OPENING REMARKS BY Mr. AKASAKA,

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Your Excellencies, distinguished Chairs, Ladies and Gentlemen

Many thanks for the kind words of introduction. I would like to take this opportunity to express my gratitude to our hosts, the *Government of the Republic of Indonesia*, for making it possible to hold this conference here. I would also like to thank our co-organisers, *UN Economic and Social Commission for Asia and the Pacific (ESCAP)* and the *Asian Development Bank (ADB)* for making this conference a true partnership event. Thanks also to the ASEAN Secretariat for its assistance.

The twenty-first century has been dubbed by many observers of economic development as "the century of Asia". There is an expectation that, within our generation, the economies of eastern and southern Asia could become a powerhouse for world economic development. However, I would like to underline that there is not yet such a thing as an "Asian economy". Major dichotomies remain within the region. Impressive wealth creation and technological sophistication still coexist with poverty and unresolved development challenges.

Clearly, macroeconomic growth in many countries in Asia has been spectacular. Early attention focused on the five so-called Asian Tiger economies that grew on average by some 7 to 9 per cent a year in the 1980s and early 1990s. A factor in this success was rates of domestic savings and investment far beyond those of other developing countries – and of most OECD economies as well.

Recent attention has turned to China, whose annual growth rates of close to 10 per cent command both admiration and envy. In the 1980s China's economy grew faster than most of the "tigers". However, it took some time for China to really emerge on the "radar screens" of international investment. Indeed, China emerged rapidly from a very modest economic situation. World Bank figures indicate that Chinese GDP per capita roughly tripled between 1990 and 2003, rising from around 1500 US$ in 1990 to over 4700 US$, in terms of purchasing power parity at constant international dollars, taking the year 2000 as the baseline. This illustrates the scale of change and poverty reduction in the country. Most recently, economic reform and political stability have also contributed to high, sustained rates of growth in India and the countries of Indochina. Countries in the region have not just been growing – they have been growing quite wealthy.

On the other hand, formidable development challenges still need to be tackled with significant proportions of the population still living in poverty. In 2001, the World Bank estimated that in South Asia, some 31 % of the population was living on incomes of under a dollar a day and 77 per cent of people were living on under two dollars a day. This compares to estimates for East Asia and the Pacific region of just under 15% of people living on under a dollar a day, with some

47 per cent of the population living on under two dollars a day. It is the relatively more prosperous countries, such as Malaysia and Thailand for example, that have managed to bring this proportion down the furthest.

While some Asian countries have done well on the strength of their domestic savings alone, many others rely on a degree of external finance as well. Two of the main sources of external finance, both of which are on the agenda of this conference, are foreign direct investment (FDI) and official development assistance (ODA).

ODA, after having declined in the 1990s, is growing again. In 2004, ODA globally reached its highest level ever at 79 billion US$ in both nominal and real terms. If existing commitments of donor countries are met, ODA will reach some 115 billion US$ by 2010. The Millennium Development Goals engendered a commitment among donor nations to scale-up the ODA and some of the poorer Asian countries should be among the beneficiaries. A very concrete example of OECD countries' willingness to help came in the aftermath of the tsunami disaster that hit southern Asia, including Indonesia. More than 5 billion US$ of aid was pledged virtually overnight.

That said, most countries in the region are no longer aid dependent. For instance, in 2003, India, China, Indonesia, and Pakistan figured among top 10 recipients of ODA, but the amount – between 1.5 and 2 billion dollars – was a small amount when compared with the size of their populations and economies.

Direct investment inflows, have also grown in volume over time. They are much higher in overall terms than they were a decade ago. UN figures for FDI into the whole of South, East and South-East Asia show inflows up from 46 billion US$ in 1993 to 97 billion US$ in 2003. Much of this success belongs to China: over the last decade inflows averaged almost 40 billion US$ per year. Taking a long term perspective, other countries have not lagged far behind. Thailand and Malaysia both received between 3 and 4 billion US$ per year. Given the size of these countries, this is almost more impressive than China. More recently, Vietnam has emerged as an important destination for international investment. FDI into the Indian economy, while still not high, is very clearly on an upward trend.

However, the situation has become more difficult for some of the ASEAN countries where foreign direct investment flows have slowed rapidly. [Following the Asian crisis in the late 1990s, annual inflows to ASEAN-5 fell from about 18 billion US$ in 1996 to 7 billion US$ in 2001 and 2002 before recovering somewhat.] Indonesia was particularly hard hit. In fact, Indonesia experienced a gradual withdrawal of foreign direct investors for four consecutive years. Middle-income ASEAN countries such as Malaysia, Thailand, Indonesia and the Philippines are now facing the major challenge of improving their competitiveness and attractiveness as hosts to FDI in a rapidly changing economic environment.

The decline in inward FDI to ASEAN countries after the Asian crisis was actually smaller than the fall in FDI to OECD countries since 2000. The decline, in fact, acted as a wake-up call to the region's policy makers. Thus, for some years now, much effort has been devoted to thinking about **how to streamline investment climates to attract more and better investment for development.**

Effective policies also require a better understanding of the different patterns of investment flows into South and South-East Asia from different parts of OECD. For example, recent analytical work including papers tabled at this conference show that ASEAN increasingly benefits from investment flows from Europe and North America Investment from Japan into China and Thailand is also growing, perhaps due to factors such as easy access to a skilled workforce whilst maintaining access to ASEAN markets.

Most importantly, when discussing the Chinese success versus the rest of Asia, FDI is not a zero sum game, with certain countries gaining at the expense of others. With the right enabling environment, experience shows that ASEAN is likely to also attract new FDI flows. Indeed, ASEAN countries have not lost their attractiveness. The background document for session 4 at this conference quotes the results of an annual survey of Japanese investors. Every year since 1993, China has been rated as the best place to invest, but the five ASEAN countries have been in the top ten every year for the last decade.

The picture that an outsider gets of emerging Asia is, therefore, mixed. On the one hand, impressive achievements; on the other, important challenges remain. There are economies where governments and agriculture continue to play a dominant role; there are others where a pronounced willingness to embrace private business for development. As a representative of OECD, I am convinced that this is the right place at the right time to deepen our collaboration to achieve common goals. Our organisation has much to offer the countries of the region. We also have a lot to learn from the region's experience.

This conference is about "Investment for Asian Development" and the driving force for the OECD's work in this area has been our Investment Committee. The role of this Committee is to oversee international direct investment and the behaviour of multinational enterprises.

On the one hand, a number of Asian economies have evolved not only as important destinations for international investment, but increasingly also as outward investors. Examples included the investment by the Chinese diaspora into mainland China.

More recently some countries, namely Malaysia, India and China have become more active as outward investors – within the Asian region and increasingly also vis-à-vis Europe and the American continent. In other words, Asian economies are emerging as partners to OECD's investment policy community, faced with similar choices and challenges in designing their investment policies.

On the other hand, many corners of the Asian continent seek to attract more direct investment and maximise its benefits for development. Policy makers are therefore asking themselves how best to enhance their investment climates. For example, on June 2nd this year, a Japan-Indonesia Symposium was held in Tokyo with a view to addressing concerns that FDI is increasingly being concentrated in China and to examining ways to rebuild a strategic partnership for investment. At this event, President Yudhoyono of Indonesia explained his government's important policies to reform the Indonesian economy in order to attract more investment. He expressed his hope that Japanese FDI into Indonesia will double in the coming five years. In order to realise this goal he recognised the need for Indonesia to improve the effectiveness of its tax and customs systems, improve labour conditions, enhance infrastructure and raise industrial competitiveness. This demonstrates that the political will and leadership needed does exist to address internal constraints and create a policy environment that attracts foreign investment. The OECD would like to use its accumulated experience, know-how and various forums to help Indonesia and other Asian countries achieve such economic goals.

One of the main inducements to foreign investors is, of course, a large or rapidly growing domestic market. In countries whose growth rates have come down since the early 1990s, realism has replaced an earlier euphoria. Now that investors no longer necessarily expect exorbitant economic growth, the focus has moved to fostering reforms to provide the fundamentals of a good investment climate, for example: good governance, transparency, the rule of law, effective measures to curb corruption, human capital that is continually being upgraded, access to technology, and modern infrastructure.

There is much consensus today on the key characteristics of a "sound investment climate" so I will not go into this further here. A more pertinent question seems to be: how can this be achieved in practice? Capacity building in this area is increasingly seen as a priority for development agencies. The Monterrey Consensus identified a need to use development assistance to leverage additional financing, including international investment, for development. OECD member countries and multilateral agencies work with developing countries to help them realise synergies between ODA and investment. Worldwide, some of the more successful examples of such aid and development strategies are found in the Asian region.

Policy makers have also looked for ways of attracting investors through "inducements", including special economic zones, tax concessions and outright subsidies. Their experiences have not been altogether bad, but some fears remain. Countries may be incurring fiscal burdens to subsidise investment that would have taken place anyway. They might also be competing away the benefits of foreign direct investment in a contest against neighbouring economies.

I would like to sum up, by responding to a question: ***how does the OECD intend to use this conference in Jakarta to enhance its cooperation with Asian countries?***

First*, *any such cooperation needs to be based on regional priorities and reflect maximum Asian ownership. Put plainly, we are here to listen.

Second, OECD seeks more active dialogue with emerging Asian economies as they develop policy priorities and challenges that increasingly resemble our own, and evidence suggests that our enhanced co-operation will generate mutual benefits. Several modes of cooperation are possible, ranging from participation in various OECD Global and Regional Forums to joint organisation of workshops and studies on subjects of our common concern.

Third, as the Policy Framework for Investment matures, regular consultations and peer dialogue with volunteer countries seeking to enhance their investment climates could be established.

Fourth, OECD's development and investment policy communities seek an active dialogue with Asian countries on how to put Monterrey's words about ODA/investment synergies into practice. Now is a strategic time to enhance this dialogue to ensure Asian voices are heard, with a series of high level international events this year on financing for development and the UN Millennium Development Goals.

I would like to close by urging you to make this conference a fruitful one by taking a practical and constructive approach, sharing lessons from case studies and both regional and international experience, and making the link between experience and action. I encourage you to pinpoint the priority areas for enhanced investment policy cooperation between Asian countries, OECD and other international organisations.

Thank-you.