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Chinese Foreign Direct Investment in Myanmar:

Remarkable Trends and Multilayered Motivations

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Abstract

Following the national responsibility theory in the school of international society which argues that national interest drives a state's foreign policy, this thesis first attempts to deconstruct China's foreign direct investment (FDI) in Myanmar since 2004 by picking apart and manipulating financial data in order to determine the resulting trends and developments. It then analyzes how Myanmar's abundant natural resources could help alleviate China's rising energy demands and how Chinese FDI can enhance China's political security, reduce energy costs, diversify its imports, and mitigate mineral shortages. The United States' marked presence in the region due to a transformation in foreign policy in the Obama administration, as well as the 2011 dissolution of military law in Myanmar, means that the motivation for Chinese FDI no longer solely revolves around the acquisition of natural resources and the previous lack of international competitors in the country. Nevertheless, I argue that China's national economic interest will continue to serve as the primary incentive to invest billions of dollars into Myanmar, though political interest is beginning to factor more into China's motivations.

Keywords : China, Myanmar, foreign direct investment, natural resources, national interest

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1 Introduction

With a 21,000% increase in outward foreign direct investment (FDI) flows from China into Myanmar and a 9500% increase in outward stocks (see Appendices 1 and 2), the nature of Chinese FDI in Myanmar has dramatically changed since 2004. Once receiving little attention beyond a few minor projects, Myanmar now has developed into one of the top global FDI destinations for China. Year after year, investment has experienced double, sometimes triple, digit growth in Myanmar with no signs of slowing down, despite regional changes and global crises. Instead, China's staunch alliance with Myanmar remains strong and assists China in its major investment projects, with one notable exception. While the pursuit of natural resources has primarily driven China's FDI ambitions in Myanmar, changing US foreign policy and the recent dissolution of military law in Myanmar in 2012 may impact China's motivations by adding a stronger political dimension to the once economic-centric national interests.

1.1 Personal Motivation

After stumbling across a report concerning Chinese FDI in Myanmar, I instantly doubted its veracity due to both the nonchalance of the author and the monumental change in the amount of both stocks and flows. This skepticism drove me to investigate if the report I had read was factually correct, or if the author had made a mistake. To my surprise, I discovered that China indeed had increased its stocks in Myanmar from \$20 million dollars in 2004 to over \$2 billion six years later (see Chapter 5 for an in depth discussion), which instantly made me question *why*. Under what circumstances could China change its investment standpoint so radically and so rapidly? And thus began my journey to uncover China's motivations, but to my astonishment, there was very little analysis of the FDI itself in Myanmar, barring several generic articles describing mostly China's worldwide push to obtain natural resources. I found no true manipulation of the ample data that is produced by several organizations and government, and the recent announcements on changes in US foreign policy and the termination of military law in Myanmar made me question how FDI would be impacted. The complexity of the issue at hand requires me to first describe the changes occurring in detail and then deconstruct the motivations behind these changes.

1.2 Research Problem

As I continued to investigate FDI in Myanmar, I found several gaps in the literature. While there are several reports published from NGOs, international institutions, and academic scholars concerning the China's thirst for natural resources, there is a surprising absence of articles that break down the FDI data in order to showcase the direction that Chinese FDI is heading in Myanmar. They simply regurgitate the recent numbers but do not take the time or value the importance to study the year-to-year changes over a span of several years. Additionally, developments in the past six months will undoubtedly change how China views Myanmar—the status quo is rapidly altering, with a more democratic government in place in Myanmar than before and the United States slowly encroaching on the region (from the Chinese perspective). Thus, in this thesis, I would like to answer the following question: *How has Chinese foreign direct investment in Myanmar evolved since 2004?* Under that broader question, I pose two subquestions: *What factors have contributed to its dramatic increase?* and *How will recent political changes influence China's motivation for FDI?*

1.3 Research Objective

The purpose of this case study is to show the drastic changes that China has made in its investments in Myanmar since 2004. Instead of repeating numbers, I want to show the changes in graphical form in order to highlight the massive growth of FDI. By using these figures, I hope to illustrate to the readers how quickly China is adapting its approach with Myanmar and how these changes will impact China. An examination of the data will allow a wider audience to fully comprehend China's actions on a year to year basis, and clarify to readers the evolving regional priorities in terms of FDI. Additionally, I intend to offer a wider picture or explanation to the reasons that China is investing so heavily in Myanmar. My objective is to contribute to the academic literature a more accurate, active account of the varied interests that are playing into China's investment decisions, as compared to blanket explanations that do not factor other political and economic forces at work. In summary, I am interested in why Myanmar suddenly developed into such a high priority for China in the mid 2000s, how that shift in FDI priority looks like visually, and which factors play into this change.

1.4 Structure of the Paper

Following this introduction chapter, my choice in methodology will be presented in Chapter 2. The section thereafter establishes my theoretical framework, which provides a lens into which to examine Chinese FDI in Myanmar. Chapter 4 outlines the name debate (Do we call it Burma or Myanmar?) before providing essential historical background information so all readers can be abreast of the topic at hand and understand how my case study fits into the current economic and political climate of Myanmar.

The rest of the thesis is divided into two parts, the first (Chapter 5) being a deconstruction of outward FDI stocks and flows from China using quantitative data with an analysis on dynamic or unusual trends, and the second half (Chapters 6 and 7) concentrating on the motivations behind China's dramatic rise in investment by using mostly qualitative data as its foundation. However, I divide up the second half by time period (post-2008 being the diving line), as there have been recent regional developments that will impact FDI and deserve special attention. I will conclude with a summary of my key findings and reflect on where FDI is heading.

2 Methodology

This chapter entails a discussion of the technique in which I research Chinese FDI, in particular why I decided that an explanatory case study was most fruitful. I then offer a critique of case studies and conclude by acknowledging my limitation of scope in this work.

2.1 Explanatory Case Study

I am opting to perform a case study in order to dissect the issue at hand for multiple reasons. First, it is a research strategy “that can be done using either qualitative or quantitative evidence” (Yin 1981: 58), and I am using both qualitative and quantitative information in order to strengthen my argument, with quantitative data forming the basis of my financial analysis and qualitative data solidifying my motivational analysis. With statistics and numbers, I have generated multiple graphs from “hard data” and then referenced multiple authors from various backgrounds and perspectives in order to construct the most accurate description of the events occurring, thus my approach to this topic is somewhat unique. My sources have come from political scientists, reporters, government officials, and other researchers, and the media that I have used range from books, journal articles, newspaper articles, NGO reports, and official government reports from both China and the United States in order to provide a diverse cross section of ideas. This approach also “ensures that the issue is not explored through one lens, but rather a variety of lenses which allows for multiple facets of the phenomenon to be revealed and understood” (Baxter and Jack 2008: 545). Case studies require the author to ensure that the topic of interest is well explored (*ibid*), and through my deconstruction of the facts, I will present a thorough analysis of Chinese FDI in Myanmar.

I am narrowing down my choice to use a case study to analyze my problem more specifically to an explanatory case study as it is the best of three main options in this situation: exploratory, descriptive, and explanatory case studies. An exploratory case study is used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes (Yin 1993). In this thesis, I argue that the results of the FDI are very clear, with large, tangible projects resulting from the influx of Chinese capital, and thus, this particular type of case is negated. As the name suggests, a descriptive case study only attempts to discuss an event of phenomenon (*ibid*) and I aim to describe FDI

trends in detail in the quantitative section. However, I primarily want to explain the reasoning behind the events; my purpose is to explore possible justifications of this shift in policy—not to just tell the audience that the policy has changed.

Therefore, using Robert Yin's (2003: 2) foundation to case study design, I will conduct an explanatory case study because the purpose of this thesis falls under three of four of Yin's possible criteria (where only one needs to be justified): 1. That the focus of the study is to answer "how" and "why" questions—I aim to explain how and why China is increasing their FDI in Myanmar and how the very nature of Chinese FDI is rapidly changing in Myanmar; 2. That one cannot manipulate the behavior of those involved in the study—I am simply looking at data, analyzing reports and documents, and considering other experts' opinions on the topic rather than dictate any state behavior; 3. That one wants to cover contextual conditions because one believes they are relevant to the phenomenon under study—it remains impossible to look solely at the issue of FDI without widening the scope and understanding the local, regional, and international contexts under which these events are occurring, and I seek to understand the various levels of motivation and reasoning behind China's increase in FDI. Yin also argues in an earlier work that an explanatory case study consists of (a) an accurate rendition of the facts of the case, (b) some consideration of alternative explanations of these facts, and (c) a conclusion based on the single explanation that appears most congruent with the facts (1981: 60). Therefore, due to this reasoning, an explanatory case will allow me to obtain a scientific foundation that provides strength to my argument and a means by which I am allowed to make my case. Within this explanatory case study, I consider objectivity and neutrality to be pillars in this work, and I have consciously tried to distance myself from any pre-conceptions that I may have held.

2.2 Case Study Critiques

Finally, the case study approach has received some critiques due to its generally qualitative nature, but Bent Flyvbjerg (2006: 219) argues that these critiques are simply misunderstandings, including but not limited to, the idea that theoretical knowledge is more valuable than practical knowledge; that one cannot generalize from a single case, and therefore, the single-case study cannot contribute to scientific development; and that it is often difficult to summarize specific case studies. However, as previously noted, this thesis does not attempt to generalize regional political and economic dynamics due to this one particular case, but it does reveal insight into the thought process behind China's behemoth economic changes. While it remains both thorny and problematic to completely summarize the intricacies with FDI in Myanmar, especially post-2008, the benefits of understanding of a global superpower's mindset in its foreign policies outweigh the possibilities of an incomplete summary.

Additionally, I remain conscious that qualitative research involves interpretation by the researcher, which creates difficulties with objectivity. Interpretations cannot be measured which increases the risk of subjectivity and undermines the reliability and validity of the study (Bergström & Boréus 2005: 80-82). Thus, my research must therefore be “characterized by transparency and well-grounded argumentation, with consequent interpretations supported by clear reference to the material” (ibid: 36), and I have deliberately tried to remain stringent to these guidelines.

2.3 Limitation of Scope

I am also following Baxter’s advice (2008) to bind my case with a time and place constraint in order to tighten my argument and remain reasonable in scope. Thus, I will focus on the time period of 2004 – present day, though much of my quantitative data ends at 2010. However, there is a vast amount of qualitative data that I cannot ignore as they reveal additional changes in China’s motivations in Myanmar in terms of FDI that are not covered with quantitative data. Due to the nature of China’s government, full transparency and disclosure of national interest will be almost impossible, and the official mouthpiece may not correspond directly to behind-the-scenes motivations which may hinder my explanatory case study; however, with the various layers of research and perspectives incorporated, I have attempted to ameliorate this problem as much as possible by approaching the problem from several angles simultaneously.

I also need to emphasize that my aim is not to imply that Myanmar’s context is universal, or that China’s motivations can be blindly applied to other nations. While several overlaps may occur, by no means am I arguing for a blanket theory that would apply to multiple situations in multiple settings. Instead, this thesis focuses solely on China’s interest and investment in Myanmar.

3 Theoretical Discussion: National Interest

For establishing a theoretical framework for this thesis, I wanted to investigate various theoretical notions of what I had determined was the essence behind the surge of Chinese FDI in Myanmar: national interest. However, I remained unsatisfied to any one theoretical explanation until I arrived at the discussion of national responsibility in the school of international society. Realism, neorealism, and liberalism simply possess too many holes when discussing this particular case of FDI in Myanmar, so I will introduce three particular schools of thought and critique them, explaining why they do not apply to this case. Then, I will analyze national responsibility and argue why it is the best lens in which to look at this particular situation.

3.1 Realism and neorealism

Realists emphasize the constraints on politics imposed by human selfishness and the absence of international government which require political life to be centered on power and security (Gilpin 1986: 305), and they view states as either conflict groups or units. As the core of realism, the notion of power politics stresses the predominance of power, self-interest, and conflict (Donnelly 2005: 32). However, this idea of power, which guides state behavior, is primarily force or military power (Kolodziej 2007: 129). Joseph Nye, whom Kolodziej quotes, even mentions that “other forms of power (not military) or influence, including scientific, technological, and economic power, are viewed as subordinate to, and in the service of, the use or threat of force” (ibid: 130). He then continues to explain that all states must be concerned with their power in relation to other states, as this arises from two conditions: “the anarchy of the nation-state system within which each state must pursue its objectives and the necessary assumption on which each must act, viz., that state preferences are fundamentally in conflict and do not converge” (ibid).

Here, this theory contrasts greatly with the topic at hand and thus makes it an unfit theory to use. While self-interest is stressed in realist thought, it is lost in the idea of power. Chinese FDI in Myanmar does not revolve around force or military power. Instead, it falls under one of the subordinate powers that Nye pushes aside—economic power. Chinese FDI in Myanmar consists of a war of gathering natural resources, taking

advantage of a lack of competition, and securing its interests, *not* troop building, or territorial intimidation or any sort of threat of a takeover. The relationship between China and Myanmar in this particular case does not support the idea that state preferences are fundamentally in conflict and do not converge. Myanmar, neglected by the international community at large, depends on China for much-needed capital, and China depends on Myanmar for its wealth of natural resources; thus their state preferences and interests in fact merge instead of contrast.

One of the central themes from realism is the placement of power over interest. “States focus on power rather than on their interests, aims, and values because the latter depend for their realization, whatever their composition, on power to get on other actors to bend to the state’s will” (ibid). I reject this claim, as China certainly has placed interest over power, completely opposing the realist notion of power (See chapters 6 and 7 for a more detailed discussion). As stated earlier, economic interest has trumped the need for power, which discredits the notion that if states ignore the pursuit of power, they do so at the potential expense of their security and interests (ibid: 132).

While neorealism is a branch that spurs off of realism, I want to acknowledge the fact that neorealists, in sharp contrast to traditional realists, identify the security and survival of the state, not power per se, as the overriding privileged aim of state action (ibid: 136). However, while security does play a role in Chinese FDI, it does not act as the main pillar, and economic interests still trounce this notion.

3.2 Liberalism

Moravcsik (1992) argues that there are three key core assumptions to the liberalist theory of international relations (which can be broken into several parts, but for simplicity’s sake, I am focusing on the broader field): the fundamental actors in world politics are individuals and privately-constituted groups with autonomous preferences; governments represent some subset of domestic actors; and interstate behavior is shaped primarily by the pattern of state preferences, not state power” (ibid: 2). Words like “idealist,” “moralist” and “utopian” usually dominate liberal discourses (ibid: 3). In general, liberalism widens the scope of realism in order to explain state behavior, including transnational actors (multinational companies, intergovernment institutions and non-government organizations), domestic regimes and actors, interest groups, and political parties (Kolodziej 2007: 150).

Liberals believe that “democratic society, in which civil liberties are protected and market relations prevail, can have an international analogue in the form of a peaceful global order” (Burchill 2005: 81). Additionally, Burchill argues that “the spread of liberal democracies and the zone of peace was an encouraging development...and the number of governments enjoying civilian rather than military rule is increasing, and there are signs that ethical considerations and ideas of human justice have a permanent place on the diplomatic agenda” (ibid).

Thus, liberalism as a theoretical framework cannot explain Chinese FDI in Myanmar in any manner. International institutions, such as the United Nations, do not greatly factor into China's decision to invest in projects. Concepts such as human rights or justice bare little value in China's investments, though there have been some criticisms raised concerning these issues ("China in Burma: The Increasing Investment of Chinese Multinational Corporations in Burma's Hydropower, Oil, and Natural Gas and Mining Sections" 2008). Because it does not reveal one true motivation or guiding purpose of state interest in terms of pure economic strategy, liberalism lacks the structure this thesis demands. Multinational companies and NGOs are both crucial institutions in Myanmar, but they do not explain *why* investment is occurring and *why* China would alter its FDI strategy in Myanmar.

3.3 National Responsibility in the International Society School

Jackson (1996: 115) states that there are three distinctive conceptions of responsibility in terms of foreign policy, including national, international, and humanitarian responsibility, but I argue that national responsibility offers the most telling and fitting explanation of the motivations behind Chinese FDI in Myanmar and thus will use it as my theoretical framework. National responsibility in foreign policy places emphasis on interest over power, contrasting from realism which favors power over interest, and according to this conception of responsibility, the "only fundamental standard of conduct that statesmen must adhere to in their foreign policies is that of national self-interest and specifically national security" (ibid). By using this line of argument, the guiding principle of China's foreign policy with Myanmar would be national self-interest. Chapters 6 and 7 critically examine this notion in great depth. In other words, it is not the thirst of military power or realist territorial ambitions that are driving China to invest heavily in Myanmar; rather, it is the desire to secure natural resources and minerals in order to satisfy growing energy demands in China. FDI is also allowing China to diversify its imports, reduce costs in the short and long term in Yunnan Province, increase national security, and enhance the Sino-Myanmar alliance (Kong 2010; Higashi 2009; Kang 2009). All of these issues directly relate to China's national interests and assists in explaining why China would suddenly and dramatically increase their FDI in Myanmar. Demand is rising and China is acting accordingly. By no means is China attempting to take over Myanmar in a strictly power-driven struggle, and it would be foolhardy to argue that China is in Myanmar for non-selfish reasons or for reasons that do not align with their national or strategic interests.

National responsibility in foreign policy entails several Machiavellian precepts such as the following: "1. Always put your nation and its citizens first; 2. Avoid taking unnecessary risks with their welfare; 3. Collaborate with other countries when it is

advantageous or necessary but avoid needless foreign entanglements... These normative considerations obviously are characteristic of a world of separate states in which statesmen's responsibilities are determined exclusively by their national interest and by obligations to the citizens of their own country" (ibid: 116). With respect to FDI in Myanmar, China is undoubtedly following all of these guidelines. First, China is certainly putting its citizens first in the Myanmar context. Most of their large-scale FDI ventures employ Chinese citizens, not local residents, and the projects ultimately almost-exclusively benefit Chinese residents, not the local ones, despite the fact that the projects cut across their land and can generate adverse environmental impacts (Storey 2006; Kong 2010; McDonald 2012). Clearly, through investing in Myanmar, Chinese citizens will feel the positive impacts and reap the benefits, which is the ultimate goal of the investment itself. It helps on both a micro and macro scale, with individuals (most likely) having lower energy costs in the Yunnan Province due to the new oil and gas pipelines (Kong 2010) and with the state as a whole enjoying security benefits and a stronger alliance (Storey 2006).

Second, Chinese officials have surely calculated both the economic and political risks before investing billions of dollars, and there is little risk to individual Chinese citizens. Following a new "Go Global" policy (discussed in Chapter 6), China has discovered the myriad benefits of investing overseas, instead of focusing solely on being a recipient of FDI. Therefore, I argue that the government has analyzed those risks and actively determined that the risks are marginal, as indicated not only by the fact that FDI has increased globally but because the increases have been so pronounced (See chapter 5).

Third, with regard to "collaborate with other countries when it is advantageous but avoid needless foreign entanglements," China has followed this advice wholeheartedly with respect to Myanmar. In general, China has adopted a non-intervention policy in the domestic affairs of states and focuses on mutual respect for state sovereignty as a guiding principle of the international system, and advocates a non-meddling approach (Alden 2005: 152), which contrasts with many other nations, in particular the United States. Despite Myanmar's notorious military junta which had isolated itself from much of the outside world, China opted to collaborate closely with Myanmar due to the economic advantages that it could siphon from it, and ignored any sort of political quagmire from Myanmar's leadership. China has focused solely on economic benefits and securing national interests, rather than trying to influence change on the domestic front. Though China and Myanmar have disagreed on multiple issues and have not always seen eye to eye (Guo 2007), they have maintained mutual respect for each other and as much as possible, avoided political controversies in the public sphere.

With national responsibility in the international society, "there is no external obligation; there is only foreign interest, concern, or entanglement... The state is a self contained political community that is prior to any international associations it may subsequently join" (Jackson 1996: 116). In other words, foreign interest or concern trumps all other concerns, in particular the large international organizations, such as the United Nations, and instead will continue to function as the dominant guide to FDI despite a changing economic and political climate.

4 Historical Background

This chapter provides the essential background information to understanding Myanmar. I present my reasoning behind using the term “Myanmar” instead of “Burma,” and then provide a succinct history of the country in terms of major political events and information related to foreign direct investment.

4.1 Myanmar or Burma?

Myanmar’s name has generated lively debates, spurred on by various international political leanings and other’s interpretations of domestic events within the country itself. The State Law and Order Protection Council in Myanmar decided in 1989 that their country was henceforth to be referred to (in English) as Burma. “The name Myanmar is taken from the literary form of the language, while the term Burma is derived from the spoken form. Although the Burmese-language name of the country has included “Burma” since independence in 1948, some organizations, including Aung San Suu Kyi’s National League for Democracy, prefer the spoken form “Burma” (which was also in use during the independence movement prior to 1948) and still use it in English. Because the political renaming came in the wake of the 1988 coup, this has given rise to a division between nominalists (those who consider names a matter of arbitrary convenience) and realists (those who think names mean something). This split “finds the United Nations, ASEAN, China, India, and Japan among the nominalists and the United States, Australia, Canada, and the United Kingdom among the ‘realists’—metaphysical, not political—who still adhere to the old usage as a way of gainsaying the legitimacy of the ruling junta” (Dittmer 2008: 885). The literature concerning Myanmar is split between calling the nation either Myanmar or Burma, usually with one’s nationality or political beliefs influencing the author’s perspective (with Western authors generally penning “Burma” and Eastern Asians using “Burma”) but in an effort to remain neutral and partial to the discussions at hand, I am opting to use the name Myanmar, as it is both the official name of the nation and also the title that the United Nations uses. I am not choosing to use Myanmar solely because China elects to, but rather because of the United Nations’ international influence and standing; the UN uses Myanmar, presumably [to defer] to the idea that its members can call themselves what they wish, provided the decision is recorded in UN proceedings (“Should It Be Myanmar of Burma?”). If I had chosen to use the name Burma, I could be criticized for possessing a Western bias, and while I

cannot completely eliminate my background or perspective, I have tried to remain objective when discussing China's motivations of foreign direct investment. I also acknowledge that using the name Myanmar holds certain implications, but my choice will not impact my analysis in any manner whatsoever.

4.2 Understanding of Myanmar

Bordering India and Bangladesh in the northwest, the Bay of Bengal to the south, and China, Laos, and Thailand in the east, Myanmar is the largest country on the Indo-China Peninsula. "Near its two largest rivers lie surrounding plateaus which are endowed with rare minerals and dense forests, the resources of which constitute major exports from Myanmar. Oil and natural gas reserves are concentrated in the central west, along the Irrawaddy River, and the exploitation of these resources has increasingly become the focus of internal conflict as well as international tension" (Guo 2007: 13).

Historically hosting a mix of ethnicities and races, Myanmar has grappled with a constant flux of people hailing from various backgrounds (Harvey 1925), with about "one third of the population consisting of ethnic minorities" (Guo 2007: 15). First united in the 18th century, Myanmar began to head towards disintegration following two wars with the British between 1824 and 1852, and it eventually became a province of then British India right before the turn of the 20th century. However, up until 1937, Myanmar was part of "both the Indian and British Empires and administrators in the province often found themselves as part of a long chain of command extending from London via Calcutta to Rangoon" (Phillips 2005: 5). Following 1937's handover of power, the British administrative system was introduced to and implemented in towns across central Myanmar until the country gained its independence in 1948 (Guo 2007: 16). The next fourteen years, albeit in a democratic framework, were marked by competing leaderships, personal rivalries, diverging political interests and a lack of a united front, many of which continue to the present day. Due to its rocky colonial past, citizens of Myanmar have typically been skeptical to foreign powers, another legacy that lives on (Guo 2007).

1962 marked a crucial turning point in Myanmar's government, as serious difference began to arise between the ruling party, the military, and ethnic minority leaders. After legally installing a military caretaker administration after the prime minister resigned a few years prior, the senior general Ne Win became power hungry and decided to seize power in a coup d'état. Ne Win arrested the civilian political leaders, dissolved the national parliament and state legislatures, dismantled the court system, suspended the 1947 Constitution, and created a Revolutionary Council comprised of 17 military officers with himself as chairman. The military's Revolutionary Council created its own cadre party, the Burma Socialist Programme Party (BSPP) in July 1962. Modeled along Leninist lines, the BSPP was intended to become a mass political organization providing social, political, and economic indoctrination. Ne Win was elected party and helped

create a new constitution creating a single party system was introduced in 1974. From 1962 to 1988 therefore, Myanmar was ruled by the military (McCathary 2010: 547).

In 1988, as the country spiraled downwards economically, students protested against the government, resulting in a crushing suppression. Consequently, there were mutterings of a return to a multiparty, democratic system, and Aung San Suu Kyi rose to become a figurehead in the movement as the leader of the National League for Democracy. However, the government returned to direct military rule (McCarthy 2007: 548; Seekins 2005: 257). Financially speaking, the political uprising in 1988 inspired the liberalizing of foreign investment regulations in Myanmar, so that the regime could earn hard currency to support the country's ailing economy. Foreign investment flowed in from ASEAN, now that the terms were more conducive to investment (Zaw 1999: 41). Without Chinese and ASEAN investment, Myanmar would have been forced to make cuts in spending that could have incited protests or face international donors and their demands for political reform (ibid: 50). Therefore, starting from 1988, though the figures at the time were nominal, Myanmar began to become dependent on FDI, while China found opportunity that was mutually beneficial. This action started a legacy that continues until present day.

However, many Western nations, including the United States, viewed the violent government crackdown as gross violations of human rights and elimination of civil rights, and thus issued sanctions over the subsequent years as a rebuke. These sanctions ranged from bans of investments to the freezing of assets to the prohibitions of imports from Myanmar (Martin 2012: 2), among others, but many of these nations have begun to loosen the restrictions in 2012. A more in depth discussion of sanctions will follow in Chapter 7.

Several years later in 1997, Myanmar was awarded membership to the Association of Southeast Asian Nations (ASEAN), though the state party justified its accession to ASEAN by the prospect of opening the floodgates to even more foreign direct investment, which was benefiting neighboring China. But alas, Myanmar's accession coincided with the Asian financial crisis, when FDI was moving out rather than into the region (Dittmer 2008: 886). In fact, the initial mini-boom in the early 1990s fizzled as much of the money that came in was used to maintain foreign currency reserves, not for investment. The junta also used much of its hard currency to pay for badly needed imports, rather than invest in any kind of production and thus investment has not promoted sustainable growth (Zaw 1999: 50).

The elections of 2010, however, marked a turning point in Burmese politics. After holding a "free" election that was internationally condemned for being fraudulent, the government suddenly changed courses in the beginning of 2011, claiming it was part of their "Roadmap to Democracy." Prime Minister Thein Sein stepped down and assumed the position of civilian president, which was confirmed by the Parliament, officially ending over fifty years of military rule by the junta. One year later, in March 2012, the government held by-elections for 45 open seats of Parliament ("Burma ex-Prime Minister Thein Sein Named New President" 2011). Though this only represented a small margin of total seats for the public at large, this action served as the first democratic opportunity

for citizens to be elected for the national parliament. In the wake of this “democratic transition,” (which can be argued for and against), the government also addressed other pressing concerns, including establishing a National Human Rights Commission, pardoning hundreds of political prisoners, secured a cease-fire with Karen rebels, agreed to negotiate with other ethnic rebel groups, and loosened censorship laws (“Myanmar’s Suu Kyi Takes Oath of Office” 2012). Due to these transformations, many Western countries relaxed several restrictions, and nations around the world, including China, welcomed the new changes which arguably have ushered notions of democracy into a nation that has not experienced it in half a century.

5 Chinese Outward FDI to Myanmar

In this section, I will first discuss the source and materials I have chosen in order to analyze FDI and the possible resulting discrepancies that may occur. Then, I define foreign direct investment and its two ways of being reported: stocks and flows, and reveal my motivations for analyzing both these data sets of FDI instead of narrowing my focus on just one. Thereafter, I will focus on Chinese investment solely in Myanmar in terms of stocks and flows, and discuss overall trends, changes, and movements from 2004 to 2010, as that is when the current data ends. Next, I will widen the frame to place Myanmar in a regional context to determine if the country can be classified as a unique case for China, or if it is simply reflective of a regional trend. Finally, I conclude this chapter by examining China's outward FDI trends from a global standpoint in order to check Myanmar's changing position of priority from China.

5.1 Materials Used

For this chapter, I have gathered statistics from the Chinese Ministry of Commerce's website, which is readily available for the world to read in both English and Mandarin. I am opting to trust the statistics, as they stem from an official government source, but I acknowledge that factual inaccuracies can occur. In fact, on the first page of the statistics in the report, they miscite the total global foreign direct investment (FDI) outflows, stating that the flows reached \$1.32 trillion in 2010; however, when referring back to the *World Investment Report 2011* by United Nations Conference on Trade and Development (UNCTAD) that the Ministry of Commerce cites, I discovered that the official statistic from UNCTAD is \$1.24 trillion, which equates to a false 6.45% increase. After further research, I found that every other official document from a variety of international sources cites the \$1.24 trillion benchmark. Despite the initial skewed information, I am still depending solely on the Ministry of Commerce's data as my source for the Chinese information because it breaks down some of the data clearer than other sources. 2010's statistics is the latest data to be released as of the time of writing, and thus I use the years 2004-2010 for comparison's sake, unless otherwise noted. I fully understand that the generated graphs and analysis might alter slightly with the addition of updated data; however, I am confident that it would not discredit any of the following graphs or information that I have produced using the data that has been released to the public. When crosschecking with other international sources, I have found that the figures vary

slightly, but not enough that should be raise criticism with my methodology or would nullify my conclusions. Keeping one source also ensures consistency.

When working with FDI figures, I must express my acknowledgement that discrepancies can occur. “Discrepancies are mainly due to the use of different criteria for valuation or for geographical allocation of transactions. The increasing complexity of enterprise groups poses a further challenge to the correct application of the directional principle for accurately assessing FDI. Similarly, it is rather difficult to consistently capture loans granted to or received from related enterprises and they are often incorrectly considered as “other investment”, rather than as “direct investment” (Duce 2003). Additionally, “there are equally strong reasons to suppose the official figures to be underestimates. While most outbound foreign direct investment (OFDI) is from state-owned enterprises (SOEs), a large and unknown proportion is from enterprises that are owned by non-state entities. While SOEs are constrained to go through the official approval process and so be recorded as making OFDIs, non-state entities are more likely to evade approval. Where local OFDI approval is available, it may not always result in projects being included in national data” (Davies 2009). SOEs dominate China’s OFDI, as “their average investment size is much larger than that of Chinese enterprises in the private sector” (OECD Benchmark Definition of Foreign Direct Investment” 2008).

I also need to disclose the fact that “several factors distort the accuracy of China’s aggregate data on OFDI. First, MOFCOM [China’s Ministry of Commerce] does not rely on direct enterprise surveys to compile data but rather on information collected by local commerce bureaus, where firms must register their overseas investments. This can result in significant underreporting by firms that wish to side-step approval procedures for a variety of reasons, thus dragging down the aggregate figures. Another major problem, resulting in undercounting, is that many Chinese firms do not report foreign earnings that are reinvested abroad as OFDI as required by international standards. While these factors suggest that actual outflows could be much higher, there are also reasons to suspect that China’s official statistics are too high” (Rosen and Hanemann 2009:3). In sum, the exact numbers may be slightly off from the true statistics, but they are close enough to provide an accurate estimation of what is truly happening financially-speaking in Myanmar. It is almost impossible to secure completely accurate data for the aforementioned reasons, but every government and international institution factors in these discrepancies and offers their best guesstimate.

In my research, I have never come across any sort of visual analysis of the FDI numbers. It is my intention to translate stark, bland numbers into easy-to-read, clear graphs for the readers, and I will highlight the FDI trends, differences, and changes over the past several years. China has adopted a novel approach to FDI, and I have found several modifications in the fiscal value that China in particular has impressed upon Myanmar, which I want to examine further. These particular shifts reveal wider aspects on Chinese foreign policy and could reveal a dual role: China is simultaneously protecting national self interest by vigorously investing in natural resources while enhancing a long-standing alliance with Myanmar as the United States slowly encroaches on the region.

5.2 What is Foreign Direct Investment (FDI)?

Per the definition from the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment is:

“A category of investment that reflects the objective by a resident enterprise in one economy (direct investor) of establishing a lasting interest in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. Lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence on the management of that enterprise. Direct or indirect ownership of 10 per cent or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is considered to be evidence of such a relationship” (UNCTAD Training Manual on Statistics for FDI and the Operations of TNCs 2009: 38).

FDI can be broken down its sub-components, namely “equity, reinvestment of earnings (combined with equity for positions data) and debt allows further refinement of FDI trends and the nature of investments” (“OECD Benchmark Definition of Foreign Direct Investment” 2008). However, in my analysis, I am not focusing on the individual parts that define FDI, but rather the culmination of those segments and how they reveal trends and changes in namely Chinese policy. FDI data are usually reported in terms of stocks and flows. FDI *stock* refers to the value of capital and reserves plus net indebtedness, whereas FDI *flow* refers to capital provided by or received from a foreign direct investor to an FDI enterprise. FDI flows can be further classified as *inflows* (capital flows into the host economy) and *outflows* (capital flows out of the home economy) (“Method of Data Collection and National Policies in the Treatment of FDI” 2011). In other words, stocks reveal an absolute, finite sum of investment while flows show the rate of change of FDI over a one year period.

FDI is an integral part of an open and effective international economic system and a major catalyst to development (“Foreign Direct Investment for Development 2002: 2”). A preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries (ibid: 5).

5.3 Motivations for Using Stocks and Flows

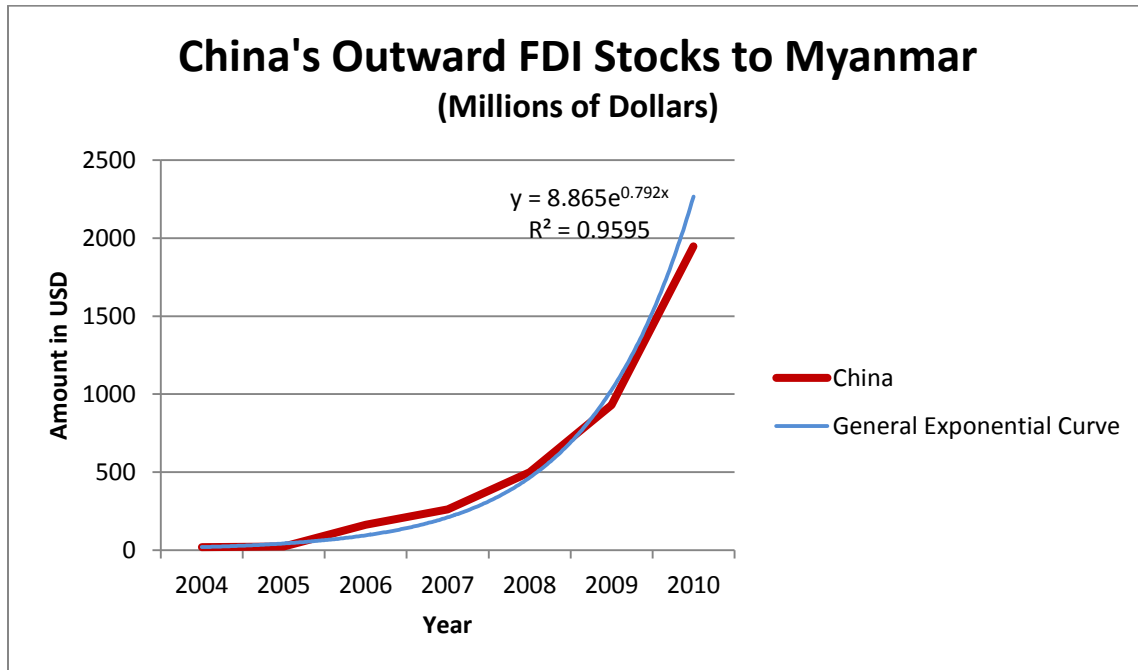
My purpose in analyzing FDI data is two fold: I argue that Chinese economic interest in Myanmar is rising, so I will look at the rise in flows over time. Simultaneously, I want to compare China's total interest in Myanmar vs. other countries, so I will analyze stocks in order to gauge where China's economic interests lie. I will initially focus on Myanmar and then widen the frame to a regional Southeast Asian perspective to determine how Chinese investment is evolving, both in terms of stocks and flows, and concluding by looking at the global trends.

I acknowledge that the flow percentage distribution figures may vary from year to year, so the stock figures may provide a truer—effectively averaged—picture. Comparing two dates, such as 2004 and 2010 as I do later in this section, is actually comparing the summation of flows up to those dates, which largely eliminates the effect of outliers. For example if a particularly “lumpy” (i.e. much larger than usual) transaction took place in 2004 or 2010, the flow figure for that year might be considered unrepresentative while the stock figure would be less so because it would be brought into line by the other years included in the sum (Davies 2012). Therefore, by analyzing both stocks and flows, I gain a more accurate picture of the fiscal movements of China, and I can observe both summations of investments as well as changes in the amount of investment year after year.

5.4 Myanmar at the Center of Changing Chinese FDI

Looking at the raw data from the 2010 Statistical Bulletin on China's Outward FDI from 2004 to 2010, it is clear that China has dramatically increased the amount of stock, or sum of investments, in Myanmar. The amount of investment has risen from \$20.18 million USD in 2004 to over \$1,946.75 million USD, a staggering percent increase of 9,542% in just a six year time frame. In other words, stocks rose from \$20 million to almost \$2 billion dollars in approximately half a decade. In 2010, reports have surfaced that China has pledged over \$20 billion dollars in FDI, a monumental jump, but these are *approved* projects at the moment. However, if that amount is correct, it would equate to roughly 50 percent of total GDP in Myanmar, which according to the CIA World Factbook stands at \$US42.95 billion on the official exchange rate for 2010. This compares with the world's largest recipient of FDI, the US, whose FDI-to-GDP ratio was 16 percent last year (Allchin 2011). Nevertheless, these latest figures have not been broken down by the Chinese government in their Statistical Bulletin from the Ministry of Commerce, and thus I will only focus on the statistics that have been approved from that source.

Figure 5.1 China's Outward FDI Stocks to Myanmar 2004 - 2010 (Millions of Dollars)



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Figure 5.1 expresses the data from Appendix 1 in a simple line graph. Stocks into Myanmar remain stagnant until 2005, when they slowly start to increase at a somewhat constant rate for the next two years. However, in 2007 the line juts upwards, indicating a stronger shift in the total amount of investment, and that trend carries onwards to 2010. Every subsequent year's rate of increase is more prominent than the year before, as indicated by the steeper slopes. When I noticed the initial shape of the generated graph, I suspected that it followed an exponential type of curve, and thus I plotted a trendline on Excel to determine how far the data strayed from a pure mathematical formula, which is expressed by the equation $y=8.865e^{0.792x}$. The coefficient 0.792 translates to a 79.2% total growth rate for the duration of time (2004-2010). The two graphs almost lie on top of one another, and the R^2 value is 0.9595, thus indicating that Myanmar is very close to experiencing true exponential growth in terms of stocks. An R^2 value of 1 in this case would mean that the trendline completely matched the exponential function, a very rare feat. An R^2 value of 0.9595 denotes an exceptionally close match and is mathematically valuable. However, this continued type of growth is unsustainable. Undoubtedly, stock totals for 2011 and beyond will most likely continue to increase, but due to the complexity of economic forecasting, it is nearly impossible to pinpoint what their totals will amount to.

Figure 5.2 Percent Increase in China’s Outward FDI Stocks in Myanmar 2004 – 2010

| Year | Percent Increase in China’s Outward FDI Stocks in Myanmar |
|------------------|--|
| 2004-2005 | 16.9% |
| 2005-2006 | 591.5% |
| 2006-2007 | 60.5% |
| 2007-2008 | 90.9% |
| 2008-2009 | 86.1% |
| 2009-2010 | 109.4% |
| 2004-2010 | 9546.9% |
| TOTAL | |

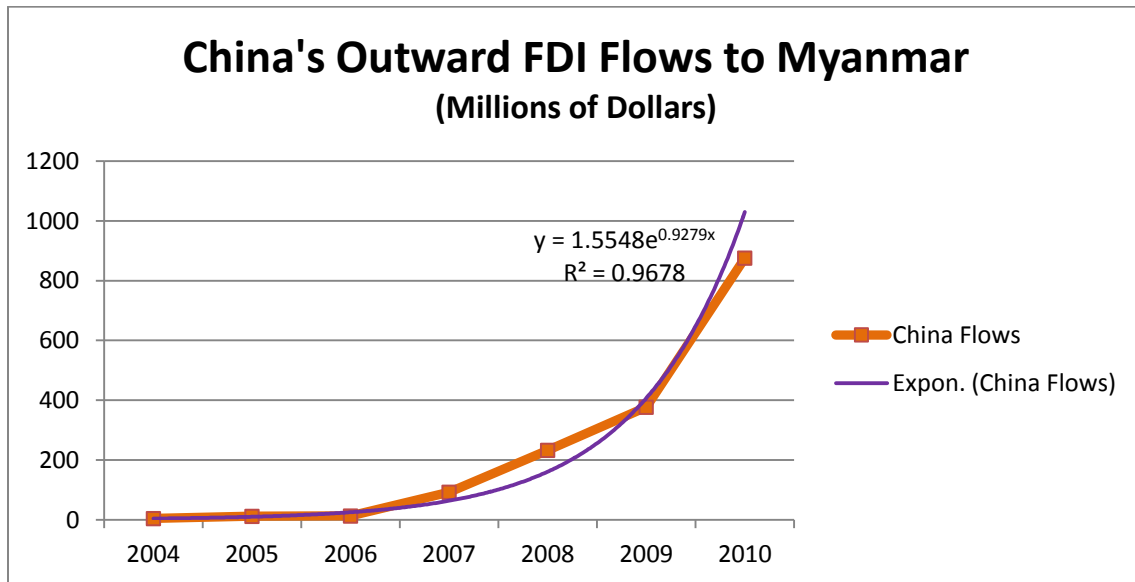
Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

After analyzing Figure 5.2, I argue that stocks will continue to outpace the previous year dramatically as indicated by the consistent and steady growth, and that China will persist in investing heavily in Myanmar. The amount of total investment will easily soar past \$2 billion. The percent increase from 2006 to 2010 has been relatively steady year after year, meaning that the rate of change has remained somewhat consistent.

Thus, the total amount of investment into Myanmar from China has conclusively and unequivocally exponentially increased. However, are the flows increasing at such a high-paced rate as well? That is, is China’s economic interest in Myanmar rising at the same rate as its finite investments, and is the rate of investment equally as dramatic as the rate of stocks?

Note that obviously China can reverse its six year pattern of heavy investment in the 2010-2011 time frame and beyond, or it significantly reduce the percent increase range by which it has been using as a rough benchmark. However, after examining both the FDI stock and flow data and its continued announced projects in Myanmar, I am confident that the 2011 total will not reduce in any capacity and will most likely dwarf the 2010 total.

Figure 5.3 China's Outward FDI Flows to Myanmar 2004 – 2010 (Millions of Dollars)



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

In Figure 5.3, I plotted the data from Appendix 2 in order to examine the year to year increase. The graph scrapes along the x-axis for the first three years (2004-2006), and from 2006-2007, the slope's value increases suddenly, and the graph cuts upwards, marking a change from the consistent flat line from the years before. In the following year of 2007, the slope increases again, as the number of outward FDI flows jumps and continues to increase at a steady rate until 2009. Suddenly, flows more than double in amount, from \$376.70 million to \$875.61 ("2010 Statistical Bulletin of China's Outward Foreign Direct Investment") from 2009 to 2010, resulting in a dramatic spike that contrasts from the somewhat stable trajectory from before. Had the steepness of the slope from 2007 to 2009 remained the same, China's flows would have totaled somewhere in the \$500 million range for 2010, not \$875 million; instead, China poured an additional \$300 million as FDI flows into Myanmar during 2010 as compared to the total expected, had the rate of increase remained the same.

As with Figure 5.1 (China's Stocks in Myanmar), I generated a trendline in order to determine if I can accurately label China's flows as exponential, with the resulting equation $y = 1.5548e^{0.9279x}$ which reveals a 92.79% growth rate (from the 0.9279 coefficient) for 2004 – 2010, and an R^2 value of 0.9678, which is even higher than the R^2 value of Figure 5.1, thus indicating that China's outward flows to Myanmar are closer to a true exponential growth function than the growth in stocks.

Figure 5.4 Percent Increase in China’s Outward FDI Flows in Myanmar 2004 - 2010

| Year | Percent Increase in China’s Outward FDI Flows in Myanmar |
|------------------|---|
| 2004-2005 | 182.2% |
| 2005-2006 | 9.5% |
| 2006-2007 | 630.3% |
| 2007-2008 | 151.9% |
| 2008-2009 | 62.0% |
| 2009-2010 | 132.4% |
| 2004-2010 | |
| TOTAL | 21,308.6% |

Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

Technically, I calculated the percentage increase by subtracting the two values from each time period, divided it by the original value, and multiplied it by 100. I want to clarify here that *slope* and *percentage increase* are not interchangeable terms, but they both provide valuable information in how China is viewing Myanmar’s financial vitality in terms of FDI. Slopes show a graph’s rate of change, and in Figure 5.3, one sees how that particular rate is increasing year after year (as indicated by steeper slopes), while the percentage increase is more reflective of the gross total amount and highlights the relative change from year to year. Thus, comparing Figures 5.3 and 5.4, I want to point out that the slopes, or rate of change, have increased almost year, barring 2008-2009, while the percentage increase can be categorized as stable yet inconsistent. As Figure 5.2 indicates, there has been a net gain in the percentage increase year after year since 2004, but the actual totals have fluctuated between 9% and 630% with no pattern or precise trend. This up and down notion is most likely reflective upon the economic climate and situation on the ground in Myanmar rather than a policy trying to be consistent for consistency’s sake. In other words, the Chinese government most likely did not establish a policy in which they aimed to increase investment at a set rate—rather, the rate of change varied upon conditions on the ground, in the region, and changes in demand. With this figure, I simply wanted to highlight the fact that the Chinese government is increasing their outward FDI flows by relatively large percentage points year after year, with no signs of slowing down or reducing their rate. Another note I would like to comment on is that I obtained the final total by using the 2004 and 2010 unique data, not by adding up the percentage increase amounts together, as that would be mathematically inaccurate.

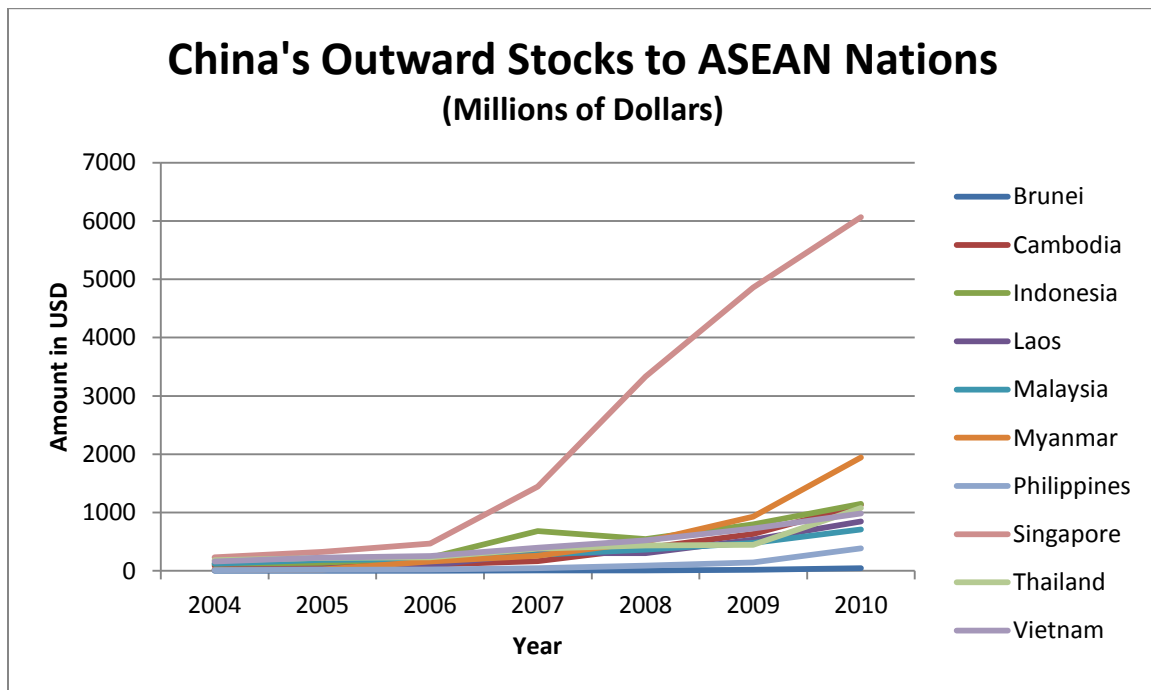
In summary, China’s outward FDI flows mark a shift in its foreign policy towards Myanmar starting in 2006-2007, as indicated by the 630% jump as shown on Figure 5.2, and the subsequent explosion of funds funneled into Myanmar. Myanmar evolved from a low priority in terms of FDI even until 2005 to an attractive destination of the Chinese government from an investment point of view. Its explosion in stocks and flows, which

grew not at a linear rate but rather an exponential one, certainly reveals that the either the economic, political, or social climate changed in Myanmar or China saw opportunity in China, and that China determined that it must act accordingly to a shifting landscape.

5.5 Is Myanmar a Unique Regional Case?

Is China’s increased FDI in Myanmar reflective of a regional movement in Southeast Asia? Or is Myanmar an isolated case that requires further examination that could highlight changing Chinese foreign policy? For simplicity’s sake, I am defining Southeast Asia as the region that encompasses the members of ASEAN (Association of Southeast Asian Nations), which consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. It would be both futile and limiting to only focus on Myanmar’s inward FDI flows without widening the scope and understanding its position within the region. Using the ASEAN nations as a source of comparison allows me to see how much relative emphasis China is placing on Myanmar in terms of FDI that I would not gain by ignoring the regional perspective.

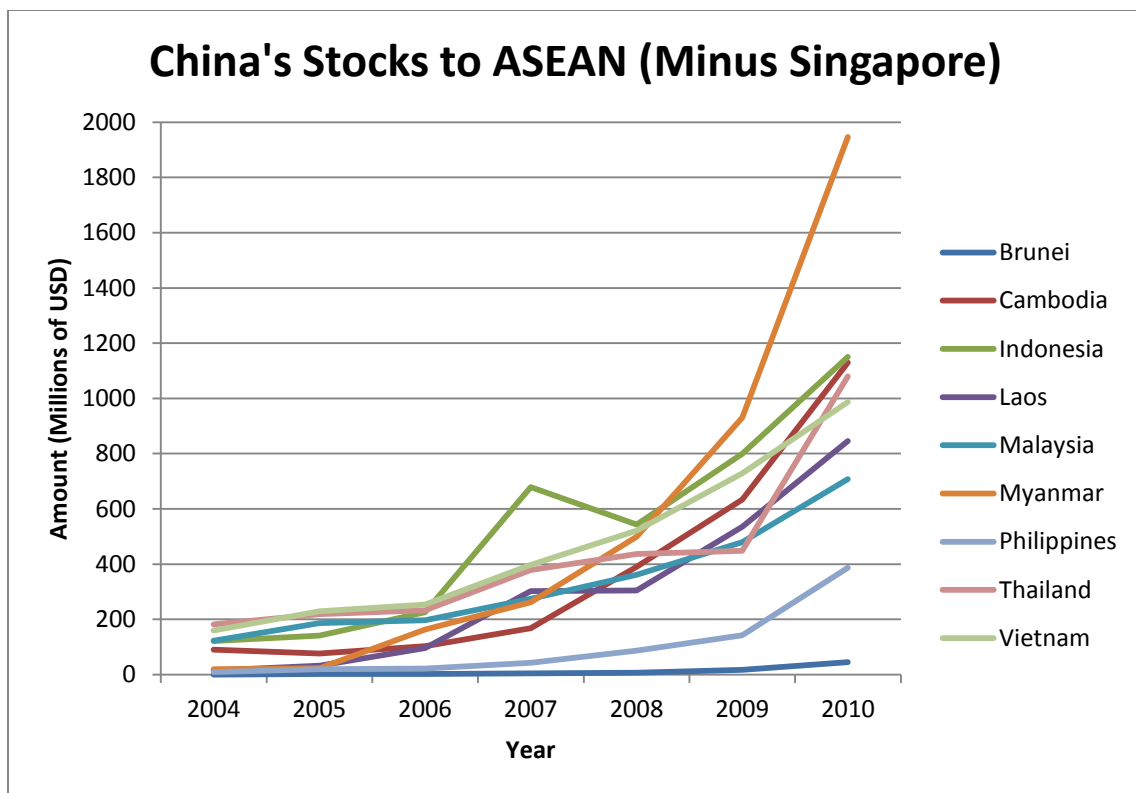
Figure 5.5 China’s Outward FDI Stocks to ASEAN Nations 2004 – 2010



Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

The total sums of investment, or stocks, from China to ASEAN nations are shown in Figure 5.5 (see Appendix 3 for data) and Singapore’s colossal rise in comparison to the other countries dominates the graph. Singapore’s total stocks constitute over three times the amount of its nearest “competitor,” which would be Myanmar. However, due to the scale on the vertical axis and number of countries being compared, it remains difficult to detect trends, so I wanted to remove Singapore in order to scrutinize how the number of stocks has changed over a six year period, as Singapore is not my focus in this work.

Figure 5.6 China’s Outward FDI Stocks (Minus Singapore) to ASEAN Nations 2004 – 2010



Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

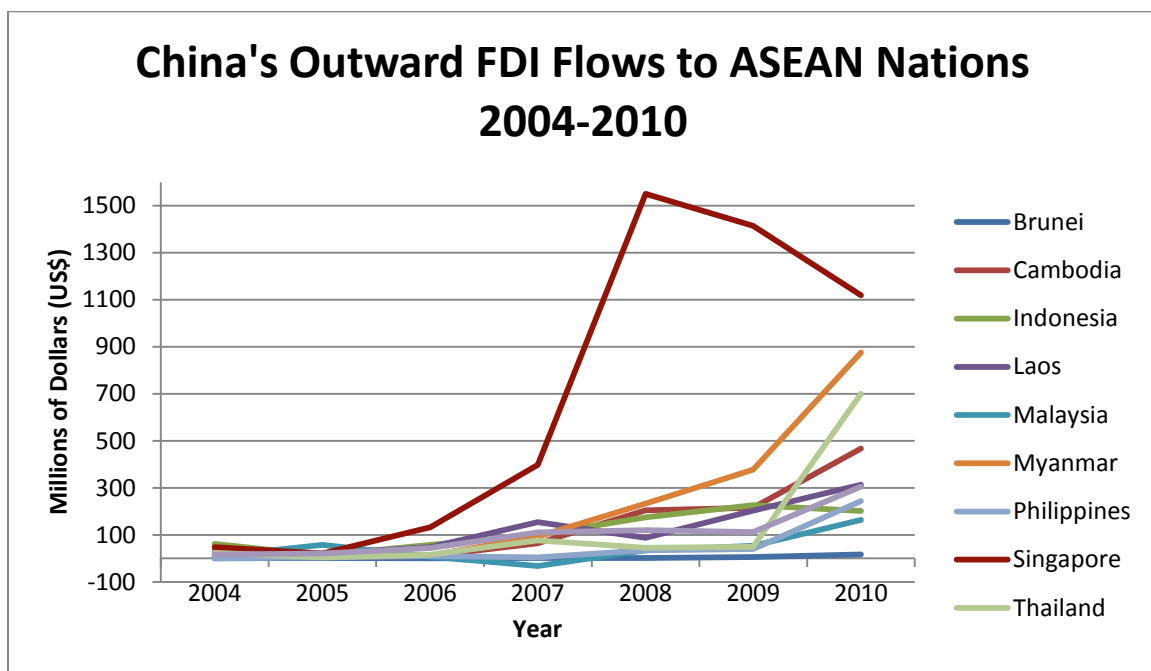
Figure 5.6 allows one to more accurately ascertain the changes in stock year after year. Without Singapore dominating the graph, it becomes clearer that Myanmar’s stock have shot up much quicker than its neighbors. In fact, the line denoting Burma was once situated at the very bottom, close to the x-axis, and starts to surpass other nations between 2006 and 2007, and dramatically rises the following year until surpassing the other ASEAN nations between 2008 and 2009. Looking at the overall graph, China has

increased stocks to every ASEAN nation, albeit at various levels, with the 2006-2007 period functioning as the departing point for higher investment levels. Myanmar, though, has ended with almost \$2 billion in stocks, which overshadows the following nation of Indonesia, which collected more than \$1.1 billion in stocks. In fact, six out of nine nations secured between \$700 million and \$1.2 billion, and four of the nations came within \$100 million of each other. Myanmar, however, did not hover in this range.

Therefore, China’s stocks to Myanmar follows the general regional trend, where China is actively increasing the total amounts of investment, but like Singapore, it has paid special attention to Myanmar and has dramatically emphasized its importance over its neighbors. However, unlike Singapore, Myanmar is categorized as a Least Developing Country (LDC) by the United Nations (“Country Assessment Report” 2005) which provides certain challenges and difficulties compared to investing in an established economic powerhouse like Singapore. In terms of stocks, I argue that Myanmar is absolutely a unique case that diverges from the lower percentage growth of its ASEAN nations and that China is changing its economic policy towards Myanmar.

However, if I examine China’s outward flows towards ASEAN, I gain a wider picture of the movement of investment and more readily determine how China’s economic interest is evolving in the region. Once again, I want to gather this information to find out if Myanmar is at the focal point of both rising investment and increasing economic interest, as reflected by the stocks and flows. If it outpaces its neighbors in both these categories, then I can more aptly label China’s changing economic interest in Myanmar as a change in their foreign policy status quo.

Figure 5.7 China’s Outward FDI Flows to ASEAN Nations 2004 – 2010



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

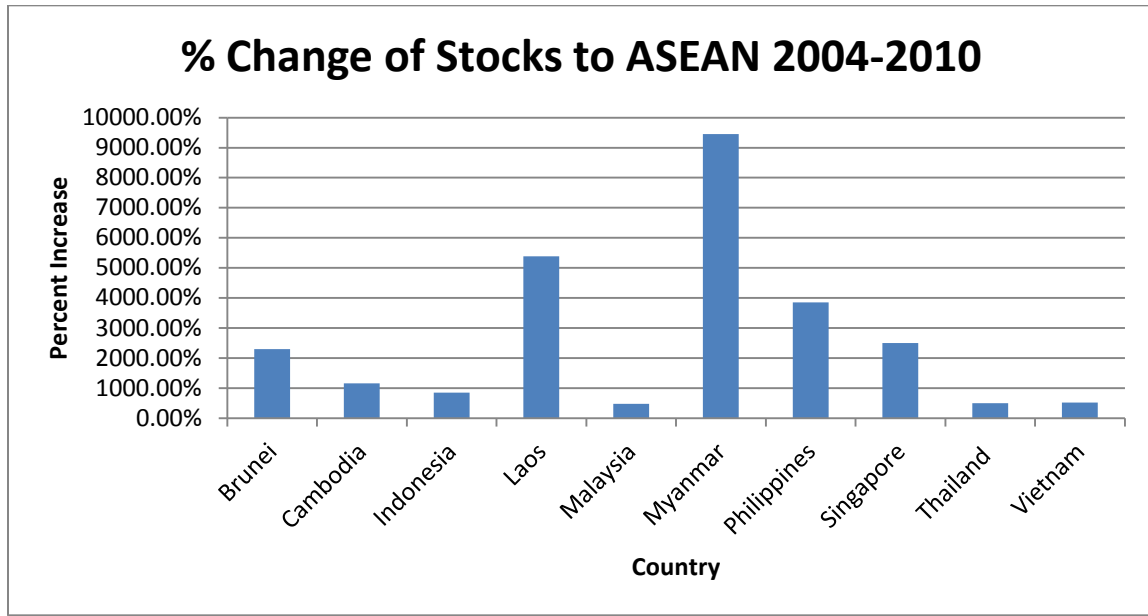
In Figure 5.7, I have plotted out the ten nations of ASEAN with their totals of Chinese outward FDI flows from 2004 to 2010 from Appendix 4 onto one graph so that one can see the regional trends and how China's attitude towards FDI in Southeast Asia has altered in the past six years. From the graph, one can infer that China has emphasized Singapore as a priority in the region, swallowing up the majority of the FDI flows, though it has clearly been decreasing for the past three consecutive years. Therefore, while stocks may have increased in Singapore, as indicated by Figure 5.6, China's economic interest in Singapore may be waning. My primary focus, however, lies in the nature of the lines for the other nine countries. Many of them appear to be stagnant until around 2006 or 2007, when suddenly several of them experience a surge in outward FDI flows that align with the rising stocks in Figure 5.6, and their slopes steepen, indicating a sharp rise in the rate of change. Most noteworthy is how Myanmar has suddenly risen to the top of the pack (excluding Singapore) and like the regional stocks, Myanmar has outpaced its neighbors, meaning that Chinese economic interest is still rapidly rising at a similar rate as its stocks. From 2004 to 2007, flows into Myanmar mimicked its developing neighbors, but 2007 appears to hold significance, as it is the year that Myanmar overtakes the other countries and begins to absorb many of China's outward FDI flows.

In 2004 China's flows into Myanmar totaled just \$4 million, earning some of the lowest totals in the ASEAN nation group, and that sum rose to \$92.31 million three years later in 2007 (see Appendix 4). However, in 2010 that total skyrocketed to \$875.6 million, so in a span of six years, Chinese outward FDI flows into Myanmar swelled from \$4 million to almost one billion dollars. With such a dramatic, pronounced increase in such a short period of time in terms of both stocks and flows, China must have discovered some sort of hidden potential that it had previously ignored and decided to aggressively invest. Whatever their reasoning or motivation behind the investment, it must have been extremely important to China's national interest, or else China would have most likely continued to invest in Myanmar at a similar rate to its neighbors and not funneled that amount of money into one of the poorest nations in the world. The continued rapid rise of FDI flows indicates that the government has suddenly realized the importance of Myanmar in relation to its own needs.

An explosion of that caliber warrants further investigation, but Myanmar is not unique in its FDI trajectory. Before I deconstruct China's motivations for Myanmar, I want to see how the percent increases of flows to the ASEAN nations stacked up against each other. I did not want to assume that only Myanmar experienced such rapid growth or that it was the sole nation that China recently deemed to be important. So, I strived to answer the question, "Which countries did China consistently find to be most paramount in terms of FDI? Is Myanmar truly a leader of FDI in the region?" Therefore, I calculated

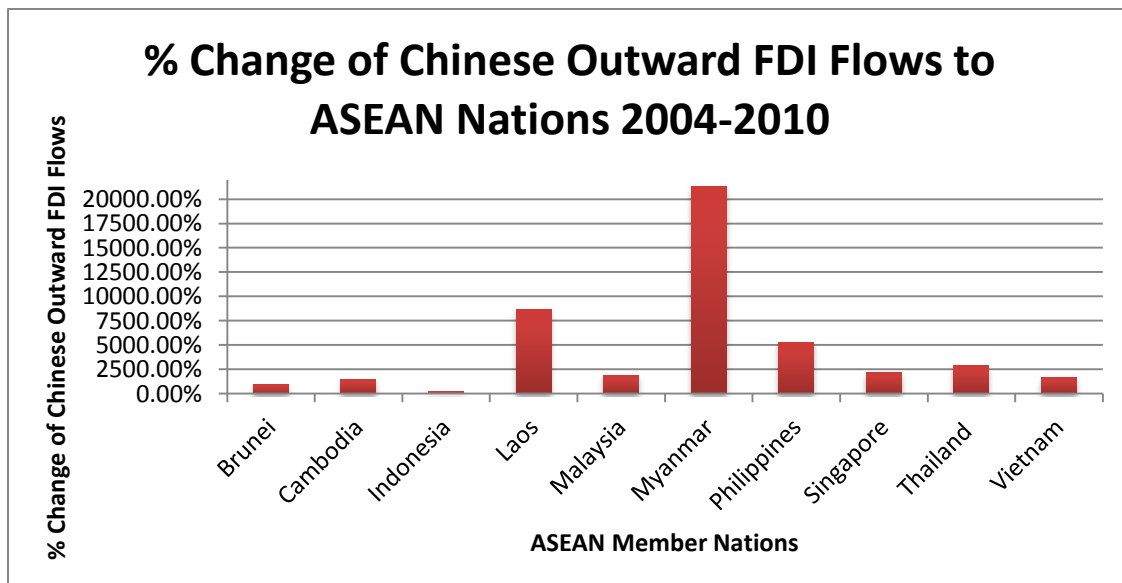
the percent increase of both stocks and flows between 2004 and 2010 for the ASEAN nations and formulated a bar graph for comparison sake. The percent increase shows the rate of change of stocks and flows for that time period.

Figure 5.8 Percent Change of Chinese Stocks to ASEAN Nations 2004 – 2010



Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

Figure 5.9 Percent Change of Chinese Outward FDI Flows to ASEAN Nations 2004-‘10



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Figures 5.8 and 5.9 dramatically highlight the changes that China has made with Myanmar in terms of FDI. What is most striking is how Myanmar dwarfs its neighbors in terms of percentage increase in both graphs, which totals to a staggering 9,546.9% for stocks and 21,308.6% for inward flows. No other nation is close to reporting such pronounced changes in growth, and the rates at which Myanmar is absorbing FDI from China is astronomical. In terms of stocks, only Laos shows a noteworthy level of growth, but its total remains just over half of what Myanmar is experiencing. Even though the other nine nations all convey substantial increases over the six year period, Myanmar's growth far exceeds the average in the region, which further indicates that the Chinese government was examining Myanmar differently in 2010 than in 2004. Myanmar's level of attractiveness has risen at a faster pace than its ASEAN neighbors, according to both figures.

In terms of outward flows, the closest competitor is once again Laos, which still held less than half of Myanmar's percent increase in the same time period. Most other nations fall between a much more modest range, but even the most modest gains are still around a 1000-2000% increase, which is still substantial. Compared to the nations in the region, China has zeroed in its focus onto Myanmar and the flows, according to the data, show no signs of stopping or even slowing down.

On a technical note, I disregarded the 2004 value for Brunei for stocks and the 2004 value for the Philippines, as they were totaled both \$0 dollars and \$0.13 million, and I chose the 2005 total in order to more clearly represent the reality of the situation. If I had not, Brunei would have experienced at 35,000% increase and the Philippines would have shown at 370,000% increase, which is misleading and not constructive to the argument at hand.

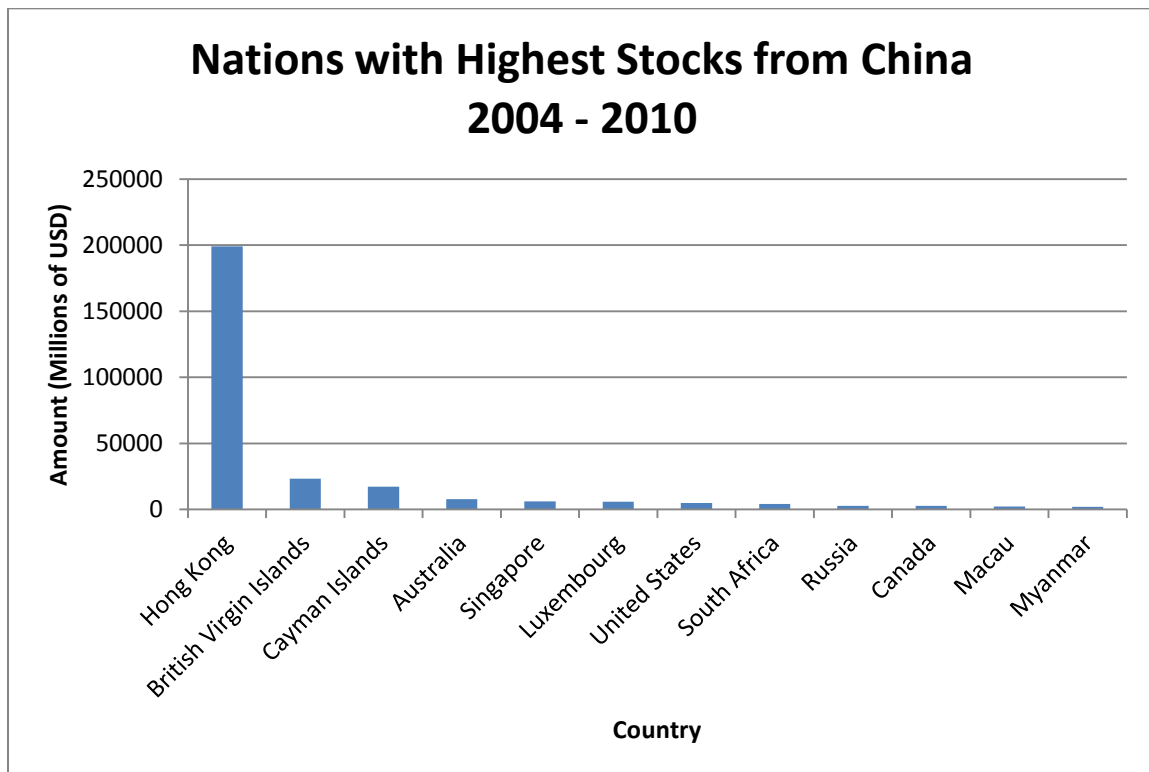
Therefore, from Figures 5.8 and 5.9, one can see that Myanmar's huge increase is not matched with any other neighbor. Myanmar is absorbing a huge surge in total volume of stocks and flows from China, and the percent increase by which it is experiencing FDI is remarkable and noteworthy. These numbers are thus telling in both quantity and change over time, and allow me to confidently argue that Myanmar's standing is unique in Southeast Asia due to its exponential sum of investment, its consistently rising rate of change of investment, and its fiscal relation with other ASEAN nations.

While I have determined that China is focusing most prominently on Myanmar in the region, I have not established a wider framework in which to compare Myanmar with the rest of the world. Even though Myanmar is experiencing astronomical growth in FDI in Southeast Asia, it would be both foolhardy and rash to make an assumption that it proves to act as an exception on the global scale without making a comparison in terms of both stocks and flows with the rest of the world. Myanmar could be a regional leader in terms of FDI, but it could pale in comparison to other nations' stocks or flows.

5.6 Chinese Investment on a Global Scale

In order to answer this question, I sifted through the data and determined the top ten nations with the highest gross stocks and inward flows from China from 2010 (the most recent data) and then plotted them on Figures 5.10-5.13.

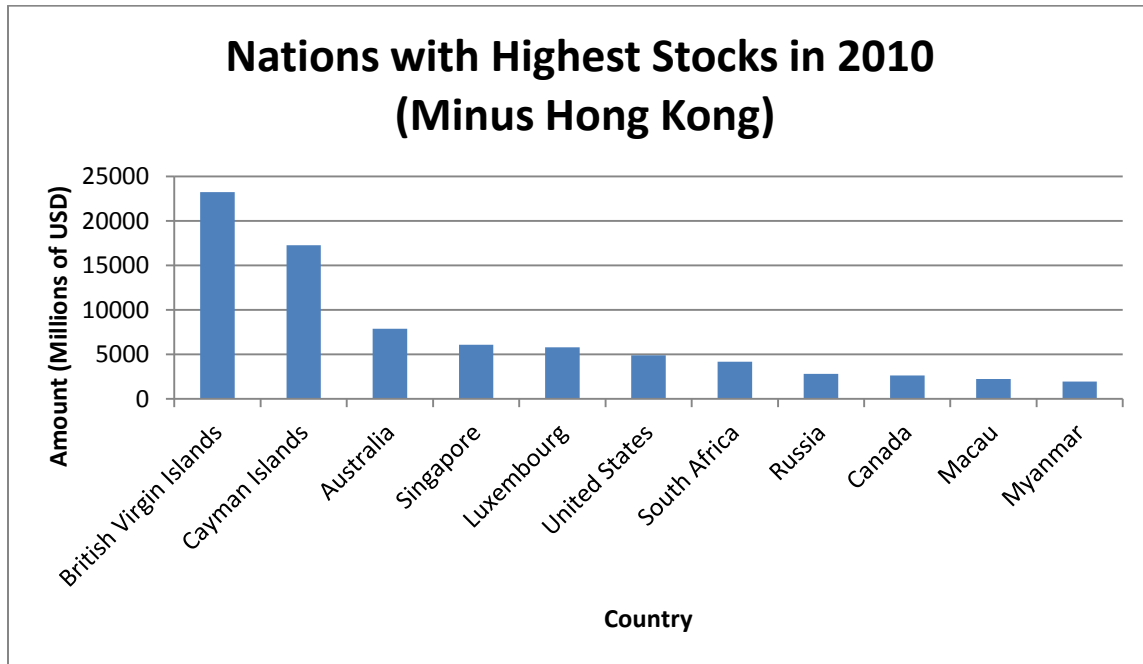
Figure 5.10 Countries/Regions with the Highest Stocks from China in 2010



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Figure 5.10 illustrates the countries/regions with the highest sum of investment from China, and Hong Kong clearly serves as the destination with the largest amount of investment; in fact, it accounts for 62.8% of China's total stocks. However, because it towers above the other nations, a proper analysis is somewhat harder to perform, so Figure 5.11 removes Hong Kong in order to analyze the other top 11 destinations.

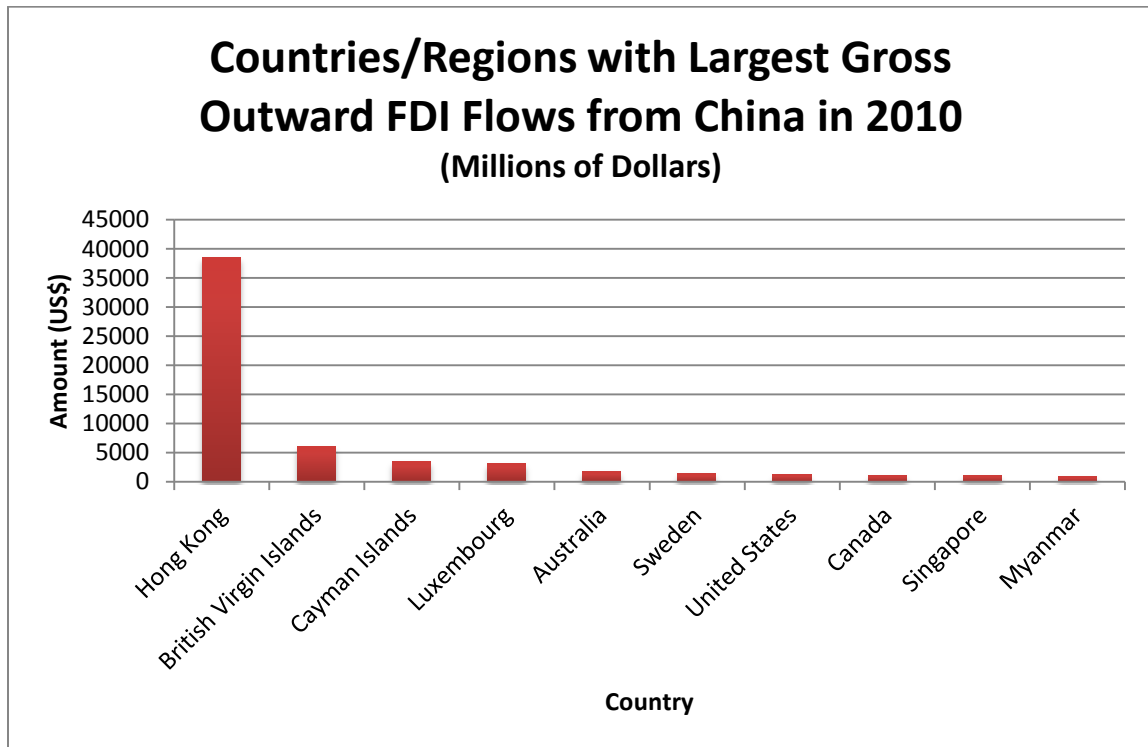
Figure 5.11 Nations with the Highest Stocks (Minus Hong Kong) in 2010



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Figure 5.11 allows a more precise view of the levels of stocks due to the variance in the scale of the vertical axis. Myanmar ranks 12th in terms of worldwide stocks from China, but the top 11 reveal a diverse range of nations. Three of them, in particular the British Virgin Islands, Cayman Islands, and Luxembourg, hold minute populations, possess an extremely small (if any) overseas Chinese community, and contain few (if any) natural resources; however, they are all well-known international banking hubs and tax havens. The other entities classify as developed nations, though their totals are not as staggering as expected. “Even if the actual figures are higher because of routing via tax havens, China’s FDI in the developed world, especially Europe and North America, is disproportionately small considering the high proportion of China’s trade with these regions. This probably results more from a lack of readiness to compete with global giants on their home territory than from protectionist pressures, though these have discouraged some large acquisitions” (Davies 2009). Therefore, Figure 5.11 further strengthens the argument that Myanmar holds importance on the global level in terms of the sum of total investment, but I want to examine if economic interest is still in proportion to its stock levels, and I can determine that by comparing flow totals.

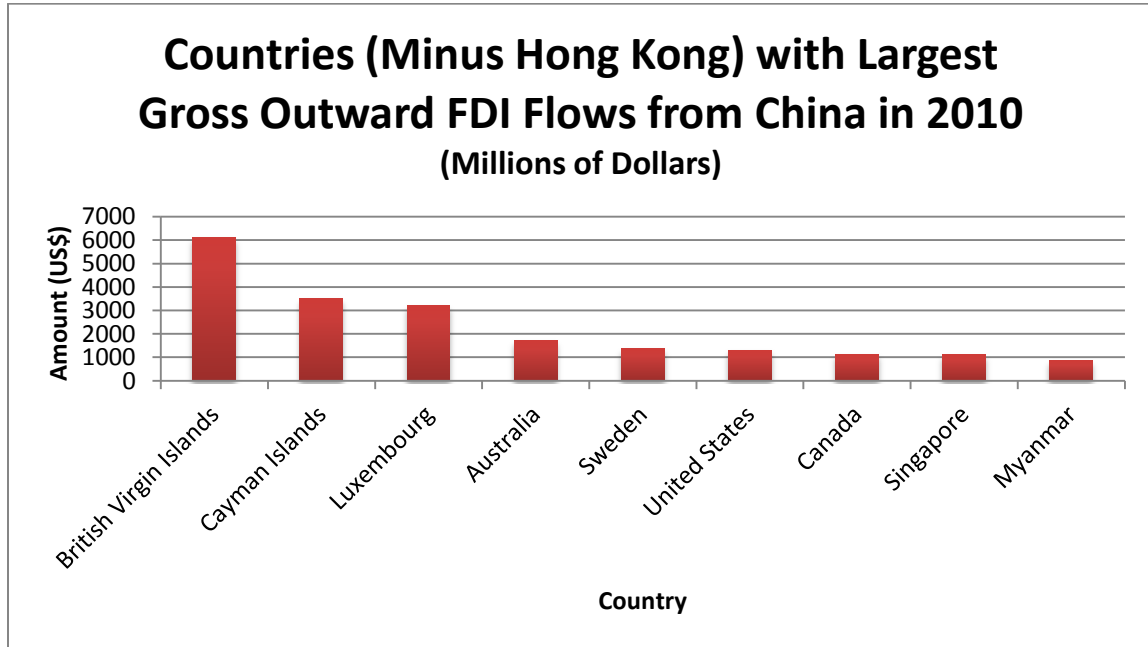
Figure 5.12 Countries/Regions with Largest Gross Outward FDI Flows from China in 2010



Source: Data from Chinese Ministry of Commerce’s 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

Similar to the stock totals, Hong Kong enjoys the highest amount of inward flows from China and holds over seven times the amount of gross dollars compared to the second place finisher, the British Virgin Islands, which is similar in nature to the third place nation, the Cayman Islands. Figure 5.12 displays the same issues with comparability due to Hong Kong’s massive total like in Figure 5.11, so Figure 5.13 removes Hong Kong and shifts the nations over.

Figure 5.13 Countries (Minus Hong Kong) with Largest Gross Outward FDI Flows from China in 2010 (Millions of dollars)



Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

After readjusting the scale on the vertical axis, it now becomes easier to interpret. Myanmar jumps two spots to number 10 in terms of worldwide flows from China, and this figure solidifies the argument that the rate of economic interest lines up with the sum of economic interest. Curiously, the United States ranks seventh, and is wedged between other developed nations, namely Sweden and Canada. There is only one least developed country in the top ten—Myanmar. Every other country in the list is a developed Western entity, with Singapore arguably being the only exception. As the only other Asian nation, Singapore's advanced international, integrated, and booming economy, however, separates itself from that of Myanmar. No rapidly advancing country is found on the list, and population certainly plays no role in how China chooses to invest—India does not even score close enough to appear here, and a country of 25 million people (Australia) trounces a country of over 300 million (United States). I need to be careful here though not to put too much importance on these outward FDI flows; I am not arguing that China does not deem other countries to be important or play an active role in politics or economics, but rather China has determined that these top ten countries are strategically important for securing its interests in 2010.

In summary, from both a regional and international perspective, it is clear that Myanmar should be classified as a unique case. Its position is not only vital for China in a Southeast Asian context, but also for the global perspective at large, as it now outranks

most countries in terms of both flows and stocks. FDI from China has changed the economic nature of China's relationship with Myanmar which will undoubtedly spawn several political and economic consequences in both the region and larger international community.

6 Motivation Behind the Change in FDI

In the previous chapter, I established China's rapid increase in both stocks and flows in Myanmar. However, I did not delve into the motivations of China, and now I want to examine the "why" behind this surge of investment. China did not opt to invest billions of dollars into Myanmar in the mid to late 2000s for no reason or for charity: instead, there was undoubtedly a calculated response to changing economic climates and demands of its own citizens, and Myanmar presented some type of solution, either temporary or permanent, in these regards. In fact, China's timely interest in Myanmar can be narrowed down to one primary issue at hand: natural resources. China has recently developed several massive projects that maximize Myanmar's natural resources, most notably oil, natural gas, hydropower, and nickel, during the same period that FDI increased and this increase can also be thought of both as an extension of China's "Go Global" policy and as a state-interest, motivated means to provide for its own citizens. By securing energy and raw resources materials, China can help satiate its own needs and further industrialize. However, I also acknowledge China's ease of access into Myanmar, due to international sanctions which has reduced the number of competitors for China in terms of investment. I will first examine how Myanmar fits as a function of Chinese foreign policy, and only then can I investigate exactly why Myanmar holds such interest for China before remarking on China's ease of access.

6.1 "Go Global" Policy

China's "Go Global" policy refers to the banner name of a national policy encouraging outward investment by Chinese firms (Gu and Reed 2010: 2), and Myanmar's rise in Chinese FDI can first be thought of as a continuation of current Chinese foreign policy. Introduced in 1999, the government unveiled this new strategy, which elevated in importance when it was adopted as part of the 10th Five Year Plan (2001 – 2005) (ibid: 4) to mark a shift in how China viewed the vitality of overseas investment. Until 1999, firms were heavily restricted from investing overseas and instead concentrated on domestic ventures, but with the Go Global policy, firms were able to look beyond its own borders and take advantage of the myriad opportunities overseas (ibid: 5). This new policy encouraged strong Chinese enterprises to invest more overseas in order to improve their competitiveness and secure an international business presence, and this policy now signifies the determination of the government to promote outward

FDI in the context of huge inflows of foreign exchange (Ding, Akoorie, and Pavlovich 2009: 147). Essentially, the outward FDI had to possess several characteristics in order to be approved, such as being “market-seeking, resources-seeking, strategic-asset seeking, diversification-seeking and efficiency-seeking”(Proniewski and Proniewski:108)

Ding, Akoorie, and Pavlovich offer a number of reasons why Chinese firms are going global, but two of those factors help explain the situation in Myanmar. The first motivation is to secure markets abroad and the second is to secure long-term supplies of natural resources (such as crude oil, natural gas, iron ore and other minerals) to meet domestic industrial demands and national security. China will be a net importing country in natural resources and raw materials until 2020 (Lee 1996). In terms of securing markets, China acts as Myanmar’s largest investor, and Myanmar only has seven countries that invest in it (Bissinger 2011). For comparison’s sake, Vietnam attracts over fifty-one national investors, so the lack of investors in Myanmar provides an edge to China as China retains more control and influence, and thus becomes the primary international internal player in Myanmar. However, at the same time, Myanmar loses in the diversification that follows an assortment of nations which can carry a variety of national agendas. They also lose in the overall amount of dollars that flow into the country and can impact a plethora of sectors. I will further examine the security concerns of solidifying the stronghold of the economy in Myanmar in the next chapter.

6.2 Role of Natural Resources

Outbound FDI has enhanced China’s standing in the past twenty years. First,

“OFDI helped to establish the infrastructure needed to integrate China into the global trading system by improving the country’s logistics and establishing foreign offices for China’s trading firms. Second, OFDI was used to secure the commodity inputs needed for growth. Infrastructure projects, urbanization, and production for domestic and foreign consumption drove domestic demand for iron, oil, cement, timber, and many other resources that are not abundant in China, and the country became a net importer of many of these commodities in the 1990s. Chinese firms, backed by official concerns about supply security, began to pursue global resource deals” (Rosen and Hanemann 2009: 7).

In turn, this has created a cycle of dependency for even more FDI to satiate rising demand and a more pressing need to secure these resources in order to provide for China’s citizens. Because urbanization is incomplete and rising rapidly, Chinese resource firms have a huge interest in extraction investments abroad due to limited domestic deposits of most resources” (ibid, page 8) and thus resource extraction will continue to become even more paramount. In recent years, Chinese government “entities

have financed many infrastructure, energy-related (especially hydropower), agricultural, and other high profile development projects in these countries, which also rely upon Chinese construction materials, equipment, technical expertise, and labor” (Lum 2009: 15). In fact, many of these firms finance these ventures and “seek resources as China needs to secure the growing supply of raw materials (Wu 2005: 8). Since 1993 China has been a net oil importer and the disparity between the consumption and oil production has increased... According to the International Energy Agency it will increase further, in 2030 presumably reaching the level when 85 percent of the demand will rely on imported oil (Chen 2008: 84). China has rapidly become the world’s biggest consumer of important resources (e.g. cement, copper, steel, aluminum, iron ore), (Wu 2005: 8).¹

Throughout the rest of the world, the service industry comprises the most significant area of China’s worldwide outward investment (Davies 2009), but it certainly does not heavily contribute to Myanmar’s investment. In fact, the service industry does not factor at all into Myanmar’s totals. Instead, 98.7% of worldwide investment in Myanmar last year went to just two single industries: resource extraction and power (Bissinger 2011). A further breakdown in the figures reveals that 58% of funds were allocated for the extractions, which amounted to over \$10.2 billion, and 41% went to power, which absorbed \$8.2 billion. Only 1% went to manufacturing and agriculture, and very little to nothing was funneled to other sectors, including real estate, tourism, and hotels. Literally almost all the investment is concentrated in two powerful industries, and these figures do not correlate to international FDI averages. For instance, generally only 9.6% of investment goes towards resource/mineral extraction, and 4.1% is allocated for power investment (Bissinger 2011). In other words, Myanmar’s 58% of funds for extraction dwarfs the international average of 9.6%, and its percentage of power is ten times the international average. Clearly, these particular industries are being overrepresented on an international scale, while other vital industries are being ignored; for example, manufacturing generally yields a quarter of total worldwide FDI, and in Myanmar, it only accounts for 0.3%. It can be inferred that the service and manufacturing industries, at the present time, do not serve China’s state interests in Myanmar, and that only the resource extractions sector is of monetary and political security value.

Unfortunately, China does not break down which sectors their investment in Myanmar is delegated to, but I argue that the proportion of China’s investment sectors as compared to the national investment would be very similar as China pours in so much investment into Myanmar already.

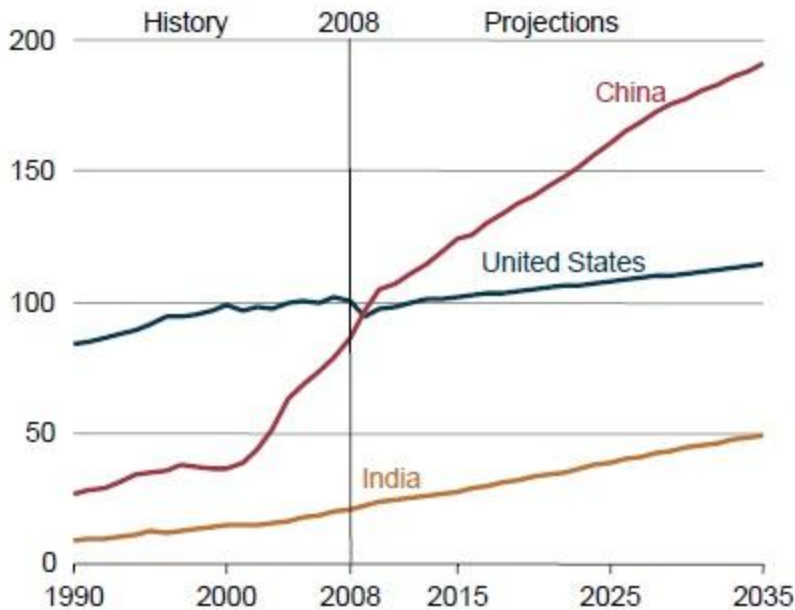
6.2.1. China’s Increasing Energy Demands

Therefore, in theory, I have established the fact that China has been pursuing a policy of resource extraction in order to feed into its state interests. However, using empirical statistics will further support my claim, and only then can I factually argue the true

¹ Proniewski and Proniewski (2009) offer an excellent analysis on China’s increasing dependency on natural resources

motivations behind China's interest in Myanmar. I will present a few figures which illustrate the changing demand for electricity, natural gas, and oil in China and I will correlate that to several massive projects that China has invested in Myanmar.

Figure 6.1 Energy Consumption in the United States, China, and India, 1990 – 2035 (Quadrillion Btu)

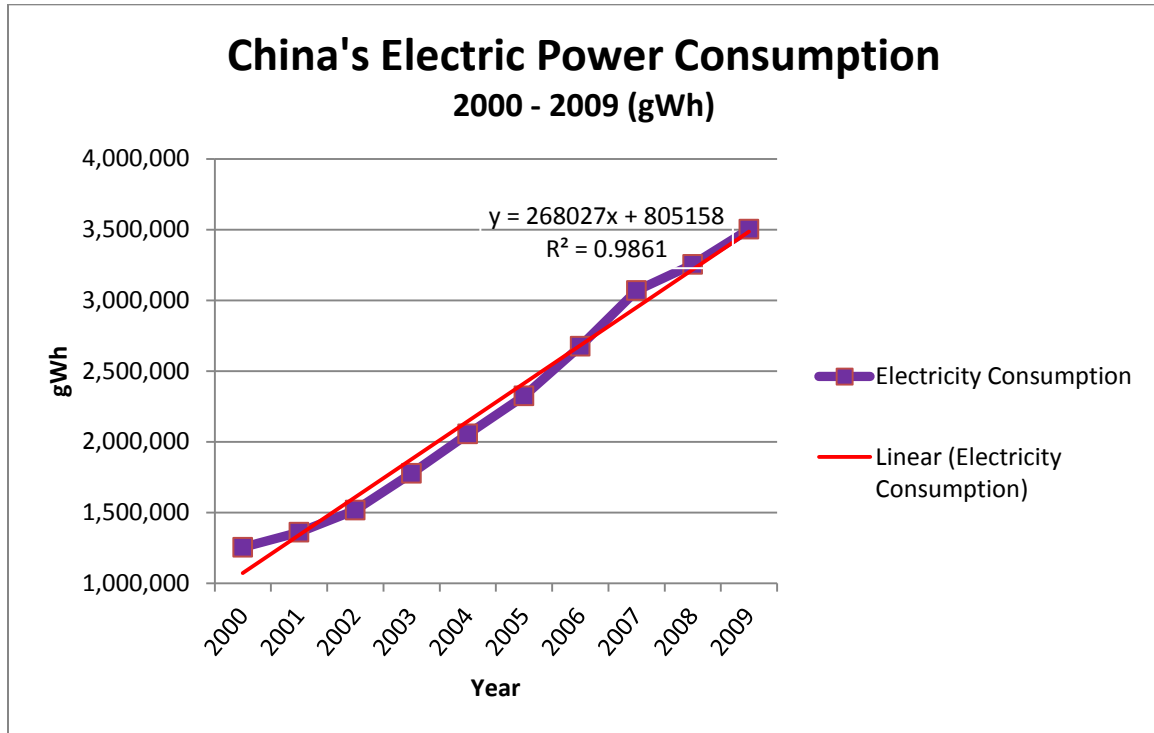


Source: U.S. Energy Information Administration | International Energy Outlook 2011, page 10

Figure 6.1 illustrates the rapid rise of energy consumption for three major powers in the world. While the United States' consumption remains relatively flat over the course of the forty-five years, and India's growth steadily yet slowly increases, China's consumption rapidly spikes in the early 2000s and continues to vastly outpace the other two nations. According to the figure, China overtakes the US in terms of consumption shortly after 2008 and continues to rise consistently over the next few decades. While China consumed approximately 30 quadrillion Btu in 1990, that total increases over six fold by 2035, and the sum total of approximately 190 quadrillion Btu in 2035 equates to almost four times India's total and is a little less than half of the United States' total. Therefore, it experiences a dramatic increase not only in terms of net consumption, but as well as a huge percent increase. In order to satisfy demand, China will have to reevaluate the means by which it secures energy and then modify its approach to find ways of providing for this monumental increase. To solidify my argument, I want to further examine China's electricity consumption in a smaller time frame to document any trends,

and then I will determine how the growth of electricity consumption per capita is impacting demand.

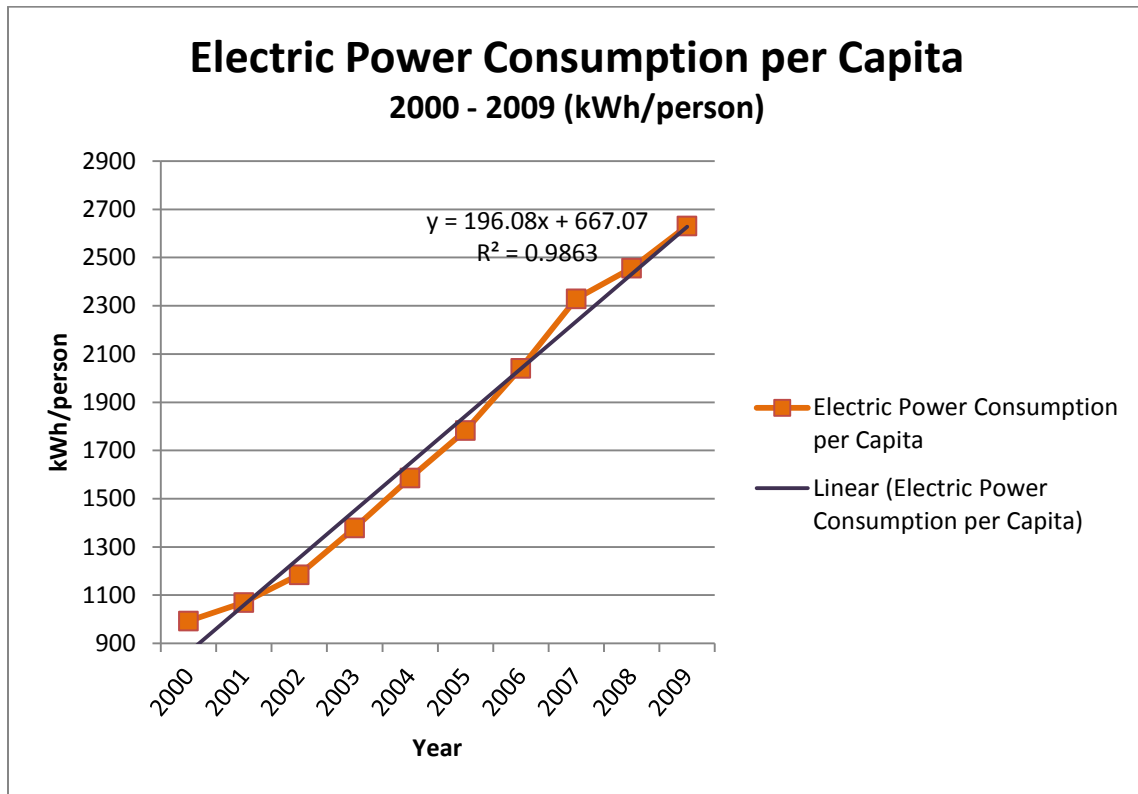
Figure 6.2 Electric Power Consumption in China, 2000 – 2009 in gWh



Source: Data from <http://www.indexmundi.com/facts/china/electric-power-consumption>, which cites statistics from the International Energy Agency; see Appendix 5

Unlike the dramatic spike forecasted post-2008 in Figure 6.1, Figure 6.2 looks back at the previous decade and exemplifies a consistent growth year after year, with 2007 being the only slight exception, from which it quickly recovers. After generating a linear trendline, I noticed the R^2 value (0.9861) is extremely high, coming very close to 1, and confirming that electric power consumption in China has been increasing steadily for at least ten years, even during the Global Financial Crisis. Therefore, I argue that this trend will undoubtedly continue, thus putting more pressure on the government to increase supply to satisfy demand.

Figure 6.3 Electric Power Consumption per Capita in China, 2000 – 2009 in kWh



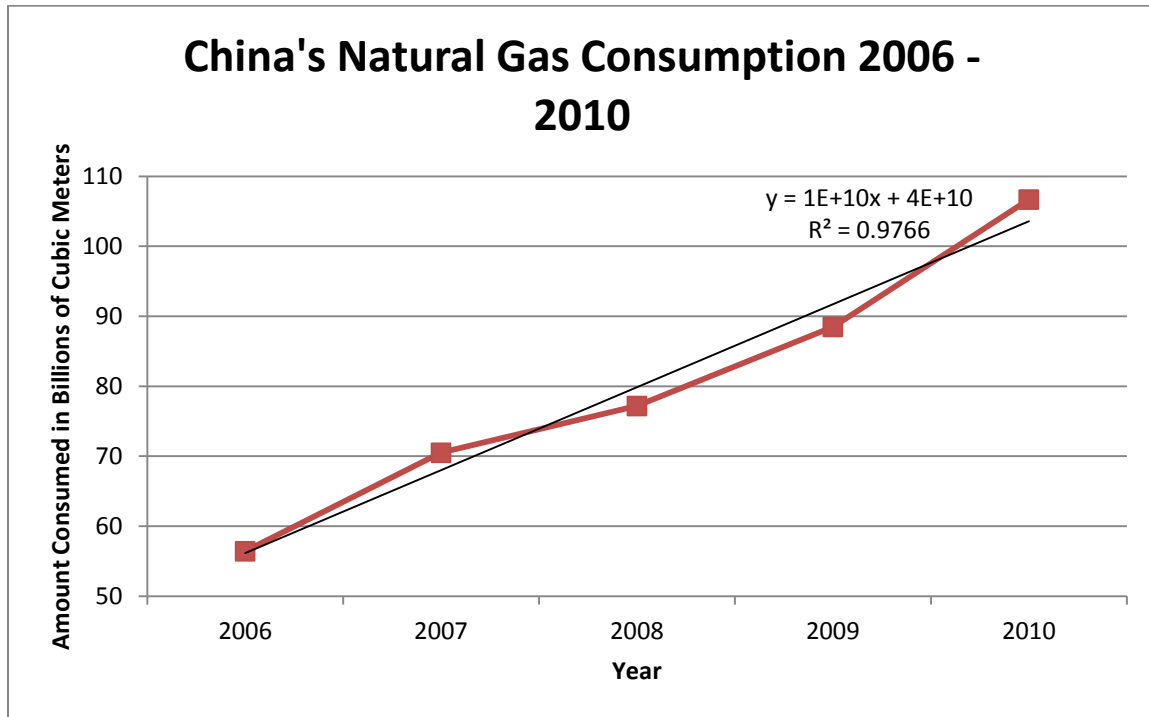
Source: Data from <http://www.indexmundi.com/facts/china/electric-power-consumption>, which cites statistics from the International Energy Agency; see Appendix 6

However, the government is dealing with a change of personal utility of electric power, meaning that on average, each citizen is using dramatically more power year after year, as shown by 2009's average being triple the amount than 2000's total. Similar to overall electric power consumption, the per capita consumption grew at an almost identical rate (0.9863 in Figure 6.3 as compared to 0.9861 in Figure 6.2), as indicated by the extremely similar R^2 value. China then not only has to deal with overall urbanization and industrialization which require more electric power, but they must deal with a dynamically changing population that is altering their consumption habits. Together, it creates powerful incentives for the government to look beyond its borders for global solutions to its increasing demands.

While natural gas and oil do contribute towards electric consumption, they are not exclusively related to solely electricity, and thus it is necessary to examine how the consumption of those materials has transpired over the past few years. As two massive industries in China, natural gas and oil are being utilized more frequently in China's

quest to further industrialize, but it is imperative to analyze to what extent they are being used.

Figure 6.4 China's Natural Gas Consumption from 2006 – 2010



Source: Data from US Energy Information Agency: Independent Statistics and Analysis (See Appendix 7)

Figures 6.4 and 6.5 have been compiled from data from the United States Energy Information Agency (EIA). I chose this source for a multitude of reasons: The statistics were not easily accessed from China's National Bureau of Statistics; China is not a member of the International Energy Agency, and the EIA presented the most comprehensive data set that I came across. However, since the data stems from a US source, the units used (cubic feet) are not internationally compatible, so for clarity's sake, I converted the cubic feet to cubic meters, which allows a wider audience to understand and interpret the data. It must be noted that due to rounding such large numbers, there will inevitably be small variances from other sources, but I have found that these minute differences do not impact my argument.

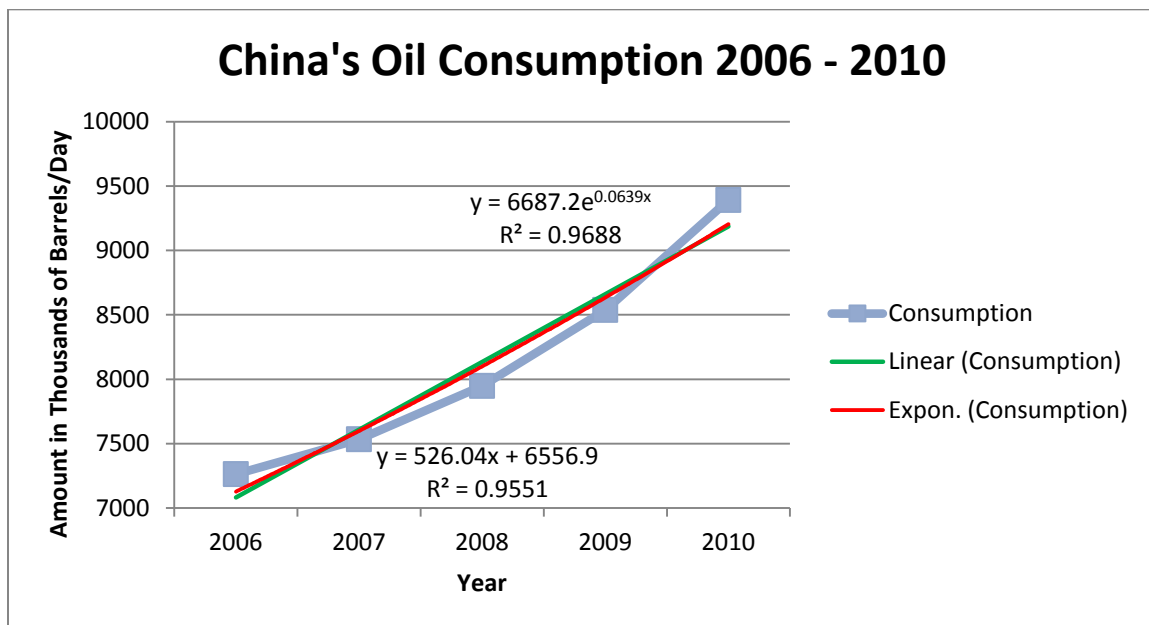
From Figure 6.1, the consumption of natural gas has increased at a steady linear rate, as indicated by the trendline plotted alongside the data points, with a very high R^2 value of 0.9766. In a five year time span, natural gas consumption has almost doubled from 56 billion cubic meters to over 106 cubic meters, and the graph projects that the rate will continue to steadily rise. In other words, I can argue that since consumption is increasing

consistently, the demand for natural gas is also increasing, and this demand appears to be relatively new. In fact, according to the International Energy Agency, China will become the top natural gas consuming country in the Asia-Pacific region by 2015. Furthermore,

“China’s import dependence is expected to increase rapidly due to rising gas demand. The penetration of city gas, together with the urbanization of cities, the expansion of industrial use (including the petrochemicals industry and the power sector) have been the driving force behind this high-paced increase in demand. The government has enhanced natural gas use through policy and regulation, and by developing infrastructure. Despite the rapid increase in consumption, the share of natural gas in China’s energy mix is still relatively low at 3.5%” (Higashi 2009: 4).

China is diversifying its means in order to find new ways of providing energy for its citizens by moving away from traditional resources, such as coal, but by consequence, China’s natural gas market “seems to be moving towards a second stage of evolution from a self-sufficient market to a market of high import dependency” (ibid: 5). Natural gas will also account for 8% of China’s overall energy consumption by 2015, compared with 3.9% in 2007 (Kang 2009). This rise in percentage will force China to find more supply to meet demand, and thus, Myanmar suddenly becomes more attractive for China, as it contains vast natural gas reserves, among an abundance of other natural resources, and thus Myanmar becomes a possible solution for China’s national interests.

Figure 6.5 China’s Oil Consumption from 2006 – 2010



Source: Data from US Energy Information Agency: Independent Statistics and Analysis (See Appendix 8)

Similar to Figure 6.4, Figure 6.5 has the oil consumption plotted in a thick line with markers to indicate each year's sum total. In just four years, oil consumption rose 29% to over 9,000 thousand barrels/day, with every year experiencing a steeper slope than the year before, indicating a faster rate of change from the previous year. Like I did in Figure 6.2, I wanted to examine if a trendline would allow me to objectively label this growth as linear, but I noticed the R^2 value was 0.9551, which is relatively high but not as high as in Figure 6.2. Looking at the shape of the curve, I then plotted an exponential trendline, as indicated in red, and the R^2 value was closer to 1, at 0.9668. Therefore, I can conclusively state that during the years of 2006 – 2010, China's oil consumption was more exponential than linear, meaning that growth is rising rapidly in the most recent years compared to the earlier ones. In other words, if the upcoming years follow the same trajectory, growth can be expected to rapidly increase at a very quick pace, as compared to a steady linear growth which is more stable. As this relates to Myanmar, China will place a higher priority in satisfying its demand for oil by gathering more natural resources, and due to its geographic proximity and vast resources, Myanmar's importance in helping relieve some of this demand will continue to grow year after year. The rate of change will continue to increase, thus placing more pressure on the Chinese government to find natural resources and energy, so they will continue to look outward to other countries to find the most inexpensive routes to reach its means.

6.2.2. What is China investing in Myanmar?

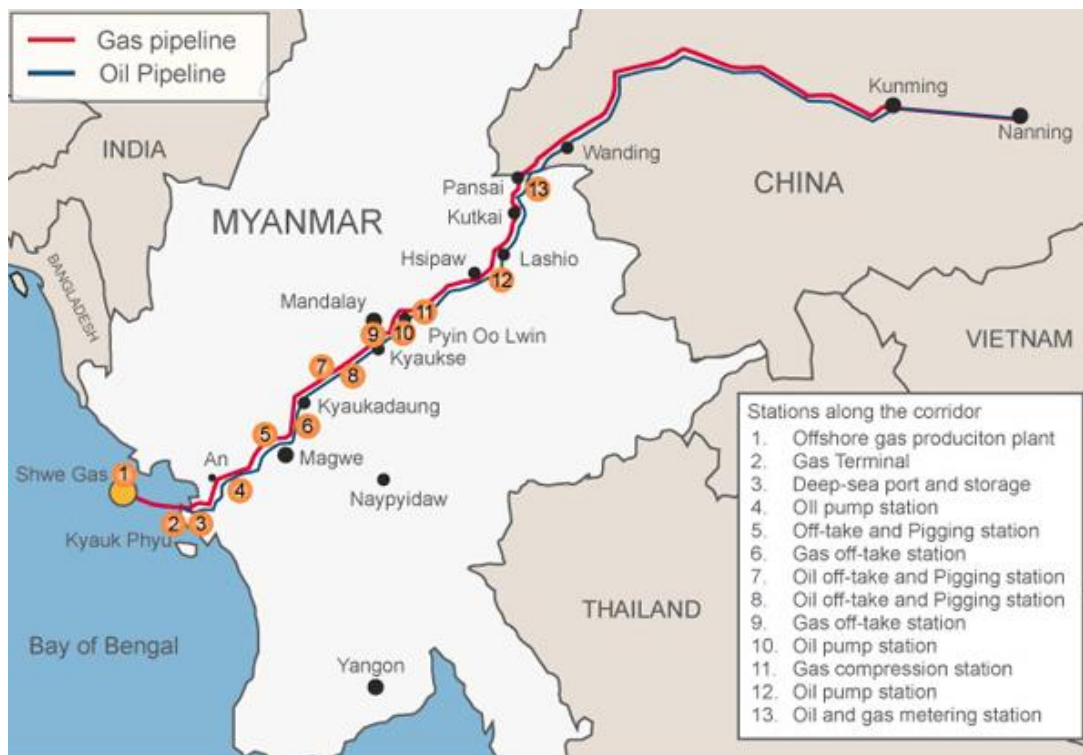
I have established China's growing need for natural gas and oil and illustrated its rapid electricity consumption, and I have analyzed China's need to look abroad to help relieve some of the demand and secure its interests. Now, I will critically look at Myanmar and discuss how the Chinese are using FDI to satisfy its internal needs. In particular, China has focused on a few enormous projects as they have invested in "infrastructure, hydropower dams, and twin oil-and-gas pipelines to help feed southern China's growing energy needs" (Blanchard 2012). EarthRights International (ERI) has identified at least 69 Chinese multinational corporations (MNCs) involved in at least 90 hydropower, oil and natural gas, and mining projects in Myanmar ("China in Burma" 2008:1).

6.2.2.1 Oil and Gas Pipelines

Two of Myanmar's largest energy projects, are led by Chinese, South Korean, and Indian multinational corporations in partnership with the state-owned Burma Oil and Gas Enterprise, Burmese companies, and Burmese state security forces, and they are referred

to as the Shwe Natural Gas Project and the Burma-China oil transport project (“The Burma-China Pipelines” 2011). The pipelines, which were solidified by a 2009 agreement and memorandum of understanding and started construction in June 2010, will start from the port of Kyaukphyu on the coast to Kunming in Yunnan Province. This 690-mile crude pipeline is designed to transport the 22 million tons of oil per year (440,000 barrels per day) that China imports from the Middle East and Africa to Southwest China. In parallel with the crude pipeline, the 1,123-mile natural gas pipeline will deliver 12 billion cubic meters of natural gas per year (Kong 2010: 57). See Figure 6.6 for a graphical representation of the pipelines.

Figure 6.6 Gas and Oil Pipelines in Myanmar



Source: Reuters via http://www2.irrawaddy.org/article.php?art_id=21030

The pipeline projects feed China’s national interests in a multitude of manners. First, it reduces the country’s dependence on the Strait of Malacca, which accounts for 80% of its oil imports and remains out of China’s direct control (Kong 2010: 58). This narrow and congested waterway separating Indonesia and Malaysia acts as the shortest route between the Indian and Pacific oceans and is considered by to be one of the world’s most important waterways (Storey 2006). In other words, the pipelines assist in protecting and enhancing China’s security. The congested Malacca Strait and nearby Makkasar Straits

link the Middle East and China, and approximately 60% of China's crude oil passes through this region, and the number is expected to rise to 75% by 2015. Therefore, officials view these straits as strategic vulnerabilities, as any disruption to the free flow of energy resources into China could derail the economic growth on which the Chinese government depends to shore-up its legitimacy and pursue its great power ambitions (Storey 2006). The pipelines would reduce China's vulnerability, thus they ease one of China's weaknesses which in turn increases its overall security, as they provide some sort of protection.

Second, it alleviates some of the pressure Yunnan Province in China experiences in terms of oil supply and price. The oil pipeline should help reduce the frequent oil shortages that the province experiences, while simultaneously diversify the economic structure of the southwestern province. Due to long distances and transport costs, oil product prices in Yunnan Province are 30% higher than elsewhere in the country (Kong 2010: 59). Therefore, this pipeline would directly and positively impact the local, regional, and national economy of China by providing a more dependable and inexpensive supply of oil directly to Kunming, which surely impacted China's decision to invest in Myanmar in the first place. Myanmar's natural resources are providing a means to improve the lives of Chinese citizens and satisfy China's growing demand, and as the theory of national responsibility suggests, China has put the needs of its citizens first.

Fortunately for China, Myanmar's natural resources have been plentiful. Between 2000 and 2008, proven natural gas reserves in Myanmar increased from 10.1 to 17.5 trillion cubic feet², registering a growth rate of 72.3%. ("BP statistical review of world energy 2009"), and according to according to the International Energy Agency, by 2030 China will import between 54% and 65% of its total natural gas from overseas (Kong 2010: 62). In other words, while China's demand for natural gas will increase, Myanmar's supply of natural gas will also increase. Additionally, with three main large offshore oil and gas fields and 19 onshore ones, Myanmar has proven recoverable reserve of between 17.5 and 18 trillion cubic feet out of 89.722 trillion cubic feet's estimated reserve of offshore and onshore gas ("Trilateral Contract Reached for Gas Exploration in Myanmar," 2012). Thus, Myanmar provides a convenient and geographically close solution to China's rising dependency problem in terms of natural resources, and thus it offers China motivation to already establish a possible partial solution in order to avert a possible crisis in the long-term; focusing on present solutions to possible conflicts or demand shortages gives China an economic advantage in both the short and long term.

Finally, China employs Chinese citizens, instead of local ones, much to the ire of the residents of Myanmar ("Insight: As Myanmar Opens, China Alliance Starts to Fray" 2012). From China's standpoint, they are able to provide its own citizens jobs, and they eventually return to China and spend their savings, thus generating more for the economy. These low-skilled jobs do not result in a brain drain, and the government can remain further in control by opting to hire workers from the same work ethic, language,

² Chinese State Media reports that the total amount is actually 18.012 trillion cubic feet, slightly more than BP's projected value.

and background. This action, however, creates distance between China and Myanmar, and increases the rift between their FDI projects and the local people of Myanmar.

While China will reap a plethora of benefits from the pipeline project, Myanmar's government in theory will profit; Chinese state media reports that Myanmar will be able to tap the pipeline to promote economic development once the gas starts flowing in 2013 ("Daewoo Seals Myanmar-China Gas Export Deal—Xinhua" 2008) which will offer some much needed income, though many question where the money will ultimately end up. In fact, the pipelines are expected to generate approximately one billion dollars or more in annual revenue for Myanmar's government over thirty years. Due to the fact that Myanmar runs a deficit with China, this project could help Myanmar balance its payments, and it would reinforce China's position as Myanmar's largest export market (Kong 2010: 64). However, there is a certain power dynamic structure in these facts—even though Myanmar does "benefit" from the construction of a pipeline that cuts across its territory, the money is immediately funneled straight back to China, instead of it being used to cultivate further investment or aid for the people. Instead, from China's perspective, state interest dictates how the benefits are distributed, and they are not conducting any "unfair" activities, as the pipelines are serving as a means to pay back an already-induced debt. Myanmar remains dependent on China for not only capital for investment but also for additional capital to pay back initial investments, resulting in an endless cycle where China consistently wins and maintains power over many economic decisions concerning Myanmar.

Thus, the new pipelines in Myanmar could simultaneously relieve energy demands in China, increase economic output for Yunnan Province, diversify China's origin of oil suppliers, and reduce the country's strategic vulnerabilities. Due to these reasons, state interest would dictate that China would aggressively invest in these types of projects to fulfill their multiple demands.

6.2.2.2 Hydropower Dams

China also has been pushing for the construction of dams in order to tap into the hydropower possibilities as part of a series to build seven dams on the upper reaches of the Ayeyarwady River to be built by China Power Investments Corporation (CPI) at a total estimated cost of US\$20 billion. In particular, the 6000-megawatt, \$3.6 billion Myitsone Dam has spawned criticism and controversy, as it would displace about 20,000 Burmese citizens, of which more than 2000 have already been resettled, according to CPI (Hsu Mon 2011). Additionally, approximately 90% of the electricity the dam would generate would be exported to China to mitigate rising demand (as shown earlier in Figure 6.2), while the vast majority of Myanmar's citizens have no power (McDonald, 2012). In September 2011, however, then Prime Minister Thein Sein suspended the

project, much to the outrage and surprise of CPI, and cited five specific concerns over the project: the natural beauty of Myitsone, a landmark of Kachin State and Myanmar, may be destroyed; villages of residents of the upper reaches of the Ayeyarwady River may be flooded and their livelihoods harmed; private rubber and teak plantations may be spoilt; the potential consequences of flooding or an earthquake in the dam region; and the environmental impact on the Ayeyarwady River (Hsu Mon 2011). The announcement was one of the first times that Myanmar had actively pushed back against Chinese influence and put China on the defensive, a position which it had never been accustomed to. China's FDI and intentions were suddenly questioned and aggressively debated, and China is currently in the process to restart the project, as it has much at stake: huge amounts of electricity for its citizens, billions of dollars already invested, and a bruised reputation.

However, the dam projects in Myanmar are indicative of a wider regional policy to secure hydropower. China has built (and is in the process of constructing) several dams in the Lower Mekong River Basin without discussing their consequences with its neighbors, which has augmented already-present tensions. It has followed its national interests and has pursued policies which benefit the nation itself and not the region as a whole, though this attitude could be evolving as China has started to sit on roundtable committees. It is paramount to note though that they have joined discussions after completing several dams that they had planned for years (Mitchell 2011: 15), thus ensuring that their interests superseded local concerns.

6.2.2.3 Mining Project

China has initiated other projects in Myanmar, mostly related to the extraction of minerals and logging. In 2011, the \$600 million Myanmar Taguang Taung Nickel Ore Project Mining System was put into operation ("China-Burma Relations" 2010). According to Chinese state media, the project is the biggest cooperative mining project between China and Myanmar and is expected to provide 85,000 tons of high grade ferro-nickel annually upon completion. However, this nickel will not be used domestically in Myanmar; rather it will be exported to China, which will help alleviate the shortage of nickel resources in China ("China's Mining Project Put into Operation in Myanmar"). Thus, the pattern of extracting Myanmar's natural resources in order to mitigate pressures of rising demand in China continues, and gives credence to the idea that the process is successful—if China did not ultimately benefit in both the short and long term, they would find no reason to continue investing at such a high rate and so aggressively. The financial and political gains are extraordinary and further help China in its quest to gobble up the scarce resources in order to power its on growth.

6.3 Ease of Access

Due to systematic abuses of human rights, suppression of popular voices, imprisonment of political prisoners, and the restriction of many civil liberties, many Western nations and institutions, most notably the United States, have imposed sanctions on Myanmar (Martin 2012; Pederson 2008). The United States has enacted some of the most stringent sanctions, including the suspension of non-humanitarian aid, new investments post 1997, all imports from Myanmar, all exports of financial services from Myanmar, visas for many leaders, and initiated a freeze of all assets of the military and government officials and institutions in the United States (Pederson 2008: 24). Since 1988, the US has navigated through the frosty relations by constantly promoting democracy and human rights, and with the Obama administration, a new tactic: engagement (MacAskill 2009). However, prior to this new approach, the United States took a hard-line approach which countered the Australian and European Union strategy, as they looked for complimentary means to improve the internal situation. Until 2009, the United States, on the other hand, attempted to cajole other nations and institutions into isolating the military regime (Pederson 2008: 24).

The European Union has also encouraged democracy as a pinnacle of Myanmar's need to reform, but tried to target the military regime more actively than the United States (Pederson 2008: 33). Though member states disagreed with some specifics, they enacted similar bans to the United States, as well as an arms embargo and a limited investment ban. Other Western nations have similar restrictions in place, such as Canada and New Zealand. Australia, on the other hand, rejected isolationism and worked on engagement with regime, but also maintained laws that made investment difficult in Myanmar.

While Japan rejected calls for sanctions, it has continued to provide humanitarian and emergency aid to Myanmar but halted regular economic assistance in 2003 following the arrest of Suu Kyi ("Japan Steps Towards Better Relations with Burma" 2011). Similarly, "South Korea has maintained diplomatic relations with Myanmar since the mid-1970s. But after South Korea created a democratically elected government in the late 1980s, leaders in Seoul joined international efforts to encourage reform in Myanmar. In 2005, South Korea ended a long-standing program to provide development loans to Myanmar, citing human-rights abuses" (Ramstad 2012).

Therefore, due to these multiple restrictions from all across the globe, Myanmar was left in a vacuum-like state, with few investors minus some small FDI projects, mostly from its ASEAN-neighbors (Bissinger 2011). Because of these sanctions or laws, even if individuals from many of these countries found economic motivations to invest in Myanmar, despite the poor infrastructure or the complications stemming from the regime, they were politically not allowed. Overturning sanctions, especially in the United States, is a problematic task, as some are legislatively-produced and others are executive orders, meaning that either Congress, or the president, or both would have to individually ease restrictions step by step (Martin 2012). Thus, due to the lack of competition, China found

it even easier to step into Myanmar, as it did not have to deal with other nations battling for the same resources. China's pre-established policy of non-interference (Alden 2005) allowed it to bypass these sanctions, or essentially ignore them, much to the objection of Western nations. The military junta simply did not factor into China's decisions to invest, except perhaps on logistical aspects but certainly not moral ones. China's national economic interest has overridden any sentiment of punishing the regime—China has been able to distance itself politically while simultaneously gaining economically. It is important to note that China did not decide to invest in Myanmar due to this ease of access into the country, but rather it played a supporting role to its national economic interest. The ease of access only made it easier for China to acquire the natural resources in Myanmar without the threat or worry of other nations encroaching on China's perceived solutions to certain domestic crises.

6.4. Summary

Prior to the Obama administration, it is clear that state interest drove China to look beyond its borders for economic solutions, security, and stability. In China's view, Myanmar has been an end to one of its needs: it allows China to take advantage of natural resources from close proximity, which eliminates expensive transportation and political upheaval in the Middle East, while securitizing Myanmar as a close ally. Those accomplishments are done in a country that has been shunned by the West and ignored by China's Eastern neighbors. The billions of dollars that are pouring into Myanmar create a dependency effect, where both nations look to each other for mutual support, but China undoubtedly holds the more dominant position, as the possible benefits of the relationship tilt in its favor—control over cheap natural resources, more jobs for Chinese citizens as it does not tend to employ local workers, soft power by exporting Chinese culture and a stronger on-the-ground presence. China's active role often overtakes Myanmar's subservient or passive role, as the exorbitant amount of capital allows China to dictate which projects are prioritized, and what part of Myanmar is diced up in order to feed its own needs. This trend will almost certainly continue, though Myanmar's response to the Myitsone Dam shows that Myanmar does possess the means to push back against the dominant power when it feels overly threatened or overshadowed in its own territory. It is not a powerless state with an open invitation to be completely exploited. This rare display of strength against China can serve as an example for the residents of Myanmar to remember when it feels it is being metaphorically squashed.

However, I argue that Myanmar's push against China reveals a duality of roles with China and Myanmar. While China primarily enjoys the dominant, active position in the dynamic relationship and Myanmar is delegated to a passive role, the fact remains that China still *needs* Myanmar in order to satiate its own domestic demands. China must still finesse its way into the market in Myanmar and tiptoe the line of securing its needs by

setting up monstrous projects that carve up the landscape, while radiating some semblance of respect to the people of Myanmar. They should also be able to spin their projects in a positive light so that Myanmar sees the benefits of such projects, even if the benefits are miniscule. In this respect, Myanmar suddenly overtakes the active, dominant role, as it contains the materials and natural resources that China needs, and thus both countries continue to switch these roles—China desperately needs what Myanmar has, but then it possesses the capital in order to utilize the resources instead of letting them set there; Myanmar proudly boasts its precious materials but then needs China to finance projects, especially in the midst of international isolation. Thus, their success depends on mutual cooperation, despite the initial realist push of China in terms of state interests.

7 Myanmar Post-2008: Changes in Motivation

Chapter 6 analyzed how China's acquisition of natural resources in Myanmar aligned with its national interests, but due to a foreign policy change in the Obama Administration and the recent termination of military rule in Myanmar, China's national interests concerning FDI are sliding more political, though they remain fiercely grounded in economics. I argue that these recent events will not stop China's heavy investing, but rather will diversify the reasons for China's FDI. This chapter outlines these two emerging issues in greater detail.

7.1 US Focus on Asia-Pacific

On 17 November 2011, US President Barack Obama announced to Australia's Parliament, "Let there be no doubt: in the Asia-Pacific in the 21st century, the United States of America is all in." It was, he said, a "deliberate and strategic decision": America was "here to stay" ("We're Back: America Reaches a Pivot Point in Asia" 2011). After ten years of being entangled in both Afghanistan and Iraq, the United States shifted its focus towards the Asia-Pacific region, a clear move from the Middle East and terrorism-centric policies created by George W. Bush, Obama's predecessor. In a speech just days before Obama's announcement, Secretary of State Hillary Clinton explained the reasoning behind this shift.

"So many global trends point to Asia. It's home to nearly half the world's population, it boasts several of the largest and fastest-growing economies and some of the world's busiest ports and shipping lanes, and it also presents consequential challenges such as military buildups, concerns about the proliferation of nuclear weapons, and the world's worst levels of greenhouse gas emissions" (Clinton, 2011: 3)

She later writes in Foreign Policy magazine that "the region is eager for our [American] leadership and business," and outlines this new 'forward-deployed' diplomacy, meaning that the US will continue to "dispatch the full range of [their]

diplomatic assets” (Clinton, 2011: 2) She then explains that this new approach will be carried out in six key lines of action: strengthening bilateral security alliances; deepening working relationships with emerging powers, including with China; engaging with regional multilateral institutions: expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights (ibid: 3).

This new approach began slowly in 2009 with the transfer of power from George W. Bush to Obama and it unequivocally indicates a shift in the status quo of the region, and alters the balance of power. With the dominant world superpower edging its way back into a region that was previously semi-neglected from American attention, most countries will reevaluate their alliances and positions with not only the United States, but also other larger regional powers, including China, which could in theory make China nervous, upset, or perhaps angry. However, both Clinton and Obama have stressed multiple times that this new policy is not aimed at containing China, but rather to reassure the region. Clinton explicitly states that the United States “believe[s] a thriving China is good for China, and a thriving China is good for America” (ibid: 7). In essence, the US ties this new approach to their long-term security and that security is not a zero-sum game; instead, a more secure region can become a stronger force for global progress. Additionally, as mentioned earlier, Obama has adopted his strategy with Myanmar by electing to engage with them directly instead of simply enacting blanket sanctions, and it seems to have paid off, with Clinton visiting Myanmar in November 2011, the highest visit by a US official in fifty-six years.

However, due to this perceived advancement of the United States on all fronts of Asia, including stronger bilateral agreements with South Korea and Japan in the East, Australia in the South, and the Philippines and Thailand in the Southeast, China has questioned the American motives and has objected to their increased presence (“Insight: As Myanmar Opens, China Alliance Starts to Fray” 2012). Obama even raised territorial disputes in the South China Sea at the East Asia Summit in Bali, which China saw as meddling (“We’re Back: America Reaches a Pivot Point in Asia” 2011). Xu Liping, an expert from the Chinese Academy of Social Sciences, stated, “There is no doubt that many inside the Chinese establishment interpret it as part of a larger U.S. strategy on China. It is another step taken by the U.S. to strengthen its presence in the region” (Wong 2011). The New York Times article reported that “conservative voices in Chinese military and foreign policy circles now talk regularly about American attempts to hem in China, despite denials from American officials” (ibid). Some Chinese officials and scholars contend that the Obama administration played a role in persuading Mr. Thein Sein to block the Myitson Dam or even in stoking the protests, a claim the Obama administration has not addressed. Another Chinese scholar, Mu Gengyuan from the Chinese Institute of International Studies, argues that China and Myanmar’s relations had changed since the United States became more involved in the region, and that “the Myanmar government exhibited a strong desire to amend its relationship with the U.S. and Europe probably out of fear of becoming over-reliant on China and turning into a vassal state of an increasingly powerful neighbor” (ibid). However, it should be noted that Myanmar “may be pleased that the reliance on a dominant northern neighbor might

be lessened shortly, but with so many decades of ties and real, on-the-ground projects underway, the relationship with Beijing isn't nearly dead yet” (Lintner 2011).

But how does this new changing regional dynamic impact FDI for China in Myanmar? Essentially, China will have to become much more aware of its neighbors. While the status quo may be shifting, China’s increased FDI may be a way to hold on to Myanmar’s alliance, especially in contrast to the US strengthening its relations with other neighbors. I argue that China will use FDI as a carrot in order to ensure that Myanmar does not completely slither away from China’s grasp, and that FDI will become crucial in securing its ties to one another. China can keep Myanmar close as it feels other nations are encircling it. China has been seen as the primary supplier of economic and military assistance to Myanmar and has provided it with an implicit security guarantee (Lum 2009: 19), so FDI can continue this trend, despite all the regional noise surrounding it. Essentially, China is both protecting and securing its interests simultaneously by increasing FDI in Myanmar. On the one hand, a changing regional dynamic and possible shift in the balance of power has put China, the traditional dominant force, on the defensive but on the other hand, China can offensively invest more to entrench its ties and use its history to its advantage. As the United States’ presence becomes more pronounced in the region, China can respond economically as a showcase of power and strength by increasing FDI in Myanmar without giving off the impression of retaliating or threatening any state. Therefore, Chinese FDI could easily become a political tool or ploy as a way to stand up and preserve its alliance with Myanmar.

7.2 The Chinese Response to the Dissolution of Military Law in Myanmar

With the dawn of the 2012 democratic elections, China (along with the rest of the international community) will have to delicately work with the new style of government in Myanmar in order to determine how they will proceed with future FDI investment projects. The dissolution of military law has produced a conundrum for China—on the one hand, China’s previous unrelenting support of the junta provided almost exclusive access for China, as Western nations shunned involvement with Myanmar, and now with flickers of democracy, Western nations have begun to loosen sanctions, which could mean more competition with China. On the other hand, the regime has frustrated China by not always succumbing to their demands/requests (depending on one’s position), and a change in government could mean a facilitation for more investment for China, and thus more benefits for its own citizens.

According to then Lt.-Gen. Khin Nyunt in 1999, the essence of Myanmar’s foreign policy prior to the elections was to develop friendly relations with all the countries of the world, particularly its neighbors, which formed the cornerstone of its reasoning to join

ASEAN; promoting regional peace, stability, and prosperity through cooperation and integration with the other nations of Southeast Asia, as well as China, were essential for securing policies for mutual benefits, peace, and progress. However, most experts debunked this line of thinking, instead arguing that the primary security priority of constructive engagement was to offer Myanmar an alternative to China (Zaw 1999: 51), though that would prove to be almost impossible, especially with increasing investment. “Given Burma’s [Myanmar’s] dependence on China for military hardware, training, spare parts, financial assistance, and industrial equipment, Beijing can apply considerable pressure on the regime, be it military or civilian, to prevent its defection from China’s camp” (Zaw 1999: 51). Interestingly, this idea that China and Myanmar have been too close has lasted for well over 13 years, if not longer, thus validating the notion that this alliance is entrenched and runs deep.

However, behind the scenes, this policy began to strain Chinese relations, and the iron fist of the military junta chipped at Chinese insistence and support. With the advent of the Wikileaks scandal³, several released US cables revealed China’s conflict with Myanmar, with China’s frustration increasing as the rocky political situation directly impacted the investment climate, which of course influenced China’s own domestic and international interests. While Myanmar turned further inward in the mid 2000s, China found itself in a predicament—its standard policy of non-interference restricted China’s possible moves without being labeled hypocritical of breaking its longstanding policy with some countries but not for others. However, at the same time, Myanmar’s political decisions were detrimental to China’s economic prosperity, and in order to maximize state interests, China had to work behind the scenes to push Myanmar towards a path that benefited Chinese interests.

In January 2008, conversations between the United States and China were documented on official US cables in a confidential manner, and they focus on China’s irritation with the leaders of Myanmar and their worry over the destabilizing environment which would negatively impact their FDI. Chinese officials spoke candidly with American governmental staff, stating that they share similar goals for Myanmar, including stability, democracy, and development. Academic scholar Zhai Kun declared that China had delivered indirect but clear signals to Asian countries and the US on the need for greater openness in Myanmar (“Cable 08 Beijing 125”). In fact, the Chinese ambassador, long a supporter of Myanmar, no longer tried to defend the regime and even acknowledged that the generals had made a bad situation worse. Despite the fact the regime had received increased oil and gas revenues due to FDI projects, the junta had done nothing to improve the lives of the citizens of Myanmar. The ambassador stressed the Chinese interest in stability, which I argue is a subtle way of saying that the rocky environment was hampering efforts for China in terms of economic investment. The cables even revealed the following American analysis on the situation:

^{3 3} I acknowledge the possible bias of using a US cable that was deemed classified when written in January 2008, but the information revealed is too telling to ignore. The cables directly support my argument that China ultimately supported a democratic change for its own interests to improve the economic climate.

“This turmoil will inevitably affect Chinese business interests here... The Chinese can no longer rely on the generals to protect their interests here, and recognize the need to broker some solution that keeps the peace, including bringing in the pro-democracy supporters. Those discussions need to get started now...The Chinese share our desire to get [the generals] to the negotiating table. The Chinese Ambassador has made clear his continuing interest in working together with us (“US Embassy Cables: China Losing Patience with Burma” 2010).

Essentially, the current regime was holding back China and making the climate challenging for FDI. However, frustrations with the regime continued even in 2010. “Beijing’s inability to persuade the military junta against sending thousands of troops into the Kokang region in northern Myanmar, which reportedly drove up to 30,000 refugees into China and drew a rare rebuke from China...the military junta rarely listens to Beijing” (Kong 2010: 64). While the latter quote may be slightly exaggerated, the essence is clear: that China still held some annoyance with the junta, as the regime did not always act as a faithful puppet of the Chinese government. However, to claim that the military junta rarely listens contradicts the approval of billions of dollars of investments that have affected all corners of Myanmar. If anything, the Burmese government has given the green light to several massive projects in order to kickstart development and also line the pockets of the government officials (“Daewoo Seals Myanmar-China Gas Export Deal—Xinhua” 2008). Kong argues that the junta is in fact quite Machiavellian and knows how to strike a balance between the great powers (2010: 64), meaning that it strategically plays other powers to its advantage. However, with the new reforms, Chinese executives are also hoping that there will be less corruption and bureaucracy and a better, fairer regulatory and governance environment, which will ultimately benefit China in the long term (“China Calls for All Myanmar Sanctions to Go After Poll” 2012). Thus, with a changing government dynamic, this approach to power relations may turn to China’s favor, but it is impossible to predict.

Therefore, with a new government style with democratic tendencies, the economic climate of Myanmar has surely shifted. While the 2012 elections did not usher in a completely new government with a fully democratically elected leadership, it paved the way for a change in how the government looks at itself and how it presents itself to both its citizens and the international community. Dictatorial relations have now been replaced with democratic notions, with a pledge to continue towards reform. The rigid power structure that primarily looked inward, especially in cases of possible threats, has cracked, and China will undoubtedly take advantage of these changes in order to maximize its interests. A change in government represents an opportunity for the Chinese—with a push towards more FDI, securing ties with the new government in Myanmar will only facilitate the easy by which China can and will invest. It would be advantageous for China to cooperate with this new government so that China can improve the once rocky relations described from the 2008 cables and the Myitsone Dam disaster and woo Myanmar even more so that FDI can continue its astronomical rise.

Having the government on board with one's objectives and carefully-crafted motives would present endless political and economic benefits and allow China to maintain its competitive advantage over Western nations who may try to enter the new market due to the democratic changes occurring. Therefore, I argue that Chinese FDI will certainly play a key role in how the newly formulated government will respond to foreign powers, especially in light of the fact that the FDI is growing exponentially and is blatantly fueling Chinese demand and security interests.

7.3 More Competition in Myanmar?

However, with the end of the dictatorial regime came a sigh of relief and even excitement from many international powers. Many nations, including the United States, have begun to adjust their policies towards Myanmar, which may eventually impact FDI. No longer may China hold the competitive advantage of a lack of competitors, as other countries begin to eye investment in the resource-rich nation. In this past, Myanmar "gave China sweetheart deals, particularly for exploiting the country's natural resources. With Western powers on the sidelines, China had virtually no competition in securing lucrative contracts. [Myanmar] became a mostly reliable ally for China, cementing what the Burmese call a *paukphaw* relationship, or "brotherhood," with frequent state visits by national leaders ("China Calls for All Myanmar Sanctions to Go After Poll" 2012). However, since the recent reforms, China is dealing with Western nations in Myanmar. After these reforms, "American and British companies are sniffing around, and once they go in a big way, it's going to create difficulties for Chinese companies," remarked Wei Jijian, a manager at a Chinese mining company which operates in Myanmar (Blanchard 2012). He then continues, "So Chinese firms should get in now and grab the first-mover advantage," (ibid) underscoring the idea that this ease of access which China once enjoyed is most likely coming to an end.

Instead, the United States, European Union, Japan, Canada and Australia have all moved in recent weeks to ease or suspend sanctions on Myanmar, as the once pariah nation embarks on landmark democratic reforms and seeks engagement with the world. The United States has eased sanctions in order to allow the American non-governmental organizations (NGOs) to operate in the country ("US Eases Financial Sanctions on Myanmar 2012") but recently announced that it is extending investment and trade sanctions with Myanmar, citing it continues to pose "an unusual and extraordinary threat" to the U.S. security and foreign policy ("Obama Decides to Extend US Sanctions on Myanmar Despite Reform Progress" 2012). Japan has asked Myanmar to begin negotiating on an investment treaty, which would create a more favorable environment to conduct business. Additionally, Japan announced it was ready to assist in transforming Myanmar into a democratic country and help reduce poverty, especially in rural areas (Wade 2011). South Korea declared that it would resume a loan program and help

establish a stock market in Myanmar, and that trade was up 50% from 2010 (Ramstad 2012).

In other words, countries are warming up to Myanmar as it embraces more democratic reforms, which is altering the economic climate of the region. Investment has developed into a buzzword for many countries, and not just Western ones, and thus China will have to directly face this new competition. However, Myanmar President Thein Sein told Clinton during her November visit that Myanmar would “continue its relationship with China while strengthening ties with other countries. He pointedly called Beijing a strong, geopolitically important partner that had encouraged [Myanmar] to improve its relationship with Western countries” (Zaw 2011). I stress again the importance of China using FDI as a means of security and strengthening the already established alliance, and utilizing its history to its advantage. This new competition will not change China’s economic national interest, but it will influence its political national interest as these other powers scramble for a piece of Myanmar. However, as Lum stated, (2009: 14), “many of China’s economic activities in the region [Southeast Asia] appear to provide relatively greater long-term diplomatic benefits and comparatively few short-term economic benefits.” Thus, China already possesses an advantage over the other states trying to enter the market in Myanmar—by already sewing these long-term benefits, China has set itself up in a more comfortable position as compared to the other states, but it will depend on how China reacts now to the changing circumstances in order to determine if it can maintain that advantage. Interestingly, by this line of thinking, China’s national interests actually help increase its power in this instance, not the other way around, just as national responsibility theory dictates.

8 Conclusion

I must stress the fact that all the recent events can lead towards speculation of the future. It is not my intent to predict exactly how international relations will affect China in its investment ventures, but rather offer what I see are the most pressing changes and how China *could* respond. As the deadline for this paper approaches, more and more countries are announcing their reactions to changes in Myanmar, which will surely influence China in their decision making processes as the months pass. China does not necessarily have to view this as a negative action, as they themselves have announced that a stable and democratic Myanmar is good for China (Yaw 2011). Instead, as with any political situation, China will adapt and maximize its advantages in terms of economics, politics, and security.

In an effort to clearly summarize to the readers my findings on how FDI has evolved since 2004, I present Figure 8.1:

Figure 8.1 Summary of Chinese motivations for the increase in FDI in Myanmar from 2004 to present day 2012

| Time | Motivations for the increase in FDI |
|-------------|---|
| | National Interest |
| 2004 – 2008 | <ol style="list-style-type: none"> 1. Acquisition of Natural Resources 2. Ease of Access to Myanmar |
| Post-2008 | <ol style="list-style-type: none"> 1. Acquisition of Natural Resources 2. Strengthening the Sino-Myanmar alliance due to changing US foreign policy 3. Taking advantage of a new leadership due to the dissolution of military law; increased competition due to loosening sanctions |

Source: Author

From my explanatory case study analysis, I am absolutely confident that almost all actions related to Chinese FDI falls under the umbrella of national interest. The theory of national responsibility in the school of international thought has offered an appropriate lens in which to examine the spike in Chinese FDI in Myanmar. China has not approached Myanmar with a military power mindset but rather with the upfront acknowledgement that its increased presence is related to pressing economic needs in its domestic market. Despite the changes that have started occurring post-2008, national interest still guides almost every decision China makes concerning FDI, though political alliances and security are entering the discourse, and I argue that economic interest will continue to be the invisible hand in that process.

Chinese FDI in Myanmar has evolved tremendously since 2004, as shown by the increase of stocks and flows at remarkable, exponential rates. Myanmar ranks number 2 in ASEAN in terms of both stocks and flows (following Singapore), after receiving relatively little of both in 2004. By 2010, Myanmar's totals were quickly surpassing its neighbors, distinguishing itself by possessing the highest percentage rates of increase from all the ASEAN countries in both stocks and flows. It ranked 12th in terms of destinations for Chinese outward stocks (being the only developing nation on the list) and 10th in terms of flows, once again acting as the only developing nation. Clearly, Myanmar has received special priority on an individual, regional, and global scale in terms of FDI.

The acquisition of natural resources in Myanmar has played, and will continue to play, the most vital role in Chinese FDI. Rising energy demands, oil and natural gas consumption, and increasing electricity usage will ensure the fact that China has to look outside its borders in order to fulfill demand, though China will have to acknowledge that it does not control every FDI decision, as famously noted by the suspension of the Myitsone Dam in 2011. It no longer holds the authority to do what it likes with no consequences; instead China and Myanmar alternate between active/passive roles where they each depend on each other, though China tends to consistently enjoy the more dominant role. Even with increased competition, this relationship will not change dramatically—it may adapt with time and circumstances, but ultimately Myanmar contains the resources China wants, and China holds huge amounts of capital that Myanmar desires. With new investors possible expressing interest, however, Myanmar's dependence on Chinese capital may wane, but it still may look to China for security. Thus, the cycle of dependency does not end, but simply evolves.

The ease of access into Myanmar's market has begun to shift as well. Prior to the 2012 elections, China metaphorically had the market to itself, minus a few ASEAN neighbors. The lack of competitors quickly turned into an advantage for China, and China exploded onto the scene with more and more projects, though they almost exclusively fell into the resource extraction and power sectors. However, with the dawn of a new government and political system in Myanmar and the appearance of encroaching foreign powers, China has yet another incentive to maintain its alliance with

Myanmar, now for political reasons. Global powers have expressed interest for investment in Myanmar, though these changes will most likely develop slowly and cautiously, depending on Myanmar's future actions, and China now has the ability to improve relations with the new government in order to facilitate its investments. Strengthening the Sino-Myanmar alliance surely factored into China's decision to invest in Myanmar prior to 2009, but that reason was secondary as compared to the economic motivations, as conclusively shown by the discussion of rising demand in China and the investigation of actual FDI projects in the mid-2000s. China is examining Myanmar with a more political lens than before, though its ever-increasing economic interests will continue to guide its FDI. Regardless, China will continue to invest heavily and aggressively in Myanmar during this decade in order to take care of its own citizens, despite any potential setbacks created by changing regional dynamics.

9 Executive Summary

This paper focuses on the changing dynamics and evolution of Chinese foreign direct investment (FDI) in Myanmar. Due to the lack of any detailed FDI analyses of Myanmar (despite enjoying phenomenal growth) I have attempted to deconstruct FDI data and illustrate why Myanmar is a unique case study in terms of FDI. After experiencing a 21,000% increase in outward flows from China and a 9500% increase in outward stocks, Myanmar has developed into both a regional and global leader for Chinese FDI, and I intend to investigate what factors have contributed to this dramatic increase, along with determining how recent political changes influence China's motivation for FDI.

Due to my mix of quantitative and qualitative data and my attempt to understand the *why* and *how* of the issue at hand, I have approached this situation as an explanatory case study. Chinese FDI in Myanmar requires that I look at the broader context in order to fully comprehend the issue, which aligns with my choice of using an explanatory case study. Several factors play into China's motivations, and many of them relate to the larger international community or a broader context in which this issue is situated. I have limited my scope to a certain time, from 2004 to present day, in order to narrow down the issue and try to determine the changing trends of FDI.

In order to dissect Chinese FDI, I need a theoretical framework, or a lens in which to view the situation. Ultimately, the theory of national responsibility from the school of international society provides the best structure for this purpose, as it stresses the need that national interest be put first in a nation's foreign policy. I discredit using realism as a theory due to its emphasis on power over interest, and I negate liberalism because it focuses on several external factors that did not influence Chinese FDI in Myanmar. Instead, national responsibility helps explain why China opted to suddenly increase its investment and provided me a starting point into which I could examine China's motivations.

Understanding the historical background of Myanmar is critical to be able to comprehend China's dramatic rise in FDI. After a long history of colonialism and conflict, Myanmar reached independence in 1948 but fell into military rule a dozen years later. The military junta ruled the country for fifty years, isolating it from the international community minus China, and earned sanctions from the West due to its systematic human rights abuses, flagrant disregard for civil liberties, and a suppression of having one's voice heard. Therefore, due to its policy of non-interference in the domestic affairs of states, China took advantage of the lack of competitors and began to invest heavily in order to secure natural resources.

In order to understand how FDI had changed in Myanmar, I track data from 2004 to 2010, which was the last available data at the time of publishing, and determine that China was exponentially funneling money into Myanmar for investment purposes, as determined by several generated graphs using data from the Chinese Ministry of Commerce. I then investigate how Myanmar compares to its ASEAN neighbors in terms of stocks and flows, and conclude that Myanmar ranks second in both stocks and flows, but the percent increase in both sections dwarfs every other nation. Globally, Myanmar ranks 12th and 10th respectively in stocks and flows, but is the only developing nation in the top.

The next two chapters attempt to explain the *why* behind this increase. With rising energy demands, oil and natural gas consumption, and electricity usage, China is looking outwards in order to satisfy rising domestic demand. Myanmar, which shares a 2,000 kilometer border with China, holds an abundance of natural resources and allows China to decrease its dependence on Middle Eastern oil and the Strait of Malacca, reduce energy costs for citizens in Yunnan Province in southwest China, and mitigate certain mineral shortages. Due to international isolation, Myanmar has had a lack of investors, a situation that China has maximized because of its long-standing policy of the non-intervention in domestic affairs of states. With the United States, European Union, Australia, and other major Eastern powers primarily out of the scene, China took the opportunity to invest heavily before others entered the market.

However, Obama's administration marked a shift in both its policy towards Myanmar and Southeast Asia, with an emphasis on engagement, a strengthening of bilateral agreements, and an increased military presence. Coupled with the recent dissolution of military law in Myanmar, this change in foreign strategy has led to other nations eyeing Myanmar with potential instead of with scorn or constant disapproval. The economic climate of Myanmar is rapidly shifting, though it is unclear to what extent it is evolving due to the recent timeframe, and China's once near-monopoly on investment is being challenged by possible newcomers. In turn, China is examining Myanmar with a more political lens than before, though its ever-increasing economic interests will continue to guide its FDI.

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11 Appendices

Appendix 1: China's Stocks to Burma (Millions of Dollars)

| Year | China |
|-------------|--------------|
| 2004 | 20.18 |
| 2005 | 23.59 |
| 2006 | 163.12 |
| 2007 | 261.77 |
| 2008 | 499.71 |
| 2009 | 929.88 |
| 2010 | 1946.75 |

Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Appendix 2: China's Flows to Burma (Millions of USD)

| Year | China |
|-------------|--------------|
| 2002 | 2.7 |
| 2003 | 2.85 |
| 2004 | 5.5 |
| 2005 | 12.26 |
| 2006 | 21.16 |
| 2007 | 26.51 |
| 2008 | 55.91 |
| 2009 | 56.53 |
| 2010 | 68.81 |

Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Appendix 3: China's Stocks to ASEAN Nations (Millions of Dollars)

| Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Brunei | 0.13 | 1.9 | 1.9 | 4.38 | 6.51 | 17.37 | 45.66 |
| Cambodia | 89.89 | 76.84 | 103.66 | 168.11 | 390.66 | 633.26 | 1129.77 |

| | | | | | | | |
|--------------------|--------|--------|--------|---------|---------|---------|---------|
| Indonesia | 121.75 | 140.93 | 225.51 | 679.48 | 543.33 | 799.06 | 1150.44 |
| Laos | 15.42 | 32.87 | 96.07 | 302.22 | 305.19 | 535.67 | 845.75 |
| Malaysia | 123.24 | 186.83 | 196.96 | 274.63 | 361.2 | 479.89 | 708 |
| Burma | 20.18 | 23.59 | 163.12 | 261.77 | 499.71 | 929.88 | 1946.75 |
| Philippines | 9.8 | 19.35 | 21.85 | 43.04 | 86.73 | 142.59 | 387.34 |
| Singapore | 233.09 | 325.48 | 468.01 | 1443.93 | 3334.77 | 4857.32 | 6069.1 |
| Thailand | 181.88 | 219.18 | 232.67 | 378.62 | 437.16 | 447.88 | 1080 |
| Vietnam | 160.32 | 229.18 | 253.63 | 396.99 | 521.73 | 728.5 | 986.6 |

Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Appendix 4: Chinese Outward FDI Flows to ASEAN Nations (Millions USD)

| Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Brunei | 0 | 1.5 | 0 | 1.18 | 1.82 | 5.81 | 16.53 |
| Cambodia | 29.52 | 5.15 | 9.81 | 64.45 | 204.64 | 215.83 | 466.51 |
| Indonesia | 61.96 | 11.84 | 56.94 | 99.09 | 173.98 | 226.09 | 201.31 |
| Laos | 3.56 | 20.58 | 48.04 | 154.35 | 87 | 203.24 | 313.55 |
| Malaysia | 8.12 | 56.72 | 7.51 | -32.82 | 34.43 | 53.78 | 163.54 |
| Burma | 4.09 | 11.54 | 12.64 | 92.31 | 232.53 | 376.7 | 875.61 |
| Philippines | 0.05 | 4.51 | 9.3 | 4.5 | 33.69 | 40.24 | 244.09 |
| Singapore | 47.98 | 20.33 | 132.15 | 397.73 | 1550.95 | 1414.25 | 1118.5 |
| Thailand | 23.43 | 4.77 | 15.84 | 76.41 | 45.47 | 49.77 | 699.87 |
| Vietnam | 16.85 | 20.77 | 43.52 | 110.88 | 119.85 | 112.39 | 305.13 |

Source: Data from Chinese Ministry of Commerce's 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Appendix 5: China's Electric Power Consumption 2000- 2009 in gWh

| | |
|-------------|-----------|
| 2000 | 1,254,100 |
| 2001 | 1,360,770 |
| 2002 | 1,517,190 |
| 2003 | 1,777,200 |
| 2004 | 2,055,970 |
| 2005 | 2,324,820 |
| 2006 | 2,675,740 |
| 2007 | 3,069,700 |
| 2008 | 3,254,150 |
| 2009 | 3,503,400 |

Source: <http://www.indexmundi.com/facts/china/electric-power-consumption>, using data from the International Energy Agency

Appendix 6: China's Electric Power Consumption per Capita, 2000-2009 in kWh/person

| | |
|-------------|----------|
| 2000 | 993.23 |
| 2001 | 1,069.92 |
| 2002 | 1,184.94 |
| 2003 | 1,379.38 |
| 2004 | 1,586.30 |
| 2005 | 1,783.22 |
| 2006 | 2,040.96 |
| 2007 | 2,329.26 |
| 2008 | 2,456.60 |
| 2009 | 2,631.40 |

Source: <http://www.indexmundi.com/facts/china/electric-power-consumption>, using data from the International Energy Agency

Appendix 7: China's Natural Gas Consumption in m³

| Year | Consumption |
|-------------|--------------------|
| 2006 | 56435475497 |
| 2007 | 70508948313 |
| 2008 | 77191724137 |
| 2009 | 88490145975 |
| 2010 | 106697878411 |

Source: US Energy Information Agency: Independent Statistics and Analysis

Appendix 8: China's Oil Consumption in Thousands of Barrels/Day

| | |
|-------------|--------|
| 2006 | 7263.3 |
| 2007 | 7534.1 |
| 2008 | 7948.3 |
| 2009 | 8537.9 |
| 2010 | 9391.6 |

Source: US Energy Information Agency: Independent Statistics and Analysis