TRADE POLICY REVIEW MECHANISM

THE KINGDOM OF THAILAND

Report by the Secretariat

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on the Kingdom of Thailand. Volume B (Tables and Appendices) is presented in document C/RM/S/13B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Kingdom of Thailand. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Kingdom of Thailand on its trade policies and practices.

Document C/RM/G/13 contains the report submitted by the Government of the Kingdom of Thailand.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

1. The past two decades have been a period of major transformation for the Thai economy. In 1970, Thailand was an agrarian society with relatively poor infrastructural facilities and a low level of productivity, reflected in a per capita income of US$175. Agriculture contributed to GDP almost twice as much as manufacturing. Merchandise exports heavily relied on a few primary products, notably teak, rice, rubber, maize, tapioca products and tin ore.

2. Thailand achieved relatively rapid economic growth in the first half of the 1970s, with real GDP expanding at an annual rate of about 6 per cent. The emphasis in the development strategy was on import-substitution. Economic growth was mainly domestic demand-led.

3. In the second half of the 1970s, economic policies became more outward-looking. Economic growth picked up, to an annual rate of 7½ per cent. Despite some strains on the economy, growth remained robust in the first half of the 1980s (annual growth of 5½ per cent) while the world economy slipped into the 1982-83 recession.

4. Since the mid-1980s, Thailand has been among the fastest growing economies in the world, with the expansion of merchandise exports, tourism and investment activity providing the main stimuli. The development of the manufacturing sector, including exports of manufactures, has been particularly dynamic. As a proportion of gross domestic product, manufacturing now substantially exceeds agriculture. The ongoing acquisition of technological know-how, the development of local infrastructure, a deeper domestic market and stronger links with the world market on a broader basis have strengthened Thailand's ability to maintain the momentum of its economic transformation.

(1) Thailand in World Trade

5. In the early 1980s, high petroleum prices, rising international interest rates and global recession put strains on the balance of payments and slowed down economic expansion in Thailand. The Thai Government responded by imposing fiscal and monetary discipline, limiting public external borrowing, and giving greater emphasis to export performance through measures such as easier access to imported inputs and the switching from a fixed to a more flexible exchange rate régime.

6. Supported by a real effective devaluation of the Thai baht of an estimated 30 per cent between 1983 and 1988, an increasingly open business environment in Thailand and the recovery of the world economy, Thai exports
picked up sharply after 1985 (Chart). The ratio of Thai exports of goods and services to GDP increased to 39½ per cent in 1990, up from 25½ per cent in 1980. In the process, Thailand's production and export structure has become more diversified and resilient against adverse developments in world commodity markets.

Thailand and world merchandise trade, 1980-90

7. Thailand's economic growth recovered from a low point of 3½ per cent in 1985 to reach double-digit rates during 1987 to 1990. The initiative in investment activity shifted from the public to the private sector, reflecting greater reliance on market forces. Expanding investment and consumption induced a rapid increase in imports, in particular imports of raw materials, machinery and other intermediate products. In 1990, Thailand accounted for 0.9 per cent of world merchandise imports and 0.7 per cent of world merchandise exports (rank 23rd among world importers and 31st among world exporters).

8. Thai imports have outpaced Thai exports in recent years. Coupled with a terms of trade loss after 1986, this resulted in an increase in the current account deficit from less than one per cent of GDP in 1987 to 7½ per cent in 1990. However, Thailand is now better placed to cope with strains in the current account than in the early 1980s. Tight fiscal policy has led to a budget surplus equivalent to 5 per cent of GDP in 1990,
providing financial flexibility to the Government. Foreign investment inflows have contributed to a substantial balance of payments surplus in recent years. While long-term external debt increased to an estimated US$16 billion in 1990, the ratio of long-term debt service payments to exports has declined from a peak of 22 per cent in 1985 to 10 per cent in 1990. In December 1990, foreign exchange reserves were equivalent to over five months of imports.

9. The improvement in Thailand's international competitiveness in the second half of the 1980s has reinforced the incentives provided by the Government to attract foreign investment. Net private foreign investment in Thailand has risen more than ten-fold since 1987. Investment inflows from abroad have contributed to the dynamism of Thailand's international trade. Much of the foreign investment has been export-oriented, including processing and assembly projects.

10. Increasing linkages with the world economy have been accompanied by a major change in the product mix and regional pattern of Thailand's trade. At present, manufactures account for about two-thirds of Thailand's merchandise exports, up from slightly over one-third in 1980. During the same period, the share of manufactures increased from about one half to three-quarters of total imports of merchandise.

11. While Thailand's export base is still relatively narrow, export diversification has progressed in recent years, including diversification into fisheries products, clothing items, leather manufactures, toys, jewellery and certain machinery. Import patterns continue to reflect Thailand's heavy reliance on imported inputs, and the protection provided to domestic producers of many finished products, particularly consumer goods. Within a decade, the share of raw materials, intermediate products and capital goods in total imports of merchandise increased by about 25 percentage points to reach approximately 75 per cent in 1990.

12. With a share of about 20 per cent in 1990, the United States has become Thailand's top export market, up from third place behind the European Communities and Japan in 1980. As for Thai merchandise imports, Japan, the traditional number one supplier, increased its market share to almost one-third, a gain of 10 percentage points during the 1980s. The European Communities have remained the second largest import source, with an estimated share of 15 per cent in Thailand's merchandise imports in 1990. Thailand's trade with developing countries has remained relatively small.
(2) Institutional Framework

13. Thailand has been a constitutional monarchy since 1932. After a military coup in February 1991, Thailand's eleventh Constitution was replaced by an interim Constitution. It continues to recognize the King as the Head of State. Legislative power is exercised through the National Legislative Assembly, executive power through the Cabinet, and judicial power through the law courts.

14. The interim Constitution gives far-reaching authority to a National Peace-Keeping Council, established in February 1991. Members of the National Legislative Assembly and the Prime Minister are appointed by the King on the recommendation of the Chairman of the Council. Together with the Cabinet, the Council is responsible for formulating national policy. Joint meetings of the Cabinet and the Council are chaired by the Chairman of the Council. According to the interim Constitution, draft bills can be submitted to the National Legislative Assembly only by the Cabinet. In certain cases of emergency, as defined by the interim Constitution, action by the Chairman of the National Peace-Keeping Council or the Prime Minister is deemed legal and does not require the assent of the National Legislative Assembly.

15. The main Ministries involved in trade-related policies continue to be the Office of the Prime Minister and the Ministries of Commerce, Finance, Industry, and Agriculture and Co-operatives. The Office of the Prime Minister includes the Board of Investment which affects the level and pattern of investment in Thailand through its concession policies. In general, policy formulation is coordinated through Committees, many of them ad hoc and temporary. Depending on the nature of the policy issues discussed, the Committees may include Ministers, senior officials and, in some cases, outside experts.

16. Under the broad guidelines and authority provided by several laws relating to international trade, details of trade policy continue to be implemented through Royal Decrees, as well as Ministerial Regulations and Notifications. There is considerable room for discretion in administering trade-related policies in areas such as import licensing, Government procurement, and promotional benefits granted to selected investment activities.

17. The private sector is formally involved in high-level policy-making through a Joint Public-Private Consultative Committee, which is chaired by the Prime Minister. There are also frequent informal consultations on trade policy issues between the Government and the private sector, in particular with representatives of domestic producers.
18. Thailand has no independent statutory body to review the Government's economic policies, including the effects of protection provided to individual sectors. The National Economic and Social Development Board, a Government agency responsible for formulating the medium-term national development plans, reviews trade policies in the context of preparing the plans. Advice on the formulation and assessment of policies is sometimes sought from outside experts, including the Thailand Development Research Institute, a private research institution.

(3) Trade Policy Features and Trends

19. Thailand acceded to the GATT in October 1982. While not a signatory to any of the Tokyo Round Codes, it has observer status in the Arrangement Regarding Bovine Meat, and the Agreements on Technical Barriers, Subsidies and Countervailing, Anti-Dumping, Customs Valuation, Government Procurement and Import Licensing. Thailand has participated actively in the Uruguay Round, both individually and as a member of the Cairns Group and of ASEAN.

20. A founding member of ASEAN, Thailand seeks to increase economic liberalization, and economic, social and cultural cooperation within the region. Thailand's sees regional cooperation as a means to strengthen rather than weaken the multilateral trading system.

21. Thailand strongly supports the principle of non-discrimination, and applies m.f.n. tariffs to about 99 per cent of its imports. One major exception to the application of m.f.n. tariffs are reductions of up to 50 per cent for eligible ASEAN imports under the Preferential Tariff Agreement. Thailand ratified the Global System of Trade Preferences among developing countries (GSTP) on 5 February 1990. Tariff concessions, ranging from 10 to 20 per cent, are applied to imports of 11 products from GSTP participants.

22. Thailand's exports receive preferences under the Generalized Systems of Preferences (GSP) from developed countries. In 1989, more than one-fifth of Thailand's total exports of merchandise received preferential treatment under these schemes.

(i) Recent evolution

23. Over the past two decades, the policy trend in Thailand has been towards greater liberalization and greater reliance on the private sector. Emphasis on exports has increased. Import substitution policies have become more selective, focusing on a broad range of finished goods and certain heavier industries, such as the petro-industrial complex currently under construction in the Eastern Seaboard Area which is also expected to help in decentralizing economic activity away from Bangkok. Through a more
realistic exchange rate and a series of import liberalization measures, Thailand has reduced the anti-export bias which was the earlier hallmark of Thai economic policies. Major steps to liberalize financial markets and the foreign exchange, investment and trade régimes were taken in the early 1980s and, after some reversals in following years, efforts to open up the Thai economy have been continuing.

24. Strengthening efficiency and competitiveness of the Thai economy by way of tariff rationalization was an important policy objective of the Fifth Economic and Social Development Plan of Thailand (1982-86). A major programme of tariff reductions was implemented in October 1982, at a time when tariffs were an important source of Government revenue. Since the shortfall of revenue was not offset by other means, macro-economic destabilization occurred through increasing budget deficits in the following years (dis-saving of the public sector). In response, tariffs were increased again in 1985, by 5 percentage points for raw materials and by 10 percentage points for most finished goods. As a result, effective tariff protection to the manufacturing sector increased sharply. In 1987, tariff levels were more disparate than in the early 1980s.

25. Though revenue from import duties still accounts for about one-quarter of tax revenue, the budget surplus since 1988 has given greater flexibility to the Government to resume import liberalization through tariff reform. Applied tariffs on many items have been reduced in the late 1980s, bringing the (weighted) average applied tariff down from about 13 per cent in 1986 to 11.4 per cent in 1990. Nonetheless, the current rate is still above the low point of 9.7 per cent in 1982. In September 1990, statutory tariffs on a large number of machinery items were reduced to 5 per cent, from mostly 30 or 35 per cent.

26. Some other market-opening steps have been taken in the non-tariff area. For example, since mid-1989 Thailand has lifted some import bans, in particular on unfinished garments (which are now under automatic licensing) and on certain vinyl chloride mixtures (now under non-automatic licensing). Compared to the 1970s, the product coverage of import licensing in Thailand has declined; but today more items are under import licensing than the number of items notified to the GATT in 1982.

27. A beginning has been made in replacing quantitative measures with tariff-based measures, as non-automatic licensing for soybean cake and fishmeal have been replaced by surcharges (available information suggests that the surcharges are similar to variable levies). In 1990, the Board of Investment lifted the last import surcharge which it had imposed earlier to provide protection to several promoted products.
28. The policy of promoting exports, adopted since the mid-1970s, has been given more emphasis in the course of the past ten years. Promotion policies include remission of tariffs and business tax on inputs for exports, special privileges for export-oriented projects promoted by the Board of Investment, facilities provided in export processing zones, concessional credit, and assistance in market promotion. In November 1990, the criteria for giving concessions for projects promoted by the Board of Investment have been simplified, and the incentives provided have been reduced.

29. Export taxes on major agricultural commodities such as rice have been phased out. These taxes had earlier contributed to pushing domestic prices below world market levels for items such as rice, maize and palm oil.

30. Increased emphasis on the private sector is reflected in the privatization of several State enterprises, and a greater rôle recently given to private initiative in the development and expansion of infrastructure. Recent years have also seen some liberalization of the foreign investment régime, including opening some sectors earlier prohibited for foreign investment. Nonetheless, the Government continues to affect or control investment through a range of policies such as tax and duty concessions, and price and production capacity controls in selected product areas.

31. In May 1990, Thailand announced several liberalization measures regarding its foreign exchange régime. The Thai Government signed Article 8 of the International Monetary Fund, signalling that the Government would use macro-economic tools rather than temporary curbs on foreign exchange transactions in order to tackle balance-of-payments problems.

32. In recent years, skill, infrastructural and environmental bottlenecks have emerged due to the rapid expansion and diversification of private investment, output and trade. While stressing the continued importance of output and trade expansion for economic and social development, the Government is putting considerable emphasis on decentralizing economic activity away from the Bangkok Metropolitan Area, controlling environmental degradation, tackling poverty and improving income distribution.

33. The strains that emerged after a period of extensive economic growth suggest that future economic and social development in Thailand will increasingly depend on the efficiency of investment. Therefore, reducing distortions in the structure of incentives facing private investors will gain in importance.
(ii) **Type and incidence of trade policy instruments**

34. Within the context of the overall developmental goals, the recent thrust of Thailand's trade-related policies has mainly been to promote domestic production of finished products and exports. To these ends, the Government has continued to play a very active rôle. Tariff policy has been an important instrument.

35. Government assistance through tariff policy has been rather selective. While the applied weighted average tariff in Thailand was a moderate 11% per cent in 1990 (estimates for the simple average are not available), a large dispersion of tariff rates has been a key feature of Thailand's tariff régime. A number of items enter Thailand at low tariffs or duty-free. Other products face high tariffs. For example, in 1989 applied tariff peaks of between 96 and 231 per cent were in place for certain leather items, transport equipment, beverages, spirits and foodstuffs.

36. Widespread tariff escalation underlines the policy emphasis on the domestic production of finished products. This generally implies higher levels of protection for domestic producers of these goods than is evident from the nominal tariff structure. Thai manufacturing, including agro-processing, benefits generally from high tariff protection. In many cases, notably food products, leather products, chemicals, textiles and motor vehicles, the tariff structure promotes domestic output of non-traditional items.

37. Thailand's tariff régime is applied in a flexible manner. Tariff changes, lately mostly reductions, have been frequent. Statutory tariffs are generally high compared to applied rates, providing substantial scope for manoeuvrability.

38. From time to time, the Government has temporarily reduced applied tariffs on certain imported inputs or consumer products. For example, in order to relieve constraints on economic growth in 1990, the Government implemented tariff (and certain tax) exemptions for petroleum and cement, and provided some subsidies for their imports. While this policy helps to widen temporary bottlenecks on the domestic market, it also injects elements of instability into the system. In some cases, tariffs are lowered only for items used for specific projects or particular end-uses.

39. A more general element of uncertainty results from the fact that ad valorem tariffs apply only to about three-quarters of all tariff items. Imports of most other items, in particular in the agricultural area, face alternate tariffs (i.e. ad valorem or specific tariffs, whichever is higher). Also, for selected items the Director-General of Customs may specify the import price on which the customs duty is to be levied.
Finally, only 3 per cent of all tariff items are currently bound in the GATT. However, in the framework of the Uruguay Round the Government of Thailand has offered to increase the scope of binding to about one half of all tariff items.

40. A propensity to target Government assistance is also evident in the area of non-tariff measures, for example in import licensing. Currently, around 100 product categories (corresponding to about 8 per cent of all four-digit HS categories) are affected by import licensing in Thailand. About one-quarter of these items are agricultural commodities, including some important export commodities such as rice and sugar. Among industrial products, import licensing covers certain textile products, machinery items, motor vehicles, motorcycles, paper products, chemicals, porcelain items, and building stones. In most cases, licensing is non-automatic, involving bureaucratic processes.

41. For many items under import licensing, the Government's objective has been infant industry protection. In some cases, such as for certain paper, natural fibre bags, tea and tin foil, protection has been accorded for this reason for almost two decades. In the 1980s, promotion of infant industries through import licensing has focused on products such as skimmed milk powder, ceramic and building items, petroleum products, and certain types of machinery and equipment. Other reasons for import licensing include protection of public health, public morals, prevention of counterfeiting, conservation of exhaustible resources, maintenance of product standards, and compliance with inter-Governmental agreements.

42. Thailand has a number of State trading enterprises, established mostly before 1970. Certain State enterprises, and some designated private agencies, have trade monopolies (sometimes related to production monopolies). Affected products include playing cards, certain platinum coins and alloys, seed potatoes and onion seeds for reproduction. For cigarettes, a GATT Panel ruled in 1990 that the import practices of the Thailand Tobacco Monopoly were inconsistent with the GATT. In response, Thailand liberalized the import régime for cigarettes. The activities of some other State enterprises, such as the Public Warehouse Organization, include supporting market prices of certain agricultural commodities.

43. Thailand took an interest in countertrade in the mid-1980s to dispose of surplus agricultural production. Thai policy has been to use countertrade as a supplementary measure and not to replace regular trade.

44. In selected areas, such as dairy products, tea and motor vehicles, assistance to Thai producers is provided through local content requirements. For some other products, the Board of Investment links promotional privileges for investment projects with such requirements.
Further local content requirements are related to refinancing schemes of the Bank of Thailand. Local content requirements may be waived if the market situation makes it difficult to comply with them or if they adversely affect specific exports. Recently, local-content requirements for soybean meal and tobacco leaf used in cigarettes were revoked.

45. Government procurement is another means of providing selective assistance. Thailand does not have any centralized agency for Government procurement. The tenders are governed by various Cabinet resolutions and directives or Ministerial rules and regulations. Policies in this area are somewhat opaque but it appears that, in general, domestic suppliers complying with the Thai Industrial Standards receive a preferential margin of up to 15 per cent. A preferential margin of 2.5 per cent up to a maximum of US$40,000 is offered to procurement from ASEAN countries. For procurement involving foreign parties, the public prosecutor examines the obligation to protect the national interest.

46. As noted, real effective devaluation of the baht and several investment incentives to export activities have been key instruments in reducing excessive import substitution and promoting exports. However, trade policies have also been used in this context. Thailand's tariff régime provides lower effective protection for exportable items, reflecting the strong emphasis on import substitution until the 1970s. To counter this bias against exports, the Government of Thailand has been operating at least four schemes under which tariffs on imported inputs used for exports (and business taxes) are remitted. However, under present procedures, the link between the remittances and the amount of duty (or business taxes) actually levied on the imported inputs appears to be weak.

47. While generally encouraging exports, Thailand controls exports in some cases, relying largely on non-tariff measures such as licenses and quotas. A few items have remained subject to export tax, but the average incidence of these taxes has fallen sharply over time to become negligible.

48. Export licensing, either automatic or non-automatic, affects about 150 product categories (four-digit HS items), mainly textiles and clothing. Other items include certain agricultural commodities, fuels, metals and metal products, wood and wood products, wild animals and their carcasses, pesticides, paper, and sacred statues and images. Major objectives of export licensing are to preserve a product for domestic use, or to conserve natural resources and the environment. Other reasons include controlling the level of exports to specific destinations, maintaining standards, minimum price control, and honouring bilateral agreements. Exports to South Africa are prohibited (as are imports from this country).
49. Export quotas are in place for sugar, textiles, clothing and tapioca products. For sugar, the quota applies only to exports to the United States. In the case of tapioca, the export quota has been implemented to administer a voluntary export restraint agreement with the European Community. The quotas on textiles and clothing have been imposed in the framework of the Multifibre Arrangement. Complex criteria are used to allocate the quotas for textiles, clothing and tapioca.

50. A major policy affecting Thailand's production and trade is the promotion of selected investment projects by the Board of Investment. Special privileges are also provided by the Industrial Estate Authority of Thailand to projects located in industrial estates. The policies by these bodies are designed to encourage exports and to decentralize economic activity in Thailand. In addition to the tariff and business tax remissions mentioned earlier, the incentives include concessions on other taxes and fees, such as corporate income tax, royalties, and certain taxes on inputs from domestic sources. Various guarantees are provided, including freedom from nationalization.

51. The conditions for obtaining promotional privileges vary from project to project. While there are general criteria, the Board of Investment can provide benefits to projects depending on factors such as their contribution to job creation or technology transfer. Open ended selection criteria leave considerable room for discretion.

52. Trade-related policy interventions also include constraints on capacity expansion for selected sectors. A ban on domestic logging has been adopted to prevent the deterioration of the environment.

53. There are also explicit price policies for a number of products, in particular agricultural commodities. For example, the Government has boosted the domestic market price of products such as rice and coffee through its purchase policies. In other cases, price controls are imposed on products which are considered important in overall consumption or as inputs for selected industries, for instance pulp for paper, sugar, iron, plastic pellets and paddy. At times, these interventions have resulted in large price differentials between the domestic and world markets. For example, in 1988 Thai consumers paid almost twice the world price for sugar, and the domestic price for soybean and palm oil was about 1½ times the world price.

54. Overall, in several sectors, multiple use of trade-related measures, such as tariffs, licensing, domestic content requirements, tax and duty exemptions and remissions, concessional credit, price support and incentives for, or limits to, investment interact in a highly complex and, it appears, not always coherent manner. In a number of trade-related
policy areas, such as import licensing, export promotion policies or Government procurement, the complexity of the policies made it difficult for the Thai Government to provide detailed information in the context of this report.

(iii) Temporary measures

55. Thailand has never taken recourse to Article XIX of the GATT. However, over the past five years import licensing has been implemented for ten products under the safeguard provisions of the Export and Import Act of 1979.

56. From time to time, the Government of Thailand has imposed import surcharges on selected items.

(iv) New initiatives

57. Reform of trade-related policies is an ongoing process in Thailand. For example, lowering and simplifying tariffs for raw materials and chemicals is currently under consideration. A longer-term objective is to lower the overall level of tariffs and reduce the number of tariff rates to six from the thirty-six different rates currently in place. Proposals for reform also include a further liberalization of the financial markets and the foreign exchange régime, and a review of the rôle of the Board of Investment. Thailand intends to replace its business and municipal taxes by a valued-added tax in the near future.

(4) Trade Policy and Foreign Trading Partners

58. The experience of the limits of an inward-looking approach towards trade and development policy, and the recognition of the potential of the world economy in providing markets, inputs, investment and technology, has led the Thai Government to engage in a major process of liberalizing the economy, including the foreign trade régime. Rapid economic development has resulted, supported by strong trade growth and Thailand's increasing attractiveness as a place for foreign direct investment. In the process, Thailand has not only developed into a dynamic exporter, but also into a dynamic importer.

59. Despite major progress in trade liberalization, substantial pockets of high protection remain in the Thai economy, either by way of restrictive border measures or through other policies such as local-content requirements. High effective protection in areas such as agro-processing, textiles, leather products and motor vehicles limit the possibilities for foreign trading partners to compete in the Thai market.
60. While benefiting specific groups of domestic producers in the short-term, these policies represent a tax on Thai consumers and, by insulating parts of the economy from the rewards and penalties of international competition, could become impediments for the future development of efficient export and import-substitution industries, and of economic and social development at large. The Thai authorities are aware of this risk and have made known their intention to continue with the rationalization of trade-related policies. This would also benefit Thailand's trading partners.

61. A more liberal and stable global trading environment would help strengthen the Thai Government's hand in overcoming domestic resistance against further efforts to liberalize the economy. As the export-orientation of the Thai economy progresses, external barriers to export growth gain in importance. In the case of some important export products, such as clothing and tapioca, these constraints are imposed unilaterally or bilaterally.

62. The Government of Thailand supports a strong multilateral trading system as it helps to resist unilateral and bilateral pressures of large trading partners. Through its participation in the Uruguay Round, Thailand seeks, along with other members of the Cairns Group, to reduce distortions in world agricultural trade. It favours a phased integration of trade in textiles and clothing into the GATT, thus removing the constraints imposed under the Multifibre Arrangement on its dynamic export items. In turn, Thailand is offering a large increase in its tariff bindings, improved market access in several areas, and possible participation in the Tokyo Round Codes. The realization of these offers would promote the ongoing process of structural adjustment in Thailand, while making the Thai market even more attractive for foreign investors and traders.
I. THE ECONOMIC ENVIRONMENT

(1) Main Features of the Economy

1. Thailand is a South-East Asian country with approximately the same area and population-density as France. The beginning of civilization in this fertile land dates back at least 5,600 years. For this major food exporter, agriculture is of considerable importance in domestic output, employment, and exports (Table 1.1 and Chart I.1). Over time, however, the significance of agriculture in the economy has declined, particularly its contribution to output and exports (Charts I.1 and I.2). Even within the manufacturing sector, the share of food items has declined sharply since the middle of this century (Table I.2). The reduced importance of agriculture reflects a vigorous manufacturing sector in Thailand rather than a weak agricultural sector. Consequently, Thailand has registered impressive rates of growth of real income, especially in recent years (Chart I.3).

2. The impetus to the manufacturing sector came earlier mainly from a strong growth in domestic demand, with exports assuming a major rôle in more recent times (Chart I.3). Factors enhancing export-orientation include a large depreciation of the Thai baht and a massive inflow of foreign direct investment in the latter half of the 1980s. The dynamism of the manufacturing sector has led to the emergence of several new products among the main export and import items of Thailand. In addition, the importance of different markets to Thailand has changed markedly in the last decade.

3. The transformation of the Thai economy in the 1980s has occurred after a difficult period of adjustment to the oil price rise in 1979. In contrast, after the oil price rise in 1973 the rapid increase in the prices of Thai commodity exports had cushioned the effect of the oil price shock on Thailand. Furthermore, the Government had followed an expansionary fiscal policy during the 1970s to boost the growth rate of real GDP. The consequent high level of domestic demand had spilled over to the external

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1 For example, during 1960-80, the average annual growth rate of Thailand's agricultural output was about 5 per cent. In comparison, the corresponding average for manufactures was more than double this rate. Manufacturing industries with high rates of growth have been construction materials, clothing, automobile assembly, circuit boards, computer components, footwear and electronic equipment.

sector. In 1978, the current account deficit corresponded to 5 per cent of GDP. Combined with the fact that over 90 per cent of Thailand's petroleum demand was met from imports, this made Thailand particularly vulnerable to the oil price rise in 1979.

Chart I.1
Thailand's gross domestic product by industrial origin at current prices, 1960-89
Per cent

Source: Government of Thailand.

4. In 1979, Thailand's current account deficit jumped to almost 8 per cent in terms of GDP. The domestic price pressures increased sharply over the next few years (Chart I.3). The global recession, a fall in commodity prices, the high international rates of interest, and an appreciation of the baht (which was linked to the dollar), contributed further to the adverse economic conditions in the early 1980s.

5. The Thai Government implemented several policies to achieve stabilization and structural adjustment in the first half of the 1980s. Fiscal and monetary discipline was imposed, external borrowing was constrained, and export promotion was given greater priority. A policy of
competitive exchange rate adjustments was adopted in November 1984. The Government realized that persistently high protection had fostered inefficient industries and discriminated against export activities. As a result, it started implementing policies to enhance the efficiency and competitiveness of enterprises.

Chart I.2
Share of selected product categories in Thailand's merchandise exports, 1980-89
Per cent

6. The restrictive fiscal and monetary policies constrained the rate of inflation, and dampened economic growth over the first half of the 1980s (Chart I.3). The restraints imposed through these policies, and the short term effect of the large devaluation at the end of 1984, contributed significantly to the real GDP registering a relatively low growth rate of

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3 A new exchange rate régime was adopted in November 1984 along with a 14.8 per cent devaluation of the baht vis-à-vis the United States dollar. This was the third time the baht was devalued during 1981 to 1984.
3.5 per cent in 1985. Despite policy restraint, Thailand continued to record large current account deficits in the first half of the 1980s (Table I.3). The long term debt service ratio increased from about 15 per cent in 1980 to a peak of about 22 per cent in 1985 (Chart I.4).

![Chart I.3](image-url)

**Chart I.3**
Real GDP growth, rate of inflation and ratio of exports to GDP in Thailand, 1971-90
Per cent

Source: Government of Thailand.

7. The year 1985 was a turning point for the Thai economy. Interest rates and oil prices declined, while prices for several commodity exports of Thailand picked up. The baht depreciated along with the dollar. Demand for Thai exports (including tourism) picked up as economic growth in developed countries recovered. Changes in trade and exchange rate relationships in the region enhanced incentives for foreign investment in

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4 The volume of gross fixed investment declined by about 5½ per cent as a result of an 11 per cent decline in the volume of private gross fixed investment. Monetary policy was expansionary in 1985 and then again in 1987, to ease the constraints on economic activity in Thailand.
Thailand. Aided by these factors, and a more flexible and responsive domestic economy, Thailand's real output grew on average by more than 10 per cent per year during 1987-90. This rapid growth was accompanied by a relatively low rate of inflation (Table 1.3).

8. The policy changes in the 1980s mark a continuing process of policy reorientation by the Thai Government (Table 1.4). Extensive State intervention and import substitution have increasingly given way to a greater reliance on private enterprise and export promotion over the years (Table 1.4). In the process, the Government has divested considerable control over productive assets through privatization programmes, has encouraged foreign direct investment, and has formally started involving the private sector in certain policy matters. Nonetheless, the Government continues to control or affect investment and prices through policies such as limits on some prices and production capacity, and incentives such as tax and duty concessions.

9. Despite robust economic growth in Thailand, income distribution and poverty remain a cause of concern to the Government. The Seventh Plan (1992-96) will emphasise tackling these issues. Among the on-going programmes to address regional poverty is a restructuring of the

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5 In light of the unexpectedly high growth rate of the economy, the target rate of economic growth for the Sixth Plan (1987-91) was revised upwards in 1989 from 5 to 7 per cent.

6 The broad policy objectives of the Government are proclaimed in Thailand's National Development Plans. The First and Second Plans (1961-66 and 1967-71) stressed infrastructural investment, particularly transport and communication, for supporting private investment. Emphasis was given on import-substituting industries. Public enterprises were not to be established to compete with the private sector. The Second Plan included the additional objectives of promoting employment-generating industries, joint ventures between Thai and foreign investors, and small-scale cottage industries. Towards the end of the Second Plan, the structural deficits inherent in the import substitution strategy contributed to a balance of payments deficit. The Third and Fourth Plans (1972-76 and 1977-81) aimed at export promotion while maintaining the import substitution policies. In addition, they encouraged labour intensive industries, stronger links between agriculture and industry, and investment promotion zones outside the Bangkok area. The Fifth Plan (1982-86) emphasized restructuring of industries and improving efficiency and competitiveness of enterprises operating in both the domestic and foreign markets. Other objectives included industrial decentralization, the promotion of small-scale industry, foreign investment and technology transfer, and increased controls to achieve the enhancement of product quality, standards, and the environment. The Sixth Plan (1987-91) increased the emphasis on these objectives, particularly export promotion, efficiency, quality standards, marketing and upgrading of technology. These included the efficient development of natural and human resources, and of science and technology.

7 The incidence of poverty in Thailand, particularly in rural areas, increased sharply during 1980-81 to 1985-86. Though the situation has improved since then, the incidence of poverty in 1988-89 was estimated to be higher than in 1980-81. See S. Hutaserani (1990), "The Trends of Income Inequality and Poverty and a Profile of the Urban Poor in Thailand", Thailand Development Research Institute Quarterly Review, Volume 5, No. 4.
agricultural sector. Another important part of this strategy is the promotion of small and medium scale industries. These enterprises are seen as the suppliers of parts and components to larger industries, thus aiding Thailand's drive to deepen its industrial base and technology. Hence, the Government is trying to reduce existing policy biases against the small and medium scale sector.

Chart 1.4
Ratio of debt outstanding to GDP and debt service to exports, 1980-90

Source: Government of Thailand.

10. Other major issues in Thailand are the degradation of the environment and a large concentration of industry in the Bangkok Metropolitan Region.

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8 This includes the "Green Northeast" program, addressing the poorest region in the country.
(Chart 1.5). The concentration of industry has resulted in regional inequality, a strain on the available infrastructural facilities, and environmental degradation. In addition to providing incentives for investing in regions away from Bangkok, the Government hopes that the major petro-industrial complex in the Eastern Seaboard area of Chonburi and Rayong will also help in the dispersion of economic activity. The environmental concerns have given rise to various policy initiatives (see Chapter IV).

Chart 1.5
Share of different regions in Thailand's gross manufacturing product, 1987
Per cent

Source: Government of Thailand.

9The Bangkok Metropolitan Region comprises the provinces of Samut Prakan, Samut Sakhon, Nonthaburi, Pathum Thani and Nakhon Pathom. Thailand has a total of 73 provinces.

(2) Recent Economic Performance

11. With double-digit rates of annual growth in recent years, Thailand has been among the fastest growing economies in the world (Table I.3). In 1990, real GDP growth slowed down to 10 per cent, partly as a result of a slump in agricultural output and the domestic capacity constraints in manufacturing and services.

12. Rapid growth has put pressure on domestic resources. A surge in construction activity has resulted in a shortage of materials such as steel and cement. The economy is also facing problems regarding the availability of infrastructural facilities and skilled labour. Pressure on prices also came from the Gulf crisis, and the increase in liquidity due to the large external capital inflows in recent years. In 1990, inflation increased to over 6 per cent, from 5½ per cent in 1989, picking up in the course of the year.

13. In response, fiscal and monetary policies have been tightened to restrain spending. Various measures have been taken to enhance domestic savings. The upper limit on the rate of interest for lending has been raised in two steps from 15 to 19 per cent. The terms and conditions for skilled personnel entering Thailand along with foreign investment have been made more favourable. The pressure on petroleum price has been reduced through a cut in duties on petroleum imports and a subsidy financed by the Oil Stabilization Fund. The Government had contingency plans for dealing with the possibility of a shortage of petroleum due to the Gulf war.

14. The main dynamic components of Thai GDP in recent years have been exports, investment and tourism. In the second half of the 1980s, the volume of exports of goods and services grew annually on average by about 20 per cent, and the volume of gross fixed investment by 15 per cent (Table I.5). Higher annual growth rates for exports were achieved in terms of the United States dollar, with peak rates of 36 and 44 per cent,

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11 For Thailand itself, the 13 per cent growth in real GDP in 1988 was the highest in thirty years. This was aided by a bumper crop in the year, following several years of drought.

12 According to the Far Eastern Economic Review (29 November 1990), there is another problem on account of a "multitude of planning agencies using different databases and reporting to different masters." (page 56).

13 These include the removal of the ceilings on deposit interest rates, lower tax on interest accruing from various categories of deposits, and tax privileges for capital reserves.
respectively, for exports of merchandise and commercial services in 1988 (Table I.6).

15. Due to the change in economic conditions in 1985, Thai merchandise export volume picked up strongly from 1986. Gross fixed capital investment, mainly from the private sector, followed once the strength of the economy became more apparent. Since 1987, the volume of gross fixed private investment has increased by more than 20 per cent each year. While portfolio investment from abroad increased sharply in 1987 itself, overall net private foreign direct investment has surged since 1988 (Table I.7). Foreign investment in Thailand was attracted by liberal policies in this area, low efficiency wages, availability of a skilled and disciplined workforce, and a comparatively stable political and economic environment.

16. Thailand's industrialization process has been accompanied by increasing import penetration in the economy. As a large proportion of Thai imports are machinery items, raw materials or intermediate inputs, the rise in investment and economic activity led to a surge in imports. Since 1987, the average growth in imports has surpassed that in exports (Table I.6). Combined with a decline in Thailand's terms of trade after 1986, this led to a rapid increase in the ratio of Thailand's trade deficit to GDP (Tables I.3 and I.6). From about 1 per cent of GDP in 1986, the trade deficit increased to 11\(\frac{1}{4}\) per cent of GDP in 1990.

17. The current account deficit of Thailand is less than its trade deficit, due to a surplus on the invisibles account. The two important factors contributing to Thailand's surplus on the invisibles account are receipts from tourism and worker remittances (Chart I.6). Net receipts from tourism have assumed an increasingly important role in the second half of the 1980s, becoming more than thrice the amount of worker remittances in 1990. On the payments side, net outflow of investment income is the most important component of the services account.

18. The surplus on the invisibles account rose sharply after 1986. The trade deficit, however, increased much more during this period, resulting in a surge in the current account deficit. From a current account surplus of 0.6 per cent of GDP in 1986, Thailand had a current account deficit equivalent to 7.5 per cent of GDP in 1990.

\[\text{during the second half of the 1980s, these payments increased at a decreasing rate on account of a reduction in external debt and interest rates.}\]
19. Thailand's increasing reliance on foreign savings, shown by the current account deficit, was to finance the rapidly rising private investment in the post-1986 period. The volume of gross fixed public investment declined during 1985 to 1989 due to the Government's tight fiscal policy. Though the volume of public investment increased in 1990, its level was virtually the same as in 1985. In addition, the Thai Government placed a ceiling on annual public borrowings from abroad; the current ceiling level is US$1.5 billion. The curb on public expenditure, combined with an increase in revenue due to economic growth, has resulted in a surplus on the budget since 1988.

15 To some extent, this decline was due to a delay in the implementation of infrastructural projects.

16 During 1985 to 1989, Government revenue has increased much faster than Government expenditure. In current prices, revenue more than doubled during this period, while expenditure increased by about 30 per cent.
Chart I.7
Ratio of Thailand's gross national savings and gross domestic investment to GDP, 1980-90
Per cent

Source: Government of Thailand.

20. The surplus on the Government budget released domestic resources for use by the private sector. During the period 1980 to 1990, the net increase in resources thus available to the private sector was almost 9 percentage points in terms of GDP. This, however, did not suffice to meet the demand for extra resources by the private sector after 1986. In this period, the gap between private investment and savings increased rapidly, contributing to a rise in the excess of domestic investment over savings (Chart I.7). Therefore, Thailand's current account deficit has increased sharply since 1987.

21. Despite the virtually persistent deficits on Thailand's current account, the balance of payments has been in surplus every year during the 1980s, except for 1983. While in the early 1980s, funds from abroad came mainly as loans and credits, portfolio investment and direct foreign investment have become much more important in recent years (Table I.7). Thailand's foreign exchange reserves have been rising as a result of the surplus on balance of payments. At the end of 1990, these reserves were
equivalent to more than five months of imports, in comparison to an amount equivalent to about three months of imports in 1980.

(3) Trade Patterns

22. The composition of Thailand's trade has changed substantially in the last three decades. An important exporter of primary commodities, its exports were earlier dominated by these products. Imports were mainly manufactures. With the rapid increase in Thailand's output of manufactures, the export structure has changed over time. The share of manufactures in exports virtually doubled during 1980-89, and surpassed the overall export share of primary commodities in 1985. The aggregate share of major primary commodity exports, i.e. rice, rubber, tapioca, maize and tin, in total merchandise exports dropped from 50 per cent in 1980 to 20 per cent in 1989.  

(i) Commodity pattern of trade

23. Among agricultural items, double-digit rates of growth in dollar export value were registered in the 1980s mainly by semi-processed or processed products (Table A1.1). The growth of industries such as canned pineapples and frozen and canned seafood has resulted in considerable export diversification. This added to the broadening of the export structure due to a rapid growth in exports of various machinery, parts and components, and the emergence of some petro-chemical exports in recent years. Nonetheless, Thailand still relies on only a few product categories for a large proportion of its exports receipts. For example, in 1990, the top ten export items accounted for about half of total export receipts.

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17 During 1985 to 1989, maize and tin exports declined in terms of both value and volume. Though exports of other major commodities have increased during the second half of the 1980s, only sugar exports increased more rapidly than Thailand's total exports of merchandise.

18 Export industries have benefitted from the incentives provided by the Government (see Chapter IV). However, many of the rapidly growing export industries such as canned tuna, artificial flowers, and toys were not among those initially selected by the Government for special preferences.

24. Manufactured products accounted for about two-thirds of Thailand's merchandise exports in 1989, compared to slightly over one-third in 1980. Among the eighteen product categories routinely used by the GATT Secretariat in trade analyses, particularly dynamic export items were clothing, and office machinery and telecommunication equipment (Table I.8). A more detailed picture shows exceptionally high growth in the dollar value of exports of certain electrical machinery and equipment, office machines and parts, toys, leather manufactures, jewellery, footwear, natural gas, road motor vehicles, and certain chemicals (Table AI.1). Rice, which was earlier the main export item of Thailand, dropped to fourth place in 1990, behind garments, computers and parts, and precious stones, pearls and jewellery.

25. Thailand's import structure has also changed sharply over the past decade. As a result of the oil price rise in 1979, the share of fuels in Thailand's total imports of merchandise increased from about one-fifth to almost one-third (Table I.9). Attempts to conserve energy, a fall in the oil price, and the discovery of domestic sources of energy reduced the share to just over one-tenth by the end of 1980s. The dollar value of Thailand's imports of petroleum and crude oils declined on average by 13 per cent annually during 1983-87 (Table AI.1).

26. Among the major product categories, chemicals dominate Thailand's import structure, with a share of about 13 per cent. Import shares for two other categories, namely, office machinery and telecommunication equipment, and other non-electrical machinery, are almost the same as for chemicals (Table I.9). Together, these two categories account for about one-fourth of total imports. Other significant import items include industrial inputs such as iron and steel, and certain semi-manufactures (Table I.9).

27. A more detailed breakdown of Thailand's trade patterns shows that imports of fresh or simply preserved fish, natural abrasives (including industrial diamonds), aircraft, pearls, semi-precious and precious stones, textile yarn and thread, and office machines and their parts have increased particularly rapidly (Table AI.1). Several of these products are used mainly as inputs into items which have emerged as important exports of Thailand. The import share of intermediate products and raw materials has increased substantially (Table AI.2). A large proportion of these imports are machinery and parts, whose share in Thailand's merchandise imports has virtually doubled during the 1980s.

20 In 1990, rice prices were low on account of a bumper world crop, and the emergence of new competitors such as Vietnam.
(ii) **Regional Pattern of Trade**

28. Along with changes in the commodity pattern of trade, the geographical pattern of Thai trade has also changed substantially during the 1980s. The United States has become Thailand's main export market, accounting for about 22 per cent of merchandise exports in 1989 compared to about 13 per cent in 1980. The European Communities and Japan, which were the top two export markets for Thailand in 1980, now rank second and third. While the share of the European Communities in Thailand's exports has declined in the 1980s, that of Japan has increased slightly (Table I.10). Other countries which have gained in importance as markets for Thailand's exports include China, Taiwan, Australia, Canada, the Republic of Korea and United Arab Emirates (Table AI.3).

29. For some of its major export items, Thailand relies heavily on only a few markets. Thus, 72 per cent of tapioca is exported to the European Communities, Japan purchases 60 per cent of Thai exports of fresh, chilled or frozen crustaceans and 40 per cent of rubber exports, and the United States account for 50 per cent of electronic integrated circuits and 40 per cent of canned seafood.

30. Regarding sources of imports, Japan remains the number one foreign supplier to Thailand. In 1979, its share in Thailand's imports dropped from about 30 to 20 1/2 per cent after the oil price rise (Table I.10). By 1989, Japan's share had again climbed to almost 30 per cent. The European Communities ranked second in 1989, with a share of 14 per cent. In the same year, the United States ranked third, down from second position in 1980. From Asia, Singapore, Taiwan, China, the Republic of Korea and Malaysia are among the leading suppliers of Thailand's imports. The share of ASEAN countries in Thailand's imports increased substantially during the 1980s, in contrast to a reduction in their share in Thailand's exports (Table I.10). Despite the increasing importance of ASEAN in Thai imports, the import-share of developing countries as a whole declined during the 1980s, due mainly to a large fall in the proportion of total imports from the Middle East. The share of developed countries increased in both imports and exports of Thailand.

31. In 1989, a few items accounted for a large share of Thai imports from its major sources of import supply. For example, non-electrical and electrical machinery, vehicles and iron and steel accounted for about 80 per cent of the imports from Japan. About two-thirds of Thai imports

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21 Similar to the commodity pattern, the coverage of exports and imports is limited to merchandise trade.
from the United States consisted of chemicals and non-electrical and electrical machinery.\(^2\)

(4) **Outlook**

32. The economic prospects for the Thai economy have been adversely affected by the Gulf war and the expected slowdown in economic growth in developed economies. After the Gulf war, on the assumption that oil prices will return to a level of US$20 per barrel, Thai GDP is expected to grow by about 9 per cent in 1991.\(^3\) The expected 2 per cent increase in agricultural output would exceed the performance in 1990. On the other hand, the growth rate of non-agriculture is predicted to be 9 per cent, substantially below growth in 1990. The continued shortage of infrastructural facilities and skilled personnel in 1991 is likely to contribute to an inflation of 6 per cent. The trade and current account deficits are expected to be higher, and the balance of payments surplus somewhat lower than in 1990. However, given the recent strength and flexibility of the economy, the Thai authorities are confident that current account deficits equal to 7 per cent of GDP are sustainable for some time.

\(^2\)For Japan, the shares were 28\(\frac{1}{2}\) per cent for non-electrical machinery and parts and 12\(\frac{1}{2}\) per cent for electrical machinery and parts. The corresponding shares for the United States were 17\(\frac{1}{2}\) per cent and 26 per cent.

\(^3\)Before the Gulf war started, a growth rate of 7\(\frac{1}{2}\) per cent was anticipated.

\(^4\)In case of problems in oil supply due to the Gulf war, Brunei, Indonesia and Malaysia had agreed to supply Thailand with 75,000 barrels of oil per day as reserve. This is about one-third of Thailand's import requirements. Domestic output of liquified petroleum gas has reduced the need for alternate sources of energy. Oil constitutes only 15 per cent of the energy sources used to generate electricity.
II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) General Framework

33. In 1932, absolute monarchy in Thailand was replaced by a constitutional monarchy. The Constitution has been revised several times since then. The eleventh Constitution, passed in December 1978, was replaced by an interim Constitution following a military coup in February 1991. The interim Constitution continues to recognise the King as the Head of State. Legislative power is exercised through the National Legislative Assembly, executive power through the Cabinet, and judicial power through the law courts.

34. The interim Constitution gives far-reaching authority to a National Peace-Keeper Council, which has assumed control of national affairs. The chairman of the Council recommends the appointment of the Prime Minister and the members of the National Legislative Assembly to the King. He has to counter-sign the proclamations appointing the President and the Vice Presidents of the National Legislative Assembly, or relieving the Prime Minister of the premiership. Any joint meeting between the Council and the Cabinet is presided by the chairman of the Council.

35. The Prime Minister and the members of the Cabinet, who are appointed on the Prime Minister's recommendation, cannot be concurrently members of the National Legislative Assembly. They do, however, have the right to attend the National Legislative Assembly meetings to announce and explain policies or to give opinions. In case of a dispute, the National Legislative Assembly is to make the final decision.

36. The Supreme Court of Thailand is the final court of appeal in civil cases. In criminal cases, a final appeal for clemency could be made to the

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1 According to the interim Constitution, the National Legislative Assembly shall appoint a committee of up to 20 members (who may not be members of the National Legislative Assembly) to draft the Constitution for submission to the National Legislative Assembly. In drafting the Constitution, the National Legislative Assembly should take into consideration that general elections be held within 1991. If a draft Constitution is not approved by members of the National Legislative Assembly, a second draft Constitution can be considered for approval. In this case, the deadline for elections can be extended by 120 days after the end of 1991. If the second draft is also not approved, members of the National Legislative Assembly will have their membership terminated on the day of the draft being rejected. The National Peace-Keeping Council and the Cabinet, in a joint meeting, will then present a Constitution to the King for his signature and promulgation.

2 The King is also recognized as the head of the armed forces, and "holds revered inviolable status". Nobody may violate, accuse or sue him in any way. According to the Constitution, the King's sovereign power comes from the people.

3 The Parliament was earlier called the National Assembly. An interim Constitution stipulated in February 1991 that "there shall be a National Legislative Assembly having the duty to prepare the Constitution and consider the Bills."
King. Thailand's military courts deal primarily with military justice, but in times of martial law could also deal with civil cases.

37. Thailand's administrative system has broadly five levels. In declining order of hierarchy, they are the Ministries at the centre, the provincial Governor, the district officer, head of a village commune council, and the village headman. The provincial Governors are directly responsible to the Interior Ministry.

38. The main Ministries in charge of most issues pertaining to international trade are the Ministries of Commerce and Finance. The authority for several policies which affect Thailand's international trade, such as standards, concessions to foreign investors, domestic price support, subsidy for selected inputs and duty rebate on certain imports extends to some other Ministries.

39. Economic activity in Thailand is carried out mainly by the private sector. The Sixth Five Year Plan states that the Government will act primarily as coordinator, advisor, and supporter of the private sector in various areas. The Government affects the decision-making process through a range of policies which promote or curb economic activity in several sectors.

(2) **Structure of Trade Policy Formulation**

(i) **Legislative and Executive branches of Government**

40. Under the interim Constitution, laws can be legislated in three different ways. In general, the King will legislate through the National Legislative Assembly. The Assembly consists of not less than two hundred, but not more than three hundred, members to be appointed by the King on the recommendation of the National Peace-Keeping Council. Only the Cabinet may submit draft bills.

41. The other two procedures relate to cases of emergency. In certain situations specified under Article 26 of the interim Constitution, including the need to have a law on taxation or finance which must be

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4 The Governor is generally a career civil servant appointed by the King on the recommendation of the Interior Ministry.

5 In January 1990, the previous Prime Minister announced that the Government was to give a greater role to the private sector in the development and expansion of infrastructural facilities. Among the public services that the private sector were to bid to undertake were telecommunications, transport, electricity, and urban mass transit systems.

6 Section 68 of the previous Constitution said that the State should **support** economic initiative in the private sector (emphasis added).
handled in secret to protect national interest, the Prime Minister, with
the consent of the National Peace-Keeping Council, can ask the King to
issue an emergency decree. This decree is subsequently submitted by the
Cabinet to the National Legislative Assembly for approval as law. The
decree is invalidated if the National Legislative Assembly rejects it. The
rejection, however, does not affect the action taken while the decree was
in effect.

42. The other emergency action is covered by Article 27 of the interim
Constitution. In this case, if the chairman of the National Peace-Keeping
Council or the Prime Minister deem it necessary to prevent, stop or
suppress certain undesirable activities, they have the power to deal with
them as appropriate. The only approval required is that of a joint
meeting of the Council and the Prime Minister. Actions taken by the
chairman of the Council or the Prime Minister in this regard are deemed
legal and in compliance with all due process of law. The National
Legislative Assembly, which has to be informed about these actions, does
not have the authority to countermand these orders or actions.

43. The provisions of the interim Constitution are temporary and will be
replaced by another Constitution. A summary of the legislative process
under the previous Constitution is provided in Appendix II.1.

44. In conjunction with the Cabinet, the National Peace-Keeping Council
formulates national policy. In general, the executive authority is
exercised by the Council of Ministers or the Cabinet.

45. The Cabinet comprises 14 Ministries, and is chaired by the Prime
Minister. Each Ministry is headed by a Minister, whose policy actions
are discussed in the Cabinet, of which the Minister is a member. At the

7 Other situations include an emergency concerning national peace and security, public
safety, economic security, or natural disasters.
8 The situations include activities that undermine national peace and security, threaten
the monarchy, national economy, national administration, public order and morality, national
resources or public health, regardless of whether such activities or threats take place
before or after the promulgation of the interim Constitution, or whether they take place
inside or outside the Kingdom.
9 It can also propose or suggest ideas on any matter which it considers useful in
national administration. See Article 19 of the Interim Constitution.
10 The Ministries are the Office of the Prime Minister, and the Ministries of Defence,
Finance, Commerce, Foreign Affairs, Industry, Agriculture and Cooperatives, Transport and
Communications, Interior, Justice, Education, Public Health, University Affairs, and Science,
Technology and Energy.
11 The Ministry may have one or two Deputy Ministers, and at least one secretary, all of
whom are considered Cabinet appointees and may be removed from office with a change in
Government. The permanent administrative head of a Ministry is the permanent-secretary, who
controls different Departments. Each Department is headed by a Director-General, who is a
career civil servant. The Departments may be further divided into Divisions and Sections.
operational level, policy formulation and implementation is carried out by the Ministries through their constituent Departments and various Government institutions. Under the authority provided by the legislation, the Ministries issue Regulations and Notifications regarding the details of various policy matters. These are published in the Government Gazette.

46. Co-ordination at the Ministerial level for policy formulation or advice is carried out through a system of Ministerial Committees. Three main Ministerial Committees were established by the Cabinet in March 1991 to consider policy before submission to the Cabinet. One of these Committees considers policies pertaining to economic issues. In addition to regular Committees, ad hoc Committees may be established on a case-by-case basis.

47. With the establishment of the three new Committees in March 1991, two of the previous three high level Committees which coordinated economic policies were abolished. The third Committee, namely the Export Development Committee under the chairmanship of the Prime Minister, continues to be operational (see Appendix II.2). It considers the general policy framework for export development.

48. Decisions of the Cabinet regarding trade policy are also made on the recommendation of Committees which comprise civil servants, and sometimes outside experts. Cabinet decisions on tariffs are based on the recommendations of the Tariff Committee, which is chaired by the Permanent Secretary of the Ministry of Finance. In the case of non-tariff services, approval of the Committee is required.

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12 The other two Committees consider policies regarding national security and foreign affairs, and social and legal issues. The new Committee which considers policies pertaining to economic issues is chaired by the Deputy Prime Minister. Its other members include the Minister attached to the Office of the Prime Minister, and the Ministers of Finance, Foreign Affairs, Agriculture and Cooperatives, Transport and Communications, Commerce, Industry, and Science, Technology and Energy.

13 One was a Committee for International Economic Relations Policy, established in 1988. The other was the Council of Economic Ministers. Both these Committees were chaired by the Prime Minister.

14 The composition of different Committees depends on their terms of reference. If the Committee deals mainly with technical matters, it is usually chaired by an official. A Minister is likely to chair the Committee if it deals primarily with major policy issues. Some of the important Committees whose decisions affect international trade include the Tariff Committee, Committee Exercising the Rice Trading Act, Central Committee for Commodity Price Fixing and Monopoly Prevention, Committee for Determination of Tax Rebate for Locally Produced Goods, Food and Drug Committee, Rural Industrial Development Committee, and the National Food Policy Committee.

15 Proposal for tariff changes to be considered by the Tariff Committee can be made by any Ministry.
measures, there is no regular Committee. The decision is taken on a case-by-case basis, and an ad hoc Committee may be set up if required.16

49. Since 30 June 1981, a Joint Public-Private Consultative Committee provides a formal linkage between the private sector and Government policy-making (see Appendix II.2). Under the operational structure of this Committee, both the Government and the private sector can introduce policy issues involving them.

50. The Prime Minister's Office includes Departments which focus on overall national policy or on certain important issues generally requiring inter-Ministerial coordination. For example, the National Economic and Social Development Board formulates Thailand's Five Year Plans, the Bureau of the Budget prepares the budget, and the Board of Investment (with the Prime Minister as its chairman) provides the incentives for investment and negotiates with investors the requirements imposed on projects which are promoted.17

51. Excluding tariffs, the Ministry of Commerce is responsible for the general trade and commercial policies and export promotion. Controls on imports and exports are under the authority of the Department of Foreign Trade (Chart II.1). The Department of Foreign Trade is also responsible for export control, anti-dumping and countervailing policies, and bilateral trade negotiations. Multilateral trade negotiations are the primary responsibility of the Department of Business Economics.18 The Department of Commercial Registration deals with weight and measurements standardization and control, intellectual property issues, and commercial registration. The Department of Export Promotion is the focal point for the Government's export promotion policies. The Public Warehouse Organization, under the Department of Internal Trade, helps to support commodity prices from time to time.19

16 The decision for imposing a non-tariff measure is usually taken on the recommendation of the Ministries which deal with the product concerned, or with policies to promote or control the item.

17 The Prime Minister's Office also includes the Technical and Economic Cooperation Department, the National Statistical Office, the Office of the National Education Commission, and the Juridical Council.

18 Other responsibilities of the Department of Business Economics include recommendations on internal and external trade policies and measures, undertaking research and analyses, including a forecast of the future economic and trade scenarios, studying and proposing ways of expanding trade, including countertrade, and providing information on international trade.

19 The price is supported at the average market price. Sometimes the Public Warehouse Organization acts as a Government agent for exports to a country which does not have a large enough private trader to deal with certain Government-to-Government commodity contracts.
Chart II.1

The organizational structure of Thailand's Ministry of Commerce

Ministry of Commerce

Office of the Secretary to the
Minister

Office of the
Permanent Secretary

Department of Foreign Trade
- import and export administration of domestic market and trade negotiations
- development and promotion of domestic market and trading system
- maintenance of fair business practices

Department of Internal Trade
- export and development promotion

Department of Export Promotion
- export
- weight and measurement standardization and control
- commercial registration
- intellectual property issues

Department of Commercial Registration

Department of Business Economics
- multilateral trade negotiations
- marketing research and survey on goods and services
- trade information and statistics

Department of Insurance
- advise and regulate the insurance business

Public Warehouse Organisation

Source: Government of Thailand.

52. Tariffs are under the authority of the Ministry of Finance. They are formulated by the Fiscal Policy Office, and implemented by the Department of Customs, both under the Ministry of Finance.

53. Among others, the Ministry of Finance oversees the Bank of Thailand, the Industrial Finance Corporation of Thailand and the Bank for Agriculture and Agricultural Cooperatives.

54. The Bank of Thailand is Thailand's Central Bank. Its main duty is to maintain monetary stability. In this context, it has administrative authority over foreign exchange transactions, imposes certain restrictions on the activities of banks (excluding the Industrial Finance Corporation of Thailand), prescribes the allocation of credit for certain priority activities, and operates a rediscounting scheme for selected sectors (see Chapters III and IV for details). The Industrial Finance Corporation of Thailand and the Bank for Agriculture and Agricultural Cooperatives are
used by the Government for providing financial assistance to the industrial and agricultural sectors, respectively (see Chapter IV).

55. Administration of technical standards for food products, drugs, cosmetics, toxic substances, narcotics and psychotropic substances and medical devices is under the Office of the Food and Drug Committee of the Ministry of Public Health. In the case of poisonous items, the responsible Government agencies are the Ministry of Agriculture and Co-operatives for poisonous items used in agriculture, the Ministry of Industry for poisonous items used in manufacturing, and the Ministry of Public Health for poisonous items used in household and public health.

56. The Thai Industrial Standards Institute under the Ministry of Industry is the national standards organization of Thailand.

57. Two government agencies have the main responsibility concerning investment promotion zones, export promotion zones and industrial estates. One is the Board of Investment under the Office of the Prime Minister, and the second is the Industrial Estate Authority of Thailand under the Ministry of Industry (see Chapter IV for details). These two work closely regarding incentives and promotion of foreign investment operations in industrial estates and export processing zones. The Board of Investment can act as a one-stop investment centre covering operations by foreign investors which are outside the area of responsibility of the Industrial Estate Authority of Thailand.

(ii) Advisory bodies

58. The Joint Public/Private Sector Consultative Committee provides advice on policy issues to the Government (see Appendix II.2). The cooperation has been extended to the provincial level and involves various sectors in agriculture, mining, industry and tourism.

59. The Joint Standing Committee on Commerce, Industry and Banking is an important private sector forum to seek solutions to policies affecting business. The members are the Board of Trade, the Federation of Thai Industries and the Thai Bankers' Association. The Government is not represented in this Committee.

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20 An example is the use of the Joint Public-Private Sector Consultative Committee to support a tariff reduction for electrical and electronic goods and inputs into these products.
60. The private sector in ASEAN countries is playing an increasingly active role in regional co-operation, especially through the ASEAN Chamber of Commerce and Industry.

(iii) Review bodies

61. The Government generally reviews trade policy in the context of formulating its national development plans. The main agency involved in this exercise is the National Economic and Social Development Board. At times, the Government seeks the advice of the Thailand Development Research Institute, a private institution established with the cooperation of the Government of Canada. Similarly, the Government may seek advice from other researchers in Universities when formulating broad changes in policy, such as a rationalization of the tariff structure.

(3) Trade Policy Objectives

62. The main policy objectives of Thailand are encompassed in its legislation, the Ministerial Regulations and Notifications, and the Five Year Plans. Two important objectives are liberalization and expansion of world trade. Achievement of these objectives is an important reason for Thailand's support for the multilateral trading system.

(i) General trade policy objectives

63. Thailand's general trade policy objectives are a part of its overall objective of enhancing the economic and social welfare of its people. At different periods of time, the perceptions of the authorities have varied regarding the appropriate method of achieving this objective.

64. Thailand's Government which came into power in 1932 after the establishment of a constitutional monarchy adopted an import-substituting strategy of industrialization. A major role was played by state-owned enterprises. The basic strategy of import-substitution continued till the early 1970s, when Thailand faced severe balance of payments problems. Recognizing the small base of its domestic market, and facing prospects of a decline in foreign investment, Thailand shifted emphasis towards export...
promotion since its Fourth National Economic and Social Development Plan (1977-81).

65. According to Thailand's Sixth Plan (1987-91), the principal economic opportunities for the Thai economy are in tourism and exports. The general objectives include enhancing exports, efficiency and productivity. In recent years, Thailand has increasingly emphasised the contribution of liberalization towards raising its efficiency and competitiveness in the world economy. In addition to diversifying its industrial base, Thailand hopes to develop into a regional centre for servicing and related activities.

66. Some other objectives of the Sixth Plan with implications for trade policy are rural development, improving the national science and technology base, increasing the effectiveness of transfer of technology from abroad, assisting farmers, adjusting the structure of export-oriented agricultural production, assisting the marketing and price maintenance of agricultural produce, and reducing the involvement of State enterprises in several economic activities. Government policy actively seeks to fulfil these objectives, including the negotiation of conditions under which concessions are provided for foreign investment and technology transfers.

67. During the 1980s, the quality of output, technical standards for products and manufacturing methods, and environmental protection gained greater importance among Thailand's objectives. Thailand has voiced its concern regarding the possibility of trade restrictions being used for protecting the environment. It favours a strengthening of the rules and disciplines in the multilateral trading system in this context.

68. An important recent Thai initiative regarding international trade is to diversify its export markets, with particular emphasis on Indo-China and the Asia-Pacific region.

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23 Under Section 65 of the previous Constitution, the "State should conserve the balance of environment and eliminate pollution which jeopardizes the health and hygiene of the people."

24 For example, in December 1990 at Brussels, Thailand's Minister of Commerce stated, "We must seek a firm commitment from all participants in this Round that they will abide by the multilateral system and procedures for dispute settlement, and strenuously avoid the use of unilateral or bilateral pressures. Furthermore, they should also make it a point of honour to refrain from inventing pretexts for trade harassment or trade restrictions in the guise of environmental protection or preservation of natural resources, as is being practised by certain developed countries." See GATT (1990), MTN.TNC/MIN(90)/ST/18, 3 December 1990, page 3.
(ii) Sectoral trade policy objectives

69. Agriculture's large share in Thailand's employment, and the substantial contribution of the sector to export earnings, has led to special emphasis being given to its production and trade. Even in the context of the Uruguay Round, agriculture is "the single most important issue to Thailand."  

70. Thailand's main agricultural trade policy objectives are to maintain economic growth and stability through an expansion of output and exports, to promote a more equitable distribution of income, and to improve the quality of life and environment.

71. Policies to augment agricultural output include extension services, certain input and credit subsidies, technology transfer, and assistance in seeking export markets. Particular emphasis is given to rural activities away from the Bangkok Metropolitan Region.

72. Stability and income distribution objectives are manifested in the Government's intervention to boost the price of several agricultural products, and to promote the small and medium-scale sector.

73. Trade policy objectives for industry include increasing operational efficiency, promoting private sector participation, diversification of industrial activity away from Bangkok, and tackling the problem of environmental degradation.

74. Thailand encourages industries which earn (or save) foreign exchange or utilize its domestic resources. This policy has increasingly involved a particular focus on diversification and development of agro-industries, certain labour intensive industries, and petrochemicals, steel and some industries producing intermediate products.  

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25Section 67 of the previous Constitution said that the State should protect and preserve the interests of the farmers in the production and in the disposition of their produce by means of price guarantee, or price maintenance as well as organizing the system and control of production and disposition appropriate to the demand of the market or by other means, and should promote the assembling of farmers in the form of co-operatives.

26GATT (1990), op. cit., page 1. In the Uruguay Round, Thailand voices its concerns in its individual capacity and as a member of the Cairns Group. The other members of the Cairns Group are Argentina, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, and Uruguay.

27From mid-1980s onwards, the Government has encouraged restructuring of several industries such as motor vehicles, textiles, electrical appliances, and engineering products.
75. Thailand has given special attention towards assisting the industrial production of small and medium-scale enterprises. However, for achieving another major objective, namely regional development or the geographical decentralization of investment and production, the Government incentives tend to be more favourable for larger enterprises.

(4) Trade Laws and Regulations

76. Thailand has a number of laws which give the authority to implement various aspects of national policy. The main legislation pertaining to export and import transactions is the Export and Import Act B.E. 2522. It provides the authority to ban international trade in prescribed goods, to impose export or import licensing, to prescribe import quotas, quality standards and trade marks of internationally traded goods, to prescribe fixing, revision or cancellation of special fee on exports or imports, the requirement for specific types of certificates, and any other measure to systematize international trade (see Chapter IV for details). The Minister of Commerce and the Minister of Finance jointly implement this Act.

77. Import and export permits may be required for reasons of technical standards and health and safety. Various legislation specify the broad features of the policy regime for these permits.

78. Matters dealing with customs are covered by the Customs Law B.E. 2469. It provides the authority to the Minister of Finance to manage and appoint ports for international trade, customs clearance including the determination of the payment of customs duties, prevention of smuggling, and legal proceedings concerning infringement.

79. Under the Customs Tariff Decree B.E. 2530, the Minister of Finance is authorized to levy, reduce or exempt export and import duties. Annexes to the Decree include the Customs Tariff Schedule for imports and exports, goods exempted from payment of tariff, and rules for the interpretation of the customs tariff. In addition, tax and duty remission for exported goods

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28 The Government has developed a petrochemical complex based on natural gas as part of its Eastern Seaboard Development Project. The scheme also includes the establishment of light export-oriented industries. Infrastructural facilities for the project are provided by the Government.

29 It replaced the Act Controlling Export and Import of Certain Products B.E. 2482., the Act Controlling Export and Import of Certain Products (No. 2) B.E. 2487, and the Act Controlling Export and Import of Certain Product (No. 3) B.E. 2490.

are provided under the authority of legislation such as the Tax and Duty Compensation of Exported Goods Produced in the Kingdom Act B.E. 2524.

80. The authority for implementing exchange control policies is provided by the Exchange Control Act of B.E. 2485 and the Royal Decree of B.E. 2486 that amends the Act.

81. Thailand gives various concessions for investment in certain designated activities and areas. The laws covering these aspects include the Investment Promotion Act B.E. 2520 and the Industrial Estate Authority of Thailand Act B.E. 2522 (see Chapter IV for details).

82. Other legislation which affect production and thus international trade include the Factory Act, B.E. 2512. The expenditure estimates of the State are made in the form of an Act.

(5) Trade Agreements

(1) Multilateral agreements

83. Thailand supports the multilateral system because it provides a forum for a small trading country to resist the unilateral or bilateral pressures of a larger trading partner. According to the Thai legal system, a treaty duly ratified and adhered to by Thailand does not automatically become domestic law. An enabling legislation may have to be enacted by the National Legislative Assembly to render the provisions of the treaty operative within Thailand.

84. Thailand acceded to the GATT in October 1982. Not a signatory to any of the Tokyo Round Agreements, it has observer status in the Arrangement Regarding Bovine Meat, and the Agreements on Technical Barriers, Subsidies and Countervailing, Anti-dumping, Customs Valuation, Government Procurement, and Import Licensing.

85. Thailand is a member of several other multilateral organizations related to trade, such as the United Nations, UNCTAD, the Food and Agriculture Organization of the United Nations, the World Bank, the International Monetary Fund, the International Finance Corporation, and the Asian Development Bank. It participates in a number of commodity

31 There was no need for the enactment of a new Act by the National Assembly because the existing laws were adequate for carrying out Thailand's obligations under the General Agreement and the Protocol for the Accession of Thailand to the General Agreement dated 21 October 1982.

(ii) Regional agreements

86. Thailand is one of the founding members of the Association of Southeast Asian Nations (ASEAN), formed in 1967. It participates in sub-regional trade co-operation through the Agreement on ASEAN Preferential Trading Arrangements of February 1977. The Agreement includes long-term quantity contracts, purchase finance support at favourable interest rates, preference in Government procurement, extension of tariff preferences, liberalization of non-tariff measures on a preferential basis, and any other measures mutually agreed upon. Of these, the exchange of tariff preferences is the most widely applied mechanism among the members of ASEAN (see Chapter IV for details). The trade preference negotiations are conducted by the ASEAN Committee on Trade and Tourism under the authority of the ASEAN Economic Ministers.

87. Tariff preferences can also be offered under the ASEAN Industrial Joint Venture Scheme, which requires the participation of either nationals or entities from two of the six member states. Participation of non-ASEAN national or entity is permitted with the general requirement that non-ASEAN equity share should not exceed 49 per cent; however, until 31 December 1993, the upper limit for non-ASEAN share has been raised to 60 per cent, in order to attract foreign investment to the region.

88. The ASEAN countries work out arrangements for cooperation in the economic, social and cultural fields with certain non-ASEAN countries which are classified as ASEAN dialogue partners. Presently, the dialogue partners are Australia, Canada, the European Community, Japan, New Zealand, the Republic of Korea, and the United States.

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32 The other founding members were Indonesia, Malaysia, the Philippines and Singapore. Brunei Darussalam joined as the sixth member in 1984.
33 Several such joint venture projects have been approved for tariff preferences by the ASEAN Economic Ministers. Those in Thailand include manufacture of motorcycle electrical parts and slaughtered meat. Other schemes for which Thailand provides tariff preferences include the ASEAN potash mining project under the ASEAN Industrial Project (AIP), and the manufacture of several brands of automotive parts and components under the Brand to Brand Complementation in the Automotive Industry.
89. Thailand is a party to the Asia-Pacific Economic Cooperation. In its view, the Cooperation is an attempt to strengthen the multilateral trading system rather than to building trading blocs.

90. Thailand has participated in consultations regarding Malaysia's proposal to form an East Asian Economic Grouping. 34

(iii) Bilateral agreements

91. Thailand has a total of 32 bilateral trade agreements. Agreements with 21 countries were being negotiated in mid-March 1991 (see the TPRM Report by the Government of Thailand for details). In addition to a bilateral trade treaty with the United States of America, Thailand has a Treaty of Amity and Economic Relations. This treaty includes aspects such as foreign investment, patents, taxation, trade policies, and dispute settlement (see the TPRM Report by the Government of Thailand for details).

(6) GSP/GSTP

92. In the framework of UNCTAD, Thailand participates in the Global System of Trade Preferences among Developing Countries (GSTP). Thailand signed the agreement on 13 April 1988 and ratified it on 5 February 1990. The agreement entered into force in March 1990. Preferential tariffs are provided on 11 CCCN tariff lines (see Chapter IV for details). The preferences are provided to all GSTP participants on an m.f.n. basis.35

34 In January 1991, the countries being considered for this Grouping were ASEAN, China and Japan.
35 Thailand held negotiations with Cuba, India, the Republic of Korea, Romania and Yugoslavia.
Appendix II.1
The legislative process under the previous Constitution

93. The National Assembly consisted of the Senate and the House of Representatives. The President of the House of Representatives was the President of the National Assembly. The House of Representatives had elected members, and members of the Senate were appointed by the King. Bills for discussion were introduced only by the Council of Ministers or members of the House of Representatives. For introducing money bills, members of the House of Representatives required an endorsement of the Prime Minister. The Juridical Council under the Prime Minister's Office provided expert assistance in drafting laws.

94. A bill was enacted into law only by, and with the advice and approval of, the National Assembly. Subject to this approval, Thailand's policies were actually made by the Cabinet, whose chairman was the Prime Minister. Bills were first submitted to the House of Representatives for approval, and then to the Senate. Even if the Senate did not approve a bill, it could become legislation if more than half the members of the House of Representatives approved it on reconsideration.

95. All legislation required the King's signature, after which it became law on being published in the Royal Gazette or the Government Gazette. In case the King did not sign the legislation, the Constitution provided for a process under which the Prime Minister could get the bill promulgated as an Act in the Government Gazette as if the King had signed it.

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1 Earlier, the President of the Senate used to be the President of the National Assembly. A change in this was brought about by the Constitution of the Kingdom of Thailand Amendment (No. 2), B.E. 2532 (1989).
2 The previous Constitution stipulated that the number of senators shall not exceed three-fourths of the total number of members in the House of Representatives.
3 To introduce a bill, a member of the House of Representatives needed the approval of the political party of which he/she was a member, and the endorsement of not less than twenty members of the House of Representatives which belonged to his political party.
4 For a definition of a money bill, see Section 125 of the previous Constitution.
5 See Section 78 of the previous Constitution.
Main features of selected Committees involved in trade policy

A. Export Development Committee

96. This Committee formulates policy and framework for export development, and sets short-term and long-term export targets and strategies. It plans and co-ordinates the allocation of funds for export promotion, and provides guidelines for agencies including state enterprises to deal with obstacles to export development.

97. The Prime Minister or a Deputy Prime Minister designated by him chairs this Committee. The members are Ministers or senior officials of relevant Ministries, representatives from the private sector, and knowledgeable and experienced persons appointed by the Chairman.

B. Joint Public-Private Consultative Committee

98. This Committee was formed in mid-1981 to consider problems and obstacles to the functioning of the Government and the private sector, and to co-ordinate efforts to seek solutions. It co-ordinates the formulation of plans and projects jointly undertaken by the Government and the private sector in important sectors, and promotes the role of private institutions in support of economic development of the country. Similar Consultative Committees were formed at the provincial level in 1986.

99. The Joint Public-Private Consultative Committee is chaired by the Prime Minister. The members are Ministers and senior officials of relevant Ministries such as Finance, Commerce and Industry, the Secretary-General of the National Economic and Social Development Board, representatives from the Board of Trade of Thailand, the Federation of Thai Industries and the Thai Bankers' Association. The National Economic and Social Development Board acts as the Secretariat to the Committee.

100. Policy matters originating from the Government and the provincial Joint Public-Private Consultative Committees are sent to the Secretariat of this Committee. Private sector agencies which are not under the three main

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1 The Ministers and senior officials are from the Ministries of Finance, Industry, Commerce, and Agriculture and Cooperatives, and the Secretary-General of the National Economic and Social Development Board. The private sector representatives are the Chairmen of the Board of Trade of Thailand, the Federation of Thai Industries, and the Thai Bankers' Association. The Director-General of the Department of Export Promotion is the Secretary to this Committee.
private bodies associated with this Committee can send their concerns directly to the Secretariat.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Movements and Trade

101. Following an appreciation of the nominal effective exchange rate in the early 1980s, the Thai baht was devalued in November 1984 by 14.8 per cent against the United States dollar. On this occasion, Thailand also switched to a more flexible exchange rate régime. The baht further depreciated until 1988, and then appreciated slightly (Chart III.1). For the 1980s as a whole, the nominal effective exchange rate of the baht depreciated by 26 per cent. Relatively low inflation in the Thai economy resulted in a larger fall in the real effective exchange rate.

102. The depreciation of the baht in the second half of the 1980s contributed to the country's price competitiveness, and spurred Thailand's exports. Thailand's export volume rose sharply in this period, registering large increases each year (Chart III.2). The consequent economic growth led to a rapid rise in import volume. As mentioned earlier, Thai imports increased more rapidly than exports in the second half of the 1980s.

103. The improved cost competitiveness and strength of the economy attracted a large increase in foreign capital, which provided an indirect boost to Thailand's international trade. In recent years, a major proportion of foreign direct investment has gone to export-oriented projects. Many of these projects are engaged in assembling or processing imported inputs.

1According to one study, the competitive price effect of the depreciation has particularly contributed to increased flow of Thai exports to the European Communities and Japan. In the case of the United States, the income effect of economic growth in the export market was a more important contributory factor. See A. Wattananukit and T. Bhongmakapat (1989), "The Impact of the External Sector on the Thai Economy and its Determinants", Background Paper No. 7, the 1989 Thailand Development Research Institute Year-End Conference, 16-17 December 1989, Chon Buri. Estimates of the contribution of cost-competitiveness, which includes the effect of depreciation, on the growth in Thai exports range from about 18 per cent to 38 per cent. See, for example, W. Akrasanee (1989), op. cit.

2According to one study, 60 per cent of the foreign direct investment in Thailand was to maintain or regain cost-advantage by the foreign investor. Most of the other foreign direct investment during this period was to make use of local natural resources and to gain advantage of Thailand's domestic demand. Foreign portfolio investment, on the other hand, was influenced mainly by Thailand's economic prospects and market investment returns. See J. Pongpisamupichit, W. Pupphavesa, S. Phagaphasivavat, P. Pitayasacharayakul, and D. Wongpradhip (1989), "Direct Foreign Investment and Capital Flows", Background Paper No. 6, the 1989 Thailand Development Research Institute Year-End Conference, 16-17 December 1989, Chon Buri.
Chart III.1
Index of nominal and real effective exchange rates of Thailand, 1980-90
Index 1980=100

Source: IMF.

Chart III.2
Real effective exchange rate and volume of Thailand imports and exports, 1980-90
Index 1980=100

Source: IMF.
104. As a result of the rapid rise in imports and the inflow of foreign capital, the substantial depreciation of the Thai baht has been accompanied by diverse movements for the current and capital accounts of the balance of payments. While the deficit on the current account increased sharply in the second half of the 1980s, the surplus on the capital account rose even more rapidly. Consequently, in 1990, a current account deficit equivalent to about 7.5 per cent of GDP co-existed with an overall balance of payments surplus equivalent to about 22 per cent of GDP (Chart III.3).

105. The current account deficit has increased despite the large depreciation of the baht. This reflects the inadequacy of national savings to satisfy the strong investment demand in Thailand. Most of the investment in Thailand was due to the private sector, and its share in Thailand's gross domestic investment increased by one-third during the second half of the 1980s (Chart III.4).

106. With a budget surplus achieved since 1988, the Government has provided increasing amounts of savings for use by the private sector. As a ratio of GDP, the balance on the Government budget changed from a deficit of 3.4 per cent in 1985 to a surplus of 5 per cent in 1990 (Chart III.5). The public sector's contribution to net national savings increased from about one-tenth in 1985 to two-fifths in 1990 (Chart III.6).

107. Foreign savings came to Thailand mainly in the form of external private capital inflows (Table I.7). In contrast, the net inflow of external funds to the public sector has been negative for most years since 1986 (Table I.7). As a result of the large inflows of foreign capital, Thailand's foreign exchange reserves increased rapidly to reach about US$14.5 billion at the end of 1990, equivalent to more than five months of imports in 1990. The rapid growth in exports, the inflow of foreign exchange, and the curb imposed by the Government on public external borrowing, have contributed to a decline in the external debt service ratio. Long term debt service payments as a proportion of current export earnings declined to 10 per cent in 1989, compared to a peak of about 22 per cent in 1985 (Chart I.4).
Chart III.3
Real effective exchange rate and selected components of payments accounts, 1980-90

Source: IMF and the Bank of Thailand.

Chart III.4
Share of the private and public sectors in Thailand's gross domestic investment, 1984-90

Source: Bank of Thailand.
Chart III.5
Real effective exchange rate and ratio of Thailand's budget deficit and current account balance to GDP, 1980-90


Chart III.6
Share of the private and public sectors in Thailand's net national savings, 1984-90

Source: Bank of Thailand.
(2) **Foreign Exchange Allocation**

108. Since November 1984, the exchange rate of the Thai Baht has been based on a weighted basket of currencies of Thailand's major trading partners. Important considerations for allocating weights to different currencies in the basket include their relative shares in trade. The United States dollar, the intervention currency, has the largest weight in the basket.

109. In general, the Thai baht is allowed to adjust on a continuous basis in line with market forces. The authorities intervene mainly to avoid exchange rate instability. As a result of the large weight given to the United States dollar in the basket, the baht/dollar rate has been relatively stable in recent years compared to some other major currencies. The movements of the main currencies in the basket have imparted stability to the nominal effective exchange rate.

110. Daily buying and selling rates for the United States dollar are announced by the Exchange Equalization Fund for transactions between itself and commercial banks. In addition, the Fund announces the daily minimum buying and maximum selling rates for commercial banks in their dealings with the public in Brunei dollars, deutsche mark, Hong Kong dollars, Indonesian rupiah, Japanese Yen, Malaysian ringgit, Philippine peso, pound sterling, Singapore dollar and the United States dollar. There are no taxes or subsidies on purchases or sales of foreign exchange.

111. Forward transactions in foreign exchange take place among commercial banks, and between commercial banks and their customers. These transactions have to be related to the underlying trade, services and capital account transactions. The forward premium in the baht/United States dollar rate is freely determined and usually reflects interest differentials between the two countries. The Bank of Thailand, however, places restrictions on the open forward and spot exchange positions of commercial banks. The maturity of forward contracts is mostly not to exceed six months. Under a Thai baht option system, importers have the right to purchase forward within six months, and by special arrangement within nine months, a minimum US$10,000.

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3From July 1981, the baht had been pegged to the United States dollar. The change in the exchange rate system in 1984 was part of a broader structural adjustment policy, adopted for introducing flexibility in the economy. The basket has been changed only once, i.e. in November 1985.

4The Bank of Thailand is of the view that frequent adjustment of the weights in the basket of currencies could tend to undermine confidence in Thailand's financial system.
112. The exchange controls in Thailand are administered by the Bank of Thailand on behalf of the Ministry of Finance. Responsibility for most transactions is further delegated to authorized banks and authorized persons. Authorized persons (money changers) only engage in the purchase of foreign notes and travellers' cheques and the selling of foreign notes.

113. In May 1990, Thailand substantially liberalized its foreign exchange regulations, and accepted the obligations under Article 8 of the International Monetary Fund. The acceptance of Article 8 of the IMF was a signal by the Government that it would use macro-economic tools to deal with balance of payment problems rather than temporarily curb foreign exchange transactions.

114. The May 1990 liberalization mainly affected the capital account transactions (Table III.1). Earlier, though all outgoing payments were technically subject to approval, permission was automatically given for bona fide commercial transactions and other current payments. The banks are expected to submit the completed papers the day after the transaction.

115. The May 1990 liberalization resulted in a large increase in the amount which commercial banks were authorized to sell towards payments for various categories of invisibles and capital account transactions (Table III.1). Since there are no restrictions on the number of transactions of any type, the maximum figure per transaction can be repeated as often as required. In addition, the authorities are considering further liberalization measures for these transactions.

116. In Thailand, non-residents are allowed to operate non-resident baht or foreign currency accounts with commercial banks. If funds originate from

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5 The legal basis for exchange restrictions in Thailand is derived from the Exchange Control Act B.E. 2485, and the Ministerial Regulation No. 13, B.E. 2497 issued under the Exchange Control Act B.E. 2485. These laws set out the principles of controls under which Notifications and Notices prescribing detailed procedures are issued.

6 Since February 1991, individual banks are not allowed to have a net foreign exchange position of more than US$6 million or 25 per cent of the bank's capital, whichever is larger. The previous limit was US$5 million or 20 per cent of the bank's capital, whichever was larger.

7 Under Article 8 of the IMF, Thailand is supposed to refrain from imposing any restrictions on foreign exchange for current account transactions, to give fair financial treatment to all trading partners, and is committed to using a single exchange rate for all international transactions. For details, see International Monetary Fund (1988), Articles of Agreement of the International Monetary Fund, I.M.F., Washington, D.C. Reportedly, reasons for the reform include the delays faced by foreign investors due to the paperwork involved in conducting transactions, and in remitting outward the sales receipts for equities on the Stock Exchange of Thailand.

8 Similarly, some inward capital transfers were subject to approval if prescribed by Ministerial notification. No such notification had been issued.

9 Earlier there was no limit on the number of transactions but each transaction was subject to specified conditions.
abroad, no restrictions are placed on the opening of a foreign currency account with commercial banks in Thailand, or on transferring funds from these accounts. For baht accounts operated by non-residents, the May 1990 measures have substantially eased the restrictions.

117. The baht accounts are of two types, namely the Transferable Account and the Blocked Account. With some exceptions, payments into the Transferable Account earlier required approval. Now the commercial banks are authorized to approve transfers of up to B 5 million per account per day. The same amount can now be approved by commercial banks for transferring baht from the Blocked Account for the purchase of foreign currency (Table III.1).

118. Regarding inward foreign exchange payments, export-proceeds above B 500,000 must be collected within 180 days from the date of export, and surrendered to an authorized bank or deposited in a foreign currency account with an authorized bank in Thailand within 15 days of receipt. Similarly, all receipts from invisibles must be surrendered to authorized banks or deposited in a foreign currency account within 15 days from the date of receipt. Foreign exchange from capital inflows must be sold to an authorized agent and the purpose of the transfer declared. Since the baht is now convertible, Thailand is considering reforms in regulations regarding inward payments and foreign exchange accounts held by Thais. Another item on the agenda for liberalization is to increase the current limit of US$5 million per year allowed for foreign investment from Thailand.

119. Before the May 1990 reforms, all outward capital transfers were subject to approval unless corresponding inflows had been registered with

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10 The total amount of daily outstanding balances in all foreign currency accounts must not exceed US$5 million for a juristic person and US$500,000 for an individual. Withdrawal from these accounts may be made either for payments of normal business transactions to persons outside the country upon submission of supporting evidence, or for conversion into baht at authorized banks.

11 In the case of funds credited by residents to these accounts, prior approval from a competent officer is required if these funds are for the purchase of immovable assets or securities abroad, or for investment or lending abroad or for remittance to Thai emigrants living abroad in excess of the authorized amount.

12 Funds in the Transferable Account may be used freely for payments to residents or for the purchase of foreign currency for transfer abroad. In the case of Blocked Accounts, funds could be freely transferred, except for purchase of foreign currency for transfer abroad.

13 Since funds in the Transferable Account could easily be transferred, prior approval was earlier required for crediting this account with money other than proceeds from sales to authorized banks of foreign currency transferred from abroad, funds from other Transferable Accounts, and funds eligible for remittance abroad in foreign currency.

14 Earlier, approval for such transfers were granted if no capital transfer on behalf of a Thai national was involved.

15 Expected reforms include easier conditions for overseas investments by Thais, and elimination of restrictions on foreign exchange holdings by Thai residents.
the Bank of Thailand. Now, up to US$500,000 per transaction can be authorized by commercial banks for repayment (including interest) of foreign loans not registered with the Bank of Thailand, for remittances of proceeds from sales of securities and of funds from liquidation of a company. Remittance of profits and dividends must be approved by the Bank of Thailand. Permission is automatically granted if the transferer gives evidence of having paid the required taxes and the availability of adequate funds to cover operating requirements and statutory reserves.

120. Imports of gold require a license issued by the Ministry of Finance. Exports of gold bullion are restricted. Foreign tourists may take reasonable value of gold ornaments from Thailand. A certificate of exportation should be presented to the customs officials for traders' exports of gold ornaments worth more than B 5,000. Purchases or sales of gold on commodity futures exchanges are restricted.

(3) Foreign Direct Investment and Trade

121. The Thai Government has a favourable policy towards foreign investment, recognising it as a vehicle for technology transfer, training of personnel, and upgrading product quality. It particularly emphasises foreign investment which encourages Thai participation in ownership and management, and has linkages to Thai suppliers and sub-contractors. Furthermore, as a member of ASEAN, Thailand makes efforts to promote co-operation among the member countries through complementary foreign investment and trade in related products.

(i) The regulatory framework

122. With a limited exception for areas such as banking, finance, insurance, certain public utilities and military goods, foreigners can establish every kind of business in Thailand if they are minority and their equity participation does not exceed 49 per cent of the registered capital.

123. The main areas for which Thailand imposes restrictions on foreign majority ownership are specified by the Alien Business Law of 1972. The

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16 Once capitalization is reduced or shares are sold, repatriation of capital is guaranteed for companies promoted under the Investment Promotion Act of 1977 and the Industrial Estate Authority of Thailand Act of 1979. For others, capital repatriation is allowed if the evidence of original entry of funds to Thailand is given. The May 1990 reforms have substantially reduced the time period required for repatriating capital.

17 Similarly, foreign investors can freely repatriate funds for loan repayments and interest payments thereon, net of all taxes.

18 This was the Announcement of the Revolutionary Party No. 281 of November 1972. For (Footnote Continued)
annexes to this law list business activities classified into three categories (Table AIII.1). Aliens cannot own more than 49 per cent of the activities under Annex A. Similarly, majority owned foreign enterprises are not allowed to invest in activities under Annex B, unless the Board of Investment grants promotional privileges to such a business. Annex C lists activities which are open to majority ownership by aliens if such activities could not be competently carried out by a majority Thai-owned company. The Alien Business Law is not applicable to those aliens who engage in business for a definite duration with the permission of the Thai Government, or whose activity falls within the scope of an agreement between the Thai Government and a foreign Government.

124. For activities covered by the Alien Business Law, foreign owners must apply to the Ministry of Commerce for an "Alien Business Licence". The validity of this licence may be for a fixed period, or for a period subject to specified conditions. In addition, standard conditions are imposed on companies applying for alien business licence. These conditions include a specification of the level of debt-financing, remittance of money, the number of Thai directors in activities under Annex C, and the stipulation that at least one person who is responsible for operating the permitted business under Annex C must be domiciled in the Kingdom.

125. An important instrument for encouraging foreign direct investment in Thailand is the provision of incentives to industries promoted through the Investment Promotion Act 1977. In general, this Act applies in the same way to both local and foreign promoted projects. Some parts of it are

(Footnote Continued)

some other legal provisions affecting foreign employment or enterprise in Thailand, see A. Srisanit (1987), "Aliens' Occupation, Immigration and Investment in Thailand", Thailand Yearbook of International and Comparative Law, Volume 1, 1986, published by the Faculty of Law, Chulalongkorn University for the International Law Association of Thailand, Bangkok.

19 The activities for which alien investment is completely prohibited, are not listed in these Annexes. Similarly, some other activities with restrictions on foreign ownership, such as commercial banks, finance, insurance, certain public utilities and military goods are not listed in these Annexes. Furthermore, the Board of Investment limits foreign ownership to below 49 per cent for a number of promoted projects to ensure Thai control of the business. See, for example, United Nations Centre on Transnational Corporations (1986), National Legislation and Regulations Relating to Transnational Corporations, Volume IV, United Nations, New York, and Office of the Board of Investment (1990), A Guide to Investing in Thailand, Office of the Board of Investment, Bangkok, July 1990.

20 The Thai authorities are considering downgrading some of the activities in Annex A.

21 In 1972, the existing foreign enterprises in category B were told not to close down provided they complied with certain conditions prescribed by Article 30 of the Announcement of the Revolutionary Party No. 281. For aliens whose investment is granted promotional status, section 6 of the the Alien Business Law provides a facilitating procedure for issuing the necessary licence.

22 Industries promoted by the Board of Investment and the United States firms under the Thai-U.S. Treaty of Amity and Economic Relations are exempt from the provisions of the Alien Business Law. Petroleum is exempt from this law. It is covered by the Petroleum Act of 1971, as amended.

23 See, for example, G. Srisanit (1987), op. cit., pages 38-39.
designed to facilitate foreign investment. For example, foreign investors can own land in Thailand for business. The promoted company is allowed to bring into Thailand foreign skilled workers or experts and the spouses or dependants of these persons. The foreign nationals are granted a work permit for a job as approved by the Board of Investment.\(^\text{24}\)

126. Other incentives under the Investment Promotion Act include guarantees for the promoted industries against a prohibition on export of the output, nationalization, competition from new State enterprises, State monopolization of the sale of products similar to those produced by the promoted person, price controls, and tax exempted imports of competing products by Government agencies or State enterprises (see Chapter IV for details of concessions on taxes, duty and on remittance of money).

127. In general, foreign direct investment in Thailand is treated similar to local investment. Thus similar incentives and facilities are provided.

(ii) Investment patterns

128. As a share in net foreign capital, foreign direct investment in Thailand has currently increased to one-quarter from less than one-tenth in 1980 (Table I.7). About three-fourths of the total investment for projects receiving promotion from the Board of Investment is accounted by foreign investment (Table III.2).

129. Japan has been a major source of the increase in foreign direct investment in Thailand. Japan's share rose from about one-fourth in 1980 to two-fifths in 1989. Other important countries are Hong Kong, Taiwan and the United States (Table III.3).

130. A large proportion of overall foreign direct investment has gone to the industrial sector. Compared to about one-fourth in 1980, almost one-half of the foreign direct investment in 1989 went to industry (Table III.4). A noticeable feature is the shift in the nature of industries which attracted foreign direct investment. While light consumer goods industries were favoured earlier, the recent emphasis has been on electrical and electronic products, chemicals, metal-based and non-metallic products, and textiles. A major motive behind this investment has been to seek cheap and reliable production sites for subsequent exports by foreign

\(^{24}\)Ownership of land and granting work permits are relaxations of the Land Code and the Aliens' Employment Act. These incentives are also provided for those investing in industrial estates (see Chapter IV).
Hence the change in the pattern and level of foreign investment has important implications for Thailand's trade structure.

The previous orientation of foreign direct investment towards import-substituting industries has now been replaced by export-oriented industries. Furthermore, the rapid growth of various processing and assembly projects has resulted in a substantial increase in imports linked to these activities. It is expected that foreign investment will improve the quality of domestic output, provide a stimulus to the smaller Thai enterprises linked to them, and help in the upgrading of technology. All these features are likely to have important implications for the pattern of Thailand's domestic output and international trade.

Compared to the recent large inflow of foreign direct investment into Thailand, a small proportion of investment by Thais has taken place abroad. In 1989, about B 0.9 billion was invested in food industries, and about B 0.2 billion in textiles industries.

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25 See, for example, J. Pongpisupichit, et al. (1989), op. cit.
26 For example, the share of the number of export-oriented projects in the total number of promoted FDI project increased from about 10 per cent in 1984 to about three-fourths in 1988. Furthermore, since 100 per cent foreign ownership is allowed for export-oriented projects, the shares of fully-owned foreign projects or foreign majority-owned projects in total foreign direct investment have increased substantially during the 1980s. See op. cit.
27 Foreign investment in Thailand has not been seen as an unmixed blessing. Criticisms include the pressure on inputs created by demand from foreign enterprises, and the concern that foreigners are increasing their control over a greater proportion of the nation's resources.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

133. Thailand uses a combination of measures to protect domestic economic activities, promote exports of various items, and give incentives for investment in selected sectors. A high degree of tariff protection is provided to the manufacturing sector. Greater protection is accorded to finished products than to machinery and other inputs. With a few exceptions, the Government put a cap of 60 per cent on applied tariffs in 1982. Nonetheless, tariff escalation and the effective rates of protection continue to be high in several cases, particularly for agro-food processing. Thailand has bound only about 3 per cent of its tariff lines under the GATT.

134. Thailand applies a business tax (a form of sales tax) on most imports. The incidence of this tax on imports and domestic products differs in a number of cases. This difference will be removed when Thailand adopts a value-added tax system in the near future. The value-added tax will also result in a simpler system of duty rebates in Thailand.

135. Import controls on certain items, mainly non-automatic licensing, are an important part of Thai trade policy. A majority of these restrictions are imposed to promote domestic output. Some products have been accorded protection for this reason for about two decades. The coverage of import licensing has decreased since the late 1970s. However, the number of products currently under licensing is larger than in the early 1980s. In the case of soybean cake and fishmeal, the Government has made a beginning in substituting tariff-based policies for non-automatic licensing.

136. Protection from imports is also provided through local-content schemes, particularly in the context of industries promoted by the Board of Investment. Furthermore, Government procurement policies appear to give preferences to domestic producers, but details of procurement policies were not available from the Government of Thailand, on account of their complicated nature.

137. Thailand imposes export taxes on a few items. The average incidence of export taxes has decreased to a negligible level. Export controls are imposed by Thailand affect about 150 products (four-digit HS categories). Major objectives are to preserve the product for domestic use and to conserve natural resources and environment. In the case of two products, namely tapioca and certain textiles and clothing items, export quotas are in place to implement bilateral arrangements. The system of quota allocation is complex. Over time, Thailand has increasingly favoured encouraging exports. For this purpose, a number of programmes is used to
provide duty and tax rebates on inputs for exports and income from export-oriented projects.

138. The Government promotes investment in selected activities through policies such as remission or exemption of corporate income tax, tariffs and other taxes on inputs. These policies reflect the Government's emphasis on various objectives, especially locating production activity away from Bangkok and export-oriented production. The criteria for granting concessions through these policies have been simplified in recent years.

139. For a number of products, the Government intervenes to control domestic production capacity. Permission for augmenting capacity for these items is granted only if the authorities assess that the level of domestic demand would warrant such an increase. In a few cases, the Government fixes the retail price of a product to protect the consumer.

140. The Government assists the rural sector through policies such as price intervention, cheap credit, and rural development projects. Some assistance is provided for research and development, and for promoting the small-scale sector.

141. In the last few decades, Thailand has made substantial progress in developing a policy régime incorporating health and safety concerns, and promoting technical standards, testing and certification. Efforts in this area are to continue to give greater emphasis to these aspects in domestic production and consumption, and to take account of the increasing complexity of the products and techniques used in Thailand.

142. The problem of environmental degradation has assumed considerable importance in recent times.

143. Thailand is in the process of rationalizing its tariff and tax régime. The statutory import tariff on several machinery and equipment was reduced to 5 per cent in September 1990. In general, the long-term trend is towards a reduction in applied tariffs, and a simplification of the tax and duty rebate system. A plan to streamline the tariff structure by reducing the currently applied thirty-six different rates to about six rates is under consideration. In the Uruguay Round of trade negotiations, Thailand has offered to bind its tariffs on about half its total tariff lines. Along with this, the outcome of the Uruguay Round will determine some other aspects of Thai trade policy, such as the acceptance of the Tokyo Round Codes.
144. The policies affecting Thailand's trade will be discussed in this Chapter under three sections, namely measures directly affecting imports, exports, or production and trade. 1

(2) Measures Directly Affecting Imports

145. Importers, both persons and firms, must be registered at the Ministry of Commerce in order to conduct their business. Officials of the Customs Department inspect imports for the purpose of levying duties and to verify that they meet the requirements specified in the various notifications of the Government. 2 In the case of food products, drugs, toxic substances, cosmetics, medical devices, narcotic and psychotropic substances, inspection of imports is conducted for reasons of health and safety by officials of the Food and Drug Administration of Thailand.

146. Earlier, an importer required an exchange control form from an authorized agent in order to receive Customs clearance when the value of the imported good was greater than 50,000 baht. This condition has been repealed by the April 1991 liberalization measures of the Bank of Thailand.

147. In general, all taxes on imports must be paid before the release of goods from customs. In the case of urgent release of the product, cash or other securities to the satisfaction of the Customs official may be accepted. 3 If the importer fails to pay the full amount of duty within the specified time limit, a surcharge may be levied. 4

(i) Tariffs

148. Revenue from import duties has been an important consideration for the Thai Government in the formulation of its tariff policy. Though the share of import duties in total tax revenue of the Government has declined over time, it was still about 24 per cent in 1990 (Chart IV.1). Because of the role of import duties in Government revenue, the tariff reduction of October 1982 was partially reversed by a special surtax on imports for one year, and later by a general rise in tariffs in 1985. 5 Currently, the

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1 This classification is adopted only for expositional purposes, and not to suggest that the effects of any policy are limited to only exports, imports or production. In this context it should be borne in mind that any policy which creates incentives or disincentives for any activity such as imports, exports, or domestic sales will also have implications for other economic activities (sectors) due to the interlinkages between them.

2 Over nine-tenths of imports enter Thailand from Bangkok.

3 For the treatment of goods for which an entry is not approved or duty is not paid, see Chapter VII of the The Customs Law B.E. 2469, and Section 12 of the Customs Act (No. 9) B.E. 2482.

4 See Sections 112ter and 112quarter of the Customs Law B.E. 2469.

5 In October 1982, tariffs had been lowered under the Fifth Five Year Plan (1982-86),
Government's strong fiscal position has provided greater flexibility in formulating tariff policy.

Chart IV.1
Share of import and export taxes in total tax revenue in Thailand, 1963-90

Source: Government of Thailand.

149. In addition to the contribution of tariffs to revenue, the Government recognizes that tariffs increase domestic costs and prices, and adversely affect export performance. For this reason, it uses various schemes to grant tariff rebates on machinery items, raw materials and intermediate products. Tariffs or excise taxes are also reduced to relieve domestic

(Footnote Continued)
whose stated objective was to reduce both the dispersion of tariff rates and the average tariff level. In April 1985, a 5 per cent increase in nominal rates occurred for all raw materials and intermediate goods, and except for certain textile and machinery items, nominal tariffs on finished goods increased by 10 per cent.
price pressures in the event of a shortage of some important product, such as cement and petroleum in recent years.

150. On 1 January 1988, Thailand replaced its CCCN-based tariff system by a tariff nomenclature based on the 5,019 six-digit items of the Customs Co-operation Council's Harmonized System (HS). The statutory tariffs in Thailand are given by the Customs Decree B.E. 2530. The m.f.n. statutory tariffs, or base tariffs, of Thailand are specified in the Customs Tariff Schedule of Thailand for about 5,300 tariff lines. Most of the tariff lines are at the six-digit level. A small proportion are at the seven-digit level.

151. Any alteration of the statutory tariffs requires a change in legislation. Under the Tariff Act of 1960 and its subsequent amendments, the Minister of Finance, with the approval of the Cabinet, may modify the tariff rates which are actually applied, without requiring approval by the legislative body. Consequently, the applied tariffs for several products differ from the statutory tariffs (Tables IV.1 and IV.2). The changes in tariff made by the Minister of Finance may result in different tariff rates for the items under a particular tariff line. Thus, the actual number of applied tariff rates exceeds the number of statutory tariff lines. In most cases, the applied rates of m.f.n. tariff are given by the Customs Tariff Schedule.

152. Though the Minister of Finance has the power to raise or reduce tariff rates, the change in applied tariffs has generally been to reduce the rate

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6 In view of the rising oil price in late 1990, the measures taken by the Cabinet included a removal of import duty on fertilizers, and removal of business and municipal tax on crops such as maize, tapioca, kenaf and castor seed.

7 The previous tariff system had 1,457 tariff lines.

8 These alterations are made on the recommendation of the Tariff Committee, for reasons such as promoting the national economy or public welfare, to counteract a foreign subsidy, and for providing tariff concession in the context of a preferential trading arrangement. Under certain circumstances, Thailand has had to use the tariff measure to safeguard its external financial position, domestic industries and essential security interests, while taking account of its international rights and obligations. These protective measures are, as a rule, temporary and subject to periodic review.

9 For example, woven fabrics of artificial filament yarn including certain other woven fabrics (tariff line 54.08) have a statutory base rate of 80 per cent or B 60 per kg, which has been reduced as follows: fabrics used in the manufacture of blankets to 30 per cent or B 17 per kg; fabrics used in manufacture of machinery belts or tyres for wheels of all kinds to 25 per cent or B 14 per kg; fabrics used in the manufacture of medical plasters to 20 per cent or B 11 per kg; and others to 60 per cent or B 50 per kg.

10 For some tariff lines, the applied tariff may differ from that given in the Tariff Schedule. An example of this is the group of items with tariff bindings under the GATT. The applied tariff on imports of these products from GATT member countries was reduced to the level of the bound tariff by the Ministry of Finance Notification 2/1988. This change is not reflected for some tariff lines in the Tariff Schedule.
in recent years. The lower rate has been maintained for extended periods of time.

153. Several tariff reductions are conditional on certain requirements being met, and do not apply to general imports of the item concerned. For example, in many instances, tariff reduction or exemption is provided for items only if they are used for manufacturing specified end-products. Alternatively, tariff concessions may be provided only to specific end-users such as in the case of concessions on inputs and machinery imported by firms promoted by the Board of Investment (see below). Hence, the import of any particular product could enter under different rates of tariff depending on its end-use or the privileges granted to the importer concerned. This complicates the ex-ante calculation of tariff rates for different product groups. Furthermore, frequent announcements to alter certain tariff rates introduce some uncertainty regarding the stability of these rates.

154. M.f.n. tariffs are applied to all trading partners, except for trade under preferential arrangements. For most items, imports from m.f.n. sources are more than 90 per cent of the total (Table IV.1). Hence, the average tariffs broadly reflect the m.f.n. tariffs.

155. Thailand grants preferential tariffs to several items imported from members of ASEAN. Thailand has offered preferential tariffs for eleven tariff lines under the Global System of Trade Preferences.

(a) Form of tariffs

156. About three-quarters of the tariff lines in Thailand have ad valorem rates of tariff (Table IV.3). Specific tariffs are imposed on a small
proportion, i.e. 3 per cent, of tariff lines. The ad valorem equivalent rate for specific tariffs is uncertain because it increases when import price falls, and declines when the price rises.

157. One-fifth of the tariff lines in Thailand have alternate tariffs. In the case of alternate tariffs, both ad valorem and specific tariffs are given in the tariff schedule. The tariff rate actually applied is that which yields a larger revenue.

158. Alternate tariffs are particularly widespread for agricultural products (Table IV.3). Only about half the number of tariff lines for agriculture have ad valorem rates of statutory tariffs. Alternate rates apply to over two-fifths of the tariff lines. About 7 per cent of the tariff lines for agriculture have specific tariffs. In comparison, 78 per cent of the tariff lines for industrial products have ad valorem statutory tariffs, and about 20 per cent have alternate tariffs.

(b) Average tariff level

159. As mentioned above, there are substantial differences in several cases between the statutory tariff rates and the rates of tariff actually applied. The main features of both these tariff régimes are given below, with the discussion focusing first on the statutory tariff régime.

160. In 1988, the simple and weighted averages of Thailand's m.f.n. ad valorem statutory rates of tariffs were 44 per cent and 36 per cent, respectively. Across product categories, these averages ranged between 25.9 per cent and 90.6 per cent for the simple average tariff (respectively, "ores and metals" and "footwear and travel goods"; Table IV.1). The range for weighted average tariffs was 4.3 per cent and 61.8 per cent (respectively, "animals and products" and "furniture"). The reduction in the tariff on several machinery and equipment imports

This uncertainty can arise even for a single tariff line, because different products within a tariff line may not have the same unit price.

Only in the case of some cotton textiles, the alternate tariff is specified in terms of an upper limit, namely that the duty should not be more than one baht per kilogramme of the imported item. In the general situation with alternate tariffs, the specific tariff gives the lower limit for the amount of duty collected. As long as the specific duty is imposed, the ad valorem-equivalent rate is higher than the ad valorem component of the alternate tariff.

These averages have been calculated with only the ad valorem tariffs or the ad valorem component of the alternate tariffs. Though these averages do not include specific tariffs, the small share of specific in total tariffs implies that these averages are similar to the m.f.n. average tariffs. In the case of alternate tariffs, whenever the actually applied tariff is the specific rate and not the ad valorem rate, the average underestimates the incidence of the tariffs.
announced in September 1990 will contribute to a decline in Thailand's average statutory tariff.

161. Tariff exemptions and reductions granted by the Government result in a substantially lower rate of applied tariff in Thailand. For example, the average incidence of applied import duties, i.e. import duty collected as a percentage of total import value, was 11.4 per cent in 1990. The average applied tariff for different product categories ranged from 0.2 per cent (for "fish, shellfish and their products" and "precious stones and metals, and their products") to 52.4 per cent for tobacco and tobacco products (Table IV.2).

162. The average applied tariff of Thailand has declined substantially during the last two decades (Chart IV.2). In the 1980s, it increased slightly during 1983 to 1986, and then registered a small decline. In 1990, the average applied tariff of 11.4 per cent was still above the rate of 9.7 per cent in 1982.

163. The recent reduction in the tariff on machinery and equipment will increase the effective rate of tariff protection on other products, provided their tariffs remain unchanged. This change will enhance the effect of tariff changes since the early 1980s. For example, the weighted average effective rate of protection for manufacturing (which is a major portion of Thai imports) more than doubled between 1981 and 1987. In addition, the dispersion in tariff rates was greater in 1987 than in the early 1980s.

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19 These tariff rates are not the m.f.n. applied tariffs because they include the incidence of preferential tariffs and of several tariff concessions. However, the large share of m.f.n. imports implies that in general the applied tariff rates will broadly reflect the m.f.n. rates. One aspect of applied tariffs not covered by these estimates is tariff drawbacks. These drawbacks are not necessarily collected in the year when imports are made.


21 P. Wiboonchutikula, et. al. (1989), op. cit.
Chart IV.2
Thailand's average applied import and export tax rates, 1963-90

Source: Government of Thailand.

(c) Tariff range

164. In mid-1990, the statutory m.f.n. tariffs ranged from duty free to 200 per cent. Though the range of tariffs for most product categories is less than this, the upper limit is in general above 60 per cent. For a number of product categories, the statutory tariff régime does not have any duty free rates (Table IV.1).

22 The statutory tariffs of 200 per cent apply to selected vehicles and parts. The tariff lines with statutory tariffs of 200 per cent are 8702.109, 8702.909, 8703.10, 8703.210, 8703.229, 8703.239, 8703.249, 8703.319, 8703.329, 8703.329, 8703.339 and 8703.90.

23 For a profile of tariff rates in the period 1981 to 1987, see P. Wiboonchutikula, et. al., op. cit., pages 99 and 100.
165. More than half the number of tariff lines have a statutory tariff of at least 35 per cent (Table IV.4). Almost one-tenth of the tariff lines have a statutory rate of 100 per cent.

166. In the case of applied tariffs, the Thai Government decided in 1982 to apply an upper limit of 60 per cent in general. The few HS categories for which this upper limit on ad valorem tariffs has not been imposed are certain products of leather, fur, hats, umbrellas, and certain ceramic products. For products with specific tariffs, it is not possible to ensure that such an upper limit always applies in terms of an ad valorem equivalent tariff. In 1989, for example, imports of several items faced applied tariffs of more than 100 per cent.

167. Detailed estimates for applied tariffs cannot be computed because the relevant data is available only at the 4-digit HS level. At this level, the upper limit for Thailand's weighted average applied tariffs in 1989 was 231 per cent for certain prepared or preserved vegetables and fruits (HS category 2001). For a majority of the 4-digit HS categories, the weighted average applied tariff did not exceed 20 per cent. About one-tenth of the categories had a weighted average applied tariff of more than 50 per cent (Table IV.5).

168. Thailand is presently considering a proposal to streamline its tariff structure. This involves a replacement of the currently applied thirty-six different rates with six tariff rates. Tariffs are likely to be reduced as a result of this exercise. A beginning was made in September 1990, by reducing the statutory tariffs on various machinery and equipment to 5 per cent. The authorities are now considering changes in the tariffs applied to raw materials and chemicals.

(d) Tariff escalation

169. Thailand's statutory tariff régime shows considerable escalation (Chart IV.3). The picture differs significantly for agricultural and industrial imports. In the case of agriculture, the statutory tariff régime shows little tariff escalation on the basis of the simple average statutory tariff (Chart IV.4). The weighted average statutory tariff

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24 The tariff lines are 4202.11, 4202.12, 4202.191, 4303.10, 4303.90, 4304.009, 6503.00, 6504.00, 6505.90, 6506.10, 6506.91, 6506.92, 6506.99, 6601.10, 6601.91, 6601.99, and 6602.00.

25 For the 4-digit HS categories with low rates of weighted average applied tariffs, the share in the number of HS categories is less than share in the value of imports (Table IV.5). To some extent, this reflects the restraining effect of high tariffs on imports.
actually declines as higher stages of processing are considered (Chart IV.4). For industrial products, both the simple and the weighted averages of statutory tariffs show considerable tariff escalation. This reflects the nature of border protection encompassed in the Thai legislation for promoting domestic manufacturing.

Chart IV.3
Thailand's statutory tariffs by stage of processing, 1988
Per cent

Source: Government of Thailand and GATT Secretariat.

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26 This partly reflects the restrictiveness of tariffs for the more processed agricultural products.
170. In the context of the de-escalation of statutory tariffs on agriculture, an important point is that about two-thirds of Thai agricultural imports are primary products (Table IV.6). Thus, the high average statutory tariffs apply to the largest category of agricultural imports. About two-thirds of industrial imports (excluding petroleum) are finished products, the category with the highest average statutory tariffs (Table IV.6 and Chart IV.4).

171. The protection actually granted through applied tariffs differs from that shown by the statutory tariff régime. The overall 1989 weighted
average applied tariffs show considerable escalation, especially between raw materials and intermediate products (Chart IV.5). A noteworthy feature is that in 1989, the applied tariff average for machinery items, which are classified under the Tariff Study as finished products, was the same as for intermediate products. Classifying machinery along with intermediate products shows a much greater degree of tariff escalation.

Chart IV.5
Weighted average applied tariffs in Thailand by stage of processing, 1989
Per cent

Source: Government of Thailand and GATT Secretariat.
172. Even for applied tariffs, the nature of escalation differs between agriculture and industry (Chart IV.6). For industry, tariff escalation is similar to that for overall imports. In the case of agriculture, the highest 1989 weighted average applied tariff was imposed on semi-processed items. Furthermore, in contrast to the statutory tariff régime, agricultural raw materials have the lowest applied tariffs.

173. To get a broad picture of protection through applied tariffs, it is necessary to consider a more detailed product structure for imports. Domestic production of capital goods is encouraged through low applied rates on raw materials and intermediate products used for these items (Table IV.7). High tariffs are applied on consumer goods, particularly
durables. Nonetheless, two features of the Thai tariff régime make it difficult to assess the nature of tariff protection to consumer and capital goods without further information. One is the recent decrease in tariff on machinery and equipment. Second is the fact that average applied tariffs on consumer goods are lower than the tariffs on imports of raw materials and intermediate products used to produce consumer goods (Table IV.7).

(e) Tariff bindings

174. Tariff lines with bound tariffs, either partial or full binding, account for slightly above 3 per cent of Thailand's total tariff lines, with corresponding figures of 5 and 3 per cent for agricultural and industrial products, respectively. Thailand's proposal to bind tariffs in the Uruguay Round negotiations covers about 3,000 items, including machinery and textiles.

175. Peak bound tariffs for most product categories with bindings range from 30 to 100 per cent (Table IV.8). Most of the bindings are for processed products. However, as a proportion of the total number of tariff lines for processed products, the share of tariff lines with bindings is still low, i.e. about 4½ per cent. In the case of agriculture, semi-processed products do not have any bound tariffs (Table IV.9).

176. Compared to the number of tariff lines, a higher proportion of the value of imports of Thailand comes under bound tariffs. In 1988, 12 per cent of Thailand's imports entered under bound tariffs. The corresponding shares for agriculture and industry were 15 per cent and 11.7 per cent, respectively.

177. Except in one case, the type of bound tariff, i.e. ad valorem, alternate or specific, is the same as the type of the statutory tariff in place for the tariff line.

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28 Import tariff data for these product classifications was available only until 1986.

29 For Tariff Study categories "dairy products" and "precious stones and precious metals", the share of imports under bound tariffs in 1988 was 98 per cent and 67 per cent, respectively. In 1988, bound tariff items with a relatively large value of imports were skimmed milk powder and anhydrous milk fat, diamonds, certain types of scrap and waste of metal, and aeroplanes (tariff line numbers 0402.10, 0402.21, 0402.29, 0405, 7102.29, 7102.39, 7204.49, 7601.10, and 8802.40).

30 The tariff line is 2508.10, and the product is bentonite. In this case, the bound tariff is given as a specific tariff and the base rate and the applied rate of tariff are ad valorem.
(f) Tariff preferences

178. Thailand is a member of the Association of South-East Asian Nations (ASEAN). Under the Agreement on ASEAN Preferential Trading Arrangements (PTA) concluded on 24 February 1977, Thailand accords tariff preferences on a number of imported items originating in other ASEAN countries. The PTA is implemented through the Trade Preferences Negotiating Group of the ASEAN Committee on Trade and Tourism.

179. Tariff preferences among ASEAN members are provided under several schemes. These include items covered by the Preferential Trading Arrangements, imports by projects established under the ASEAN Industrial Projects, ASEAN Industrial Complementation Schemes, and ASEAN Industrial Joint Ventures, ASEAN Brand-to-Brand Complementation Scheme and commodities imported from ASEAN member countries under long-term contracts, i.e. three to five year contracts.

180. Under the PTA, items on which preferences are exchanged are included in a list. The objective is to widen the product coverage of this list over time and to deepen the exchange of concessions granted for products already on the list. The PTA margins of preference range from 25 to 50 per cent, on a total of about 14,800 items among ASEAN as a whole. A counterpart to the PTA list is an exclusion list of items on which preferences are not provided.

181. Rules of origin must be satisfied in order to avail preferential tariffs. The conditions for rules of origin are that products must be either wholly produced or obtained in the exporting Contracting State or the total value of the materials, parts or produce originating from non-ASEAN country or of undetermined origin must not exceed 50 per cent of the f.o.b. value of the products produced, and the final process of manufacture must have been performed within the territory of the

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31 The concessions agreed are extended to all Contracting States on an ASEAN most-favoured nation basis, except where special treatment is accorded to products of ASEAN industrial projects. In the negotiations on tariff preferences, considerations for balancing the preferences should take into account the possibility of using other instruments of PTA. These instruments include, among others, long term quantity contracts, purchase finance support at preferential interest rates, liberalization of non-tariff measures on a preferential basis, and preference in procurement by Government entities.

32 Under the ASEAN Industrial Joint Ventures, tariff preferences are initially provided to countries participating in the project, with the possibility of extending them later to other member-countries.

33 Under the PTA, preferential access can be suspended if preferential imports threaten "serious injury" to sectors producing similar products in the importing country, for balance of payments considerations, for limiting exports in order to ensure sufficient domestic supply, and if it was felt that one or more country was not fulfilling the obligations under the trade preferences programme.
Contracting State. For ASEAN industrial projects, the value-added criteria for determining origin does not apply during the initial years of operation.

182. Additional requirements are imposed for products which comply with the rules of origin criteria and are used in a Contracting State as an input for a finished product which gets a preferential treatment in another Contracting State. These items are considered as products originating in the Contracting State where working or processing of the finished product takes place, provided the aggregate ASEAN content of the final product is not less than 60 per cent.

183. In December 1987, some new initiatives were adopted by ASEAN to be implemented during 1988 to 1992. These include a reduction in the coverage of the exclusion list to not more than 10 per cent of trade items and not more than 50 per cent of intra-ASEAN trade, improving access through a reduction of the ASEAN content from 50 to 35 per cent on a case-by-case basis (the reduction for Indonesia is to be from 60 to 42 per cent), and an increase in the margins of preference to 50 per cent for items on the PTA list.

184. In 1988, Thailand increased the preferential margin to 50 per cent for 1,311 items. In addition, 1,410 new items were included in the list for preferences, with an initial preferential margin of 25 per cent. The list of new items with preferences was expanded again in 1989 and 1990. The number of items included for preferential tariffs were substantially less than that in 1988. Despite the large number of products with preferences for ASEAN, the share of Thailand's imports with ASEAN tariff preferences is small. As a share of total imports of Thailand, imports from ASEAN countries have been slightly above one-tenth. In comparison, the share of imports with preferential tariffs in total imports has ranged from 0.2 to 0.7 per cent during 1985 to 1989.

34 In the case of Indonesia, the percentage requirement for non-ASEAN content is 40 per cent, though for certain agreed categories of manufactured products from time to time, the 50 per cent non-ASEAN ceiling may apply. In general, for similar articles of different sizes or spare parts which are imported, all the products in the consignment must qualify separately in their own right. The products must be directly consigned from the exporting Contracting State to the importing Contracting State.

35 Indonesia and Philippines have been allowed to implement these initiatives until 1994.

36 In 1989, 392 items were provided a preference margin of 50 per cent, and 45 were provided a preference margin of 25 per cent. The corresponding numbers for 1990 were 22 and 117.

37 Similarly, Thai exports benefiting from PTA are about 0.7 per cent of the total exports from Thailand.
185. Thailand signed the Global System of Trade Preferences (GSTP) in April 1988, and ratified it in February 1990. The GSTP agreement entered into force in March 1990. Under GSTP, Thailand has offered preferential tariffs for eleven items defined in terms of CCCN classification. The margins of preference for most products is 10 per cent. In the case of two tariff lines pertaining to yarn of lambs' wool, a 20 per cent preferential margin has been provided. The rule of origin criteria will have to be satisfied for preferential treatment.

(g) Tariff concessions

186. As mentioned earlier, the applied tariffs for several items are less than the statutory rates on account of tariff concessions offered either to all imports under a tariff line, or to only those imports being utilised for specified end-use. In addition to concession on tariffs, Thailand also provides concessions on some other duties, such as the business tax, which are levied on imports and domestic output (see below).

187. Prominent reasons for granting concessions for specified end-use include energy-saving; environmental protection; production, transmission and distribution of electricity in accordance with the Fifth Plan for National Economic and Social Development; acceleration and control of the growth and yields of plants; and operation of the petroleum industry. Tariff concessions on certain imports by Thailand reflect also the insight that high tariffs on raw materials and intermediates adversely affect export performance. According to the Thai authorities, a rationalization of the overall tax structure to remove this bias would require extensive effort and time, and hence a system of tariff remissions for imported inputs into exports has been used.

188. The extent of concession offered to imports varies considerably across products. In some cases the initial tariff concession is offered for a specified time period, after which the applied tariff may be raised again. Nonetheless, the new applied tariff may still be maintained below the statutory tariff rate.

38 These are CCCN tariff items 2209.11, 4011.34, 5306.01, 5306.02, 5509.39, 7317.00, 7603.03, 8410.21, 8501.06, 8501.07 and 8501.08. The implementation of the schedule of concessions will be on the basis of the harmonized system of classification.

39 In some cases, tariff concessions are provided only for imports entering from specified border customs stations. See, for example, the Customs Department Notification Nos. 26/1986 and 67/1988 pertaining to fish.

40 Often, the concession offered varies for even products within a particular tariff line.

41 For example, the Notification of the Ministry of Finance, No. C 1/2531, reduced the duty on certain coils and transformers used for production or assembly of radio broadcasting receivers or television receivers, to 10 per cent till 30 September 1988, and to 30 per cent (Footnote Continued)
189. While Thailand's Tariff Schedule gives the information on tariff concessions offered by the Ministry of Finance, it does not necessarily do so for some other concessionary schemes. In addition to the general reduction or exemption in tariffs, Thailand gives tax concessions mainly through four other programmes. These include the programme implemented by the Board of Investment, tariff concessions provided to activities in Export Promotion Zones or in bonded warehouses for manufacturing, the exemption or duty drawback provided by the Department of Customs, and the tax rebates provided by the Fiscal Policy Office of the Ministry of Finance. According to the Thai authorities, the planned reduction in tariffs is likely to substantially reduce the need for duty rebates and drawbacks.

(h) Tariff concessions offered by the Board of Investment

190. The Office of the Board of Investment (BOI) provides tariff concessions as part of a wider range of incentives offered for promoting investment in specified activities (Table AIV.1). The criteria for providing tariff and other tax concessions were announced by the Board of Investment for the first time in 1983. These criteria have changed thrice since then, with the most recent announcement in November 1990. Currently, the emphasis is only on the location of the project and on export-orientation, while the earlier criteria encompassed several other objectives (Table IV.10). The Board of Investment has divided the country into three zones on the basis of the geographical distance away from Bangkok. Incremental incentives are provided for investing away from Bangkok, or in areas which are designated as investment promotion zones, industrial estates or export promotion zones. In order to get special benefits provided to projects manufacturing for exports, the requirement is that at least 30 per cent if the output be exported (Table AIV.1). To obtain certain additional benefits linked to export-orientation, the

(Footnote Continued)

from 1 October 1988 onwards; on certain tuners for producing or assembling television receivers to 10 per cent till 30 September 1989, and to 30 per cent from 1 October 1989 onwards; and on television tubes and deflection yokes for producing or assembling television receivers to 10 per cent till 30 September 1990, and to 30 per cent from 1 October 1990 onwards. The statutory tariff on these items ranges from 35 to 100 per cent.

The board uses the following criteria for determining the desirability of granting promotion status to a project. Market demand must be adequate for the increased capacity, production cost must be low enough to compete with imports with a duty of at least 30 per cent, the value added is not less than 20 per cent of sales revenue unless the project exports its output, the ratio of debt to registered capital must not exceed 5:1, modern machinery and production processes and new processes are used, for older production processes the efficiency must be certified by a reliable institution and the Board should approve its installation.

The broad list of criteria which the Board uses to grant its promotional privileges, are given in section 16 of the Investment Promotion Act of 1977.

The criteria announced in November 1990 were applicable from 30 October 1990.
general condition is that the project should export 80 per cent of its output by the third year of its operation.

191. An exception to the general promotion criteria is made in situations where the Board has announced specific promotion criteria for a particular type of activity, or if the Board considers that a project would qualify for promotion on account of certain special factors. The special factors include generating employment, encouraging constructive technology transfer, and helping to upgrade the product quality of local suppliers. The open-ended nature of the list of special factors leaves considerable room for discretion on the part of the Board of Investment.

192. The legislative authority for the concessions offered by the Board of Investment is provided by the Investment Promotion Act B.E. 2520 (1979). Under this Act, the Board may grant tariff exemptions on machinery, and tariff reductions of up to 90 per cent on raw material or essential materials. Tariff concessions on raw or essential materials are to be provided for a period of one year, with the possibility of subsequent renewal for one-year periods. An important condition for granting these tariff concessions is that products of similar quality do not originate, or are produced or assembled, within Thailand in sufficient quantity to be acquired for use in the promoted activity. If the Board is of the opinion that tariff exemption on machinery is inappropriate, tariffs may be reduced by 50 per cent, or may not be reduced at all. An important aspect of the promotion scheme is the provision of several guarantees by the Government, including a curb on duty concessions provided to products competing with those produced by the promoted firms.

193. Under the Investment Promotion Act, special rights and benefits can be provided by the Board of Investment for export promotion, or to projects

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45 For the specific promotion criteria applied to different promoted activities, see Office of the Board Of Investment (1990), A Guide to Investing in Thailand. Office of the Board of Investment, Office of the Prime Minister, Thailand, July 1990.

46 In 1984, the Board of Investment announced a list of machinery items for which tax and duty concessions would not be provided. See the Announcement of the Office of the Board of Investment No. 2/1984. The criteria for providing tax and duty concession on machinery imports were specified in the Announcement of the Office of the Board of Investment No. 10/1984. The procedures had been clarified earlier in the Announcement No. 5/1975 and Announcement No. 2/1983. More recently, the Board announced the criteria for tax and duty exemption on machinery used for Research and Development. See the Announcement of the Office of the Board of Investment No. 5/1988. For a summary, see the Office of the Board of Investment (1990), op. cit.

47 Section 48 of the Investment Promotion Act B.E. 2520 states that no Government agency, Government organization or State enterprise shall be allowed imports with import duty or business tax exemption for products which in the view of the Board of Investment are "of same kind as those being produced or assembled by the promoted person which are comparable in quality therewith and are available in sufficient quantity to be acquired for its use." The exception is munitions under the law on control of military munitions for use in the service of the Ministry of Defence.
located in areas which are designated as Investment Promotion Zones by the Board of Investment. Export-oriented projects may be granted import duty exemption on raw materials and essential materials. The regulations also provide for exemption of import duty on items which the promotee imports for re-exports.

194. In practice, the Board of Investment specifies the activities which are granted promotional privileges, and the time period for which the various incentives are provided (Table AIV.1). It often imposes certain conditions to be fulfilled by a project in order to be granted the status of a promoted project. Both the extent of the incentives offered by the Board and the criteria for offering them have changed over time. Regarding tariff concessions on machinery imports by promoted projects, a major change in the incentive structure has occurred after the reduction on import tariff on a large number of these items to 5 per cent. The November 1990 announcement did away with full exemption on these tariffs, limited the coverage of machinery imports to which the concessions apply, and reduced the number of criteria for granting concessional treatment (Table AIV.1). Thus, only a 50 per cent reduction of tariff is now provided for eligible projects. Furthermore, this concession applies only to those machinery items for which the rate of tariff is not less than 10 per cent.

195. The November 1990 announcement also reduced the concessions provided on import duty and business tax on raw and essential materials imported by promoted projects producing for local market and located in Zone 3. Now, the Board of Investment gives tariff concessions on these imports only if they are used for the manufacture of exports in Zone 3.

196. From time to time, the Board of Investment suspends investment promotion privileges granted to particular product categories. This happens when, for example, the Board is of the view that adequate domestic capacity has been installed in that sector.

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48 The coverage of Investment Promotion Zones has changed over time. For example, in 1987, this Zone was all provinces other than Bangkok, Samut Prakarn, Samut Sakhon, Pathum Thani, Nonthaburi, and Nakhon Pathom. In 1989, ten provinces and the Map Ta Phut Industrial Estate were deleted from the area covered by the Investment Promotion Zones. The ten provinces were Samut Songkhram, Ratchaburi, Kanchanaburi, Suphan Buri, Ang Thong, Phra Nakhon Si Ayuthaya, Saraburi, Nakhon Nayok, Chachoengsao, and Chon Buri.

49 See Office of the Board of Investment (1990), op. cit.


51 Earlier, only a 50 per cent reduction in business tax on machinery was provided for several projects in Zone 2. The new criteria gives full exemption from business tax for these projects.

52 Zone 3 comprises 57 outer provinces and the Laem Chabang and Map Ta Put Industrial Estates.

53 For a list of the activities suspended from those getting privileges, see Office of (Footnote Continued)
197. Other concession offered by the Board of Investment, and under the other programmes mentioned earlier, pertain to export promotion or investment promotion (see below).

(i) Rules of origin

198. A certificate of origin is required for availing ASEAN preferences. Otherwise, a certificate of origin is generally not required, except for items for which this is needed under international commodity agreements such as for coffee and coffee products. A certificate of origin may, however, be specifically requested by the importer/bank/letter of credit clause.

(j) Pre-shipment inspection

199. There is no government requirement for pre-shipment inspection.

(k) Customs valuation

200. At the time of its accession to the GATT in 1982, Thailand stated that its authorities had been studying the Customs Valuation Code of the GATT, and would eventually consider participating in it. However, Thailand is yet to become a member. Currently, it has observer status in the GATT Committee on Customs Valuation.

201. Thailand's Department of Customs uses the notional concept of the "true market value" of the goods on sale in the open market in order to assess the value for duty. This is defined as the wholesale cash price (exclusive of duty, taxes, fees, or other such charges levied on imports) for which goods of a like kind and quality are freely sold or offered for sale, without loss, at the time and place of importation, without any deduction or abatement. The approach is notional in the sense that the Department of Customs compares the declared value with previous shipments. With proper documents, the clearance takes half an hour to one day.

(Footnote Continued)

the Board of Investment (1990), op. cit., pages 39-40. The criteria used by the Board of Investment for not considering activities for promotion include the following: if commercially viable firms already exist; if the Board considers that firms eligible for promotion can operate with a reasonable rate of return without promotional benefits; if the existing production capacity is sufficient to serve domestic demand for the next two years and the production is not for exports; and if the project uses only imported raw materials to produce an item for the domestic market for which the import duty exceeds 40 per cent.

54 Under the Export and Import Act, the Minister of Commerce, with the approval of the Cabinet, can prescribe "any goods exported or imported as goods which must be accompanied by certificate of origin, good quality certificate, or any other certificates in conformity with the agreements or international trade practices."

55 This system is similar to the Brussels Definition of Values.
According to the Thai authorities, it could take up to 6 months or one year if the documents are not supplied on time.

202. In general, the c.i.f. price is considered as the true market value. When the declared value cannot be accepted as the true value, the alternative methods used are:

(a) recorded import prices of identical or similar goods, with appropriate adjustment to reflect the same conditions as the imported good;

(b) prices of identical or similar goods obtained from investigation or analytical study, either internationally or domestically, with the appropriate adjustments as permitted by law;

(c) when conditions indicated do not coincide with the meaning of the true market value as specified in the law, the declared value is adjusted according to related facts that can be gathered in an effort to try to obtain the true market value as closely as possible;

(d) in some necessary cases, attempts are made to obtain the cost of some factors relevant to the value of the goods such as the insurance and freight costs in order to ascertain the authenticity of that portion of the price.

203. The individual importer is required by law to state the correct classification of the goods imported. Any importer who has doubts, can request the opinion of the Department of Customs. Importers may request an advance ruling from the Tariff Classification Section of the Customs Department. If the Department seeks advice from outside technical experts, the cost of this is charged to the applicant. If the amount of duty declared is questioned by a competent officer, the goods concerned could be detained for further assessment.

204. For goods subject to ad valorem rate of duty, the Director-General of Customs may, from time to time, notify in the Government Gazette the average market value for certain product categories. For these products, this is the value on which duties are levied, until there is an amendment or cancellation by a subsequent notification.

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56 According to the Government of Thailand, the transaction value is accepted in 90 per cent of the valuation cases. See GATT, L/4803, dated 14 May 1979, page 7.
57 See Sections 112 and 112 bis of the Customs Law B.E. 2469.
58 This is to overcome the problem of finding the exact value if several different types of a particular product are imported. At end of 1990, the average market value was specified for log timber.
205. An analogous practice is adopted for goods subject to specific tariffs, if products are packed in boxes, bags or other containers intended to be sold as a whole, with marks or labels which state specific quantity of the goods. The Director-General may, for the purpose of assessing the amount of duty, notify the quantity of goods in each of such containers.

206. In case of a disagreement on the true market value of the good, there are two options. First, the Director-General could have the right to accept payment in kind or to purchase part or whole of the consignment at the declared value increased by 2½ per cent. Second, arbitrators could be called in by the Director-General and the owner of the goods to assist in settling the dispute. If no decision is reached, the arbitrators shall appoint an umpire whose decision shall be final. In the special case where it is to be determined whether the imported item is subject to a surcharge levied by the Board of Investment, the power to decide resides with the Board, whose decision is final.

207. If the importer feels that the decision of the Director-General of Customs on disputed matters is inconsistent with the established principles of law or the actual facts, he can appeal to the Minister of Finance, and subsequently to the Tax Court for a final decision.

(ii) Tariff quotas

208. Thailand does not impose any tariff quotas.

209. Under the ASEAN Preferential Tariff Quota Scheme, bilateral negotiations are conducted on a case-by-case basis to allow imports at preferential rates of tariff within a specified quota limit. Beyond the quota, the normal rates would apply. Thailand has not negotiated any tariff quota under this scheme.

(iii) Variable import levies

210. In general, Thailand does not impose variable levies. On the basis of the limited information provided by the Thai Government on the recent tariffication of the non-tariff measures on imports of soybean cake and fish meals, it seems that these products are now subject to surcharges similar to a variable levy.

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59 See Section 12 of the Customs Law B.E. 2469.

60 In the case of a person subject to the jurisdiction of a foreign consular court, the proper Consul and the Director-General shall appoint the arbitrators.
(iv) Other levies and charges

211. Imports into Thailand are subject to certain other levies and charges in addition to tariffs. The widest coverage is that of the business tax, a form of sales tax. It is levied on both imports and domestic products. In order to make payments of the business tax, importers must be registered with the Revenue Department and are required to file a return with the Department after each shipment is received.

212. The business tax on imports is assessed on gross receipts and not the c.i.f. price of imports. In order to compute the gross receipts, a standard rate of profit is applied to the c.i.f. cost, duty, and unloading charges. The standard rate of profit has been calculated from the minimum profit rate for products in the domestic market in the year 1966. This system of taxation will be replaced by a value added tax in the near future.

213. The rates of business tax and standard profits vary across product categories. In some cases, a single tariff line has different rates for the various items covered by it. For most imports, the business tax is usually 1.5 per cent or 9 per cent. For some import items, such as motor vehicles, the business tax can range up to 40 or 50 per cent.

214. After joining the GATT, Thailand has equated the business tax on imports and domestic production for some products. For certain cases where the rate of business tax is different for imports and domestic products, the Government of Thailand claims that the actual incidence is similar if the cascading effect of business tax applied at each stage of domestic processing is taken into account. Even if this argument was valid, an important point in the context of the business tax on imports is that it is levied in conjunction with a standard rate of profit. Applying the standard rate of profit to the import price may result in the gross receipt being different from the amount on which the business tax is

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61 For a few items, local market prices are used for calculating the gross receipt on which the business tax is levied. These products include cars, motorcycles, bicycles, mineral oil, certain petroleum products, brake fluid, gunny sacks, spirits, beer, and tobacco products.

62 Apart from cases where "value" is used as gross receipt, the amount of business tax is calculated as follows: \[\text{C} \times (100 + P) / 100\]. T is the rate of business tax and P is the standard rate of profit. The Thai Revenue Department specifies the rate of profit for different products, which is given in the Customs Tariff Schedule. A 2 per cent reduction in the business tax is allowed if paid in cash or if a cash deposit is made at the time of submitting an import declaration.

63 Before late 1973, the business tax schedule for all imports except passenger cars was the same as for domestic production. In 1973, business taxes on imports remained unchanged and those on domestic products were reduced. In the early 1980s, business tax rates on intermediate products were further lowered. See P. Wiboonchutikula, et. al. (1989), op. cit., page 50.
applied for similar domestic products. Hence, the actual incidence of a business tax on imports and domestic products may not be the same despite equal business tax rates being applied to both these products.

215. At the time of its accession to the GATT, the Government of Thailand stated its intention to bring the rates of business and excise taxes in line with Article III of the GATT, i.e. same treatment for imports and domestically produced products. The Protocol of Accession of Thailand to the GATT set 30 June 1987 as the initial time period for doing so. This was extended twice, first till 30 June 1990, and then till 31 December 1991. The latter extension was granted in light of Thailand’s efforts to adopt a value-added tax system, and that the “authorities concerned have to establish appropriate administrative regulations and procedures”.

216. As with tariff concession, exemptions or reductions in business tax are also provided for various imports. Likewise, the authority granted to the Board of Investment by the Investment Promotion Act of 1977 includes exemption or reduction of business tax on imports or domestic purchase of machinery and raw materials by promoted projects. As in the case of import duty, the concessions depend on criteria such as the location of the project and export-orientation (Table AIV.1).

217. A municipal tax equal to 10 per cent of the business tax is imposed in addition to the business tax. Stamp duties at specific rates are levied on beer and alcoholic beverages, according to the alcoholic content and volume of the container. These duties replace the business tax.

218. Excise taxes are levied on tobacco products, alcoholic and non-alcoholic beverages, matches and lighters, petroleum products, cement, snuffs, and playing cards. The list of items subject to excise tax and the rates of excise tax are amended from time to time. As in the case of tariffs, the excise tax may be specified as an ad valorem tax, a specific tax, or an alternate tax. The Government of Thailand is in the process of adjusting the excise tax on certain items in order to bring it in line with rates applied on imports. In November 1990, a proposal to grant the same treatment to domestically produced and imported playing cards was submitted
to the Ministry of Finance. This leaves only alcoholic beverages as the item for which the excise tax on imports is different from that on domestic products. The imposition of the value added tax system will iron out this difference. Similar to the extension for business tax, the GATT Council has granted the Government till 31 December 1991, to impose the same excise tax on imports and domestic products.

219. Under the Exports and Imports Act of 1979, import surcharges may be imposed by the Ministry of Commerce with the approval of the Cabinet. For example, in 1982, a surcharge of 0.5 per cent of the c.i.f. price of imported items was imposed for a period of one year for the purpose of establishing an export promotion fund. This was terminated in 1983.

220. Currently, surcharges are imposed on wheat and meslin flour, sheets and plates of iron and steel, and certain motor vehicles. The Government did not provide information on the reasons for imposing these surcharges.

221. Under Section 49 of the Investment Promotion Act B.E. 2520, the Board of Investment has the power to levy a surcharge on imports in order to protect promoted industries. This surcharge, imposed through the Ministry of Finance, is not to exceed 50 per cent of the prices of the relevant imports. The regulation limits the initial effective period of the surcharge to a one-year period, with a possibility of renewal for subsequent one-year periods.

222. These surcharges were actively used in the 1970s and the early 1980s. Renewal of surcharges was not uncommon. At the end of 1985, such surcharges applied to about 30 products. The rates varied between 5 and 50 per cent. Most of them ranged between 20 to 30 per cent. Subsequently, Thailand has reduced its reliance on these surcharges. At the end of 1987, surcharges were levied on nine products, mainly chemicals and pharmaceuticals (Table AIV.2). During 1989, four products were subject to a surcharge, which had been imposed by the Board of Investment in the

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67 The objectives include compensating for the relaxation of import controls, protection of infant industries, and funding for specific objectives such as financing a price stabilization scheme.

68 The rates are 40 per cent of the effective rate for wheat flour, 20 per cent for sheets and plates of iron and steel, and 20 per cent to 50 per cent for specified categories of motor vehicles. The tariff lines are 11.01 (wheat flour only), 7210.20, 7210.39, and 7212.30 for sheets and plates of iron and steel, and items under 87.02, 87.03, 87.04, and 87.11 for motor vehicles. The Notification of the Ministry of Finance Sor Kor 13/2531 imposed new rates of special duty on HS categories 8704.211, 8704.311 and 8704.901, in place of those imposed earlier by the Notification of the Ministry of Finance Sor Kor 3/2531. For details, see the Customs Tariff Schedule.

69 The products or commodities are "of the same kind as, similar to, or substitutable with those produced or assembled by the promoted person." If a surcharge is deemed inadequate to protect the activity of the promoted person, then an import ban can be imposed under section 50 of the Investment Promotion Act of 1977.
previous year. In 1990, a surcharge of 20 per cent was imposed for the period of July to September 1990 on "14 to 21 inches TV picture tube and deflection yoke under tariff numbers 8540.11 and 8540.91".

(v) Minimum import prices

223. For selected products, the Director-General of Customs may specify the price on which customs duty is to be levied. For example, in 1990, a minimum import price was applied for log timber.

(vi) Import prohibitions

224. The legislative authority for absolutely or conditionally prohibiting imports to Thailand is provided by the Export and Import Act B.E. 2522 (1979), Investment Promotion Act B.E. 2520 (1977), Tobacco Act B.E. 2509 (1966), Liquor Act B.E. 2493 (1950), and the various legislation in place for health and safety concerns (see section xiii). In a majority of cases, imports are conditionally prohibited, i.e. they are allowed if certain specified conditions are satisfied.

225. Under the Export and Import Act B.E. 2522, the Minister of Commerce, with the approval of the Cabinet, may prescribe import or export controls. According to the Act, these restrictions are placed for reasons such as economic stability, public interest, public health, national security, peace and order, good morals of the people, or for any other national interest. The Board of Investment, under the Investment Promotion Act B.E. 2520, is authorized to request the appropriate authority to ban imports of goods produced by a domestic industry, if the Board is of the view that other forms of protection are not sufficient to assist the industry.

226. In the last couple of years, Thailand has reduced the number of items under import prohibition. In mid-1989, import prohibition was in place for vinyl chloride monomer mixed or combined with certain items, and for unfinished garments. Now, non-automatic licensing is applied to the former, and the latter is under automatic licensing. The change in the import regime for garments occurred as a result of the decision of the Textiles Surveillance Body that Thailand's import ban was not in conformity with the Multifibre Arrangement.

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70 These were a 30 per cent surcharge on citric acid (expired 28 April 1989), a 25 per cent surcharge on bicycle chain and chain parts (expired 24 May 1989), a 45 per cent surcharge on motorcycle chain and chain parts (expired 24 May 1989), and a 10 per cent surcharge on ampicillin trihydrate and ampicillin anhydrous (expired 6 December 1989).

71 See GATT, COM.TEX/SB/1525, dated 2 January 1990.
227. Currently, absolute prohibition on imports is in place for knife-hidden rulers and counterfeit products. All imports from the Republic of South Africa are banned. In the case of some products, permission to import is given to only certain pre-specified entities. For example, imports of platinum coins and alloys of certain type are banned for all importers except the Ministry of Finance (Table AIV.3).

228. The absolute and conditional prohibitions on imports by Thailand are administered through a system of import licensing or permits. The Minister of Finance can designate any port or place in Thailand as a place through which export or import must take place.

(vii) Import licensing

229. Since various Government agencies are responsible for implementing the legislation which prohibit or control imports into Thailand, import licences for different types of products are not provided by any single agency. This section will focus on the general import licensing under Thailand's Export and Import Act. Licensing for other reasons such as health and safety concerns will be discussed later.

230. Import licensing in Thailand is used for monitoring import transactions, to promote the establishment of a particular industry in the process of economic development, to protect national security and international peace and security, to protect public morals, to protect human, animal, or plant life or health, for balance of payments reasons, and to monitor or control imports of gold or silver. In recent years, Thailand's concern with balance of payments has been reduced on account of the sharp rise in its foreign exchange reserves.

231. At the time of Thailand's accession to GATT in 1982, items under import controls represented less than 6 per cent of the tariff lines in Thailand's Tariff Schedule. Currently, import licensing affects about 8 per cent of the four-digit categories under the HS classification (details at tariff line level are not available).

(a) General procedures

232. Licensing is under the authority of the Department of Foreign Trade, Ministry of Commerce. Import licenses must be requested from and approved

\(^{72}\) Imports of garlic are not allowed during the local harvesting period.

\(^{73}\) The licensing system is statutorily required. It is not possible for administrative bodies to abolish the system without legislative approval. Every import measure regarding a prohibited or controlled product is subject to prior approval by the Cabinet.
by this Department prior to the arrival of the shipment. In the case of some restricted products, the Customs Department is authorized by the Ministry of Commerce to grant permission for import without prior licensing from the Ministry. Any change in the product coverage or conditions for granting import licences is notified.

233. The conditions for access to import licence vary depending on whether the product is under non-automatic licensing or not. For items restricted by non-automatic licensing, application for an import licence is allowed for any person, company and firm provided they meet the conditions set out by the Ministry of Commerce. In some cases, State enterprises or Government institutions may apply for import licences for these products. Such restrictions do not apply to those seeking import licences for products under automatic licensing, as long as the specified regulations are met. The conditions are less strict for automatic licensing, because these licences are required only for monitoring imports.

234. Applications for licences must be submitted during a specified period, and must be accompanied by the required documentation. Licenses must be obtained before the arrival of shipment and are generally valid for 90 days, unless otherwise specified on the license. A 15 per cent tolerance in value over that stated on the licence is usually permitted for bulk goods. The licence can be extended twice, each time for a further period of 90 days.

235. Licences are generally allocated on a first come first served basis. In a few cases, such as garlic and onions, licences are allocated according to past import performance of traders. Except for goods from South Africa, a licensee is free to import from any country of origin. Under normal circumstances, an import licence may be granted within one to three

74 The notification is published in the Government Gazette, and is reported in the Quarterly Bulletin of the Bank of Thailand. The regulations under which the products subject to licensing have to be imported are made available to interested parties through announcements of the Department of Foreign Trade or Ministry of Commerce. These announcements are published in the Government Gazettes and/or in the national newspaper, and are broadcast on the national radio.

75 For example, the Public Warehouse Organization is allowed to import soybean oil in order to prevent domestic shortage, and potatoes' bulb for the purpose of quality control.

76 Applications must follow the import and export rules and regulations set forth by the Department of Foreign Trade. Documentation requirements vary according to the product involved. These include the name and address of the importer, business of importer, name and address of exporter or shipper, country of origin form, means of transport, description and amount of goods to be imported, proforma invoice, sales contract, certificate of import permit, and document approved from industry.

77 In some cases, the Government may stipulate some additional condition for those importing under licence. For example, the Government allowed import of 10,000 metric tonnes of kenaf during May 21 to August 31, 1985, on the condition that the Thai Jute Mill Association guarantee the appropriate price during September 1985 to August 1986.
working days provided the documentation is complete. For imports of a restricted product, approval of another Ministry may be required. In this case, licences may take between one week to one month.

236. If an application for import licence is disapproved, the importer has the right to appeal to the authorities concerned for reconsideration, e.g. the Head of the Department of the Government authority granting the licence. The final decision is made by the Director-General of the Department of Foreign Trade or the Minister of Commerce.

237. An importer can proceed to import after all requirements are met and the import licence is granted. For controlled products, goods should be shipped from exporting countries only after the import licence is issued. If the goods arrive before the licence is issued, the Department of Customs has full jurisdiction in releasing these goods upon recommendation of the Department of Foreign Trade.

238. Generally, there are no import restrictions on account of balance-of-payments or economic development. If, however, imports are restricted for these reasons, the quantity permitted for imports is determined on the basis of the recommendations of an Inter-Departmental Committee. It takes into account factors such as expected demand, available domestic production, prevailing market prices, fair and reasonable return to producers, and the general constraints imposed by the country’s foreign exchange availability. For products whose imports are restricted under GATT Articles XX and XXI, the quantity of import is determined on the basis of the situation relating to the particular factors which gave rise to the controls.

(b) Application of the general procedures

239. In mid-1989, the Government of Thailand had classified items subject to import licensing as those whose imports are generally not allowed (or "are not allowed in principle"), and those for which imports were allowed subject to specified conditions. More than half of the products were under the first category.

240. Currently, the most common reason for import licensing under the Export and Import Act of 1979 is to provide protection or promotion to local production (Table AIV.3). Other reasons include safeguarding health, safety and security of the public, conservation of the environment,

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78 An import licence fee of B 20 is charged for each licence.
enabling local producers to sell their products at reasonable prices, and prevention of counterfeiting.

241. In order to promote domestic industry, Thailand has granted protection through import licensing to some industries for about two decades. These include sugar, student exercise books, tin foil, natural fibre bags, and paper umbrella frame and paper for umbrella (Table IV.11). In the 1980s, promotion of infant industry through import licensing has focused on a variety of industries such as skimmed milk powder, ceramic and building items, certain types of machinery and equipment, and petroleum products.

242. Most items subject to import licensing are controlled through non-automatic licensing (Table AIV.3). Automatic licensing is used for few products, including unfinished garments. In the case of oranges, licensing is imposed for reasons of plant quarantine.

243. For selected products, import licences are not open to all importers. For example, imports of potatoes' bulb are allowed only by the Public Warehouse Organization for the purpose of quality and production control, imports of petroleum oils are reserved for licensed dealers approved by the Ministry of Commerce, and imports of alcoholic beverages is allowed only for those appointed as sole agents by overseas producers, brewers or distillers. The Ministry of Commerce has prescribed the Onion Grower's Cooperative Federation of Thailand Limited as an importer of onion seeds at the volume appropriate for reproduction purposes only.

244. The Customs Department is authorized to automatically grant import permits for benzine and similar oil for engines (within tariff no. 2710.001), high-speed diesel oil (within tariff no. 2710.113), circular saw blades which can not be used for wood cutting, and passenger cars with engine less than 2300 cc. imported by tourists and diplomats. Importers of the first two products are registered with the Commercial Registration Department. The last item is for personal use.

245. About one-quarter of the four-digit HS items subject to licensing are agricultural products (Table AIV.3). These include some important export products such as rice and sugar. Among manufactures, the product categories covered are mainly certain machinery items, motor vehicles and motorcycles, paper products, chemicals, porcelain, building stones, and textiles and clothing.

246. Compared to the 1970s, the coverage of import licensing has become less pervasive. However, the picture is somewhat different if the current
situation is compared with that in March 1982. Import licensing has been extended to several items since March 1982, particularly in 1982, 1986 and 1988 (Table IV.12). In comparison, fewer products have been taken off the list submitted to the GATT in March 1982.

(viii) Import quotas

247. Import quotas in Thailand are determined for global imports rather than on a country-to-country basis. The size of the quota is usually determined by the domestic shortage assessed for the product, either semi-annually or annually. The quota is allocated to different importers keeping in mind the prevention of injury to similar items produced domestically. The overall quota level, and the allocation to individual importers, is published and brought to the attention of the sectors concerned.

248. Importers must apply for a licence for imports of the allocated quantity during the period allowed. Quotas may be allocated on a first-come-first-served basis, be based on past performance, or on proportionate compensatory purchase of some locally produced good. The available domestic production capacity and past import performance are taken into account in providing and monitoring of the actual number of licences used.

249. Currently, global import quotas are applied on garlic and "two-wheel walking tractors whether fitted with engine or not, and used four-wheel tractors with displacement of 1,000 cc. downwards within tariff no. 8701.10 and 8701.90".

250. The quotas are allocated on a first-come-first-served basis. Imports have to be made in one year after the licence is granted. For 1990, the quotas for tractors were 5,377 two-wheel tractors and 705 four-wheel tractors. Garlic imports are allowed only in case of domestic production shortage.

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79 The comparison is between the current list and the one submitted by the Thai Government in March 1982, when Thailand was seeking membership to the GATT.

80 These products are unbleached cloth in various sizes, used trucks, steel bars and rods, sugar confectionary not containing cocoa, fine bakers' wares such as pastry, biscuits and cakes, playing cards, and fruit juices and vegetable juices, unfermented and not containing spirit. Two products put under import licensing in the interim period but not now so constrained are soyabean cake and fishmeals.

81 According to an update of UNCTAD's information on trade control measures, it appears that potatoes are also subject to import quotas, and that the Minister of Commerce approves the type, quantity and period of importation of petroleum oil.
(ix) Import surveillance

251. Imports of some products under import licensing are periodically surveyed in Thailand to determine whether the reason for controlling imports is still valid. International trade in certain products is monitored if the import régime is liberalized to cope with shortages in the domestic market. Recent examples of this policy include cement and petroleum. Similarly, under Article 6 of the Petroleum Oil Act B.E. 2521, the importers have to register as petroleum traders at the Department of Commercial Registration. The reason for this is to monitor the country's petroleum reserve.

(x) State trading

252. The extensive State intervention in Thailand in the past gave rise to several State trading enterprises. These include the Public Warehouse Organization, Thailand Tobacco Monopoly, the Forest Industry Organization, Fish Marketing Organization, Thai Plywood Company Limited, and the Government Cold Storage Organization (Table AIV.4). Thailand has at least three State trading enterprises which operate at the provincial level. Relatively few State trading organizations in Thailand date from recent years.

253. Trade in some products is regulated on account of a Government monopoly in production or sale. For example, the Thai Tobacco Monopoly controls the domestic output of Thai cigarettes. Other areas with Government monopolies include the manufacture of playing cards, arms and ammunition, and explosives.

254. One of the important State trading organizations in Thailand is the Public Warehouse Organization. Its activities cover both international trade and the domestic market for specified commodities. For example, it is the sole importer of certain agricultural items such as potatoes and garlic which are used for seeding purposes. In addition, this organization purchases commodities such as rice, in order to boost their price in the domestic market. The stocks of these commodities are subsequently disposed

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82 In July 1985, the Cabinet had approved the proposal by the Committee of National Public Enterprises that the Thai Tobacco Monopoly be maintained as a State enterprise under the jurisdiction of the Ministry of Finance, on the condition that its production efficiency and commercial viability shall be improved. In 1990, a GATT Panel ruled that certain operations of this organization were inconsistent with the GATT.
domestically or exported through Government to Government deals. In 1990, the Public Warehouse Organization imported and exported merchandise worth about B 136 million and B 373 million, respectively.

255. The Government favours a policy of privatizing several State enterprises. This policy has faced strong objections from the labour unions of the affected companies. Consequently, plans to privatize several State enterprises have been postponed.

(xi) Import cartels

256. The Government of Thailand does not have a policy to encourage the formation of import cartels. Thailand's Price Fixing and Anti-Monopoly Act B.E. 2522 (1979) imposes certain controls on business involved in restrictive trade practices. However, the Trade Association Act B.E. 1966 and the Chamber of Commerce Act B.E. 1966 provide the legal basis for business enterprises to associate in business activities in order to boost their marketing efficiency.

(xii) Countertrade

257. Thailand has a sub-committee for countertrade, chaired by the Minister of Commerce. The Department of Business Economics of the Ministry of Commerce functions as its secretariat. This sub-committee is responsible for coordinating countertrade between Government agencies or public sector enterprises and foreign countries. Though the sub-committee is responsible for making the decisions regarding countertrade, it does not impose countertrade deals on Government agencies and public sector enterprises.

258. Countertrade was considered as an option by Thailand mainly to dispose its surplus agricultural output of the mid-1980s. A statement by the Ministry of Commerce in 1985 encouraged Government agencies and State enterprises to ask countries exporting to Thailand to reciprocate by buying Thai products. This countertrade policy, which is part of an export promotion scheme, applies to all trading partners, without discriminating against them.

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83 The corresponding figures for 1989 were B 132.2 and B 42.3 million, respectively.
84 In addition to setting a ceiling of US$1,198 million on foreign debt during fiscal 1990, an overall upper limit of B 15 billion was set for domestic finance for State enterprises. One of the ostensible reasons for this was to force several State enterprises to privatize.
85 Sometimes the secretariat of this sub-committee could be asked to enquire the possibility of countertrade with certain exporters to Thailand who obtain substantial orders for Government contracts.
86 The statement of the Ministry of Commerce, dated 27 February 1985, says that this (Footnote Continued)
259. However, countertrade is a negligible proportion of Thailand’s trade. The policy orientation is to use countertrade as a supplementary measure and not to replace normal trade. Through countertrade, the Government imports only products already included in its budget plan. For exports through countertrade, priority is given to commodities facing market access difficulties or depressed prices.

260. Thailand’s imports under countertrade have included fertilizer, crude oil, and certain items of machinery and equipment (Table IV.13). Most of the exports under countertrade were agricultural products. In 1990, Thailand agreed to export a wide variety of items through countertrade, including manufactures such as garments, sports shoes, and canned vegetables. As yet, these exports have not taken place.

(xiii) Technical regulations and standards

261. Through its policies on technical standards, Thailand aims to ensure safe, wholesome and quality products for consumers, protect consumers against fraudulent practices, and improve standards of manufactured products for exports. The standards apply equally to domestic products and imports.

262. Thailand has more than ten major Acts relating to standards and technical regulations in production, imports and exports. These Acts are jointly or separately administered by different agencies, namely the Thai Industrial Standards Institute under the Ministry of Industry, the Food and Drug Administration under the Ministry of Public Health, Department of Commercial Registration, the Office of Commodity Standards under the Ministry of Commerce, and the Ministries of Agriculture, Industry and Public Health (Table IV.14 and Appendix IV.1). In some cases the responsibilities of agencies overlap, and may involve duplication of effort.

(Footnote Continued)

policy will be exercised cautiously to avoid retaliation from trading partners. The Foreign Trade Department of the Ministry of Commerce monitors and involves itself in the negotiations of Thailand’s Government to Government protocols, which may include countertrade issues. In a meeting with the Canadian ambassador in January 1991, Thailand’s Minister of Commerce proposed bartering Thai 25 per cent white rice for Canadian wheat. See Bangkok Post, 17 January 1991, page 17.


89 For example, compare the responsibilities of different agencies given in Table IV.14 with the list of products covered by the Thai Industrial Standards Institute in footnote 90. Also, see C.J. Dahlman and P. Brimble (1990), “Technology Strategy and Policy for Industrial Competitiveness: A Case Study of Thailand”, Industry and Energy Department Working Paper.
263. In general, imports can enter and be tested at any customs station. In the case of items imported for experimentation or research, technical facilities exist only at three customs houses, namely, the Bangkok Airport Customs House, Postal Customs House, and Bangkok Port Customs House.

264. Testing procedures of other countries are recognized by Thailand if there is a reciprocity agreement. This involves the testing procedures of these countries being approved by Thailand.

(a) Standards, testing and certification

265. As a member of the International Standards Organization, Thailand uses the ISO standards in accordance with international practices. In several cases, these standards have to be adapted to the specific conditions in Thailand.

266. Currently, a Standards, Testing and Quality Control programme is operated by the Science and Technology Development Board. This is to support the establishment of more comprehensive industrial standards, improving the metrology and calibration services, and increasing awareness of both the importance of quality control in production and the requirements for this purpose. A detailed plan based on an extensive survey has been completed for implementing the ISO 9000 series of international standards in 1992.

(i) Industrial standards

267. Thai industrial standards are prepared by technical committees which comprise groups of people with common professional interests in the product being standardized. Members of this group are appointed by the Ministry of Industry, with a balanced representation from manufacturers, consumers

(Footnote Continued)

Industry Series Paper No. 24, The World Bank. Some of the other conclusions of Dahlman and Brimble regarding standards in Thailand are that the speed at which standards are established lags behind the rest of the world, laboratories and instrumentation to provide adequate testing services in public and private organizations are deficient, demand for some testing services is outstripping supply capabilities, and many reproductions of foreign standards are incomplete, causing problems regarding actual application.

\(^{90}\) For example, most member countries of the ISO are temperate-zone countries.

\(^{91}\) Among others, the responsibilities of the Science and Technology Development Board, which was set up in 1985, include funding specific requests by the various agencies involved in administering Thailand's standards.

\(^{92}\) The products covered by TISI include agricultural products, agricultural machinery, architecture, ceramic products, civil and construction material, colour and varnishes, cosmetics, chemicals, heat transfer engineering equipment, sports goods, pulp, paper and paper products, fluid engineering products and equipment, safety products and equipment, machinery, office supplies, stationery and educational products, furniture, meters, information technology, packaging and distribution of goods, petroleum products, plastics products, medical products, electrical engineering, rubber, vehicles, metallurgy, paints,
and technical experts. Approved standards are published in the Government Gazette.

268. Though the standards formulated under TISI are generally intended as voluntary industry accepted guidelines, there is legal provision for making standards mandatory. As of 1 January 1989, 1,121 Thai industrial standards had been published, of which 31 were compulsory standards. When a standard is made compulsory, both manufacturers and importers are required to obtain a licence to manufacture or import such products for sale in Thailand. TISI examines whether the product conforms to the specified standard through a system of periodic checks.

269. The TISI licencees are entitled to use TISI standards marks. Regarding mandatory standards, the licensee must mark the products with the standards marks before the products can be released by the Customs officer. The Ministry of Industry may permit release without marking only under certain specified conditions. Additionally, through ASEAN-EEC Industrial Standards and Quality Assurance Programme, Thailand undertakes the harmonization of standards for quality assurance system testing and unification by adoption of international or European standards (ISO9000/EN29000) leading to mutual recognition among ASEAN and between ASEAN and EEC bodies.

270. Testing services such as those required for product certification and mandatory standards are provided by TISI laboratories and authorized laboratories in both the public and the private sector. In February 1988, a Testing Laboratory Accreditation Programme was launched to augment the available testing facilities. The Thai Industrial Standards Institute is the implementing agency for this programme.

(Footnote Continued)

colours and varnishes, textile and clothing products, leather, food and beverages, and electronics and telecommunications. Its responsibilities also cover certain fundamental items such as quantities and units, and definition and terminology.

*Items with compulsory standards of TISI are automotive safety glasses (laminated safety glass, tempered safety glass, and zone tempered safety glass), automotive nitrocellulose lacquer thinner, ballast for fluorescent lamps, canned pineapple, carbon dioxide for medical use, dry chemical portable fire extinguishers, electric iron, hard tapioca pellet, incandescent lamps, lacquer thinner, lamp holders for tubular fluorescent lamps and starter holders, laundry detergent powder, low-voltage distribution link fuses, liquefied petroleum gas cylinders, liquefied petroleum gas containers for internal combustion engines, mosquito coils and sticks, nitrous oxide for medical use, oxygen for medical use, PVC-insulated cables and flexible cords, PVC-insulated aluminium cables, plastics containers for sterile pharmaceutical product, protective helmets for road users, polyvinyl chloride pipes for drinking water services, steel bars for reinforced concrete (round bars, deformed bars and rerolled round bars), safety matches, starters for fluorescent lamps, and tapioca products.

*The TISI brochures on "Certification Marking Procedures" are designed as guidelines for a licensee to manufacture or import industrial products for sale in Thailand in conformity with a standard as required by Royal Decree.

*See Article 20(bis) and 21bis) of the Industrial Product Standards Act B.E. 2511.
(ii) Health and safety requirements

271. For health and safety reasons, Thailand's Food and Drug Administration monitors and regulates production, sales and imports of various food items, drugs, cosmetics, hazardous substances, narcotics and psychotropic substances (Table IV.15). Hazardous substances are regulated by the Administration along with the Ministry of Agriculture and Cooperatives and the Ministry of Industry. Details of the health and safety régime of Thailand are provided in the next section and in Appendix IV.1 and IV.2.

272. Thailand uses international standards as the basis for its health and safety requirements. Tests are conducted to initially verify safety and performance criteria, and subsequently the market is monitored to assess the need for revising the standards.

273. For example, in the case of hazardous substances, regular inspection of production and importation sites is conducted. Special programmes are established to intensively monitor product standard and safety of particular groups of pesticides and toxic chemicals. Research is conducted on the possible hazardous effect of products on humans. On this basis, standards are set for hazardous products and pesticides.

274. One of the tasks of the authorized controlling agencies is to ensure that the controls are in accordance with international conventions such as the International Code of Conduct on Distribution and Use of Pesticides, Convention on the Control of Transboundary Movement of Hazardous Waste, and the London Guideline.

(iii) Sanitary and phytosanitary regulations

275. Thailand's sanitary and phytosanitary régime is implemented through a system of quality standard and labelling control. Quality standard is ensured through licensing and quarantine inspection. The products to which the regulations apply are food items and plants and their products.

276. The Skimmed Milk Act of 1929 marked the beginning of food control in Thailand. Subsequently, the scope and coverage of products and nature of controls has been widened, keeping in mind the changing economic situation and the need to control adulteration of a range of products. Currently, the Food Act B.E. 2522 (1979) classifies food items into three categories, namely specific controlled food, standardized food and general food (see Appendix IV.3).

277. In Thailand, all importers of food have to apply for an import licence, and manufacturers of food have to apply for a manufacturing
licences. Stricter requirements are imposed on specific-controlled food items. The certificates issued by the Food and Drug Control Division of the FDA have to be shown to the Customs authorities in order to clear the imported food items.

278. The Thai Food and Drug Administration must approve all imported food items. All applications for registration must be accompanied by a detailed list of ingredients and a description of the manufacturing process. The Thai Food and Drug Administration requires importers to provide the actual product formulation for analysis. If the analysis and details meet the requirements, specific controlled food products can be registered at a cost and others can be approved for labelling permission.

279. The Food Act requires special import permits for foodstuffs contaminated with radioactive dust. Imported food products must be accompanied by a certificate from the country of origin stating that its radioactivity level does not exceed the established ceiling.

280. Under the Food Act, the Minister of Public Health is authorized to announce prohibition of import and the use of any substance such as food ingredients or additives, which may be harmful to health. Imports of food items or preparations which contain these banned additives or ingredients, are also prohibited.

281. Sanitary certificates are required for imports of certain live animals and their products, and a phytosanitary certificate is needed for importing most plants and plant materials into Thailand. Quarantine restrictions on animals and their products are put by the Department of Livestock Development of the Ministry of Agriculture and Co-operatives. The legal authority for these actions is provided by the Animal Epidemics Act B.E. 2499 (1956).

282. The Department of Agriculture is responsible for quarantine restrictions on edible and inedible plants. The legal authority is provided by the Plant Quarantine Act B.E. 2507. Imports of some plants are

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96 Licenses are valid till 31 December of the third year from the date of issue. Import licence costs B 15,000.
97 The importer pays B 5,000 per item, not including the expense for analysis. The entire registration process requires at least three months and can take up to a year to complete.
98 The banned items are brominated vegetable oil, salicylic acid, boric acid, borax, calcium iodate and potassium iodate (except for the use of preventing and treating goitre), nitrofurazone, potassium chlorate, formaldehyde, formaldehyde solution and paraformaldehyde, coumarin, dihydrocoumarin, p-phenetolcarbamide (which is used as a sugar substitute), another sugar substitute, namely cyclamic acid and its salts (except sodium cyclamate used for export items), and furylframide or 2-(2-furyl)-3-(5-nitro-2-furyl) acrylamide (which is used as a food additive), and foods containing the three preceding substances.
prohibited unless they are needed for experimental or research purposes. Imports requiring phytosanitary certificates are subject to inspection. Following the inspection, the authorities could recommend treatment, quarantine, or destruction of the product.

(b) Marking, labelling and packaging

283. The legislation mentioned in the context of standards specify marking and labelling conditions for several types of products covered by them. For example, all imported food items must be labelled in Thai, in contrast to domestic products for which these requirements apply only in the case of specific-controlled products, standardized food products, and food items which have been notified for labelling. The label could be in English for food imports not sold directly to consumers or to vendors, and the information required on the label in this case is less than otherwise.

284. The marking to denote the conformity to the standards of the Thailand Industrial Standards Institute has been mentioned earlier. Similarly, one of the requirements under the Drug Act is the proper labelling of various kinds of drugs.

285. Special labelling requirements are in place for several types of products, such as husked rice flour, coffee, canned milk, skimmed milk, butter, certain other milk products, dyestuff, fish sauce, edible oils, mineral water, drinking water, canned food, irradiated onions and most drugs (both for human and veterinary use).

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99 See for example, the Notification of the Ministry of Agriculture (No. 1), B.E. 2507. For restrictions, see the Notification of the Ministry of Agriculture (No. 2), B.E. 2507.

100 The labelling must comply with the Notification of the Ministry of Public Health, No. 68, B.E. 2525. The following information should be given: kind and type of food, trade name, registration number (if any), name and address of the manufacturers or producers, net contents in metric unit, main ingredients in approximate percentage of weight, date marking, instructions for keeping, preparation instruction, use of preservatives, colouring agents, food flavouring agent, monosodium glutamate, instruction of food to be used for infant or specific group.

101 The mark denoting compulsory standard differs from the regular standards mark.

102 These include additional features such as warning against using dyestuff with food, warning and cautionary labels or pamphlets with drugs, limits on dosage, the label for skimmed milk marked with lettering at least 5 mm. high stating "Not to be used for nursing baby", a label with "Not recommended for mixing with food for infants and pregnant women" in the case of monosodium glutamate or mixed seasoning powder, and volume or quantity in metric units printed in non-erasable printing, with either Thai or Arabic numbers at least 2 mm. high, for a specified group of products. The products which require weight or volume specification in letters at least 2 mm. high are alcoholic and non-alcoholic drinks, animal and vegetable oils, sauces including bean sauce and fish sauce, canned foods (including meats, vegetables and fruits), coffee, tea and other prepared drinks, dried foods (including meats, vegetables and fruits), flavoured water, flour for making food and food products, milk (fresh, evaporated, powdered, sweetened condensed, and sour), frozen meat, rice, seasoning powder, vinegar, white refined sugar, animal feed, benzine, cement, cleaning paper for face and hands, except those belonging to cosmetics, cotton yarn, silk, carpet, rope and ribbon. (Footnote Continued)
286. Under Regulation 68 (B.E 2521), liquor stamp is to be placed on imported liquor beverages, with specified design, colour, wording, and various fees for such beverages.

287. Corrections to labels must be made before customs clearance, and additional labels or rubber stamping is allowed for this purpose.

288. Special rules govern the use of plastic wrappings and food containers. The quality of food packing material has to comply with the Notification of Ministry of Public Health Number 92 (B.E. 2528), and Number 111 (B.E. 2531). Plastic sheets, bags or food containers previously used for packing chemicals, fertilizers, poisonous articles, or items likely to be dangerous to health are prohibited for use as food containers. Those used for packing must be clean and free from contamination, and except for certain glass containers, must not have been previously used for packing any food or materials. Restrictions are placed on the presence of some other specific products which may contaminate food. The Government prohibits the use of food containers with labelling which may mislead about the food contained.

(xiv) Government procurement

289. Thailand is an observer to the GATT Agreement on Government Procurement.

290. There is no centralized Government purchasing agency in Thailand. Purchases by the Thai Government are usually made through tenders issued by the specific Ministry, Department or end-user Agency. These tenders are governed by various Cabinet resolutions and directives, and ministerial rules and regulations.

291. Government procurement under the budget is subject to the Regulation of the Office of the Prime Minister on Supplying Materials B.E. 2521 (1978), and amendments. Though the general procedures for Government procurement apply to State enterprises also, each State enterprise has its own regulations for purchases and engaging consultants.

(Footnote Continued)
detergents, diesel oil, fertilizers, household cleaning solutions and powders, insecticides and pesticides, kerosene, lubricating oil, matches, nails, newsprint, writing or printing paper, liquified petroleum gas, soap flakes, water colours and oil colours, except those used in painting, and white lime.

\[103\] For example, in the case of food containers made with polyvinyl chloride plastic, the vinyl chloride monomer must not exceed 1 milligramme per kilogramme when detected. All ceramic and plated metalware used for food storage must not contain more than 2 milligrammes of solid lead per litre of capacity. Plastic wrappings must not contain any colours, except for the layer of a laminated bag which does not come in direct contact with the food.
292. If the Government procurement involves foreign borrowing, the Ministry of Finance oversees that the government ceiling on foreign borrowing is not exceeded. Procurement for projects financed by external loans is subject to the Regulation of the Ministry of Finance on Purchasing, Contracting for Work and Engagement of Consultants under Projects Financed by External Loans B.E. 2527 (1984). This specifies methods and procedures for engaging contractors, inspection and acceptance, and the authorities which are responsible for ensuring the implementation and those empowered to invite and execute contracts. A high level committee has the power to waive these requirements if they are impractical or conflict with the terms of an external loan agreement.

293. Five alternative methods are used for determining the appropriate price for the deal. These are adopted mainly on the basis of the value of the contract. For contracts up to B 20,000, a responsible officer bargains or agrees with the seller or contractor (the price agreeing method). For contracts between B 20,000 and B 400,000, quotations are invited by displaying a notice in the agency's office and by sending it by registered mail to at least three professional suppliers or contractors (the price enquiry method). A competitive bidding method may be applied for contracts above B 400,000 by inviting bids through displaying a notice at the agency's office and by an announcement in a newspaper or on the radio. Notice may also be sent directly to professional suppliers or contractors. Prequalification, bid binds and performance securities may be required. Direct invitations to professional sellers or contractors to submit quotations are made if materials have to be purchased urgently (the special method). A special case method is used for purchasing or contracting of works directly with another Government agency, State enterprise or local administration body.

294. The bidders for Government procurement usually have to place a deposit which is refunded if the bid is unsuccessful. In the case of a successful bid, the deposit is retained until the execution of the contract. It is returned on the receipt by the purchasing agency of the performance security. In general, the deposit is 2 to 5 per cent of the bid.

295. The Government uses various criteria to assess any bid, such as the price, credit terms, delivery schedule, maintenance, service and product quality. An important aspect of Government procurement involving foreign parties is that the public prosecutor tests the obligations to ensure
national interest. This could add considerable uncertainty into the deal.

296. Regarding Government procurement under the budget, there may be a notification requiring products to meet the established standards of the Thai Industrial Standards Institute. If there is only one manufacturer of certified products, the supplier offering the certified product is awarded the bid provided the price of these items does not exceed the price of other products by more than 15 per cent. According to the Government of Thailand, the purchasing agency can bargain the margin down to 10 per cent. When the price difference is more than 15 per cent, the buyer can purchase either local products or foreign products which are not certified products. In the case of procurement of selected items by the army, preference is given to certain State enterprises. These include the Textile Organization, the Glass Organization, the Battery Organization, and the Tanning Organization.

297. Procurement from ASEAN countries is offered a discount of 2.5 per cent or a US$40,000 preferential margin, whichever is lower.

298. No information on the amount or pattern of Government procurement could be made available by the Thai Government. In the 1980s, the annual amount budgeted for procurement has ranged between B 7 billion to B 12 billion. Most of this amount was budgeted for purchase of arms.

(xv) **Local content requirements**

299. Thailand imposes local content requirements for various products such as tea leaf and dust, silk and silk yarn, pasteurized and skimmed milk, automobiles, motorcycles, and a range of manufactured items. Local content requirements can be revoked if they imply that specified standards in the export market can not be met.

300. In the case of milk, tea, and silk and silk yarn, imports are allowed on the condition that a specified local content is purchased. The Dairy Farming Promotion Organization of Thailand or the Department of Co-Operatives Promotion, Ministry of Agriculture and Co-Operatives, have the authority to certify that domestic raw milk has been purchased in proportion to any imported skimmed milk powder used to manufacture milk or

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104 See, for example, S. Chaimungkalanont (1987), "International Contracts, Investment and the Thai Context", Thailand Yearbook of International and Comparative Law, Volume 1, 1986.

105 The objective is to promote standards of Thai industrial products. See the Regulation of the Office of the Prime Minister on Supplying Materials (No. 8) B.E. 2531 (1988).
milk products as specified by the Department of Foreign Trade. Domestic content requirements are a major component of the policies used to encourage the Thai automobile sector (see Chapter V). For example, from mid-1989, locally assembled pick-ups and motorcycles will have to use locally manufactured engines.

301. In addition, domestic content is encouraged by the Board of Investment through special privileges provided to promoted activities. These include pasteurized milk, engines for pick-up trucks, engines for motorcycles, small diesel engines for agriculture, all-purpose benzine engines, gas-pressure thermostats, compressor for airconditioners, kilowatt hour meters, PABX, TV picture tubes, paper, polystyrene film, coated aluminium sheet for printing, transmission assembly, and ramic yarn.

302. Some local content requirements are imposed by the Bank of Thailand in the context of its rediscounting scheme.

303. The local content requirements imposed by the Government may change from time to time. For example, in 1985, the Government changed the ratio of soyabean meal imports to be combined with the volume of domestic purchase. This ratio was raised from 2:1 to 4:3 in response to the estimated increase of the 1985-86 soybean crop in Thailand.

304. In the 1980s, Thailand has reduced the number of items subject to local content requirements. Products for which these requirements have been removed include soybean meal, and tobacco leaf used for cigarettes.

(xvi) Anti-dumping and countervailing actions

305. Thailand is an observer to the Agreement on the Implementation of Article VI of the GATT (the Anti-Dumping Code), and the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (the Subsidies Code).

106 Examples of local content stipulated for some of these activities are: minimum local manufactured parts content must be 80 per cent of total raw materials used (transformers); minimum local content 60 per cent of total raw materials used in the first two years, and 80 per cent since the third year of operation (compressors for air-conditioners); local content must not be less than 30 per cent of total raw materials in the first two years, 60 per cent in the next two years, and 70 per cent thereafter, except for export-oriented projects with at least 60 per cent direct export (gas-pressure thermostats); only domestic raw materials must be used (polystyrene film); only local aluminium sheet must be used (coated aluminium sheet for printing); and projects must use local fresh liquid milk (pasteurized milk).

107 In 1985, the Government increased the prescribed domestic purchase required for pasteurized milk and skimmed milk. From the earlier rective ratios of 1:1 and 1:10 for imports and domestic purchase of these two items, the requirements became 1:2 and 1:20.
306. Thailand's Anti-Dumping Act B.E. 2507 (1964) provides the basis for levying anti-dumping duties. Under Section 13 of the Customs Tariff Decree B.E. 2530, the Minister of Finance, with the approval of the Cabinet, can levy a special duty in addition to the normal import duty on imported goods that have been subsidized by any country or person by any means other than drawback or compensation of duties or taxes, and if this subsidy causes or may cause damages to national agriculture or industry. The rate of this special duty is not to exceed the amount of subsidy deemed to be granted.

(xvii) Safeguard actions

307. Thailand has never invoked Article XIX of the GATT. The domestic legal basis for restricting trade because of a surge in imports is the Export and Import Act B.E. 2522. Measures that may be taken under this Act include automatic and non-automatic licensing. These measures are supposed to be phased out when the situation permits it. In the course of the last five years, the Ministry of Commerce has imposed import licensing on ten products as safeguard action under the Export and Import Act.

308. There is a safeguard provision in the ASEAN preferential tariff arrangement. However, Thailand has never taken any safeguard action under this arrangement.

(xviii) Measures implemented in exporting countries

309. Thailand has not negotiated any measure such as voluntary export restraints with foreign suppliers.

(xix) Balance of payments measures

310. Thailand's drive towards export promotion reflects its attempt to improve its balance of payments situation. In mid-1989, conserving foreign exchange was one of the reasons for putting certain items under import licensing. More recently, the comfortable foreign exchange reserves situation has reduced Thailand's concern for the balance of payments.

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108 The products are gasoline engines with displacement of 41 to 240 cc, internal combustion piston engines and cylinder case for motorcycles with displacement over 250 cc, high fructose syrup, intaglio printing machines, colour scanners, photocopying machines, maize, fishmeal, soybean, and used diesel engine with displacement of 331 to 1100 cc.

109 These measures were notified to the GATT, but never discussed in any GATT fora.
(xx) **Free trade zones, export processing zones**

311. The Government of Thailand promotes foreign investment, decentralization of production and export-oriented production through investment promotion zones, industrial estates, and export processing zones. Firms operating in these specified regions are provided incentives in the form of tax rebates and duty privileges. The main Government agencies dealing with these policies are the Board of Investment under the Office of the Prime Minister, and the Industrial Estate Authority of Thailand under the Ministry of Industry.

(xxii) **Other measures**

312. In some cases when the price of a commodity is controlled in the domestic market at a level below the world price, the Government subsidizes imports in order to maintain the domestically controlled price. A recent example is cement, which is in short supply on account of the construction boom in the Thai economy. The Government is allowing higher imports of cement, but is also subsidizing these imports so that the price level comes down to the domestic price.  

(3) **Measures Directly Affecting Exports**

313. The customs formalities for exports are similar to those for imports. The Export Inspection Division of the Customs Department is responsible for matters relating to exports. It receives payment for various taxes on exports such as export duties, business taxes and municipal taxes. It inspects goods exported by ship and train as well as examines export-related documents. The goods exported through the international airport are controlled and inspected by the Bangkok Airport Customs House.

314. Exporters are required to obtain a Certificate of Exportation from an authorized bank. This certificate, which must be submitted along with other required documents such as invoices, sales contracts or any evidence of sales negotiations, export permits or licences, authorizes the Customs Department to clear the goods for export.

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110 It was estimated that a total subsidy of B 2.2 billion would be required to reduce the price of imported cement to the controlled domestic price. The Cabinet instructed the Central Price Fixing and Anti-Monopoly Committee to set up a system for importing cement and to control the scheme for subsidizing cement imports.

111 The regular documents to be submitted are certificate of exportation (export declaration [C.C. 61]), Customs entry form (6 copies), Customs invoice (3 copies), commercial invoice (4 copies), insurance certificate from an insurance company (2 copies), bill of lading or airway bill (4 copies), and a packing list (3 copies).
315. Export proceeds must be sold to an authorized bank within the time period prescribed for different types of payment arrangements. The time limits stipulated are 21 days for sight draft, 15 days after due date for usance bill (but not more than 180 days from the date of export), and 15 days from the date of export for all other methods of payment. An explanation is required if payment is not received within 180 days of shipment.

(i) **Export taxes, charges and levies**

316. Thailand imposes duties and charges on exports of certain products. The average incidence of export taxes has decreased sharply during the past two decades. In 1990, the average applied export tax in Thailand, and its contribution to Government revenue, were almost negligible (Charts IV.1 and 2).

317. The statutory export duties of Thailand are given in Part III of the Customs Tariff of Thailand. These duties are imposed on selected items, which are divided into eight groups.

318. The export duty is levied on the f.o.b. value. Most of the duties are ad valorem, with specific duties levied on hides of bovine animals, and raw silk (not thrown), silk yarn, and yarn spun from waste silk and noil silk. The statutory ad valorem base rates of duty for the first seven groups range from 10 per cent to 75 per cent. These rates are, respectively, for rice and glutinous rice, and pulverized and baked fish which is unfit for human consumption.

319. The actually applied duty rates are generally much lower than the statutory rates. In 1988, the Ministry of Finance announced exemptions and reductions for most items. In December 1990, export duty on rubber and its products was exempted. Export duty now applies only to certain hides of bovine animals, certain types of wood and sawnwood, and raw silk (not thrown), silk yarn and yarn spun from waste of silk and noil yarn. For each of the first two of these categories, the duty reduction or exemption has resulted in a statutory uniform duty for the category being replaced by non-uniform applied rates on items within the category (Table IV.16).

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112 These are: rice and glutinous rice; metal scraps of any kind; hides of bovine animals; rubber of genus Hevea in various forms such as sheets or slabs; wood, sawn wood and articles made of wood; raw silk (not thrown), silk yarn and yarn spun from waste silk and noil silk; fish (pulverized or only baked) unfit for human consumption; and goods not elsewhere specified or included in the export tariff listing. The last category has no statutory export duty. Only business tax is imposed on exports of these products.

113 The only category not affected by this notification was raw silk (not thrown), silk yarn, and yarn spun from waste silk and noil yarn. See Ministry of Finance Notification Number C 1/2531.
320. Apart from the export duties on selected products listed in the Customs Tariff, an export duty may be applied on certain other products.

(ii) Minimum price

321. In some cases, the Government may impose certain conditions regarding the export price of a product. For example, in 1985, permission to export longan was granted on the condition that the f.o.b. export price must not be below B 30 per kilogramme (Bangkok port). The minimum export price of longan, designed to prevent exporters from engaging in price undercutting, was revoked in August 1986.

322. Currently, only two products have minimum export price controls. One is canned pineapple, and the other is canned clam exported to Italy. The price control on canned pineapple is imposed to prevent price undercutting by exporters. In the case of canned clam, Italy imposed this requirement on Thai exports.

(iii) Export prohibitions

323. As mentioned earlier, export control in Thailand is maintained under the Export and Import Act, and other legislation concerned with health and safety. For most products controlled under the Export and Import Act, exports are conditionally prohibited, i.e. exports are allowed if certain conditions are met. A ban is in place only for exports to the Republic of South Africa (Table AIV.10). Earlier, Thailand had banned exports of some other items such as fertilizers (excluding organic fertilizer), scrap iron and steel, and all petroleum produced by concessionaires (excluding natural gas).

324. Thai export control is administered through a licensing system, implemented by the Ministry of Commerce, and other Ministries which administer controls for health and safety reasons. The next section deals only with the licensing system administered under the Export and Import Act.

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114 For example, in November 1988, exports of ball bearings by the Minebea Group to the United States were subjected to an export duty in order to prevent the imposition of a final countervailing duty on this item by the United States. Similarly, in June 1990, the Ministry of Commerce notified an export surcharge of B 1.76 on ball bearings of certain size on exports to the European Communities.
(iv) Export licensing

(a) General procedures

325. Export licensing is implemented by the Department of Foreign Trade in the Ministry of Commerce. In some cases, licences are granted only if approved by other authorizing Ministries, such as the Department of Forestry, Ministry of Agriculture and Co-Operatives in the case of certain wild animals and carcasses, and the Ministry of Finance in the case of gold, platinum and jewellery. On the other hand, provided certain conditions are met, the Customs Department is empowered to release some products which are normally under export licensing.

326. Export licensing is imposed for reasons such as preventing or relieving critical shortages of certain food staples and raw materials, regulating exports, conserving wild life, environment and energy, maintaining standardized exports, minimum price control, and honouring bilateral agreements.

327. Export controls through licensing generally apply for all destinations. In a few cases, export licensing is in place for items exported to specified destinations. These include exports to South Africa, exports under a bilateral agreement, or when licensing is imposed to prevent re-exports to communist countries.

328. The licensing régime varies across products, broadly depending on the objective for which they were subjected to licensing. Thus, the control may be in the form of non-automatic licensing, automatic licensing, quotas, or monitoring export price or standard.

329. For products subject to export licensing, the exporters must meet the requirements imposed by the regulations. These may include criteria regarding the qualification of exporters, export conditions to be followed by exporters, and the relevant documents to be submitted along with the application, e.g. L/C, invoice, contract and sanitary or phytosanitary certificate.

330. Through legislation such as the Export Standards Act (No. 2) B.E. 2522, and the Rice Trade Act, the Government stipulates the types of

115In November 1988, exports of armaments were authorized only under the accord signed between foreign Governments and the Thai Government, or under the Cabinet's approval with the Minister of Defence's permit for the surplus or obsolete armaments.
exporters which can apply for export licensing. The objective mainly is to ensure that exporters have adequate financial and other capabilities for exporting the products involved.

331. It generally takes 3 to 5 working days to grant an export licence. There is no formal appeal procedure against refusal to issue an export licence. According to the Government of Thailand, in practice, the exporter is able to request the higher authority to reconsider the matter.

(b) Application of the general procedures

332. Currently, the most important reasons for export licensing are preventing internal shortages or preserving an item for domestic use, and conservation of natural resources and the environment (Table AIV.10). The objectives of imposing export licensing on certain products have changed in the last few years. For example, in mid-1989, exports of a variety of metal products were under licensing to prevent internal shortage or to preserve for domestic use. Currently, they are controlled for monitoring exports or to protect against traffic in materials supplied to a military establishment.

333. A majority of the products under export licensing are subject to non-automatic licensing (Table AIV.10). Automatic licensing is used for a few items, mainly agricultural products. The items which the Department of Customs is authorized to release without licensing include castor seed, kapok seed, cotton seed, longan, durian, canned pineapple, canned baby clam, canned tuna, and some wild animal and their carcasses. Export controls on these products are imposed to ensure that they are not sub-standard or below the required quality, and to conserve wildlife and the environment.

334. For certain items, particularly agricultural commodities, export licences are granted only to members of the relevant trade association. In the case of fuels, export licences are given only to refineries. Only five trading firms in Thailand are authorized to get sugar export licences.

335. Agricultural products account for about one-sixth of the approximately 150 four-digit HS items affected by export licensing. Other items are fuels, certain metals and their products, wood and wood products, wild

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116 For example, the Rice Trade Act requires that exporters be limited to three categories, namely, promoted international trading companies, cooperatives registered under the Cooperatives Act with the objective of trading in rice, and limited public companies.

117 The two products currently treated as strategic products are iron sheet and iron containers of over 200 litres except those containing goods.
animals and carcasses, textiles and clothing, pesticides, paper, gold, platinum, jewellery, and sacred images.

336. The current list of items under export licensing differs from that submitted by Thailand to the GATT in March 1982. While several items have been excluded from the coverage of export licensing, a similar number of other products have been added to the list (Table IV.17). Among those not subject to licensing now are certain products whose exports to specific destinations were controlled.

337. A major change in recent times has been the relaxation of certain strategic exports.

(v) Export quotas

338. Thailand has export quotas under bilateral agreements on tapioca products to the European Communities, and textiles and clothing exports to several countries.

339. Different procedures for allocating quotas are used for these items. In 1991, a new system of quota allocation was implemented for tapioca products. The quota is allocated on a combination of factors such as bidding, stockpiles and bonus. According to the Government of Thailand, the procedure of quota allocation is so complicated that details of this policy could not be provided.

340. For textiles and clothing, too, a combination of criteria is used for allocating export quotas. A basic quota is allocated on the basis of past performance. A supplementary quota is allocated on a first come first served basis. Holders of a basic quota can apply for supplementary quotas provided they have utilized 50 per cent of their basic quota (see Chapter V for details).

341. Sugar exports to the United States are under quota.

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118 These were frozen yarn exported to Belgium, Netherlands and Luxembourg, and frozen shrimp and cuttle fish exported to the European Communities and the United States.
119 Some export volume to the European Communities is allocated to the exporters on the basis of the stockpile of tapioca in their firms, and some is allocated on the basis of exports of tapioca to markets outside the European Communities. Before 1991, export quotas were allocated only on the basis of stockpiles and bonus.
120 There have been some complaints from the private sector regarding the allocation of the export quotas for textiles and clothing. See Textile Asia, April 1987 and September 1990.
121 This is on account of sugar import quotas imposed in the United States. Though other exports of sugar from Thailand are not subject to quota, a licence is required by exporters. The purpose of this licence is to secure supply for domestic consumption.
(vi) **Export cartels**

342. The Government does not have a policy to encourage the formation of export cartels.

(vii) **Voluntary restraints, surveillance and similar measures**

343. Thailand has voluntary restraints on exports of tapioca products to the European Communities and certain textiles and clothing items exported to Australia, Canada, European Communities, Finland, Norway, Sweden and the United States. These items are subject to export quotas to implement the bilateral agreements under the Multifibre Arrangement.

(viii) **Export subsidies**

344. The Bank of Thailand operates a credit facility for exporters. To the extent that the rate of interest charged to exporters under this facility is below the commercial rate of interest, it provides cheaper funds for exports.

(ix) **Duty and tax concessions**

345. Two types of duty and tax concessions are provided for exports. One is the concession on export duty and business tax on some export items. Another is the concession provided on duty and tax on inputs used for exports, and on income derived from selected projects, including export-oriented projects.

346. As mentioned above, the export duty or business tax on exports are exempted or reduced for several items in Part III of the Customs Tariff. Since the coverage of products with export duties is small, a more relevant duty concession in the context of exports is that provided on inputs used to manufacture exports. These are provided through five main schemes to reduce the disadvantage caused by tariffs imposed on imported raw materials and selected machinery items. The duty drawback does not exceed the amount of import duty to be paid.

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122 Not included in these five is a scheme of the Revenue Department under which eligible companies pay a lower business tax (of only 0.1 per cent) on inputs for exports.
(a) Concessions provided by the Board of Investment

347. The Board of Investment provides favourable treatment to promote export-oriented projects. These projects are eligible for a 50 per cent reduction of import duty on selected machinery, and exemption of business tax on machinery and corporate income tax (for a specified period of time), regardless of location. Projects located in Zone 1 are eligible for import duty and business tax concessions on imported raw material and essential materials for one year, if they export at least 30 per cent of their output. For such projects in Zone 3, the concession is provided for five years. In addition, the Board could approve some deductions from taxable income which are linked to the increment in export earnings over the preceding year (Table AIV.1).

348. Duty exemption on raw or essential material imports used for manufacturing exports is provided by the Board of Investment prior to exports taking place. Thus, the Board needs to estimate the import content of products which are ultimately exported. The production firm seeking concessions has to submit an input-output formula. A Committee verifies this formula. On the basis of the formula, and the information on production capacity and the approved or likely exports of the firm, the Committee determines a maximum ceiling for the duty-free imports allowed for the beneficiary firm. Subsequent re-verification of the formula is conducted by the Board of Investment by checking the output, imports, and stocks of the beneficiary firm.

349. Requests to import duty-free inputs within the ceiling are automatically allowed when the Board of Investment forwards them to the Customs Department to release the imports without levying duty. Each transaction is recorded, and a residual balance of duty-free imports allowed for the beneficiary firm is noted for future reference. When the beneficiary firm exports its output, the estimated imported component of the materials used in production of these exports is added to the residual balance.

350. As part of its policy to encourage exports, the Board of Investment also grants privileges in the form of tax and duty exemptions to selected international trading companies. These companies are exempt from import

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123 The concessions are normally not extended beyond one year. The exception has been electronics. These projects had large imports and used several different formulae for getting import rebates.

124 International trading companies are trading companies set up specifically to do export-import business. International trading has been suspended from promotion since 1981. International trading companies granted promotion prior to the suspension are still eligible (Footnote Continued)
and business taxes on imported raw materials for domestic production of exports, and suppliers of raw materials and other items to them are exempted from business tax.

(b) Exemption or drawback scheme of the Department of Customs

351. Section 19 of the Customs Act (No. 9) B.E. 2482 gives the authority for refunding import duty on goods re-exported in the same state. The Government refunds almost all the duty, except one-tenth of the duty or B 1,000, whichever is lower. The same criteria is used for refunding business taxes, excise taxes and municipal taxes to the re-exporter.

352. Under the legal authority provided by Sections 19bis and 19ter, the Customs Department has two alternative schemes for giving total tariff exemption or drawback on inputs used for exports. One is a duty drawback scheme, i.e. refunds are claimed after the payment of duties. The second is a prior exemption scheme in which a bank guarantee can be used in lieu of the payment of duty. For both these schemes, the Thai authorities follow the recommendations of the Kyoto Convention regarding refunding duties on raw materials used for exports. Both these schemes require that the products for which imported inputs have been used, must be exported within one year.

353. As in the case of the programme under the Board of Investment, the applicant has to supply the design and production formula for the product concerned. Approval of this formula is required to get access to the schemes. In some cases with standard products, the Director-General of Customs may specify a standard formula to be used by all producers of the item. In recent years, the operation of the drawback system has been facilitated as a result of computerization and an increase in the number of standard formulae. The process of getting the drawback takes less than three months.

(Footnote Continued)

for tax exemption on imported raw materials and essential materials for their manufacture of 100 per cent export.

125 The privileges granted by the Board of Investment to the international trading companies were found to be subsidies under the United States countervailing duty law by the United States Department of Commerce.

126 The drawback on certain goods is prohibited by the Director-General of Customs, in order to promote local substitutes. See, M. Wityatem (1987), "Investment and Thai Customs Law: The Thai Position Appraised", in Thailand Yearbook of International and Comparative Law, Volume 1, 1986.

127 In Thailand's case, these duties include customs duties, business taxes, municipal taxes and excise taxes.

128 The drawback must be claimed within six months from the date of exportation. In general, exporters prefer to avail the prior exemption rather than the drawback scheme.
354. The amount of taxes refunded and the number of claims for refunds under the Department of Customs scheme has increased rapidly in the 1980s (Table IV.18). The items whose exports benefited from the drawback in recent years were mainly textiles, garments, plastic products, ceramics and electronic products.

(c) Tax rebate scheme of the Fiscal Policy Office (Ministry of Finance)

355. The legal authority for this tax rebate scheme for exports is provided by the Tax and Duty Compensation of Exported Goods Act Produced in the Kingdom Act B.E. 2524 (1981). The objective is to overcome two shortcomings of the drawback scheme of the Department of Customs. First, the drawback is not available for exporters who do not manufacture the exported items themselves. Second, the drawback is provided only for taxes on imports and not on taxes on domestic raw materials which are used to manufacture the exports.

356. Section 5 of the Act establishes a Committee Considering the Compensation of Tax and Duty on the Exported Goods Produced in the Kingdom. The tasks of this Committee include fixing the rate of tax rebate and determining the eligibility of items subject to these rebates (see Table AIV.11 for some recent decisions). Among the exports eligible for tax rebates, the Committee can also include two categories of domestic sales. One is the domestic purchase by a Government organization or enterprise paid partially or wholly by foreign loan or aid. Second is the sale of certain goods to International Organizations or other similar agencies, which have a right to import these goods duty free.

357. The tax rebate scheme of the Fiscal Policy Office is administered by the Department of Customs. The taxes on which rebate is allowed include customs duties, business taxes, excise taxes, municipal taxes, and other taxes added in the cost of materials, machinery, equipment, spare parts, fuel and power purchased by the beneficiary firms. Under this scheme, a case-by-case approach is used to refund duty, on the basis of "physical input coefficients". A prespecified input-output tabulation is used to

129 See Section 11 of the Act for further details. Of the eight different powers and duties of the Committee listed in Section 11, six are exercised only after approval of the Council of Ministers and publication in the Government Gazette.

130 An example is the tax rebate in 1987 for domestic production of PVC pipes. See Table AIV.11.

131 Under Section 13 of the Act, rebate is not given on certain taxes and charges. These are income tax, royalties and other charges collectible from the natural resources, tax and duty collected by the local administration as the revenues of the local administration, tax and duty as prescribed by the Committee, and tax and duty refundable according to the law except in the case of not exercising the right to apply for the refund according to the law and the Committee deems it appropriate to enjoy the compensation money.
calculate the import content of the exported product. On this basis, the Fiscal Policy Office calculates an ad valorem coefficient for the tax element in the exports of different products. More than 5,000 rates for rebate have been calculated, largely in line with the Harmonized System categories.

358. For each item subject to compensation, two schedules of rebate rates are computed. Schedule A has a larger coefficient, and applies to producers who do not benefit from tax drawback or exemption/reduction under any other law, except the tax concession on machinery provided by the Board of Investment. Schedule B applies to producers who receive the tax concessions under other schemes, except the tax concession on machinery provided by the Board of investment. Thus, for those availing the benefits of other schemes, the Fiscal Policy Office applies the drawback rate only for the purpose of refunding taxes on domestically produced inputs.

359. Application for tax rebate must be made within a period of one year after exportation of goods. It takes less than one month to get the rebate. The rebate is paid by means of tax credit certificates which can be used for paying other taxes. These certificates are valid for three years. Allegations by trading partners that this tax rebate scheme provides the possibility of subsidization has prompted the Thai authorities to restructure the régime.

360. The Act governing the tax rebate scheme specifies a ceiling for the tax rebate of 2 per cent of the total revenue from tax and duty. This limit is now posing problems on account of the rapid increase in exports. In 1990, a tax rebate of B 6 billion was provided compared to only B 1.8 billion five years ago. The Government is considering a proposal to increase the upper limit to 4 per cent of revenue.

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132 An 180 sector input-output table based on 1985 data is currently used for this purpose. Since average input coefficients of the whole sector, rather than the coefficients derived from the actual input used, are the basis of calculating import duty, refunds paid to exporters do not necessarily reflect the actual duty paid by them.

133 Section 12 of the Act excludes certain products from eligibility of the tax rebate scheme. These are minerals under the law governing minerals, goods subject to tax and duty or fees when exported, and goods prescribed by the Committee not entitled to compensation money.

134 New regulations were announced in 1988 by the Customs Department for refunding taxes to the exporters. This was to prevent fake claims, and involved exporters seeking tax refunds to file a copy of their Export Entry Form (Blue Corner). If exporters get payment from buyers in traveller's cheques or other forms of non-cash payments, they must furnish a copy of the buyer's passports when he visits Thailand to make the purchase.
361. The products which qualify for tax rebate under the Fiscal Policy Office scheme earlier got a rebate on the cost of electricity used to produce exports. This rebate scheme has now been cancelled.

(d) Export processing zones

362. Export Processing Zones are administered by the Industrial Estate Authority of Thailand. Firms in Export Processing Zones get exemptions from import duties and business taxes on machinery, equipment and raw materials for manufacturing exports, and on materials for constructing the factory. In addition, exemptions are provided on import duties and business tax on imports destined for re-exports, export duty and business taxes on exports, and on import surcharges imposed by the Board of Investment. Firms located in the export processing zone are permitted to deduct from taxable income 5 per cent of the annual increase in export revenue, excluding freight and insurance. Furthermore, these projects can avail the various incentives provided by the Board of Investment, including the special additional tax and duty reductions for the projects in Investment Promotion Zones (Table AIV.1).

363. In addition to other concessions, a 10 per cent discount on electricity costs is given in the Export Processing Zones for a period of five years from the beginning of operations. Transport cost is reduced by 10 per cent. In general, an attempt is made to provide easy access to infrastructural facilities for activities in an export promotion zone.

364. Customs officials stationed in the export processing zones monitor the imports of inputs and the exports of finished products.

(e) Bonded manufacturing warehouses

365. Firms manufacturing for exports can bypass Customs procedures and taxes on imported inputs through a system of bonded manufacturing warehouses. These firms also get exemptions from export taxes. In 1989, there were 89 bonded manufacturing warehouses in Thailand.

366. The bonded warehouse can be used for producing, mixing or assembling products for exports. There is no restriction on its geographical

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135 The rebate was about 20 per cent of the expenses on electricity. It was given in the form of credit towards future electricity bills.

136 The concession applies to cost of transport via the Express Transport Organization and the Thai International Airlines.

137 See Chapter X of the Customs Law B.E. 2469 for details of the customs legislation applying to warehousing.
location. On obtaining permission to set up a bonded manufacturing warehouse facility, producers have to pay a stipulated annual fee, and submit guarantees as required by the Customs Department. The guarantee, equal to half of the duties and taxes payable, may be in the form of cash or a bank guarantee.

367. The duties and taxes payable are calculated on the basis of detailed production formulae submitted by the exporters for the items produced by them. Tax exemption is provided only for imported inputs used for producing exports. The Customs officials inspect the accounts of the beneficiary firms to verify the flow of imported materials and exported finished products.

(x) Export finance

368. Thailand provides two types of export credit financing. One is the long-term credit provided under the Export Industry Modernization Programme of the Industrial Finance Corporation of Thailand. This programme started in 1985, with funding from the Japanese Overseas Economic Cooperation Fund. Loans worth 6.5 billion yen are provided at 3.5 per cent below the market rate of interest. All other investment is financed at the market rate of interest.

369. The second is a refinancing scheme of the Bank of Thailand for short-term working capital loans for exports. This is part of a facility with a broader coverage, including domestic industry and agriculture in addition to exports. However, about 90 per cent of the credit under this facility has been utilized by exporters, with exports of rice, maize, tapioca and sugar traditionally accounting for a large share.

370. Under this scheme, eligible exporters have to submit their applications for credit through commercial banks. On getting the approval of the Bank of Thailand, the exporters are allowed to sell promissory notes to the commercial banks, which in turn sell it to the Bank of Thailand.

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138 Thailand introduced its export financing system in 1958, primarily for rice, and expanded it to cover all export commodities in September 1970.

139 In 1979, the share of these products was slightly above one-third. In late 1980s, it dropped to one-fifth. In the 1980s, the most remarkable increase has been for canned food and frozen meat. From rediscounts of about B 3 billion in 1980, these products accounted for rediscounts of B 22 billion in 1988. In 1988, the total amount of promissory notes for exports discounted by the Bank of Thailand was B 122 billion.

140 The promissory notes have to be backed by documents such as irrevocable L/C, sales contract, purchase order, usance export bill or warehouse receipt.
371. Until October 1988, the Bank of Thailand charged an interest of 5 per cent to the commercial banks, which in turn could charge 7 per cent to the exporters. The Bank of Thailand charged only 4 per cent in the case of loans to small exporters, and 3 per cent for loans to small industries. An additional 8 per cent penalty rate of interest was charged to exporters if they were unable to meet the conditions of the loan.

372. In October 1988, in an attempt to reduce its rôle in export financing, the Bank of Thailand announced a reduction in the extent to which it refinanced the face value of loans to eligible exporters. Under the new regulations, the Bank of Thailand provides loans for only half the face value of promissory notes purchased, leaving the other half to be financed by commercial banks. The utilization of the refinance facility fell sharply in 1989, with the total outstanding export credit facility provided by the Bank of Thailand 54 per cent lower compared to end-1988.

373. To increase the attractiveness of the scheme for commercial banks, the rate of interest banks could charge exporters has been raised from 7 per cent to 10 per cent. The additional interest charged as penalty to exporters has become 6.5 per cent, or the difference between the maximum lending rate of commercial banks and the 10 per cent charged under the refinance scheme. The Bank of Thailand continues to charge only 4 per cent in the case of loans to small exporters, and 3 per cent for loans to small industries.

374. Under the new system, the Bank of Thailand has set aside B 38 billion for general projects and a special facility of B 2 billion has been allocated for small industries and rural investment. Loans are provided for half the full face value of all notes issued during the pre-export period, while requests are considered on a case-by-case basis for notes issued during the post-export period. The promissory notes are available for up to 180 days.

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141 The previous policy defined small exporters as those with no more than B 5 million in revolving capital. The new policy raised this limit to B 10 million.
142 The budget in 1988 was B 38.5 billion. An additional criteria for getting access to the special facility for small industry is that the production should be located outside Bangkok, unless it is labour intensive.
143 Under the previous system, loans provided in the form of promissory notes could not exceed 80 per cent of the letters of credit, 70 per cent of the purchase orders, and 60 per cent of the face value of storage receipts. For the post-export period, loans covered 80 per cent of the value of all types of notes.
375. The credit facility is also extended to exporters of industrial goods who are not manufacturers of the exported product. The refinancing facility imposes some additional criteria for the beneficiaries.

(xi) **Export insurance and guarantees**

376. The establishment of an Export Credit Guarantee Fund has been approved in principle. The insurance will be provided only against post-shipment risks.

(xii) **Export promotion, marketing assistance**

377. The Department of Export Promotion under the Ministry of Commerce is responsible for developing and promoting exports. An International Trade Fund was created in 1982 to supplement the budget of this Department. The only activities of the Department which involve individual companies are participation in trade fairs and trade missions. The companies are never paid directly. The money is used for expenses such as payment for the officials who act as consultants during the mission, or for the cost of information brochures.

(xiii) **Export performance requirements**

378. As mentioned above, export performance requirements are imposed for several projects promoted by the Board of Investment, and for some beneficiaries of the export financing scheme of the Bank of Thailand.

(xiv) **Free trade zones, export processing zones**

379. Thailand provides a variety of incentives in the context of free trade zones, export promotion zones and investment promotion zones (for details see sections 3(ix) and 4(i)).

(xv) **Other measures**

380. Under the Commodity Standards Act B.E. 2503, the Office of Commodity Standards under the Ministry of Commerce is responsible for export

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144 The criteria are that industries must use local agricultural materials amounting to at least 20 per cent of the total value of all raw materials used, with the requirement being 50 per cent in the case of local agricultural and other raw material use; or must export at least 20 per cent of their sales; or be labour-intensive industries; or be industries which help local development; or local value added be 50 per cent of total content.

145 A large proportion of this Fund is used for officials to take part in multilateral negotiations, and for hiring lobbyists and legal advisors.
standards for thirteen items. From time to time, the Government announces specific customs stations through which exporters have to take their products so that export standards can be monitored.

381. The Thai Industrial Standards Institute of the Ministry of Industry administers the preparation and certification of standards to ensure consistent quality of manufactured products for local consumption and for exports, according to the Industrial Products Standards Act.

382. In 1989, Thailand exported goods worth about US$4.4 billion under preferences provided through the Generalized System of Preferences (GSP), an estimated rise of about 30 per cent over the previous year. Thus, preferential treatment was extended to about one-third of Thailand's total exports to the countries which grant GSP preferences.

(4) Measures Affecting Production and Trade

383. Under the Factory Act, the Government can control production capacity of factories in Thailand. The Government has often used capacity licensing as a means of shaping the ownership pattern in industries and to determine their geographical location. Other means of achieving these objectives include the concessions provided through investment promotion schemes.

(1) Investment promotion

384. Investment in Thailand is promoted mainly through incentives provided by the Board of Investment and the Industrial Estate Authority of Thailand.

(a) The Board of Investment

385. The Board of Investment provides incentives for investing in activities which are export-oriented, utilize domestic agricultural products or natural resources as raw materials, locate investment away from the Bangkok Metropolitan area, and in general are important and beneficial to the economic and social development and security of the country. Important considerations for granting privileges to investors include the

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146 These are teak conversion, woven silk fabrics and silk products (HS No. 5007), maize, silverware, tapioca products, kapok fibre, salt, castor seed, black matpe beans, fishmeal, mung beans, sorghum, and kenaf raw or processed but not spun.

147 Thailand receives GSP preferences from the European Communities, United States, Japan, Canada, Austria, Finland, Norway, Sweden, Switzerland, Bulgaria, Czechoslovakia, Hungary, Poland, USSR, Australia, and New Zealand.

148 In 1989, 52 per cent of Thai exports to the European Communities got GSP preferences. For Thai exports to the United States and Japan, the corresponding estimates were 25 and 28 per cent, respectively. Of the total exports in 1989, exports under GSP were 22 per cent.
extent of foreign exchange which may be saved or earned for the nation, and the Board of Investment deciding that the promoted activities are "non-existent in the Kingdom, or existent but inadequate, or use out-of-date production processes."  

386. In return for granting privileges to the promoted activities, the Board stipulates specific conditions such as minimum capital requirement, minimum Thai shareholding, minimum percentage of sales value to be exported, and the location of the project. The Board may temporarily or permanently revoke the privileges granted if it feels that the activity does not require to be promoted. Appendix IV.4 gives the procedures for getting promotional privileges from the Board of Investment.  

387. The tariff and business tax remission or reduction on imports have already been discussed earlier. In addition, the Board of Investment offers various exemptions or reductions in the corporate income tax, business tax, and some additional taxes on domestic inputs and machinery used by the promoted firm (Table AIV.1). During the time period for which corporate income tax exemption is provided to a project, dividends derived from the promoted project can be deducted from taxable income. For five years from the date at which income is derived from the project, an exemption is given from withholding tax on goodwill, royalties and other fees remitted abroad. Similar to tariff concessions, the other benefits vary according to the location and export orientation of a project.  

388. The Board of Investment also provides certain non-tax incentives for foreign investors. For promoted projects, it relaxes the limits on land ownership of foreigners, on bringing skilled foreign personnel to Thailand and on remitting funds abroad (see Chapter III). Foreign sources provide about two-thirds of the total investment in promoted projects.  

389. One emphasis of the promotion policy is on decentralization of economic activity. This is achieved through classifying provinces into

\[\text{Footnote Continued}\]
three zones, according to their distance from the Bangkok Metropolitan Area. With certain exceptions for export-oriented projects and industrial estates, incremental benefits are provided for investment further away from Zone 1, i.e. the provinces of Bangkok, Samut Prakan, Samut Sakhon, Nakon Pathom, Nonta Buri, and Pathum Thani (Table AIV.1). Zone 3 is designated as an Investment Promotion Zone. Projects in this Zone get special privileges in addition to the general benefits of lower corporate income tax and import duty and business tax on machinery and materials.

390. A major component of the promotion schemes administered by the Board of Investment is the set of guarantees provided under the Investment Promotion Act to the promoted projects. They include quick action to be taken by Government agencies to remove any problem or obstacle faced by the promoted person. The State guarantees that it will not nationalize the promoted activity, nor undertake a new activity in competition. The State will not monopolize the sale of products or commodities produced by (or similar to) those produced or assembled by the promoted person, and will not allow exemption on import duty and business tax on imports of competing products by any Government agency or State enterprise. Except when economic and social development and security of the country require it, the State guarantees not to impose price controls on the products of the promoted projects, and to allow the promoted person to export the output of the promoted activity. Similarly, certain guarantees are provided regarding the remittance abroad of foreign exchange by promoted projects (see Chapter III). The future responsibilities of the Board of Investment are under review.

(b) The Industrial Estate Authority of Thailand

391. The Industrial Estate Authority of Thailand was established in 1972. It is a semi-public Government agency, chartered to carry out the Government’s industrial development policy. The Authority is empowered by law to issue all types of permits needed for the operation of an industry. For this purpose, it provides a one-stop service to investors.

392. The Industrial Estate Authority of Thailand has the primary responsibility for surveying, planning, designing, constructing and

(Footnote Continued)

required from B 5 million to B 1 million. The second revision simplified the location-specific criteria but introduced additional criteria for providing incentives. The most recent revision has considerably simplified the criteria for granting concessions. Furthermore, the extent of concessions have been reduced. Nonetheless, some element of discretion remains in the hands of the Board of Investment.

152 Zone 2 comprises Samut Songkhram, Ratchburi, Kanchanaburi, Suphan Buri, Ang Thong, Ayutthaya, Saraburi, Nakhon Nayok, Chachoengsao, and Chon Buri.

153 Another aspect of the State guarantee is the protection provided to the promoted activity through the imposition of an import surcharge or import ban.
maintaining industrial estates and export promotion zones. The functions of the Authority include the promotion and regulation of industrial estates of the private sector or State agencies. In the case of joint programmes with the private sector, the services are provided by the private sector and the administration is conducted by the Industrial Estate Authority.

393. An industrial estate includes two types of zones, a general industrial zone and an export processing zone. The general industrial zone is for the location of industries manufacturing for exports or the domestic market.

394. Activities in industrial estates are eligible for the benefits provided by the Board of Investment and under the Industrial Estate Authority of Thailand Act 1979. Foreigners can own land in industrial estates, bring skilled personnel and their dependants to Thailand, and remit funds abroad. Additional incentive are provided through a 10 per cent reduction on electricity rates for 5 years, and a 10 per cent reduction on land transport cost. To promote exports, the Industrial Estate Authority of Thailand Act provides larger concessions on tax and duty rates to projects in the export processing zone.

(c) Other promotion

395. The Bank of Thailand's rediscounting scheme includes a provision for credit up to five years for rural development. Fifty per cent of the promissory notes for the investment project are rediscounted by the Bank of Thailand at a maximum of 3 per cent. The owner of the project pays a maximum of 10 per cent to the commercial banks. In 1989, B 2 billion were allocated for this facility.

396. The Industrial Finance Corporation of Thailand assists the private sector in establishing, expanding and modernizing industrial enterprises. The emphasis is on decentralization of investment and projects which are export-oriented, save energy, intensively use local raw materials, require technology transfer from abroad, and control environmental pollution. The Small Industry Finance Office under the Ministry of Industry operates a small programme to finance small scale industry and cottage industry.

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154 On September 1988, eight of the eighteen industrial estates and export processing zones in operation or being planned were under the direct authority of the Industrial Estate Authority of Thailand (IEAT). One was under the authority of the National Housing Authority in co-operation with the IEAT, one was a joint venture between IEAT and the private sector, and eight were private sector undertakings.
397. The Bank for Agriculture and Agricultural Cooperatives has a low interest scheme for special projects sponsored by the Government. The projects include development projects involving integrated development through inter-agency effort, transfer of technology and projects implemented in response to natural disasters.

(ii) Adjustment assistance

398. Thailand does not have any formal programme for structural adjustment in the economy. Assistance is provided to selected products as the need arises. For example, the rate of area usage fee for tin miners was reduced, and the tin mining fee was suspended in order to mitigate their plight due to low tin prices. In the case of rubber plantation, aid is provided by the Ministry of Agriculture and Cooperatives for replanting and research projects. The funds are collected through a tax on exports. The objective is to mitigate the effect of a decrease in productivity of old plants.

399. Farmers are provided assistance for rural development and transfer of technology. Generally, this assistance does not give direct subsidy for inputs, with the exception of irrigation and, in some cases, fertilizers.

400. Similarly, some support is provided to develop handicrafts and small scale business through technical assistance, management training, low interest loans, and institutional support.

(iii) Assistance for research and development

401. Thailand has two major institutes that provide incentives for research and development. One is the Technology Transfer Centre of the Ministry of Science, Technology and Energy. This Centre has established a revolving fund for research and development, particularly for improvement of manufacturing. It also provides loans at concessional interest rates to researchers.

402. The second is the Thailand Institute of Scientific and Technological Research. It provides incentives for various kinds of research projects. The funding is provided from the budget outlay and assistance from other countries.

403. In the case of certain industries, fees imposed on their production is used to finance research and development. For example, the Cane and Sugar Board prescribes the rates of fees for research and promotion of cane and sugar production.
(iv) **Production subsidies, tax concessions**

404. Farmers who do not have sufficient collateral to guarantee commercial bank loans receive certain interest concessions. In most cases, the funds are obtained from foreign aid and other foreign financial sources with low interest rates.

405. The Marketing Organization for Farmers, a State enterprise, occasionally sells fertilizer to farmers at a concessional rate. The objectives of this programme is to improve farm production in remote areas and stabilize fertilizer price during the period of peak demand.

406. As a special allowance, certain capital expenditures can be deducted by petroleum concessionaires from their revenues in the computation of their net profits for taxation.

(v) **Regional assistance**

407. A part of the effort to decentralize production in Thailand is the Eastern Seaboard Development project, which includes a semi-State owned petrochemical complex, a deep-sea port, and two industrial promotion zones. Another similar project, the Southern Seaboard Project, is yet to be implemented.

408. Thailand has an Office of Accelerated Rural Development under the Ministry of Interior. The main purpose is to develop subsistence sectors in order to supplementary work during off-season. An important objective is to limit the migration from rural areas to big cities.

(vi) **Other measures**

409. The Bank of Thailand's refinancing facility includes two short term programmes for the agricultural sector. These are for agricultural production or husbandry and for agricultural product trading. The refinancing rates for these facilities are 5 and 4 per cent, respectively. The commercial banks charge up to 10 per cent for the whole amount of the promissory note's face value.

410. The Bank of Thailand has stipulated that commercial banks must lend 20 per cent of their previous year's deposits to the rural sector at market rates of interest. Of these, 14 per cent are for direct lending to the

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155 Concessional sales range between one-tenth to one-fifth of the total sales of fertilizers.
rural sector, and 6 per cent for agribusiness. In order to fulfil the requirements for direct lending to the rural sector, banks can include quota loans to small-scale rural industries, and for financing the cost of job search and installation by rural inhabitants going to the Middle East.

411. A substantial part of the activities of the Industrial Finance Corporation of Thailand has to be devoted to the small- and medium-scale sector. The Corporation establishes and runs various programmes such as the Capital Market Development Fund, Industrial Development Fund, the Factory Development Fund, and the Small Industry Credit Guarantee Fund.

412. Much of the foreign debt of the Industrial Finance Corporation of Thailand is in the form of concessional loans made to Thailand by foreign Governments and their agencies. In several cases, certain conditions may be stipulated in the use of these loans.

413. Loans provided by the Bank for Agriculture and Agricultural Cooperatives (BAAC) are based on regulations regarding aspects such as the type of borrower, purpose of loan, extent of loan, and the repayment period. The Ministry of Finance establishes interest rates ceilings for both the short- and long-term loans by the bank. The current ceilings for these loans are, respectively, 12.5 and 11.5 per cent.

156 The orientation towards the rural sector has developed from an initial emphasis on the agricultural sector. The stipulated minimum limit for such lending has been increased over time. See, for example, C. Loha-unchit (1990), "Policies, Instruments and Institutions for Rural Industrial Development", Research Report of the Thailand Development Research Institute, Bangkok, April 1990.

157 The small scale industries which qualify are those outside the Greater Bangkok Area and not in the official industrial estates.

158 The Corporation is not governed by Thailand's Banking Act. It reports directly to the Ministry of Finance and does not fall under the supervisory jurisdiction of the Bank of Thailand. Though the Government does not have a majority shareholding in the Corporation, its prior approval is required for policy decisions of the Corporation. The Government guarantees one-half of the Corporation's foreign borrowings, and its domestically issued debentures. For a fee, the Government has guaranteed the Corporation's foreign exchange risks, but a technical problem has resulted in virtual ineffectiveness of this guarantee.

159 Among the innovational banking schemes of the Corporation is the setting up of companies such as the Industrial Management Company and the Thai Orient Leasing Company. An example is the Small Industry Credit Guarantee Fund which was established in 1985 with B 200 million from the Government. In 1987, USAID provided US$8 million. The conditions on the use of these two sources of funds are different, with those for USAID funds being more restrictive. See C. Loha-unchit (1990), op. cit.

160 The Ministry of Finance controls the Bank for Agriculture and Agricultural Cooperatives through a Board of Directors. Part of the Bank's funds are received at subsidized rates. The unfulfilled amount of the stipulated 20 per cent lending by commercial banks to the rural sector are supposed to be deposited with the Bank for Agriculture and Agricultural Cooperatives, which pays a commercial interest rate on these deposits.
414. The Bank for Agriculture and Agricultural Cooperatives has several support programmes including the Central Paddy/Agricultural Produce Marketing Scheme, the Paddy Pledging Scheme, the New Generation Farmers' Settlement Project, a five year Small Farmer Lending Programme and a credit scheme through which delivery of quality inputs are ensured.

415. The Commodity Price Fixing and Anti-Monopoly Committee imposes price controls on certain products for protecting the consumer (Table AIV.12). If manufacturers wish to raise the price of a controlled product, they must furnish their cost estimates to the Committee twenty days in advance. In 1988, a sub-committee was established to consider appeals from manufacturers whose requests for a price rise had been denied.

416. In the case of certain important crops, the Government attempts to prevent a decline in market prices through lead purchases. For example, in the 1989-90 crop, the Cabinet approved eight rice market support projects amounting to B1,345 million. These were among the twelve market intervention projects approved by the Rice Policy and Measures Committee.

417. The Government stipulates the prices for selected products such as cement, petroleum and sugar. In some cases, this results in the Government subsidizing the consumers, e.g petroleum in recent times (see Chapter V). In the case of sugar, the prices are specified for cane producers and mills.

418. In recent years, Thailand has become increasingly concerned about environmental issues. The fast pace of industrialization, and the concentration of industry in the Bangkok Metropolitan Area have resulted in a sharp increase in hazardous industrial waste in the region. Some of the initiatives taken in the context of environment protection are given in Appendix IV.5.

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162 The Small Farmer Lending Programme is for the fiscal years 1989 to 1994. Fiscal support is provided from a Small Farmers Fund. The main input provided through the input credit scheme is fertilizer.

163 See, for example, T. Panayatou, et. al. (1990), op. cit.
Appendix IV.1
Selected agencies involved in implementing Thailand's technical standards

419. The Thai Industrial Standards Institute (TISI), is the national standards organization of Thailand. It was established under the National Industrial Product Standards Act of 1968. The governing body of the Institute is the Industrial Product Standards Council. It controls the policies of the Institute, sets the priority of standards to be prepared, arbitrates and awards licences under the certification scheme, and recommends qualified persons to be appointed to the TISI Technical Committees by the Minister of Industry.

420. The Thai Industrial Standards Institute prepares and publishes industrial standards, grants licences to use the TISI standards mark, accredits laboratories, promotes the use of standards, represents Thailand at the International Organization for Standardization, is responsible for international food standards in Thailand in co-operation with the Joint FAO/WHO Food Standards Programme, provides testing service, and gives information on national and international standards through the TISI information centre and TISI library and CODEX contact point.

421. The responsibilities of the Food and Drug Administration, under the Ministry of Public Health, cover food items, drugs, narcotics, psychotropic substances, cosmetics, medical devices, and hazardous substances. The Food and Drug Administration prescribes controls such as prohibition, licensing, and health and safety standards for various products. It conducts surveillance in the context of some of these measures, serves as the National Adverse Drug Reaction Monitoring Center, and as the national focal point of the International Programme on Chemical Safety.

422. The Ministry of Agriculture and Co-operatives controls the manufacture, import and sale of toxic substances or pesticides used on the farm. It exercises similar controls on fertilizers in order to implement the prescribed standards. Other responsibilities of this Ministry include

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1. Though the Industrial Product Standards Act gives the authority to the Industrial Standards Council to establish, amend, or revoke industrial product standards, the actual work is carried out by Technical Committees and the Thai Industrial Standards Institute.

2. The main objectives of TISI are to create a body of standards ensuring an acceptable level of quality and safety at reasonable production costs, the administration and the carrying out of Thailand's national certification scheme, promotion of standards consciousness, and in general, to advise and assist the industry in its efforts towards rationalization.

3. The policy on hazardous substances is administered in co-operation with the Ministries of Agriculture and Industry. Thailand's policy on health is broadly formulated through its five-year National Health Development Plans. The Sixth National Health Development Plan was formulated with the aim to ensure the quality of life of the people, with particular emphasis on consumption of food, drug, cosmetics, and chemical substances.
quarantine restrictions on plants, animals and their products, and fish and fishery products.

423. The Ministry of Industry controls toxic substances used in industrial manufacturing or for industrial purpose, as notified in the Hazardous Substance Act B.E. 2510 (1967) and amendment B.E. 2516 (1973).

424. Within the Ministry of Commerce, standards are dealt with by the Division for Weights and Measures of the Department of Commercial Registration, and the Division for Commodity Standards of the Department of Foreign Trade. The latter Division handles export standards for certain commodities. The former is responsible for the enforcement of the Law of Weights and Measures, and for the safekeeping of the primary standard. The Government is considering a revision of the Weight and Measures Act B.E. 2466 to reduce the restrictions of weight and measures on exports.

425. Other bodies involved in standards in Thailand include the Thailand Institute of Scientific and Technological Research in the area of metrology, and the Industrial Standardization Testing and Training Centre set up with the assistance of the Japan International Cooperation Agency, and operated by the Thai Industrial Standards Institute.

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4For details, see C.J. Dahlman and P. Brimble (1990), op. cit.
Appendix IV.2
Health and safety requirements for drugs, cosmetics, narcotics and psychotropic substances, and hazardous substances in Thailand

(i) Drugs

426. For the purpose of standards and control, drugs are divided into two categories, namely modern drugs and traditional drugs. The former has three sub-categories, i.e. specially controlled drugs, dangerous drugs, and ready-packed drugs. The products under the first two categories are notified in the Government Gazette by the Ministry of Public Health.

427. Under the Drug Act B.E. 2510, no person can produce, sell or import drugs in Thailand without getting the appropriate licence. The Government specifies several requirements to be fulfilled by those possessing licences for production, imports and sales. These include the import business being supervised by a pharmacist, ensuring that all drugs are labelled and conform with the Food and Drug Administration requirements, and keeping appropriate records of transactions. Furthermore, drugs to be manufactured or imported by any licensee need to be registered. Earlier, the validity of registration was five years, and a fee of B 2,000 was paid each year. Since 1990, the validity of registration has become life-long. The details of the formula registered can not be altered without approval and permission of the authorities.

428. The responsibility of the Food and Drug Administration is to ensure the safety and efficacy of drugs by approving new drugs and reviewing old drugs in the process of registering them. The quality of finished products in the market is monitored by the Administration to assess their safety.

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1 Specifically controlled drugs are those which have a potentially harmful effect, if misused. They cannot be purchased without prescription. Dangerous drugs can be obtained without prescription, but can be dispensed only by a pharmacist.

2 The application for the licence should be submitted to the Registration and Licensing Sub-Division of the Drug Control Division of the FDA. By law, there are nine different types of licences, namely, to produce modern drugs, to sell modern drugs, to sell only ready-packed modern drugs, to sell only ready-packed modern drugs for veterinary use, to import modern drugs, to import traditional drugs, to produce traditional drugs, and to sell traditional drugs.

3 The premises must fulfil the requirements of the "Code of Good Manufacturing Practices". The application must be accompanied by the supporting documents requested by the Ministry of Health, which issues the import licence under the Drug Act B.E. 2510. For details of the requirements, see the Drug Act B.E. 2510 and Drug Act (No. 5) B.E. 2530.

4 Manufacturers and importers applying for product registration must first request to produce or import sample of the products to be registered. Sufficient quantity of the sample should be submitted along with information on product formulation, dosage form, dosage regimens, chemical and pharmaceutical data, pharmacological and toxicological data, the analytical method of the standard of a modern drug, clinical trials, and label claims. Thailand has now established specifications and methods of analysis of certain pharmaceutical, raw materials and vaccine. The first edition of the Thai Pharmacopoeia was published in 1987.
(ii) Narcotic and psychotropic substances

429. The Narcotics Drugs Act B.E. 2522 (1979) and the Psychotropic Substance Act B.E. 2518 (1975), provide the authority to control the import, distribution, management and supervision of narcotics and psychotropic substances. Such control is required to use these products for legitimate purposes, and for treatment of drug addicts.

430. Under the Narcotics Drugs Act, narcotics are classified into five schedules (Table AIV.5). The measures of control on these schedules are similar to those adopted by the United Nations Conference for the Adoption of a Single Convention on Narcotic Drugs, 1961.

431. Schedule I contains highly dangerous and non-medical narcotics, which are prohibited from use, possession, sale, imports, exports, distribution or production except for the benefit of the Government, or upon written permission of the Minister for an individual case as deemed appropriate (see Table AIV.5 for product coverage).

432. Schedule II contains all narcotics listed in Schedule I, II and IV as amended by the Single Convention excluding the narcotics in Schedule I of this Act (Table AIV.5). Among these products, those medically useful are available only to holders of licence to possess them, such as physicians, dentists and veterinarians.

433. Schedule III contains all pharmaceutical preparations which have narcotics in Schedule II as one or more ingredients in amounts not exceeding the limits as obliged by the Single Convention. All narcotic dealers of these products must have the appropriate licences to import, export, manufacture or sell them. The products must also be registered. The Narcotics Control Division further evaluates their safety.

434. Schedule IV contains acetic anhydride, acetyl chloride and ethylidene diacetate.

435. Schedule V contains cannabis, mitragyna speciosa, papaver somniferon, psilocybe cubensis.

436. Transactions in narcotics in Schedule IV and V are prohibited except for those who are permitted by the Minister of Public Health with the consent of the Committee on Narcotic Control.
437. Similarly, the Psychotropic Substances Act classifies the products covered by it into four schedules for the purpose of regulation and control.

(iii) Hazardous substances

438. Hazardous substances are categorized according to their use in agriculture, industry or for the purpose of public health. They are co-operatively regulated by the Ministries of Agriculture and Co-operatives, Industry, and Public Health, through a Committee on Toxic Substance Control. The Food and Drug Administration regulates products pertaining to public health, domestic pesticides, and household consumer products. The Ministry of Industry controls 180 toxic substances which are used in industrial manufacturing or for industrial purposes. The Ministry of Agriculture and Co-operatives controls toxic substances or pesticides used in agriculture.

439. The Hazardous Substance Act B.E. 2510 (1967) and its amendment the Hazardous Substance Act (No. 2) B.E. 2516 (1973) classify toxic substances into highly toxic and ordinary toxic substances (Table AIV.7). Both these types of products are notified by the three Ministries concerned, and are subject to licensing and registration to properly control production.

(iv) Cosmetic products

440. Under the Cosmetic Act, the Minister of Public Health is empowered to notify to regulate safety and quality standards of cosmetic products as well as the raw materials used for them. Use of certain substances in cosmetics is prohibited (Table AIV.8).

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5Schedule I contains highly dangerous psychotropic substances which are not for medical use (Table AIV.6). These are mostly hallucinogenic drugs, and their possession is prohibited. Psychotropic substances in Schedule II are those with some medical use, but have the potential for high abuse. Possession of these products is prohibited except by those who have a licence for this purpose, for example, physicians, dentists and veterinarians. Schedule III and IV have psychotropic substances for which the extent of abuse is less than for items in the other two schedules (Table AIV.6). Items in Schedule III have more harmful effect and lead to a higher degree of abuse than those in Schedule IV.

6This Committee must publish the name of the chemical to be controlled in the Government Gazette. If this is not done, no other authority can enforce control. Actual control on the three categories of toxic products is exercised by the respective Ministries. All the toxic products not used in either agriculture or industry are under the control of the Ministry of Public Health.

7The items are classified as household insecticides, rodenticide, larvicide, head lice product, insect repellent, microbial larvicide, moth, deodorant, liquid paper, floor or toilet cleaning products, dyestuff, disinfectant for use in swimming pool, bleach agent, anti-clogging, and methanol. The tasks include setting the standards for these products.

8Sulfurous Oxychloride and Crocidolit are prohibited.
441. The Cosmetic Act classifies cosmetics into controlled cosmetics and others. The former are specified in terms of ingredients notified by the Ministry of Public Health for this purpose (Table AIV.9). The licensee is supposed to apply for registration before production or import of these products.

442. All other cosmetics can be produced or sold freely, subject to their not being harmful to health or not containing any hazardous substances. Their import, however, can occur only if the importer had documents authorizing imports. These documents allow imports either on a temporary basis, i.e. for only one transaction, or on a permanent basis.

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9 The registration of a cosmetic is prohibited if it is unsafe or substandard. According to the Food and Drug Administration, there is "evidence which shows that most of the cosmetic manufacturers or importers are still lacking of responsibilities regarding safety and quality assurances of their products." Food and Drug Administration (1989), Thailand Food and Drug Administration, Bangkok, p. 37. In fact, in terms of the overall environment relating to standards in general, Dahlman and Brimble (1990), op. cit., conclude that "consciousness of the importance of standards, quality control, and quality assurance is still low in Thailand, particularly among small and medium industries" (page 25).

10 According to Ministerial Notification Nos. 4(B.E. 2519), 6 (B.E. 2520), 8 (B.E. 2520), and 31 (B.E. 2531), all cosmetics being produced imported or distributed for sale in the Thai market must comply to the prescribed quality standard as follows: safe for consumption in the recommended amount, containing arsenic not more than 5 ppm. by weight, containing soluble barium in the form of barium chloride not more than 0.05 per cent, containing mercury not more than 0.5 ppm. by weight (except those containing ammoniated mercury as ingredient), containing lead not more than 20 ppm. by weight (except those containing lead acetate as ingredient), and the colours used in cosmetics must be (a) food colours notified in the Food Act, (b) Synthetic organic colours listed under the Ministerial Notification, (c) aluminium, sodium, calcium, barium or strontium salt of colours in category (b), and colours certified by the USFDA.

11 According to the Food and Drug Administration, this requirement is imposed to assure product safety, uniformity, and to ascertain the origin throughout the course of importation.
Appendix IV.3
Classification of food into three categories by the Food Act B.E. 2522

443. Specific controlled food: these products need to be registered, and legal provisions are established regarding their quality, product specification, labelling requirement, and other aspects of "good manufacturing practices". Both manufacturers and importers have to apply for the respective licences for these items.

444. Standardized food: these products are mainly produced locally by the small-scale or household industry. These food items do not need registration but their quality and labelling have to meet standards or requirements as notified by the Minister of Public Health.

445. General food: this category includes items not included under the previous two categories. Though standards have not been established for these products, some of them have to be labelled in accordance with Ministerial Notifications.

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1All applications for the registration must be accompanied by two samples of each product, six labels, and a list of ingredients which indicates the percentage composition.

2Specific controlled products are tea, coffee, mineral water, flavoured milk, vinegar, ice, drinking water in sealed containers, non-alcoholic beverages in sealed containers, fat and oil, peanut oil, butter, cheese, ghee, ice cream, modified milk for infants, other milk products, margarine, food enhancer, semi-processed food, infant food, supplementary food for infants and children, palm oil, coconut oil, electrolyte drinks, soybean milk in sealed containers, fish sauce, food additives, jam, jelly and marmalade in sealed containers, sodium cyclamate and food containing sodium cyclamate, royal jelly, diet products for weight control, particular sauces such as chilli sauce, tomato sauce and papaya sauce, and food colours (organic colours: red - ponceau 4R, carmoisine or azorubine, and erythrosine; green - fast green FCF; yellow - tartrazine, sunset yellow FCF, and riboflavin; blue - indigo carmine or indigotine, brilliant blue FCF. Inorganic colour: vegetable charcoal and titanium dioxide. Natural food colour: for example, cochineal, carotenoids, chlorophyll, and chlorophyll copper complex).

3These are food with contaminants (tin, zinc, copper, lead, arsenic, mercury, aflatoxin, and other contaminants as approved by the FDA), meiki or B-x, standards of some foods containing pesticide residues, quicklime soaked egg, chocolate, and food contaminated by radioactive substances.
Appendix IV.4
Requirements for getting promotional privileges from the Office of the Board of Investment, Thailand

A. Procedures for obtaining promotional privileges

1. Applying for and granting of promotional privileges

An investor who wishes to seek promotional privileges under the Investment Promotion Law may obtain three free copies of the application form from the Secretary's Office of the Office of the Board of Investment (OBOI).

Two completed promotion application forms must be submitted to the Office of the Secretary, which will pass them to the Project Analyses Division and to the Board for decision. The Board will then either:

a. Approve the application and decide on the conditions for promotion; or
b. Reject the application as being unsuitable at the time; or

c. Refer the application back to the OBOI for further clarification and/or additional information. In such cases, the application will be rescheduled for another hearing.

2. Actions required after the project is approved for promotion

a. The OBOI will inform the applicant in writing within 15 days of the approval date, detailing the conditions, privileges and benefits granted. An application form for the Promotion Certificate will be attached, together with the notification of approval.

b. Upon receipt of the OBOI letter approving the project, the applicant must reply in writing within 1 month. If any changes or special conditions and privileges are sought, these should be requested at the same time.

c. If the applicant is unable to reply within the stated time limit, a letter of clarification should be sent to the OBOI, which will consider extending the deadline by not more than one month at a time, up to a maximum of three times.
d. In order to receive the Promotion certificate, the applicant must set up the company within six months of accepting the approval, and submit the following documents to the OBOI:

- The memorandum of association;
- The certificate of business registration;
- A certificate stating the registered capital, a list of directors indicating those empowered to bind the company, and the address of the head office;
- A list of the shareholders and their nationalities;
- A document showing the transfer of funds from overseas, or a certificate of investment from overseas issued by the Bank of Thailand for foreign investors;
- A joint venture contract, licensing agreement, technical assistance contract and/or technology transfer contract (if any); and
- A completed Promotion Certificate application form.

e. While awaiting the OBOI's reply and the issuance of the Promotion Certificate, the applicant must report on how the project is progressing.

f. If the applicant is unable to submit the documents within the required time limit, an explanatory letter must be sent to the OBOI, which will consider extending the deadline by four months at a time, up to a maximum of three times.

g. The OBOI will issue the Promotion Certificate after receipt of all the specified documents, and the promoted person must closely follow the conditions laid out in the Certificate.

If there are any discrepancies or errors, or if an amendment is sought, the OBOI must be notified in writing, with all relevant documents attached.
3. Actions required after the promotion certificate is issued

After receipt of the Promotion Certificate, the promoted person must meet the following conditions and inform the OBOI at each stage:

a. Within six months of the issuance date, the promoted person must initiate the project by starting factory construction, purchasing machinery etc., submitting all relevant documentation to the OBOI at each stage.

b. Within 24 months, the machinery and equipment must be imported in order to benefit from the reduction of, or exemption from, taxes and duties.

c. Within 30 months, the construction must be completed, the machinery and equipment installed, and the factory ready to begin operations.

d. In the three cases above, if the promoted person is unable to proceed within the prescribed time limit, advance notice must be given to the OBOI, along with the reasons and all necessary documentation. If there is a problem with delivery of machinery, permission must be sought 2 months in advance by submitting the appropriate form available from the Project Control Division.

e. The OBOI must be notified in writing at least 15 days before factory operations commence, so as to allow an officer to inspect the premises. If everything is in order, the OBOI will issue an official permit to start operations.

f. Every six months the promoted person must make a report to the Project Control Division. An annual report should be sent to OBOI, and an officer from the Project Control Division will check whether the conditions of promotion are being adhered to (e.g. local raw material usage, employment conditions, use of technicians, foreign exchange savings, export quantities, and any others specified in the Promotion Certificate.)

g. The promoted person must ask for written permission from the OBOI if the operation has to be halted for more than two months.
h. The OBOI must give written permission before a promoted person may mortgage, sell, transfer or rent machinery which was brought into the country either exempted from, or at a reduced rate of tax. Similar permission must be obtained to use machinery for non-approved purposes.

i. If an inspector finds that the promoted person is not meeting the prescribed conditions, the OBOI will send an official warning note. If there are insufficient reasons why the conditions are not being met, the OBOI will recommend to the Board that the Promotion Certificate be withdrawn, and inform the Ministry of Finance and other related agencies accordingly.

B. Appealing against a Board decision

If the applicant or promoted person wants to appeal against a decision of the OBOI, of a sub-committee, or of the Board itself, a letter addressed to the Secretary General must be submitted to the Board of Investment, giving full details and specifying the reasons for the appeal. The letter must either be delivered by hand or sent by registered mail to the Board of Investment within 60 days from the date of receiving notification, unless there is an appropriate reason.

The OBOI will not reconsider an appeal which has been withdrawn, or on which a conclusion has been reached, except in cases where an appeal is resubmitted for projects which may be subject to changes of policy regarding the type and/or size of activity.

C. Procedures for setting up, expanding and operating a factory

The procedures are as follows:

1. The promoted person should submit the application forms for setting up or expanding a factory, and for factory operation, with all relevant documentation, to the Investment Service Centre (ISC) of the OBOI. This centre also handles the procedures for obtaining permits for the establishment or expansion of food, medical, cosmetics, poison materials, wood transforming, and animal feed factories, for the construction of buildings and petrol storage facilities and for the digging of artesian wells.

2. If the forms are incorrect or incomplete, they will be returned within 5 working days for correction and re-submission.
3. If an applicant wishes to receive a preliminary indication of the results of the applications, a letter requesting this must be sent to the ISC, which will reply within 20 working days of its receipt.

4. Within 90 days of the date of submission (excluding any time required to correct an application), the ISC will give notice of approval or non-approval.

5. The ISC is empowered to issue permits for the establishment or expansion of factories, or for factory operation, and will co-ordinate with related agencies to obtain other permits within 90 days of the date of application.
Appendix IV.5
Some policy initiatives regarding environmental protection in Thailand

A. Environmental concerns regarding sources of water

Certain areas have been reserved as sources of water by the Metropolitan Water Works Authority. In order to control the establishment or expansion of factories in such areas, the following regulations have been imposed:

1. In reserved areas to be used as water sources, it is forbidden to set up or expand factories which release waste water containing the following poisonous substances:

   - Heavy metals such as zinc (Zn), chromium (Cr), copper (Cu), mercury (Hg), manganese (Mn), cadmium (Cd), lead (Pb), selenium (Se), nickel (Ni), barium (Ba) and iron (Fe).

   - Poisonous substances used in agriculture and other chemicals such as PCB (polychlorinated byphenyl), cyanide (Cn), arsenic (As) and phenol.

2. It is forbidden to set up or expand factories in areas reserved for water supply. The only exceptions are factories which release waste water with a biochemical oxygen demand of less than 1 kg. per day, or those which are set up in Navanakorn Industrial Estates I and II.

The Cabinet has assigned the following areas to be reserved as sources of water.

a. Ayutthaya Province

   Muang District which consists of Bansai, Maitrong, Banma, Kokchang, Rajakram, Changyai, Sanamchai, Potaeng and Chiangraknoi sub-districts.

   Bang Pa In District which consists of Kokerd, Bangkasan and Chiangraknoi sub-districts.
b. Pathum Thani Province

Muang District which consists of Banchang, Bangput, Suanprigthai and Bankrang sub-districts.

Sam Kok District which consists of Taikok, Bangrabue, Klongkuay, Bangtoey, Sam Kok, Bang Po Nua, Krasang, Chinagraknoi, Banngue, Banpathum, and Chinagrakyai sub-districts.

Klong Luang District which consists of Klongnung, and Klongsong sub-districts, except for Navanakorn Industrial Estates I and II.

B. Activities requiring special permission from the national environment board

The Ministry of Science, Technology and Energy has stipulated that the following activities are required to install and use protection systems against pollution

- Hotels or resorts of 80 or more rooms situated near rivers, the coastline, lakes or close to or in national parks.
- All mining operations as described under the Mining Act.
- All Industrial Estates as described under the Industrial Estate Act.
- Petrochemical-based manufacturing processes of 100 tons or more daily capacity.
- Oil refining of any scale.
- Natural gas separation or processing industries of any size
- The chloralkaline industry, using sodium chloride (NaCl) as a raw material to produce sodium carbonate, sodium hydroxide, hydrochloric acid, chlorine, sodium hydrochloride, and bleaching powder.
- Using iron ore and/or scrap iron as raw material, either with a daily production capacity of 100 tons or more, or with a kiln or furnace capacity of 5 tons or more.
- Non-ferrous metal smelting and founding, with a daily capacity of 50 tons or more.
- Production of paper pulp, with a daily capacity of 50 tons or more.
- Cement industries.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

444. Chapter IV has highlighted the extensive Government intervention for promoting selected activities in Thailand, mainly manufactures. Partly as a result of these measures, the share of agriculture in GDP has fallen to about 20 per cent from more than 26 per cent in 1980. Within agriculture, the composition of output has changed towards processed or manufactured agricultural products during the 1980s (Table V.1). 1

445. The nature of promotion policies is reflected in a wide variation in the effective rates of tariff protection across product groups in Thailand. Particularly high effective tariff protection is granted to agro-processing, leather products, textiles products, and certain non-metal products (Table V.2). Primary products, on the other hand, have low effective rates of tariff protection.

446. Thailand's tariff structure has resulted in a relatively low effective tariff protection for export goods (Table V.3). Effective rates of tariff protection are generally higher for import-substitutes. Among these, protection for motor vehicles has increased particularly sharply during the 1980s. The highest average effective tariff protection, however, is provided to items which are important in both exports and imports of Thailand, in particular made-up textile goods.

447. The bias in the tariff structure against exports is reduced through various duty and tariff concession schemes. These policies, in combination with measures such as production and import controls, local content requirements and investment promotion, alter the incentive pattern resulting from the tariff structure, and make it difficult to assess the actual rate of assistance provided to individual sectors.

448. In general, the orientation of assistance policy in Thailand has been to promote domestic production of consumer goods and selected heavier industries. This has contributed to a decline in the share of consumer goods in total imports (Table V.4). The growth in domestic output has led

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1 In general, the definition of agriculture and industry used in this Chapter conforms to the GATT Tariff Study. However, since consistent data on various aspects of these activities are not available, classifications may deviate in some cases.

2 The wide variation in the effective rates of tariff protection is also evident from the large standard deviation for these estimates within a particular product category.

3 Among consumer goods, food and beverages account for about half of the imports of non-durables, and medicines and pharmaceutical products another one-fifth. The main durable (Footnote Continued)
to rapidly expanding imports of raw materials, intermediate inputs, and machinery and parts.

449. For several product groups, including chemicals, pulp, paper, paperboard, wood and tobacco, most imports consist of raw materials and intermediate products (Table IV.5). In 1988, processed or finished items accounted for more than one-quarter of imports for a few resource-based product categories only, namely rubber items, energy products, foodstuffs, oil seeds and their products, dairy products, and miscellaneous agricultural products of vegetable origin. Even for these product groups, many imports of finished products were spare parts or used as inputs in the production process (Table AV.1).

450. In view of the predominance of unfinished products in Thai imports, it is noteworthy that both statutory and applied tariffs for several product categories show considerable tariff escalation (Tables V.5 and V.6).

451. Another feature of the tariff system is that greater protection tends to be provided to non-traditional activities. This becomes evident from a comparison of the unweighted average effective rate of tariff protection and the average weighted by domestic value-added. Thus, greater protection to less established activities was provided in industries such as agro-processing, leather products, textile products, certain non-metal products, chemical products and rubber products (Table V.2).

(Footnote Continued)
consumer goods import is electrical appliances, accounting for about half of the value of durable consumer goods imports (the category "consumer durables" in Table V.4 does not include vehicles).

4The share of non-electrical and electrical machinery and parts in Thailand's total merchandise imports increased by twelve percentage points in the 1980s. Other items which recorded a strong rise in import share were fish and preparations, textile yarn and thread, and jewellery including silver bars (Table AI.1).

5The categories whose coverage is limited to processed or finished products are not considered for this comparison, because there is no option for any other type of imports in these categories.

6Whenever the latter estimate is less than the former, it implies that within any industry, activities which account for below average value-added are on average granted a larger rate of effective protection. To some extent this result is due to the fact that an activity with smaller value-added per unit of output will by definition, ceteris paribus, have a larger effective rate of protection. However, the share of any activity in the overall value-added in an industry depends on its total value-added, and not only value-added per unit of output.

7Any attempt to measure costs arising from these tariff distortions, a far from easy task on its own, is complicated further by policies such as capacity constraints, import and export controls, price controls, export obligations, duty exemptions and domestic content requirements. The effects of these policies interact in a complicated manner, creating considerable lack of transparency in the overall impact of the policy régime.
452. The production of motor vehicles, machinery and metal products is generally promoted in Thailand. A large part of the output of these products is assembled in Thailand, using mainly imported inputs. The domestic value is added primarily for the finished goods, which are given higher effective tariff protection. Other policies used to promote these industries in Thailand include import licensing, local content requirements, and tax and duty rebates on inputs used for exports.

453. As mentioned in Chapter IV, the Fifth Plan of Thailand (1982-86) gave considerable importance to rationalizing the tariff régime. Nonetheless, the effective rate of tariff protection for several sectors in Thailand is estimated to have increased during most of the 1980s (Tables V.2 and V.3). To some extent, this rise in protection is mitigated by policies such as a reduction in the number of items with local content requirements and the simplification and reduction of incentives provided through the Board of Investment. Thailand's ongoing efforts to rationalize the tariff structure and the duty concession schemes may reduce effective rates of protection and enhance transparency.

(2) Agriculture

454. Though the share of agriculture in Thailand's GDP has declined over time to one-fifth, this sector still accounts for more than two-thirds of total employment, and about one-third of export earnings. As a result of Thailand's self-sufficiency in several agricultural products, the share of agriculture in overall imports is only about 6½ per cent (Table V.7).

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8 These products appear not to be high on the list of items in which Thailand can be assumed to have a comparative advantage. See, for example, C.J. Dahlman and P. Brimble, 1990, op. cit., page 52.

9 The prevailing large variation in the rates of assistance across product categories in Thailand provides strong incentives to producers to divert productive resources away from potentially more attractive uses. An indication of the extent of incentives for diverting resources is provided by the difference between the effective rates of protection calculated with two sets of weights, namely value-added at domestic prices and at world prices. On this basis, it appears that significant distortions in the production structure within individual product categories were introduced in Thailand for agro-processing, textile products, rubber products, and metal products.

10 Export earnings have been calculated only for items covered by the Tariff Study, that is excluding gold and special transactions (HS categories 7108 and 99). The highly seasonal character of agriculture in Thailand implies that it does not provide continuous employment. However, even after correcting for seasonality, agriculture's employment share remains substantial. For example, Siamwalla and Setboonsarng's rough calculations show that taking account of seasonality results in agriculture's share in employment dropping to 65 per cent in 1980, in comparison to the uncorrected estimate of 71 per cent. See A. Siamwalla and S. Setboonsarng (1989), Trade, Exchange Rate, and Agricultural Pricing Policies in Thailand, World Bank Comparative Studies in The Political Economy of Agricultural Pricing Policy, The World Bank, Washington, D.C., page 4.
455. A striking feature of agricultural imports is the high degree of product concentration. For example, out of a total of 760 tariff items in 1988, one item, namely frozen fish of certain type, accounted for one-third of agricultural imports (Table AV.2). Three other categories, namely oilseeds and their products, dairy products and foodstuffs, each account for about ten per cent of Thailand's agricultural imports (Table V.7). Less than thirty items accounted for about 85 per cent of total agricultural imports (Table AV.2). Several of these products, especially fish, are imported either for processing and subsequent export, or for use as inputs for other products, e.g. animal feed.

456. At 48½ per cent, the simple average statutory tariff of agriculture exceeds the overall average for total Thai imports of merchandise. Almost three-fifths of the tariff lines for agriculture have statutory tariffs of 60 per cent (Tables IV.1 and IV.4).

457. Due to lack of detailed data, only import-weighted averages can be calculated for applied tariffs. In 1989, the weighted average applied tariff on agriculture was about 11 per cent.

458. In the case of three agricultural product categories, namely fishery products, animals and animal products, and tobacco and tobacco products, Thailand imports mainly unprocessed items (Table V.5). Processed products account for a large share of imports of some other agricultural commodities, such as foodstuffs, oilseeds, beverages, spirits and dairy products.

459. For agriculture as a whole, the average weighted statutory tariff declines with increasing stage of processing. Regarding weighted average applied tariffs, tariffs escalate between raw materials and semi-processed

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11 Whenever the share of specific commodities in agriculture is mentioned in this report, the coverage is limited only to products defined as agriculture by the GATT Tariff Study. Hence, raw cotton and linters, a significant import item for Thailand, is not part of agriculture because it comes under "textiles and clothing" according to the Tariff Study classification.

12 Import-weighted average tariffs are downward biased indicators of nominal tariff protection because imports, and thus the weights, tend to be inversely related to the level of tariffs (reflecting the trade-reducing impact of protection).

13 As earlier, the categories with items belonging to only one stage of processing are not considered in this comparison. A salient feature of imports under the category "animals and their products" is that 70 per cent of these imports in 1988 were for promoting the domestic industry, i.e. for breeding purposes.

14 In the case of oilseeds and their products, oilcakes account for about two-thirds of the imports. About four-fifths of the imports of dairy products are skimmed milk powder. Food preparations for animals are about three-fifths of the imports of miscellaneous agricultural products of vegetable origin.
products, and then de-escalate. The de-escalation of tariffs is due to the fact that relatively low tariffs are imposed on items such as skimmed milk powder and soyabean meal.

460. In the context of tariff escalation, it is important to note that tariffs alone do not adequately capture the overall assistance provided to processed products. For example, imports of skimmed milk powder and soyabean cake are subject to domestic content requirement or a surcharge. Furthermore, some agricultural imports, such as fish, are processed for export. Thus, while the statutory tariffs show no escalation for these products, tariff concessions granted to inputs for exports may introduce escalation into their applied tariff structure.

461. Many agricultural items are subject to alternate tariffs, that is rates with either ad valorem tariffs or specific tariffs, whichever gives the higher revenue. Alternate tariffs account for a relatively large number of tariff lines for foodstuffs, oilseeds and their products, beverages and spirits, and tobacco and its products (Table IV.3). For grains, all tariffs are specific. Hence, nominal tariff protection for all grain items fluctuates with the movement of world market prices.

462. A range of agricultural products is subject to non-automatic import licensing, including rice, sugar, soyabean, copra, fresh milk, skimmed milk powder, soybean oil, palm oil, coffee, and alcoholic beverages (Table AIV.3). According to the Thai Government, major objectives of licensing are to protect or promote local producers, to enable them to sell their products at reasonable prices, and to maintain health and safety standards.

463. The share of Thai agriculture in total exports is larger than its share in GDP. This shows that foreign markets are of considerable importance to this sector. A surplus producer of many agricultural products, the ratio of Thai exports to total output of agriculture excluding fishery products is about 40 per cent. In the case of fishery

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15 The high average tariff for semi-processed items is partly due to surcharges on wheat flour. However, the broad picture remains unchanged even if wheat flour is excluded from semi-processed products.

16 These products loom large in Thailand's imports of prepared agricultural products. In 1988, imports of skimmed milk powder and soyabean meal and residues were more than one-quarter of the imports of processed agricultural products. Including some other oilcakes and meals, and powdered milk items, this figure increased to more than one-half.

17 The figure is much higher for some products. For example, in 1985, two-thirds of maize production, three-quarters of sugar production, 95 per cent of cassava production, and half of mungbean production were exported.
products, the ratio of exports to output is much higher because a considerable quantity of fishery items are imported as inputs for exports.

464. Similar to imports, a large proportion of agricultural exports is accounted for by a few product categories, namely foodstuffs, grains, and fish, shellfish and their products (Table V.7). Even within these categories, a small number of products provides for the bulk of agricultural export earnings. Thus, in 1988, twenty-six tariff items accounted for four-fifths of agricultural exports (Table AV.3). Rice alone contributed one quarter to foreign exchange earnings from exports of agricultural products.

465. The pattern of agricultural exports has changed substantially over past decades. The importance of rice has decreased and that of some other export items such as maize, cassava and sugar has increased. Furthermore, Thailand has experienced rapid growth in a variety of non-traditional exports such as processed fish, canned pineapple, coffee and natural orchids. The Government policy of promoting agro-processing and exports has contributed to this development. However, some of the dynamic sectors of the 1980s have not been specifically promoted by the Government.

466. Agriculture accounts for about one-sixth of the number of the four-digit HS items under export licensing. Export licensing for agricultural products is mainly to prevent internal shortage or to monitor exports of certain items (Table AIV.10).

467. At present, no agricultural product is subject to export duties. Earlier, export duties on rice had been an important source of Government revenue.

468. Thailand regulates the markets for several agricultural products through price controls and State trading. Though the Government provides price support to various agricultural products, it also limits price increases for important consumption items. In the past, the Government's price intervention policies, combined with export taxes, discouraged domestic production of many crops. The domestic price of items such as rice, maize, palm oil and cassava was below the world market price for many years (Table V.8). Another effect of these interventions has been to drive a wedge between the price paid by domestic consumers and that received by domestic producers. For example, consumers in Thailand paid more than double the world price for sugar during 1983-87. In the same period, the price paid by users of soybean ranged between 116 and 188 per cent of the world market price.
469. Other policies which affect international trade in agriculture include concessional credit for production and exports, crop storage facilities, market promotion, and health and sanitary measures.

(i) Fish, shellfish and products

470. Thailand is among the top ten fishery producing nations in the world. In 1988, Thailand was the world's 6th-largest exporter and 13th-largest importer of fishery products. Over 90 per cent of Thailand's imports of fish, shellfish and products are unprocessed products (Table V.5).

471. Thailand's dynamic international trade in fishery products has resulted in a sharp increase in the country's share in global trade during the past decade (Chart V.1). Developments differed for the two main product groups, namely fish and crustaceans.

Chart V.1
Thailand's share in world imports and exports of fishery products, 1980-88

Source: FAO.

18 Thailand has increased the coverage of its catch in foreign waters by entering into several joint ventures in fishery products.
472. In the case of fish, a large increase in imports was instrumental in providing the inputs for processed products subsequently exported. The share of fresh, chilled or frozen fish in total imports of fishery products increased from about 43 to 95 per cent during 1981-88 (Table V.9). On the export side, the share of canned fish almost tripled to 36 per cent during this period (Table V.9).^{19}

473. As imports of fish increased, the share of crustaceans and molluscs in total imports of fishery products declined. The decline was reinforced by a rapid rise in domestic production of crustaceans and molluscs. The growth in domestic production provided the main thrust for the rise in exports of these products. Thus, while import volume of crustaceans and molluscs remained sluggish or declined, export volume increased substantially over the past ten years (Chart V.2).^{20}

474. As a result of the sharp increase in domestic output, exports of black tiger prawn have grown rapidly. Exports rely largely on the Japanese market. In recent years, the industry has faced problems such as a shortage of prawn feed, a rise in feed prices and insufficient cold storage facilities to cope with the rapid increase in output. The Government stepped in to assist the producers by asking feed producers to cut prices, gave special permission to import 10,000 tons of good quality fish meal, provided the Board of Investment promotional privileges to cold storage facilities, and started a campaign to expand markets at home and abroad.^{21}

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^{19} In 1988, about one-third of exports of fish, shellfish and products were accounted by one tariff line, namely prepared or preserved tunas, skipjack and Atlantic bonito (Table AV.3). The link with imports can be seen from the fact that 70 per cent of total imports of fishery products in 1988 came under one item, namely frozen skipjack or stripe-bellied bonito (Table AV.2). The product category "fish, shellfish and products" encompasses 102 items.

^{20} An illustration of this feature is the large share of shrimps and prawns in exports of fish, shellfish and their products, in contrast to its low share in agricultural imports (Table AV.2 and AV.3).

^{21} Output of these prawns increased from 897 tons in 1986 to about 90,000 tons in 1990.

^{22} The Board of Investment promotional privileges for cold storage were earlier terminated in 1986. The new promotional benefits will be provided under the condition that at least B 5 million should be invested in the new cold storage facilities (excluding land costs and revolving funds), and that Thai ownership should be at least 60 per cent.
Chart V.2
Volume of Thailand's exports and imports of crustaceans and molluscs, 1980-88
Index, 1980-100

Source: FAO.
475. In 1989, the main suppliers of fishery products to Thailand were Japan, the United States, Taiwan and Singapore. Thailand's main export markets for fishery products are Japan, the United States, United Kingdom and Italy.

476. All fishery and shellfish items, including their products, have a statutory tariff of 60 per cent. The applied tariff is much lower mainly on account of concessions provided to these imports. In 1989, the average applied tariff was 0.2 per cent (Table AV.4).  

477. The average applied tariff for fish is lower than that for crustaceans. Within crustaceans, the applied tariff on processed products is slightly higher than that on fresh products (Table AV.4).

478. No fishery item is subject to import licensing. In 1990, import licensing for fishmeal was converted to an import surcharge. Details of this surcharge are not available.

479. For reasons of health and safety, exports of live black prawn are under non-automatic licensing, and those of canned tuna are under automatic licensing. Exports of canned baby clam to Italy are under licensing to observe minimum export prices. Earlier, export controls on certain crustaceans were imposed to administer bilateral arrangements with the United States and the European Communities.

480. In addition to the health and safety measures, the Department of Fisheries controls the imports of fishery products in accordance with the Convention on International Trade in Endangered Species of Wild Life Fauna and Flora (CITES).

481. The Government operates a Fish Marketing Organization to provide fish marketing facilities. Soft loans are available to small scale fishermen who fish near the shore. These loans are mainly for fishing gear.

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23 This tariff rate is calculated by dividing import duty collected for the category as a whole by the value of imports. The simple average applied tariff, which is likely to be higher, cannot be calculated because of lack of detailed data.

24 In the case of fish, the applied tariff of 9 per cent on intermediate inputs is much higher than the average of 0.1 per cent on fresh fish, and 3.4 per cent on prepared fish. The virtually negligible tariff for fish reflects the extensive concessions provided to imports used as inputs to exports.
Oilseeds and their products account for about 10 per cent of Thailand's agricultural imports, virtually half of it being imports of soyabean cake (Tables V.7 and AV.2). In order to reduce imports of soyabean, the Thai Government has provided incentives to domestic production through price support and local content requirements. Though Thailand's production of soyabean has more than tripled since early 1980s, domestic output remains short of domestic demand. The protection granted to soyabean insulated the domestic market and the domestic price was substantially above the world market price during the 1980s (Table V.8).

The average statutory tariff for processed products of oilseeds is about one quarter below that for unprocessed products (Table V.6). Tariff concessions on soyabean and soyabean cake further reduce applied tariff levels (Table AV.5). However, nominal levels of tariff protection for oilseeds and their products are unstable because specific tariffs or alternate tariffs are imposed on two-thirds of tariff items (Table IV.3).

In 1989, the weighted average applied tariff on unprocessed oilseeds was 2.4 per cent, in comparison to 9.4 per cent on processed oilseeds and fats. The applied tariff peak of 93 per cent was in place for groundnuts (Table AV.6).

Though low tariffs are applied on the major import items of oilseeds, oils and cakes, several products in this category are subject to import licensing in order to enable local producers to sell their products at reasonable prices (Table AIV.3). The Government also intervenes through market purchases to boost the price of items such as soyabean oil. Till recently, imports of soyabean cake were restricted through non-automatic licensing. In 1990, this restriction was replaced by a surcharge. Details of this surcharge have not been made available for this report.

25 Part of the reason for encouraging domestic production of soyabean was to diversify away from narcotic crops. In recent years, an additional reason has been to diversify away from rice.
26 As a proportion of the world market price, the domestic price of soyabean ranged between 112 per cent to 188 per cent during 1980 to 1988 (Table V.8). In contrast, the price of palm oil was below the world market price in some years (but it was 50 per cent above the world market price in 1987).
27 The applied tariff for another significant import item in this category, groundnut oilcake and oil residues, is the same as the statutory tariff of 10 per cent.
28 In mid-1989, the reason for import licensing for several oilseed products was to protect or promote local producers.
486. Oilcakes are important inputs for the animal feed industry. Starting about 35 years ago, the capacity of this industry has increased substantially over time as a result of high demand and promotional privileges being granted by the Board of Investment. The Government controls feed prices through a price control Committee attached to the Ministry of Commerce, and any prior change must be approved by this Committee. Ceiling and floor domestic prices are fixed for the material inputs for the animal feeds industry, with the stipulation that if market prices fall out of these ranges, a 6 per cent import tax, a surcharge and special taxes would be levied.

487. Under the Animal Feed Quality Control Act, the quality of raw materials used in making feed, such as soyameal, peanut meal, fish meal, rice bran and ground maize is controlled. Production, import or distribution of animal feed require permits from the Animal Feed Quality Control Division of the Livestock Department. Each permit is valid for one year.

488. In 1988, exports of oilseeds and their products accounted for only 0.5 per cent of agricultural exports from Thailand. Due to domestic shortage, exports of animal feed were either banned or restricted during 1973-78. The restriction was lifted in 1979, with the provision that exported feed must contain less than 5 per cent of combined rice or broken rice and bran or bran meal. Currently, bean cake exports are restricted through non-automatic licensing to preserve it for domestic use. Exports of soyabean, cotton seeds, castor seeds and kapok seeds are monitored through automatic export licensing (Table AIV.10). Export standards of several seeds are monitored for maintaining quality.

(iii) Dairy products

489. Dairy products accounted for one-tenth of total agricultural imports by Thailand in 1988 (Table V.7). Over half the imports of dairy products

29 In the period 1983 to 1989, the number of mills producing animal feed have increased from 34 to 45, and total production almost doubled. Promotional privileges, granted since 1969, were reduced in 1989 after the Board of Investment found that the incentives were not utilized on a large enough scale.

30 Any producer requesting higher prices must submit production costs, expenses, production procedure and distribution methods along with the request. Strict price control was reinstated in December 1989 after a period of relaxed control from the end of 1985. During that time, producers were requested to fix reasonable prices and indicate them on labels.

31 Specifications include the weight contents of protein, fats, ash, salts, and dampness. Quality control on feed essence, ready mixed feed and premix additives were also stipulated.

32 In mid-1989, another reason for export licensing on these products was to prevent internal shortage.
were skimmed milk powder and cream, and other forms of milk powder and cream were another one-third. Butterfat accounted for one-tenth of dairy imports.

490. Given the importance of skimmed milk powder and butterfat in domestic imports, their statutory tariffs of 25 per cent have been reduced to an applied rate of 5 per cent (Table AV.5). Dairy products are among the few categories with a sharp de-escalation of applied tariffs. In 1989, unprocessed items faced weighted average applied tariffs of 40 per cent, compared to 6¼ per cent for processed products. The applied tariff peak for dairy products is over 59 per cent (cheese and curd; Table AV.7).

491. The Government encourages domestic dairy output through a range of policies including import licensing for fresh milk (not concentrated), flavoured milk, and skimmed milk powder, promotion privileges provided by the Board of Investment, and domestic content requirements imposed for importers of dairy products. Importers of skimmed milk powder have to buy local raw milk twenty times the weight of imported skimmed milk powder. In the case of prepared milk, the local content requirement is 2 to 1. Additional conditions are imposed by the Ministry of Industry, including the requirements that producers of powdered milk buy at least 50 tons of local raw milk per day in the first year of operation, producers of prepared milk should use raw milk with recombined milk in a ratio of 1 to 1, and both these types of producers should increase the purchase of their raw milk by at least 20 per cent per year.

492. The Department of Co-Operatives Promotion or the Dairy Farming Promotion Organization of Thailand certify that domestic content requirements have been met.

493. The Dairy Farming Promotion Organization maintains a minimum price policy to attract regular supply of milk. However, competition to buy raw milk by private enterprises is keen and the minimum price has not been effective. The Organization does not engage in direct marketing of milk products. Instead, it relies on private companies for such sales, which account for about one-third of the domestic market for dairy products.

494. As mentioned in Chapter IV, production, imports and exports of dairy products are subject to stringent quality and labelling control for reasons of health and safety.

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33 Since domestic supply is inadequate, exceptions to the domestic content requirement can be granted on a case-by-case basis.
Foodstuffs

495. Foodstuffs include diverse products such as manioc (cassava), sugar, fruits, vegetables, eggs, coffee, spices, and wheat flour. Foodstuffs are Thailand's top export earner in agriculture. In 1988, they contributed about one-third of agricultural export earnings, and 12 per cent of total Thai export earnings (Table V.7). In contrast, foodstuffs' share in agricultural imports was slightly less than one-tenth.

496. In 1989, the simple average of statutory tariffs for foodstuffs was 53.5 per cent. These tariffs indicate only the lower limit of the statutory tariff average, because 209 out of a total of 285 foodstuff items have alternate tariffs (Table IV.3).

497. Applied tariffs for several foodstuffs are lower than the statutory tariffs. Nonetheless, the 1989 weighted average applied tariff for these items was 30.4 per cent. High average applied tariffs are imposed on all three stages of processing (Table V.5).

498. The main imported foodstuffs are certain food preparations, milkfood, wheat and meslin flour, malt and apples. For wheat and meslin flour, and malt, the applied tariff in 1989 was the same as the statutory rate (Table IV.5).

499. Imports of several food items in Thailand are subject to import licensing. The objectives are to protect or promote local industry, to enable local producers to sell their products at reasonable prices, and to maintain product standards (Table AIV.3). The controlled products include sugar (a major export of Thailand), coconut, oranges, dried longan, onions, potato, garlic, coffee and tea. Imports of tea are subject to domestic content requirements.

500. Strict health and safety conditions are specified for several food products. The regulations include specifications for the quality, composition, packaging, labelling and domestic manufacturing.

501. The top three foodstuff exports are manioc, sugar and prepared or preserved pineapples (Table IV.3). Thailand is among the leading exporters of these products in the world. Fruits and vegetables are among the

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34 These products accounted for about half the imports of foodstuffs in 1988.
35 In the case of sugar, Thai exports to the United States are controlled on account of import quotas in that country.
36 In 1988, Thailand was the top world exporter of manioc and canned pineapples, and the fifth-largest exporter of sugar (raw equivalent).
dynamic foodstuff exports of Thailand. To promote the quality of exports, Thailand has imposed compulsory standards of the Thailand Industrial Standards Institute for tapioca products and canned food products.

502. In comparison to imports, fewer foodstuffs are subject to export licensing (Tables AIV.3 and AIV.10). Of these, manioc exports are under licensing because of a voluntary restraint arrangement with the European Communities, and sugar exports are licensed to comply with the import quota régime in the United States and to ensure domestic availability. Exports of some other foodstuffs are subject to automatic licensing (Table AIV.10).

503. From time to time, the Government purchases certain foodstuffs to boost the domestic market price. For example, in February 1991, the Government proposed to buy 43,000 tons of coffee from the planters.

504. The Government provides considerable support for processing foodstuffs. At the same time, it imposes production and price controls on many items. Sugar is a salient example of the latter policies.

(a) Sugar

505. Foreign markets for sugar are of great importance to Thailand, as two-thirds of the domestic output of sugar is sold abroad. Though the establishment and expansion of sugar mills are controlled by the Government, direct and indirect support to the sugar industry has been provided for more than a decade. The Government sets the retail price of sugar, and in doing so, determines the price received by sugar planters and millers. This is achieved through a pricing formula known as the 70:30 benefit sharing scheme. The scheme was devised in 1982-83 to end a conflict among planters and millers. According to this arrangement, 70 per cent of the net revenue from sugar is paid to farmers and 30 per cent to the mills.

506. The Cane and Sugar Board, comprising farmers, industry and the Government, manages production through specification of the cane price, the producer price and the retail price for sugar. The Government also

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37 Quotas on exports and imports of coffee were earlier imposed under the international agreement. These quotas are currently not in place.
38 The sugar industry's performance turned in 1987, after remaining subdued for most of the 1980s. The industry is expected to continue facing a strong demand till 1992.
39 See, for example, A. Siamwalla and S. Setboonsarn (1989), op. cit. The operating licences can be transferred by the approval of the Ministry of Industry, with the advice of the Cane and Sugar Board.
40 For details of the system, see A. Siamwalla and S. Setboonsarn (1989), op. cit. (Footnote continued)
affects the market through a Sugar Distribution and Production Control Centre which is operated under the supervision of the Sugar Board. The distribution system for sugar is divided into two parts. One pertains to domestic consumption. The expected domestic consumption is calculated by applying a notional growth rate to the previous year's consumption. The excess output is for export.

507. The price intervention results in considerable difference between the world price and the domestic price. Hence, though the objective of controlling the retail price is to protect the consumer, the domestic consumers paid more than double the world price for at least five years during the 1980s (Table V.8).

508. After being depressed for several years, sugar export markets firmed up in the late 1980s. Thailand's sugar export volume jumped 74 per cent between 1985 to 1989. As a result of the buoyant sugar market, the authorities relaxed controls on the establishment and expansion of sugar mills, and the Ministry of Industry set criteria for expanding existing mills. At the same time, in anticipation of a situation of oversupply in a few years, the Government has drawn contingency plans, including a project to produce ethanol from sugarcane for use as a substitute or additive to petrol.

(b) Tapioca

509. In contrast to sugar, the domestic price of tapioca was below the world price for much of 1980s (Table V.8). Tapioca exports to the European Communities are subject to a voluntary export restraint. In order to improve the functioning of the export quota system, it was altered in January 1991.

510. Export quotas are now allocated on the basis of three criteria. A certain portion of the quota is allocated through bidding or open tendering. Another portion of the quota is allocated on the basis of an assessment of the stocks with the exporters. Thirdly, bonus quotas are provided for sales to markets other than the European Community. The formulae used for allocating quotas are complex. Thus, for this report,

(Footnote Continued)

Cane and Sugar Act B.E. 2527 empowers the Cane and Sugar Board to control the cultivation area. This power has never been exercised.

41 An initial quota is allotted to exporters before bidding begins. Earlier, past performance was used for allocating export quotas.

42 In effect, the policy of linking bonus quotas to sales in a third market implicitly subsidizes consumption in that market. For a discussion, see T. Bark and J. de Melo (1988), "Export quota allocations, export earnings, and market diversification", The World Bank Economic Review, Volume 2, Number 3.
detailed information on the functioning of the system was not provided by the Government of Thailand.

(c) Fruits

511. A producer of wide variety of fruits, Thailand is an important exporter of these products. About one-tenth of the approximately 7 million tons of Thailand's fruit output is exported. The main market is Hong Kong. The major fruit exports are durian, pineapple, and longan.

512. Exports of processed fruits have been encouraged through the incentives provided to export-oriented projects. Thus while Thailand trails far behind the Philippines in exports of fresh pineapples, its export earnings from canned pineapples was about double that of the Philippines in recent years.

513. Thailand applies high tariffs on fruits. The 1989 weighted average applied tariff on fresh or dried fruit was about 48 per cent. The average for prepared or preserved fruits was even higher, i.e. about 76 per cent (see Table AV.8).

514. The Government used to operate a Preserved Fruit Organization. This organization has now been dissolved.

(v) Beverages and spirits

515. Beverages and spirits account for 5 per cent of agricultural imports. These products are among the few agricultural product categories with an increasing share in Thailand's GDP (Table V.1).

516. In 1988, three-fifths of imports of beverages and spirits were whiskies, and about one-quarter were spirits produced from distilling grapes and marc. Statutory alternate tariffs for both items have a lower limit of 60 per cent (Table AV.5).

517. Average statutory tariffs for most beverages and spirits exceed 50 per cent. However, since the vast majority of items have alternate tariffs, these averages only indicate the lower limit of the statutory

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43 In Table AV.8, the average statutory tariff has been calculated using only the ad valorem components of tariffs. Since prepared and preserved fruits have alternate tariffs, the average applied tariff for these items exceeds the average statutory tariff because the applied rate is calculated by dividing import duty collected by the value of imports.
tariffs. In addition, these imports face excise duties which differ from those levied on domestic output.

518. In 1989, the weighted average applied tariff on beverages and spirits was 37.4 per cent. The applied tariff peak for this category was more than 108.4 per cent (for certain type of undenatured alcohol; Table AV.9).

519. In addition to the high tariff, imports of beverages and spirits are under non-automatic import licensing. Licensing is imposed to protect public moral and public health. Domestic production and imports of these products are subject to sanitary and labelling regulations.

(vi) Animals and animal products

520. In 1988, total imports of animals and animal products were about 4.6 per cent of agricultural imports. As in the case of fishery products, imports are dominated by unprocessed items and exports are mainly semi-processed or processed products (Chart V.3). In 1988, 70 per cent of the imports of animals and their products were fowls and animals imported for breeding purposes (Table AV.2).

521. In recent years, Thailand's imports of live animals increased sharply, far outpacing the rise in imports of meat and preparations (Chart V.4). The emphasis on value-added in exports is reflected by the steep increase in exports of meat and meat preparations (Chart V.4). In contrast, in 1988 exports of live animals were about 30 per cent below the level in 1983.

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44 These are just two items out of a total of eighty-five tariff lines for the category as a whole. Since these important inputs into the industry entered duty-free, the weighted average for statutory tariffs was only 4 per cent, in comparison to a simple average of about 46 per cent.
Chart V.3
Share of live animals and meat preparations in Thailand's imports and exports of animals and products, 1983-88
Per cent

Source: FAO.
Chart V.4
Thailand's imports and exports of live animals, meat and meat preparations, 1983-88
Index of US$ value, 1983=100

Source: FAO.
522. The pattern of international trade in these products is related to tariff escalation. At 19 per cent, the average statutory tariff on unprocessed items is only one-third of the average tariff on processed items (Table V.6).

523. In 1989, the weighted average applied tariff for animals and animal products was about 4½ per cent. This reflects the large share of unprocessed items, whose average tariff was 0.3 per cent. The applied tariff for processed products was 44 per cent (Table V.5). Some items, such as fresh, chilled or frozen pork, and extracts and juices of meat, fish or crustaceans, had applied tariffs of 60 per cent.

524. Given the nature of meat products, health, safety and labelling requirements are imposed on imports (Table AV.10). Licensing on exports of animals is imposed mainly for reasons of preservation (Table AIV.10).

525. In terms of product coverage, exports of animals and animal products are not as concentrated as some other agricultural categories. In 1988, the largest export item, cuts and offals of poultry, accounted for one-tenth of the exports of animals and their products (Table AV.3). This item comprises mainly frozen chicken.

526. Japan is the most important market for Thai exports of frozen chicken. In 1988, exporters of frozen chicken faced problems such as high feed prices and insufficient supply of containers. Nonetheless, a high level of breeding stocks have been maintained as a result of the export boom. This required large imports of chicken for breeding purposes, along with feed supplements and drugs for the chicken.

(vii) **Grains**

527. Exports of grains account for about three-tenths of agricultural exports, or about one-tenth of Thailand's total exports (Table V.7). In 1988, rice alone accounted for about 22 per cent of agricultural exports (Table AV.3).

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45 In the case of bovine animals, import licensing was applied in mid-1989, justified mainly to prevent an internal shortage.
528. The share of grains in Thailand's imports is considerably smaller (3.5 per cent of agricultural imports in 1988). More than three-fifths of the 1988 imports of grains was wheat (Table AV.2).

529. Grains is the only product category for which all items have specific tariffs (Table IV.3). It is difficult to compare the ad valorem equivalent rates for these tariffs because they vary with any change in the unit value of imports. However, for illustrative purposes, ad valorem statutory tariff equivalents for grains are provided in Table V.10.

530. In 1988, ad valorem statutory tariff equivalent for barley and wheat was more than 50 per cent, and for millet was about 40 per cent. The highest ad valorem equivalent statutory tariff of 63 per cent applied to wheat other than durum wheat, a product which accounts for over four-fifths of grain imports (Tables V.10 and AV.2). Though the ad valorem equivalent applied rate for this items is lower, it still amounted to about 23 per cent. In 1989, the weighted average applied tariff for grains as a whole was about 19½ per cent (Table AV.11).

531. Tariff escalation for grains is evident, even though all items are unprocessed products. The ad valorem statutory tariff equivalent for maize seed was only 0.8 per cent while that for other maize was about 17 per cent (Table V.10). In practice, a tariff exemption has been granted for "cereal grains proved to the satisfaction of the Director General of Customs to be imported for planted and of reasonable quantity".

532. Some kind of grain imports are subject to phytosanitary requirements. Rice imports are under licensing, with the objective to protect against pest and diseases (Table AIV.3).

533. Exports of rice, rice products and maize are monitored through automatic licensing.

(a) Rice

534. Thailand is a leading world exporter of rice. Rice, the top ranking agricultural export item for Thailand, is a major product in the country's

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46 In 1988, these products accounted for 97 per cent of grain imports.
47 See the Customs Tariff of Thailand modified up to 30 September 1989, page 49.
48 In mid-1989, the objective was to protect domestic production.
49 In mid-1989, export licensing was also in place to prevent domestic shortage.
country's agricultural output. In 1989, the emergence of Vietnam as a major competitor created downward pressure on world prices, and was a cause of concern to Thai policy makers.

The Government has several support programmes for rice, reflecting its overwhelming importance in Thai agriculture, and the large income differential between agriculture and industry. These programmes are devised or implemented through various Committees such as the Rice Policy Committee.

The Government purchases rice in order to boost market demand and keep the price at the general level prevailing in the countryside. In 1989, low rice prices caused considerable concern among Thai policymakers, and several measures for price support and subsidy were initiated.

In 1991, concessions offered were increased through a new mortgage scheme operated by the Bank for Agriculture and Agricultural Cooperatives. Under this B 5 billion scheme, the farmers mortgage 90 per cent of their crop to the Bank, which applies a price 25 per cent higher than the market price in late December 1990. No interest will be charged on this amount, in contrast to the 3 per cent charged under the previous scheme. Other price support programmes include market intervention through several Government agencies, totalling up to about B 2.1 billion (a 50 per cent

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50 Three-fifths of total agricultural production in Thailand is rice, much of it for subsistence.
51 At present, the ratio of per capita income between farm and non-farm sectors in Thailand is 1 to 8. This ratio is very low even when compared with other countries of the region. For a discussion of the low productivity (and income) of Thai agriculture, see J.P. Lewis and D. Kapur (1990), "An updating country study: Thailand's needs and prospects in the 1990s", World Development. Volume 18, Number 10.
52 For some details, see for example, A. Siamwalla and S. Setboonsarng (1989), op. cit.
53 According to the Government, the purchase operations are conducted mainly in outlying areas where the producers are more vulnerable to price manipulations of the middlemen.
54 In addition to maintaining the minimum purchase price of rice at B 3,500 per ton, the Rice Policy Committee planned a number of other intervention policies for the 1989-90 season. These included purchase of paddy through various agencies, repayment of debts for fertilizer in paddy being arranged by the Farmers Marketing Organization using B 100 million, the Bank of Agriculture and Agricultural Cooperatives using B 5 billion for a paddy pledging programme, and the Bank of Thailand providing cheap credit through commercial banks to rice traders and millers. The paddy purchase was planned by the Ministry of Interior using a revolving fund of B 200 million, purchases worth B 200 million by the Agricultural Extension Department, and worth B 120 million by the army. While only 3 per cent per annum was charged for the credit from the Bank for Agriculture and Agricultural Cooperatives, the interest on the amount made available by the Bank of Thailand had an upper limit of 10 per cent.
55 The previous scheme involved the Bank for Agriculture and Agricultural Cooperatives mortgaging 80 per cent of the current market value of the farmer's crop.
increase over 1990).\textsuperscript{56} Furthermore, during 1991, the Ministry of Commerce will buy 400,000 tons of rice for re-export.\textsuperscript{57}

538. Despite the support programmes for rice, the Government of Thailand has traditionally taxed rice producers through policies including export duty and export premium. Till about 1980, the tax so imposed was generally more than 30 per cent of the border price.\textsuperscript{58} The Government's intervention policies resulted in a negative nominal rate of protection for rice till the mid-1980s (Table V.8). At present, the policies taxing rice are not implemented and hence rice farmers benefit more from Government support.

539. Under the ASEAN cooperation agreement, Thailand stockpiles rice to ensure availability to other ASEAN countries in times of urgent need.

(b) Maize

540. In 1988, maize exports were about 10 per cent of grain exports, and 3 per cent of agricultural exports. Export volume of maize has declined since the mid-1980s.\textsuperscript{59} An important reason for this is the relatively high price of Thai maize.

541. Till 1981, maize exports used to be under quotas. Due to Government intervention, the domestic price was lower than the world price (Table V.8). In December 1981, the Ministry of Commerce lifted export controls on maize, and exports have generally not been restrained since then.

542. Domestic consumption of maize as feeding stock for Thai broilers increased import demand in recent years. Import licensing on maize was removed in 1989.

(viii) Other agricultural products

543. For a variety of other agricultural products, weighted average applied tariffs ranged from about 10 per cent for "other agricultural products of animal origin" to 52\% per cent for tobacco and tobacco products in 1989 (Table AV.12).

\textsuperscript{56} The actual expenditure on price support through the various schemes may be less than anticipated because of a rise in the market price.

\textsuperscript{57} The Ministry of Commerce will buy only unbroken white rice.

\textsuperscript{58} See A. Siamwalla and S. Setboonsarng, op. cit., page 44.

Until very recently, tobacco was imported into Thailand mainly in unprocessed form. High tariffs are imposed on tobacco to protect domestic production. For example, in 1989, the weighted average applied tariff on unprocessed tobacco was 60 per cent.

The applied tariff on processed tobacco items was only 3½ per cent in 1989. However, tariffs were not the main form of protection granted to processed tobacco products. Imports of processed items such as cigarettes, used to take place through the Thai Tobacco Monopoly, a public sector enterprise. The infrequent imports by the Monopoly was like a virtual ban on imports. A GATT Panel ruled that the restrictions on imports due to the Monopoly's trading activities were inconsistent with the GATT. In response, Thailand has liberalized its cigarette import régime.

Exports of tobacco are exclusively channelled through the Thai Tobacco Monopoly.

(3) Industry

More than 90 per cent of Thailand's imports are industrial products. For a range of manufactures, Thailand is highly dependent on imports (Table V.11). For example, in 1985, import penetration of the domestic market for machinery, transport equipment, paper, paper products and fabricated metals ranged from 45 to 82 per cent. A major share of industrial imports are raw materials, intermediate products or machinery items (Tables V.4 and V.5).

The Government encourages domestic production of various industrial products. Thailand's emphasis on promoting domestic output of finished industrial products is shown by the tariff escalation in statutory and applied tariffs for several product categories (Tables V.5 and V.6). Applied tariffs on many industrial inputs have been substantially reduced in order to encourage industrialization (Table AV.5). For some products, such as gems and jewellery and electronic machinery and apparatus, a large share of imports are used as inputs into exports. Many of these imports avail the benefits provided for exports.

The pattern of Thailand's international trade in industrial products has changed considerably in the previous decade. The importance of machinery, equipment and apparatus has increased for both imports and exports. At present, one-third of industrial imports are electrical and

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non-electrical machinery (Table V.7). Together with a few other categories, namely ores, metals, metal products, chemicals, transport equipment, petroleum and natural gas, they accounted for 80 per cent of industrial imports in 1988 (Table V.7). As in the case of agriculture, the product pattern of Thailand’s trade in industrial items is concentrated. In 1988, twenty out of about 4,500 tariff items accounted for two-fifths of industrial imports (Table AV.2). Thirty-four items made up almost half the exports of industrial products (Table AV.3).

550. While the highest statutory tariff for agriculture is 65 per cent, about one-tenth of the industrial tariff items have statutory rates of 100 per cent. A few tariff lines have a rate of 200 per cent (Table IV.4). However, relatively low statutory tariffs on industrial raw materials, intermediate products, and machinery result in a slightly lower statutory average tariff of 43¾ per cent for industrial products than for agricultural commodities (48 per cent).

551. In 1989, the weighted average applied tariff for industry was 11.3 per cent. The applied tariff peak for industry was 121¼ per cent for public-transport type passenger motor vehicles. For several industrial (and agricultural) products, in particular furniture, the incidence of tariffs is compounded by business taxes (Table IV.2).

552. Average statutory tariff rates of over 70 per cent apply to footwear, textiles, clothing and furniture (Table IV.1). In 1989, the weighted average applied tariff for these items was substantially lower, partly on account of a low import share of products with high tariffs. Nonetheless, effective rates of tariff protection for these products are high (Table V.2). It is noteworthy that export shares of these items considerably exceed their shares in Thailand’s imports of merchandise (Table V.11).

553. Most industrial products have ad valorem tariffs. Specific tariffs or alternate tariffs are applied to one-third or more tariff items in areas such as raw hides, skins, leather products, pulp, paper, paperboard, textiles and clothing (Table IV.3).

554. Some industrial items are subject to import licensing. Most of the controls are imposed to protect or promote local industry. Imports of certain industrial products are controlled for reasons of health and

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61 The average for industry is calculated without considering petroleum. Including petroleum, the average statutory tariff is even lower.
safety, to comply with a bilateral agreement, and to prevent counterfeiting or evasion of import duty (Table AIV.3).

555. Exports of some industrial items are subject to non-automatic export licensing. The objectives include prevention of internal shortage, meeting an intergovernmental agreement, and to monitor exports of some metals and their products.\(^{62}\)

556. Thai industrial production is mainly sold on the domestic market. For example, in 1985 the ratio of exports to domestic output exceeded 25 per cent only for non-ferrous metals, rubber and rubber products, electrical machinery and appliances, and miscellaneous manufactures (Table V.11).\(^{63}\)

557. Several industries benefit from promotional privileges provided by the Board of Investment. For certain industries, the benefits are linked to export performance criteria. In some cases, the incentive schemes involve domestic content requirements.

558. Other policies which affect international trade in industrial products include controls on price and production capacity, health and safety conditions, and provision of subsidies for credit and for selected inputs.

(1) Non-electrical and electrical machinery and apparatus

559. Non-electrical and electrical machinery and apparatus accounted for approximately 30 per cent of total Thai imports in 1988 (Table V.7). Imports of non-electrical machinery were particularly sizeable.\(^{64}\)

560. Both exports and imports of machinery and apparatus have grown rapidly in the 1980s, to gain a major share in Thailand's international trade. Promotion benefits provided to electrical machinery, including computers and parts, have contributed to an increase in the share of these products in Thailand's GDP (Table V.1). The Ministry of Industry has established a Metal Working and Machinery Industry Development Institute to develop, promote and transfer technology to small and medium sized firms.

\(^{62}\)In mid-1989, exports of the metal items were under licensing to prevent internal shortage.

\(^{63}\)For some of the main export items in these categories, see Table AV.3.

\(^{64}\)In this context, it is important to keep in mind that computers are classified under non-electrical machinery according to the Tariff Study classification.
561. In 1989, the statutory average tariffs for these two product categories were between 30 and 40 per cent. The current averages are lower on account of a reduction in statutory tariffs on a large number of machinery items in 1990. Most tariffs for which reductions were announced were lowered from 30 or 35 per cent to 5 per cent. The reasons for reducing these tariffs include rationalization of the duty rebate provided to various activities and giving a boost to investment in the decelerating economy.

562. Given the importance of machinery in imports and domestic investment, the applied tariffs on these products are lower than the statutory tariffs. Furthermore, tariff concessions on machinery imports are provided for projects promoted by the Board of Investment. The 1989 weighted average applied tariffs for non-electrical machinery and electrical machinery and appliances were about 11½ and 8 per cent, respectively (Table AV.13).

563. The main import items among machinery and appliances are parts and components of machinery, integrated circuits and micro-assemblies. In 1985, for example, the ratios of imports to total demand of machinery and electrical machinery and appliances ranged between 50 and 82 per cent (Table V.11). Thailand's main exports of machinery and appliances also include the same types of parts and components (Tables AV.2 and AV.3). This reflects Thailand's reliance on imports of these products for export processing by foreign investors.

564. A few machinery items are under import licensing. The objectives include protection or promotion of domestic industry, conservation of natural resources, and preventing evasion of customs duty and counterfeiting of notes (Table AIV.3).

565. Technical standards apply to several machinery and appliances.

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565 Tariff reductions were announced for 336 items of non-electrical machinery and 56 items of electrical machinery and components. These two categories, respectively, have 516 and 249 tariff lines. For details of the tariff reductions, see Notification of the Ministry of Finance No. Saw Gaw 13/2533, dated 18 September 1990.

565 For tariff reductions on some major import items in these categories, see Table AV.5.

67 These are certain types of circular saw blades, chain saws and accessories, gasoline engines, internal combustion piston engines and cylinder cases for motorcycles, diesel engines and their cylinder case, compressors for refrigerating equipment, hulling machines to crush husks into bran, TV cabinets, ceramic insulators, and intaglio printing machines, colour scanner including electronic page making systems, and photocopiering machines. See Table AIV.3 for details.
566. Among the activities promoted by the Board of Investment, electrical appliances and electronic products attract a relatively large share of foreign investment (Table III.4). The link with foreign capital has resulted in greater export orientation of domestic production. Exports of electrical appliances have registered triple-digit rates of growth in the past few years.

567. Exports of machinery and appliances is considerably concentrated. For example, one tariff item, namely parts and accessories of automatic data processing machines, accounted for 44 per cent of exports of non-electrical machinery in 1988 (Table AV.3). Similarly 28 per cent of the exports of electrical machinery and appliances was due to one tariff item (parts of electronic integrated circuits/microassemblies).

568. Ball bearings is an important export item among non-electrical machinery and components, accounting for 15 per cent of exports of this product category in 1988 (Table AV.3). To avoid countervailing duties, Thailand imposed export surcharge on ball bearings exported to the United States in 1988, and to the European Communities in 1990. The Board of Investment was instructed to review its promotion policies so that a charge of subsidization may not be levied against Thai exports.

(ii) Ores and metals

569. In 1988, ores and metals accounted for about 15 per cent of Thailand's total imports. More than 70 per cent of total imports of ores and metal into Thailand are intermediate products, in particular semi-manufactures of iron and steel (Tables V.5 and AV.14).

570. Ores and metals is one of the few industrial product categories with a substantial number of specific tariff rates (about one-third of all tariff lines; Table IV.3). The nominal tariff protection for several ores and metals thus fluctuates depending on movements in world market prices.

571. The 1989 weighted average applied tariff for ores, metals and metal products was about 8 per cent. The applied tariffs show sharp escalation,

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68 In 1988, more than 150 producers of electrical appliances, with a total capital investment of B 40 billion, availed promotional privileges provided by the Board of Investment. Most of these promoted projects were joint-ventures with Japan and the Republic of Korea.

69 The total number of tariff lines for these two product categories are, respectively, 516 and 249. In 1988, three tariff lines for non-electrical machinery accounted for about 70 per cent of the exports under the category. Six tariff lines for electrical machinery and apparatus accounted for almost 80 per cent of the exports of these items.
with the 1989 weighted average for finished products being 18 times that for raw materials (Table V.5).  

572. Thailand's mineral resources are legally owned by the Crown. For ores, the Department of Mineral Resources controls production, exports and imports through concessions. The Minerals Act B.E. 2510 and its amendments govern the exploration, mining, dressing, smelting, selling, transport and export of minerals. Licenses are also required for purchasing and storage of minerals.  

573. The Government does not intervene in pricing. It does, however, charge royalties and certain taxes such as business tax.  

574. Among metal ores, a production quota is applied only for tin. This is to comply with the agreement of the Association of Tin Producing Countries.  

575. The Government encourages the development of processing and smelting facilities through the Board of Investment. The statutory and applied tariffs for ores and metals show tariff escalation (Tables V.5 and V.6). In December 1988, the Mineral Resources Development Policy Committee approved a proposal for a one-stop service centre for private investment in the mining sector.  

576. Production capacity for metals and their products is controlled under the Factory Act. The recent period of rapid economic growth in Thailand, including strong construction activity, has led to a tight supply of some metal items, mainly steel.  

577. Flat steel accounts for about 70 per cent of total steel consumption in Thailand. Import volume of flat steel has more than doubled in the 1980s, reaching about 2.7 million tons in 1989 (worth B 35½ billion). To alleviate the price pressures resulting from a rapid increase in demand in recent years, the Government lifted several controls on steel products. It gave permission to increase domestic production capacity, provided promotion benefits through the Board of Investment to new investment, 

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70 The low tariffs on minerals result in relatively low effective rates of protection for these products. See, for example, P. Wiboonchutikula, et. al. (1989), op. cit., page 168.  
71 Mining concessions are given on a first come first served basis, with bidding taking place in a few cases. Miners request for prospecting rights, which are given for 1 to 2 years. Subsequently the miners have to apply for leasing. The Government charges royalty rates, which differ across products and types of activity.  
72 For different types of prospecting licences, see op. cit.  
73 For some detail, see op. cit. pages 157 to 164.  
74 In 1989, half the imports of flat steel were from Japan, 13½ per cent from Brazil, and about 6½ per cent from the Republic of Korea.
removed the Board of Investment control system on steel bar prices, lifted import controls on steel bars in mid-1988, and reduced or eliminated import duties on steel bars, billets, rods, scrap iron and iron ingots. Contractors delivering to the public sector projects were allowed a relief of 120 days late delivery. As a result of the tariff concessions, applied tariffs for iron and steel were substantially below the statutory rates in 1989 (Table AV.14).

578. At present, import licensing is applied to tin ore over 2 kgs., tin alloys over 2 kgs., tin foil, certain types of cylinders, and chain saw and accessories (see Table AIV.3 for details). Import of knife-hidden rulers is prohibited.

579. In 1988, ores and metals accounted for 3 per cent of Thai exports. Among ores and metals, tin is an important export earner for Thailand. After the collapse of the International Tin Agreement in 1985, tin exports fell sharply. To some extent, the decline in tin exports has been compensated by a rise in exports of other products such as zinc.

580. Since most of Thailand's tin output was exported, a fall in export earnings has affected the production pattern for ores. For example, in 1988, the value of zinc production in Thailand exceeded that of tin.

581. Among ores and metals, exports of some iron products, copper, brass, and aluminium scrap are subject to export licensing (see Table AIV.10 for details).

(iii) Chemicals

582. In 1988, imports of chemicals were about one-eighth of overall imports of Thailand. Of the total imports of chemicals, 40 per cent were chemical elements and compounds, and about one-third were plastics and their products (Table AV.15). Most of the plastic items imported by Thailand are high quality products which are not produced domestically.

583. Thailand's chemical industry relies heavily on imports for its raw materials. The ratio of imports to domestic demand of chemicals in

75Permission was granted for setting up four new mills with a total capacity of 1.234 million tons, twice the existing capacity in 1988.

76In 1982, tin had a share of 82 per cent in Thai exports of minerals. It dropped to 55 per cent in 1987. During this time period, the value of exports of minerals fell from B 9.7 billion to B 4.3 billion.

77The main products imported are film, foil, tape, containers and pipe and tubing. The main suppliers are Japan, Taiwan, the United States, the European Communities, Republic of Korea, and Singapore.
Thailand is about one-third (Table V.11). In 1988, almost four-fifths of chemical imports were intermediate products (Table V.5).

584. The development of the petroleum industry in the Eastern Seaboard Area will have important implications for the Thai chemical industry. In late 1989, a petrochemical project came on stream to supply raw materials for domestic production of plastics. Thailand's output of plastics products has registered strong growth in the 1980s, with capacity increasing by about 50 per cent in 1989.

585. A wide range of statutory tariffs are in place across chemicals. Average tariffs of 72 per cent on cosmetics are the highest among chemical products, followed by 60 per cent on articles of plastics. For most other product groups, statutory tariff averages range between 15 to 37 per cent.

586. Applied tariffs on chemicals are lower. In 1989, the weighted average applied tariffs for chemicals was 18 per cent. For the different products of chemicals, the applied tariff averages ranged between 14.3 and 36.2 per cent (respectively, "dyeing, tanning and colouring materials", and "essential oils, perfume materials, preparations and soaps"). For applied tariffs, the peak was about 60 per cent for oral or dental hygiene preparations (Table AV.15).

587. Production, imports and exports of several chemicals are banned or controlled for reasons of health and safety. For the same reasons, strict marking, labelling and packing requirements are also in place.

588. Non-automatic import licensing is in place for cyclamic acid and its salts, vinyl chloride monomer, and monosodium glutamate. Exports of pesticides are under non-automatic licensing.

589. Foreign investment in the chemicals industry is promoted, subject to certain criteria of scale, efficiency, and environmental protection. In recent years, major foreign investments have taken place in this industry.

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78 The import-penetration ratios range from about one-fifth for cosmetics to two-thirds for insecticides.

79 The National Petrochemical Company was formed in 1984 to manage the petrochemical complex. The Petroleum Authority of Thailand owns 49 per cent of the shares of this company.

590. Chemicals are not among the main export items of Thailand. In 1988, chemical exports were 3½ per cent of industrial exports.

591. About 30 per cent of the domestic output of plastics products is exported. These exports have increased rapidly in the past few years (Chart V.5). Important export items include plastic bags, containers, tableware and kitchenware. The major markets are the United States, Hong Kong, Singapore, the European Communities and Australia.

Chart V.5
Exports of plastics and total chemicals from Thailand, 1980-88
Index of US$ value, 1980=100

Source: Government of Thailand.

(iv) Transport equipment

592. In 1988, imports of transport equipment were about one-tenth of total Thai imports of merchandise. The share of these products in exports was only 1 per cent (Table V.7).

593. In 1989, motor vehicles accounted for 91 per cent of the imports of transport equipment. Two tariff items, ("chassis fitted with engines for motor vehicles" and "aeroplanes and other aircraft of certain type") each
accounted for about 28 per cent of total imports of transport equipment in 1988 (Table AV.2).

594. Thailand's automobile industry assembles completely knocked down components imported mainly from Japan and some European countries, subject to local content specified by the Ministry of Industry. Thailand has promoted motor car assembly since 1961, and the production of components since 1965. In 1971, the Government established a local content requirement of 25 per cent. The requirement has been increased over time. Despite the imposition of local content, the ratio of imports to domestic output is high. For example, in 1985, imports amounted to almost two-thirds of the domestic demand for transport equipment (Table V.11).

595. In 1989, Thailand's twelve plants assembled over 213 thousand motor vehicles. Of these, more than 70 per cent were commercial vehicles, and about 28 per cent were motor cars (Table V.12). Setting up new plants for commercial vehicles, or expanding existing ones, is allowed. For motor cars, the setting up of new plants has been prohibited since 1978. In addition, there is a restriction on the number of models of motor cars produced in Thailand. 82

596. More than half the imports of motor vehicles are chassis with engine (Table V.13). Fully built motor cars account for about one-fifth of motor vehicle imports. Another significant import item is parts and components for motor vehicles.

597. The Government has stipulated a steadily increasing local content requirement for domestically assembled motor vehicles. 83 These requirements vary across different types of products. For motor cars, the Government has specified two lists for parts and components, namely compulsory parts and additional parts. The overall local content must not be less than 54 per cent. Assembly plants must use 27.07 per cent of compulsory parts of local origin. Further local content can be made up from items enumerated in the list of additional or optional parts. In the

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81 Four assembly plants were for motor cars only, three for trucks only, and five for both motor cars and trucks.
82 Furthermore, in a particular year, any series not assembled in the previous year may not be allowed.
83 This is to induce the private sector to invest more in this area. The Government's view is that linkages developed in the automotive industry are important for the domestic industry's technology development.
case of motorcycles, domestic content of 70 per cent is required, with compulsory use of some domestic items such as engines.

598. The domestic content requirements for commercial vehicles vary by type of vehicle. The local content requirement for pick-up trucks also specifies compulsory parts and additional parts. The overall local content must approximately range between 60 to 70 per cent. Medium and large vans and trucks have local content requirements depending on the items imported for assembly. Local content of not less than 40 per cent is required if the chassis with engine is imported. It is 45 per cent for using imported chassis with engine and windshield, and 50 per cent if chassis with engine and cap are imported. An additional condition for medium and large vans and trucks is that seven specified items must be of local origin.

599. The local content requirements can be relaxed under several circumstances. For example, assembly for exports may get a waiver from the local content requirement. For the domestic market, local content requirements could be relaxed on grounds of quality control. The requirements may not be strictly implemented in case of a shortage of domestic parts. For motorcycles, the actual use of local inputs appears to be higher than that stipulated by the regulations. Consequently, the Government is considering a rationalization of the local content policy for motorcycles.

600. In contrast to parts and components, motor vehicles are protected mainly through tariffs, and till recently, through import licensing. The statutory average tariff on transport equipment is 49 per cent.

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84 In July 1988, the Ministry of Industry announced that imports of engines for pick-ups were to be controlled, and from July 1989 onwards, engines for all pick-up trucks and motorcycles were to be locally produced. As a result of this policy, promotion privileges were granted to four diesel engine producers which began production in 1989. The local content requirement for these producers was 20 per cent in the first year, increasing to 30, 40, 60 and 80 per cent in the next four years, respectively.

85 For diesel pick-up trucks the range is 62.95 to 66.42 per cent. It is 66.33 to 70.14 per cent for gasoline pick-up trucks. The lists specifying parts and components for local content in pick-up trucks are being revised.

86 These are radiator, silencer, exhaust system (silencer and exhaust pipe), tyres and tubes, leaf springs, safety glass, battery and brake drums.

87 They must, however, follow the directives of the Automotive Industry Development Committee. The Automotive Industry takes into account the quality, price and quantity of domestic products in regulating local content requirements for export industry. The regulations must not impede compatibility of products in external markets.

88 For example, local content requirements for medium and large vans and trucks are generally increased on 1 July each year. In 1989, such an increase was not announced because a high volume of sales resulted in a shortage of the availability of local parts. The local content requirement for brake drums was actually reduced in 1989.
Particularly high statutory tariffs are imposed on motor vehicles. Tariff peaks reach 200 per cent.

601. In 1989, the average applied tariff on transport equipment was 36 per cent. The average for motor vehicles was 39 per cent, with applied tariffs on some motor vehicles above 100 per cent. Including business tax, the tax incidence was more than 200 per cent for imports of certain vehicles.

602. In 1989, average applied tariffs on other transport equipment were much lower than for motor vehicles (Table AV.16). Nonetheless, imports of ships and boats, and miscellaneous transport equipment, faced high applied tariff peaks. Business taxes for certain transport equipment other than motor vehicles are particularly high.

603. A variety of automobile products are under import licensing, mainly to protect or promote the domestic industry. These include six-wheel buses with capacity of over 30 passengers, bodies or cabs, motor cycles, and certain types of used motor vehicles (Table AIV.3). The list for import licensing also includes some components for motor vehicles.

604. A major change in the import licensing régime is that the import restraint was recently removed on completely built cars with engine capacity of less than 2,300 cc and used cars (not older than two years) with engine capacity of more than 2,300 cc. The Government is considering a proposal to abolish the restriction on the number of domestically produced models for motor vehicles.

605. As a result of the promotion granted to the automobile industry, Thailand has now increased its production potential. In 1988, its exports of motor cars increased to 14,121 units compared to 488 units in the previous year. Consequently, motor cars have now displaced parts and components as the main export item in this industry (Table V.13). Motor cars with engine capacity not exceeding 1,000 cc. accounted for 46 per cent of exports of transport equipment in 1988 (Table AV.3).

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89 These vehicles have an import surcharge of 20 or 50 per cent in addition to tariffs.
90 For the reduction in tariffs for some important import categories, see Table AV.5.
91 In 1989, a rate of 55 per cent applied to HS category 8713, or invalid carriages, whether or not motorized or otherwise mechanically propelled.
92 In 1988, the M.M.C. Sitthiphon Motors Co. Ltd. exported its motor cars, named Champ, to Canada through Chrysler (Canada), under a contract for 100,000 cars for delivery within 10 years.
606. Exports of motor vehicles are assisted through the regular tariff concession schemes. In addition, the guarantee for taxes on parts assembled for exports has been reduced to 25 per cent of the tax, with a maximum upper limit of B 10 million.

607. The member countries of ASEAN cooperate in the production of automobiles. A project submitted by Mitsubishi under the ASEAN Industrial Complementation scheme was approved, with Thailand, Malaysia and the Philippines participating. The complementary nature of brand products in automobiles has resulted in Brand-to-Brand Complementation Projects within ASEAN countries. Tariff preferences are provided for projects under these schemes. Several companies are participating in Thailand, and the production of original equipment parts has started. Parts produced throughout the region under this scheme will be treated as local products for the purpose of local content requirements.

(v) Coal, petroleum and natural gas

608. In 1980, Thailand depended on imports for 90 per cent of its domestic consumption of oil and gas. As a result of strong efforts to increase the indigenous supply of energy, import dependence was reduced to about 45 per cent in the late 1980s. Domestic production, most of which is natural gas, increased from about 20,000 barrels per day of crude-equivalent in 1980 to the current level of about 170,000 barrels per day. This was achieved with the help of policies granting considerable concessions to producers.

609. The Petroleum Act was amended in 1989 to give greater incentives by varying royalty rates across different types of activities. Instead of a general rule, a case by case basis is now adopted for giving concessions. In January 1991, the Ministry of Industry was preparing to notify the free establishment of oil refineries.

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93 The companies are Mitsubishi, Mercedes Benz, Volvo, Toyota, Nissan and DAF trucks.
94 Domestic resources of petroleum and gas were first identified in 1970. In 1981, the first pipeline connected the offshore gas fields to power plants outside Bangkok. Estimated total crude reserves are about 85 million barrels, and gas reserves are 3,720 bcf.
95 Domestic crude oil production is about 30,000 barrels per day. The rest of production is natural gas.
96 Amendments to the petroleum legislation were made in 1987 in order to increase the attractiveness of exploration. The changes included the abolition of the annual bonus, changing the standard 12.5 per cent rate of royalty to a sliding scale ranging from 5 to 15 per cent, and the compulsory exploration period being reduced from eight to six years. However, the duration of the concession licence was lowered from 30 to 20 years, and the total exploration area of any single concessionaire was reduced from 50,000 square kilometres to 20,000 square kilometres.
610. The Petroleum Act of 1971, amended in 1973, provides concessionaires with the rights to explore, produce, store, transport, and sell petroleum. It does not, however, give the right to refine petroleum. Under Article 6 of the Petroleum Oil Act B.E. 2521, importers have to register as petroleum traders at the Department of Commercial Registration. This is to monitor the country's petroleum reserves.

611. Domestic supply of energy resources has been aided by a sharp increase in Thailand's output of lignite (a type of coal). In 1988, output of lignite was worth B.3.6 billion compared to B.0.2 billion in 1980.

612. Despite the reduction in import dependence, imports of coal, petroleum and natural gas were about 8 per cent of total imports of merchandise in 1988. More than half of this was accounted by imports of crude petroleum oils (Table AV.2). The crucial nature of these imports is reflected in the fact that imports of crude petroleum oil is duty-free, in spite of a statutory tariff of 25 per cent (Table AV.5).

613. For the product category as a whole, tariff concessions have resulted in a considerable difference between statutory and applied rates (Table AV.17). Uncertainty about tariff levels arises as more than two-fifths of the tariff lines are subject to specific or alternate tariffs (Table IV.3).

614. About 60 per cent of imports of coal, petroleum and natural gas are unprocessed items. Virtually all other imports of these items are processed products (Table V.5). The share of processed products in imports is likely to decline with the petro-chemical projects in the Eastern Seaboard Area commencing production.

615. Petroleum products are subject to excise taxes. The Government specifies the retail price of oil and gas. Imports of these products are subsidized through an Oil Fund. This Fund is used to maintain price stability. Thus the price of fuels in Thailand is decoupled from the world price. When the global oil price increased in recent years, Thailand's Oil Fund was seen as inadequate to sustain the subsidies. The

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97 At the four digit HS level, the 1989 applied average tariff peak for this category was 28.3 per cent (HS category 2712, or petroleum jelly, paraffin wax, and similar products).

98 Thailand equated its retail price to the world price when the latter was US$15 per barrel, and kept it at this level for an extended period. A surcharge, imposed when the world price fell below US$15 per barrel, was used to finance the Oil Fund.
Government first responded by a series of excise duty reductions, before increasing the domestic price.

616. The Petroleum Authority of Thailand, established in 1978, has a stake in local investment and is a major buyer of indigenous crude oil and gas. According to the Ministry of Industry, the involvement of the Petroleum Authority of Thailand is essential for national security by ensuring energy supplies. In 1988, the Government granted corporate status to the PTT Exploration and Production Company (PTTEP), a unit of the Petroleum Authority of Thailand. The PTTEP is not required to abide by regulations governing State enterprises, though the Government will be able to request it to undertake certain specific operations.

617. The Petroleum Authority of Thailand also supplies oil products to foreign markets. For example, it signed an export contract with Laos in February 1989. This contract reflected a change in trade relations between Laos and Thailand, because exports of oil products to Laos were banned earlier.

618. Exports of some fuels are under non-automatic licensing to prevent internal shortage (Table AIV.10). Automatic export licensing is applied for three of the four fuel items under import licensing (Table AIV.3). In all cases, import licensing is imposed to promote local industry.

(vi) Textiles and clothing

619. Textiles was among the first group of industries to be promoted under the Industrial Promotion Act of 1960. The promotional privileges have not been continuously granted. In the early stages, the industry produced mainly cotton-based products, diversifying later into man-made fabrics.

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99 For example, in 1989 and 1990, the National Energy Policy Committee cut the excise tax on finished oil products to extend the period for which the Oil Fund could be used.

100 In 1979, the Natural Gas Organisation of Thailand and the Oil Fuel Organisation were merged with the Petroleum Authority of Thailand. In 1981, the Bangchak Refinery was added to it.

101 See Bangkok Bank Monthly Review, Volume 30, August 1989, page 313. The objectives of the Petroleum Authority of Thailand (PTT) are to promote the petroleum industry and related businesses, to promote investment in downstream industries, to procure petroleum resources from overseas, to import and refine petroleum products for further distribution to consumers under the PTT's brand, to produce or market natural gas and oil products, and to store petroleum products to guarantee energy security for the country.

102 The Government of Thailand also asked the Petroleum Authority of Thailand to investigate possibilities of supplying oil to Kampuchea as a part of its recent efforts to improve trade with this region.
620. Textiles and clothing are Thailand's top industrial export products, accounting for 26 per cent of industrial exports in 1988 (Table V.7). Imports of these products amounted to 5.7 per cent of industrial imports. Most imports of textiles and clothing are either raw materials or intermediate products, with finished products accounting for only about 5½ per cent of textiles and clothing imports in 1988 (Table V.5).

621. The average statutory tariff for textiles and clothing is 74 per cent (Table AV.18). Alternate tariffs apply for many products (Table IV.3). Tariff concession on various inputs and the predominance of raw materials and intermediates in imports results in low applied tariffs. In 1989, the weighted average applied tariff for textiles and clothing was about 7 per cent.

622. The statutory tariff régime for the textiles and clothing sector is marked by substantial tariff escalation. The statutory average tariffs on raw materials are 26½ per cent, on intermediate products are 64 per cent, and on finished products are 91 per cent.

623. Weighted average applied tariffs show a lower degree of escalation than statutory tariffs. Nonetheless, the 1989 weighted average applied tariff for finished items was more than double the average for intermediate products and about thrice the average for raw materials (Table V.5). The tariff escalation results in high effective rates of tariff protection for these products (Table V.2).

624. Some textile and clothing items are under import licensing. Licensing is non-automatic, except for unfinished garments (see Table AIV.3 for details). Earlier, imports of unfinished garments were prohibited. The import régime was relaxed after the Textiles Surveillance Body found that the prohibition was not in conformity with the Multifibre Arrangement.

625. Substantial protection has contributed to rapid expansion of Thailand's textiles and clothing sector (Table V.1). The Government has imposed capacity constraints on projects promoted by the Board of Investment in order to limit investment rushing into this sector. From

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103 In 1988, just one tariff line (HS 520.100 or cotton not carded or combed) accounted for almost one-third of imports of textiles and clothing.

104 These are raw silk, silk yarn, textiles containing 50 per cent or more silk (in pieces or rolled), raw jute, raw kenaf, unfinished garments, gunny bags, natural fibre bags, and natural fibre bags. Jute imports are controlled to allow only high quality jute, which is not produced domestically.

105 See, GATT, COM.TEX/SB/1525, dated 2 January 1990.
time to time, these constraints have been released when a shortage of domestic capacity is perceived.

626. Exports of textiles and clothing, especially clothing, have increased rapidly in the 1980s. Since exports have risen faster than domestic output, the industry has become increasingly export oriented.

627. Export licensing for textiles and clothing is imposed in Thailand for complying with bilateral agreements under the Multifibre Arrangement. The export restraints are managed through a quota system operated by the Department of Foreign Trade. The quotas are allocated to manufacturers under two regulations, one relating to garments and the other to yarn and fabrics. Details of the quota system are given in Appendix V.1.

(vii) Precious stones and precious metals

628. Thailand is the world's second-largest exporter of gems and jewellery. It exports about 85 per cent of its total production of these products. Exports depend to a large extent on imported raw materials. In 1988, half the imports of precious stones, metals and their articles were diamonds (Table AV.2).

629. Precious stones and metals is the only product category for which raw material imports entered at duty free applied rates (Table V.5). Intermediate products have a higher applied tariff average than finished products. To secure domestic raw materials for indigenous use, the Government has imposed non-automatic licensing on exports of these products (Table AV.19).

630. To prevent counterfeiting, only the Ministry of Finance is allowed to import platinum or platinum alloys similar to one-baht coins in size,

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106 For example, between 1972 to 1987, the ratio of clothing exports to production by Thailand increased from 4 to 46 per cent. For fabrics, the corresponding share rose from 8 to 22 per cent, and for yarn from less than 1 per cent to 22 per cent. See S. Supachalasai (1989), "Thailand's Growth in Textile Exports", Seminar Paper 89-08, Centre for International Economic Studies, University of Adelaide, Australia, November 1989.

107 To facilitate compliance by exporters, the Government was planning to covert 40 ministerial decrees on textiles and clothing exports into eight decrees. See Textile Asia, January 1991, page 96.

108 Forecasts by Thailand's Department of Export Promotion predict that the country will become the top world exporter of these items in the next five years. Major export markets are Japan, the United States, the European Communities, Hong Kong, and Switzerland.

109 Non-automatic export licensing for intermediates applies only to platinum.
weight and mixture. Exports of platinum are subject to non-automatic licensing.

631. Exports of precious stones, metals and their products have increased rapidly in the last decade. In 1988, jewellery and parts under one tariff line accounted for almost one-third of the exports for the entire category (Table AV.3). Production of jewellery for exports has been granted promotional privileges since the early 1980s. The production costs were lowered by relaxing the import ban on gold in 1986. Joint ventures with foreigners helped obtain new technology, and enhanced the capacity to meet international quality standards and adaptation of design.

632. The United States withdrew GSP benefits on Thai jewellery exports from 1989 onwards.

(viii) Mineral products and fertilizers

633. Mineral products and fertilizers accounted for 2% per cent of Thailand's imports in 1988. About three-fifths of these imports were intermediate products, mainly fertilizers (Tables V.5 and AV.20). The 1989 weighted average applied tariff on intermediate products was about 1% per cent in comparison to 12% per cent for the entire product category.

634. The tariff régime for these items shows steep tariff escalation (Tables V.5 and V.6). In 1989, the weighted average applied tariff on finished products was twelve times that on intermediate products.

635. Imports of ceramic food containers with high lead content are under import licensing for reasons of health and safety. In the case of building stones and sanitaryware, Thailand uses import licensing to promote the domestic industry.

(a) Sanitaryware

636. Thailand is well endowed with the raw materials for ceramic sanitaryware, and most of the domestic demand for sanitaryware is satisfied from local production. Sanitaryware has received promotional privileges from the Board of Investment since the 1970s. In recent years, the

110 Gold, which is not included in the product coverage of the Tariff Study categories, is under export and import licensing.

111 Imports of sanitaryware, except bathtubs and some other items which are not produced locally, have been controlled by the Ministry of Commerce since January 1978. This action was followed by a rise in import duty on these products from March 1978.
promotional benefits have been provided only for export-oriented units. In addition to benefiting from the domestic construction boom, Thailand's sanitaryware industry has made substantial advances in export markets. Exports of Thai sanitaryware more than doubled since 1986, to reach over 10,000 tons and B 0.3 billion in 1989. The main markets are Hong Kong, the United States and Japan.

(b) Cement

637. Cement, an important input in the construction industry, has attracted considerable policy attention in recent years. Since 1986, production capacity in Thailand's cement industry has increased by two-thirds, and production almost doubled from 7.9 million tons in 1986 to 15.2 million tons in 1989. In light of the recent construction boom, the Ministry of Industry allowed further expansion of production capacity and establishment of new plants, subject to certain conditions. Consequently, the existing production capacity will more than double by 1993.

638. Import controls were earlier applied to promote the domestic cement industry. Measures taken by the Government to deal with the high demand for cement include a relaxation in import controls and duties on cement, and imposing export controls on cement (tariff no. 2523, excluding white cement). The prohibition on imports of cement clinker was lifted. The Cement Import Management Committee relaxed the limit on imports in two steps to 4.57 million tons for 1990. Import duty and excise tax on cement were exempted for the period 1 December 1989 to 30 December 1991.

639. In the face of excess demand, the controlled cement prices were increased by B 44 per ton, with the requirement that local manufacturers pay B 10 per ton of their sale into a special fund set up to subsidize imports of cement. Importers wishing to obtain the subsidy must get

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112 In January 1988, the Board stipulated a minimum export of 80 per cent of sales for these products, in order to obtain promotional benefits.
113 On 31 July 1989, the Ministry of Industry issued a notification containing conditions to be abided by new plants to ensure that investors have adequate assets to operate the cement factory.
114 Imports of cement are controlled by the Cement Import Management Committee.
115 In addition to these measures, the Ministry of Commerce was instructed to expedite cement imports while supervising the quality of imported cement. The relaxation in import duty occurred in December 1989, and that of the excise tax in March 1990 when the shortage in cement supply was felt again. The import limit of 4.57 million tons for 1990 was allowed in March 1990, subsequent to the initial relaxation of 3 million tons in December 1989.
116 In early 1990, B 600 million was approved to finance loans for financing cement imports. Two formulas for subsidy on imported cement were specified, one for clinker cement (Footnote Continued)
prior approval from the Ministry of Commerce, and meet the Cement Import Management Committee stipulation that the quality of these imports must be of the American Standard Testing Method standard or the BSS standard. Imports without subsidy do not require such approval.

640. Among minerals and fertilizers, non-automatic export licensing is in place for cement and fertilizers.

(ix) Wood, cork, pulp, and paper

641. A 20 points National Forest Policy was announced in December 1985 to manage forests in Thailand. Despite this, deforestation could not be controlled and it was a major reason for the severe floods in late 1988. Mainly for environmental reasons, Thailand's forests were closed for logging and all logging concessions were revoked. Consequently, prices of wood shot up, despite the Government reducing the import duty on timber and wood.

(a) Wood and cork

642. In 1988, virtually all imports of wood and cork were raw materials or semi-manufactured products. Three-fifths of these imports were semi-manufactures. Among raw materials and intermediate wood products, sawnwood and sleepers were the main export and import items in 1988 (Tables V.14 and V.15). During 1980 to 1988, the share of sawnwood and sleepers in total imports of wood and wood products has declined, while the share in exports of these products has increased sharply. The decline in the import share is mainly due to a rapid increase in raw material imports, in particular imports of roundwood.

643. The 1989 weighted average applied tariff for wood and cork was 2½ per cent, reflecting a low tariff on raw material imports. The applied tariff peak exceeds 40 per cent (Table AV.21).

(Footnote Continued)

and the other for powder cement. In the former case, the payment to be made was equal to the c.i.f. price + import expenses + grinding expenses (B 159 per ton) + payment into the subsidy fund (B 10 per ton) - ex-factory price - price increase margin permitted (B 44 per ton). In the latter case, the ex-Bangkok warehouse price was deducted instead of the ex-factory price (grinding expenses do not arise because the cement is in powder form).

117 According to one estimate, Thailand could become barren in just over thirty years if logging continued unrestricted. See Bangkok Bank Monthly Review, Volume 30, December 1989, page 488.

118 Wood and wood products is one of the few product categories for which a large share of imports come from ASEAN countries.

119 Nonetheless, the value of imports of sawnwood and sleepers was 2½ times that for the exports of these items in 1988.
644. The average statutory tariff for semi-manufactures is higher than for either raw materials or finished products (Table V.6). The weighted average applied tariff, on the other hand, displays sharp escalation in favour of domestic producers of finished products. In 1989, the weighted average applied tariff for finished products of wood was 25% per cent, compared to less than 3 per cent for the other two sub-categories (Table V.5).

645. Thailand has two State trading enterprises for wood and wood products, namely Thailand Plywood Company Limited and the Forest Industry Organization.

(b) Pulp and paper

646. Thailand relies heavily on imports for several inputs for its pulp and paper industry. More than 80 per cent of the imports of pulp and paper were either raw materials or intermediate products.

647. The average statutory tariff for pulp and paper is 32 per cent. Concessions on various imports resulted in a 1989 weighted average applied tariff of about 13% per cent for these items (Table AV.21). Substantial instability in the tariff level exists because about 70 per cent of the tariff items have alternate tariffs.

648. The statutory and applied tariffs show considerable escalation for pulp and paper, with an especially large difference between raw materials and intermediate products (Table V.5 and V.6). The relatively low tariff on raw materials is related to Thailand's dependence on pulp imports. During 1987 to 1989, the ratio of pulp import volume to domestic demand was about 46 per cent. About 10% to 15% per cent of the domestic output of pulp was exported during this period.

649. The Ministry of Industry supervises the establishment of pulp and paper mills for environmental reasons. The Thai Government started promoting the pulp and paper industry in 1962. Nonetheless, pulp was produced on a commercial basis only in 1982. In 1982, the import duty rate on pulp and paper was increased from 1 per cent to 10 per cent, and an import surcharge of 20 per cent on pulp and selected categories of paper.

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120 Long fibre pulp has to imported because Thailand lacks coniferous trees, which are the source for this type of pulp.

121 Till then, pulp was produced by paper mills for their internal consumption. Currently, two pulp mills get promotional privileges from the Board of Investment. Thailand has three main pulp producers, with one of them accounting for about 70 per cent of total capacity.
was maintained during November 1982 to April 1986. During 1982 to 1987, production of pulp in Thailand increased from 40,500 tons to 134,875 tons. However, this was not enough to mitigate the shortage of pulp supply.

650. The Government controls the domestic price of pulp. Local producers have to notify the Ministry of Commerce 15 days before raising their price to get permission. Permission is granted if it is found that the rise in cost of production warrants an increase in price.

651. In 1989, Thailand had 35 paper mills. Three-fifths of the capacity is for Kraft paper. The domestic capacity for producing Kraft paper is seen as adequate for meeting domestic demand. Hence, promotional privileges of the Board of Investment for Kraft paper were terminated in 1991.

652. For paper products as a whole, the ratio of import volume to domestic demand ranged between one-fourth to one-third during 1987 to 1989. In contrast, less than one-tenth of domestic output was exported during this period.

653. In 1989, newsprint accounted for about one-third of the total value of Thailand's paper imports. The import share of cardboard was slightly higher. Cardboard imports have increased sharply during the second half of the 1980s. Their share in the import value of paper increased from 12% per cent in 1985 to 37½ per cent in 1989.

654. Exports of paper have risen rapidly during the 1980s, increasing from about B 0.2 billion in 1982 to about B 1 billion in 1989. The main export item is cardboard. In 1989, it accounted for about two-fifths of the value of paper exports. Printing and writing paper had a share of one-fifth in Thailand's total exports of paper.

122 The surcharge on pulp was removed in April 1986, recognising the burden it imposed on local paper mills.

123 Of course, as always happens in such cases, this increase in output of the protected activity came at a cost to other production activities and consumers in Thailand.

124 During 1987 to 1989, the ratio of import volume to domestic demand of Kraft paper was 2 per cent.

125 These imports were about half the volume of paper imports. In terms of value, another significant import item was printing and writing paper (about 15½ per cent of import value).
(x) Rubber

655. Thailand is the world's third largest exporter of natural rubber. Duty free imports are allowed for several rubber items classified as raw materials. Some other rubber raw material items face high tariffs, e.g. new pneumatic tyres, inner tubes, and certain tubes, pipes and hoses of vulcanised rubber. In 1989, the average applied tariff for raw materials was 20 per cent (Table AV.22). Higher average applied tariffs on semi-processed and finished rubber products resulted in an overall average of 26 per cent for the product category as a whole.

656. Until recently, a duty had been levied on exports of rubber. Consequently, the domestic price of rubber was generally below the world price (Table V.8). In recent years, the export duty on rubber has been exempted in order to alleviate the financial problems faced by rubber planters.

(xi) Other industrial products

657. Thailand trades a wide range of other industrial products. Among these, professional, scientific and controlling instruments account for the highest import value (about 2% per cent of industrial imports in 1988). Footwear and travel goods are the most important export items among this residual category of industrial products (about 5 per cent of industrial exports in 1988).

658. Average statutory tariffs range from about 31½ to 90½ per cent (respectively, "works of art and collectors pieces" and "footwear and travel goods"). The concessions provided on several of these imports result in much lower applied tariff rates (Table AV.23).

659. Except for raw hides, skins, leather and furskins, imports of most products in this category are finished items. For raw hides, skins, leather and furskins, the 1989 weighted average applied tariffs display a sharp rise from semi-finished to finished products (Table V.5).

660. Imports of jute mats and plastic mats are subject to non-automatic licensing in order to promote the domestic industry. Automatic import licensing is imposed on colour scanners including electronic page make-up systems and photocopying machines to prevent counterfeiting of notes.

126 The HS categories are 4013, 4011 and 4009. In 1989, weighted average applied tariffs for these three categories ranged between 37 and 39 per cent.
661. In the 1980s, exports of toys have expanded rapidly, at almost twice the annual increase in the value of their imports into Thailand. The toy industry has been promoted by the Board of Investment since 1977, and currently about 60 per cent of the total toy production gets promotional privileges. Virtually the entire production of toys is sold abroad, with about half of it exported to the United States. Currently, imports of toys are about one-tenth the value of toy exports from Thailand.

662. Sacred and Buddha images are subject to non-automatic export licensing. This measure is also applied to luggage of silk-blends and non-cotton plant fibre exported to the United States.

Appendix V.1
Administration of textile and clothing export quota in Thailand

663. Two types of export quotas are allotted for textiles and clothing in Thailand, namely a basic quota and a supplementary quota. These are administered under two regulations, one relating to garments and the other to yarn and fabric. Both regulations are similar except for the criteria, method and the period of allocation of the supplementary quota. The differences arise due to the dissimilar performance regarding the type and extent of the export sales of these products.

664. The basic quota is allocated on the basis of past export performance. To obtain basic quota in any quota-year, the applicant has to submit export evidence for the previous quota-year.

665. The supplementary quota is allocated on a first come first served basis. For the first nine months of the quota-year, the application for a supplementary quota has to be submitted in accordance with the regulations of the Department of Foreign Trade from the first to the fifth day of the month. From the tenth month of the quota-year onwards, the schedules and conditions for the allocation applications are announced by the Department of Foreign Trade, with the consent of the Ministry of Commerce.

666. Generally the Department of Foreign Trade makes at least two allocations per month for supplementary quotas. Any exporter can apply for these quotas. Exporters with basic quotas are considered for supplementary quotas for only those items for which they have exported at least half their allocated basic quota. If a new exporting company gets a supplementary quota, it will be entitled the following year for a portion of the basic quota.

667. Quota transfers are allowed only for the basic quota. These transfers are restricted to eligible applicants for quota allocation as

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1 The basic quota is 70 to 80 per cent of the total export quota, according to S. Suphachalasai (1990), "Export Growth of Thai Clothing and Textiles", The World Economy, Volume 13, No. 1, March 1990.

2 According to S. Suphachalasai (1990), op. cit., 20 per cent of the supplementary quota is reserved for trading companies, mainly large exporting firms. The rest is allocated according to four main criteria, namely, utilization of domestically produced inputs, price per unit output, domestic value added in exported products, and duration of time between the order and delivery date.
stipulated in the regulations.\(^3\) For each quota transfer, 5 per cent of the quota transferred must be returned to the Department of Foreign Trade. After the quota transfer, the transferee shall be responsible and shall possess the full export rights given by the quota.

668. Those who export less than 95 per cent of the allocated quota for any quota-year and do not return the quota are penalized. As penalty, the export base used to calculate the quota for the following year is reduced by twice the amount of the shortfall in export volume under the previous quota.\(^4\)

\(^3\) Eligible applicants include: those with a ready-made garment factory with operating licences issued by the Industrial Promotion Department; a registered ordinary partnership, limited partnership, limited company or public limited company with an objective of manufacturing and exporting ready-made garments; an ordinary person having a commercial registration with the objective of manufacturing and exporting ready-made garments; a tourist who enters the country for the purpose of purchasing ready-made garments for personal use under his/her name; a registered ordinary partnership, limited partnership, limited company or public limited company, or any other firm, which joins the textile export promotion programme of the Ministry of Commerce. The eligible applicants for the export quota allocation have to submit documents verifying their status to the Department of Foreign Trade.

\(^4\) See S. Suphachalasai (1990), op. cit., for the penalty conditions in the late 1980s.
VI. TRADE DISPUTES AND CONSULTATIONS

669. Thailand solves its trade disputes via a variety of channels, including the GATT, the Textile Surveillance Body under the MFA, ASEAN, ASEAN-dialogue partners, bilateral consultations and the Joint Trade or Economic Commissions under bilateral agreements with sixteen trading partners. Consultations or disputes in these fora have included issues such as tariff reduction, anti-dumping or countervailing measures, quantitative restrictions, import licensing, health and sanitary issues, and intellectual property rights.

(1) GATT Dispute-Settlement

670. Thailand acceded to the GATT in October 1982. Since then, Thailand has been involved in one Article XXIII dispute, and several consultations under the MFA.

(i) Article XXII and XXIII

671. The only Panel in the GATT involving Thailand was established in April 1990 to investigate a complaint by the United States regarding Thailand's import restrictions and internal taxes on cigarettes. The Panel ruled that quantitative restrictions on imports of cigarettes maintained by Thailand under Section 27 of the Tobacco Act of 1966 were contrary to Article XI:1 of the GATT, and were not justified by Article XI:2(c)(i), Article XX(b), or paragraph 1(b) of Thailand's Protocol of Accession. The regulations relating to excise, business and municipal taxes on cigarettes were ruled to be consistent with Thailand's obligations under Article III of the General Agreement. On 9 October, the Thai Government took the decision to lift the ban on cigarette imports and to ensure that all laws and regulations on cigarettes conformed with national-treatment obligations.

672. Thailand has not initiated any complaint against other countries under GATT Article XXIII. It intervened as an interested party in the proceedings of the Panel established on the complaint of Australia against

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1 The sixteen countries are Australia, Bangladesh, Burma, Chile, Czechoslovakia, Democratic People's Republic of Korea, Hungary, India, Iraq, Japan, the Peoples Republic of China, Poland, the Republic of Korea, Romania, the USSR and Yugoslavia.

2 When this complaint was filed, a parallel investigation was being conducted by the United States under its Section 301 of the Omnibus Trade and Competitiveness Act of 1988.

3 Thailand had made these policies consistent with Article III while the Panel investigation was being conducted. On 11 July 1990, the regulations were modified to provide an excise tax of 55 per cent for all cigarettes. On 18 August 1990, all cigarettes were exempted from business and municipal taxes. For the Panel report, see GATT (1990), DS10/R, dated 5 October 1990.
United States' restrictions on imports of sugar, and recently in the case of Mexico's complaint against the United States' restrictions on imports of tuna.

(ii) Tokyo Round Agreements

673. Thailand is not a signatory to any of the Tokyo Round Agreements.

(iii) Multifibre Arrangement

674. Thailand has concluded bilateral agreements under the MFA as extended by the 1986 Protocol with Austria, Canada, the European Communities, Finland, Norway and Sweden. It has had a number of disputes with the United States, some of them still unresolved. These disputes concerned either unilateral measures taken by the United States under Article 3:5 of the MFA and extensions under paragraph 8 of the Protocol of Extension, or cases referred by Thailand to the Textiles Surveillance Body under Article 11.

675. After examining these measures, the Textiles Surveillance Body concluded that market disruption had been demonstrated for only a few of the product categories under review. It recommended that Thailand and the United States report back after consultations on the measures.

676. In its review of a ban by Thailand on imports of certain textile products, the Textiles Surveillance Body (TSB) was of the view that the measure could not be justified under Article 8:2 or other provisions of the MFA. Therefore the TSB recommended that either the measure be removed or be brought under the relevant provision of GATT. In April 1990, the TSB was informed by Thailand that the ban had been replaced by automatic licensing for the same products.

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4 More recently the restraint agreement with Finland was replaced by an export authorization arrangement. Sweden has denounced its agreement with Thailand, effective 1 August 1991. As a result, Sweden will not have any quantitative restriction on imports of textile products from Thailand. With regard to consultation provisions in the Norway/Thailand agreement, the Textiles Surveillance Body found a paragraph in contradiction with other provisions of the agreement between the two countries, and urged that it be amended. This paragraph was subsequently amended. See COM.TEX/SB/1490, dated 11 September 1989 and COM.TEX/SB/1550, dated 2 October 1990.

5 In the report of its first meeting in 1991, the Textiles Surveillance Body "noted that for over one year the United States and Thailand had been involved in a series of unresolved disputes ... (with respect to one case) the TSB decided that if the United States and Thailand do not agree on this matter, it will make a definitive ruling on the compatibility or not of the measure with the Arrangement as extended by the 1986 Protocol at its next meeting." TEX.SB/W/1579, dated 15 February 1991, pages 2-3. Also see, pages 28-31 of COM.TEX/SB/1550, dated 2 October 1990, for notifications of resolved and unresolved disputes.

6 See, for example, COM.TEX/SB/1550, dated 2 October 1990, pages 29-30.
(2) **Other Disputes**

677. Thailand has conducted consultations on various trade problems with its ASEAN and ASEAN-Dialogue partners. For example, the issues discussed in February 1991 ASEAN-EC Dialogue included GSP, market access, and anti-dumping and countervailing duties.

678. Bilateral talks have taken place with many trading partners on a large range of issues. Examples include bilateral talks with the United States regarding intellectual property issues, cigarettes, tuna products, and anti-dumping and countervailing duties. Talks with the European Communities have included concerns relating to Thai exports of items such as textiles, canned food and tapioca. Regarding rice exports, Thailand requested Australia to reconsider its present rice import requirement. Consultations on health and safety concerns relate to both exports and imports of Thailand. Consultations with some neighbouring countries include the question of disputed fishing territory.

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For example, Canada complained about contamination of Thai milk exports, and requested a reconsideration of Thai import policy for rapeseed products. In the case of rapeseed oil import, the Thai Food and Drug Administration bans imports of rapeseed products (including canola) on the grounds that such products are hazardous to health due to high erucic acid content. However, Canada was of the view that it had developed a low erucic acid rapeseed oil and requested that canola products be placed on a comparable footing to other oilseed and oilseed products.