Economic Corridor Development Study: Update

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CAREC Senior Officials' Meeting
Manila, Philippines
26–27 June 2014

Introduction

- CAREC 2020 – ECD an operational priority; part of the goal of "increased competitiveness"
- ECD Study 2 years. Envisaged as deliverable in the 13th CAREC MC.
- Pilot focused on Corridor 1b, major trade route for 3 countries: KAZ, KGZ and PRC
- Analysis of trade flows completed; workshop in April 2014 in KL, on lessons from ECD in other Asian countries
- Update followed by SOM guidance on finalization of the study

ECD: Framework

- ECD: Instrument, not an end
- Two objectives in CAREC context: (i) Enable efficient movement of goods into the countries; and (ii) support creation of jobs, economic diversification and inclusive growth
- ECD Trifecta: ECD can proceed along 3 possible tracks – T1: transport connectivity within country – domestic network; T2: transit across land-locked countries; and T3: develop economic clusters such as urban agglomerates, inter-urban links, and urban-rural links
- Parallel, but can be mutually inconsistent

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CAREC and ECD

- T1 prominent. Sweet spot. Good achievements, incomplete. Remains high priority.

- T2 importance underlined by landlocked geography. Uneven progress. CU a factor.

- Both T1 and T2 have been a CAREC priority. Covered under the refined TTFS 2020 endorsed by the 12th CAREC MC. No need for special study for ECD T1 and ECD T2

- ECD T3 new to CAREC. Consistent with country priorities for creating jobs, urban agglomeration, and economic diversification. ECD T3 complex – large investments that need to be coordinated across multiple sectors; institutional and governance issues

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ECD T3

- Focus on growth nodes, urban agglomeration, inter-urban links (within countries and cross border), urban-rural links

- ECD T3 is not about a road –network connectivity vs point to point; alternatively, how economic activity is organized spatially

- 3 stylized facts about ECD T3 – roads, private sector, markets

- Post-connectivity space – connectivity, spatial view, linking markets (nationally, regionally and globally), cities/urban clusters.

- Focus on economic potential of links across clusters, not necessarily cross-border

- Not worry about cross border immediately, can also look at ECD within national boundaries, as long as part of a regional picture

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ECD T3: Lessons from Practice (1)

- Experience in other Asian countries: Malaysia, India and Thailand-Malaysia-Singapore. 3 areas – political and institutional; private sector; and analysis/prioritization

- Long time frame - 10 years and counting in MAL + large scale of investments

- Political commitment

- Institutional mechanisms to deal with diverse stakeholders at national, state and local levels

- Legislative mandate for corridor authorities in MAL; SPV in DMIC

- Translating plans to ground-level implementation, monitoring results

ECD T3: Lessons from Practice (2)

- Effective partnership with private sector, both upstream and downstream, at planning and implementation

- Labs; corridor authority;

- Anchor investors

- Performance metrics

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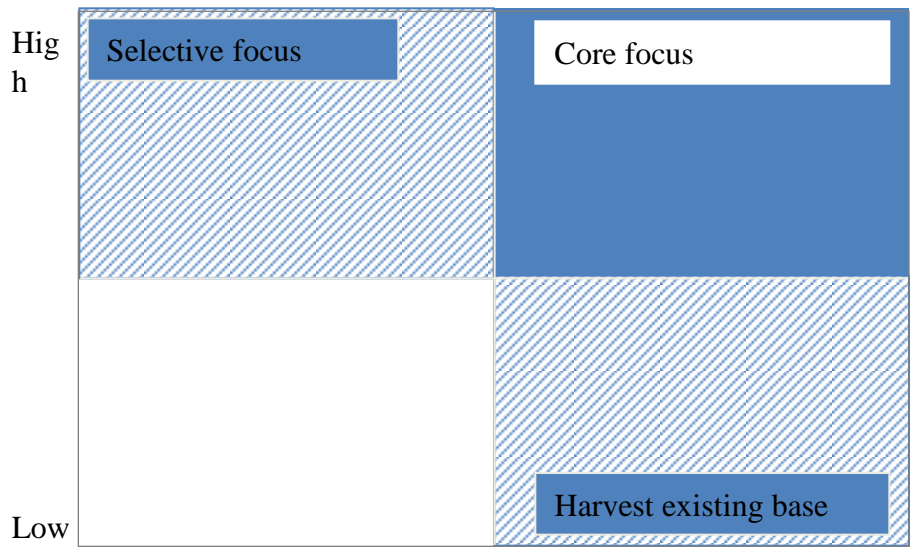
ECD T3: Lessons from Practice (3)

- Prioritization based on analysis, customized, sui generis corridors

- Substantial exercise requiring resources, time and government ownership

- Illustrative example from the ECD workshop in KL
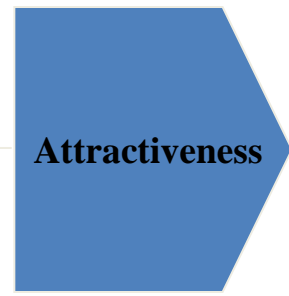
Overall prioritization framework

Sub-sector prioritization matrix based on attractiveness vs. strategic fit

Attractiveness

High	Selective focus	Core focus
Low		Harvest existing base
	Low	**High**

Strategic fit

Attractiveness

Attractiveness measured based on
- Industry profitability
- Industry growth
- Industry size

Strategic fit

Strategic fit measured based on
- Potential to leverage existing base
- Regional 'logic'
- Job creation potential
- Potential to move up value chain

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Example of how "attractiveness" assessment

Growth			Profitability			Size		
Sub-sector	**Growth**	**Quartile**	**Sub-sector**	**Profitability**	**Quartile**	**Sub-sector**	**Size (US$Bn)**	**Quartile**
Shipbuilding	14.5%	4	Biotech/Pharma	19.9%	4	Downstream agri.	2,987.09	4
Biotech/Pharma	8.6%	4	Healthcare Equipment	16.7%	4	E&E	1,716.10	4
Oil & Gas	7.4%	4	Steel	9.0%	4	Automotive	1,713.90	4
E&E	5.3%	4	Cement	8.5%	4	Oil & Gas	1,604.20	4
Cement	4.8%	3	Downstream agriculture	8.1%	3	Apparel & Textile	1,524.10	3
Healthcare Equipment	4.4%	3	Fertilizer/Agri chemicals	7.5%	3	Defense & Aerospace	1,268.40	3
Machinery	4.1%	3	Waste Management	6.7%	3	Steel	924.80	3
Automotive	4.1%	3	E&E	6.7%	3	Biotech/Pharma	746.90	3
Apparel & Textile	4.0%	2	Apparel & Textile	6.4%	2	Paper & Forest products	551.00	2
Downstream agriculture	3.9%	2	Oil & Gas	5.8%	2	Cement	485.10	2
Waste Management	3.0%	2	Defense & Aerospace	5.0%	2	Machinery	474.84	2
Paper & Forest products	2.8%	1	Paper & Forest products	4.5%	1	Healthcare Equipment	214.20	1
Fertilizer/Agri chemicals	2.8%	1	Machinery	4.3%	1	Waste Management	210.60	1
Defense & Aerospace	2.3%	1	Shipbuilding	2.8%	1	Fertilizer/Agri chemicals	111.40	1
Steel	0.2%	1	Automotive	1.8%	1	Shipbuilding	60.99	1

Quartile rank as basis for score

Weights   40%   40%   20%

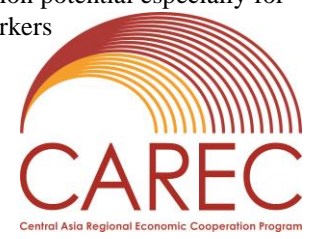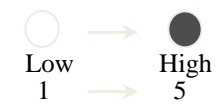*Less emphasis of absolute size of sector*

Weighted average scores of individuals sectors ranked to obtain overall attractiveness

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Source: Factiva, Team analysis

Example of how "Strategic fit" assessment

Sub-sector	Leverages existing base in NCER	Leverages existing base in Malaysia	Regional "logic" for sub-sector	Strong job creation potential	Allows for value chain "upgrade"	Overall	
Apparel & Textile	◐	◔	◔	◐	◔	2.40	Strong job-creation but limited competitive advantage for sub-sector to take-off
Automotive	◐	◐	◔	◐	◐	2.80	Existing auto clusters in central Malaysia; some job creation potential
Biotech/ Pharma	◐	◔	◐	◔	●	3.00	Nascent sector but significant push by govt.; allows for value chain upgrade; requires specialized skill-set
Cement	◐	◔	◔	◔	◔	2.20	NCER states with cement infrastructure (i.e. Lafarge in Langkawi); But limited job creation potential and limited opportunities for value chain upgrade
Defense & Aerospace	○	○	○	◔	◕	1.80	Some existing footprint in defense & aerospace (i.e. ACM, CTRM)
Downstream agriculture	◕	◕	◕	◕	◔	3.40	Potential to leverage existing agriculture base within region; strong job creation potential
E&E	●	◐	◕	●	◕	4.20	One of core sectors within NCER states; good job creation potential especially for blue collar workers

Low 1 ○ → ● High 5

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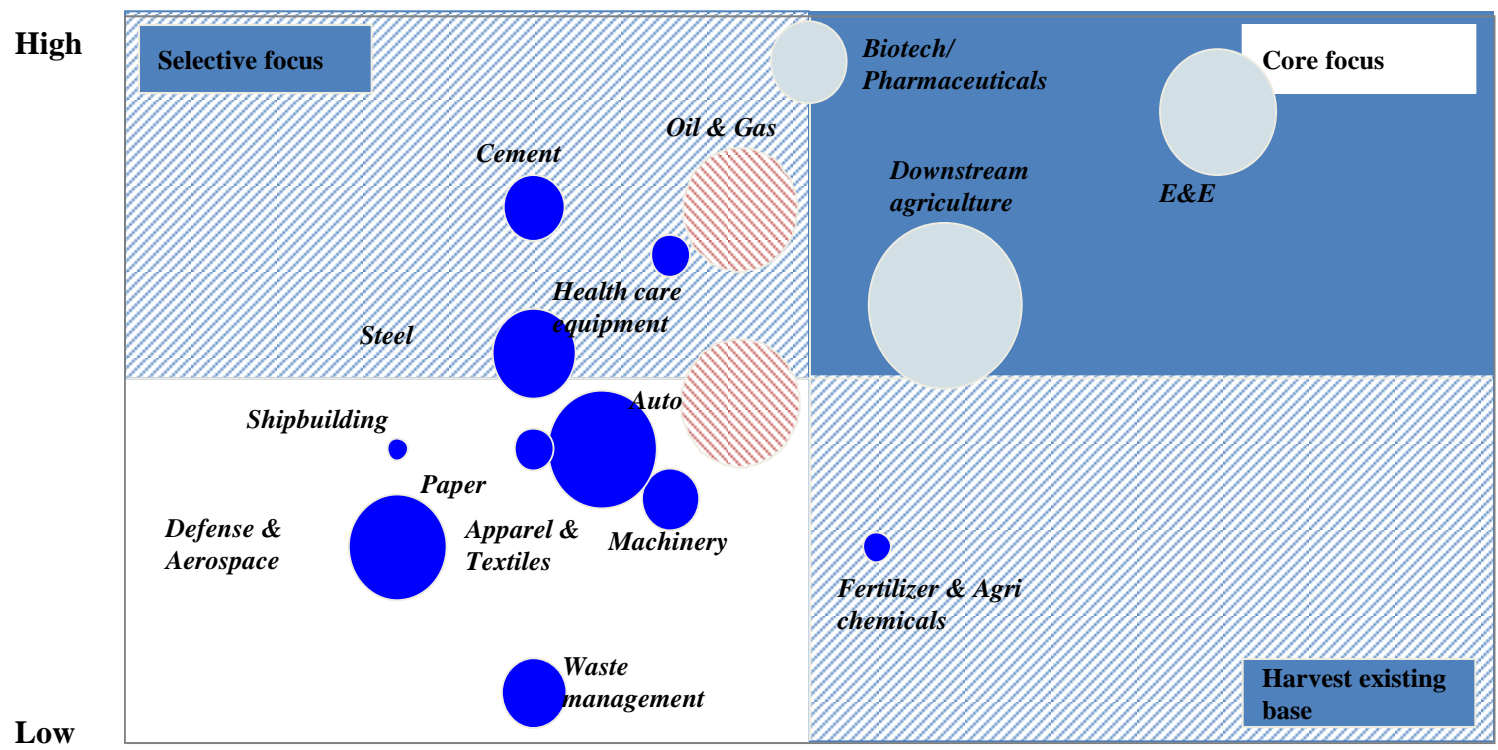
Outcome: 3 high-priority manufacturing sub-sectors identified

Sub-sector prioritization matrix based on attractiveness vs. strategic fit

Attractiveness

High

Selective focus

Biotech/ Pharmaceuticals

Core focus

Oil & Gas

Cement

Downstream agriculture

E&E

Health care equipment

Steel

Shipbuilding

Auto

Paper

Defense & Aerospace

Apparel & Textiles

Machinery

Fertilizer & Agri chemicals

Waste management

Harvest existing base

Low

Low   **High**

750 — Size of sub-sector (US$Bn)

Strategic fit

○ High-priority sub-sectors

⊘ 'Borderline' sub-sectors

● Other sub-sectors

Other elements for analysis

- Once focus areas are determined, high-level business case developed for each

- Identify sub-sectors in each area, for each sub-sector identify potential focus and develop business case for each, followed by identifying specific business opportunities in each case

11 sub-sector themes recommended

Downstream agriculture
M01 Oleochemicals
M02 Rubber products: latex products
M03 Waste to Wealth

Biotech/Pharmaceutical
M04 Pharma: Herbals
M05 Pharmaceutical Production
M06 Contract Research Services
M07 Vaccines/ Diagnostics
M08 Bio-fertilizer

E&E
M09 Semiconductors
M10 Healthcare equipment
M11 Microelectronics

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Execution details for each theme

3a Initiative background	3b Detailed Biz Case	3c Execution feasibility	3d Action plan

Section objectives

• Provide quick overview of theme (i.e. description, objective, potential impact, key stakeholders involved, etc.)
• Highlight/show-case success stories globally
	• Highlight expected socio-economic impact from theme
	  – poverty eradication
	  – value-add
	  – job creation
	• Provide details of investment requirements
		• Detail out implementation enablers, covering
		  – hard infrastructure
		  – soft infrastructure
		• Risks involved
		• Detail out R&R of key stakeholders
			• Provide details around key activities, milestones, KPIs and targets
			• Highlight key companies within sector that should be approached as potential investors

Sub-sections

• Initiative overview
 	
• Best practice case studies
 	
• Factors that make NCER attractive
 	
• Other
  – supporting industries
	• Socioeconomic impact
	
	• Investment requirements
	
	• Other implications
	  – environmental
	  – other implications
		• Key enablers (soft infrastructure)
		
		• Key enablers (hard infrastructure)
		
		• Risks and mitigation measures
			• Initiative timeline & milestones; Stakeholder roles & responsibilities
			
			• KPIs and targets
			
			• Potential investors to be approached

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ECD Study: Looking ahead

- Locating the study in the context: ECD T3 and the CAREC program

- Time, resources, institutional readiness, PSD, ownership

- ECD T3 concept initiation and assessment of application in CAREC

- Multi-year theme, city dialog, private-sector in CAREC

- Proposed components of the study