

# Study and Analysis of Foreign Investor Confidence in Thailand 2011



## Summary Report



**THAILAND BOARD OF INVESTMENT**



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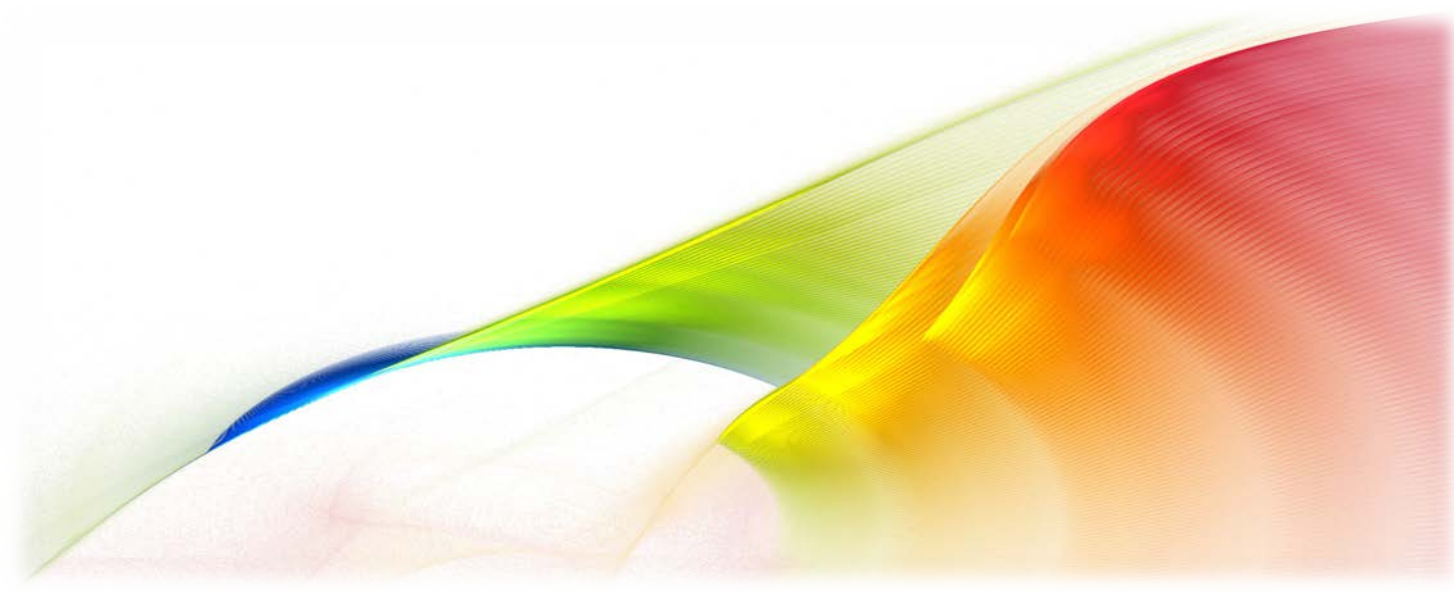
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## Executive Summary

For the 2011 study and analysis of foreign investor confidence in Thailand, the advisory team distributed questionnaires to 4,000 companies with at least a 20% foreign shareholding proportion in February 2011, including both those receiving and not receiving investment promotions. The questionnaire was completed and submitted by 404 respondents, exceeding initial expectations of about 400. The quantitative study was further enhanced by including in-depth interviews with 30 foreign investors in order to obtain additional, in-depth information.

### Foreign Investor Confidence Levels in Thailand

Overall analysis of the investment factors that foreign investors reviewed for 2010 indicates that Thailand remains a viable investment destination due to its readiness in basic factors, in terms of geography, residency costs, infrastructure, rates and quality of unskilled and skilled labour, investment incentives from the Board of Investment of Thailand (BOI) and other Government support measures. Such factors boosted investor confidence and resulted in an expansion of investment in 2010. Significant factors that adversely affected investment decisions may be due to internal problems directly related to Government operations, which include Government stability, economic security, political and investment policies, as well as transparency in Government practices. If reconciliation cannot be achieved within the cabinet, adverse effects to investor confidence will surely be the likely outcome.

### Operations Plan in 2010-2011 (Short-term Plan)

The direction of foreign investment in Thailand is forecast in the short term (one year) to have a positive rather than a negative outlook for all types of businesses. Most foreign investors intend to maintain their investment policies to at least current levels. Since foreign investors stated that businesses under their supervision were likely to expand, the direction of investment in Thailand should have a better outlook for the near future.

However, it is important that Thailand take precautions in government administration in order to keep peace and order. The Thai Government must have a clear working policy and transparent practices. Reconciliation within the Nation must also be emphasized in order for confidence to return. Political differences appear to be an internal problem, difficult to resolve within one administration's term, especially since the new Government only recently took over. As such, investors are particularly concerned over the trading and

investment policies of the new Government, and are keeping their eyes open while waiting for the outcome as to whether these policies will be favourable to or impede their operations, and which business types will suffer most from the impacts.

### Operations Plan in 2011 and 2013 (Long-term Plan)

Analysis of the long-term investment outlook (next three years) found that foreign investors are of the opinion that Thailand will not undergo significant change, as investors are still cautious and not very confident in expanding investment. It will also take time to assess the new Government. All parties expect to uphold peace and order within the country and within the cabinet so that everyone can resume work as usual.

However, foreign investors are beginning to be concerned over the wage issue. While neighbouring countries like China, Vietnam and India have a favourable outlook towards investment, if the Government cannot define proper wages for skilled and unskilled labour, where quality justifies wages, decisions to expand investment in Thailand will certainly be affected. Neighbouring countries also seem to have the edge in terms of business communications. Therefore, human resource development for the skilled workforce must place the emphasis on communications and resolution of language barriers in order to encourage foreigners to work with Thai workers more effectively.

### Thailand's Present Level of Competitiveness

From the analysis of investment factors, foreign investors prioritized and reviewed their decision to expand or maintain the same proportion of investment, or to move production to another country, based on Thailand's ability to maintain higher levels of confidence in many key areas compared to neighbouring ASEAN countries, especially its high potential competitors: China, Vietnam and India. The factors that foreign investors feel more confident about in Thailand compared to competing countries are as follows

1. **Production Inputs:** Comparing the overall picture of competition between Thailand and neighbouring ASEAN countries (Indonesia, Malaysia, Philippines and Vietnam), basic factors regarding geography, and "land ownership," are the main aspects that foreign investors consider as being more favourable in Thailand than in neighbouring countries. This gives Thailand the advantage of being the production base for many businesses. Vietnam gains the advantage in skilled labour wages over Thailand. Nevertheless, China gains advantage over Thailand in terms of sufficiency of production inputs and production costs, while India gains advantage in unskilled



labour in terms of wages and available workforce.

2. **Sources of Funding:** These include raising capital in the stock market, access to domestic sources of loans, production costs and residency costs. Thailand is seen as better than its ASEAN competitors in almost every aspect. However, Malaysia is considered Thailand's main rival in terms of access to domestic sources of loans, while Thailand ranks higher than non-ASEAN competitors such as China and India in all aspects.
3. **Economic Conditions:** Malaysia is considered as Thailand's main rival in terms of access to sources of loans and inflation rates, where it appears to be better controlled than in Thailand. In terms of market demand and better exchange rates, Thailand's major contenders are China and India.
4. **Basic Infrastructure:** Malaysia has the greater potential in almost all aspects of basic infrastructure. Compared to non-ASEAN countries, Thailand rates better than China and India in all aspects.
5. **Rules / Regulations:** Malaysia and China are competitors that clearly have advantage over Thailand in terms of transparency and coherency of government policies.

### **Satisfaction with Services Provided by the Board of Investment of Thailand (BOI)**

Investors from western countries, including France, North America and Europe, have utilised services provided by the BOI more often than have investors from ASEAN.

The satisfaction of foreign investors has decreased apparently in every aspects of services provided by BOI, including speed of service, one-stop servicing and investment promotion incentives. Furthermore, foreign investors's satisfaction of the factors in every aspects have decreased more than 10% when comparing to the year 2010, especially speed of service, where less than half (42.1%) were satisfied.

As to the question of guidelines/directions/measures that foreign investors would like the BOI to implement, in order to gain benefits in the investment sector and better overall turnover, corporate income tax exemptions were, ranked number 1 by investors at 45.0%, while 78.9% ranked it among their top 3 requirements.

## Chapter 1

### General Information

#### 1.1 Objectives

The study and analysis of foreign investor confidence in Thailand is a programme that the BOI has been continually conducting over the years, with the objective of surveying investor confidence in the current situation in Thailand, establishing short-term investment plans, and formulating the requirements of various BOI services. This information serves as the basis for reviewing the policy of investment promotion and related measures and to promote a positive investment atmosphere.

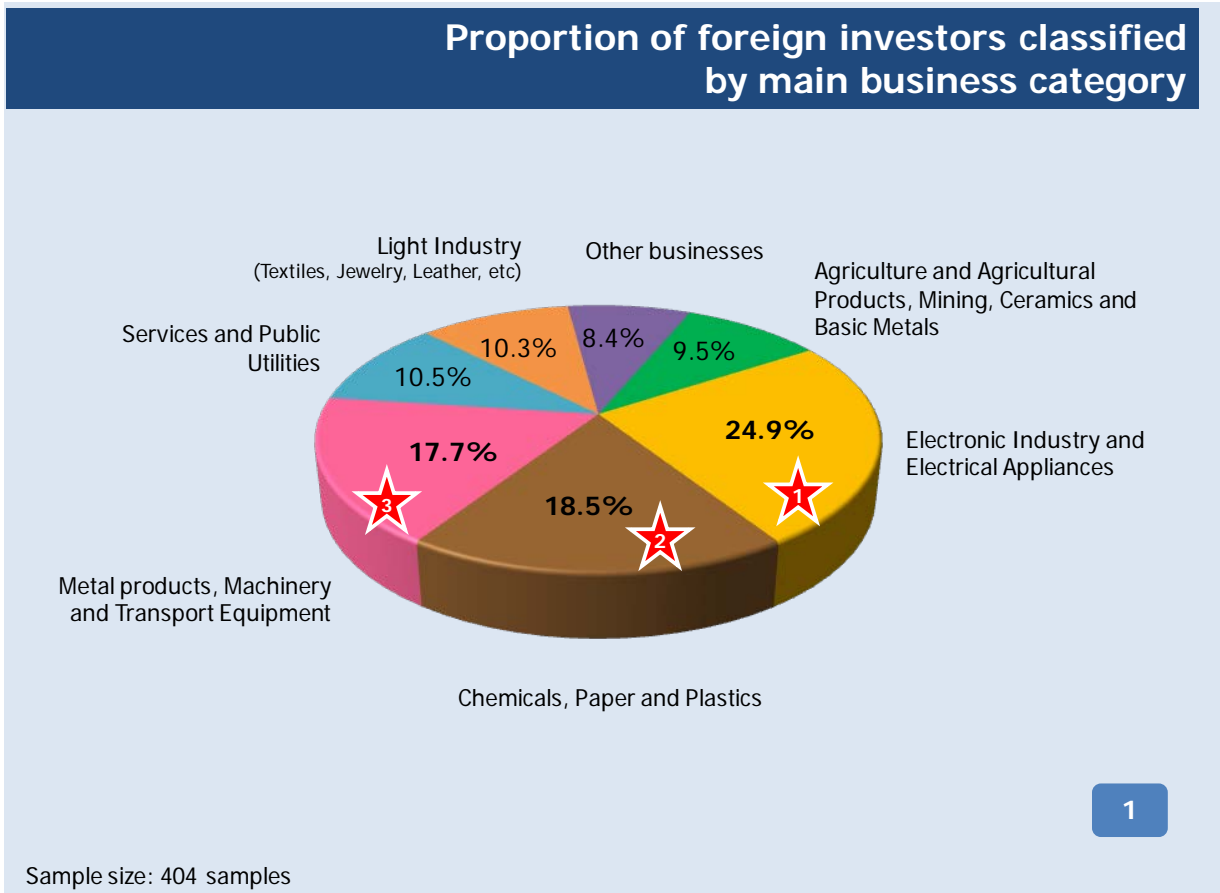
#### 1.2 Data collection

The study and analysis of foreign investor confidence in Thailand in 2011 consists of information obtained from 404 companies with at least a 20% shareholder proportion in foreign investment. This number represents 10.1% of the 4,000 entrepreneurs who were sent the questionnaire. Aside from the quantitative survey of foreign investors, this study also includes in-depth interviews with 30 foreign investors.

#### 1.3 Company status

Of those who answered the questionnaires, the top three investor sectors are investors from the Electronic Industry and Electrical Appliances (24.9%), followed by the Chemicals, Paper and Plastics Industry (18.5%), and from the Metal Products, Machinery and Transport Equipment Industry (17.7%). The rest are investors from other industries, accounting for 10%. Most are BOI promoted foreign investors, accounting for 85% of those who answered the questionnaires.

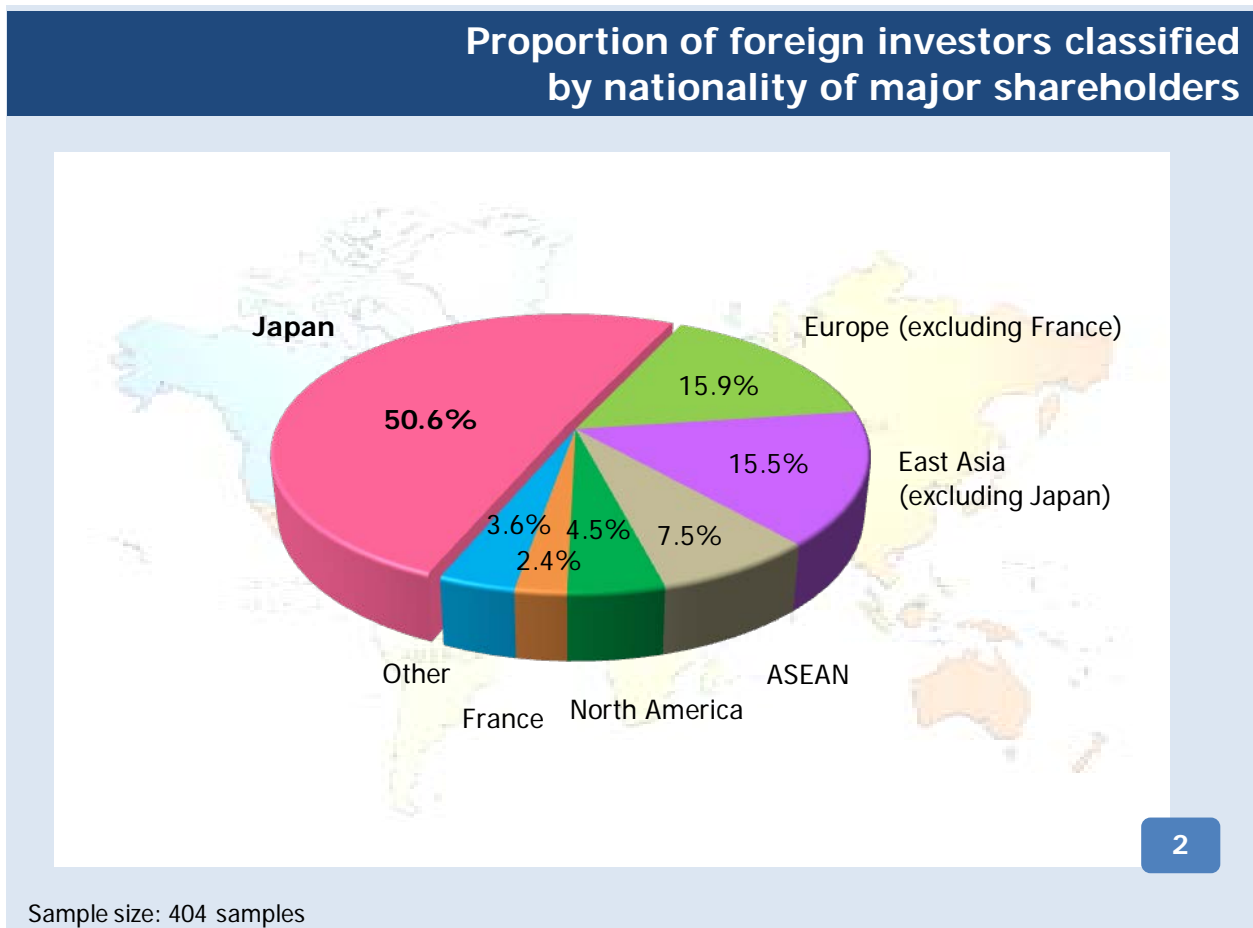
Figure 1: Proportion of foreign investors classified by main business category.



### 1.4 Nationality of Major Foreign Investors

Most of the foreign investors who responded to the questionnaire were promoted by the BOI, and the majority of those who provided information were Japanese investors. Although data collection was performed during the period after the natural disaster in Japan, Japanese shareholding investors responded in a proportion many times higher than those from other countries, i.e. 50.6% of those who answered the questionnaires.

Figure 2: Proportion of foreign investors classified by nationality of major shareholders.

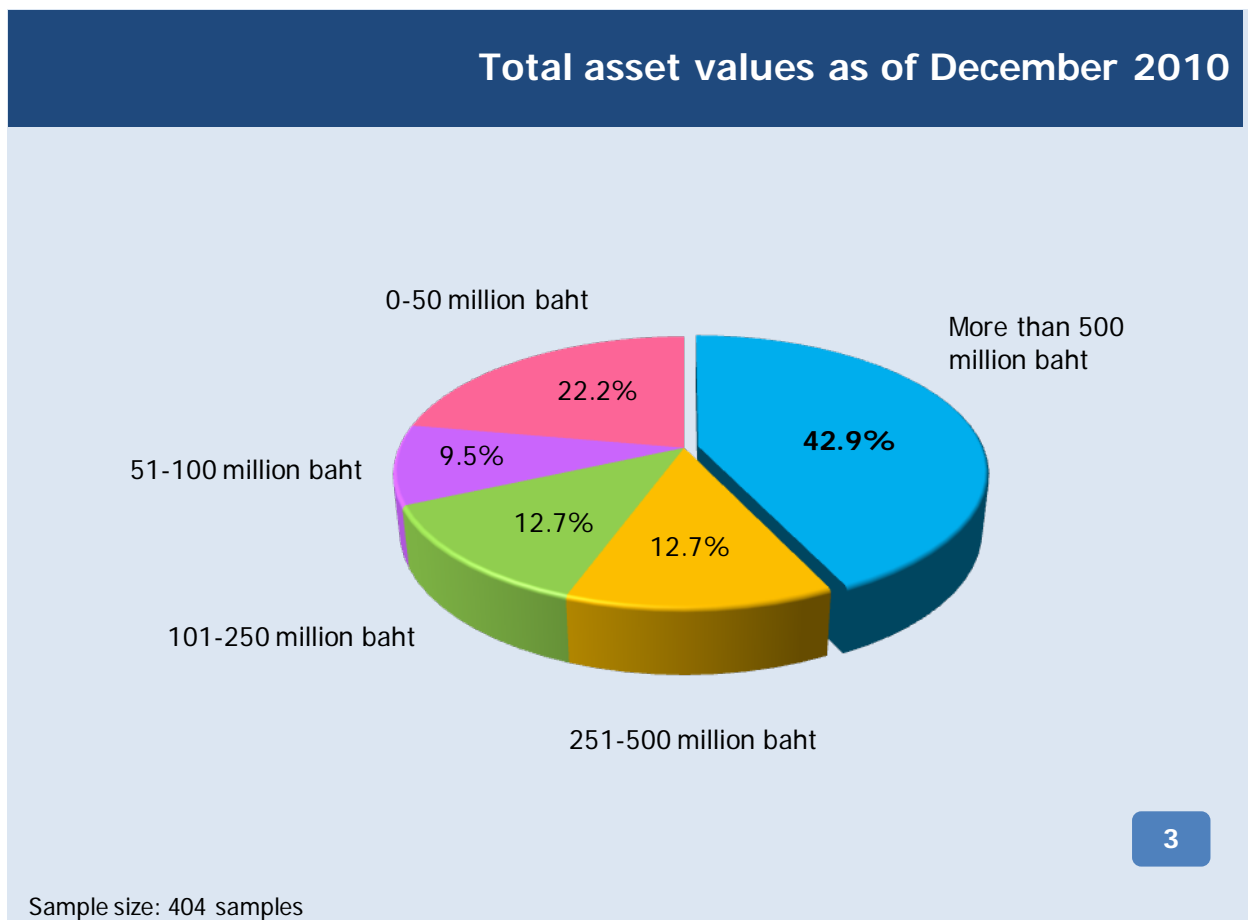


## 1.5 Company performance in 2010

### 1.5.1 Company total asset value

The group of foreign investors with total assets worth more than 500 million baht comprises 42.90% of those who answered the questionnaire. The other foreign investors stated that their total asset value was 0-50 million baht (22.2%), 101-250 million baht and 251-500 million baht (both 12.7%). Foreign investors having a total asset value between 51-100 million baht represent only 9.5%.

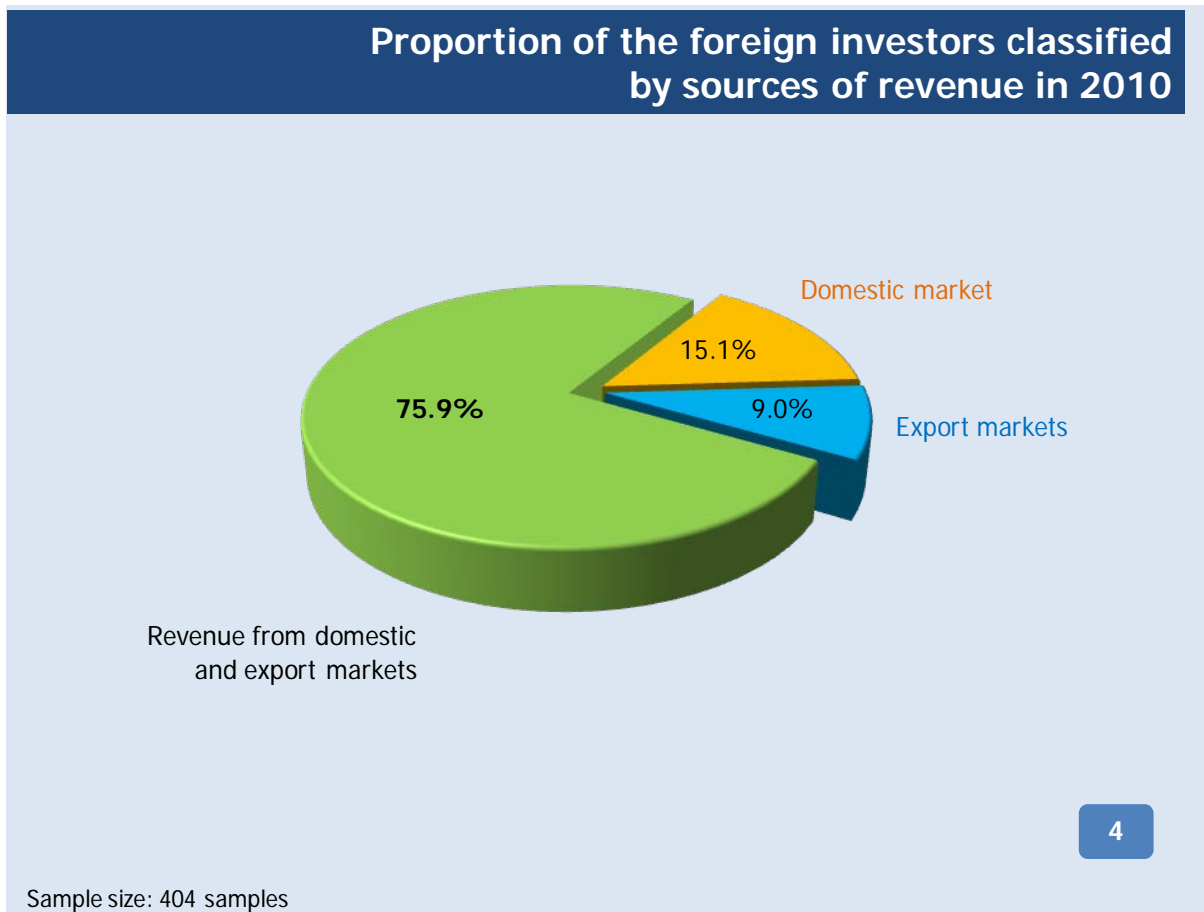
Figure 3: Total asset values as of December 2010.



### 1.5.2 Sources of revenue from sales

Three quarters of foreign investors (75.9%) earn revenues from operations in both domestic and overseas markets, whereas 15.1% of foreign investors operating in Thailand earn their income from the domestic market, with another 9% are investors earning income mainly from overseas markets. Details are shown in the diagram below:

Figure 4: Proportion of the foreign investors classified by sources of revenue in 2010



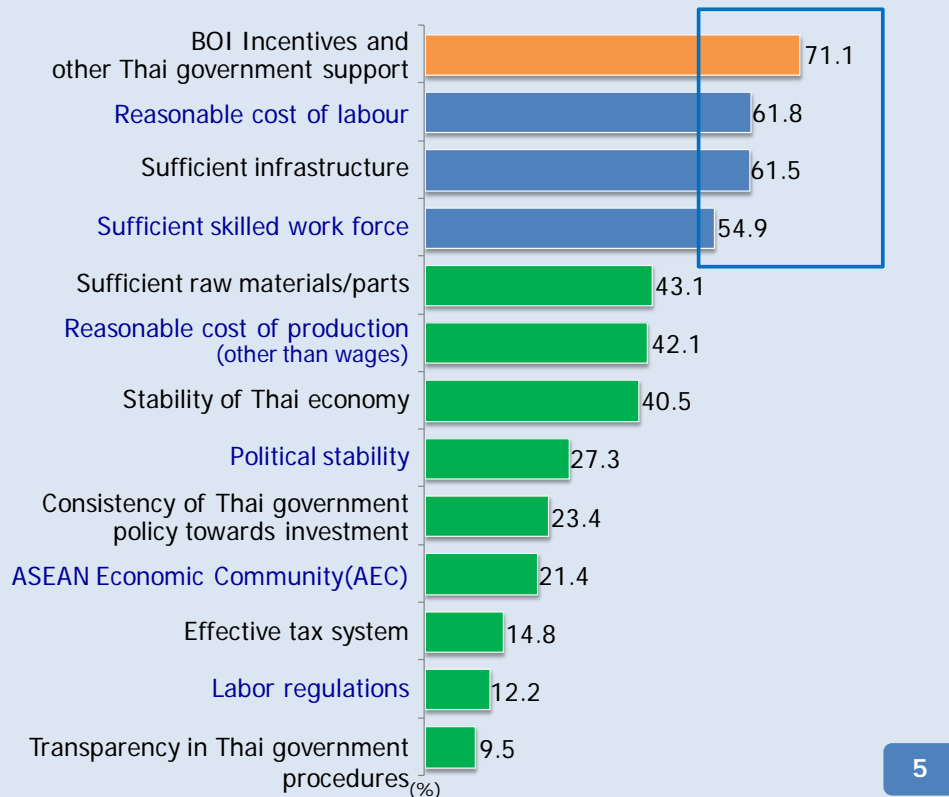
## Chapter 2 Influences and Major Factors Affecting Investor Confidence

### 2.1 Major factors affecting decisions of foreign investors in Thailand

Considering the major factors that a number of foreign investors (171 investors) indicated in their replies, in terms of frequency, most foreign investors perceive incentives from the BOI and other Government support measures as the most important factors contributing to business operations and investment in Thailand. These factors account for 71.1%. Details are illustrated in the following chart:

Figure 5: Importance of factors contributing to business operations and investment in Thailand (total)

### Importance of factors contributing to business operations and investment in Thailand (total)



Sample size: 404 samples

Foreign investors stated that incentives provided by the BOI and other Government support measures are the major factors influencing their investment decisions. These are investors located in Investment Area 2 and Investment Area 3. Details are illustrated in the table below:

Table 1: Proportion of foreign investors

Major factors influencing decisions	Overall (%)	Investor group
Incentives from BOI	71.1	Investment Area 3 (83.7%) Investment Area 2 (77.2%)
Reasonable wages	61.8	Investment Area 3 (74.4%)

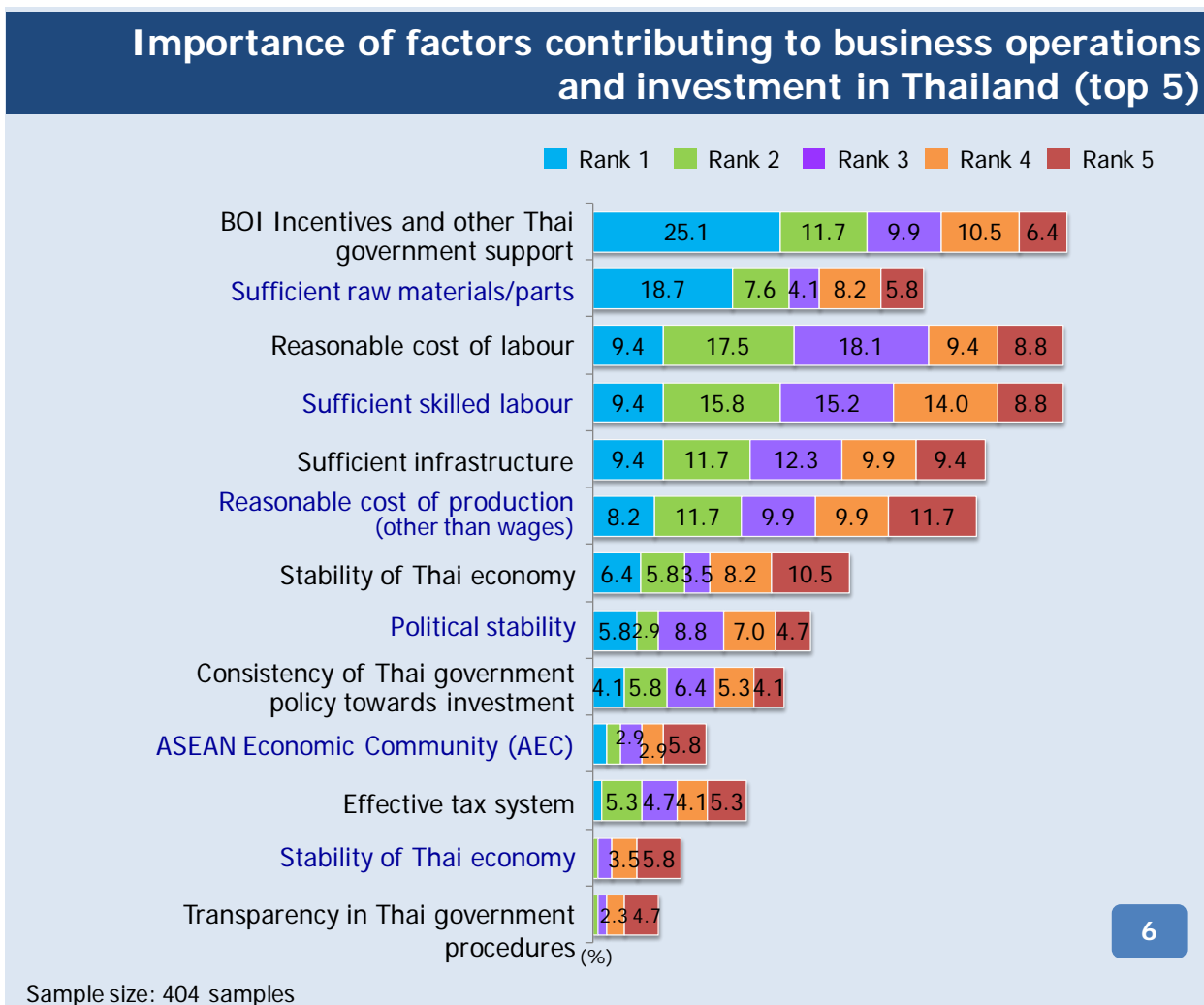


Sufficient basic infrastructure	61.5	Investment Area 2 (62.2%) Metal Products Industry (77.2%) Electronics Industry (75.7%)
Sufficient skilled labour	54.9	Investment Area 3 (55.8%) Electronics Industry (60%) Chemical Products Industry (60%)
Sufficient raw materials/parts	43.1	Investment Area 3 (46.5%) Chemical Products Industry (52%)

Note: Displays only those factors where investors indicated more than 30%.

From the foreign investor survey regarding major factors influencing decisions on business operations in Thailand in 2010, the most important factor (number 1) that foreign investors indicated as influencing their contributions to business operations and investment in Thailand are: ❶ incentives provided by the BOI and other Government support measures (25.1%) and ❷ sufficient raw materials/parts (18.7%).

Figure 6: Importance of factors contributing to business operations and investment in Thailand (top 5)



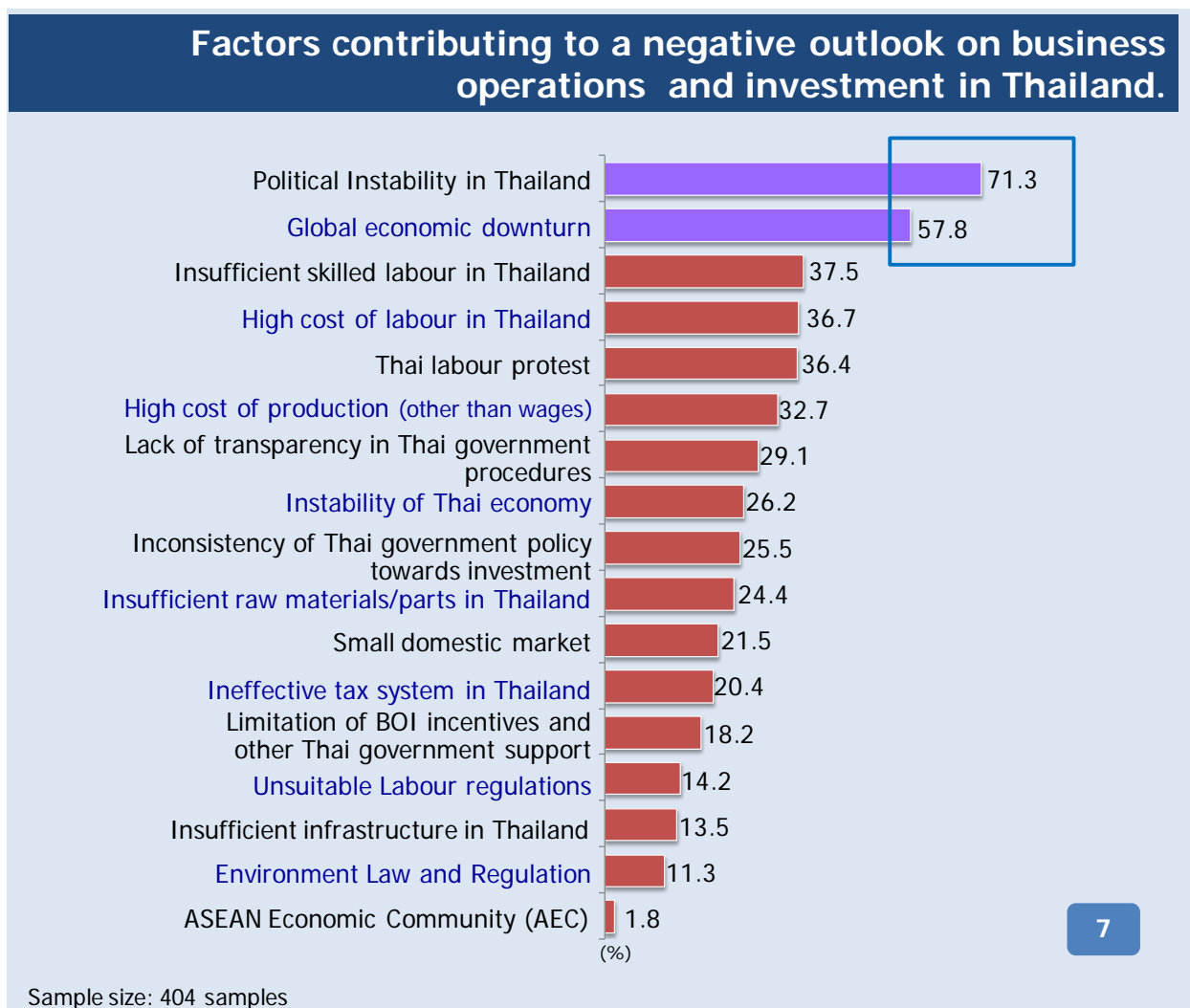
Considering the overall picture of the top 5 ranking factors (all together) that foreign investors state as major factors supporting business operations and investment in Thailand, these factors include: incentives provided by the Board of Investment of Thailand and other government support (63.6%), followed by suitable wages and sufficient skilled labour (both 63.2%), and sufficient basic infrastructure (52.7%).

## 2.2 Factors contributing to a negative outlook on business operations and investment in Thailand

The major contributing factor to a negative outlook on business operations and investment in Thailand is the unstable political situation, which affected the expansion of investment in Thailand in the past year. 71.3% of foreign investors regarded

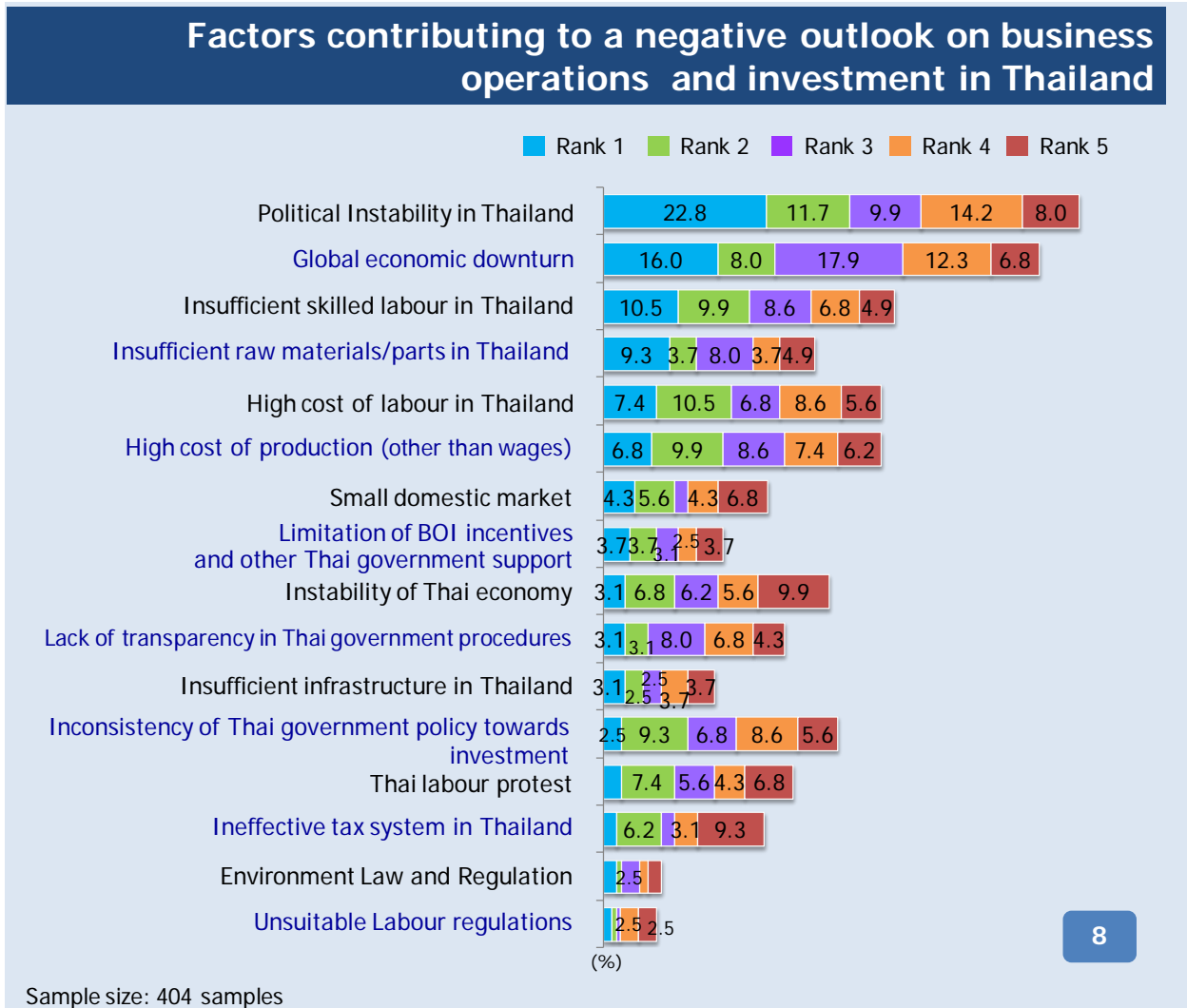
this as the most negative factor, whereas 57.8% of investors indicated the global economic recession as the major factor.

Figure 7: Factors contributing to a negative outlook on business operations and investment in Thailand.



Foreign investors indicated that the most important factors (top rank) contributing to a negative outlook on business operations and investment in Thailand are Thailand's unstable political situation (22.8%), followed by the global economic downturn (16.0%) and an insufficient skilled labour force in Thailand (10.5%). Additional details are illustrated in Figure 8.

Figure 8: Factors contributing to a negative outlook on business operations and investment in Thailand (top 5)



### Chapter 3

#### Thailand's Competitiveness Compared to Other Countries

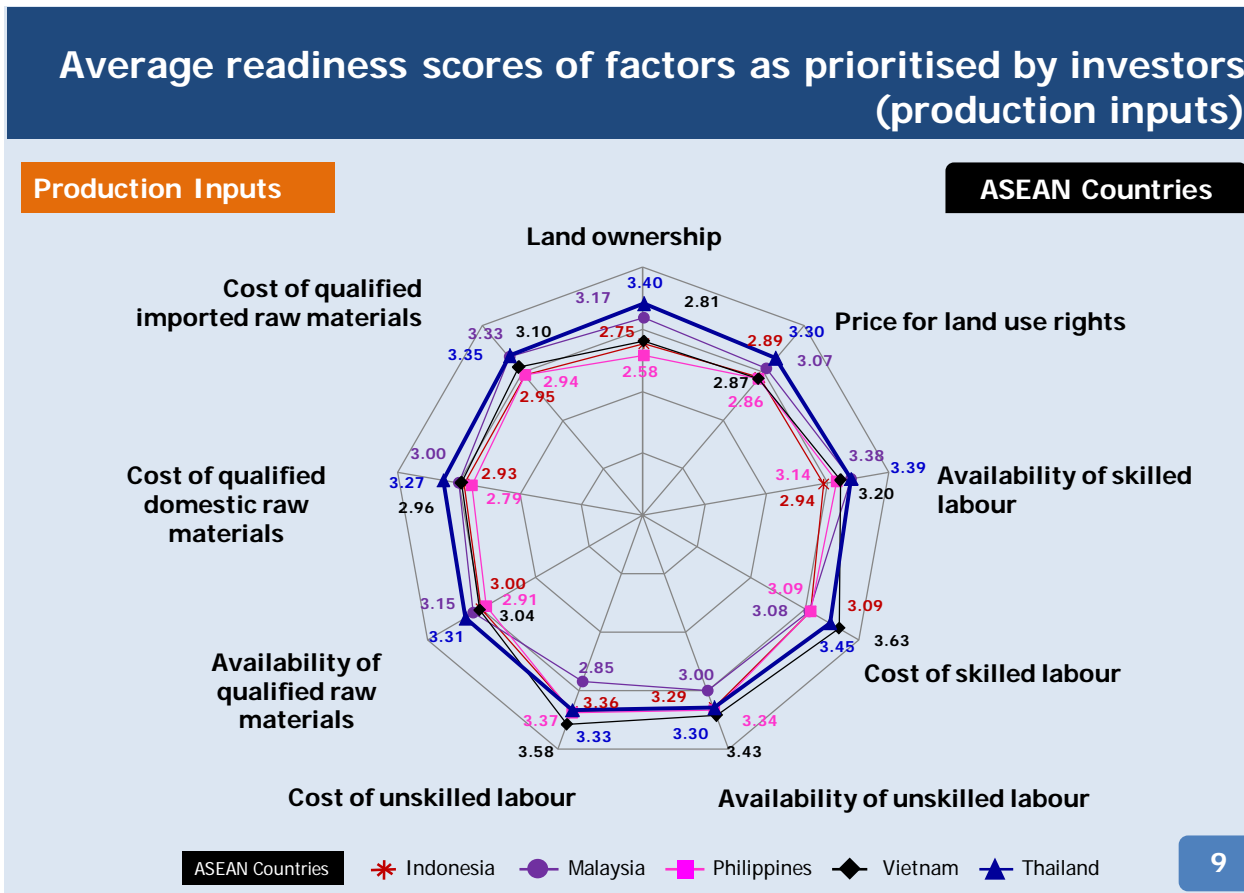
From the analysis of investment factors that foreign investors provided on their decision of expanding or maintaining the same levels of investment or moving their

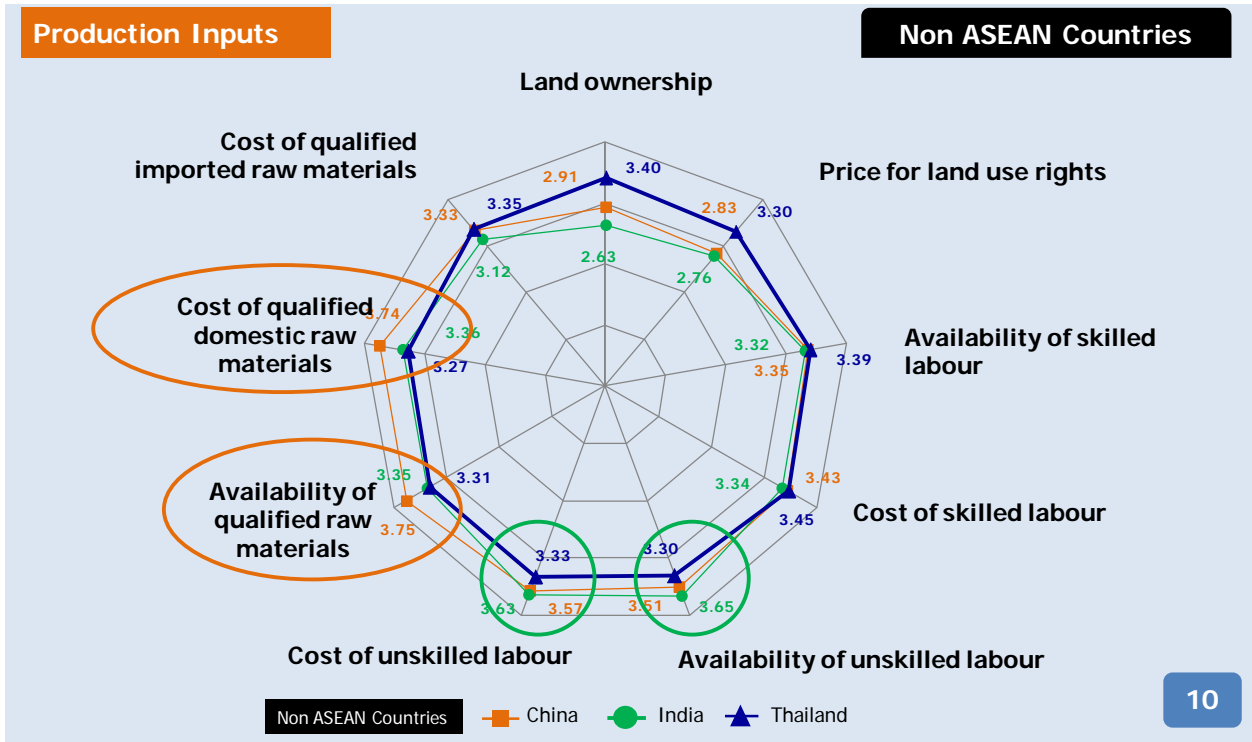
production to another country, Thailand is able to maintain a better level of confidence in many factors compared to neighbouring countries within the ASEAN region and its high potential non-ASEAN competitors: China, Vietnam, and India. Those factors that foreign investors feel more confident about in Thailand compared to competing countries are as follows:

❶ **Production Inputs:** Comparing the overall picture of competition between Thailand and ASEAN neighbouring countries (Indonesia, Malaysia, Philippines and Vietnam), basic factors regarding geography and “land ownership” are the main aspects where foreign investors consider Thailand as the better choice than neighbouring countries. This gives Thailand the advantage of being a production base for many businesses. However, Vietnam gains the advantage in wages of skilled labour over Thailand.

Comparing the overall picture of competition between Thailand and non-ASEAN countries, basic factors regarding geography and land are the main aspects where Thailand gains the advantage. Nevertheless, China has the advantage over Thailand in terms of sufficiency of production inputs and production costs, while India has the advantage in unskilled labour in terms of wages and available workforce.

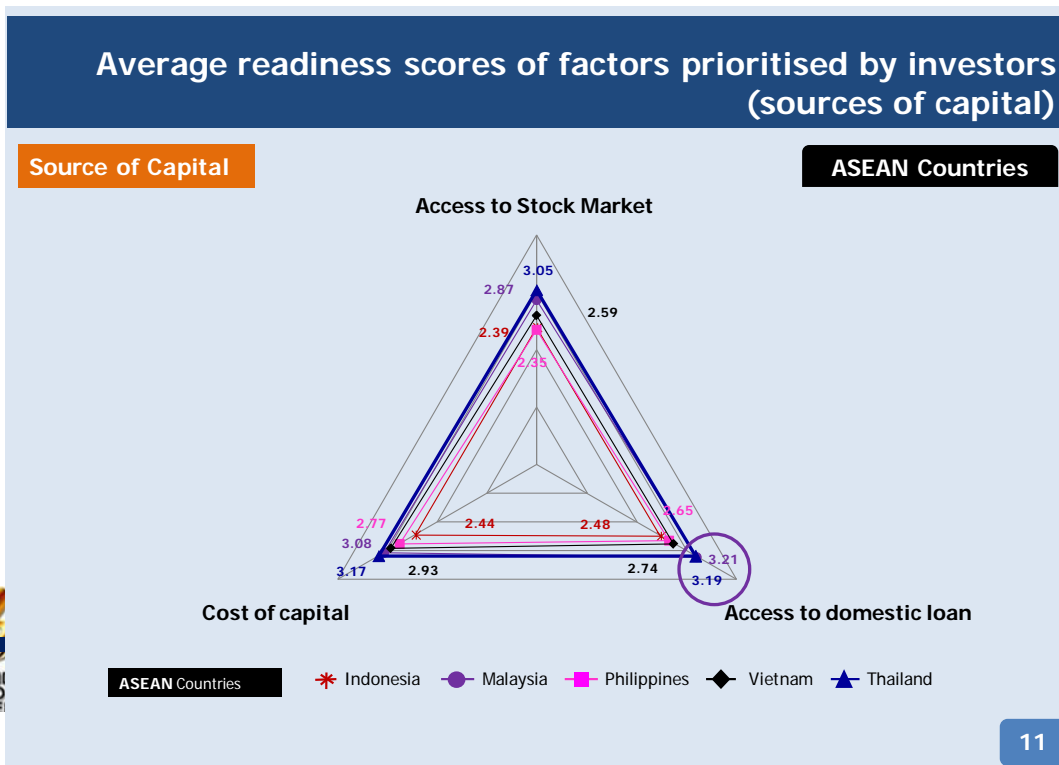
Figures 9-10: Average readiness scores of factors as prioritised by investors  
(production inputs)

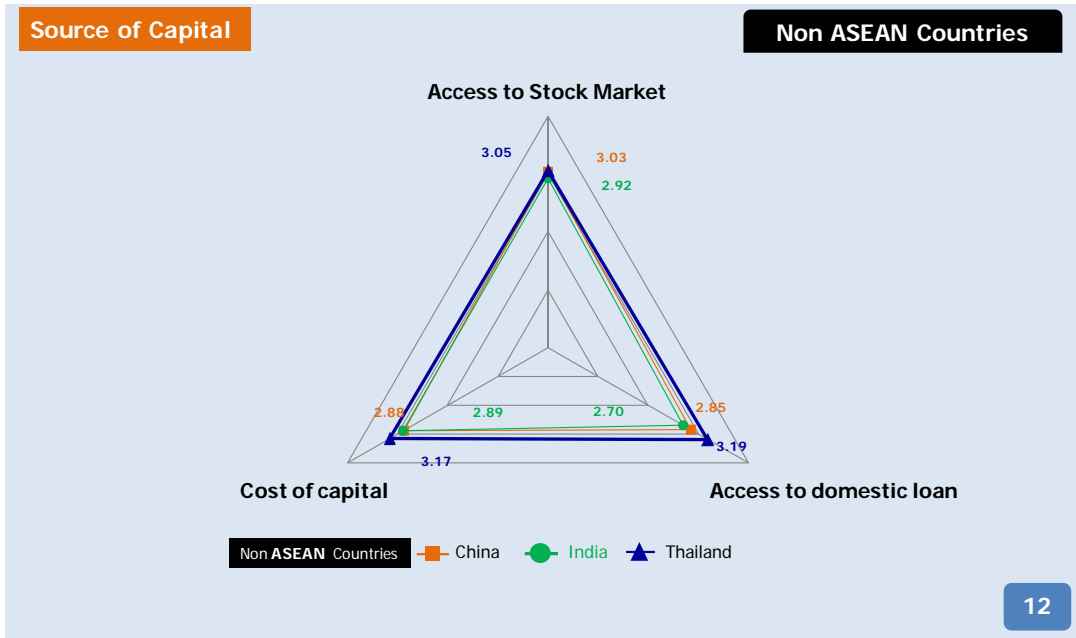




② **Factors Related to Sources of Capital:** These include raising capital in the stock market, access to domestic sources of loans, production costs and residency costs. Thailand rates better than other ASEAN competitors in almost every aspect. However, Malaysia is seen as Thailand's major contender in terms of access to domestic sources of loans, while Thailand is considered better than non-ASEAN competitors such as China and India in all aspects.

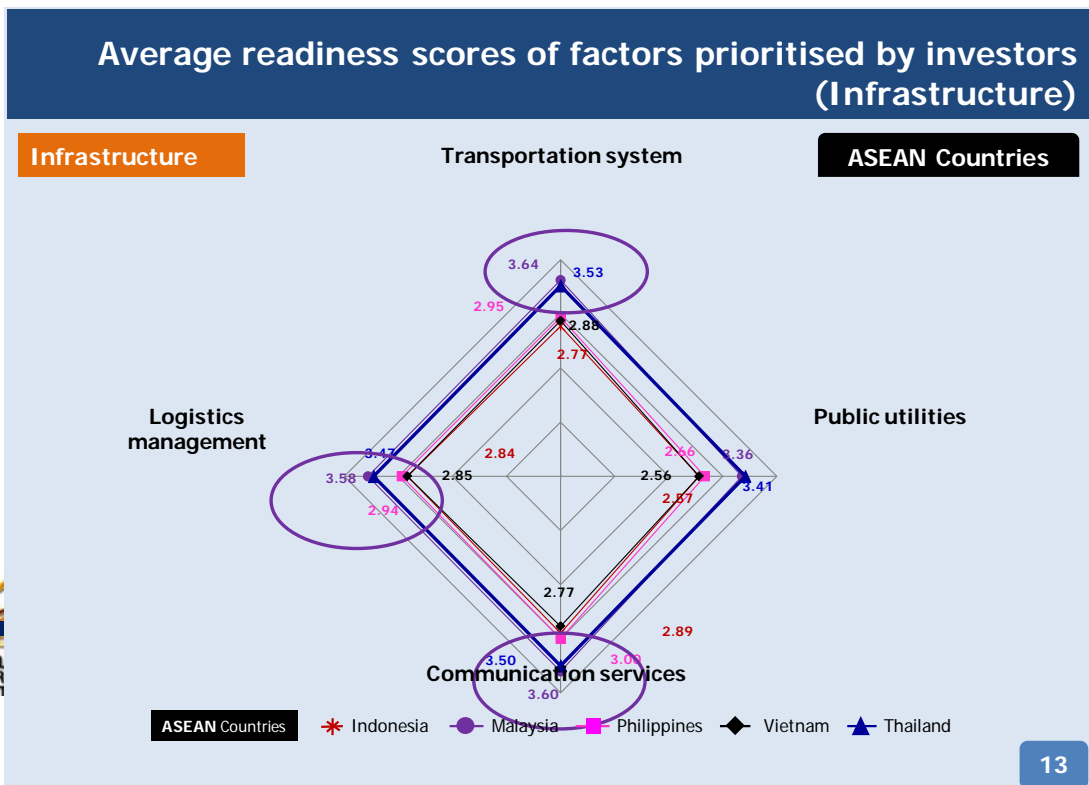
Figures 11-12: Average readiness scores of factors prioritised by investors (sources of capital)





③ **Factors Related to Basic Infrastructure:** Malaysia is considered as the competitor having a better potential than Thailand, scoring higher levels in almost all aspects of basic infrastructure. However, compared to non-ASEAN countries, Thailand is seen as better than China and India in all aspects.

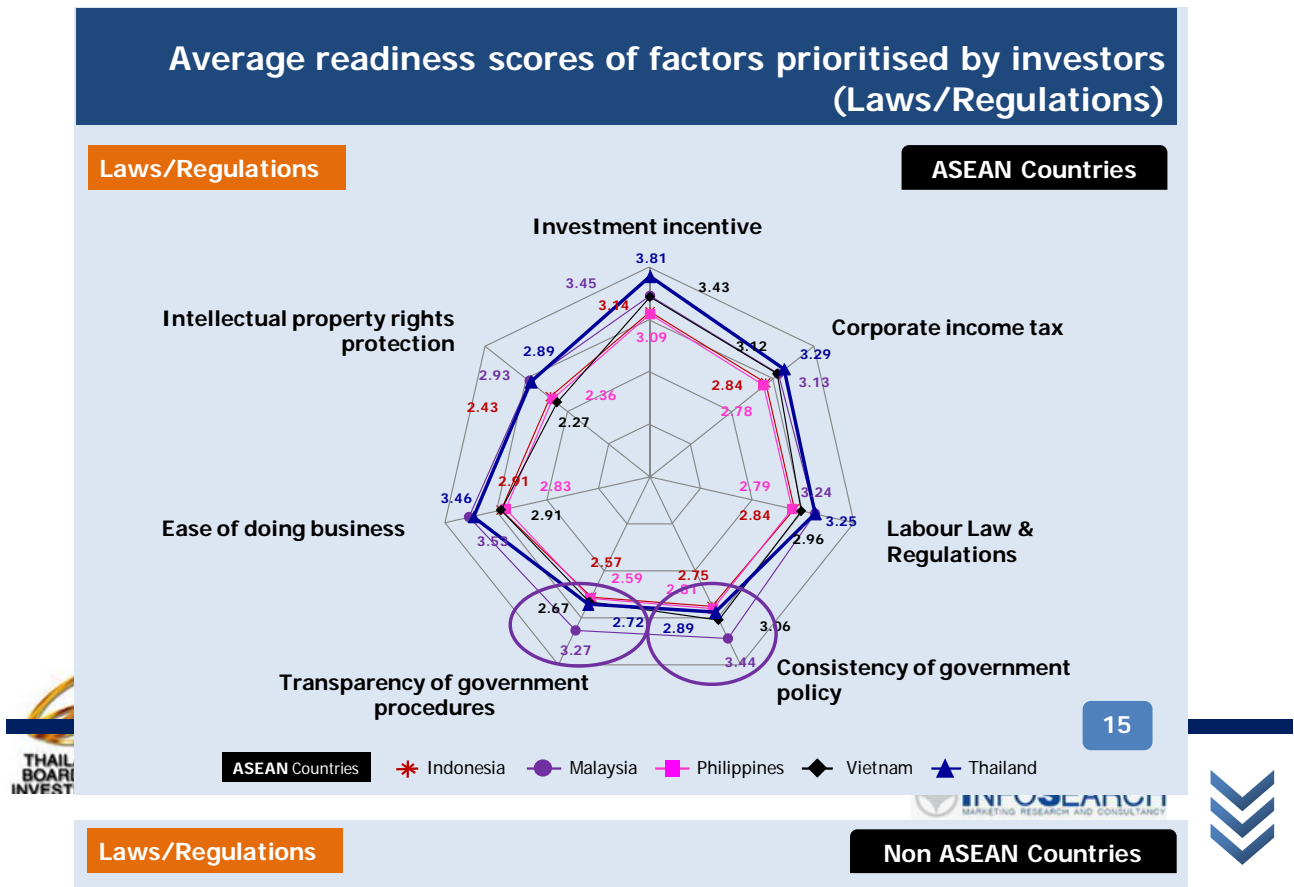
Figures 13-14: Average readiness scores of factors prioritised by investors (Infrastructure)





④ **Factors Related to Investment Promotion Policy.** Thailand and Malaysia are contenders in terms of setting up policies and investment promotion measures by the government sector. Thailand has the edge regarding investment incentives, i.e. corporate income tax and labour laws, while Malaysia has the advantage on stability of government policies, transparency of government practices, ease of doing business operations, and protection of intellectual property.

Figures 15-16: Average readiness scores of factors prioritised by investors (Laws/Regulations)



### 3.1 Thailand's Competitive Potential Compared with Other Countries

Considering factors related to production, economic conditions and basic infrastructure, initial analysis of the study revealed that ❶ China and ❷ India are the main competitors that foreign investors paid the greatest attention to, due to their considerable advantages over Thailand.

These two countries are Thailand's most important economic rivals due to their outstanding ability to meet domestic demand. Foreign investors also explained that prices of raw materials from China meet their production requirements, implying that prices of raw materials imported from China are more competitive, than in other countries. In addition, order placement is also easy due to abundant availability in China.

India is interesting in that its domestic demand is high enough to justify investment to accommodate purchase orders from local customers. And with its highly available unskilled labour force and relatively cheap wages, India is seen as more worthwhile investing in than other countries.

However, considering only the production costs arising from the wages of skilled labour, it appears conclusive that Vietnam and China are in fierce competition in this regard, while Thailand is in second position, on a par with India.

From the analysis of Thailand's readiness compared with the current competition, this analysis should be seen as a warning for the Thai Government to become more aware of the importance of ❶ quality of labour skills, ❷ labour costs, ❸ labour force support in deficient industries, and ❹ implementing measures to help foreign investors lessen the burden of increasing raw material costs due to Thailand's inflationary economic conditions. Otherwise, foreign investors will be looking for other options to lessen their labour cost burden, such as Vietnam.

It is clear that Vietnam is a formidable competitor for Thailand, especially in industries that require skilled labour in manufacturing. Vietnam's geographical location and climate are not very different from that of Thailand, but investment promotion measures developed by the Vietnamese Government truly answer the needs of foreign investors. Emphasis is made to grant incentives to investors in various industries, which will bring prosperity and better living conditions to their people, resulting in benefits for all concerned.

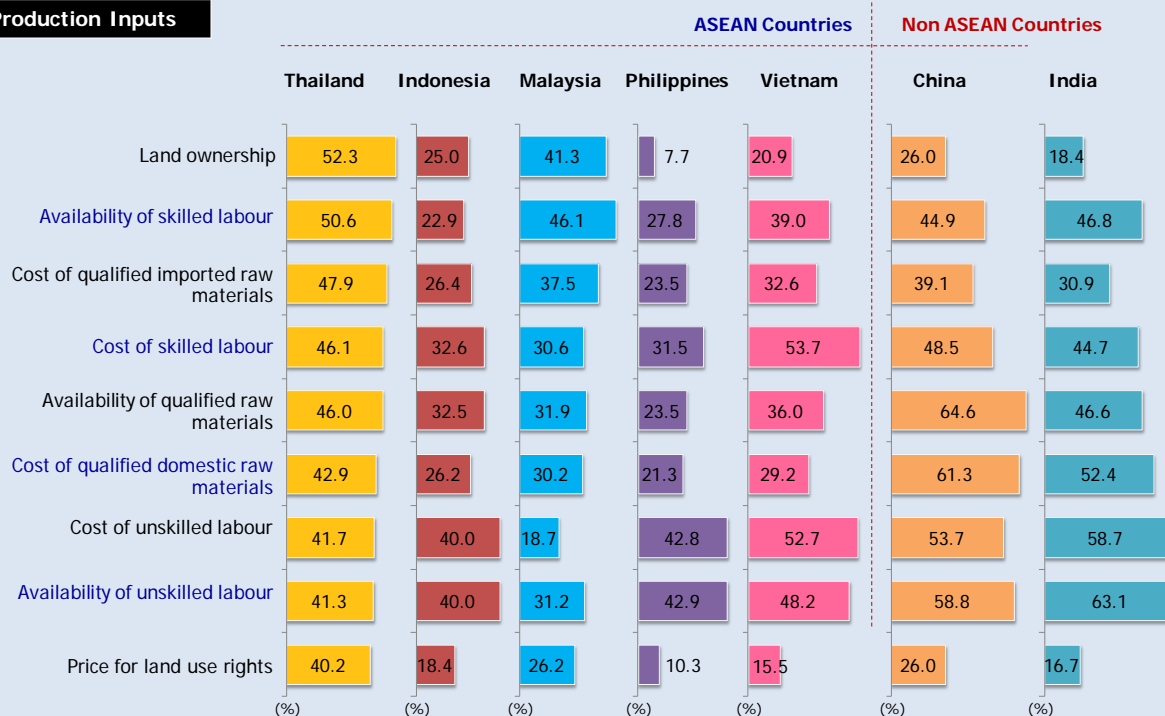
In addition, the Vietnamese Government provides more investment opportunities by opening up its country as a centre for the exhibition of products and machinery in various industries. Such activities provide a good opportunity for the country, as foreign investors will have the chance to experience the changes occurring within the country in the development of the Nation's basic infrastructure, transportation, public utilities and communications. This will give a signal to foreign investors to realize the potential and readiness of Vietnam in various aspects, which will give further advantage to the country as one of the most interesting production bases in the Southeast Asian region.

Figures 17-19: Readiness of factors that foreign investors give importance to in investment decisions for each country  
(factors related to production, economic conditions and basic infrastructure)

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Readiness of factors that foreign investors give importance to in investment decisions for each country : [Top 2 boxed]

Production Inputs



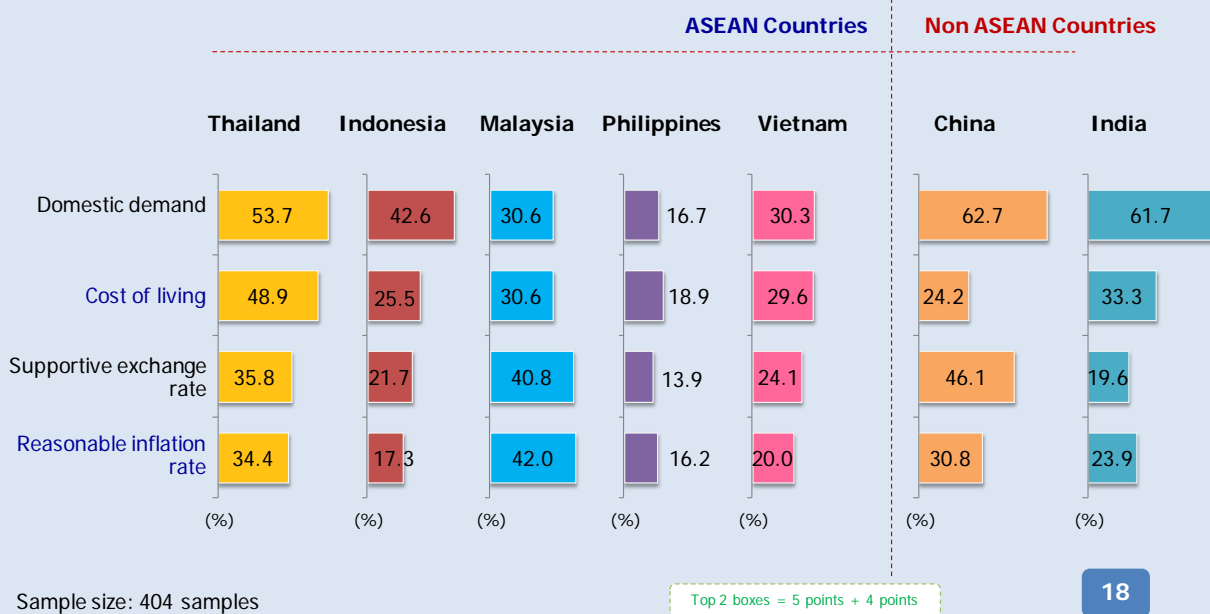
Sample size: 404 samples

Top 2 boxes = 5 points + 4 points

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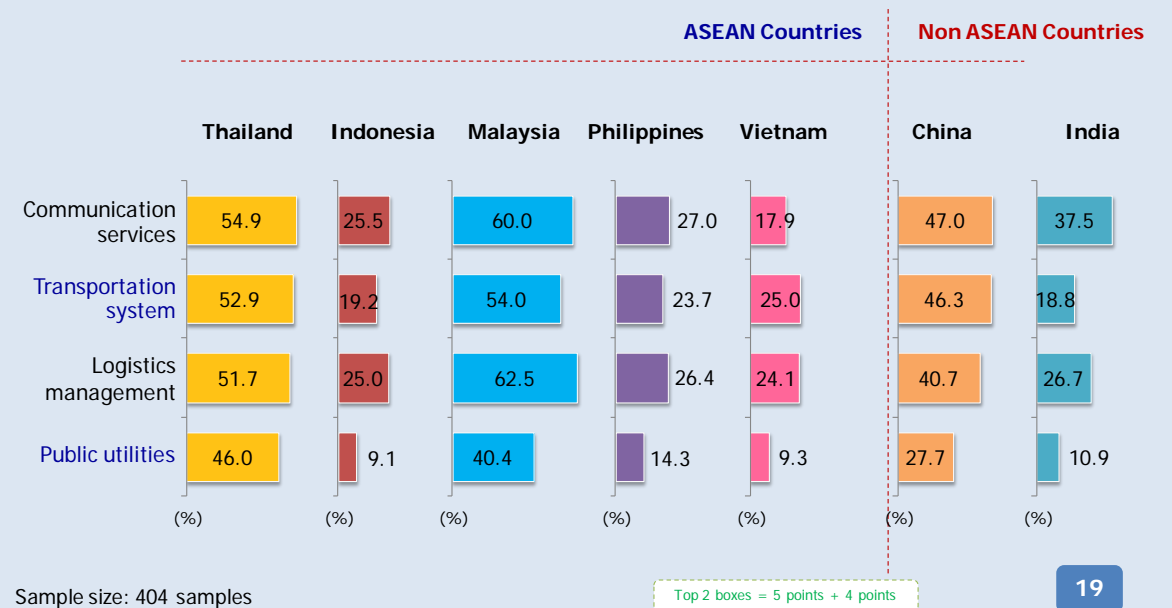
Readiness of factors that foreign investors give importance to in investment decisions for each country : [Top 2 boxed]

Economic Conditions



Readiness of factors that foreign investors give importance to in investment decisions for each country : [Top 2 boxed]

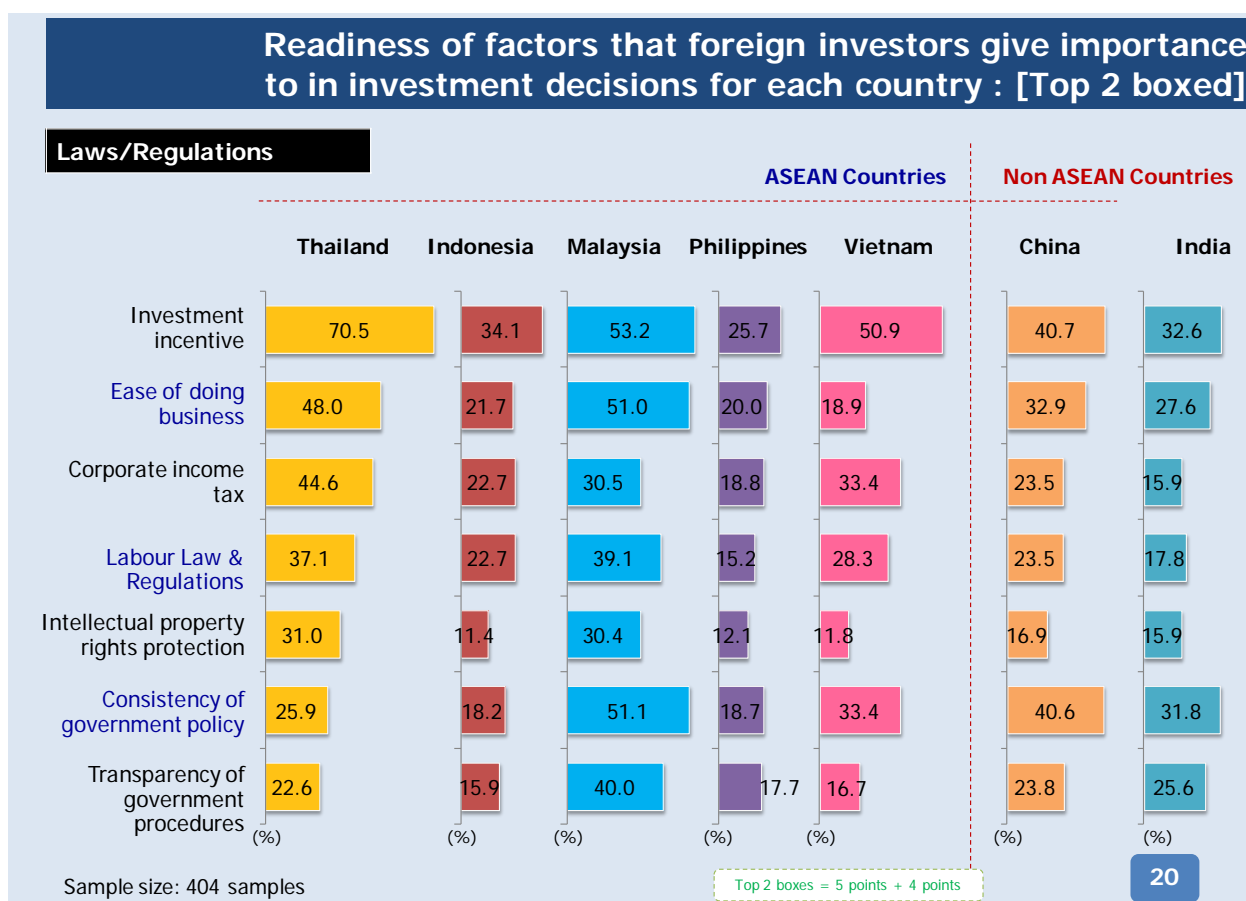
Infrastructure



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In addition, various measures regarding trade and investment that benefit industry in general and bring prosperity to the Nation were regularly initiated and modified to meet the requirements of foreign investors. As a result, foreign investors who may be ready to expand their production base in Thailand become more cautious and delay their decisions in order to observe the direction of Thailand's new Government, to see whether it is capable of bringing reconciliation to the Nation. They will also review the new Government's investment policies to see whether and how much they will benefit their businesses.

Figure 20: Readiness of factors that foreign investors give importance to in investment decisions for each country (factors related to laws/regulations)



Thanks to its development in basic infrastructure and serious attention to assisting foreign investors, Vietnam has elevated its investment climate to a level close to that of Thailand in many aspects. In particular, regarding the quality of skilled labour, which used to be Thailand's strength, Vietnam has now demonstrated its potential in developing their labour skills to the same level as Thailand but with more attractive wages. With clearly much cheaper wages than many other countries, foreign investors began to pay attention to Vietnam as a country with the development and readiness to support investment in many industries.

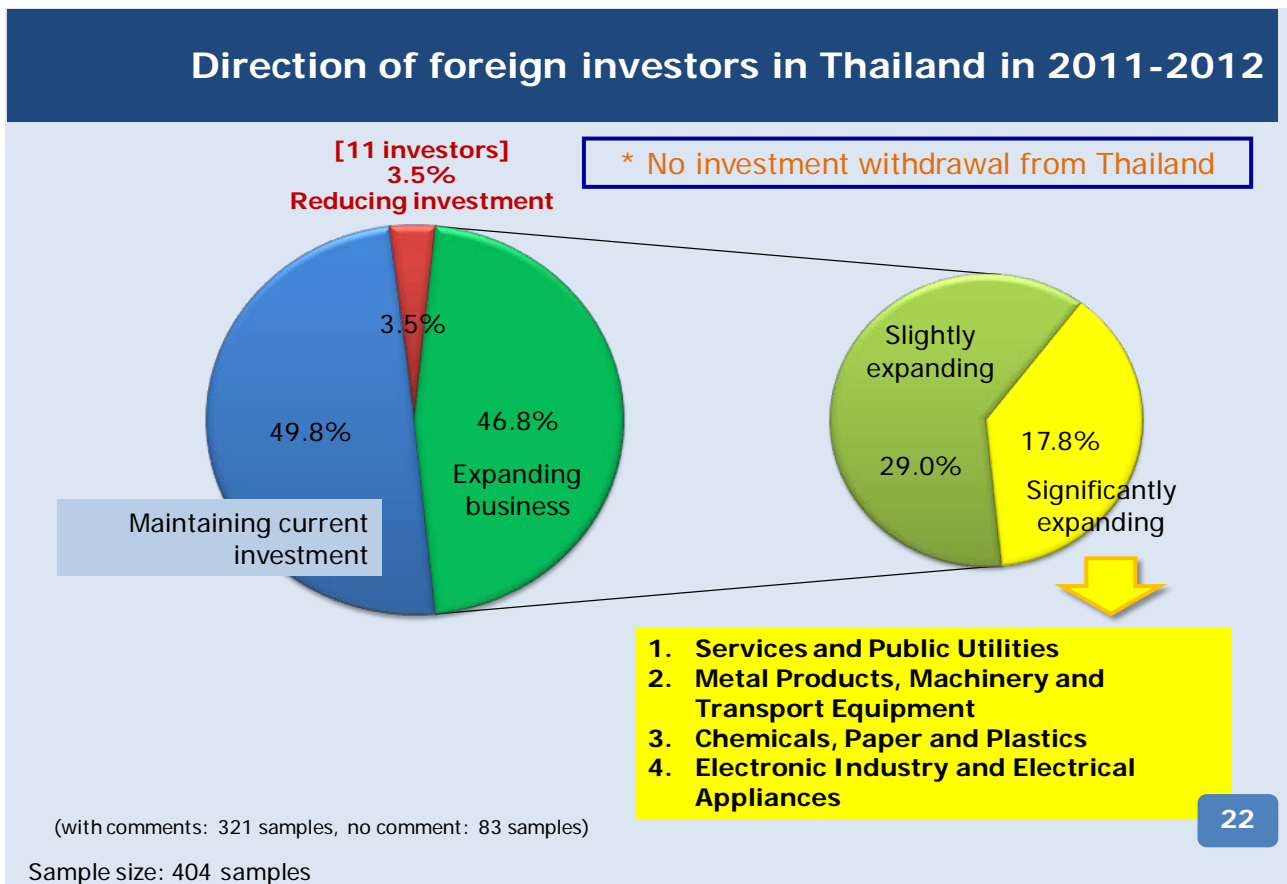
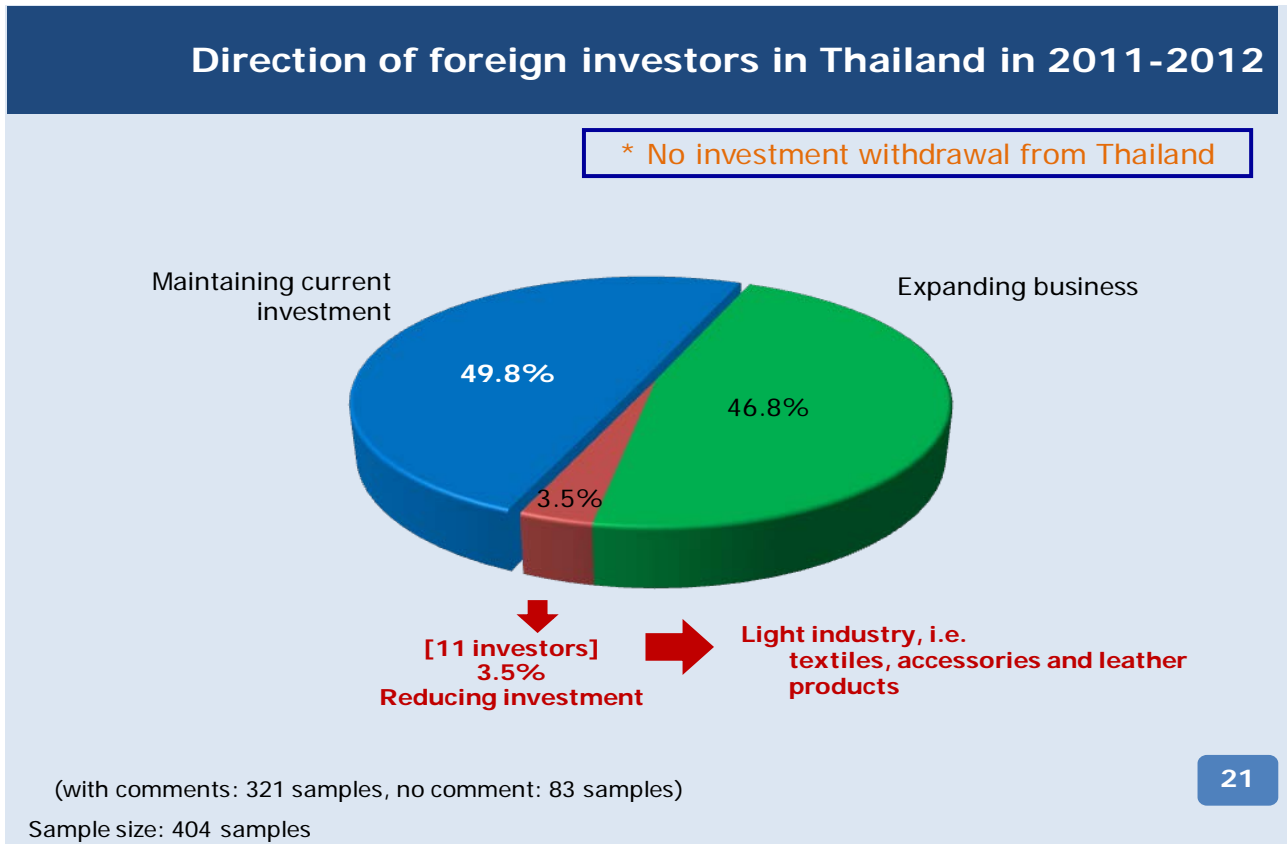
Vietnam's great leap forward in development has resulted in Thailand having to adjust to the new reality by increasing its efforts to satisfy foreign investors, such as by developing public utilities to international standards and thus enhancing its image globally. However, business and service sectors must also be developed in parallel with the production sector in order to increase the quality of service awareness, and likewise, be alerted to modify the patterns of service to reach industrial standards in response to the national policy on expansion of the production base, particularly in Investment Area 3. The BOI has placed the emphasis on operations that require innovation and technology and to assist logistics management in transportation in order to promote the country's image and to uplift production and services to international levels.

### 3.2 Direction of foreign investors in Thailand: 2011-2012

Of the 404 responses submitted by foreign investors, 321 expressed their intentions regarding their investment direction; all of them (100%) indicated they will maintain their investments in Thailand. That is, there were **no companies that intended to move their investments out of Thailand.**

Half of the companies investing in Thailand tend towards maintaining current investment levels (49.8%), and almost half tend towards expanding operations (46.8%: minor growth at 29.0%, major growth at 17.8%). The topmost expanded industries include: 1) Services and Public Utilities, 2) Metal Products, Machinery and Transport Equipment, 3) Chemicals, Paper and Plastics, and 4) Electronics and Electrical Appliances. Meanwhile, Light Industries, i.e. textiles, accessories and leather products, tend towards downsizing investment in Thailand (3.5%).

Figures 21-22: Direction of foreign investors in Thailand: 2011-2012.



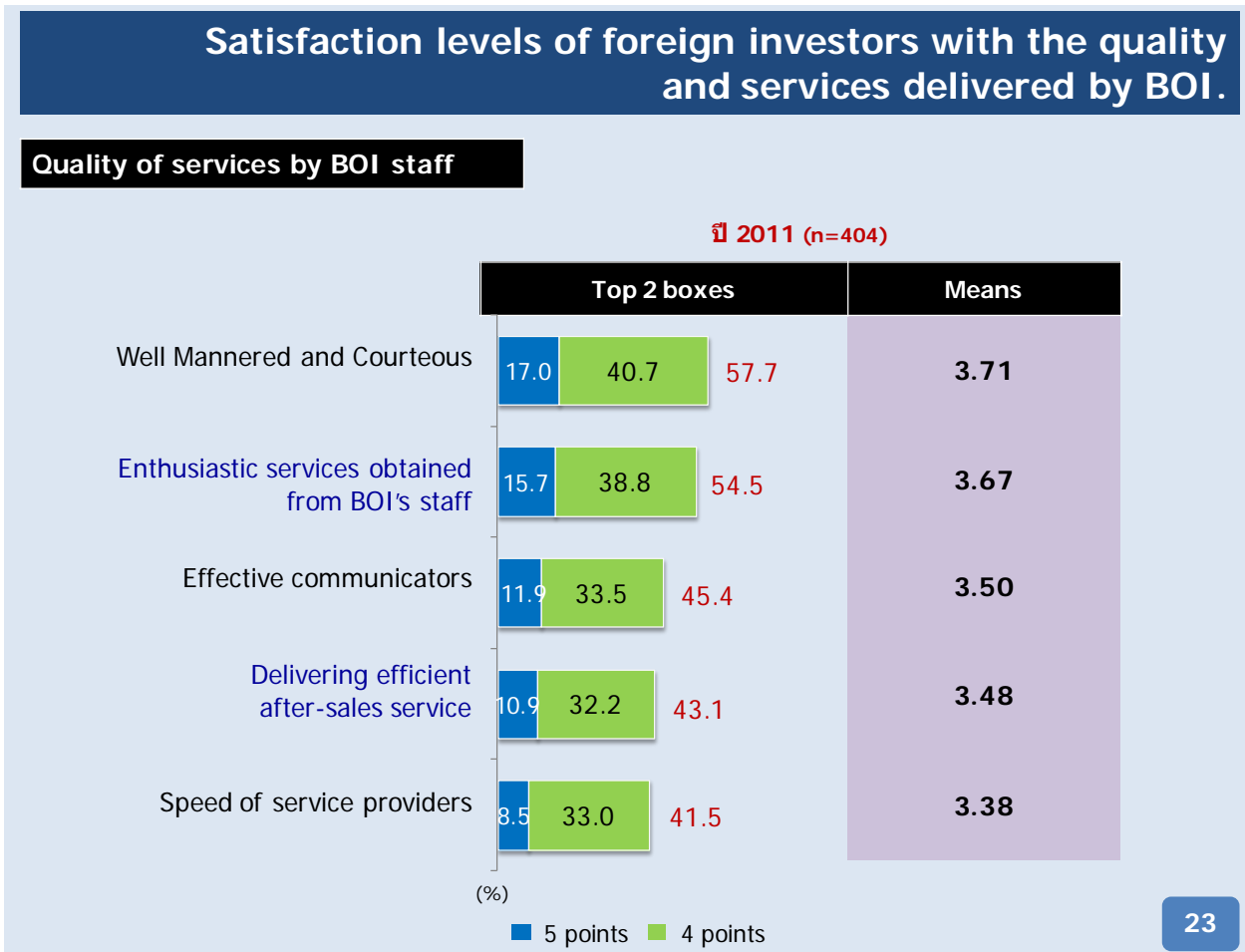


Chapter 4

Foreign investor satisfaction with services provided by the Board of Investment of Thailand (BOI)

In the Foreign Investor confidence survey 2011, a detailed survey regarding the quality of services provided by BOI staff is a supplementary issue reflecting client experiences in dealing with the BOI. BOI staff achieved a high level of hospitality and willingness, offered with good manners in providing services. However, the BOI should improve the speed of service and the after sales service.

Figure 23: Satisfaction levels of foreign investors with the quality and services delivered by BOI.



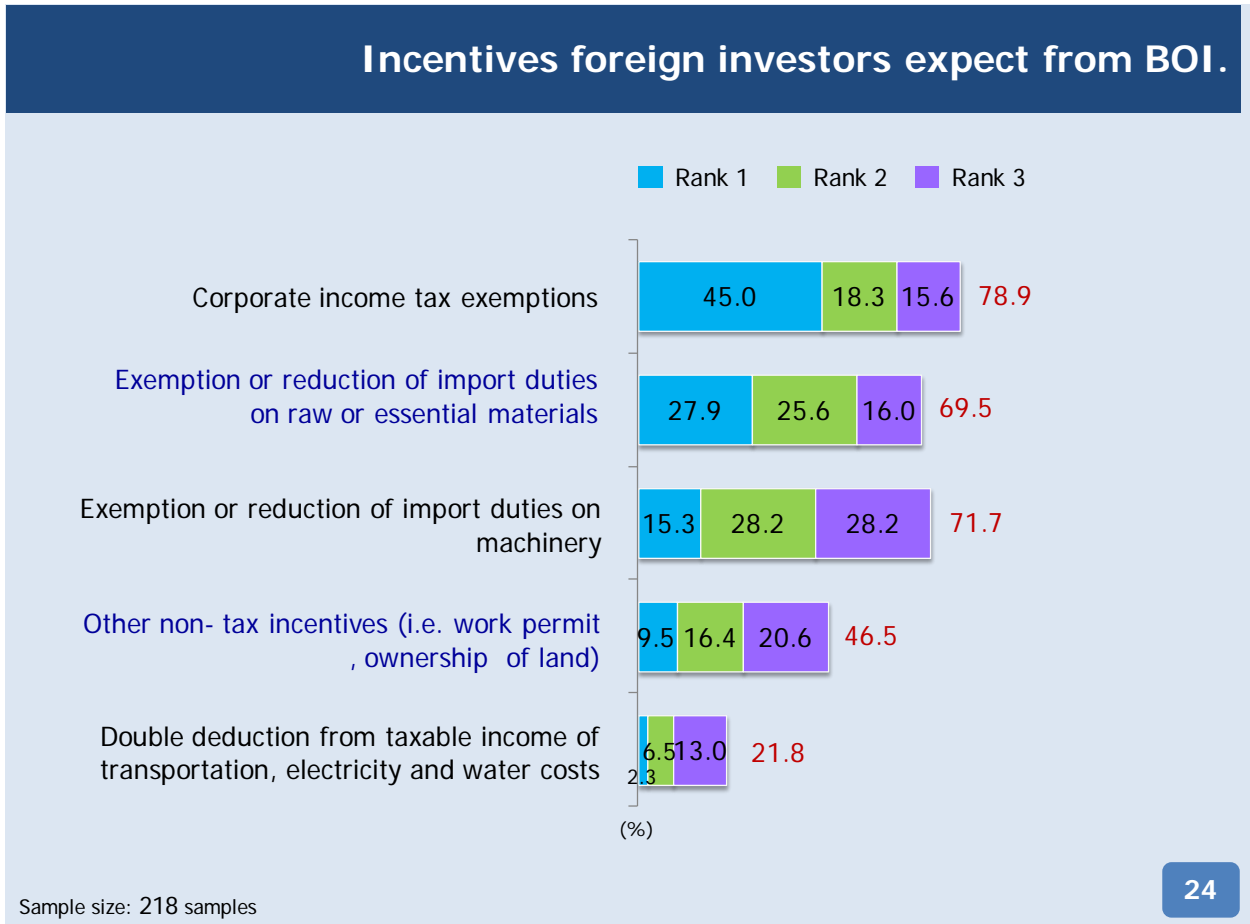
From our sampling of foreign investors regarding their experiences in using various services offered by the BOI, it was found that more investors from western countries, including France, North America and Europe, have utilised services provided by the BOI than have investors from ASEAN. Most foreign investors operating in the industrial sector had prior experience with the BOI, especially in the Chemical Products Industry.

For the services provided by the BOI compared to those surveyed in 2010, foreign investors were apparently less satisfied in every aspect of service, including speed of delivery, one-stop service, and investment promotion incentives. More than 10% of foreign investors were less satisfied in every category, especially in the speed of delivering services, in which less than half (42.1%) of serviced clients were satisfied.

On the question of guidelines/directions/measures, areas where foreign investors typically seek help from the BOI in order to gain benefits in the investment sector and better overall turnover, the exemption of corporate income tax was the topmost item that foreign investors wanted the BOI to promote, and was ranked number 1 by investors at 45.0%, while 78.9% ranked it among their top 3 overall requirements. The next item of importance was the reduction of import duties on raw materials and machinery. Since neighbouring countries have much lower costs than Thailand.

Analysis of the survey results shows that the top requirement and top 3 requirement positions all yield the same conclusion: that the topmost incentive that foreign investors prefer from BOI is the exemption of corporate income tax, followed by the exemption of import duties on raw materials/needed materials for the components produced for exportation. 27.9% of investors ranked this number 1, while 69.5% ranked it amongst their top 3. Another item is the exemption of import duties on machinery, which was ranked number 1 by 15.3% of investors, with a top 3 overall ranking of 71.7%.

Figure 24: Incentives foreign investors expect from BOI.



**Chapter 5**  
**Analysis of the Impacts of BOI Investment Incentives**  
**Based on the Survey Data**

Considering the data related to the value of total new investment in 2010, shown in the table, it can be summarized as follows:

Firstly, the average total new investment in each company was 205 million baht. After categorising companies by BOI promotion, the BOI promoted companies have an average total new investment of 214 million baht. Non-BOI promoted companies have an average total new investment of 30 million baht. The t-test is used to calculate whether average values of the two groups are different. Findings reveal that the average total new investment differs statistically between these two groups at a 1% level of significance. BOI promoted companies are shown to have a much higher value of total new investment than non-BOI promoted companies in 2010.

Secondly, comparing the data between companies with less than 50% foreign investors (defined as Thai shareholding companies) and companies with at least 50% foreign investors (defined as foreign shareholding companies), although foreign shareholding companies have a higher average value of total new investment than Thai shareholding companies, the difference of the average values has no statistical significance due to the large standard deviation.

Table 2: Values of total new investment in 2010

(Unit: Million baht)

Background of Sample Group	Number of Companies (n)	Mean	Standard Deviation (S.D.)	t-stat	
Companies completing the questionnaire properly	140	204.64	438.73		
Non-BOI promoted companies	7	30.36	17.45	-4.31	***
BOI promoted companies	133	213.82	38.87		
Companies with less than 50% foreign shareholders	15	121.11	64.48	-1.24	
Companies with at least 50% foreign shareholders	118	217.25	42.65		

**Note:**

- \*\*\* denotes mean difference among groups with significance level at 1%
- \*\* denotes mean difference among groups with significance level at 5%
- \* denotes mean difference among groups with significance level at 10%

## 5.1 Assessment of BOI investment promotion measures

The study analysed the 4 important aspects of both supporting and objecting arguments for the investment promotion measures.

### First Aspect

Investment promotion measures advance the knowledge spillover/transfer of technology to local companies. Investment promoted companies or multinational corporations are perceived as introducing greater innovation and new technologies.

### Second Aspect

BOI promoted companies receive incentives to invest in those target areas which have not been fully developed, helping achieve industrial decentralization and to prevent industrial centralisation within the Bangkok Metropolitan Area.

### Third Aspect

BOI promoted companies will induce greater competition in the market, especially in currently monopolized sectors. More competition will drive companies to increase production efficiency, resulting in higher quality and more diverse products in order to better meet consumer demand.

### Fourth Aspect

Investment promotion measures may be biased in favour of large enterprises with large capital requirements (capital-intensive industries) than to smaller, labour-intensive industries with low capital requirements. In addition, they may be complementary to import-substitution industries which may already have an advantage from trade barriers such as customs duties. In this aspect, investment promotion measures may not be necessary.

It is worth noting that the analysis in this section is limited by the available data collected from the returned questionnaires only, which may not truly represent the entire population of companies in Thailand. The results can only be regarded as the initial investigation to reveal the characteristics of the grouped companies, and similarities or dissimilarities may be greater in the actual corporate population than the data suggests. Therefore, further reference to the results of this study must be made judiciously.

## First Aspect: Knowledge/Technology Transfer

This study used a number of indicators to measure the level of knowledge/technology transfer, consisting of: 1) number of total accumulated patents which demonstrates the level of innovation of new knowledge/technology in the company, 2) ratio of total assets (capital) against the size of the workforce in the company, and 3) ratio of skilled labour against unskilled labour in the company. The two latter indicators show whether a company receiving investment promotion incentives or with foreign major shareholders is capital intensive or skilled-labour intensive. Both capital and skilled labour are regarded as the most important factors in the future development of Thailand's industrial sectors.

### 1) Number of total accumulated patents

The average number of total accumulated patents by Thai shareholding companies and foreign shareholding companies showed no statistically significant difference, although the average number of total patents in foreign shareholding companies is higher.

The results found in this study show that BOI promoted companies have a higher average total of accumulated patents than non-BOI promoted companies; the differences are statistically significant. This finding may indicate a knowledge/technology transfer from BOI promoted companies in Thailand.

### 2) Ratio of total assets (capital) against size of company workforce

From the ratio of total assets against the size of workforce in a company, it was surprising that BOI promoted companies had an average ratio of total asset value to the size of workforce of 2.67 million baht per head, which is lower than non-BOI promoted companies, whose average ratio is 4.82 million baht per head. However, since the standard deviation of the sample is very high, the difference in average values between these two groups has no statistical significance.

Similarly, after analysing Thai shareholding companies and foreign shareholding companies, the average ratios of total asset value against the size of workforce found no significant statistical difference between groups, although foreign shareholding companies have a higher ratio of total asset value against size of workforce than Thai shareholding companies. The results found in this section do not indicate that foreign shareholding companies or BOI promoted companies are more capital intensive than Thai shareholding companies or non-promoted companies.

Table 3: Ratio of total asset values against the size of company workforce

(unit: million baht/head)

Background of Sample Group	Number of Companies (n)	Mean	Standard Deviation (S.D.)	t-Stat	
Companies completing the questionnaire properly	298	2.97	6.05		
Non-BOI promoted companies	40	4.82	1.92	1.11	
BOI promoted companies	254	2.67	0.28		
Companies with less than 50% foreign shareholders	49	2.45	0.43	-1.21	
Companies with at least 50% foreign shareholders	224	3.20	0.45		

**Note:**

- \*\*\* denotes mean difference among groups with significance level at 1%
- \*\* denotes mean difference among groups with significance level at 5%
- \* denotes mean difference among groups with significance level at 10%

### 3) Ratio of skilled labour against unskilled labour in a company

After analysing the ratio of skilled labour against unskilled labour in a company, no statistically significant difference is found in the average values between BOI promoted and non-BOI promoted companies, nor between Thai shareholding and foreign shareholding companies. Therefore, the results indicate that capital or skilled labour intensive utilisations are not different between groups of companies.

Table 4: Ratio of skilled labour against unskilled labour in a company

(unit: company)

Background of Sample Group	Number of Companies (n)	Mean	Standard Deviation (S.D.)	t-Stat	
Companies completing the questionnaire properly	234	2.65	6.14		
Non-BOI promoted companies	14	4.43	1.45	1.10	
BOI promoted companies	218	2.56	0.42		
Companies with less than 50% foreign shareholders	39	2.33	0.48	-0.70	
Companies with at least 50% foreign shareholders	178	2.82	0.51		

**Note:**

- \*\*\* denotes mean difference among groups with significance level at 1%
- \*\* denotes mean difference among groups with significance level at 5%
- \* denotes mean difference among groups with significance level at 10%

## Second Aspect: Industrial Decentralization

One of the BOI's most important goals is industrial decentralization by dividing Thailand into 3 investment areas. Investment Area 1 is the Bangkok Metropolitan area (6 provinces), Investment Area 2 is comprised of 12 provinces, and Investment Area 3 is comprised of the remaining provinces where industrial development is especially needed. Investment Areas 2 and 3, particularly Investment Area 3, are usually the targets of investment promotion measures. From the collected data (table 5), 42% of companies who responded were from Investment Area 1, 43% were in Investment Area 2 and 15% were in Investment Area 3. It is evident that most of the companies who replied to the questionnaires were located in Investment Areas 1 and 2.

In analysing the data by BOI promoted and non-BOI promoted companies, an interesting result was that most non-BOI promoted companies were located in Investment Area 1 with 45%, followed by Investment Area 2 with 35%. In contrast, among the promoted companies, 43% were in Investment Area 2, followed by Investment Area 1 with 41% and Investment Area 3 with 16%. Therefore, the data suggests that the results of investment promotion measures have provided greater incentives for companies to increase investments in Investment Area 2. However, it can also be observed that the ratio of promoted companies in Investment Area 3 was lower when compared with non-BOI promoted companies, and lower in Investment Area 2 as well. This indicates there is much room for opportunity and further promotional efforts in Investment Area 3.

From the analysis of data between foreign shareholding companies and Thai shareholding companies, results indicate that Thai shareholding companies were mostly in Investment Area 1 (48%), followed by Investment Area 2 (39%), whereas foreign shareholding companies were mostly in Investment Area 2 (45%), followed by Investment Area 1 (38%).



Table 5: Investment zones categorised by BOI promotions and proportion of foreign shareholding.

Investment Area	Number of Companies	%
Area 1 (6 provinces)	168	41.58
Area 2 (12 provinces)	174	43.07
Area 3 (58 provinces)	62	15.35
Total	404	100

Investment Area	Non-BOI promoted companies	%	BOI promoted companies	%
Area 1 (6 provinces)	25	45.45	120	41.1
Area 2 (12 provinces)	19	34.55	126	43.15
Area 3 (58 provinces)	11	20	46	15.75
Total	55	100	292	100

Investment Area	Companies with less than 50% foreign shareholders	%	Companies with at least 50% foreign shareholders	%
Area 1 (6 provinces)	31	48.44	108	38.43
Area 2 (12 provinces)	25	39.06	126	44.84
Area 3 (58 provinces)	8	12.5	47	16.73
Total	64	100	281	100

### Third Aspect: Market Competition

One of the most important supporting arguments for investment promotion measures is that investment promoted companies tend to increase market competition, thus forcing an increase in production efficiency, and competition in providing products with greater quality and diversity. However, grants provided through investment promotion measures could also have adverse effects if investment promotion is granted to large enterprises who already have market power from their economies of scale. In this case, investment promotion measures will give greater advantage to large enterprises and lower the chances of new competitors entering the market.

Analysis of the market shares of companies who replied to the questionnaires shows the average market share is around 30%. Comparing non-BOI promoted companies with BOI promoted companies, no significant statistical difference was found in the average market share for either group. Therefore, based on the data, there is no evidence that BOI promoted companies have a greater market share or market power than non-BOI promoted companies.

However, the data also shows that foreign shareholding companies have an average market share of around 32%, which is higher than Thai shareholding companies with an average market share of about 20%. The difference found here is statistically significant (5%).

Table 6: Market share of sample companies

(unit: percent)

Background of Sample Group	Number of Companies (n)	Mean	Standard Deviation (S.D.)	t-Stat	
Companies completing the questionnaire properly	178	30.14	23.52		
Non-BOI promoted companies	15	25.73	7.23	-0.75	
BOI promoted companies	162	30.55	1.82		
Companies with less than 50% foreign shareholders	26	20.48	3.73	-2.33	**
Companies with at least 50% foreign shareholders	142	32.23	2.05		

**Note:**

\*\*\* denotes mean difference among groups with significance level at 1%

\*\* denotes mean difference among groups with significance level at 5%

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\* denotes mean difference among groups with significance level at 10%

Analysis of the levels of market competitiveness among corporations reveals that, on average, they experienced slightly intense to intense market competition. Comparing non-BOI promoted companies with BOI promoted companies, non-BOI promoted companies encountered a statistically significant higher level of competition than did BOI promoted companies. This may demonstrate that BOI promoted companies are usually in a business or industry where competition is less intense than non-BOI promoted companies (although the average company market share in each group is not different). Aside from that, the comparison between Thai shareholding and foreign shareholding companies shows no difference in group average values. We can therefore conclude from the data that there is no evidence indicating foreign shareholding companies will face more intense competition than Thai shareholding companies.

Table 7: Levels of market competitiveness encountered by companies

(1 = very intense, 2 = intense, 3 = somewhat intense, 4 = not intense, 5 = not very intense)

Background of Sample Group	Number of Companies (n)	Mean	Standard Deviation (S.D.)	t-Stat	
Companies completing the questionnaire properly	311	2.36	0.85		
Non-BOI promoted companies	26	2.08	0.17	-1.73	*
BOI promoted companies	277	2.38	0.05		
Companies with less than 50% foreign shareholders	48	2.33	0.13	-0.22	
Companies with at least 50% foreign shareholders	237	2.36	0.05		

**Note:**

- \*\*\* denotes mean difference among groups with significance level at 1%
- \*\* denotes mean difference among groups with significance level at 5%
- \* denotes mean difference among groups with significance level at 10%

In terms of marketing strategies, most companies (75%) emphasized the quality of products and services strategy, followed by the product differentiation strategy (14%) and the pricing competition strategy (10%). The exception was in Thai shareholding companies, where the primary marketing strategy was still based on quality of products and services, but followed by the pricing competition strategy rather than the product differentiation strategy.

Table 8: Company marketing strategies

Company marketing strategy	Companies with data	%
Pricing competition	21	9.81
Product differentiation	31	14.49
Quality of products and services	160	74.77
Other	2	0.93
<b>Total</b>	<b>214</b>	<b>100</b>

Company marketing strategy	Non-BOI promoted companies	%	BOI promoted companies	%
Pricing competition	2	13.33	18	9.09
Product differentiation	3	20	28	14.14
Quality of products and services	10	66.67	150	75.76
Other	0	0	2	1.01
<b>Total</b>	<b>15</b>	<b>100</b>	<b>198</b>	<b>100</b>

Company marketing strategy	Companies with less than 50% foreign shareholders	%	Companies with at least 50% foreign shareholders	%
Pricing competition	5	19.23	15	8.57
Product differentiation	4	15.38	27	15.43
Quality of products and services	17	65.38	131	74.86
Other	0	0	2	1.14
<b>Total</b>	<b>26</b>	<b>100</b>	<b>175</b>	<b>100</b>

#### **Fourth Aspect: Bias in Favour of Large Enterprises**

Comparing BOI promoted and non-BOI promoted companies by the ratio of capital (asset value) against the size of the workforce, whether higher or lower than the average value of the group data, reveals that companies promoted by BOI with the ratio lower than average value had a higher proportion (88%) than companies with the ratio higher than or equal to the average value (80%). Therefore, the data shows no evidence that the investment promotion measures are biased in favour of large capital-intensive enterprises.

Table 9: Business types that support BOI promotion measures

Asset value per workforce	Non-BOI promoted companies	%	BOI promoted companies	%
Companies with ratio of total asset value per workforce lower than average	26	11.61	198	88.39
Companies with ratio of total asset value per workforce higher than or equal to average	14	20	56	80

## Chapter 6

### Recommendations Obtained from the Results of the Study

Based on the empirical findings in Chapter 5, the results of the study can be summarized as follows:

#### **First Aspect: Knowledge/Technology Transfer**

The data reveals that promoted companies have more patents than non-BOI promoted companies. This may indicate a higher level of knowledge/technology transfer obtained from BOI promoted companies. However, considering the ratio of total asset value (capital factor) per workforce and ratio of skilled labour against unskilled labour, BOI promoted companies do not utilise more capital factors or skilled labour factors than non-BOI promoted companies. Therefore, if BOI wants to encourage promoted companies to increase their utilisation of capital or labour factors, BOI may have to issue additional requirements or criteria for existing participants.

#### **Second Aspect: Industrial Decentralization**

This investment incentive promotion has resulted in the motivation of companies to locate their investments in Investment Area 2 compared with non-BOI promoted companies. However, it should be noted that the ratio of companies invested in Investment Area 3 was actually reduced despite such promotional efforts. Therefore, if emphasis is more on Investment Area 3, BOI may consider increasing investment promotion measures together with improvement to the infrastructure in this area (BOI may consider reducing some investment promotion measures in Investment Area 2 to divert investment toward Investment Area 3).

### **Third Aspect: Increasing Market Competition**

It was not found that BOI promoted companies had different market shares than non-BOI promoted companies. However, non-BOI promoted companies appeared to face fiercer market competition than BOI promoted companies. This may indicate that BOI promoted companies are usually in a business or industry where market competition is less intense than non-BOI promoted companies. In addition, foreign shareholding companies have higher than average market shares than Thai shareholding companies, while companies with Thai shareholders have higher utilisation rates of competitive pricing strategies than do foreign shareholding companies. Therefore, if an investment promotion measure has the objective of promoting more price competition in the market, BOI may focus on promoting Thai shareholding companies, who often hold a disadvantageous market share and face more intense competition as compared with companies having major foreign shareholders.

### **Fourth Aspect: Bias in Favour of Large Enterprises**

The survey revealed that companies with the ratio of capital against number of workforce lower than the average value were promoted by BOI with the higher proportion than companies with the ratio of capital against number of workforce higher or equal to the average value. Hence, it was not found that BOI investment promotion measures favoured large capital intensive enterprises.

## Chapter 7

### Recommendations Obtained from the Seminar Announcing the Results of the Study

BOI held a seminar to announce the results of the 2011 study and analysis of foreign investor confidence in Thailand, on Friday, September 2, 2011, from 9:00 to 12:00, The Miracle Grand Convention Hotel. The 180 participants who attended included: 1) general business persons, 2) news reporters / mass media, 3) government officials employees / interested 4) involved members of the private sector, and 5) students / general public. Objectives of the event are shown below:

To inform the target group of the results of the study report on the confidence of foreign investors operating in Thailand. The target group consisted of business persons, mass media and the general public, so that they could be informed of the results of the 2011 study report. This audience was specifically targeted to raise awareness levels and establish a more coherent understanding regarding the direction of the present investment climate so that the target group would be better prepared to react to the higher competitive situation both domestically and globally.

From the seminar on the results of the 2011 study and analysis of foreign investor confidence in Thailand, the consultant team offered the following suggestions:

#### **Suggestions to increase confidence levels of foreign investors**

From the results of this study, it was found that the incentive, production and infrastructure factors all contribute to encouraging foreign investors to invest in Thailand. However, considering the negative effects of certain other factors that influence foreign investment, Thailand's political situation has the most negative impact on potential investors. As such, the Government's image and various policies from the government sector may impact foreign investor decisions on investing in Thailand. Improvements to foreign investor confidence should begin by reforming the Government's image, and this could be achieved by it being more transparent and honest so that reconciliation for the Thai people may be realised.

At the same time, the government sector should play a role in driving the resolutions and eliminating obstacles that impede foreign investors from investing in Thailand, such as the quality of skilled labour, wages, labour conflicts, and so on. Language skills



should also be improved in order to resolve problems in business communications (e.g. English, Chinese).

### **Recommendations to restore the confidence of foreign investors in Thailand**

1. Hosting of the BOI Fair 2011 under the concept of "Going Green for the Future," eco-friendly technology and sustainable development of Thai industry.
2. Regarding telecommunications and logistics, emphasis should be placed on privileges for companies located outside the industrial estates so that they can gain the same privileges as those located within the industrial estates.
3. Regarding labour skills, resource development should be implemented to support new technologies in order to maintain employment within industrial sectors.
4. Promote associate network organizations, particularly associations for trades and industries, to play a leading role in developing team work processes focusing on creative development.
5. Establish investment promotion policies/measures consistent with the strategy of the Ministry of Industry regarding the Mould Industry Improvement Project (2010-2014), with the target of developing target industries, advancing technology, filling the gap and maintaining sustainability. The objectives of the project are to anticipate the growth of strategic industries consistent with the business types where investment is promoted by the BOI, in 3 main industries: i.e. Metal products, Machinery and Transport Equipment, Electronics Industry and Electrical Appliances, and Chemicals, Paper and Plastics.