Making Infrastructure Work with Efficient Services

Fukunari Kimura
Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)
Professor, Faculty of Economics, Keio University
1. A reason why Asia-Pacific should be serious about services sector development

• Slow liberalization in services in developing countries in general due to:
  – Domestic policies (cf. border measures)
  – Regarded as an inefficient, weak sector to protect

• Larger involvement of foreign players may dramatically enhance productivity.
  – Make multinationals compete!

• Strong services sector yields competitiveness to other sectors such as manufacturing
  – Particularly true in the era of the 2nd unbundling
2. New type of international division of labor (the 2\textsuperscript{nd} unbundling)

• From the 1\textsuperscript{st} unbundling to the 2\textsuperscript{nd} unbundling (Baldwin (2011))
  – International division of labor: from industry-wise to production process/task base
  – Tight coordination/synchronization
  – Connectivity: monetary cost, time cost, reliability

• Production networks in East Asia (and the US)
  – Manufacturing sector, particularly machinery ind.
  – Geographical inclusiveness
  – Fragmentation and agglomeration

• Infrastructure and services sector
The 2\textsuperscript{nd} Unbundling

- The 2\textsuperscript{nd} unbundling, i.e., international division of labor in terms of production processes and tasks, has developed since the 1980s.
- The 2\textsuperscript{nd} unbundling in the manufacturing sector is most advanced in East Asia.

Source: Baldwin.
The fragmentation theory: production blocks and service links

Before fragmentation

After fragmentation

PB: Production block
SL: Service link
Data: authors' calculation, using data available from UN comtrade.

Nominal GDP per-capita (2005)

Comparative advantage in manufacturing sector (2005)

3. How do services come in?

• Two ways for services to work for the 2\textsuperscript{nd} unbundling
  – Services that do the 2\textsuperscript{nd} unbundling
  – Services that support the 2\textsuperscript{nd} unbundling of other sectors such as manufacturing

• Policies for the 2\textsuperscript{nd} unbundling
  – Three kinds of costs in fragmentation and two-dimensional fragmentation to find bottlenecks
  – Institutional and physical connectivity backed up by services sector
Figure 2  The 1\textsuperscript{st} and the 2\textsuperscript{nd} unbundling

Connecting factory & doing business abroad: The "trade-investment-services nexus"

1) Two-way flows of goods, ideas, technology, capital, and technicians.
2) Investment and application of technical, managerial and market know-how abroad.

Source: The original is in Baldwin (2011), slightly modified by the author.
Two-dimensional fragmentation: An illustration

Source: Kimura and Ando (2005).
## Infrastructure and services for the 2nd unbundling

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<thead>
<tr>
<th>Fragmentation in geographical distance (par. For International fragmentation)</th>
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ASEAN Connectivity

Physical connectivity  
Hard infrastructure
- Transport: Air, Road, Rail, Maritime, Port Facilities, Logistics Services Facilities
- Information Communications Technology: Optical Fiber Network, Energy: ASEAN Power Grid, Trans-ASEAN Gas Pipeline, Special Economic Zones

Institutional connectivity  
Soft infrastructure
- Trade liberalisation facilitation: ASEAN Trade in Goods Agreement, standards, ASEAN Single Window, customs integration, Investment liberalisation and facilitation: ASEAN Comprehensive Investment Agreement, Services liberalisation, MRAs, Regional transport agreements, Capacity building programs

People-to-People connectivity
- Education, Culture & Tourism

Enhance rules and good governance for ASEAN
Enhance integration & competitiveness of ASEAN
Enhance the well-being and livelihood of ASEAN peoples

Narrowing the Development Gaps

Resource Mobilisation
- ASEAN Resources
- Multilateral Development Banks
- Dialogue Partners
- Private Sector

ASEAN Connectivity

ASEAN Community Building

ASEAN Political-Security Community  
ASEAN Economic Community  
ASEAN Socio-Cultural Community
4. Conclusion

• The new type of international division of labor (i.e., the 2\textsuperscript{nd} unbundling) requires a new economic/policy environment.

• Coordinated move by “infrastructure” and “services sector” is essential.

• More open resume in services sector strengthens international competitiveness of the whole economy.
References

• Ando, Mitsuyo and Kimura, Fukunari. (2012) “From Regional to Global Production Networks: Linkage between Europe and East Asia via CEE.” October. Forthcoming in a special issue of the *Journal of Economic Integration*.

