Mekong Region’s Development: Perspective from spatial economics and services

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What is economic development?

Macroeconomically, it is:

$Y=C+I+G+X-M$

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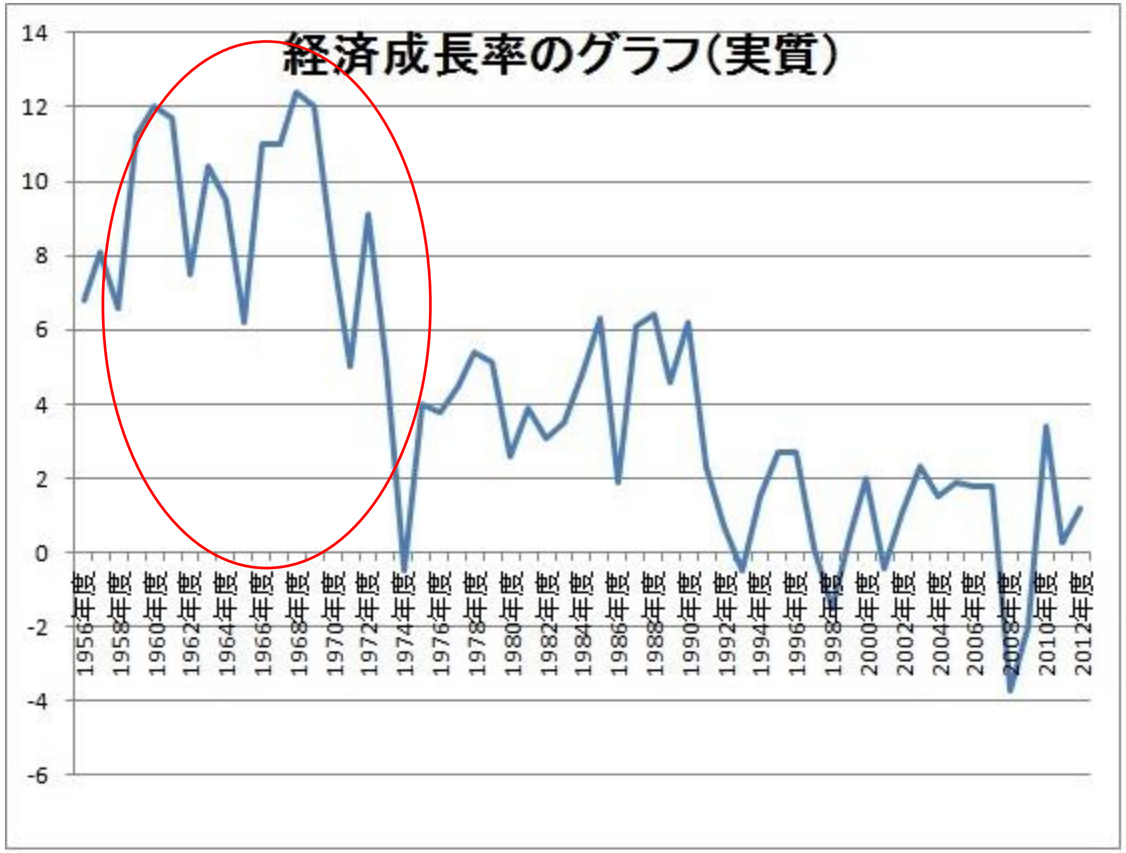
High economic growth rate in Japan

During 1955-1973

Average economic growth rate was over 10%

=>The role of trade and investment was crucial



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Conceptually, Figure 1 describes the spatial economic concept of industrial agglomeration and dispersion with transport costs in view (Fujita, Krugman and Venables, 1999). In the figure, there are two locations for economic productions as well as consumptions. When the transport costs (costs associated with transporting people and goods) are prohibitively high for goods to be transferred, all the production has to take place locally, hence the 50 percent share of economic activity for each of the two locations (this is a two-equilibrium situation). In ASEAN before full-fledged marketization in the latter part of the 20th century, multiple cities co-existed as “major cities”. Spatial economics is a branch of economics which focuses on the geographical aspect of economic activities through reduction in transport costs.

Figure 1.

Spatial economic concept of industrial agglomeration and dispersion

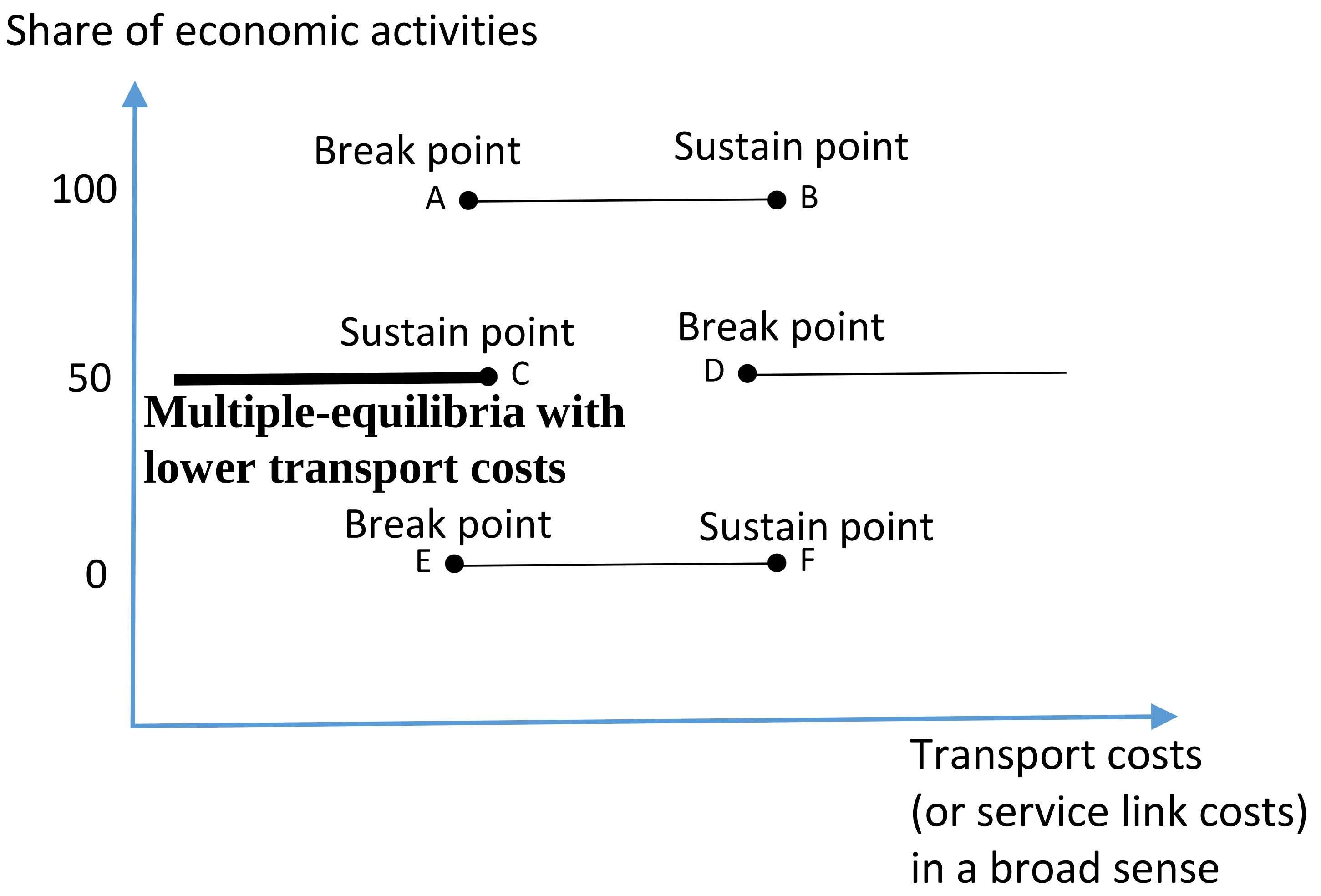
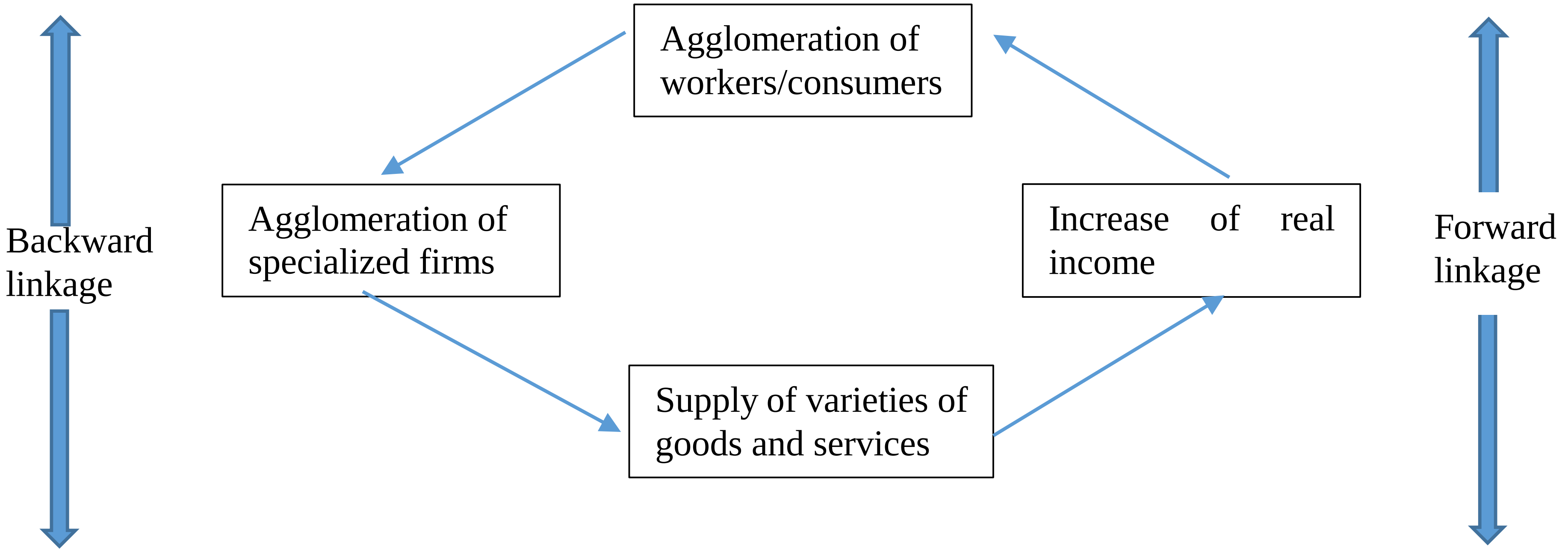


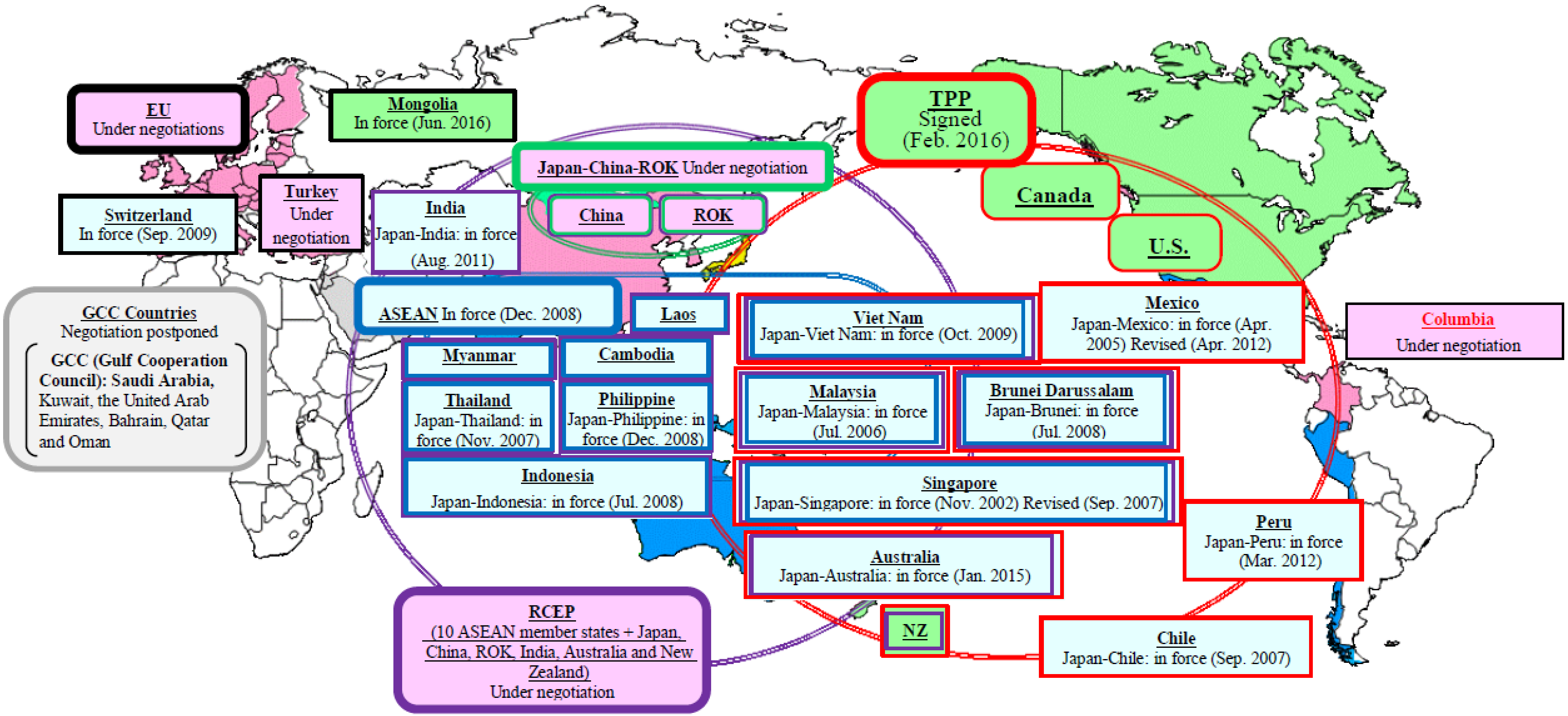
Figure 2.

Spatial economic mechanism of agglomeration



Source: Adapted from Fujita, Krugman and Venables (1999).

Figure III-2-1-10 Current situation of economic partnerships with Japan (as of June 2016)

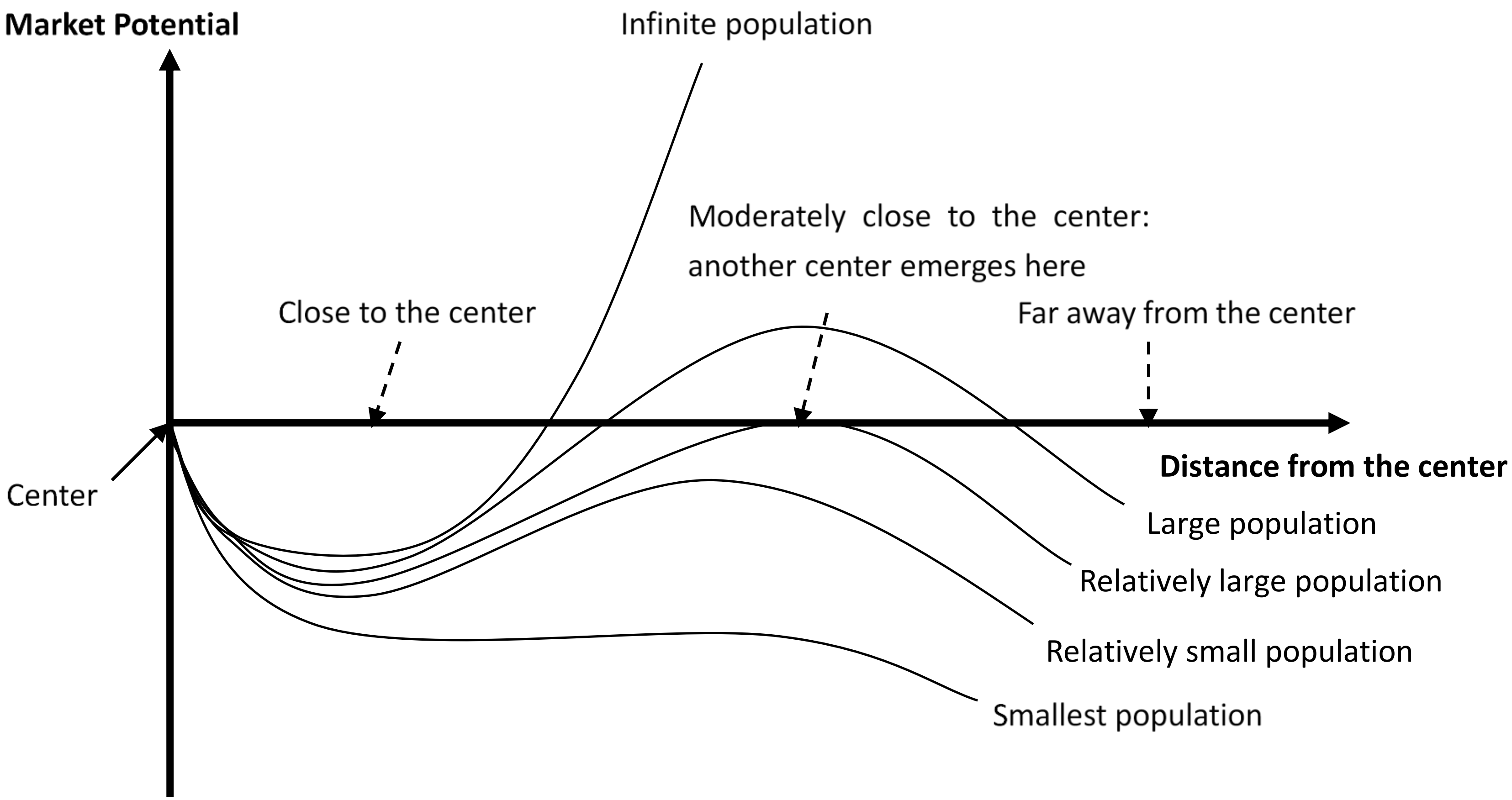


2017 commemorates the 50th anniversary of the ASEAN

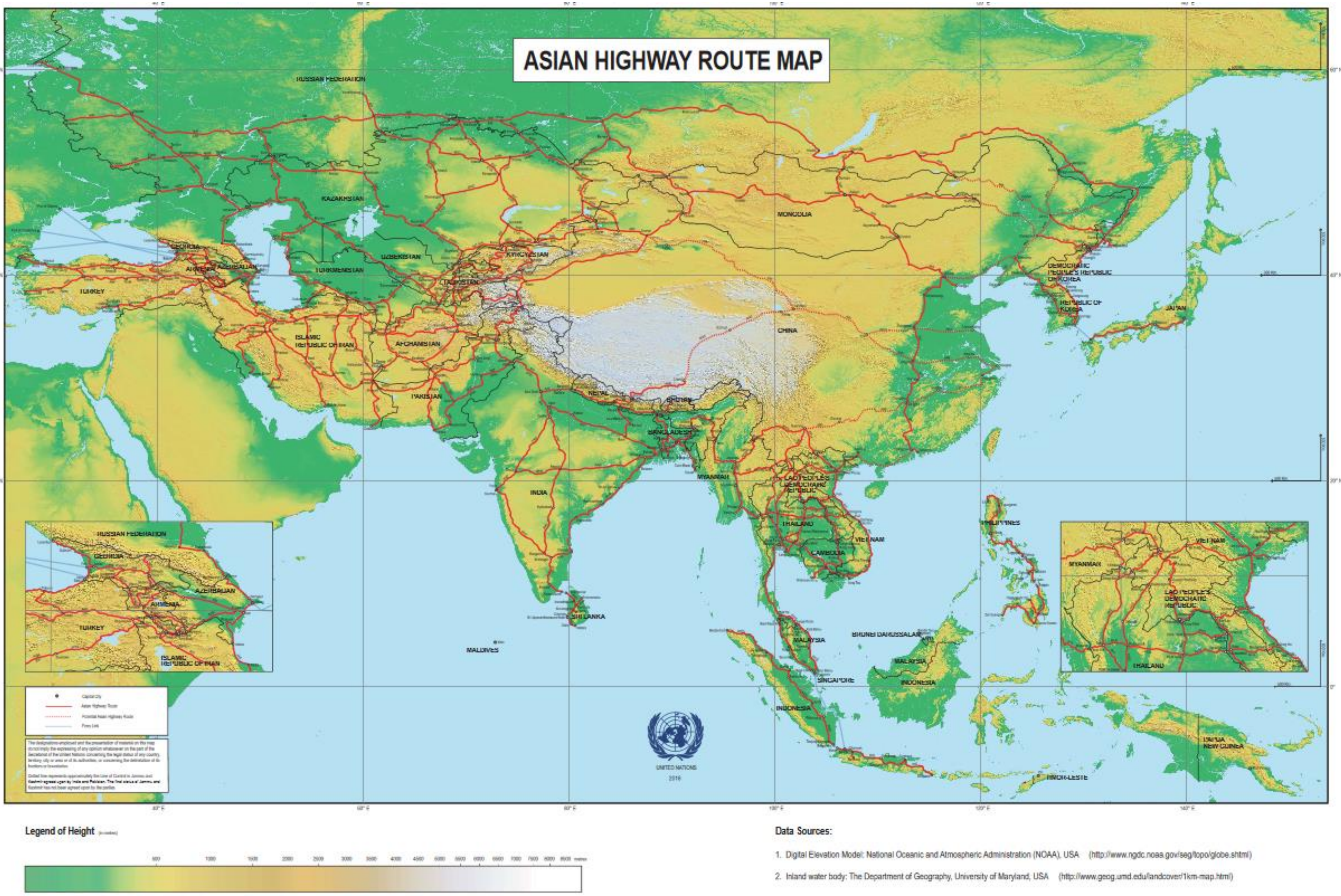
RCEP (Regional Comprehensive Economic Partnership) among ASEAN and 6 dialogue partners (Australia, China, India, Japan, Korea and New Zealand) could be facilitated. This would promote **Mekong Region's development**.

Importance of service-link cost reduction for Mekong Region's development

Spatial economic interaction of locations and market potential



Source: Adapted from Fujita, Krugman and Venables (1999).



Source: UNESCAP's site (http://www.unescap.org/sites/default/files/AH%20map_1Nov2016.pdf).

AFAS (ASEAN Framework Agreement on Services) could be an important basis of an **RCEP** (Regional Comprehensive Economic Partnership) =>ASEAN members' commitments in transport services (following slides)

able 2. Hoekman Index of trade liberalization for maritime transport services, by subsector and by mode, under AFAS 9th package

		11Aa	11Ab	11Ac	11Ad
ASEAN member state	Mode	Passenger transportation	Freight transportation	Rental of vessels with crew	Maintenanc and repair (vessels
Brunei Darussalam	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	0.5	0.5	0.75	0.
Cambodia	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	1	1	1	
Indonesia	Mode 1	1	1	0	
	Mode 2	1	1	0	
	Mode 3	0.5	0.5	0	(
Lao P.D.R.	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	1	1	1	
Malaysia	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	0.75	0.75	1	0.
Myanmar	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	1	1	1	
The Philippines	Mode 1	1	1	1	
	Mode 2	1	1	1	0.
	Mode 3	1	1	1	
Singapore	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	0.5	0.5	0.5	0.
Thailand	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	0.5	0.5	0.75	0.
Vietnam	Mode 1	1	1	1	
	Mode 2	1	1	1	
	Mode 3	0.75	0.25	0.5	0.

Source: AJC's calculation based on the ASEAN member states' specific commitment tables under AFAS (9th package). See Annex C for reproduction and categorization of the tables.

Table 3. Hoekman Index of trade liberalization for air transport services, by subsector and by mode, under AFAS 9th package

		11Ca(package 6)	11Cb(package 6)	11Cc(package 6)
ASEAN member state	Mode	Passenger transportation	Freight transportation	Rental of aircraft with crew
Brunei Darussalam	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	0.25
Cambodia	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	0.5
Indonesia	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	0
Lao P.D.R.	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	0
Malaysia	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	0.5
Myanmar	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	0.5
The Philippines	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	1
Singapore	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	1
Thailand	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	0.25
Vietnam	Mode1	0	0	1
	Mode2	0	0	1
	Mode3	0	0	1

Table 4. Hoekman Index of trade liberalization for rail transport services, by subsector and by mode, under AFAS 9th package

ASEAN member state	Mode	11Ea Passenger transportation	11Eb Freight transportation	11Ec Pushing and towing services
Brunei Darussalam	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	0.75	0.75	0.75
Cambodia	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	1	1	1
Indonesia	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	0.5	0.5	0.5
Lao P.D.R.	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	1	1	1
Malaysia	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	0.75	0.75	0.75
Myanmar	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	0
The Philippines	Mode1	0	0	0
	Mode2	1	1	0
	Mode3	0.75	0.75	0
Singapore	Mode1	0	0	0
	Mode2	0	0	1
	Mode3	0	0	0
Thailand	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	0
Vietnam	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	0.75	1	1

Source: AJC's calculation based on the ASEAN member states' specific commitment tables under AFAS (9th package). See Annex E for reproduction and categorization of the tables.

Table 5. Hoekman Index of trade liberalization for road transport services, by subsector and by mode, under AFAS 9th package

		11Fa	11Fb	11Fc
	Mode	Passenger transportation	Freight transportation	Rental of commercial vehicles with operator
Brunei Darussalam	Mode1	0	0	0
	Mode2	0	0	0
	Mode3	0	0	0
Cambodia	Mode1	1	1	1
	Mode2	1	1	1
	Mode3	1	1	1
Indonesia	Mode1	1	1	0
	Mode2	1	1	0
	Mode3	0.5	0.5	0
Lao P.D.R.	Mode1	0	1	1
	Mode2	0	1	1
	Mode3	0	0.75	0.75
Malaysia	Mode1	0	1	0
	Mode2	0	1	0
	Mode3	0	0.75	0
Myanmar	Mode1	1	1	0
	Mode2	1	1	0
	Mode3	1	1	0
The Philippines	Mode1	0	0	0
	Mode2	1	1	1
	Mode3	0.5	0.5	0.5
Singapore	Mode1	0	0.75	0.5
	Mode2	0	1	1
	Mode3	0	1	1
Thailand	Mode1	0	0	0
	Mode2	1	1	1
	Mode3	0.75	0.75	0.75
Vietnam	Mode1	0	1	0
	Mode2	1	1	0
	Mode3	0.75	0.75	0

Source: AJC's calculation based on the ASEAN member states' specific commitment tables under AFAS (9th package). See Annex F for reproduction and categorization of the tables.

Table 6. Maximum foreign ownership allowed in transport services (in percentage) under AFAS 9th package

ASEAN member state	Maritime transport	Air transport	Road transport	Rail transport
Brunei Darussalam	51	80	Not applied	51
Cambodia	100	Not applied	100	100
Indonesia	49	49	70	70
Lao P.D.R.	100	100	49	100
Malaysia	51	49	70	51
Myanmar	100	Not applied	100	Not applied
The Philippines	70	40	40	40
Singapore	70	51	100	Not applied
Thailand	49	Not applied	49	Not applied
Vietnam	51	Not applied	51	51

Note: Ownership under partial commitments is also counted.

Source: Specific commitment tables of each ASEAN member state under AFAS 9th package.

ASEAN and its dialogue partners should be connected further, possibly by RCEP!

$\Rightarrow$ **This would significantly stimulate the Mekong Region's economic advancement. Let us work together under a common framework.**

Thank you very much!