

Changing Intra-Asia Trade Networks: New Findings from the White Paper 2006

By Tomiura Eiichi

LAST year was epoch-making for the Japanese economy in two respects. First, for Japan, an advanced nation with a declining birthrate and an aging population, it was the year when not only the working population but also the total population at last began to decline. Second, while Japan once confronted trade friction resulting from its enormous trade surpluses, last year was the first year that the income earnings surplus exceeded the trade earnings surplus.

In response to these changes, the White Paper 2006 gives major coverage to the economic growth attainable despite the declining birthrate and graying of the population as well as to Japan's becoming a major "investment nation" directed toward further expansion of an income earnings surplus. It is natural that the White Papers reflect on the hot topics of the times, but this year's also grapples squarely with an important medium to long-term issue in Japanese trade, the international business network within Asia. In the present article, I will restrict my comments to this point alone.

First of all, the greatest contribution

of the White Paper 2006 is its clarification of the highly complex structure of the international division of labor within East Asia (Japan, China, South Korea, the NIEs and the ASEAN 4 nations). As shown in Figure 1 regarding the electric machinery industry, Japan was unilaterally supplying the major portion of machine parts to the other economies of East Asia in 1990. By 2000, however, the structure had stretched in a finely meshed network with a two-way mutual supplying of parts and intermediate goods. It was no longer possible to describe the international division of labor as consisting of a simple structure wherein parts manufactured in Japan were assembled in the developing countries of Asia and the final products were exported to Western markets.

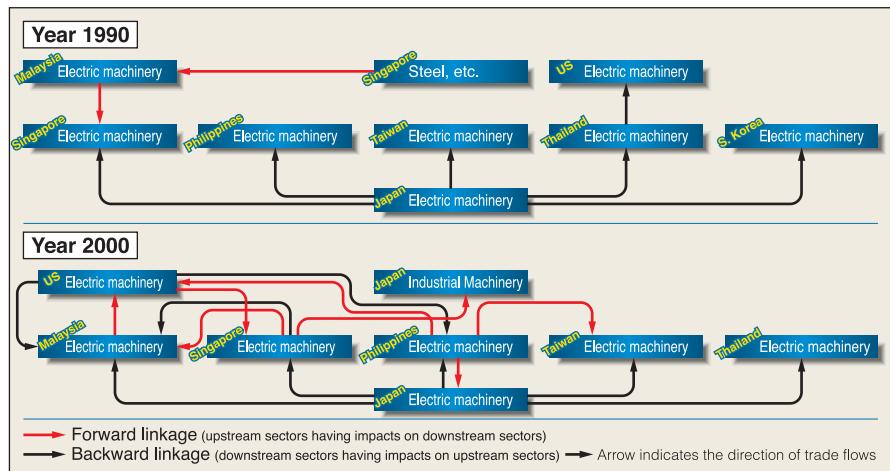
The White Paper reports that, in the input-output linkages with the electric machinery sector, there has been an increase in the number of industries which have statistically significant linkages with foreign nations. It is not true, however, that international industrial connections grew stronger throughout every industry during the 1990s, as is illustrated by the expansion of local-off-

shore production in the automobile industry. However, the strengthening of international connections in the electric machinery industry certainly merits attention. The network of international trade and production within East Asia can be characterized by the development of tightly-knit networks centering on the electric and electronic industries. If international linkages continue to strengthen across an even broader range of industries, the economic integration of East Asia will grow even more stable.

In relation to this, the White Paper examines the development of service industries in East Asia. Set against the circumstances in the United States, where software outsourcing to India has become the subject of public debate, the fact that Japan's outsourcing of software development has been overwhelmingly delegated to China is characteristic of Japan's market and is of considerable interest. Compared with the analysis of the international division of labor in the manufacturing industries, however, the analysis of service industries must be said to be still in the initial phase. The availability of data related to the service industry trade, not only related to Japan but also to many other nations, is severely limited. As the developing nations will one after another experience the expansion of services within their economies, it will become absolutely essential that we have a full-fledged analysis of international service links in order to comprehend the East Asian trade network.

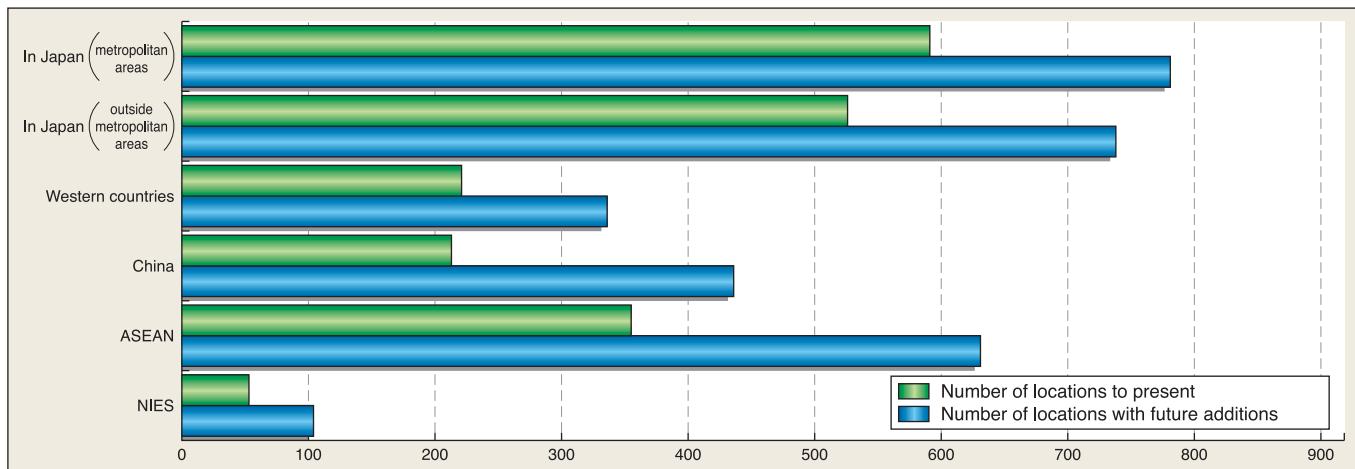
Another major contribution of the White Paper 2006 is the clear explanation that trade in East Asia is changing to a two-way intra-industry trade. There is no increase in the figures of intra-industry trade in consumer goods, but there is an increase in the figures for intra-industry trade in many of the nations of East Asia in terms of intermediate and capital goods. Further, in trading with Japan, the NIEs activity is

Figure 1 Inter-industrial Relations Centering on the Electric Machinery Industry



Source : The White Paper 2006, Ministry of Economy, Trade and Industry

Figure 2 The Number of Principal Locations of Japanese Manufacturing Industries



Source : *The White Paper 2006*, Ministry of Economy, Trade and Industry

Notes : "Number of locations with future additions" = Number of locations to present (1,959) + Number of future locations, assuming they are built (1,067). In the survey, each company could list up to 3 major bases of operation per business function (multiple responses possible).

stable, yet China and the ASEAN 4 nations show a continuing significant rise in the percentage of intra-industry trade in parts. These facts suggest that, compared with internal trade in Europe, where relatively high importance is placed on horizontal intra-industry trade in final consumer goods, the simple dichotomy characterizing Asian regional trade based on a vertical division of labor (the manufacturing of intermediate goods and the final assembly) is affected by past trends.

The White Paper is also instructive in verifying the significant role of Japanese enterprises in the rapid economic development of East Asia. East Asia has for a good while accounted for some 30% of the world's manufacturing industries. In particular, in electric and electronic goods, East Asia has an overwhelming proportion of the whole (PCs 97%, cellphones 78%, semiconductors 67%). However, the role of Japanese enterprises is of even more importance than the ostensible proportion they occupy in terms of production and exports. For example, for DVD-ROMs and digital cameras, China has markedly surpassed Japan and has become "the world's factory," producing approximately half of the world's supply. However, more than 70% of the world production comes from Japan-related enterprises. Such examples strongly impress upon us the fact that trade statistics dealing only with the cross-border transactions of

goods are insufficient to adequately grasp the realities of international economics.

Another point in the White Paper 2006 compares China and the ASEAN 4 nations in terms of investment and business environments. Regarding China, in addition to the fact that investment vis-à-vis GDP is overheating, even when compared with the other nations of Asia or with Japan during its period of high growth, there is reconfirmation of problems including the abrupt upturn in income inequality and the rapidly declining birthrate and graying of the population. The White Paper also points to problems in financing in both China and the ASEAN 4 nations. Moreover, compared to the ASEAN 4 nations, not only are labor costs in certain occupational categories in China rising, but utility rates are also becoming relatively expensive.

According to a separate survey of Japanese enterprises, not only in terms of manufacturing functions but also in the sum total including research and development and sales functions, the ASEAN nations currently surpass China in terms of locations and will continue to do so in the future as well. (Fig. 2) Further, we find a tentative calculation of the "business costs" in each part of Asia, including such things as waiting time at airports, shipping charges and Internet subscription fees. In contrast with a substantial drop in Singapore and

Bangkok, such costs are sizably high in Chongqing and Jakarta. These objective analyses as a whole indicate that there is a large regional dispersion in the attractiveness for multinational production among various nations receiving investment from Japan. One could interpret the White Paper as suggesting that there should be caution about the attraction of China as a principal business location. Since the report compares investment environments in the ASEAN nations and China, the two largest areas of Japanese business expansion, these analyses will be informative for the real business world.

Taking into account the analysis of these surveys, the White Paper 2006 argues that globalization should be implemented to increase the productivity of the Japanese domestic economy. This assertion will undoubtedly receive broad approval, but when it comes to concrete policy measures, one cannot deny that the proposals mainly on advancing EPAs/FTAs and expanding foreign direct investment are lacking in novelty. Having said that, however, since it clearly describes the new developments of the trade network in East Asia on the basis of detailed evidence, the White Paper 2006 is definitely worth a perusal.

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