

# **Japanese Direct Investment in Thailand: An Attitudes Survey**

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## **1. Introduction**

This paper is a report on a survey of opinions among 22 people engaged in Japanese direct investment in Thailand. The survey was carried out in May-July 1989. The number of respondents totalled 22 : 5 Thai government officials; 4 members of the Thai business community; 4 scholars; 3 workers at Japanese-Thai joint venture companies; 1 Japanese businessman; and 5 Thai students. These people were carefully selected. Some of them were directly involved in the area of foreign investment as policymakers (e.g., bureaucrats at the Board of Investment, Ministry of Industry, and the NESDB-National Economic and Social Development Board) and others had been affected by government policy (e.g., members of the business community and workers). Another group was scholars and students. The questions used in the interview were written in advance but we tried to ask each group slightly different questions according to their different backgrounds. We believed that by using an elite survey it would be possible to obtain more in depth information since each interviewee would be given a free hand to answer our open-ended questions.

The survey was divided into three parts, which attempted, respectively, to identify general attitudes toward Japanese and foreign direct investment; to evaluate the impact of such investment on the Thai economy and society; and to clarify attitudes toward government investment promotion policies.

This survey report is divided into 4 parts. The first part is a brief introduction. This is followed by a review of previous survey results. Part three is a report on attitudes toward Japanese direct investment in Thailand. The last part contains our conclusions and policy recommendations.

## 2. Review of Previous Survey Results

Several groups have done surveys on attitudes towards Japanese direct investment in Thailand and ASEAN over the past two decades. In 1977, Somsak Tambunlertchai (1977) did a survey on the attitudes and experience of Thai and Japanese workers in Japanese-Thai joint ventures in Thailand. The survey was made by means of mailed questionnaires and interviews. A total 65 questionnaires out of 235 were completed and returned, 22 (out of 103) from the Japanese side, and 43 (out of 132) from the Thai side. About 20 Japanese and 20 Thais were interviewed. The persons interviewed were mostly presidents, managing directors, or other leading executives of joint companies. The surveys tried to investigate the motives for investing of the Japanese investors, the reasons of Japanese and Thai investors for entering into joint ventures, the attitudes and experience of the joint venture partners on management and control, and the various problems and conflicts. Among the most important reasons for Japanese to have joint ventures with Thais were: to gain better public acceptance by the Thai people and government and to benefit from the Thai partner's acquaintance with local market conditions and practices and local governmental services. On the other hand, the acquisition of technical know-how was considered to be the most important reason by most Thai investors for entering into joint ventures with the Japanese. The sharing of risks and obtaining of additional finance were also considered relatively more important by the Thai side as reasons for business cooperation.

Both Japanese and Thai investors were asked to indicate the areas as well as degree of expected contribution by their investment partners. It was found that Japanese investors most commonly expected their Thai counterparts to contribute in the following areas: knowledge of distribution channels in the local market, procurement of certain factors of production, especially land, and recruitment of local workers. Thai investing partners most commonly expected their Japanese partners to contribute in the areas of production know-how, finance, supply of materials, parts and components, and channels for exporting the product manufactured. Therefore, we saw that both Thai and Japanese benefited from business cooperation.

The attitudes of both Thai and Japanese investors in joint ventures were quite positive. Nevertheless, some negative attitudes existed. These were due mainly to the differences in cultural background, language, management systems, experiences with people of different nationalities, and conflicting interests. Most conflicts of interest came from the fact that the Japanese relied heavily on their parent companies in the areas of capital and material procurement, finance, production planning, export restriction, and transfer of technology, which was perceived as unfavorable or

disadvantageous to the Thai side.

In 1986, Atchaka Sibunruang and Somsak Tambunlertchai (1986) interviewed selected foreign executives and relevant government officials on the major problems and difficulties facing them regarding foreign investment in Thailand. The number of interviewees was not identified. The major problems and concerns of foreign investors were discussed under the following categories: (1) general government policy; (2) BOI incentives; (3) international agreements; (4) the tax system; (5) customs procedures; (6) immigration and permit regulations; (7) R&D and technology transfer regulations; (8) the protection of intellectual property rights; and (9) the availability of economic infrastructure and communications facilities.

Regarding general government policy, the major criticism was its lack of clarity and consistency. With regard to the government's general policy toward FDI, there was criticism over the type of activities in which FDI should be welcomed. In addition, criticism about the lack of coordination among government agencies was also mentioned.

Regarding BOI incentives, the criticisms included delays in project approval, the lack of a systematic approach towards deciding which activities should be included in the list of activities eligible for BOI promotion, and the BOI's imposition of surcharges on imported products to protect promoted firms.

Concerning international agreements, criticisms centered on the double taxation agreement the Thai government has made with other countries, which puts foreign investors at a disadvantage compared to their counterparts in Singapore; and on the double taxation agreement with the U.S., which has not yet been concluded.

The tax system was criticized for its ambiguities which result in different interpretations of the same regulation by different tax officials. The customs procedures were also criticized for delays due to bureaucratic red tape, the inflexibility of customs officials in assessing the value of imported goods, and delays in providing tax refunds and rebates.

Another criticism made by foreign executives was the lack of flexibility of officials in issuing work permits. Complaints were also voiced about the government's requirement for promoted firms to conduct R&D activities because it is unclear to what exact extent such activities must be carried out.

On the protection of intellectual property rights, complaints centered on the inadequate protection of patents, copyrights, and trademarks.

Other criticisms included the inadequacy and low quality of telecommunications services for domestic and international communications, and the shortage of infrastructure and supporting facilities such as roads, telephones, electricity and water supplies.

A year later, Keizai Doyukai (1987) conducted a survey of opinions among Japanese businesses concerning inputs from and direct investment in ASEAN nations. 446 (out of 1100) Japanese companies that had been engaged in direct investment in the region answered the questionnaires. With regard to direct investment in the ASEAN nations, the Japanese companies, despite the strong yen, were cautious about doing business in this part of the world, partly because of the economic stagnation in the ASEAN nations during the past few years. However those which were in the manufacturing industries planned to expand existing business.

The problems arising from the ASEAN side viewed by the Japanese companies were: stagnation and deterioration of the local economy; indigenization policies such as restrictions on the percentage of foreign capital participation rates; required percentages for procurement of locally produced parts and employment of local personnel; insufficient education and nurturing of local human resources and engineers; inadequate infrastructure; and insufficient tax, financial, and other incentives as compared with other regions.

Another survey was made by Banyat Surakanvit (1987) in August 1987. This survey was much more narrow because it focused on Thai perceptions of Japan and Thai-Japanese relations. Concerning Japanese direct investment in Thailand, the survey report stated that most Thai people wanted to see more Japanese investment. Many Thais even suggested that the government establish an open investment policy for Japanese investment. Half of the interviewees thought that Japanese firms transfer some technology while the rest believed that the transfer is very limited.

Interviews of Thai policymakers on Japanese direct investment have been made by several business magazines over the last few years. In December 1988, the business magazine *Thurakit Kaonaa* (Progressive Business) interviewed some key policymakers in Thailand regarding Japanese investment. One was Mr. Chira Panupong, Secretary General of the Board of Investment of Thailand. Mr. Chira expressed his concern about the relative lack of infrastructural projects but he believed that this problem would be solved when the deep sea-port facilities on the Eastern Seaboard started working. He considered high value-added joint-venture projects desirable for Thailand and hoped that they would help develop into 100 percent Thai-owned companies in the future. Regarding technology transfer, Mr. Chira thought that Thais could learn from Japanese by working with them in joint ventures. He felt that the Thai government should set up an agency to supervise technology transfer, especially the contracts and conditions attached to such contracts, to make sure that they would benefit the Thai side.

Another person interviewed by *Thurakit Kaonaa* was Dr. Narongchai Akrasenee, consultant to several business companies and government agencies. According to Dr.



Narongchai, Thailand at present has more bargaining power than it did before and the Thai government should promote joint-venture projects since they would therefore benefit the Thai side. It would also be better he felt, if those companies went to the Security Exchange Market of Thailand. Dr. Narongchai thought that the Thai government should play a role in supervising contracts between joint companies but should not have a direct role in investment.

An interview with Mr. Staporn Kavitanond, Deputy Secretary General of the BOI, was conducted by the Japan Monitoring Newsletter (Thammasat University) in January 1989. Mr. Staporn thought that Japanese direct investment, especially in export-oriented industries, would benefit Thailand because it would help Thai products in accessing the world market and would upgrade national products to world standard.

### **3. Attitudes toward Japanese Direct Investment in Thailand**

Based on information collected through our field interviews, the attitudes of the Thai people toward Japanese direct investment have been classified and organized into three categories: general attitudes toward Japanese and foreign direct investment; attitudes regarding their economic impact; and attitudes toward the Thai government's promotion policies.

#### **(1) General Attitudes toward Japanese and Foreign Direct Investment**

According to the interview survey, the increase of foreign direct investment in Thailand, especially from Japan, Taiwan and South Korea since 1985 (that is, after the yen appreciation), has led to a problem of insufficient infrastructure. From our interview, one scholar recommends that the government should stop promoting foreign investment while the bureaucrats, business people and other scholars consider this problem a temporary one, suggesting that the situation will be much better after the Eastern Seaboard and new infrastructure projects have been implemented. One bureaucrat points out that infrastructure projects require long-term planning so the government must prepare for them.

The costs of providing these infrastructural projects are quite high, so one scholar suggests that the government might allow or persuade the private sector (both domestic and foreign) to invest in these activities.

All of the students we interviewed criticize the Japanese companies for coming to Thailand for cheap labor. Although most of the interviewees agree on this point, one scholar argues that Japanese investment in Thailand is labor-intensive in comparison

with that in Japan but it is more capital-intensive in terms of labor absorption than Thai, Taiwanese or South Korean investments.

The Thai government's policy of opening its doors to the Indochinese countries is another issue which was discussed. It looks as if investment in Indochinese countries is the most popular topic among our interviewees. Every group agrees that the opening of Indochinese countries to trade and investment should benefit Thailand in the sense that this country will be used as a base for doing business in Indochina. Students point out that the opening of Indochina would encourage foreign investment in Thailand, especially among the US, Japan, South Korea and Taiwan. This would increase competition among these countries and increase bargaining power for the Thai side.

One scholar comments that while Thailand will be used as a base for doing business in Indochina, the question is whether the Thai government has any strategy to derive benefit from this situation. One technocrat argues that Thailand will gain from this game because Thai consumer products already dominate the Indochinese market. Since the Indochinese governments have officially invited foreign investment, firms from the Thai service sector such as hotels and banks are looking to do business there. Japanese and Thai business people, however, express concern over the high risk of investment due to political and economic uncertainty. Insufficient infrastructure and low purchasing power are also considered important problems. The opening of Indochina in general does not have any impact on Japanese investment in Thailand.

In general Japanese investors are in a better position than Thai investors, especially, small- and medium-sized ones, because the Japanese have been supported and aided by both Japanese public and private organizations, such as JETRO and EXIMBANK. Furthermore, the Japanese government plays an important role in Japanese direct investment through its clear-cut promotion policy and efficient information system. By contrast, there is no such mechanism in Thailand. Some pessimistic interviewees say that the Thai government's policy on foreign investment will destroy small- and medium-sized indigenous entrepreneurs. Consequently in the long run only the big businesses and the foreign companies will survive to dominate the Thai economy.

One of the interesting attitudes of the student group is that, in the long run, the Japanese may try to get involved in the political system of Thailand in order to protect their economic interests.

## (2) Attitudes Regarding Economic Impact

The second part of the survey attempted to investigate attitudes concerning the impact of Japanese investment on the Thai economy, the type of investment most

beneficial for Thailand, and the role of Japanese investment in producing pollution and contaminating the environment. The problems of technology transfer and the advantages and disadvantages of being in a joint venture with the Japanese were also discussed. The interview questions were broad and open so that the interviewees would have more room to respond freely and independently.

The various groups of interviewees see both positive and negative impacts of Japanese direct investment in Thailand. With regard to the positive impacts, the results are as follows:

a) There is a consensus agreement that Japanese direct investment helps to enhance the Thai businessmen's experience, especially, on how to work and do business with foreign investors in the form of joint ventures. The Thai businessmen gain more experience from learning by doing, and they learn more from the Japanese management system.

b) Japanese direct investment and joint-venture firms have stimulated more domestic competition which eventually will benefit consumers either in terms of lower price or better quality of products. Besides, Japanese direct investment has helped to diversify Thai industrial structure.

c) Japanese direct investment brings about the flow of capital into the country. This capital injection will accelerate economic growth, and consequently, through the multiplier effect increase investment in various economic sectors and raise employment levels and income.

d) Usually, foreign direct investment transplants capital managerial skills and technological knowledge in a package to the host country. These transferred resources serve to train local labor and develop local raw material and other input sources, thereby creating backward and forward linkages with the local economy. In the case of Japanese direct investment, all interviewees agree that the linkage effect is present but quite limited. The problem is that most Japanese direct investments make exclusive use of imported capital goods and use more imported raw materials than locally-procured ones. However, there is optimism regarding the linkage effect of the new wave of Japanese direct investment after the yen appreciation.

e) On the transfer of technology aspect, while most of the interviewees agree that there is some degree of technology transfer, engineers who work in Japanese joint-venture firms feel that the extent of such transfer is very limited. Nevertheless, most technology transfer is concentrated at lower and medium levels, for example, in on-the-job training of local production workers and technicians. The transfer of higher-level sophisticated technology is ignored. However, the Thai businessmen also accept that their human resources are not adequate or ready for such high or sophisticated technology. Besides, some scholars point out that the conditions for

technology transfer depend on the bargaining power between Japanese and Thai investors, the host country's policy and the direction of technology transfer, and finally the absorptive base (both human and non-human) of the recipient country. In sum, the problems of technology transfer stem from the side of both transferor and transferee.

The negative impacts on the host country's economy can be summarized as follows:

a) There is consistent agreement that one of the most important negative impacts is the economic distortion created in the Thai economy by Japanese direct investment. This distortion includes distortion in prices of factors of production, distortion in the capital market, and distortion within the industrial sector. It is felt that economic distortion became more severe after the flood of Japanese direct investment to Thailand during the period of yen appreciation.

The distortion in prices of factors of production, especially the price of land, has never been mentioned in previous surveys. However, during the new wave of Japanese direct investment, the explosive increase in investment induced a sharp increase in the demand for land and labor. In couple with the government's policy of increasing the construction of social overhead and infrastructure to stimulate more investment in the manufacturing sector, this resulted in a sudden increase in the price of land. Even worse, speculation escalated the price of land to a still higher level. Some of the interviewees say that if there had been no such rapid increase in Japanese direct investment into Thailand, the price of land would not be so high. Nevertheless, some of the interviewees argue that this sharp increase in the price of land did not result merely from Japanese investment but was also due to the speculation process in the economy.

The other factor of production which was mentioned is labor, especially relating to technicians and engineers. The huge increase in Japanese direct investment as well as investment by other countries has increased the derived demand for this type of labor. Since the increase in the labor demand is much higher than the supply, there has been a significant increase in the wage rate of technicians and engineers. This, however, is not a distortion, but it causes some problems to local entrepreneurs as well as a widening wage gap among different types of labor.

On interest rates, one point raised is that the interest rate in Japan is much lower than the interest rate in Thailand. Hence, Japanese investors have a cheaper source of capital than do Thai entrepreneurs. Therefore, the cost of investment for the Japanese is much lower than for Thai investors, which is harmful to small- and medium-sized indigenous entrepreneurs.

b) Owing to the increasing competition which has been brought about by Japanese



direct investment, local, especially small- and medium-sized indigenous firms will be in trouble if this competition becomes too excessive. Since most of these firms do not get any sort of support from the government, their financial sources have higher interest rates. Therefore, even if they are efficient, their disadvantageous position will prevent them from surviving in such a business world.

c) Another negative impact is the problem of the environment. The interviewees pointed out that not only Japanese direct investment but all investment in industrial sectors by both Thais and foreigners has polluted and contaminated the environment. But the pollution created is different in different industries. Therefore, in order to say conclusively that Japanese investment causes more pollution, we would have to examine which industries are the main recipients of Japanese investment.

d) Japanese direct investment has also brought the so-called "demonstration effect" of the Japanese way of life, for example, Japanese food and culture. We cannot say that this has a totally negative impact on the economy. But, certainly, negative effects prevail.

### (3) Attitudes toward Government Promotion Policies

This part is focused on attitudes toward government promotion policies and some recommendations suggested by the interviewees. On the question of whether promotion incentives are too excessive, most of the respondents agree that the Thai government's promotion policy is generally reasonable in comparison with that of other ASEAN nations. Thai policy is more flexible and liberal. The government tends to allow the private sector to maintain a high profile while the government provides a favorable atmosphere for investment. Two businessmen from our interview comment that Thai investment promotion policy is similar to other regulatory policies, i.e., it tends to be written in vague language, giving indefinite power to bureaucrats to interpret the policy arbitrarily at the implementation stage.

In general, the contemporary promotion policy is comparable to Thai development strategy for export-oriented industrialization. With regard to the appropriateness of the promotion policy, one official and one businessman agree that the Thai government is quite successful in improving the quality of its promotion policy. Projects are more carefully screened and selected according to the national development strategies for export promotion and decentralization. The government gives more support to projects that intend to move to industrial estates outside of Bangkok. Also the government policy is correct in giving priority to Thai-Japanese joint venture project since this kind of project enables Thailand to benefit from Japanese investment in terms of technology transfer and managerial skills. However complaints over policy implementation still exist. One scholar and two businessmen

criticize bureaucratic red tape, visa problems, policy coordination, etc. Nevertheless, every group agrees that despite the existence of such problems the government is quite successful in communicating with the private sector. Channels for public- and private-sector cooperation can be seen in the area of investment promotion policy.

On the question of how Thailand should improve itself in order to derive more advantage from Japanese investment, most of the answers point to the BOI promotion policy, arguing that there must be a more selective promotion scheme. The BOI should select and promote only those projects which would result in higher employment, a larger value-added component, the transfer of technology, and diversification of Thailand's industrial structure. For example, the BOI should promote more agribusiness industries, basic industries (such as iron, steel, and petrochemicals), and some high-tech electronic industries. In addition, the BOI should not promote economic activities which directly compete with dominant, well-managed local firms, such as department stores.

In addition to the issue of technology, the group of students suggests that, in the long run, there should be an institution (whether public, private, or a combination of the two) to deal directly with all aspects of technology. This institution should be an information center as well as a data bank on technologies, maintaining records, for example, on all available production technologies for each specific industry, the country of origin for each technology, the strong and weak points of each technological sector, and the price of the technology. In addition, data and information on all basic and innovative indigenous technologies should also be collected. Finally, this institution should provide access to experts on technology who can give suggestions to investors or other users.

Concerning how to make Thailand more attractive to foreign direct investments, various recommendations were proposed. Some emphasize the improvement and expansion of infrastructure. Most agree that Thailand still lacks supporting infrastructure. Some interviewees complain about government red tape and complicated bureaucratic procedures. One of the major suggestions proposed by all groups of interviewees is regarding the direction of government policy on foreign investment. All of them say that the policy concerning foreign direct investment should be clear and precise.

The interviewees proposed some recommendations concerning Japanese foreign investment in Thailand. These recommendations are focused on general government as well as BOI policies on Japanese direct investment, the mechanism for implementing such policies, and the potential impact of the investment.

Most of the people we interviewed agree that the government's promotion policy should be extended but that some change and adjustment should be made according

to the country's economic, social and political situation. The most important measure for promotion, that is, taxation, should be evaluated according to the country's development strategy. This means that the government should identify specific types of industry it wants to promote and apply tax reduction as well as other appropriate promotion measures to those industries. In other words the government must select the industries it wants to promote. In addition, the government should consider the quality of the project as the most important criteria for selection. The quality of the project refers to its effectiveness in promoting local employment, technology transfer, utilization of local content, decentralization of factory locations, etc. Selection should be based on quality rather than quantity of the projects.

While the people we interviewed agree that the government should place more emphasis on the quality of the projects, some of them, especially the scholars, argue that the Thai government should not have direct control over technology contracts. Due to the government's limited skills, manpower, and mechanisms for controlling the process, it makes more sense to give this job to the private sector. The government should intervene only when there is some violation of contracts between Thai investors and their foreign counterparts. Another area that the government should take action is in the training of skilled and technical workers who are capable of learning from the Japanese side. There is criticism, especially from Japanese companies, that Thai workers have a very limited technical background and hence a limited absorptive capacity for any advanced technology transfer. To solve this problem, the Thai government should set up a training program in cooperation with Thai and Japanese investors. This model has been implemented successfully in Singapore.

In addition to arranging such a training program, the government should also provide necessary infrastructure such as electricity, highways, telephone lines, ports, industrial estates, etc. Thailand's insufficient infrastructure has become an increasingly serious bottleneck for economic growth.

The Thai government should encourage joint ventures rather than totally foreign-owned projects, because through doing business with the Japanese, Thai business people will benefit in terms of technology, management know-how, and access to international markets. 100% Japanese-owned firms should be limited to areas which it is necessary for the country to promote even without local participation. Still, the government must try to encourage local people to take part in these businesses in the future so that we will not remain highly dependent on foreign sources.

In addition, the government should try to diversify external sources of foreign investment. At present, Japan is the most significant foreign investor in Thailand. This trend should be changed so that we can reduce our dependence on the Japanese

side. Recently we have seen more foreign investors from NIEs, especially Taiwan and South Korea, and from Australia and European countries, and this is a trend which the government should encourage.

Another area that the government should take action is in assisting the Thai export industry in terms of information and marketing for exports. Also, markets for Thai goods should be diversified so we will not have to rely on a single market.

The environment is a topic of concern for every group we interviewed. Environmental problems such as pollution caused by industry are a long-term aspect which requires long-term planning as well as participation from various groups in order to solve effectively. First of all, industries selected for promotion must not include those which cause serious environmental problems. Petrochemical-related industries severely pollute the environment, and yet the Thai government attempts to promote them. The problem is how to minimize the pollution in such industries. One way might be to encourage the general public to be aware of the problem and assist the government in monitoring business behavior. Another approach that might be used is to impose environmental regulations. At present the administration has already issued several regulations on this aspect, but violations of the laws show that there is some deficiency in the enforcement process. In this sense legal measures are not sufficient. They must be complemented by cooperation from local people in giving information to the authorities. While the Japanese should be blamed for setting up industrial plants that cause pollution, Thai and other foreign investors should also be blamed for the same reason. The Thai government must campaign more to set the public interested in the issue and willing to participate in the anti-pollution industrial plan movement.

Another aspect that concern the bureaucrats we interviewed is coordination among related agencies. In the past, we have seen a problem of policy inconsistency caused by the differing interpretation of promotion policy by government agencies such as the Board of Investment and the Ministry of Finance. This problem still remains, even though it is getting better. Lack of coordination leads to ineffective promotion policy implementation.

One criticism of the government's policy is that it is too rigid, causing problems for foreigners who do business transactions in Thailand. Examples of policy inflexibility are the difficulty in establishing Japanese high schools and the problem of visa eligibility. Japanese businessmen find it difficult to have their family with them while they do business in Thailand because they cannot find Japanese high schools for their children. They can send their children to an international school here but many of them want to send the children to Japanese-style high schools, which at present do not exist in Thailand despite the large numbers of Japanese in the country. Visa eligibility



is another problem that is criticized. Many Japanese technicians without a formal university-level degree but with much work experience find it difficult to obtain a visa to work here. The government, especially the BOI should try harder to facilitate these people's entry into Thailand.

#### (4) Opinions from the Japanese Side

In order to assess Japanese attitudes toward investment in Thailand, we interviewed the chief representative of the BOI in Tokyo regarding the opinions of Japanese businessmen about Thailand. Since the BOI office there is contacted by many Japanese businessmen seeking information before leaving for Thailand, the voice of the BOI echoes that of Japanese businessmen. In addition, we obtained some ideas and opinions regarding Japanese investment in Thailand from the Japanese scholars and journalists.

According to the BOI Tokyo office and the journalists, one of the main concerns of Japanese businessmen is the problem of insufficient infrastructure and supporting industries in Thailand. Questions regarding this are often put by Japanese businessmen to the BOI, and the topic also came up during our discussion with Japanese scholars and journalists. Even though the BOI has guaranteed that progress in the Eastern Seaboard Project will alleviate the lack of infrastructure, it seems that this problem still lingers in the minds of many Japanese.

The other important concern of the Japanese companies, especially the front-runner investors, is anti-Japanese sentiment. The BOI representative has tried to convince them that this problem is not likely to reappear if the Japanese put more emphasis on public relations and show their sincerity and openness. Some measures might be adopted such as having more intensive training programs and giving educational support by financing the translation of technical textbooks and providing scholarships and donations.

Concerning government policies, most Japanese businessmen intending to invest in Thailand have some doubts regarding the complicated administrative procedures and bureaucratic red tape, the problem of obtaining visas, and the difficulty of establishing Japanese secondary schools in Thailand, which are quite similar to the attitudes of the Japanese businessmen in Thailand.

According to the BOI official, one crucial problem which confronts Thailand now is the shortage of qualified human resources, especially in the manufacturing sector. In the short run, the BOI attempts to bridge between school and factory by encouraging factories to send their workers to be trained in vocational schools. At present, some Japanese firms, under the leadership of JETRO, have proposed to finance such a training program.

Despite these problems, Japanese businessmen see Thailand as one of the most attractive countries for investment. They are especially impressed with the high economic growth, the good investment atmosphere, and the stability of the political situation.

Regarding Japanese investment, the BOI is attempting to find more qualified Thai partners to ensure that such investments will benefit the Thai people. Regarding technology transfer, the Japanese side alone is not to blame for the lack of transfer. The Thai side should also develop absorptive capacity, especially by focusing on a more technically-oriented educational program. This might be a good start for human resources development, regarding which the Thai government has not yet formulated a concrete policy.

#### **4. Conclusion and Recommendations**

Various surveys have been conducted from time to time in order to appraise attitudes of the Thai people toward Japanese investment. People's attitudes change over time depending on the economic situation of the country and their socio-economic status in relation to Japanese investment. The Thai economic situation has improved and the country is now enjoying high rates of growth. The question is whether this positive economic situation has affected the people's attitudes. This survey was aimed at assessing changes in Thai attitudes towards Japanese investment after the revaluation of the yen as well as at assessing attitudes toward the Thai government's foreign direct investment promotion policies.

From the survey, we can conclude that the perception of the Thai people toward Japanese direct investment tends to be more positive than before. However, some negative attitudes still exist. Furthermore, the survey brought to light various problems which have not been discussed in previous surveys, such as land prices, the shortage of technicians and engineers, the effect of the opening of the Indochinese countries on Japanese investment in Thailand, and the problem of the environment.

Regarding the promotion policies, at present, most interviewees agree that government policies toward the creation of employment, the utilization of local raw materials, and the transfer of technology are quite appropriate, although, some improvements are required to correct existing loopholes. In addition, the promotion policies should be consistent with the national development plan, so that Thai citizens will gain more from these investments. The policies should also be clear and precise.

#### **Policy Recommendations**

In this section we will propose some more policy recommendations in addition to those suggested by our interviewees, which were mentioned earlier. We divide our recommendations into those for the Thai government and those for the Japanese government and businessmen.

### Recommendations for the Thai Government

1. The government should have an explicit policy on technology transfer and R&D in relation to foreign direct investment. An order of preference or priority should be specified for industries and types of firms in order to achieve technological upgrading and development. The target sectors, especially industries, should be selected on the basis of potential comparative advantages. Medium- and small-scale industries that are domestic resource-based should be supported because such firms tend to be more receptive to constructing local R&D facilities and adapting foreign technology to local requirements. Special emphasis should be put on setting up incentives for R&D and technology transfer. Such measures might include the reduction of import duties on laboratory equipment and tax credits for investment or expenditures for local R&D work.

One problem for technology transfer and R&D is the shortage of industrial manpower. There is a communication gap between academic institutions and local firms. The Thai government has proposed that technical personnel from foreign joint-venture companies should offer lectures and practical training for students in technical schools and universities. This is a very good start. The government should try to build between the two institutions for mutually beneficial collaboration. One way might be to give funds for joint ventures between local firms and institutions involved in training and R&D. In addition the government should support technical training by disseminating technical textbooks, handbooks, and manuals or by subsidizing training programs in priority industries.

A brain drain of technical personnel to developed countries is a serious problem in Thailand as well as other developing nations. Recently the Thai government has launched a 'reverse brain drain' program which encourages Thai personnel in foreign countries to come back to work in Thailand. In order to achieve this goal the existing remuneration system must be reviewed to attract this group and to prevent an additional brain drain.

2. We agree with the interviewees that Thailand is facing a serious infrastructure problem, especially in electricity, highways, telephones, ports, etc. Another problem is the shortage of financial institutions and of credit for small- and medium-sized indigenous entrepreneurs. The Thai government must solve this financial constraint by making better credit and other financing facilities available to local companies.

The Bank of Thailand's policy to adopt a program for venture capital through existing financial institutions for small- and medium-sized businesses is a good sign.

3. The government should strengthen institutional investment agencies. At present the BOI has a problem of manpower constraints. This must be solved immediately so the BOI can hasten the approval of project applications and the granting of licenses without bureaucratic tie-ups.

4. Tax structure is an area that has been criticized by foreign investors for its complexity. The tax structure for foreign investment should be less complex and less bureaucratic when it is implemented.

5. The government should set up computerized information systems to facilitate the various approval procedures. Also such information systems might be needed for monitoring and assessing the performance of foreign investment.

6. The Thai government should try to harmonize some of its direct foreign investment incentives to reduce intra-ASEAN competition for foreign investment. ASEAN should try to cooperate in this area using comparative advantage to increase bargaining power with the Japanese.

7. Although promotion incentives should continue, the government must revise its incentive measures and adjust them to the world situation. The import tax reduction is one example. This has been alleged to be a subsidy, so it must be reviewed.

#### Recommendations for the Japanese Government and Businessmen

1. As the most important ODA donor to Thailand and the world, the Japanese government should use its ODA to solve problems of R&D, technology transfer, training, and insufficient infrastructure.

2. The Japanese government should work in cooperation with its Thai counterpart to be middlemen in linking Japanese companies, Thai firms, and scholars in the area of R&D and training.

3. Public relations, more than anything else, is needed to avoid a negative image of Japanese businessmen or Japanese joint ventures. The sincerity and openness of both sides will bring about a good atmosphere for doing business together.

4. Regarding the lack of qualified human resources which confronts the business sector nowadays, Japanese joint ventures as well as Thai businessmen should go hand in hand with the public sector in order to find a solution for this problem. In the short run the establishment of a training institute is urgently needed. The private sector, both Japanese and Thai, should give the government a helping hand in order to alleviate this problem, whose solution will also benefit the business sector.



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## Appendix

### Questions Asked in the Interview Survey

1. Criticize the general positive and negative impacts of Japanese direct investment in Thailand on the Thai economy.
2. How do you think such investment should be improved so that it will give more benefit to the Thai economy? What is a short-term strategy and what is a long-term strategy for such improvement?
3. In your opinion, in what kind of industries would Japanese investment benefit Thailand the most in terms of technology transfer, employment, reduction of trade deficits, utilization of local raw materials, and export promotion?
4. Do you think Japanese direct investment in Thailand has caused environmental problems? If so, what kind of measures should the Thai government adopt to solve the problem?
5. Recently Thailand has become a center or a springboard for investment and trade in Indochina. Do you think this phenomenon will have any impact on Japanese direct investment in our country?

6. Would you compare the role of the Thai government in promoting foreign investment to that of other ASEAN countries.
  7. Do you think the Thai government should revise its promotion policy measures (such as tax incentives)? Is it necessary for Thailand to have such measures in order to induce Japanese direct investment?
  8. In case you have a joint-venture business with Japanese investors, what are the major advantages from such a joint-venture investment? What kind of improvements do you want your Japanese partner to make?
  9. Give comments on the positive and negative aspects of Japanese direct investment on your business activities.
  10. Do you think Thailand has benefited from Japanese technology transfer, if any? If so, explain the mechanism of transfer technology. If not, please identify the constraining factors for effective technology transfer.
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