THAILAND

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Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	1/
Income, Production, and Employment: 2/				
Nominal GDP	185,893.3	188,880	123,335	
Real GDP Growth (pct)	6.5	-0.4	-8.0	
GDP by Sector				
Agriculture	19,628.5	17,310	N/A	
Manufacturing	55,023.7	44,370	N/A	
Services	22,407.1	20,727	N/A	
Government	6,557.3	5,677	N/A	
Per Capita GDP (US$)	3,034	2,462	2,008	
Labor Force	34.03	34.4	33.13	
Unemployment Rate	2.6	1.9	4.4	
Money and Prices (annual percentage growth):				
Money Supply Growth	12.0	2.1	9.0	
Consumer Price Inflation	6.0	5.6	8.2	
Exchange Rate				
Official	25.34	31.37	40.0	
Parallel	N/A	N/A	N/A	
Balance of Payments and Trade:				
Total Exports FOB	57,312.0	56,200.0	N/A	
Exports to U.S.	11,063.0	11,474.9	N/A	
Total Imports CIF	72,391.3	66,500.0	N/A	
Imports from U.S.	6,947.0	7,243.8	N/A	
Trade Balance	-15,079.3	-10,000.0	N/A	
Balance with U.S.	4,116.0	4,231.1	N/A	
External Public Debt	16.5	24.5	27.8	3/
Fiscal Surplus/(pct)	2.2	-2.1	-3.0	
Current Account/GDP (pct)	-8.0	-2.0	10.0	

Debt Service Payments/GDP (pct)	5.86	7.7	N/A
Gold and Foreign Exchange Reserves	39,500	26,968	26-28,000
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Source	N/A	N/A	N/A

1/ 1998 figures are estimates.
2/ Bank of Thailand.
3/ Figure includes use of monetary authorities, such as central bank IMF obligations.

Sources: Royal Thai Government and U.S. Department of Commerce.

1. General Policy Framework

Since coming to power in November 1997, the government of Prime Minister Chuan Leekpai has had to face Thailand's greatest post-war economic crisis. A regional economic downturn first turned into crisis in Thailand during late 1996, when a property value bubble burst, exposing deep strata of bad debt. An ensuing speculative run on the long-stable Thai Baht was met with an ill-advised and abortive attempt to defend the currency using the country's foreign exchange reserves. Instead of stabilization, Thailand was forced to float the baht, leading immediately to a substantial devaluation. This was followed by a freezing of credit as many of the country's finance companies failed. The credit crunch steadily choked off the import/manufacturing/export cycle. The spread of the "Thai contagion" to the other economies of the region was swift, and in 1998 the regional downturn contributed to similar crises in other parts of the world as well.

The government made promises of structural reform in the financial sector to the IMF in exchange for a rescue package. The reforms, and re-capitalization of the surviving financial institutions, have progressed slowly amid mounting public criticism as unemployment has spread.

Exports (except in textiles and agro-industries) have not reaped the expected gains from a cheaper currency because so many of Thailand's products are assembled with components bought abroad which necessarily come at higher prices. Also, the regional currencies of Thailand's competitors have devalued roughly in tandem, cutting away the opportunity to capture more of the textile markets. Most seriously, the regional (ASEAN) export market collapsed. In 1996, Thailand's Gross Domestic Product (GDP) growth fell from 6.5 percent to an estimated zero percent in 1997. GDP is projected to decline by eight percent in 1998.

The Chuan government has suffered criticism for ignoring the plight of the poor in favor of bankers and industrialists. This has not yet created a political crisis for his government. In mid-1998 a large opposition party was brought into the coalition, thereby gaining election-free time for economic reforms to produce results.

More than 50 percent of the Thai labor force is still engaged in agriculture, at least on a part time basis. Before the economic crisis, the service, manufacturing, and wholesale and retail trades accounted for about two thirds of Thailand's GDP. Due to the return to the land of some unemployed from other sectors, at the end of 1998 that figure will be lower.

There are long term problems that are likely to negatively affect the Thai economy for some time. Thai competitiveness in labor intensive industries (such as textiles) has been falling as its ASEAN neighbors have taken a greater share of those markets. There is a shortage of well-educated management and workers capable of shifting smoothly into higher-tech industries, where Thailand's economic future purportedly lies. Inadequate infrastructure, especially in the overcrowded Bangkok area, is an ongoing problem.

The government depends upon exports to bring the country through the current economic crisis, but they may not be the engine of recovery. Exports are far down in many sectors (though textiles are doing well again, as are some of the products of the agro-industries, primarily because they depend less upon imported inputs). By the end of the eighth month of 1998, exports were valued at nearly $36 billion, a fall-off of 5.2 percent, year-on-year (yoy). Though output volume is up more than 15 percent, sharp drops in prices have led to an overall drop in value. There has also been a sea change in the patterns of Thai exports. The Japanese market has collapsed (-17.2 percent, yoy), while the United States has become the critical buyer (up 10 percent, yoy). The EU is close behind (up 9.8 percent).

2. Exchange Rate Policy

From 1984 to 1997 the baht was pegged to a basket of currencies of Thailand's principal trading partners, with the U.S. Dollar representing the largest share. The exchange rate averaged about 25 baht to the dollar during most of that period. However, under pressure from dwindling foreign exchange reserves, the baht was allowed to float on July 2, 1997. It began to depreciate immediately, falling to 56/dollar by mid-January 1998. As reform measures and IMF support took hold, the baht stabilized and traded around 40/dollar between March and September 1998. In October 1998, the baht appreciated against the dollar in line with other Asian currencies.

In 1990, the Thai Government announced a series of measures to liberalize the exchange control regime and accepted the obligations of the IMF's Article VIII. Commercial banks were given permission to process foreign exchange transactions, and ceilings on money transfers were increased. Since 1991, banks in Thailand have offered Foreign Currency (FCD) accounts for Thai residents, though such accounts are limited to $500,000 for individuals and $5 million for corporations (without conditions.)

After letting the baht float in July 1997, the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations (within three months from date of deposit) to open FCD accounts. Thailand also shortened to 120 days from shipment the period within which exporters must transfer foreign exchange earnings, or deposit them in FCD accounts.

3. Structural Policies

The Thai taxation code has undergone revision since 1992, when a 7 percent Value-Added Tax (VAT) system was introduced. The previous tax regime was clumsy and complicated, with a multi-tiered structure for assessing business taxes. In September 1997, the government announced an increase in the VAT, from 7 to 10 percent (most basic foodstuffs are excepted). This was necessary to raise revenues, and to meet the requirements of the IMF rescue package. An exemption for businesses making less than $24,000 per annum remains in place. Firms grossing between $24,000 and $48,000 per annum pay a rate of 1.5 percent, up .5 percent. Exporters are “zero rated” but must file VAT returns and apply for a rebate. The corporate tax rate is currently 30 percent of net profits for all firms. A proposal pending in parliament would substitute a tax credit for the VAT rebate.

A new tax treaty between the United States and Thailand was signed in November 1996, and ratified by the U.S. Senate in October 1997. The treaty entered into force after the exchange of the instruments of ratification. Smaller U.S. firms, in particular, had been disadvantaged by the lack of a reciprocal tax agreement. The treaty provides for the elimination of double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand’s other tax treaty partners.

4. Debt Management Policies

Thailand's financial crisis resulted in part from significant increases in (private sector) external debt. At the end of 1997, the stock of public sector external debt stood at $17.2 billion, of which only $20 million is short term. Private sector debt stood at $67.3 billion, of which $29.9 billion was short term. Public sector external debt is owed to multilateral and bilateral institutions, as well as to capital markets and is divided relatively evenly between direct government borrowings and loans (to state owned enterprises) guaranteed by the government. Thailand’s debt service, as a percentage of exports of goods and services, propelled by stagnating exports, has risen considerably. The debt service ratio rose from 11.4 percent in 1995 to 20.3 percent (3.1 percent for public sector debt service and 17.2 for the private sector) during the first quarter of 1998.

The financial crisis prompted Thailand to seek assistance from the IMF, which arranged a $17.2 billion stabilization program. Restructuring the corporate debt overhang is an important element of the IMF program and the overall effort to stabilize and rejuvenate the Thai economy. The government has conditioned public assistance for recapitalizing banks in part on progress in restructuring. The government has also announced principles for debt restructuring and established the corporate debt restructuring advisory committee to assist targeted debt workouts.

5. Significant Barriers to U.S. Exports

Moving to meet its WTO and ASEAN tariff reduction commitments, Thailand instituted tariff reductions beginning in January 1995. There were further reductions on 4,000 items at the beginning of 1997. However, the decision to accelerate ASEAN’s Free Trade Area (AFTA) preferred tariff schedules, taken in Manila in October 1998, did not translate into any impetus toward significant liberalization within APEC. Also, the need for revenue has led to the imposition of higher duties, surcharges, and excise taxes on "sin" items and a range of luxury imports, including U.S. wine and beer exports.

At the beginning of 1997, the total number of tariff rate categories was reduced from 39 to six, with the following spread: zero percent on such goods as medical equipment and fertilizer, one percent for raw materials, electronics components, and vehicles for international transport, five percent for primary and capital goods, 10 percent for intermediate goods, 20 percent for finished products, and 30 percent for goods needing “special protection.” This last category includes agricultural products, autos and auto parts, alcoholic beverages, and a few other “sensitive” items. Import tariff quotas are applied to a total of 23 categories of agricultural products.

Thailand is in the process of changing its import license procedures to comply with its WTO obligations. Import licenses are still required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for many raw materials, petroleum, industrial, textile, and agricultural items. Import licenses can be used to protect unproductive local industries and to encourage greater domestic production. Some items that do not require licenses must nevertheless comply with applicable regulations of concerned agencies, are subject to extra fees, or must have certificates of origin.

The Thai Food and Drug Administration issues licenses for food and pharmaceutical imports. This process can be a barrier due to the cost, the length of the process, and occasional demands for proprietary information. Licenses cost about $600 and must be renewed every three years. Pharmaceutical import licenses cost about $480 and must be renewed every year. There are also fees for laboratory analysis. Costs of between $40 to $120 per item are usual for sample food products imported in bulk. Sealed, packaged foods can cost about $200 per item. Pharmaceuticals must be registered for a fee of about $80, and inspected and analyzed for another fee of about $40 per item. The process can take more than three months to complete. The fees are currently under review and may be increased during the coming year.

The government is gradually easing import duties in line with WTO commitments, which may improve market access for some American products. Rice will continue to be protected, but within WTO schedules. Corn and fresh potatoes are subject to a Tariff Rate Quota (TRQ) that limits import levels. The restricted entry period for U.S. corn under the TRQ, generally February to June, usually ensures that it is not competitive in the Thai market.

Even though rates are slated to decline between 35 and 50 percent under WTO rules, duties on many high-value fresh and processed foods remain high. For most U.S. high-value fresh and value-added processed foods, entry into Thailand is still expensive. There are no longer specific duties on most imported agricultural and food products, except wine and spirits, which continue to have very high rates.

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Customs Department has used the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. That allows customs to disregard the invoice value of a shipment in favor of the benchmark amount. This practice has had a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values. However, the government is instituting a program of customs reform that, if adopted successfully, will remedy some of the problems at the ports of entry. These reforms include adoption of the world customs organization harmonized code and the use of an Electronic Data Interchange (EDI) system. The pilot program for EDI became operational early in 1998, but thus far affects only export procedures and only in the airport, not in the seaports. Expedited procedures for express carriers have been instituted.

Customs duties are sometimes arbitrary in other ways. For example, import duties on unfinished materials are higher than those on finished goods in some categories, such as automobiles. This is a burden to American firms that manufacture or assemble in Thailand.

Restrictions on the activities of foreign banks have eased since 1994, as have limits on foreign ownership of Thai banks. However, foreign banks' deposits in Thailand still comprise only 4.3 percent of total bank deposits, and foreign banks are still disadvantaged in a number of ways. Foreign banks are limited to three branches (of which two must be outside of Bangkok and adjacent provinces) and there are limits on expatriate management personnel, although foreign bankers here say that requests for additional personnel are customarily approved.

To facilitate recapitalization of the financial sector, the government has raised limits on foreign ownership of domestic banks. In June 1997 the Minister of Finance was empowered to raise the old 25 percent ceiling on foreign ownership of domestic banks, and the Bank of Thailand announced in November 1997 that foreign ownership would be allowed to exceed 49 percent for a period of 10 years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) The government has also issued additional foreign bank and Bangkok International Banking Facility licenses and authorized foreign bank participation in domestic ATM networks.

Foreign ownership of finance companies and securities companies had been limited to 25 percent, but these limits were also raised in the aftermath of the financial crisis. As of May 1998, foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements.

Telecommunications services are a government monopoly in Thailand. Private participation is currently limited to concessions in both wireless and fixed line sectors. In November 1997, the government approved a telecommunications master plan that that provides an outline of a liberalization program. Implementation of this plan, which will involve the reorganization of the existing state enterprises into stock companies, is expected to take up to two years. As a first step, the government plans to corporatize its two telecom operators, TOT and CAT, in preparation for seeking foreign partners during 1999. Full market liberalization will not take place until 2006, as mandated by the WTO.

6. Export Subsidies Policies

Thailand ratified the Uruguay Round agreements in December 1994. Thailand maintains several programs that benefit manufactured products or processed agricultural products and which may constitute export subsidies. These include subsidized credit on some government-to-government sales of Thai rice (agreed on a case-by-case basis), preferential financing for exporters in the form of packing credits, tax certificates for rebates of packing credits, and rebates of taxes and import duties for products intended for re-export. The Thai EX-IM bank currently offers an 11 (plus 1.5) percent rate, about one point below the prime rate offered by the large commercial banks.

7. Protection of U.S. Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has been an important bilateral trade issue for several years. After passage of a revised Copyright Law in 1994 the U.S. moved Thailand from Priority Watch List to Watch List status. The government also agreed to provide “pipeline protection” through administrative means for certain pharmaceutical products not entitled to full patent protection under the 1992 Patent Law. In recognition of this progress, the U.S. restored a number of GSP benefits that had been denied to Thailand under Special 301. Several other bills designed to bring Thailand into compliance with its TRIPs requirements, including an amendment to the Patent Act that will abolish the pharmaceutical review board, are currently in the legislative process.

A specialized intellectual property department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts, including raids. In 1997, the parliament established a separate intellectual property court that can result in a more efficient judicial system and tougher sentencing. The court began operation in December 1997. In mid-1998, the government produced a letter of intent which contained the bilaterally agreed text of an IPR action plan for the remainder of the year. The plan is ambitious, and covers most aspects of IPR; however, it has not yet been implemented.

Piracy remains a serious problem, however, and is growing rather than shrinking, as enforcement is too lax to be effective. The U.S. pharmaceutical, film, and software industries estimate lost sales at over $200 million annually. Despite new and improved laws, judicial proceedings remain slow and the fines actually imposed are light. To date, no one has served time in jail for copyright infringement. The police have not always been cooperative, let alone proactive, in combating piracy.

8. Worker Rights

a. The Right of Association: The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. In 1991, following a military coup, the Thai Government revoked a number of these rights for state enterprise workers. After a prolonged period of government changes, the Thai Parliament approved a new State Enterprise Labor Relations (SELR) bill on October 8, 1998. On November 12, the Constitutional Court rejected the bill on a technicality. The government has pledged to re-introduce the legislation in parliament.

b. The Right to Organize and Bargain Collectively: Thai workers have the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. Civil servants cannot form unions. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike. However, they may be members of employee associations. Collective bargaining is unusual in Thailand, and industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions do sit on various government committees dealing with labor matters, and are influential in setting national labor policies, such as the minimum wage.

c. Prohibition of Forced or Compulsory Labor: The Thai Constitution prohibits forced or compulsory labor except in cases of national emergency, war, or martial law. However, Thailand remains the target of ILO actions under Convention 29 (forced labor) because child prostitution persists despite recent government moves to step up enforcement of laws prohibiting it, and to cooperate with ILO programs.

d. Minimum Age for Employment of Children: The new 1998 Labor Protection Act went into effect on August 20, 1998. The act raises the minimum age for employment in Thailand from thirteen to fifteen. Persons between the ages of 15 to 18 are restricted to light work in non-hazardous jobs, and must have the permission of the Department of Labor in order to work. Night-time and holiday employment of non-adults is prohibited. The new national education bill has passed a first reading in the lower house of parliament and is being considered by the House Scrutiny Committee. It is constructed to comply with the new constitution, which gives the right to free primary education for at least 12 years.

e. Acceptable Conditions of Work: Working conditions vary widely in Thailand. Large factories generally meet international health and safety standards, though there have been serious lapses involving loss of life. The government has increased the number of inspectors and raised fines for violators, but enforcement is still not rigorous. The usual work-day in industry is eight hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector wage, health, and safety standards are low and regulations are often ignored. Most industries have a legally mandated 48 hour maximum work week. The major exceptions are commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to 48 hours per week.

f. Rights in Sectors with U.S. Investment: Labor rights are generally well-respected in industrial sectors with heavy investment from U.S. companies. Most U.S. firms in Thailand work with internal workers' representatives or unions, and relations are constructive. U.S. companies strictly adhere to Thai labor laws and have not experienced serious labor disruptions in the last year.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		930
Total Manufacturing		1,090
Food & Kindred Products	(1)	
Chemicals & Allied Products	271	
Primary & Fabricated Metals	48	
Industrial Machinery and Equipment	314	
Electric & Electronic Equipment	249	
Transportation Equipment	(1)	
Other Manufacturing	182	
Wholesale Trade		567
Banking		437
Finance/Insurance/Real Estate		84
Services		42
Other Industries		389
TOTAL ALL INDUSTRIES		3,537

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.