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PRODUCTION NETWORKS AND INDUSTRIAL CLUSTERS

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PRODUCTION NETWORKS AND INDUSTRIAL CLUSTERS

Integrating Economies
in Southeast Asia

EDITED BY

Ikuo Kuroiwa • Toh Mun Heng

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Preface

In Southeast Asia, *de facto* economic integration preceded *de jure* economic integration. Unlike in Europe, firms in Southeast Asia have expanded their production networks without any formal framework of economic cooperation, and as a result, economies in Southeast Asia are increasingly integrated through the trade of parts and components rather than final products. The drivers for the expanding production networks are rapid decline in transport and logistics costs as well as export oriented industrialization policy adopted by Southeast Asian economies. However, further advancement of production networks cannot be achieved without progress of *de jure* economic integration — notably FTAs and other regional economic cooperation are crucially important.

Production networks in Southeast Asia have often advanced in tandem with industrial clustering. Without industrial clustering, the competitiveness of industry cannot be sustained. Clustering enables companies to tap on agglomeration economies, reduced transport costs, and development of tacit knowledge that would otherwise stifle. These help companies to contain rising labour or land cost, and retain profitable production activities in the country. Singapore electronics industry cluster, for example, still maintains competitiveness and continues to move up the value chain, while other activities — especially standardized labour-intensive or land-intensive activities — are decanted and relocated to the neighbouring Southeast Asian countries.

In this study, we investigate how the production networks and industrial clusters have progressed in Southeast Asia, especially in Singapore, Malaysia, Indonesia, and Thailand. The analytical frameworks of Global Value Chain (GVC), Global Production Network (GPN) and fragmentation theory are being used to elucidate the development of industries and production networks in the countries considered. These approaches look at similar phenomena from different perspectives, providing important insights for formulating development policies. Furthermore, several models

of industrial clusters are being considered in the chapters, and some of them are examined using data obtained from field works and surveys.

In Chapter 1, trends of trade and investment in Southeast Asia are demonstrated, followed by an overview of economic theories on production networks and industrial clusters. In the first part of the book (see Chapters 2–4), the authors focus on the production networks and industrial clusters in Southeast Asia based on the trade statistics and other empirical data. In the second part (see Chapters 5–7), three case studies of the production network and industrial cluster development in Southeast Asia are presented — the electronics sector in Indonesia and Malaysia, biomedical science (BMS) sector in Singapore, and automobile sector in Thailand. In the third part (see Chapters 8–9), the authors examine how the drivers for the expanding production networks — supply chain management and logistics as well as FTA and other regional economic cooperation — have evolved in this region. In the final chapter (see Chapter 10), the editors summarize the policy implications and discuss what kinds of public policies are effective to advance production networks and industrial clusters in Southeast Asia.

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In April 2006, we started organizing the project entitled “Economic Integration in Southeast Asia: Location of Industries, Production Networks, and Development Strategy”. The project aims to investigate how the production networks and industrial clusters have advanced in Southeast Asia, especially in Singapore, Malaysia, and Thailand. After having a few closed-door workshops at the National University of Singapore (NUS) Business School, we held a joint workshop with Institute of Southeast Asia Studies (ISEAS) in May 2007. The papers collected in this book have been revised to reflect the comments and opinions expressed at these workshops.

This project is conducted as part of the research activities by the Institute of Developing Economies (IDE-JETRO) in Japan, and is much facilitated by the kind collaborative support provided by the Institute of Southeast Asian Studies (ISEAS) in Singapore. The NUS Business School, which both of us are currently affiliated to, also provided us much support. We acknowledge, in particular, Dennis Hew and Rahul Sen (ISEAS) for their invaluable efforts as organizers of the joint ISEAS-IDE workshop, and Director K. Kesavapany and Triena Ong (ISEAS) for their advices on our research activities and publication of this book.

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