



The comeback kingdom

Despite a triple whammy of political turmoil, recession and reduced tourism, Thailand's user-friendly business environment remains attractive to investors

By Jim Algie

The economic tsunami of 1997 had its epicentre in Thailand, but the shockwaves soon spread across Asia, bringing down banks, businesses and personal fortunes. The crisis is seared in the memories of Thais and expats through stories about the stockbroker-turned-sandwich maker, the "flea market for the rich" on Sukhumvit Soi 55 where people hawked their jewellery, cars and even a miniature hovercraft, the Thai businessman who crashed his car into 10 other vehicles on the expressway before abandoning it and leaping to his death.

Many politicians and businesspeople choked on the bitter pill prescribed by the International Monetary Fund (IMF), but as a result the banks are now a safer bet than they were. Jon Molstad, the managing director of the Elite Business Group, says: "Any of the Thai retail banks are probably safer than banks in the US. Sure they [US banks] are federally insured, but they're insured only to a certain amount per account. You never imagined any of them would fail, but they've gone."

The Chinese character for "crisis"

combines the words for danger and opportunity, which is now very much the case in Thailand. In particular, the professional business buyers Molstad deals with have been cashing in on the volatility of the market. "Aggressive buyers can make what you'd believe was a low or ridiculous offer and the seller goes: 'It's not what I wanted, but I don't know when the money's going to come back. I wouldn't mind having that cash in hand.' Cash is king," he says.

At the age of 29, the Minnesota native is already a successful entrepreneur. As a boy he put up flyers in his neighbourhood to advertise his lawnmowing business and during the winter he operated a snow-shovelling service. While studying international business in Arizona, he set up a valet company before moving to Thailand to work for business brokering outfit Sunbelt. The experience he gained there, in all aspects of accounting, work permits, Thai law and brokerage, enabled him to start Elite two years ago.

In belt-tightening times such as these, he's unsure what sort of businesses will work. "Distribution companies are great right

now. It depends on how they're run, what kind of products they have and who their customers are. So it's more about listening to what the potential buyer is looking for and then trying to match them with the right opportunities," he says.

He adds that besides lower set-up costs in Thailand, anyone looking to acquire a business here also has to look at the "lifestyle benefits" and ask themselves: "What am I going to be doing every day if I buy this business? If they like hanging out on the beach and meeting people from all over the world, then a small boutique hotel or restaurant could be ideal."

Caution, however, is still the watchword.

For foreign investors in Thailand, the biggest newflash is the incentives offered by the Board of Investment (BoI). They are part and parcel of special investor packages targeting nine different sectors and six kinds of enterprises, from alternative energy to large projects, such as manufacturing subway cars, stainless steel pipes, plastic and concrete.

James Cumiskey, an international legal adviser with Limcharoen, Hughes & Glanville in Bangkok, listed some of the highlights: "There's an import duty exemption on machinery and equipment, an eight-year corporate tax exemption, followed by a further 50% reduction of corporate tax on net profits for five years.

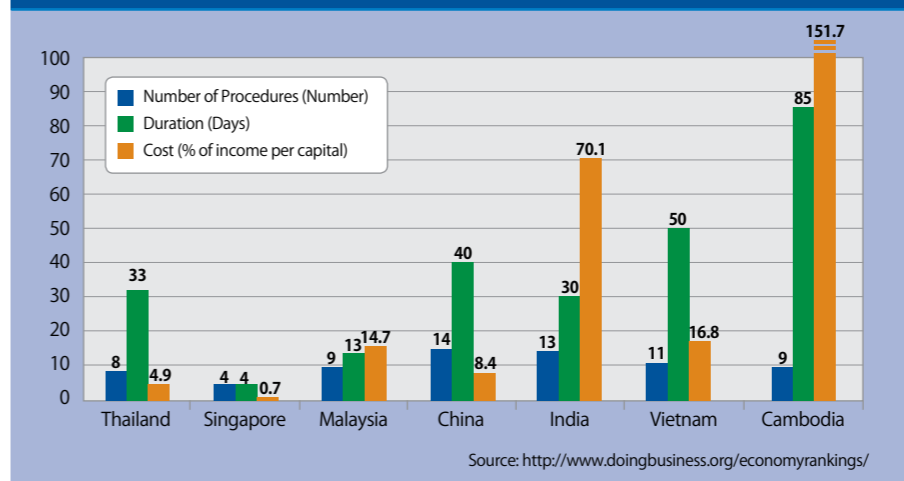
There's also a double deduction on transportation, electricity and water supply costs based on certain procedures and conditions that the BoI sets, and a deduction of net profit for facility insulation and construction costs up to 25% of the investment capital, in addition to depreciation and deductions."

He is quick to point out the complexity of the new policy. "They're offering different packages depending on what type of business it is. For BoI incentives you need to apply and be approved in terms of meeting capital investment requirements and engaging in businesses with promoted sectors. The benefits vary >

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THE BUSINESS OF STARTING UP



First steps: Thailand has attempted to streamline its start-up regulations and reduce costs, and is offering other incentives, such as tax exemption, to attract more foreign investors



Inclined to profit: Jon Molstad, James Cummiskey and Philip Barbour

according to what sector you're in and its geographical location. If it's in a special economic zone, it's covered by different aspects of investment law."

The incentives have been popular among foreign investors, but it's too soon to tell what impact they will have on the Thai economy. In recent years, other procedures have been streamlined to pave the way for foreign investors. The number of shareholders needed to start a company, for example, has been reduced from seven to three. "To make corporate governance more transparent they also amended the provision about directors' meetings and director proxies, so that the directors must meet, even by video-conferencing," says Cummiskey.

Television coverage of the riots and sit-ins in Bangkok focused world attention on the political choices facing the country, sometimes portraying it as a lawless and anarchic outpost. Even among long-time expatriates the consensus is that the letter of Thai law has been written in a shaky hand, subject to myriad interpretations. Cummiskey, who also has experience as a legal adviser in Cambodia and Laos, points out that in many developing countries there can be a great disparity between the law and its enforcement. "But Thailand is better than many of the jurisdictions I've worked in. Here there's

a tradition of passing a lot of laws and regulations and people adapt quite well."

For foreigners who want to own a villa on the beach, for example, some loopholes have been closed. In the past, bank balances were not scrutinised to ensure that the Thai investors were putting their funds into the company. That's not the case now. "There's certainly the option to incorporate a Thai company, if you have trusted Thai partners who are going to invest their equity," says Cummiskey. "The land offices now check with the ministry of commerce and interview Thai shareholders to ensure they're actually putting their funds into these companies."

Limcharoen, Hughes & Granville tells its clients that "it's more secure and more feasible to do a long-term lease, because the costs of incorporating the company are high and you need to have a local partner. A long-term lease, as long as it's well drafted, gives the foreign investor 30 years with a 30-year renewal period. And we usually have a lot of provisions for the lessee so they can assign the lease to someone else. So the next person who gets it will have another 30-plus-30 years or have the option to buy if the law changes or allows for a longer lease in the future."

Foreigners are still allowed to own condominiums outright. For a long-term investment, Cummiskey believes they are

one of the most reliable nest eggs. "The good news is that the market has come down a little in price, which has more to do with the natural correction of the market," he says. He is not sure whether or not prices have bottomed out. Condos and beachfront properties have retained their intrinsic value and allure.

Foreigners fleeing darker and colder climates have always taken a shine to tropical living. As Molstad, who is also the managing director of the real estate and design firm Urbaan, says: "If you have a nice slice of beachfront land, it's like the old adage: 'they're not making it any more'. So a beautiful piece of land on a tropical island is always going to have value."

Compared to the late 1990s when the

baht exchange rate dropped to 55 to the US dollar, the current economic slump has had less of an impact on foreign investors, says Philip Barbour, 41, the managing director of Coreharbour. "There is less panic now among investors, because the end of the 1990s is recent enough that they were there and have seen the recovery," he says. "That crash surprised everyone because there had been so much activity on the equities and investment markets that annual returns of 30% in emerging market countries were not uncommon.

"But with advisers and fund managers, it's a relatively young industry, so ignorance and lack of experience caused some over-enthusiastic weightings to client portfolios. When the hit came [in 1997], nobody had experienced it before."

Nevertheless, the current slowdown has resulted in a lot of risky business decisions. "When everything hit the fan last year, investors were faced with a difficult decision – to run away from falling values or hang in there. But when investors are left to their own devices, they often buy at the top and sell at the bottom," Barbour says. "This is why having an adviser with experience and insight is crucial, because they have a much clearer view of which way the trade winds are blowing."

But even in these volatile times, there are some sound returns, particularly in alternative strategy funds.

"One of the fund managers we work with is Man Investments," says Barbour. "It offers two distinct advantages. One is a series of closed-end funds that have a capital guarantee and maturity dates of between seven and 11 years. So in a worst-case scenario, if the fund is performing terribly at the end of a term, you get your original capital back. Since 1995, Man's annualised performance is 17%, which is outstanding. Secondly, as an alternative strategy fund it

is not reliant on the direction or performance of what the major markets are doing."

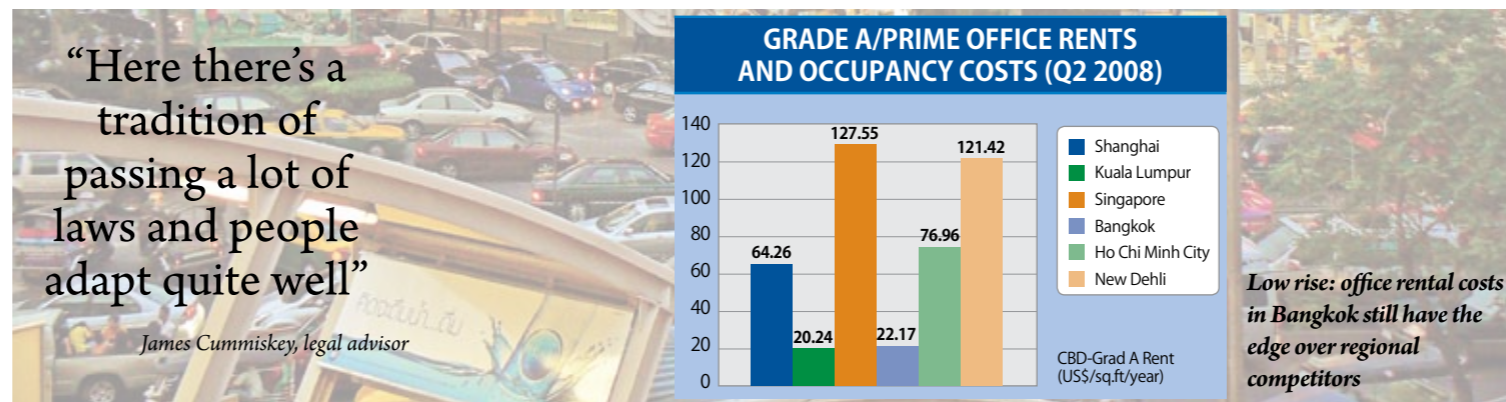
Barbour got in on the ground floor of business management when he worked for a landscape architectural company in Beverly Hills, California. His A-list clientele included Tom Hanks, Madonna and Bruce Springsteen. Returning to London to work in finance, he thought he'd only do a short stint in Bangkok as a representative for a UK firm. Fifteen years later, having married a Thai with whom he has two young children, "the shackles of responsibility are too heavy for me to move now".

He formed Coreharbour last year. As most of his clients are referrals, the keynote is trust. "I have to build up a relationship



High hopes: Thailand's stock exchange has reflected a volatile and unstable market (left); current Thai premier Abhisit Vejjajiva (right) will be praying for a speedy turnaround

Photos: Frédéric Bége for SEA Globe; dpa; Jeremy Keith



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