

# **Report of the Network of East Asian Think-Tanks (NEAT) Working Group on East Asian Investment Cooperation**

**May 10, 2008, Beijing, China**

## **Introduction**

NEAT Working Group on East Asian Investment Cooperation convened its fourth meeting in Beijing, China on 10 May 2008. NEAT members and experts from 11 of the ASEAN Plus Three countries participated in this meeting (Brunei and Myanmar were absent). The Meeting consisted of an opening session, 2 panels and a wrap-up session.

Prof. Qin Yaqing, Executive Vice President of the China Foreign Affairs University, chaired the Opening Session. Amb. Wu Jianmin, Co-interim Coordinator of NEAT, made an opening remark.

Panel discussions focused on two themes:

1. East Asian Investment Cooperation in Global Economic Turmoil: Challenges and Opportunities
2. East Asian Infrastructure Investment Cooperation

Identifying challenges and opportunities East Asia faces against the backdrop of global economic turmoil, the meeting put forward action-oriented policy recommendations, among which investment cooperation on East Asian infrastructure building was highlighted by all participants.

## **I. East Asian Investment Cooperation in Global Economic Turmoil: Challenges and Opportunities**

### **1. Challenges: Looming Crisis**

**It was recognized by the participants that East Asia has been pushed onto the verge of another crisis.**

According to IMF's latest report, the global financial turmoil triggered by the US subprime mortgage crisis may incur a loss of US\$945 billion and lead to a second grim global financial turmoil since 1997.

Due to excess liquidity, commodities hike and Fed interest rate drop, the global inflation pressure is heavier. In February 2008, the global inflation rate reached 4.4%, with that of emerging and developing countries amounting to 6.5%. By April 2008, crude oil futures price hit around US\$120 per barrel. The food crisis worldwide could drag 37 countries

into emergency and trap 100 million people deep in poverty. The continuing depreciation of the US dollar is adding to the global economic uncertainty. Climate change and environmental deterioration is posing increasingly severe challenges.

All the above mentioned factors contribute to an apparent slowdown of global economic growth. According to IMF, the developed world viewed as a whole is expected to have real GDP growth rate of only 1.3% in 2008 and 2009.

## **2. Opportunities: A Second Wave for East Asian Integration**

**East Asian cooperation is crisis-driven. The crisis and challenges we face today have created historic opportunities for cooperation and a second wave for East Asian integration.**

1) The center of gravity of international relations is moving from the Atlantic to the Pacific. Getting unprecedented attention from the whole world, East Asia today is in the best era for development in its history.

2) Ten years ago, East Asia not only survived the crisis, but kept growing. This miracle was created by cooperation. The only way out of today's problems and crisis is also cooperation.

3) The Sino-Japanese relations are witnessing significant improvements with Chinese President Hu Jintao's successful visit to Japan, which will undoubtedly further promote the process of East Asian integration.

## **II. Policy Recommendations**

It was the consensus of the participants that regional investment cooperation, especially relevant mechanism building, has to be accelerated. For instance, we should improve investment rules, regulations and systems to enable effective capital flow in the region; we should take effective coordination measures to reduce losses of our foreign exchange reserve assets and alleviate the appreciation pressure of local currencies; we should expand intra-regional demand; and we should enhance regional cooperation in energy, environmental protection and agricultural development.

The participants put forward many valuable policy recommendations during the one-day discussion. Three are highlighted here.

### **1. Promote investment cooperation in energy and environmental protection.**

East Asian economies are highly complementary in this regard. For instance, Japan has advanced technology. China has great and practical demand for clean and conservation technologies. Some ASEAN member countries have rich energy resources. The challenge of climate change caused by Green House Gas emissions is severe and relevant to all, so is the challenge of energy supply and demand. It was proposed that cooperation be

strengthened in these areas, especially technology development, transfer and popularization, disaster prevention and alleviation, and investment in pollution control and clean energy development.

## **2. Promote investment cooperation in agriculture, especially food production.**

It was proposed that investment be increased in agriculture, including development of agricultural products, technologies, and agricultural product processing industries, and so on. It was proposed that East Asian countries jointly invest in agricultural technology gardens and transnational agricultural enterprises, encourage agriculture-related cross-border flow of capital, and enhance policy coordination and improve cooperation mechanism, etc.

## **3. Promote investment cooperation for East Asian infrastructure building.**

**Promoting investment cooperation on East Asian infrastructure building is the most important proposal of this meeting.** Enormous potential lies here because the demand and the supply are both huge. The key issue is how to bridge them. Foreign exchange reserves and private and public savings are huge in East Asia. And the room for growth is equally huge due to diversity and wealth gap within the region. To turn potential into real growth, infrastructure is needed, including roads, water, power and telecommunication facilities. It is estimated the demand for infrastructure investment in East Asia each year amounts to US\$200 billion. We need to work out effective mechanisms for governments to consider.

Expanded investment cooperation for East Asian infrastructure building will benefit all member countries in the region. For underdeveloped countries, infrastructure building will greatly accelerate their economic growth and hence narrow the development gap. For better-off and developed countries, it can help them expand export market and better utilize foreign reserves to mitigate risks and guarantee sustainable growth. The fund will also promote political and security good, because only when development, progress and prosperity are shared can they truly guarantee peace and stability of the region. In social-cultural terms, roads and cables not only connect countries, they also connect peoples. With the transportation and communications networking, East Asia will be truly integrated.

It was proposed that scholars deepen research on this issue to call for political leadership and political will, to influence preferences and actions of policy-makers, and to raise public awareness. To this end, "Task Force for the Promotion of Infrastructure Investment in East Asia," affiliated to NEAT WG on East Asian Investment Cooperation, was founded on 13 April 2008. The Task Force conducted down-to-earth research and submitted a report on "Promotion of Infrastructure Investment in East Asia" to this meeting.

During discussions, some participants proposed that an investment fund for East Asia infrastructure building under the framework of ASEAN Plus Three be set up. Some initial

designs about this fund emerged. For instance, major economies can take lead to raise the fund. Public and private capital can contribute with government guarantee. A multilateral mechanism, say, Asian Development Bank, can be entrusted with the management. And the fund should go to less developed countries and areas.

## **Conclusion**

NEAT, as Track II process in East Asia in position to make policy recommendation to ASEAN+3 summits, has to produce good ideas. Working group has been a very good mechanism for NEAT, and the newly created Task Force may add to the vitality of NEAT and improve its relevance to policy process in the region.

When crisis looms large, East Asia also faces historic opportunities. East Asian investment cooperation is an area of great potential for the welfare of our people, for the sustainable development of the region and for the building of East Asian community.