Commentary: Did the Rohingya crisis snuff out foreign direct investments in Myanmar?

_The European Union is considering imposing sanctions which may debilitate the fragile Myanmar economy._

By Nehginpao Kipgen, February 02, 2019

NEW DELHI: This week, the Myanmar government opened a two-day investment summit in the country’s capital Naypyitaw which primarily aimed to drum up investment interest in the country. It showcased some 120 projects worth more than US$3 billion. The summit was attended, among others, by CEOs, diplomats and media personalities.

In her opening statement, the civilian government’s de-facto leader and state counsellor Aung San Suu Kyi said:

“I stand here to reaffirm our commitment to continue our reform and to build an investment-friendly environment ... Please do come to Myanmar, soak in an atmosphere brimming with opportunities and witness our new-found economic vibrancy with your own eyes”.

**FRESH PLANS TO ATTRACT INVESTORS**

Aung San Suu Kyi highlighted her government’s commitment to the Myanmar Sustainable Development Plan, which revolves around social, economic, and environmental reforms. She also pointed out Myanmar’s ongoing projects, such as the Myotha Industrial Park City in Mandalay and Thilawa Special Economic Zone which generate millions in profits.

The summit is an important part of the Myanmar Investment Promotion Plan (MIPP), which aims to attract more than US$200 billion in investment from businesses over the next 20 years.
The MIPP was launched in October last year by the Myanmar Investment Commission, and has ambitious plans to attract Foreign Direct Investment (FDI) with an average of US$8.5 billion a year by 2026, US$12.3 billion by 2031 and US$17.6 billion by 2036.

The MIPP also hopes to raise Myanmar’s rank in the World Bank’s ease-of-doing-business index into the top 100 by 2020 and the top 40 by 2035. Myanmar’s 2018 ranking was 171 while Laos ranked 141, Cambodia 135 and the Philippines 113.

**FOREIGN DIRECT INVESTMENT KEY TO MYANMAR’S ECONOMIC GROWTH**

The government believes that FDI is key to Myanmar’s economic development, and therefore, plans to create a fair and transparent investment policy to attract foreign investors.

Ten states and regions of the country participated in the investment summit covering different industries: Manufacturing, garments, electricity and energy, tourism, education, food processing and fisheries, health care, infrastructure and property.

Following the opening ceremony, Myanmar’s Great Wall Foodstuff and Hong Kong International Sugar Engineering signed a memorandum of understanding for a US$200 million investment in a sugar mill and biomass plant in Katha township in Sagaing with a target of producing 10,000 tonnes of sugar a day and churning out 60 megawatts of electricity.

**BUT FOREIGN INVESTMENTS HAVE BEEN ON THE DECLINE**

The Invest Myanmar Summit 2019 was the first of its kind by the National League for Democracy-led government to court the international community following a significant decline in FDI in Myanmar over the last two fiscal years.

In fiscal year 2017-2018, which ended on Mar 31, saw Myanmar attracting US$5.7 billion in FDI, down from the US$6.6 billion recorded in the previous financial year. In the subsequent five months ending in August 2018, total FDI was just US$1.4 billion, a further deceleration of capital inflows.

A high inflation rate and fall in the value of the Myanmar currency coincided with a drop in foreign investment. Inflation began to edge up in the second half of 2018, partly as a result of the weakening of the kyat, which by early December 2018 had dropped by around 11 per cent against the US dollar, and more than 16 per cent against yearly highs recorded in late September.
One interesting development was that despite the drop in FDI, tourism industry showed a 1.2 per cent increase in the first 10 months of 2018 than the same period in 2017. But according to Myanmar’s Ministry of Hotels and Tourism, there was a sharp decline in the levels of tourists from Western Europe and North America, which fell by 25.3 per cent and 13.8 per cent respectively.

The decline of tourism from Europe and North America was offset by an increase from Asia, with Thailand and China topping the list.

**EU SANCTIONS MAY DAMPEN MYANMAR’S ECONOMY**

The Myanmar Investment Commission attribute the decline in FDI to the ongoing concern about the country’s political stability, weak macroeconomics, residual investment restrictions and uncertain investment approval procedures, the lack of skilled labour and infrastructure, and the undeveloped financial sector and the business regulatory systems.

While all these issues were contributing to the slowdown in FDI, one major issue was the Rohingya issue, which neither the Myanmar Investment Commission nor Aung San Suu Kyi mentioned during her opening remarks on Jan 28.

The business community in Myanmar is particularly concerned with the potential of sanctions from the European Union over human rights and labour rights abuses. In October last year, EU began an assessment process to determine if Myanmar should be removed from the list of countries with Generalised Scheme of Preference (GSP) status.

The GSP allows vulnerable developing countries, including Myanmar to pay fewer or no duties on exports to the EU, giving them vital access to the EU market and which in turn contribute to their own growth.

The EU revoking GSP will have huge effects on the garment sector of Myanmar. In December last year, Confederation of Trade Unions Myanmar (CTUM) Chairman Maung Maung said that over 700,000 workers from the garment industry and over 400,000 workers in fishery industry will lose jobs and their families will be greatly affected if the EU revokes its GSP to Myanmar, thereby stalling development in the country.

Myanmar currently enjoys preferences of exemption from paying import duties for exports from Myanmar especially garments and foodstuffs. In the last five years, exports from Myanmar to EU rose more than ten times.
And according to the International Labour Organisation and Myanmar Garment Manufacturers Association, the textile and garment industry in Myanmar employs nearly 700,000 people, of which 90 per cent of them women, and generates about US$2.7 billion in foreign exchange, second only to oil and gas exports last year. The EU accounted for US$1.8 billion (or 72 per cent) of Myanmar’s garment exports in 2017.

In 2017 to 2018, the garment sector generated US$3 billion in exports, and around four to five factories are opening monthly. In 2017 alone, roughly 65 new garment factories entered the market.

There are over 500 garment factories in Myanmar, with 65 per cent of them backed by foreign investments, and exported mainly to European countries. The EU previously revoked GSP to Myanmar in 2003 for political reasons but re-instated it after 10 years in 2013.

The withdrawal of GSP will not only dent Myanmar’s GDP but also endanger the employment market. Since the country’s labor sector is still unstable, the removal of GSP benefits would hit the garment industry hard, which could in turn affect the country’s democratisation, peace process and other much-needed reforms.

WHAT CONSTRUCTIVE ENGAGEMENT ON THE ROHINGYA ISSUE LOOKS LIKE

When the EU Trade Commissioner sent a monitoring team to Myanmar last November to assess if trade sanctions ought to be imposed, the Union of Myanmar Federation of Chambers of Commerce and Industry urged the EU and the international community to support Myanmar’s long-term development which could facilitate and include the country’s democratic transition.

Myanmar’s trade unions opposed the EU’s intended trade sanctions on the country, saying that the move is not a constructive approach to deal with allegations of violations of human rights and workers’ rights.

While it is still uncertain what course of action the EU will undertake, one thing, however, is clear - the Rohingya crisis will continue to be an important cause of concern for many in the international community, particularly Western nations.

The Rohingya crisis, violence in other ethnic minority areas and the resulting political instability, as well as concerns over press freedom will remain flashpoints that impede Western countries from actively engaging Myanmar.
Regardless, the investment summit was a noble effort from the Myanmar government to stir up investor interest. Reform and improvement in the county’s trade and investment regulations will certainly encourage and attract companies, industries and or countries invest in Myanmar.

But until the country’s lingering problems – including the Rohingya crisis, concerns over political stability, and doubts about press freedom - are somehow addressed, it will not only be difficult but close to impossible for Myanmar to convince Western economies, including the EU, to more fully engage with Myanmar.

*Dr Nehginpao Kipgen is associate professor and executive director of the Centre for Southeast Asian Studies, Jindal School of International Affairs at O P Jindal Global University. He is the author of three books on Myanmar, including "Democratisation of Myanmar".*