

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

Report

Beijing

August 15, 2006

Introduction

The NEAT Working Group Meeting on East Asian Investment Cooperation was held in Weihai, Shandong Province of China on July 29, 2006. The participants included scholars and experts from 11 of the ASEAN +3 countries (Brunei and Cambodia were absent). The discussions, candid and down to earth, focused on 3 major themes, namely, Changes in the Investment Environment and Progress of Investment Cooperation in East Asia, Systemic and Institutional Streamlining in East Asian Investment Cooperation and Priority Areas of East Asian Investment Cooperation. Identifying the consensus and disagreements of the Working Group, this report highlights action-oriented policy proposals on East Asian Investment Cooperation.

I. Consensus: Changes, Progress and Difficulties

1. There is an increasingly urgent need for East Asian investment cooperation.

- A. East Asian investment cooperation has to be strengthened to sustain rapid economic growth. Foreign investment is one of the major factors for economic growth in most East Asian economies. Continuous and sufficient input of capital has to be ensured to maintain steady economic growth.
- B. Quickened urbanization leads to huge demand for investment in urban infrastructure and agricultural industrialization. It is estimated that from 2006 to 2010 US\$1 trillion will be needed for infrastructure building in East Asia. This is particularly meaningful to narrow the gap between developed and less developed nations.
- C. Regionalization of FDI has become increasingly conspicuous. EU, North America, and East Asia have attracted around 80% of the global FDI. Moreover, intraregional mutual investment ratio has gone up. In 2004, the ratio was as high as 70% in EU and 51% in North America. East Asia is obviously lagging behind, with a rate of 25%. Besides, East Asia's share of global FDI inflow is 13.1%, lower than that of EU (48.9%) and North America (15.1%).
- D. Attracting FDI, especially SMEs investment is vital for economic growth, employment and balance of trade of developing countries, However many SMEs will not invest overseas unless necessary conditions, including national treatment and transparency of investment rules, are arranged. For this purpose, to incorporate common international investment rules in a coming East Asian Free Trade Agreement is very important.

- E. East Asian investment cooperation will be helpful in fighting against global economic risks, such as the oil price surge.
- F. Foreign reserves and savings in the region shall be better utilized. Intraregional investment in areas of potential development will promise safer and better returns.

2. The overall environment for East Asian investment cooperation has been improving.

- A. The political will has been strengthened. ASEAN signed and implemented “Framework Agreement on the ASEAN Investment Area” to attract investment and to promote free capital flow. China, Japan and ROK have carried out joint researches on relevant issues and made important headway. On a bilateral basis, investment protection has been strengthened along with investment promotion.
- B. Progress has been made in other aspects of regional cooperation. The Kuala Lumpur Declaration adopted at the last ASEAN Plus Three Summit reconfirmed the long-term goal of an East Asian community. China’s continued economic growth provides an opportunity for closer regional economic cooperation. The size of the swap under Chiang Mai Initiative has expanded by 90% within one year. The rapid development of Asian bond market has provided an effective financing channel.

3. There are still difficulties in the area of investment cooperation.

- A. Regional institutional and capacity building lags behind. Investment cooperation calls for a trilateral cooperation with governments, business, and academic circles as active participants. It also needs coordination of the activities of the many existing institutions. The low level of institutionalization has been a setback for further investment cooperation.
- B. The gap between the rich and the poor nations poses great difficulties for the region. Giving greater consideration to the needs of the less developed countries in investment cooperation is an issue that needs to be addressed.
- C. There is a lack of effective measures in protecting the interests of the investor and the recipient. On the part of the investor, small and medium enterprises are particularly vulnerable, for they are at a disadvantageous position when it comes to raising money, developing technology, and gathering information and market

competition. On the part of the recipient, less developed countries are most vulnerable, for there are loopholes in their legal systems, their environment could be damaged, and their workers could be maltreated.

- D. People's awareness of the importance of investment cooperation shall be raised through education. Unfortunately, most countries have very few institutions and programs to accomplish this.

II. Disagreements

1. Role of Governments/Markets

Some argue that governments should play a more important role to promote investment cooperation and others argue that the role of the market is the most important.

2. Model

Many believe that a way of investment cooperation with characteristics of East Asia should be explored, while some colleague argues that more international rules shall be applied.

3. Institutional Framework

Some believe that it is most practical to use the existing institutions to strengthen East Asian investment cooperation, while others think that existing institutions, such as APEC, are ineffective.

4. China's Policy Adjustments

There is some worry that China's domestic investment policy adjustments may reduce incentives for investment, while others argue that China's policy adjustments mean to further economic development and cooperation.

III. Policy Recommendations¹

1. Establish an institutional framework for investment cooperation in East Asia

- A. Set up a joint research by governments, business communities and academic circles on investment cooperation in East Asia under the framework of East Asian Free Trade Area that is to be established, with NEAT as the coordinator.

- B. Set up a single and integrated East Asian investment promotion center, and an

¹ These policy recommendations include both consensus and valuable ideas worth being listed here.

integrated service network for East Asian investment cooperation within the 10 plus 3 framework. The function is to coordinate the work of many existing similar institutions.

- C. Set up a dispute management center to deal with frictions and disputes during the investment cooperation process.

2. Create more financing channels for investment cooperation

- A. Expand the scale of Asian Bond Fund, issue the bond on a more frequent basis and strengthen its guarantor function; enhance the capacity-building of the Asian Bond Market, including the infrastructure, an advanced transaction platform and clearing system.
- B. Set up a uniform clearing system, regulatory framework, and market standards to promote the integration of bond markets within East Asia and to strengthen cooperation in taxation.
- C. Set up an East Asian investment cooperation fund. Money could come from governments of East Asian countries and the fund should be operated by a single body to provide financing guarantee for investment of small and medium enterprises and agricultural investment cooperation.
- D. Set up an East Asian investment bank, which should function as a policy bank to serve the need of investment cooperation.

3. Concentrate on priority areas for investment cooperation in East Asia

- A. Promote investment cooperation in energy security and environmental protection. It is recommended that an investment cooperation mechanism be established under the 10+3 framework, including a 24-hour disaster monitor system, an East Asia Fund for disaster prevention and relief, and control projects against desertification in East Asia.
- B. Promote investment cooperation in infrastructure development. Priority should be given to cooperation in building pan-Asia railway, highway and waterway, with a view to building a pan-Asia transportation network.
- C. Promote investment cooperation in the development of small and medium enterprises. It is advisable to set up investment promotion agencies and an

investment fund for these enterprises.

- D. Promote investment cooperation in agricultural development. In most economies in East Asia, agricultural production is family-based, with a low level of industrialization, technology, productivity, disaster-prevention capability and competitiveness. Agriculture is also a large proportion of the GDP of the less developed nations, and is usually the largest employer sector-wise. It is thus necessary to increase mutual investment so as to accelerate agricultural development in East Asia.

Conclusion

Investment involves the flow of capital, technology and personnel. It can deepen the interdependence of the countries concerned and achieve a win-win result. The working group agrees that investment cooperation is not only a promoter of economic development, but more importantly a pillar of the East Asian community.