

# Rebalancing Production in Asia

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# Overview

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- This chapter considers real sector issues related to economic rebalancing in Asia.
  - It considers:
    - i) Facilitating Technology Transfer and Industrial Upgrading in Developing Asia
    - ii) Implementing a Region-wide FTA
    - iii) Needs and Benefits of Infrastructure Investment
    - iv) Promoting Service Sector Production in Asia
    - v) Nurturing SMEs as a Strategy to Rebalance Growth in Asia
    - vi) Promoting green growth
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# Technology transfer and industrial upgrading

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- ❑ Best way to rebalance growth is to increase productivity (Jitsuchon and Sussangkarn, 2009).
  - ❑ Developed Asia should advance from assembling parts and components to higher value-added activities (e.g., the engineering and design aspects of production).
  - ❑ Crucial to obtain technology transfers and positive spillovers from MNCs operating in developing Asia.
  - ❑ Countries need to attract a critical mass of FDI. As industrial agglomeration grows, local firms can become part of production networks and obtain technology transfers (Lim and Kimura, 2009).
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# Possibility of a virtuous cycle emerging

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- ❑ Developing competitive SMEs and service sectors and investing in infrastructure would attract FDI
  - ❑ Industrial agglomeration would start to take place
  - ❑ SMEs and service sector would have lots of opportunities to develop and governments would have more revenue to invest in infrastructure
  - ❑ This would in turn attract more FDI.
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# Policy Implications

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- ❑ 1. How to Lower Service Link Costs
  - ❑ 2. How to Facilitate Technology Transfer Leveraged by Networks
  - ❑ 3. How to Enlarge the Scope of FTAs
  - ❑ 4. How to Enhance the Quality of Bilateral Investment Treaties
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# Lowering service link costs

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- ❑ Costs include transport costs, telecommunications costs, and intra-firm coordination costs.
  - ❑ Strengthen physical infrastructure (highways, ports, airports, ICT infrastructure, container yards).
  - ❑ Strengthen institutional infrastructure (legal system, contract enforcement, corporate governance, legal remedies for violations of intellectual property rights agreements).
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# Facilitating technology transfer

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- ❑ Need educated workers in host countries
  - ❑ High quality education in science and math helps supplier firms to become involved in engineering and design.
  - ❑ Domestic R&D supported by public research institutes can help indicate what technologies are appropriate.
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# Developing Asian countries are not passive recipients of technology.

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- ❑ Wignaraja (2008) analyzed the behavior of exporting firms in PRC, the Philippines and Thailand.
  - ❑ Results of probit analysis reveal that the technological capabilities of firms strongly determine firm-level exporting behavior in PRC, PHL, and THA .
  - ❑ Results indicate that firms' efforts to learn, assimilate and employ imported technologies affect their ability to export.
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# FTAs

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- Unilateral liberalization is beneficial, global liberalization is even better.
  - Important to facilitate movement of labor and firms from losing to gaining sectors.
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# Asian “noodle bowl” problem is not that serious –ADB survey

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- ❑ Sample: 841 manufacturing firms from PRC, JPN, SGP, ROK, THA, PHL.
  - ❑ Larger, more established firms view FTAs positively.
  - ❑ Benefits of wider export market access and lower costs of imported intermediate inputs exceed the costs associated with FTA use.
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# Optimizing use of the multitude of FTAs: short-run remedial measures

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- ❑ (i) reduction of MFN tariffs to the extent possible;
  - ❑ (ii) rationalization of ROOs;
  - ❑ (iii) making available wider alternative options of ROOs to choose from;
  - ❑ (iv) intensifying awareness programs of FTAs among potential beneficiaries;
  - ❑ (v) getting business more involved in FTA negotiations; and
  - ❑ (vi) improving public and private sector institutional support, especially for SMEs.
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# To the extent that the “noodle bowl” is a problem,

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- Broader coverage and lower tariffs on both external and internal trade can mitigate “noodle bowl” effects.
  - A region-wide FTA:
    - would spur the growth of Asian trade and investment;
    - would make it possible to harmonize procedures for issuing certificates of origin, use of self certification, and achieve full cumulation of ROOs; and
    - would cause transactions costs to fall if electronic customs clearance was employed
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# Agreement among ASEAN+3 countries should include:

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- ❑ A high quality agreement in the region for market access for both goods and services;
  - ❑ A global standards investment agreement;
  - ❑ Satisfactory trade and investment facilitation measures;
  - ❑ Full cumulation of ROOs;
  - ❑ Special attention to the needs of less developed countries;
  - ❑ A dispute settlement mechanism.
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# Possibilities and dangers of a region-wide FTA

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- ❑ For poorer Asian nations, a region-wide FTA would offer greater market access and greater participation in regional production networks, and increased competition from more efficient firms in other countries.
  - ❑ Chia (2009) advocates providing safeguards for poorer countries and also capacity building assistance to improve supply side competitiveness in less developed ASEAN countries.
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# Investment Treaties

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- ❑ High quality investment treaties can attract and retain foreign investors.
  - ❑ Investment treaties should provide investment protection, investment facilitation, and investment liberalization. In addition, they should provide for dispute settlement.
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# The role of national and regional infrastructure investment for

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- (i) rebalancing Asia's growth;
  - (ii) creating new engines of growth;
  - (iii) promoting balanced, sustainable, green, and inclusive growth; and
  - (iv) improving national and regional competitiveness and productivity.
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# Rebalancing for Sustainable Growth

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- ❑ Accelerate regional cooperation and integration
  - ❑ Facilitate regional trade integration through physical connectivity as well as institutional linkages
  - ❑ Stimulate domestic demand and alleviate the further impact of crisis
  - ❑ Help narrow the development gap among Asian economies
  - ❑ Promote greater technologies and more efficient use of regional resources
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# Large Infrastructure Projects as New Engines of Growth

Region/ Subregion	Transport Projects		Energy Projects		Total	
	Cost (\$ million)	No.	Cost (\$ million)	No.	Cost (\$ million)	No.
<b>Asia</b>	<b>177,077</b>	<b>931</b>	–	–	<b>177,077</b>	<b>931</b>
Asian Highway	43,276	121	–	–	43,276	121
Trans-Asian Railway	82,801	45	–	–	82,801	45
Asian Container Ports <sup>a</sup>	51,000	765	–	–	51,000	765
<b>East/Southeast-Central-South Asia <sup>b</sup></b>	–	–	<b>22,975</b>	<b>5</b>	<b>22,975</b>	<b>5</b>
<b>Southeast Asia</b>	<b>5,858</b>	<b>17</b>	<b>41,444</b>	<b>33</b>	<b>47,302</b>	<b>50</b>
GMS	5,858	17	2,604	14	8,462	31
Trans- ASEAN Gas Pipeline	–	–	7,000	1	7,000	1
BIMP-EAGA	–	–	100	1	100	1
Others	–	–	31,740	17	31,740	17
<b>Central Asia</b>	<b>21,414</b>	<b>38</b>	<b>11,131</b>	<b>44</b>	<b>32,545</b>	<b>82</b>
CAREC	21,414	38	10,861	43	32,275	81
Others	–	–	270	1	270	1
<b>South Asia</b>	<b>293</b>	<b>3</b>	<b>6,846</b>	<b>6</b>	<b>7,139</b>	<b>9</b>
<b>Total</b>	<b>204,642</b>	<b>989</b>	<b>82,369</b>	<b>88</b>	<b>287,038</b>	<b>1,077</b>

Sources: Bhattacharyay (2008) and adapted from UNESCAP (2006a; 2007a,b; 2008a,b); ADB (2008a); CAREC (2008a,b,c); GMS (2009); ASEAN (2004); Bhattacharya and Kojima (2008); China Post (2007); Kathuria (2006); ADB staff estimates (2008); ASEAN Center for Energy (2005); and Von Hippel (2001).

# Infrastructure component of stimulus packages

**Table 2: Infrastructure investment in stimulus packages of major Asian economies (US\$ billion)**

Country	Total Fiscal Stimulus	As % of 2008 GDP	Infrastructure Component	Infrastructure as % of Total Stimulus
PRC	600	13.9%	275	45.8%
India	60	4.9%	33.5	55.8%
Indonesia	7.7	1.5%	1.3	16.9%
Viet Nam	8	8.8%	4.8	60.0%
Thailand	46.7	17.9%	30.6	65.5%
Malaysia	2	1.0%	0.17	8.5%
Singapore	14.6	8.0%	3.1	21.2%
Taipei, China	20.4	5.3%	16.6	81.4%
Japan	130	2.6%	1.5 <sup>3</sup>	1.2%
Korea	11	1.2%	7.8	70.9%
Australia	9.7	1.0%	2.3	23.7%

<sup>1</sup> In Current Prices

<sup>2</sup> Converted from New Taiwan Dollars to US\$ at exchange rate for 28 January 2010 of 1TWD= 0.03117US\$

<sup>3</sup> Amount estimated from reports in FAITC (2009) and Sugimoto (2010)

Note: Exchange rates on 28 January 2010 used when needed—<http://www.oanda.com/currency/converter/>

Source: Author's calculations from data in: Kang (2010), Sugimoto (2010), Kumar and Soumya. (2010), Patunru and Zetha (2010), Nguyen, Nguyen, and Nguyen (2010), Jitsuchon (2010), World Bank (2009b), FAITC (2009), Alibaba.com (2008), IFCE (2009), and ADB (2009).

# Connectivity for Environmentally Sustainable Development and Poverty Reduction

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1. Promotes environmental sustainability;
  2. Helps to increase standard of living and to reduce poverty by connecting isolated places and people with major economic centers and markets;
  3. Narrows development gap among Asian economies by connecting LDCs with major markets and business centers;
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# Infrastructure, Competitiveness, and Productivity

Table 1: Global Competitiveness and Infrastructure Quality Index of Countries

Country	2001-2002			2008-2009				2009-2010			
	GCI		Infrastructure	GCI		Infrastructure		GCI		Infrastructure	
	Rank	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
PRC	47	61	2.9	30	4.7	47	4.22	29	4.74	46	4.31
India	36	66	2.6	50	4.33	72	3.38	49	4.3	76	3.47
Indonesia	55	59	3	55	4.33	86	2.95	54	4.26	84	3.2
Japan	15	15	6	9	5.38	11	5.8	8	5.37	13	5.83
Korea	28	27	4.8	13	5.28	15	5.63	19	5	17	5.6
Malaysia	37	20	5.4	21	5.04	23	5.25	24	4.87	26	5.05
Philippines	54	68	2.4	71	4.09	92	2.86	87	3.9	98	2.91
Singapore	10	2	6.8	5	5.53	4	6.39	3	5.55	4	6.35
Thailand	38	30	4.6	34	4.6	29	4.67	36	4.56	40	4.57
Viet Nam	62	71	2.2	70	4.1	93	2.86	75	4.03	94	3

Note: GCI = Global Competitiveness Index; NA = Not Available

Score: 1= poorly developed and inefficient; 7= among the best in the world

Source: World Economic Forum (2001, 2009, and 2010)

# Infrastructure, Competitiveness, and Productivity (cont'd)

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- ❑ Increased infrastructure investment can promote competitiveness and productivity through reduced transport and logistics cost, thus reduced trade cost;
  - ❑ Quality and cost-effective infrastructure services can contribute to the improvement of productivity in any sector of an economy.
  - ❑ National and regional infrastructure is playing an evident role in facilitating the creation and expansion of economic corridors.
  - ❑ Enhanced transport and information technologies have causes cities in the region to specialize based on their comparative advantages, thereby creating a broad range of new activities.
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# Meeting the Financing Needs

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- ❑ On average, Asia needs to invest about \$750 billion per year in infrastructure (both national and regional) during 2010-2020
  - ❑ The region's vast domestic savings as the main source of financing for Asia's infrastructure
  - ❑ Strengthen national and regional local currency bond markets—notably the Chiang Mai Initiative (CMI), the ASEAN+3 Bond Market Initiative (ABMI), and the Asian Bond Funds (ABF)
  - ❑ Identify and prepare “bankable” projects to encourage private financing involving PPPs
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# Services

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- Growth rebalancing model emphasizes devt of services sectors by removing policy distortions; removing regulatory barriers in key services like logistics services, transport, education, health, etc.
  - Impact on demand is through reduced cost of services as a result of regulatory reforms and increased investment
  - Productivity growth in services will also enhance productivity growth in industrial sectors that use services inputs.
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# Services

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- Organization:
    - services are no longer considered nontradable because many services e.g. communication, banking, insurance, business-related services, and components of health and education, can be traded across borders due to ICT advances
    - Some remain nontradable e.g. wholesale/retail trade, haircut, etc. but, in theory, if there are no barriers, these can be traded
    - Modes of service supply: 1)cross-border; 2)consumption abroad; 3)commercial presence (investment); 4) movement of natural persons
    - Liberalization in each of the mode of supply can increase services trade but politically difficult to remove all
      - E.g. consumer protection regulation for some cross-border trade in banking services
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# Services

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- Broad policy suggestions:
    - Increased attention to education: services is more skill intensive than other sectors esp. in 'modern service industries'
      - Higher education quality improvement
      - Private-public sector partnership
    - Improved infrastructure spending in logistics services and telecom deregulation
      - Competition policy reforms
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# Services

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## □ Broad policy suggestions:

### ■ Health services

- For social equity: improve investment to uplift hospital services
- Can be good service export along with tourism (medical tourism) via mode 2 service supply

### ■ Deregulation

- Remove discriminatory policies for investments
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# Green growth

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- After the crisis, Asia can not be simply rebuild its economies as they were with polluting and carbon intensive industries. This would be unsustainable.
  
  - Low carbon Green Growth helps
    - create jobs and raise competitiveness
    - bring energy security
    - protect natural resources for future
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# To achieve green growth

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- ❑ Scale up support for renewable energy technologies
  - ❑ Promote investments in energy efficiency for innovations and job creations
  - ❑ Make a shift to green mobility
  - ❑ Implement environmental fiscal reforms to discourage polluting, inefficient industries
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# Conclusion

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- ❑ To promote industrial upgrading, countries in developing Asia should seek to lower the service link cost between production blocks and to invest in human capital.
  - ❑ To connect producers and consumers in Asia, the region needs a high quality FTA covering trade in goods and services and a global standard investment agreement, and better infrastructure.
  - ❑ Asia should seek a more open and competitive environment for services.
  - ❑ The region should promote green growth in the future.
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# Thank You

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