

SHORT FEATURE

**21st AELM 2013:
Constrained Governments and the Rising Need for
Market-Driven Growth***Djisman S. Simandjuntak*

Aspiring to serve the world as engine of inclusive and sustainable growth is perhaps the most attractive of all the messages and intents that The 21st APEC Economic Leaders' Meeting (21st AELM) in Bali spread through its lengthy Bali Declaration. Given European Union's incapacitation in the wake of austere policies made necessary by structural government deficits and other growth depressors, including aging, sizeable expansionary impulses that can pull the world economy out of descending trend in the short run can only come from APEC economies. Even though the United States (US) and to a lesser extent Japan are tightly constrained and forced sooner or later to cut expenditure amidst a rising social security expenditure, increase taxes and or sell assets in order to get back to a necessary fiscal balance, APEC can count on China, Southeast Asia, Republic of Korea (ROK), and Russia as sources of stimulatory impacts on the world economy.

The idea of regional and global fine tuning wherein the biggest healthiest economies raise domestic demand in order to pull ahead sick economies is old. It has had very limited success in groupings like

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G8, G20, European Union (EU) and APEC for the simple reasons that the troubled economies in a group usually suffer from competitive disadvantage vis-à-vis the healthy ones and are, therefore, unable to benefit from the stimulated demand in the healthy economies of the group. What is more, connectivity is weak between sick and healthy economies, hindering a great deal the transmission mechanism of multilateral stimulus. Nevertheless, the 21st AELM apparently believes in Pacific-wide fine tuning by accepting the role of an engine, not just a growth, but an inclusive and sustainable one. China's shift away from export-led growth to one that relies more on consumption and domestic investment can indeed produce sizeable growth impact on the entire world economy in a symmetric way in which growth of domestic demand around the world allowed China's export to grow by leap and bound. In combination with rising domestic demand in Japan, Southeast Asia, ROK and other economies demand stimulus in APEC can indeed set forth an acceleration of world economic growth.

The other way that APEC can serve as engine of global growth is through the supply side. It can do so by lowering business costs under a given technology mix. A more dependable food and energy securities, increasingly seamless connectivity, trade and travel facilitation, effective recognition of standards as the 21st AELM committed to pursue would allow goods, services and people to move at greater magnitude and lower costs to more distant places, raising, thereby, output. However, such static growth impact is short-lived like straw fire. If APEC is to do justice to its role as engine of a sustainable and equitable growth it will have to work through new technologies that people embrace enthusiastically, both in terms of origination, adoption and diffusion.

As far as the origination of new technologies is concerned APEC economies depend strongly on the inventiveness and innovativeness of North America, Japan, ROK and Oceania. These economies fare favorably among APEC economies in terms of Intellectual Property Rights (IPRs) generated annually, corporate research and development (R&D) expenditure as percentage of sales and GDP, and corporate R&D workforce as fraction of corporate total workforce, though China and Singapore are catching up very rapidly. However, a newly originated technology takes time before it reaches the progressive part of the life cycle.

The market value of IPR is typically negligible at early stages of development as the story of transistor illustrates. Strong growth impacts occur only when the technology enjoys a progressively rising adoption and diffusion. Herein comes to the fore the role of China as master of least-cost manufacturing in the global supply chain. More than anybody else China understands to exhaust the economies of global scale and to pass those economies on to lower prices which allow billions of rich and poor people around the globe to afford frontier technologies in a growing number of industries, particularly machinery and telecommunication equipments. In contrast with other regions APEC economies are in a unique advantage of being endowed with strong new technology originators, and technology replicators and modifiers who complement each other well. While spatial shifts of least-cost manufacturing are already underway as they always do following durable growth the huge potential of APEC economies as engine of global growth through technology origination, replication and modification remains enormous.

Growth impacts of demand stimulus and technology changes in APEC economies can only spread intra-regionally and extra-regionally, if the state of connectivity allows them to do so. What is more, better connectivity is a more promising route to growth when many governments are forced to adhere to tightening fiscal policy. When fiscal position is in a very bad shape improving connectivity is the only conceivable policy option. The ability of APEC economies to serve as engine of global growth is conditional on intra-APEC and extra-APEC connectivity. It is in this context that the 21st AELM attached a very high importance to a comprehensive connectivity.

First of all, the 21st AELM committed to extend to 2016 the standstill on and eventual rollback of protectionist measures that loom large as threat to global growth in recent years as one can infer from the Global Trade Alert. It tasked officials with the crafting of tangible progress beyond a mere facilitation in the DDA by December 2013 at the WTO Ministerial Conference in Bali. Negotiators on the Transpacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) with their partially overlapping participation are told to quicken negotiations and explore possible paths to convergence so that the two mega partnerships eventually usher in Free Trade Area

in the Asia Pacific (FTAAP) as one building block of the Bogor Goals. The messages on trade and investment liberalization are highly opportune however uncertain tangible progress remains to be in the three approaches of liberalization. Though the 21st AELM declared belief in open trade and investment sounds sometimes too good to be true the various commitments may help somehow instill a grain of optimism in the regional trade and investment environment.

Trade and investment liberalization is a necessary but obviously not sufficient condition for cross-border division of labor to flourish and, thereby, to produce growth impulses. Physical, institutional, people-to-people and financial connectivity between all participants in the global supply chain is as important as the border openness. The 21st AELM recognizes the acute shortage of connectivity infrastructure well and the urgent need for huge investment at a rapid progression, though the long-term nature of improving connectivity is reflected in 21st AELM reference to multi-year program. Leaders are indeed so concerned about connectivity that the coming 22nd AELM is likely to elevate it even higher in the APEC agenda.

However, connectivity involves a very complex sets of issues of which a great deal have been addressed only vaguely in by the 21st AELM. Given the fiscal imbalance that afflicts the US and Japan and the developing APEC economies private investment is lured to the infrastructure of connectivity. Hence the 21st AELM agreed to establish advisory panel on Public Private Partnership (PPP) and a pilot PPP Center in Indonesia with the aim of improving the risk-return profile of projects in investors' perspective. The huge private capital that continues to grow even under stressful periods will find way to developing economies only under a dependable PPP. Unfortunately, PPP is a quandary in infrastructure financing in developing economies in which public governance is generally weak and unlikely to improve when combined with corporate governance. Japan's PM Shinzo Abe pointed to such quandary when he complained about the delayed construction of the Batang Power Plant for reasons related to labyrinthine land right. In other words, PPP offers no immediate solution to the infrastructure shortage in many APEC economies, including Indonesia. Governments will have to find ways back to the old virtue that infrastructure is the primary responsibility of government and that government finance

will have to be restructured in the way that allows sufficient resources for infrastructure financing. Such finance would require the phasing out of some routine expenditure, particularly subsidies on current consumption such as energy subsidies. After all the primary responsibility of government is to provide and maintain global, regional, national and local commons rather than enabling citizens individually to access private goods. Failing to restructure the government finance the only option left for an economy is the mitigation of infrastructure problems through a better management of existing infrastructure, making institutional connectivity the more critical to growth.

The growing demand for trade goods and services, flows of capital and people, and rapid urbanization, all at increasing information intensity, combine to put infrastructure of connectivity in many APEC economies under severe strain even under an optimistic view on progress in PPP, public finance reform and public governance. Learning from experiences with diverse modes of special economic zone picking a few metropolitans with sizeable peripheries such as Greater Jakarta, Greater Surabaya, Greater Medan and Greater Makassar in the case of Indonesia to be included in an APEC connectivity roadmap, appears to be a smart strategy. Building on existing infrastructure rather than starting from scratch in combination with autonomous administration the chosen metropolitans will strengthen their attractiveness as participant in the global and regional supply chain and pull smaller cities along as they mature. The probability of success of the newly discovered program of re-industrialization in Indonesia will greatly improve under an APEC connectivity in which a few large Indonesian metropolitans are seamlessly integrated. It is through such connectivity that Indonesia can ascend to a respectable position in the progressively rising trade and investment that are highly concentrated in a few industries of human mobility, notably ICT and automotive.

The 21st AELM in Bali did not provide an answer to the architectural issues of regional integration and cooperation other than appealing that officials should push for progress in the WTO Ministerial Conference 2013 and the parallel negotiations on TPP, RCEP and the Transpacific Alliance. The evolving ASEAN Economic Community (AEC) and its journey beyond 2015 and the Trans-Atlantic Trade and Investment Partnership (TTIP) involving the EU and US were also left

untouched for obvious reason. Nor are the complex relations between China, Japan and the ROK (CJK) part of the 21st AELM business, despite their critical importance to the region's rice bowl. The architecture of integration and cooperation in the Asia Pacific is not made simpler after the 21st AELM. It continues indeed to evolve at rising complexity. Governments are confronted with difficult choice at a time when domestically demand for protection is on the rise. Siding with openness as the 21st AELM reconfirmed is a historical necessity, realizing that it is quasi-constant in the co-evolution of civilization, if with occasional aberrations.

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