Thailand

Opportunities and Risks in a Fast-Changing Business Environment

Paul F. Wedel • Dennis A. Rondinelli

Executive Summary

Thailand's business environment is changing dramatically in the wake of the worst financial crisis and economic recession in the country's recent history. Some of these changes may be ephemeral, and Thailand will return to old business practices once the crisis eases, but many of the economic and political reforms now being implemented can make trade and investment in Thailand easier, more transparent, and less affected by corruption. Some of the reforms will not deliver the expected results. Others may increase uncertainty that will be counterproductive in the short run. But some of the constitutional changes—the restructuring of family-controlled conglomerates, better regulation of the financial sector, demands for stronger corporate governance, and new incentives for private investment—can have profound impacts on the country's business climate and the way American companies do business in Thailand. © 2001 John Wiley & Sons, Inc.

INTRODUCTION

For most of its recent history, the economic growth and social development of Thailand relied on international trade and investment. Its progress during
The twenty-first century will depend even more heavily on the ability of its people to interact skillfully and transparently with others in an increasingly interconnected world economy. The Kingdom of Thailand has been an important trading partner of the United States since the early 1980s, and American companies have found strong business opportunities in many sectors of the Thai economy. The ability of American firms to do business in Asia was hampered over the past few years by the financial and economic crises that began in Thailand in late 1996 and spread throughout the region during 1997. But the Royal Thai Government was one of the first and most aggressive Asian governments in making changes needed to recover from the financial setbacks of the late 1990s. The government and the business sector are now seeking to create conditions that will make Thailand a more attractive location for international trade and investment in the future.

BUSINESS OPPORTUNITIES IN THAILAND

Thailand had one of the fastest growing economies in Asia prior to the financial crisis of the late 1990s. The GDP grew on average by nearly 8% a year during the 1980s, and increasing exports and foreign direct investment stimulated even higher levels of economic growth during the first half of the 1990s. The economy expanded on average by 8.5% a year between 1991 and 1995 (Asian Development Bank, 1997). Value added in industry increased by more than 10% annually during the 1980s and by about 11% a year during the first half of the 1990s. Exports soared as Thailand evolved from an agricultural society to a services- and industry-based economy. Merchandise exports increased by nearly 20% a year from 1991 to 1995, with the United States and Japan becoming Thailand’s largest export markets. At the same time, Thailand’s imports grew at nearly 17% a year during the first half of the 1990s, making it a strong market for U.S. goods and services.

Despite recent economic setbacks, Thailand remains an important market for U.S. companies in a variety of sectors. Thais are good customers for U.S. agricultural and food products, importing $438 billion worth in 1999 (U.S. & Foreign Commercial Services, 2000). Despite the downturn in imports over the past three years, Thailand provides a strong market for U.S. soybeans, soybean meal, wheat, dairy products, and cotton, as well as for fish and forest products (especially temperate hardwood lumber).
The nonagricultural sector, Thailand offers substantial opportunities for U.S. firms as the economy recovers. The U.S. & Foreign Commercial Service estimates that in 2001, Thailand’s total imports will reach $10 billion in electronic components, $3 billion in automotive parts and services, $2 billion in franchising, $1.1 billion in telecommunications equipment, $555 million in industrial process controls, and $550 million in industrial process controls. Import markets are also recovering in other sectors. In 2001, they were estimated at $501 million in food process equipment, $400 million for computer software and services, $300 million for water resources equipment and services, and $212 million for aircraft and ground support equipment (see Table 1). Thailand provides smaller but growing markets for education and training services, educational supplies, laboratory and scientific instruments, medical equipment, operations and maintenance services for power generation, structural steelwork, instrumentation, and electrical and computer software industries.

Thailand offers American companies a variety of entry channels for trade and investment (see Figure 1). American businesses export to Thailand through direct sales and through large Asian and European trading companies or Thai agents and distributors. Some Thai trading companies are willing to develop marketing joint ventures with American companies, and a few U.S. firms are beginning to provide products and services in Thailand through e-commerce (American Express and Citibank) and mail catalog operations. Amway and Avon have established direct marketing channels. Fast-food chains and some consumer products companies use franchises in Thailand, and manufacturers license production to Thai firms. New laws now make countertrade easier for American companies that are willing to take Thai products in exchange for U.S. exports. Large U.S. multinationals seeking production and distribution advantages in Thailand, and those companies that find trade or marketplace barriers difficult to overcome, can establish production joint ventures with Thai companies or “greenfield” operations through foreign direct investment.

The U.S. & Foreign Commercial Service warns American firms of potential trade barriers in Thailand for exporters, including tariffs and some non-tariff restrictions, import taxes, nontransparent customs regulations and delayed customs processing, the need for import licenses for some products, and corruption in government agencies. Getting products into the distribution system in Thailand may require working with Thai partners that are well connected.
Table 1. Nonagricultural Import Markets in Thailand, 2001

<table>
<thead>
<tr>
<th>Sector</th>
<th>Products</th>
<th>Size of Annual Import Market Based on Year 2001 Estimate (Millions of US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic Components</td>
<td>Integrated circuits, cathode ray tubes, transistors, printed circuits, cable assemblies, wires, conductors, capacitors</td>
<td>10,100</td>
</tr>
<tr>
<td>Automotive Parts and Services</td>
<td>Tire and brake center equipment, emission control testing equipment, pumps, replacement equipment manufacturer parts, audio systems, wheels, gauges, turbo chargers, intercoolers, engine parts, original equipment manufacturer parts</td>
<td>3,069</td>
</tr>
<tr>
<td>Franchising</td>
<td>Food and restaurant franchises, retail and convenience stores, hotel chains, service franchises (automotive aftermarket, cleaning and maintenance, etc.)</td>
<td>2,028</td>
</tr>
<tr>
<td>Telecommunications Equipment</td>
<td>Telephone switching equipment, optical fiber cable, mobile telephone equipment, radio broadcast equipment</td>
<td>1,100</td>
</tr>
<tr>
<td>Computers and Peripherals</td>
<td>PC and workstation units, monitors, servers, data communications equipment, highspeed networking products, mobile computing systems, printers</td>
<td>555</td>
</tr>
<tr>
<td>Industrial Process Controls</td>
<td>Process control instrumentation and parts, programmable logic controllers, distribution control systems, measuring and controlling devices, analysis and test devices, control valves, fluid meters, and counting devices</td>
<td>550</td>
</tr>
<tr>
<td>Food Processing Equipment</td>
<td>Bakery equipment, freezer and refrigerator systems, liquor distilling equipment, fruit, vegetable, and herb processing equipment, snack foods, and confectionary equipment, fast and convenience foods equipment</td>
<td>501</td>
</tr>
<tr>
<td>Computer Software and Services</td>
<td>Data management software, business management (ERPS, HRM, and Logistics) software, accounting software, industry-specific software for financial and manufacturing businesses, system utilities, application tools, technical maintenance services, Internet service, e-commerce business systems, consulting services</td>
<td>400</td>
</tr>
<tr>
<td>Water Resources Equipment and Services</td>
<td>Feasibility studies, environmental impact studies, detailed design services, project management, construction supervision</td>
<td>300</td>
</tr>
<tr>
<td>Airport &amp; Ground Support Equipment</td>
<td>Construction and improvement of Second Bangkok International Airport and expansion of Bangkok International Airport at Don Muang</td>
<td>212</td>
</tr>
</tbody>
</table>

Compiled by the authors from U.S. and Foreign Commercial Service, 2000.

Despite frequent changes in government policies and strategic directions, Thailand’s economy remains resilient. The country continues to attract foreign investment, particularly in the manufacturing sector and in real estate developments. The Thai government has implemented measures to increase transparency and accountability, including the adoption of the new Electronic Government Act, which aims to improve public services and reduce corruption. The liberalization of telecommunications and the expansion of digital infrastructure have also supported economic growth. However, the country is still facing challenges, including the need for continued improvements in education and the workforce's skills, as well as addressing environmental concerns and ensuring sustainable development.
socially and politically. Linkages to large family-owned conglomerates and government agencies may be essential in some sectors of the economy. Other obstacles to doing business in Thailand include lax enforcement of intellectual property rights, restrictions on foreign ownership of land, and financial uncertainties exacerbated by the recent economic crisis.

THE CHANGING BUSINESS CLIMATE IN THAILAND

Despite frequent political changes in Thailand over the past three decades, each succeeding government and the major political parties continued to support relatively open trade and investment. In practice, however, there are still significant cultural, legal, and bureaucratic barriers, particularly to non-Thai businesses. Although the financial crisis of the late 1990s created temporary difficulties for businesses focused on the domestic market, it is also clearing away many trade obstacles and investment difficulties as the government and business community strive to meet investor expectations and International Monetary Fund and World Trade Organization requirements for financial, economic, and trade reforms. Doing business in Thailand requires executives of international firms to understand the dynamics of change occurring in Thailand during the recovery period.
Emerging from the Financial and Economic Crises

By late 1996, nearly two decades of rapid economic growth in Thailand had turned to equally rapid economic contraction. After years of strong economic growth and relatively low inflation, GDP growth decelerated to 6.7% in 1996, -1.3% in 1997, and -9.4% in 1998. The growth of merchandise exports, which reached nearly 25% in 1995, plummeted to 0.1% a year later. The government nearly depleted its foreign reserves in 1997. Consumer prices began rising higher than GDP growth in 1996. The proportion of nonperforming loans in the financial system grew to 45% at the peak of the financial crisis. Foreign direct investment during the first 10 months of 1999 was 20% less than a year earlier, even though some foreign firms took advantage of the baht devaluation and asset deflation to increase their stakes in Thailand (Royal Thai Government, 1999b).

Although many factors contributed to the economic crisis, the rapid global movement of funds played an important role in pitching the Thai economy into full recession. The near frenzy of foreign investment and international lending during the period of rapid economic expansion in Asia helped create a bubble economy in Thailand. Enormous investments in the stock market gave Thai companies new capital to grow rapidly and, in many cases, indiscriminately. When the market slumped, even more funds flowed into Thailand through bank and finance company lending. Growing differences between domestic and foreign interest rates and easier access to dollar-denominated loans enticed many companies and financial institutions to borrow in dollars against baht revenue streams. Foreign exchange risks were largely ignored in the euphoria of rapid growth and the complacency of more than a decade of stable exchange rates at which the baht was pegged 80% to the U.S. dollar. Thailand's growing trade deficit and a strengthening U.S. dollar led currency speculators to look for new opportunities to profit from the baht's decline. Rapidly increasing pressure on the baht's pegged exchange rate led the government of Prime Minister Chavalit Yongchaiyudh to spend virtually all of the nation's foreign reserves in maintaining the baht's rate at about 25 to the dollar. In hindsight, this defense was costly and futile, but the impact of the baht's rapid devaluation since July 1997 manifests the rationale underlying the government's desperation.

Widespread acceptance of capitalist business practices in nearby socialist countries—China, Vietnam, and India—also contributed to financial pressures in Thailand. Economic reforms in these three countries opened their economies to increasing foreign investment and low-cost competitors from manufacturers exporting low products whose Western manufacturers feared would increasingly force their Western products out of the market. Thailand had to all of its high costs and a need to create logical capabilities—factories, key components, energy licenses—a much of Thai trade deficit in the 1990s, in turn, currency speculators against the baht.

As Thailand attended to globalization through non-tariff barriers demanded by the World Trade Organization, the Thai economy is even more vulnerable to competition. At increasing for higher legal standards and domestic strengthening, small-sized enterprises important, but dictable, impacts.
their economies to foreign investment and made them increasingly potent exporters of many of the same goods that Thailand exported. This new low-cost competition left Thai manufacturers caught in a vise of exporting low value-added products in which new competitors had a cost advantage and importing high value-added products that Thailand was increasingly forced to buy from its Western trading partners. Thailand had to purchase nearly all of its higher technology because it failed to invest in education and research at a level needed to create its own technological capabilities. Purchasing technology—factory equipment, key components, and technology licenses—accounted for much of Thailand’s growing trade deficit in the 1990s. Those deficits, in turn, led international currency speculators to bet against the baht.

As Thailand attempts to adjust to globalization through tariff and nontariff barrier reductions demanded by the IMF and the World Trade Organization, the Thai economy is likely to become even more vulnerable to global competition. At the same time, increasing international pressure for higher legal and ethical standards and domestic pressure for strengthening small- and medium-sized enterprises will have important, but as yet unpredictable, impacts on the market.

Political Impact of the Economic Crisis

The economic crisis is also having profound political consequences that are changing Thailand’s business environment. The first, and possibly most important, of these was the passage in late 1997 of a remarkable new constitution. Most of the parties in the Chavalit coalition appeared ready in mid-1997 to vote against or seriously dilute the document written by a broad-based constitutional assembly. This assembly defined corruption and abuse of political power as key problems. The coalition had the votes to defeat the new constitution, but the collapse of the economy and the widespread perception that economic problems were caused by incompetent and corrupt governments left the Chavalit coalition in a position where it could not both oppose the constitution and remain in power.

The constitution passed, but the reprieve was short. Within two months the Chavalit coalition had fallen anyway. It was replaced by a new coalition led by Prime Minister Chuan Leelapai of the Democrat Party. Although guilty of some of the same corrupt practices as its predecessor, the new coalition included competent economic managers who saw the need for major reforms. Most of these reforms had already been promised by the Chavalit government in return for a $17 billion IMF rescue package. Unlike its
predecessor, the Chuan government saw IMF-mandated reforms as crucial to restoring confidence in the Thai economy. It disagreed, however, with the extent of contractionary macro-economic measures mandated by the IMF. Over the next 12 months it successfully renegotiated the terms of the rescue package to allow the use of government deficit spending and tax cuts to halt the collapse of domestic demand.

In January 2001, national parliamentary elections turned out the Chuan government, which was replaced by a coalition led by Thaksin Shinawatra, a telecommunications company tycoon, who formed a government pledging strong economic recovery.

THE CHANGING BUSINESS CLIMATE IN THAILAND

The government of Thailand has pursued several measures since 1997 to stabilize the financial sector, restructure the economy, and restore investor confidence in Thailand’s business climate.

The New Constitution

The new constitution mandates far-reaching changes in Thai society. It greatly expands civil and human rights and puts greater limits on the power of government. But the constitution’s concerted attack on corruption in government procurement, infrastructure development, tax collection, and Customs Department procedures are likely to have the most direct and immediate impacts on Thailand’s business climate. The joint Foreign Chambers of Commerce has long complained that Customs corruption hampers Thailand’s ability to compete effectively in international trade, and that rent-seeking activities draw into the government politicians and civil servants whose main purpose was self-enrichment.

The new constitution seeks to reduce the influence of money on elections by strengthening the Election Commission, giving real teeth to the National Counter Corruption Commission, creating a new mechanism for the election of legislators from a party list, and raising the educational qualifications of candidates. A new elected Senate, made up of non-politicians, is supposed to provide additional checks and balances on the actions of government.

The new constitution and its supporting laws contain new tools specifically designed to discourage corruption.

- Stricter financial disclosure is now required of all elected politicians and senior level civil servants, who must now disclose complete financial information, including tax returns for themselves and their imme-

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information, tax returns for s and their imme-
diate families. These records are actively checked and monitored throughout the person’s time in office by the National Counter Corruption Commission.

- The National Counter Corruption Commission has greater powers of investigation and action than its predecessor. Uncertainties remain, however, about how strong the commis-
ion will be because most of its staff are holdovers from its relatively weak predecessor and its budget is limited.

- The Administrative Court created by the constitution is dedicated to hearing cases against the govern-
ment and seeks to speed up suits and charges of abuse of power against public officials and agencies.

- The Central Bankruptcy Court will focus solely on business reorganization and bankruptcy. It is expected to accelerate the bankruptcy process established under the new bankruptcy and foreclosure laws.

- The Ombudsman System provides for an ombudsman to receive complaints about government actions and to investigate bureaucratic abuses.

- Decentralization is the result of the new constitution’s requirement that more administrative and taxation powers be transferred to locally elected bodies and that strengthening “Administrative Organizations” be strengthened at the provincial, district, and subdistrict levels. The effects of decentralization on business are still unclear. The constitutional drafters’ intent was to give more power to elected officials who are closer to the people and, presumably, more responsive to local needs and wishes. The danger, however, is that local groups of politicians, business-
men, and gangsters will collude to dominate these local organizations for their own benefit.

New Legal Measures
The Chuan government pushed through several new laws and key amendments of existing legislation to accelerate economic recovery and improve the framework under which business operates.

- The Bankruptcy Act, which outlines detailed new procedures for approving or amending corporate reorganization plans and providing protection to debtors, sets limits of 5 years on corporate bankruptcy proceedings and 3 years for personal bankruptcies.
Many lawyers, however, believe that loopholes still allow delaying tactics, particularly by large debtors. Until these doubts are put to rest or the loopholes are closed, the prospect of protracted bankruptcy proceedings continues to inhibit business reorganization. So far, passage of the law has not had the expected impact on “strategic NPLs”—those nonperforming loan cases in which the debtor has funds to repay the loans but declines to do so in the hope that protracted bankruptcy proceedings will lead creditors to offer significant reductions in principal or interest as part of a debt workout agreement.

- **Civil Code Amendments on Foreclosure** will streamline the disposal of assets, eliminating many appeals, simplifying and shortening procedures for small amounts, and reducing the opportunities for delay by allowing the court to proceed, in some circumstances, in the absence of the defendant.

- **The Alien Business Enterprise Act** replaces an earlier law that was more restrictive on foreign business. The new law relaxes limits on foreign participation in the professions of law, accounting, advertising, and in most types of construction. It reduces previous limits on foreign ownership of firms manufacturing products such as alcoholic beverages, clothes, footwear, cement, and pharmaceuticals, but it also sets new restrictions on other activities including publishing and farming. It opens ownership of retailing and brokerages to foreign ownership for the first time, recognizing a fait accompli—the foreign takeover of major firms in these sectors. The law, however, still gives the government the ability to restrict foreign ownership and still subjects foreign purchases to government vetos. Although the new law shows that the current government recognizes the need to attract foreign capital to keep many businesses alive, it leaves opportunities for future governments to take a different view.

- **The Commercial and Industrial Lease Act** amendments raise the maximum lease period from 30 years to 50 years.

- **The Land Act** amendments allow foreigners investing at least $1 million in Thailand to buy a small residential plot of one rai (about 0.4 acre).
- The State Enterprise Corporatization Act, a highly controversial piece of legislation that is currently facing Constitutional Court scrutiny, provides a process for transforming state enterprises into private corporations. Although privatization in Thailand continues, opposition by State Enterprise Labor Associations has seriously slowed the process (Rondinelli & Priebrmajer, 2000) Economic recovery is likely to weaken the government's and the public's sense of urgency even though privatization can help achieve greater efficiency, bring desperately needed private financing for infrastructure, and reduce bottlenecks in areas such as telecommunications and environmental infrastructure development.

Some uncertainties remain about how the new laws will be implemented. Much will depend on the development of more effective business and citizens groups that have more authority under the new constitution to receive information and monitor government performance. Thailand's lively and independent press will have to become more competent and responsible. The courts, bureaucrats, and the public will have to reach some level of agreement on what the new laws will mean in practice. This uncertainty is not helpful to business in the short run, but as it becomes clearer how the new legislation will be interpreted and implemented these laws can make important changes in the way that business is done in Thailand.

Private-Sector Changes
The widespread perception in Thailand that the economic crisis was triggered by reckless private-sector investment and corporate abuses led to calls for more stringent business regulations. The Stock Exchange of Thailand (SET) is taking the lead with new listing requirements aimed at encouraging stronger corporate governance. These measures include requirements for corporations to establish audit committees headed by independent directors; provide financial statements in strict accord with internationally acceptable accounting principles; assure completely clean audit reports; clearly specify duties for all board members; and strictly adhere to environmental laws.

Recognizing that new regulations will not solve all corporate governance problems, the SET is providing training courses to strengthen the new audit committees. It is also funding a Thailand Institute of Directors Association, which will provide information, training, and support for independent directors. The new approach requires cor-
porate managers to protect the interests of all shareholders, not simply those of the majority shareholders that control management. The Securities and Exchange Commission is also tightening regulations against insider trading and taking tougher measures against violators. Nongovernment organizations, such as the Thai version of Transparency International and the Thai Development Research Institute, are pressing for better governance in both the public and the private sectors.

Important as these changes may be, the biggest transformation in the private sector may come from Thai corporations' desperate need for new capital. Thai companies with serious debt problems have been forced to seek new investors. With most of the financial institutions that had been conventional sources of domestic investment in deep trouble, Thai companies are now seeking foreign investment. Unlike in the mid-1990s, when foreigners happily invested in the Thai boom without asking too many questions, foreign investors are now demanding much higher standards of accounting and corporate governance. These demands, along with stronger punishments for accounting firms that fail to perform competent audits, are forcing many Thai companies to upgrade their accounting procedures and internal management processes.

Foreign investors are also demanding, and often getting, majority control of joint ventures. They have been driven by the need to save their existing investments and relatively favorable asset prices. Large international retailers have taken over several of Thailand's major retail chains. Foreign partners in many joint ventures in the auto, electronics, and food processing sectors are increasing their investments (often in debt-equity swaps) to gain majority control. These changes in ownership are likely to drive new ways of doing business for Thai companies as they move away from family control. The cozy, complex business relationships among the largely Sino-Thai family groups that controlled many of the conglomerates are beginning to shift to more transparent business relationships. Although they are still extremely important, personal connections may no longer be the most critical factor in Thai business in the future.

**Financial Sector Restructuring**

Nowhere has transformation been more dramatic than in the long-protected financial sector. The high rates of nonperforming loans—averaging nearly 45% among Thai banks and 10% among foreign banks at the end of 1999—created complex problems for financial institutions. Changes in ownership of banks and finance companies have already occurred, and more are on the way.

After the financial sections of 58 insolvent and strapped financial two were allowed to write down and remove moneymaking new debt-to-equity government's final package, anno 1998, acceleration of bank taking, major, investment in the provision of public and other institutions, a framework for asset management 1998 and 1999 also took on greater transparency financing of accelerated restructuring, the social safety the impacts of the poorest and moments of the poor.
After the financial crisis broke, the government suspended operations of 58 insolvent or liquidity-strapped finance companies (only two were allowed to reopen) and intervened in six commercial banks and 12 finance companies to write down registered capital and remove management before injecting new funds through debt-to-equity swaps. The government's financial restructuring package, announced in August 1998, accelerated the consolidation of bank and finance companies, encouraged private investment in the banking system, provided public funds to recapitalize the remaining financial institutions, and developed a framework for creating private asset-management companies. In 1998 and 1999, the government also took measures to promote greater transparency and direct financing of capital markets, accelerated corporate debt restructurings, and strengthened the social safety net to minimize the impacts of the crisis on the poorest and most vulnerable segments of the population.

By the beginning of 2000, nearly two-thirds of all the country's finance companies were shut down, taken over, or forced to merge. Banks are going through even more radical change. Once largely protected by the limited number of licenses issued to foreign banks and their restriction to only one branch, Thai banks had the luxury of holding on to outdated practices and unnecessarily large, but undertrained, staffs. Most banks served the interests of management rather than shareholders, or acted as the financing arms of powerful family business groups. But the financial crisis is consolidating banks in Thailand and opening the financial sector to foreign investment. ABN Amro took over the Bank of Asia, Standard Chartered Bank bought Nakornthon Bank, the Development Bank of Singapore (DBS) bought Thai Danu Bank, and the Overseas United Bank of Singapore purchased Radanasis Bank, earlier created by the forced merger of two smaller banks. The winning bids for Bangkok Metropolitan Bank and Siam City Bank are scheduled to be announced in 2000. Even those banks that have so far survived have had to reform themselves to attract new capital. Many will still end up under foreign control. The state-owned Krung Thai Bank, one of the largest in the system, recently completed recapitalization, and is implementing an operational restructuring plan in preparation for privatization, amid much political controversy.

At the same time, the Bank of Thailand is more aggressively imposing regulations on commercial banks. These tighter regulations aim at ending the conflicts of interest and weak loan decision processes that
brought the banks to the edge of bankruptcy. The short-term impact is to make banks more fearful of lending that could lead to new nonperforming loans or squandering scarce capital. In the long term, however, the changes should help level the business playing field. Precrisis lending was “name lending” based on relationships, collateral (often inadequately assessed), and personal guarantees rather than sound business prospects. This gave a special advantage to family business groups that controlled a bank or had special relationships with it. With changes in both ownership and regulation, businesses will have more equitable access to bank loans.

Policies to Encourage Private Investment
In August 1999, the government announced new policies to encourage private investment (Royal Thai Government, 1999a). The Thai Cabinet approved new tax and tariff reductions to promote private investment, enhance corporate liquidity, lower production costs, and reduce consumer prices. The government reduced tariffs on many capital goods, raw materials, and other products and removed surcharges on items with tariff rates over 5%. In addition, it allowed companies to use double declining balance methods of depreciation. To support business restructuring, the government created three new funds to provide equity capital for new investments. Measures were taken to ease mortgage costs and real estate transfer fees to stimulate real estate investment, and financial advisory centers were created for small- and medium-sized enterprises. In May 2001, the Thaksin government provided an additional support package for capital markets by cutting corporate income taxes by 5% for companies listed on the Thai stock exchange.

CONCLUSION
As Thailand recovers from its financial crisis and economic recession, the policy reforms enacted over the past several years promise changes that should make it easier for U.S. exporters and investors to do business there in the future. Among the most important changes are

- reduced barriers to entry,
- more international rules,
- more professional business management,
- less political interference,
- reduced military role, and
- less protected domestic markets.

As the new economic climate emerges, U.S. companies will have an easier time finding appropriate partners that are not just politically well connected, but truly competent in their business.

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business. The rules of trade and investment should become more transparent and less obstructive, and their application less obviously corrupt. American businesses are likely to find better information, and easier access to it, in a more competitive Thai market.

The ability of American companies to do business in Thailand more efficiently will depend, however, on the government's willingness and ability to implement its new regulations, and on the Thai business community's acceptance of them. The Thaksin government came into office under a cloud of suspicion when the prime minister was charged in the Constitutional Court with corruption for not reporting his wealth accurately prior to the elections. Little in the way of policy reforms took place during the first half of 2001, as Thaksin avoided parliamentary conflicts and focused on defending himself from corruption charges.

More complex and difficult issues remain, including the reorganization of family-controlled business groups, the implementation of election reforms, the reinvention of money politics, the strengthening of civil society, the legitimization of the new constitution, and progress toward decentralization, all of which require stronger political commitment and public acceptance than the regulatory changes made under IMF pressures.

By 2001, some economic indicators in Thailand began to improve over conditions in late 1999 and early 2000 (Royal Thai Government, 2001). Unemployment declined to about 3.7% at the end of 2000. GDP growth moved back to positive rates increasing to 6.3% by mid-year 2000, but declining to 2.6% in the third quarter. The currency began to stabilize at about 45 baht to the U.S. dollar by mid-2001, and the Bank of Thailand focused its efforts on ensuring exchange rate stability and protecting the country's foreign reserves, which grew to about $32 billion by June 2001 (Chudasri, 2001).

Improvements from the steep decline of 1998 were not difficult to achieve. Whether or not the recovery continues in the long term, however, will depend on the government's and the Thai people's resolve to create a new economic and political system that can respond effectively to Thailand's need to improve its international competitiveness. An Asian Development Bank report noted that, despite the government's impressive success with enacting policy reforms, implementation will...
not be easy. “A number of influential forces have a vested interest in the status quo, and enthusiasm for the new constitution is not universal among them.” The report pointed out that “other daunting challenges, such as highly hierarchical and deferential culture, the practice of vote buying in rural areas, fierce bureaucratic resistance to the decentralization initiatives envisioned in the constitution, and widespread perceptions of corruption, remain very much a part of Thai political and administrative life” (Asian Development Bank, 1999).

Despite the uncertainties, for American companies that can identify, monitor, and cope with risks, the changing business climate in Thailand holds the promise of greater opportunities in a stronger and more competitive economy.

REFERENCES


INTRODUCTIC

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