

In which industries to invest? Aligning market and development incentives in Myanmar

**MPDD Seminar Series
Bangkok, 31 October 2012**

Steven Ayres and Clovis Freire
Macroeconomic Policy and Development Division (MPDD)
Economic and Social Commission for Asia and the Pacific (ESCAP)

Main Messages

- Diversification towards more productive economic activities will best facilitate inclusive development in Myanmar
- Given market incentives, it will require strategic interventions, including targeted FDI
- Method to identify economic activities to target

Content

- I. Introduction
- II. The opening up of the economy
- III. Inclusive development, structural transformation and the role of FDI
- IV. Theoretical framework
- V. Methodology & Data
- VI. Identifying opportunities for FDI
- VII. Conclusions

I. Introduction

- Identifying investment opportunities in industries that will best facilitate inclusive growth and the achievement of development goals
 - the focus is not the broader issues of trade and investment in the new macroeconomic framework.
(for a comprehensive review of this, see Anukoonwattaka & Mikic, 2012)
- Development and market incentives must be considered in planning strategies
- New industries should be the focus of such investments

II. The opening up of the economy

Cause for optimism in Myanmar....

- Years of isolation, both political and economic, have inhibited Myanmar's development.
- Yet the current era of political and economic reforms offers new opportunities
 - FDI legislative reform could be instrumental in creating new economic activities
- Chance to exploit a number of strengths in this transition phase, despite a number of potential challenges

Strengths	Challenges
- Demography	- Fiscal Deficits
- Geography	- High inflation
- Natural Resources	- Macroeconomic management challenges

III. Inclusive development, structural transformation & the role of FDI

- Opportunity to follow in neighbours' growth and development footsteps
- Growth of an inclusive nature is key
- A transformation in the structure of the economy may help facilitate this.
 - Myanmar has made no progress in this respect, agriculture accounting for 35% of GDP in 1965, and 36% in 2010.
- ESCAP (2012) stresses the need for the movement towards more productive industries and services

- Slow structural transformation is exacerbated by reduced private investment incentives.

What role can FDI play?

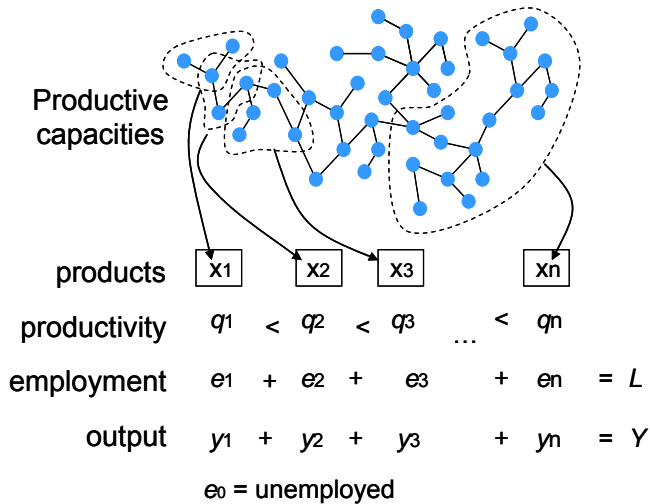
- The benefits of FDI can be felt in many ways:
 - incomes and employment, capital formation and market access, market structure, technology and skills, fiscal revenues, political, social and cultural issues, etc. (UNCTAD, 1999)
 - Yet there are also certain caveats:
 - Crowding out of domestic investment
 - Creation of macroeconomic instability
 - Investment in protected industries

- It is both the **quantity** and **quality** of FDI that is of concern. But what constitutes quality FDI?
- Myanmar requires a carefully implemented strategy.
 - targeted FDI can serve as an integral part of such a strategy.
 - this can be done by maximising the advantages specific to Myanmar, and ensuring that investment facilitates structural change that will be conducive to development goals.

IV. Theoretical framework

Based on evolutionary growth models (Silverberg and Vespagen, 2005) & Economic complexity (Hidalgo and Hausmann, 2009)

- Economy as a set of different economic activities
- Each producing a single product (x) with different:
 - productivity (q)
 - employment (e)
 - output (y)
- Each product requires a specific combination of "productive capacities" to be produced

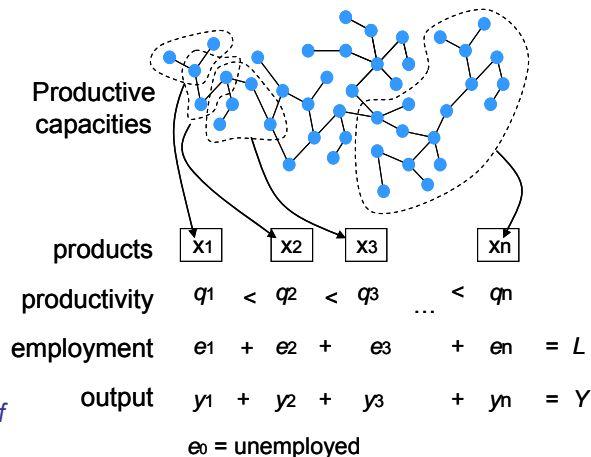


Constant labour productivity of each economic activity:

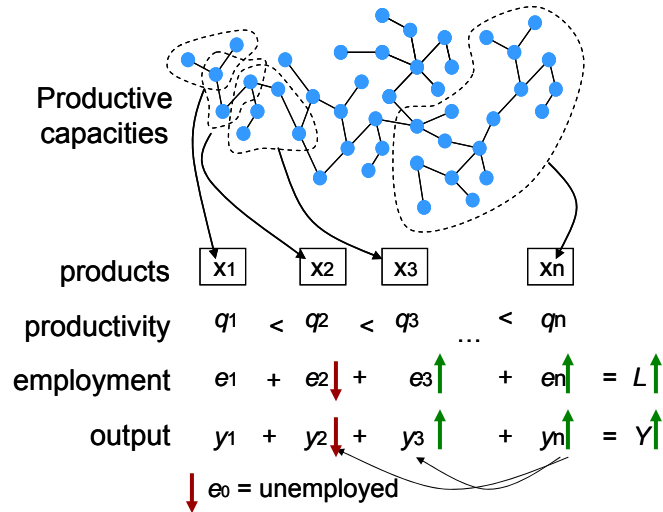
- $q_j = (y_j / e_j)$
- Function of the unique productive capacities used in the production

Changing Average productivity of the economy as a whole:

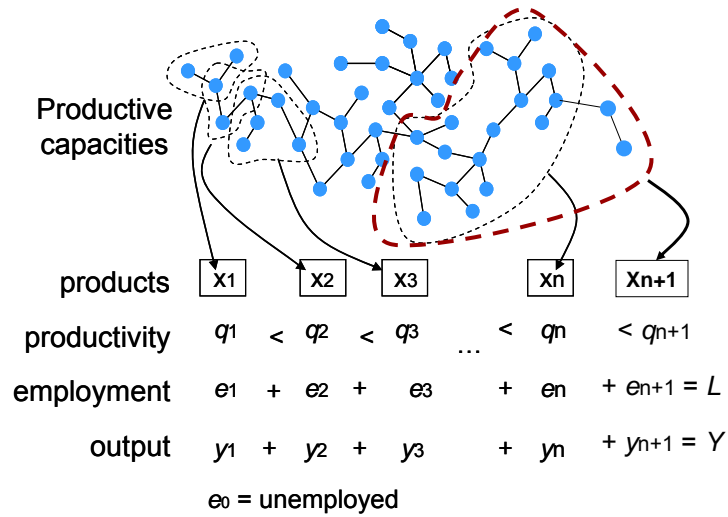
- $q = \sum(e_j/L) q_j$
- *changes with shifts in employment and rate of growth by economic activity*
- *changes with creative destruction*



Economy evolves by (a) shifting employment and changing rate of growth by economic activity



Economy evolves by (b) adding/removing productive capacities and/or links of the network of productive capacities



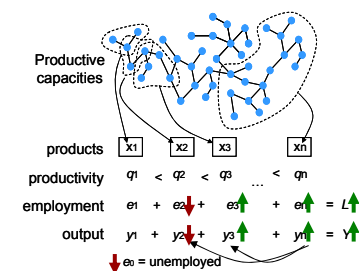
Inclusive economic development

- Growth of total output ($Y_{t+1} > Y_t$)
- Reduction of inequality by increasing employment in more productive sectors
- Increase in total productivity of the economy ($q_{t+1} > q_t$)

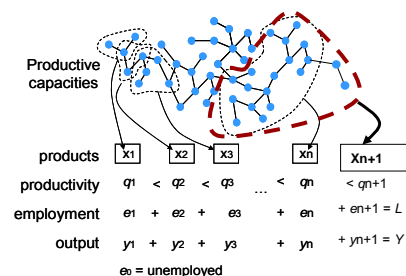
Growth
with
productive
jobs

Two ways to move employment into more productive activities

- 1) Demand must be increased in existing economic activities that are more productive which, in turn, increases output and associated employment in that activity;



- 2) Creation of new and more productive economic activities, which would increase the opportunity for more productive jobs.

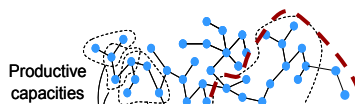


- But big **reliance on investment in existing industries pose risks** for inclusive development
 - High global demand for primary products is more likely to create **incentives for increasing resources on lower-productivity activities** (ESCAP, 2012);
 - If demand-side dynamics lead to the desirable outcome of higher output and employment in more productive activities, such outcome in the longer-term may have the perverse effect of **perpetuating social injustices and the old power dynamics within the society** (Acemoglu and Robinson, 2012) .
- Therefore, the **creation of new more productive economic activities present a more successful approach** to fostering inclusive development

How diversification would come about?

■ Emulation vs Innovation

- Emulation: new to the country
- Innovation: new to the world



预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_7344

