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Lords of Jade
Mismanaging Myanmar's Natural Resources

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INTRODUCTION

The Myanmar Furniture Show, which took place during March 2007 in Yangon boasted the exceptional quality of the country's teak. It was closely followed by a large precious stones auction. A series of criticisms questioned the deplorable human rights situation in Myanmar and also held the neighbouring countries responsible for the paradoxical predicament in which Myanmar stands today. How can a country endowed with such natural and human resources yet be so poor?

When Burma gained independence in 1948, there was widespread expectation that the country would be the first one in Asia for an economic take-off. It had rich natural resources, a comparatively better educated population and a good administrative infrastructure. In 1962, military dictator Ne Win's seizure of power opened a period of 45 years of economic mismanagement under the "Burmese Way to Socialism." Reversing the previous paradigm, the military government in power since 1988 opted for a market economy and for inclusion into international trade rather than protectionism. But, the absence of redistribution of wealth within the country and the lack of infrastructure obstruct all possibility of massive economic development. As a result, Myanmar's annual per capita gross domestic product (GDP) in purchasing power parity stands particularly low at US$2060.

While two thirds of the labour force still depends on agriculture, Myanmar massively exports "cash resources" like natural gas, teak, rubies, gold, copper, and iron, among others. The striking discrepancy between the revenue drawn from Myanmar's natural wealth and the poverty of people proves that long lasting reliance on natural resources has not contributed much to the progress of the country. On the contrary, by funding the military government, natural resources have now become an obstacle to political change and economic development. How has the potential of Myanmar's natural resources been turned into such a burden that restrains the country from progress?

To understand this paradox, this essay first examines Myanmar's incomparable natural endowment and the revenue it generates, and then analyses how the rulers' economic mismanagement has transformed such an asset into a liability.

I
NATURE UNBOUND
RESOURCES OF MYANMAR

Out of a total surface of 67.7 million hectares, Myanmar enjoys 34.4 million hectares of forest that produce yearly around 40 million cubic meters (m3) of wood – of which 35 per cent are teak. Natural tropical forest covers 13 million hectares, of which three quarters are specified for production. Most of Myanmar's total wood production is exported unrefined to be processed outside of Myanmar, but Burmese authorities have been encouraging national entrepreneurs to take up wood processing for several years, an ambition difficult to fulfill considering Myanmar's lack of expertise and infrastructure. Consequently, the share of log production remains low in the overall wood product, generally varying around 4-4.3 million m3.

In Yangon, the government Myanma Gems Museum proudly displays rankings of Asian gem producing countries, all topped by Myanmar. It also exhibits a map of the multiple gem formations. Gem production officially rose from 126,000 in 1988 to 61.23 million carats in 2005, with eight blocks under exploitation in 1988 and 635 in 2005. The production of jade skyrocketed from 130 tons in 1988 to 14,436 tons in 2005 and nearly 20,000 tons in 2006-07, more than doubling from 2001 to 2006.

Myanmar's non-fuel mineral production is not limited to gems, but also includes gold, iron and steel, as well as base metals – mainly copper. The same year, Myanmar produced 34,500 tons of copper, 40,000 tons of iron and 25,000 tons of steel.

Myanma Oil and Gas Enterprise has 46 onshore and 25 offshore oil and gas fields. Oil production remains minimal compared to that of natural gas, which represents 90 per cent of the 170,000 barrels of oil equivalent exported per day. Total daily production amounts to 8.49 billion cubic meters.

Total onshore and offshore natural gas reserves are estimated at 89.7 trillion cubic feet (tcf), while 18 tcf have been proven recoverable. The major gas fields being exploited are located offshore: the Yadana reserves, South of the Ayeyarwady delta, the Yetagun reserves, in the Andaman sea along the Tenasserim coast, and the Shwe gas field, off the Rakhine coast. Extraction from the Yadana gas reserves – out of which Myanmar is entitled to take up to 20 per cent – provides since 2000 daily 525 million cubic feet (mcf) to Ratchaburi in Thailand.

Any foreign investment in Myanmar requires approval from the military government, and exploitation of natural resources is conducted through joint ventures in which the government takes part.

More recently, the Shwe gas reserves have been discovered near Sittwe. The first production sharing contract (PSC) signed in 2000 has led the Korean Daewoo to discover a "world-class commercial-scale gas deposit" of over 5 tcf in January 2004, later certified at 4.53 to 7.74 tcf.

Natural resources largely contribute to Myanmar's GDP based on purchasing power parity of US$93.8 billion and their export provides the generals with substantial revenue. Amounting to 13.4 per cent of total exports in 2004, Myanmar's hardwood mainly goes to China, India, respectively the world's first and second largest importers of tropical logs, and Thailand. Myanmar exported US$345 million of timber in 2003 and its log exports fluctuated between 1.4 and 1.6 million m3 in the past years. However, smuggling makes Myanmar's hardwood exportations a particularly tricky flow to assess. For instance, in 2001, China declared having imported 514,000 m3 of log from Myanmar, while the latter recorded exporting only 3,240 m3 to China! Similar substantial discrepancies in volume are found between Indian and Burmese statistics.

Since official gem and jade sales started in 1964, the Generals are estimated to have earned around US$750 million. Exports of precious stones had reached US$60 million in 2004, but in 2007, biannual lavish auctions have sold US$370 million worth of gems. Myanmar exports 90 per cent of the world's rubies, 85 per cent of which end up going to the United States, the European Union, or Japan. Base metals and ores should not be ignored either, as 3.3 per cent of exportations were made in base metals and ores in 2004. Mineral fuels' share in Myanmar's exportations has been steadily growing since the beginning of the 1990s, reaching 35.5 per cent in 2004. It is therefore the junta's principal lifeline.

Any foreign investment in Myanmar requires approval from the military government, and exploitation of natural resources is conducted through joint ventures in which the government takes part. To this purpose, governmental companies, such as the Myanmar Oil and Gas Enterprise (MOGE), the Myanmar Timber Enterprise (MTE), several Mining Enterprises (ME No. 1, No. 2, etc.) bear the charge of natural resources' management.

This process ensures that the generals enjoy most of the profit realized through exporting natural resources, a considerable income since crude materials and mineral fuels represented 35.6 per cent of total exports in 2004. As an example, the Shwe Gas Movement projected that the military government would gain from the Shwe wells between US$580 and US$824 million per year over the next twenty years, to which one needs to add US$400 million annual net income owing to 525 million cubic feet (mcf) extracted daily from the Yadana field.

II
KHAKI'S NATURE
MISMANAGING THE ASSETS

Economic mismanagement by an unwise military junta has transformed Myanmar's immense natural resources into a burden. Ineffective legislation hampers the economy and does not protect the resource rich environment. Barring private initiative, the government owns all resources by law. For instance, the 1992 Forest Law states that "a standing teak tree wherever situated in the state is owned by the state." The 1994 Myanmar Mines Law, the 1995 Myanmar Gemstone Law and the 1995 Myanmar Pearl Law - all contain similar provisions. Further, the military government denies foreign direct investment (FDI); it has to go through a joint-venture with a government-owned company.

Myanmar's improper laws also impact the environment. Very loose environmental legislation or ineffective enforcement of existing laws – such as the Protection of Wildlife and Conservation of Natural Areas Law was passed in 1994 – leads to large scale spoiling of the environment. According to ITTO, Myanmar lost an estimated 5.2 million hectares of forest between 1990 and 2000. In addition, remaining forests suffer constant degradation noticeable in the output: in the same period of time, the average woody stock per hectare fell from 145 m3 to 33 m3. Major consequences of this environmental mismanagement will be faced in the long run, as in the case of riverbed destruction due to unmonitored irresponsible gold mining.

The lack of appropriate legal framework may hinder the economy and destroy environmental resources, but it certainly does not prevent Myanmar's neighbours to import gems, timber, or natural gas from Mogok, Mandalay or Yadana, in an "open door" process that the military government has been conducting.

To escape international financial sanctions and quick depreciation of the Burmese Kyat, the military government – as anyone else in Myanmar – craves for hard currency like dollars or euros. As a result, despite tight control over foreign investment, the Generals' use of exports as a source of hard currency has had the effect of an "open door policy," attracting neighbours to unaccountably loot the country.

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But the most apparent manifestation of this "open door policy" certainly revolves around natural gas and the competition over it. China and India's reliance on natural gas is bound to increase in the following years, and Thailand already produces 20 per cent of its electricity out of Burmese gas. The junta knows how to balance and exacerbate its neighbours' coinciding interests and needs. After years of trying to appease the Tatmadaw government, India felt trumped in December 2006 when Myanmar's Generals concluded a MoU with China National Petroleum Corporation subsidiary, PetroChina, for the supply of 6.5 tcf over 30 years. As a result, India now develops the multimodal Kaladan project, bypassing Bangladesh that had refused to grant India transit for a gas pipeline from the Rakhine coast to West Bengal.

Such rivalry over natural resources brings virtually nothing to the common Burmese, whose working conditions are not well protected by law. In addition, countries that invest or import from Myanmar show little commitment to help develop the local economy. For instance, providing technology and expertise so that crude materials can be refined inside Myanmar, thereby creating added value. But it seems the old colonial policy that industrialized Europe on imported raw materials suits them better – ignoring the Burmese government's will to downstream the processing of timber.

Under pressure from civil society activists, numerous Western companies have been entangled in scandals because of their involvement in Myanmar, and their passive use of forced labour – one more example of Western countries inconsistencies when it comes to balancing interests and human rights. For instance, UK Premier Oil pulled out in November 2003, while Ivanhoe Mines sold off half its share in the Monywa Copper Project in February 2007, after the withdrawal of its political insurance.

III
CONCLUSION

Myanmar's natural resources are a considerable asset. But over reliance on them and mismanagement burdens the economy. The military government has not been earnest in making wealth trickle down to the unskilled worker. It has found in its hungry neighbours a source of strength that it ably managed to remain in power.

However, the present state of the Burmese economy should soon force the Generals to abide by sane economic principles and confer their citizens the right to get rich, in default of political rights. This supposes at least two measures: reestablishing the rule of law, in particular, guaranteeing property rights and halting forced labour, and renouncing to abusively mint money, which accounts for the worrying inflation rate. The junta should realize that confidence springing out of such measures will certainly increase people's support and crown the regime with new legitimacy.

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