

BOLLIGER & CO

Summary Report



2015 Foreign Investor
Confidence Survey

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By

Bolliger & Company (Thailand) Ltd.

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The project on “**Foreign Investors’ Confidence in Thailand**” has been conducted on a yearly basis by the Thailand Board of Investment (BOI) in order to survey the confidence of foreign investors in Thailand and their investment plans. The results will be useful in formulating policies and measures for the BOI and in providing a better investment environment for foreign investors.

1. Framework for Foreign Investors’ Confidence Survey 2015

In surveying foreign investors’ confidence in Thailand for the year 2015, the BOI has commissioned Bolliger & Company (Thailand) Ltd. to conduct the study. To gather the information required, a questionnaire was sent to 3,000 foreign companies located in Thailand. Selected companies were restricted to having foreign shareholding of at least 20% and included both BOI-promoted and non-BOI-promoted companies.

Of 3,000 companies, 600 replied (a response rate of 20%). Bolliger & Company (Thailand) Ltd. also conducted in-depth interviews with 25 out of 600 companies so as to gain additional information, comments, and suggestions.

In addition to the survey, Bolliger & Company (Thailand) Ltd. studied the overall investment situation and trend in Thailand so as to gain a better understanding of those factors that affect investors’ investment decisions.

2. Investment Situation and Trend in Thailand

From 2005-2013, foreign direct investment (FDI) in Thailand showed an upward trend despite the reduction in investment during 2006-2009 due to the economic crisis that first took place in the United States. After the crisis, FDI significantly increased, especially in 2012. The reason behind this increase was that the United States, the European Union, and Japan, began to recover. This led to a higher flow of funds to Thailand.

As for the GDP growth rate of Thailand, it was decreased from 2.87 percent in 2013 to 0.90 percent in 2014. The low growth rate in 2014 was due in part to the political situation. In the latter half of 2014, the National Council for Peace and Order formed a new government with an attempt to stabilize the political situation and restore investors' confidence.

The forecast by the Fiscal Policy Office (FPO) suggest that the growth for 2015 (as of July 2015) will be 3.0 percent (or within a range of 2.5-3.5 percent). Significant factor that drive higher growth include government spending on transportation development and infrastructure investment projects. Revenue from the tourism sector has also increased.

3. General Information and Investment Plans of Foreign Investors in 2014-2015

3.1. General Information of the Respondents

Of the 600 companies that completed the questionnaire, 99.00% are promoted by the BOI while 1.00% are not. The majority of these companies are Japanese (56%). Categorizing by industry, investors in metal products, machinery and transportation industry make up the largest proportion of respondents (32%).

In terms of size, 25.50% of respondents are small companies having assets about 0-50 million baht while 25.33% are large companies with assets of over 500 million baht. As for employment, 31.33% employ between 1 to 50 employees and 82.00% employ foreign employees in the proportion of no more than 10%. It is interesting to learn that most companies (68%) receive income from both domestic and international markets.

3.2. Investment Plans of Foreign Investors in Thailand in 2014-2015

It is found that, for 2015-2016, most foreign investors plan to maintain or increase their investment level in Thailand. To be more specific, 73% intend to maintain investment level while 25% intend to expand their investment level. On the

other hand, 2% plan to reduce their investment and only one out of 600 respondents intend to withdraw their investment from Thailand.

Factors that have had the greatest impact on foreign investors' decision to maintain or increase their investment level are:

- Sufficient suppliers
- Sufficient overall infrastructure
- Sufficient raw materials / parts
- Good quality of transportation and logistics system
- Reasonable corporate income tax

Regarding investors that plan to reduce or withdraw their investment from Thailand, factors with the greatest impact are:

- Low demand in the Thai market
- Intense competition in the Thai market
- Insufficient raw materials/parts
- High minimum wage
- Instability of the Thai economy

In addition to investing in Thailand, some foreign investors (13.00%) plan to expand their investment abroad. The countries in which foreign investors are interested the most are Vietnam, Indonesia, Myanmar, China, Singapore, Malaysia, Cambodia and India, respectively. The majority (71.79%) of foreign investors who plan to expand their investment abroad are interested in investing in ASEAN.

4. Confidence of Foreign Investors in Thailand

To estimate foreign investors' confidence level, Business Sentiment Index (BSI Index) was calculated around six indicators. These are:

- Total revenue
- Domestic sales

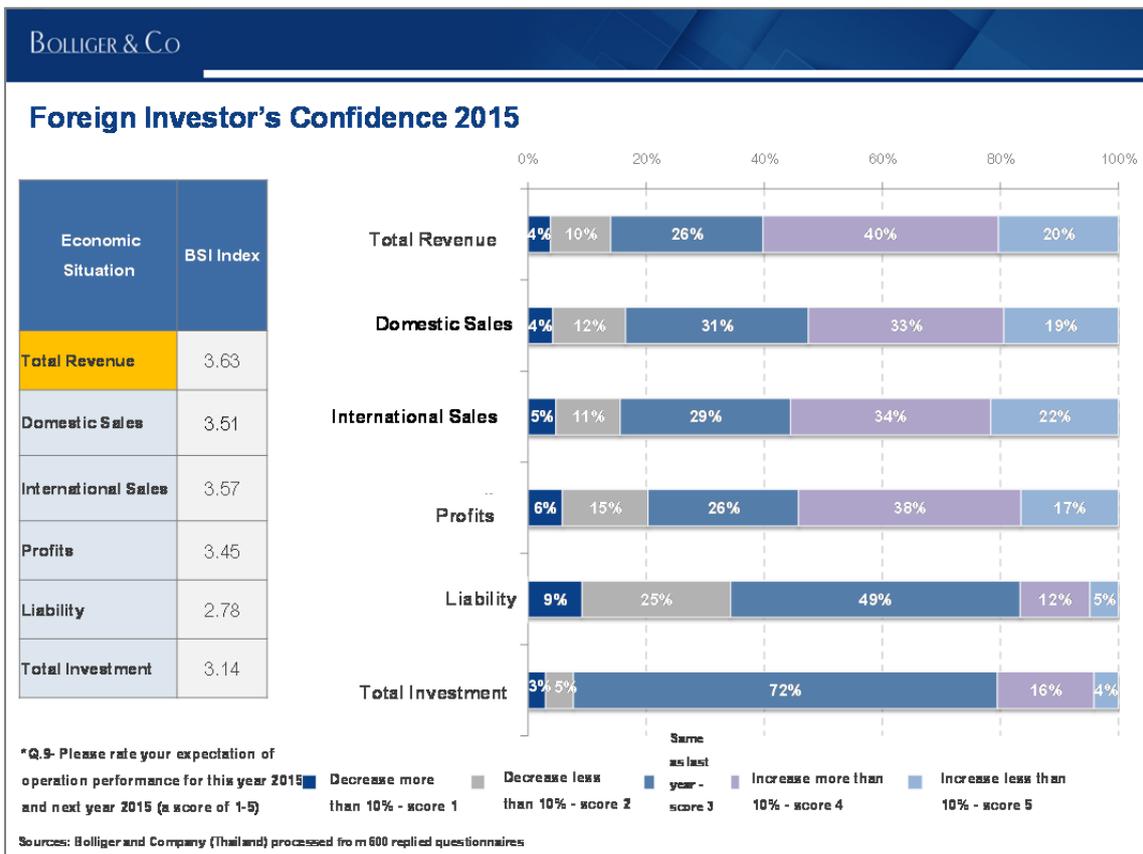
- International sales
- Profits
- Liability
- Total investment

The BSI Index can be interpreted as follows.

- If the BSI is equal to 50.00, then foreign investment confidence remains unchanged from the previous period.
- If the BSI is greater than 50.00, then foreign investment confidence has improved from the previous period.
- If the BSI is less than 50.00, then foreign investment confidence has worsened from the previous period.

The result, as shown in Figure 1, reveal that foreign investors believe their total revenue, revenue from domestic sales, revenue from international market sales, profits, and total investment in 2015 would increase from those in 2014. As for liability, they believe that it would decrease from the previous year.

Figure 1 Confidence of Foreign Investors in 2015



5. Supportive Investment Factors in Thailand and Abroad

Most foreign investors considered the investment climate in Thailand to be positive and the factors that are most supportive for the year 2015 are

- Availability of suppliers
- Availability of raw materials / parts
- Overall infrastructure
- Privileges from Free Trade Agreements (FTA)
- Transportation and logistics system

Comparing the results of 2015 with those of 2014, it appears that the scores of almost all supportive investment factors in 2015 are greater than 2014, except stability of the domestic economy, and transportation and logistics system.

With respect to the scores of supportive investment factors in ASEAN countries, Thailand is ranked 1st as the country most supporting of foreign investment,

followed by Malaysia and Indonesia. In contrast, Brunei, Laos, and Cambodia are considered as countries with least supporting factors.

6. Satisfaction of Foreign Investors with the BOI's New Seven-Year Investment Promotion Strategy (2015-2021)

The new seven-year investment promotion strategy (2015-2021) of BOI can be divided into 2 main topics which are

1) New Investment Promotion Policies

- Promote investment that helps enhance national competitiveness
- Promote activities that are environment-friendly
- Promote clusters
- Promote investment in border provinces in Southern Thailand
- Promote special economic zones
- Promote Thai overseas investment

2) New Investment Incentives

- Activity-based Incentives
- Merit-based Incentives

In general, 41% of foreign investors are aware of this new strategy and agree with new investment promotion policies. Top three investment promotion policies that are most agreeable are those which promote environment-friendly activities, investment that helps enhance national competitiveness, and Thai overseas investment, respectively.

Most of those foreign investors are satisfied with BOI's new seven-year investment promotion strategy. Supportive investment promotion, sufficient investment incentives, and sufficient benefit from the new strategy are expressed as main reasons for satisfaction.

On the other hand, foreign investors who are not satisfied with this investment promotion strategy say that the new promotion strategy insufficient investment incentive, insufficient benefit from the new strategy, and unsupportive investment promotion.

7. Investment Plan in Special Economic Development Zone

Foreign investors were asked about their plans for investing in special economic development zones which are being developed in 5 provinces: Tak, Mukdahan, Sa Kaeo, Trat, and Song Kha. Overall, 26 out of 600 investors (4.3%) intend to invest in those special economic development zones. Tak receives the largest extent of interest with 9 investors being interested in interesting in such province. This is followed by Sa Kaeo (8), Song kha (3), Trat (3) and Mukdahan (1).

8. Importance of Thai Government Policies and BOI Measures

Foreign investors were asked to provide their opinion on the importance of government policies and the BOI measures that help in establishing good environment for investment. These measures include:

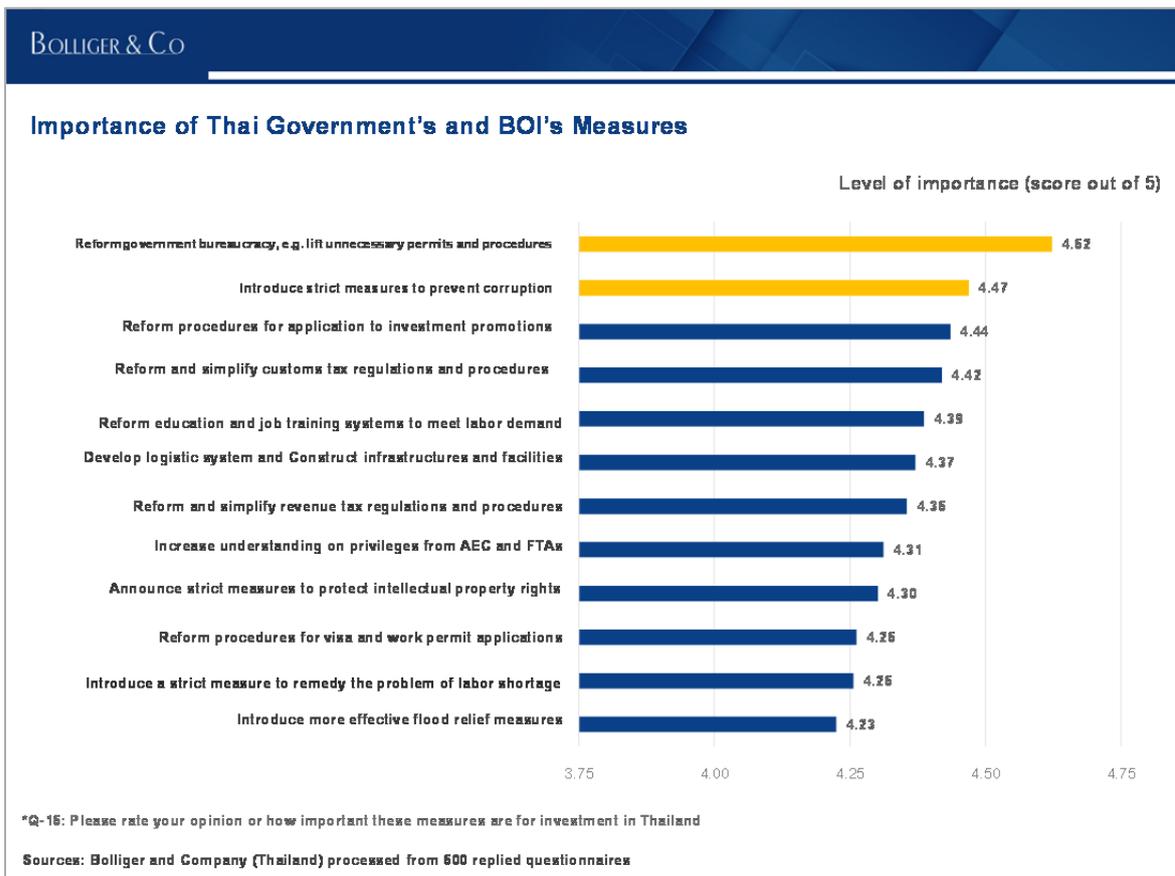
- Reform government bureaucracy, e.g. lift unnecessary permits and procedures
- Announce strict measures to protect intellectual property rights
- Reform education and job training systems to meet labor demand
- Introduce a strict measure to remedy the problem of labor shortage
- Introduce strict measures and enforce it rigorously in order to prevent corruption
- Introduce more effective flood relief measures
- Reform and simplify revenue tax regulations and procedures

- Reform and simplify customs tax regulations and procedures
- Reform procedures for application to investment promotions
- Reform procedures for visa and work permit applications
- Increase understanding on privileges from AEC and FTAs
- Develop logistic system and Construct infrastructures and facilities

The survey shows that most foreign investors believe that all these measures are important. The most important government policy is reforming government bureaucracy, e.g. lift unnecessary permits and procedures, followed by introducing strict measures and enforcing it rigorously in order to prevent corruption, and reforming procedures for application to investment promotions. On the other hand, the least important measure is to introduce more effective flood relief measures.

The average score of each measure is shown in Figure 2.

Figure 2 Important of Thai Government's and BOI's Measures



9. Satisfaction of Foreign Investors with the Services Obtained from the BOI

In general, foreign investors are satisfied with BOI services. The service with the highest satisfaction score is BOI Incentives, followed by the one-stop service center for visas and work permits, and the One-Start-One-Stop investment center (OSOS) respectively. The service with the lowest satisfaction score is speed of BOI's services.

So far as satisfaction with the BOI staff is concerned, it is found that most foreign investors are highly satisfied with the quality of services provided by BOI staff. Foreign investors are most satisfied with the integrity of BOI staff. In contrast, the service least satisfactory for foreign investors is responses and explanations from BOI staff.

10. In-Depth Interviews

Bolliger and Company (Thailand) Ltd. designated 25 out of 600 companies that had completed the questionnaire to undergo in-depth interviews. The topics covered in the interviews included:

- Topic 1 : Political Stability and Government Policies
- Topic 2 : Economic Factors
- Topic 3 : Measures and Services of the BOI
- Topic 4 : Integration into the ASEAN Economic Community (AEC)
- Topic 5 : Free Trade Agreements (FTAs)

The summary of each topic is as follows.

10.1. Political Stability and Government Policies

Most investors, specifically Japanese investors, view that political situation under the National Council for Peace and Order (NCPO) does not have negative effects on their investment plan in Thailand. However, some investors who used to experience negative effects from the past political events still feel unsafe when deciding some investment plans.

10.2. Economic Factors

Most foreign companies say that economic factors in Thailand do not affect their overall operation because of their revenue sourcing from abroad. Then, the actual concern for their operations should be the fluctuation of exchange rate and the cost of raw materials imported from overseas. As for infrastructure in Thailand, they agree that it is adequate and is of good quality.

Regarding Thailand's minimum wage (300 baht), investors who employ unskilled labor are directly affected by this policy causing high cost of production. Moreover, some investors experience the mismatch between the demand for and supply of Thai labor, including low quality of Thai labor force.

Regarding exchange rate, it is found that this issue has affected companies whose business depends on international markets. The exchange rate can directly affect production cost and companies' revenue.

10.3. Measures and Services of the BOI

Most foreign investors view that the new seven-year investment promotion strategy does not provide much incentive compared with the old strategy. They point out that the incentive for investing in special economic development zones is still low when comparing with the cost of setting up a factory in such zones.

Most companies currently promoted by the BOI are satisfied with the BOI's incentives and measures, including the services providing by the BOI's staff. However, a number of investors also commented that responses and explanations from the BOI staff are, at times, uncertain. Another problem is the inability to contact staff when they need to contact them urgently via phone.

Many investors agree however that there has been an improvement in speed of BOI's services, such as stamping Visas and issuing work permit licenses.

10.4. Integration into the ASEAN Economic Community (AEC)

Most of the interviewed investors perceive that the integration into the ASEAN Economic Community (AEC) will not have significant impact on companies. This is because major revenue sourcing is from either domestic market or outside ASEAN. Moreover, most companies are currently promoted by the BOI; therefore, they could not hire foreign labor exceeding the BOI specifications.

It is viewed that communication skill in English language is the main problem obstructing the competitiveness of Thailand. Notwithstanding this deficiency, foreign investors believe that the AEC is more of an opportunity than a threat, and have a positive attitude towards this regional integration.

The benefits that could arise from the AEC are, for example:

- Opportunity to use Thailand as a production base for business operations in ASEAN

- Opportunity for market expansion
- Convenience in coordinating with customers/prospective clients/business partners abroad
- Tax privilege

On the other hand, some costs that might occur are:

- Higher competition in an expanded labor market
- Possibility that Thailand's attractiveness as a production base may be lost to neighboring countries

As far as the attractiveness of AEC countries as an investment destination is concerned, Myanmar is mentioned as the most appealing country. The main reasons are its relatively natural resources, market potential, low wages, and labor potential. Vietnam and Indonesia are also considered attractive as well.

10.5. Free Trade Agreements (FTAs)

For international trade negotiations, there are 2 types of investors related to this issue. These are companies not utilizing FTAs and companies utilizing FTAs.

For companies not utilizing FTAs, their production depends on orders from a parent company only. Then, they do not have to operate or plan to utilize any tax privilege from FTAs.

Turning to consider another type of investor, companies utilizing FTAs, they view FTAs support their exporting values. Therefore, the government should pursue more FTA negotiations between Thailand and other trade countries in order to affect the Thai economy in a positive manner and bring about opportunities to expand the market.