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**The Importance of the Unfinished Business of the
Bogor Goals for Modern Trade Dynamics: Evolving
International Division of Labor and International
Commercial Policies**

Submitted by: Keio University



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The Importance of the Unfinished Business of the Bogor Goals for Modern Trade Dynamics: Evolving International Division of Labor and International Commercial Policies

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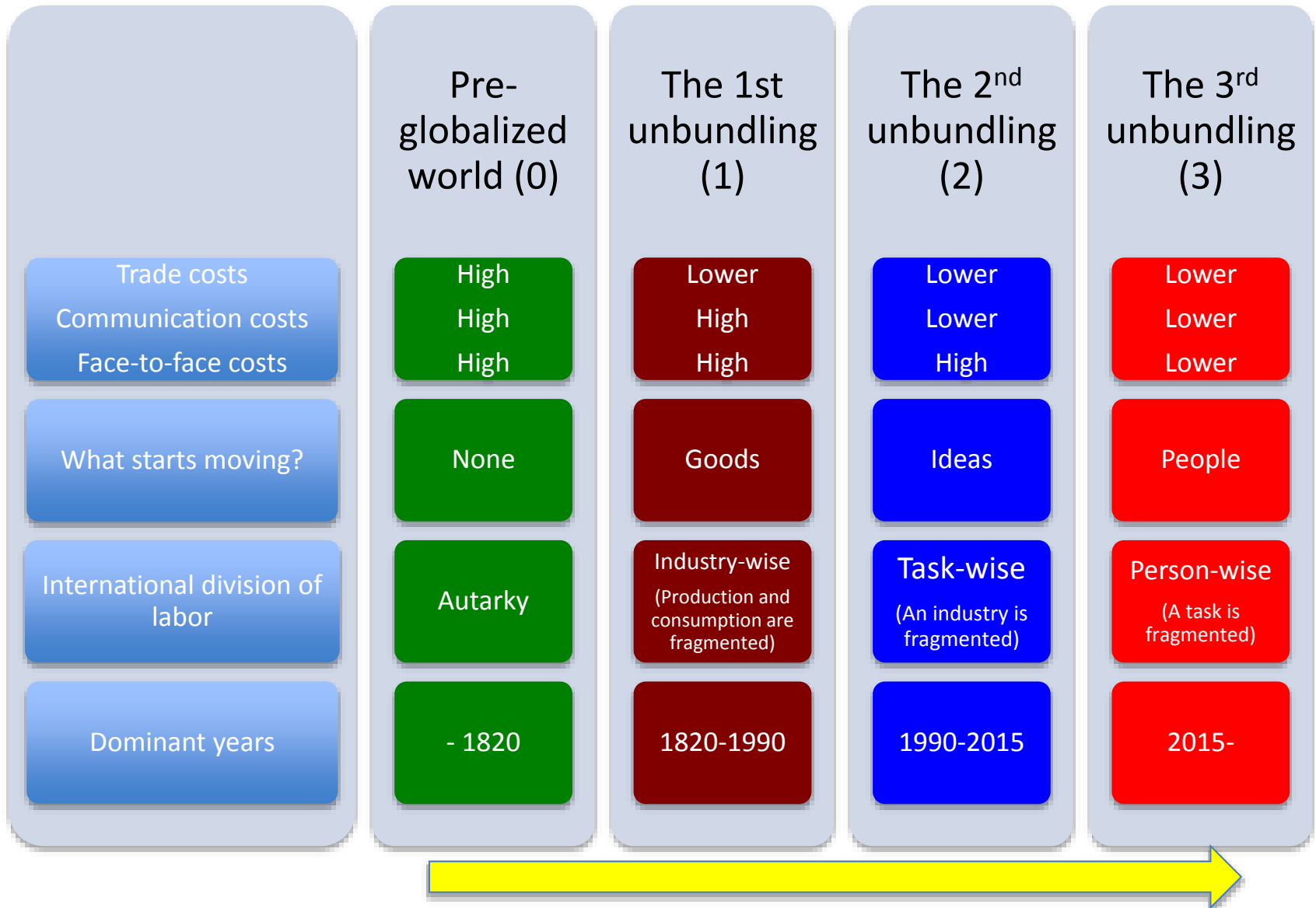
1. The international division of labor in Asia-Pacific

- 1989: APEC
- 1994: the Bogor Goals
 - “free and open trade and investment by 2010 for IEs and by 2020 for DEs”
- Pioneer for task-wise international division of labor (the second unbundling) [1990-2015]
 - Mainly in manufacturing; “ideas” in B2B
 - Fragmentation of production and the formation of industrial agglomeration
 - Still room for widening and deepening the involvement
 - Cf. Eastern Europe, Latin America, South Asia, Africa, ...
- The wave of the digital economy has arrived. [2015-]
 - Reduction in face-to-face costs (matching costs in B2C, C2C)
 - Social media; wholesale/retail, transportation, tourism, service outsourcing, ...
 - Cross-border service outsourcing (the third unbundling) will come soon.

2. Conceptual framework (a la Baldwin (2016))

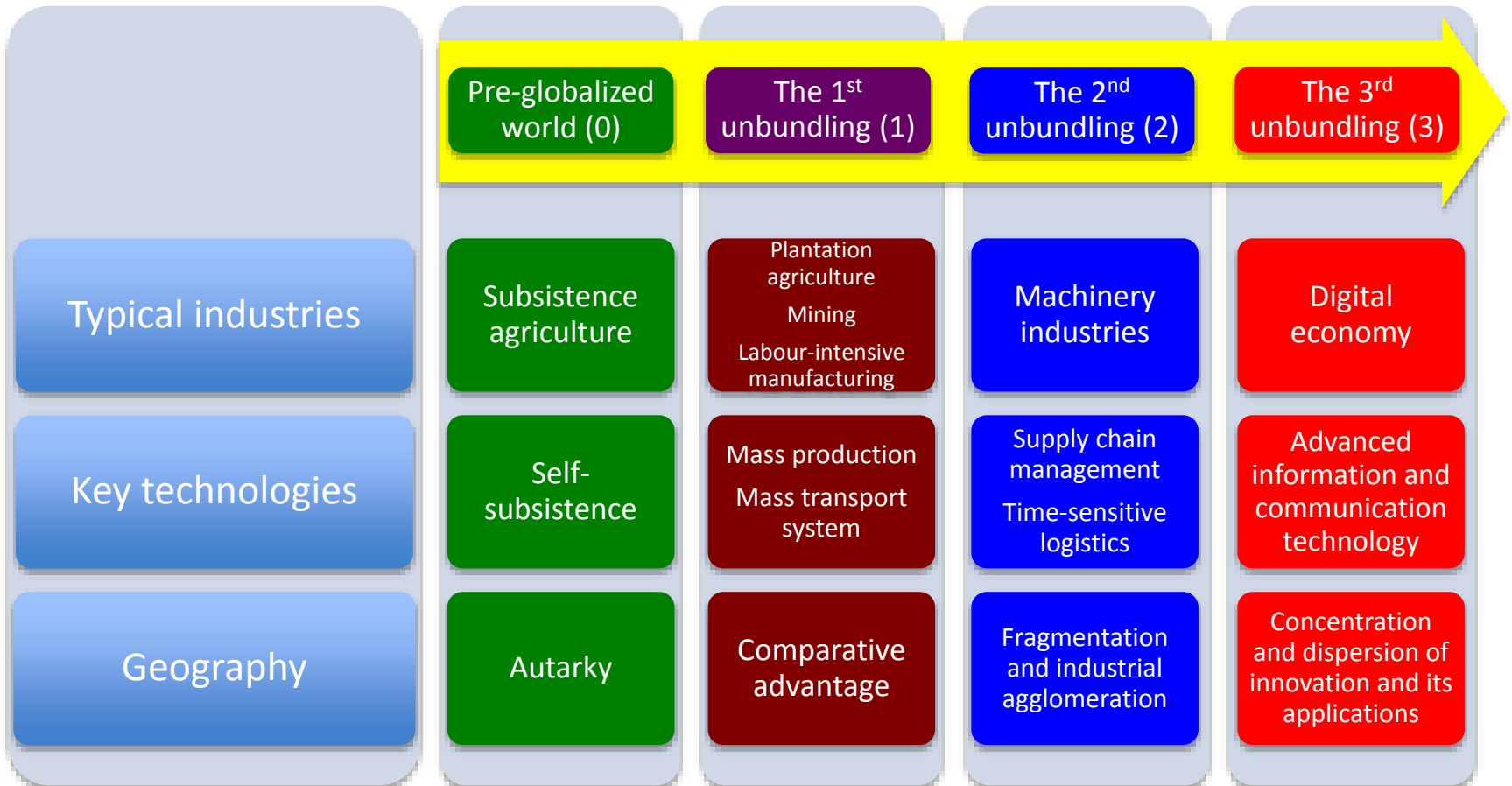
- Technological breakthroughs to overcome distance
 - Uneven preparedness for a higher level of unbundlings across economies/regions
- The first unbundling
 - Mass transport system -> Trade costs lower -> goods move -> production and consumption unbundled -> industry-wise division of labor
- The second unbundling
 - ICT revolution -> Communication costs lower -> ideas move -> production unbundled -> task-wise division of labor
- The third unbundling
 - Further ICT -> Face-to-face costs lower -> people move -> task unbundled -> B-to-C/C-to-C matching/sharing easier, person-wise division of labor

“Unbundlings” to overcome distance



Source: Kimura (2018).

“Unbundlings” and industrialization



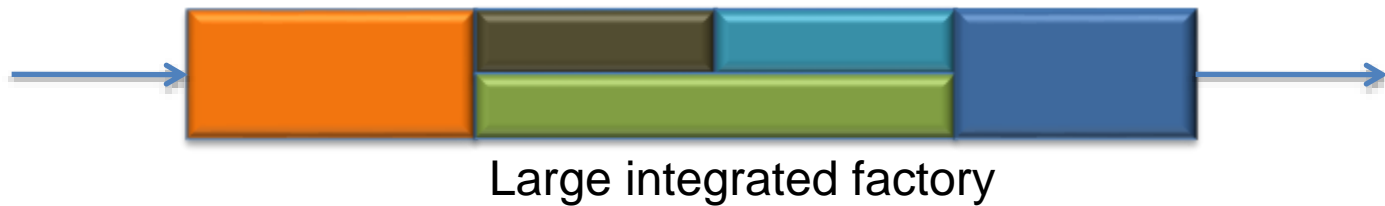
Source: The author.

3. The digital economy for developing economies

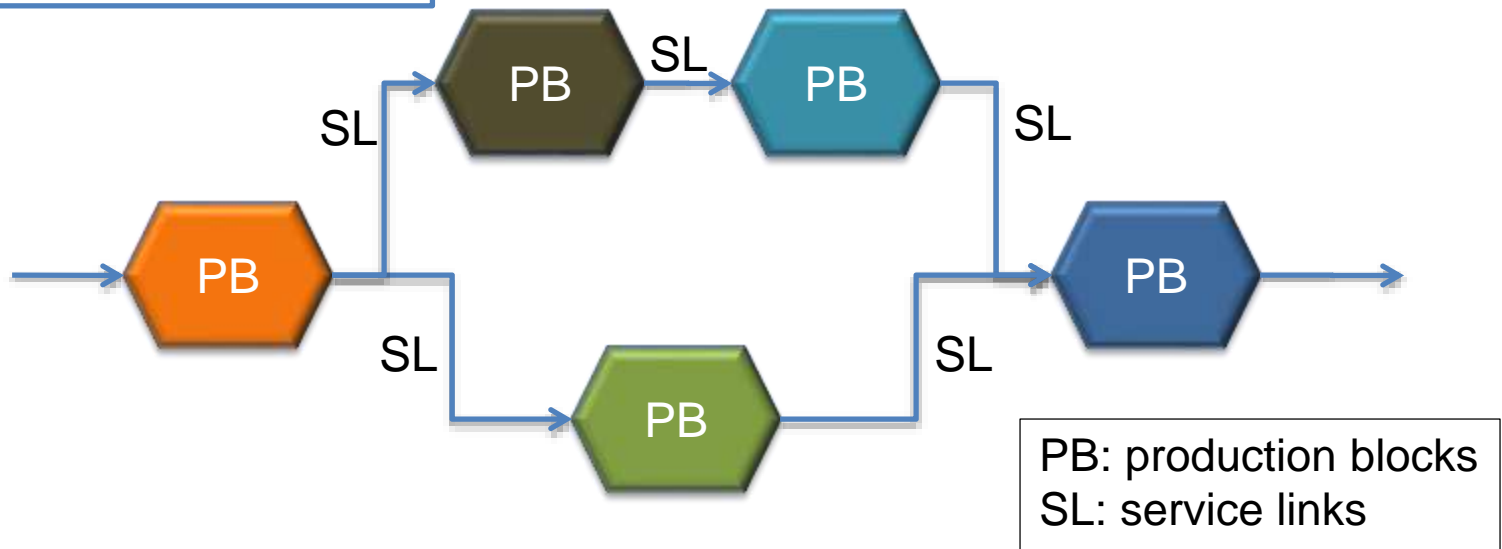
- Two faces of the same technological paradigm
 - Information technology (IT)
 - AI, Industry 4.0, faster data processing, machine learning...
 - Reduces the number of tasks, (sometimes) replaces human by machines, and generates concentration forces
 - ADB (2018)
 - Communication technology (CT)
 - Internet, smartphone, ...
 - Overcomes distance, encourages the division of labor, and generates dispersion forces
- Preparation: “digital” connectivity
 - While keeping up with the development of IT with innovation hubs, developing economies must take advantage of CT and invite/generate businesses.
 - Take advantage of the reduction in face-to-face costs or matching costs of B-to-C and C-to-C.
 - Key players: technology developer, platforms, applications, participants (small businesses, consumers, rural residences, ...)

The 2nd unbundling

Before fragmentation



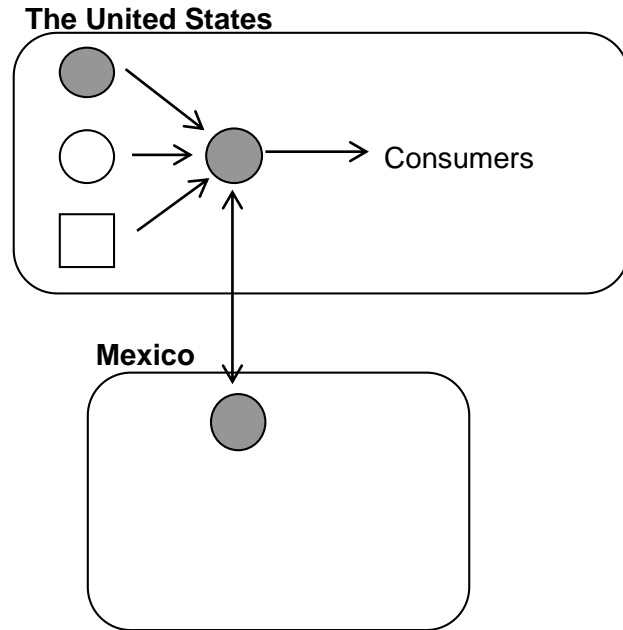
After fragmentation






Fragmentation of production a la Jones and Kierzkowski (1990).

The evolution of the 2nd unbundling

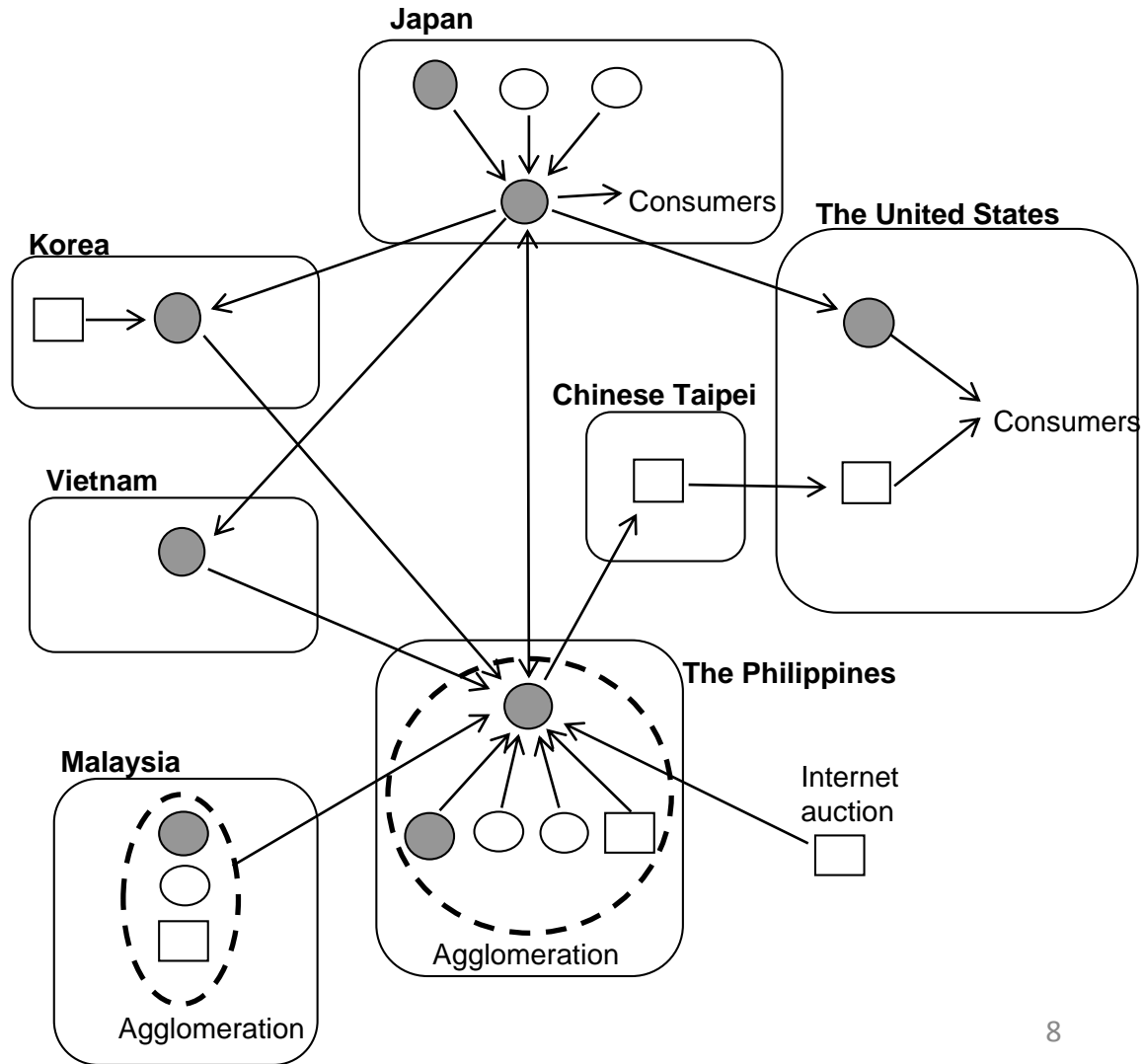
Cross-border production sharing
(back-and-forth; intra-firm)



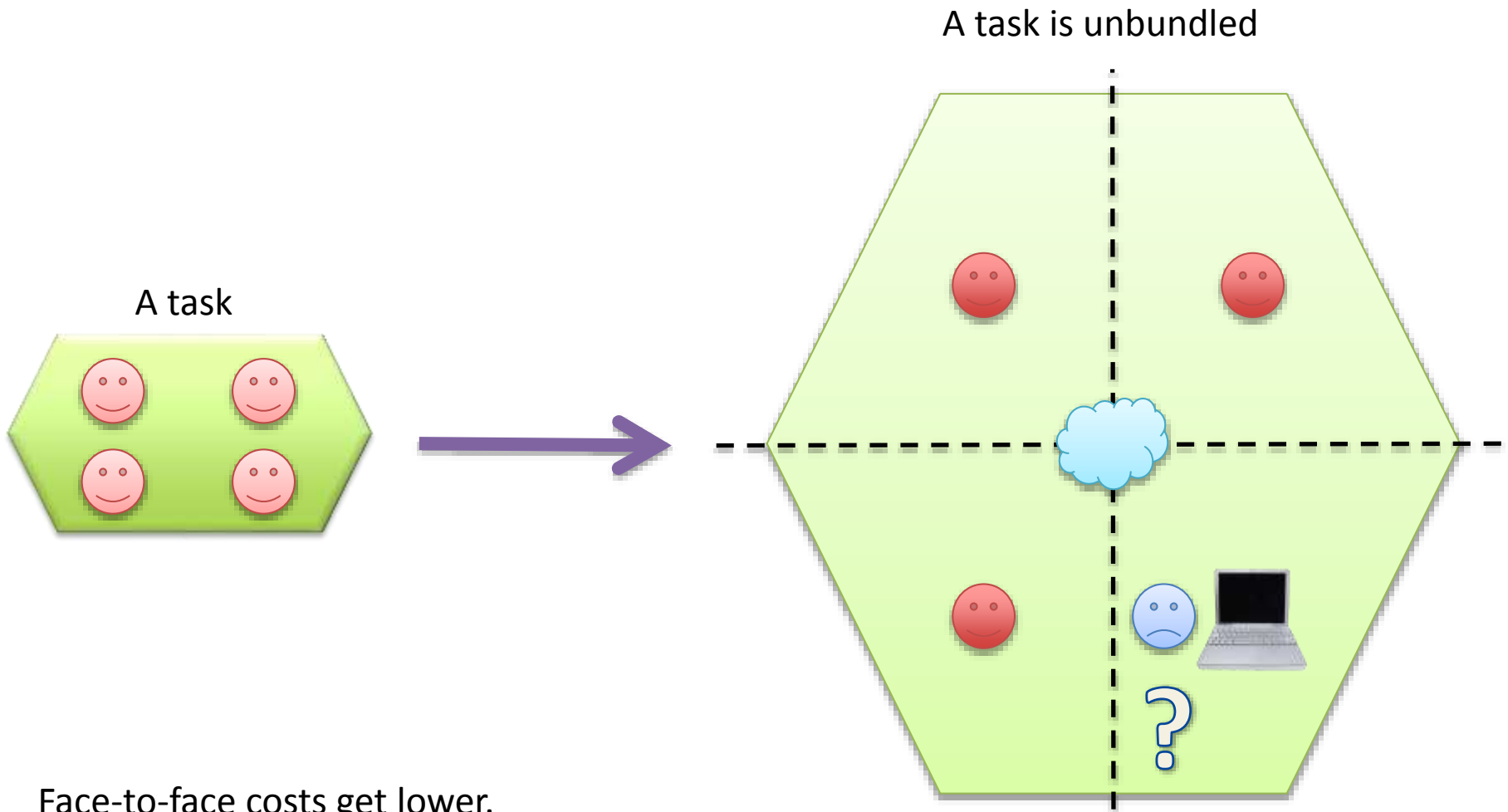
-  Headquarters or affiliates
-  Unrelated firms with same firm nationality
-  Unrelated firms with different firm nationality

Source: Ando and Kimura (2010).

Production networks
(“networks”; fragmentation and agglomeration;
intra-firm in short distance, arm’s length in long distance)



The 3rd unbundling

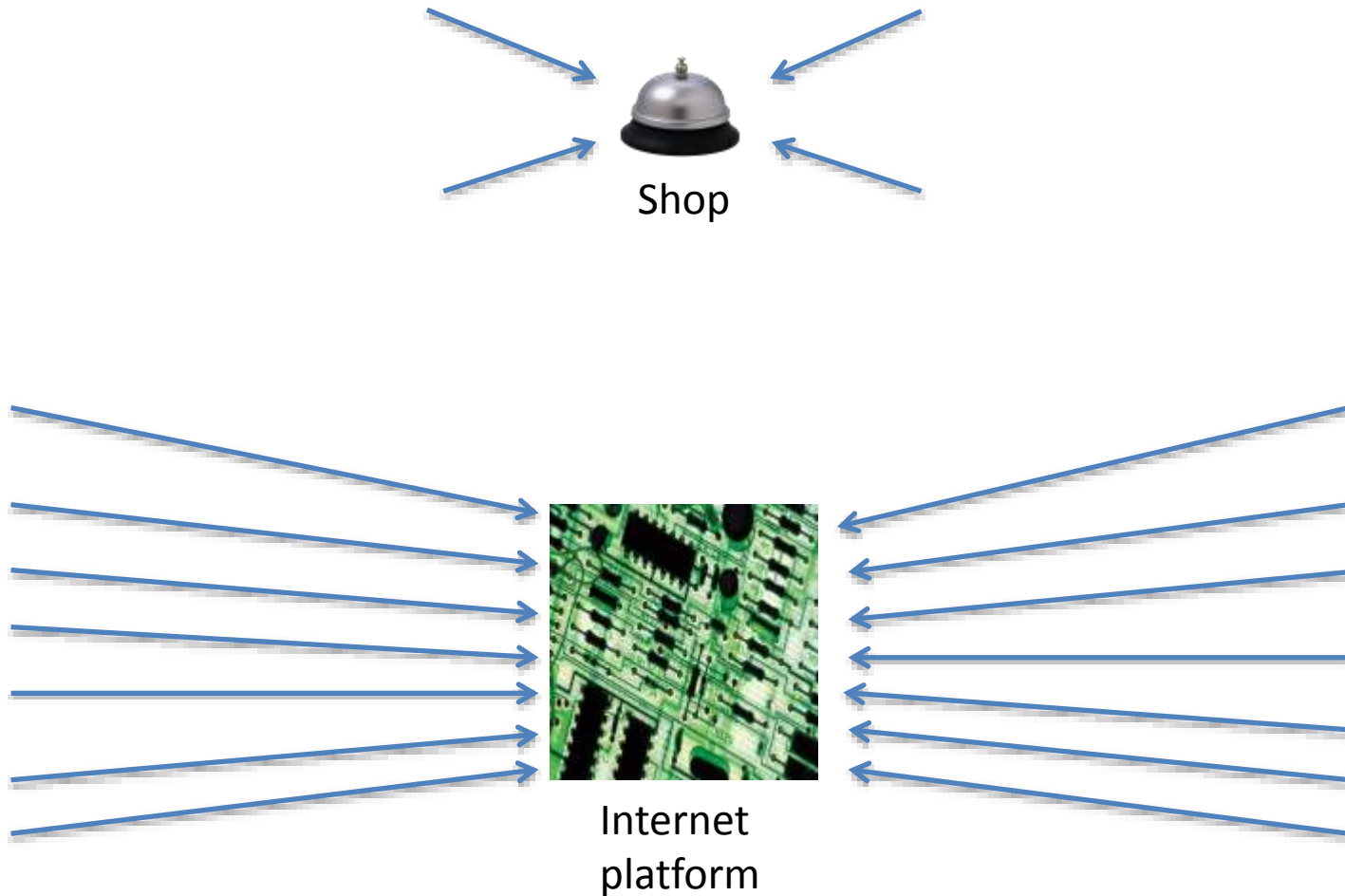


Face-to-face costs get lower.

A task can be unbundled; person-to-person matching becomes easier.

Source: The author.

The 3rd unbundling: Reduction in B2C, C2C matching costs

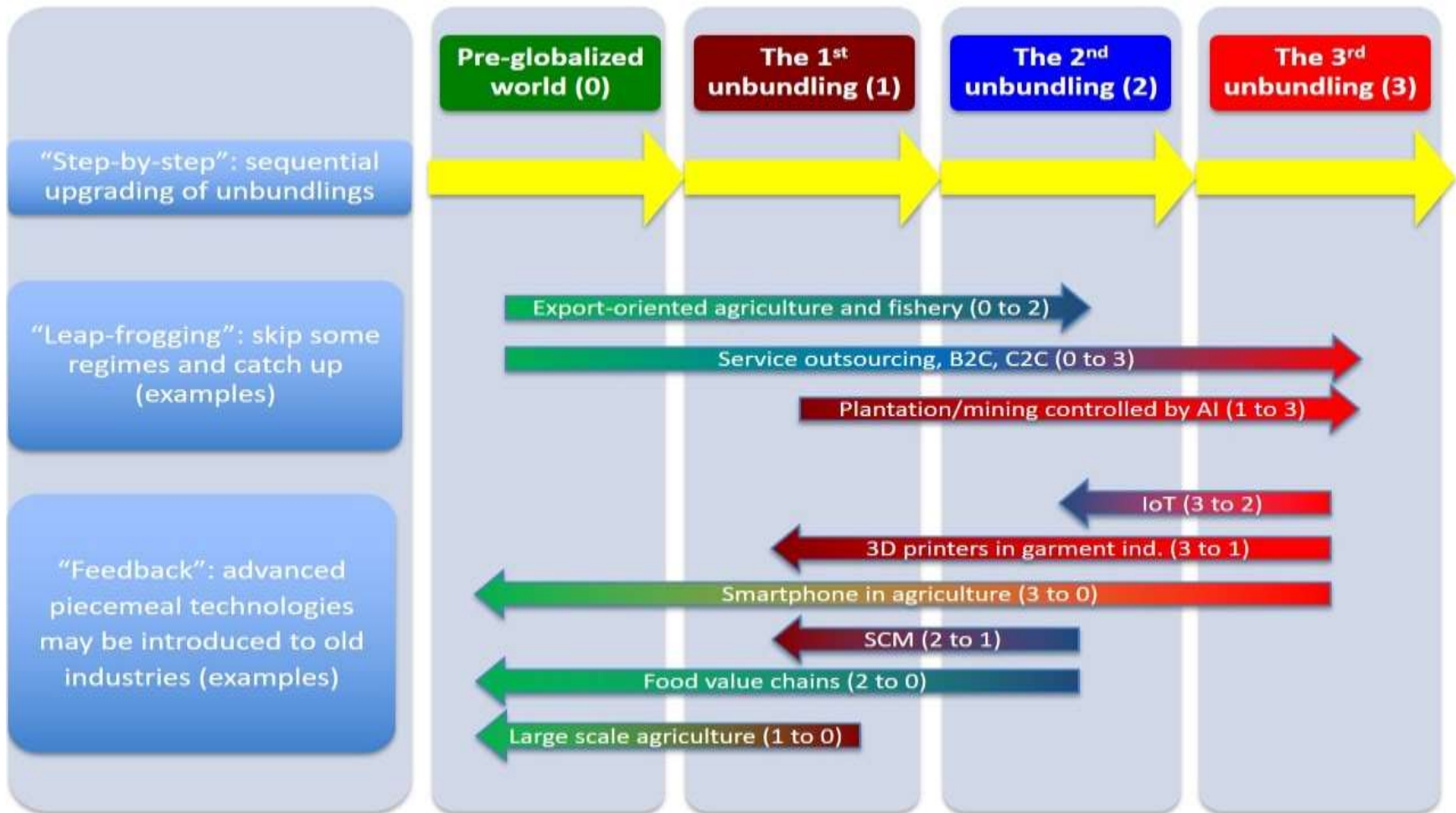


- Where are we now? (e.g., Indonesia)
 - Internet, smartphone, and social media
 - By the end of 2017, the number of internet users reached 143.3 million (54.7% of total population; 7.6% increase from a year before), of which 87.13% are active social media users (APJII 2018).
 - The ratios of internet user penetration are 72.41% in urban areas while 49.49% and 48.25% in rural-urban and rural areas, respectively. By islands, the penetration ratio is 57.70% in Java, 54.23% by Bali-Nusa, 47.20% in Sumatera, 72.19% in Kalimantan, 46.70% in Sulawesi, and 41.98% in Maluku-Papua (APJII 2018).
 - Old industries/businesses are revitalized by the reduction in face-to-face costs
 - E-commerce
 - As of Jan. 2018, the total number of people purchasing consumer goods via e-commerce is 28.07 million (+13% from a year before), and the value of the consumer goods e-commerce market (total annual sales revenue) amounts to US\$7.056 billion (+22%) (We Are Social 2018).
 - Transportation
 - Go-Jek, Grab, Uber, ...
 - Tourism
 - Airbnb
 - E-payments, fintech
 - The seed of the 3rd unbundling or services outsourcing
 - Job-matching platforms (e.g., Upwork, witmart.com, amazon mechanical turk, ... not much in Indonesia yet?)
- Loose regulation has accelerated the application of new technologies though a series of back-up policies are needed.

4. Industrial dynamism and development strategies

- Step-by-step
 - The first unbundling as a preparation for the second unbundling
 - The second unbundling as a preparation for the third unbundling
 - Policy environment, infrastructure, and human resources help step up and expand the scope.
- Leap-frogging
 - Economies/regions may skip some stages though the scope would be limited.
- Feedback
 - Apply new technologies for old industries.
 - Although the scope would be limited, it would invigorate creativity in business and change people's perception.

Industrial dynamism among unbundling regimes



Source: Kimura (2018). Slightly modified.

5. Required policies

- Each unbundling requires a different set of policies.
- (i) International commercial policies and behind-the-border issues
- (ii) Hard infrastructure and physical economic/living environment
- (iii) Human aspects and inclusiveness

Required policies for unbundlings

	Pre-globalized world (0)	The 1st unbundling (1)	The 2nds unbundling (2)	The 3 rd unbundling (3)
(i) International commercial policies (FTAs) and behind-the-border issues: Institutional connectivity		Trade liberalization <ul style="list-style-type: none"> - GATT/WTO round negotiations - GSP 	Trade liberalization and facilitation <ul style="list-style-type: none"> - FTAs - Tariff removal - E-customs, TBT - Services (B2B) and investment liberalization for GVCs 	Trade liberalization <ul style="list-style-type: none"> - De minimis - Modes 3 and 4 in services (B2B, B2C, C2C) - (Cross-border) e-commerce and e-payments - Free flow of data Trade facilitation <ul style="list-style-type: none"> - SPS - Standards and conformance Backup policies and regulations <ul style="list-style-type: none"> - Consumer protection - Competition policy - Taxation - Cyber-security
(ii) Hard infrastructure and physical economic/living environment: Physical connectivity		Medium-grade connectivity <ul style="list-style-type: none"> - Road networks - Ports and airports Infrastructure services	High-grade connectivity <ul style="list-style-type: none"> - Full-scale port with container yard - Full-scale airport - Multi-modal (cargo, passenger) Urban/sub-urban development for industrial agglomeration <ul style="list-style-type: none"> - Logistics (highway system) - Mass economic infrastructure services (special economic zones/industrial estates, electricity, energy, water) 	ICT connectivity <ul style="list-style-type: none"> - Internet connection - Integrating connectivity Metropolitan development and urban amenities (Glaeser, et al. (2001)) <ul style="list-style-type: none"> - Urban transport (LRT, subway, airport access, access to resorts) - Residential environment (children's education, medical services, safety) - Other urban amenities ("consumption")
(iii) Human aspects and inclusiveness: People-to-people connectivity	SME development <ul style="list-style-type: none"> - e.g., cottage industry 	SME development <ul style="list-style-type: none"> - e.g., exporting primary products Human resource development <ul style="list-style-type: none"> - Primary and secondary education 	SME development <ul style="list-style-type: none"> - e.g., supporting industry Human resource development <ul style="list-style-type: none"> - Managers, engineers 	SME development <ul style="list-style-type: none"> - e.g., venture, start-ups Consumer (people)-centered policies <ul style="list-style-type: none"> - Consumer protection/privacy - Human resource development for innovation and new businesses - Movements of educated people - Avoid digital divide R&D capabilities and innovation hub

6. The flow of data: future agenda?

- In principle, policy environment must provide “free flow of data.”
 - Explosive increases in international data flows (Bughin and Lund 2017).
 - E-commerce chapter of CPTPP
 - (i) Free flow of data, (ii) prohibition of data localization requirements, and (iii) prohibition of forced disclosure of program codes as a principle
 - However, ad-hoc data localization requirements pervasive (Cory 2017)
 - Cf. strict data localization (as a process) by General Data Protection Regulation (GDPR) of EU
 - Cf. China (Ferracane and Lee-Makiyama 2017)
- Then we certainly need a series of back-up policies including
 - Consumer protection
 - Privacy issues
 - Competition policy
 - Taxation
 - Cyber-security
 - (Infant industry protection or digital protectionism)

7. Conclusion

- Asia-Pacific
 - Have been a pioneer of the second unbundling.
 - Should incorporate the third unbundling or the digital economy into development strategies.
 - Institutional/physical/people-to-people connectivity
- Unfinished agenda for the Bogor Goals
 - For the second unbundling
 - Tariffs, trade facilitation/TBT, B2B services to support value chains, ...
 - For the digital economy and the third unbundling
 - E-commerce, SPS/standards and conformance, e-payments, B2C/C2C services, service outsourcing, movement of natural persons, ...
 - “Free” flow of data

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