INDIAN COUNCIL OF WORLD AFFAIRS

VIEWPOINT

Thilawa: Significance of Myanmar’s First Special Economic Zone

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Introduction

Myanmar is moving towards speedy economic modernisation. Refined investment laws, series of reform measures and opening up of the political, media and economic domains of the country are swiftly transforming the country. Myanmar, a relatively insulated economy, is now adopting the export oriented growth formula which has been followed by several other Association of Southeast Asian Nations (ASEAN) countries. A remarkable example on that count is Thilawa, country’s first Special Economic Zone (SEZ), being built at the outskirts of Yangon. It is a joint venture of the Japanese government, a consortium of three Japanese companies (Marubeni, Mitsubishi and Sumitomo) and the Myanmar government. Thilawa is also the biggest Japanese investment project in Myanmar. Myanmar Japan Thilawa Development (MJTD) is owned 49 percent jointly by Marubeni, Mitsubishi and Sumitomo and the Japan International Cooperation Agency. Thilawa is projected as a state of art, next- generation SEZ. Being in the vicinity of Yangon, the SEZ will have easy access to a huge market. The flip side, however, is that its river port would not be able to handle large ships, which might circumscribe swift passage of commodities in and out of Thilawa.

On September 22, 2014, the chairman of the Myanmar Thilawa SEZ Holdings (MTSH), Win Aung declared that the shares of the Thilawa Special Economic Zone would be sold through an over-the-counter stock market. According to the Bangkok Post report (September 23, 2014), pre-empting the stock exchange launch set for 2015, the shares will be available in late 2014. This signals the beginning of a new era in functioning of companies in Myanmar. It is worth noting that eighteen foreign companies including those from China, Singapore and the US have lined up to invest in Thilawa, which will be fully operational by 2015. According to the reports, the first phase is estimated to cost about US$ 180 million and about US$ 50 million has already been invested for inside infrastructure projects.

China's Receding Prominence

As Myanmar is stepping out of its self-imposed isolation and Thein Sein government is getting ahead with the reforms process, several countries have begun to invest heavily in the once-pariah nation. Of all the countries, China has been Myanmar's largest trading partner as also the largest investor in the country. In fact, during Myanmar's self-imposed isolation period, China was, by and large, its most important economic and strategic partner. However, the situation is gradually changing, and the country has started witnessing a new phase in its foreign and economic relations. Recent trends manifest that Myanmar is striving to reduce its economic dependence on China by diversifying its trade partners and sources of investments.

This may partly be attributed to local yet strong opposition to China- funded projects in Myanmar such as the Myitsone Dam, Letpadaung Copper Mine, and most recently a 7,000-megawatt hydropower dam in Southern Shan State's Kunhing Township. Clearly, China's resource diplomacy, often extractive in nature, is beginning to backfire in Myanmar. Interestingly, Chinese investments in the country have receded to a substantial extent in the past three years. For instance, while in 2008, China invested USS$ 12 billion in Myanmar, the investment shrunk to just US$ 407 million in the 2012-2013.

While Chinese investments in Myanmar are decreasing, with the initiation of its economic and political reforms, Myanmar has begun to attract several other investor countries. Of late, Japan has been investing heavily in Myanmar. It is noteworthy that Japan has been Myanmar's largest aid donor. In early 2014, Japan pledged to provide US$ 96 million mainly for conflict-ridden areas in Myanmar under the framework of Overseas Development Assistance (ODA).

Now, Japan is stepping up its investments in Myanmar through a variety of initiatives. For instance, On December 15, 2013, an investment agreement for liberalisation, promotion and protection of investment was signed in Tokyo by President U Thein Sein and Japanese Prime Minister, Shinzo Abe. The primary aim of the agreement was to increase the flow of Japanese investment to Myanmar by creating favourable investment climate for the Japanese investors. With the signing of the agreement, Abe not only absolved Myanmar from paying US$ 5.32 billion debt, but also pledged to provide further aid for major infrastructure projects in the country.

Japan's deepening interest in Myanmar

Of all the infrastructure projects funded by Japan, Thilawa Special Economic Zone is the most remarkable. Located 23 km away from Yangon, it is Japan's biggest investment project in Myanmar. Japan International Cooperation Agency (JICA) is working in collaboration with the Myanmar Government, Myanmarese companies and Japanese companies to develop this 5,900 acres economic zone. 51 percent of the capital is reported to be provided by the Myanmar government and the local entities in Myanmar and the rest will be provided by the Japanese government in cooperation with the three above-mentioned Japanese companies. Thus, Myanmar is the larger stakeholder in the project.

Once operationalised, this is going to be the first such industrial park built in the entire Southeast Asian region. Among other things, Thilawa SEZ is likely to have food processing companies, garment factories, and spare parts firms. According to the reports, the financial, insurance and medical service sectors, light industries (labour intensive but non traditional sector), logistics and transportation sectors, New Township and commercial sectors, and R&D, Incubation, and vocational training are likely to form the major component of Thilawa.

Moreover, since it is situated very close to Yangon, the financial hub of Myanmar, it is going to be a larger consumer-oriented market in comparison to other SEZs. For Japan, the completion of the Thilawa project holds significance to such an extent that Japan desires to first complete the construction of Thilawa SEZ before moving ahead with any other project in Asia including the Dawei SEZ. In 2011, governments of Thailand and Myanmar invited Japan to become a strategic partner in the Dawei SEZ. India is also a stakeholder in the Dawei project.

Speculations are rife that Japan is promoting the Thilawa SEZ so as to counter China's economic and strategic clout in Myanmar. While one cannot overlook the strategic connotations embedded in the project, it is also evident that both Myanmar and Japan have their own set of reasons and rationales to push for Thilawa SEZ. Nonetheless, some argue that China does figure prominently in Japan's economic diplomacy in Myanmar.

Myanmar, marred by problems such as sluggish economy and ethnic strife, is in a dire need of foreign investments from diversified sources for its economic stability. This is particularly important when 70 percent of the population has no access to electricity. Moreover, in a situation when Myanmar is endeavouring to reduce its economic dependence on a single country, Japan seems to be the most viable option. For Japan, owing to the increasing business opportunities in Myanmar, it is one of the most favourable foreign destinations with respect to investment prospects. By developing the Thilawa SEZ and investing heavily in Myanmar, Japan aims to establish itself as a greater player in Myanmar and possibly in the wider Southeast Asian region in years to come. That makes a landmark business project, Thilawa, a strategically significant project too. Clearly, the Thilawa project, if it meets its targets, would open up new vistas of Japanese engagement and investment in Myanmar, thereby setting an example worth emulating for other major stakeholders including India.

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