

FDI Conference—Concluding Remarks, August 17

Wanda Tseng

1. Over the past day and a half we have had a wide-ranging exchange of views on the opportunities and challenges of FDI and on the policy priorities for Cambodia, Lao PDR, and Vietnam. This discussion is timely, given these countries' ongoing efforts to seek FDI and because, as we heard from Mr. Le's presentation on Viet Nam this morning, FDI has a key role to play in supporting these countries' economic transition to a market oriented economy by nurturing management know how and developing dynamic private enterprises. Several key points have emerged, which I will now try to summarize.

2. First, on the global context. There was recognition of China's pull for FDI and, thus, a more competitive environment for host countries. Nevertheless, China cannot have comparative advantage in everything, and a prosperous China will undoubtedly contribute to opportunities in the region. We have already heard that China has started to become a source country for FDI in some of the countries here. Furthermore, there was hope that FDI from Japan would rebound as part of its economic restructuring strategy, even though the near-term global economic situation is somewhat uncertain.

3. Second, on the factors driving FDI, there was a convergence of views. It is generally accepted that FDI cannot flourish without political stability. It is equally clear that the existence of a large and growing domestic market, or an integrated regional market under the framework of AFTA, can be very helpful but not essential for export oriented FDI. Further, an open attitude toward global competition and a favorable investment climate are prerequisites, as is a relatively low-cost structure, which must entail reasonably adequate infrastructure. There is as well the need for a transparent and dependable legal framework and a simple investment approval process.

4. Third, there were diverse views on how to maximize the benefits of FDI through enhancing technology transfers and spillovers. A few participants suggested that selective interventions based on anticipated trends of comparative advantage can be effective, but this would require careful industry-specific analysis and broad consultation with the private sector as indicated for Malaysia and Singapore. But I think we should also look at the context of our problems as we are dealing with countries in economic transition from a centrally planned system towards a market economy and in this particular environment, I think the past record of productivity had not been very good and I will not be very positive in encouraging these countries in particular projects to adopt such a strategy.

5. Fourth, on the possible pitfalls of FDI strategies, we debated the relative merits of tax incentives. One view is that because tax incentives for FDI are typical in the region, a country may not be able to avoid them. Yet others believed that over the medium term, the region is moving away from relying on these incentives as a means of attracting FDI. In the meantime, we believe that if incentives are unavoidable, they can be streamlined and designed so as to limit the drain on the budget and the potential for corruption. Indeed, it seems wise to avoid incentives that are ad hoc and subject to discretion as

they are prone to abuse. Across the region, closer cooperation to lower the level of incentives offered seems to merit further consideration. Another pitfall mentioned in the FDI strategy is the emergence or potential emergence of regional income disparities and that countries need to pay attention to equitable growth.

6. From these observations, we discussed the policy priorities for Cambodia, Lao PDR, and Vietnam going forward. While the specific circumstances of each country differ, there are common elements in the strategy for improving the investment climate, not only for foreign investors, but also for the domestic private sector. These include: first, maintenance of a stable macroeconomic environment and sustained economic growth; second, a strengthening of the public finances in order to build infrastructure and skilled labor; third, strengthening governance; and fourth, deepening the reform momentum, especially by pursuing open trade and investment regimes, importantly through AFTA and early accession to WTO. Furthermore, as FDI can fluctuate with global market conditions, it is important to manage macroeconomic policies prudently and flexibly to deal with these external shocks--a key policy in this context is flexible exchange rate management. Fourth, let me turn to some of the priorities for individual countries.

- For Vietnam, particular stress was put on a rigorous implementation of the USBTA and active preparations for entry to the WTO, as a means to further open market access for investors and to upgrade the legal framework. Equal emphasis was put on improving the business climate, by reducing the costs of doing business and leveling the playing field between the private and state sectors. Above all, transparency, predictability, and consistent application of policies are crucial. On a more practical level, simplifying licensing and approval processes would be equally helpful.
- For Cambodia, there is a particularly urgent need to rebuild human capital, basic infrastructure, and the legal framework. Also, to increase budget revenues to help

finance economic infrastructure, the relatively generous investment incentives are being rationalized; more generally, the revenue base is being broadened to avoid higher tax rates. More broadly, continued progress in strengthening the fiscal position and economic management will be essential.

- For Lao PDR, prudent macroeconomic management is needed to ensure macro stability. With its rich endowment of untapped natural resources and continuing its liberal investment policy, Lao PDR is well placed to attract FDI. Streamlining approval procedures is important, and promotion of special economic zones may be a pragmatic first step to improving infrastructure for investors. Greater policy transparency, especially through increasing information flows, will be critical for boosting investor confidence.

7. In closing, on behalf of the IMF, we would like to thank our host, the State Bank of Vietnam, for its support, and all those who worked hard to make this conference run smoothly. We really appreciated the opportunity to visit this beautiful city of Hanoi. We would also like to thank all the participants for their valuable contributions to this discussion. It has been a pleasure for the IMF to join the State Bank of Vietnam in hosting this conference. The lessons that we have drawn today will be helpful not only in our dialogue with the three countries concerned but also can be disseminated to our other members.