

Narrowing Development Gaps



2016 Progress Survey Report of Infrastructure Projects in CADP 2.0

Status: Completed

Geographic Scope: ASEAN countries, China, India

The original version of the Comprehensive Asia Development Plan (CADP), submitted to the East Asia Summit in 2010, presented a grand spatial design of economic infrastructure and industrial placement in East Asia.

CADP 2.0, which was submitted to the 10th East Asia Summit in 2015, expands the framework of the original CADP to a new development strategy. It reformulates the conceptual framework for connectivity and innovation, and discusses the quality of infrastructure projects. Thus, it connects the conceptual framework with actual hard and soft infrastructure projects.

CADP 2.0 lists 761 East Asian infrastructure projects in a wide range of sectors – roads and bridges, railroads, ports, electric power, among others – which the research team surveyed in 2015–2016. The progress status may not be noticeable because of the short

period the survey was conducted. However, the results reflect to some extent the political and economic situation in each country and the influence of government policies.

This study presents the progress of these infrastructure projects and summarises the trends and prospects obtained from the survey.

Among the results are:

- Completed projects, including partial operation, comprise about 6% of the total. Projects beyond construction stage increased by 11 percentage points from the previous year.
- The completed projects in Greater Mekong, Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area, and Indonesia-Malaysia-Thailand Growth Triangle increased by 6, 8, and 10 percentage points, respectively. The Mekong's progress is the fastest.
- The percentage of completed projects is high in Viet Nam and Myanmar but low in the Philippines and the Lao PDR.
- The progress in the special economic zones and the energy sector is relatively fast, but that of railroad projects is slow.
- The progress of cross-border projects

is slow compared to that of non-cross-border projects.

- The survey results in 2015–2016 indicate similar tendencies to the survey conducted in 2011–2014.

The progress of projects according to project implementation status, as defined by the original CADP, is also significant.

ASEAN at 50: Retrospectives and Perspectives on the Making, Substance, Significance, and Future of ASEAN

Partner: Research Institutes Network

Status: Ongoing

Geographic scope: ASEAN region

This is a joint project of the Philippine government and ERIA as part of the commemorative events to celebrate ASEAN's 50th anniversary in 2017, under the Philippine chairmanship of ASEAN.

The research will produce a commemorative publication that brings the retrospectives and perspectives of key people who have been involved in the making and working of ASEAN; voices from ASEAN peoples; and the analytical insights, perspectives, and

reflections of eminent persons and experts on the evolution, substance, and future of ASEAN. The publication will consist of five volumes:

Volume 1 presents the voices of selected Leaders and officials from ASEAN Member States on the retrospectives and reflections on ASEAN in the past 50 years and in the future. The essays will be complemented with integrative chapters on (i) the evolution of ASEAN in the economic, political-security, and socio-cultural arenas; (ii) the importance of the donor community in ASEAN development; and (iii) ASEAN leaders and leadership.

Volume 2 presents the results of the ERIA and the RIN survey on what ASEAN means to ASEAN peoples, especially their aspirations and expectations of ASEAN into 2025.

Volume 3 focuses on the interface of the ASEAN Economic Community (AEC) and the reform policies of ASEAN Member States, the progress of ASEAN economic integration, and the impact of and challenges to the region's economic integration initiatives.

Volume 4 presents the reflective essays and papers of experts and analysts on the

significance and future of ASEAN in the political-security and the socio-cultural arenas.

Volume 5 consists of reflective essays and papers of experts and analysts on the significance and future of the AEC.

International Mobility of Highly Skilled Professionals: Lessons for Developing Countries

*Partner: The Institute of Developing Economies, Japan
Status: Completed*

Geographic scope: Japan, Republic of Korea, Taiwan

In the era of the global competition for talent, international mobility of highly skilled professionals is universal. Such type of mobility is significant for both firms and governments, and has been attracting much attention from scholars and policymakers. Earlier studies showed mobility of highly skilled professionals has merits, such as technology transfer, productivity increase, innovation capability building, etc.

Two issues marked the existing studies. First, most studies focused on international mobility from developing countries to developed countries or between developed countries. Second, the process of

such mobility was not studied in-depth. This study investigates the international mobility of highly skilled professionals from developed countries to developing countries.

This study focuses on cases where Korean and Taiwanese firms scouted for Japanese engineers.

The research revealed the following:

- Highly skilled professionals are likely to leave the country if (i) the social system of the country does not allow the professionals to continue working after retirement; (ii) the professionals are retired or are about to retire; and (iii) job satisfaction of the professionals drop significantly.
- They are likely to be scouted by firms in developing countries if (i) these professionals have long work experience; (ii) they are more 'visible' to other companies; and (iii) they know and/or are provided enough information about work and living overseas.
- Highly skilled professionals are likely to take offers from firms in developing countries if the supporting system for work and daily life is efficient. This also aids their

performance.

- They will likely go to and work in a developing country if it is stable and secure.

Policy Report on Local Currency Bond Markets in Asian Emerging Markets

Partners: Centre for European Policy Studies (Europe), Association of South East Asian Nations and Economic Research Institute for ASEAN and East Asia (Indonesia), Research Institute of the Central Bank of China or PBoC (China), Observer Research Foundation (India)

Status: Completed

Geographic scope: China, India, Indonesia

Setting aside the development of financial markets has been proven costly because the current system of financing has not yet fully utilised its potentials to support development financing, especially for infrastructure projects. In most emerging Asian economies, corporate bonds are underdeveloped, leaving governments to occupy the market.

The developing financial markets in Asia are still 'thin' and have many opportunities for further expansion. To develop a healthy and progressive bond market, both monetary and fiscal policies should converge, prerequisite building blocks in place, and regulatory

capacity improved. The economies should provide fiscal incentives for more long-term investments, which will affect the financial markets. One key factor is the broadening of the investor base.

**Research Project for Policy
Recommendations to ASEAN Countries
on Realisation of Higher Value Added of
Agricultural Products**

Partner: Organisation for Economic Co-operation and Development (OECD)

Status: Ongoing

Geographic scope: Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Viet Nam

Although the agro-food market in Southeast Asia has been supported by steady population and economic growth, as well as deepening regional and international economic integration, it still has unresolved issues, such as low incomes of small-scale farmers. However, there is plenty of scope in improving food value chains (FVCs) – including in the production, processing, circulation, and trade of agro-

food products – from both institutional and technical aspects.

ASEAN recognises that poverty reduction and food security are critical issues related to the agro-food sector. Improving FVCs is thus an important measure to reduce poverty and secure food supply. A wide range of potential strategies can improve FVCs even if they are applied only domestically.

This project aims to contribute to economic development and poverty reduction, particularly in rural areas, by providing policymakers practical information based on FVC assessment in ASEAN countries. It will focus on FVCs around small producers. An analytical framework that considers various evaluation scales will be constructed through dialogue with officials of the ministry of agriculture in each country. The analysis will clarify the current situation of FVCs, and identify specific obstacles to, and appropriate measures for, the development of efficient FVCs in selected ASEAN countries.

This project will be implemented in collaboration with a global value chain study by the OECD.

Lao PDR at the Crossroads: Industrial Development Strategy 2016–2030

Status: Completed

Geographic scope: Lao PDR

This project was initiated upon the request of H.E. Khemmani Pholsena, Lao PDR's Minister of Industry and Commerce. The government was concerned that whereas economic growth increased per capita income more than seven times from US\$235.2 in 1991 to nearly US\$1,800 in 2015, growth had been based on a few sectors that were dependent on exhaustible mineral resources. Further, development gaps had widened between and within regions.

This research presented potential inputs to medium- and long-term comprehensive industrial development strategies, including concrete policy recommendations that are likely to contribute to the country's further development and growth. More specifically, the research aimed to pose policy measures that could turn the weakness of Lao PDR – its landlocked location – into its strength. The unique viewpoints presented are based on

geography and connectivity, and how they affect industrialisation and economic development.

This research was expected to assist the Lao PDR government to achieve inclusive and sustainable economic growth, upgrade its industrial structure, diversify exports, have tighter connectivity, and narrow geographical development gaps.

SME Participation in ASEAN and East Asian Regional Economic Integration

Partner: Institute of Southeast Asian Studies

Status: Completed

The economies of ASEAN and East Asia have become increasingly integrated. This process of regional economic integration has been driven by the mutually reinforcing market forces and both regional and preferential trade agreements. A major area of concern among policymakers has been the extent to which small and medium-sized enterprises (SMEs) are participating and benefiting from regional economic integration. It is a valid concern given that about 95%–99% of all firms in the region are SMEs. Furthermore, SMEs are also likely to be more resource-constrained (compared to large firms) to

take advantage of the benefits from trade and investment liberalisation. Despite their importance, systematic and comprehensive research on these issues is lacking. This research project aims to undertake a systematic, comprehensive, and comparative analysis of SME participation in ASEAN and East Asian regional economic integration.

Major policy findings of the study are:

- SMEs in ASEAN still lack knowledge of the current free trade agreements (FTAs) imposed in ASEAN countries and, thus, tend to not utilise the ongoing trade agreements.
- Whether SMEs are benefiting from various trade agreements adopted by ASEAN countries and whether they have been relatively competitive are still unclear.
- Lack of data either in the form of census or firm survey in less developed countries such as Myanmar makes it more difficult to monitor the likely impact of FTAs on local firms, especially SMEs.
- Meanwhile, the ongoing various trade agreements within ASEAN and between ASEAN and other countries/regions are considered opportunities by bigger industrialised countries such as China, who

uses both ATIGA (within-ASEAN FTA) and ASEAN's position in the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership agreement to reap bigger markets and participate deeper in global value chains.

Technological Catching-Up and Innovation Policies in China: What is Behind the Largely Successful Story

Partner: The Southwestern University of Finance and Economics

Status: Ongoing

Geographic scope: East Asia Summit region

The study aims to discuss a generalised framework or model to understand the innovation and technological catching-up policies of China. First, it comprehensively reviews the theories on this topic in the literature. Second, it summarises the policy framework and phenomenon of rapid progress of technological catching-up and innovation in China. A proposal on a new theoretical framework follows to explain the accelerated catching-up process. Empirical methods are applied to provide evidence and support the proposed theoretical framework. The study then develops an empirical model to analyse the main driving forces of such technological progress in China.

At the micro level, case studies of CGN, a leading state-owned nuclear energy company, and Huawei, a prominent Chinese private company in the telecommunications industry, provide further insights on what firm-level strategies – combined with or leveraging on state-level policies – enable a successful story.

This study would contribute to the literature in three ways:

- It would give a detailed and in-depth review of the characteristics of several selected industrial sectors in China, and examine what factors have been driving these successful cases and what may have worked as China's disadvantages.
- Through a quantitative method, the influence of these factors on success or failure is tested statistically.
- The two case studies would shed some light on how these factors work at the firm level and could identify additional findings.

The Role of Public Finance in Infrastructure Finance

*Partners: Asian Development Bank Institute,
Organisation for Economic Co-operation and
Development (OECD)*

Status: Ongoing

*Geographic scope: Indonesia, Japan, Philippines, Viet
Nam, North America, OECD countries*

The demand for infrastructure in Emerging Asia is large. Developing new infrastructure, maintaining existing infrastructure, and upgrading ageing ones will contribute to inclusive and sustainable growth of countries and can deepen their connection with the global economy. Nevertheless, financing these investments has been a great challenge for the region. Broadening the financing methods, including domestic fiscal and financial efforts, will attract more investments for infrastructure and contribute to sustainable growth. Efforts to secure infrastructure financing have typically relied on private resources, public-private partnerships, and international lending. These approaches may be complemented by providing more public incentives

for investors, issuing government bonds, and financing using tax revenues.

This project focuses on the domestic fiscal and financial policy options of emerging Asian countries to fund infrastructure development and maintenance. Areas of study include reducing risks, improving rates of return, improving governance mechanisms, avoiding moral hazards, as well as balancing the strengths and weaknesses of financing options. This study will be informed by the experiences of advanced economies in these areas, while

considering country-specific circumstances and their relevance to emerging Asian countries.

Country case studies in the project will cover exploration of optimum resource mobilisation and its formulation/structure, revenue stream estimation, prioritised sectors, institutional frameworks, and implementation strategies.