

*Reshaping Economic
Geography in East Asia*

Reshaping Economic Geography in East Asia

Edited by Yukon Huang and Alessandro Magnoli Bocchi



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Foreword

I am pleased to be associated with this collection of studies, a companion volume to the *World Development Report 2009* (WDR 2009). The WDR 2009 provides a comprehensive overview, from a global perspective, of the importance of economic geography. In turn, this volume focuses on East Asia and the role of economic geography in shaping its development. As a member of the advisory panel for the WDR 2009, and having spent much of my career pioneering the principles that underpin the “new economic geography” or spatial economics, it is gratifying to see how these principles are now being used to deepen our understanding of the most dynamic region of the world and its development process.

An earlier volume of studies on East Asia that I edited focused on how spatial factors influenced both the process of regional integration and the location of production across countries (Fujita 2007). These outcomes reflect the tenets of the new economic geography: given first-nature factors and natural conditions, agglomeration forces lead to “clustering” (that is, the concentration of economic activity among firms) and give rise to scale economies. Once clustering takes off, proximity to markets reduces transport costs, and “agglomeration economies” encourage more and more firms to congregate. In this process, economies of scale and transport costs are important factors in shaping the size and nature of both cities and production centers.

These principles help to explain the so-called “flying geese model” of regional development that characterized East Asia from the 1970s to the early 1990s. In that model, Japan played the role of “lead goose”; over time, it shed, with a cascading effect, industrial activities in which it no longer had a comparative advantage to lower-income countries—first to the newly industrializing economies, then to several Association of South East Asian Nations (ASEAN) countries, and finally to China. This process was supported by the emergence of agglomeration economies in several “core” metropolitan areas of Japan, while complementary production centers in Asia’s mega cities represented the “periphery.”

However, over the past decade and a half, East Asia has moved from a mono-polar system, dominated by Japan, to a multi-core system, which is the outgrowth of greater regional integration, driven by specialization and scale economies, interindustry relocation, and trade-related production-sharing networks and by more diverse patterns of industrialization within the same country. Integral to this phenomenon have been the growing importance of innovation in driving economic growth and the emergence of China as the major assembly plant for the region (Gill and Kharas 2007). Also, despite the resounding success of East Asia, within countries there are signs of great stress, such as rising internal disparities, urban congestion, and environmental degradation.

The “flying geese model” does not fit well with this recent experience. The new economic geography, however, allows for such variation, and while it does not explicitly address issues of income distribution, there is no doubt that the existence or lack of scale economies—and the manner in which they are being exploited—greatly affect the creation and distribution of wealth. For example, the density of economic activity and the greater compensation being

given to those with technology-related skills have strong distributional impacts. Hence, the rural and urban divide is not the only dimension to create income disparities.

This collection of studies emphasizes the process of domestic integration: in East Asia, the continuing pressures for sustaining growth are bringing about a growing divergence in incomes between lagging and leading regions and urban and rural areas. In particular, these studies provide two perspectives. First, they describe the broad spatial transformations, as measured by trends in income, industrial output, population movements, and social indicators. Second, they assess how government policy, at the local, regional, and national levels, has affected the pattern of spatial development, especially its impact on growth and equity objectives.

For low-income countries such as Lao PDR and Vietnam, the concentration of economic activity is just beginning; there, economic growth is shaped primarily by how well the main agglomerations of population are connected to the major commercial centers. In larger, more diverse, and urbanized countries such as Indonesia, the Philippines, and Thailand, the concentration of economic activity around large metropolitan centers is well entrenched; however, there continue to be concerns about the extent of the agglomeration benefits and whether policies can deal adequately with long-standing spatial disparities.

China is perhaps the most notable example of how a large and spatially diverse country has managed to reshape its economic geography to achieve rapid growth, but challenges remain because of the sharply rising spatial disparities. In the Republic of Korea, however, the move from a developing to a developed country led to a gradual convergence in living standards across regions and eventually to broad equality in per capita incomes.

I have characterized East Asia before as the region of ultimate diversity: in incomes, language, culture, and inherited conditions. This is exemplified in the wide range of outcomes of these studies, which reflect each country's stage of development, historic precedents, and differing policy approaches. Still, these studies illustrate how well the concepts underpinning the new economic geography can explain what is happening in East Asia. Despite a few exceptions, urbanization and related agglomeration benefits are part of the region's success story, along with the related pressures on policy makers to deal with increasing spatial disparities. The challenge is how best to sustain efficient growth processes, while ensuring over time that even though *incomes* may diverge in the early stages of development, with good policies, *living standards* can—and will—converge.

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References

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