

Why Is ERIA Policy Research Needed?

By Fukunari KIMURA

Establishing ERIA

The Economic Research Institute for ASEAN and East Asia (ERIA) officially started its activities with an inaugural governing board meeting in Jakarta on June 3, 2008, in close collaboration with 16 research institutes in ASEAN+6 countries (*photo*). Although it was launched with a modest size, its kick-off was warmly welcomed with high expectation. Policymakers in the region are keen to have policy advice for their integration effort while researchers are willing to provide intellectual input. An international forum for serious policy studies such as ERIA was exactly hoped for in East Asia.

The course of economic integration in East Asia has been quite different from experiences in other regions such as Europe and North America. In particular, East Asia has experienced the unprecedented development of international production and distribution networks with high sophistication, notably in the machinery industry. Policy research must surely reflect various economic and political elements specific to East Asia.

Policy research by ERIA consists of three pillars: (i) deepening economic integration, (ii) narrowing development gaps, and (iii) sustainable economic development (*Chart 1*). These topics neatly meet the demand for policy research in ASEAN and East Asia.

Deepening Economic Integration

Free trade agreement (FTA) networking in East Asia has reached a new stage. At a meeting of economic ministers from ASEAN+1 held in Singapore in August 2008, the completion of negotiations over the ASEAN-CER (Australia and New Zealand) FTA and ASEAN-India FTA was announced, and these agreements will be heading for official signing in December. This means that six ASEAN+1 FTAs will soon be realized and ASEAN will virtually occupy the hub position of East Asian FTA networking, given that FTAs among Japan, South Korea and China stand little chance of being concluded in the short run.

To maintain the hub position despite its relatively small economic size, ASEAN must continuously lead the integration effort in East Asia. The ASEAN Economic Community (AEC) Blueprint is an impressive effort that covers a wide range of policy modes including trade facilitation, services, investment, and movements of capital and skilled labor. However, it does not reach a level of sophistication for deepening integration if we pursue regional economic integration including developed countries. The detailed scheduling of implementation is not clear, either. To sustain a strong momentum toward further economic integration, ASEAN must have a clearer mind on how to evaluate the fruit of integration and how to prioritize and tabulate its integration effort.

Although it is not easy to design a proper sequence of deepening



ERIA board members pose for photographers at its inaugural meeting in Jakarta on June 3, 2008.

integration, ERIA can at least present some of the important angles of thought from a practical point of view. This year's research projects are designed with such intention. For countries relatively lagging behind, a policy focus should be on how to participate in international production and distribution networks. Therefore, immediate policy reform must be prioritized for services and investment climate related to manufacturing activities, including the improvement of logistics services. For mid-income countries, how to upgrade industrial agglomeration toward active innovation must be considered. This year ERIA will place special emphasis on the liberalization of professional services, freer movements of human capital, and the improvement of the IT-related business environment.

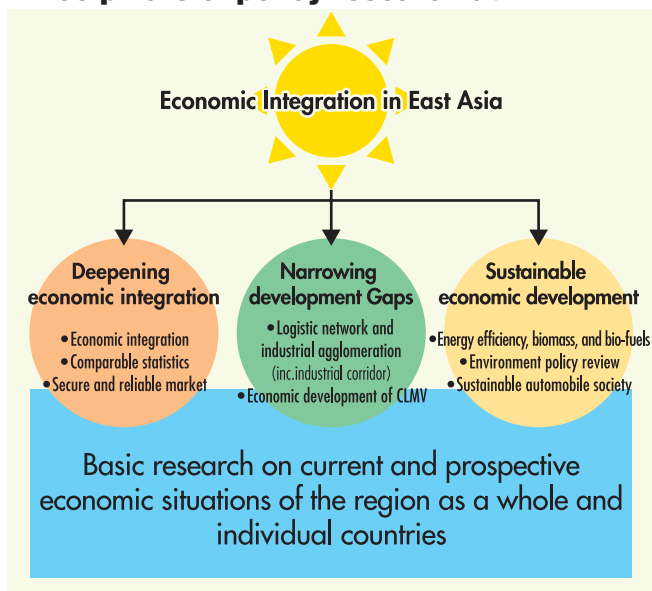
ERIA will also provide another line of research for arguments against unwarranted anti-globalism. In East Asia, a number of empirical studies have suggested a positive impact of globalizing activities for both developed and developing countries. To confirm such measurable positive aspects of economic integration, ERIA will organize an international comparison project for firm-level micro/panel data analysis together with the effort of enhancing international comparability of statistics.

Narrowing Development Gaps

Huge gaps exist among countries and regions in East Asia in terms of stages of development, wage levels, and technology absorptive capacity. Political support for economic integration is obtained only if we prove that economic integration and narrowing development gaps can be pursued at the same time.

ERIA has a rigorous theoretical backbone rooted with the "fragmentation theory" and "new economic geography," both of which are newly established areas in international economics. The fragmentation theory explains the mechanics of international division of labor at the level of production processes and claims that development gaps can be utilized as location advantages if the cost of service links connecting remotely located production blocks becomes low enough. New economic geography, on the other hand, scrutinizes positive and negative agglomeration effects, the latter of which is generated by congestion and can work as a dispersion force for economic activities. These theories suggest that some economic activities could be relocated to lagging countries/regions such as CLMV (Cambodia, Laos, Myanmar and Vietnam) if a proper economic environment were prepared.

CHART 1
Three pillars of policy research at ERIA



Source: ERIA

One of the keys for the industrialization of lagging countries/regions is to improve location advantages. An example of government efforts would be the development of special economic zones to make at least “local” improvement in the investment climate. Another key is to reduce service link costs through the improvement of soft and hard logistical infrastructure. Along that line of thought, ERIA this year will conduct studies on logistics networks and industrial agglomeration, including an important initiative for East Asia Industrial Corridors, and the development of CLMV.

ERIA, together with an expert group of the Institute of Developing Economies, Japan, has developed a geographical simulation model. This model is based on the new economic geography framework and is extremely useful in visualizing possible effects of the development of economic corridors in terms of population and economic activities (Chart 2). In addition to academic rigor in research, ERIA will think much of intuitive presentation of policy ideas for various stakeholders in the region.

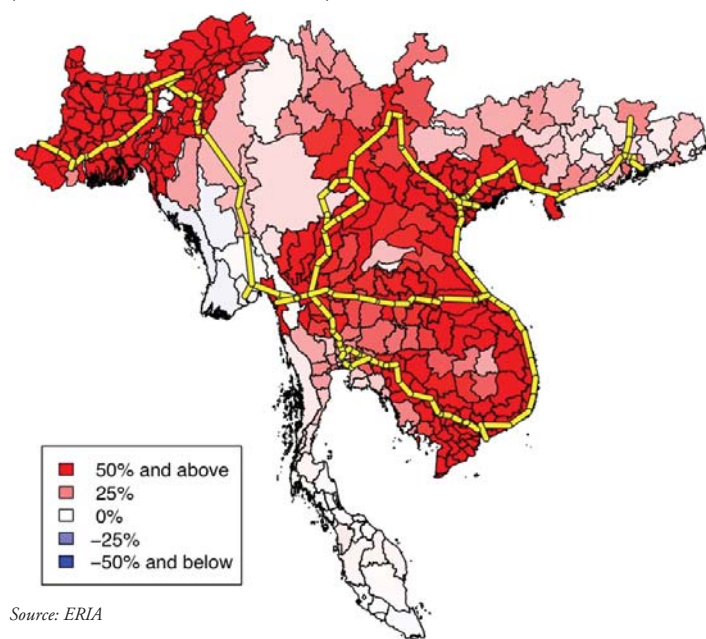
ERIA also thinks much of high-level human resource development, particularly in lagging countries. Capacity building for high-rank officials had an early start last year. In addition, the ERIA Next Leaders Program, which will utilize the network of the best graduate schools in East Asia, will be launched this year.

Sustainable Economic Development

Issues on energy, resources, food and the environment have recently become worldwide concerns, and our region is not fully prepared. Extended East Asia has a rapidly growing economy and includes giant developing countries such as China and India. The incremental impact of East Asia on sustainability problems will certainly be large in coming years, but the regional framework for these issues is not yet well developed.

ERIA has already initiated three energy projects: energy-saving potentials, bio-diesel fuel standard, and bio-mass utilization. Policy

CHART 2
Estimated effects of completion of 3 economic corridors & Asian Highway in 2025 by geographical simulation model
 (GDP increases from benchmark case)



Source: ERIA

recommendations on these projects have been submitted to political forums such as a meeting of East Asia Summit (EAS) energy ministers and have yielded a substantial impact on the formation of region-wide cooperation in the field.

This year, ERIA will also start working on environment issues. Two projects, a comprehensive East Asian environment policy review and sustainable automobile society, will be initiated. In addition, a symposium on food and energy security is planned for urgent policy discussion.

How Far Can We Go?

With strong support by political leaders in East Asia, ERIA is already working as an influential policy research consortium where hundreds of researchers in the region, whether or not they belong to the initiating 16 research institutes, have participated. ERIA as a physical research institute, however, is still at an infant stage. The official location of an ERIA office has not been decided yet, and thus a temporary office is placed in the ASEAN Secretariat. The recruitment of in-house researchers has just started. The budget size is limited; so far, only the government of Japan has provided funding. Although ERIA is sometimes called an “OECD in the East Asian version,” it would obviously take a long time to grow into such a big organization.

However, as far as research agenda items are properly designed and implemented, expectations on ERIA as a respectable policy research institute will surely become larger. In this sense, the future of ERIA must be a bright one. JIS

More detailed information on the activities of ERIA can be obtained at <http://www.eria.org>.

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