

Trade-led Growth in Times of Crisis  
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## Session 1

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

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## ARTNeT Regional Study Theme III

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

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# 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 be 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