

Boxed Thinking

Thailand's creative economy shows promise but little coordination

Flight Delays

THAI's new low cost airline blocked by a reluctant government

Running short

How Thailand could meet its domestic palm oil demand

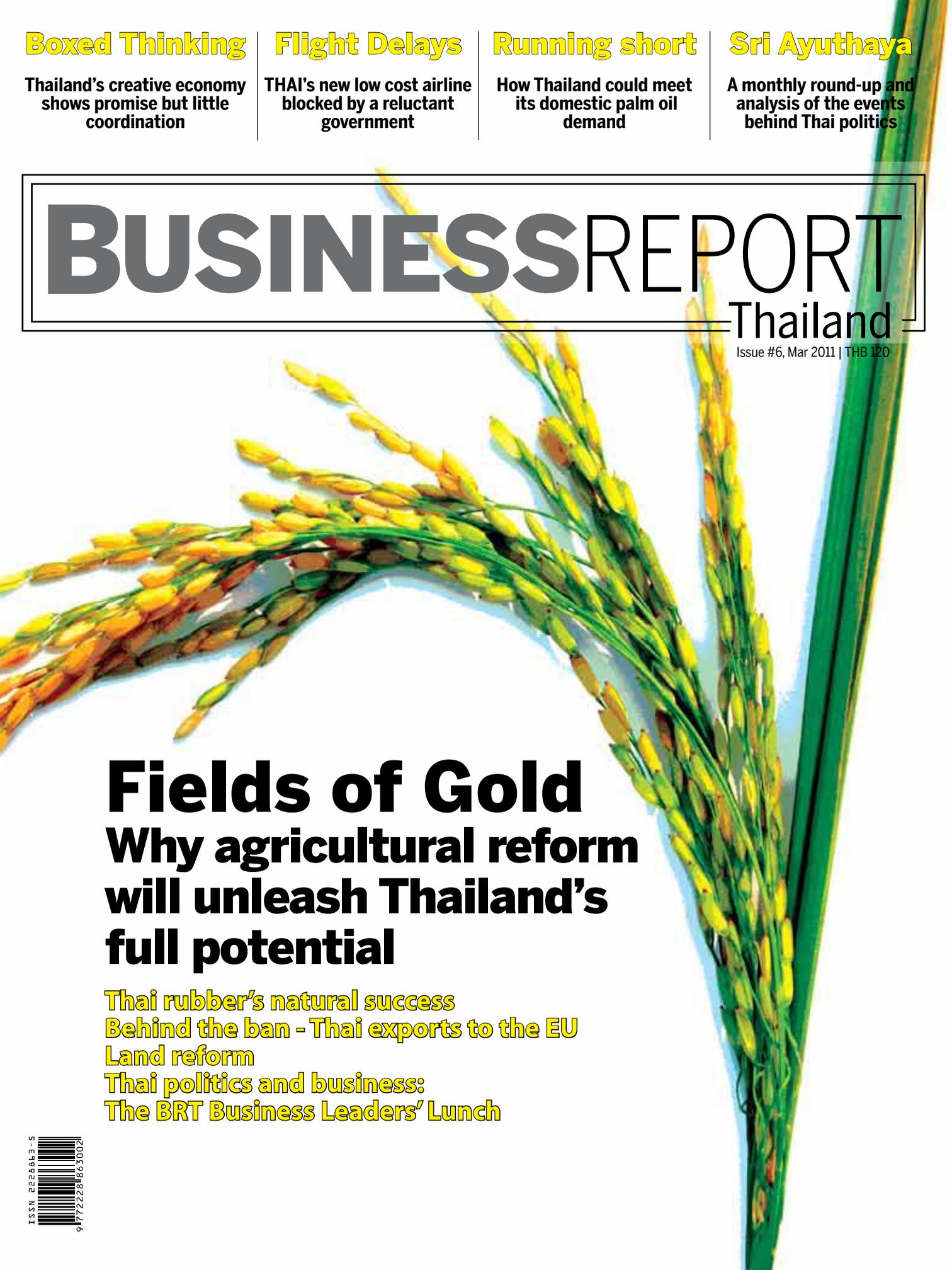
Sri Ayuthaya

A monthly round-up and analysis of the events behind Thai politics

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Fields of Gold

Why agricultural reform will unleash Thailand's full potential

Thai rubber's natural success

Behind the ban - Thai exports to the EU

Land reform

Thai politics and business:

The BRT Business Leaders' Lunch



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Correction

In last month's article 'Kept at a distance, Thailand's foreign advocates', the number of foreign chambers was incorrectly stated as 90. The number is 30, representing over 9,000 companies.

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BRT Business Leaders' Lunch

***Business Report Thailand's* (BRT) coverage over the past six months has underscored that the Kingdom's political and economic fortunes possess a near resolute disregard for the other. At times conjoined, Thailand's economic growth has refused to mimic the retreat into obfuscatory political dogma.**

In trying to dissect Thailand's political and economic fortunes in considering the question of just how much influence Thai politics has on business, as my guests are assembled here to do, Winston Churchill's turn of phrase in describing Russia at the outset of WWII as, "a riddle, wrapped in a mystery, inside an enigma" seems wonderfully apt. Political risk in Thailand, against recent growth, remains abstract. And although Thailand does not, perhaps, sit astride the beginnings of a wider conflict as Churchill did, he correctly determined that national interests will determine future action. But quite what Thailand's national interest is today is most certainly enigmatic, and will most likely never be sufficiently explained to everyone's satisfaction.

My guests represent industries that are all weathervanes of Thailand's business community and the global financial crisis of 2008/09 seems as an apt a place to start from in debating the influence of Thailand's politics on business. After all, despite the violence and political tumult of last year, Thailand emerged out of recession with 8 per cent GDP growth last year, a 65 per cent increase in Board of Investment applications and a return of a sizeable tranche of Thailand's tourist numbers. But which has had the greatest impact and legacy, the GFC or Thai politics?

Though the views offered throughout the two hour lunch were approached from different angles, they rarely differed in their conclusions. Dr Pavida, with an energy and intensity that runs throughout the meal, opens, arguing that politics have indubitably been the more damaging to business sentiments in the kingdom. Yet Smith counters her view that Thailand's innate conservatism, born of the '97 financial crisis, has also protected the kingdom from the worst of the GFC.

Not that he disagrees entirely, but in what becomes a mantra throughout the discourse, he points to the immaturity he sees throughout Thailand's financial systems. Here, he argues, they are still based on banking markets, markets that peaked far back in 2004, and that Thai institutions have never found the means to adequately penetrate the capital markets - the next step in economic development.

What of last year's flood of money into Thailand I ask. Is this not an endorsement of the economy? It is a question he respectfully throws out.

Thailand, Smith argues, was not hit hard by the coup and GFC, "because we are meaningless. We had already left the game." He points to CNBC's 2005 dropping of Stock Exchange of Thailand (SET) quotations and THB1.7trn in cash trapped in the banking system today as key indicators of Thailand's failure to adapt, modernise and engage the capital markets. A situation he blames only in part on political events, but also a lack of professionalism in the markets.

Who are we to disagree with his experience, but what of last year's flood of money into Thailand I ask. Is this not an endorsement of the economy? It is a question he respectfully throws out.

"That's an insult to the foreign investors." Foreigners know exactly what's going on in Thailand he says, for right or wrong. Investments into Thailand, given the funds flowing from western markets in search of yields, should be considered accidental. That IPOs in Hong Kong last year outmatched New York shows that the markets to be in are in Asia, yet Thailand remains the smallest of them. And as for fluctuations on the SET, these are just beginning of year portfolio adjustments. Thailand certainly has the potential, he adds, it just does nothing with it.

In this manner, Smith speaks candidly and passionately throughout the meal, with an equally critical eye for all subjects and institutions.

Khun Narin, attentive and with a keen sense of humour,



Khun Smith Jingkaojai is a former Morgan Stanley banker, an Honorary Advisor to the Parliamentary Committee on Financing, Banking, and Financial Institutions, and to the Board of Trade, Thai Chamber of Commerce and Federation of Thai Industries. Khun Narin Setabandhu, director and senior underwriting manager for QBE Insurance, one of Thailand's key underwriters, is a man with a unique insight as a provider of commercial, industrial all risk and business interruption policies. Alongside him, Dr Pavida Pananond, head of the department of international business, logistics & transport at Thammasat Business School, and a graduate in accounting and international business of Chulalongkorn, McGill and Reading Universities and Mr David Lyman, lawyer, chairman and chief values officer at Tilleke & Gibbins, Thailand's oldest law firm and a man who has followed his family's 61 year legacy at the forefront of representing business in the kingdom.

points more to politics in responding to how investor sentiment is reflected in the insurance markets. Though the sector enjoyed double-digit growth rates last year, this was fed and driven by manufacturing, whereas in terms of large infrastructure projects--vanguards of the government's Public-Private Partnership (PPP) initiatives--everything has stopped because of risks and uncertainties.

Thai firms have stopped offering political risk coverage because of the government's call of terrorism in April last year. Insurance firms are battering down, building cash reserves and businesses in Thailand are left to rely on offshore paper issuances from companies such as AIG and ACE. For Thai insurers, only a court decision on what constitutes 'terrorism,' expected in 7 to 8 years, will release this imposition.

By this point our broth has been

replaced by roasted peking duck, which is being swiftly demolished as the conversation turns toward regulatory issues. A turn that comes from David's wry repetition of an oft-quoted saying amongst the business community and one that draws smiles from everyone at the table. "Business in Thailand succeeds in spite of its governments."

It raises an important point. Just how relevant is government? Despite all political issues there is little sign of foreign investors moving to divest their assets.

Armed with sheaf of papers that he 'just happens' to have with him, David hands over a list of over 100 laws that leave company directors liable to criminal prosecutions. Such laws, he explains, are undoubtedly the source of considerable frustration to business, but companies continue to invest and

operate because such laws are not enforced. Government regulations are key to business confidence, but Thai laws are drafted to allow a great deal of discretion in both their interpretation and enforcement. It is also deliberate. And be that as it may, the laws in Thailand have not substantively deteriorated since 2006.

What has been more potentially damaging, as the following conversation reveals, is the inexorable drawing of the judiciary into politics, particularly under the 2007 constitution and as political parties have sought the highest available counsel to solve their differences.

The treatment of red and yellow shirt leaders since 2008 remains at the forefront of this particular issue. The stigma of perceived double standards in the courts' work is both public and being keenly watched by business. As one of the last bastions of neutrality, Pavida

Feature



says, “it is damaging for any country as one of the key institutions that will determine credibility.

Once transparency is compromised, it brings Thailand into a society in which you cannot have clear predictability.”

This is above all what businesses are looking for. But as Thailand has proven in the past few years, even elected governments may not be allowed to complete their terms. The judiciary’s involvement in two of these cases looked set to be repeated late last year when the Democrats faced dissolution. The dismissal of their case smarted of double standards to many, but is defended by David.

“The procedural issue on which the case was decided was valid and its done all the time in the civil courts. Judges find the simplest problem to solve - it’s traditional with courts around the world.”

That ongoing court proceedings will continue to inflame political passions is assured, yet the subject of the judiciary

opens a stream of commentary on Thailand’s social framework and society around the table as I alone nervously eye the goose webs in black pepper sauce placed before me.

“The issue is the old people, they never stop talking,” scolds Smith as the

Business just wants to be left alone! They want to know what are the ground rules. Don’t change them. Be consistent. Then go away.

conversation flows, exasperated at the lack of room for the younger generation to have their say in Thailand’s affairs. We are a country of old soldiers, says Pavidia, recounting the saying

‘old soldiers never die, they just fade away.’ “They say the same thing about lawyers,” David quips as Smith compares Thai politics to a TV drama.

It is a situation, the table agrees with Narin that is exacerbated by Thailand’s inherent *pu-yai* culture - the unquestioning adherence to your senior’s views and instructions.

Ironically, it is this culture’s popular endorsement of ideas, however unsound, posited by various leaders that has bred a lack of respect amongst the younger generations, upsetting traditional, expected balances.

“It is scary that so many are happy to go along with the *pu-yai* culture and Thailand is being dragged back into the right wing, ultra-conservative issues,” says Pavidia citing the PAD’s renewed demonstrations and antagonisms toward Cambodia.

The root cause? Thailand’s paucity of meaningful education, which remains based on rote learning and unquestioning



Once transparency is compromised, it brings Thailand into a society in which you cannot have clear predictability.

obedience to the teacher's curriculum. I ask Pavida how this plays out in the universities.

"I think that Thais are not taught to question. You cannot educate further if you cannot question and you cannot produce top notch researchers if you do not push them to question," she says to nods from around the table. "I think it has become a challenge for everything, not just society as a whole. When you want to change the system, adults have to be ready to be questioned, and I don't think Thai elites are ready for that."

But a lack of education is not all to blame, says Smith referring to what he calls 'white collar [political] ignorance,' amongst those typically at the forefront of pushing for change. Yet it may not be as dire as we suppose as David praises many of the "brilliant" law students that pass through Tilleke & Gibbins' offices.

There are, it seems, the young Turks in Thailand whose time will come. But how long would it take to effect the needed wider social-shift I ask. A generation perhaps? "Once they've re-taught the teachers," David responds.

By this time, the abalone and goose webs have been devoured as the steamed red garoupa fish and fried rice heralds the meal's last few courses, but the conversation has not stopped in almost two hours and I steer us back to politics and what is business expecting of the proposed election for later this year.

Nothing that will lead to a new Thailand it seems.

"It is as though the country is trying to strip off its clothes and start anew, but nothing can be started anew," say Smith with clear emotion. "The country is a managed country that is never allowed a market force. Recent political issues

Feature

The areas of conflict are away from key GDP contributing areas. Their geography has less economic relevance for the country.

show that Thais love Thailand, but there is no mechanism to accommodate their participation.”

What Thailand needs, David intones, is evolution not revolution. And what of the Democrats I ask. Many with private sector backgrounds, they have been reformists on paper. What does business want - reform or stability under any colour?

David is first off the blocks. “Business just wants to be left alone! They want to know what are the ground rules. Don’t change them. Be consistent. Then go away.”

It is perhaps the most succinct encapsulator of the business environment in Thailand. No objections are raised, and the conversation begins to drift back to the political situation, but with a clear inflection on the injustice at the situation hefted onto Thai society by a few.

“It is a process of change management,” Narin breaks in. “[They] need to accept the younger generation’s advance, even if it exceeds your own.” Unfortunately, Thailand remains the hostage of such minorities as the PAD and a few issues they desire to control.

There is a positive aspect to all this though, Pavida reflects in the final minutes before she is forced to leave or risk missing her lecture. “It has been one factor that has helped Thai firms look outside the country.” Thailand’s domestic market is small and those that survived the ’97 and ’08 crashes are looking for growth abroad as well as to minimise their risk exposure.

Yet Thailand does not subscribe to the western mindset of making a lot of money, fast. It has always taken it easy.



But it needs to prepare for the future, David responds. “The young, left to their own devices, will take care of it. Government? Forget it. They’re too ponderous.”

And that Thailand thinks of itself as protected by some sort of divine power or fate is too positive. In the 1950s its GDP was the same as South Korea, the ’70s, Malaysia, says Pavida posing the question whether it wants to be saying the same thing in twenty years about Vietnam. All agree, it has the potential, but it must be doing much more with it.

The disconnect between Thailand’s economic and political fortunes is no clearer than in its wars. Thailand has conflicts on three borders and is fighting two - the deep south and now Cambodia. Why does this not affect business more I ask of Narin. It is a simple answer.

“The areas of conflict are away from key GDP contributing areas. Their geography has less economic relevance for the country.”

Perhaps it is for this reason that the conflict in the south has been able to drag on for seven years and why the “ridiculous” conflict around Preah Vihear temple has flourished.

“Thailand is enticing, despite all the negatives. The business community relies on its



ability to land on its feet,” David offers in further explanation as to why businesses still prosper in this environment. By all accounts it is sound. Despite its ills, Thailand has shown an uncanny ability to endure and prosper. After all, none at the table say they would want to live anywhere else.

But for reform to take place, it must go beyond politics. Thailand requires a social shift. It is another layer we debate, tucking into an oddly fluorescent yet moreish dessert.

Reform appears in name only, attitudes rarely do. The Pandora’s box example of corruption is hoisted to the fore. But looking to the politicians may be misguided. They make all the noise, but the bureaucrats run the country and some are more corrupt than others. But we never hear about it. “Its a matter of

bureaucracy as usual,” Narin jests.

Moreover, the bureaucracy can be the greatest bottleneck to implementing government policies. A point Smith illustrates with the introduction of micro-financing through the Thailand Post. A recent meeting chaired by the Finance Minister with the key parties was abandoned just twenty minutes in when it became clear none of the units were aware of one of the Democrat’s flagship policies.

So should this year’s election offer any hopes?

“It’s just a new election, just that,” Narin says. Together we all agree, the street demonstrations of one faction or the other will continue no matter who is in power. It is almost certain too that the red shirt movement, eventually, will come to power and fruition.

Courtesy of the JW Marriott Man Ho Chinese restaurant, our guests enjoyed:

Double Boiled Black Chicken Broth with Ginseng

Roasted Peking duck

Braised sliced abalone and goose webs in black pepper sauce

Sautéed prawn with XO sauce

Steamed red garoupa fish with soya sauce

Man Ho special fried rice with crab meat and Yunan ham

The famous chiew chow dessert “Oni Pae Guay”

As we wrap up, I ponder what we can draw from the conversations. There are few conclusions that can be drawn, only that the corrosive effect of Thai politics on national interests remains emotive, subjective and just one part of a catalogue of ailments that the nation needs to address. But which, true to form, has not prevented successful business.

It seems that Thailand’s Byzantine politics and government is offset only by the strength of its people, and business, maintaining its distance from politics, will continue to prosper overall.

Yet Thailand must prepare for the future. Business will look after itself, but for Thailand, past performance is no guarantee of future performance.

Oliver J. Fall
is managing editor of Business Report Thailand



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