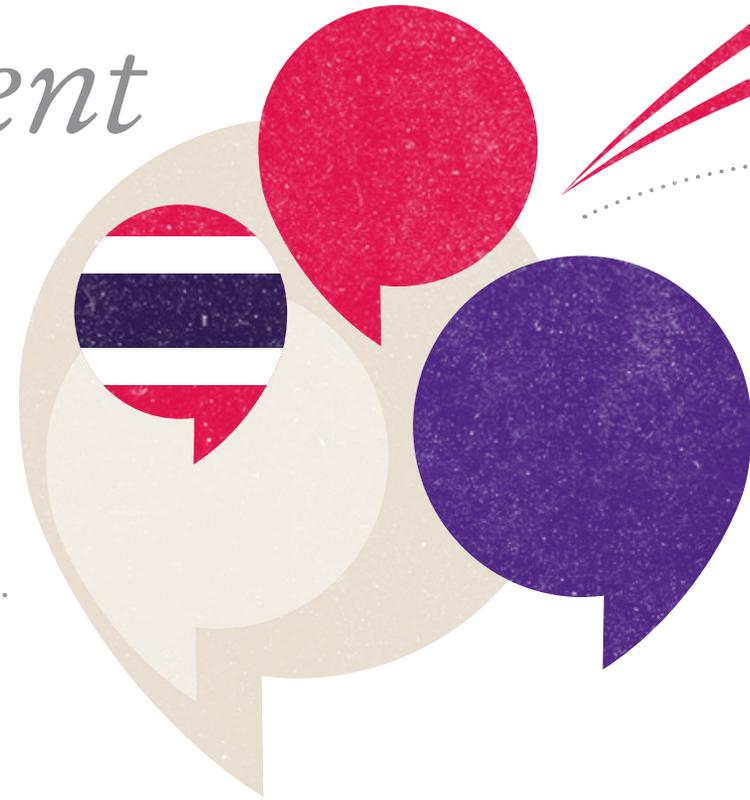


Thailand: *the business growth environment*

Grant Thornton International Business Report 2014



Introduction

Thailand is a nation in Southeast Asia of approximately 68m people, making it the 20th most populous in the world. In 2013, the total output of the economy was USD401m, around half the size of Indonesia but a third bigger than Malaysia, and the 28th largest in the world.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 200 business leaders interviewed in Thailand and more than 12,500 globally, over the past 12 months.

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200
business
interviews

Contents

- 3 The economy
- 5-7 Business growth
- 8 M&A
- 9 Corporate social responsibility
- 10 Leadership
- 11 Women in business

US\$401m
gross domestic product



68 million inhabitants

Economy

The military coup on 22 May this year ended months of violent clashes, ousting former Prime Minister Yingluck Shinawatra and bringing a measure of stability to the economy through functional government and peaceful streets. Whilst this stability has been welcomed by business leaders, there are significant domestic and external factors that continue to weigh heavily on the Thai economy. These are likely to depress growth prospects over the next two years.

Domestically, over 10 years of political volatility has left a serious mark on Thailand's competitiveness. A consistent lack of investment with no cohesive long-term strategy and action has taken its toll on businesses in Thailand. Unemployment has remained low, however productivity has not increased, resulting in a decline in the competitiveness of the Thai workforce. This decline in competitiveness has been further exacerbated by a 50% increase in salaries over the last decade.

Externally, worldwide growth has somewhat stagnated, putting pressure on Thai exports which represent approximately 70% of GDP. Whilst tourist numbers have dropped sharply, these can be expected to pick-up in time, although more likely from the 'budget' segment, as opposed to 'premium' travellers. This is due to the reluctance of premium travellers to come to Thailand at this time, creating a pressure for specially priced packages which are attracting lower spend tourists.

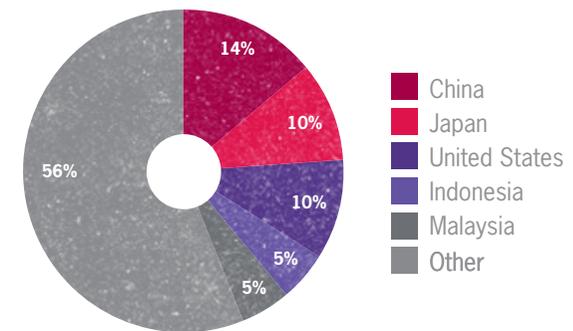
There has been relatively strong rhetoric from the present government, but this will need to be backed by consistent action and investment. However, these may not be enough to offset pressure on medium term growth prospects caused by this "lost decade".

Despite the new government's positive overtures to foreign businesses since its inception, changes to the Foreign Business Act (FBA) have been mooted, which is causing a degree of concern among foreign investors. There are currently no suggested changes to representative companies or companies operating under BOI privileges.

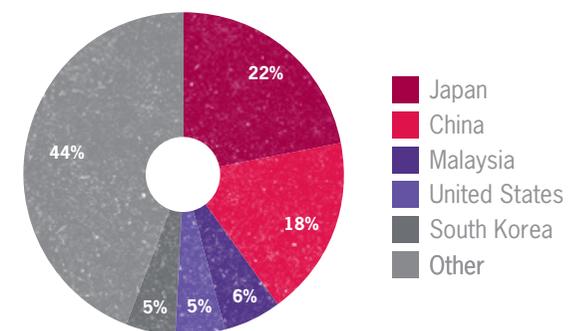
Whilst 'controlling ownership' changes to the FBA may be reasonable, commentators have been quick to point out that no other changes are being planned. Wholesale review and modification of the FBA in its entirety is required in order to increase Thailand's competitiveness, productivity and attraction as an investment destination. This 'piecemeal' approach is likely to deter potential new investors, as well as investments from existing businesses.

Thailand needs to sustain 4% GDP growth to remain at a 'neutral growth'. In 2013 GDP growth was 1.8%. In 2014 the growth forecast has been revised down to 1.4% and the forecast for 2015 is 4.1% (below the ASEAN growth at 5%). Given the number of times these figures have been revised down in the past, coupled with the slowdown in growth in major trading partners and the lack of sustained action of policies that encourage foreign investment, it looks likely that Thailand's growth prospects will remain neutral at best through the next 24 months.

Export destinations



Import origins



Source: Observatory of Economic Complexity

Economic outlook

The pace of economic expansion has quickened in the second half of the year mitigating the contraction in Q1.

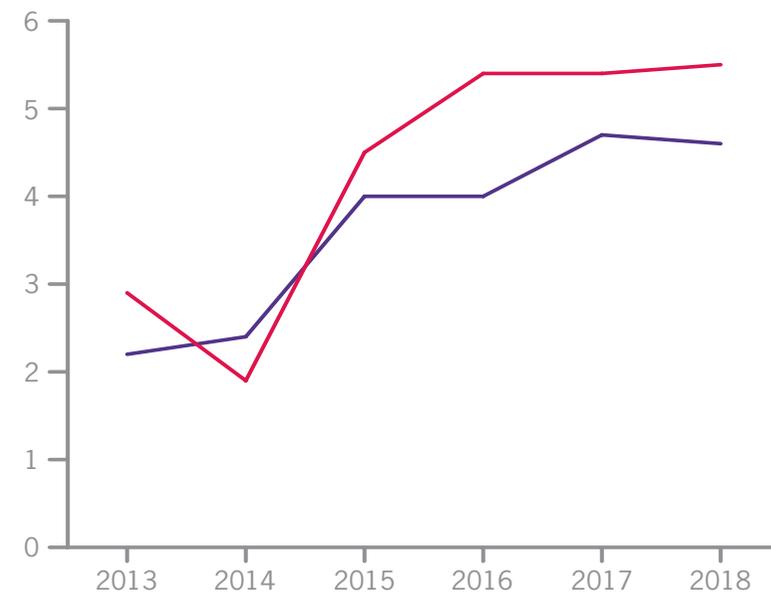
Real GDP growth in 2014 is forecast at 1.4%, accelerating to 4.1% in 2015 and 5.4% in the period 2016-18. This assumes continued political stability and sustained investment against cohesive long-term strategies. Private consumption has been broadly stagnant over the past 24 months, growing by 0.3% in 2013 and 0.6% in 2014. However, increased stability should boost household confidence and see consumption expand by 3.2% in 2015 and 4.2% in 2016.

Investment is expected to contract for the second straight year in 2014 (-2.3%). However, it is expected to pick up again in 2015 as the new government speed up public investment in infrastructure and streamline foreign-investment approvals reportedly worth some US\$22bn. An investment of US\$40bn has also been promised to update Thailand's transport infrastructure. As outlined above, 'piecemeal' changes proposed to the FBA look set to reduce foreign investment both from new and existing sources and depress competition and consumer choice.

Aside from political concerns, the demographic make-up of Thailand remains a key concern. The labour market is very tight and the unemployment rate is hovering around 1% increasing upward pressure on wages which rose by approximately 50% in the decade to 2010. Moreover, as in many East Asia economies, the prevailing fertility rate (1.6) is well below the replacement rate (2.1) which will further constrict the supply of workers and could seriously dampen growth prospects unless productivity improves. As such, it is imperative that there is an increase in productivity to sustain any level of growth.

Sub-par growth in the global economy also poses a risk to economic growth in Thailand. The International Monetary Fund recently lowered its growth forecasts for 2014 and 2015, warning of persistent weakness in the eurozone, the end of the emerging market commodity boom as China slows and further difficulties in Japan. For Thailand, the key to achieving sustainable growth and moving out of the middle-income trap will be to produce higher value-add products and services.

Forecast growth and inflation rates (%)



Source: Economist Intelligence Unit (2014)

■ Real GDP growth
■ Consumer price inflation

Business growth

Business confidence in Thailand climbed to an all-time high in Q3 following the military coup; net 71% of Thai businesses indicated optimism in the outlook for the economy, up from net 13% in Q2 and net -28% this time last year. The Southeast Asia average stood at net 56% in Q3.

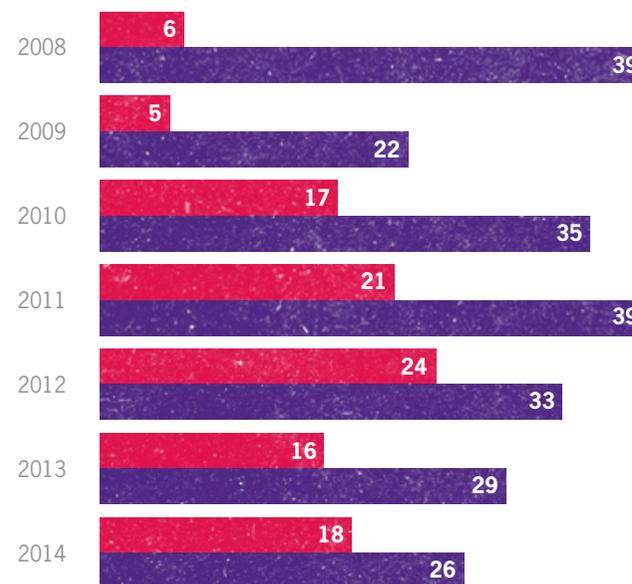
Rising confidence in the stability of the economy is feeding through into business growth prospects which have increased dramatically over the course of the year. More than two in three Thai business leaders now expect revenues to rise over the next 12 months (69%), up from 63% last quarter and just 10% in Q1. Profitability expectations (65%) are similarly buoyant and have now risen for four straight quarters.

Levels of investment are also set to pick up, with 37% of businesses expecting to increase spending on plant and machinery over the next 12 months; welcome news in an economy which has underinvested in comparison with Southeast Asian peers over recent years (see chart). Export expectations, which were stagnant between Q2-2013 and Q1-2014, have also risen sharply over the past three months, with net 35% of businesses now forecasting an increase in sales overseas.

Following a slight hiatus in the labour market as businesses sought more clarity on the political direction of the country before taking on new workers, third quarter figures suggest employment pressures are set to return. Half of businesses in Thailand are planning to take on new people over the next 12 months, up from zero this time last year, and well above the Southeast Asia average (33%). With the labour market tight, wages look set to increase sharply over coming months: 85% of Thai businesses are planning to offer employees a pay rise over in the year ahead (23% above inflation) compared with 77% across Southeast Asia (14% above inflation).



Net percentage of businesses expecting to increase investment in plant & machinery (next 12 months)



Source: Grant Thornton IBR 2014

■ Thailand
■ Southeast Asia

Growth constraints

Given recent turmoil in Thailand it is perhaps no surprise that business leaders feel more constrained in their attempts to grow their operations than peers across the region. Economic uncertainty has been the chief concern for Thai businesses over the past 12 months (66%), although this has subsided from 82% at the start of the year to 52% in Q3 as the military have brought order back to the streets.

Rising energy costs (57%) also emerges as a major constraint on growth for Thai businesses. This is a problem across the region (49%), especially when compared to the global average (34%), and highlights business concern around the potential removal of massive fuel subsidies which governments have put in place to keep a lid on inflation and win votes.

More than half of Thai business leaders also cite a lack of skilled workers (52%), well above the regional average (39%). This comes as no surprise in a country with very low unemployment and an ageing population, but remains a real concern for long-term growth prospects.

A lack of orders is hampering the growth prospects of 46% of local businesses, again well above the Southeast Asia average (28%). This is down from 53% in 2013, but the slowdown in the global economy, and especially in neighbouring China, are major downside risks to trading economies such as Thailand.

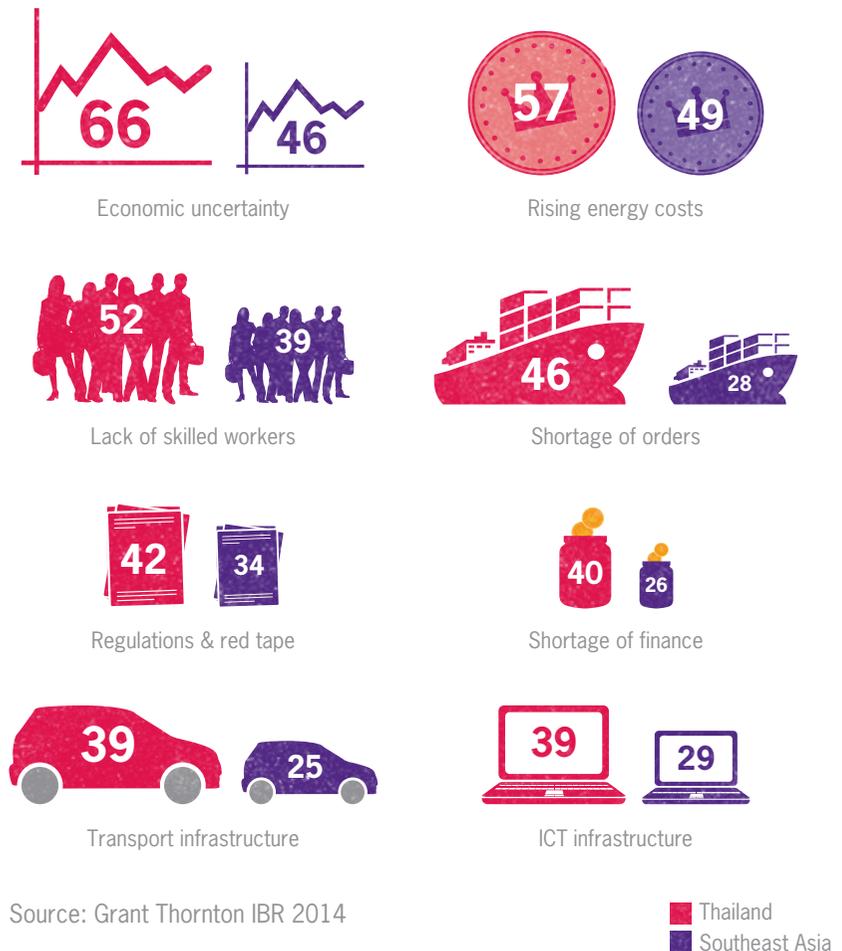
Stifling bureaucracy has also been highlighted as a major issue over the past 12 months (42%). This is slightly above the Southeast Asia average (34%), although the decline over recent quarters (56% in Q4-2013 to 29% in Q3-2014) speaks to the greater certainty businesses are feeling with regard to regulations and red tape.

economic uncertainty remains key concern

rising energy costs remain a challenge

key concern

Percentage of businesses citing factor as a constraint on growth (2014 average)



Growth initiatives

Businesses across Thailand are involved in a wide range of initiatives to grow their operations.

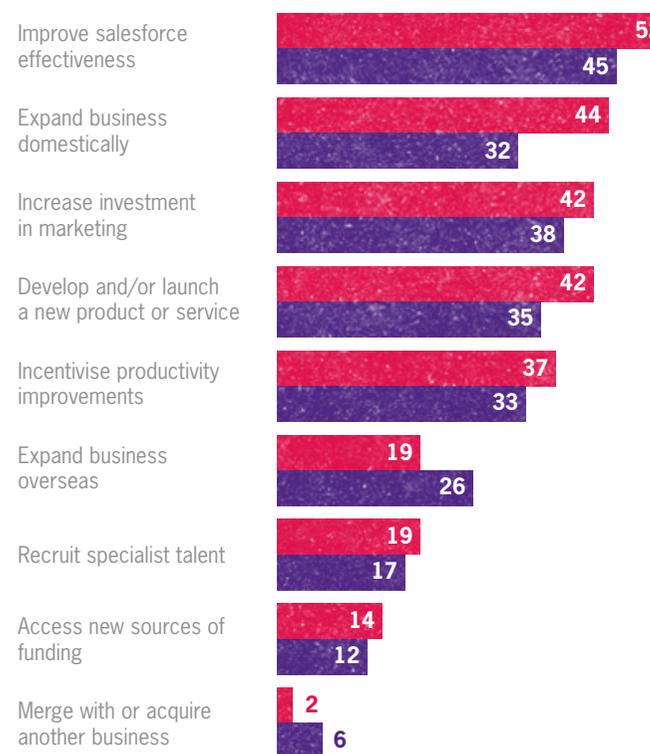
More than half are looking to boost sales through improving sales force effectiveness (52%), compared to 45% of peers in Southeast Asia. A further 42% are planning to increase invest in marketing, again slightly above the regional average (38%), to build the visibility of the company in the marketplace.

A large proportion of businesses are building scale by at physically expanding their operations, for example, through buying new retail units or factories; 44% are looking at expanding domestically, slightly above the regional average (32%) with a further 19% looking to expand overseas, slightly below the regional average (26%).

More than two in five businesses are also planning to develop or launch a new product or service over the next 12 months (42%) to broaden their revenue streams. This is above both the Southeast Asia (35%) and global (30%) averages. And just over a third are looking to squeeze more out of their existing portfolio of products and services by incentivising productivity improvements (37%).



Percentage of businesses planning to introduce initiative over next 12 months



Source: Grant Thornton IBR 2014

■ Thailand
■ Southeast Asia

Mergers & Acquisitions

Merger and acquisition plans remain fairly muted in Thailand; indeed transactions are set to be lower in Thailand than any other economy included in the IBR in the near future.

Just 8% of businesses in Thailand are expecting to grow through acquisition over the next three years, down from 11% from 12 months previously. This compares with 21% across Southeast Asia and 31% globally. Interestingly, dynamic businesses (the fastest growing/developing businesses in the survey) are much more likely to be planning an acquisition – 49% in Southeast Asia; 55% globally.

Thai business leaders are also unlikely to sell up over the next three years: just 5% anticipate a change in the ownership of their business, only slightly up from 3% from this time last year, and below the Southeast Asian (14%) and global (11%) averages.

While forecast activity is relatively low, businesses in Southeast Asia are relatively focused on international opportunities. While 68% are looking at domestic acquisitions (compared to 86% globally), 46% are looking at overseas opportunities (compared to 39% globally).

few Thai businesses planning to grow through acquisition

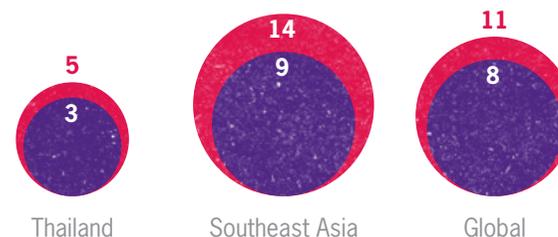
Percentage of businesses planning to grow through acquisition (next three years)?



Source: Grant Thornton IBR 2014

■ 2013
■ 2014

Percentage of businesses anticipating a change in the ownership of their business (next three years)?



Source: Grant Thornton IBR 2014

■ 2013
■ 2014

Corporate social responsibility

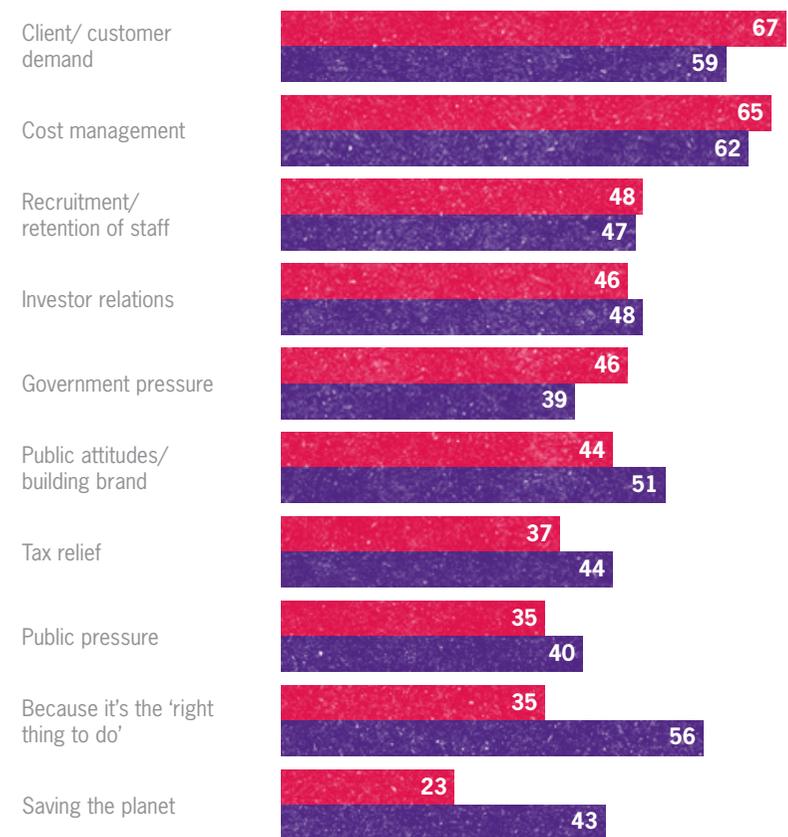
Investor calls for transparency and the rise of social media have thrust the impact businesses have on the economy, the environment and society more firmly into the public spotlight. Consequently, businesses need to be mindful not just of what they are doing, but of how they are doing it.

In Thailand, businesses are being driven towards more environmentally and socially sustainable practices principally because of customer demand (67%). In an increasingly digital world, consumers are not only able to post instant and potentially damaging feedback against companies which pursue socially unacceptable practices, but also 'vote with their feet' by sourcing alternative products and services from competitors with stronger ethical credentials.

Cost management (65%) also ranks highly for Thai businesses who increasingly see that while pursuing sustainable practices may be expensive in the short-term, the costs are far outweighed by the longer-term benefits. One great example is improving energy efficiency which requires an initial investment but can dramatically lower electricity and fuel costs in the longer run.

Businesses in Thailand are involved in a wide range of activities aimed at positively impacting their communities and the local environment. Almost three in five donated their products or services to a charitable organisation over the past 12 months (58%), compared to two in five across Southeast Asia (40%). More than half improved energy efficiency or waste management in the last year (52%), similar to the regional average (54%), but still below the global average (65%). A further 42% of Thai businesses have calculated their carbon footprint, almost double the Southeast Asia average (24%).

Percentage of businesses citing driver towards environmental and social practices as important



Source: Grant Thornton IBR 2014

■ Thailand
■ Southeast Asia

Leadership

The role of leaders in creating successful businesses and driving growth is crucial. How these leaders run their teams and make decisions can be the difference between success and failure.

Integrity emerges as the key ingredient to good leadership according to Thai business leaders; 98% cite this trait as important. A positive attitude and creativity (both 96%) also rank very highly, as do passion and the ability to inspire (94%). Globally the three most important traits are integrity (93%), communication and a positive attitude (both 92%).

In terms of growing their leadership capabilities, Thai business owners are most likely to do personal leadership skills assessments (58%), followed by mentoring from more experienced executives (52%) and setting challenging goals and monitoring progress (46%). Personal leadership skills assessments are used by 79% of Southeast Asian business leaders.

Fewer than one in five Thai business leaders has ever used a business coach in their role as a leader (18%), compared to 44% across Southeast Asia and 35% globally – rising to 44% of dynamic businesses globally.

**integrity
central to
success of
Thai business
leaders**

Percentage of businesses citing leadership traits as important

	Thailand	ASEAN		Thailand	ASEAN
Integrity	98	96	Ability to delegate	92	93
Positive attitude	96	98	Communication	92	95
Creativity	96	90	Intuition	92	85
Passion	94	91	Modesty	74	85
Ability to inspire	94	96	Sense of humour	62	59
Confidence	92	97			

Source: Grant Thornton IBR 2014

Women in business

We have been tracking the proportion of women in senior management for the past decade and while the global figure has barely moved (24%), the Thai average has consistently been close to double that.

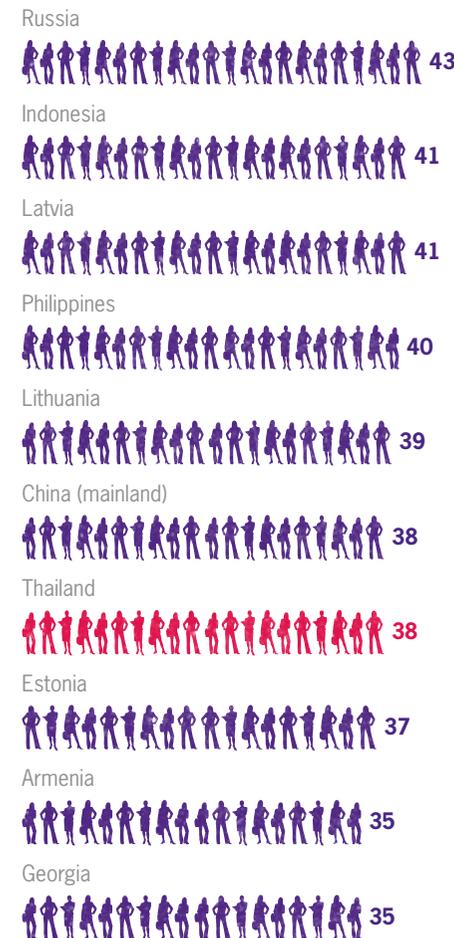
Close to two in five senior management roles in Thailand are held by women (38%), broadly in line with 2007 (39%). Businesses in Southeast Asia (35%) tend to have more women in senior management with Indonesia (41%) and the Philippines (40%) also near the top of the rankings. Moreover, just 12% of Thai businesses have no female influence in their senior leadership teams, compared with 20% in Southeast Asia and 33% globally.

The roles held by women in Thailand is also interesting. In 2014, our survey showed that 53% of businesses had a female CEO or Managing Director, the highest of the 34 economies included. While surveys are clearly susceptible to fluctuations (the figure was 38% in 2013), the results show that women are particularly likely to lead companies in Thailand.

Perhaps because of the high numbers of women in senior management, Thai businesses offer relatively few incentives to support working mothers. Under half offer flexible working arrangements (42%) – compared to 56% in Southeast Asia and 63% globally. And while 44% of businesses globally reserve the job roles of women on maternity leave for up to one year, this drops to just 8% in Thailand. However, just over a fifth of Thai businesses do offer childcare vouchers/support (21%), slightly above the global average (18%).

**Thailand ranks
7th globally
for senior
female business
leaders**

Proportion of senior management roles held by women (top ten)



Source: Grant Thornton IBR 2014

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 business leaders in 34 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 20-599 employees. Q3 data is drawn from 2,500 interviews globally (50 in Thailand and 300 across the emerging Asia Pacific region) conducted in September 2014.

The ASEAN (Association of Southeast Asian nations) countries included in IBR are Indonesia, Malaysia, Singapore and Thailand. The Philippines is included in the 'women in business' figures only.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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