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China may scrap divisive dam in Myanmar to advance other interests: sources

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NAYPYITAW (Reuters) - China has shifted its position in a lengthy dispute with Myanmar over the building of a \$3.6 billion dam, seven sources said, signaling its willingness to abandon the project in exchange for other economic and strategic opportunities in Myanmar.

A graffiti is seen on a stone at the confluence of the Mali and Nmai river at Myitsone, outside Myitkyina, capital city of Kachin state, Myanmar March 30, 2017. REUTERS/Soe Zeya Tun

Myanmar President Htin Kyaw will discuss a potential deal on the massive Myitsone dam during a trip to China beginning on Thursday, two senior Myanmar officials and a person familiar with the matter told Reuters.

Until recently, China had been pushing hard for the 6,000 megawatt project to go ahead despite widespread opposition within Myanmar which forced the suspension of work in 2011.

Now, it is discussing alternative options with Myanmar including developing a number of smaller hydropower projects and securing preferential access to a strategically important port to compensate it for shelving the project, the sources said.

The seven sources include senior Myanmar government officials, a person familiar with the original deal and a person close to the Chinese state-owned operator of the dam. They declined to be named due to the sensitivity of the matter.

Executives at the developer, the Sino-Myanmar joint venture Upstream Ayeyawady Confluence Basin Hydropower, are “deeply concerned” the project will get scrapped, according to a person close to the company.

In a statement, the company said it was looking forward to “an impartial and fair” review by the Myanmar government into the environmental and social impact of the project. It said it remained confident of an appropriate solution, without giving details.

Myanmar’s national security advisor Thaung Tun said the review, led by Htin Kyaw, was in its final stages.

The person familiar with the original deal said the Chinese-owned operator of the dam, the State Power Investment Corp Yunnan International Power Investment (SPICYN) has not been actively pursuing the project over the last six months, in contrast to its more proactive stance previously.

SPICYN declined to comment.

Slideshow (10 images)

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China would maintain communications with Myanmar to handle “any difficulties encountered in the course of cooperation on the project” Hua Chunying, a spokeswoman for China’s Ministry of Foreign Affairs, told a regular media briefing.

The Myitsone dam was supposed to send 90 percent of its electricity to China’s neighboring Yunnan province, angering many in electricity-starved Myanmar.

But in recent months, China’s appetite for the project has diminished because Yunnan now has an oversupply of electricity as it switches to less energy-intensive industries amid an economic slowdown, sources said.

Instead, China, with its “One Belt, One Road” ambitions of improving links with central Asia and Europe, “wants a face-saving solution” that would allow it to advance its other economic interests if it shelves Myitsone, said a top government official familiar with discussions.

A deal would mark a geopolitical shift away from the West, as Naypyitaw looks to improve ties with China at a time when the United States and the European Union are focused more on domestic policies.

Beijing is an increasingly important partner for Myanmar leader Aung San Suu Kyi, who has made ending decades of ethnic war her top priority. Myanmar needs Chinese support to stabilize their shared border amid increased fighting with armed ethnic groups.

Myanmar is likely to be liable to China for compensation on hundreds of millions of dollars already spent on the project, according to the source close to the deal and a person familiar with the government’s position.

Myitsone’s developer and operator did not comment on potential compensation arrangements and it was not clear how that would be handled.

“The compensation doesn’t have to be cash,” said one of the officials familiar with Suu Kyi’s thinking. “China is interested in other infrastructure projects including smaller-scale dams.”

China is also pushing for preferential access to the deep sea port of Kyauk Pyu on the Bay of Bengal, according to two sources familiar with the government’s position.

Kyauk Pyu is the entry point for a Chinese oil and gas pipeline and the two countries are close to starting pumping oil through it. The pipeline will provide China an alternative route for receiving Middle Eastern oil.

Additional reporting by Antoni Slodkowski, Wa Lone, Simon Lewis, Soe Zeya Tun in MYANMAR, Michael Martina in BEIJING and David Stanway in SHANGHAI; Editing by Lincoln Feast

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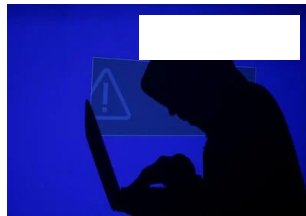
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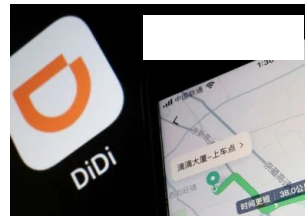
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