

## **SUSTAINING ASIA-PACIFIC ECONOMIC DYNAMISM THROUGH PUBLIC-PRIVATE PARTNERSHIP**

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‘PUBLIC-PRIVATE PARTNERSHIP’—the *buzzword* for the involvement of private business in providing public services and infrastructure—seems to have been ‘invented’ in Britain in 1992.

Since then it has become a *generic* term for describing any form of private-sector involvement in providing public services.

‘Public-private partnership’ has come to cover everything from the outsourcing of big-city rubbish collection to the sale of public utilities, and *build-operate-transfer ventures* to lay out toll highways, airports, municipal water systems and other large-scale public works.

### **THE PUBLIC-PRIVATE PARTNERSHIP IN EAST ASIA**

But when we in East Asia start thinking about the topic, we begin to realize the public-private partnership didn’t start only 15 years ago.

Public-private partnership started half a century ago—and in our *own* home-region.

In the West, development is *historically* the work of inventors, entrepreneurs, industrialists, investors. Once they had colonized *captive* markets and raw-material sources, governments helped largely *by getting out of the way of business*.

In East Asia, things happened *differently*. In the most successful countries in our region, governments played a leading role in growing the economy and in lifting up the common life.

In East Asia, development was a public-private effort—with interventionist states being for the most part the *majority* partner.

In East Asia, the partnership was of *intelligent* states and *visionary* entrepreneurs willing to think long-term. In Northeast Asia, where growth began, the concept was pioneered by technocrats and bureaucrats concerned not with profit but with

national security and military strength.

The concept was founded on the key idea that, in the modern era, “late industrializers” could transform their economies simply by *learning* from those countries that have preceded them.

They modernised their economies by borrowing the technology—and profiting from the mistakes—of the modernizers of the eighteenth and nineteenth centuries, who had industrialized more painfully, by *invention* and *innovation*.

Given intelligence at the top, professional bureaucracies and a good supply of entrepreneurs, these East Asian states made what has become known as “soft authoritarianism” pay off in national strength and higher living standards.

And the partnership proved so successful the World Bank called it “the East Asian miracle.”

Starting around 1960, eight East Asian economies—first, that of Japan; then those of the four ‘tigers,’ Taiwan, South Korea, Hong Kong and Singapore; and, lastly, the three NIEs or ‘newly-industrializing economies’ of Thailand, Malaysia and Indonesia—borrowed foreign technology, chose the industries in which they could excel, and started exporting their way to growth.

Between 1965 and 1990, these economies grew more than *twice* as fast as the rest of East Asia; roughly *three* times as fast as Latin America and South Asia; and *five* times faster than Sub-Saharan Africa.

## **INTELLIGENT STATES AND MARKET ECONOMIES**

Unlike the classical market state, the East Asian states did not limit themselves to providing the standard government services. Spurred by threats, both internal and external, to their physical survival, they pro-actively promoted economic growth.

Not only did they ensure their financial systems were stable and secure, and their economies open to foreign technology. They also invested heavily in health care; basic education and mass housing—modernized agriculture and rural infrastructure—and made sure living standards rose proportionately to GNP growth.

In the World Bank’s judgment, *positive* state interventionism—particularly in Japan and in South Korea—resulted in *higher* and more *equal* growth than would have otherwise occurred. And just as *wisely*, the *weaker* and *less effective* Southeast Asian states,

Thailand and Indonesia, intervened less—allowing the market more leeway.

### **DEREGULATION AND LIBERALIZATION IN THE PHILIPPINES**

We in the Philippines were left out of the ‘miracle’ because we had kept our economy *closed* during the time our neighbours were exporting their way to development.

Historically the Philippine state has been too weak to resist the influence of powerful individuals, families, and clans, who are able to *organize* monopolies and cartels—*tilt* the rules of competition in their favour—and *acquire* privileged access to the rents and commissions generated by public investments.

Until now, economic reform among us is more ‘negative’ than pro-active. *Deregulation* and *liberalization* are its standard operating processes, and both do no more than get government out of the way of the market.

### **DEREGULATION AND LIBERALIZATION DURING THE RAMOS ADMINISTRATION**

In this regard, the record of the reformist Ramos Administration (1992-98)—in which I had a small part—is instructive.

Determined to start up economic modernization, General Ramos set out an ambitious reform program as soon as he became president. His principal aim was to make the economic environment attractive to foreign investment; and toward this goal, he embarked on de-monopolization and deregulation.

—*De-monopolization* of telecommunications in 1993 opened the floodgates of investments in the industry and made the Philippines a rising power in the business-process-outsourcing (BPO) industry.

—*Deregulation* of the downstream oil industry ended the politicization of oil pricing—adjustments to which had historically set off civil disturbances.

—‘Privatization’ of Metro Manila’s water system in the middle 1990s was the world’s largest program of its kind. It both eased Manila’s perennial water shortage and brought down the price of piped water for both households and industry.

That Ramos’ six-year term expired without his being able to

bring down even just the electric-power prices and impose an “open skies” policy tells us how much influence special interests continue to exert in Philippine politics.

### **THE BUILD-OPERATE-TRANSFER LAW**

Early on during President Ramos’ term, Congress adopted a *landmark* ‘Build-Operate-Transfer’ Law to empower private investment in public infrastructure programs, which has become a model for other developing countries. The law’s principal author estimates that it has to date made possible private investments in public infrastructure valued in excess of US\$26 billion. These projects include Metro Manila’s mass-transit system, which has helped relieve the primate city’s traffic gridlocks; and toll highways north and south of Metro Manila, which have eased travel along Central Luzon’s backbone.

### **IN THE WEAK STATE, PUBLIC-PRIVATE PARTNERSHIP CAN WORSEN CORRUPTION**

At every step, the state in the developing world is wise to preserve the balance between the private and the public sector. In the weak state, *interventionist policies multiply the opportunities for corruption*. Most everywhere, *illegitimate* privatization has led to the *stripping* of state assets.

Scandal has been attached to the award of mineral rights; the grant of franchises, business concessions, and government guarantees to private service-providers; the passage of laws giving away tax incentives to industries; and inducements for officials to overlook environmental safeguards.

In many places, the public-private partnership has simply meant high officials and big business-people turning into *fellow-conspirators against the public interest*.

Against these *moral hazards*, the openness of transactions in public-private partnership is the citizenry’s only safeguard. But few of our states have the requisite “Freedom of Information Act” *that* would make civil society’s monitoring of the public-private partnerships both feasible and effective.

In the circumstances, good political and corporate governance is the only lasting safeguard against the public-private partnership going wrong.

## **FUTURE OF THE PUBLIC-PRIVATE PARTNERSHIP**

East Asia's combination of *intelligent, interventionist* states and *visionary* entrepreneurs should enable our home-region to pace global growth all over again—as it did between 1960 and 1990.

Deng Xiaoping's embrace of *globalization*—starting with his program to create special export-processing zones in Southern China in 1979—has enlisted a formidable country on the side of state-led modernization.

Already globalization has lifted hundreds of millions out of poverty. The interdependence it promotes also promises a *future* world *without* great-power war.

All the global heavyweights—not just the United States, the European Union and Japan but also China, India, Brazil, Indonesia, South Korea and, now, Russia—are being *embedded* in dense *networks* of economic, political and security relationships that serve their mutual interests.

*After* the collapse of the Soviet Union, the United States had seen China as its military near-equal and potentially violent rival. But now, it seems to regard *neither* China nor Russia as a military threat any longer.

In fact, under its emerging strategic vision, Washington apparently regards Beijing more and more as *strategic partner* in providing *joint leadership* to the global economic system.

## **THE EBB AND FLOW OF PUBLIC-PRIVATE PARTNERSHIP**

Hence, the future for public-private partnership seems secure, particularly in the Asia-Pacific—which is barely a decade away from economic unification under its APEC umbrella.

Of course, we may expect the dominant partner in every specific partnership to vary between countries and over time. During periods of crisis—such as the present—the state may grow in relative power. During stable periods, the private sector should contain the State more easily.

Crises, by definition, never last. Despite all the progress it has seen, the Asia-Pacific still has tremendous need for transport, power, safe water, sanitation and other vital services. The Asia-Pacific still has great infrastructure gaps that must be filled—if our region is to conquer its age-old poverty and break out into the

realms of continuous growth.

The Asian Development Bank estimates this gap to be a US\$3 *trillion* challenge for the public-private partnership to bridge.

It is also a truism that every economic policy produces winners and losers. The state's proper role is to see that the policy serves the greater good. The state's primary concern should be to ensure the economy works for ordinary people.

Ideally the public-private partnership allows both sides to focus on their core competence. This core competence should include good political and corporate governance—if the public-private partnership is to be of lasting benefit to our Asia-Pacific peoples.

### **THE COMMON GOOD MAKES GOOD POLITICAL AND BUSINESS SENSE**

Let me conclude with this simple message.

There is reason to believe that, from Wall Street's crisis, both the American financial system—and the world's—will emerge *stronger*.

But those who rightfully demand “never again” to “greed in Wall Street and in Washington” and to “casino capitalism” would have to be patient—*because* the *uncaring* and *caring* character of human beings everywhere is *unchanging*.

To sustain the economic dynamism of the Asia-Pacific through public-private partnership, we must strive to *empower* the regional environment—through continuing reforms to generate confidence in the *uncommon* sense that caring for the common good—as the Wall Street's financial crisis is earnestly telling us—also makes good political and business sense.

In any case, regardless of our choices, we're all heading inexorably—no matter what our preferences—toward the great equalizer.

As the great English economist John Maynard Keynes noted (in his *Tract on Monetary Reform*), “in the long run, we are all dead.”#

