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International Production and Distribution Networks in East Asia:
18 Facts, Mechanics, and Policy Implication

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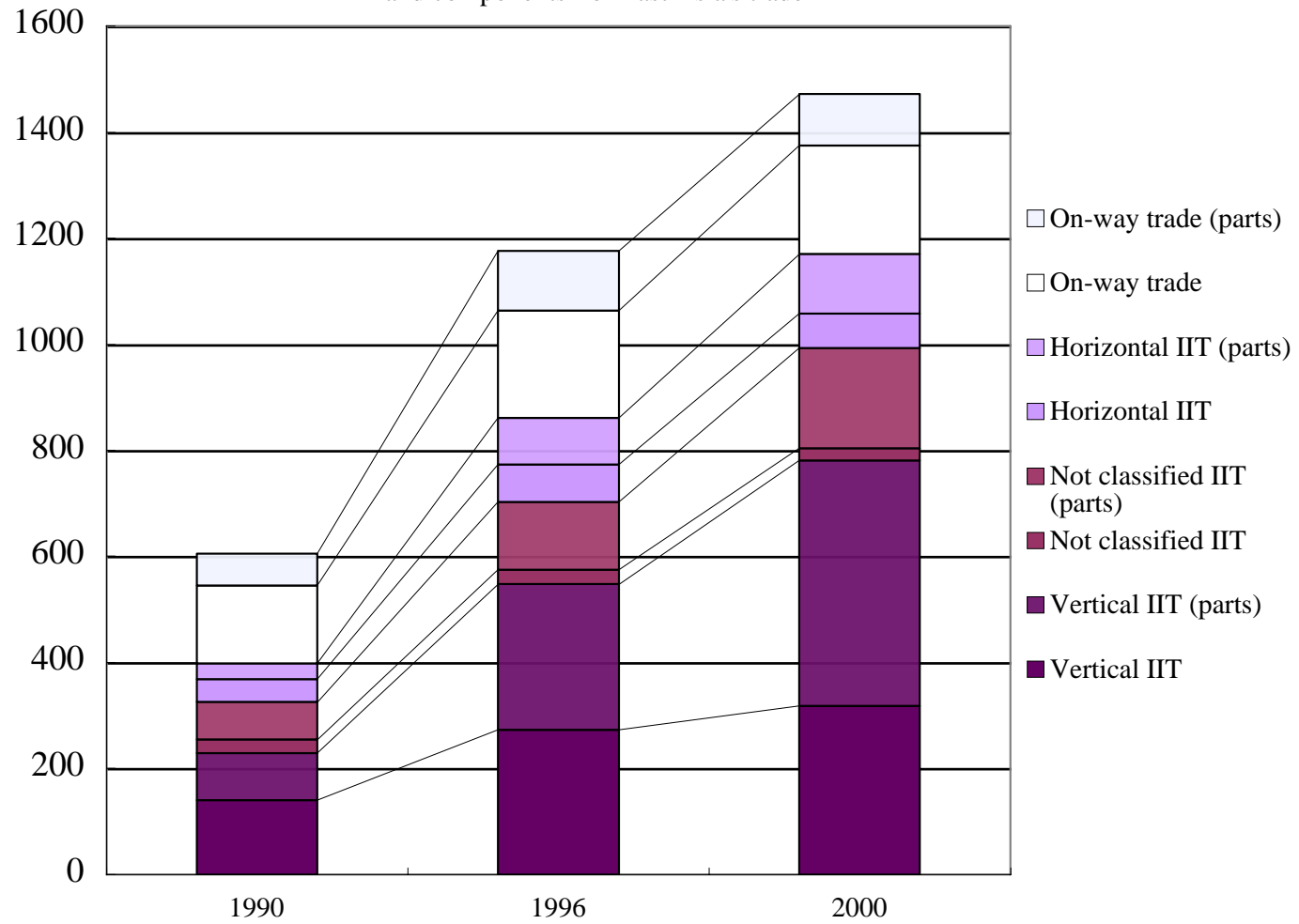
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Table 2 Two-dimensional fragmentation and required policy measures

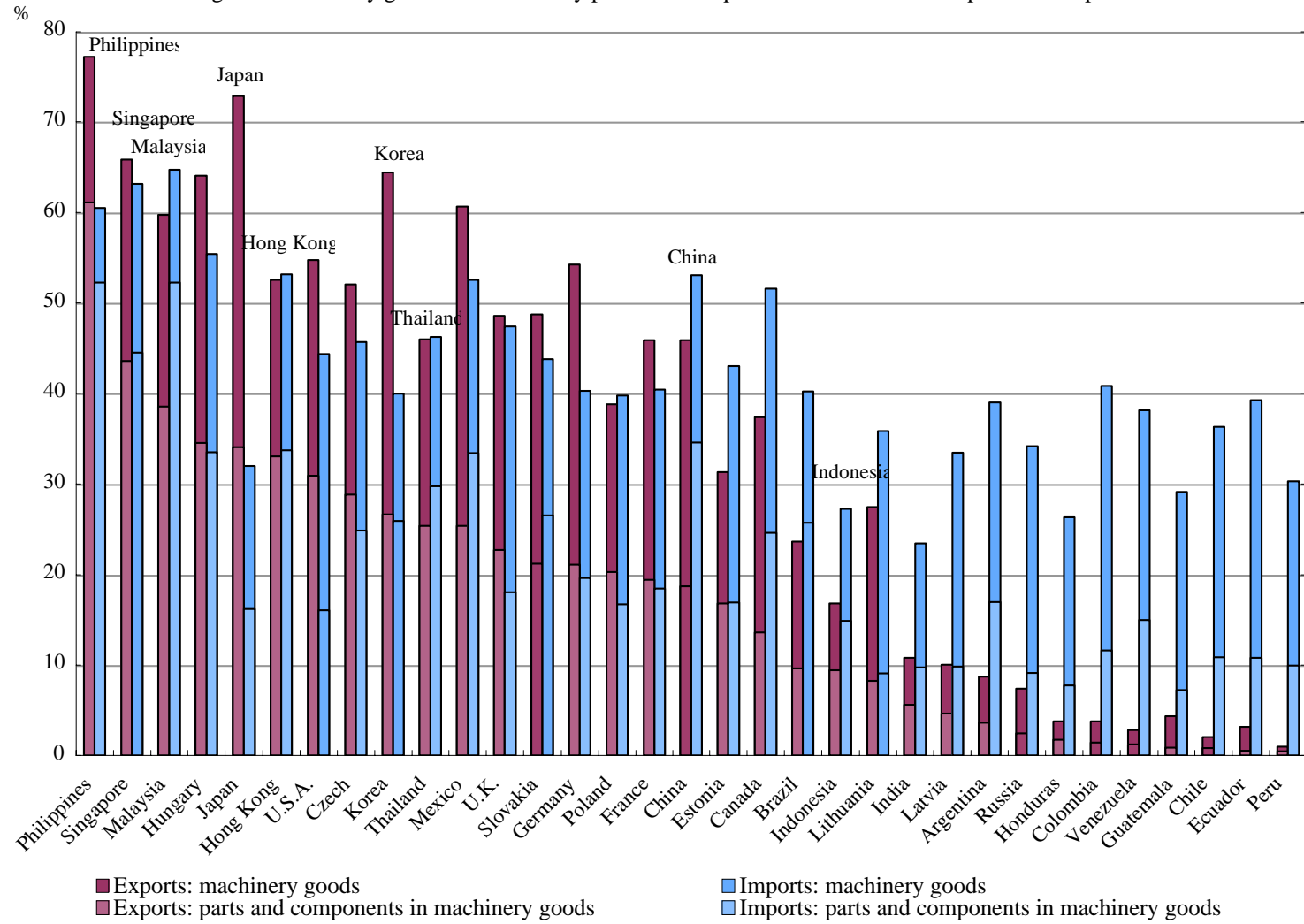
	Service link cost to connect production blocks	Production cost per se in production blocks
Fragmentation along distance axis	Reduction in costs for overcoming geographical distance	Enhancing location advantages
	Related policies: transport and telecommunication infrastructure development, fostering efficient distribution sector, trade facilitation, reduction in coordination cost, and so on.	Related policies: realizing economic environment so effectively utilize strengths in wage levels and access to market, reduction in costs for infrastructure services such as electricity, other energy and industrial estate services, capacity enhancement for technological transfers, and so on.
Fragmentation along disintegration axis	Reduction in costs due to losing control or "transaction costs"	Promoting the utilization of "dis"internalization advantages
	Related policies: reduction in searching potential business partners, reduction in costs for monitoring business partners, enhancing fairness and stability of contracts, strengthening dispute settlement mechanism, building strong legal system and economic infrastructure and so on.	Related policies: keeping various sorts of potential business partners by inviting foreign companies as well as fostering local firms, strengthening supporting industries, establishing sound legal system that allows various forms of contracts, overcoming incomplete information problems, and so on.

billions of US\$ Figure 2 5 Rapid expansion of vertical IIT in machinery goods and machinery parts and components for East Asia's trade



Source: Ando (2005).

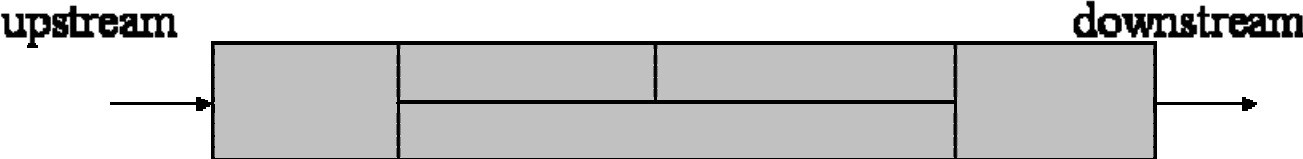
Figure 3 Machinery goods and machinery parts and components: shares in total exports and import



Source: Ando and Kimura (2005b).

Figure 4 Fragmentation and service link costs

Before fragmentation



After fragmentation

