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Thailand: Foreign Investment Plays Increasing Role in Economic Growth

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An Intelligence Assessment

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EA 84-10016
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An Intelligence Assessment

This paper was prepared by
of the Office of East Asian Analysis. Comments and
queries are welcome and may be directed to the
Chief, Southeast Asia Division, OEA,

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Key Judgments

Information available as of 20 January 1984 was used in this report.

A slowdown in the growth of investment financing is forcing Bangkok to actively recruit private foreign investment for the first time. The government is:

- Sending regular, high-level investment missions abroad; Prime Minister Prem will head one such mission to the United States and Western Europe in April.
- Centralizing and streamlining investment-related decisionmaking.
- Trying to attract funds from Hong Kong.

Thailand's warmer attitude toward foreign investment, plus its steady economic growth, low labor costs, and free enterprise environment, will make it attractive to foreign businessmen. Moreover, Thailand is likely to attract some of the companies moving away from the higher wage areas of Singapore, Hong Kong, and Taiwan. As a result, we expect foreign investment to triple to about $600 million annually by the end of the decade. Although still small in relation to the foreign investment in neighboring countries, this increase will stimulate economic growth and help relieve balance-of-payments pressures.

US companies remain at a disadvantage as compared with knowledgeable Japanese firms in the growing Thai market, but there will be profitable opportunities for US businesses in petroleum exploration and development, petrochemicals, and labor-intensive, export-oriented manufactures such as electronics where Thai officials believe the United States holds the technological edge.

The drive to recruit foreign investment will generate opposition from senior military officers if they believe their lucrative ties to the business community are in danger, but Prem can probably enlist their support through promises of positions on the boards of directors of newly formed companies. If, however, the opposition party gains control of the government—an event we think unlikely in the near future—we would expect a reversal of the current investment policy and an increase in protectionist measures against foreign competition.

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Thailand: Foreign Investment Plays Increasing Role in Economic Growth

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The Role of Foreign Investment

Private foreign investment has played a small role in the Thai economy. We estimate that total accumulated foreign investment in Thailand reached $2.8 billion or 7 percent of GDP at the end of 1982.[1] This is less than one-quarter of the value of foreign investment in the other ASEAN states of Indonesia, Malaysia, and Singapore and about half that in the Philippines. Over the past decade net foreign investment in Thailand accounted for less than 3 percent of total investment and provided relatively little foreign exchange—last year equal to about 3 percent of export earnings. 25X1

Foreign investment has fluctuated widely in the last 15 years, from $43 million in 1970 to a record $288 million in 1981 (see table 1). In the 1970s, average annual foreign investment grew more slowly than the economy as a whole; after adjusting for inflation, inflows actually fell by about 50 percent. In the early 1980s, however, foreign investment picked up sharply. The development of the country's first natural gasfield by Union Oil accounted for a large share of the nearly fivefold increase in foreign investment from 1979 to 1981. Foreign investment reached about $225 million in 1983, nearly triple the $80 million average of the 1970s. 25X1

Japanese companies provide the largest share of foreign investment—nearly half. Total US involvement approaches $600 million.[2] Japanese firms are the dominant foreign presence in the manufacturing sector—automobile assembly, small appliances, and food processing—and are involved to a small but growing degree in Thai energy projects. 25X1

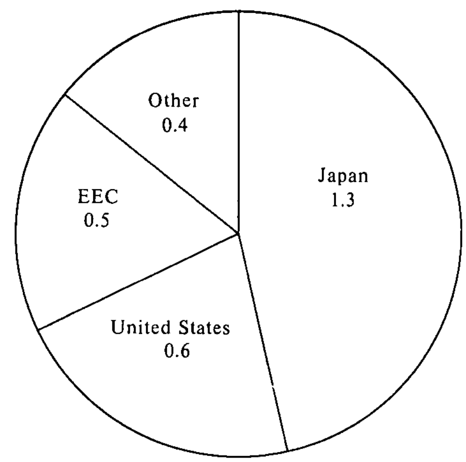
[1] In this paper "foreign investment" refers to net private direct foreign investment measured on a balance-of-payments basis. This measure adds the inflow of funds from foreign businesses to Thai firms and represents a net addition of both foreign exchange and foreign savings to the Thai economy. 25X1

[2] Recent US Embassy estimates, which place US investment in the $1-2 billion range, include reinvested earnings and funds borrowed locally. 25X1

Figure 1
Thailand: Foreign Investment by Country, Yearend 1982[a]

Billion US $

Total: $2.8 billion



[a] Balance-of-payments basis.

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Foreign investment has had little impact on most sectors of the Thai economy. The large state enterprise sector—which includes public utilities, communications, and transportation as well as state monopolies in liquor and tobacco—is off limits to foreign companies. Most agricultural land is owned by small cultivators, although there are a few large agricultural operations such as a French rubber and a US

Table 1
Thailand: Balance-of-Payments Summary

Million US $

	1978	1979	1980	1981	1982	1983 [a]	1984 [b]
Current account	**−1,154**	**−2,087**	**−2,078**	**−2,556**	**−1,125**	**−2,300**	**−2,000**
Merchandise trade [c]	−859	−1,551	−1,903	−2,032	−831	−2,930	−2,600
Exports f.o.b.	**4,045**	**5,234**	**6,449**	**6,898**	**6,839**	**6,420**	**7,400**
Of which:							
Rice	513	764	953	1,208	979	950	1,100
Sugar	195	235	145	441	563	600	600
Tapioca	535	484	727	754	859	850	900
Rubber	395	605	603	500	413	550	650
Tin	356	453	554	423	338	450	400
Corn	208	276	356	382	362	300	600
Manufactures	548	699	886	830	1,014	900	1,350
Imports f.o.b.	**4,904**	**6,785**	**8,352**	**8,930**	**7,670**	**9,350**	**10,000**
Oil	1,016	1,423	2,552	2,519	2,352	2,300	2,500
Services (net)	−439	−783	−760	−1,169	−1,085	−630	−600
Transfer (net)	144	247	585	645	791	800	1,200
Nonmonetary capital (net)	**489**	**1,743**	**2,351**	**2,446**	**1,332**	**1,700**	**1,800**
Long-term (net)	646	1,477	2,107	2,352	1,585	2,000	2,200
Direct investment	50	51	189	288	183	225	300
Short-term [d]	−157	266	244	94	−253	−300	−400
Balance	**−665**	**−344**	**273**	**−110**	**207**	**−600**	**−200**
Foreign exchange reserves [c]	2,557	3,129	3,026	2,727	2,652	2,200	2,300

[a] Estimated.
[b] Projected.
[c] End of period.
[d] Includes errors and omissions and allocations of SDRs.

Sources: Bank of Thailand
International Monetary Fund

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pineapple plantation. The basic consumer goods manufacturing sector is also largely Thai, although there are a number of joint ventures with foreign—principally Japanese—firms. According to the Bank of Thailand, the 14 foreign banks in Thailand control about 5 percent of the assets of the banking system and only one foreign bank has been permitted to open since 1964. Finance companies, which operate under fewer restrictions than banks, have a much larger foreign ownership. Thailand does not have an offshore banking sector such as exists in the Philippines.

Foreign investors, however, dominate new or risky industrial ventures. The burgeoning electrical component industry, for example, is controlled by US firms, and oil and gas exploration and development are almost entirely in the hands of international oil companies. 25X1

The low level of foreign involvement in the Thai economy has resulted from several factors. Thailand

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was never colonized and developed fewer long-lasting relationships with foreign businesses than did many of its Asian neighbors. It did not discover any commercially exploitable energy resource until the mid-1970s. And the investment climate has been clouded by the country's proximity to the Indochina wars, its frequent military coups, [redacted] its reputation for corruption and redtape. Moreover, until recently, Bangkok has not actively sought foreign investment, preferring to sacrifice increased economic growth to maintain domestic control of the economy. [redacted]

Changing Attitude Toward Foreign Investment

We believe this attitude is changing, largely because traditional sources of investment financing look to be insufficient for the investment of $25-30 billion that Bangkok has planned for the 1980s. Domestic savings, although high in comparison to countries with similar incomes, have stagnated for more than a decade at 21 percent of GDP because of low interest rates and large government budget deficits. In addition, Bangkok can expect little real growth in the approximately $2 billion a year it receives in multilateral and bilateral aid because of slower growth in the resources of the development banks and reduced foreign aid from the industrial countries. Finally, we believe that Bangkok's desire to avoid the foreign debt troubles plaguing the neighboring Philippines will cause it to restrict foreign commercial borrowing. Prime Minister Prem has already taken measures to slow the growth of the foreign debt, which roughly doubled between 1979 and 1982 to $11.1 billion. [redacted]

Officials in Bangkok will also look for foreign investment to upgrade the country's scientific and technical base—now the lowest in ASEAN after Indonesia. Agricultural research and development efforts are rudimentary in Thailand, which has some of the lowest rice yields in Asia. The manufacturing sector consists largely of simple consumer goods and food-processing firms, automobile assembly, and a textile sector with a mix of modern and outdated equipment. And Thai workers—while willing to learn—are well below those in Singapore, Malaysia, and even the Philippines in technical and engineering training, [redacted]

Prime Minister Prem's Foreign Investment Drive

Although Bangkok has had in place since 1977 most of the investment incentives available elsewhere in Asia—including exemptions from or reduction of import duties, excise and income taxes, and guarantees against nationalization—the Prem administration is the first to actually encourage foreign investment. The results have been mixed. One attempt—the "Thai, Inc." strategy of the influential former Deputy Prime Minister, Boonchu Rojanastien—was a complete failure. The attempt involved a proposal by Boonchu in 1980 to open all sectors of the economy, including public utilities and land ownership, to foreign multinationals. The proposal raised widespread concern among influential military officers, industrialists, and technocrats, who feared the Thais would lose control of the economy and were concerned about large-scale foreign competition, according to the financial press. As a result, the proposal was dropped when Boonchu resigned from the Cabinet in 1981 over a controversy involving crude oil contracts. [redacted] 25X1

After the "Thai, Inc." strategy failed, Prem developed a more low-key effort to promote increased foreign investment. The government began a campaign to increase awareness in the international business community of Thailand's impressive economic record, its improving creditworthiness, and its free enterprise environment. [redacted] most US businesses have a negative impression of Thailand based on the country's proximity to Vietnam and its history of frequent government changes by military coup. Firms that make political risk assessments have reflected this view when ranking Thailand as a foreign investment prospect. To counter this impression, Bangkok since 1981 has been sending regular foreign investment missions abroad. [redacted]

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Prem has also made some progress in centralizing investment-related decisionmaking in the Industry Ministry, and US companies consider the new Industry Minister far easier to deal with than his predecessor. We believe Bangkok will be less successful in its attempts to streamline the rest of the foreign investment application process and reduce the corruption

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that discourages many new investors. Even simple matters often drag on until the Prime Minister or the Cabinet decides the issue, and final decisions have a way of coming unstuck. The checkered history of Bangkok's relations with Texas Pacific—a US company that holds a natural gas concession with proved reserves in the Gulf of Thailand—is a good example. Negotiations over the price of gas for domestic use have gone on sporadically since the late 1970s. Last summer, in the space of a few months, the Thai Cabinet approved Texas Pacific's plans for exporting liquefied natural gas (LNG) to Japan and then reversed itself by declaring that any LNG project would have to be majority Thai owned.[3] [redacted] existing regulations favorable to foreign investment are frequently not translated into action at the working level of the bureaucracy. [redacted]

Bangkok is also trying to attract funds from Hong Kong residents concerned about the expiration of the British lease in 1997. Under a plan announced this summer, resident visas will be granted to foreigners who invest at least $430,000 in a new project or a minimum of $348,000 in long-term government bonds. If a foreigner brings in a family, he will be required to invest large additional sums. Financial analysts, however, believe that most speculative capital flight will go to the well-developed financial markets in Singapore or the United States. So far Bangkok has received only one application for a resident visa under this program, according to the local press. [redacted]

Roadblocks to Success

As Prem's foreign investment program expands, influential groups in Thailand will probably put up some resistance. The Thai elite—including businessmen, bureaucrats, and military officers—have traditionally expressed an ambivalent attitude toward foreign investment, and many Thais, according to Western academics, consciously or subconsciously fear foreign economic domination. Even Industry Minister Ob—while strongly promoting foreign investment in new industries—advocates measures to protect existing Thai companies from foreign competition. [redacted]

[redacted]

Influential officers in the military—the most powerful political group in Thailand—will probably be the most resistant. Senior officers generally augment their incomes by serving on boards of directors of both private Thai companies and state enterprises. In addition, one faction in the faction-ridden Army—the "Democratic Soldiers"—is strongly nationalistic and vaguely socialistic; public and private statements by this group have frequently been critical of foreign capital and its connection with the Sino-Thai banking and commercial elite. [redacted] 25X1

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The opposition Thai Nation Party is another potential stumblingblock to increased foreign investment. The party represents civilian, largely ethnic Thai industrialists and tends to be protectionist with respect to trade. It also favors government intervention to promote indigenous manufacturing. Moreover, according to the US Embassy, Thai Nation—which has the largest number of seats in Parliament—might seize on the issue of foreign control of the economy in its maneuvering to bring down Prem's four-party coalition. [redacted] 25X1

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Some ethnic Thai also fear that an increasingly open economy will enhance the role of the Chinese in Thailand. Many restrictions on foreign investors—especially those having to do with land ownership and immigration—are directed at limiting Chinese influence in the economy rather than at Western businesses. Although the Chinese community is better integrated in Thailand than elsewhere in Southeast Asia and is a key constituency of the Social Action Party—the dominant partner in Prem's coalition—it is still envied and resented by much of the Thai population, including the military. [redacted] 25X1

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Finally, measures to attract foreign investment will probably conflict with several other economic goals pursued by Bangkok—including increased Thai control of petroleum development and the modern manufacturing sector as well as increased government revenues to offset the large budget deficit. [redacted] 25X1

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Prospects for Increased Foreign Investment

If Prem remains in office in a government where key Cabinet posts are not controlled by Thai Nation members,[4] we believe he will be able to overcome this opposition. Despite his reputation for indecisiveness, Prem has shown more willingness than his predecessors to implement politically controversial reforms. He was able to raise domestic energy prices, for example, to near world levels less than two years after his predecessor, Kriangsak, was forced from office for attempting to do so. Financial and trade liberalization measures are under way—if somewhat behind schedule. Moreover, we believe Prem will encourage joint ventures with foreign firms where members of the potential opposition—both in the military and private sector—will receive lucrative positions on the board of directors.

In any case, we expect the Thai economy to become increasingly attractive to foreign investors in the years ahead. The objective indicators of economic growth—market size, low labor costs and labor stability, manageable foreign debt, and prudent economic policies—rank Thailand high among Asian countries as a foreign investment prospect. Rapidly rising wages in the Asian newly industrializing countries—Taiwan, Hong Kong, Singapore, and South Korea—and increasingly Malaysia are already causing many foreign investors in these countries to seek other locations for their labor-intensive products. Moreover, the financial problems of the Philippines and Indonesia, the communal violence in Sri Lanka, and concern over the possibility of growing Islamic fundamentalism in Malaysia all increase the probability that Thailand will be the next destination for these footloose industries.

The Benefits to Thailand

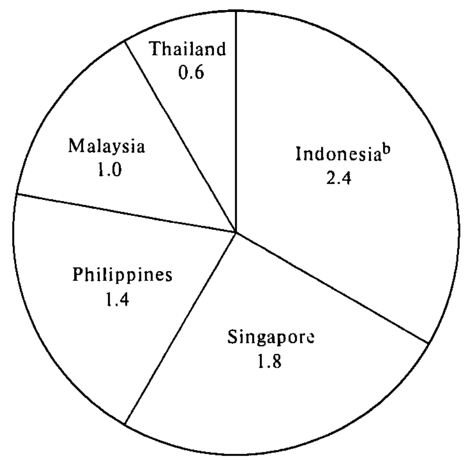
Assuming Prem persists in his efforts to liberalize foreign investment regulations and carries out the projects put forth in the current five-year economic development plan, net foreign investment will double or triple in the next four to five years to about $500-600 million a year, up from about $200 million in 1983. Three-quarters of this increase will come from

[4] Prem is a widely-respected, unifying force in Thai politics and may be chosen to head a government that includes the Thai Nation Party.

Figure 2
US Investment in ASEAN, Yearend 1982[a]

Billion US $

Total: $7.2 billion



[a] Balance-of-payments basis
[b] Figures for US investment in the Indonesian petroleum sector are incomplete.

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the scheduled expansion of Thailand's offshore natural gas production by US and Japanese companies and the establishment of a fertilizer and petrochemicals complex, which is to be owned jointly by the Thai Government and Thai and foreign companies. The remainder will come from increased foreign investment in Thai manufacturing. This approximately $400 million increase in annual investment could add about 1.5 percentage points to the rate of economic growth.[5] The projected increase in foreign investment

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[5] Most economic studies of developing countries indicate expenditure multipliers of 2 to 2.5. Assuming a conservative expenditure multiplier of 1.5, the $400 million increase in investment would raise Thai GNP by $600 million annually—a 1.5-percentage-point increase from the 1983 GNP of about $40 billion.

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Table 2
US Companies in Thailand: A Sampler

Company	Product	Comment
Union Oil	Natural gas and oil condensate	Holds concession for the only producing gasfields.
Texas Pacific	Natural gas	Holds concession for proved offshore gasfield but no production because of price disagreement.
Bank of America	Financial services	One of 14 foreign banks in Thailand.
Castle and Cook	Canned pineapple	Thailand is now the world's second-largest exporter of canned pineapple.
Data General	Electrical equipment	Upgrading its product to include video terminals.
National Semiconductor	Electrical equipment	Largest semiconductor assemblers, employing about 2,000 people.
General Electric	Aircraft engine maintenance facility	Expects to increase its activities in Thailand.
Phillips Petroleum	Petroleum exploration	Considers concession in the northeast promising.
Exxon	Petroleum exploration; oil refinery	Determining whether gas discoveries on Khorat plateau are commercial.
American Standard	Bathroom porcelain	Business is good because of Bangkok's condo boom.
Singer	Sewing machines	Required to take a Thai partner this year in order to expand.

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would also provide a welcome boost to the deteriorating balance of payments by increasing the inflow of foreign exchange.

Substantial increases in manufacturing investment may make Thailand—because of its low labor costs—a major new exporter of electrical components and small appliances. Electronics exports have been the most rapidly growing export since 1980. Because its export of manufactures is a small share of world trade in such products, Thailand will probably be able to increase these exports substantially before running into export limitations in industrial countries.

Implications for the United States

In the near term, US companies seeking to invest in the energy sector or the export-oriented manufacturing sector will probably be welcomed for providing jobs, capital, and technology. Thai officials in recent months have also expressed strong interest in increasing the role of US firms in the economy as a counterweight to the dominant influence of the Japanese. For example, Bangkok is pursuing the acquisition of sophisticated communications systems from the United States although they are available more cheaply from Japanese companies. And Industry Minister Ob strongly desires to reduce the Japanese role in the economy, according to the US Embassy.

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Table 3
Thailand and Its Neighbors: Economic Indicators

	1979	1980	1981	1982	1983 [a]
GDP growth *(percent)*					
Thailand	6.1	5.8	7.0	4.2	5.5
Philippines	5.7	4.4	3.8	2.6	1.0
Indonesia	6.3	9.9	7.6	2.2	0.8
South Korea	6.4	−6.2	6.4	5.3	9.0
Malaysia	9.4	8.6	6.7	4.6	5.6
Consumer price inflation *(percent)*					
Thailand	14.9	19.7	12.7	4.8	4.5
Philippines	18.9	17.8	13.3	11.0	16.0
Indonesia	20.8	17.0	10.2	9.5	15.0
South Korea	18.3	28.7	21.3	7.3	4.0
Malaysia	3.6	6.7	9.7	5.8	4.2
Current account balance *(billion US $)*					
Thailand	−2.1	−2.1	−2.6	−1.1	−2.3
Philippines	−1.6	−2.1	−2.6	−3.3	−2.9
Indonesia	2.1	2.0	−2.9	−6.8	−5.7
South Korea	−4.2	−5.3	−4.7	−2.6	−2.0
Malaysia	0.8	−0.2	−2.9	−3.4	−2.7
Creditworthiness [b] *(percentage points)*					
Thailand	0.75	0.80	0.60	0.40	0.35
Philippines	0.83	0.80	0.90	0.82	0.94
Indonesia	0.68	0.75	0.50	0.38	0.50
South Korea	0.70	0.85	0.62	0.50	0.70
Malaysia	0.55	0.52	0.40	0.28	0.53

[a] 1983 figures projected.
[b] Average percentage point cost over LIBOR of public-sector loans; through August 1983.

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A sharply increased US business presence nonetheless will probably increase the chances for bilateral frictions. Those seeking to invest in the growing domestic market will probably have problems—Bangkok is making it hard for existing foreign-owned companies to expand without taking a Thai partner, according to the local press. Moreover, Bangkok is already moving in a more restrictive direction on energy concessions and is attempting to increase tax revenues to reduce the large budget deficit—measures that would hit foreign investors hard. Last summer's retroactive tax increase on employee salaries drew sharp protests from the US Chamber of Commerce in Bangkok.

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Appendix A

Foreign Investment in Thailand: The Rules of the Game

Foreign investors in Thailand have the same basic rights as Thai nationals unless those rights are specifically reserved for nationals or denied to or restricted to aliens. US firms seeking to operate in Thailand under the provisions of the 1966 Treaty of Amity and Economic Relations between Thailand and the United States, except for those firms engaged in banking, communications, transport, exploitation of land or other natural resources, or domestic trade in indigenous agricultural products, are accorded national treatment.

The most important laws governing foreign-controlled businesses in Thailand are the following:

The Alien Business Law of 1966 establishes three categories of businesses: A, B, and C. In the context of the law, an alien company is one in which half or more of the capital belongs to foreigners, half or more of the shareholders or partners are foreigners, or the managing partner or manager is a foreigner. Businesses falling into categories A and B are closed to foreigners unless promotional privileges have been received from the Board of Investment. The placing of businesses into these categories is subject to change by royal decree.

The Alien Occupation Law of 1973 lists a number of occupations prohibited to aliens. The law also provides that any alien, with a few exceptions, must obtain a work permit prior to commencing employment in Thailand. Work permits may be issued only to holders of nonimmigrant or immigrant visas.

The Immigration Act of 1979 sets conditions for acquiring nonimmigrant and immigrant visas. Nonimmigrant visas issued for business may not exceed one year. Nonimmigrant visas issued for investments authorized by the government may not exceed two years. Nonimmigrant visas issued in connection with a promoted investment may be for as long as the Board of Investment determines. Immigrant visas are subject to restrictive quotas.

The Land Code states that aliens may not generally own land in Thailand. For industrial purposes, however, a company promoted by the Board of Investment may be granted the right to own land. An alien company may lease land for up to 30 years, receiving secure tenure.

The Investment Promotion Act of 1977 is administered by the Board of Investment (BOI), whose function is to promote domestic and foreign investments considered important and useful to the social and economic development of Thailand. The BOI defines priority areas for investment and decides which investments will qualify for promoted status and privileges. The BOI emphasizes investment in agrobusiness, labor-intensive industry, and export-oriented industry. There is no legal bar to a new business opening without promotion, whether or not the activity is eligible for promotion. Promoted companies may be granted certain guarantees and privileges including:
- Protection from nationalization.
- Protection from competition by a government-sponsored enterprise.
- Free remittance of foreign currency.
- Certain deductions or exemptions from taxes and import duties.
- Prohibition of imports into Thailand of like products.
- Permission to own land.

Exchange Control Act of 1942 and Bank of Thailand Notification. Although importation and repatriation of capital are discretionary, there are few obstacles in practice. Permission is routinely granted for remittances for profits and dividends, principal and interest on loans, and proceeds of the liquidation of a business. However, the Bank of Thailand is authorized to restrict remittances abroad in order to preserve foreign exchange reserves at a reasonable level.

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Appendix B

Restricted Business Activities Under the 1972 Alien Business Law

Category A (requires majority Thai ownership)

Section 1 - Agricultural Business
(1) Rice farming
(2) Salt farming, including salt mining, except rock salt

Section 2 - Commercial Business
(1) Internal trade of local agricultural products
(2) Trade in real estate

Section 3 - Service Business
(1) Accounting
(2) Law
(3) Architecture
(4) Advertising
(5) Brokerage or agency
(6) Auctioning
(7) Barbering, hairdressing, and beauty salons

Section 4 - Other Businesses
(1) Building construction
(2) Mining

Category B (new investments require majority Thai ownership; established foreign firms may continue under restrictions)

Section 1 - Argiculture Businesses
(1) Farming, except those in category A
(2) Orchard farming
(3) Animal husbandry, including silkworm raising
(4) Timbering
(5) Fishing

Section 2 - Industrial and Handicraft Businesses
(1) Rice milling
(2) Flour milling from rice or other crops
(3) Sugar milling
(4) Production of beverages, with or without alcohol
(5) Icemaking
(6) Manufacturing of pharmaceuticals
(7) Cold storage
(8) Lumber milling or processing
(9) Manufacturing of gold, silver, nielloware, and stone inlaid products
(10) Manufacturing or casting of Buddha images and alms bowls
(11) Wood carving
(12) Production of lacquerware
(13) Manufacturing of matches
(14) Manufacturing of white cement, portland cement, and cement products
(15) Stone quarrying
(16) Manufacturing of plywood, veneer wood, or chipboard
(17) Manufacturing of garments or footwear except exports
(18) Silk spinning, weaving, or silk fabric printing; manufacturing of finished products from silk

Section 3 - Commercial Businesses
(1) Retail trade, except as listed in category C
(2) Trading in mineral ores, except as listed in category C
(3) Sale of foods and beverages, except as listed in category C
(4) Trade in antiques, old objects, or works of art

Section 4 - Service Businesses
(1) Tourist agencies
(2) Hotels, except hotel management
(3) Businesses governed by the laws on entertainment places
(4) Photographic studio, photographic processing, and printing
(5) Laundry
(6) Tailoring or dressmaking

Section 5 - Other Businessess
(1) Domestic land, water, and air transport
(2) Operation of printing establishments
(3) Newspaper publishing

Category C (majority foreign ownership allowed with restrictions)

Section 1 - Commercial Businesses
(1) Wholesale trade, except as listed in category A
(2) Export trade
(3) Retail trade in machinery, engines, and tools
(4) Sale of foods and beverages to promote tourism

Section 2 - Industry and Handicraft Businesses
(1) Manufacturing of animal feed
(2) Extraction of vegetable oils
(3) Production of textile and knitted products, including yarn spinning and dyeing and fabric printing
(4) Manufacturing of glassware, including light bulbs
(5) Manufacturing of food cups, bowls, and plates
(6) Manufacturing of stationery and printing paper
(7) Rock salt mining

Section 3 - Service Businesses
(1) Any business not listed under categories A or B

Section 4 - Other Businesses
(1) Construction, except that listed under category A

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Appendix C

The Foreign Investment Bureaucracy

The Board of Investment (BOI) was established in 1959 to promote domestic and foreign investment considered useful for the country's development by defining priority areas for investment, identifying investment opportunities, providing services to investors, and deciding which investments qualify for promotional privileges. Described by some as the Thai economic cabinet, the BOI is chaired by the Prime Minister. Its members include all the economic ministers as well as the Minister of Defense (currently Prem), the chairman of the Industrial Finance Corporation of Thailand, and the Governor of the Central Bank. Secretary General Chanchai Lithawon has Prem's ear, according to the US Embassy. BOI follows a "from the bottom up" procedure of investment promotion, making decisions on projects suggested by the private sector. Activities eligible for BOI promotion are concentrated in agro-based, labor-intensive, or export-oriented sectors. The BOI's investment policies have led to conflicts with many other government agencies. 25X1

The Division of Industrial and Economic Planning in the Ministry of Industry follows a "from the top down" approach in which planners suggest industries they want to develop and invite interested firms to respond. This is the approach followed in Bangkok's Eastern Seaboard Development Project. Technocrats in the Industry Ministry and the planning agency decided the country's offshore natural gas reserves could supply a petrochemicals and fertilizer complex, designed the specifications for the complex, and asked firms—both foreign and domestic—to apply. 25X1

National Economic and Social Development Board (NESDB) is Thailand's economic development planning agency. It is concerned that BOI's operational objective of stimulating increased investment frequently ignores the harmful side effects of incentives and privileges such as reduced tax revenue, distortions in the structure of production, and changes in income distribution. 25X1

The Industrial Finance Corporation of Thailand is one of the country's development finance institutions with the objective of accelerating the process of industrialization and assisting in capital market development. 25X1

The Central Bank (Bank of Thailand), in its role as manager of the country's foreign exchange reserves, oversees requests for foreign currency remittances. Although these requests are routinely granted, the Bank is authorized to restrict foreign remittances temporarily to preserve foreign exchange reserves at a "reasonable level." Bank Governor Nukun Prachuapmo is also an important economic policy adviser to Prem and argues strongly against measures that would threaten Thailand's financial stability or rapidly increase its foreign debt. 25X1

The Ministry of Finance is concerned about investment promotion measures which erode its tax revenues because of continuing large budget deficits. On specific project evaluations Finance Minister Sommai is usually much more conservative than the BOI's Chanchai or Industry Minister Ob. 25X1

Thailand's Major Decisionmakers on Foreign Investment

Prem Tinsulanon
Prime Minister

The former Army Commander in Chief has been Prime Minister since March 1980. Prem does not have a good grasp of economic issues, according to the US Embassy.

Ob Vasuratna
Industry Minister

The 65-year-old former commerce minister is a well-known business figure and former president of the Thai Board of Trade and Chamber of Commerce. Educated in Thailand and Hong Kong, the outspoken Ob is known for his advocacy of free market economics and increasing Thai foreign trade. 25X6

Sommai Huntrakun
Finance Minister

The 65-year-old minister is respected for his conservative economic and financial management. After earning an economics degree from a Japanese university, Sommai served on the staff of the Bank of Thailand (the central bank) for nearly 30 years before becoming Finance Minister in the early 1970s. His Japanese connections have enabled him to attract more Japanese investment to Thailand, according to the Thai press.

Nukun Prachuapmo
Governor, Bank of Thailand

The 54-year-old head of Thailand's central bank has taken a more active approach to monetary policy than his predecessors—encouraging interest rate flexibility and a broadening of the financial sector. Nukun, who did graduate work at George Washington University, was appointed to the Thai Senate in 1981.

25X1

Chanchai Lithawon
Secretary General
Board of Investment

The US-educated 56-year-old Chanchai has spent most of his career with the Ministry of Finance, rising to Deputy Minister in 1979. He has headed the Investment Board since September 1982.

Sano Unakun
Secretary General,
National Economic
and Social Development
Board (NESDB)

Bangkok's chief planner is a Columbia University–educated economist and was the youngest governor ever of the Bank of Thailand at 43. Now 52, Sano has worked closely with World Bank and IMF officials over the years and is the government's spokesman for the structural adjustment program and the Eastern Seaboard Development Plan.