


India-East Asia Economic Integration:  
Role of Economic Corridors and the Emerging Architecture  
organized by RIS

## **Session VI: India-East Asia Economic Corridors and Industrial Clusters**


September 10, 2010

Comments by  
Toshiro Nishizawa  
Director, Asia Department II  
Japan Center for International Finance (JCIF)




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- For Japan, faced with challenges to create renewed sources of sustainable growth, it has become more and more important to promote economic integration and partnerships with emerging Asian economies.




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- Against this backdrop, development of India-East Asia economic corridors and industrial clusters should give us great opportunities.



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- In this context, infrastructure development has attained renewed relevance and additional justification as a policy priority.



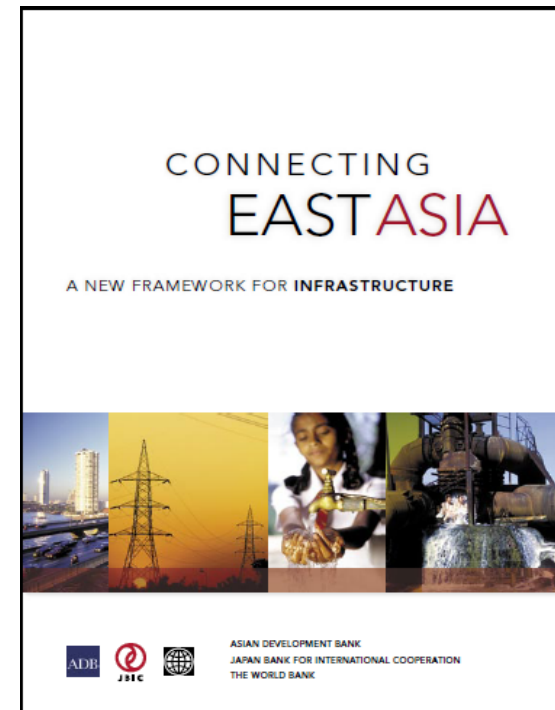
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- Infrastructure to enhance connectivity could contribute to the development of economic corridors and industrial clusters, thus to create an enabling business environment.



Key issues discussed in a joint study conducted by ADB, JBIC, and the World Bank in 2005 remain highly relevant in the context of “India-East Asia Economic Integration”.

## *CONNECTING EAST ASIA*

### *—A NEW FRAMEWORK FOR INFRASTRUCTURE*



One of the main themes throughout the discussion is how the public and private sectors can share risks and rewards in a way that works for both sides.

One of the challenge is to maximize the effectiveness of official financing—for example, by

- stimulating experimentation and innovation;
- supporting efficiency gains;
- mainstreaming environmental and social considerations;
- attracting private investors; and
- building effective institutions to plan, coordinate, and regulate infrastructure services.



In macroeconomic terms,

a task yet to be accomplished is the creation of a well-functioning mechanism to channel Asia's abundant savings into productive investment opportunities within the region.







# **POLICY IMPLICATIONS SELECTED FROM THE EARLIER STUDY**

September 10, 2010





*“The center matters—infrastructure demands strong planning and coordination functions”*



*“The center matters—infrastructure demands strong planning and coordination functions”*

- Infrastructure provides basic services on which survival and livelihoods depend.
- Infrastructure is the backbone of economies and societies.
- Infrastructure has major environmental impacts.
- Infrastructure can bring powerful monopolies and foreign participation into areas of great sensitivity.
- As such, infrastructure is intensely political.



*“The center matters—infrastructure demands strong planning and coordination functions”*

- But infrastructure is also economically and technically complex, and has long-term implications.
- So the technocrats, too, have a critical role to play as they complement the role of politicians.
- This extraordinary blend of technocracy and politics places a premium on high-level, central institutions, which can articulate strategies that are politically sustainable and economically effective.





*“Fiscal space for infrastructure is critical”*



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- Ultimately, infrastructure is paid for by users through tariffs or taxpayers through subsidies.
- Covering costs through user charges is a critical long-term objective.
- In the short term, however, user charges might be legitimately constrained by a variety of factors or large investment needs might require upfront financing to be recovered gradually from user charges.



*“Fiscal space for infrastructure is critical”*

- Sometimes those financial shortfalls can be filled by the private sector, but sometimes private financing will be insufficient, unavailable, or unacceptably expensive.
- Even where the private sector comes in, it often requires risk-sharing with the public sector.
- In cases in which the private sector cannot or will not provide all the financing or bear all the risk, investments with adequate economic rates of return should be allocated fiscal space—some form of fiscal support, including guarantees and other contingent liabilities, as well as direct expenditures.



*“Fiscal space for infrastructure is critical”*

- This does not mean that more fiscal space for infrastructure should be the first step in those countries.
- In several cases, fiscal tightening for macroeconomic stability and debt sustainability would take higher priority.
- In most cases, the possibility exists for stronger promotion of private financing in infrastructure and for higher user charges. And there can be opportunities for cost reductions, or better management and maintenance of existing assets.





*“Fiscal space for infrastructure is critical”*

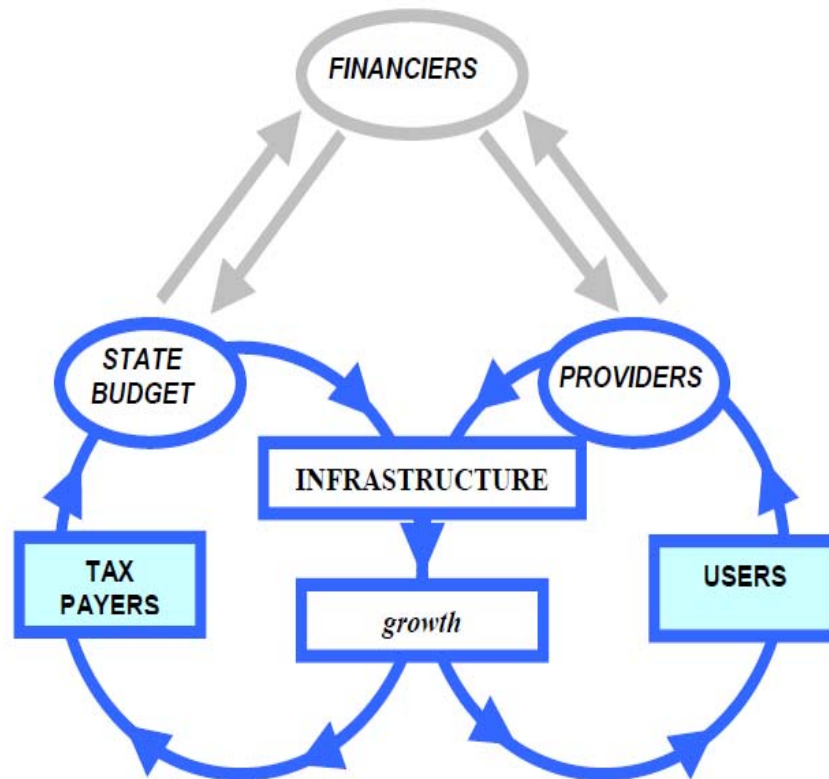


- But if and when those difficult preconditions are met, governments should allocate fiscal space based on long-run growth objectives and in pursuit of fiscal solvency.



*“Fiscal space for infrastructure is critical”*

Infrastructure spending on worthwhile projects can create a virtuous circle: more growth, more fiscal revenue, more fiscal space.




*“Fiscal space for infrastructure is critical”*



- The challenge is to select the right projects—and put in place the policy and institutional frameworks that actually make them worthwhile.





*“Subsidy’ is not a dirty word—subsidies can be important, but are always risky, and should be handled with care”*



*“‘Subsidy’ is not a dirty word—subsidies can be important, but are always risky, and should be handled with care”*

- Infrastructure subsidies can be justified on a number of grounds, including environmental protection and poverty reduction—if benefits are external to consumers, subsidies may be needed to realize the benefits.



*“Subsidy’ is not a dirty word—subsidies can be important, but are always risky, and should be handled with care”*

- But subsidies can become open-ended and addictive, their fiscal impact can explode, they can undermine financial discipline and blur accountability, and they can postpone much-needed reform.
- Subsidies need to be employed with great care.





*“Local capital markets matter, but are not a panacea”*



*“Local capital markets matter, but are not a panacea”*

- East Asia’s success is built, in part, on channeling high savings into domestic investment in infrastructure.
- The 1997 crisis underlined that domestic savings tend to be less footloose than foreign savings, and that domestic currency financing is less exposed to foreign currency risk.







**Thank you.**

Toshiro Nishizawa  
Director, Asia Department II  
Japan Center for International Finance

E-mail: [t-nishizawa@jbic.go.jp](mailto:t-nishizawa@jbic.go.jp)

