Some Thoughts in Manila

By Kazumasa Kusaka

The trip from the airport to the conference venue, a distance of 12 kilometers, took 15 of the delegates between 40 minutes and four and a half hours, about two and a half hours on average. The occasion was the 16th JEF Asia-Pacific Forum, co-hosted by the Philippine Institute for Development Studies, which took place in Manila in November 2017.

On the sidelines of the conference, the notable topic was, "Is this traffic congestion something to celebrate as the cost of the remarkable economic expansion in this area?" or "Should we deplore the lack of city planning and infrastructure investment?"

The subject of the conference itself was how to achieve inclusive growth as globalization and the Fourth Industrial Revolution progress, and we were supposed to seek solutions and learn from each other about policy successes and failures. In the meeting room, one of the themes was the role of FTAs. There is a saying in Japan about "building a Buddha statue without attempting to create the soul in it", meaning that you may plough a field but forget to put the seeds into it. Development of institutions or agreements alone, such as FTAs, does not complete the work of "building a Buddha statue".

In other words, the deepening of economic integration and economic growth among nations will affect the domestic economies, societies and politics in each of our nations and regions. However, are losses of employment opportunities, such as fewer workers seen in factories, caused by globalization? Or is the main driver of such a predicament technological innovation, such as robot technology, IoT, AI and other new technologies developed in this era of the Fourth Industrial Revolution? Of course, both globalization and the Fourth Industrial Revolution are predicted to cast both light and shadow on the domestic industrial structure and labor environment. And the big challenge is how to manage the impact of the shadow by correcting the growing and persistent income and asset disparities.

Another point of interest was how a democratic country can prioritize infrastructure investment plans under the constraint of limited financial resources and the difficulty of relocating residents. In many Asian countries, the unintended concentration of the population on the national capital region is continuing. Given this challenge, do we put priority on solving the bottleneck where the industry-government-academia complex is located? Or should we increase local infrastructures to compensate those regions left behind by dynamic economic and income growth? The answers may vary from the economic and political perspectives, reflecting the financial returns on investments or the desire for reelection.

During Japan's high-growth period, Japanese Prime Minister Kakuei Tanaka campaigned for office by authoring the "Plan for Remodeling the Japanese Archipelago". Some 100 years after the Meiji Restoration, congestion in the Tokyo Metropolitan area and depopulation in local regions had reached a crucial limit, and therefore he argued that we had to reverse the flow of people, resources, money and information from Tokyo to regional areas, based on his personal experience of coming from the "snow country" of Niigata where locals suffered from a lack of job opportunities especially during the winter. The provision of highways, Shinkansen bullet trains and bridges between islands aimed at accelerating local industrialization in order to solve social imbalances between Tokyo and the regions, as well as tackling pollution in the populous areas and creating more local jobs.

According to the Asian Development Bank, the demand for Asian infrastructure investment toward 2030 will total $1.7 trillion, half of which will be in the electricity sector, and 30% in the transportation sector. As ADB President Takehiko Nakao points out, for a developing country to succeed, in addition to infrastructure investment, investment in human resources, open trade and an investment regime, an active private sector and good governance are crucial. Given the limitations in concessional funds, it should be fairly recognized that the Asian Infrastructure Investment Bank and the "One Belt, One Road" initiative will contribute to raising the ceiling of financial supply.

However, we have to note that there is abundant money at low interest rates and it is strategically important to mobilize this private money into projects that can earn reasonable profits. President Nakao recalls that in the 19th century most big railway projects were financed and operated by private companies in the United States, the United Kingdom and Japan, as well as irrigation projects in the Edo period in the 17th century. Bearing this history in mind, the animal spirits of business as seen in the global infrastructure investment boom in the 19th century are very much needed today. Needless to say, adequate provisions for public-private partnerships together with better functioning of capital markets are prerequisites for bringing in private money.

Meanwhile, in November 2017, the Philippines approved a $7 billion subway project in Metro Manila to be built with Japanese financing. The subway line will run from cities in northern Metro Manila to Ninoy Aquino International Airport, the country's main gateway. The country's first underground mass transit line is expected to relieve some of the gridlock in the metropolis, which is home to nearly 13 million people. Good news!

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