THAILAND

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The Thai economy slowed during 2001, owing mainly to the adverse impact of the global economic slump. The value of exports contracted, with the electronics sector being hit the hardest. Part of the contraction in foreign demand was offset by domestic stimulus from the government sector, especially in the second half. For the full year, the government cash deficit stabilised at 2.1% of GDP. Meanwhile, in the first quarter of 2002, the government adopted a fiscal policy, equivalent to about 1.3% of GDP, in order to shore up domestic demand.

In addition, several measures were implemented to boost private spending, for example, the postponement of the VAT rate hike, and tax and non-tax incentives designed to boost real estate activities. Together with other favourable factors - very low real estate prices in comparison to the levels witnessed during the asset price boom, a low interest-rate environment and the willingness of financial institutions to lend to borrowers with steady incomes such as civil servants - the result was an increase in private sector demand for housing towards year-end. This led to an acceleration in construction activities and a better investment outlook.

However, a full recovery was restrained by the unfavourable export conditions. With substantial production capacity remaining unutilised, demand for new investment in machinery and equipment was low, especially in export-oriented industries. In addition, financial institutions were also cautious in extending credits to sectors with lacklustre business prospects. Household consumption continued to expand, but at a slower rate than in 2000. Consumer confidence was partly shaken by the terrorist attack in the US in September and by the subsequent international war against terrorism. Nevertheless, the tension eased sooner than expected, consumer confidence began to recover and has improved steadily.

The terrorist attack further undermined an already weak US economy as well as the world economy, and the slack world demand led to a sharp fall in oil prices during the final quarter of 2001. The combination of lower oil prices, stable baht, and domestic economic slowdown caused inflation to decline steadily. For the entire year, Thailand's headline inflation was 1.6%, while core inflation of 1.3% was well within the monetary policy target corridor of zero to 3.5%.

Improvement in employment was another indication of favourable domestic stability. Employment in the hotel and restaurant sector expanded most strongly over the entire year, in line with a favourable trend in tourism, even though this was temporarily affected by the event in the US. The construction sector also began to absorb significantly more employment towards the end of the year, in parallel with the revival of housing activities. Such improvement in employment helped raise consumer confidence and purchasing power.

Foreign capital flows strengthened strikingly over 2001. During the first five months of the year, the private sector made net foreign debt repayment of US$4,993 million per month on average. Such a high level of private capital outflow was due in part to Thailand's unattractive interest rate differential. To mitigate this, the Bank of Thailand hiked its interest rate from 1.5% to 2.5% on June 8, 2001, and during the final seven months of the year net foreign debt repayment by the private sector declined significantly, to a monthly average of US$292 million. Meanwhile, the stability of the baht improved, and international reserves stood at a comfortable level.

The decline in both inflation and external vulnerabilities during the latter half of the year allowed more room for monetary policy to accommodate growth. As a result, the Bank of Thailand lowered the official rate from 2.5% to 2.25% on December 25, 2001, but the effectiveness of monetary policy remained limited under prevailing financial sector conditions. Commercial bank credits expanded by only 0.7%, while commercial bank deposits rose at a higher rate of 4.0%, reflecting high liquidity in the banking sector.

The Thai economy seemed set to expand by 1.5%, or slightly higher, in 2001. While the growth rate was less than in the previous year, a favourable mix between monetary policy and fiscal policy, plus the diversified structure of production and exports, allowed the economy to resist contraction. Future recovery will depend on the recovery in global demand, as well as the corporate sector's ability to reap benefit from the occasion. Both fiscal policy and monetary policy will, meanwhile, continue to support sustainable growth. For 2002, the Bank of Thailand expects the economy to grow at around 2% to 3%, with no inflationary pressure.

Mineral Production

Most of Thailand's mineral production is used domestically. In 2001, Thailand produced 38 kinds of mineral commodity worth a total of Bt24.18 billion, an increase of 4.5% compared with 2000. Lignite ranked first in importance with total output of 19.6 Mt worth some Bt9.1 billion, representing an increase of 10.7% in both quantity and value compared with 2000. Limestone ranked second, with output rising by 6.6% to 46.4 Mt worth Bt3.9 billion, followed by gypsum with a 6.2% production increase to 6.19 Mt and a 16.5% increase in value to Bt2.98 billion. Zinc (ore) was in fourth place but there was a sharp decline in both tonnage, down by 44% to 88,664 t, and value, down by 52% to Bt665 million.

More than 90% of mineral production is used by Thailand's domestic industries. In the first eight months of 2001, domestic consumption was valued at Bt15.74 billion, of which lignite accounted for Bt6.3 billion (40% of the total), followed by minerals used in the cement industries, at Bt3.2 billion (21%), and base metals, valued at Bt2.96 billion (19%). Thailand's largest mineral imports were of bituminous coal and anthracite, whilst the most important mineral exports were base metals

Mineral export revenues rose by 15% last year to Bt9.9 billion. The most important exports were tin metal, worth Bt3.6 billion; gypsum, worth Bt2.1 billion; tantalum powder, worth Bt1.7 billion; tantalum pentoxide powder, worth Bt0.56 billion; and tantalum hydroxide powder, worth Bt0.5 billion.

Mining

Thailand's principal base metals producer, Padaeng Industry plc, is the only private company in southeast Asia that mines and smelts zinc. Its principal shareholders are UM of Belgium (44.77%) and the Thai Ministry of Finance (13.81%). It mines zinc silicate ore at Padaeng in the Mae Sot district of Tak Province, and also operates a zinc refinery located 96 km from the mine. In 1995, mindful of diminishing reserves of zinc silicate, the refinery modified its smelting process to incorporate calcine as a feedstock and is one of the few smelters in the world able to treat both silicate and sulphide ore in the same process.

In 2001, Padaeng produced 139,050 t of zinc silicate ore at an average grade of 17.45% Zn, containing 24,265 t of metal. It also imported silicate ore and zinc sulphide concentrates totalling 343,000 t. The smelter increased production overall by 3.6% to 104,797 t, comprising 74,129 t of special high grade zinc, 27,097 t of zinc die-casting alloy plus 3,571 to of continuous galvanizing grade alloy. The total resource at Padaeng, as at December 31, 2001, amounted to 5.14 Mt averaging 12% Zn. There are sufficient resources to treat 380,000 t/y over ten years. The mine also processes by-products, including limestone which is sold to an affiliate. The company distributes most of its products to domestic customers. In 2001, it achieved total revenues of Bt5.2 billion and achieved a net profit of Bt335 million.

Padaeng's other mining interests in Thailand include the Puthep copper project, a joint venture with Pan Australian Resources which is currently at the feasibility stage.

Little more than one-fifth of Thailand's 145 tin mines were active last year, with high costs and a complex tax structure forcing many operations to halt. The mining areas are confined to Kanchamburi, Phang Nga and the island of Phuket where the country's one and only tin smelter is located. The Thaisarco smelter, now owned by Escoy Holdings Bhd and Amalgamated Metals Corp., which are part of the Preussag Group, produced around 18,000 t of refined tin last year, slightly higher than in 2000. A total of 20,000 t is targeted for 2002. Around two-thirds of production is exported. The smelter also produces modest amounts of tantalum as a by-product.

Last year was noteworthy in that Thailand's first modern gold mine was opened. The Chatree mine, located about 280 km north of Bangkok in Pichit Province, was opened in December and cost US$32 million. It is scheduled to produce 720,000 oz of gold over seven years, including 140,000 oz /y for the first three years at cash operating costs of US$100/oz. Average total operating costs are estimated at US$169/oz. The operating company, Akara Mining Ltd is a wholly-owned subsidiary of Kingsgate Consolidated NL of Australia.

In mid-year, the government imposed a temporary freeze on granting new gold exploration licences because of low gold prices.

Thailand is a modest hard-coal producer and Banpu plc, the country's largest producer, has a capacity of 3.8 Mt/y. Its operations are in the north of the country in the provinces of Lamphun, Lampang and Payao but reserves amount to no more than 20 Mt. There are substantial lignite deposits, however, and Thailand's annual lignite output is close to 20 Mt. At the country's largest lignite mine, Mae Sot in Lampang, a new overburden handling system is being installed that will be used to transport some 500 million m^3 of waste over the next ten years at a rate of 22,000 t/h.

Over the past decade, Banpu has established a significant presence in the Indonesian coal sector and now has a production capacity in Sumatra of some 8 Mt/y. The company also has industrial minerals interests including kaolin, ball clay and calcium carbonate production but, apart from coal, its most important interest in Thailand is in the power-generating sector. This includes a 37.5% stake in Tri Energy Co. Ltd (TECO), which has established the country's first greenfield independent power project. The 700 MW combined cycle plant uses natural gas and has been supplying the Electricity Generating Authority of Thailand (EGAT) with electricity since July 2000. Banpu's partners in TECO are Texaco Inc. and Edison Mission Energy. The total project cost is about US$400 million. In eastern Thailand, Banpu has a 50% stake in BLCP Power Ltd, which has been selected by EGAT to build, own and operate a 1,400 MW plant relying on imported coal. The project costs are estimated at US$1,300 million and construction is scheduled to begin in 2003 with completion due in 2006. In Ratchburi Province, Banpu has a 10% interest in Ratchburi Electricity Generating Holding which is developing five 725 MW combined cycle units. Two have already been completed.

In order to focus on its core energy business, Banpu has been considering the sale of its industrial minerals interests including its 99.9% interest in clay producer Mineral Resource Development Co., its 67% stake in Yenbai Banpu Calcium Carbonate Co. and its 51% interest in kaolin producer, MDR-ECC Co.

Development

Potentially, the most significant new mineral development in Thailand concerns its large resources of potash. There are two projects. The more advanced is Asean Potash Mining Co.'s project at Bamnet Narong where a 935 m decline has been completed to provide access to large resources of carnallite at a depth from surface of some 180 m. A second, 1,280 m-long incline is planned to enable the transfer of the mined product to a fertiliser processing plant.

The Japanese Government has approved a US$350 million loan towards the US$500 million total capital cost of a 1.1 Mt/y capacity mine. However, last year, the Thai Government, which has a 20% stake in the project, was unable to provide the guarantees needed to underwrite the loan, and a number of foreign companies were expressing interest in acquiring a 50% stake in the project which would obviate the need for the loan. Interested companies have included Basic International Development Corp., Bateman Engineering, Cementation Skanska, Ferrostaal AG, a Japan-Canada joint venture including Marubeni and a Thai-China joint venture with TSB Trading.

The second project involves Vancouver-based Asia Pacific Resources which has discovered a world-class resource near the city of Udon Thani in northeast Thailand, close to good infrastructure including a rail link to deep-sea ports within 2 km of the proposed surface facilities. APR has a 90% beneficial interest in Asia Pacific Potash Corp. (APPC) with the Thai Government holding the remaining 10%. Since 1993, drilling and seismic surveying by APPC has outlined two deposits, Somboon and Udon, at a depth of some 350 m. Somboon contains measured and indicated resources totalling 225 Mt of sylvinite at an average grade of 24% K_2O. A feasibility study in 1998 concluded that a 2 Mt/y underground operation would be technically and economically feasible with operating costs of less than US$50/t fob Gulf of Thailand. An environmental impact assessment has already been approved by the government and a mining licence has been applied for.