

MEKONG DELTA RISK MONTHLY



ECONOMICS: An AMCHCAM survey finds that 70% of American firms with operations in Southern China are freezing investments and plan to move some of their productions to Southeast Asia (only 1% say they plan to bring it back to the US). A HSBC survey says the bank’s MNC clients in China are mulling to move production to Cambodia, Vietnam and other countries in Southeast Asia.

POLITICS: On November 3, Myanmar’s State Councilor Aung San Suu Kyi’s ruling National League for Democracy (NLD) fared poorly in country’s by-elections. NLD won 7 seven of the 13 constituencies up for grabs, and lost 4 it won in the 2015 general election, when it won almost 80% of the races. Winning constituencies included Yangon, Mandalay, Bago and Magwe regions and Chin State; lost seats in Yangon, Kachin State and Region to the military-led Union Solidarity and Development Party and one other party, the local Chin National League for Democracy. "This result is a lesson for us. We will come up with a strategy for the coming election," said NLD spokesman Myo Nyunt, which will be held in 2020.

SECURITY: October 22-28, ASEAN and China held their first joint maritime exercise in South China Sea, which recently has seen escalating tensions between US and China warships. China participated with 3 ships and Singapore, Brunei, the Philippines, Thailand, and Vietnam participated with 1 each whereas Cambodia, Indonesia, Malaysia and Myanmar sent observers. "It is key to China and ASEAN's shared destiny and to preserving peace in the region," said Vice-Admiral Yuan Yubai, commander of the Southern Theatre Command in the PLA Navy. The same week ASEAN said it had agreed with the US to hold a joint maritime exercise next year.

FOREIGN INVESTOR REGULATORY ACTIONS: Vietnam is drafting amendments to the country’s securities law that would allow foreigners to acquire majority equity stakes in sectors deemed not critical to national security. This is the first major revision to the law since 2010. Foreign ownership is capped at 49% for most industries, except for “conditional businesses” such as banking and aviation where the limit is 30%. The latter group will keep (higher) caps but the lifting of foreign caps will lead to a merger & acquisition boom, aiding economic growth. The amendments will be submitted to the National Assembly for approval in 2019.

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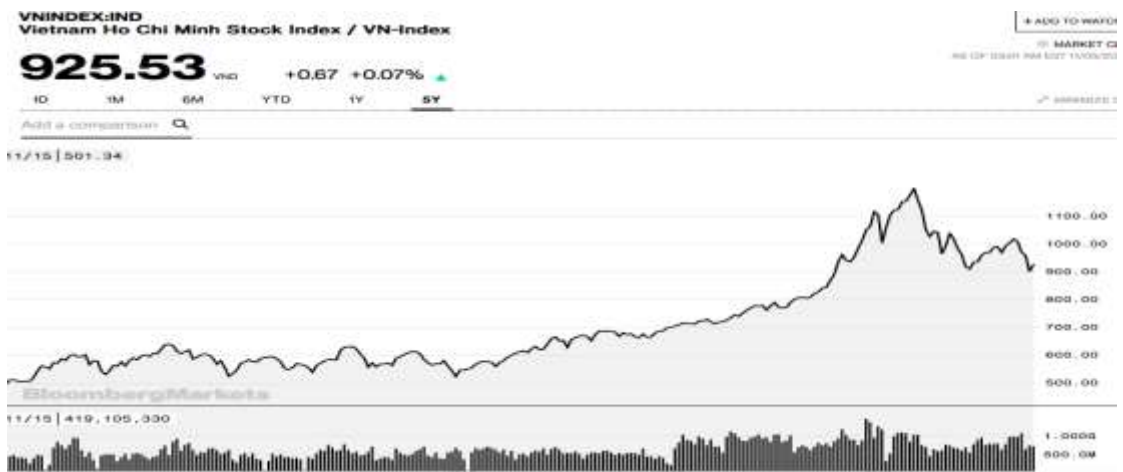
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COUNTRY RISKS

China: On October 31, the \$-RMB exchange hit 6.98 close to the 7.00 level last time recorded in April 2008 during the Great financial crisis. While the US Treasury on October 17 released a report concluding that China was not a currency manipulator, further currency weakening before next review in April 2019, could trigger a reassessment resulting in penalties under The Omnibus Trade and Competitiveness Act of 1988 and The Trade Facilitation and Trade Enforcement Act of 2015.

Treasury has devised 3 thresholds to ascertain if manipulation is taking place: (1) a significant bilateral trade surplus with the US is one that is at least \$20bn; (2) a material current account surplus is one that is at least 3% of GDP; and (3) persistent, one-sided intervention occurs when net purchases of foreign currency are conducted repeatedly and total at least 2% of an economy's GDP over a 12-month period.

Treasury writes in its latest report that, "In January 1994, China devalued its currency by 33 percent, from 5.82 RMB to the dollar to 8.72. China then fixed its exchange rate at 8.28 for a decade until 2005, a level that was deeply undervalued. Notwithstanding its constructive decision not to further devalue its currency during the 1997-98 Asian Financial Crisis, China's insistence on maintaining the RMB exchange rate at a highly undervalued level for such an extended period of time created strong economic incentives to artificially increase the size of China's export sector, just as it negotiated its entry into the World Trade Organization in 2001."

Myanmar: The Independent International Fact-Finding Mission on Myanmar which was set up by UN a year ago delivered to the Security Council a critical assessment of the government's security forces handling of the country's Rohingya Muslims. Marzuki Darusman, the chairperson, mentioned his mission's detailed documentation of murder, mass rape, enforced disappearance, arson, looting, torture, and "large-scale massacres including of women, children, and elderly," among other brutalities. Furthermore a group of Asian MPS urged halt of the more than 700,000 Rohingya repatriation, which is scheduled to begin this month.

An Oxford Business Group Business Barometer Myanmar CEO survey found that 77% indicated their firms' plans to make significant capital investments in the year ahead, while 64% have positive or very positive expectations of local business conditions. However CEOs complained that the biggest shortfalls for future growth were poor leadership, with 45% of responses, followed by research and development 15%, engineering 14% and business administration 9%.

Thailand: Thai Prime Minister Prayuth Chan-Ocha said that political activities would no longer be banned in Thailand by December after 4 years of military led government. This follows last month's decision to allow political parties to begin organizing ahead of the general election likely to be hold before May 2019. PM Prayuth has indicated the election date will be February 24, coinciding with the university entrance exam (February 23-26), which would mean that a lot of young people would not be able to cast their votes.

Last month, the new King Maha Vajiralongkorn announced two new appointments to the Privy Council, which is a body of appointed advisors to the monarchy. The new appointments were General Chalermchai Sittisart and Air Chief Marshal Johm Rungswang. This is the second time the king makes changes in this influential institution (in Dec 2016 Minister of Justice Paiboon Koomchaya, Minister of Education Dapong Ratanasuwan and a former army chief, Teerachai

Nakwanich were appointed). All in all, he has replaced 5 out of 11 since he inherited the crown from his late father King Rama IX, Bhumibol Adulyadej.

Laos: Following the collapse of a hydropower project in July killing dozens of people, the Laos government has suspended approval of new dams and said it would review all dams currently under construction. Laos has 46 operating hydroelectric power plants in 2017, with 54 more in the pipeline, and sales of electricity abroad account about 30% of its exports. The government is keen on growing renewable and clean energy generation such as solar and wind turbines.

Costing \$5.8bn and stretching 414km a Chinese financed new railway is being built linking Kunming, capital of Yunnan (China), with Vientiane, capital of Laos, which is set to be ready by 2021. After that the plan is to link with Thailand, Malaysia and Singapore to allow an uninterrupted railway system linking Southeast Asia with China.

Laos: Richard Mehan, from Stanford's Blume Earthquake Engineering Center, has in a new report concluded that Xe-Pian Xe-Namnoy dam failure which killed up to hundred people or so three months ago were caused by "the extended western arm of the [saddle dam] reservoir was built on a sinkhole." The government is expected to announce their finding soon, which could bring criminal charges to one of the four companies involved in the \$1.2bn project (Ratchaburi Electricity Holding Co Ltd (Thailand), Korea Western Power, SK Engineering & Construction (Korea) and Lao Holding State Enterprise).

According to UNDP's statistical update, the target of graduating from Least Developed Country (LDC) status in 2024 remains challenging due to high inequality and disaster risk. LDCs are assessed using three criteria (of which two have to be met): the human asset index (HAI) which assesses health and education targets, economic vulnerability, and gross national income (GNI) per capita. If Laos leaves LDC group it would result in reduction of Official Development Assistance and Generalized Scheme of Preference granted to exporters by many developed countries.

Cambodia: The October 5 EU decision to initiate temporary withdrawal procedure of its trade preferences under the Everything But Arms (EBA) scheme will consist of three phases: (1) 6-months of monitoring, (2) 6-months of report-making before the European Commission makes its decision to withdraw the tariff preferences, and (3) 6-months to take effect once the decision is adopted. Hence Cambodia and its government will have some time to adjust their policies to hinder a "temporary" withdrawal of EBA status.

On October 27 King Norodom Sihamoni in his role as head of Cambodia's Supreme Council of Magistracy moved nearly 60 court officials, judges and prosecutors to new posts across the country, which was seen by NGOs and legal experts as a way to restore judicial independence.

Vietnam: On Oct 23, the Communist Party elected its general secretary, Nguyen Phu Trong, as president. The 74-year old Trong will maintain his position as party head, making him the first person to hold both roles since revolutionary leader Ho Chi Minh in the late 1960s. Whilst mostly ceremonial, the new presidential position will give Trong higher profile internationally and access to heads of state and allow him to shape Vietnam's economic and foreign policy.

Hanoi is set to see be the home the first formula 1 race in the 2020 season. It would be the third country in Southeast Asia following Singapore and Malaysia – where the latter scrapped it due to

alleged high renewal fee and poor ticket sales. Vietnam would be the first new calendar entry since US group Liberty Media took over the franchise in 2017.

MONTH AHEAD KEY EVENT: *On Nov 11-15, the 33rd ASEAN meeting will be held in Singapore followed by the APEC summit in Papua New Guinea (Nov 12-18). Vice President Mike Pence will attend both summits and has promised that “there, we will unveil new measures and programmes to support a free and open Indo-Pacific.” For further details how Mekong Delta fits in the new Indo-Pacific strategy please see our note dated October 31 “US pivots Asia strategy away from Pacific to Indian Ocean nations.”*

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To schedule an in-depth Q&A briefing with Lars

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