Foreign direct investment

Faculty of Economics, Thammasat University

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OVERVIEW

Forms of international capital flows

Private foreign investments	Official development assistance	Remittances	Military aid
Investments through companies/firms from abroad	assistance from bilateral or multilateral sources to recipient governments	earnings by international migrants or foreign workers to their home country	government-to government arrangements for defense and military purposes

Private foreign investment

Foreign Direct Investment

Investments by large multinational corporations such as Exxon, Toyota, Hyundai, Coca Cola and

Foreign Portfolio Investment

Investments in the form of stocks, bonds in developing countries' credit and equity markets

Foreign direct investment

- Multinational corporation (MNC): conducts and controls productive activities in more than one country
- Most MNCs are based in North America, Europe and Japan; more recently, PR China, South Korea, Taiwan and Brazil
- MNCs bring development opportunities but may also pose serious problems for developing countries in which they operate

Forms of foreign direct investment

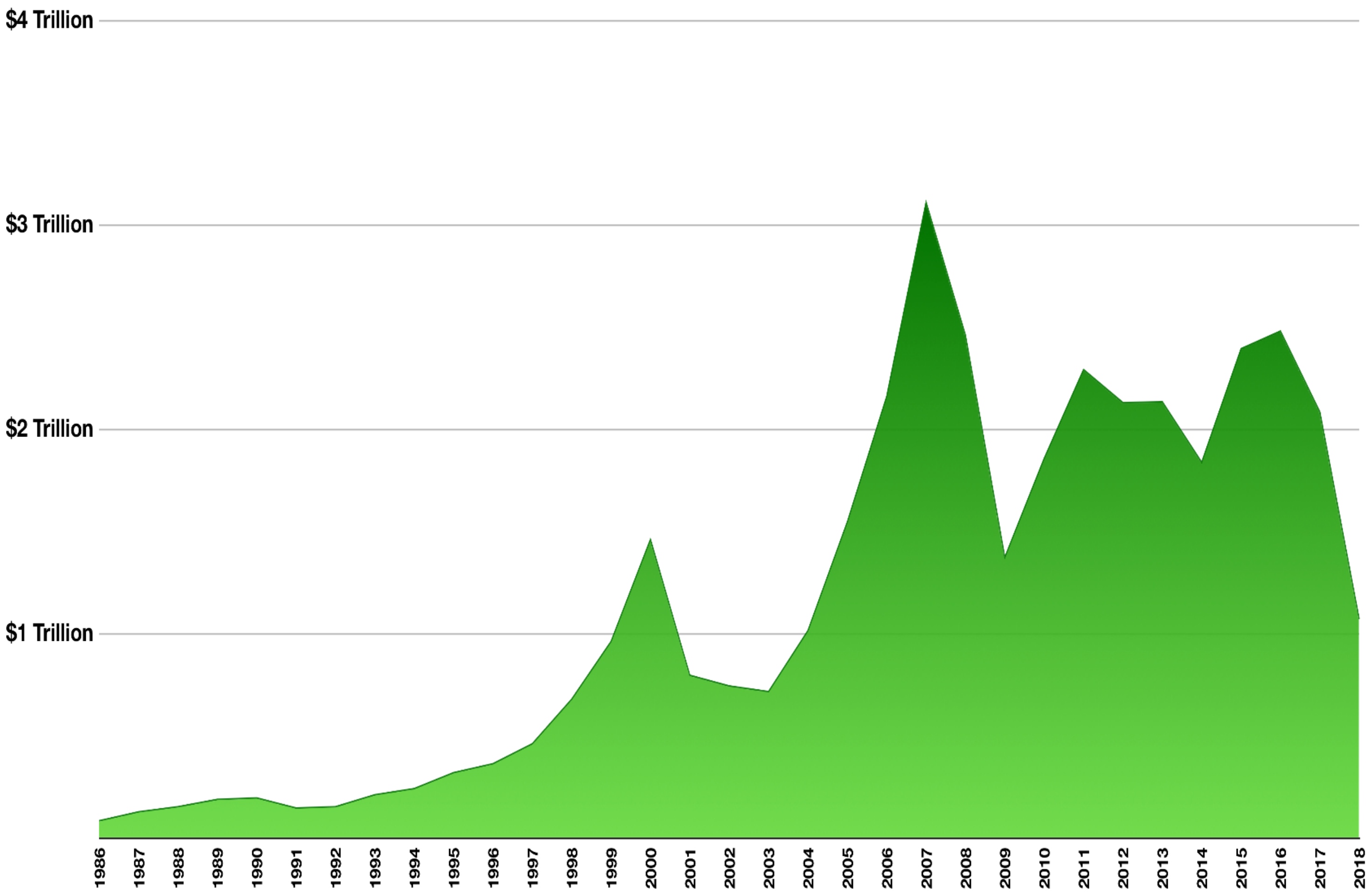
- Historically MNCs focused on extractive and primary industries, mainly petroleum, nonfuel minerals, and agribusiness
- Thereafter MNCs became more involved in export-oriented agriculture and local food processing
- More recently, MNCs operate in manufacturing operations, finance and services

Forms of foreign direct investment

- Production now geared for export to MNCs home country and other developed markets rather than for the host country

Foreign direct investment trends

- Gradual rise from 1986-2000; decline thereafter, up to 2004 followed by increase up to 2008
- Rebound in 2009; slight dip in 2014 but rebound thereafter
- Developed countries are recipients of a major share of FDI



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IMPACTS OF FOREIGN INVESTMENT

Impacts of foreign direct investment

- Fills resource gaps; enables supply of domestic savings, foreign currency, human capital skills
- Fills the gap between foreign exchange requirements and those derived from net export earnings plus net foreign aid
- Generates tax revenues needed and available management and transfer of technology

Impacts of foreign direct investment

- **Crowding out of private businesses**, lower domestic savings and investment rates by substituting private savings
- **Distorts competition** through special arrangements and fails to re-invest profits
- **Reduced foreign exchange earnings** in the long run; failure to improve foreign exchange position of the recipient country

Impacts of foreign direct investment

- **Less-than-expected contribution to public revenues** in reality, contribution through corporate tax is considerably less because of tax holidays, subsidies, and transfer pricing
- **Little impact on developing local resources** MNCs' management, entrepreneurial skills, technology may have little impact on developing local sources

Impacts of foreign direct investment

- **Impact of MNCs on development is uneven**; in some cases MNCs reinforce dualistic economic structures and exacerbate inequalities by promoting the interests of local factory managers above workers
- **MNCs use their economic power to influence government policies** in directions that are unfavorable to development

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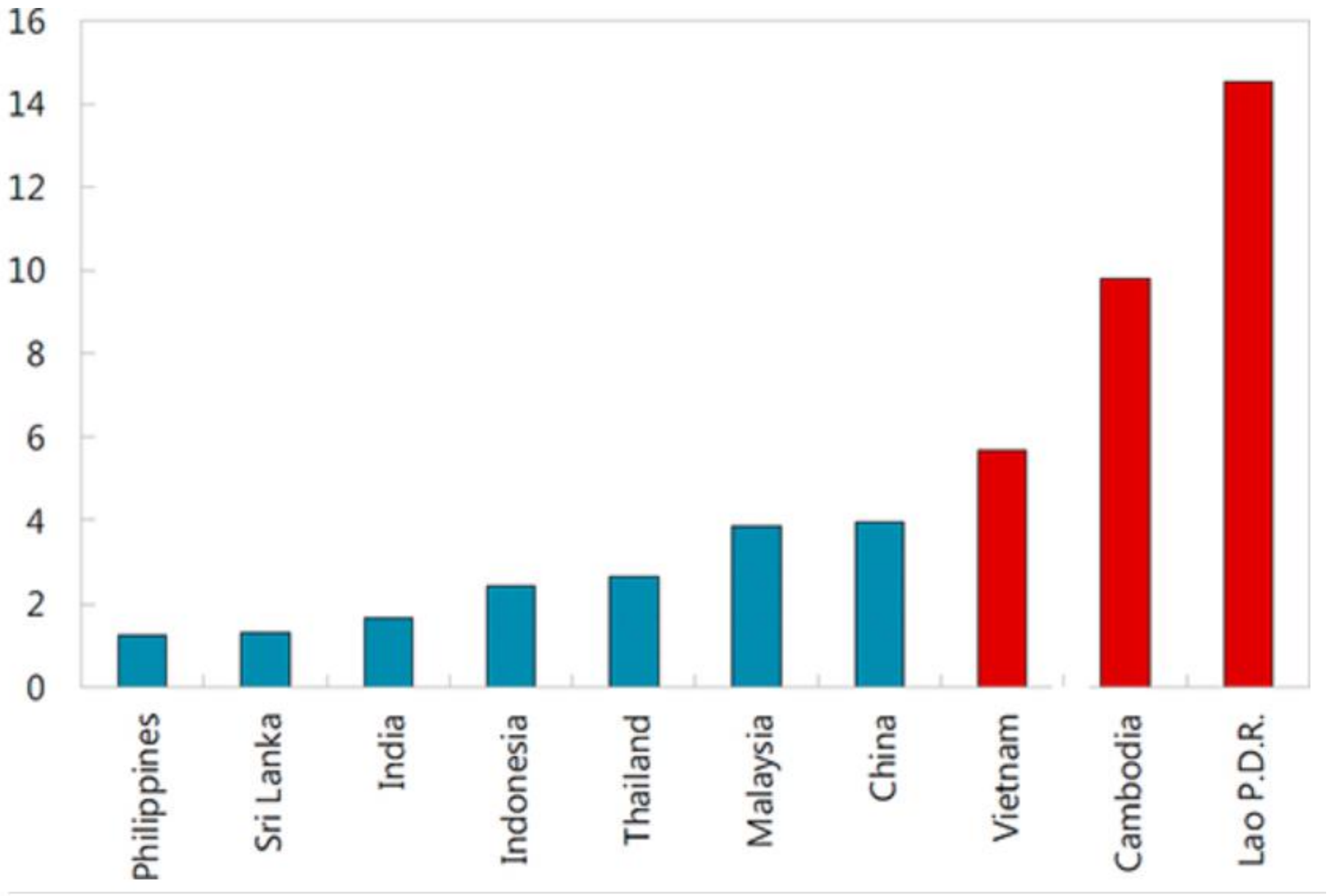
FDI IN CLMV

FDI as percentage of GDP

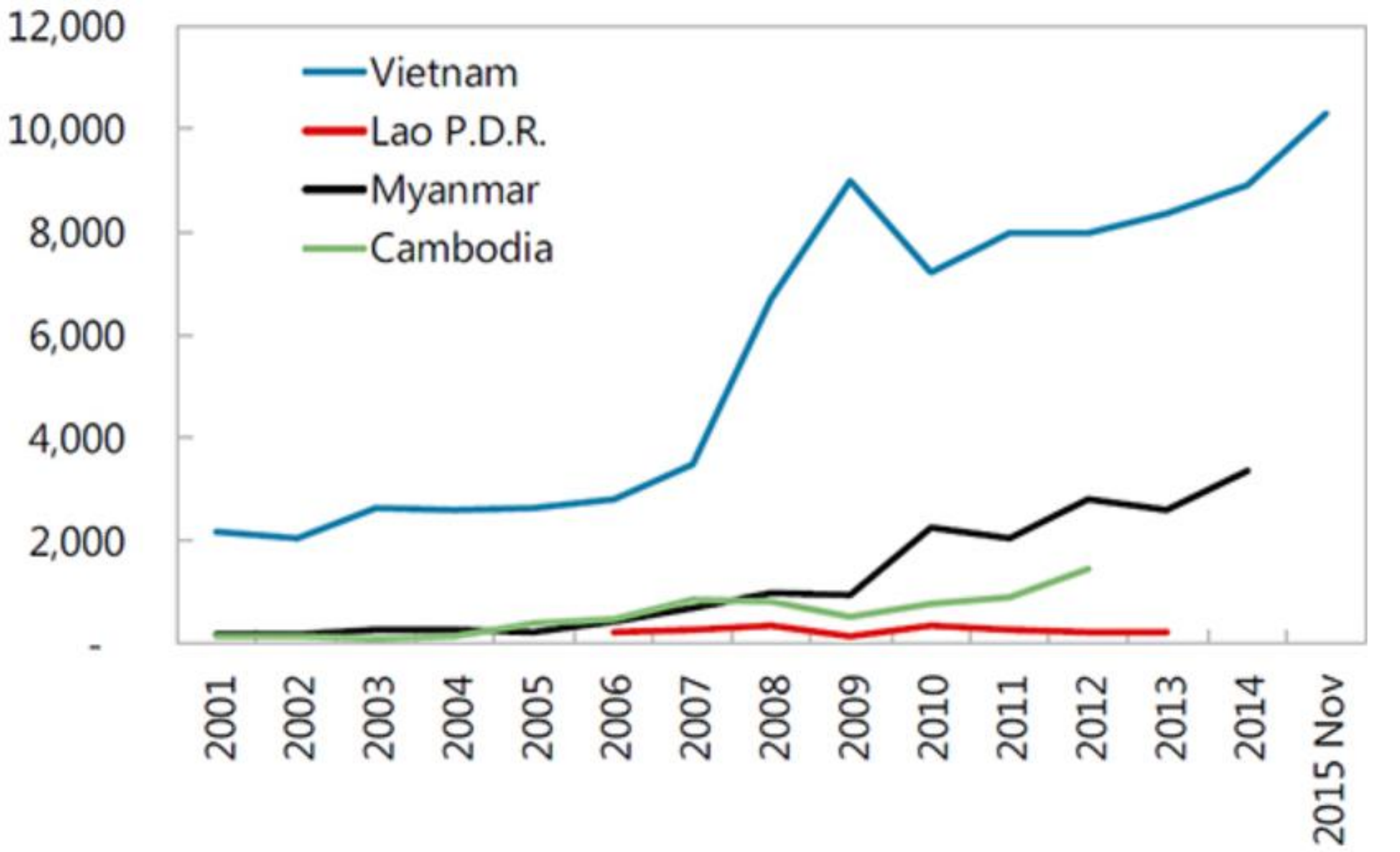
- Lao PDR is relatively dependent on FDI, which comprises about 15% of GDP
- In general, CLMV depend more on FDI compared to other countries is the region



Sources: IMF, *World Economic Outlook;* and IMF staff calculations.

Foreign direct investment in CLMV

- Vietnam is the largest recipient of FDI among CLMV
- In 2014 it received over $8 billion, while Myanmar received almost $3 billion and Cambodia and Lao PDR under $1 billion



Foreign direct investment in CLMV

	2010	2011	2012	2013	2014	2015	2016	2017
Cambodia	783	892	1,557	1,275	1,727	1,701	2,280	2,732
Lao PDR	333	467	294	427	913	1,079	1,076	1,695
Myanmar	2,249	2,058	1,354	2,621	946	2,824	2,989	4,341
Viet Nam	8,000	7,519	8,368	8,900	9,200	11,800	12,600	14,100
Total CLMV	**11,364**	**10,936**	**11,574**	**13,222**	**12,786**	**17,405**	**18,945**	**22,868**
CLMV share of FDI flows in ASEAN	**10.5**	**12.5**	**9.9**	**10.9**	**9.8**	**14.3**	**15.4**	**16.7**

Source: ASEAN Secretariat, ASEAN FDI database.

Foreign direct investment: Cambodia

- Rapid expansion of FDI-driven garments exports is a major source of employment and reducing poverty
- FDI has expanded into other labor-intensive export industries, such as shoes, toys, and wood products and lately, real estate and finance

Foreign direct investment: Cambodia

- Car-parts maker Yazaki Corporation opened new factory in Koh Kong province in 2012, using it to supply wire harnesses to auto plants in Thailand
- Cambodia received investment from more diversified sources, with China and ASEAN investors leading.

Foreign direct investment: Lao PDR

- FDI in hydroelectric power and mining is boosting GDP growth and employment
- Nikon Corporation established production in Savannakhet in 2013, taking over some production processes from Thailand

Foreign direct investment: Lao PDR

- Completion of China–Lao railway will make Chinese companies more involved in construction activities
- Chinese companies were the overwhelmingly largest investors, accounting for more than 77 per cent of investment

Foreign direct investment: Myanmar

- Not much FDI in the manufacturing sector; its economic liberalization has led to establishment of special economic zones
- Other important areas of FDI are mining and extractive industries

Foreign direct investment: Myanmar

- In Thilawa, the Japanese-backed special economic zone, started operations in 2015
- ASEAN countries are the largest source of investment (48 per cent), led by companies based in Singapore, the United States and the European Union

Foreign direct investment: Vietnam

- FDI inflows initially on light manufacturing; more recently into electronics, power generation, real estate and construction, and machineries
- Rising demand, cost advantages and regional production networks are driving investments in the automotive industry

Foreign direct investment: Vietnam

- Open investment policy, improved infrastructure, and low cost skilled labor major positions Vietnam as a center for global technology manufacturers
- Japan, the Republic of Korea and ASEAN are main investors contributing to 67 per cent of total investment

Implications of CLMV FDI for Thailand

- The new influx of FDI has implications for Thailand because it is strategically situated between CLMV
- Thailand can profit by serving as a more advanced hub for manufacturing, services, logistics and transport that connects the increasing FDI throughout the Greater Mekong Subregion

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CONCLUSION

Summary

- Foreign direct investment is mainly channeled through multinational corporations
- Historically MNCs were engaged in extractive/primary commodities, but currently more on manufacturing, finance and services
- MNCs bring advantages as well as disadvantages to the recipient country; although MNCs bring capital, technology and skills, the can also use their economic power to influence government policies in directions that are unfavorable to development

Summary

- Sources and industry targets vary for CLMV countries; Cambodia is the most diversified in terms of FDI source, and the target industries are shifting from garments to light manufacturing
- In Lao PDR, PR China tops the list, with investments in hydropower and rail transportation; in Myanmar, ASEAN countries, particularly Singapore, generate most of the FDI which are geared toward extractive industries
- Vietnam receives the largest share of FDI, although the percentage of FDI to GDP is lowest among CLMV countries; Japan, Korea and ASEAN countries are the largest sources of FDI
- To capitalize on the benefits, government should be capable of negotiating the terms and conditions of investments

THANK YOU!