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**THE ROLE OF FOREIGN TRADE AND
INVESTMENT IN TRANSITION**
*APPLICATION OF EAST CENTRAL EUROPEAN
EXPERIENCES TO MYANMAR*

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Transformation in Burma/Myanmar: Economic, Social, and Spatial Changes

Outline



- Similarities of V4 and CLMV countries
- The importance of foreign trade and FDI in a transition process
- Trade relations of V4 + patterns of FDI
- Trade relations of CLMV countries
- Conclusions and potential implications of V4's experience for CLMV countries

Similarities of V4 and CLMV



- both groups are new members of an economic organization
- similar size of population within the ASEAN / EU and much lower share of GDP compared to total
- higher growth rate than the average level of the integration
- strong economic connections to their 'big neighbors'
- intra-trade relations within the CLMV / V4 region are relatively low
- high share of trade within the ASEAN / EU

The importance of foreign trade and FDI in a transition process



Trade and FDI are:

- catalysts promoting economic growth and integration of transition countries with the world economy
- essential in enhancing domestic capital stock and technology transfer

- The opening-up of CEE transition countries and their trade integration with the EU has brought about large increases in trade between the two groups of countries and the substantive trade creation has gone hand in hand with vast increases in FDI flows.

Trade relations of V4

- V4 countries: small and open economies
- Trade plays a crucial role in their growth performance
- Strongly integrated in the global value chains that shape their trade structure, dynamics and volume.
- Their exports are relatively high-tech intensive.

But:

- ▣ vulnerability!
- ▣ local capacities to absorb foreign technology (quality of human capital)

Efficient development of human capital and education system would be essential to provide a long-term base for good export performance and growth

Patterns of FDI in the V4 region

- Attractive region for FDI
 - ▣ privatization
 - ▣ market access
 - ▣ relatively low wages
 - ▣ skilled workers
- Openness to trade is significantly linked to FDI inflows
- competition states: structurally dependent on foreign capital, which controls access to technology, know-how and distribution networks
- EU accession – upsurge / financial crisis – drop
- Vulnerability to crisis: economies' significant reliance on external financing

Trade patterns of CLMV countries

- ASEAN membership: increase in both amount and volume of intra-regional trade for CLMVs
- Decline during the Asian crisis, but afterwards salient growth of trade
- Trade deficit (imports of capital goods, owing to infrastructural developments in the region)

Annual average growth rate of total trade for CLMV Countries

	2005 - 2010	2010 - 2014
Cambodia	10.6	18.5
Lao's PDR	17.0	12.4
Myanmar	20.3	31.5
Viet Nam	17.9	14.4

Trade patterns of CLMV countries

- CLMV region has proliferated since the establishment of the ASEAN Free Trade Area
 - ▣ GVC
- The share of the CLMV region in total ASEAN trade has increased
 - ▣ from 6.6 percent in 2004 to 13.4 percent in 2013.
 - ▣ In 2013, Vietnam alone accounted for 11.1 percent of total ASEAN trade, while the combined share of Cambodia, Lao PDR and Myanmar was 2.7 percent.
- Trade openness is over 100% for Cambodia and Viet Nam, less moderate for Myanmar and Lao's PDR
- Labour-intensive, resource-based manufactured export

FDI patterns of CLMV countries



- In recent years, the CLMV region has benefited from increased FDI inflows
- Main motivation: low wages + outsourcing activities
- An area of critical importance for CLMV region is infrastructure development.
- The financial sector in the CLMV region which is still relatively underdeveloped due to its isolation from global banking system, also present opportunities for collaboration.
- The CLMV region is considered as one of the fastest growing tourism destinations in the world.

Conclusions



- The transition has been more difficult and more time-consuming than many democratic governments anticipated
 - ▣ gradual process
- The dilemma is how to speed up economic recovery while maintaining political stability
 - ▣ interconnected and self-strengthening processes
- Attractive regions for trade and investment
 - ▣ labour-cost advantage for efficiency-seeking investments
- In attracting FDI structural changes crucial
 - ▣ FDI is shifting towards knowledge-and skill-intensive manufacturing and services
- Importance of sub-regional intergrations

Thank you for your attention!



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