

Trade Facilitation, Production Networks and Regional Integration: Precondition or simultaneity

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Trade Facilitation and Production Network

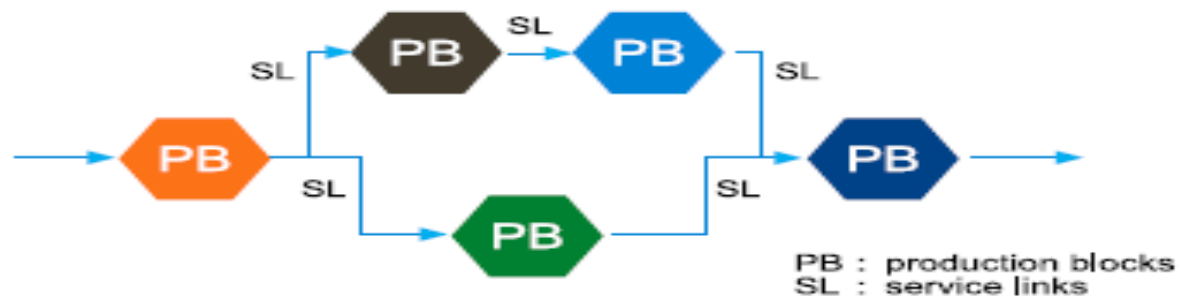
- Trade Facilitation is captured in terms of reduction of trade costs.
- Trade Facilitation is also one of the conditions for growth of production networks
- The concept of economic corridor is also dependent on trade facilitation

- ❑ Economic Corridor and production network is a concept where some regions across either two or more countries are identified whose infrastructure is specially promoted to strengthen trade and economic integration among the countries
- ❑ The main advantage of promoting economic corridors is realized when trade across such corridors is sufficiently liberalized and seamless, thus lowering the cost of trade across border.

Before fragmentation



After fragmentation



❑ Fragmentation of Production Process is a key for the development of economic corridors and Production Network along that Corridor

❑ Higher trade costs along Poor services links discourages fragmentation of production

❑ However, low trade costs do not necessarily promote production networks. One can say better infrastructure is necessary but not sufficient condition for the development of production networks

❑ Naturally, the question arises as to what items are included in the trade costs?

❑ They include transportation costs (both freight costs which is a direct cost and time costs which need to be imputed) and policy barriers (tariffs and non-tariff barriers, some of which again need imputations).

❑ Apart from these, there are costs associated with information gathering, contract enforcement costs, currency conversion costs, legal and regulatory costs, as well as local distribution costs (wholesale and retail).



❑ Costs are also decomposed into three elements: monetary cost, time cost, and reliability/credibility/stability. The last one seems to be particularly important in the case of developing country

❑ Broadly all the costs which may be non-monetary are part of logistics costs.

❑ Seamless movement of goods is a key to reduce trade costs. In fact, high transport and logistic costs impede competition, and Asia lags behind Europe and North America in reducing such costs

❑ Compared to about 45 percent intraregional trade among East Asian countries (excluding Japan), intraregional trade in South Asia had grown from a mere 3 percent in 1991 to around 5 percent in 2009

Regional Integration Stages

- ❑ Free Trade Area- Eliminate Tariffs
- ❑ Customs Union- FTA plus common tariff against ROW
- ❑ Common Market – CU plus free movement of Factors of production
- ❑ Economic Union – CM plus unified fiscal, monetary and socioeconomic policies

Condition for Success

- ❖ Competitive before Union but potentially Complementary after Union

- ❖ More competitive markets should allow scale economies to operate and investments to pick up

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egration must have trade facilitation
l Regional Integration did not wait for
multilateral treatise but had its seed in
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ion- clear example is ASEAN
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omous process which creates the
or various stages of regional integration
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acilitation strengthen each other