

Moving towards greater regional cooperation

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The global economic crisis has shifted the centre of gravity of world economy to Asia-Pac

By **JUSUF WANANDI, TAN KHEE GIAP**
and **EDUARDO PEDROSA**

OVER the past 30 years, the Asia-Pacific has been the world's fastest growing region. The economic crisis of 1997-98 was a shock to the system but the region quickly recovered largely as a result of high demand for Asian products from developed markets. The Asia-Pacific was hit once again in 2009, but this time by a crisis coming from the outside the region.

Even though the prospects for growth this year are somewhat improved, the headwinds of fiscal austerity are strong and the prospects of this region being able to rely on demand from the outside are thin. For these reasons, the Pacific Economic Cooperation Council (PECC) is organising a conference to consider whether it is time for a paradigm shift for Asia-Pacific economies.

The run-up in debt in developed market economies has reached almost unprecedented levels of 100 per cent. Over the next few years, the process of deleveraging in both the public and private sectors is going to be a drag on growth.

The region needs to consider carefully its strategy for dealing with this reality and create the mechanisms and architectures that promote inclusive, balanced and sustainable growth. Another part of the roadmap ahead is how to design policies that learn from experiences in developed economies.

We are living in a time of intense inter-dependence and global trade in goods

Services and capital flows are at historic highs. While this fine articulation of the global division of labour has resulted in huge wealth creation and reduction in poverty across the world, there are other forces at work – income inequality in the world is on the rise, and frictions are increasing. The tendency towards protectionist sentiment is a real threat – it is easier to blame the bogeyman on the other side of the world than it is to look internally at the reforms that need to be made.

At the height of the crisis in 2009, PECC established a task force to consider the changes that were needed. The difficulty is not the magnitude of the adjustments but the political economy of undertaking them. Structural reforms are needed across the region and the world. These reforms include the enhancement of social safety nets in economies to reduce precautionary savings in high surplus economies, better corporate governance and financial market development to reduce high corporate savings rates and increase wealth for consumers, service sector liberalisation and regulatory reform. Many of these ideas were agreed on by Asia-Pacific Economic Cooperation (Apec) leaders when they met in Singapore in 2009, and were furthered in Yokohama in 2010. The challenge now is implementation.

Another reason for thinking in terms of a paradigm shift is that the worldwide economic crisis has accelerated the centre of gravity of the global economy to the Asia-Pacific. We not only need to consider relations among ourselves, but how we relate to the rest of the world.

The G-20 process which was raised to

the summit level during the crisis is a welcome development that broadens the membership of the "steering committee of the global economy". However, power in the international system is increasingly diffuse, other voices need to be heard and mechanisms are needed to bring their concerns to the table. We have existing groups, of which Apec is one – its membership includes half of the G-20, and it has its own agenda and objectives. However, it can also be a mechanism for making global governance more inclusive. Asean has also been invited to the G-20 meetings. While the South-east Asian grouping has an enormous challenge in creating a single economic community by 2015, progress is being made, but it too must consider its considerable stake in the global system.

Resolving the impasse

One area where this region should be doing more work and confidence building is how to resolve the impasse in the World Trade Organization (WTO) negotiations. We have benefited immensely from the rules-based trading system, and it is time for the region to take a greater stewardship role and contribute to its strengthening.

While trade and financial flows understandably top the regional and international agenda, we cannot ignore the need for cooperation on sectoral issues. Energy and food security are issues that can bring down governments. The drive for self-sufficiency in these areas is understandable, but can lead to disastrous consequences – with the people whom the policy meant to benefit bearing the costs of policy failure. In these times of economic volatili-

ty, we need to find mechanisms to ensure that markets are competitive and remain open to all.

Confidence in the international market for these products is a pre-requisite to a stable regional system. Without this, we risk a descent into beggar-thy-neighbor policies and increasing distrust of one another. This type of thinking will only lead to a loss of the gains that the region has made over these years.

In considering this paradigm shift, we must also consider the political dimension. Reforms are difficult at the best of times, let alone while a crisis is still unfolding. They require leadership and political will. One role that organisations such as PECC need to play is not only providing a venue for discussing policies but also creating communities that understand the challenges ahead. These communities need to articulate and explain the issues to the broader public. Without this process of public engagement, mustering the requisite political will may be difficult. A wavering in the path ahead may be convenient at times but ultimately costly to all our societies.

Jusuf Wanandi is the co-chair of the Pacific Economic Cooperation Council and vice-chair of the Board of Trustees of the Centre for Strategic and International Studies in Jakarta

Tan Khee Giap is the chair of the Singapore National Committee for Pacific Economic Cooperation and co-director of the Asian Competitiveness Institute (Singapore) at the Lee Kuan Yew School of Public Policy, NUS

Eduardo Pedrosa is the secretary-general of the Pacific Economic Cooperation Council