

The Future of Foreign Direct Investment and Natural Resources Degradation of Myanmar

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Foreign Direct Investment (FDI) is defined as “Cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy.” It has been increasingly crucial for the economic growth of a nation.⁷

FDI in Myanmar is concentrated mainly in twelve major sectors which include manufacturing, mining, oil and gas, transport and logistics, hotel and tourism, real estate, agriculture, livestock and fisheries, construction and services.⁴ The first largest investment has been in extractives of oil and gas and hydropower which are followed by mining. The single largest source of foreign income into country is Natural gas export with forty percent of the total.² Most of the FDIs coming into Myanmar have been driven by resource-seeking motives.

The World Bank has noted the profile of Myanmar with the history of tough economic nationalization and isolation from the outside world unlikely to other countries since 1960s due to certain political instability and strong Western sanctions. Yet, initializing from 2010, the election of new president, there has been a promising road to halt this tragedy of isolation from World Economy. Since then, the government under the supervision of new president halted controversial development projects, and made a few notable steps toward decentralizing the country’s economy and opening the markets to foreign investment and the international community through the

World Bank, IMF and the Asian Development Bank.² Myanmar has joined ASEAN in 1997 with the aim of economic integration among the ASEAN countries.¹⁰ Among the Cambodia, Laos, Myanmar, Vietnam (CLMV) and Thailand, the ratio of FDI to Economic Growth is still the lowest which means that the international sanctions have affected inward FDI into Myanmar.⁴

Myanmar Economy grew at 6.5 percent within 2012/2013. The major drivers of this growth were increased gas production, services, and foreign direct investment, construction and commodity exports.¹⁰

The image of Myanmar economic growth has shown that Myanmar FDI has been rising from just \$235 million in inward FDI in 2005 to \$1.9 billion in 2012⁸. Lately within the period from 2011/2012 to 2012/2013, FDI increases from US \$ 1.9 billion to 2.7 billion. In the upcoming year of 2015, according to the director-general from the Directorate of Investment and Company Administration, FDI in Myanmar may reach US\$6 billion.²

China has been the largest investor in Myanmar in 2014 as of the end of June while Thailand is the second largest one. China has contributed US\$ 14 billion of cumulative investment. Investment from Thailand ranked the second, with \$114 million. Investment from mainland China was \$51 million, while Hong Kong investment was as a total of \$42 million. Japan, Malaysia and South Korea followed, with \$26 million, \$24 million and \$22 million respectively. United Kingdom investment was about \$ 14 million. Meanwhile the investment from

Sweden and Brunei and Somoa, was \$ 14 and \$ 3 million respectively. The investment from India was \$ 0.9 million.⁵

Myanmar possesses a wide range of rich and diverse mineral resources, ranging from precious stones to oil and natural gas. The country has an estimated 283 billion to 334 billion cubic meters of natural gas, with much higher reserve potential, along with 50 million barrels of crude oil reserves. The country has 90 percent of the world's jade reserves.⁹

The current and upcoming huge amounts of cash coming from foreign investment are prone to be harmful more than profitable if these could not be handled in a correct way. ¹The intrinsic wealth of the massive stores of natural resources has become a major issue for the country. Stuart Larkin from the Institute of Southeast Asian Studies have written that resource degradation can be led by FDI since the elite groups gained profits from increased resource rents and their recycling into real estate and consumer import booms. The elite have gained higher power allowing them to exploit Myanmar's nascent democracy.³

Meanwhile, the increment in FDI is followed by the environmental degradation such as greenhouse gas emissions, deforestation, and loss of biodiversity. These images of environmental destruction have been led by enhanced economy that FDI is the main contributor of it. ⁶

Since the FDI is becoming increasingly important for economic growth of a nation, there should be a clear expectation among the donor countries that private capital will be the main driver of development in the future. The increasing reliance on foreign investment has significant implications for sustainable development of a country. ⁶

Economic theories of sustainability imply that economic growth and the increment of

FDI will exacerbate the current existing patterns of unsustainable development if it could not be matched by more efficient use of natural resources. FDI must further be operated within the boundaries of absolute sustainability constraints which have to solely base on the preservation of vital ecosystem functions.⁶After all, it is a critical issue to take consideration of the impacts of FDI on the natural environments of a nation.

The following three figures show Myanmar FDI from August 2013 to August 2014, the history of FDI flows to Myanmar by each economic sector from 1999 to 2005 and a more recent FDI flows into Myanmar from 2008 to 2013 by sector respectively.

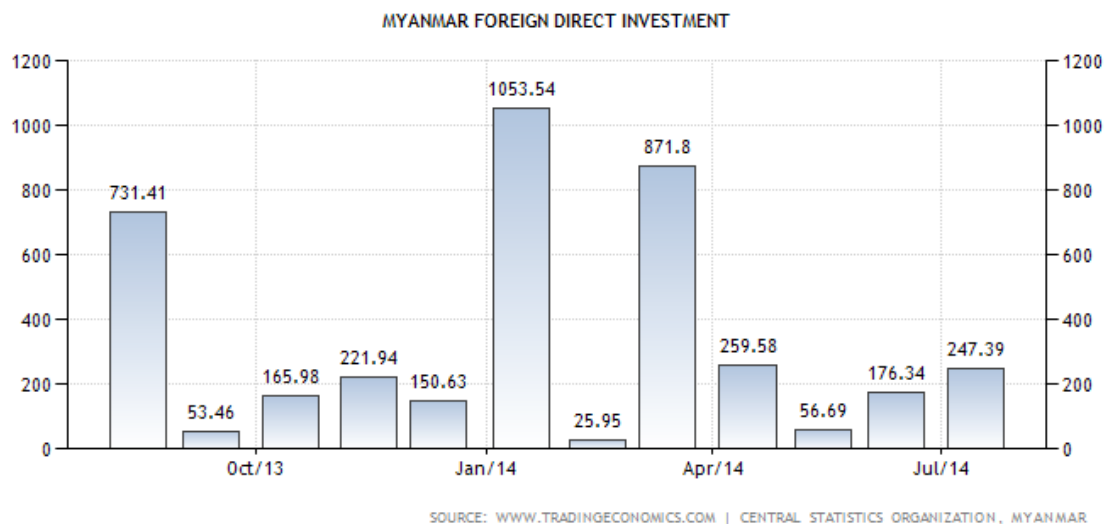


Figure 1: Myanmar Foreign Direct Investment

Source: www.tradingeconomics.com/ Central Statistical Organization, Myanmar

**FDI FLOWS TO MYANMAR
BY ECONOMIC SECTORS
1999 - 2005**

(US\$ million)

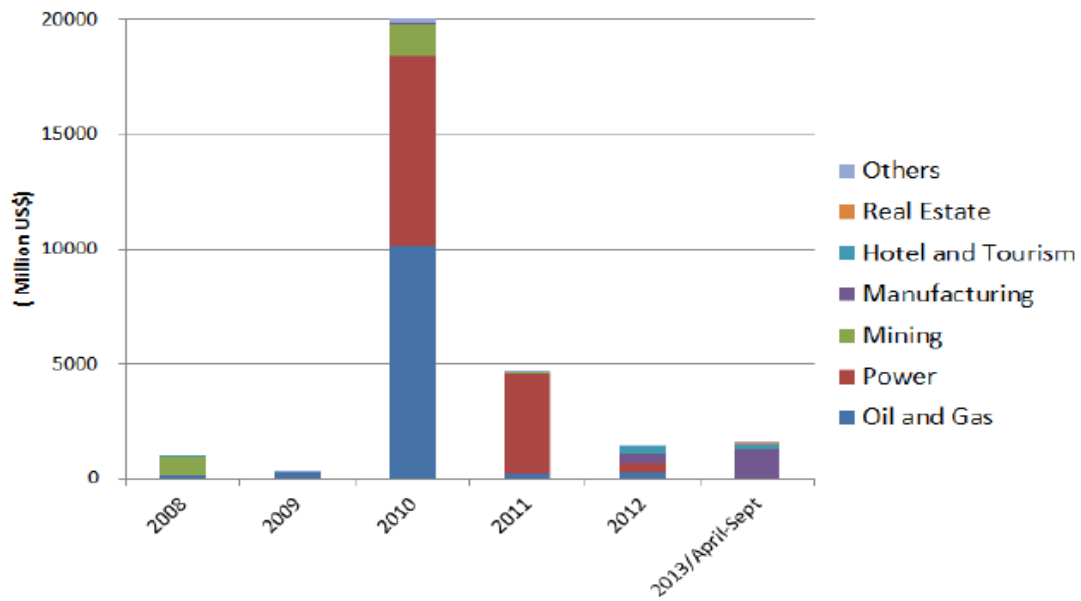
NO	ECONOMIC SECTOR	1999	2000	2001	2002	2003	2004	2005
1	AGRICULTURE, FISHERY AND FORESTRY	2.64	6.10	5.53	0.99	0.17	1.08	-
2	MINING AND QUARRYING	220.20	107.17	111.19	162.86	269.81	232.81	70.56
3	MANUFACTURING	54.60	25.08	25.00	13.75	9.10	13.04	0.91
4	CONSTRUCTION	-	-	0.04	0.04	-	-	-
5	TRADE / COMMERCE	10.50	22.05	3.04	11.44	9.17	3.39	-
6	FINANCIAL INTERMEDIATION AND SERVICES (incl. Insurance)	-	-	-	-	1.45	0.55	-
7	REAL ESTATE	15.30	1.61	43.94	2.29	0.28	0.26	-
8	SERVICES	0.64	38.21	0.54	0.03	1.25	-	-
9	OTHERS (Not Elsewhere Classified)	0.35	7.78	2.73	-	-	-	-
	TOTAL	304.23	208.00	192.01	191.40	291.23	251.13	71.47

Source: ASEAN Secretariat - ASEAN FDI Database, 2006

Figure 2: FDI flows to Myanmar by Economic Sectors from 1999 to 2005

Source: <http://www.asean.org/archive/5187-1.pdf>

Figure 3: FDI to Myanmar by Sector



Source: CSO, 2014. *Selected Monthly Economic Indicators*. Naypyidaw.

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