

Environmental Impacts of China's Outward Foreign Direct Investment

Special Addendum on Myanmar's Logging Sector and Environmental
Sustainability in Mongolia

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Country Report on Myanmar – Addendum on Logging Sector

The Structure of Myanmar's Logging Sector

Like the mining sector, very little is known about FDI entering Myanmar's logging sector and the sources of that FDI; more is known over how that sector operates domestically. The Myanmar Timber Enterprise (MTE), which is supposed to hold the monopoly on teak harvesting, processing and marketing¹, contracts some of its activities to local private logging and timber processing firms. These firms, which include Asia World, Shwe Than Lwin, Dagon, Htoo Company, Billion Group, Kayah Phu and the Woodland Group of Companies, are awarded these lucrative contracts from MTE from fostering close contacts with Myanmar's military elite and hence can fell, process and market teak as well as non-teak hardwood.² Also, connections with the ruling elite have granted these private logging firms immunity from punishments over illegal logging, including three years in jail and a 30,000 kyat (US\$50) fine from falsifying documents or timber markings and seven years' imprisonment and a 50,000 kyat (US\$80) fine from felling teak illicitly.³ These punishments are often applied arbitrarily to the local citizenry, such as three villagers who were jailed for five years for chopping down trees to build houses.⁴

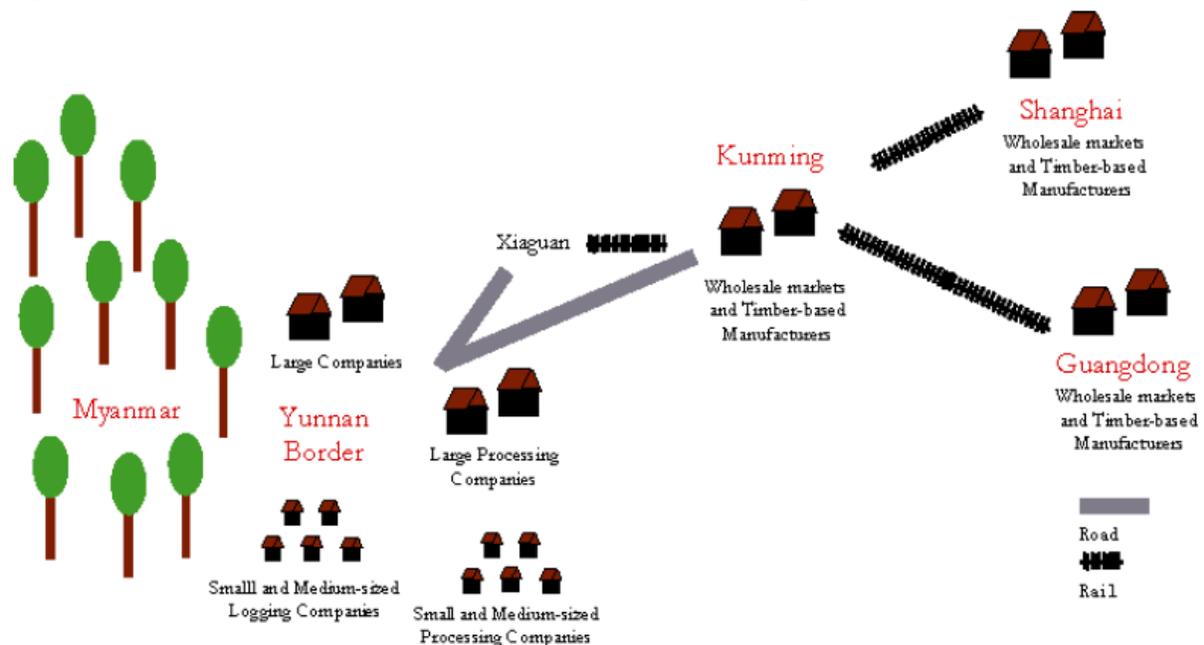
Even though Myanmar's logging sector appears to be mostly operated by private domestic firms, most of this sector's resources end up outside of the country. Hence, the structure of the logging sector is similar to that of the petroleum sector, where both types of natural resources are exported out of the country in their raw form and processed in their destination country, which usually abuts Myanmar. As a result of the logging sector's activities, raw logs make up 85% of exports, while sawn timber and value added wood products consist of 12% and 3% of exports, respectively.⁵ One reason why the demand for timber outside Myanmar is so high is that the country is home to Burmese teak, which has greater durability and quality

for processing and is more aesthetically pleasing than teak from other countries. These qualities of Burmese teak along with the MTE's near monopoly on its supply have enabled the teak industry to thrive amid calls for bans and boycotts.⁶ What also drives timber exports from Myanmar are bans imposed by its neighboring countries' governments upon their local timber industry. One example of such a ban is Thailand's 1998 log import ban designed to protect its forests, with the Royal Thai Forest Department and Thai army assigned as enforcers. To get around the ban, Thailand's *jao por* or highly influential ethnic Chinese businessmen, who control the timber trade on the Thai-Myanmar border, set up sawmills and furniture plants near the border in Myanmar and took in local raw logs as inputs. As a result, illegal timber was exported from Myanmar to Thailand in the form of finished or semi-finished wood products like furniture, doors, window frames and parquet flooring.⁷

Chinese Investment in Myanmar's Logging Sector

Chinese FDI into Myanmar's logging sector differs from the hydropower, petroleum and mining sector through the supply chain, types of enterprises involved and how the investment is made. Unlike the oil and gas sector, where Chinese SOEs conduct refining and distribution activities downstream in the supply chain, timber firms can either fell trees in Myanmar, process raw timber in Yunnan Province or wholesale processed timber to retailers and wood product factories in China's eastern seaboard. However, there are some large-scale vertically integrated companies whose activities include timber felling, transportation and processing.⁸ Because of this supply chain, most timber exports from Myanmar cross the border into Yunnan Province as raw logs, become processed into sawnwood in Chinese sawmills near the border and are shipped to medium to large-scale wholesale timber markets in Kunming (**Figure 1**). These markets supply sawnwood and other primary timber products from Myanmar to downstream wholesalers

Figure 1 – Primary Routes for China’s Timber Product Imports from Myanmar



Source: Kahrl, Weyerhaeuser and Su, *An Overview of the Market Chain for China’s Timber Product Imports from Myanmar*, 2005.

and wood product manufacturers based in China’s east coast cities like Shanghai and Shenzhen.⁹ Such wholesalers and manufacturers dealing in Myanmar timber include Shanghai Detangu Wood, Jiangsu Zhangjiagang Yongan and Guangzhou Li Heng Timber.¹⁰

Unlike the hydropower, petroleum and mining sectors in Myanmar, which involve only large Chinese SOEs, the key Chinese investors in the timber industry include foreign-owned logging firms based in China, state-run companies and partnerships between foreign and state-owned enterprises. Also, these logging firms perform either one or more activities in the Chinese timber supply chain. Examples of such firms include De Long Forest Resource Development Limited, Nu Jian Hong Ta Chang Qing, Tengchong Border Trade Development Company and Yunnan-Tengchong Company. While De Long, a joint venture between a Taiwanese and Japanese firm, harvests alpine from Myanmar’s Kachin State, Tengchong Border Trade, which is state-run, imports teaked felled by the MTE. Nu Jian Hong Ta Chang Qing, a joint venture

between a Malaysian firm (60%) and the Chinese state-owned Hong Ta Group (40%), buys a majority of its timber from De Long and processes that timber into doors and wood frames bound for Korea in its factory in Liuku near the China-Myanmar border. Yunnan-Tengchong Company is medium-sized enterprise wholly owned by a Malaysian and produces wood flooring and furniture for the Malaysian and Japanese market.¹¹

Even the methods that Chinese timber companies employ to invest in Myanmar's logging sector make the sector highly different from the hydropower, oil and gas and mining sector. These investment methods are legal by signing contracts and handling difficult relationships with the Myanmar authorities and illegitimate by smuggling Chinese laborers across the border into Myanmar for illegal logging. The key players that adhere to legal investment methods comprise a select few large Chinese companies that construct major and logging roads with Chinese workers and capital for the Myanmar authorities in exchange for rights to harvest timber in Kachin State.¹² As for the players who resort to illegal means of investing in Myanmar's timber sector, they are unknown but likely to involve unemployed Chinese timber workers. Even though their identity is unknown, their reasons for pursuing illegal logging are numerous and clear. First, average timber consumption in large Chinese cities is similar to the global average, with homes becoming spacious and requiring more wood flooring and doors. Chinese demand for wood products has risen so much that their import value surpassed oil and steel products to first place in 1998.¹³ This demand has made the logging sector in Myanmar a very lucrative business. Second, China imposed a national logging ban in 1998 as part of its Natural Forest Conservation Programme to forestall any further flooding on the Yangtze River and mudslides in Yunnan Province, which have all resulted from tree felling.¹⁴ Due to the ban, national timber import tariffs dropped from 50% to about 5%¹⁵, making China a net importer of timber; those tariffs are

even lower along the China-Myanmar border. The ban also negatively impacted China's timber industry by stripping 1.2 million workers of their jobs in 2003, including 63,000 loggers in Yunnan Province. Because these displaced timber workers can become a potential source of unrest, the Chinese government views Myanmar's forests as a source of employment for some of these workers to minimize that unrest. According to Global Witness, the number of unemployed Chinese workers logging and building roads in Kachin State was estimated to be at 20,000 in 2003.¹⁶ The high unemployment among Chinese timber workers combined with burgeoning Chinese demand for wood products makes extracting Myanmar timber by illicit methods very irresistible for Chinese traders. Even when Yunnan Province's Public Security Border Defense Brigade suspended timber imports along the China-Myanmar border in 2006 and cracked down on Chinese going to Myanmar for illegal logging, those traders still managed to get around the moratorium. Their illegal logging business thrived amidst the ban by transporting timber through roads without official checkpoints and at night, showing fake export licenses to border customs, bribing customs officials and declaring Myanmar timber as domestic timber from Yingjiang in Yunnan Province, where some domestic logging is permitted.¹⁷

Environmental Sustainability in Mongolia

Mongolia's most important development challenge is to transform its mineral endowment into renewable assets for sustainable development.¹⁸ Some progress has been achieved in the environmental sustainability field in Mongolia. In April 1996, the National Council for Sustainable Development (NCSD) was established in Mongolia "to manage and organize all the activities related to sustainable development in the country. The NCSD's activities are primarily based on the principle of encouraging the participation of all the stakeholders in the decision making process and any policy program should be worked out based on mutual trust and consultation among the social groups through incorporating their best interests."¹⁹ In May 1998,

the government adopted the “Sustainable Development Program for 21st Century of Mongolia,” which identifies the trends of sustainable development (SD), objectives and priority strategies of Mongolia and describes specific objectives and implementation approaches on socio-economy, natural resources and environmental protection.²⁰

In 2008, an implementation assessment of the National Strategy of Sustainable Development was carried out in Mongolia. The assessment resulted in the following recommendations²¹:

1. Identification in details of outputs as well as ensuring harmony of specific objectives between various policy documents with the peculiarities of development process in Mongolia.
2. Increase awareness and provide knowledge to decision makers on SD principles.
3. Strengthen capacities of various stakeholders.
4. Increase effectiveness of intersectoral coordination.
5. Organization of training and public awareness activities among the population.
6. Improving monitoring and evaluation capacities of SD for governmental ministry and agency staff.

However, Mongolia still faces many challenges due to the lack of experience, knowledge and weakness of public and private partnerships.²² It is worth mentioning that despite the huge share that the mining sector contributes to Mongolia’s economy, minimal effort has been made to assess and address the costs of possible environmental damage deriving from the sector’s activities. In fact, “many of these negative impacts could be rectified for minimal cost and/or through better production methods”, but due to limited data, available resources wasted and serious environmental damages have occurred.²³

The experience of Swedish mining companies such as ABB, Atlas Copco, ITT Flygt, Sandvik, SKF and Volvo Construction Equipment are of great importance as it illustrates how mining can increase profitability by focusing on sustainability and continuous innovation.²⁴ These companies should be consulted on ways to convince mining companies on the importance of environmental sustainability. The government of Mongolia should be advised to establish partnerships with such companies, through the Sustainable Development Program for 21st Century of Mongolia, to set environmental standards for companies investing in Mongolia.

¹ “Asia-Pacific Forestry Sector Outlook Study: Country Report – Union of Myanmar.” 1997. *FAO/Ministry of Forestry*. Working Paper No.: APFSOS/WP/08.

² “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2030-59.pdf>>, 33.

³ *Myanmar Times*. 2003. “Forestry Official Wants Public to Help Counter Illegal Logging.” 19–25 May.

⁴ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2030-59.pdf>>, 35.

⁵ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2030-59.pdf>>, 33.

⁶ *Ibid*, 32.

⁷ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2060-89.pdf>>, 64.

⁸ Kahrl, Fredrich, Horst Weyerhaeuser and Yufang Su. 2004. *Navigating the Border: An Analysis of the China-Myanmar Timber Trade*. Yunnan Province, China: Forest Trends, 19.

⁹ Kahrl, Fredrich, Horst Weyerhaeuser and Yufang Su. 2005. *An Overview of the Market Chain for China’s Timber Product Imports from Myanmar*. Yunnan Province, China: Forest Trends, 10–11.

¹⁰ “A Disharmonious Trade: China and the Continued Destruction of Burma’s Northern Frontier Forests.” 2009. *Global Witness*. October. Accessed 5 May 2012 <http://www.globalwitness.org/sites/default/files/import/a_disharmonious_trade_pages_16_52.pdf>, 49–52.

¹¹ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2060-89.pdf>>, 87–88.

¹² Kahrl, Fredrich, Horst Weyerhaeuser and Yufang Su. 2004. *Navigating the Border: An Analysis of the China-Myanmar Timber Trade*. Yunnan Province, China: Forest Trends, 19.

¹³ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2060-89.pdf>>, 82.

¹⁴ *Ibid*, 83.

¹⁵ *Xinhua*. 2002. “China Increases Timber Imports.” 25 January.

¹⁶ “A Conflict of Interests: The Uncertain Future of Burma’s Forests.” 2003. *Global Witness*. October. Accessed 5 May 2012 <<http://www.globalwitness.org/sites/default/files/import/03sep3%20Conflict%20of%20Interests%2060-89.pdf>>, 84.

¹⁷ “A Disharmonious Trade: China and the Continued Destruction of Burma’s Northern Frontier Forests.” 2009. *Global Witness*. October. Accessed 5 May 2012 <http://www.globalwitness.org/sites/default/files/import/a_

disharmonious_trade_pages_16_52.pdf>, 18–22.

¹⁸ World Bank, <http://www.worldbank.org/en/country/mongolia/overview>

¹⁹ <http://www.un.org/esa/agenda21/natlinfo/action/mongolia.htm>

²⁰ MONGOLIA NATIONAL REPORT ON SUSTAINABLE DEVELOPMENT FOR THE 18TH SESSION OF THE COMMISSION ON SD, P7.

²¹ Ibid.

²² Ibid, 17

²³ The International Bank for Reconstruction and Development, the World Bank. *Mongolia a Review of Environmental and Social Impacts in the Mining Sector*, 11

²⁴ <http://www.swedishtrade.se/PageFiles/169335/Article%20from%20the%20Swedish%20Mining%20Event%20November%204.pdf>

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