2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

THAILAND

Key Economic Indicators

(Million of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production, and Employment:			
Nominal GDP	112,060	124,284	125,803
Real GDP growth (pct) 2/	-10.2	4.2	4.5 3/
Nominal GDP by sector:			
Agriculture	13,379	13,007	10,925
Manufacturing	34,350	40,232	41,458
Services	17,191	20,158	20,797
Government 4/	12,103	13,782	13,208
Per capita GDP (USD)	1,823	2,016	2,019
Labor force (000s)	32,600	32,960	33,270 3/
Unemployment rate (pct)	4.4	4.2	3.2 3/
Money and Prices (annual percentage growth):			
Money supply growth (M2)	9.5	2.1	N/A
Consumer price inflation	8.1	0.3	2.5
Exchange rate (BHT/USD – annual average)			
Official	41.37	37.84	40.00 5/
Balance of Payments and Trade:			
Total exports FOB 6/	52,878	56,800	62,200 3/
Exports to U.S. 6/	12,105	12,668	13,791 7/
Total imports CIF 6/	40,643	47,529	56,900 3/
Imports from U.S. 6/	6,037	6,434	6,151 7/
Trade balance6/	12,236	9,271	5,300
Balance with U.S. 6/	6,068	6,234	7,640
External public debt	31,060	36,024	34,866 8/
Fiscal balance/GDP (pct)	-5.2	-5.3	-5.0 3/
Current account/GDP(pct)	12.8	10.0	7.7 3/
Debt service payments/GDP (pct)	1.96	2.31	N/A
Gold and foreign exchange reserves	29,536	34,781	35,000 3/
Aid from U.S.9/	5.5	20.8	N/A
Aid from all other source 9/	105.8	110.7	N/A

All figures based on Royal Thai Government data.
1/ 2000 figures are all estimates based on six-month data unless otherwise indicated.
2/ Percentage changes calculated in local currency.

3/ Royal Thai Government projections.
4/ Government expenditure on GDP; for illustrative purposes.
5/ Based on nine-month data.
6/ Merchandise trade under balance of payments concept.
7/ Based on seven-month data.
8/ Data as of July 2000.
9/ Based on fiscal year (October – September).

1. General Policy Framework

The government of current Thai Prime Minister Chuan Leekpai has been working to stabilize and reinvigorate the Thai economy since it took office in November 1997. The East Asian economic crisis began in Thailand when a failed effort to defend the baht (the Thai currency) depleted Thailand's foreign exchange reserves and forced the Bank of Thailand to float the currency in July 1997. Over the next six months the baht lost half of its value, and the crisis spread to the real sector. The Thai economy, one of the world's fastest growing up through 1995, tumbled, and real GDP suffered declines of 1.7 percent and 10.2 percent in 1997 and 1998, respectively. The crisis spread to other countries in the region, particularly Korea and Indonesia, impairing Thailand's ability to export its way out of the crisis.

Real sector contraction slashed Thai imports, which dropped from $70 billion in 1996 to just over $40 billion in 1998 before rebounding to $48 billion in 1999 and a projected $57 billion in 2000. Imports from the United States fell correspondingly, dropping from $7.4 billion in 1997 to under $5 billion in 1999. At the same time, U.S. markets remained open to Thai exports. By 1999, according to U.S. Department of Commerce figures, the U.S. trade deficit with Thailand had widened to $9.3 billion. (Thai data shows a smaller deficit due to differences in trade calculation methodology).

A $17.2 billion program arranged through the IMF in August 1997 helped Thailand begin restructuring its economy and financial sector. The government closed or took over insolvent institutions and tightened provisioning requirements for banks. The crisis and subsequent restructuring opened the way for increased foreign participation in the financial sector, and foreign banks now own controlling interests in four Thai commercial banks. The sale of another is underway. Legal reforms focused on the financial sector continue. Throughout, Thailand has favored a market-oriented private sector-led approach to restructuring the financial sector. These important measures notwithstanding, the slow pace of economic restructuring raises concerns about the sustainability of recovery.

While the economy stabilized by late 1998, the real economy did not respond, and the focus turned to stimulating domestic demand. With the support of the IMF, the government ran fiscal deficits (after years of balanced or surplus budgets) of 5.2 percent of GDP in FY 1998, 5.3 percent of GDP in FY 1999, and a likely 5 percent in FY 2000. In March and August 1999 the government announced additional stimulus programs equal to 4.6 percent of GDP to create jobs, increase government purchases of goods and services, lower taxes and industrial energy costs, and promote investment. The economy responded to these stimulus programs with moderate improvements in most indicators from the first quarter of 1999. The government is financing the stimulus program through domestic bond sales, as well as foreign debt and grant assistance. The government recognizes the important role of foreign investment and in mid-2000 introduced new incentives designed to make Thailand a more attractive destination for direct foreign investment.

Thai monetary policy formally aims at keeping inflation between zero and 3.5 percent, but maintaining adequate system liquidity and keeping interest rates low to promote debt restructuring and new lending are also major policy goals. The government uses a standard array of monetary policy tools but focuses on open market operations, particularly the repurchase market. Current monetary policy does not target a specific level for the baht, but the government has said it will act to smooth volatility in the exchange rate.

2. Exchange Rate Policy

From 1984 to 1997 the baht was pegged to a basket of currencies of Thailand's major trading partners, with the dollar representing the largest share. The exchange rate averaged 25 baht to the dollar during that period. Following the depletion of Thailand's foreign exchange reserves in an unsuccessful attempt to defend the peg, the currency was allowed to float in July 1997 and depreciated to below 50 baht per dollar by January 1998. As reform measures and IMF support took hold, the baht stabilized and has traded in the 36 to 44 baht per dollar range since March 1998.

The Thai government began liberalizing the exchange control regime in 1990 and has accepted IMF Article VIII obligations. Commercial banks received permission to process larger foreign exchange transactions, and ceilings on money transfers were increased. Since 1991 Thai banks have offered foreign currency accounts for residents, although they are limited to $500,000 for individuals and $5 million for corporations (without conditions). After the baht was floated 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 foreign currency accounts. Thailand also required exporters to repatriate and deposit foreign exchange earnings more expeditiously. More recently, the government has restricted the supply of baht at any one time to 50 million (about $1.25 million) per non-resident counter party (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. Structural Policies

Prices generally are determined by market forces. The government retains authority to control the price of 14 products (certain food staples, transportation-related items, agricultural inputs) under the recently revised Price of Goods and Services Act of 1999. Although in practice few commodities are subject to formal price controls, the government uses its control of major suppliers of products and services under state monopoly, such as in petroleum, aviation, and telecommunications sectors, to influence prices in the market. For example, under pressure from the government, the state petroleum company for a short period of time kept diesel fuel prices below production cost in response to escalating international petroleum prices in 2000.

The Thai taxation system has undergone significant revision since 1992, when a value added tax (VAT) system was introduced to replace a multi-tiered business tax system. The VAT rate was raised from 7 to 10 percent in 1997 but lowered temporarily back to 7 percent in March 1999 to stimulate consumption; the rate is scheduled to revert to 10 percent on September 30, 2001. Exemptions in place for low revenue businesses were expanded in March 1999. Exporters are "zero rated" under the VAT system but must file returns and apply for rebates. The corporate tax rate is currently 30 percent of net profits for all firms. Thailand and the United States signed a tax treaty in November 1996, and the treaty entered into force in early 1998. The treaty eliminates double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

The Board of Investment exerts wide-ranging influence on the formulation and implementation of trade and investment policies. It has pushed its objectives of industrial decentralization and export promotion through the granting of tax holidays, import duty exemptions, and other incentives to foreign direct investors. Thailand has applied to the WTO for an extension of its local content requirements in the manufacture of milk and dairy products, which have been in effect since 1995.

4. Debt Management Policies

Thailand's financial crisis resulted in part from a large private sector external debt burden, but these levels have declined markedly since the onset of the crisis, falling from $85 billion at the end of 1997 to $53 billion at the end of June 2000. (Private sector debt figures were revised significantly upwards in mid-2000). Thailand entered the crisis with low levels of public debt, but since then public borrowings have risen significantly as the government stabilized and sought to stimulate the economy. At the end of 1997 total public sector external debt (including that of the Bank of Thailand) stood at $24 billion. By June 2000, the figure had risen to $35 billion. Public sector debt is mostly long-term and divided among direct borrowings and loans to state-owned enterprises guaranteed by the government, with the latter predominating. The public external debt service ratio (payments as a percent of the exports of goods and services) stood at the end of June 2000 at 3.5 percent, in comparison to a private sector debt service ratio of 11.7 percent.

Mounting public sector debt, triggered by higher budget deficits, is a concern in Thailand, and the government is attempting to diversify its sources of funding by developing a domestic bond market. By April 2000, total public sector debt, including the non-guaranteed debt of state-owned enterprises, had climbed to 52 percent of Thailand's GDP.

Thailand consistently met the targets and performance criteria elaborated in its IMF stand-by arrangement, which was completed in June 2000. The government plans to begin repaying the IMF in the fourth quarter of 2000 and other donors in 2001.

5. Significant Barriers to U.S. Exports

Tariffs: Thailand's high tariff structure remains a major impediment to market access in many sectors. A member of the World Trade Organization (WTO) and the ASEAN Free Trade

Area (AFTA), Thailand has yet to complete efforts to rationalize a complicated tariff regime that currently has 23 rates. Highest tariff rates encompass locally produced import-competing products, including agricultural products, autos and auto parts, alcoholic beverages, fabrics, and some electrical appliances. In some cases, tariffs on unfinished products are higher than on related finished products. In the aftermath of the financial crisis, the government increased duties, surcharges, and excise taxes on a range of "luxury" imports from wine to passenger cars. However, the government continues to ease other import duties in line with WTO and AFTA commitments, including most recently in July 2000, when it reduced tariffs on 542 items.

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.

Import Licenses: Thailand is in the process of changing its import licensing procedures to comply with its WTO obligations. Import licenses are required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for the import of many raw materials, petroleum, industrial, textiles, pharmaceuticals, and agricultural items. Imports of used motorcycles and parts, household refrigerators using CFCs, and gaming machines are prohibited. Import of some items not requiring licenses nevertheless must comply with applicable regulations of concerned agencies, including extra fees and certificate of origin requirements in some cases. Imports of food, pharmaceuticals, certain minerals, arms and ammunition, and art objects require special permits from relevant ministries. A government commitment to eliminate certificate of origin requirements for information technology imports has not been implemented fully.

Service Barriers: In the banking sector, 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 report that requests for additional personnel customarily are approved. Since 1997 foreign ownership of Thai banks can exceed 49 percent for a period of ten years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares). Limits on foreign ownership of finance companies and securities companies were also liberalized 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: The provision of telecommunications services is dominated by two state operators, the Telephone Organization of Thailand (TOT) and the Communications Authority of Thailand (CAT). Private participation is currently limited to concessions in wireless and fixed line sectors. The government's telecommunications master plan calls for the corporatization of TOT and CAT, with a view to privatization and coupling with strategic partners in the coming years. Thailand's WTO commitments require full market liberalization by 2006.

Professional Services: The Alien Occupation Law reserves to Thai nationals certain employment, including within certain professional services such as accounting, architecture, law and engineering, the manufacture of traditional Thai handicrafts, and manual labor. All foreign nationals must obtain a work permit for employment.

Standards, Testing, Labeling, and Certification: The Thai Food and Drug Administration (TFDA) requires permits for the importation of all food and pharmaceutical products. Costs, testing, duration, and demands for proprietary information associated with the permitting process can be burdensome. Labels bearing product name, description, net weight or volume and manufacturing/expiration dates, printed in Thai and approved by the TFDA must be affixed to all imported food products.

Investment Barriers: Non-Thai businesses and citizens generally are not permitted to own land unless given permission by the Board of Investment or unless land is on government-approved industrial estates. Exceptions include land necessary to the activities of petroleum concessionaires, part ownership of condominium buildings, and residences for foreign investors who invest a minimum of 40 million baht.

Government Procurement Practices: Procurement regulations require that non-discriminatory treatment and open bidding be accorded to all potential bidders. However, the system is not fully transparent. Procuring agencies retain the right to accept or reject any or all bids at any time, may modify the technical requirements during the bidding process, and are not bound to accept the lowest bid. The government requires a counter-trade transaction on government procurement contracts valued at more than 300 million baht on a case-by-case basis. A counter purchase of Thai commodities valued at not less than 50 percent of the principal contract may be required. As part of a counter-trade deal the government may also specify markets into which commodities may not be sold, usually markets where Thai commodities already enjoy significant access.

Customs Procedures: The Thai Customs Department enjoys considerable autonomy and some of its practices appear arbitrary and irregular. Problems in customs administration include excessive paperwork and formalities, lack of coordination between customs and other import-regulating agencies, and lack of modern computerized processes. Many importers complain of demands for unrecorded cash. Import regulations are complicated, opaque and inconsistently applied. Efforts to introduce a paperless customs system, including adoption of the World Customs Organization harmonized code and the use of an Electronic Data Interchange (EDI) system, have improved operations but have not been fully implemented. 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. Customs Act amendments that went into effect January 2000 established transaction value as the standard for assessing customs duties, but many officials reportedly are not applying the new standard.

6. Export Subsidies Policies

The government maintains several programs that benefit exports of manufactured products or processed agricultural products. 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 interest rates on export credits below the prime rate offered by commercial banks. A 2000 law established a government office and fund to support small and medium enterprises, including market expansion abroad, but they are not operational yet.

7. Protection of U.S. Intellectual Property

The government has made significant progress in laying the legal foundation for IPR protection, and an IPR action plan concluded between the United States and Thailand in 1998 strengthened levels of enforcement. During 1999 and 2000 the government passed amendments to the Trademark Act and the Patent Act, a Protection of Plant Varieties Act, and a Protection of Integrated Circuits Design Law. The parliament is deliberating on drafts of a Trade Secrets Act, a Protection of Geographic Indications Act, and an Optical Disk Factory Control Act. Despite growing enforcement activity and good cooperation with rights-holders, however, the government has been unable to stem high levels of piracy. Thailand has been on the Special 301 Watch List since 1994. Thailand is a member of the World Intellectual Property Organization, the Bern Convention, and the WTO Trade-Related Aspects of Intellectual Property Agreement (TRIPS). Thailand is not a signatory to the Paris Convention or Patent Cooperation Treaty, although aspects of those instruments are addressed by local law.

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. A specialized intellectual property court established in 1997 has improved judicial procedures and imposed higher fines. Criminal cases generally are disposed of within six to twelve months from the time of a raid to the rendering of a conviction. However, in many cases penalties imposed are insufficient deterrence according to rights-holders, and relatively few persons have served time in jail for copyright infringement. Defendants sometimes disappear while on bail, and sentences sometimes are reduced or overturned on questionable grounds.

Obstacles to effective enforcement are numerous. Resource limitations, especially in the wake of the financial crisis, hamstring police capabilities and judicial administration alike. Corruption and a cultural climate of leniency can complicate many phases of the legal process. Irregularities in police and public prosecutor procedures occasionally have resulted in the substitution of insignificant defendants for major ones and the disappearance of vital evidence. The frequency of raids compromised by leaks from police sources has declined but remains a concern. The administrative structure of enforcement is confusing, with no fewer than three separate offices (the Economic Crimes Investigation Division, the Special IPR Enforcement Task Force, and the local police) with authority to conduct raids. Pirates, including those associated with transnational crime syndicates, have responded to stepped up levels of enforcement with intimidation against authorities and rights-holders.

Although trademark-holders have won several notable cases, civil remedies remain largely untested as most rights-holders, especially copyright holders, choose to pursue criminal sanctions against violators. Rights-holders report that police cooperation is good and the frequency of raids is climbing. However, police undertake little enforcement apart from cases initiated by rights-holders. Effective prosecutions are labor-intensive for rights-holders, who investigate, participate in raids, help warehouse confiscated property, and prepare documentation for prosecution in a typical case.

Patent examinations can take more than five years. Safety monitoring programs (SMPs) must be undertaken prior to filing for full registration of pharmaceuticals, and no generic versions of a drug can be approved for the two-year SMP period. However, following the expiration of the SMP but before a patent is issued, often a period of years, generic versions may be sold. In such cases, civil remedies to recover damages suffered by the patent-holder are available after the patent is granted but are inadequate. The government retains compulsory licensing authority in some instances but does not generally exercise it. The Government Pharmaceutical Office's exemption from registration and approval requirements in manufacturing and distributing medicine is of concern to rights-holders, although the exemption is not widely exercised.

The U.S. pharmaceutical, film, and software industries estimate lost sales to American rights-holders at over $200 million annually. Piracy is growing as pirates from elsewhere in the region have come to set up shop in Thailand, and imports and exports of pirated products remain at troublesome levels. Although the government has made progress in cultivating public support for strong intellectual property protection, the market for pirated products remains strong.

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. The State Enterprise Labor Relations Act, enacted in early 2000, restored to state enterprise workers the right to form and join trade unions.

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. Though recognized, 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. Nighttime and holiday employment of non-adults is prohibited. The new national education bill passed in August 1999 gives the children the right to free primary education through grade 12. Compulsory education is enforced through grade nine.

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 workday 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 workweek. 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 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.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		2,529
Total Manufacturing		2,571
Food & Kindred Products	113	
Chemicals & Allied Products	312	
Primary & Fabricated Metals	70	
Industrial Machinery and Equipment	1,359	
Electric & Electronic Equipment	366	
Transportation Equipment	40	
Other Manufacturing	311	
Wholesale Trade		416
Banking		625
Finance/Insurance/Real Estate		385
Services		49
Other Industries		391
TOTAL ALL INDUSTRIES		6,966

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