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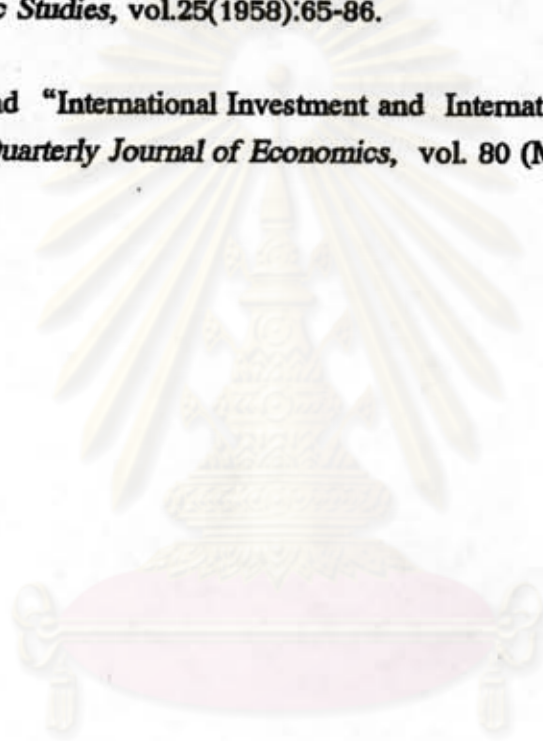
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**APPENDICES**

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## Appendix A

### Types of income subject to withholding tax

Certain types of assessable income payable to a company outside Thailand that does not carry on business in Thailand are subject, on remittance, to a withholding tax at the normal rate of 25% after deducting applicable allowances. The types of assessable income subject to this withholding tax are as follows :

Type of income	Applicable allowances	Remark
Services income	20% but not over Bht 20,000	
Goodwill, Copy right or any other rights	nil	
Dividends	nil	Tax rate is 20%
Other stock dividends and profit from disposal of shareholding	nil	
Interest income	nil	Tax rate is reduced to 10% of interest is paid to bank or insurance company
Rental income	10%	
Income from professions such as law, heading arts, engineering , architecture, accountancy and fine arts	40%	

source: Board of Investment

## Appendix B

The ordinary least square result using GDP per capita instead of GDP. There are 2 equations having GDP in their functions which are foreign direct investment equation and the portfolio investment equations. The results can be shown as follows:

### The Foreign Direct Investment Results

The study of the relationship of inflows of foreign direct investment and the variables use the same variables as in Chapter 4 except GDP which is substituted with GDP per capita. The equation was estimated and the results is:

$$\begin{aligned}
 \text{FDI} = & 702,986.8 + 31.38 \text{ GDPCt}^* + 1,169.09 \text{ MW}_t - 0.02 \text{ POP}_t \\
 & \qquad\qquad\qquad (5.20) \qquad\qquad\qquad (1.68) \qquad\qquad\qquad (-3.88) \\
 & -18.55 y_t + 32,314.61 \text{ D1} - 7,185.03 \text{ D2} \\
 & \qquad\qquad\qquad (-4.57) \qquad\qquad\qquad (-4.57) \qquad\qquad\qquad (-0.86) \qquad\qquad\qquad (\text{B.1}) \\
 \\
 R^2 = & 0.91 \qquad\qquad\qquad \text{F-Stat} = 21.18
 \end{aligned}$$

From the above equation, the result is quite close to equation (4.1) in Chapter 4. Even though it has a higher  $R^2$  and all variables have higher t-statistics, the important variables explaining the inflows of foreign direct investment are still the same as in equation (4.1) in Chapter 4.

After trying many ways, we have decided to leave out GDP per capita. Thus, the equation we chose is the same as equation (4.2) in Chapter 4

### The Portfolio Investment Results

Substitute GDP with GDP per capita in equation (4.3) in Chapter 4 (other variables are still the same) and estimated with ordinary least square. The results is :

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\* GDPC = Gross Domestic Product per capita

$$\begin{aligned}
 \text{PFI} = & -227,491.3 + 8.75 \text{ GDPC}_t + 142.86 r_t^d - 10,669.35 \text{ ER}_t \\
 & \quad (5.80) \quad (0.03) \quad (-2.03) \\
 & + 2,0210.06 y_t^p - 4,666.18 \text{ D1} \\
 & \quad (0.37) \quad (-0.21) \\
 R^2 = & 0.86 \quad \quad \quad \text{F-Stat} = 18.51
 \end{aligned}
 \tag{B.2}$$

The result of this equation is quite close to equation (4.3) in Chapter 4 with the same coefficient sign and the same factors determining portfolio investment

It can be seen that using GDPC instead of GDP gives higher  $R^2$  and t-statistics as in equation (B.1) but in equation (B.2) the  $R^2$  is still the same. All the sign of coefficient in both above equations are the same as in chapter 4 . Therefore, GDP per capita is another alternative choice to study.

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## Appendix C

### Regulatory Framework for Foreign Direct Investment in Thailand

#### Statutory requirements

Two major laws affecting foreign investment are the Investment Promotion Act of 1977 and the Alien Business Law of 1972. The Thai Government has consistently maintained favorable attitudes towards foreign investment.

There are no prohibitions or restrictions for foreign investment per se. The Alien Business Law is applicable only to natural persons and juristic persons who are not of Thai nationality, including 1) a juristic person with majority foreign shareholding 2) a juristic person, at least one-half of the number of shareholders, partners or members of which are aliens 3) limited partnership or registered ordinary partnership having an alien as managing partner or manager. It sets three categories of business activities where foreign legal entities defined above are (a) prohibited; (b) permitted only with the Board of Investment promotion ;(c) implemented only with the permission of the Ministry of Commerce of Board of Investment promotion.

The Alien Business Law does not apply to alien engaged in business with the permission of the Royal Thai Government, or covered by an agreement between the Royal Thai Government and a foreign government which excludes certain activities.

Under the Investment Promotion Act, the Board of Investment may approve the promotion of investment projects in agriculture, animal husbandry, fishery, mineral exploration and mining, manufacturing and services when it considers that the products, commodities or services:

- are either unavailable or insufficiently available in Thailand or are produced by and outdated process;
- are important and beneficial to the country's economic and social development and to national security; or
- are economically and technologically appropriate, and have adequate preventive measures against damage to the environment.

The Investment Promotion Act sets forth tax and non tax investment incentives for both local and foreign investors. Some incentives, particularly non tax



incentives are designed to facilitate foreign direct investment. Details on incentive schemes

### **Procedures for development of regulations related to foreign investment**

An opportunity is provided for the private sector to make proposals or recommendations related to regulations affecting foreign investment. Several mechanisms have been initiated to provide for a business sector to give inputs and suggestions to responsible government agencies. These include the Joint Public and Private Consultative Committee and several ad-hoc working groups consisting of public agencies and foreign business associations. The private sector can raise any problems related to business operations so that further actions can be taken to solve those problems.

Furthermore, the private sector has representation in the Board of Investment which is responsible for considering investment projects applying for incentives and establishing investment promotion policies.

### **Investment review and approval or notification processes**

Only those foreign legal entities engaged in businesses specified in the Alien Business Law are required to acquire an Alien Business License from the Ministry of Commerce.

A foreign investor may choose any of several forms of business organization. Companies wishing to receive investment incentives may apply for investment promotion from the Office of the Board of Investment. The same treatment is accorded to both local and foreign investment. The Board of Investment, consisting of representatives from both public and private sectors, grants incentives to investment projects beneficial to the country's economy.

### **Restricted sectors**

A few performance requirements may be imposed on investment projects promoted by the Board of Investment-those granted investment incentives.

These requirements mainly deal with export performance and local content. It is noted that both local and foreign projects are obliged to comply to the same requirements. No performance requirements are particularly designed for foreign investment.

The Alien Business Law is not tied to the export orientation of investment proposals or any GATT-inconsistent performance requirements. In an attempt to further promote the role of foreign investment in Thailand, the Government is in the process of revising the Alien Business Law.

### **Joint venture and capital requirement**

Certain business activities are subject to the shareholding requirement stipulated in the Alien Business Law Aforementioned. The Board of Investment applies the following joint venture criteria for projects seeking investment promotion:

1. For investment projects in agriculture, animal husbandry, fishery, mineral exploration and mining or services, Thai nationals must hold not less than 51% of the registered capital. However, projects with investment over one billion baht may be majority or wholly foreign-owned, but Thai nationals must hold at least 51% of the shares within five years of operation.

2. For manufacturing projects, if the production is mainly for the local market, Thai nationals are required to own not less than 51% of the shares. However, for projects located in zone 3, foreign ownership will be considered on a case by case basis.

3. If at least 50% of the production output is for exports, foreign investors may hold the majority of the shares. If at least 80% of the output is for exports, companies may be wholly foreign-owned.

4. During the Seventh Development Plan period (1992-1996), equity participation will be determined by the ministries concerned on a case by case basis for the following activities. The Board of Investment will not take the ownership issue into consideration.

- development of transportation systems
- public utilities

- environmental conservation and restoration
- direct involvement in technological development

### **Tax Incentives**

Tax incentives are equally available to both local and foreign investors. major incentives include tax holidays, exemption or reduction of import duties in machinery and exemption or reduction of taxes in imported raw materials. The magnitude of incentives granted depends on the location of investment projects. In order to encourage industrial decentralization, the country is divided into three zones with varying degrees of incentives. Remote areas are granted more incentives

#### Zone 1

Project operated and established in Bangkok, Samutprakarn, Samutsakorn, Patumthani and Nakornpatom.

1.Reduce import tax for half machinery, except machinery which have import fee less than 10 % will not be excepted. The project no less than 80% of sales value or industrial estate of promoted in area.

2.Except income tax 3 years for project of export not less than 80% of sale value and operate in industrial area or promoted area.

3.Exception for import fee for raw materials or necessary materials for export production for 1 year, for project exported not less than 30% of sales value.

#### Zone 2

Project operated or situated in Samut Songkram, Ratburi, Kanjanaburi, Supanburi, Angthong, Pranakorn Sriyuthaya, Saraburi, Nakornayork, Chachingsao, ChonBuri.

1.Reduce income tax for machinery half, except machines that have import tax less than 10% will not be reduced.

2.Exception juristic person income tax 5 years and increase 7 years if operation place in industrial or BOI area.

3.Exception to income tax for raw materials for production 1 year for project export not less than 30% of sales value.

### Zone 3

Project operated or situated in BOI areas in the rest 60 provinces of the country include Laenchabung estate.

1.Reduce import tax for machine 0% except having import fee not less than 10% with no reduction.

2.Exception juristic income tax 6 years and increase 8 years for industrial estate of in BOI area.

3.Exception import tax for raw materials or necessary for production for export for export for 5 years, for project of export not less than 30% of sales value.

4.Special right according to section 35 of BOI Act year 1977 as follow:

-reduce income tax 50% of normal rate for 5 years from expired date.

-exception of juristic income tax.

-allow to deduct transportation fee electricity 2 times for 10 years from income date.

-allow to deduct installation or construction from net profit 25 % of capital.

5.Cancellation of regulation in exporting.

6.Regulation of local content will be according to grade or section about trims and will ancel domestic parts.

In order to encourage industrial development in regional areas, the Board of Investment offers tax incentives to existing activities, which may of may not have been promoted, if they relocate from the central to the regional areas. The following criteria are applied:

a) The operations must be relocated from Zone 1 to Zone 2, or from Zone 1 or 2 to Zone 3

b) The type of activity and size of investment must be in accordance with those specified by the Board in the Investment Promotion List.

c)Criteria for factory relocation

1.For projects facing environmental problems and required by the Ministry of Industry to relocate

-The factory must relocate to and industrial estate of promoted industrial zone

-The former factory must be closed down and all machinery moved to the new location. The new factory must be ready for operation within two years of receiving the promotion certificate

2.For other types of operation

-The existing operation must employ not fewer than 100 people

-Main production machinery must be moved to the new location, and the new factory must start operating within two years of receiving the promotion certificate

d)Relocating operations will receive the standard non-tax incentives and the following tax incentives:

1.For factories which relocate to zone 2, except for activities specified in the Investment Promotion List as not being eligible for corporate income tax exemption

-Three year corporate income tax exemption

-Seven year corporate income tax exemption in case of relocation to industrial estates or promoted industrial zones

2.For factories which relocate to zone 3, except for activities specified in the Investment promotion List as not being eligible for corporate income tax exemption

-Eight year corporate income tax exemption

-50% reduction of corporate income tax for five years after the initial exception period

-double deduction from taxable income of water, electricity and transport costs for 10 years

-deduction from net profit of 25% of the cost of installation or construction of the project's infrastructure facilities

As technological development is one of the most important policy objectives, additional tax incentives are granted to projects which invest in research and development activities.

## **Investment Promotion**

### **A.Role of national government and description of promotion policies and programs**

The Board of Investment, chaired by the Prime Minister, is responsible for administering the investment promotion law and establishing overall policy guidelines. The Office of the Board of Investment (OBoI), reporting to the Office of the Prime Minister, is an administrative arm of the Board. The major three functions of the OBoI are as follows:

- to reduce the risks associated with investment through granting various guarantees such as those against nationalization or competition from new state enterprises;
- to reduce the initial investment costs and to improve the overall rate of return on investment through the provision of investment tax incentives;and
- to provide support services

Under the Investment Promotion Act of 1977, the Board of Investment maintains a policy of giving special consideration to investment projects which:

- locate operations in provincial areas;
- establish of develop industries which form the base for further stages of industrial development;
- develop public utilities and basic infrastructure;
- conserve natural resources and reduce environmental problems;
- conserve energy of replace imported energy supplies;
- contribute to technological development;and
- significantly strengthen the balance of payments.

The Investment Service Center of the OBoI is in charge of providing investors with investment-related information such as investment opportunities, general and sector specific information, and assertion investor in applying for investment promotion. In addition, the OBoI facilitates investors in obtaining necessary licenses or permits such as work permits, factory licenses, and the like.

The OBoI maintain six overseas offices: in New York, Tokyo, Sydney, Frankfurt, Paris and Hong Kong. Foreign investors can have access to services through these offices or directly contact the OBoI in Thailand. As a part of

investment promotion activities, the OBoI organizes about ten investment promotion missions overseas every year.

### **B. Investment incentives**

Non tax incentives granted by the Board of Investment include the following:

#### **Guarantees against**

- Nationalization
- Competition from new state enterprises
- Monopolization of sales of similar products
- Price control
- Export restriction
- Duty-free imports by government agencies or state enterprises

#### **Permission**

- To bring in foreign nationals to conduct feasibility studies
- To bring in foreign nationals to work under promoted projects
- To own land for the purpose of conducting promoted activities

### **C. Role of sub-national governments and description of promotion activities**

The OBoI maintains several offices in regional areas to facilitate investors in those respective areas. City authorities are also involved in some investment promotion activities such as organizing investment seminars.

### **D. Private sector role in investment promotion**

The private sector is involved in various activities aiming at attracting foreign investment. For instance, Both local and foreign businessmen in Thailand regularly participate in OBoI investment promotion missions to different target countries.

### Author's Profile

Miss Sangnapa Rangkasiri was born on April 27, 1973 in Bangkok. She graduated in Bachelor of Economics from faculty of Economics, Chulalongkorn University in 1995 and followed Master of Art in International Economics and finance, faculty of Economics, Chulalongkorn University in the same year.



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