# comment & analysis

> Multitasking is a given in everyday life. Maybe more and continued multitasking, as well as learning new material and developing new interests, can not only enhance enjoyment of our later years but also keep our minds healthy.
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WHY MYANMAR SHOULD BUILD ITS LEGAL INFRASTRUCTURE QUICKLY

## Avoiding the traps of foreign investment

HTWE HTWE THEIN

As potential investors converge on the Golden Land from all over, opposition leader Aung San Suu Kyi voiced her desire for "democracy-friendly investment", in particular, foreign direct investment (FDI) that creates jobs for Myanmar's unemployed youth. She warned against "reckless optimism" by investors.

Western governments, indeed, are encouraging their businesses to act as role models in terms of setting labour standards, looking after the environment, giving back to society and so on. Meanwhile, Asian governments and businesses wrangle over Myanmar's natural resources and infrastructure projects.

Foreign non-government organisations (NGOs) have found themselves with a mountain of work to do and a role in nation-building. How should Myanmar continue to develop as a nation, as it grapples with the potential and pitfalls of FDI?

Having researched international business participation in Myanmar since it was slapped with Western sanctions more than 15 years ago. I discussed this and other questions with my research partner, Professor Klaus Meyer — a leading management scholar with the China Europe International Business School in Shanghai and Vice-President of the Academy of International Business.

● Htwe Htwe Thein is a Senior Lecturer with Curtin Business School, with an ongoing research interest in international trade and business investment in Myanmar. This is an edited transcript of the dialogue. For a longer version of this interview, go to www.todayonline.com/commentary

**Thein:** What are your thoughts on the impact of FDI on emerging economies, both positive and negative?

**Meyer:** It has been said many times that some FDI projects are probably bad for the host country, while many others generate substantial positive effects. I would argue that many of the projects considered "bad" are actually the outcome of not just the actions of multinationals, but also the interaction between the MNCs and the local rules/regulations. If you have good laws, and impartial and effective enforcement, most FDI projects will probably generate more good than harm.

**Thein:** That's what Ms Aung San Suu Kyi is calling for: To establish rule of law in Myanmar, ahead of the FDI rush.

**Meyer:** Let's take the oil and gas sector, or any big infrastructure project. The multinationals need to put down a lot of money to build infrastructure and the pay-back period is long. If the contractual agreement (with the government) is drawn up badly, a lot of undesirable things can happen — from destruction of wildlife or poor working conditions, to exorbitant user fees.

The reasons for a bad contract can be twofold: Corruption or inexperience. To minimise corruption, the government of Myanmar would be well advised to commit to a maximum of transparency. To minimise the chance of falling over its own inexperience, bring in independent experts to help negotiate contracts.

> It needs to build its own legal and social infrastructure, including transparency, independent trade unions and journalists and, of course, non-corrupt enforcement of the laws. Only then ... will the honest factory owner be able to prosper.

**Thein:** How about textiles? Many believe this would be a good industry for Myanmar to invest in. Yet recent events in Bangladesh raise considerable concern! Will pressure from NGOs prevent similar tragedies here?

**Meyer:** I don't think Myanmar should expect too much from NGOs. They make a lot of noise and, at the margin, that helps a bit. However, how many consumers really care? It is only a small share of the people buying clothes every day.

**Thein:** Myanmar is definitely new to the idea of activism and civil society — two years ago, none existed. Their voices are prominent and they are the props for authorities to take action. So I am all for it!

**Meyer:** You are right. They push the issues forward. But to be effective and sustainable, a different approach is needed. I believe the textile industry has potential because of Myanmar's large labour force, and the fact that wages in China are rising sharply. However, Myanmar needs to avoid being trapped by buyers for foreign brands and retailers putting pressure on prices (and hence costs) that pressure factory owners to exploit their workforce.

**Thein:** Leading brands are supporting international initiatives to secure minimum standards. That should help, shouldn't it?

**Meyer:** I wouldn't be too optimistic about that. First, such initiatives involve only the leading brands; the volume of products sold comes from cheap and cheerful brands. Secondly, the purchasing strategies, even of the leading brands, are inconsistent.

Take this example: A friend of mine is a sales manager for an electronics manufacturer operating in China. Her

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CONSUMPTION COULD BE UNDER-REPORTED

## China may be in better shape than it looks

DAVID PILLING

The story of China's investment addiction is well known. It invests more in factories, smelters, roads, airports, shopping malls and vast housing complexes than any modern nation has done in history.

At its peak, after the stimulus that followed the 2008 global financial crisis, gross capital investment hit a vertigo-inducing 49 per cent of output. Worse, every time growth sags, as it did at the start of this year, central planners reach for the cement-mixers, pushing investment up again.

Mr Yu Yongding, a well-known academic at the Chinese Academy of Social Sciences, worries about this a lot. China is storing up trouble, he believes, as it adds to its stock of white elephants and unprofitable industries.

Take the steel industry, he writes in a recent article. China has more than 1,000 steel mills and produces roughly half the world's output. There is so much overcapacity that profitability last year was an atom-thin 0.04 per cent.

The high investment rate is the flip side of its high savings rate, which in 2007 topped 50 per cent of gross domestic product. This story is also well known. Chinese people save too much. One reason is that they stash away money to cover catastrophic events such as sickness or redundancy.

In addition, the system penalises consumers by suppressing deposit rates so that cheap money can be funnelled to favoured sectors — all those steel mills. This propensity to save makes the necessary rebalancing of the economy harder. If consumers cannot be relied upon to spend and exports can no longer be the engine of growth, all that is left is investment.

Growth this year is likely to be about 7.5 per cent, quite a comedown from the nearly 12 per cent of 2010. But Assistant Professor Xi Li, at the Hong Kong University of Science and Technology, says it will have to fall more. He calculates that if household consumption, now at 34 per cent of GDP, is to rise to 50 per cent in 10 years, annual investment growth would need to fall to minus 3 per cent a year. That would mean GDP growth falling to 4 per cent.

● David Pilling is the Financial Times' Asia Editor.

Part of the basis for such assessments is empirical. You only need to visit China to see the investment, whether in the world's longest high-speed rail network or in huge "ghost cities". Part, though, is statistical. Each year, official data show investment at close to 50 per cent, savings at about the same level and consumption at about 35 per cent.

### HIGHER IN REALITY?

But what if the official data were wrong? That is the intriguing claim by academics Jun Zhang and Tian Zhu, respectively of Fudan University and China Europe International Business School, who argue that consumption has been consistently under-reported. In a recent paper they find three important areas of under-counting.

One is housing. China, they argue, does not properly account for

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● To read Yu Yongding's commentary, China's Investment Addiction, go to tdy.sg/comchina18oct or scan the QR code using the reader app on your smartphone for the piece.