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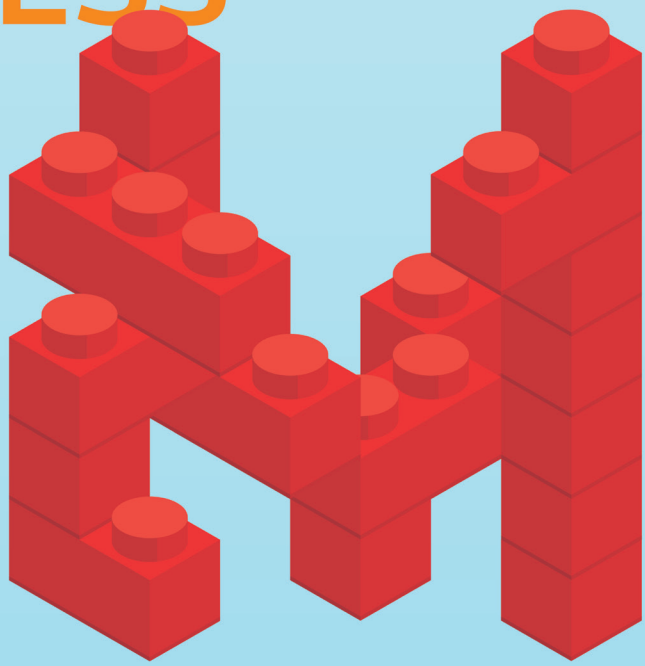
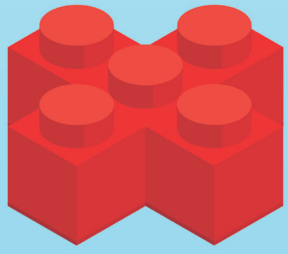


TOUGH YEAR

Uncertain times affect South Korea's legal market

STRONG TIES

Thailand's welcome mat for Japanese investors

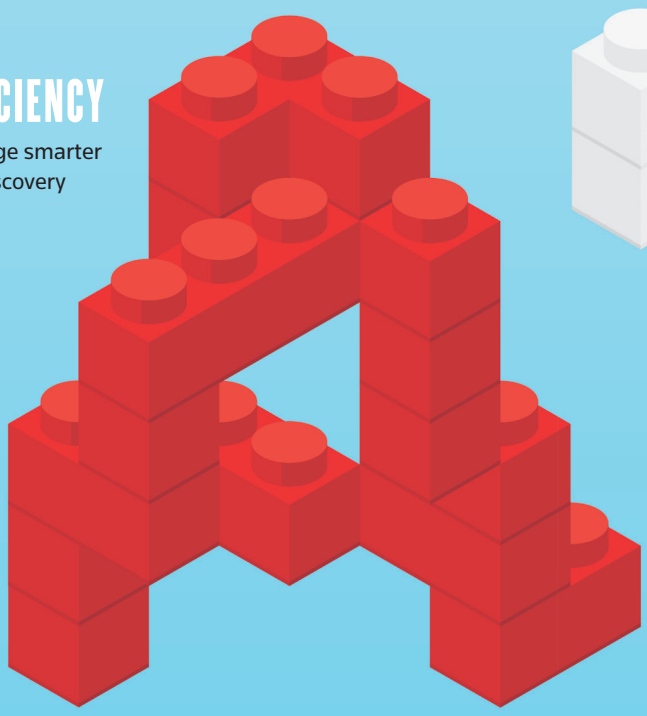


SOFT POWER

China helps launch Malaysia railway construction project

E IS FOR EFFICIENCY

Firms and clients forge smarter approach to e-discovery



PRC EFFECT

China competition impacts recruitment in HK

M&A RANKINGS 2017

A WIN-WIN RELATIONSHIP

Thailand has long been an attractive investment destination for Japan, especially in manufacturing and supply chain management. And the Southeast Asian country is returning the favour by offering a number of incentives to promote FDI.

BY RAJ GUNASHEKAR

Thailand and Japan celebrated 130 years of successful diplomatic relations in 2016, but their closeness is not limited to the political sphere. For a number of years, Japan has remained the Southeast Asian country's top source of foreign direct investment [SEE STORY ON PAGE 40].

And the economic ties are set to deepen as Thailand launches a plan to move the country into its next phase of economic development – called Thailand 4.0 – which is particularly attractive to Japanese investors. Companies from Asia's largest developed country now have more opportunities to capitalise on Thailand's stability and economic advancement.

Thailand's healthy economic outlook for the second half of 2017 as well as its position as a hub for production and a logistics base for trade and investment in the CLMV (Cambodia, Lao PDR, Myanmar and Viet Nam) countries also weigh in on positive sentiment for increased Japanese FDI.

There is also investor sentiment that focuses on certain changes that would make Thailand an even bigger draw for Japanese FDI, such as a better educated workforce, improved customs-related systems and implementation, and further simplification of work permit or visa measures and the implementation of flood-related measures. Other factors are specific to the Eastern Special Economic Zone (EEC); the construction of a high-speed railway/highway between Bangkok and the EEC and the expansion of nearby airports and seaports, among others.

And most importantly, there is also a sense of familiarity for Japanese investors. "The motivation for Japanese FDIs can be linked with a comfort level based on similar health, safety and environmental standards, good local infrastructure, meaningful government incentives, and Japan's underlying drive for geographic diversification," says Seiji Akimoto, a partner at Chandler MHM in Bangkok.

HOTTEST SECTORS

Japanese companies have historically seen Thailand as a strong and stable manufacturing base, especially

in the automobile, electronics, rubber and plastics manufacturing industries.

"While there has been a decline in Japanese investment in the manufacturing of some products such as beverages and furniture, as well as a fairly strong decline in financial services, other sectors have seen increases," says Jonathan Blaine, a Thailand-based tax director with DFDL. "These include an increased interest in renewable energy, pharmaceutical manufacturing, chemical products and food production and processing."

Additional emphasis is generated by Thailand's Board of Investment's renewed and expanding focus on high-tech manufacturing and production, which is also seeing increased interest from Japanese companies looking to leverage improving educational standards, continued cost efficiencies, and more efficient transportation networks.

There is also a current trend toward acquisitions and joint ventures in the chemical, gas and energy-related industries in Thailand.

"We have also advised on financing deals in the construction and high-end property sector. This represents somewhat of a shift in Japanese investment interest going back several years, from retail, logistics, and information communication technologies (ICT), particularly in e-business, areas," says Akimoto.

Taking into consideration the focus areas under Thailand 4.0 and the inherent strengths of Japanese businesses, future areas of investment could also include next-generation automotive, smart electronics, automation and robotics, bioenergy and biochemicals, and digital businesses.

SEEKING ADVICE

Prior to investment in Thailand, Japanese clients typically seek advice on the restrictions on investments by foreign entities, including the Foreign Business Act, the Land Act, and regulations regarding work permits.

"Also, they often seek services for negotiating contracts with Thai local entities. Our firm's western and other Asian clients also seek the same or similar services, but our Japanese clients tend to prefer receiving services in the Japanese language," says Akimoto.

Japanese clients also tend to tap advisory services. "These clients seek not just technical support in the areas of legal, accounting and tax advice," adds Blaine, "but also services related to identification of competent and trustworthy local partners, banking and financing contacts and facilitation and experienced guides who can help them navigate the extremely complex governmental and regulatory environment in Thailand."

While the ease of doing business

THAILAND INVESTMENT APPLICATIONS NEARLY TRIPLED IN 2016

Thailand's investment applications nearly tripled in 2016 to $16.6 billion, mainly in the automobile, chemicals and electronics industries, and are expected to rise by 3 percent this year, the country's investment agency has said.

Thai and foreign firms submitted more than 1,500 investment projects worth a combined 584.4 billion baht ($16.6 billion) last year – slightly higher than the government's target and up 196 percent from 2015, Hirunya Suchinai, secretary-general of the Board of Investment, told reporters.

"Investment pledges in 2016 beat our target, reflecting investor confidence in Thailand," she said.

The big rise, however, also reflects a low comparative base in 2015, when the military government introduced new policies that led to a 90 percent slump in submissions that year as firms rushed to submit their proposal before the change.

The junta hopes the new policies targeting industrial clusters and value-added sectors will draw foreign investors back to Thailand, which has been under military rule since a coup in May 2014 ended months of street protests.

Japan remained Thailand's biggest investor in 2016, followed by Singapore and China.

For 2017, the agency still expected overall investment applications at 600 billion baht, Hirunya said.

A more protectionist United States under President Donald Trump should not have an impact on U.S. investment in Thailand as U.S. firms' products are mainly for markets in the region, not the U.S. market, Hirunya said.

"U.S. investment is not much here but it does not mean that it will fall as we don't think the new U.S. policies will affect their investment in Thailand," she said.

Exports have picked up, but domestic demand is still not robust, so the government has focused on promoting investment to help revive growth in Southeast Asia's second-largest economy, which lags regional peers. The central bank is now forecasting economic growth of 3.5 percent for this year and 3.7 in 2018. ALB

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in Thailand has improved due to the government's focus on driving reforms, experts say that Thailand can still be a fairly complicated place to do business. Having in-country experts can make all the difference between a smooth process and a somewhat unpleasant experience.

Post investment, Japanese investors often get advice on labour issues, including termination of employment agreements and debt collection. These investors are well-known for their thorough risk analysis and keen attention to details, and these traits apply to their investment approach as well.

"Japanese clients do their homework and expect advisors to be bringing a significant level of knowledge and experience to the table," says Blaine. "They want to know everything about the investment environment they are entering and prefer to have systems explained to them in full before attempting to move through a process."

This means that advisors need to be ready to spend time explaining the intricacies and minor details of how a system operates; what can be expected as one proceeds through a system; and how best to avoid any difficulties that may be encountered; and how these are often resolved.

Japanese companies need to understand that Thailand is undergoing a 10-year-long modernisation programme. This includes changes and improvements in all levels of society, from legal-system reforms to tax-law reforms, customs payment and collection modernisation, government documentation and licensing streamlining, among others.

"In such an environment," adds Blaine, "investors need to be aware that any answers or advice they receive may change, and sometimes very quickly. Most of these changes are for the good, so Japanese investors need to understand that the stability they may be used to in their home country cannot be expected yet in Thailand. And they should make sure to explain this to their contacts back in Japan so that surprises can be kept to a minimum."

Flexibility is said to be the name of the game these days, and Japanese clients will be quite grateful to advisors who are able to explain this and keep them abreast of changes before they take place.

POSITIVE OUTLOOK

Chandler MHM states that based on the general ease of doing business in Thailand, the country's economic openness, and its strategic geographic advantage as an efficient and reliable entryway to CLMV markets, Japanese investors will continue to view Thailand as a profitable and accommodating host for Japanese FDIs.

"Our outlook is subject to the effects of any unforeseen, international incidents that could affect the business environment across Asia," says Akimoto.

According to DFDL, the outlook is quite positive for Japanese FDIs into Thailand over the next few years. Japanese manufacturers and producers are looking to leverage production synergies from around the CMLV region and utilise Thailand as a high-value adding link in their supply chain.

Thailand is in the center of the ASEAN region, and this makes the country a good base for centralised assembly, packaging, and exporting as well as a prime location for adding higher tech value services to items being manufactured or produced in the greater ASEAN region.

In addition, Thailand's relatively high level of development as compared to its CMLV neighbors provides Japanese manufacturers with the ability to bank on lower labour costs and diversify supply chains throughout Southeast Asia, while still allowing for an inter-region coordination of management, financing and transportation.

"Despite some stumbling in the early part of the 2010, Thailand's recovering and refocused economy should continue to provide cost effective investment opportunities for Japanese companies looking to establish a foothold in Southeast Asia to serve not only the greater Mekong Region but also Southern China and other ASEAN markets, such as Malaysia and Indonesia," says Blaine. ALB