

PECC XIV GENERAL MEETING
Plenary Session II: Pacific Response to Globalization
28 November 2001, Hong Kong
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There are certain realities that are shaping how the citizens and governments of the Pacific Region are responding to the challenge of globalization. Identifying these realities and how the Pacific economies are responding to them or how I think they should respond is how I propose to tackle this topic.

- o The first reality is that there is a paradigm shift in the way governments and business relate to each other because of the demands of the new economy.
- o The second reality is that the countries of the Pacific region, particularly in East Asia, while reeling from the dotcom bubble burst, will be even more dependent on technology to feed their people and to drive their economies forward.
- o The third reality is the importance of America to be the major influence for economic growth in East Asia will diminish relative to Japan and China.

Business-Government Relationship

The New Economy requires a paradigm shift in the way governments and private sectors operate and interact with each other. Much has been said about the importance of corporate governance, which is the primary point of interface

between government and business sector and so I will not say more about it here. What I want to focus on is how this relationship impacts on or is impacted by technology development. Here, on the one hand, government policies shape the development and application of new technologies. Examples would be areas of macroeconomic policies that foster innovation and entrepreneurship. Microeconomic policies would include such areas as intellectual property and taxation. On the other hand, governments must adapt current policies whose relevance is being undercut by new technologies or have become barriers to further development. An example would be the current treatment of the modes of delivering information, which has led to inefficiencies and stymied innovation. Governments who have adopted convergence policies, which has led to the bundling of broadcasting, telephone, cable and Internet service by providers, at much cheaper rates and with technologies in each mode complementing or enhancing each other. Because of this interaction between policy and technology, public and private sector must work closely together to ensure that countries can cope in what has become a constantly changing high-tech environment.

The e-ASEAN Task Force is a good example of how business and government interact. Information technology has also been a major factor in driving this partnership forward. ASEAN governments increasingly see enabling the economy and society as key to future prosperity or even just to keep from falling behind. Because of the enormous resources and expertise required to bring this about, governments are forging alliances to acquire this technology and to build the necessary infrastructure. The achievement of e-ASEAN, a vision of a

networked ASEAN community of networked economies, is premised on a strong public-private sector partnership. The composition of the e-ASEAN Task Force that has been tasked to develop an action plan to achieve e-ASEAN reflects this thinking. Two representatives from each ASEAN country – one public, one private – are appointed by ASEAN Leaders from each ASEAN country.

Asian Economies Will Become Even More Dependent on Technology

Asian economies are already dependent on information technology industries, providing the manufacturing platform to supply the hardware requirements primarily of the West and the manpower for the software requirements. However, they have ways to go to fully reap the benefits of these technologies. The danger is that if Asian economies continue to serve as manufacturing platforms rather than innovators and consumer themselves, they run the risk of their economic fortunes being determined elsewhere as is the case now. Likewise, the application of these technologies as core development tools has however lagged so far.

So firstly, to ensure that they have control over their digital future, Asian economies need to foster a digital culture which is driven by a range of factors that include access to high level skills and strong research infrastructure; development of new and lasting education institutions; effective entrepreneurship; the protection of intellectual property rights; healthy and active capital markets, including access to venture capital; and a regulatory environment that promotes innovation and investment. Asia must now become more active rather than

passive, creating a new supply and demand relationship within the East Asian market itself and reducing dependence on other markets.

Secondly, information and communication technology (ICT) is a powerful engine of growth in itself because of the trade and employment it generates. But more important from a development standpoint is an acceptance of its effectiveness as an enabling tool in addressing the issues of development – making goods and capital markets work more efficiently, increasing productivity and efficiency in manufacturing and distribution, good governance, people empowerment, education and training, and health care. Thus for political leaders of developing economies in the Pacific region to commit themselves to ICT development, it must be integrated into the wider development agenda. Otherwise one risks succumbing to faddist impulses and taking away key resources and energy from core development programs. Programs to close the digital divide should not take the place of sustained efforts to lift people from poverty. Rather, they should be integrated into programs aimed at development of social and physical infrastructure, basic skills and education.

Biotechnology also holds the key to answering Asia's need for food and medicine but it faces several hurdles. Foremost is public acceptance of biotechnology applications. The second is heavy dependence on developed countries for research and development. Public education involving educators, industry and government jointly is needed to gain consumer acceptance. As for the second, the problem is that companies and research institutions in the West are backing away from research in controversial areas and the question is can

the developing world provide the legal regulation, the talent and the capital markets to develop such research?

America Will Diminish in Importance as Asia's Economic Driver

The U.S. will continue to exert major influence in the Asian economies by virtue of their being the region's major source of markets for its exports and source of investments. However, increasingly, Japan and China will become the dominant influence in the economic fortunes of the region. September 11 has raised the cost of doing business generally because of security concerns. That cost increases proportionately to the distance from between supplier and market. There are therefore strong reason to believe that the U.S. will outsource more from its neighbors – Mexico, Canada, the Caribbean and Central America. In fact, even before September 11, there was growing impetus for a hemispheric free trade area. There is the same pressure to create a self-sustaining third growth pole in East Asia with China and Japan as its fulcrum and indeed, Asian plus three is becoming more and more institutionalized each year. Doing so will limit political risk and enhance the region's competitive advantages. Within East Asia itself pressure from the emergence of China are forcing the region's economies to respond to the challenge of reorganizing and restructuring their workforce and their labor market to remain competitive. Doing so will require Asian economies to be more nimble and that means promoting relative freedom in capital, labor and property markets, as Hong Kong was able to do with the loss of its manufacturing capacity to China. For others in the region though, this is easier

said than done since this will entail some economic dislocation. But however difficult, the other option of erecting barriers to protect national industries is less sustainable and internationally not acceptable. With China poised to become a WTO member effective January, crunch time is fast approaching – East Asian economies will have to ask themselves what their comparative advantage is and then make a determined effort to build their economies around it, the short term costs notwithstanding.