integrated with East Asia: IIT for parts and components in 2008 for China, India and Indonesia are 0.95, 0.68, 0.81, respectively.

- Local auto makers began to emerge in China and India, Indonesia is still attached to Japanese MNCs.

- China and India have a well establish auto parts and components industry, while the components industry in Indonesia is underdeveloped.

- Survey evidence from China, India and Indonesia reveal that FTA does not affect or neutral towards enhancing IPN in the automotive sector.
Hard Disk Drive Industry

- Thailand is well integrated with East Asia: IIT in HDD components in 2008 is 0.82
- Agglomeration and fragmentation coexist
- Domestic fragmentation as a result of industrial clustering does not completely rule the industry to make use of globalized production
- FTA does not affect the development of IPN in HDD industry in Thailand
Textile and Clothing Industry

- TC industry in Bangladesh has low integration with EA: IIT in raw materials and intermediate products in 2008 is 0.08
- FTA does not affect the development of IPN due to the nature of the TC industry
- Trade facilitation is considered essential in improving the procurement process.
Conclusion

- Most of the agreements are still in the early stages of implementation, thus the effect may not yet observable.
- Trade agreements are too general to accommodate the specific needs of certain industries
- Overlapping RoOs among FTAs is a deterrent in promoting IPN
- Increasing importance in reducing service link costs
Policy Recommendation

- RoOs across trade agreements should be harmonized
- Reduce the costs arising from geographical distance
- Promote production-cost saving in the fragmented production blocks
- Promote institutional building to reduce firms’ arm-length transactions