

Economic situation in Thailand

How is the state of the economy as it relates to your business?

The state of the global economy is having a materially adverse impact on the tourism and second-home industries within Thailand. Fresh new capital for investment, discretionary income/liquidity, corporate travel, particularly in the MICE markets, have all contracted significantly. Adding insult to injury has been the knock-on effect of H1N1 and Thailand's protracted political tensions.

Niche capital investment in stressed assets and the upgrading of people and systems (the soft assets) have been the real opportunities, given that the state of the economy has permitted us to acquire and forge new relationships.

Still there are remnants of consumer optimism both in Thailand and abroad which provide at least a stream of possibilities.

Many investors are waiting for the market to bottom out before they decide to invest again. Are we anywhere near the middle or end of the financial crisis or global problem?

Globally speaking, the mid-point of the financial crisis and global problem is at least 12 months off.

Why? Two fundamentals. First, the TARP and TUFT programs in the US, and similar ones in the UK, have only had a calming effect on the capital and bank markets. These programs have largely only dealt with toxic assets related to residential loans and assets. These assets must be dealt with swiftly and returned to the market at their true values. The longer they stay on the backs of tax payers, the more protracted the recession will be. Further, there is another wave of toxic assets in the pipeline, commercial real estate loans, many of which are wrapped in these off-balance sheet securitized products, and corporate loans, i.e. GM, which have yet to work their way through the system. How large and how quickly government leaders and regulators deal with these issues and permit market forces to prevail is not clear.

Second, commercial banks are not lending new funds and this is fundamental to the recovery. This applies in the consumer, SME and corporate segments. Apprehension remains and fundamental risk-taking at commercial banks is hard to find.



Charlie Blocker,
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InVision Hospitality.

At home in Thailand, with the SET up some 35% YTD (3rd best-performing Asian index in 1H09) and most of this in the last 60 days, some might argue that the bottom has already been reached. But for real investment, both FDI and needed capex to maintain operations and to be positioned for the rebound, I believe the trough is near, probably mid-to late-Q 09.

Some have used letters to describe the economic crisis and related recovery. The letter V is often used to describe a quick turnaround while the letter U apparently represents a longer time period. Which letter to you see being in use and why?

Lots of Vs, like www.vv. But in the case of Thailand, the trend line will be upwardly sloping. Thailand has been relatively unscathed by the financial fallout in the West. Thailand's biggest vulnerability remains its heavy reliance on exports to the West. But in the last decade, both the content and end points of those exports, on a relative basis, have shifted away from North America and the EU to ASEAN +2. That's a good thing.

For clarity, this recovery will not be like others in the past. It will be more gradual and moderate and vulnerable to (1) commodity price swings, particularly oil; and (2) the West finding normalcy in its own banking and capital markets.

Can the travel, tourism and holiday home industries continue to be successful given

the economic malaise?

For the tourism, corporate travel and second home market segments in Thailand, we believe that having a nimble and responsive sales and marketing strategy is absolutely imperative. Consumers love to come to Thailand, whether for holiday, business or to oversee a new or expanding corporate investment.

In surveys performed by InVision and by industry experts, even in the face of a protracted recession, people hold sacred their annual holidays. They will defer other extras throughout the year to ensure there is a meaningful budget to travel.

Thailand will be the beneficiary of this, not only because of the amazing value, but the industry is resilient and has become expert in dealing with crises.

As the economy rebounds, albeit on a more gradual and potentially more vulnerable path, Thailand needs to embrace new strategic thinking on its policies and update laws which better support vacation ownership offerings and second homes for its beloved foreign clientele. Such fresh thinking would place less reliance on value pricing schemes, or discounts, and more emphasis on quality, recurring income and investment in the tourism and residential sectors which are Thailand's best sources of foreign exchange.

As you look forward to next year and beyond, what can be done to insulate your company from the possibility of another economic meltdown?

The current economic meltdown is the first of such severity in some 70 years. Even with the best laid plans, there is no way to insulate a company from another such event. You have to take business risks to achieve rewards and returns. That said, there will be after-shocks over the next 24-30 months as the markets rationalize the toxic assets and adjust to commodity prices swings. For InVision which is in a fixed asset intensive and service business, the two areas on which we are focusing proactively are (1) more nimble and flexible relationships (including clearer communication and management of expectations) with suppliers and associates who can ebb and flow with economic cycles and (2) continuation of a conservative financing structure to mitigate financial stress with our banking capital partners/providers.