



News

A Warmer Outlook in Thailand

Lower valuations, demographic changes and the shift in the geopolitical balance are favouring Thailand



Samir Mehta

25 Apr 2024

To get away from the constant hyperbolic news stream of all things Gen AI, we recently went to Thailand to meet a few companies. Bangkok is normally gridlocked, yet fortuitously, local school holidays proved a boon. The pace was laid back and refreshingly languid, both for the traffic and the attitude of people we interacted with.

Known as an export base for autos, especially trucks, Thailand suffered with the advent of electric vehicles (EV's) which dimmed the prospect of internal combustion engine vehicles. Tourism, including medical tourism had become a pillar for economic growth; COVID upended that industry for a while. Chinese tourists, a backbone of visitor numbers till 2020, have not yet re-materialised in force. Meanwhile, another chapter of political uncertainty hasn't helped.

Demographically challenged with a comparatively smaller workforce and an ageing population, Thailand faces severe competition from other ASEAN countries like Vietnam and Indonesia. Lower disposable income growth, high levels of personal debt and a generally slower global economic recovery were added headwinds. No wonder stocks in general have been a disappointment.

We do not presently own stocks in Thailand, but cheap valuations prompted us to visit some of those on our watchlist. A few observations. The geopolitical realignment around China is manifest in several ways. Some foreign companies are relocating to Thailand as an alternative to China. They are increasingly supplemented by Chinese companies expanding in Thailand to circumvent tariffs or quotas on goods manufactured in China.

Thailand's smaller and higher-cost workforce sets it at a disadvantage to its neighbors. Companies

looking for larger unskilled or lower-skilled employees prefer Vietnam. India and Indonesia attract firms targeting their respective domestic markets rather than just exports. Thailand's advantage is that its people tend to be better educated and higher-skilled.

At the Board of Investments, the officials were engaging and willing to go to almost any lengths to smooth inward investments. The small number of Free Trade Agreements for Thailand is an impediment which the government is fervently working to address. They have streamlined visa applications (renewal takes 2 minutes) and further simplified new investment licensing processes.

One company that owns, develops and sells land in industrial estates narrated a sea change in demand over the past 18-24 months. BYD, the Chinese EV firm, bought a piece of land from them, which was four times larger than the previous largest parcel ever sold by them. Another Chinese EV company is on the verge of signing for almost a similar sized plot as BYD. Besides EVs, companies are pursuing data centers as we witness a rush to set up server farms to meet the needs of AI and its attendant infrastructure.

Availability of a skilled workforce fluent in English and educated with an international curriculum will increasingly be in demand. We met the founder of an international school whose 20+ years struggle is finally paying dividends. Initially with less than 200 students, founded by a set of parents, they currently have 4,200 students with potential growth into the next decade. Close to 30% of their students are Chinese nationals. Mostly children of employees from Chinese companies but partly from a certain class of Chinese society with the means to migrate away from China and more comfortable residing in an Asian country.

Medical tourism was always a forte of Thailand – most leading hospitals have multilingual staff, significantly lower total costs for top-notch medical expertise. Keeping with the times of social media driven transformations, aesthetic clinics (euphemism for plastic surgery) offer a one stop shop service to 'rectify' any and every part of your anatomy. Billboards emblazoned with visages of doctors portraying them as celebrities, social media influencers extolling the virtues of clinics and doctors (even in neighboring countries like Indonesia) appeal to the vanity of the insecure. Business is booming.

What was missing was the vibrancy of retail traffic in malls; absence of tourists compounded by a big expansion of retail space. Ironically, the supermarket and convenience store space has consolidated dramatically. With an absence of any form of anti-trust action, one family almost dominates the scene – but they have relied on copious amounts of debt which in my view burdens an otherwise good business.

Overall, the 'China plus one' derisking strategy is real. The consequences of capacity creation outside China whether in ASEAN, Latin America or Europe might become more pressing in a year or so if the global economy slows. Thailand has many competitive advantages, yet competition from other countries with large domestic markets or bigger workforces are now a challenge. We return with no real compelling cases for investments in Thailand when Indonesia, Taiwan, India and even China present alternatives. Wait and watch and back to the hose of the next new thing in GenAI.

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