

Political Risks and Impacts to Thailand Real Estate Development Industry

SUKULPAT KHUMPAISAL ^{1*}, KATKATE BUNNAG ²,
CHONTICHA TIPPRATUM ³

¹ Faculty of Architecture and Planning, Thammasat University, Bangkok, Thailand

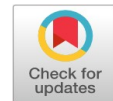
² Government Pension Fund, Bangkok, Thailand

³ Faculty of Management Science, Chandrakrasem Rajabhat University, Bangkok, Thailand

Abstract: This paper aims to better understand the practitioners' perceptions of political risks in the Thai real estate development sector to report the magnitudes of political risks, understand Thai developers' perceptions, and search for the appropriate political risk reduction techniques. The research employed the quantitative methodology by classifying the characteristics and quantifying the perceptions towards the magnitude of political risks by using a questionnaire to 200 Thai developers. It was found that political risks involved since the pre-construction stage of real estate projects, which strongly influence decision-makers, especially may delay approving the projects and affecting the project progress. The respondents also addressed that Thailand's current political situation influences the developers both in terms of the likelihood to occur and the consequences to their businesses, as this factor will upset the consumer confidence in making a decision to purchase the properties and the loan approval process at the financial institutions.

Keywords: Political risks, Thailand, Real estate development, The developers

Received: 22 June 2018 / Accepted: 16 July 2018 / Published: 17 August 2018



INTRODUCTION

Definition of Political Risk

Political risk is commonly conceived of local/federal/national government interference with business operation. Moreover, 'political risk' refers to the possibility that political decisions or events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected at the time of investment decision. Hong, Jones, and Song (1999) classifies political risk as the possibility that political decisions or events in a country will affect the business climate in a way that investors will have their return less than they earlier expected when they invest. In this regard, the political risks can be classified into two different concepts; firstly, political risks might be caused by governmental interference actions that also relate to all undesired outcomes of political activities of the government onto the private business. It could be represented by confiscation, currency repatriation and limit to business transactions. Secondly, political risks are defined as occurrences of any political events imposed upon the firm such as violence, terrorism and guerrillas.

In sum, the political risk is theoretically taken into an account of "systematic risk" or the risk caused by several external factors that affect the investment, such as a change of government policy towards the property investment. That means the investors or developers are not able to control both probability and consequences of risk caused by the economic and political issues (Khumpaisal, 2011). Thus, political risk is concluded as both unpredictable and impossible to completely avoid. It cannot be mitigated through diversification.

*Corresponding author: Sukulpat Khumpaisal

†Email: sukulpat@ap.tu.ac.th

Impact of Political Risks on Real Estate Development

Howell (1998) and (Moran, 2001) found that risks caused by political factors or the regulations affect Thailand's overall real estate sector. These political risks are associated with political instability, sovereign risks and the breach by the principal of specific undertakings provided in the concession agreements including policies towards a new project development. Thailand currently falling under politically instability circumstance, the political disruptions and the global economic recession has derailed the economic growth to only 2.6% in 2008 (Asian Development Bank, 2009; Saahar, Sualman, Hashim, & Mohamed, 2017). Chanlett-Avery (2009) supported that a contraction of public expenditure stemmed from political tensions and associated policy uncertainties as well as the change of government cabinets (4 cabinets in 2008). The delays occurred in the budget disbursement and the implementation of many government projects, particularly the mass rapid transit projects. These mega-projects would have positively boosted Thai economic system as a whole. Good example of Thailand political risk was the latest coup d'état in 2014 as a consequence of Thailand political mayhem during 2006-2013. This phenomenon caused an extreme impact on political and economic policies where the junta's cabinet announced the new policies for governing a country (Solihah, Djuyandi, & Rahmatunnisa, 2018). The policies also strongly affected the business and investment plan when the foreign or local developers perceiving the uncertainty and unaware of the policy directions have postponed their investment.

Additionally, Political Risk Services (PRS) portrayed the level of political risks in Thailand by using 2011-2015 index, this index was established based on the criteria of the restrictions on repatriation of profits or capital and exchange controls, the delays of payments facing exporters to the country, the policy related to fiscal and monetary expansion, the financial transferred risk and governmental foreign borrowing (Service, 2015). Thailand ranked 43rd from 100 countries around the world, or it was classified at level B- to B, which was converted as the modest or sporadic delays in financial transfer and the obstructions to the monetary transferring are high. It could be interpreted that Thailand economic system and investment atmosphere consisted of some riskiness, which was caused by several factors such as political factors, investment transparency level or economic factors. While the 2017th corruption perception index Transparency International (2018) indicated that Thailand was 97th, that means the Thailand investment atmospheres are not clear enough, and still full of corruptions in the investment approving processes. Khumpaisal, Ross, and Abdulai (2010) supported that Thai practitioners perceived the political issues as the critical factor that affect their confidences in developing the real estate development projects. The political turmoil and the delay in approving of project's constructions caused the severe damages to this industry as the developers hesitated to invest and the customers postponed their purchasing plans. In this regard, his survey's results in 2010 (See Figure 1), indicated that Thai developers ranked the consequence of political risks as the second priority risk amongst the other STEEP factors risks (Morrison, 2007; Kim, 2016).

According to the earlier extensive literature reviews, this research extends the survey of Thai practitioners' perceptions towards high influence of political risks to Thai real estate development sector. This is in order to report the consequences of political risks, and to address the highest political risks impact to Thailand real estate development sector.

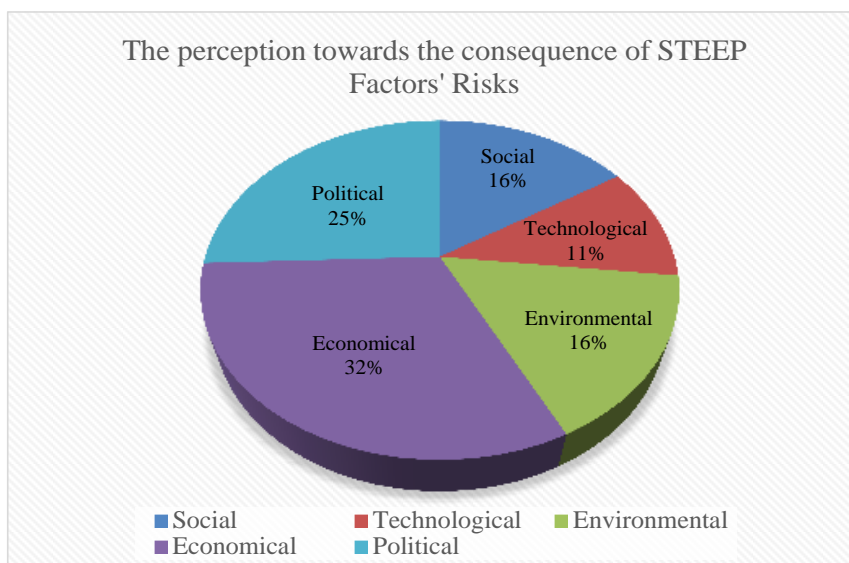


Figure 1. The perception of Thai developers towards the consequence of STEEP factors' risks

RESEARCH METHODOLOGY

This research is solely quantitative approach. The researchers started with extensive literature review in regard to the political risk, created the risk assessment criteria (Khumpaisal, 2011), and the research instruments, where 200 sets of questionnaires were distributed to Thai developers in the studied area “Bangkok Metropolitan Area, and its perimeter” (See Figure 2). Each set of questionnaire, measuring the perception on likelihood and impact of the risk, comprised two sections. The first section was designed to classify the characteristics of respondents (experience, organisations, type of project, etc.), while the second section was aimed to quantify the developers’ perceptions towards the magnitude of political risks. This section comprised 6 criteria, and was divided into two subsections as “risk consequence” and “risk likelihood”, respectively (See Table 1), based on the definition of risk as given by Woodruff (2005):

$$Risk_n = C_n \times L_n \tag{1}$$

Where C = the significance of the loss (Consequence, impact of risk)

L = Probability of loss (Likelihood of risk)

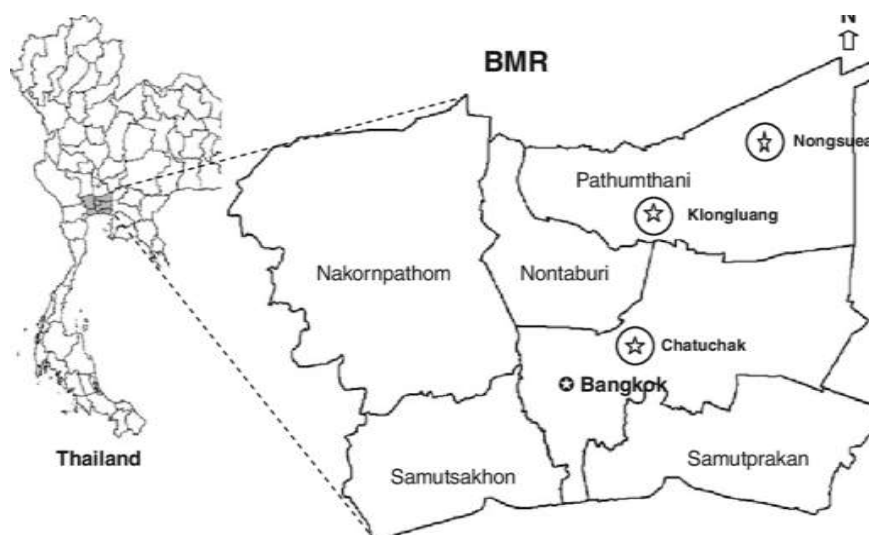


Figure 2. The studied area

Political Risks Assessment Criteria

According to the research background and the aforementioned impact of political risks on real estate development, the researchers then consider the current political instability as this considerably cost the nation with high severe economic impacts. Therefore, we presumed that political risks in this paper are limited to the risks caused by the following issues:

- *Overall political situation:*

Thailand political situation still in the chaotic situation during 2009-present, due to the several groups of protestant, coup d'tat, government turnaround, the political turmoil, and mayhems. These affected both developers and customers in term of less confidences in the properties transactions. This risk could be measured by degree of developers' perceptions regarding to the customers' confidences, and the awareness of the current political situation (Arthurson, 2001).

- *Relevant authorities approval:*

The longer days spent in the approval process cost higher interest to be repaid to financial institutions. The more days consumed by approval process, the more risks affecting the project's schedule (Hong et al., 1999). This risk could be evaluated by the number of days of construction/design approval process by planning committee or local officers (Flyvbjerg, Bruzelius, & Rothengatter, 2003).

- *Local development plan contradiction:*

There were several local regulations related to the development of Thailand real estate projects such as BMA planning regulation (2004), and construction supervisor act (1992). These regulations had the mandatory enforcement to the Thai developers, in the case that the developers' development plans must conform to these conditions, otherwise their projects may be terminated. This risk could be, therefore, evaluated by the degree of contrast between the project plan and the local development policy (Pellman, 2008).

- *Local political activists/group:*

As the real estate projects cause the high impact, whether negative or positive to the local community where the projects situated, such as the pollution during construction process, the density of traffic in the surrounding community. The projects may be protests by a group of local political activists/community (Khumpaisal, Nazali, Nisham, & Ross, 2010). This risk can be measured by degree of protest by the urban or local communities since the urban or local's interest being affected by new development project (Arthurson, 2001).

- *Public inquiry towards a development of projects:*

An inquiry process may affect the project's progress in term of the public/local community. They may ask for compensation as well as the organization of the public hearings on the projects. In this case, public/community would object the commencement of project (Ratcliffe, Stubbs, & Keeping, 2009). Hence, this risk is measured by the number of days of public inquiry and the effect on the projects' operating time (Pellman, 2008).

Aforesaid assessment criteria would be equipped within this research instrument, whether the questionnaires survey or the interviewing processes, in order to investigate the perceptions of risks to the respondent's real estate projects.

However, the assessment criteria were developed, based on extensive literature reviews According to the nature of political risks, these risks are subjective and individually perceived by each developers, and they might be some unforeseen political risks occurred in Thailand real estate development context. Therefore, the researchers recommended that for the further studies, the indepth interviews shall be employed to find out more causes of political risks embedded in Thailand real estate development projects.

Table 1: Political risk evaluation criteria

No.	Evaluation	Question as stated in the questionnaire	Consequences (Variables name)	Frequency (Variables name)
1	Impact of Thailand current overall political situation	Overall Thailand political situation and affect to your customer's confidents	POL1C	POL1F
2	Impact of delay in approving from the related authorities	Total days of approval for project construction permitted from the relevant authorities	POL2C	POL2F
3	Impact of the contradiction between project and local development plan (policies)	The contrast between your project and local development plan	POL3C	POL3F
4	Impact of the protest activists/groups	The degree of protest by the urban or local communities	POL4C	POL4F
5	Impact of public inquiry	Total days of public inquiry and affect to operating time	POL5C	POL5F

RESULTS

As mentioned earlier in research methodologies section, 200 sets of questionnaires were delivered to the real estate developers in the studied area during November 2017 to January 2018. The return rate was 132 (66%), which was capable enough to undertaken the statistical tests.

Table 2: Consequences of political risks

The developers/practitioners		(POL1C)	(POL2C)	(POL3C)	(POL4C)	(POL5C)
The magnitude of political risks' consequences affect to real estate development projects	Mean	3.39	3.23	2.48	2.59	3.11
	N	132	132	132	132	132
	S.D.	1.18	1.5	1.18	1.24	1.09

Based on the results, Thai practitioners addressed the consequences of political risks when conducting the project feasibility analysis because the political risks involved since the pre-construction stage of real estate projects (Khumpaisal, Ross, & Abdulai, 2010). The decision makers indicated that they intensively concerned on the risk caused by the unstable political situation, particularly in the BMA area, as its mean value was 3.39 (mean > 3). This risk has shaken the customer's confidence or the potential to buy a new property in the BMA area. The respondents also perceived that the consequences of delay in approving the projects had the strong impact to project progress as the mean value was at 3.23. Whereas, the conflict between the project goals and the local development policies/regulation became the less concerned issue as the mean value indicated at only 2.48.

Table 3: Consequences of political risks

The developers/practitioners		(POL1F)	(POL2F)	(POL3F)	(POL4F)	(POL5F)
The political risks' likelihoods affect to real estate development projects	Mean	3.09	2.78	2.00	2.44	2.8
	N	132	132	132	132	132
	S.D.	1.16	1.17	1.00	1.12	1.21

With regard to the likelihood of these political risks, the decision makers stated that POL1F was the most likely occurrence, as the mean value indicated at 3.09, followed by the frequency of delay in the approval for construction with the mean value of 2.78, whilst they perceived the likelihood of the contradiction between their project plan and the local development plan/regulations were hardly occurred as the value was addressed at 2.00 only.

According to the quantitative phase results above, this could be concluded that Thai developers mostly concerned on the impact of Thailand current overall political situation rather than other political issues (both in term of the consequence and likelihood or political risk), because it directly affect the customers confidence in purchasing the properties, as well as the financial institution lending process. With regard to the banks' real estate development loan lending approval process, the analyst may spend longer time to consider on the borrower's capacities to repay loan under the political instable situation (Meechai, Khumpaisal, & Bunnaga, 2016). Thai developers may not address the consequence and likelihood of the contradiction between their project plans and local development plans/policies, as the means were indicated at the lowest (2.48, 2.00) amongst the other factors. According to the researcher's literature reviews, Thai local councils lack of legal enforcement actions to the developers who did not follow the local restrictions/legal, as well as the nontransparent/unclear approval processes, which enable the corruption or briberies of the local officers (Khumpaisal, 2011; Heilbrunn, 2004).

DISCUSSION AND CONCLUSION

Political risk is defined as the risk from local/federal/national government intervention with business operation or the political decisions or events in a country adversely affecting the business' decisions in normal operation. Thailand experiences the political events and instability in for many years, negatively affecting many key economic sectors including real estate development. According to the STEEP factor risk analysis by Khumpaisal, Ross, and Abdulai (2010), the political risk ranks the second in priority. Since the political risk is systematic, which cannot be diversified away, the real estate developers have to find a way to mitigate it.

This paper studies the perception of Thai real estate developers on political risk both in terms of the likelihood and the consequences and how they mitigate the risk. It started with disseminating the questionnaires to a group of real estate developers in the Bangkok Metropolitan Area, the authors find that the developers concerns the most on the impact of Thailand current overall political situation both in terms of the likelihood to occur and the consequences to their businesses. This is because this factor will have shaken the consumer confidence in making a decision to purchase the properties as well as the loan approval process at the financial institutions.

Nonetheless, this paper focuses on perceptions of the developers in Bangkok Metropolitan Area of which the results could be different if the sample is extended to cover the provincial areas. Moreover, the different types of real estate developers either for residential or commercials may have different exposures to the political risks both in terms of frequency of the occurrences and the consequences on their businesses. Therefore, they may need different methods of risk mitigation. These issues can be worth further delve into for the future research.

REFERENCES

- Arthurson, K. (2001). Achieving social justice in estate regeneration: The impact of physical image construction. *Housing Studies*, 16(6), 807–826. doi:<https://doi.org/10.1080/02673030120090557>
- Asian Development Bank. (2009). *Asian development outlook 2009: Rebalancing Asia's growth* (Tech. Rep.). Mandaluyong City, Philippines: Asian Development Bank.
- Chanlett-Avery, E. (2009). *Political turmoil in Thailand and US interests* (Tech. Rep.). Washington, DC, WA: Congressional Research Service.
- Flyvbjerg, B., Bruzelius, N., & Rothengatter, W. (2003). *Megaprojects and risk: An anatomy of ambition*. Cambridge, UK: Cambridge University Press.
- Heilbrunn, J. R. (2004). *Anti-corruption commissions: Panacea or real medicine to fight corruption* (Tech. Rep.). Washington, DC, WA: World Bank Institute.
- Hong, J. H., Jones, P., & Song, H. (1999). Political risk and foreign investment decision of international hotel companies: 58 influential to the development and operations to the multinational hotel chain. In *First Pan-American Conference-Latin American Tourism in Next Millenium: Education, Investment and Sustainability*, Panama, PA.
- Howell, L. D. (1998). *The handbook of country and political risk analysis*. New York, NY: PRS Group.

- Khumpaisal, S. (2011). *Analytic approach to risk assessment in Thailand's real estate development industry* (Tech. Rep.). Liverpool John Moores University, Liverpool, UK.
- Khumpaisal, S., Nazali, M. N., Nisham, Z. M., & Ross, A. D. (2010). An application of the analytic network process to assess risks in a mega-construction project. *International Journal of the Analytic Hierarchy Process*, 2(2). doi:<https://doi.org/10.13033/ijahp.v2i2.43>
- Khumpaisal, S., Ross, A., & Abdulai, R. (2010). An examination of thai practitioners perceptions of risk assessment techniques in real estate development projects. *Journal of Retail & Leisure Property*, 9(2), 151–174. doi:<https://doi.org/10.1057/rlp.2010.3>
- Kim, H. (2016). Political correctness on David Mamets Oleanna. *Journal of Advances in Humanities and Social Sciences*, 2(3), 195-203. doi:<https://doi.org/10.20474/jahss-2.4.1>
- Meechai, W., Khumpaisal, S., & Bunnaga, K. (2016). Housing loans credit risks factors in Thailand commercial banks. In *Proceedings of Tthe 2nd International Conference on Management, Finance, and Economics (ICMFE)*, Pattaya, Thailand.
- Moran, T. H. (2001). *International political risk management: Exploring new frontiers*. Washington, DC, WA: The World Bank.
- Morrison, L. J. (2007). *The STEEP sectors*. Retrieved from <https://unc.live/2NKdaji>
- Pellman, R. (2008). Heathrow terminal 5: Gaining permission. *Proceedings of the Institution of Civil Engineers - Civil Engineering*, 161(5), 4-9. doi:[10.1680/cien.2007.161.5.4](https://doi.org/10.1680/cien.2007.161.5.4)
- Ratcliffe, J., Stubbs, M., & Keeping, M. (2009). *Urban planning and real estate development*. Abingdon, UK: Routledge.
- Saahar, S., Sualman, I., Hashim, M. A., & Mohamed, W. A. W. (2017). Political advertising and young voters information needs. *International Journal of Humanities, Arts and Social Sciences*, 3(5), 215-222. doi:<https://doi.org/10.20469/ijhss.3.20004-5>
- Service, P. R. (2015). *Political risk yearbook* (Tech. Rep.). New York, NY: PRS Group.
- Solihah, R., Djuyandi, Y., & Rahmatunnisa, M. (2018). The influence of regional head candidates quality towards political participation of society in the local election. *Journal of Advanced Research in Social Sciences and Humanities*, 3(2), 52-58. doi:<https://doi.org/10.26500/jarssh-03-2018-0202>
- Transparency International. (2018). *Corruption perception index 2017*. Retrieved from <https://bit.ly/2BJaDBF>
- Woodruff, J. M. (2005). Consequence and likelihood in risk estimation: A matter of balance in UK health and safety risk assessment practice. *Safety Science*, 43(5-6), 345–353.