

Opening Remarks

ADB Training Course on Regional Investment Agreements

Time: 08:45 AM, 15 February 2011 (Tuesday)

Venue: Platinum I, Holiday Inn Bangkok, Ploenchit (Lobby Level)

(Introduction)

Ladies and Gentlemen, on behalf of the Asian Development Bank, I am very pleased to welcome you to the ADB Training Course on Regional Investment Agreements. This 3-day training course is part of the technical assistance project on Capacity Building and Institutional Strengthening of Free Trade Agreement Units of Selected ASEAN Member Countries. Among its core mandates, ADB considers regional cooperation and integration as one of its main priorities.

(Importance of Regional Cooperation and Integration—OREI's Mandate)

Economic cooperation and integration is inevitable at both the global and regional level. Economic interdependence among Asia–Pacific countries is ever-increasing, in spite of different countries having different social and economic priorities, and facing varying challenges. Regional economic cooperation provides the opportunity for countries to work together towards achieving sustained and rapid growth, raising productivity and employment, strengthening institutions, and contributing to poverty reduction in the region. A good example of this is the Greater Mekong Subregion Economic Cooperation Program, which has contributed to increased infrastructure development and the freer flow of goods and people in the subregion.

The recent global economic crisis highlighted the region's heavy dependence on demand from the US and Europe, which in turn revealed to us the Asia–Pacific's need to redirect its focus towards regional and domestic demand. As such, regional cooperation and integration is becoming more and more critical for sustaining recovery and ensuring financial stability in the region.

ADB is continually strengthening its work on regional cooperation and integration issues. In 2004, a new office called the Office of Regional Economic Integration, OREI, was created under the strong leadership of the new President. OREI now acts as the focal point for ADB's strategy on regional cooperation and integration, or RCI. In particular, OREI works towards a regionally integrated and globally connected Asia–Pacific through policy dialogues, capacity building, and research. OREI's RCI strategy rests on four interrelated pillars:

- (1) regional and subregional economic cooperation programs on cross-border infrastructure and related software,
- (2) trade and investment cooperation and integration,
- (3) monetary and financial cooperation and integration, and
- (4) cooperation in regional public goods.

Under the second pillar, OREI has organized several training courses on economic integration, and more specifically on trade and investment integration.

(Trade Integration)

Trade is a driving force of economic integration in Asia. Intraregional trade in the Asia–Pacific has risen significantly over the past 3 decades, due mainly to the lowering of tariffs and other trade barriers, reduced logistics costs, and rapid technological progress. The latest policies of countries in the region to sign free trade agreements, or FTAs, further reinforces such a trend.

Many Asian countries engage in FTAs as part of their trade strategies at the regional and global levels, with ASEAN members among the most active in seeking FTA partners. At the end of 2010, ADB estimates show that more than 230 such agreements have been either proposed, negotiated, signed, or have taken effect in the region. One reason why FTAs play a central role in cooperation and integration in the region is because of the impasse in the Doha Round of trade negotiations, which has rendered FTAs as a good alternative to WTO-led negotiations

It is widely recognized that FTAs are drivers of cooperation and integration in the region. Through FTAs, production has become more cost-efficient and consistent with the comparative advantage of each country or firm, as production chains are combined and integrated across borders. Through FTAs, the competitive strengths of diverse economies have become linked, thus boosting productivity and sustaining growth.

(Significance of Investment)

We should not forget, however, the significance of investment when we discuss regional cooperation and integration. While many observers tend to focus on the trade aspects of economic integration, we cannot over-emphasize the role of investment in integrating Asia.

Foreign direct investment (FDI) is a major source of growth because of increased capital inflows, technology transfer, and economies of scale. FDI is also a major integration factor because it increases access to foreign markets. We can argue that trade actually connects the region while investments fuse the countries in the region into a single economic entity. Thanks to the region's position as a leader of global economic recovery, FDI flows to South, East, and Southeast Asia have outperformed all other developing regions, reaching an estimated USD275 billion in 2010.

International agreements on investment are as important as trade agreements in terms of regional integration. International investment agreements promote and create favorable conditions for FDI by connecting capital markets, which in turn enhances financial stability, reduces the cost of capital, and improves opportunities for sharing risks. In fact, almost all FTAs have investment chapters.

UNCTAD estimates that at the end of 2008 there were almost 3,000 bilateral investment agreements in effect around the globe, including other economic agreements covering investment issues. Forty-one percent of these agreements (1,112) were bilateral investment agreements involving countries in the Asia-Pacific. Thus, we can say that Asia is replete with investment treaties. One notable example of this is the investment integration scheme in ASEAN—the ASEAN

Comprehensive Investment Agreement—that aims to create a free and open investment regime to further economic integration.

Designing and negotiating investment agreements is difficult because the legal implications of investment treaties are extremely complicated and the economic impacts of investment policies on development are tremendous. Different countries have dissimilar economic characteristics and levels of development, not to mention distinct national priorities. Therefore, policy challenges in terms of investment agreements include:

- (1) the nature and type of the investment agreement, whether a bilateral agreement or investment provisions under a trade or economic integration agreement;
- (2) number of members or kinds of economies, whether developed or developing, that are involved;
- (3) rights and obligations of both the host and recipient countries, which is related to dispute settlement;
- (4) inter-linkages with other investment or investment-related agreements that members are negotiating or are already a party to; and
- (5) risks related to economic marginalization.

These are just a few of the multitude of challenges that policymakers like you face that make negotiating, interpreting, and implementing investment agreements a difficult yet critical task.

Some argue that with the growing number of bilateral and multilateral investment agreements, it is important to avoid creating too many shallow agreements that could lead to the so-called “noodle bowl syndrome.” Given the proliferation of such agreements, policymakers face increasingly complex treaty provisions, inconsistencies with national investment priorities, and difficulties in the interpretation and understanding of investment provisions. Thus, the challenge is to maintain transparency, ensure predictability, and encourage the convergence of norms and principles in our efforts to liberalize, facilitate, and protect investments.

(The Focus of the Course)

In recent years, ADB has conducted several training courses on regional cooperation and integration. We have had a series of training course on Designing, Negotiating, and Implementing FTAs, targeting officials of ADB member countries. In addition, we have organized training courses targeting officials from Cambodia, the Lao People's Democratic Republic, and Viet Nam, given that capacity building in these countries is critical for ASEAN integration. Training courses were held in Lao PDR in October 2008, in Viet Nam in May 2009, and in Cambodia in April 2010. These training courses primarily focused on trade policy, as well as trade facilitation, which are two undeniably important facets of regional cooperation and integration.

Nonetheless, it has been our experience that many policymakers in the region have expressed interest in the significance of investments in regional cooperation, which will be the focus of our training for the next 3 days. Based on feedback from participants of past training courses, we have found that including only one or two lectures on investment in a 1-week training course is insufficient given the complicated nature of investment issues, especially investment agreements.

This ADB Training Course on Regional Investment Agreements aims to cover a range of issues related to regional investment agreements, including admission and establishment, relative and absolute standards of protection, expropriation, and dispute settlement. International experts on investment treaties will deliver a total of 12 lectures on these topics. Each lecture will be supplemented by case studies and/or treaty drafting.

Ladies and gentlemen, this training course aims to strengthen government officials' technical and practical knowledge of regional investment policies by targeting mid-level officials of ASEAN member countries who are actively involved in investment policies, particularly regional integration issues. This course will also contribute to enhancing the participation of member countries in regional investment agreements, thereby strengthening the regional investment environment. As a "capacity builder," ADB is firmly committed to bridging the gap between needs and capacities in these areas, and it can provide significant

opportunities for knowledge-pooling and knowledge-sharing based on accumulated expertise. I hope you will be able to benefit from the knowledge and techniques offered by this training program, as well as from sharing your own experiences with each other. With that, I wish you all a successful and fruitful training experience.

Thank you.