Spending Power: Shopaholic Thais Shatter Stereotype of Asian Savers

By Paul M. Sherer
Staff Reporter

06/13/1996
The Asian Wall Street Journal
Page 1

BANGKOK -- Vorawit Tantivorawong is a spending machine.

The soft-spoken university student drives a $50,000 BMW and wears a $3,200 Rolex. He's traveled to the U.S., England, Germany, Holland, Switzerland, Italy, Austria and France, plus a handful of Asian countries. His closet is full of Armani T-shirts and Levis jeans.

Mr. Vorawit's spending habits are wonderful for makers of luxury goods; they aren't so wonderful for Thailand, which has one of the world's widest current-account deficits -- 8.1% of gross domestic product in 1995.

Thailand shatters the stereotype that Asians are natural-born savers. Thailand's household savings rate has tumbled steadily from 13.5% of gross domestic product in 1988 to just 7.2% last year. Though Thailand's heavy investment in manufacturing contributes far more to the current-account deficit than luxurygoods spending, imported factory equipment does far more good for the economy than imported luxury watches.

The Bank of Thailand, alarmed by the shrinking household savings rate, has imposed restrictions on auto loans and the issuance of credit cards. The customs department has begun stricter enforcement of the $200 duty-free limit on goods Thais are allowed to bring back from overseas trips.

But the central bank picked a tough opponent when it decided to take on the country's free spenders. In Thailand, spending on luxury goods isn't just an indulgence, it's a social necessity.

Thai society is highly stratified; people are treated according to their perceived status and wealth. Thais who expect deference from clerks, policemen and their peers must drive a fancy car and carry the latest, smallest mobile phone. For women, carrying a $1,000 imported handbag means respect.

"Some rich people won't be friends with those who don't carry these kinds of bags," says Thanida Rittirajcomporn, a student at elite Chulalongkorn University who owns Gucci and Louis Vuitton handbags. "They will talk to you only if they have some necessary business with you."

In many other countries, a businessman driving a low-cost car might be seen as sensible. In Thailand, he's a failure.

One foreign consultant to a Thai bank was prepared to buy a Toyota, Honda, or -- God forbid -- a Suzuki. His Thai boss quickly nixed the idea. "He said it has to be a Mercedes, otherwise the image isn't very good," says the consultant from behind the wheel of his new $100,000 Mercedes E 220.

That helps explain why Thailand is second only to Japan as an Asian export market for Mercedes-Benz cars. (Both countries are among the auto maker's top 10 export markets world-wide). That's especially notable given that Thailand's per-capita income is less than 7% that of Japan. The parking lots of Italian and French restaurants in Bangkok are filled with Mercedes S 500 models, which sell in Thailand for an astronomical $320,000, including 257% of import taxes; in the U.S., the same car sells for $90,000.

It isn't uncommon in Thailand for wealthy families to buy a Ferrari or Porsche for a university-aged son, plus a Mercedes or BMW for his everyday driving. The low-slung Ferraris aren't generally driven to Chulalongkorn University's campus, but that isn't because they're too showy, says Pinrat Thipatima, 20.

The students' sports cars "can't get over the speed bumps, so they drive their Mercedes or BMWs instead," she says. (Ms. Pinrat herself drives a plebeian Toyota Corolla, though she does own Louis Vuitton, Gucci and Moschino handbags and a Philippe Charriol watch).

Thais spend more per Visa credit card issued than residents of any other AsianPacific country except Australia. Borrowing for personal consumption more than tripled from $6.2 billion in 1990 to $20.9 billion in 1995, says the Bank of Thailand, while credit-card spending rose 39% last year.

Of particular concern to the Bank of Thailand is the big increase in overseas travel and spending by Thais, which has sharply reduced the surplus on trade in travel services that Thailand generates from incoming tourists. Last year 1.82 million Thais traveled abroad, up from 883,000 in 1990.

And while they're abroad, they spend. The head of a Thai mutual-fund company recently took his entire staff to Hong Kong for a shopping weekend. Some bought so many handbags and pairs of shoes they had trouble getting them back on the plane. Of the 40 or so people on his staff, only one used any of his annual bonus last year to invest in the stock market; the rest spent it all, he says. Thai tourists spent $5.1 billion on their overseas trips last year, according to Thai Farmers Research Center, $1.1 billion of that on luxury goods.

Thais may spend even more after the Finance Ministry on May 7 slashed import tariffs on luxury goods, citing a desire to turn Thailand into a regional shopping hub. Government officials asserted that the move would help cut the current-account deficit by making overseas shopping trips less attractive.

Many economists puzzled at the logic, pointing out that it's a lot easier to buy something in the neighborhood mall than it is to travel to Singapore. The tariff cut is certain, however, to raise the amount of revenue flowing into the Finance Ministry through increased collection of value-added tax. (Under pressure from local manufacturers, the government now says it will roll back part of the tariff cuts).

The Bank of Thailand is trying to discourage excessive consumer spending. In December, it doubled the minimum monthly income needed to obtain a credit card from 10,000 baht ($394) to 20,000 baht. In January, it imposed sharp restrictions on auto loans, requiring a minimum 25% down payment and a maximum 48-month repayment period.

Other government actions in recent years aimed at boosting savings and discouraging spending include the introduction of a value-added tax in 1992. The government has also changed tax laws to promote long-term savings. The country's eighth national development plan calls for raising household savings to 10% of GDP by 2001.

In many countries, the strongest tools to promote savings are employee pension plans. Singapore and Malaysia, for example, force their citizens to save large chunks of their salaries.

Such authoritarian measures are difficult to impose in freewheeling Thailand. But the government is promoting private and public savings plans through new laws and tax incentives. By the end of 1995, 675,000 Thais working for private companies had contributed a cumulative 57 billion baht to provident funds. A bill setting up a government pension fund is slowly working its way through Parliament.

The low household savings rate worries economists because the gap between savings and investment must be funded by capital flows from abroad. Most of Thailand's current-account deficit is funded by short-term inflows, which could destabilize the economy if that money is pulled out quickly.

Although the heavy spending on luxury imports is unhealthy, it's hardly the main cause of Thailand's current-account deficit. Capital equipment and raw materials and intermediate goods used in manufacturing accounted for threefourths of imports in 1995. And while the household savings rate is low, annual government budget surpluses and a 14.3% business savings rate boosted Thailand's overall national savings rate to 34.4% of GDP last year.

Central bank data indicate that investment has been slowing this year. Still, Thailand's investment rate is expected to remain at over 40% of GDP for the next few years, and the need to increase government spending on education and infrastructure is likely to reduce public savings. "So we come back to the household savings rate, which is pretty much the key to it," says Neil Saker, senior economist at Crosby Securities Pte. Ltd. in Singapore.

Given Thailand's love affair with spending, boosting savings won't be easy.

Heavy consumer spending isn't limited to Bangkok. In Yasothon province in rural northeast Thailand, auto dealers let farmers trade their water buffaloes for down payments on new pickup trucks. The dealers don't worry about being stuck with the buffaloes, "because every month they have a buffalo market," says Teerachai Jungwiwattanaporn, who runs the Toyota dealerships in neighboring Ubon Ratchatani province, and who doesn't accept buffaloes himself.

Toyota executives in Japan are fascinated by how such relatively poor people can spend so much money, to the point that they've sent teams down from Tokyo to Ubon Ratchatani province to take pictures of the Toyotas parked under farmers' stilt-raised shacks.

The central bank's crackdown on auto loans may slow sales a bit, says Mr. Teerachai. But he isn't very worried. This year he expects to sell more than 4,000 cars, up from more than 3,000 last year. "There's a saying: A lawyer can never catch up with a merchant."

Consuming Passions

Credit-Card Spending

Average spending in 1995 per Visa card, in U.S. dollars

Australia	2,688
Thailand	2,668
Singapore	2,625
S. Korea	2,241
Hong Kong	2,214
Malaysia	2,142
Indonesia	2,139
Taiwan	1,980
Pakistan	1,919
New Zealand	1,452
Philippines	952
Japan	702
India	376

Sources: Bank of Thailand; Visa International Asia-Pacific

Thais Love Cars

Top 10 Mercedes-Benz export markets in 1995

Rank	Country	Cars Sold
1	U.S.	76,752
2	U.K.	35,535
3	Japan	34,913
4	Italy	32,554
5	France	24,074
6	South Africa	14,268
7	Thailand	13,439
8	Belgium	11,330
9	Netherlands	10,325
10	Austria	8,986

Sources: Mercedes Benz AG; Bank of Thailand