



# Misperceptions of Thailand

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On a recent research trip to Thailand, I had the chance to evaluate some commonly held misperceptions about the long-term outlook for the country's economy.

One common misperception about Thailand, for example, is that its rapidly greying population makes its markets and companies relatively unattractive for investments compared to neighboring countries like the Philippines, Vietnam, Myanmar and Indonesia. We believe that this generalization discounts the dynamism of several Thai companies. The opportunity set for many companies extends beyond the country's population of about 68 million. Thai companies have made progress, branching out to nearby countries to participate in their growth and to take advantage of more youthful populations. Similarities in culture and business practices have made it easier for companies to expand profitably in the surrounding region.

Another misperception is that Thailand, with its GDP per capita at approximately US\$6,000, is stuck in a middle-income trap. The fear is that Thailand might not be able to graduate from an economy based on manufacturing and agriculture to one more specialized in services. The Thai economy does indeed need to restructure its workforce since roughly 42% of the population works in the agriculture sector, contributing less than 11% to GDP. However, we believe that policy frameworks to enable the country to graduate to a knowledge-based economy are in place. For example, the government's continued investment in education, which accounted for over 21% of the national budget in 2012, has resulted in a tertiary education enrollment rate amongst the highest in ASEAN.

A common mistake amongst foreign investors in recent years is to divide Thailand regionally along "Bangkok" and "Upcountry." The inference is that the "Upcountry" is significantly under-developed and heavily dependent on agriculture. But based on our research, we believe that this division is, perhaps, too simplistic. For instance, our analysis of shopping mall operators has uncovered "rural" malls that are, in fact, in large towns thriving due to tourism and cross-border trade.

## Economic Restructuring

We have also discovered that locals, especially bureaucrats, still believe Thailand to be quite resilient to various internal and external shocks. They call it "Teflon Thailand," to suggest nothing can stick to it. But they may be overestimating that level of resiliency. Thailand still has not recovered from the 2014 national coup d'état. The replacement of the democratically elected government and appointment of a junta-led government has led to a period of both uncertainty and policy inaction. A consequence of this has been the loss of foreign direct investment market share to countries such as Vietnam, the Philippines and Indonesia.

We believe a restructuring of the economy is necessitated by Thailand's aging population, slower global growth and competition from neighbouring countries. The government seems to understand the urgency of the situation and has unveiled a series of policies to improve the country's basic infrastructure. Over the short to medium term, this should help. Over the longer term, we would like to see an environment that accommodates a more sustainable governance system that inspires confidence from local and foreign investors to commit long-term capital to the country.

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