Clearing the Fog for New Foreign Investors

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Local and international media have a tendency to sensationalize Thailand's political crises and natural disasters. When things look bleak and media broadcasts an impending storm it is difficult for investors to see the road and they tend to focus on specific trees as landmarks versus seeing the whole forest of Thailand and how it has weathered many political and economic storms. That Thailand continues to succeed economically despite its internal turmoil is a story that often gets left out. Thailand again and again over the past 15 years has quickly bounced back from politically induced economic malaise because the underlying fundamentals for investing here remain attractive.

THAILAND'S ECONOMIC TREND, 2000-2013

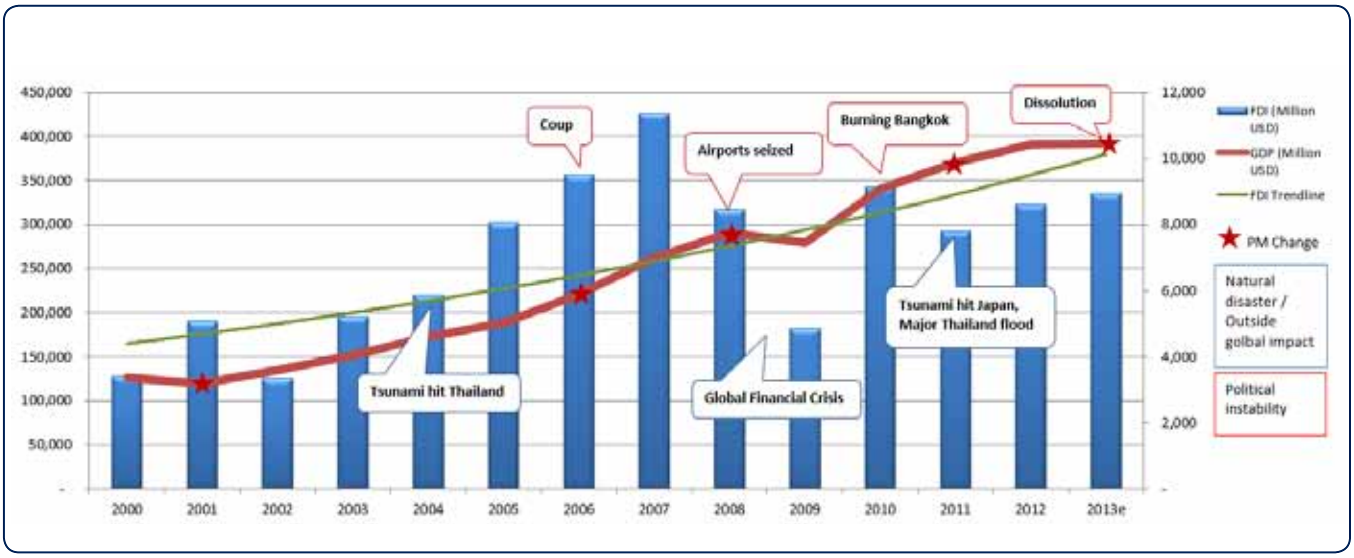
Opening and operating a business in Thailand is not complicated, especially when compared with many other countries in the region. As someone who deals with investors on regular basis, David Nardone, the President and CEO of Hemaraj Land and Development, said that "foreigners are comfortable in Thailand due to reasonable costs, good infrastructure, market access and an integrated supply chain." That's further supported by Thailand's ranking of 18 out of 189 countries in the 2014 World Bank Ease of Doing Business Report. This compares to Cambodia's at 137, Lao PDR at 159, and Myanmar, which ranks a lowly 182 out of 189 countries. In the same report, Thailand is ranked 12th for protecting investors, 24th for trading across borders, and 22nd on enforcing contracts.

Existing investors understand Thailand's unpredictable political climate and usually buckle down and weather out these storms with minimal business impact. New investors should keep in mind Thailand's strategic location, well-linked supply-chain, industrial clusters, skilled labor force and abundant agricultural feed stock; all of which help the country maintain its attractiveness as an investment destination despite the political evolution that is occurring. Thailand's corporate income tax was recently reduced to 20%, which has further improved the country's ranking in PriceWaterhouseCoopers' comparison of tax systems worldwide from 96 to 70 out of 189 countries. Unless the underlying fundamentals undergo a severe shock and/or other countries in the region can quickly offer equal or better options for manufacturers, Thailand still offers a lot to new and existing investors.

SEEING THE BIG PICTURE

When respected news organizations entertain the idea that Thailand could slip into a civil war, as some did in the first quarter of 2014, foreign investors less familiar with Thailand's history can be left feeling fearful. Investors must keep Thailand's historical and economical context in perspective when evaluating the risks political instability poses to their investment. In Thailand, civil unrest and political battles are more than likely not going to descend beyond civil and political unrest any time soon. Without minimalizing the tragic loss of life of some

FIGURE 1: THAILAND'S ECONOMIC TREND, 2000-2013



Source: Tractus Research

of the Bangkok's street-level protestors, for many the fray has been more about posting smiling photos at mass protests to support their political party on their Facebook profiles than intending to start a civil war.

Even in countries that enjoy significantly fewer democratic and civil freedoms, prolonged protests such as those in Egypt or Russia have yet to dissolve into the type of full blown civil war that some journalists have alluded Thailand is staring down the barrel of. An analysis of historical events shows that short-term disruptions, or "bumps", do not substantially discourage investors already familiar with Thailand's ebbs and flows of political stability.

CHANGING FDI AND GDP IN CRISES

One key measure of stability is the peaceful transition of political leadership in a country. "PM Change" labeled with a star on Figure 1 denotes a change in the Prime Minister of Thailand brought about through democratic means or otherwise. If we look at the change in Prime Minister brought about by a military coup in 2006, we see that both GDP and FDI grew the following year at rates consistent with more typically stable years.

In 2009 Thailand experienced a significant drop in both approved FDI and GDP growth. However, poor financial performance is likely to have been driven primarily by stagnation in the global economy on the back of the 2008 financial crisis. Thailand's economic performance that year was largely in-line with similarly affected neighboring countries and airport closures during the coup had little long-term impact on growth and did little to interrupt normal business flows. International shipping ports received shipments and processed exports and factories continued to operate as normal. A year later, FDI bounced back nearly doubling to US$9.1 billion year-over-year.

Even when Thailand's single largest source of FDI, Japan, was struck by catastrophic tsunami in 2011 and much of Thailand's industrial real estate was flooded in the same year, few investors pulled out and many doubled down on the country. While impacts of the flood inevitably necessitated a halt in production at many factories, some of Thailand's largest and oldest investors decided to strategically capitalize and improve or expand their Thailand operations, many in alternative domestic locations. Near the end of 2011 Hitachi announced plans to expand its factories for electrical appliances, elevators and auto parts. Hana Microelectronics and Canon also affirmed their confidence in Thailand following the floods by expanding their production capacity and pouring new money into their operations.

Thailand registered continued strong FDI performance in 2012 and 2013 as well as domestic spending, helping to buoy further confidence in this surprisingly resilient country. Continued growth in FDI between 2011 and 2013, including a 50% increase in the number of projects approved by the BOI in 2012, underlies that confidence. In 2012, expansion projects accounted for 67.5% of new investment with many demonstrating continued commitment to their Thailand operations.

ARTIFICIAL BOOST TO CONSUMER SPENDING

Unfortunately, continued investor confidence in Thailand does not guarantee continued economic performance across all metrics. A number of economic policies implemented by the government in 2011 and 2012, which helped to artificially boost consumer spending, have now run their course. Programs that provided government-sponsored financial incentives for first-time home and car buyers have now expired, which is likely to lead to an inevitable slump in domestic spending.

Side effects of these popular incentive programs should not be confused with the impacts of political instability. While gridlock in Thailand's bureaucratic bodies brought on by politics is going to unavoidably delay government administrative decision making, it is unlikely to have a long-term impact on investment fundamentals.

Foreign investors should not be daunted by Thailand's frequent, sometimes abrupt, changes of government. Historically, these changes have had a short-term impacts on the economic environment. Thailand's civil administration has repeatedly demonstrated its willingness to adopt measures aimed at keeping quality investors and attracting new investment to move the country's manufacturing and knowledge capabilities up the value chain.

GOVERNMENT ASISTANCE

When natural disasters have impaired the country's operating environment, the government has proven its ability to take the steps necessary to reassure even the most flighty investors. During the 2011 floods, the government amped up its efforts to provide a relief scheme that assisted flood-affected companies.

It also provided soft financial support to industrial estates to help build flood protection walls around estates that were flooded. Despite claims that relief came in too late or at inadequate levels, government measures helped keep current investment levels steady and attracted new reinvestment growth.

Despite the recent political disputes, Thailand has shown resilience with the announcement of the new Board of Investment to approve new industrial project investment applications. On the heels of that news came an announcement that the automotive Eco-Car Phase II, Thailand's marquee project to develop the regions all-new eco-friendly vehicle, attracted five additional car makers that did not apply for Phase I. Investment levels for Phase II were 100,000 million Baht higher than for its preceding phase.

While the on-going political disputes have certainly slowed Thailand's economy in the second half of 2013 and now in 2014, continuing expansions in the automotive, petrochemical and infrastructure sectors indicate that Thailand will strengthen its position as an economic hub and a leading nation in the ASEAN Economic Community in 2015. ■

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