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Industry Trend Analysis - Mekong Region: Immense Mining Potential But Greater Risks

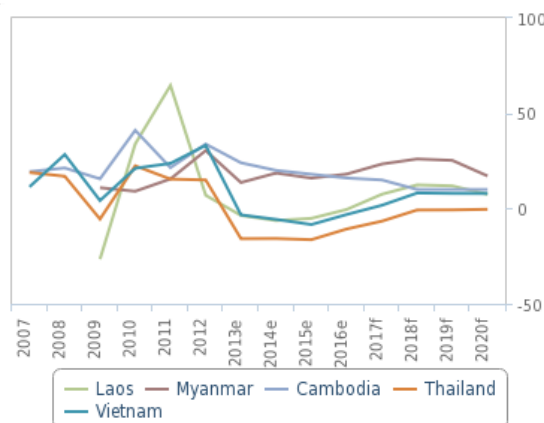
05 Oct 2018 Asia (Region) Mining

BMI View: The mining sector in the Mekong region will remain largely underdeveloped and dominated by domestic players in the coming years as foreign investment flows into the sector will be minimal amidst a myriad of risks. Myanmar will be an outperformer in the region while Thailand will underperform.

We expect the large untapped mineral deposits of the countries in the Mekong region - excluding the Yunnan Province in China, but including Vietnam, Laos, Cambodia, Thailand and Myanmar - to remain vastly underdeveloped in the coming years. Although the region boasts rich mineral deposits of gold, copper, iron ore, bauxite, lead, tin and zinc, foreign investment flows into the sector will remain low due to political uncertainty, resource nationalisation sentiment and poor infrastructure. Despite a recent string of positive regulatory reforms, the capital-intensive nature of mining in the Mekong region will ensure investors pull back investment in the region first when low prices pressurise returns. We forecast commodities prices to remain low in the coming years and expect the recent rally in commodity prices to be short-lived as market fundamentals and a halt in speculative trading will place a drag on prices (see 'Renewed China Weakness Will Limit Price Gains', April 26). Additionally, slowing Chinese demand will further deter investment and a resource boom in the Mekong region. We forecast China's real GDP growth at 6.3% in 2016, versus a rate of 6.9% in 2015, and expect it to slow to 5.5% by 2025 (see 'Update: Slowdown Intact Despite Recent Stabilisation', April 4).

Mekong To Remain Mining Minion In Asia

Global - Mining Industry Value, USDbn



e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

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Lack Of Infrastructure And Political Uncertainty To Undermine Growth

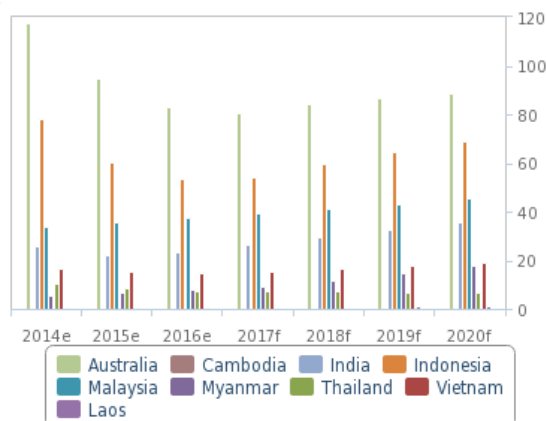
We expect the lack of proper infrastructure to continue to place a drag on mining growth in the Mekong region in the coming years. Trade and transport-related infrastructure in Cambodia, Laos, Vietnam and Myanmar are amongst the poorest in South East Asia. Roads, railways and ports in these countries are inadequate to cope with economic growth, and links to the outside world are poor. The lowest electrification rates in Asia also come from these same countries, while Thailand and Vietnam remain in sustained power deficits, having to import expensive natural gas and thermal coal.

Additionally, political uncertainty will continue to impinge on growth and especially foreign investment in the Mekong region. Countries like Cambodia, Laos and Thailand are rampant with income inequality, corruption and political uprisings. Moreover, resource nationalisation continues with Myanmar's long-running ban on the exports of gold, raw mineral ores and coal, and Vietnam's long-running ban on the exports of thermal coal and iron ore. We expect the mining sector in these countries to remain heavily dominated by domestic and state-owned companies. In Vietnam, for example, the resource industry is largely state-owned and heavily regulated by the government. The government retains a 75% stake in companies operating in oil, natural gas, coal, bauxite iron ore and copper industries, significantly eliminating the incentive for foreign companies to invest in the mining sector in Vietnam. In Cambodia and Myanmar, foreign companies cannot own land, but may lease mining areas for 70 and 50 years respectively.

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No Improvement In Mekong's Operational Risk

Global - Operational Risk Index



f = Fitch Solutions. Source: Fitch Solutions

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Myanmar To Outperform, Thailand To Underperform

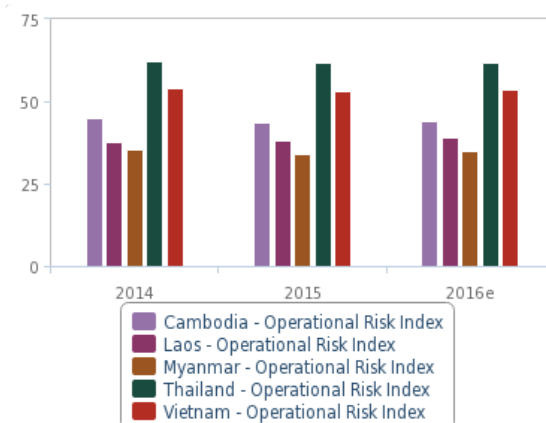
We expect Myanmar to outperform other countries in the Mekong region in terms of mining industry growth, driven by high production growth of tin, lead and coal. Favourable government regulations - such as the late 2015 government approval to allow 100% foreign ownerships of mining companies (except precious stone mines), and tax holidays for the first five years from commencing operations - will underpin growth in the country's mining sector in the coming years. Furthermore, with the country's landmark general elections in November 2015, which saw the National League for Democracy (NLD) vanquish the military-linked Union Solidarity and Development Party (USDP), we have a constructive outlook on the Myanmar economy, which is in the midst of a broad-based economic boom. The construction sector in the country continues to grow amid buoyant real estate markets in major cities and wide-ranging opportunities to participate in infrastructure development. We forecast construction industry value real growth to come at 14.9% during 2016-2020, compared to 13.6% during 2011-2015. Additionally, the NLD is actively reaching out to international partners including Singapore, the US, UK, Japan and China (see: 'Steep Learning Curve Ahead as NLD Turns Focus To Economy', April 13).

In contrast, Thailand will be the underperformer of the region. The Junta, Thailand's military government, has a favourable stance towards the mining industry and is capable of silencing opposition; however, rampant corruption, risk of political uprising and delays and cancellations of infrastructure projects provide a very grim outlook for the sector. In general, the Thai economy will remain below its long-term potential in large part due to lingering political risks. Political stability has returned to Thailand over the past year, with the government successfully keeping a lid on protest activity. However, none of the underlying divides between the Red Shirts and Yellow Shirts have been resolved (see 'Update: Mixed Signals, But Slow Recovery Ahead', March 7).

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Myanmar To Outperform Peers

Global - Mining Industry Value Growth, % chg y-o-y



e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

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Environmental Protection And Public Interests To Determine Long-Term Sustainability

We expect sustainable mining that protects the environment and public interests to increase in the long term in the Mekong region. Protests from minorities remain a concern, as several mining projects in Myanmar and Thailand have met with opposition from local communities due to land expropriation and environmental damage concerns. In Myanmar, several Chinese-operated projects are facing opposition. For example, most recently, in May 2016, about 200 villagers protested against China's **Wanbao Mining Copper's** plans to resume production at the controversial Letpadaung copper mine in Myanmar's northwestern Sagaing region. Farmers in the area have long protested the company's land takeovers in the area, with violent clashes between farmers and the police leaving one farmer dead and dozens injured in 2014. In Thailand, deadly protests continue to date against gold mining in Loei province, which is supported by the military government. However, due to the ability of the junta to impose martial law, opposition by the community against gold mining operations of **Tungkum Mining Company** in the Loei province has been quelled and production proceeds as per normal. Similarly, in Vietnam, despite calls for the Tan Rai Bauxite exploitation and alumina production project to be shut down due to the spillage of sludge at the Tan Rai site in October 2014, the project continues due to governmental support.

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MYANMAR AND THAILAND - MINERAL PRODUCTION FORECASTS (2014-2020)

		2014	2015e	2016f	2017f	2018f	2019f	2020f
Thailand	COAL: Coal Mine Production, mn tonnes	21.32	20.89	20.48	20.07	19.67	19.27	18.89
Thailand	COAL: Coal Mine Production Volumes, % y-o-y	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00
Thailand	COAL: Coal mine production, mn tonnes, % of global	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Myanmar	COAL: Coal Mine Production, mn tonnes	3.61	4.63	5.98	7.83	10.41	14.06	19.26
Myanmar	COAL: Coal Mine Production Volumes, % y-o-y	35.20	28.50	29.00	31.00	33.00	35.00	37.00
Myanmar	COAL: Coal mine production, mn tonnes, % of global	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Thailand	TIN: Tin Mine Production, '000 tonnes	0.20	0.22	0.24	0.27	0.31	0.33	0.35
Thailand	TIN: Tin Mine Production Volumes, % y-o-y	0.00	8.00	10.00	15.00	12.00	9.00	6.00
Thailand	TIN: Tin mine production, '000 tonnes, % of global	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Myanmar	TIN: Tin Mine Production, '000 tonnes	5.86	9.97	16.94	20.33	22.77	25.50	28.56
Myanmar	TIN: Tin Mine Production Volumes, % y-o-y	94.40	70.00	70.00	20.00	12.00	12.00	12.00
Myanmar	TIN: Tin mine production, '000 tonnes, % of global	2.0	3.6	5.9	6.8	7.4	8.1	8.9
Thailand	ZINC: Zinc Mine Production, '000 tonnes	24.05	21.65	19.48	6.62	0.00	0.00	0.00
Thailand	ZINC: Zinc Mine Production Volumes, % y-o-y	-15.00	-10.00	-10.00	-66.00	-100.00	-	-
Thailand	ZINC: Zinc mine production, '000 tonnes, % of global	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Myanmar	ZINC: Zinc Mine Production, '000 tonnes	3.67	3.30	3.47	3.69	3.94	4.25	4.62
Myanmar	ZINC: Zinc Mine Production Volumes, % y-o-y	-25.00	-10.00	5.00	6.20	7.00	7.80	8.60
Myanmar	ZINC: Zinc mine production, '000 tonnes, % of global	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	GOLD: Gold Mine Production, moz	0.16	0.16	0.16	0.16	0.17	0.17	0.17
Thailand	GOLD: Gold Mine Production Volumes, % y-o-y	2.00	1.50	1.00	0.80	0.80	0.80	0.80
Thailand	GOLD: Gold mine production, moz, % of global	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Myanmar	COPPER: Copper Mine Production, '000 tonnes	13.92	14.61	15.20	15.65	15.97	16.13	16.13
Myanmar	COPPER: Copper Mine Production Volumes, % y-o-y	8.00	5.00	4.00	3.00	2.00	1.00	0.00
Myanmar	COPPER: Copper mine production, '000 tonnes, % of global	0.1	0.1	0.1	0.1	0.1	0.1	0.1

e/f = Fitch Solutions estimate/forecast. Source: USGS, Fitch Solutions