

“Fragmentation in East Asia: Further Evidence”*

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Abstract

The most salient phenomenon in recent international trade in East Asia is the formation of international production/distribution networks. This paper applies the two-dimensional fragmentation framework (Kimura and Ando (2005a)) to investigate the structure and characteristics of international production/distribution networks. Two important issues are investigated. The one is how the formation of international production/distribution networks, particularly in machinery industries, has changed the overall pattern in East Asian trade, both intra-regional and inter-regional. We find that about half of intra-regional export expansion in East Asian countries in 1990-2003 is due to an increase in trade of machinery parts and components, which suggests the existence of a large “magnification” effect in intra-regional trade volumes. The relative importance of markets outside East Asia, notably North American and EU markets, seems rather to decline a bit due to the expansion of East Asian markets themselves. The other issue is how corporate firms effectively combine two kinds of fragmentation, i.e., fragmentation in terms of geographical distance and disintegration. The statistical data of affiliates of Japanese firms in East Asia indicate that transactions with Japan are likely to be intra-firm, while transactions in local markets tend to be arm’s-length (inter-firm), which is consistent with our analytical framework which explains the close link between geographical proximity and outsourcing.

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