Beyond Sex and Golf

By George Wehrfritz and Paul Handley
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The faded billboard looms above shimmering rice fields about 70 kilometers east of Bangkok. It heralds a cutting-edge industrial park called Alpha Technopolis, a dream city that vanished like a mirage when Thailand's financial system crashed in mid-1997. The master plan called for scores of factories, research labs, university-even California-style town houses and a strip mall. The brainchild of entrepreneur Charn Usawachoke, the industrial park went fallow when his dream of building a $1 billion silicon-chip plant crumbled under massive debts.They nearly destroyed his flagship chip-packaging company, Alphatec Electronics, too. Tangled in charges of corruption, which he has repeatedly denied, Charn lost it all. Today his half-built plant bakes in the tropical heat. Down the road, Alphatec Electronics is controlled by new foreign investor and banks. Most of the park looks the way Thailand did a century ago: rice fields dotted with tropical birds. A local mechanic, who once hoped to land a job at the futuristic complex, now spends his weekends seated under an umbrella near the main entrance - hawking fresh cockles by the roadside.

Two years after the collapse of the Thai baht triggered the "Asian flu," such monuments to broken dreams are common across the region. But money is now pouring back in. In Thailand foreign portfolio investors have driven the market up 50 percent since January on the expectation of imminent economic recovery. The evidence? A government claim, since proved wrong, that the ratio of bad debt held by Thai banks had peaked, plus an official projection that the economy will expand in 1999 by 1 percent. Foreigners have spent even larger sums in direct investments, buying Thai companies at fire-sale prices. They are gambling that Thailand will fix its clubby banks, rein in its family-run conglomerates, halt rampant cronyism and invigorate its impotent courts. But that process is halting, and the long-term prospects are iffy too. Spoiled for years by easy money, the government is losing lowtech manufacturing orders to cheaper economies like China, but has no apparent strategy for moving up the technology ladder. "Thailand has two comparative advantages," said one Western diplomat in Bangkok. "Sex and golf courses."

The foreigners scrambling to get back in - investing $9 billion since the July 1997 devaluation - would disagree: they argue that the devaluation has cut operating costs, restoring much of Thailand's competitiveness. But looking down the road, cheap labor, go-go bars and low greens fees aren't much of a development model. For years, Thailand has been the West's star pupil. Many Western economists praised the nation for rejecting the planned-industrial-development models adopted in Taiwan and South Korea. Instead, Thailand charged after foreign investment. Since the crash, the International Monetary Fund has praised Thailand for restructuring its finances and opening the door farther to foreign investors. But what, in the long run, is Thailand really getting?

In one scenario, not much. If the government doesn't focus on improving the country's competitiveness, Thailand could well become little more than a slick, foreign-dominated export-processing zone that will fall farther behind its aggressive neighbors. It may be remembered not for its economic prowess but for the live sex acts of Bangkok's Pat Pong district. Thailand is "squeezed" from below by low-cost competitors like China and from above by high-tech Singapore, South Korea and Taiwan. Says Finance Minister Tarrin Nimmanahaeminda, "We are caught in the middle." Thailand hopes foreign investors, attracted by signs of recovery, will help pull the country out of its economic doldrums. The plunge in exports has stopped, and factory utilization is up slightly. "There may never be a better time to invest in Thailand," argues Staporn Kavitanon, head of the government's Board of Investment.

The question is, will foreign investors share the goodies with locals? In its desperation to create jobs, the government has not insisted on technology transfers from foreign investors (a skill mastered in China, South Korea, Taiwan, and Malaysia). That means that many Thais will be stuck making primary goods or farming shrimp for years to come. Thailand must "accept that foreigners will be dominant" in manufacturing, says a World Bank economist. Industry is operating at half of capacity, thanks to weak domestic demand and global overcapacity in virtually everything the country exports. Thai factory owners, still sinking in debts, aren't about to invest in R&D that might boost competitiveness.

While the money poured in, they never thought they had to. Until 1995, Thailand's economy was red hot, with growth averaging 8.7 percent over a decade. Cheap labor and stable government attracted investors, led by Japanese companies fleeing high costs at home. But the government, paralyzed by bureaucratic infighting and corruption, failed to invest in the educational infrastructure necessary to compete in the global age. Unlike its neighbors, Thailand hasn't backed up tax incentives with training and infrastructure needed for high-tech firms or strong links to universities to boost the nation's science base. The result: high labor costs and low productivity. "Ten-thousand-dollar-a-year workers with sixth-grade education" is how one analyst describes Thailand's economy before the crash.

Thai businessmen, meanwhile, hatched unrealistic plans that went sour when the money stopped flowing. In central Bangkok, cluttered with empty office towers, Thailand's industrial elite wasted vast fortunes in an attempt to create a financial hub to rival Hong Kong and Singapore. Typically, foreign partners managed factories and controlled technology, while Thai partners happily plowed their winnings into jet-set lifestyles or lavish office towers - often with loans from foreign banks.

The extravagant environment left plenty of time for cozy deal making out on the links at expensive golf clubs that popped up across the country. With nearly 100 courses by 1992, there was talk of building 500 courses for the millennium. So many courses were being built that farmers complained golf clubs were eating up their precious rice fields and irrigation water. But local golf courses weren't good enough: Thai executives, studded with diamond rings, jumped on private jets for weekends of fine French wine and golf in

Europe. "Koreans collect factories," goes a popular Bangkok ditty. "Thais collect real estate."

In a swirl of irresponsible lending, collusive Thai bankers allowed the business elite to put off upgrading factories and cling to sunset industries. When the house of cards came crashing down, the banks allowed businessmen to cling to their crumpled empires. When Nakornthai Steel found itself tottering under hundreds of millions in loans, for example, owner Sawasdi Horrungruang outlined his survival strategy in a phrase that became a motto for debtors across the country: "Don't pay, don't close, don't run."

The trick now is to change that mentality. But it's proving extremely difficult. Despite new bankruptcy and foreclosure laws, bankers are reluctant to test traditionally feeble courts. As a result, borrowers don't fear the banks: non-performing loans are still growing, to some 50 percent. The Finance Ministry is trying to coax businesses into paying off loans with promises of future loans. "Just as we use fear [to encourage repayment]," Finance Minister Tarrin told NEWSWEEK, "greed is a very strong impetus."

The case of Thai Petrochemical Industry, or TPI, shows how powerful businessmen still win the debt-settlement game. By 1997, the conglomerate, which built oil-refining, petrochemical and cement plants, was worth about $1 billion but owed $4.5 billion to 148 creditors - including $100 million borrowed from the World Bank. Prachai Leophairatana, TPI's founder and chairman, declared a moratorium on the group's debt. "We had to stop the bleeding," Prachai told NEWSWEEK.

He has since waged war against his creditors. A legislator, Prachai opposed efforts to tighten bankruptcy and foreclosure laws (which passed in March). He played creditors against each other, courting those most fearful of huge debt write-down and berating the most aggressive, notably the World Bank's International Finance Corp., which favored liquidation. In the end Prachai traded 25 percent of his conglomerate for a $450 million debt write-off, deferred debt repayments for five years and stayed at TPI's helm.

A lack of functioning bankruptcy procedures continues to hobble the financial system. TPI's restructuring is typical of deals in the works to save thousands of small manufacturers. Across the country, companies are challenging banks to convert bad debts to long-term loans. That way they get breathing room to rebuild without having to restructure their operations. According to Banthoon Lamsam, president of Thai Farmers Bank, the country's second largest lender, it's so easy to avoid paying debt that the system effectively penalizes companies that are honest. The financial crisis has "exposed the dark side of Thai culture," he says. Some of his own clients have pilfered "billions of baht" from their companies. Trade associations, he says, are threatening not to pay loans unless banks give them discounts. "Debtors think that restructuring means "free haircuts," he complains.

Meanwhile, the government has done precious little to train the workers who have lost their jobs in the crisis - as many as 2 million - with higher skills. Thai Melon, a huge textile mill in Bangkok's gritty northern fringe, shut its doors last year and laid off 4,800 workers. Many joined the already crowded ranks of food hawkers. After the shutdown, the Labor Ministry unveiled a plan to retrain laid-off workers to make sweets and cakes. "The training was too far away, and who is going to buy sweets any way," asks a 40-year-old woman. "They didn't offer to teach us anything else."

The textile industry epitomizes Thailand's lack of strategic planning. Many in the sector relocated out of Bangkok, rather than upgrading their plants. In Mae Sot, a trading town on the Burmese border, scores of sweatshops have sprung up since 1997. In all, some 60,000 illegal Burmese migrants work there for $2 a day. The official policy is to push sunset industries overseas," says a Western consultant in Bangkok. "But the unofficial policy is to turn a blind eye to illegal migrants."

In the meantime, tourism is up, and it's helped Thailand through the crisis. Cheap rates and golf - down to $10 a round - have attracted Asian travelers. Many of the visitors are South Korean and Japanese families, but the raunchy strip bars of Pattaya are a big draw, too.

Investment in training and technology, however, has lagged. A new study on Asia's hard-disk-drive industry conducted by the University of California, San Diego, notes "significant weaknesses" in Thailand's computer-drive industry, despite the fact that drives have been manufactured there since the US firm Seagate opened a factory in 1983. There are few Thai engineers, and the industry's component base is almost totally foreign-owned. Seagate, which remains Thailand's biggest employer, has no complaints-yet. But in contrast to Singapore and Malaysia, who have built sophisticated manufacturing infrastructure, the study points out that Thailand's "capacity for a production-related service is very thin." The main Thai component is labor.

Since mid-1997, foreigners have spent $7 billion on Thai manufacturing companies, many of them buying out their debt-laden partners. Ford Motors recently acquired a finance company to support a new network of dealerships established to sell its Thai-manufactured pickup trucks. U.S. sink giant American Standard took over its Thai affiliate. Japanese firms, which account for more than half of all acquisitions, have upped their stakes in autos and electronics. Such investments, some worry, could stir up anti-foreign sentiment if the benefits aren't clearly visible.

The hope is that foreign investors will shake Thailand into a more efficient way of doing things. They may not transfer technology, but the accounting standards, open business practices and hard-nosed realism that they bring may be an equally important kind of know-how. Take Alphatec Electronics, which is rising from the ashes in a more humble form. Not only have creditors driven out its founder (who, they allege, siphoned $300 million from corporate coffers - something the founder has denied), but banks have seized the company and delivered it into the hands of foreign investors. Two of these - one American, the other Swedish - injected $40 million into the electronics firm. Gone by the wayside is Thailand's dream of getting a prestigious billion-dollar wafer-fab plant for

Alpha Technopolis, which would have heralded the country's entry into the ranks of electronic superpowers. "We're trying to get this company on its feet," says Robert Mollerstuen, the company's top executive. He hopes to list his company on Nasdaq in three years. That could fix Alphatec's future. But getting Thailand back on track may take a lot longer.

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