



Note by EIC

3 December 2015

Dawei megaproject: Redefine the new global gateway



Highlight

- The Dawei megaproject will dramatically transform the face of global logistics by altering one of the main transportation routes in the world. Thailand will turn into a part of a land bridge between the Pacific Ocean and the Indian Ocean; and is provided with great benefits in both geographical and economic aspects.
- Although better infrastructure gives Thailand an advantage over its neighbors, the country still lacks in the speed and the ability to increase degree of competitive advantages. Beside escalating businesses' ability to compete, all Thai parties should promptly collaborate and push to improve rules, agreements, financial impediments, and other soft infrastructure.
- EIC suggests that agri-industrial and other industrial goods, transportation and related industries should immediately start planning for the possible opportunities stemming from the Dawei project. While, service clusters should follow closely the change in their cluster and concurrently improve their service quality and human resources' skills such as basic English, to prepare for potential business opportunities in the near future.

In the middle of 2014 the Thai and Myanmar governments reached an agreement with the Japanese government regarding financial and technological support for the Dawei project. EIC sees this agreement providing a significant boost for the project to move forward to completion. With the involvement of Japan negotiations changed from being between private sectors to between states, and the Dawei project is now better equipped with the financial and technological resources to put its projects into higher gear. Currently, the Initial Phase Development is under way, which includes an industrial estate for labor-intensive industry, two small ports, a small power plant, an LNG station, a small water reservoir, a telecommunication system, residential sites for laborers, and a two-lane road to Thailand. To connect with Dawei from the Thai side, Thailand reached an agreement with Japan on the rail route connecting Kanchanaburi - Bangkok - Laem Chabang - Sa Kaeo. The route is expected to start the process in the beginning of 2016. Moreover, National Economic and Social Development Board (NESDB) has created an integrated plan for Kanchanaburi to become an economic hub in the west to support the economic expansion resulting from the Dawei project. EIC views that this trilateral collaboration will give the project a better chance of success, although the project might need about 8 more years. In

the end, the project will open a new gateway for global trade and investment.

Dawei will redefine the global transportation, trade, and investment. Thailand will definitely be one of the countries that benefit the most both geographically and economically. From a geographical aspect, Thailand will gain the advantage of becoming a transportation hub for the Greater Mekong sub-region and a primary passageway connecting the South China Sea to the Andaman Sea and the Indian Ocean. Goods from China or East Asia will be able to pass through Thailand to the Dawei deep-sea port instead of going around the peninsula through the Strait of Malacca. This change will eliminate about 2,000 kilometers or about 3-5 days currently required for transportation, accounting for about a 30% reduction in transportation costs. More goods could be transported from Thailand to South Asia, the Middle East, and Europe with only 130 kilometers separating Dawei and the Thai border and only 300 kilometers from Dawei to Bangkok. The better connectivity within the Greater Mekong Sub-region will largely benefit border and international trade along the Thai economic corridors. This geographical connectivity prompts Thailand as an important hub in Asia-Pacific. At the same time, Thailand can benefit from the increased convenience in transporting goods from its eastern seaboard (ESB) to the global market as well.

Regarding economic aspect, Thailand will become the heart of regional supply chain. EIC sees three economic aspects that will enable Thailand to push forward the Value chain integration 1) Abundance resources: Dawei is suitable as a production base for labor-intensive industry with deep-sea port to facilitate exports to other regions. 2) Tariffs: Myanmar has Generalized System of Preferences (GSP) that benefits international trade. 3) Border SEZs: Thailand will be able to push the development of special economic zones along the economic corridors by integrating the value chain with Dawei. For example, one could have labor-intensive industries in Dawei, industries involving skilled labor in Thailand, and a mix of the two along the special economic zones to attract labor from Myanmar while still using infrastructure and facilities in Thailand. Whether each part of the value chain locates in Dawei, Thailand, or SEZs, all can benefit from the Dawei Megaproject. When the project launches in about 8 years or in 2023, it will significantly increase connectivity within the region and will turn Thailand into an economic, trade, and transportation hub of the region.

Though Dawei megaproject will drive Thailand towards a prominent position in ASEAN, the challenges in terms of entrepreneurial competency and soft infrastructure in every ASEAN country need to be addressed. Challenges for Thai businesses are the speed and the ability to increase their competency and competitiveness given huge government spending on infrastructure megaprojects. Entrepreneurs need to hastily improve their ability to compete with regional businesses from Singapore, China, Japan, South Korea, and Malaysia, who are currently better equipped with hi-tech management systems, technology, and financial resources. As freer of competition foreseen in the region, the competitiveness of Thai basic industry decrease. Thus, Thai entrepreneurs should focus on developing value-added products and services. They may choose to build on their foundations. For example, the service sector can integrate more technology into their transportation system or set up online systems to connect warehouses in the region. To add value to products, entrepreneurs may choose to

modernize their existing products, such as shifting from bulky bag rice to upgraded and branded rice (Riceberry for example) or updating homemade dried bananas to solar-dried bananas with various flavors in more modernized packages.

Soft infrastructure is still a challenge, as agreements, rules, the complexity of formal processes, and financial impediments still hinder development. Thai entrepreneurs as well as the government should collaborate in addressing weaknesses and building strengths. Five aspects the government and Thai businesses should give priority to are as follows. One, the government should work with urgency to reach agreements with other countries. Beside the Initial Implementation of the Cross-Border Transport Facilitation Agreement (IICBTA) with Laos and Cambodia (and in negotiations with Myanmar), Thailand has not had an agreement that includes all six countries in the Great Mekong sub-region regarding border transportation. This prevents trucks transporting goods from Thailand from crossing the borders via potential routes such as Mae Sot - Myawaddy, Thailand - South China, and Thailand - Vietnam. Two, the government should work on settling the differences in customs operations in neighboring countries, such as different operating times resulting in waiting trucks and increased hidden costs. The third challenge is the differences in each country's laws. For example, the maximum weights for trucks in Cambodia, Laos, and Vietnam are lower than those in Thailand. Products therefore need to be unloaded from one truck and reloaded onto another, costing businesses both time and money. The fourth challenge concerns infrastructure conditions in neighboring countries. For example, the bumpy and windy R9 road in Laos makes for inefficient transportation, increasing costs due to the need for increased maintenance of trucks. Lastly, the government should support as many entrepreneurs as possible, who are otherwise ready but lack financial support so they can take advantage of the opportunities stemming from Dawei in the next few years.

Implication

- Producers of industrial goods and agri-industrial goods as well as transportation businesses and related businesses such as distribution centers and warehouses should immediately begin to increase their readiness to take on the opportunities arising from the Dawei project. They could add value to their existing products as well as look for transportation alliances in neighboring countries which will give them an advantage over other businesses in the neighboring country. Businesses could consider vertical and horizontal integration and put in place management systems using standard information technology. Moreover, they could develop their businesses into comprehensive logistics service providers that include other value-added services, such as repackaging or consolidation of different goods to increase sales and meet customers' diverse demands.
- Service clusters need not invest now, but should closely follow any changes in their own cluster in the region while simultaneously strengthening their soft skills. Service clusters such as hotels, restaurants, department stores, gas stations, and rest areas should consistently follow the news, the

changing social context, the updates on negotiations, and any changes in related laws and rules to prepare their businesses for the launch of the Dawei project as well as increasing their service quality, such as developing human resources by providing workers with training in related knowledge or basic conversational English.

Figure 1: World map and Dawei map

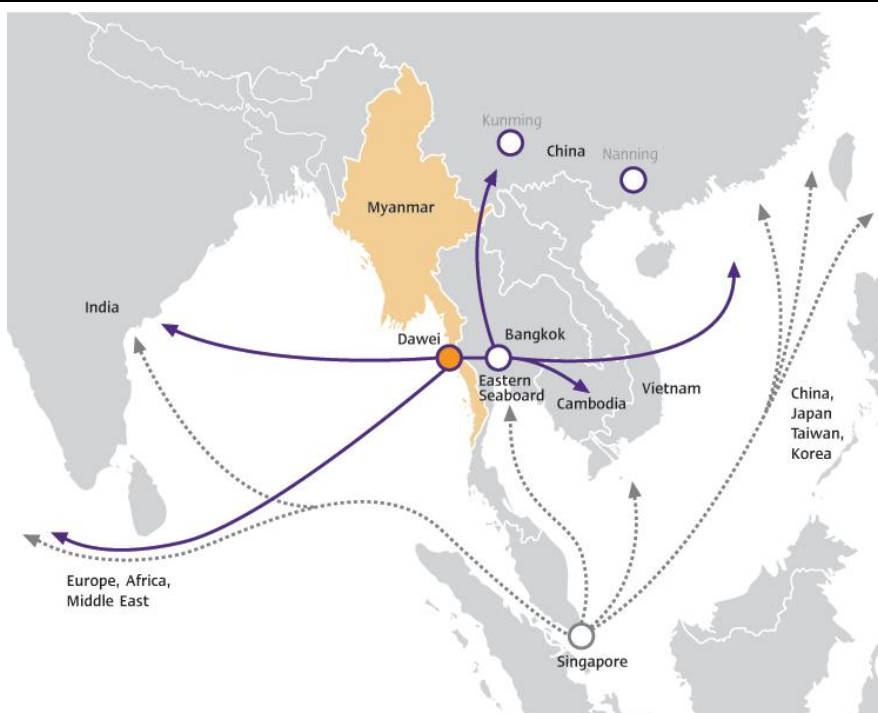
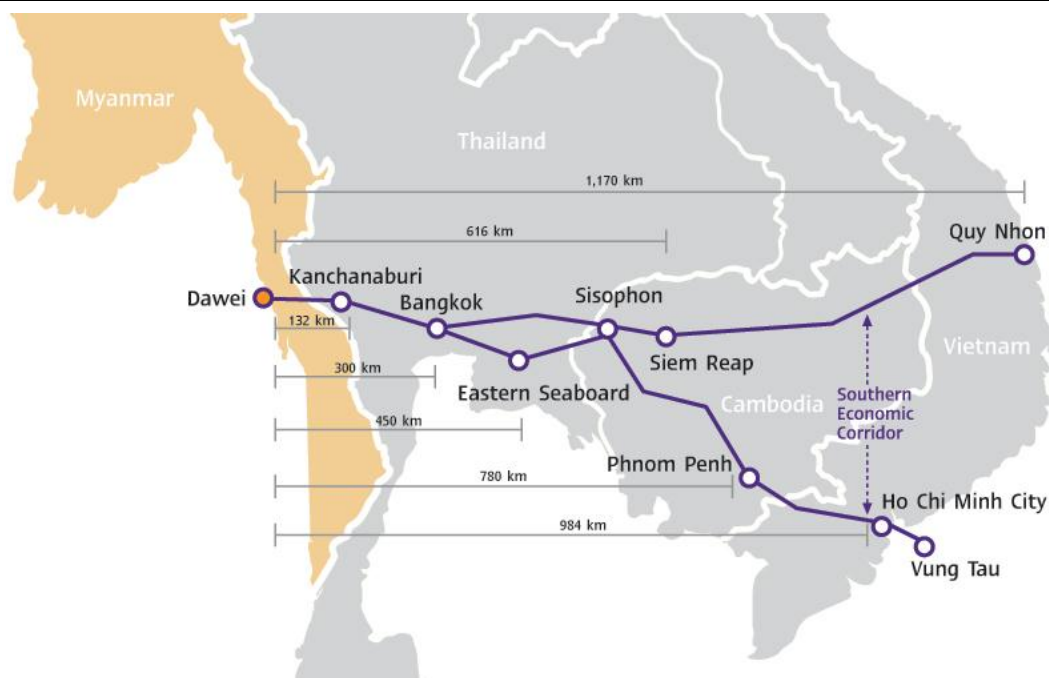


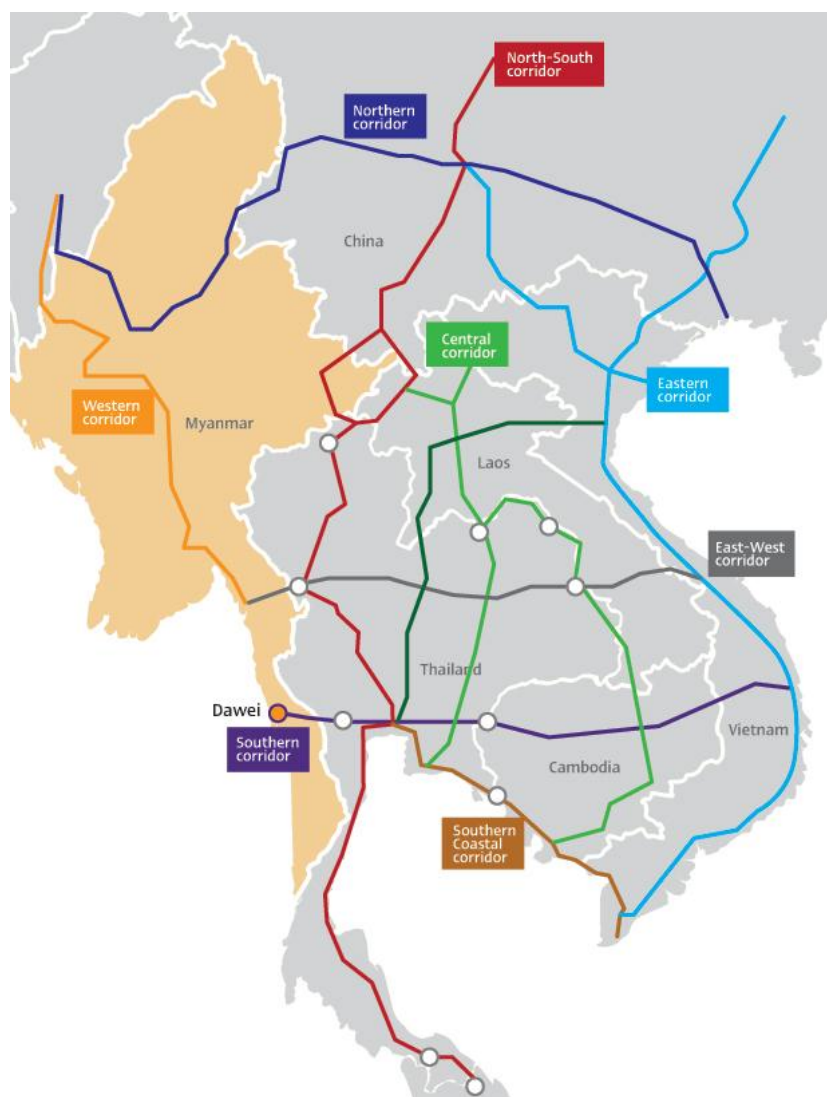
Figure 2: Distances from Dawei to major cities in the region



Disclaimer: The information contained in this report has been obtained from sources believed to be reliable. However, neither we nor any of our respective affiliates, employees or representatives make any representation or warranty, express or implied, as to the accuracy or completeness of any of the information contained in this report, and we and our respective affiliates, employees or representatives expressly disclaim any and all liability relating to or resulting from the use of this report or such information by the recipient or other persons in whatever manner. Any opinions presented herein represent our subjective views and our current estimates and judgments based on various assumptions that may be subject to change without notice, and may not prove to be correct. This report is for the recipient's information only. It does not represent or constitute any advice, offer, recommendation, or solicitation by us and should not be relied upon as such. We, or any of our associates, may also have an interest in the companies mentioned herein.



Figure 3: Map of the economic corridors



By : Pitsinee Thitisomboon (pitsinee.thitisomboon@scb.co.th)
Economic Intelligence Center (EIC)
Siam Commercial Bank Public Company Limited
EIC Online: www.scbeic.com

Disclaimer: The information contained in this report has been obtained from sources believed to be reliable. However, neither we nor any of our respective affiliates, employees or representatives make any representation or warranty, express or implied, as to the accuracy or completeness of any of the information contained in this report, and we and our respective affiliates, employees or representatives expressly disclaim any and all liability relating to or resulting from the use of this report or such information by the recipient or other persons in whatever manner. Any opinions presented herein represent our subjective views and our current estimates and judgments based on various assumptions that may be subject to change without notice, and may not prove to be correct. This report is for the recipient's information only. It does not represent or constitute any advice, offer, recommendation, or solicitation by us and should not be relied upon as such. We, or any of our associates, may also have an interest in the companies mentioned herein.