

Frontier Mining: Big Opportunities in New Markets

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Abstracts

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High Commodity Prices To Drive Frontier Investment

Perceived Benefits Outweighing Perceived Risks The coming years should see a flurry of investment in frontier mining sectors. A number of factors have combined to encourage major mining multi-nationals to search further afield for resources. In particular, an expectation that commodity prices will remain elevated by historical standards means that these firms now perceive the potential benefits from investing in frontier countries as outweighing the risks in many cases. Emerging markets will be the largest drivers of demand growth for industrial commodities over the five-year forecast period, and this will have a significant impact on the demand for services from global mining and extraction companies.

Frontier mining countries suffer from an infrastructure deficit, which poses a key downside risk to the development of their mining sectors over the coming years. However, we note that progress is being made on this front.

China will continue to play a key role investing in mining and infrastructure sectors across the globe and we expect several trends to emerge. First, China will increase its focus on frontier countries as some of the highest grade, undeveloped deposits are to be found there. Second, Chinese investments in non-core mining countries will increasingly span a variety of sectors including infrastructure. Lastly, ventures into these countries will remain government-led, although private initiatives will play an increasing role.

Many African countries illustrate the risks, as well as substantial rewards, inherent in frontier mining destinations. Indeed, whilst much of the continent lacks sound

infrastructure and significant political risks exist, many countries also possess substantial high-grade reserves of iron ore, copper and gold, which could prove lucrative to mining companies.

In the Americas, improved business environments in Ecuador and the Dominican Republic have led to significant levels of investment in the countries' gold and copper deposits, which should lead to rapid growth in their mining sectors. However, political impediments remain in Panama with its fluctuating policy towards mining companies frustrating foreign investment into the country's substantial copper reserves.

In Asia, Vietnam has the fewest risks to our outlook for rapid growth in its mining sector with political stability and sound infrastructure. In contrast, whilst Laos has the potential for rapid development of the country's mining sector, any growth is likely to be curtailed by poor infrastructure and the lack of a skilled workforce.

In Europe, development of the mining sector could have the most significant impact in Greenland. Greenland's huge reserves of iron ore and uranium could have substantial political repercussions for the country if investment is able and willing to overcome the territory's almost complete lack of adequate mining infrastructure. Armenia may also be unable to fulfil its potential as corruption hinders investment into the sector, despite its substantial copper deposits.

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