

REPORT

**NEAT WORKING GROUP ON
EAST ASIAN INVESTMENT COOPERATION**

WEIHAI, SHANDONG PROVINCE, CHINA

JULY 1, 2005

I. INTRODUCTION

NEAT China hosted the Working Group Meeting on East Asian Investment Cooperation in Weihai, China on July 1st, 2005. Representatives from 12 NEAT countries (Brunei was absent) attended the Meeting. Ambassador Wu Jianmin and Professor Yupha Klangsuwan, NEAT Co-Interim Coordinators, welcomed all participants. Ambassador Wu Jianmin, Professor John Wong and Professor Makmur Keliat moderated the discussion, which was candid, practical, and fruitful. The participants examined the overall situation of East Asian investment cooperation, identified major favorable conditions and some major drawbacks, and put forward valuable policy proposals for the further development of investment cooperation.

II. HIGH TIME TO PROMOTE INVESTMENT COOPERATION

The participants of the Meeting have realized that it is high time to promote East Asian investment cooperation. There are three favorable factors.

1. East Asia is the most dynamic region in terms of economic development in the world. Empirical studies and analyses have shown that investment cooperation grows fastest when economy experiences rapid development. In this sense, the region is endowed with a golden

opportunity for investment cooperation.

In the past three decades from 1973 to 2003, global GDP growth rate was around 3.5%, but that of East Asia was 5 percentage points higher, reaching 8.5%. Some forecast says that in the 30 years from 2000 to 2030, the global real growth rate will be about 3%, while that of East Asia will be 2.2 percentage points higher, reaching 5.2%.

2. Expanding international trade propels global economy and facilitates the investment. The trade growth in East Asia has been remarkable.

In 2004, global trade grew by 9.9%, 3 or 4 points higher than the average rate for the past decade. From 1980 to 2004, East Asian trade grew at 10.4% per year, enlarging its share of the total global trade from 7.7% to 18.1%. In 2004, the 10+3 countries' trade dependence rate reached 40%, well above the 28% of the Euro zone. In 2003, 54% of the trade volume of the 13 economies in East Asia was intra-regional. Though it did not yet reach the 64% level of the Euro zone, it exceeded the 46% level of NAFTA and was 20 % higher than East Asia's own trade volume in 1980.

3. The recent growth in economy and investment at the global level provides East Asia with a good opportunity to play a more important role in the new round of direct investment expansion.

After shrinking for 3 successive years, global direct investment finally had a 6% increase in 2004, totaling US\$612 billion. Direct investment bound for East Asia began to grow as early as 2002 even when global direct investment was still decreasing. At present, the direct investment in East Asia is growing fastest in the world and tends to continue the momentum in the further.

III. FAVORABLE CONDITIONS FOR INVESTMENT COOPERATION

The participants have identified the major favorable conditions for East Asian investment cooperation.

1. East Asian economies are complementary. East Asia has highly diversified economies, with different levels of development, different degrees of industrial structuring, and different factor endowments.

In 2003, Japan had the highest per capita GDP of US\$ 34,010, while some developing countries in the region had less than US\$ 200. As for the industrial structure, East Asia has a highly developed economy of Japan, NIEs, industrializing ASEAN countries and China, and less developed ASEAN countries. In terms of factor endowments, Japan boasts abundant capital and advanced technologies, but lacks natural resources and has costly labor force. ROK has technological edges in some technological

areas, but shares similar problems as Japan. China has a large reservoir of low-cost labor and huge market potential, but the national economy develops unevenly across regions and sectors. Indonesia and other Southeastern countries are endowed with rich mineral resources, which are to some extent underexploited due to insufficient capital input.

2. There is ample capital. Economic growth goes hand in hand with significant growth in income. East Asians tend to save money and East Asian nations hold huge foreign reserves. Thus, ample capital is a conspicuous feature of the region.

The savings rate in East Asia is quite high. In 2003, the savings rates of Singapore, Malaysia and China are respectively 45.7%, 41% and 37.6%. These figures suggest people in the region have a lot of money. Take China as an example. In China's Yangtze River Delta area the money held by people is estimated to be about US \$300 billion and in China's Guangdong Province alone the estimated number is US\$200 billion. Currently, the foreign reserves of East Asia is about US\$2300 billion, which accounts for 2/3 of the world's total. Much of the money is spent on US treasury bonds. It is perhaps a reasonable way to keep money. But the yield is low. Moreover, it makes East Asia more vulnerable to the depreciation of the US dollar. On the other hand, some East Asian economies, the less developed ones in particular, have poor infrastructure and are in urgent need of investment. Some analysis shows that in the

next 5 years, East Asia's developing members will need US\$1000 billion to fund their infrastructure development. Thus, there is great potential for investment in the region, where both demand for and supply of capital are present.

3. East Asian economic cooperation is dynamic, providing impetus and advantages for East Asian investment cooperation.

The achievements made so far have been mainly in the fields of trade and finance. Vigorously promoted is the establishment of various free trade areas. A great achievement in financial cooperation is the establishment and expansion of the 10+3 Chiang Mai currency swap system. The successful launch of Asian Bond Market also marked important progress of East Asian financial cooperation.

IV. DRAWBACKS AND INADEQUACIES

1. Uneven development across areas of economic cooperation and lack of coordination. Such uneven development and lack of coordination have become serious drawbacks. Trade cooperation in East Asia has been moving very fast and financial cooperation has followed fairly closely. However, investment cooperation is lagging behind. Thus to achieve a more balanced development of economic cooperation in various fields, special attention ought to be given to investment cooperation.

2. Insufficient institutional capacity. Effective institutions should be enhanced to mobilize funding for investment. The existing institutions, both domestic and regional, should be enhanced and establishment of new ones may also be an option, such as an East Asian investment bank. A knowledge-based one is in particular need.

3. Lack of major investment projects. If there were no quality projects, the money would have no where to go in the region. Investment in infrastructure is in particular need, not only for faster economic development, but also for poverty alleviation and for a more balanced and sustainable development in the region.

4. Low level of human resources development. This is a weak link and will constitute a major drawback, especially for the low-income developing economies in the region.

V. POLICY PROPOSALS

1. To improve the environment for intra-regional investment, strengthen the framework of investment cooperation, and enhance policy coordination of all economies in the region in their efforts of attracting FDI.

(1) Improve domestic investment environment including legal systems, transparency of information, approval procedures, intellectual property rights protection, and mechanisms for dispute settlement.

(2) Implement the existing bilateral agreements on investment protection. Discussions on FTAs and intra-regional negotiations should be held in order to construct an investment framework that will not only promote the regional economic development but also fully reflect the interests of all economies concerned.

(3) Set up a system of networks for investment in East Asia. This system may consist of a network of flow of goods, a network of investment information, and a network of investment cooperation gardens.

(4) Establish a training center for investment cooperation in East Asia. It is meant to improve the efficiency of investment administrations, the management of enterprises in handling transnational businesses, and the competency of human resources in the region.

(5) Upgrade the financial and insurance service systems for investment cooperation, and make full use of diplomatic resources to facilitate the overseas investment and transnational operation of enterprises.

2. To organize big projects for investment cooperation, build a pan-Asian

transportation network and explore the probabilities of cooperation in the fields of environmental protection, agriculture, energy, etc.

Big projects are crucial for successful investment cooperation. Governments should play a coordinating role and jointly organize and promote big projects, especially for infrastructure construction. At present, the priority project can be a pan-Asian transportation network, including a pan-Asian railway, pan-Asian highway, and pan-Asian waterway. Measures should be taken to coordinate the policies of transportation management so as to form a network of efficient and convenient transportation systems in East Asia.

3. To develop the Asian Bond Market and enhance investment institutions for East Asia.

The Asian Bond Market should be developed into a safe, convenient and efficient channel for the investment cooperation in East Asia.

(1) Strengthen the coordination mechanism. The responsibilities of the six working groups should be expanded, including in-depth analyses of infrastructure development, investment opportunities, accounting systems and information sharing. The Meetings of Finance Ministers and Central Bank Governors should place this task on top of their agenda. The development of domestic and regional bond markets should be well

coordinated.

(2) Expand the size of the Bond Market. The second stage of Asian Bond insurance should be completed at an early date, with the total amount raised to US\$8 billion, so as to increase the investment in regional bonds, especially the bonds issued by governments and financial institutions.

(3) Increase the bond supply. The Asian Development Bank should issue more bonds denominated in the currencies of East Asian countries or an East Asian basket currency, so as to facilitate the development of the regional bond market and provide technical assistance for the market.

(4) Enhance information exchange and monitoring. An East Asian rating agency may be set up for East Asian bond issuance, especially for small issues and small countries.

(5) Strengthen the role of governments in making more effective use of the existing institutions and establishing new ones, which may consist of an East Asian Investment Fund and an East Asian Investment Bank.

VI. CONCLUSION

Investment cooperation is an important part of and great facilitator for East Asian community building. To promote investment cooperation, East

Asian nations need to show vision, commitment, and political will so that we can invest not only in our economic development, but also in peace, prosperity, and progress.

ANNEX 1: Program of the NEAT Working Group Meeting on East Asian Investment Cooperation

ANNEX 2: List of Participants