

Production Networks and Regional Integration: Role of Economic Corridor

Case Study of India's Trade in P&C with Southeast Asia

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Production networks: three distinctly prominent views

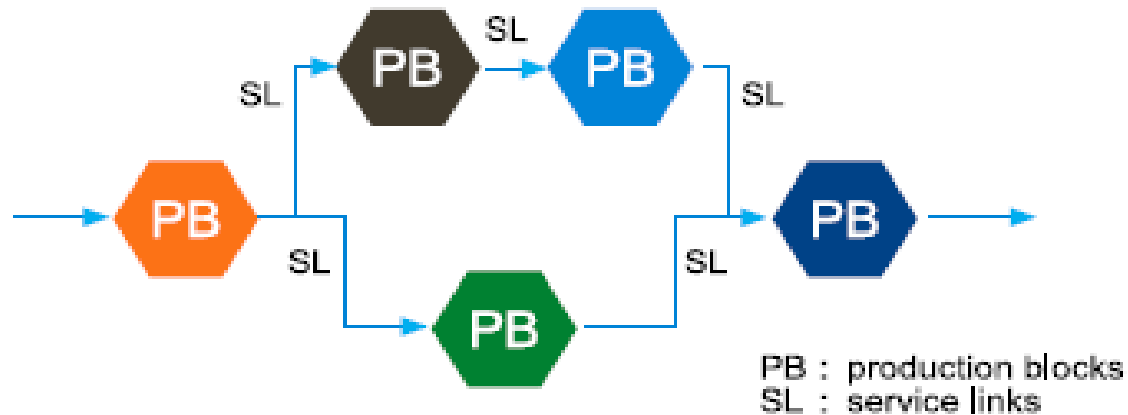
- East Asia has recorded high intra-regional trade shares owing in particular to rapidly expanding intra-regional trade in parts and components.
 - In ASEAN, production network exports witnessed over 60% of total manufacturing exports in the last decade (Athukorala, 2010).
- The costs of fragmentation depend on the associated service link costs (Jones and Kierzkowski, 2005), where service link costs are the costs arising from country's infrastructure and regulations.
- Production processes and tasks in production are increasingly fragmented across boundaries, time-sensitive logistics infrastructure along with improved ICT and trade facilitation are prerequisites in building production networks across borders (Kimura, 2009; Kimura and Ando, 2007, 2010).

Production networks and service Links

Before fragmentation



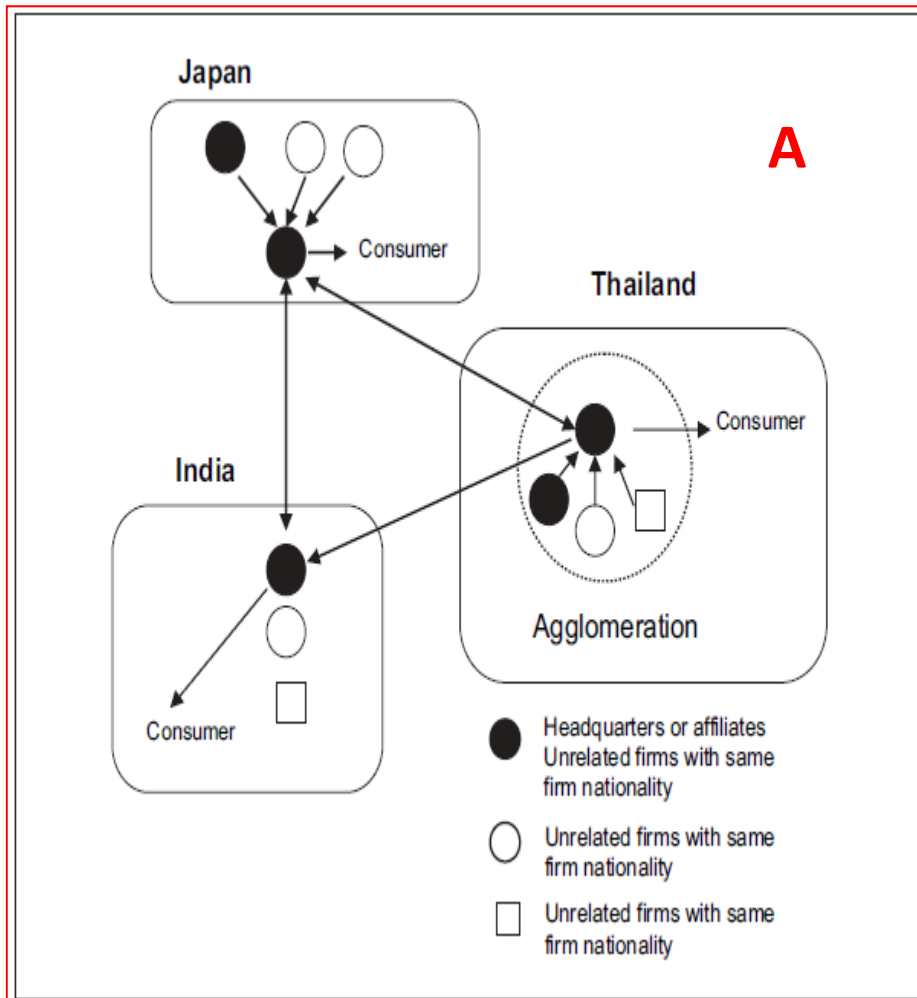
After fragmentation



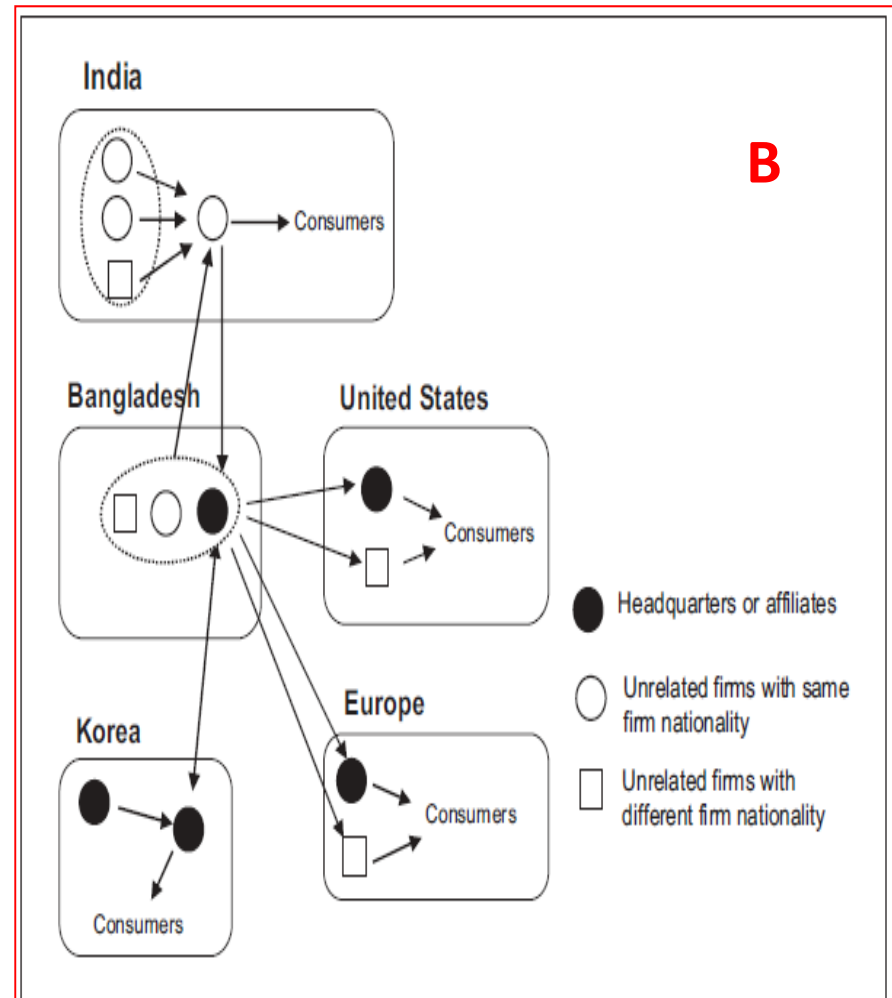
Source: Kimura and Kobayashi (2011)

Emerging production networks between India and Southeast Asia

Case: Southeast Asia
India's Import of ACE from Thailand



Case: South Asia
India's Export of Yarn to Bangladesh



Source: De and Saha (2013) based on Kimura (2011)

Scale economy vs. Trade cost

- When trade costs decrease from economic corridor, MNEs may concentrate their activities on one country and develop trade flows rather than open a plant in a foreign member country.
- Apparently, as MNEs derive more benefits from economies of scale than tariff jumping, strategies after conclusion of FTAs, the production network might fall.

Objective

- Objective: to explore the role of economic corridor in enhancing production networks between India and Southeast Asia.
 1. We analyse how economic corridor affects production networks
 2. Implications for regional integration

Stages of development of economic corridor

- An EC can be national (e.g. Tokyo-Osaka corridor), subregional (e.g. GMS corridors), regional (e.g. TEN-T corridors), or international (e.g. submarine telecom cables).
- Trade facilitation and logistics services are the main catalysts in its development.
- EC helps strengthen industrial (or, services) agglomeration over time through establishment of industrial zones (or, SEZ).
- EC facilitates cluster-type development of enterprises.

**Transport
corridor**



**Logistics
corridor**



**Economic
corridor**

**Catalysts: Trade
facilitation, logistics
services, a.o.**

Source: Srivastava (2011)

Model

have been drawn primarily from Melitz and Head (2004) and HMY (2004).

The Helpman-Melitz (HM) model is an extension of Melitz and Head (2004) which develops the trade model which incorporates firm heterogeneity within an international trade.

The Helpman-Melitz (HM) model is very useful to analyze the relationship between firm-level variation in export pattern and the structure of international trade in industry structure and economic

ice economic corridor into the model.

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