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## **ASEM Conference**

### **Investment and its Financing**

#### **What causes private investment to remain relatively low in Asia?**

#### **Welcoming remarks by Peter Bekx**

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It is my pleasure to welcome you to this ASEM conference on Investment and its Financing (ASEM, the Asia-Europe Meeting). This event is taking place thanks to the efforts of the two organising partners: the Reserve Bank of India and the European Commission. Therefore, let me first thank our hosts of the Reserve Bank of India for the cooperation and commitment shown in the preparation of this meeting.

I am convinced that the topic of this conference is of great relevance in today's quickly changing world.

We are facing a puzzle, which has also been reflected in the economic literature and recent surveys on Asia: in the aftermath of the Asian financial crisis, investment growth in some countries has remained relatively subdued, compared to pre-crisis trends. With relatively high growth rates and relatively low investment rates the ratio of the capital

stock to GDP threatens to deteriorate in some countries. This development can prove to be an impediment to growth and might also partly fuel inflationary pressures seen recently in some countries. It is more difficult to obtain supply-driven growth with relatively low investment rates.

Much of the public discussion on rebalancing growth focuses on ways to increase consumption in China, but the role of investment in rebalancing growth in the rest of Asia is equally important and something that should not be overlooked. A higher investment rate in Asia could put Asian savings at a better and more productive use. It could lead to higher trade and reduce current account surpluses. We are here to examine the situation and reasons behind the constraint on investment with an open mind and with the help of the specialists who have been invited to speak at this conference.

### *Why is this topic important?*

Even after the Asian financial crisis, GDP growth rates have been above average world average growth. In addition the Asian region has been one of the main contributors to global growth in recent years. Further out, the recovery of the world economy is expected to be driven to a large extent by Asian countries. Asian nations still have a comparatively young population though with some exceptions. Saving rates are high. The combination of these factors would imply that investment should represent a relatively high share of investment in GDP in Asia. Keeping the private capital stock constant as a share of GDP (after depreciation) already requires substantial investment as a share of GDP in Asia. However, on balance, capital is flowing out from Asia.

Possible reasons for this counterintuitive situation will be discussed in the specific sessions of today's conference. The role of financial systems appears central in holding back investment. But there are other contributing factors, which could be addressed, ranging from government monopolies in some sectors, to a lack of risk-taking investors in some countries, and to somewhat unfavourable corporate tax systems in others. How these contributing factors develop will condition the future growth of investment.

Parts of Europe also face relatively low investment as a share of GDP. While a problem which needs to be overcome, this phenomenon is less counterintuitive because Europe is not growing very fast. In addition, Europe, as a region, has a relatively balanced current account. The policies to address the challenge of rebalancing growth will differ in Europe and in Asia, and among the countries in each of the regions.

I have travelled to Asia quite frequently in the past year, especially to Korea where the G20 met ever so many times to discuss the future of the global economy. I wish to highlight the key medium-term challenge identified at this stage, and which needs to be addressed forcefully—the need to rebalance economic growth in Asia by strengthening domestic sources of growth, and in Europe by fully implementing structural reforms. This comes against a backdrop of the commitment to rebalance global growth that was emphasized by the ministers of the Group of Twenty industrialized and emerging market countries in Seoul earlier this year.

Ladies and Gentlemen,

*We need to understand better the drivers behind global imbalances.*

After going through the most severe financial crisis in the past 70 years, the first contraction of the world economy in 50 years and the steepest fall in world trade on record, the world economy has recovered some lost ground. Buoyant growth and stable balance sheets in Asia contributed and are contributing a lot to this brighter picture, also going forward. Some advanced economies are seeing better-than-expected growth developments and have a fair chance to surpass 2008 output in 2011.

Stimulating government policies helped the recovery in many parts of the world, but with the phasing out of most of the stimulus measures the resilience of the recovery will undergo a new test. The improved situation notwithstanding, many more structural problems especially in advanced countries now take centre stage. Our dialogue today will help raise awareness to more specific structural problems and will contribute to deepening the knowledge on some of the drivers of global imbalances.

The last two years have illustrated the high degree of interconnectedness of the global economy, which in turn underlines the urgency of overcoming global imbalances. Developing a shared understanding of topics of mutual interest, as well as a heightened interest in developments and structural features in each other's regions, are a natural consequence of the growing interdependence.

*To assess the role of private investment in Asia in this context is an interesting and worthwhile endeavour.*

This conference aims to help us understand why the investment rate as a share of GDP never returned to the level reached before the crisis in most of the countries affected by the 1997/98 crisis. While the saving rate of the Asian economies mostly stayed stable or increased, the investment rate declined, resulting in sizable current account surpluses. We are interested to understand what is driving this long-term fall in the investment rate and what conclusions can be drawn from there.

This issue will lead us into the intricacies of the debate on rebalancing growth; in particular, exploring one of its dimensions. Rebalancing Asia's growth model is a very broad topic with many aspects to it. In some economies this would involve raising consumption, in others, boosting efficiency in services and non-tradable sectors, in others, lifting investment. It is the latter recipe which we will be exploring in today's conference.

Ladies and gentlemen,

*Why should we address this topic in the context of ASEM, the Asia Europe meeting?*

ASEM, the inter-governmental platform of dialogue and cooperation between Asia and the European Union, brings together the 27 European Union Member States and the European Commission, 16 Asian countries and Australia, New Zealand and Russia as well as the ASEAN Secretariat.

Our dialogue in ASEM is a valuable complement to the bilateral relations between the Asian countries and the EU, thanks to its open and inclusive character, the partnership between both developed and developing

countries, and because of the diversity of the stakeholders: policy-makers, businesses, academia and non-government actors.

The ASEM process is a good setting to discuss such an issue, which is of relevance for both our regions. This conference offers the opportunity that results will be fed into the ASEM process and therefore has the potential to influence policymaking.

In the changed economic reality of today, the Asia-Europe cooperation and mutual understanding of each others economic challenges and successes is of ever growing importance.

Thank you for your attention.

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