

**ANNEXURE 1 – ERIA POLICY BRIEF NO. 1**

RIA-PB-2009-01

**“Why Is the East Asia Industrial Corridor Needed?”**Fukunari Kimura  
Izuru Kobayashi

*The East Asia Industrial Corridor Project, in particular the Southern Corridor and its extension, can be a path-breaking effort for attaining both deepening economic integration and narrowing development gaps. New economic thoughts claim the necessity of comprehensive approach in which various policy modes and a number of stakeholders are effectively coordinated.*

**1. Deepening economic integration and narrowing development gaps**

The Economic Research Institute for ASEAN and East Asia (ERIA) was established to conduct concrete policy research for the development of our region, particularly to (i) deepen economic integration; (ii) narrow down development gaps; and (iii) attain sustainable economic development. The ERIA believes that the new wave of international trade theories, namely, the fragmentation theory and new economic geography, can be a powerful tool in designing our development strategies for these goals. The new economic thought tells us how globalizing forces can be utilized effectively to relocate economic activities from existing industrial agglomerations to relatively lagging-behind countries or regions and to expand the frontier of international production networks. With the help of policies that are properly designed, implemented, and backed by rigorous economic and physical analyses, globalizing forces can be a blessing rather than a curse by accelerating economic growth and enhancing national welfare with poverty alleviation.

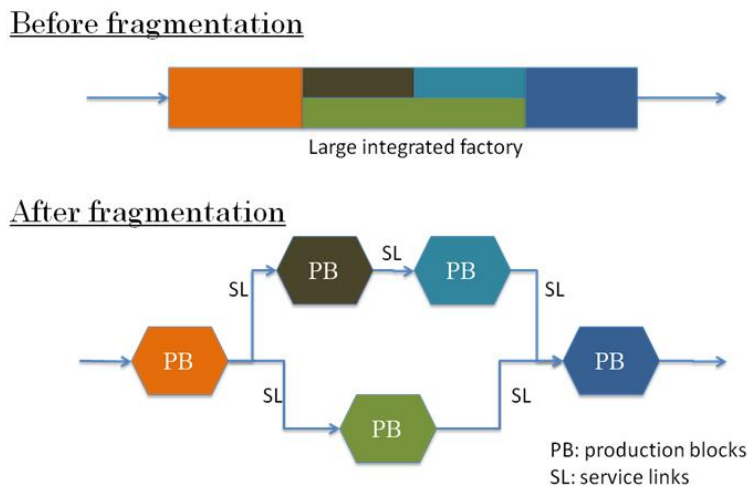
The East Asia Industrial Corridor, particularly the second East-West or Southern Corridor and its extension (from Ho Chi Minh City to the East Coast of India through the Bangkok Metropolitan Area), is the most promising project for which our approach can be applied.

**2. Why “industrial corridor”?**

For the latecomers in the ASEAN, initiatives such as the Greater Mekong Subregion (GMS) Development with the assistance of the Asian Development Banks (ADB), have brought about significant achievements, particularly in the construction of main road networks. The ERIA project respects these initiatives and tries to add more enthusiasm by effectively coordinating various policy modes as well as bringing together the stakeholders in order to pursue both deepening economic integration and narrowing development gaps.

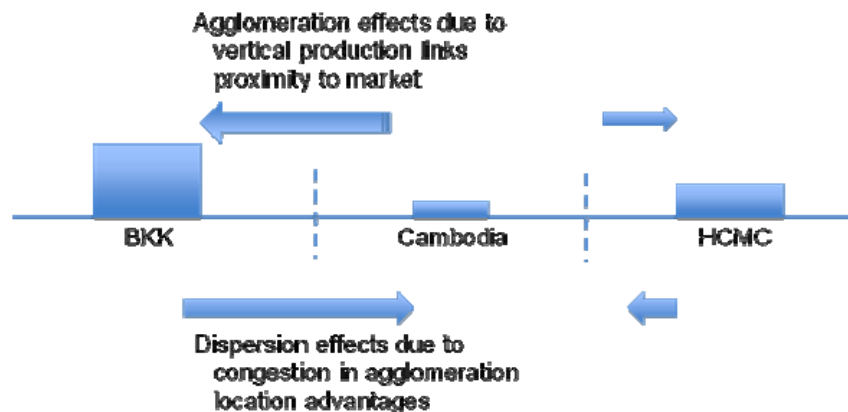
The fragmentation theory argues that the key to attract fragmented production blocks is to (i) improve location advantages by, for example, developing special economic zones with at least an improved local-level investment climate; and (ii) reduce the cost of service links that connect remotely located production blocks by improving customs procedures, developing logistic infrastructure, and others (Figure A1).

**Figure A1. The Fragmentation Theory: Production Blocks and Service Links**



New economic geography, on the other hand, suggests that peripheries may attract economic activities by effectively utilizing dispersion forces from neighboring cores with congestion (Figure A2).

**Figure A2. New Economic Geography: Dynamism of Agglomeration and Dispersion**



Our conceptual framework based on these theories helps us identify bottlenecks in the development of latecomers and construct a comprehensive implementation scheme. A holistic approach necessarily involves various stakeholders and players, including a number of ministries and agencies of central and local governments, international aid agencies, multinational and local firms, and local communities. The concept of industrial corridor invigorates the coordination and concentration of available resources. One of the models where we can draw lessons from is the Delhi-Mumbai Industrial Corridor Project in which ambitious collective efforts are going on.

**3. Financial crisis and re-trending flows of regional financial resources**

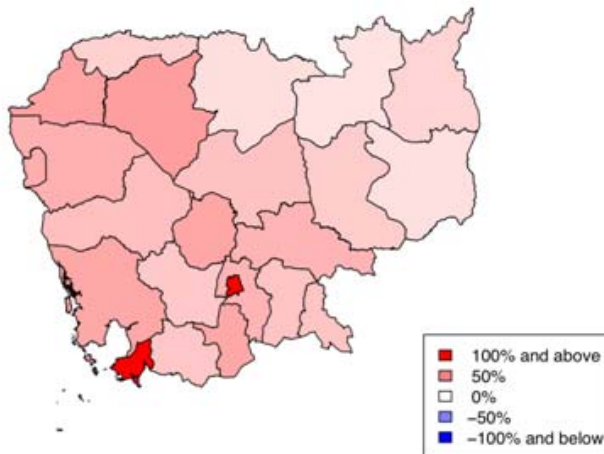
The current financial crisis that originated from North America and Europe brought uncertainty in the world economy, and we are now forced to take all necessary remedies to mitigate its negative impacts, particularly against unwarranted ---though possibly self-fulfilling--- bad expectations in the market. To boost our own confidence, it is now crucial to keep investing in good projects linked to strong economic growth in the middle and long run, in addition to generating possible economic stimulus in the short run.

A large portion of our financial resources coming from our own high savings has not so far been directly invested in our region but has once been diverted to North America and Europe then invested back to East

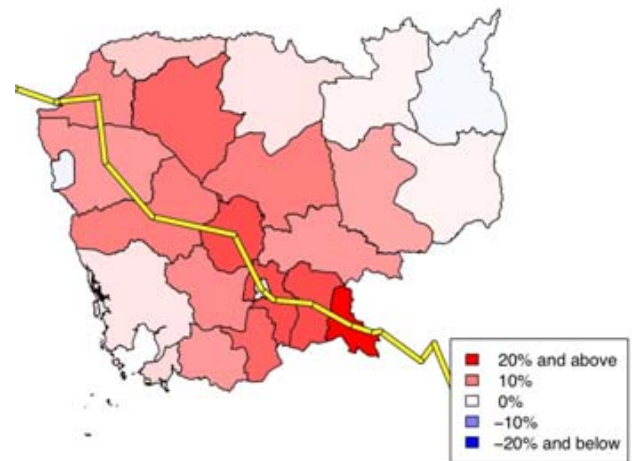
Asia. We should therefore reinforce our own channel of financial resource circulation within the region. Together with the effective combination of public and private resources, well-functioned development strategies with proper financial architecture should be established.

The East Asia Economic Corridor can be a pioneering effort at coordinating both the real and financial economies in the region.

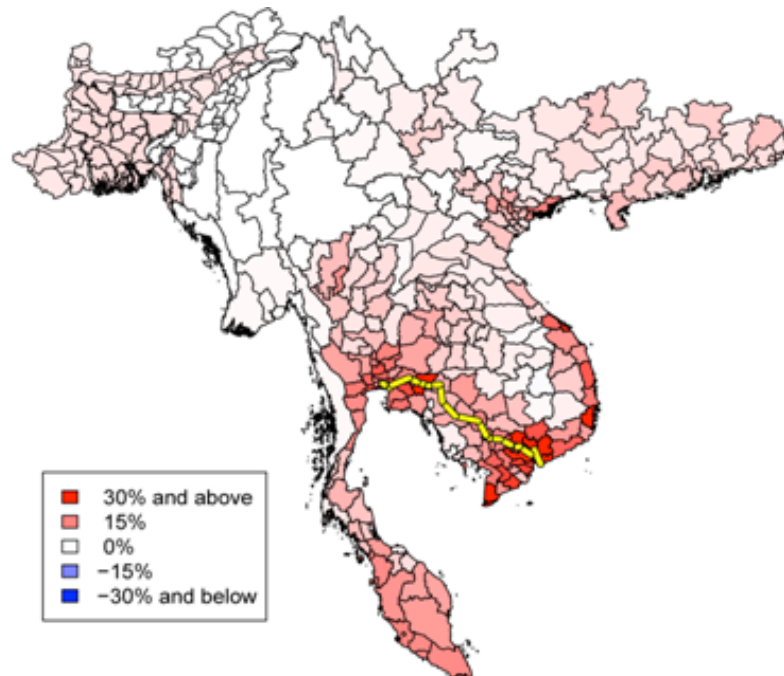
**Figure A3. Population Growth (2005-2025): Base Line**



**Figure A4. GDP Difference (2025): Southern Economic Corridor vs Base Line**



**Figure A5. GDP Difference (2025): Southern Economic Corridor vs Base Line**



#### 4. What new economic geography tells us?

As shown in Figure A2, new economy geography presents a theoretical “knife edge” between concentration and dispersion of economic activities when transport costs come down. When highways are constructed and trade facilitation is enforced, industrial activities may either be further attracted to cores or relocated to peripheries. Which force is stronger depends on delicate parameter conditions. The Geographical Simulation Model developed by the IDE-JETRO GSM Team can actually check the nature of concentration and dispersion.<sup>66</sup>

The Geographical Simulation Model simulates the effect of trade cost reduction on the geographical distribution of population and economic activities. Figure A3 displays population growth in Cambodia during the period 2005-2025 in the benchmark case. Then a simulation is conducted for the case in which a highway between Ho Chi Minh City and Bangkok is constructed and customs clearance is improved. The simulation results vis-à-vis the benchmark case in terms of the difference in GDP are presented in Figures A4 and A5.

The key findings are twofold. First, the construction of the highway with trade facilitation is likely to generate additional economic growth in lagging-behind countries/regions along the corridor. It means that Cambodia, for example, does not need to worry about massive resource drain but can rather expect inflows of economic activities. Second, however, larger beneficial impact is generated for existing industrial agglomerations in the Bangkok Metropolitan Area and Ho Chi Minh City. This suggests that Cambodia, in order to capture larger benefits, should apply a holistic approach in the improvement of its investment climate. Such an approach should include not only the construction of highways but also the development of special economic zones, container yards, overall economic infrastructure, and human resources with well-executed coordination among various stakeholders.

#### 5. The ERIA’s initiative for East Asia Industrial Corridor

The ERIA will take an initiative, in close coordination with existing efforts, for drawing a comprehensive master plan for the development of the East Asia Industrial Corridor. Such plan will lead various stakeholders to effectively participate in forthcoming physical design and implementation of the project.

##### **About the Authors**

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##### *References*

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<sup>66</sup> As for the structure and functioning of the GSM model, see Kumagai, Gokan, Isono, and Keola (2008)