

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

**Report
(Final)**

Beijing, China

3 July 2009

Introduction

NEAT Working Group Meeting on East Asian Investment Cooperation was held in Beijing, China on 3 July 2009. NEAT members and experts from the ASEAN + 3 countries took part in this meeting. There were an opening session, three panel discussions, and a wrap-up session.

Dr. Zhao Jinping, Deputy Director of the Foreign Economic Relations Department, Development Research Center of the State Council of China, delivered a keynote speech at the Opening Session, in which he reviewed the impact of the global crisis on China, China's responses to the crisis, and their influence upon the region.

The three panels were:

1. Global economic recession and its impact on East Asia;
2. Economic recession and East Asian investment cooperation: challenges and opportunities; and
3. Policy recommendations to further East Asian investment cooperation.

The participants assessed both the challenges and the opportunities that the global recession brought to East Asia, shared their views on how to strengthen East Asian investment cooperation to cope with the challenges, and put forth policy recommendations to seize the opportunities that have arisen along with the crisis.

I. Challenges: global recession and its impact upon East Asia

The participants recognized the severity of the global recession and its impact on East Asia. The global financial crisis that erupted in September 2008 has expanded from the financial sector to real economy and escalated into an unprecedented severe economic recession since WWII. World economic growth has been declining sharply. According to the IMF, the year 2009 is projected to witness a growth rate of -1.3%. The financial market has been undergoing vehement shock. A large number of financial institutions have suffered huge losses. World trade has sharply contracted, projected to hit -11.0% of growth rate in 2009. According to the UNCTAD projections, global FDI inflows in 2009 will drop by close to half.

East Asia is now facing a most difficult economic challenge. In the financial sector, equity prices tumbled and many currencies depreciated against the US dollar. The FDI in the region saw precipitous fall. The shrunk markets and reduced imports, and re-emergence of trade protectionism in some developed economies led to drastic contraction in the region's exports and production.

II. Opportunities: stimulus packages and regional economic cooperation

While being keenly aware of the above-mentioned challenges, the participants

expressed hope for economic recovery and further regional cooperation. For instance, they pointed out that there might be very good opportunities in the crisis for East Asian economies to expand domestic and intra-regional demand, to promote relevant research and development, to take advantage of international resources and to play a greater role in the international economic system.

Actions have already been taken. At the national level, East Asian countries have staged unprecedented economic stimulus packages consisting of financial and monetary policies as well as fiscal expenditures for infrastructure building and industrial rejuvenation plans to stimulate investment and ensure growth. At the regional level, intra-regional trade and investment interdependence has been further enhanced, and transnational economic cooperation has progressed in trade, finance and investment. For instance, there has been remarkable progress in ABMI and the Intergovernmental Agreement on the Trans-Asian Railway Network has come into effect.

III. Policy Recommendations

Based on facts and assessments, and the consensus on greater regional cooperation and better policy coordination, the participants made the following policy recommendations.

1. Improve the investment environment

East Asian countries should construct an attractive investment environment that ensures increased FDI flows within and into the region, including sound macroeconomic fundamentals, transparent and nondiscriminatory legal systems and sensible policy regulation.

It was proposed that a regional investment rule be set up within the EAFTA framework to make and implement non-biased policies, laws and regulations on not only inward but also outward investment and to put in place proper mechanisms of national treatment and dispute settlement. An investment promotion agency, investment information and service network and a dispute settlement centre could be set up.

For better policy coordination, it was proposed that the Meeting of ASEAN Plus Three Finance Ministers be expanded to include Central Bank Governors and the independent supervision unit be established as soon as possible to utilize the CMIM.

The participants also called for domestic policies and measures for better investment environment. For instance, measures should be taken to improve transparency and to counter protectionism.

2. Develop Asian bond markets

The participants agreed joint efforts should be made to facilitate financing for East Asia investment cooperation. It was proposed making use of the newly founded Credit Guarantee and Investment Mechanism (CGIM) to expand the scale of ABM, and to attract more idle capitals into regional investment.

It was proposed improving the institution-building capacities of less developed countries, encouraging transnational investment in bonds and removing the restrictive investment measures in the region, including barriers in financial supervision, taxation, laws and regulations, and financial infrastructure. Progressive liberalization should be made to achieve free and open investment in the region.

The participants also proposed strengthening regional capital market development and integration.

3. Strengthen investment cooperation on infrastructure building

The participants proposed exploring the possibilities of building an East Asian Investment Cooperation Fund, taking advantage of the Intergovernmental Agreement on the Trans-Asian Railway Network, and exploiting the stimulus packages to further promote investment cooperation on infrastructure building in the region. The Task Force for the Possibility of East Asian Infrastructure Fund mainly looked into possible implementation issues and proposed an investment cooperation mechanism to carry out the projects under the Fund. It was proposed that public financial support be enhanced, large amounts of private capital mobilized, ASEAN experience learned, the public-private partnership program established, and joint infrastructure projects developed.

4. Promote human resources development

To upgrade their FDI portfolio, countries have to be able to supply high quality human resources. Cooperation should be strengthened to develop human resources in the region. For instance, a training center for investment cooperation could be established to develop high quality human resources and improve the efficiency of investment administration and management. Labor market information networks could be developed to increase capabilities and experiences of labor force and to help nations deal with structural unemployment. Efforts should be made to facilitate mutual recognition agreement for the cross recognition of qualification and education and experience of market professionals.

5. Encourage green investment

As the world faces two crises at the same time, the economic crisis and the

deterioration of our environment, the participants proposed that policies be made to strengthen regional investment cooperation on green industry for low carbon growth. To this end, it was proposed that countries in the region give full support to green industry, invest more in its R&D, strengthen cooperation in green technology development and transfer, make favorable taxation and loaning policies, and encourage the participation of the private sector.

6. Establish investment cooperation mechanism for SMEs

It is important to promote investment by small and medium-sized enterprises (SMEs) and support industries for regional networks. Investment policies should be coordinated in the region to give effective financial support to SMEs. It was proposed exploring the possibilities of an East Asian SME Investment Cooperation Fund, making favorable policies for SME participation in regional investment, and providing platforms and opportunities for SME cooperation.

Conclusion

Under the current global recession, the participants agreed that it was all the more important for East Asia to promote greater intra-regional trade and FDI flows to reduce excessive reliance on exports to outside markets, and to channel more of the large savings into productive investment within the region. The participants believed that with better macro-policy coordination and greater joint efforts, we can turn crisis into opportunities to build a better East Asia.