THAILAND AS A COMMERCIAL TARGET

This survey was conducted during December 2006, and the objective was to evaluate the perceptions which Australian and New Zealand business hold about Thailand as a commercial target and business partner. It is one in an ongoing series which allow the perceptions to be monitored over time.
Since the survey was conducted there has been several political and commercial events, the effect of which will only become evident over time.
The survey was conducted by Glen Robinson and Mitchell Brown of Asean Focus Group. Glen Robinson is a founder and has been an executive director of AFG for over 16 years, and as such has advised and assisted many companies which wished to establish or enhance a commercial presence in Asia. He can be contacted on glen.robinson@aseanfocus.com

INTRODUCTION

Each year we in Asean Focus Group undertake a research project to gauge the perceptions which Australian and New Zealand business people have towards Thailand as a commercial target. It has been undertaken for the last 4 years and is constructed so that year by year comparisons can be made.

In the past the participants have been executives from organizations which have some commercial contact with Thailand, whether it be an operating investment, a trading perspective or perhaps providing services. While this is very important input information, this year the input base was broadened to include companies which have a general interest in Asia but have no commercial contact with Thailand. The difference in perceptions is very interesting.

The overall response has been incredibly encouraging to the point where there is sufficient base information to present the results in various subcategories. The reason there has been such a high level of response may reflect the added focus on the country due to the expanding economy, the political shenanigans or the coup. Whatever the reason, it has allowed a very respectable result.

The New Zealand responses have been aggregated with those from Australia as the results from the two countries are very consistent. Where there is divergence, it has been highlighted.

We offer thanks for the cooperation and assistance given by the Australia Thailand Business Council, the New Zealand Thailand Chamber of Commerce, Austcham, and importantly the respondents who took the trouble to complete the survey information.

POLITICAL BACKDROP

Leading into the year 2006, two significant free trade agreements had been enacted. The Thailand-Australia Free Trade Agreement came into force on 1 January 2005, and the bilateral free trade area (FTA) agreement between Thailand and New Zealand officially came into effect on 1 July, 2005. It was expected that the effect and experience gained in practise would be very evident during 2006.

Significantly, this has been a tumultuous year in Thai politics which may have had an adverse effect on commercial activities, but that has not been the case. Even the political turmoil expected as a result of the declaration that the results of the March election were null and void, and the imposition of a caretaker government headed by Thaksin Shinawatra, which in itself caused a reasonable level of disquiet, and the final really noteable event, the September coup, none of which seemed to discourage the experienced expatriate business person.

SUBSEQUENT EVENTS

This survey was conducted during December 2006, well after the coup, but before the changes to the currency controls which were quickly withdrawn, and also before the bombs on New Years Eve, and the new Foreign Business Laws were published, therefore the effect of these latter events has no impact on these results. Whether they do or not is a matter for speculation into which it is not appropriate to enter.

PROFILE OF THE COMPANIES SURVEYED

Participating Companies

The profile of participating companies has marginally changed perhaps due to the introduction of companies which have no Thai contact.
The sectorial participation can be summarised in the following table

EXHIBIT 1: Commercial Sectors

SECTOR	% OF TOTAL
Agriculture	5
Construction/Materials	6
Energy/Telecommunications	3
Manufacturing/Industrial	24
Mining	3
SubTotal Processing	41
Advisor/Consultant	20
Distribution /Logistics	1
Education	8
Financial/HR services	4
Health Care	5
SubTotal Services	38
Other	21
TOTAL	**100**

Of these the respondents indicated the relative size of their industry in the home country as being

Small	36%
Medium	34%
Large	20%
Do Not Operate in Aust/NZ	10%

Commercial Contact

For the first time in our research process, companies which had no commercial contact with Thailand were invited to participate, which provided another very interesting perspective. Therefore the respondent results have been categorised as

INVESTOR, a company which has an investment in Thailand
TRADER, a company which has some form of commercial contact,
NO CONTACT, a company which is Asia interested but not yet dealing with Thailand.

The distribution of these respondents was reasonably even

Investor	36.9%
Trader	35.9%
No Contact	27.2%

Of the companies with investments in Thailand, 30% began their relationship through exporting.

Additionally, most of these companies have had investments in place for some considerable time,

Less than 1 Year	8%
One to Five years	24%
Five or more years	68%

This may be extrapolated to mean that the responses are based on experience and not necessarily gossip or hearsay.

The analysis of the formal foreign ownership, which is often the subject of much discussion, shows that 64% of the Investors were in a majority position.

EXHIBIT 2: Level of Ownership

FOREIGN OWNERSHIP	% OF TOTAL
0 - 25%	14
26% -50%	22
Subtotal Minority	36
51% - 75%	25
76% -100%	39
Subtotal Majority	64

PERCEPTIONS OF THAILAND

The participants were asked their view on the commercial attractiveness of Thailand compared with two years previously, and given that in those previous two years the level of political turmoil and the introduction of Free trade arrangements, the results are interesting.

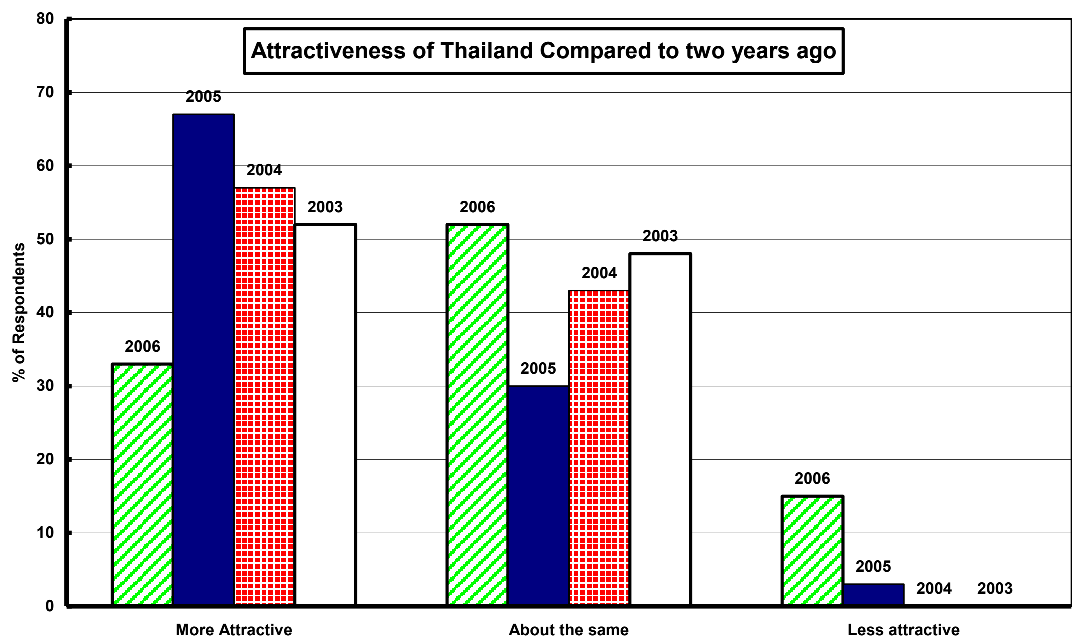
Across the three groups there was some consistency in the “less valuable” category. However, more Investors thought that Thailand was “more valuable” whereas, the Traders and No Contact thought that it was”about the same”

EXHIBIT 3: Perceptions of Thailand

	INVESTORS	TRADERS	NO CONTACT
More Valuable	45	22	25
About the same	39	65	57
Less Valuable	16	14	18
TOTAL	**100**	**100**	**100**

When the results are compared to previous studies, a different picture emerges. For this analysis the results of the Investors and Traders were combined and compared with the results of previous years

EXHIBIT 3: Perceptions Of Thailand



It is clear that the attractiveness of Thailand has declined, but a significant proportion has moved to “about the same”, leaving 15% of the respondents feeling that Thailand was now less attractive than it was 2 years ago.

THE COUP

The coup occurred mid September and this survey was conducted in December, so it is unlikely that the respondents had the opportunity to quantify any commercial effects. However it was unsettling even though the incoming administration went to great lengths to allay any fears. There were several questions which related to future plans and the potential timing of that action in Thailand.

In response to the question do you plan to expand or invest in the next year, the responses across the groups were as follows

EXHIBIT 5: Investment Plans

	INVESTORS	TRADERS	NO CONTACT
Yes	76	49	7
No	18	22	64
Uncertain	5	30	29
TOTAL	100	100	100

It is noteable that existing Investors were overwhelmingly intending to continue their investments into Thailand even in the short term.

The follow up question was asked of the Investing respondents if they had deferred any investment plans as a result of the Coup, and the responses were

Yes	5%
No	63%
No Change in Plans	32%

A surprising 95% of Investors were not deferring any future investment plans as a result of the coup

A further follow up question was asked of the Investors what effect the coup had on their commercial activity and the results were

None	63%
Reduced activity by 10% or more	11%
Increased activity by 10% or more	5%
Unsure	21%

In view of the timing, it is probably not surprising that 21% were not really able to quantify the effect

As shown by the Exhibit 5 above, the number of Traders who are planning to enter into commercial activity or expand an existing activity is really surprising. So a follow up question was posed and they were asked if they were considering Thailand as an investment destination.

EXHIBIT 6: Investment Intentions

	TRADERS	NO CONTACT
Yes	40	7
No	35	71
Discouraged by recent events	15	7
Uncertain	10	14
TOTAL	**100**	**100**

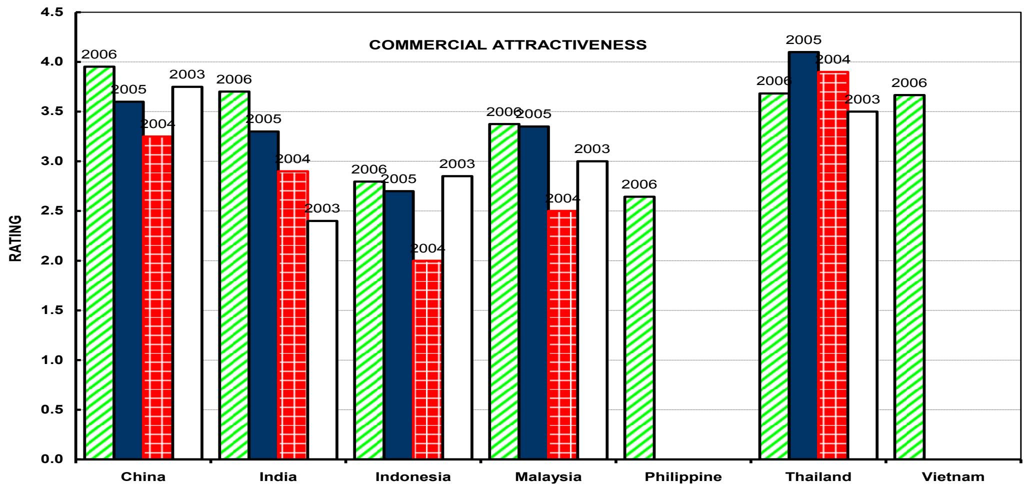
The conclusion which can be made from this series of responses is that the coup has had little effect on the commercial scene in Thailand. The existing Investors have no intention of changing their original plans; the Traders are still considering Thailand although a significant number are discouraged by the recent events.

ATTRACTIVENESS OF SEVERAL COUNTRIES

Each of the major economies in the region have taken steps to attract inwards commercial activities. For the last four years the attractiveness of five countries, China, India, Malaysia, Indonesia and Thailand, have been rated by the respondents, but this year also included were the Philippines and Vietnam. Respondents were asked to rate each country on the basis of 1 being very unattractive through to 5 being very attractive, and averages were determined for each country

It is relevant to note that the respondents have used their own perceptions of attractiveness. It is also noteworthy that the graph does not draw comparisons between the countries, but is intended as a means of tracking the attractiveness of an individual country over time. Further, in previous years the sample was drawn from a population which had a known interest in Thailand and hence it is expected that the higher level of interest was to be expected. However, for this year [2006] the sample population has been drawn from a population which has a known interest in Asia generally, and hence there should be no bias.

EXHIBIT 7: Commercial Attractiveness



With that background, there are several interesting points which can be drawn from the response.

- Generally there seems to be an increasing interest in Asia.
- Thailand is the only country in which the attractiveness declined from the previous year which was at an unusual high. This may be partially as a result of the inclusion of data from those without active contact with Thailand, who tended to rate Thailand slightly lower than those with a commercial interest.
- China and India continue to grow and catch the attention,
- Of particular interest is that Malaysia seems to have peaked and
- Indonesia is coming back into favour.
- Philippines is at a particularly low level of attractiveness
- Vietnam is very attractive, and is expected to continue to be so due to their hosting of APEC forum in Dec 2006, and their entry into WTO in January 2007

FREE TRADE AGREEMENT

Over the past two years both Australia and New Zealand have entered into Free Trade Agreements with Thailand. These FTAs cover a range of commercial activities including investment as well as trading and market entry considerations.

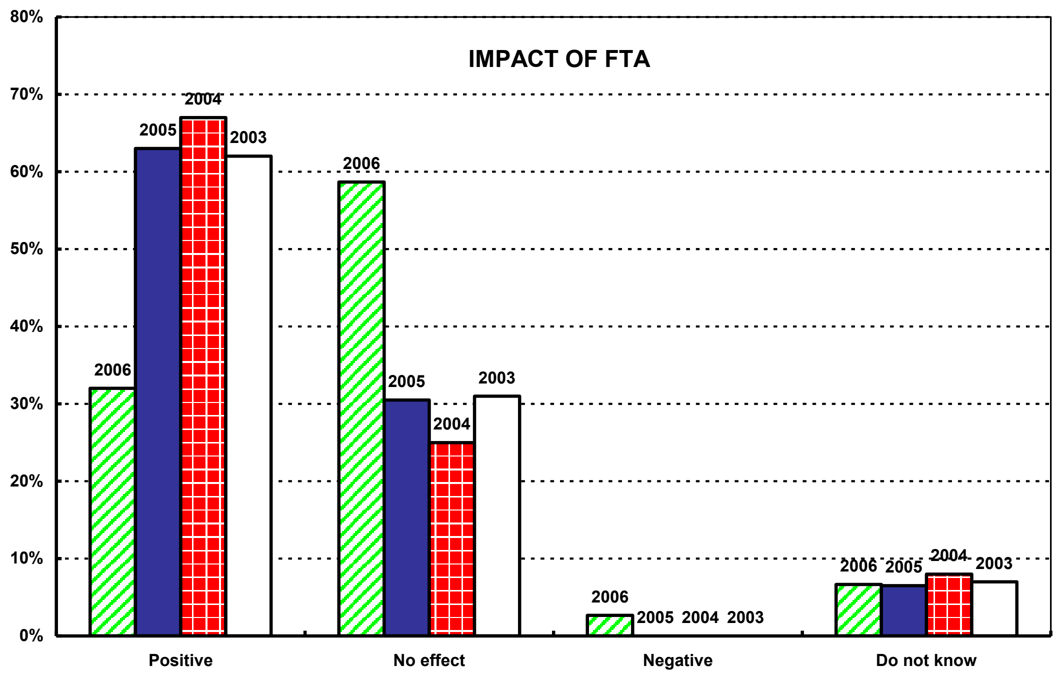
The distribution of views on the impact of the FTAs can be summarised in the following table

EXHIBIT 8: View of the FTAs

	INVESTORS	TRADERS	NO CONTACT	AVERAGE
Positively	35	29	21	29
No effect	62	55	54	57
Negatively	0	5	0	2
Do not know	3	11	25	12
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Of more interest is the longer term trend of expectations and realisations. For this analysis the Investors and Traders only are included and the No Contact group have been excluded. The FTAs were enacted at the beginning of 2005 and for the period leading up to the enactment, there was high expectations of their benefit. However, the results indicate that almost 60% of respondents believe that the FTAs have had “no effect” in practise

EXHIBIT 9: Impact of FTA over time



This may be seen as a disturbing result given the effort which is expended in development and promotion of these arrangements.

BOARD OF INVESTMENT [BOI]

The BOI has the role of encouraging investment and it has the ability to offer a range of incentives to those who make application. It has not been published in the past, however, on this occasion it was decided to provide some information of the Investors contact with the BOI.

Of the Investing companies, 29% were promoted by the BOI, and 71% were NOT promoted.

Of those companies which obtained promotion, they were satisfied with the experience, with an average rating of 4 (on a 1 [unacceptable] to 5 [excellent] scale).

The reasons given for not seeking BOI promotion is interesting:

EXHIBIT 10: BOI Promotion

Reason not BOI	% OF TOTAL
Did not consider	58
Decided not to	17
Advised against it	4
Ineligible (i.e. industry not supported)	21
Rejected by BOI	0
TOTAL	100

Given that 58% of Investor companies did not consider applying for BOI promotion, it would appear that knowledge of the benefits and services offered to foreign companies wishing to enter the Thai market is very low.

The fact that 21% believed that they were ineligible, yet no companies were actually rejected by the BOI raises the possibility some companies perceive they are ineligible for BOI promotion but are actually eligible?

CONCLUSION AND SUMMARY

The survey was undertaken in December 2006. The results are interesting and relevant as the participants are generally experienced in Asia, with a large proportion having commercial contact with Thailand.

Thailand has been an attractive target for Australian and New Zealand investors for a number of years. Whilst its perceived attractiveness has peaked and declined slightly, it is still viewed as one of Asia's more attractive commercial destinations.

Investors and Traders indicate that the FTAs signed between Thailand and Australia/New Zealand are much less effective than initially expected, and this may warrant further evaluation. However over time the benefits of the agreements may become more evident especially as tariffs are gradually reduced over the next few years.

While there have been significant changes to the global commercial environment, with changes as a result of events, alliances, participation in WTO, the significant markets remain attractive to the Australian /NZ business person, and Thailand despite the machinations remains attractive.