

Foreign Direct Investment in Oil and Gas Sector in Myanmar

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Abstract

Foreign Direct Investment (FDI) is a significant source of finance for many developing countries. It has the potential to ensure the sustainable economic and industrial development in Myanmar. FDI often leads to economic benefits such as employment opportunities, increased access to export markets, and entrepreneurial skill enhancements. In addition, FDI often increases access to new technology, technological expertise and foreign exchange, all of which can drive the development process. In order to attract FDI, Myanmar has prioritized resource-based heavy investments, resource-based export-oriented valued-added products, and labour-intensive export-oriented projects. Since Myanmar introduced a market-oriented economy and allowed foreign investment in 1988, the country's energy sector had been the primary beneficiary of FDI, as well as a pillar of the national economy. In this context, this study aims to explore the role and potential of FDI in Myanmar's oil and gas sector. The development of the national oil and gas sector provides positive prospects for inflows of resources from abroad in the form of FDI, which has important implications on both economic and social development in Myanmar.

Keywords: energy, foreign direct investment, Myanmar, oil and gas

I. Introduction

Myanmar's oil and gas sector: historical and current context of operation

Myanmar is one of the world's oldest oil producers, with oil exports underway since 1854. Under British colonial rule, the Burmah Oil Company (BOC) was the first foreign oil company to operate in Myanmar. The BOC discovered the Yenangaung field in 1887 and the Chauk field in 1902. It monopolized the sector during the colonial period. Although Myanmar regained its independence in 1948, BOC continued to dominate the country's oil and gas sector up until 1962.⁶⁸

When the industry was nationalized by the Revolution Council in 1962, the assets of BOC were amalgamated into state-owned Myanma Oil and Gas Enterprise (MOGE). The nationalized oil and gas sector was under the direct supervision of the Ministry of Energy (MOE). Under the MOE, the Myanmar Oil and Gas Enterprise (MOGE) became responsible for exploration and production, the Myanma Petrochemical Enterprise (MPE) for refining and processing, and Myanma Petroleum Products Enterprise (MPPE) for distribution. By the 1980s, oil and gas production had declined, due to the technical limitations of local companies and restrictions on foreign firms operating in Myanmar.

When the State Law and Order Restoration Council (SLORC) took power in 1988, one of the first laws promulgated was the Foreign Investment Law of November 1988. This law opened the door for international joint ventures and production-sharing contracts. Shortly afterwards, the SLORC awarded onshore and offshore blocks to foreign investors, leading to an influx of international companies including Amoco, Shell, BHP, Total, Idemitsu, and Unocal. Most onshore blocks were relinquished within a few years, however, as a result of economic sanctions against the regime. The US economic sanctions meant that Unocal, Chevron and Total were among the very few Western companies invested in the country in

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⁶⁸ MCRB, IHRB and DIHR, Sept. 2014. Myanmar Oil & Gas Sector-Wide Impact Assessment (SWIA), Yangon, p. 47 (Hereafter this work will be referred to as **Sector Wide Assessment**)

the late 1990s.

Following the November 2010 general elections in Myanmar, and the subsequent economic and political reforms, Australia, Canada, the EU and US suspended or removed economic sanctions, opening the way to new external investment in the sector. The new government of Myanmar implemented the country's 2012 Foreign Investment Law (FIL). Under this law, foreign oil companies are permitted to explore, develop and produce oil and gas assets, under a Production Sharing Contract (PSC) with the MOGE. Blocks are awarded through an open and competitive bidding process where technical experience and financial capability weigh heavily, both factors usually favoring foreign enterprises.

Oil and gas potential in Myanmar

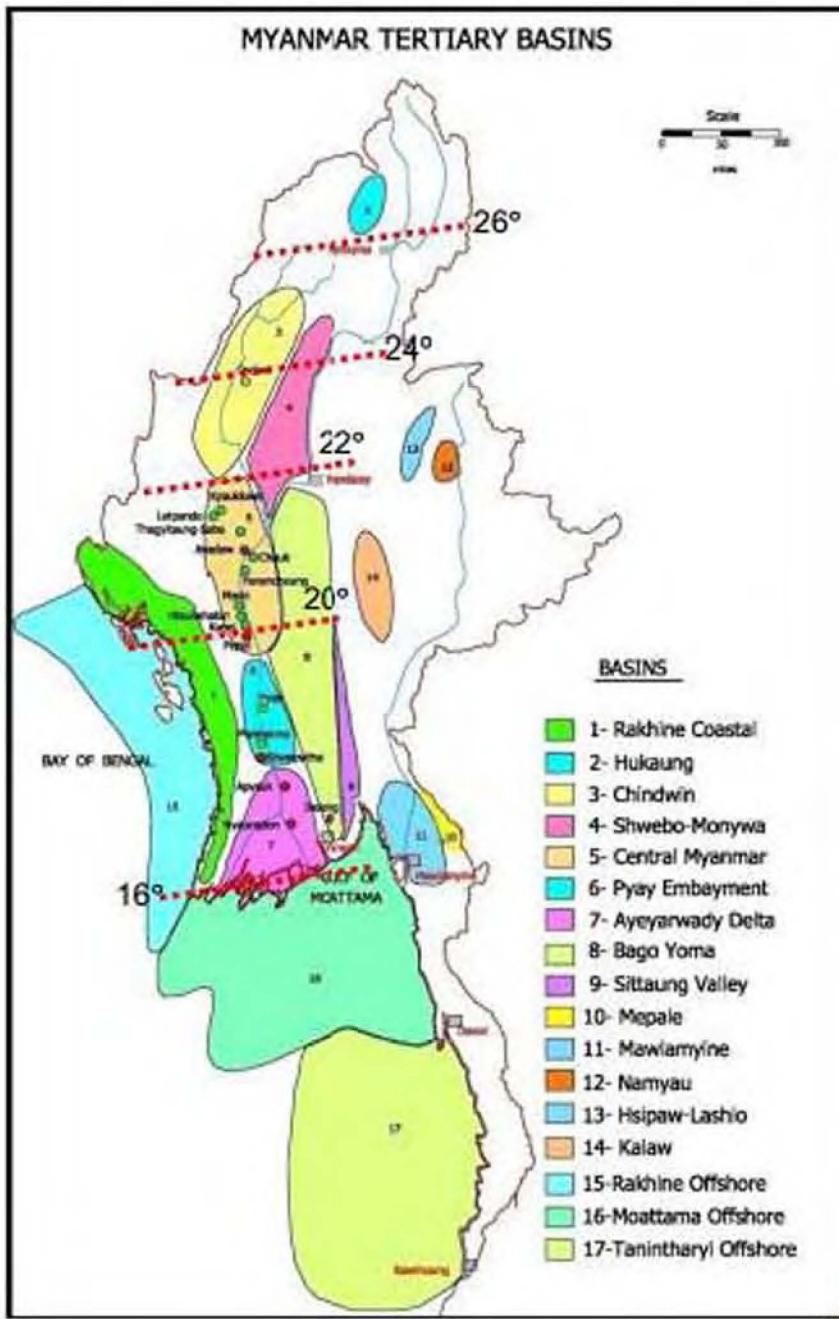
Myanmar's energy production occurs in two main areas: onshore and offshore. In terms of onshore sites, MOGE is responsible for forty-six per cent of all crude oil production and the remaining fifty-four per cent is generated in cooperation with foreign companies. Overall, about 7,600 barrels of crude oil is produced daily, in which 3,500 barrels are produced by MOGE.

Oil and gas resources from Myanmar come from seventeen sedimentary basins which include fourteen onshore sites and three offshore sites. The onshore area consists of forty-eight blocks, among which, fifteen are currently in operation. The entire onshore area can be broken down into nineteen Production Sharing Contract (PSC) Blocks, five Exploration and Production (EP) Blocks, seven Improved Petroleum Recovery (IPR) Blocks, ten Reactivation of Suspended Fields (RSF) Blocks and seven Myanmar Oil and Gas Enterprise (MOGE) blocks.⁶⁹

The onshore basins are the Intramontane Basin, the Central Tertiary Basin and Foredeep Basin(1). The offshore basins are: Rakhine Offshore, Moattama Offshore and Tanintharyi Off shore. Table(1)and Map(1)show the onshore and offshore basins of Myanmar.⁷⁰

⁶⁹ *The New Light of Myanmar*, 11 December 2010, Yangon, , pp. 8-9

⁷⁰ Ministry of Energy, 2005. *Manuscript Document*, Nay Pyi Taw



Map 1. Myanmar tertiary basins

Source: Ministry of Energy, Energy Planning Department, Yangon, 2013

Table 1. Onshore and offshore basin of Myanmar

Onshore Basin	Offshore Basin
Onshore Basin	Rakhine Offshore
Intramontae Basins	Moattama Offshore
Hispaw Basian (Eastern Highland)	Tanintharyi Offshore
Namyau Basin (Eastern Highland)	
Kalaw Basin (Eastern Highland)	
Mawlamyine Basin (Southern part of Eastern Highland)	
Mepale (Southern part of Eastern Highland)	
Central Tertiary Basin	
Hukawng Basin (Western Sub-Basin)	
Chindwin Basin (Western Sub-Basin)	
Salin or Munbu Basin (Western Sub-Basin)	
Shwebo-Monywa Basin (Eastern Sub-Basin)	
Bago Yoma-Sittaung (Eastern Sub-Basin)	
Prome Embayment	
Ayeyarwaddy Delta	
Bago Yoma	
Foredeep Basin (1)	
Rakhine Coastal	

Source: Ministry of Energy, Energy Planning Department, Yangon, 2013

The oil and gas potential of Myanmar is vastly promising. Myanmar ranks 41st in the world in terms of verified reserves of natural gas and 79th for verified reserves of oil.⁷¹ In addition, Myanmar's offshore area has very good prospects for further discovery of natural gas reserves. According to MOE estimates, in 2009, there was as much as 8,611.625 mmbbl of crude oil potential onshore and 392.932 mmbbl of potential offshore. They estimated total gas resources of 6.286 tcf onshore and 131.967 tcf offshore. To boost the production level, the MOGE, under the MOE, invited multinational oil and gas companies to participate in oil and gas extraction.

Myanmar's energy policy and its strategy

Prior to 1988, Myanmar's economy was heavily reliant on agriculture. As a result, very little development in the energy sector was apparent. In 1988, Myanmar established a new economic system based on market-oriented economy, designed to liberalize trade and to open up the private sector to investment opportunities. The government promulgated Union of Myanmar Foreign Investment Law and its related procedure in 1988. The foreign investment policy mainly sought to promote and expand exports, to exploit natural resources, to acquire new technology and to support capital intensive productions and services.

In order to achieve economic development in the country, the government laid down four main economic objectives, namely; (1) the development of agriculture as the base and the all-round development of other sectors of the economy as well, (2) the proper evolution of the market-oriented system, (3) the development of the economy with the participation in terms of technical know-how and investments from sources inside the country, and (4) the

⁷¹ **Oil and Gas Proved Reserves**, World Fact Book, CIA, 2011
<https://www.cia.gov/library/publications/the-world-factbook/rankorder>

initiative to shape the national economy must be kept in the hands of the State and the national peoples.⁷²

As an outcome of the 1988 economic policy changes, new investment in all sectors of economy, including construction and infrastructure development grew at a faster pace. The demand for energy increased, as the sector moved from being supply-oriented to demand-oriented. In order to meet the challenges of the energy demand growth in the twenty-first century, Myanmar's energy policy guidelines for energy sector were: (1) to maintain energy independence, (2) to promote wider use of new and renewable sources of energy, (3) to promote energy efficiency and conservation, and (4) to promote use the alternative fuel in households. In addition, five more policy objectives were included in 2006. They were: (1) to supply fuel oil, urea and fertilizer to industrial, agricultural and other sectors of the economy, (2) to enhance foreign exchange earnings through exports of surplus oil, natural gas and petroleum products, (3) to promote human resource development of nationals in the energy sector, and (5) to stockpile fuel oil systematically for national security and economic stability.⁷³

Energy is a basic requirement of economic development because energy fuels agriculture, industry, transport, and commercial sectors of the economy. National security, financial stability and the standard of living in a nation are intertwined with its energy consumption. Therefore, most nations develop energy policies in order to balance supply and demand with acceptable economic, social and environmental goals.

Myanmar needs an appropriate level of private and foreign investment for the development of its energy sector. To attract and manage that investment, there is a need for a clear vision for investment and a transparent legal framework that investors can trust. The government, therefore, formulated the laws and regulations for oil and gas operations in Myanmar. Table (2) shows the exiting Oil and Gas Laws. The Government is responding to competing pressures of revising its legal framework to provide rapid clarity and certainty, with the goal of developing coherent, updated legislation in line with its international commitments and international standards. The demand for rapid resolution of this issue causes tensions with the need to develop such policies with time and space for consultation with Myanmar citizens.⁷⁴

Oil and gas laws

Currently, a number of other laws relevant to the oil and gas sector are undergoing revision, such as the forthcoming Extractives Industries Transparency Initiative (EITI) Law and Environmental and Social Impact Assessment (ESIA) Procedures. There is an opportunity for coordination and cross-referencing among laws to build a more comprehensive approach to oil and gas operations. It will also be important to ensure there is coordination between any new Petroleum Law and the Environmental Conservation Law (2012) which points to resource specific legislation as the place to develop more specific environmental controls for the sector.⁷⁵

⁷² Ministry of Energy, March 2006. Objective and Plans Implementation of Ministry of Energy, Nay Pyi Taw, p. 5 (Hereafter this work will be referred to as **Implementation of MOE**)

⁷³ **Implementation of MOE**, pp. 5-6

⁷⁴ **Sector Wide Assessment**, p. 59

⁷⁵ *Ibid*, p. 59

Table 2. Principal existing oil and gas laws in Myanmar

The Oilfield Rules (1936)

The Petroleum Act (1934)

The Petroleum Rules (1937)

The Essential Supplies and Services Act (Law No. 13/2012)

The Water Power Act (1927)

The Oilfields (Labour and Welfare) Act (1951)

The Petroleum Resources (Development Regulation) Act (1957)

The Law Amending the Petroleum Resources (Development Regulation) Act (1969)

Oilfield (Workers and Welfare) Act (1951)

The Myanmar Petroleum Concession Rules (1962)

Source: MCRB, IHRB and DIHR, Sept. 2014. Myanmar Oil & Gas Sector-Wide Impact Assessment (SWIA), Yangon, p. 59

The 1989 State Owned Economic Enterprise (SOEE) Law and MIC Notification No. 1 of 2013 prescribe a list of types of business activities that the Government has the exclusive right to carry out (unless the Government otherwise provides special permission), which includes public services such as banking and insurance, the generation of electricity, as well as activities involving timber, metals, forestry and oil and gas. Investment in the exploration of commercial scale production of oil and natural gas therefore requires the approval of the Union Government, and adherence to the Ministry of Energy's terms and conditions. The 1989 SOEE Law does not impose any obligations on businesses that are permitted to carry out these SOEE business activities. Instead, obligations on such businesses relating to the conduct of their activities may be imposed by other applicable laws (e.g. the 2012 Foreign Investment Law, the 2013 Citizens Investment Law, the 2012 Environmental Conservation Law, etc.) as well as under any contracts with the Government (such as a PSC in the oil and gas sector).⁷⁶

II. Status of Foreign Direct Investment in Myanmar

Foreign direct investment policies

After the economic changes in 1988, Myanmar invited participation in the economy from new sources inside the country and abroad in terms of technical know-how and investments. Accordingly, a series of laws conducive to market economy were enacted and some of the previously existing laws were amended to be compatible with the changing economic environment. Soon after the adoption of the market-oriented economy, the Myanmar Foreign Investment Law was promulgated on 30 November 1988 and the Myanmar Investment Commission was formed on 7 December 1988. Myanmar fully recognized the advantages of FDI for its economic development. Consequently, the government began actively encouraging FDI in Myanmar. The objectives of the foreign investment policy were two factors. One is to adopt market-oriented system and second is to encourage private investment.

⁷⁶ Sector Wide Assessment, p. 59

The basic principles of Myanmar Foreign Investment Law⁷⁷ are as follows:

- a. Promotion and expansion of exports
- b. Exploitation of natural resources which require heavy investments
- c. Acquisition of improved technology
- d. Supporting and assisting production and services involving large capital
- e. Opening up of more employment opportunities
- f. Development of works which would reduce energy consumption and
- g. Regional development.

FDI in Myanmar has therefore only been permitted since 1988 (JETRO, 2007) under the Union of Myanmar Foreign Investment Law, and the level and variety of investment were initially quite limited. Sectors that were eligible for foreign investment included manufacturing, oil and gas exploration and development, mining (except gold and precious stones), jewellery production and agriculture. Until recently, bureaucratic procedures and an antiquated and inadequate infrastructure hampered foreign and local investments. Three areas were of major concern among the investor community:

(a) Foreign entities could not own land in Myanmar;

(b) The Government's adherence to an official exchange rate for the domestic currency, the kyat, which was overvalued by some 60 times its unofficial (black market) value. By the start of 2002 that disparity provided a major obstacle to foreign investment;

(c) Foreign investors had to face potential criticism at home (that is, in Western countries) for investing in a country with a long record of military rule and alleged human rights violations.⁷⁸

Recent reforms and revision of the foreign investment law (1988)

Since the 2010 elections, the Government of Myanmar embarked on a series of political and economic reforms that reflected the Government's willingness to re-engage with the international community. The reforms included the release of pro-democracy leader Aung San Suu Kyi from house arrest, the establishment of the National Human Rights Commission, general amnesties for more than 200 political prisoners, the implementation of new labour laws that allow labour unions and strikes, the relaxation of press censorship, and the regulation of foreign exchange currency practices. The recent reform as well as the revision and implementation of the latest foreign investment law have created the basis for the country to benefit from a stronger non-resource sector and integration into regional production networks.⁷⁹

The newest foreign investment law, for which the full code has not been published, is actually a revision of the Myanmar Foreign Investment Law of 1988 (Table 3). It sets out incentives for FDI, land-use terms and legal structures to address concerns expressed by foreign investors.

⁷⁷ The Union of Myanmar Foreign Investment Law, 30 November 1988. The State Law and Order Restoration Council Law No.10/88 (Hereafter this work will be referred to as **Foreign Investment Law 1988**)

⁷⁸ **Foreign Investment Law 1988**

⁷⁹ United Nations ESCAP, Myanmar: Opening up to its Trade and Foreign Direct Investment Potential, 20 September 2012. Trade and Investment Division, *Staff Working Paper 01/12* , pp. 14-15 (Hereafter this work will be referred to as **ESCAP: Myanmar Trade and FDI Potential**)

Revision of the foreign investment law

Table 3. Evolution of the foreign investment law between 1988 and 2012

1988	2012
The foreign investment ration is 50% maximum and 35% minimum in 13 restricted sectors	Foreign investment ratio is negotiable between the investor and the local partner
Foreigners cannot own full stake in businesses without any local partner	A ban on 100% foreign ownership of ventures in certain sectors only, with the permitted foreign ownership percentage likely to be publish
-	New labor requirements concerning the usage of local staff in skilled and unskilled positions
Land-use rights for up to 30 years, extendable to thereafter for two additional 15-year terms	Land-use rights of up to 50 years, extendable thereafter for two additional 10years terms
The period of exemption from corporate income tax is 3 years	The period of exemption from corporate income tax is 5 years, retention of the previous Law's discretionary tax benefits and addition of some customs duty and commercial tax exemptions for exports
Government will never grant foreigner entrance into restricted sectors	The additional requirement to obtain certain state and regional approvals for foreign projects that must be approved by the national MIC.
	The inclusion of new activities, such as import substitution, for which an investment permit must be obtained from the MIC
	The stipulation of investors' rights and duties, based on similar provisions in the Myanmar Citizens Investment Law
	A guarantee that, after the investment period has expired, the investor can remit investment gains overseas in the same foreign currency that it brought in at the outset.
A guarantee against nationalization to the effect that without "sufficient cause", approved investment activities will not be terminated during the contract period or its extension	A guarantee against nationalization to the effect that approved investment activities will not be terminated during the contract period or its extension.

Source: United Nations ESCAP, Myanmar: Opening up to its Trade and Foreign Direct Investment Potential, 20 September 2012. Trade and Investment Division, Staff Working Paper 01/12, p. 15

The final version of the law includes several areas of special interest to foreign investors, as follows;

1. It will grant a five-year income-tax exemption to a foreign company with a permit issued by MIC for an investment project. In addition to that, preferential tax treatments for the reinvestment of profits or deduction for taxable income are available to foreign companies holding a MIC permit.

2. The new law purportedly allows foreigners and foreign companies to obtain leasehold for real estate for 50 years, with two extensions of 10 years each, depending upon the size of the investment. Moreover, foreign investors will be allowed to lease privately-owned land, while the 1988 law only allowed leases of land owned by the Government.

3. It sets out the obligation for foreign companies to employ local workforce in skilled positions on the basis of increasing the share of local employees: in the first two years, Myanmar nationals must constitute at least 25% of the workforce; in the second two years, at least 50%; and in the third two years, at least 75%.

4. The new law gives investors the opportunity to negotiate the foreign investment ratio, which has been set to a minimum of 35% and a maximum of 50% in 13 restricted areas since 1988, Now investors can negotiate these ratios with local partners, under the control of the MIC, making the foreign entry into restricted areas more likely than it was in the past.

5. Foreign investment activities will not be exposed to the danger of termination during the contract period any longer. The law of 1988 could only issue a guarantee against nationalization with "sufficient cause," which gave the state of Myanmar great power over foreign investors.⁸⁰

Overall, the new FIL gives hope to many foreign investors since it does not only impose duties but also grants rights to them. It is a positive step for Myanmar's integration into the global and regional economy. In addition to reforms which are already underway, there are many other regulatory, institutional and other reforms and changes that need to be undertaken to enable better regional and global integration for Myanmar.⁸¹

The recent economic and political transition in Myanmar has raised expectations in the international community that their previous concerns will eventually dissipate. Positive improvements include the United States, the European Union and Canada lifting economic their sanctions, and the adoption of a managed-float exchange rate system (subsection 5.1 provides more details about the currency issues). Despite the enactment of the new foreign investment law in 2012, (subsection 5.2 provides more details about FDI issues), the procedural regulation for the Myanmar Foreign Investment Law of 1988 and even older statutory authorities will continue to be the main framework for foreign investors seeking to establish a business presence in Myanmar. The general approval procedures for foreign investment projects include three steps: (a) obtaining a permit issued by the Myanmar Investment Commission (MIC) for a foreign investment project; (b) obtaining a "trading permit"; and (c) completing formalities with the Companies Registration Office. These procedures are essential requirements for a foreign investment project to qualify for preferential tax treatment in Myanmar, and they will continue to remain in place under the new foreign investment law. A "trading permit" is issued by the Directorate of Investment and Company Administration (DICA) of the Ministry of National Planning and Economic

⁸⁰ ESCAP: Myanmar Trade and FDI Potential, p. 16

⁸¹ *Ibid*, p. 16

Development, pursuant to the Myanmar Companies Act, 1913 (the Myanmar Companies Act). The trading permit functions as the equivalent of a business license.⁸²

Upon obtaining a MIC permit and a trading permit, a foreign company obtains a certificate of incorporation from the Companies Registration Office, allowing the formal establishment of the corporate existence of the enterprise in compliance with the Foreign Investment Law. Alternatively, a foreign company in the form of a branch is established the following the issuance of a certificate of registration from the Companies Registration Office.⁸³

III. The Context of Foreign Direct Investment in Oil and Gas Sector

Records of FDI in oil and gas sector

Myanmar's oil and gas sector set modest targets for attracting foreign direct investment (FDI), beginning in 1988 when Myanmar first invited FDI sources from inside the country and abroad into the sector. The 1988 Foreign Investment Law won positive responses from foreign investors in the early years. Since the 1988-89 fiscal years, statistics show that the energy sector has been a significant source of FDI inflow into Myanmar.

In line with the provisions of Foreign Investment Law 1988 and the efforts of foreign oil companies, major natural gas discoveries have been made in Myanmar offshore areas. Major discoveries in offshore projects occurred in the Mottama offshore natural gas project, Taninthayi offshore natural gas project and Rakhine offshore natural gas project. The Yadana natural gas project was discovered in 1980 by MOGE and the production project was started in 1992. It is located in the Andaman Sea, approximately sixty kilometers from the nearest landfall in Myanmar. This large energy resource contains more than 5.3 trillion cubic feet of natural gas, with expected field life of thirty years. The first field survey was conducted in 1994 for exploring options for a land pipeline route. On 9th July 1992, a Memorandum of Understanding (MOU) was signed by TOTAL Company and MOGE. During 1995, a contract for supplying gas to Thailand was signed with the Petroleum Authority of Thailand (PAT). As per PSC Contracts, MOGE exercised its option to take a fifteen percent stake in the project in 1997. During the same year, the land pipeline was laid. In the Yadana gas field, Thailand was the major investor. In 1994, the commercial negotiations for the sale of natural gas to Thailand were concluded with PTTEPI. In addition, the Mottama Gas Transportation Company (MGTC) was formed to construct and maintain the gas transmission pipeline to Thailand. With the signing of a gas sales agreement with PTTEPI in February 1995, PTTEPI gained a participating interest in both the offshore project consortia and MGTC. The pipe line connects the Yadana natural gas field to the Myanmar-Thai border to a power station in Ratchaburi, southwest of Bangkok, where the gas is re-sold by PTT to the electricity generating authority of Thailand. The construction of the sixty-three kilometer stretch of onshore pipeline to Thailand was launched in October 1995.⁸⁴

FDI inflow to Myanmar is also connected to the domestic political landscape. The domestic political situation of Myanmar especially democracy and human rights issues, caused the US and other countries to impose economic sanctions under the military government, including sanctions on petroleum-related contracts. Under these circumstances,

⁸² ESCAP: *Myanmar Trade and FDI Potential*, p. 11

⁸³ *Ibid*, p. 12

⁸⁴ *Khine Tha Zin Soe*, 2011. *Development of Energy Sector in Myanmar (1997-2007)*, Unpublished PhD Thesis, Department of International Relations, *University of Yangon*, Yangon, pp. 60-61 (Hereafter this work will be referred to as *Soe: Energy Sector in Myanmar*)

the FDI inflow dramatically decreased during 1997-2004. Figure (1) shows the decreasing trend of the FDI inflow into Myanmar.

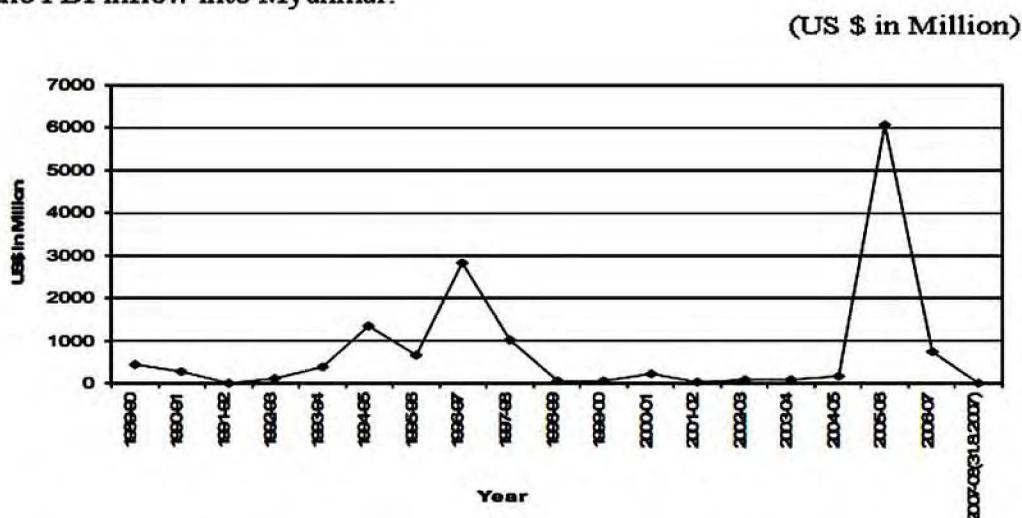


Figure 1. Trend of FDI flows into Myanmar (1989-2007)

Source: Thida Khine, April 2008. Foreign Direct Investment Relations between Myanmar and ASEAN, *IDE Discussion Paper No. 149, IDE-JETRO, Chiba, p. 29*

Figure (1) shows the FDI inflow into Myanmar from 1990-2007. Concerning FDI flows into Myanmar, the figure shows that the amount of FDI inflows slightly increased in the mid 1990s. During the decade of 1990s, 1997 was the year with the highest FDI, largely in the oil and gas sector. From 2000 to 2004, FDI shows a decreasing trend. In 2005, a historical record was achieved with approved investment because of Thailand’s investment in oil and gas sector of Myanmar.

In studying the trend of FDI flow into oil and gas sector of Myanmar, statistical records show that the amount of FDI from 1988-1989 to 2003-2004 was USD 2403.173 million. During this period, the oil and gas sector was the most significant sector for attracting FDI. Foreign investment in manufacturing sectors like the garment industry was low, due to the economic sanctions. However, a few Western oil companies like Chevron, UNOCAL and TOTAL were still involved their investment in oil and gas Sector. Neighbouring Asian countries like India, China, and Thailand mainly contributed their investment in the energy sector.⁸⁵

In the oil and gas sector, South Korea’s Daewoo, Thailand’s PTTEPT, Malaysia’s Petrons, France’s TOTAL, the US’s UNOCAL, Britain’s Premier and Japan’s Nippon Oil Co. Ltd were the major foreign investors. Others were from Australia, Canada, Switzerland, Russia, China, Indonesia, and India. In 2009, twenty-six out of thirty foreign companies involved in oil and gas sector were from Southeastern and Southeast Asia regions. Furthermore, most of the deep water oil and natural gas blocks cooperated with China during the period of 1997-2007.

⁸⁵ Smith, Matthew and Naing Htoo, 2006. Gas Politics: Shwe Gas Development in Burma, *Watershed Vol. 11, No. 2, EarthRights International (ERI), Washington, DC, p. 10* (Hereafter this work will be referred to as Smith & Htoo: Gas Politics)

In the mid 2000s, India, China, and Thailand were major investors in oil and gas sectors. In late 2005, Myanmar signed a Memorandum of Understanding (MoU) to sell 6.5 trillion cubic feet (tcf) of natural gas to PetroChina, setting the stage for a pipeline from the prized A-1 gas block in western Burma to Yunnan province, China. Moreover, Thailand's PTTEP International Ltd. also expressed interest in the same offshore natural gas reserves. All of these unfolding negotiations share one similarity: They represent a callous drive for energy security. Thailand's potential involvement is also significant. Thailand's PTTEP International Ltd already pipes approximately one billion cubic feet of gas per day from Myanmar's offshore reserves in the Andaman Sea, and Thailand maintains its status as Myanmar's largest trading partner and third largest investor in the Myanmar.⁸⁶

In August 2007, the MOE confirmed an agreement to sell natural gas to China because of its large growing demand of oil and natural gas for its economic development. In June 2008, the China National Petroleum Corporation (CNPC) signed a MoU with the Myanmar government to purchase the gas from Shwe natural gas project and to build 1800 kilometers pipeline from Kyauk Phyu in Rakhine State to Kunming of China.

Foreign investors have spotted huge untapped opportunities in Myanmar, particularly after the reform measures in 2011. The Myanmar Investment Commission has stated that the government now has a 20-year FDI Promotion Plan. Over the last four years, foreign investment in Myanmar has continuously increased. In the past three fiscal years, FDI into Myanmar has exceeded its targets. In the fiscal year 2012-2013, Myanmar expected to receive \$1 billion in FDI but actually attracted \$3.42 billion. In the fiscal year 2013-2014, the targeted amount was \$3 billion but the actual amount received was \$4.11 billion. In comparison, FDI amounted to only \$329.6 million in the fiscal year 2009-2010.⁸⁷ Since the new government came to power in 2011, FDI flows have continued to increase. The energy sector which comprises oil and gas and hydropower has been the main contributor to the increase in FDI and expected to be in the future. Following the enactment of the new Foreign Investment Law in 2012, FDI inflow resumed and the energy sector has remained the most important magnet. Table (4) shows the Yearly Approved Amount of FDI in oil and gas sector between 2004 and 2015.

Table 4. Yearly approved amount of FDI in oil and gas sector (2004-2015)

Sir No.	Year	Amount
1	2004-2005	142.550
2	2005-2006	34.975
3	2006-2007	438.480
4	2007-2008	170.000
5	2008-2009	114.000
6	2009-2010	278.600
7	2010-2011	10179.297
8	2011-2012	247.697
9	2012-2013	309.200
10	2013-2014	-
11	2014-2015	26 3220.3061

Source: Directorate of Investment and Company Administration, Myanmar Investment Commission, Nay Pyi Taw, 2015

⁸⁶ Smith & Htoo: *Gas Politics*, p. 10

⁸⁷ *Khine Kyaw*, 16 April 2015. FDI target set at \$6 billion for fiscal 2015-16

<[http://www.nationmultimedia.com/aec/FDI-target-set-at-\\$6-billion-for-fiscal-2015-16-30257844.html](http://www.nationmultimedia.com/aec/FDI-target-set-at-$6-billion-for-fiscal-2015-16-30257844.html)>

In the oil and gas sector, the Ministry of Energy (MoE) opened new rounds of bidding in 2011 for 19 onshore blocks. In January 2013, there was a new round of bidding for 18 onshore blocks in which 59 bidders were shortlisted. In October 2013, the MoE announced the winners of 16 of the 18 onshore blocks available.

Changes in circumstances have allowed foreign investors to lease state-owned land in addition to private property, to transfer ownership of businesses to foreigners under the guidance of the MIC and to transfer money with fewer restrictions. As of March 31, 2015, FDI flows into twelve sectors of Myanmar's economy. The power sector covering electricity generating has attracted the approved investment of \$19.32 billion or 35.63 per cent of aggregate FDI. This was followed by the oil and gas sector which won the approved investment of \$17.59 billion or 32.44 per cent; manufacturing, \$5.49 billion or 10.12 per cent; transport and communications, \$3.18 billion or 5.87 per cent; and mining \$2.87 billion or 5.29 per cent.

In Q1 of 2015 alone, MIC has processed licenses for investments in various sectors from 77 local and foreign firms, including oil and gas exploration, commodity goods production and hospitality.

Table 5. Foreign investment of existing enterprises as of (31/7/2015)

Sir No.	Particular	Existing Enterprises		
		No.	Approved Amount	%
1	Oil and Gas	93	18718.361	40.17
2	Power	7	13294.542	28.53
3	Manufacturing	435	4672.322	10.03
4	Transportation and Communication	19	3098.111	6.65
5	Mining	10	2339.035	5.02
6	Hotel and Tourism	41	1948.318	4.18
7	Real Estate	17	1496.318	3.21
8	Agriculture	14	214.005	0.46
9	Livestock & Fisheries	16	193.423	0.42
10	Industrial Estate	2	179.113	0.38
11	Other Services	33	443.748	0.95
	Total	687	46597.362	100.00

Source: Directorate of Investment and Company Administration, Myanmar Investment Commission, Nay Pyi Taw, 2015

As of 3rd March 2015, twelve sectors benefit from the inflow of FDI into Myanmar. The oil and gas sector leads these sectors, representing more the 40% of total investment value. The total amount of FDI flow into oil and gas sector was \$18718.361 million USD with ninety-three enterprises involved. The Power sector involves over 28 percent of the total investment: the manufacturing sector stands in third overall, with approximately 10 percent of the total share of investment.

In term of FDI flow into Myanmar, it is found that the oil and gas sector is the biggest source of foreign exchange earning. Table (6) describes the Foreign Investment of Permitted Enterprises in March 2015. As of 3rd July 2015, MIC permitted foreign firms to invest in twelve sectors. The oil and gas sector are still the most significant with the amount of \$19641.778 USD in million. Altogether 151 firms will invest in this sector, which represents thirty-four percent of total investment value.

Table 6. Foreign investment of permitted enterprises as of (31/7/2015)

Sir No.	Particular	Permitted Enterprises		
		No.	Approved Amount	%
1	Oil and Gas	151	19641.778	34.53
2	Power	8	19324.542	33.97
3	Manufacturing	525	5903.833	10.38
4	Transportation and Communication	28	3274.341	5.76
5	Mining	70	2868.683	5.04
6	Real Estate	29	2277.771	4.00
7	Hotel and Tourism	57	2208.720	3.88
8	Livestock & Fisheries	34	452.835	0.80
9	Agriculture	17	242.686	0.43
10	Industrial Estate	3	193.113	0.34
11	Construction	2	37.767	0.07
12	Other Services	33	443.748	0.95
	Total	687	46597.362	100.00

Source: Directorate of Investment and Company Administration, Myanmar Investment Commission, Nay Pyi Taw, 2015

Implications

There are both benefits and costs of FDI. FDI brings a bundle of benefits such as capital, employment, technology, market access, skill development and management. Greater inflows of investment increase economic activity, output and incomes and create jobs. On-the-job training and learning-by-doing improves skills and productivity of workers. Technology inflow improves the efficiency of existing technology in the host country. FDI often results in upgraded technology, allowing countries to keep up with new innovations or to cater to needs of changes in tastes, consumption patterns and fashions. This can help bring about technical efficiency and technical change in local companies, suppliers, clients, and competitors by providing assistance, showing examples and by increasing competition. FDI can improve market access, including access to export markets for products already produced in the country, to switch products from domestic to world markets, or to develop new products for exports. Improving skills and management is also a beneficial factor. Recipient country can get the access to top management experts, and individuals with expertise in

organizational and other skills from foreign firms. It can be brought over for consultations and advice to set-up training facilities. These could give a competitive edge to business firms in the host country.

As for costs and factors that limit host governments from getting a fuller benefit from FDI, low capacity of host country government and the local business sector is key. Weak bargaining and regulatory capabilities of the host country government can also make it difficult to gain equal benefits from FDI.

In the case of FDI in oil and gas sector of Myanmar, the discovery of large natural gas reserves in off-shore areas and their exploitation through foreign participation, technology and investment have made natural gas Myanmar's number one foreign exchange earner. In 2010/11 it earned \$2.5 billion and accounted for 32.6% of total exports.⁸⁸ This large and growing output of natural gas has high potential for downstream activities such as in producing fertilizers, and providing throughput for a chemical industry. Natural gas could also be used to generate electricity to meet present shortfall in power needs of households as well as of industrial and business sectors.

Heavy reliance for foreign exchange earnings on natural gas, a depleted resource, raises concerns about its sustainability for long run growth. A good way to resolve this issue is to adopt a policy of appropriate change in asset composition. Natural gas resources of Myanmar represent the country's assets that are in the ground. Using revenues obtained from sale of gas, such as by investing in infrastructure, factories, and on improving human resources will change asset composition. This means assets in the ground will be replaced by assets above ground, which will not only sustain, but increase development potential. And in this way the assets above ground can bring benefits not only to the present generation, but to future generations that have a right to the natural resources of the country.

IV. Conclusion

It is interesting to highlight the growth of FDI inflows since the new Government of Myanmar start the process of economic and political reforms. Since the 2010 election, the Government of Myanmar has embarked on a serious of political and economic reforms that reflect the Government's willingness to reengage with the international community. The international community should help to bridge Myanmar's many capacity gaps. The heavy reliance on income from natural resource-based sectors could lead to growth in unemployment and long-term structural problems such as rising income inequality, de-industrialization and environmental degradation. Therefore, the Government should utilize its resource-based revenues to invest in infrastructure and human capital in order to pave a way for economic diversification and specialization for sustainable and inclusive development of Myanmar.

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⁸⁸ Ministry of National Planning and Economic Development, May 2011. Myanmar's Socio-economic Development: Up to end of March 2011, Yangon, p. 61.

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