

Thailand

Led by surging exports based on a rush of foreign capital inflow, the Thai economy has displayed remarkable development since the late 1980s. From 1988 to 1990, the economy showed double digit growth for three consecutive years. With the military coup in 1991, the economy entered a corrective phase, in which growth slowed to 8.1% for the year, dropping further to 7.6% in 1992 amid political turmoil. Supported by strong domestic demand and increasing exports, however, economic growth resumed its strength in 1993, rising for the first time in five years to 8%. We expect even higher growth of around 8.3% for 1994, with a big contribution from strong exports.

For foreign capital inflow, foreign applications received by the Thai Board of Investment (BOI) for investment

BOI is expecting a "third wave" of Japanese investment, following the first in the early 1970s led by import substituting investments, and the second triggered by significant corrections in foreign exchange rates resulting from the Plaza Agreement in the mid-1980s.

During the first six months of 1994, Japanese investments to Thailand in terms of investment incentive applications received by the BOI rose from 22 to 112, and by 30% in value to B73.4 billion from a year ago, accounting for nearly one-third of the total foreign investment, remaining at the top among investing countries. These half-year figures have already exceeded the full-year figures for 1992 in both numbers and values. The main investment fields include automobile parts, electronics, home appliances and the metal industries. The

major characteristics include a sharply increasing weight for investments in Zone Three, distant from the capital area and designated as eligible to receive BOI investment incentives; a larger proportion of smaller-scale investments; and increasing projects with less than 80% export ratio.

The main aim of the recent

BOI policy of inviting foreign investment can be summarized as follows: to encourage regional diversification in investments, and to raise incentives for related industries supporting key Thai industries. For the first point, the BOI announced in April 1993 the Policies and Criteria for Investment and the List of Activities Eligible to considerably

strengthen incentives for investing in Zone Three. These measures aimed at diversifying investments, which so far have tended to concentrate in Bangkok and the surrounding areas, to remote regions to enforce local development in order to ease the previous excessive concentration, and to reduce the gap between the cities and the countryside. The preferential treatments applied to Zone Three include mainly an extension of the corporate tax exemption period from six to eight years, and a sharper reduction in import tariffs on machinery and materials. What is new is that these measures are applied not only to newly built factories but also existing factories moving to local areas.

Regarding the second point, the BOI decided in June 1994 to apply preferential treatment to peripheral parts and machinery manufacturing industries supporting export-oriented assembly industries such as automobiles and electric machinery. The new decision covered 10 industries, including machine tools, cutters and grinders, heat and surface treatments and electric connectors, clearly targeting Japanese small- and medium-sized manufacturers. Moreover, the BOI also decided that for 20 industries, including automobile parts, batteries and plastics, the most favored treatment applied to Zone Three has also been extended to those setting up in other areas.

The gradual effects of these policies, targeting Japan to invite supporting industries to Thailand's key industries, must be another underlying factor of the advent of the "third wave" of Japanese investment, in addition to the sustained strength of the yen, which has been the motive force behind the shift of Japanese production sites overseas.

Future outlook

The Thai economy is likely to record sharp growth of around 8.5% for 1995. According to the IMF's long-term forecast announced in November 1994, the



Photos: Mitsubishi Heavy Industries, Ltd.

Air conditioner and compressor plants (next page) in Thailand.

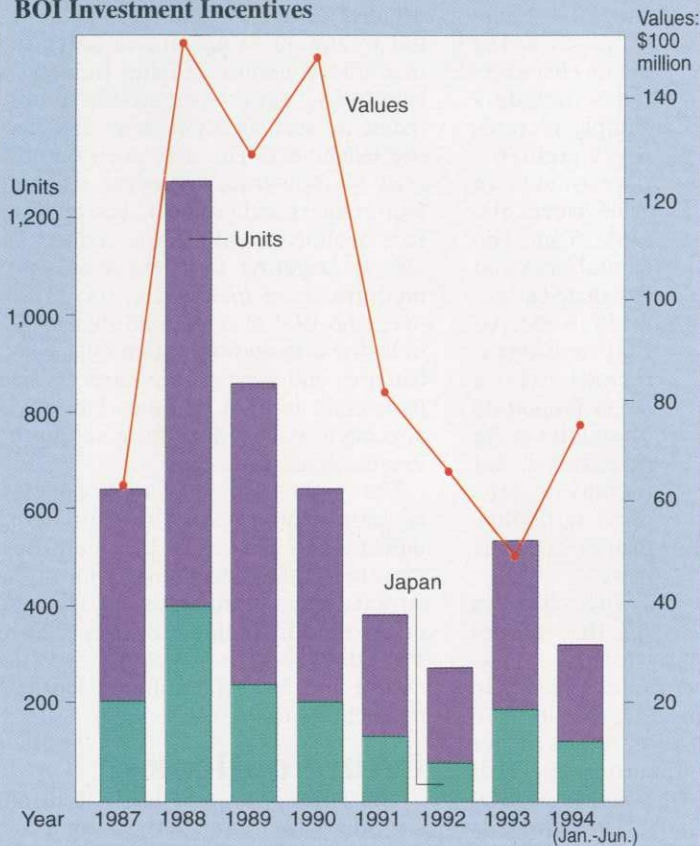
incentives began to surge around late 1986, peaking at 1,273 in 1988. Thereafter applications continued to fall off, hitting bottom at 263 in 1992, reviving slightly in late 1993, due partly to the surging yen, and recovering to 529 for the year. The upward trend has continued through 1994, along with the continued strengthening of the yen. The

Thai economy is expected to grow by an annual average of 7.7% for the four years running from 1994 to 1997, and average 7.5% during the five years from 1998 to 2002, achieving the eighth highest growth in the world. Needless to say, the leading factor for the expected high growth should continue to be exports based on foreign owned local enterprises. The IMF further forecast that, should the strong yen continue, Japanese companies, especially manufacturers of intermediary products and electronics products, would further accelerate their expansion into Thailand. This single document expresses in total the future for Thailand as the potential area of expansion for Japanese companies.

Over the next several years, numerous huge infrastructure projects, including a mass transit system in the Bangkok area,



Chart: Trend in Applications for BOI Investment Incentives



Source: The BOI

an expansion in telephone networks, additional electric power facilities, expanding highways and the new Second International Airport in Nong Ngu Hao are proceeding as planned. Also, the move toward industrial liberalization and privatization of government-run enterprises must proceed. For industrial liberalization, still fresh in memory is the BOI's recent decision to admit new entries in the cold and hot rolling business, and to apply investment incentives to the petrochemical industries to aid in the liberalization of the indus-

try.

Since the end of 1993, Japanese companies, mainly manufacturers, have been vigorously transferring their production facilities overseas as the stronger yen has taken hold. In response, the BOI set a grandiose target: "To invite 1,500, or a total of B200 billion (about ¥800 billion, \$8 billion), investments by Japanese companies in the three years from 1995 to 1997," disclosing Thai's strong expectations for Japan. The BOI estimates that the achievement of this target should create 160,000 jobs by the end of 1997.

The BOI's prime target is Japanese small- and medium-sized molders. The BOI is hoping to invite more than 300 to make Thailand the auto production base in the Southeast Asia. The figure 300 is based on the following assumption: of the approximately 10,000 Japanese molders, more than 3,000 are currently planning to expand overseas for survival, and Thailand hopes to invite at least 10% of that figure. Another area of focus is electric machinery, and the BOI is planning to expand its emphasis over telecommunications and metal processing.

The strong motivation is, of course, to establish an integrated production system for local manufacturers in order to develop the country's industrial structure. Thailand's urge for a stronger domestic

industrial base is aimed at advancing by five years the scheduled start of the ASEAN Free Trade Area (AFTA), currently planned for the year 2003, when tariff reductions of 0% to 5% for designated items within member countries will go into effect.

Another reason is the need to improve the country's trade balance structure. Recently, despite strong exports, Thailand has been recording widening trade deficits due to sharp rises in imports, mainly for parts. Trade deficits for 1994 are estimated to have reached about \$9.6 billion, with about 80% of the total being against Japan. The situation seems nothing but alarming. In light of the bilateral trade relation, it seems only natural for Thailand to ask Japan for more support and cooperation to rectify the trade balance of the two countries. Although it is unreasonable to expect that the efforts of inviting and developing supporting industries in Thailand would bring about any immediate results in reducing imports, it must gradually improve the trade balance for the medium- to long-term.

From the other side, what do Japan and other investing countries expect from Thailand for their investments? Immediately what comes to mind is further improvement of the infrastructure, upgrading industrial parks as sites for foreign companies, enhancing preferential treatment for foreign companies regarding tax, reductions in corporate income tax rates (reportedly now under consideration), and further relaxation in foreign investment regulations.

Also, of equal importance are the development of human resources and liberalization of the financial system.

Table: Recent Applications and Approvals for BOI Investment Incentives

	Applications				Approvals			
	1992	1993	1993 (Jan.-Jun.)	1994 (Jan.-Jun.)	1992	1993	1993 (Jan.-Jun.)	1994 (Jan.-Jun.)
Units	444	1255	484	728	394	852	190	554
Investment Value (B billion)	2130	2788	1060.6	2770.3	2843	1764	717.1	1069.2
Registered Capital (B billion)	411	688	271.9	623.4	457	352	76.2	284.4
Thai	288	557	231.3	429.6	269	293	61.3	206.3
Foreign	123	123	40.6	193.8	188	59	14.9	78.1
Employee	118,344	312,666	127,751	147,694	103,465	208,616	50,071	124,805
Major Investors (number)	263	529	250	313	259	380	109	218
Japan	71	171	90	112	87	127	30	77
Europe	60	152	80	65	57	109	31	50
Taiwan	52	87	43	51	45	62	16	31
U.S.	34	50	28	32	31	42	15	23
Hong Kong	25	40	15	17	19	26	13	15
Capital Composition (number)								
100% Thai	181	726	234	415	135	472	81	336
100% Foreign	69	106	67	54	69	87	29	43
Joint Venture	194	423	183	259	190	293	80	175
Scale of Investment (number)								
Less than B20 mil.	93	235	82	126	60	156	38	101
B20 to less than B100 mil.	176	501	191	307	159	363	70	238
B100 to less than B500 mil.	126	424	176	234	123	286	65	180
B500 mil. to less than B1 bil.	27	61	24	25	23	34	14	22
More than B1 bil.	22	34	11	36	29	13	3	13
Factory Location (number)								
Zone 1	160	263	127	122	149	193	65	114
Zone 2	102	179	75	106	79	136	45	67
Zone 3	176	803	276	493	166	523	80	373
Unfixed	6	10	6	7				
Export ratio								
30 to less than 80%	30	173	73	123	27	134	22	103
Over 80 to 100%	240	360	179	167	220	269	86	129

Source: The BOI

As for human development, it seems necessary to effectuate thoroughly the extension of compulsory education to nine years, an upping of the overall education level, fulfillment of vocational training, and a drastic rise in the number of engineers, intermediary managers and experts in legal, tax and other fields. In particular, to develop engineers, whose shortage has been keenly felt recently, it seems urgently necessary to introduce completely new and major policies rather than continuing with the existing ones with minor adjustments. For the financial system, it seems necessary to promote further liberalization and introduce more competition to set the stage for lowering domestic interest rates toward the international standard from the current high levels.

In September 1994, a Thai Investment

Seminar was held in Tokyo, coinciding with Prime Minister Chuan Leekpai's first visit to Japan. Far more people applied for the seminar than was originally expected by Thai organizers, indicating strong interests among Japanese companies to expand into Thailand. In a speech delivered at the seminar, Mr. Staporn, Secretary General of the BOI, emphasized the significance and potential of Thailand as a gateway to Indochina, impressively concluding, "When considering how to react to the latest *endaka* situation, I hope you will practice *nami nori* (figuratively translated as body surfing) on the latest wave of investment into Thailand. We at the Board of Investment look forward to being of service to you and to your companies."

(Kuroda Keizo, chief economist)