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APEC and Development Co-operation

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Contributors

George Abonyi
Senior Advisor
Asian Development Bank and
Senior Visiting Fellow
Institute of Southeast Asian Studies
Singapore

Mohamed Ariff
Professor of Finance
Monash Mt. Eliza Business School
Monash University
Australia

Cheng Kang
Economic Division
Nanyang Technological University
Singapore

Joachim Gonzalez
Senior Fellow
Department of Political Science
National University of Singapore
Singapore

Donald C. Hellmann
Director
APEC Study Center
University of Washington
Seattle, Washington
United States of America

Lim Hua Sing
Professor
Faculty of Management
Chungyo University
Nagoya, Japan

Lu Jianren
Secretary General
APEC Policy Research Centre
Chinese Academy of Social Sciences
Beijing, China

Prabowo
Adjunct Lecturer
Indonesian Institute for Management
Development and
Research Associate
Centre for Economic Development
Jakarta, Indonesia

Seong H. Park
Senior Fellow
Department of Japanese Studies
National University of Singapore
Singapore

Leo Suryadinata
Associate Professor
Department of Political Science
National University of Singapore
Singapore

Tan Khee Giap
Economic Division
Nanyang Technological University
Singapore

Toh Mun Heng
Associate Professor
Department of Business Policy
National University of Singapore
Singapore

Amina Tyabji
Senior Lecturer
Department of Economics and Statistics
National University of Singapore
Singapore

Woo Yuen Pau
Director of Research and Analysis
Asia Pacific Foundation of Canada and
Director
APEC Study Centre
Canada

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Edited by
Mohamed Ariff

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Preface

In a 1995 document entitled APEC-INFRA 2020 Project, the member states of the Asia-Pacific Economic Co-operation (APEC) set themselves a target of infrastructural development as a priority area of concern to achieve greater integration of APEC member economies and to further sustainable economic development. Efforts to attain greater regional integration are being made in other regional groupings as, for example, among the member states of the European Union in a more developed environment and among the less developed Southeast Asian nations, which are within the APEC region. A system of international assistance to achieve this very same integration of nation states into a harmonious community of progressive nations began in 1947 under the auspices of the United Nations. That has become known as official development assistance, or ODA as it is dubbed in development economics circles, and has become a contentious resource allocation for both the providers and the recipients.

The ideas of externalities and social investment returns have been propped up in the economics literature to justify why ODA has to be considered to be outside the private sector activities of economic agents. It was assumed that social goods of the sort delivered by infrastructure are better produced and delivered outside the privately produced and competitively priced delivery systems of the private sector. So, ODA has become part of the public sector economic activities over the years. With innovations in financing patterns for long-term projects, ODA-type of investment in infrastructure has shown signs of strength to return to the practices of the mainstream private sector investment. This is especially so when developed nations' foreign direct investment (FDI), which is capital seeking higher returns in developing economies, started to find its way as FDI resource flows. Today FDI is the driving force to sustain the growth of several developing countries. With innovations such as build-and-operate and toll roads, there is a threat that ODA may become more blurred as a unique resource that *has* to be administered by the bureaucracies of governments and international bodies as private capital is forthcoming to develop, for example, production of infrastructure facilities, especially when policies favouring the private sector are being pursued to sustain development.

Despite this current status of infrastructure-related ODA deployments, ODA has been hailed as a salvation for the poorer countries, so it was claimed. The world has seen a huge mobilization of international resources directed

to alleviate human suffering in times of crisis; to improve human conditions of health, education, and population planning; technical assistance; and to build roads, rails, harbours, airports, telecommunications, and other visible infrastructure in the lands of over 100 poor nations. Assessing the impact of this vast development endeavour of dedicated men and women over almost half a century, Mosley (1987) came to two conclusions. International assistance has helped poor countries to attain levels of development from where they could take off towards further development, as proven in the case of South Korea. Many other countries, particularly middle-income countries, had their growth rates enhanced by the provision of ODA in general, apart from ODA's impacts in providing both soft and hard infrastructure.

The Institute of Southeast Asian Studies, which has a long history of research focus on development issues relevant to Asia, undertook this project to focus on this important international development issue from the perspective of APEC. This effort was ably assisted by the coincidence of interests of the Asia Centre of the Japan Foundation, Japan, which provided financial aid to undertake the study. The scholars, using resources of their own and their affiliated institutions specializing in the development studies of the selected countries, worked very hard to provide carefully structured reports on Canada, China, Indonesia, Japan, Singapore, and the United States. This joint collaboration led to this book, which, it is hoped, will provide an assessment of the importance of APEC co-operation for the development of poorer countries to secure progress of societies in the Asia-Pacific region.

APEC member countries may be grouped into three tiers. The third tier of countries consists of those with large populations and land masses but with very poor infrastructure. These countries presently include China, Indonesia, Mexico, and Vietnam (and, in the future, aspiring new members such as India). The second-tier countries appear to have developed the capacity to mobilize resources for development and have also begun to attract non-ODA resources for infrastructure development. These countries are mostly small or medium-sized, often having started on the path to development from a higher level of income and therefore a higher level of development than those in the third tier, the most in need of assistance in infrastructure; examples are Chile and Malaysia. The first-tier countries are those with the money and the technology to provide infrastructure; Canada, Japan, and the United States fall into this tier. Singapore has recently become an active mediator, providing technical assistance services to the poorer countries. Looked at this way, the ODA experiences of China and Indonesia provide important lessons, which can be generalized, involving what may be dubbed the *symptomatic patterns of development*. These patterns can be found in several APEC countries that have a great need for infrastructure.

Resources provided through ODA, which grew at over 15 per cent per annum throughout several decades to 1980, have now shown signs of decline — some

writers say *aid fatigue* — in the 1990s. The annual value of ODA resources is estimated currently to be US\$65 billion per year, of which Asia receives only about one-sixth, befitting its higher level of development relative to, for example, the Sub-Saharan Africa or the Southern Cone countries. While the United States is providing resources outside the ODA framework by maintaining the *Pax Americana* that secures a thriving development environment in the Asia-Pacific, Japan has directed half its total aid resources to Asia. Notably, the portion of aid from Japan directed to infrastructure in Asia comes to 40 per cent. The United States' aid for infrastructure is low, 4 per cent of its total aid for Asia.

With the greater economic openness that has been symptomatic of countries promoting high growth, more resources have been added to the narrow base of ODA resources. The growth rates of these other resources are much higher than is the case with ODA. For example, in 1996 the resource flow from FDI to developing countries amounted to US\$100 billion. This welcome development — these other forms of resource flow are freeing resource constraints for infrastructure development — is taking place at a time when reforms in governance are focused more on providing soft infrastructure such as education, health services, population control, land planning, and law and order. An important feature of these new resources is that these are likely to flow to the second-tier countries because of their liberal economic environment. The providers of these non-ODA resources seek profits from investing in hard infrastructure, and are not keen on providing similarly needed help for soft infrastructure. The point to note is that the private sector is entering what once used to be the domain of the public sector.

Consequently, the private sector, spurred by the profit motive, has begun to finance what was previously called the social goods production. The privately produced but monopolistically distributed grid lines in energy supply and telecommunications, etc. are setting patterns that will be extended to the provision of other hard infrastructure such as roads, rails, airports, and seaports in the near future. Multilateral bodies such as the World Bank and the Asian Development Bank are already taking equity positions in private firms formed with the specific purpose of infrastructure development. This has certification value which reduces the high risk inherent in the traditional social goods production and delivery, especially if these goods are delivered in a non-market pricing environment. Other political and social development is also making it possible to get the private sector to be involved in the production of goods previously dubbed public goods.

Thus, the clear demarcation of ODA as the source of financing infrastructure for the public sector may soon have to go. We have to accept the blurring of the line, at least with regard to the second-tier countries, which are attracting the private sector to provide the hitherto ODA-supported infrastructural development. The countries that have not travelled the route to greater openness

and market-based pricing of public goods and services may still find the preferential terms of ODA loans the only way to developing infrastructure. But, with adoption of liberal policies by these countries at some future time, the dependence on ODA for infrastructure development may become a thing of the past as these third-tier countries, like their early second-tier counterparts, may also succeed in creating conditions that will attract non-ODA resources for this purpose. Meanwhile there is need for incorporating infrastructure needs within the APEC frame of reference to achieve greater integration among the nations in the grouping. That will certainly contribute towards sustaining the growth that has occurred in the member countries during the last two decades.

With that note of optimism, I would like to thank several people who made this study and publication of its findings possible. Professor Chia Siow Yue, the Director of the Institute of Southeast Asian Studies, provided fervent support for this APEC study. The excellent secretarial work of the staff at the Institute made a great difference to me when I could rely on their time-tested methods of handling conferences. Of particular help was May Wong who provided continued support to get the papers into shape for publication in a book form. Finally, I thank the Monash University for giving me leave to edit this book during the later part of the second half of 1997. This work would not have been possible without the invitation of Professor Chan Heng Chee, the former Director of the Institute, now Singapore's Ambassador to the United States.

Mohamed Ariff
Monash University
Melbourne, Australia