



THAILAND
BOARD OF
INVESTMENT



Summary Report 2014 Foreign Investor Confidence Survey



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By

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Summary Report

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 2014

In surveying foreign investors’ confidence in Thailand for the year 2014, the BOI has commissioned Bolliger and 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 and Company (Thailand) Ltd. also conducted in-depth interviews with 32 out of 600 companies so as to gain additional information, comments, and suggestions.

In addition to the survey, Bolliger and 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 6.48 percent in 2012 to 2.81 percent in 2013. The forecast by the Fiscal Policy Office (FPO) suggest that the growth for 2014 will be 1.5 percent and this will increase to 5.5 percent in 2015.

It is found that factors affecting Thailand's investment climate in a positive way include the recovery of the global economy, infrastructure development plans, especially those related to logistics and transportation.

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, 96.80% are promoted by the BOI while 3.20% are not. The majority of these companies are Japanese (51%). Categorizing by industry, investors in metal products, machinery and transportation industry make up the largest proportion of respondents (23%).

In terms of size, most respondents are large companies, with 31% having assets more than 500 million baht, 33.70% employing between 51 and 200 employees, 30.30% having operated in Thailand for more than 20 years, 33% having revenue more than 500 million baht, and 71% sourcing their income from domestic and international markets.

3.2. Investment Plans of Foreign Investors in Thailand in 2013-2014

It is found that, for 2014-2015, most foreign investors plan to maintain or increase their investment level in Thailand. To be more specific, 74% intend to maintain investment level while 24% intend to expand their investment level. On the other hand, 2% plan to reduce their investment. None of the 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 raw materials / parts

- Sufficient overall infrastructure
- Supportive investment incentives
- Reasonable cost of skilled labor

Regarding those investors that plan to reduce their investment level, factors with the greatest impact are:

- Political instability
- High minimum wage
- High cost of skilled labor
- Instability of the Thai economy
- Not transparent government procedures

In addition to investing in Thailand, some foreign investors (17.67%) plan to expand their investment abroad. The countries in which foreign investors are interested the most are China, Vietnam, Indonesia, Myanmar, and Laos, respectively. The majority (62.26%) 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:

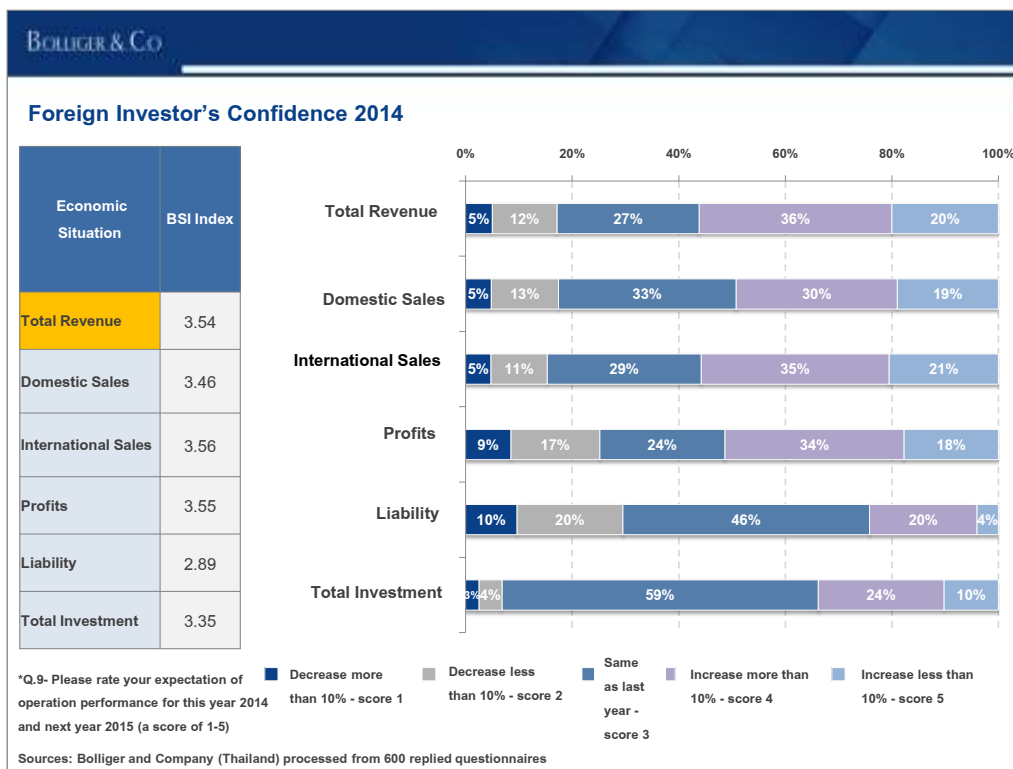
- Total revenue
- Domestic sales
- International sales
- Profits
- Liability
- Total investment

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 and Figure 2, reveal that foreign investors believe their total revenue, revenue from domestic sales, revenue from international market sales, profits, and total investment in 2014 would increase from those in 2013. As for liability, they believe that it would decrease from the previous year.

Figure 1 Confidence of Foreign Investors in 2014



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 2014 are

- Availability of suppliers
- Availability of raw materials / parts
- Transportation and logistics system
- Communication services
- Access to domestic loan

Comparing the results of 2014 with those of 2013, it appears that the scores of almost supportive investment factors in 2014 are greater than 2013, except overall infrastructure, investment incentives, stability of the domestic economy, and political environment.

With respect to the scores of supportive investment factors in other ASEAN countries, Singapore is ranked 1st as the country most supporting of foreign investment, followed by Thailand and Malaysia. In contrast, Brunei, Cambodia, and Myanmar are the least supportive factors with scores being far from Singapore and Thailand. As for non-ASEAN countries: China and India, it is found that Thailand is the most supportive country, followed by China, and India respectively.

6. 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 strict measures 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 to reform government bureaucracy, e.g. lift unnecessary permits and procedures, followed by policies to introduce strict measures to prevent corruptions, and to reform and simplify customs tax regulations and procedures. On the other hand, the least important measures are to increase the understanding on privileges from AEC and FTAs and to reform procedures for visa and work permit applications.

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

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



7. 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.

8. In-Depth Interviews

Bolliger and Company (Thailand) Ltd. designated 32 out of 600 companies that had completed the questionnaire for 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 : The Integration into the ASEAN Economic Community (AEC)
- Topic 5 : World Economy and Free Trade Agreements (FTAs)

The summary of each topic can be summarized as follows.

8.1. Political Stability and Government Policies

Most investors have short-term confidence in the National Council for Peace and Order (NCPO). This is mainly due to the NCPO's economic measures. However, their long-term confidence is less strong and they believe that an election is a solution which should lead to long-term confidence among foreign investors.

Opinions regarding political stability and government policies can be divided into two groups, positive and negative ones.

Positive

- In the short term, some investors are confident in political and economic situations under the management of the National Council for Peace and Order (NCPO). This is because several supportive policies have been enacted by the NCPO.
- A number of investors are confident in infrastructure projects, especially those with respect to transportation systems. Although the costs involved are large, the benefits in the long run should outweigh the costs as the transportation expenses borne by investors will be significantly reduced.
- Most investors are still confident in a strong foundation of Thai economy.

Negative

- Some investors lack long-term confidence in economic policies under the NCPO and find it difficult to make a long-term business plan.
- A number of investors wish to see the government that arises from a general election.

8.2. Economic Factors

Most foreign companies say that infrastructure in Thailand is adequate and of good quality. However, some of them feel that certain types of infrastructure should be developed further. These are, for example, internet access, roads, quality and coverage of utilities, plumbing (water pipelines), and flood prevention system.

Regarding Thailand's minimum wage (300 baht), investors' opinions vary. Some investors who mainly employ skilled labor whose wage is over 300 baht are not affected by it. On the other hand, those who employ unskilled labor are directly affected by this policy. Some investors observe that skilled labor are more selective in job selection and demand higher wage. This leads also to an imbalance of demand for and supply of labor.

Therefore, the mismatch between the demand for and supply of Thai labor should be addressed by both the public and private sectors.

For issues regarding interest rate, it is found that the direction of interest rate does not affect the decision of foreign investors to increase or decrease investment in Thailand. However, they are more concerned with the fluctuation of exchange rates which cause greater impact on their operation.

8.3. Measures and Services of the BOI

Most companies currently promoted by the BOI are satisfied with BOI's incentives and measures, and do not expect the BOI to adopt any promotion schemes used abroad. However, some investors, especially SMEs, have raised a concern that certain measures, such as the time length of tax privilege, are not suitable for them.

With respect to coordination with the BOI, a number of investors commented that responses and explanations from the BOI staff are, at times, uncertain. Another problem is the slow speed of service. This could be improved by increasing the number of service staff. Moreover, some investors suggest that BOI should have an internal online document system so that BOI staff can share documents and access documents more easily.

In addition, many investors suggest that the BOI should expand the length of time allowed for amending applications. At present, any amendments have to be sent back to the BOI by 4:00 p.m. of the same day. Investors believe that this time period is too short.

8.4. The Integration into the ASEAN Economic Community (AEC)

It is viewed that the government's measures to prepare Thailand for the AEC 2015 are insufficient. Most of the interviewed investors perceive that the awareness and knowledge disseminated by the government is not substantive enough and is not particularly useful for business purposes. Notwithstanding this deficiency, foreign investors believe 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 for oversea production base
- Opportunity to use Thailand as a production base for business operations in ASEAN
- Opportunity for developing skilled labor
- Opportunity for market expansion
- Ease of transportation
- 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
- Inadequate of healthcare services

Asking about the attractiveness of AEC countries as an investment destination, Vietnam is mentioned as the most appealing country. The main reasons are its relatively labor, low wages, market potential, and political stability. Myanmar is also considered because of its recently opened market.

8.5. World Economic and Trade Agreements and Negotiations

The recovery of the world economy affects foreign investors in Thailand to various degrees. Based on the extent to which the world economy affect the business, the interviewed companies can be divided into three groups.

- **Companies not affected by the world economy:** These are companies that do not trade with those in Europe. They are mainly Japanese companies who focus their business in Asia.
- **Companies directly affected by the economy:** These are companies that trade with clients in Europe or have their mother company in such region.

- **Companies indirectly affected by the world economy:** These are companies whose clients trade with companies in Europe.

As far as FTAs are concerned, most foreign investors believe that the current and potential FTAs would affect the Thai economy in a positive manner. Some of the companies are interested in the Thailand-EU FTA in particular because they perceive that this potential FTA will bring about the opportunity to expand their market in Europe.