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Japanese investment in Thailand, as in other developing countries, is diversified in various sectors. Its positive or negative contributions to Thailand’s economic and social development cannot be appropriately generalized. The following is a summary of a research finding of the Japanese construction business in Thailand, published by the Institute of Asian Studies, Chulalongkorn University in 1988.

1. Japanese construction companies are classified into two groups: transnational Japanese construction firms and Thai-Japanese joint ventures, of which Japanese share holdings are not allowed to exceed 50% of the total share.

2. In the 14 year period from March 1974 to the end of February 1988, there were 32 transnational Japanese construction companies operating in Thailand.
3. In the 24 year and 5 month period from September 1963 through February 1988, there were 51 companies registered as Thai-Japanese joint ventures. These ventures were relatively secure, and only one failed to survive.

4. The number of Japanese construction firms in both categories increased dramatically during the last five years of the study. Between 1974 and 1982 there were only 9 transnational Japanese construction companies registered in Thailand to complete 23 contracts awarded by the Thai government; during the last 5 years alone from 1983 through 1987, there were a total of 24 transnational Japanese construction firms operating in Thailand for 59 contracts awarded by the Thai government. Similarly, the number of Thai-Japanese joint ventures also increased. In the 20 years between 1963 and 1982, there were 22 registered Thai-Japanese joint ventures, but from 1983 to 1987 as many as 28 such companies existed.

5. Japanese grants and loans were mainly responsible for initiating such a large community of Japanese construction firms in Thailand. The Thai government awarded all construction projects financed by Japanese grants since 1977 to Japanese transnational construction companies, as did they to nearly all construction projects in Thailand financed by Japanese loans. In addition, increased Japanese investment in Thailand developed simultaneously with investment in the construction business. Since Thai law prohibits foreigners from engaging in the construction business, Thai-Japanese joint ventures were proclaimed to be "Thai" artificially, showing Thai equity to be more than Japanese equity, so that the firm would be able to operate as a Thai company in accordance with Thai laws.

6. Of the 50 existing Thai-Japanese joint ventures, at least 48 companies are controlled by Japanese share holders. This is evident by looking at the representatives from equity parties at key levels, i.e. the heads of departments or sections such as the accounting and finance department, as well as top company managers and board members, which are dominated by Japanese. Some Thais are assigned symbolic
positions. Therefore, these set-ups now are among Thai construction businesses as “artificial Thai firms.”

7. Each Thai-Japanese joint venture’s registered capital is very small. The total registered capital of the 50 joint ventures amounted to only 360,029,900 baht, of which 165,406,800 baht was the Japanese equity, and the remaining 194,623,100 baht was the Thai side. At least 37 joint ventures had their parent companies in Japan, whereas only two had theirs in Thailand.

8. Transnational Japanese construction companies and Thai Japanese joint ventures receive a number of benefits in Thailand. First, Japanese transnational construction firms alone are eligible to bid for contracts when the source of funding comes from Japanese grants. Second, construction projects financed by Japanese loans are normally awarded to Japanese construction firms either by virtue of a special arrangement or by open bidding. In the case of open bidding, a presentation of pre-qualifications (PQ) to support the bidder’s credibility is required; in this respect the Japanese transnational construction firms have an advantage over Thai bidders. Third, transnational Japanese construction companies have a much larger registered capital, more advanced technology, and a better business network. Fourth, transnational Japanese construction companies can seek loans and banking guarantees at much lower interest rates and fees. Fifth, Japanese subsidiary companies in Thailand enjoy benefits from their parent companies in Japan. Sixth, Japanese subsidiary companies in Thailand have better opportunities to obtain sub-contracts from Japanese construction firms. And finally, Japanese transnational construction firms along with their subsidiaries are allowed to temporarily bring in machines and tools essential to the construction of their projects.

9. The trend is then clear—about 40,000 small and medium-sized Thai construction companies will mainly survive, but not prosper. Those who hope for a better future must find ways to cooperate with Japanese transnational construction companies. Moreover, “artificial Thai firms” will increasingly venture into real estate. Thailand will also
gradually depend on Japan for construction materials, machine tools, facilities, and technology.

10. In the near future, the Thai construction business will struggle for survival. Much of their decline has in fact been a vicious circle. Facing severe competition from transnational corporations they have lost confidence, missed opportunities to gain lucrative contracts, lacked experience, and as such have further discredited themselves in the eyes of financial institutions. Hence, interest rates and fees of various kinds in financial markets are relatively high. Technological development is minimal. The prospects of Thai companies to develop themselves into big, credible construction companies are dim.

11. Small clients, with a budget of 10 million baht or less, for example, have not been the beneficiaries of such "free competition", as with the Japanese companies which only eye the biggest contracts. With bigger contracts, job awardees have a wider choice both in terms of job quality and prices. However, one cannot be too sure about benefits for bigger clients either. The first reason is that Thai construction companies may have done better had there not been any competing Japanese companies. Without Japanese construction firms in Thailand, Thai construction companies may have developed a monopolistic structure, or these companies may have competed among themselves, whether with or without a change of the price structure. The second reason concerns long-term development. Economic development relying heavily on external support will artificially create imbalances and insecurities in the system. It is unreasonable to expect that foreign-based companies will be more considerate to clients than the Thai companies.

12. The Japanese construction business in Thailand has expanded as a result of the increased availability of loans and grants. Thus, Thailand appears to be a developed country, as evident in its buildings, roads, bridges, dams, etc. As part of their investment, Japanese construction companies have introduced credits and construction materials into Thailand thereby making it superficially richer.
13. Technology transfer has been nominal. Some technology transfer from parent companies in Japan has been possible, but that has caused widening technological gaps between Thai-Japanese joint ventures and local companies. In Thai-Japanese joint ventures, technology transfer from the Japanese to the Thais has been possible only in two cases. In the other 48 joint ventures, however, Thai shareholders have not been engaged in the actual construction profession. Almost all have been hired-hands or have held honorable (wind) shares.

14. At present, Thai laws ban all foreigners to engage in construction work. The ban has not been effective, however, because there are a number of loopholes. For example, foreigners who receive special permission to work in Thailand in exceptional cases or those with a special official agreement do not apply to this law. As a result, all grants and loan projects are exempted. In some other instances, the Director-General of the Department of Trade Registration, Ministry of Commerce, is authorized to grant permission on an individual basis to foreigners for work on construction other than buildings.

15. During the fifth Five-Year Plan, 1982-1986, the Thai government pledged to upgrade the quality of Thai engineering consultancy. But in practice concrete measures have not yet emerged.

16. The Thai government has not promoted the Thai construction business, either by facilitating Thais to compete with foreign companies, or by protecting Thais from unfair competition. Otherwise, it could have introduced measures to minimize disadvantages of Thai companies, e.g., through taxation on the basis of real income to all foreigners, or by prohibiting exemption of import duties on all machine tools for temporary usage, etc.

17. The Thai government does not have a policy for the promotion of self-reliance, and in effect the Thai construction business has become increasingly dependent on foreign companies.

18. The Thai government also does not have a policy for the promotion of technology transfer. As an individual, a Thai engineer is
capable, but cannot develop his technological skills due to improper facilitation. Although Thai engineers must accept part of the blame, the government must share the greater part by not providing Thai engineers with better opportunities.

It should be stressed that the construction business has its own functions and conditions in a given society. The nature and impact of the Japanese investment in this field may differ significantly with other fields of Japanese investment abroad. It is believed, however, that one of the scientific approaches to assess the roles and implications of the Japanese investment in the Asian Pacific region is to conclude from the evidence collected in such a case study.

Concerning the Japanese investment in the construction business in Thailand, the following issues should be raised for discussion:

1. Japanese construction companies have gained a dominant position. What are the implications and ramifications? Should this trend be encouraged or discouraged?

2. Technology transfer is minimal. Does Japan have a moral obligation to transfer its technology to a less developed country? If the answer is positive, how should it be accomplished?

3. Does the host government of Japanese investments have an obligation to protect the interest of its own citizens? How should this be weighed in relation to economic growth, assuming that much of the growth is propelled by foreign investment?