

Report

**NEAT Working Group
on East Asian Investment Cooperation**

Beijing

6 August 2007

Introduction

The NEAT Working Group Meeting on East Asian Investment Cooperation was held in Beijing, China on 14-15 July 2007. The participants included scholars and experts from 12 of the ASEAN Plus Three countries (Brunei was absent). Concurrently held was the 3rd East Asia Investment Forum. The two events shared an Opening Session and Keynote Speeches. And then the NEAT Working Group Meeting had panel discussions.

Amb. Wu Jianmin, Co-interim Coordinator of NEAT and President of the China Foreign Affairs University, chaired the Opening Session. Mr. Cheng Siwei, Vice Chairman of the Standing Committee of the National People's Congress, P.R.C., Mr. Liao Xiaoqi, Vice Minister of Commerce of China, and Mr. Cui Tiankai, Assistant Foreign Minister of China, made opening remarks.

In the Keynote Session, three NEAT Working Group members gave speeches. They were Mr. Jusuf Wanandi, Vice Chair of the Board of Trustees, CSIS Foundation, Centre for Strategic and International Studies, Indonesia, Mr. Noboru Hatakeyama, Chairman of the Japan Economic Foundation, Prof. Qin Yaqing, Executive Vice President of the China Foreign Affairs University.

Panel discussions focused on 4 themes:

- Progress and Current Situation of East Asian Investment cooperation;
- Opportunities and Prospects for East Asian Investment Cooperation;
- Problems and Obstacles in East Asian Investment Cooperation; and
- Proposals and Suggestions for Furthering East Asian Investment Cooperation.

I. Progress, Opportunities and Prospects

1. Progress and Favorable Factors

Significant progress and some favorable factors have emerged in global and regional investment cooperation. A few positive interactions are mentioned. First, there is a positive interaction between global economic growth and international investment recovery. In the past five years, the new wave of global economic growth has been supported by the recovery of international direct investment. According to IMF, this trend is likely to continue. Such a positive interaction will produce better environment and opportunities for East Asian economic growth and investment cooperation.

Second, there is a positive interaction between East Asian investment cooperation and trade cooperation. The swap size of the CMI exceeds 80 billion U.S. dollars; the ASEAN-China agreement on free trade in service is being implemented; regional and

bilateral FTAs are under study or negotiation. These developments in trade cooperation have created favorable conditions and produced demand for East Asian investment cooperation.

In addition, there are positive interactions between investment cooperation and investment policies, and between regional countries such as China and Japan. All these positive interactions have helped create better opportunities for investment cooperation.

2. Opportunities and Prospects

- 1) Sub-regional economic cooperation has gained new growth momentum, for instance, the Pan-Beibu Gulf region and the Mekong Delta.
- 2) Overseas economic and trade cooperation zones provide a new platform for East Asian investment cooperation. This is a new model. An overseas economic and trade cooperation zone enables specialized industries to form closer links through industry cluster and finally turn into a well-developed specialized industrial park.
- 3) The investment chapter in FTAs involving ASEAN+3 members that are still being negotiated can form the basis for an East Asian region-wide investment regime. In the meantime, ASEAN should immediately extend the ASEAN Investment Area (AIA) agreement to other ASEAN+3 members.
- 4) The Trade in Services Agreement of the ASEAN-China Free Trade Area allows regional economies to turn their comparative advantages in service industry into competitive strengths in mutual investment cooperation and create new opportunities for East Asian investment cooperation.
- 5) Environmental awareness has increased. Many countries are doubling their efforts to develop clean energy and environmental protection as an industry.

II. Problems and Obstacles

1. Economic, trade and investment cooperation in East Asia is more functional than institutional. FTA agreements among the 13 East Asian countries are far from enough, and only one free trade area, namely ASEAN FTA, has been well established. Regimes and rules are needed for this purpose.

2. There is a lack of coordination in investment cooperation policies. No regional investment arrangement has been reached till now except for ASEAN Investment Area (AIA). There is a lack of regional investment rules, which can help SME's FDI indispensable for less developed East Asian countries and developing countries that

have started increasing out-bound FDI.

3. Financing channels are not well open. It is difficult to effectively balance the supply and demand of capital in East Asia. Asian bond market has been developing slowly with serious structural problems. Although corporate bonds have increased, government bonds still dominate the market.

4. “Green investment cooperation” projects are far from sufficient. Many East Asian countries suffer from pollution and greenhouse-gas emissions. The economic losses caused by environmental pollution are staggering. It is encouraged that countries in the region participate in relevant international regimes and commit themselves to the reduction of greenhouse-gas emissions.

5. Political instability may create serious problems for investment. Relations among nations and stability inside countries are both important for investment.

6. Social obligations and cultural understanding need to be further enhanced to facilitate investment. In investment cooperation, obligations shall not be ignored in protecting ecological environment, sustaining and continuously improving local laboring and living standard.

III. Policy Recommendations on Investment Cooperation in East Asia

1. Consolidate the overall environment for investment cooperation, that is, regional economic cooperation, especially financial cooperation. It is proposed that FTA building be sped up and the investment element in FTA arrangements be strengthened. Greater importance shall be attached to new models of East Asian investment cooperation, for instance, overseas economic and trade cooperation zones. Some participants proposed that some fund-pooling mechanisms be considered to utilize the huge foreign reserves in the region.

2. Advance investment cooperation in infrastructure development. Ten years after East Asia initiated regional integration, the demand for infrastructure of transportation, energy, water and telecommunication is even more pressing. Although this is particularly true for the less developed nations, it is also important for the more developed ones. Investment cooperation on regional transportation networks shall be advanced, such as a Pan-Asia transportation network with Pan-Asia railway and highway. The possibility shall be explored to get more private investment involved by issuing Pan-Asia transportation network bonds. It is suggested that a special task force be set up to study cooperation in infrastructure investment and to come up with a comprehensive plan to be proposed to ASEAN+3 leaders and Ministers next year.

3. Improve hard and soft environment for investment. Both the hard and the soft

environment for East Asian investment cooperation should be improved. To improve soft environment for investment cooperation, we should have more transparent law-making and implementation processes, more investor-friendly institutional environment, enhanced human resources development in service sectors and more effective cooperation on International Property Rights protection. Bilateral and regional investment rules should be established and incorporated in FTA arrangements in the region.

4. Strengthen cooperation on green and sustainable investment projects.

Governments' support shall be drummed up to strengthen cooperation on projects related to Clean Development Mechanism (CDM) to jointly tackle climate change. It is suggested that demonstration projects of green investment cooperation be set up. As a start, environment-friendly products can be developed by combining the capital, clean technologies, energy and resources from countries in the region. And then comprehensive demonstration projects can be built accordingly. Moreover, it is most urgent to increase corporate awareness of social responsibilities in developing green projects.

5. Combine global and local elements. Glocalization (globalization and localization) deserves special attention and study in investment cooperation. With more and more international investment being conducted in the form of cross-border mergers and acquisitions, further studies should be made in international mergers and acquisitions and especially to develop better understanding of foreign cultures when investing abroad. Measures should also be taken against the negative effects thereof. Thinking globally and acting locally are both of critical importance in investment. The right formula for the right opportunity cannot be found without the combination of global and local elements.

IV. General Principles for Regional Cooperation

Besides the above-mentioned specific proposals for investment cooperation, several general principles for regional cooperation were repeatedly emphasized by participants.

1. Openness. Significant progress has been made in East Asian integration because we as a region have been open to embrace globalization and regional cooperation processes. Openness shall be an unchanged principle in advancing our cause of building an East Asian community.

2. Mutual benefit and cultural harmony. Win-win results are both the goal and the promoter of regional integration.

3. Political stability, vision, will and determination. Governments should play an

important role in initiating, furthering and implementing relevant mechanisms and policies, which is crucial for investment cooperation.

4. Participation and action. Everybody has a role to play in continuing the momentum of regional integration and community building. Take action and take effective action, for this is our common cause.

Conclusion

East Asia is at a crossroads. There have emerged two perspectives or two ways of thinking about the region. One is to add to the dynamics of the regional cooperation, deepen the regional integrative process, and make the East Asia a peaceful, prosperous, and progressive region. The other is the legacy of the cold war, viewing the region as a field of struggle for power and rivalry for gains. The former promotes regional cooperation and integration, while the latter could be divisive, separating, and counterproductive. We need a peaceful and prosperous East Asia. For this purpose, we must enhance the first perspective and discourage the second.

Being the fastest-growing region in the last 30 years and very likely so in the coming 30 years, East Asia is getting the world's attention. To link the nations and peoples together, investment cooperation, which now lags behind intra-regional trade, is a most effective way. It will not only benefit the region, but also deepen the regional integration and thus serve as an important measure towards regional integration.

It is also urgent that the region would invest more within the region itself and become less dependent on outside growth centres. This would contribute to the structural change of the East Asian economies and at the same time assist in resolving the problem of global payments imbalance.