

JJC J2H2 Prelim Essay Question 4

A Chinese mining company together with a Myanmar conglomerate will be operating a mega copper production at a site in Letpadaung in Central Myanmar. The mine is one of the several Chinese operated mega projects under way in Myanmar that have come under fire from locals because of environmental damage and forced farmland takeovers by officials.

- (a) Explain the limitations when using economic indicators to compare the economic performance of different countries. [10]
- (b) Discuss the considerations that are likely to influence the decision of the Myanmar government when approving foreign direct investment in mega mining projects. [15]

Part (a) Suggested Outline

Introduction

- Economic indicators can be useful when comparing economic performance of different countries. However, there are limitations of each economic indicator.

Body

- Define GDP/ GNP and explain the measurement problems when using GDP/GNP
- Define Unemployment rate and explain how it can be underestimated.
- Define Inflation rate and explain how CPI may be inaccurate due to differences in weights.
- Define Balance of payments and explain how it is difficult to track the volumes of transactions across countries.

Marking Scheme

Level	Knowledge, Application, Understanding, and Analysis	Marks
L3	Well-developed analytical explanation of the limitations of at least 3 to 4 economic indicators to compare the economic performance of different countries.	8 – 10
L2	Descriptive explanation of the limitations of economic indicators to compare the economic performance of different countries.	5 – 7
L1	For an answer that shows descriptive knowledge of the limitations of economic indicators.	1 – 4

(b) Discuss the considerations that are likely to influence the decision of the Myanmar government when approving foreign direct investment in mega mining projects. [15]

Part (b) Answer Outline

- Many considerations can influence whether the foreign direct investment (FDI) by China in Myanmar should go ahead. These are mainly the benefits and costs for Myanmar economy.

Consideration 1 – Impact on Myanmar’s economic growth

- One of the benefits gained from the investment project (I) is an increase in economic growth. Elaborate.
- However, the magnitude of the multiplier and its eventual impact on the economy’s national income is dependent on the amount of withdrawal (leakages) from the circular flow of income, such as the marginal propensity to save, import and tax. The higher the withdrawals (leakages), the smaller the size of the multiplier will be.
- The extent of this reduction in unemployment can be significant as copper mining is a labour intensive industry this can create many direct and indirect jobs through the multiplier effect.
- In the long run, investment will increase the capital stock in Myanmar and this will increase the productive capacity of the economy. This helps to increase potential growth. In addition, investment in better quality machinery and technology will also enhance efficiency and increase productivity in the country.

Consideration 2 – Income distribution in Myanmar

- However, whether the benefits trickle to the people depends on the income distribution in Myanmar. The benefits may concentrate on the hands of a few rich government officials at the expense of the farmers whose land has been taken over with little compensation.
- This will result in the farmers being worse off as they lose their ability to grow crops and earn income as their farmland has been taken over by government officials. This may be a significant factor contributing to the urban versus rural income inequality as a vast of the majority of foreign direct investment in Myanmar is concentrated in the urban sector, despite only a small proportion of the population lives in these areas.

Consideration 3 – Extent of negative externality

- Also, as mentioned in the prose, this mega project would cause environmental damage to the country. There are negative externalities involved in the building and operation of the copper mine due to the water and air pollution caused. There could also be severe soil erosion as plantations are cleared for mine digging. This would worsen the qualitative aspect of living.

Consideration 4 – Expectation of future prices and demand & State of economy

- In addition, the expected price and future demand is also another factor for consideration. If prices of copper are expected to fall in the future due to a weak commodity market, this can reduce expected future profits causing the project to be unsustainable in the future.

Conclusion

- In conclusion, many factors are being considered in deciding whether to go ahead with the mega project in Myanmar. These factors are weighed in terms of the costs and benefits that it brings to the economy and its people. However, the most important consideration that the Myanmar government has to make is the impact on her overall economic performance as foreign direct investments like the mega project are able to assist in the development of local economies like Myanmar by increasing financial resources for development, boosting export, generating employments and skill level of local employees and by enhancing technological capabilities.
- However, the extent of these benefits still largely depends on:
 - the characteristics of the Myanmar economy such as the skills of its labour force.
 - on whether government policies are in place to minimise the costs of approving the foreign direct investments.
 - on the current state of the economy. Myanmar is faced with years of mismanagement and economic sanctions.

Marking Scheme

Level	Knowledge, Application, Understanding and Analysis	Marks
L3	For a well-developed explanation of the considerations that are likely to influence the decision of the Myanmar government when approving foreign direct investment in mega mining projects.	8 – 10
L2	For a descriptive explanation of the considerations that are likely to influence the decision of the Myanmar government when approving foreign direct investment in mega mining projects.	5 – 7
L1	For an answer that shows descriptive explanation on how foreign direct investment in mega mining projects can benefit Myanmar.	1 – 4
Level	Evaluation	Marks
E3	For an evaluative assessment which synthesises economic arguments to arrive at well-reasoned judgments about other considerations that are likely to influence the decision of the Myanmar government when approving foreign direct investment in mega mining projects.	4 – 5
E2	For an answer that makes some attempt at an evaluative appraisal.	2 – 3
E1	For an unsupported judgment about the other considerations of a government.	1