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JAPAN'S FINANCIAL and parts industries are concerned over Thailand's prolonged political protests, which could drag down investment, said Deloitte Touche Tohmatsu Jaiyos.

The company also points to the country's bad debts, corruption and high wages as Japanese investors' perceived Thai weaknesses for direct investment.

Meanwhile, the Japanese Chamber of Commerce Bangkok (JCCB) has predicted Thai business sentiment for the first half of the year will improve from the second half of 2013, although its forecast does not include the "Bangkok shutdown" and the recent escalation of violence in its calculation, said Setsuo Iuchi, chairman of JCC-Economic Survey.

Looking at the results of its business sentiment survey – conducted on 412 companies from November 13 to December 12 – the JCCB expects positive sentiment under its Diffusion Index for the first half of 2014, since the global economy is improving and firms anticipate an increase in their exports and overall sales.

While 37 per cent of surveyed companies initially reported that their business performance was improving, Iuchi said business sentiment would definitely decrease when taking into account the development of the domestic political conflict since the survey was completed.

However, he declined to put an actual figure on it, since more research needed to be done.

"As of now, the production and manufacturing process of Japanese firms is still largely unaffected by the political situation, and the effect on the consumption side is still unclear," he said.

"The JCCB hopes the situation will be resolved soon, and we do not think that the negative effect from the current political situation will be as severe as the impact of the major flooding in 2012 – as long as the manufacturing sector remains intact and operating," Iuchi added.

On the investment side, the JCCB predicts fewer ventures from Japanese firms this year, as many companies invested heavily in 2012 and 2013 due to flood damage, and most will slow down new investment because of current uncertainty.

In terms of the concerns of Japanese businesses in Thailand, the top three challenges are severe competition (68 per cent), increases in labour costs (54 per cent) and a lack of human resources at the managerial level (54 per cent).

Although Japanese investors still see Thailand as an attractive investment base, they are worried about the country's prolonged political crisis, which could erode confidence and delay additional investment, said Subhasakdi Krishnamra, managing partner of Deloitte Touche Tohmatsu Jaiyos – commonly known as Deloitte Thailand.

"Most Japanese investors concede they are concerned over the [caretaker] government's stability and prolonged political unrest," he said, noting that they are worried about rises in the country's bad debts as a result of the economic slowdown, higher minimum wages and bureaucratic processes, and inspection committees' roles.

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Thailand's financial strength lies in the Bank of Thailand with its prudent risk management, said Subhasakdi.

He noted that Japanese investors had expanded their automobile and parts' production capacities in Thailand, and that strong domestic purchasing power and being Southeast Asia's manufacturing base for exports remained the country's strengths. Weaknesses include domestic political instability, inventory management, internal audits and corruption.

Despite political developments, PwC Thailand chief executive officer Sira Intarakumthornchai said CEOs

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ranked Thailand as eighth among 10 countries outside the BRIC (Brazil, Russia, India and China) group in terms of their attraction for investment in the next three to five years.

"Although Thailand's political climate has given concern to most investors in the past two to three months, we believe the country's fundamentals remain strong. The performance of companies in several sectors reflects long-term growth. Even though foreign investment may have been on hold, I believe existing investment will continue," he said.

The 10 most attractive non-BRIC countries in PwC's "Global CEO Survey" this year are the United States, Indonesia, Germany, Mexico, the United Kingdom, Turkey, Japan, Thailand, Australia and Vietnam.

"The confidence of CEOs across the world has turned around this year. We see good signs from the Western economies like the US and Europe. Several [CEOs] have positive views on the world economy, with expected improvement in their revenue growth this year," Sira said.

About 39 per cent of CEOs surveyed expressed high confidence in their revenue growth.

"Looking at only Asean, about 85 per cent of CEOs in Asean are interested in mergers and acquisitions, viewing Southeast Asia as the main target for M&As [2013 figure: 56 per cent]. Such a high figure is attributed to the Asean Economic Community, which will take shape soon," said the chief executive.