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Chinese investment fund aims to spread wealth, sustainability in Asean

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China sees its relationship with the 10-member Association of Southeast Asian Nations as strategically reciprocal. The recent proposal by President Xi Jinping to forge a regional grouping called the China-Asean Community of Common Destiny marks a new phase in this special cooperation.

The proposal has also driven a new wave of Chinese bilateral trade initiatives and foreign direct investment in the region. The country aims to increase two-way trade with Asean countries from a total of \$450 billion last year to \$1 trillion annually, and expand cumulative foreign direct investment in the region from \$50 billion to \$150 billion in the coming years.

Lessons learned

Over the last decade, the flow of Chinese capital into Asean has surged, with investors drawn by the vast opportunities and ample growth potential in that market. This rush to invest has at times led to short-sighted projects that do not adequately emphasize sustainable development. As a result, Chinese investment is facing increasing challenges as local awareness grows about corporate environmental and social responsibility.

Experience has taught China to strive to make its overseas investment initiatives more responsive to environmental risks and local concerns, and to ensure that these projects are aligned with the latest corporate sustainability practices. By placing more emphasis on engaging with local communities and practicing good corporate governance, China hopes to improve relations with other countries, particularly Asean members.

Key to achieving China's regional investment aims is the China-Asean Investment Cooperation Fund (CAF) -- a pilot initiative sponsored by prominent national and international institutional investors, including China's central government. The fund was launched in 2010, with its first phase entailing investment worth \$1 billion. Its ultimate target is to invest \$10 billion in Asean. More than 30% of the initial spending has gone to Cambodia, Myanmar, Laos and Vietnam, with the rest spread across Southeast Asia.

Essentially operating as a private equity fund, CAF started with a mature legal structure, solid corporate governance and clear vision. The idea was to combine the government's strategic guidance with market-driven practices. At the core of the fund is a team of experienced international professionals tasked with leveraging their already extensive networks and resources to support corporate investment targets. The idea is to enhance corporate value by increasing profitability and making a positive socioeconomic impact. In doing so, we are attempting to fuse economic growth and sustainability in every investment decision.

Green power

Over the past few years, CAF has delivered on its promises, as evidenced by its proven track record and growing investment in the region. Through painstaking research, the fund has made selective equity investments in Asean in a diverse range of fields, including telecommunications, energy, industrial enhancement, social infrastructure and mining sustainability. CAF's unique investment philosophy has drawn the attention and broad support of the international community.

For example, the International Finance Corp., the World Bank's investment arm, is helping the fund establish a new "social and environmental management system" (SEMS) to improve the evaluation and sustainability of individual projects. The IFC's involvement has not only strengthened the fund's dedication to sustainable investment but has also helped set a benchmark for future projects. CAF is also working closely with regional governments and organizations -- private and public -- to ensure proper implementation of SEMS and promote awareness of corporate environmental and social responsibility.

Last year, the fund entered Thailand's green energy sector by investing in the country's largest biomass power company, National Power Supply. The initiative aims to facilitate Sino-Thai energy cooperation in developing sustainable, green energy in Thailand and



Foreign ministers show their unity at a meeting to mark the 10th anniversary of the strategic partnership between China and Asean, in Beijing in August 2013. © Reuters

Southeast Asia. Already, it has improved the structure of the domestic power supply and hastened the shift in Thailand's energy consumption from traditional fuel sources to renewable, clean energy.

At the same time, the project aims to foster a strong culture of environmental and social responsibility. For example, National Power is following a strategic business development program to become a greener power supplier while helping more than 1 million Thai farmers improve their incomes by growing "energy trees" they can sell to the company for biomass fuel.

With the encouragement of national and international organizations, therefore, CAF is deepening a sustainable economic relationship between China and Asean. In this respect, the fund's unique strategic position is embodied by three key functions: mobilize financial leveraging resources; act as a catalyst for responsible investment; and promote advanced commercial standards.

Combined strengths

CAF provides companies with seed capital for initial development through its investments in the form of equity, quasi-equity and straight funding. The fund leverages its financial management advantages in fundraising and capital operations. It also draws on the support of significant shareholders, such as the Export-Import Bank of China, the Bank of China and China Investment Corp. This enables the fund to combine its financial leveraging strengths with direct investment to mobilize more capital for its projects.

CAF also provides capital support for enterprise infrastructure projects through equity investments. Its expertise in such projects helps Chinese enterprises in equity acquisitions, while simultaneously helping companies with strategies to promote national products, technologies and managerial experience. The exchange of information and technology is continuously enhanced through such investments, helping to draw more talent to relevant fields in order to boost national and regional growth.

Like a growing number of Chinese investment vehicles, CAF advocates high-quality environmental practices to strengthen corporate social responsibility in its investments and operations. This commitment enables the fund to stand out from its counterparts. Its SEMS systems, in particular, act as a useful reference for enterprises going into the Asean region to enhance integrated management performances and modernization plans.

The changes occurring in the policy landscape and economic structure of Southeast Asia are generating significant demand for infrastructure investment and foreign capital. The economic ties between China and Asean have similarly shifted more toward sophisticated investment and industry cooperation, creating more capacity for further development.

Already, China's official cooperation programs -- such as the New Maritime Silk Road Strategy launched last September by President Xi; and the South-South Cooperation Scheme, a concept earlier promoted by the U.N. to encourage developing countries to work together -- are being implemented in Asean through Chinese-led maritime investment projects. This is taking place amid regional debate about territorial claims in the South China Sea. However, many in the region's business community are exploring cooperation with China in such areas as aquaculture, shipping, ports and maritime logistics to promote maritime connectivity. Ultimately, this kind of close investment cooperation will promote regional prosperity.

Such moves are giving shape and momentum to the China-Asean Community of Common Destiny. Acknowledging the value of sustainable development to the community, CAF is increasingly dedicated to sharing opportunities, sharing sustainable growth, sharing values and sharing regional prosperity -- all with an eye toward finding fundamental solutions aimed at promoting future development.

Big plans

Looking to the future, both near and long term, the fund aims to invite more Asian enterprises and financial institutions to participate in the second phase of its investment strategy: to disperse more investment funds and continue benchmarking the environmental and social performances of Chinese overseas investments. In the coming months, CAF will establish various industry subfunds and consolidate quality capital to enhance industry across China and the Asean region, in line with the Chinese government's development plans and international sustainability guidelines.

In the coming years, CAF will further promote collaboration between Asean and Chinese enterprises and financial institutions at various levels, with the goal of energizing sustainable development and pursuing equal prosperity within the region.

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