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Vietnam's Experience with FDI Promotion: Implications for Myanmar

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Notwithstanding the series of fragmented micro reforms since national unification in 1975, Vietnam still suffered from huge economic difficulties till 1986. The central planning regime led to a detrimental absence of economic incentives. The price-wage-money reforms in 1985 were no more than serious failures. Prolonged social and economic hardship, including severe shortages and hyperinflation, then required bolder and more comprehensive reforms of the national economic system.

Vietnam therefore started the Doi Moi (Renovation), with critical changes in terms of economic ideology, in 1986. Market production of goods and multi-ownership have been recognized and encouraged. To facilitate flexible activities at the micro level, furthermore, the government has attempted to establish a nationally penetrable market by abolishing local trade barriers. Vietnam also adopted an "open-door policy", seeing pro-active integration to the regional and world economy as an important pillar for socio-economic development.

Along with economic integration, the country undertook various measures to attract foreign direct investment (FDI) flows. The Law on Foreign Investment was promulgated in 1987, creating a legal framework for FDI attraction in Vietnam. Beside, the country gradually relaxed the restrictions on foreign trade, regulations on registration procedures, access to land, capital and foreign exchanges, and tax measures to promote a greater presence of foreign-invested enterprises.

Nonetheless, the improvements of FDI policy in Vietnam failed to remain uniformly progressive. Consequently, the 1988-2009 period witnessed different phases of FDI inflows to Vietnam. From 1988 to 1996, FDI to Vietnam went up continuously and steadily, in terms of newly registered capital, number of projects, and implemented capital. This stemmed largely from foreign investors' expectations of a newly opened economy with huge potential, and from their attempts to penetrate the market in the presence of massive import controls. The years 1997-2002 then saw the stagnant inflows of FDI to Vietnam, resulting mainly from the Asian financial crisis and the less-attractive investment environment in Vietnam relative to other regional investment destinations. Since 2003, FDI inflows to Vietnam began to bounce back, thanks to an improved investment environment and permission for foreign investors to invest in some previously government-monopolized industries. In particular,

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the WTO accession in 2007 enhanced the growth prospect of Vietnam, leading to a faster surge in FDI inflows. Inflows of FDI peaked in 2008, with over 1,500 newly registered projects and over USD 71.7 billion of newly registered capital. Such flows just decreased sharply in recent years, albeit with rather stable implemented capital of around USD 10-11 billion p.a., due largely to the global financial crisis, economic downturn, and other doubts about growth prospect and policy predictability in Vietnam.

The presence of FDI has had important positive impacts on Vietnam's economy, via both direct and indirect channels. On the one hand, FDI directly created jobs for a large number of labourers, and upgraded the capacity of production for both domestic consumption and export, thereby generating value added and economic growth. On the other hand, FDI has been beneficial since it produced spillover impacts on domestic enterprises, in the forms of productivity improvement and higher export growth. The key channels for such impacts have been production linkages as well as competition between FDI and domestic enterprises. For instance, the presence of FDI increases the labour productivity of domestic private firms in the textiles-garment and food processing industries. FDI thus represents a valuable complementary source to, rather than substitution of, domestic capital.

Being both developing countries in Southeast Asia, Vietnam and Myanmar have shared a number of similarities, including development potential. Myanmar has recently decided to implement fundamental political and economic reforms, following years under economic embargo and severe shortages.

Shortages of development resources, including capital, technology and management know-how, may drive Myanmar to actively join the competition for FDI to the region. Foreign investors have quickly shown interest, with almost USD 24.4 billion of investment in the country from April 2010 - December 2011. However, the transition from a lower development level may still put Myanmar in dire need to learn from regional countries' experiences, since they started the FDI-induced industrialization early.

Vietnam's experience with FDI attraction in the past decades could have important implications for Myanmar in developing its FDI policy. First, Myanmar needs to have a suitable ideology towards FDI promotion. FDI may constitute a good source of much-needed capital for economic development in Myanmar's early stage. However, of greater importance are the technology transfer and other positive spillover impacts embodied in such flows of capital. Therefore, Myanmar should pay good attention to promoting such accompanied benefits, rather than the volume of foreign capital inflows alone.

Second, FDI policy must find itself fit in Myanmar's broad framework for economic reforms. The benefits from FDI would be more if it is based on Myanmar's comparative advantage in industrial and trade structures. Improvements would also be necessary to make the business environment more favorable to operations of foreign enterprises. In addition, the desired FDI inflows may not be materialized effectively in the absence of supporting fundamentals for business operations, specifically labour skills, and soft and hard infrastructures. Prompt efforts to provide technical training for labourers and to develop the infrastructure system, particularly in areas related

to potential industries for FDI, should therefore be consistent with the FDI policy itself.

Third, Myanmar needs an approach to FDI that incorporates the substances of both gradualism and selectivity. Since the FDI policy must be an integral part of the overall reforms, it should come through gradual adjustments to ensure relevance and effectiveness, whilst permitting other supporting policies to materialize. Besides, attracting FDI inflows to a large range of sectors/areas without caring about their contribution to Myanmar's targets may leave the country with adverse consequences, including inefficiency of resources and low absorption of FDI. A possible approach for Myanmar is to start by attracting foreign investment in the sectors/areas with static comparative advantages and those with sufficiently close backward and forward linkages. This should then be followed by relevant incentives to induce foreign investors in building up dynamic comparative advantages for the country. Along with this process, consultation with potential investors and other stakeholders should be of immense importance.

Finally, FDI attraction is only viable if the policy and economic environment for private business operations embodies the essential substances of stability, transparency, and predictability. Foreign investors with an established presence in Myanmar would prefer a stable environment to make good production and business decisions. Maintaining macroeconomic stability should critically support such decisions. Meanwhile, sudden and unexpected changes (sometimes reversals) of policies, including those related to foreign-invested industries, should thus be detrimental since they may offset the previous efforts of firms with significant (and even unrecoverable) adjustment costs. The costly experience with the automobile industry in Vietnam presents a good example as to why such changes should be minimized. In light of this, further concretization of the political and economic reforms, with explicit acknowledgement of foreign business entities, should essentially be a profound start to enhance stability and predictability for business operations in Myanmar.

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