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*22-23<sup>rd</sup> September 2014*

**Organized Session 1:**

*Development and Production Networks in Asia*



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# Production Networks and Industrialization in East Asia

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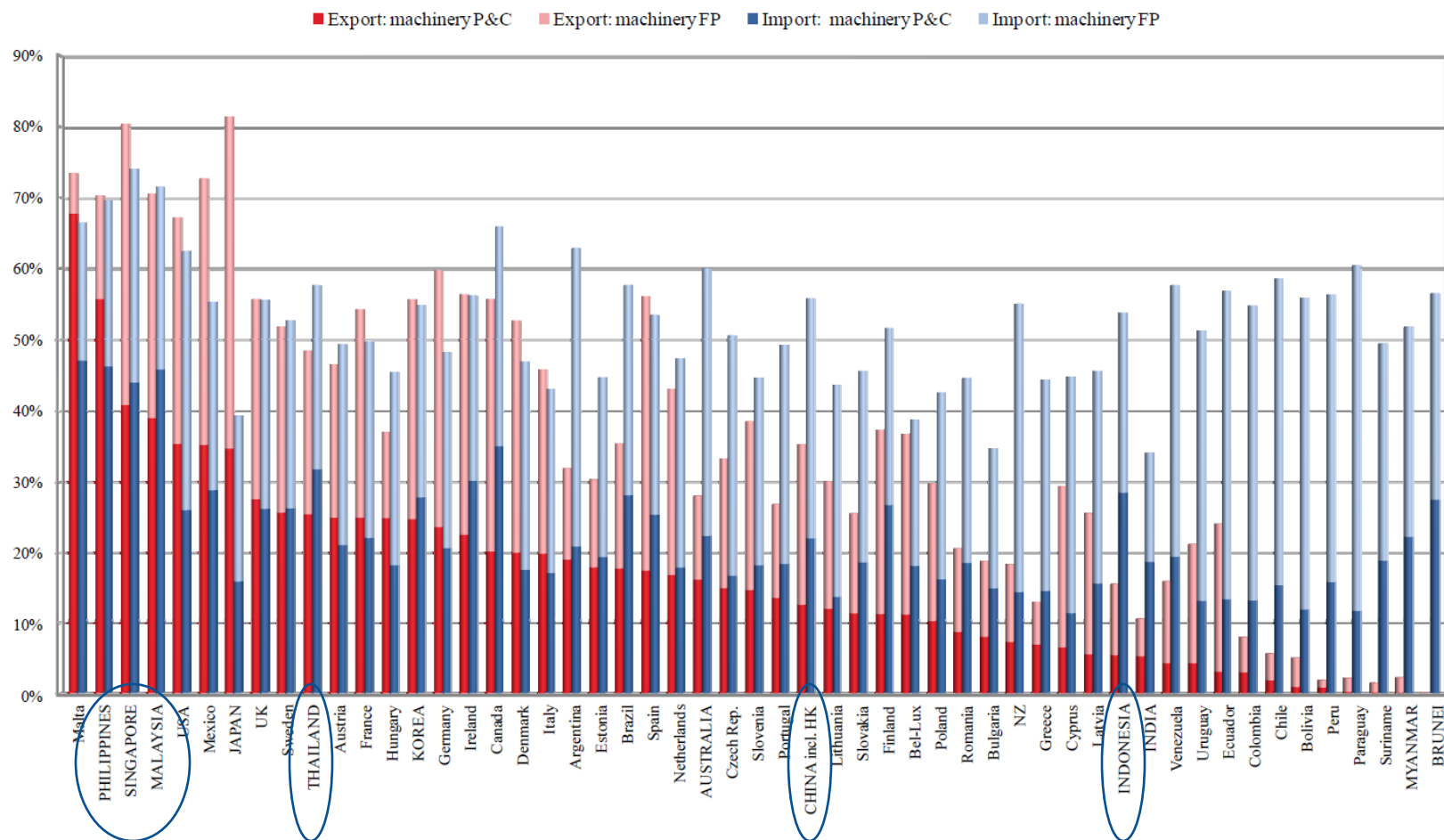
# Introduction

1. International production networks (IPN) play important role in industrialization of many countries in East Asia
  - The extent of this model of industrial development has increased rapidly in the last two or three decades
  - Many of the details are not yet fully recognized in the literature
2. This paper presents the evidence of IPN and the discussion on how it relates to regional integration in Southeast and East Asia

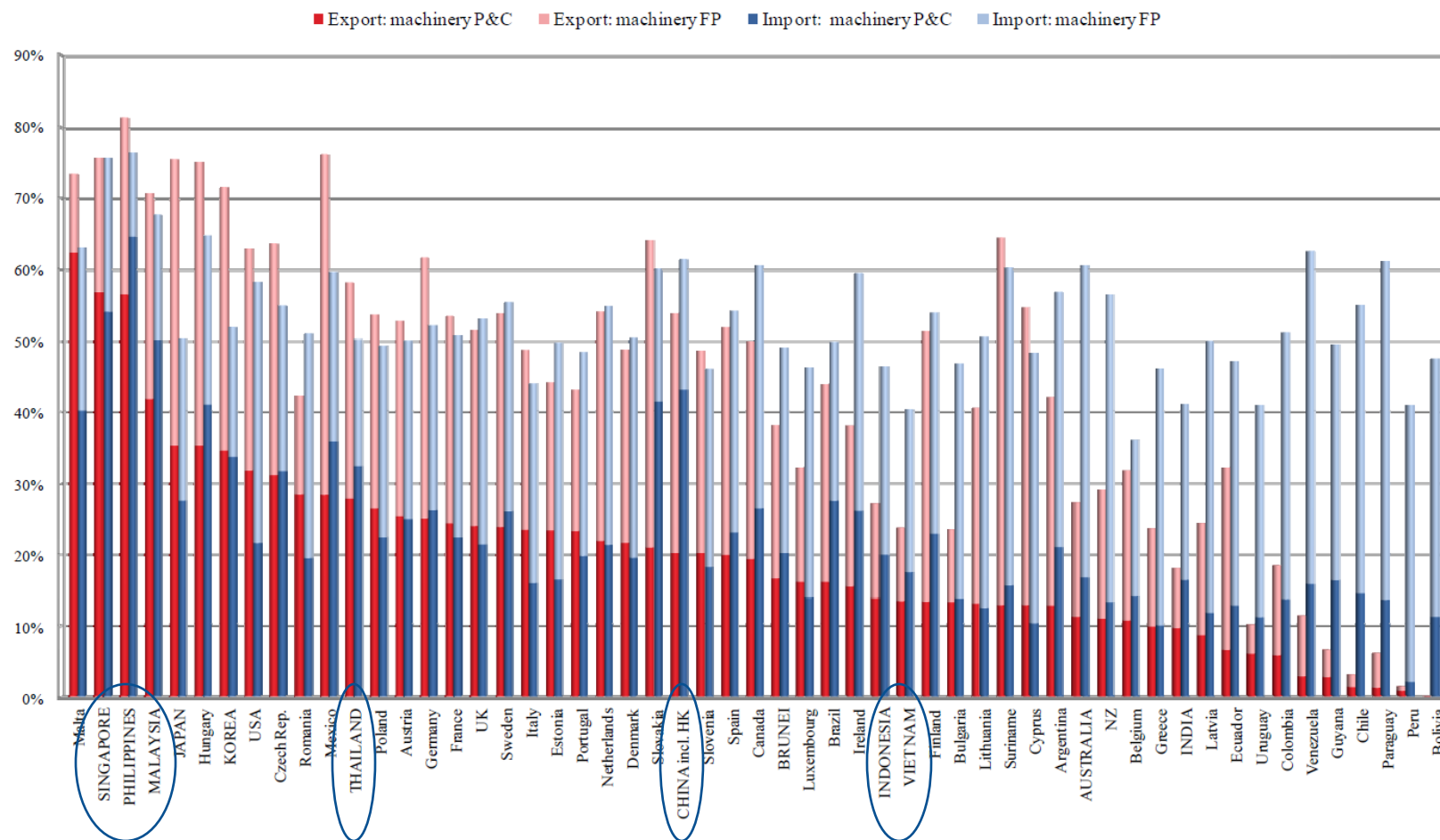
# Evidence on International Production Networks

- There has been an increased in the importance of trade in human capital-, technology- and capital-intensive products in East Asia (eg. machineries, electronics, telecommunication, including parts and components)
- The importance of vertical intra-industry trade (IIT) between countries increased significantly in 2000s (compared to the extent of the trade in 1990s).
  - At the same time, the extent of one-way trade declined significantly during this period

## Shares of machineries in total manufacturing trade to/from the world, 1994



## Shares of machineries in total manufacturing trade to/from the world, 2007



# Evidence on International Production Networks

- The networks in East Asia are distinct to those in the US (Kimura and Ando 2003)
- IPNs in East Asia have the following characteristics
  - Involved a large number of countries at different income level
  - Include both intra-firm and firm arms-length relationship
- East Asia did much better in developing IPNs in electronics than Latin America and the major factors for this are the strategy to build local capabilities and targeted FDI (Lall et al. 2004)

# Analytical Framework for International Production Networks

- IPN could be approached from fragmentation theory
  - Production of final goods consists of vertically integrated production processes.
  - Fragmentation theory postulates that these processes can be divided into some separable production blocks, and these production blocks could be located in various

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