Use of Thailand's Capital Markets by Japanese Firms − Status and Outlook −

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I. Japanese firms' presence in Thailand

Japanese firms have been expanding overseas in search of manufacturing centers and bases for providing products and services, and countries in Asia have been important in this regard (Figure 1), hosting 12,943 overseas subsidiaries of Japanese firms, 60% of the worldwide total. Thailand's government provides tax holidays in 154 designated industry sectors (as of end-2008), and also allows immediate depreciation (expensing) of capital expenditures. This has helped make Thailand an important base of operations for Japanese firms, ranking it second behind China with

Figure 1: Number of overseas Japanese subsidiaries by region and country

By region

	Number of local subsidiaries	Share (%)
Asia	12,943	60.1%
North America	3,517	16.3%
Europe	3,438	16.0%
Latin America	879	4.1%
Oceania	534	2.5%
Middle and Near East	129	0.6%
Africa	108	0.5%
Worldwide	21,548	100.0%

By country

	Number of local subsidiaries	Share (%)
Mainland China	5,017	38.8%
Thailand	1,609	12.4%
Hong Kong	1,124	8.7%
Singapore	994	7.7%
Taiwan	896	6.9%
Malaysia	753	5.8%
Korea	701	5.4%
Indonesia	661	5.1%
Philippines	435	3.4%
Vietnam	358	2.8%
India	302	2.3%
Other	93	0.7%
All Asia	12,943	100.0%

Note: 1. Figures are as of October 2008.
2. Excludes subsidiaries in which Japanese firms have less than a 10% stake. Does not include companies that have pulled out of the market, been absorbed via merger, or are inactive, nor companies whose presence has not been confirmed.

Source: Nomura Institute of Capital Markets Research, based on Toyo Keizai's *Kaigai Shinshutsu Kigyou Souran 2009 Nenban, Kunibetsuhen* (Survey of firms with overseas operations by country) (in Japanese).

1,609 Japanese subsidiaries[1]. Many of these firms are manufacturers, particularly in the automotive sector, and there are firms that have established operations in Thailand for production, procurement, R&D, and training. Among nonmanufacturers, nonbanks and retailers have set up financing subsidiaries to offer local consumers credit cards and consumer financing.

II. Thailand's capital markets undergo reform

Aiming to become an Asian financial center, Thailand has been deregulating its financial sector since 1990, including by liberalizing interest rates, easing its control over foreign exchange, and establishing offshore financial markets[2]. Parallel with this liberalization, in 1992 it amended a 1978 Law governing listed companies to improve corporate governance, including by requiring the disclosure of information related to the activity of company directors. As a result of the increased inflow of capital brought by deregulation, between 1990 and 1996, the year before the Asian monetary crisis, real GDP grew by 60%, from THB2.0 trillion (about ¥5.6 trillion at an exchange rate of THB1=¥2.8) to THB3.1 trillion (about ¥8.7 trillion), and thecapitalization of the stock market more than quadrupled, from THB613.5 billion (about ¥1.7 trillion) to THB2,559.6 trillion (about ¥7.2 trillion)[3]. In 1997, however, a Thai currency crisis triggered by FX market imbalances quickly turned into an Asian currency crisis, and Thailand's government, under the aegis of the World Bank and IMF, instigated reforms, including an overhaul of the Thailand central banks supervisory regime and a consolidation of financial institutions, all aimed at ridding the banking system of nonperforming loans and stabilizing the financial system[4].

In 2001, having finished repaying its IMF loans, the Thai government drew up the Thai Capital Market Master Plan, a plan for reforms ranging from rebuilding capital markets to ensuring their long-term development, and began implementing the plan in 2002 (Figure 2). Phase I of the plan, from 2002 to 2005, focused on strengthening the foundation, primarily by establishing market infrastructure, improving corporate governance, and raising market liquidity.

Phase 2, which began in 2006, consisted of reforms aimed at making Thai's capital market more like that of the advanced economies, including by laying the groundwork for more competition through deregulation and by expanding the investor base (Figure 3). Efforts to strengthen the role of institutional investors in a stock market driven by individual investor trading continued, and in 2007 the Association of Investment Management Companies put together a summary of proxy guidelines established by a number of different asset management companies. In the bond market, the issuance of

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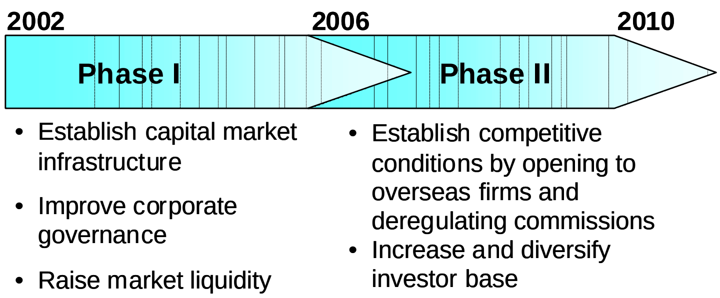
1 From the Japan External Trade Organization (http://www.jetro.go.jp/world/asia/th/invest_03/).
2 From *Zusetsu Ajia no Shouken Shijou* (Diagramming Asia's securities markets), by the Japan Securities Research Institute (in Japanese).
3 Based on disclosures by the IMF and the Stock Exchange of Thailand.
4 The number of financial institutions decline from 176 to 83 between January 1997 and end-2003. See Bank of Thailand, “Thailand’s Financial Sector Master Plan Handbook.”

baht-denominated bonds by non-resident issuers has been allowed since 2004, and that market has been growing. According to Thailand's Ministry of Finance, as of end-2007, more than 10 overseas financial institutions, including the World Bank and Deutsche Bank, have applied to issue baht-denominated bonds valued at over THB50 billion (¥140 billion)[5]. In the derivatives market, in 2006 the SET50 Index Futures was listed in conjunction with the commencement of trading on the Thai Futures Exchange, and in 2007 a second vehicle was added with the listing of SET Index Options.

Next, we provide an overview of Thailand's stock and bond markets, and then look at the use of those markets, and the future potential to do so, by Japanese firms' Thai subsidiaries.

Figure 2: The two-phase Thai Capital Market Master Plan



Source: Nomura Institute of Capital Markets Research, based on data published by the Stock Exchange of Thailand and other sources

Figure 3: Seven main items in the Thai Capital Market Master Plan (phase II)

1	Stock market	Raise institutional investors' share of trading, increase funds procurement by large corporations
2	Bond market	Increase corporate bond issuance by companies and corporate bond investment by individual investors, reduce bond face values
3	Investment product	Introduce derivatives and securitized products, support the securitization process
4	Financial intermediary	Improve competitiveness of local business by easing regulations on foreign capital participation and commissions
5	Listed company	Improve corporate governance, add amount of taxes paid to listing criteria
6	Literacy	Strengthen investor education for both individuals and corporations
7	Supervisory regime	Improve disclosures through the Securities and Exchange Commission, Thailand and the Stock Market of Thailand

Source: Nomura Institute of Capital Markets Research, based on data published by the Stock Exchange of Thailand and other sources

5 See published materials from each bank and Matichon Online(http://www.thaiceotokyo.jp/japanese/index.php).

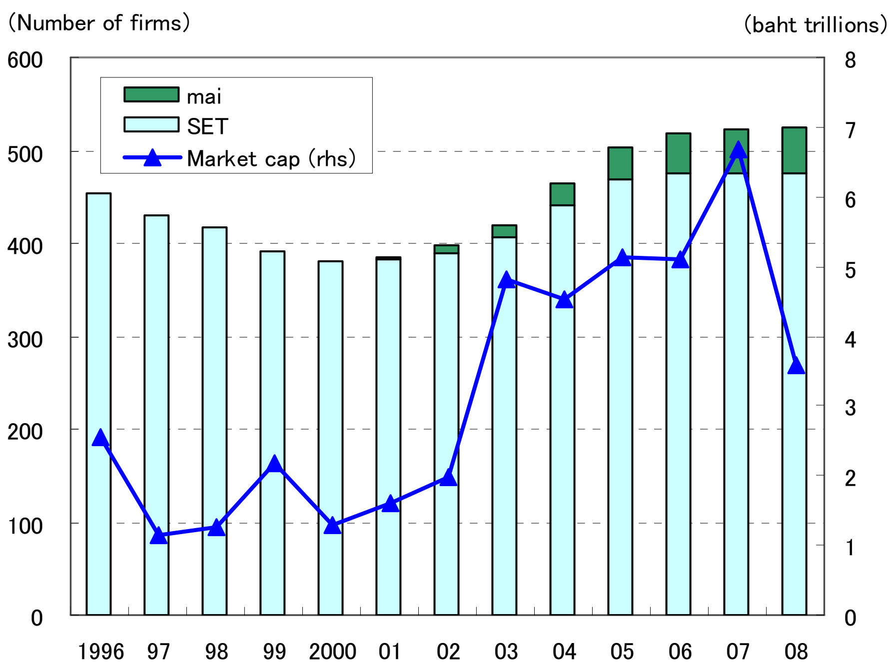
III. Stock market

1. Market overview

Thailand's stock market was established in 1974 and began trading in 1975. Amid efforts from 1990 to foster growth in securities markets through financial liberalization and the establishment of a regulatory infrastructure as noted above, in 1991 the market took on its present name, The Stock Exchange of Thailand (SET). SET was initially positioned as a forum for trading stocks and for large companies to procure funding, and in 1999 the Market for Alternative Investment (mai) was established for smaller firms. Although both markets are operated by The Stock Exchange of Thailand, the traditional market is referred to as SET, and the market for smaller firms is called mai, to distinguish between the two.

The stock market has recovered from the chaos caused by the Asian currency crisis. The total market capitalization of SET and mai combined declined from THB2.6 trillion (about ¥7.3 trillion) in 1996 to THB1.1 trillion (¥3.1 trillion) in 1997, a 58% drop, but followed a growth path after that, reaching THB6.6 trillion (¥18.5 trillion) by 2007 (Figure 4). In 2003, a year when exports grew by 18.6% YoY and GDP by a rapid 6.7%, growth was particularly strong as a result of aggressive investing by domestic investors, and both market cap and trading value more than doubled. Because of the latest financial crisis with roots in the US, however, market cap had declined to THB3.6 trillion (about ¥10.1 trillion) by end-2008.

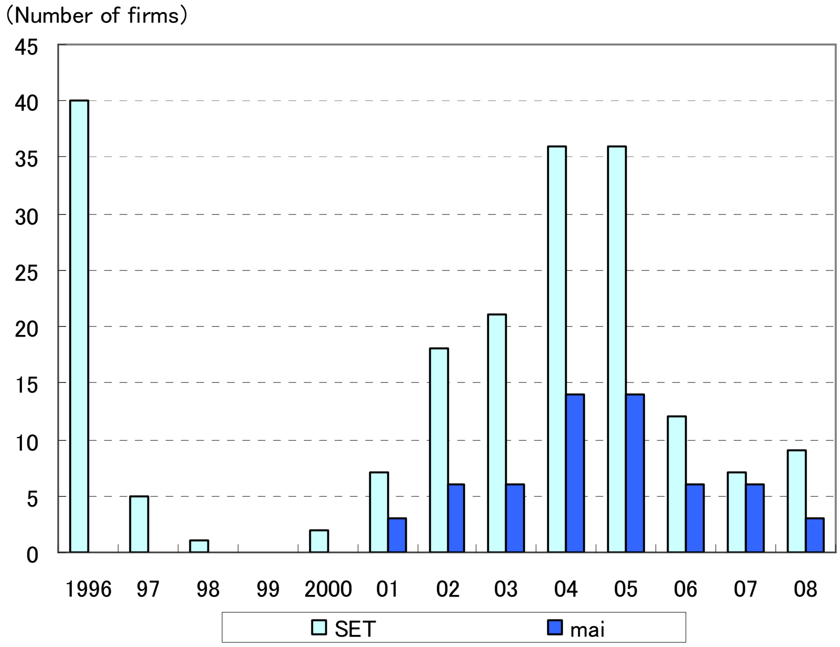
Figure 4: Market capitalization and number of listed companies



Source: Nomura Institute of Capital Markets Research, based on information disclosures from the Stock Exchange of Thailand and other sources

Although the number of listed companies declined from 454 in 1996 to 381 in 2000, this can be attributed to the small number of IPOs (including none at all in 1999) during the process of economic restructuring under the aegis of the IMF (Figure 5). The number of listed companies started growing in 2001, partly owing to the launch of trading on the mai, and by the end of 2008 there were 525 listed companies. With ten or more companies listing on either SET or mai every year, a growing number of companies are using the stock exchange.

Figure 5: Number of IPOs

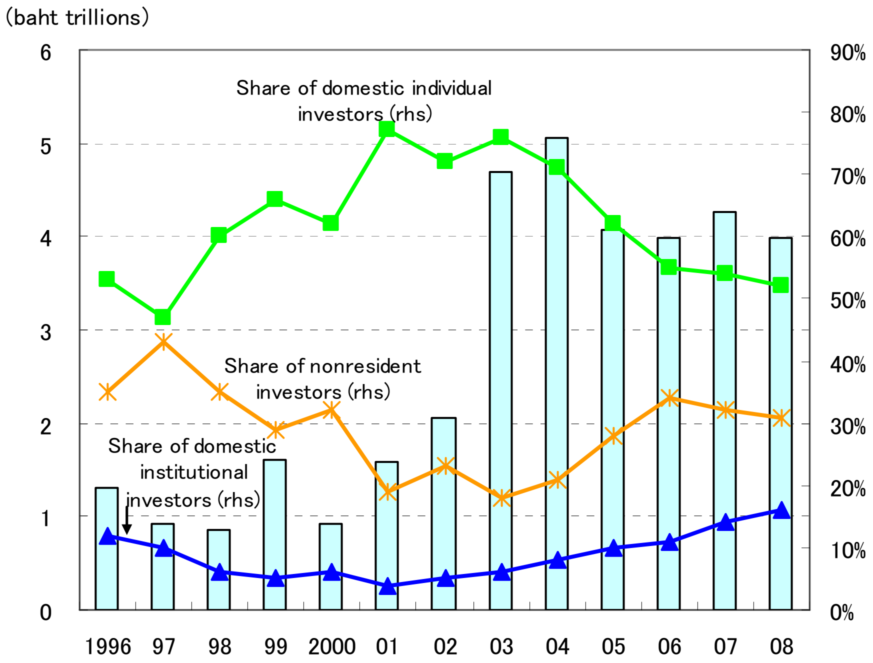


Source: Nomura Institute of Capital Markets Research, based on information disclosures from the Stock Exchange of Thailand and other sources

Trading value declined from THB1.3 trillion (¥3.6 trillion) in 1996 to THB855.2 billion (about ¥2.4 trillion) in 1998, a 34% drop over two years (Figure 6). Trading started growing in 2000, however, including particularly sharp growth in 2003, and was up to THB4.0 trillion (¥11.2 trillion) by 2008, keeping pace with growth in the number of listed companies and market capitalization. Individual investors have accounted for a large portion of trades since prior to the Asian currency crisis, 53% in 1996, and that had grown to 77% by 2001. During that same period, trading by nonresident investors declined from 35% to 19%, and trading by domestic institutional investors dropped from 12% to 4%. Subsequently, both nonresident investors and domestic institutional investors gradually increased their share of trading, and accounted for 31% and 16%, respectively, of trading value in 2008. Trading by individual investors is still high at 52%, however, and the Thai Capital

Markets Master Plan noted above aims to increase participation by institutional investors to stabilize the market and diversify the investor base[6].

Figure 6: Trading value and ratio of institutional and nonresident investors



Source: Nomura Institute of Capital Markets Research, based on information disclosures from the Stock Exchange of Thailand and other sources

2. Listing on the Stock Exchange of Thailand

The criteria for listing on the Stock Exchange of Thailand are set by the exchange itself and SEC Thailand, and are similar in content to the criteria set by Singapore and other developed stock markets (Figure 7). Consequently, global corporations listed on one or more of the world's other major bourses can easily meet the listing criteria. In addition, because the Stock Exchange of Thailand has been working to increase market liquidity, it welcomes dual listings by global firms from Japan and elsewhere, and may apply the listing criteria loosely on a case-by-case basis[7]. Because the Master Plan also aims to increase trading and shareholding by institutional investors, the listing criteria for subsidiaries of overseas firms treated as domestic firms are also loosened, and for each 1% of common shares held by an investment trust, the required number of shareholders is reduced by 10, up to a maximum of reduction of 100[8].

6 There are three ways for nonresident investors to invest in Thailand's stock market: (1) on the Main Board under the name of a broker, (2) on the Foreign Board under the investor's own name in stock set aside for nonresident investors, and (3) in stock without voting rights.

7 See Regulations of the Stock Exchange of Thailand, by the Securities and Exchange Commission, Thailand.

8 See the reference in Note 4.

Figure 7: Overview of listing standards

Profitability		
	After-tax profits	At least three years in business, total of at least THB50 million over past two to three years. At least THB30 million in most recent fiscal year. Profitable in year of listing.
Company size		
	Paid-in capital	At least THB300 million.
	Net assets	At least THB300 million.
Liquidity		
	Float rate	At least 25%, or, if market cap of common shares is at least THB3 billion, at least 20%.
	Offering	At least 15% if capital is below THB500 million. At least 10%, or at least THB75 million, whichever is higher, if capital is THB500 million or higher.
	Number of shareholders	Excluding large shareholders, at least 1000 shareholders with shares equal to at least one minimum lot. This requirement is eased, however, if an investment trust has ownership.
Governance		Establish an audit committee comprised of at least three directors. Build internal control systems.
Accounting standards		Thai accounting standards (which are based on, and roughly the same as, international accounting standards).
Auditing standards		Thai auditing standards (consistent with international auditing standards).
Other		Listing criteria can be loosened case-by-case for companies whose listing would have a favorable market impact.

Source: Nomura Institute of Capital Markets Research, based on data published by the Stock Exchange of Thailand and the Securities and Exchange Commission, Thailand

The required quarterly disclosures following listing may be made in English. Both the accounting and auditing standards used must in principle be those of Thailand. In the process of receiving reconstruction support from the IMF following the Asian currency crisis, however, progress was made in implementing rules consistent with international accounting and auditing standards, and by FY2001 Thailand's accounting regime had incorporate the key elements of international accounting standards[9]. In addition, Thailand, Singapore, and Malaysia announced on 12 June 2009 that disclosure requirements for the issuance of stocks and bonds by a listed company had been standardized across the three countries. This standardization should reduce disclosure-related costs when a company listed in Thailand (including a foreign capitalized company) issues securities in one of the other two countries. Likewise, this is expected to increase the opportunity for firms listed in one of the other two countries to procure funding in Thailand's capital markets, which in turn should invigorate those markets.

More than 20 Thai subsidiaries of Japanese firms are listed on Thai stock exchanges, including Thai Wacoal, which has been listed for 26 years, and smaller firms like Yuasa Battery Thailand that are listed on the mai (Figure 8). More recently, Toyo-Thai Corporation, a builder of plants and an affiliate of Toyo Engineering, listed its shares on the SET on 16 June 2009, becoming Thailand's first listed plant construction company[10]. Capital procured through a share listing has been used by

9 See UFJ Research Institute, *Ajia Kakkoku ni okeru Kigyou Kaikei Seido no Genjou to Kadai* (Corporate accounting rules in the countries of Asia -- status and challenges), a study commissioned by Japan's Ministry of Finance In FY2002 (in Japanese).

10 See the Stock Exchange of Thailand's website.

numerous manufacturers to invest in facilities, and by nonmanufacturers, such as non-banks, to provide credit to consumers. Because a listing diversifies the shareholder base, it typically lowers the parent company's direct stake, although in some cases the parent company will hold onto a majority of the voting rights when including the shares held by group companies. For example, Aeon Thana Sinsap's lead shareholder is Aeon Credit Service with a 35% stake, but when including the shares owned by Aeon's Thai subsidiary, that stake rises to 63%. This is an example of procuring funds denominated in the local currency while still retaining influence over the local subsidiary.

Figure 8: Examples of local subsidiaries of Japanese firms listed on Thailand's stock exchange

Local subsidiary	Sector	Established	Listed	Market	Funding amount (baht millions)	Parent company	Parent company's equity stake
Thai Toray Textile Mills	Spinning	1964	1981	SET	60	Toray	26%
Thai Wacoal	Garments	1970	1983	SET	120	Wacoal	34%
Thai Stanley Electric	Automotive	1980	1991	SET	380	Stanley Electric	30%
Muramoto Electron Thailand	Electronic components	1988	1992	SET	220	Muramoto Industry	63%
Aeon Thana Sinsap	Finance	1992	2001	SET	250	Aeon Credit Service	35%
Yuasa Battery Thailand	Automotive	1963	2002	mai	110	GS Yuasa International	41%
CPR Gomu	Rubber	1975	2005	mai	200	Kinugawa Rubber Industrial	49%
Toyo-Thai Corporation	Plants	1985	2009	SET	480	Toyo Engineering	26%

Note: Parent company ownership stakes are as of FY2008. Ownership shares of Toyo-Thai Corporation are at the time of the IPO.

Source: Nomura Institute of Capital Markets Research, based on information disclosures from the Stock Exchange of Thailand and each company

3. The advantages of a listing and potential for using the stock market

The advantages of a listing in Thailand's stock market include tax incentives, a diversification of funding methods, and increased name recognition and credibility. Regarding the tax incentives, the usual corporate tax rate in Thailand is 30%, but that is lowered to 25% for companies that newly list by end-2009 on the SET, and to 20% for new listings on the mai. As for funding diversification, many of the local subsidiaries of Japanese firms primarily rely on loans from banks or the parent company for their funding, but given that overseas banks are limited in the amount of funds they can loan to a single corporate group (known as a single lending limit, and explained further below) and also that, because of the most recent financial crisis some banks and parent companies lacked the liquidity needed to make any loans, some Thai subsidiaries started looking at an IPO or secondary offering as another way to procure funds. The improved name recognition and credibility resulting from a listing can help companies that transact directly with consumers grow their customer base, and also make it easier for them to hire talented employees.

In order to develop the stock market, the Stock Exchange of Thailand has been highlighting these listing advantages as it encourages global firms and their local subsidiaries to list their shares. In 2009, it established a new business division, the New Listing Department-International, where it places targeted firms in one of four categories: (1) overseas firms with a business base in Thailand; (2) joint ventures between overseas firms and Thai firms; (3) Thai firms owned by overseas firms; and (4) global firms considering listing on multiple exchanges[11].

Reasons for not using Thailand's stock market that have been pointed out by Japanese firms with operations in Thailand include (1) their ability to procure sufficient funding through multiple loans from overseas banks or local banks at a lower cost than through the listing and issuance of shares, based on their strong financial position or on the guarantees offered by their creditworthy parent company and (2) the decline in the parent company's stake that results from equity financing unless the parent company also subscribes to the offering. Although some Thai subsidiaries will probably continue using loans for their funding based on these reasons, if institutional investors and nonresident investors participate more in Thailand's stock market and the market matures, we think there will be sufficient rationale to consider using the stock market to procure funding.

IV. The bond market and current issuance by Japanese firms' local subsidiaries

1. The history and growth of Thailand's bond market

The history of bond issuance in Thailand goes back 100 years, when the King of Siam ruled. The first bond issued in Thailand was a British pound-denominated 40-year Thai Royal Government bond issued to European investors in 1903. Although it is not clear when the first corporate bond was issued, we know that the enabling legislation was put in place in 1928. Corporate bond issuers were initially limited to state-run enterprises, however. After World War II, Thailand's bond market, both the issuance market and the secondary market, was still dominated by government bonds, and because the government continued to maintain a fiscal surplus, not a single government bond was issued during the decade from 1988 to 1997. Because of this delayed development of the government bond market, which also serves as a benchmark for corporate bonds issued by private-sector issuers, the dominant issuer in

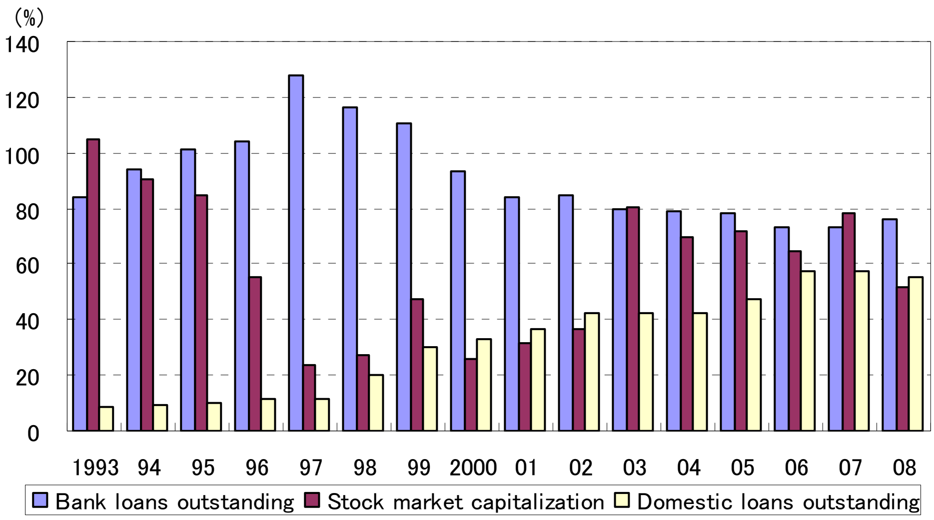
[11] From an interview with the Stock Exchange of Thailand.

the market was a state-run enterprise, the Industrial Finance Corporation of Thailand (IFCT).

What finally put an end to this period of the Thai bond market's history and sparked real development was the Asian currency crisis, which had its roots in Thailand in 1997. To create a source of funds for injecting public capital into Thailand's financial institutions, the first government bond issue in a decade was offered in June 1998. Although legislation relating to corporate bonds was put in place with the passage of the SEC Law in 1992, well before the Asian currency crisis, the corporate bond market did not start growing until 1999. The development of Thailand's bond market was given a further push from December 2002 with the creation of the Asia Bond Market Initiative (ABMI), a framework for international assistance that promotes financial cooperation within the ASEAN +3 (Japan, China, and Korea).

Looking at the data, expressed as a fraction of GDP, on outstanding loans held by Thailand's banks, as well as at the total capitalization of the stock market and total domestic bonds outstanding, Thai bank loans outstanding dropped from its peak of 127.57% of GDP at end-1997, the year the Asian currency crisis broke out, to 73.28% by end-2006 (Figure 9). Although this had increased slightly to 76.15% by end-September 2008, there has clearly been a substantial drop in direct financing's weighting within Thailand's financial market over the decade since the Asian currency crisis erupted. In contrast, both stock market capitalization and the amount of domestic bonds outstanding have accounted for an increasingly higher fraction of the financial market during that time. Growth in the domestic bond market was particularly impressive, from 8.26% of GDP at end-1993 to 57.72% by end-2007, although this had dropped back down to 55.48% by end-September 2008.

Figure 9: Financial markets' GDP weighting



Note: As of end-September 2008.
Source: Nomura Institute of Capital Markets Research, based on materials from the Thai Bond Market Association.

We attribute the development of Thailand's domestic bond market to the progress in establishing a regulatory infrastructure for the market made by the Thai Bond Market Association (ThaiBMA), a self-regulatory organization (SRO) that was established in September 2005 and began operations in January 2006. For its part, the Thai government established the Domestic Bond Market Development Committee, comprised of the finance minister, central bank governor, SEC Thailand chairman, the Stock Exchange of Thailand chairman, the ThaiBMA chairman, and private sector representatives, providing a channel for fostering mutual understanding between the public and private sectors regarding the domestic bond market's development.

2. Corporate bond market and investors

1） The corporate bond market is growing

There are three broad categories of bonds in Thailand, (1) government-affiliated bonds (government bonds, T-Bills, state-owned enterprise (SOE) bonds, and Bank of Thailand (BoT) bonds, including FIDF[12] and PLMO[13]), (2) corporate bonds (domestic and overseas), and (3) baht-denominated bonds issued by nonresidents. Domestic corporate bonds include intermediate and long-term bonds (secured bonds, unsecured bonds, subordinated bonds, and convertible bonds) and commercial paper (CP).

We use here a broad definition of the corporate bond market and look at issuance and issuance outstanding for SOE bonds, private-sector corporate bonds, and baht-denominated bonds from nonresidents (Figure 10). SOE bonds are still being issued by the Electricity Generating Authority of Thailand (EGAT) and other entities, but in recent years corporate bond issuance has greatly exceeded that of SOE bonds, both in issuance amount and total amount outstanding. Corporate bond issuance grew from THB98.2 billion (approximately ¥275 billion) in 2002 to THB1.2722 trillion (about ¥3.6 trillion) in 2008, a multiple of 13 over a 7-year period. The amount outstanding grew from THB395.7 billion (approximately ¥1.1 trillion) at end-2002 to 1.1219 trillion (about ¥3.1 trillion) at end-2008, a multiple of 2.8 over a 6-year period. Thailand Ministry of Finance regulations were established in 2005 to pave the way for the introduction of baht-denominated bonds from nonresidents (equivalent to Japan's samurai bonds).

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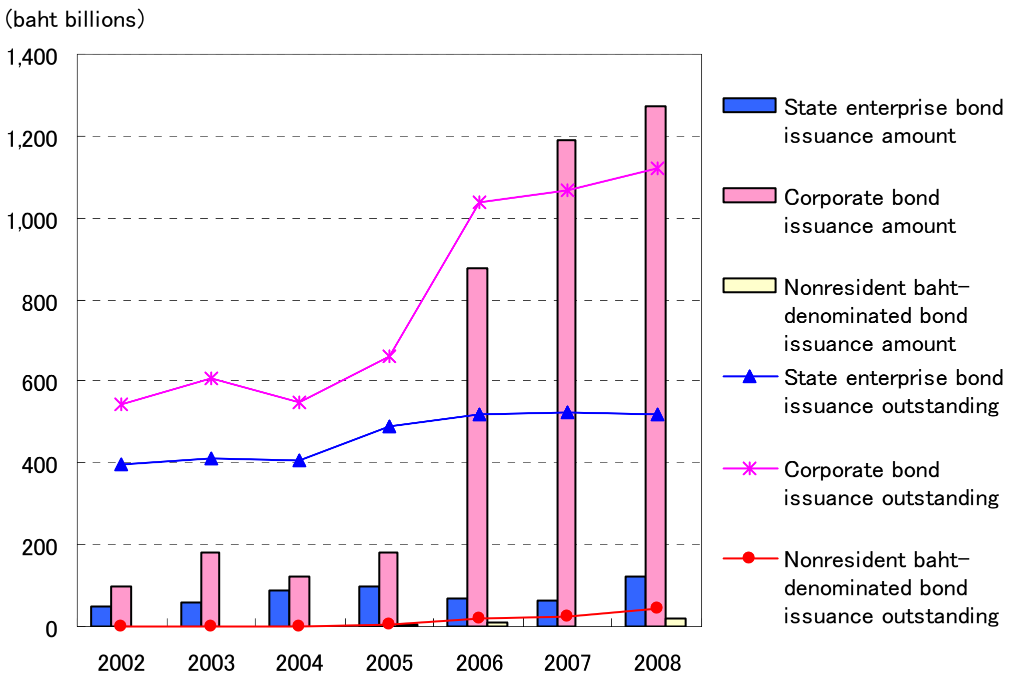
[12] FDIF stands for Financial Institution Development Fund, which is the financing arm of Thailand's central bank. The FDIF purchases nonperforming loans from, and injects capital into, financial institutions.

[13] PLMO stands for Property Loan Management Organization, which purchases real estate-related loans from financial institutions.

Figure 10: Corporate bond issuance and amount outstanding



Source: Nomura Institute of Capital Markets Research, based on materials from the Thai Bond Market Association.

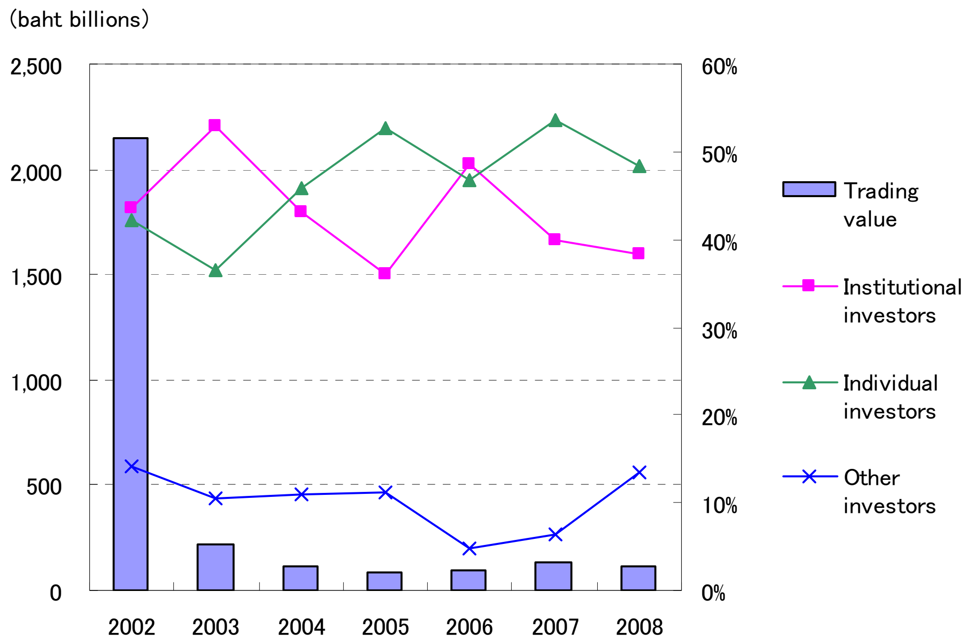
2) Investor structure

Trading activity in the corporate bond market bottomed in 2005, and has been above THB100 billion annually (about ¥280 billion) since 2007 (Figure 11). Investors in the corporate bond market include institutional, individual, and other investors. At end-2003, institutional investors had the highest share of bond ownership at 52.98%, while at end-2007, individual investors had the highest share at 53.62%. At end-2008, institutional investors owned roughly 40%, individual investors 50%, and other investors 10%. Breaking down the end-2008 ownership of institutional investors into subcategories, banks owned 4.98%, government-affiliated financial institutions [14] 0.81%, insurance companies 10.5%, investment trusts 10.19%, and retirement funds 11.7% (Figure 12). Retirement funds include government pension funds, the Thai Provident Fund, and social security funds [15]. Individual investors include 4.83% through corporate entities and 43.57% by individuals. The other investor category includes governmental entities, foundations, associations, and places of worship.

[14] This includes the Export-Import Bank of Thailand (EXIM), the Government Housing Bank (GHB), and the Government Savings Bank (GSB).

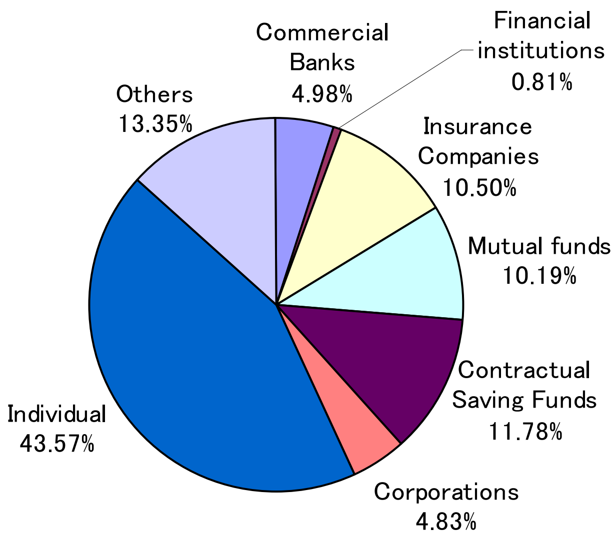
[15] For more on Thailand's pension system, see Akiko Nomura, *Tai no Kigyou Nenkin Seidou no Genjou to Saikin no Doukou* (Thailand's corporate pension system, current status and recent trends), in the fall 2008 issue of the Capital Market Quarterly (in Japanese).

Figure 11: Corporate bond trading value and investors



Source: Nomura Institute of Capital Markets Research, based on materials from the Thai Bond Market Association.

Figure 12: Ownership of corporate bonds by investor type (as of end-2008)



Source: Nomura Institute of Capital Markets Research, based on materials from the Thai Bond Market Association.

3. Fund procurement and bond market participation by Thai subsidiaries of Japanese firms

1) Local funds procurement by Thai subsidiaries of Japanese firms

The typical funds procurement pattern by the Thai subsidiaries of Japanese firms is the same as in other Asian countries, with capex being funded by equity or loans from the parent company and operating capital being funded through local procurement.

Most of the funding of operating capital is based on loans from either a western bank or one of the three Japanese banks with operations in Thailand, although foreign-capitalized banks must operate under "single lending limit" rules, which cap the amount that can be lent to a single corporate group. Because this limit is expressed as a fraction of the bank's capital, the only way for a foreign-capitalized bank to increase its lending is to increase its capital, but this is not an easy task in light of the recent global financial crisis. Because local banks are not subject to the rules, they are operating at an advantage in certain respects. According to a local survey, that rule has been applied more strictly since August 2008, thereby placing increasing constraints on the activity of foreign-capitalized banks in Thailand.

Consequently, there appears to be a growing number of firms that fund their operating capital by taking out loans and establishing lines of credit with local banks. Thailand has three major banks, the Bangkok Bank, the Siam Commercial Bank, and Kasikorn Bank, and all appear to have established a "Japan desk" to serve the local subsidiaries of Japanese firms.

Those local subsidiaries that are under a regional headquarters in Singapore also have the option of borrowing from that headquarters, but because interest payments sent out of the country are subject to a withholding tax, this is not a very realistic option.

2) Use of Thailand's bond market by Japanese firms' local subsidiaries

There have been some Thai subsidiaries of Japanese firms that have issued domestic corporate bonds in Thailand (Figure 13). The local subsidiaries of Aeon Credit Service, Honda Motor, Mitsubishi Motors, Mitsubishi Corp. and Isuzu Motors, and Toyota Motor have all issued baht-denominated corporate bonds in the past. The Japan Bank for International Cooperation (JBIC), a government-affiliated financial institution, has issued nonresident baht-denominated bonds[16]. A common element among these entities is that they have an ongoing need to fund retail and sales financing. There are two ways to receive a rating, either from the overseas rating agency Fitch or from the local rating agency TRIS Rating. Fitch established a Thai subsidiary in 2001 with 51% ownership, with the other 49% held by the government

[16] Other public entities that have issued these bonds include the World Bank, the International Finance Corporation (IFC), the Asian Development Bank (ADB), and the Central American Bank for Economic Integration (CABEI), the Swedish Export Credits Guarantee Board (EKN), the Export-Import Bank of Korea, and Germany's KfW IPEX Bank. Private sector issuers include the Emirates Bank International.

pension fund and local financial institutions. TRIS Rating, established in 1993, is 18.5% owned by the government (the Ministry of Finance and the Government Savings Bank), and 5% owned by the Asian Development Bank (ADB).

Figure 13: Corporate bond issuance by Japanese firms' Thai subsidiaries

Local subsidiary	Issuance date	Maturity	Amount (baht millions)	Credit rating	Rating agency	Parent company (Japan)	Total of unredeemed bonds (end-2007)
AEON Thana Sinsap Leasing Co., Ltd.	2005/6	3	500	BBB+	FITCH	Aeon Credit Service	3
Honda Leasing (Thailand) Co., Ltd.	2006/10	1.5	1,000	AAA	TRIS	Honda Motor	4
Mitsubishi Motors (Thailand) Company Limited	2005/12	3	5,000	AAA	FITCH	Mitsubishi Motors	2
Tri Petch Isuzu Sales Co., Ltd.	2008/6	4	438	AAA	FITCH	Mitsubishi Corp. and Isuzu Motors	3
Toyota Leasing (Thailand) Co., Ltd.	2005/4	3	3,000	AAA	TRIS	Toyota Motor	11

Source: Nomura Institute of Capital Markets Research, based on the Thai Bond Market Association's publication, Thai Bond Market 2008.

It is also possible to issue securitized products in Thailand. Thus far, asset-backed securities have been issued by the National Housing Authority, the Siam Group, and Scandinavian Leasing. In addition, Dhanarak Asset Development, an affiliate of Thailand's Ministry of Finance, has issued a whole business securitization (WBS). Among Japanese firms' Thai subsidiaries, Aeon Credit has issued securitization backed by installment sales receivables and credit card receivables. Local surveys suggest that the Thai people have little resistance to loans, and that Thailand is a favorable market for consumer finance. Aeon Credit Service established a presence in Thailand in 1992, and through its efforts to expand its number of cardholders through alliances with Aeon and Carrefour, and to issue gold cards and otherwise establish membership categories, it has become one of Thailand's largest credit card companies, with 1.76 million cardholders as of 20 February 2009[17]. The funds that Aeon Credit Service has procured through securitization have apparently helped it expand its business in step with the growth of Thailand's middle-class.

[17] From the company's website.

Figure 14: Securitization by Japanese firms' Thai subsidiaries

Issuance date	Underlying asset	Underlying asset (baht millions)	Issuance amount (baht millions)	Issuer
2004/2/17	Installment sales receivables	2,000	1,483	Eternal Special Purpose Vehicle Co. Ltd.
2005/2/16	Credit card receivables	2,957	2,000	Eternal Credit Card Special Purpose Vehicle Co. Ltd.
2006/2/6	Credit card receivables	2,783	2,280	Eternal 3 Special Purpose Vehicle Co. Ltd.
2007/6/25	Credit card receivables	3,038	2,205	Eternal 4 Special Purpose Vehicle Co. Ltd.

Source: Nomura Institute of Capital Markets Research, based on Aeon Thana Sinsap's annual report.

4. The potential for using Thailand's bond market

According to the ThaiBMA, most of the corporate bonds issued by overseas companies are from major firms like Nestles and Toyota Motor, and the issues are typically credit enhanced with guarantees from the parent company. Likewise, it appears that it is difficult to justify issuance costs unless a AA rating can be obtained using parent company credit enhancement. Recent examples of issuance include a THB1 billion corporate bond issue in August 2008 from Aeon Credit Service's subsidiary, Aeon Thana Sinsap. That bond had credit enhancement from a guarantee from Mizuno Corporate Bank, rather than the parent company, as well as a second guarantee from JBIC. The ThaiBMA also noted that the market for highly rated corporate bonds began to recover in early March 2009, and that issuance in Q1 2009 totaled THB65 billion (roughly ¥182 billion), versus about THB20 billion in a typical quarter.

It appears that Japanese firms' Thai subsidiaries still have the option of issuing bonds with credit enhancement from their parent companies. For the time being, however, management will probably be focused on restructuring their operations. In addition, assuming that the current financial crisis is winding down, the Thai government will probably focus its efforts on developing the automotive industry and aggressively attracting overseas auto assemblers and component manufacturers to the "Detroit of Asia." This makes it essential that Thailand develop its financial markets to the point where they can accommodate future funding demand from these companies. Making it easier for foreign-capitalized firms to domestically manage their baht-denominated cash is important not only to deal with the current financial crisis but also for the future development of Thailand's financial markets.

The GHB had plans to issue mortgage backed securities (MBS) in the securitization market, but those plans were put on hold following the Lehman Brothers bankruptcy in September 2008. SEC Thailand has for several years been in the process of revising laws on investment trusts to accommodate securitization, and has already put its proposals out for public comment. A market recovery and the establishment of a regulatory infrastructure are probably the keys to developing Thailand's securitization market. With growth in Thailand's middle-class expected to fuel expansion of the foreign-capitalized retail industry, including the participation of Japanese firms, we think the proportion of purchases made with installment credit or a credit card is likely to increase, and think this will create further room for development of the securitization market.

The ThaiBMA has already recognized certain challenges to Thailand's bond market, including (1) the limited range of investors, (2) the small number of private-sector issuers, (3) the imbalance in market size and composition between government bonds and corporate bonds, (4) the imbalance in the term structure of bonds, (5) the need to diversify bond issues, and (6) the small number of bond dealers[18], and it has shown a willingness as an SRO to do what is required to help the bond market develop.

As noted above, Thailand has already standardized its information disclosure rules for when listed companies issue securities with those of Singapore and Malaysia, and this has greatly increased the potential for Japanese firms' Thai subsidiaries to use the bond market. For example, it should be possible for Japanese firms' Thai subsidiaries that are listed on the Stock Exchange of Thailand, such as Aeon Thana Sinsap, to use not only the bond market and securitization market in Thailand, but also to procure low-cost funds from the bond market in Singapore and Malaysia, depending on market conditions. Both Singapore and Malaysia are raising their status internationally, Singapore as an international financial center and Malaysia as an international Islamic financial center. This ability to use both of these financial centers further increases the advantages of listing on the Stock Exchange of Thailand for Japanese firms' Thai subsidiaries.

V. Conclusion

We have examined the current state of Thailand's capital markets and looked at examples of the Thai subsidiaries of Japanese firms using Thailand's stock and bond markets. The baht, Thailand's local currency, is still tightly regulated; it cannot be taken out of the country, for example, and foreign currency transfers must be sent to the central bank. In certain respects, such controls are probably inevitable, given Thailand's experience with the Asian currency crisis in 1997. On the other hand, Thailand's Ministry of Finance and SEC, as well as the Stock Exchange of Thailand and the ThaiBMA, all recognize the importance of developing capital markets. Those institutions have worked on reforming capital markets, and have implemented measures encouraging overseas firms to list on Thailand's stock markets, and have vociferously argued the case for reforming Thailand's capital markets and making them more open to overseas firms and investors. In addition, at the ASEAN + 3 (Japan, China, and Korea) summit of finance ministers held on 3 May 2009, a

[18] Excerpt from "Thai Bond Market 2007," by the Thai Bond Market Association.

proposal was approved, as part of the Asia Bond Market Initiative, to establish a trust fund within the ADB to invest in bonds denominated in the local currencies of Asia, as a way to support the issuance of those bonds. We think this will result in the future growth of the bond market in Thailand and the rest of Asia[19].

A key determinant of the success of Japanese firms' Thai businesses will probably be their ability to effectively use Thailand's capital markets as they attempt to expand their local business using M&A, including through tie-ups with Thai firms. Of concern in this regard are recent political trends in Thailand. Political turmoil caused the overseas rating agencies to downgrade Thailand's sovereign debt in April 2009, and this led to the downgrade of some Thai corporate debt, as well[20]. This has created concern over an increase in the cost of issuing bonds in Thailand among those foreign-capitalized firms planning such issuance. Firms and investors from overseas are also concerned over the impact that Thailand's political situation could have on their future economic activity in Thailand. This could wind up becoming the next major challenge to Thailand's capital markets, following the Asian currency crisis of 10 years ago. Thailand used that crisis in 1997 as a lever to develop its capital markets, and this makes the country's next moves all the more important to watch.

19 See the press release from Japan's Ministry of Finance (http://www.mof.go.jp/jouhou/kokkin/as3_210503.pdf) (in Japanese).

20 *Nihon Keizai Shimbun,* 18 April 2009 edition (in Japanese).