

Avoiding the traps of foreign investment

● CONTINUED FROM PAGE 14

company was suddenly in the news in the United States because some labour association made claims about their abusive labour standards.

She said: "For several days, our buyers were calling me to ask what was going on, expecting reassurance that we are not using excessive overtime and all.

China may be in better shape

● CONTINUED FROM PAGE 14

"imputed rent", an estimate of how much owner-occupiers would need to pay if they were renting.

Second, they say, a lot of private consumption shows up in statistics as corporate expenses. For example, many executives pay for their private car on the company account. Although this appears in official data as investment, it is really consumption.

Third, and most important, they argue, GDP surveys under-represent high earners, who may not relish the idea of officials with clipboards noting down their every expenditure. If high-income households are missing from the survey, so is their consumption.

Taking these three factors together, the two academics calculate that China underestimates consumption by 10 to 12 percentage points.

That view, though still a minority one, has some support among investors. Mr Jonathan Garner, head of Asian and emerging market equity strategy at Morgan Stanley, has long argued that Chinese consumption is higher than captured in official statistics. In a February report, using a bottom-up method, his team estimated household consumption at 46 per cent of GDP, US\$1.6 trillion (S\$2 trillion) higher than officially recognised.

If he is right — or even half right — then some of the scare stories about China look slightly less scary. For example, investment, though still excessive by anyone's standards, might not be quite as wasteful as assumed. Mr Garner puts capital investment at 41 per cent of GDP last year, not 49 per cent.

"Our data suggest the transition to consumption-driven growth has already been under way for some time." That, he says, is borne out by concrete data. Car sales, for example, are growing by 13 to 14 per cent, double the pace of the economy. Consumer-related stocks have long outperformed industrial ones.

Of course, if consumption data are wrong, that would imply investment data are wrong too. More work needs to be done to explain this. Nor do even the most optimistic estimates of consumption make concerns about chronic overinvestment vanish. They would, however, make them smaller.

What seems like an obscurantist debate over the methodology for calculating GDP turns out to be of vital importance for China's economic future. **THE FINANCIAL TIMES LIMITED**

In some cases, it was the same guy that, only the week before, asked to rush our order and to increase volume at short notice — of course, at no extra cost and without hiring additional labour."

So, all those NGO initiatives are well-intended and those corporate social initiatives help a bit. But from the perspective of a host country like Bangladesh or Myanmar, you cannot rely on that. The country 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 if laws are enforced, and the same standards apply to everyone, will the honest factory owner be able to prosper.

Thein: What type of FDI would be good for Myanmar?

Meyer: At this point Myanmar can't be too choosy because it does not really have much to offer. Nowadays, multinationals are, first and foremost, looking for human capital and that is still not well developed (in Myanmar).

You can't attract R&D labs until you have strong local universities, specialised scientists, first-class education.

However, there needs to be some strategic thinking in industrial policy to identify a handful of sectors where, perhaps, Myanmar might be competitive internationally in five to 10 years' time. My intuition is that there could be considerable potential in tourism and in certain food sectors. Another option might be to produce labour-intensive parts for cars made by Japanese brands in Thailand.



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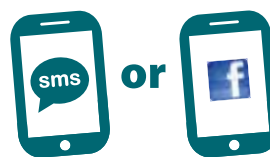


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