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 **Myanmar renews SEZ push**

Three special economic zones underpin plans to expand manufacturing to spur economic development, but Dawei in particular has languished for years.

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Myanmar's special economic zones (SEZs) are a central part of a revitalised economic strategy in which increased manufacturing activity will play a key role. And breathing renewed life and energy into stagnant or stalled SEZs has moved to the top of the government's agenda.

"SEZs promote the transfer of technology, encourage infrastructure development and attract foreign investment," Sean Turnell, a key economic adviser to the government, told Asia Focus recently.

The SEZ experience will provide a model and incentive for future industrial growth, Ministry of Industry officials say.

"By linking the SEZs and domestic industrial zones, the government hopes to increase manufacturing production," said Ko Ko Lwin, the ministry's permanent secretary. "The growth rate of the manufacturing sector at present is dropping, so we need to bring the momentum back," he said, while conceding that many challenges remain, including the provision of power, water and adequate transport facilities.

The **Thilawa SEZ**, a Japan-Myanmar joint venture on the outskirts of southern Yangon, is the model being promoted by the government. Formed under the previous regime of Thein Sein, it is the most developed. The other two -- **Dawei** in the south, close to Thailand, and **Kyaukphyu** in the west in troubled Rakhine state -- are either stalled or awaiting government approval to move forward.

The first section of Thilawa, managed by the Myanmar-Japan Thilawa SEZ Development Co, is now almost complete with 95% of the area occupied. It has attracted US$1.55 billion in foreign investments, according to Set Aung, who chairs the SEZ management committee and was also recently appointed deputy finance minister to oversee the implementation of the government's overall economic strategy and plans.

Companies from 16 countries, including Japan, China, Hong Kong, Taiwan, the United States and Australia, have invested in **Zone A which covers 405 hecta**res, since 2014. Around 80 firms are planning to locate factories, production lines or logistics hubs in the zone and 24 have already started their operations there.

Zone B, he said, was now ready for development. "Its construction will take about eighteen months. But before the completion of construction, we will start accepting investors. Those investors can begin factory construction only after the infrastructure is completed," Set Aung told reporters earlier.

While development may be moving full steam ahead at Thilawa, the same cannot be said about the other two SEZs. However, there are signs of hope at Dawei, following intense discussions in recent months between Thai and Myanmar authorities. A series of meetings at the highest levels earlier this year led to the Myanmar government forming a new high-level committee in order to restart and speed up the work.

The Thai contractor Italian-Thai Development Plc (ITD) has now renewed its interest in pressing ahead after talks with both governments. The plan involves building a **deep-sea port**, creating an **industrial zone** and developing modern **rail and road links between Dawei and Kanchanaburi in Thailand**. For other foreign investors, the deep-sea port and improved transport connections to Thailand are particularly attractive.

The potential benefits extend beyond Thailand. **The road and rail link would become part of a network of corridors in the Greater Mekong Subregion**, meant to create more efficient communication links between **Myanmar, Thailand, Cambodia and Vietnam**. It would also provide **an alternative to the East-West Economic Corridor (EWEC) linking Myanmar, Thailand, Laos and Vietnam**.

As well, **it fits the strategic vision of the China-backed Belt and Road programme**. That would link China to sea routes in the Andaman Sea through Mawlamyine (formerly known as Moulmein) on the **EWEC** and the proposed deep-sea port farther south, at Dawei.

China ultimately wants to have a seamless connection to Europe, and has already launched a rail-freight service to London. Countries in the Mekong region could also benefit from this link once road and rail links through Kunming are established. It would also give Southeast Asian countries access to Central Asia and Europe, significantly reducing transport costs and time.

"**It could reduce the period Thai goods take to get to Central Asia and the Middle East by 10-15 days, compared to sea transport,**" said Suwit Ratanachinda, director of the Thai International Freight Forwarders Association.

For Chinese and Thai manufacturers, Dawei would provide even speedier access to the markets of India, the Middle East, and even Europe. This has provided the impetus to restart the Dawei project. Work is expected to start soon on the 138-kilometre road from the Dawei port to Ban Phu Nam Ron in Kanchanaburi.

In February the Myanmar government agreed to borrow the funds from Thailand needed for to build the road, at very favourable rates: 4.5 billion baht at 0.1% interest, with a 10-year grace period and repayment over 20 years. The Thai government initially offered the loan in 2015 but work did not start as the government of Aung San Suu Kyi asked to review the plan. Now work is finally ready to start.

Apart from ITD, other members of the Thai-Japanese consortium involved in the Dawei SEZ include Rojana Industrial Park Plc and LNG Plus International Co.

The Dawei project has been in the works for almost a decade. Myanmar and Thailand originally signed a memorandum of understanding to develop the area in May 2008. The Myanmar Port Authority (MPA) and ITD signed a further memorandum in June the same year. Two years later the Myanmar government granted a 60-year concession to ITD to develop the project.

But ITD could not attract investors or secure financing because of concerns about the military junta then running the country. It stepped aside and the governments of the two countries formed a new entity to oversee the project. ITD withdrew from the original agreement in 2013 citing financial difficulties, before re-signing the concession agreement in 2015.

The Myanmar government committee now overseeing the Dawei project is led by the vice-president, Henry Van Thio. The state minister for foreign affairs and the chief minister for the Tanintharyi region, where Dawei is located, are also on the committee. The task force overseeing the actual construction is chaired by Commerce and Trade Minister Than Myint.

China and Japan have both backed the Dawei project in recent months, and are expected to be the source of some of the financing necessary to complete the first stage, expected to cost about $2 billion. China is particularly interested in the port.

A Tanintharyi regional government delegation that included chief minister Lae Lae Maw visited Tokyo earlier this year for discussions on possible Japanese involvement in Dawei. They were assured that Tokyo would support them, but no announcement was made about what that might involve.

"We can't announce what was discussed in the meetings with the Japanese government as there are still further discussions to take place between the SEZ committee and the regional government," said Phyo Win Tun, the Tanintharyi Region finance minister and vice-president of the Dawei SEZ management committee. "But it is very obvious that Japan is very interested in the project."

In mid-2015 the Japanese, Myanmar and Thai governments signed a memorandum of understanding to develop Dawei during the Japan-Asean summit in Tokyo. It envisioned the three countries were having equal shares in the SEZ development company. The election of the National League for Democracy in November 2015 changed the rules of the game. But Tokyo has certainly reaffirmed its commitment to the project.

Thailand's interest in Dawei has never wavered, but progress has always depended on the Myanmar government. During the first year or so of the Suu Kyi administration, other priorities overshadowed economic policy. But since the end of last year, the Myanmar government has revived the previous government's plans to use SEZs to attract foreign investment and kick-start the growth of manufacturing.

The initial phase of the Dawei project involves a two-lane highway from the SEZ to the Myanmar-Thai border at Thi Khi, an initial industrial zone and a small port. A small township is planned, with a water reservoir, small-scale power plants, landline telecom service and a liquefied natural gas (LNG) terminal. Work has already begun on the LNG depot, according to ITD executives.

Legal consultants are now being engaged to handle land leases and bilateral negotiations. A committee on relocation and compensation of residents has been formed, comprising local elders, members of ethnic minorities and government officials.

There has always been some hesitation about Dawei -- even under Thein Sein -- as it was seen as a deal between two former leaders: the military ruler Senior General Than Shwe and former Thai prime minster Thaksin Shinawatra. Activists and community groups also campaigned against the project, claiming inadequate compensation was paid to farmers whose land was expropriated.

Some senior Thai businessmen were also reluctant to back the government's commitment to Dawei, arguing that because of the terrain and the absence of a lasting peace pact. The Karen National Union signed the National Ceasefire Agreement in 2015 but the peace process remains precariously balanced, with no guarantee that fresh fighting won't erupt in the area.

But for the countries in the region, eager to improve interconnectivity, the prospect of another serviceable deep-sea port along Myanmar's western coastline is very attractive. They are eagerly eying the transport benefits that the ports at **Dawei**, **Mawlamyine,** **Yangon** and **Kyaukphyu** will offer, especially China and Thailand.

However, a further delay is possible while the Myanmar government awaits environmental and social impact assessment reports and the signing of land leases, according to officials involved in the project.

"As the prerequisite conditions, for both sides, haven't been fulfilled, the agreement on the project has been extended until the end of the year," Deputy Commerce Minister Aung Htoo told the national parliament last month.

But there is no doubt that Myanmar is committed to invigorating the SEZs, as an essential part of its efforts to spur economic growth and attract foreign investment. While Dawei seems to be stalled, it is seen only as a temporary impasse.

Meanwhile, the MoU for **Kyaukphyu** with the Chinese state-owned investment group Citic, the lead firm in the project, is expected to be signed soon. Some analysts believe it will be part of a number of agreements signed during the state visit of Chinese President Xi Jinping in early November http://goo.gl/ou6Ip. © Post Publishing PCL. All rights reserved.