

Myanmar's ambitious Dawei project faces uncertainty

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Contents

- [ENERGY SUPPLY "NOT SURE"](#)
- ["CLOUDED WITH RISKS"](#)
- [IN DAWEI, MIXED VIEWS](#)

DAWEI, Myanmar (Reuters) - Dusty roads and makeshift offices are the only hints of the ambitious \$50 billion project slated for the thick jungles near Myanmar's southern city of Dawei, billed by its developers as the "new global gateway of Indo-China".

Big questions surround the far-reaching plans by Thailand's largest construction firm, Italian-Thai Development Pcl ITD.BK, to transform 250 sq kms (97 sq miles) of scrubland in southern Myanmar into Southeast Asia's largest industrial complex.

"There is very little activity around here related to this project. A lot of us wonder if they are really confident enough about it to go forward with it," said Kyaw Naing Oo, 40, a trader in Maungmakan, whose white-sand beaches would border the project.

That comment is echoed by other villagers, industry analysts and even the government.

In a country where a third of the 60 million people live on less than one U.S. dollar a day, Dawei is striking in its scale and ambition.

Super-highways, steel mills, power plants, shipyards, refineries, pulp and paper mills and a petrochemical complex are part of it, as are two golf courses and a holiday resort - all strategically nestled in Southeast Asia between rising powers India and China.

But just over a year since the former military junta signed a deal to create Myanmar's first and biggest special economic zone SEZ.L at Dawei, the project has made little headway, despite the dramatic political reforms sweeping the country and the prospect of a gradual lifting in Western sanctions as the former British colony emerges from half a century of isolation.

Italian-Thai has yet to secure \$8.5 billion to finance construction of its first phase — roads, a telecoms network, utilities and a port — after building a dirt road of more than 100 km (62 miles) to neighbouring Thailand. Its executives hope to find a strategic partner by year-end and plan to present the project to potential investors in South Korea this month.

Myanmar Energy Minister Than Htay told Reuters last week that at least two other SEZs would be developed more quickly than Dawei: the Thilawa project near the commercial capital, Yangon, and Kyaukphyu, where the China-Myanmar pipeline starts and a deep-sea port is nearly finished.

"It is faster than the Dawei zone," he said of Kyaukphyu. "Now we are considering supplying the electricity at Kyaukphyu area," he said.

Securing a stable source of electricity has been at the heart of Dawei's problems since the government abruptly halted construction of a 4,000 megawatt coal-fired power plant in the area on January 10, citing environmental concerns.

ENERGY SUPPLY "NOT SURE"

Somchet Thinaphong, managing director of Dawei Development Co Ltd, controlled by Italian-Thai, told Reuters on January 23 that its power plant partner, Ratchaburi Electricity Generating Holding Pcl RATC.BK, would decide on a fuel type within three months, including the possible use of natural gas funnelled to the site via a 50 kms (31 mile) pipeline from fields within Myanmar.

But Than Htay ruled out using natural gas to fuel Dawei.

"Up to now the electric power supply for that project is not sure," he said of Dawei.

In a country beset by chronic electrical outages, powering even a home can be difficult, let alone an industrial zone. Blackouts are common across the country, even at Yangon's international airport.

That puts pressure on Ratchaburi, whose involvement is limited to a feasibility study as "a preliminary step", it said in a November 16 statement.

Than Htay stressed other ministries would decide Dawei's future, not his. But he offered his personal view of what the government will do: "My guess is sell out, according to the contract made by the previous government."

Italian-Thai, which signed a 60-year concession to develop Dawei 14 months ago, has brushed aside those comments. Somchet of Dawei Development Co insists the project will go ahead. "It's at the point of no return. They can say whatever they want but the final decision will depend on the special committee chaired by Myanmar's president," Somchet told Reuters on January 27.

He has a powerful local partner. A quarter of Dawei Development is held by Max Myanmar Group, owned by Burmese tycoon Zaw Zaw, whose close ties to the government put him on the U.S. targeted sanctions list in 2009.

A November 15, 2007 U.S. diplomatic cable described Zaw Zaw as an "up and coming crony". Today he is one of Myanmar's most influential businessmen.

Thailand's top lender, Bangkok Bank BBL.BK, is advising on the power project and Siam Commercial Bank SCB.BK on the whole project.

Companies that Italian-Thai has identified as possible investors include Malaysia's Petroliam Nasional Bhd, Japan's Mitsubishi Corp (8058.T), Mitsui & Co (8031.T) and Sumitomo Corp (8053.T), and South Korea's POSCO (005490.KS).

Japanese Trade and Economy Minister Yukio Edano discussed the project with the Myanmar and Thai governments when he visited both countries last month.

"This project is huge and is getting a lot of interest from foreign investors," said Somchet, who personally met Edano and sees Dawei as a possible location for Japanese firms to build parts for use at car manufacturing plants in Thailand, as well as a low-cost location for industrial production for Thai companies.

He expects much of the infrastructure, including a proper road to Thailand, to be completed within three years, creating a stable route for cargo sent to Dawei from the Middle East and Africa for shipping to Bangkok and beyond in Southeast Asia, bypassing the congested Strait of Malacca.

“CLOUDED WITH RISKS”

Brokers appear less sure.

In a recent note to clients, Singapore stock brokerage DBS Vickers Securities highlighted the risks.

“Despite potential to bring economic prosperity to Burma, the project is still in its infancy and clouded with risks,” it said. “The sudden call to halt the 4,000 megawatt coal-fired power plant project would make it difficult for Italian-Thai to secure strategic partners to help fund the project.”

It described Dawei Development Co’s plans to sell land in the area to raise funds for the project as “optimistic” and stressed that without strategic partners and firm funding, Dawei Development would remain a drag on Italian-Thai’s earnings this year.

In the year to date, Italian-Thai shares have underperformed those of its peers and the overall market due to uncertainty over the Myanmar project. The stock has risen just 0.1 percent in the past 12 months.

Italian-Thai has an “Analyst Revision Score” of 14 under a model by earnings-tracker StarMine which ranks stocks according to changes in analyst sentiment, with 100 representing the highest rank.

Kanit Sangsubhan, director of the Thai Finance Ministry’s Economic and Financial Research Institute, told Reuters Dawei would need heavy government involvement or state enterprises to co-invest.

Whether that will happen is unclear. Than Htay of Myanmar’s Energy Ministry said the government wanted to promote more private involvement. “Regarding the petroleum refineries or the downstream plants, now most of the plans will be taken charge of by the private sector. Up to now, I have no plan to participate in that area because I need to mind existing jobs.”

PTT Exploration and Production Pcl PTTE.BK, Thailand’s top state-controlled oil and gas explorer, has shown little interest in the project, and neither has its parent, PTT Plc PTT.BK, Thailand’s biggest company.

“It is still very early days on Dawei,” said Sean Turnell, an expert on Myanmar’s economy at Macquarie University in Sydney, Australia. “They are better off having a special economic zone near Yangon. Dawei mainly benefits Thailand. There are not a lot of benefits to Burma from that one.”

IN DAWEI, MIXED VIEWS

In Dawei itself, views of the project are mixed.

Some such as Hsan Htoo, a 25-year-old high school dropout working on a fishing trawler, hope it can bring jobs to the impoverished area, where many live in thatched-roof huts and many young people have left to work in neighbouring Thailand.

"I heard that Dawei will create job opportunities for many local people. That would be very good. It would mean that we wouldn't have to leave our homes and work in other countries," he said.

Others worry about the potential environmental toll and health risks from a project that would be four times bigger than Thailand's largest industrial estate, Map Ta Phut, where pollution between 1996 and 2009 may have contributed to at least 2,000 cancer-related deaths, according to environmental activists who sought legal action to halt the estate in 2009.

"It is just not worth it," said Sein Win Aung, a 34-year-old private taxi owner who came out to listen to opposition leader Aung San Suu Kyi address a crowd of thousands in Dawei on Sunday. "We hear about the problems at the industrial estate in Thailand. We don't want those problems here."

Some activists visited Map Ta Phut to see the impact first-hand.

In a sign of dramatic change in Myanmar, a village advocacy group has been formed to oppose the project. The Dawei Development Group has raised concern that as many as 32,000 people would be displaced in a region known for its pristine coast, groves of coconut palms and plantations of cashews, mango and rubber.

Such groups would have been quickly shut down, their leaders arrested, during the half-century of military rule that ended last March when a nominally civilian government took office.

Instead, they are now becoming more organised, emboldened by the government's surprise suspension of the \$3.6 billion, Chinese-led Myitsone dam project on September 30 following weeks of public outcry.

"What we want is for the project to be done with transparency. It may ultimately go ahead, but we want to make sure it is done by the rule of law and that environmental assessment studies are carried out," said one senior activist in Yangon who has worked closely with the Dawei Development Group.

But Dawei is an economic lifeline for villagers such as Win Aung, a 34-year-old driver for Italian-Thai, one of about 200 of the company's workers in Dawei. He used to work in Thailand, but hated it. He chafed at living away from his family. "I didn't enjoying working there at all. Most of my friends don't enjoy their jobs either but most people have no other choice."

He said the project was going ahead, and expects it will eventually transform the isthmus that separates the Andaman Sea from the Gulf of Thailand, strengthening Myanmar's relationship with India, China and Southeast Asia by linking them together in trade.

Bulldozers were clearing land, he said. Buildings for offices and staff quarters were being built, but no major construction had begun. Many villagers need to be relocated.

Italian-Thai is buying land from the locals but has yet to complete new homes where they would live, he said.

He remained optimistic about what it would mean for villagers like him. "It will create many, many job opportunities for local people," he said.

(Additional reporting by Aung Hla Tun in Dawei and Khettiya Jittapong and Pisit Changplayngam in Bangkok; Editing by Ed lane)

P.S.

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