ASIA-INVEST BUSINESS PRIMING FUND
MARKET-PLACE MONITORING SCHEME

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EXECUTIVE SUMMARY

THAILAND

Economic Overview

Thailand has undergone a structural transformation in the past 30 years, developing from an agriculture-based economy into an emerging industrial economy. The success of this transformation has resulted in Thailand having the fastest growing economy in the world over the period 1986/1995. Thailand's manufacturing sector in 1996 accounted for over 30% of the GDP, compared to 16% in 1970, while the contribution of agriculture came down to 11% in 1996 from 26% in 1970.

After more than a decade of such a sustained growth, the Thai economy entered in 1996 in a phase of adjustment, and in July 1997 the Thai Government let the currency float, resulting in a devaluation that in January 1998 picked up for a short time to 110%.

At the end of August 1997 Thailand committed to a US$ 17 billion rescue package arranged under the umbrella of the International Monetary Fund. In 1998 the GDP declined 10% but in middle 1999 the economy is believed to have bottomed out.

Natural resources

Thailand has traditionally been one of the greenest countries on earth and one of the major producing countries for timber. In 1961 53% of the land of the country was covered by rainforests but not any more: in 1998 only 25% of the land surface could truly be called forested area.

In 1960 precious hardwoods were abundant and the kingdom was the world’s leading exporter of teak, but illegal and disorderly activities of logging carried on in ‘70s and ‘80s drastically reduced forestry resources.

To keep pace with its demand for timber, Thailand has become a large importer of timber and reforestation has become an important issue.

Since 1989 when the logging ban was enforced, more than 50% of the 1500 sawmills in activity closed down. However, many sawmills survived by successfully obtaining logging concessions in Laos, Cambodia and Myanmar. Currently 682 sawmills are in activity, 38% of them been located in provinces of central region. Only 633 sawmills currently in activity are equipped with sawing machines, the remaining 49 are still sawing manually.

Furniture industry

In 1998 the total market of wooden products and furniture was valued at 85 billion baht, of which 50% were products exported to foreign markets and the remaining consumed domestically.

In 1998 the export of intermediate wooden products was at 3,293 million baht; the export of construction materials and finished products was at 11,696 million baht and the export of wooden furniture and parts was at 21,911 billion baht.

It is estimated that in 1998 the total market value for intermediate wooden products should have been over 12/13 billion baht, 30/40% down from 1997, with exports of intermediate wooden products worth 3,293 million baht, or 30% of local production.

The country has a long tradition of manufacturing wooden products. Total production of wooden finished products, excluding furniture was over 25 billion baht, of which 50% exported.

Over the last 15 years the Thai furniture industry has posted growth rates of over 10% per year, due to the boom of the construction industry in Bangkok and the increasing demand from foreign markets.

As far as export is concerned, Thai furniture products of all categories for home, office and other uses have gained in the ‘80s wider access in the global market as a result of the industry’s success in achieving a higher degree of sophistication in design, craftsmanship, choice of material, functionality, look, quality and competitive price.
In 1998 Thailand exported furniture and parts worth 24 billion baht, of which 70% exported to USA and Japan.

Although Thailand is a large exporter of wooden furniture, it also became early in the‘90s an importer of high quality wooden furniture, mainly from USA, Italy, Germany and Japan, worth 150/200 million baht per year. However, import figures remained till 1995 at a modest level as a consequence of the prohibitive custom duty of 60%.
In 1996, because of the boom of construction of high level condominium buildings, imports of furniture in Thailand increased dramatically and in 1997 total imports of furniture and parts reached the peak with 1,800 million baht of furniture imported, 60% of which imported from three countries: USA, Japan and Italy.
The slump in the Thai economy, and in particular in the construction sector, resulted in a drastic reduction in imports of furniture of high quality since 1997.

The market of woodworking machinery

As the local production of woodworking machinery is limited to the manufacturing of simple sawing machines, cutters, tools and small machines made to order**,** 97% of woodworking machinery used by local industry of wood are imported.
The number of Thai companies in activity in 1999 using woodworking machinery was 5.098, plus 633 sawmills equipped with sawing machines. The number of companies working wood by hand was estimated to be 819, of which 49 being sawmills. Apparent consumption of woodworking machinery in 1998 was estimated to be 1.56 billion baht.

Local companies producing woodworking machinery and tools are small size companies, mainly family businesses. Currently in Thailand there are 35 manufacturers of woodworking machinery and tools for wood industry with a total turnover which in 1999 is estimated to be less than 80 million baht, down 45/50% from the figures of 1997.
Over 50% of local production of woodworking machinery and tools are exported. Japanese and European markets are importing mainly tools and machines which can carry out different operations, while Laos, Myanmar, China and other Asiatic countries are importing equipment for sawmills, assembling machines, grinders and polishing machines.

As already mentioned, 97% of local demand for woodworking machinery is met by imports, mainly from five leading countries: Germany, Japan, Taiwan, Italy and USA.
The demand for woodworking machinery has risen steadily over the last two decades, but lost steam when the economy slump affected the activity of local manufacturers of furniture and other wooden products.

Imports of woodworking machinery felt down from 4,668 million baht in 1995 to 1,640 million in 1997 and 1,528 million in 1998. From the statistics of first six months of 1999, forecasts for imports of woodworking machinery in 1999 are not positive and the trend seems to point to a 35/40% further fall from import figures of 1998.
Of the different groups of end-users of woodworking machinery, manufacturers of wooden furniture for export to foreign markets buy the highest portion of woodworking machinery, while the demand from sawmills slowed-down along this decade, and the demand from manufacturers of furniture for local distribution remains weak.

Demand of woodworking machinery from manufacturers of wooden furniture for export is increasingly oriented towards more sophisticated and higher technology (and higher price) machines.

Business environment

Currently most of the good quality furniture locally made is directly distributed by manufacturers through showrooms located in shopping centres and department stores or in specific commercial areas of Bangkok and other largest cities. Furniture of medium and low quality is still distributed through small shops. For high quality imported furniture, importers opened their own show-rooms in Bangkok, focusing both on few commercial areas, shopping centres and department stores. All imports of high quality furniture are settled by letter of credit. Mark-up for imported furniture is currently within 40% and 60% of landing cost, except for exclusive furniture of highest quality having higher mark-up. Importers of furniture usually receive quotation only in FBO prices.

Woodworking machinery imported from abroad is distributed through a few local companies acting both as commission agent and as direct importer/distributor. Only 10/15% of woodworking machinery imported in Thailand is bought from local end-user through direct order to foreign manufacturer.
Most local agents/distributor are currently looking for suppliers available for an agreement of exclusive agency, but still part of woodworking machinery is imported without any agreement of exclusive agency. To promote selling of big plants, local agents pretend at least an exclusive agency agreement limited to a specific local client or clients.
Currently only 18/20 companies are fully in activity as importers of woodworking machinery.

In the specific sectors of wood, wooden products and woodworking machinery there are no extra-tariff barriers affecting imports, except for specific types of sawing machines, which must obtain, prior to import, a licence.

In Thailand it is generally advantageous for a foreign investor to have a Thai partner A foreigner may engage in business in a form of single proprietorship, limited company, partnership, joint venture, branch of a foreign corporation, representative or regional office.

The Board of Investment (B.O.I.) is the central investment planning authority of Thailand considered by many foreign investors one of the most active and efficient investment institution of the region. B.O.I. is responsible for promoting both domestic and foreign investments in key sectors of Thailand’s economy, through the provision of a range of fiscal and non-fiscal incentives and guarantees for specific investment projects.
In the last 4 years over 3,000 applications for new projects have been submitted to B.O.I.

Conclusion and recommendations

The negative trend of the economy, that Thailand experienced in all sectors during the last two years, deeply affected imports and local demand of both furniture and woodworking machinery, but forecasts for the year 2000 are quite positive.

Thai market of high quality imported home furniture focuses mainly in products made in Italy, Spain and USA, with an increasingly competition coming from Indonesia. The perception of Thai importers is that European furniture has the best design and quality, being at the same time high-priced, but perception is also that Italian and Spanish companies are sometimes not professional in finishing, packing and shipping furniture to Thailand.

As the demand for imported furniture appears to be on the raise, there is scope for exporters of European-made furniture to pay personal visits to the Thai market to arrange agreements of exclusive agency with reliable local agents.

The demand of woodworking machinery has been slowing down, keeping in 1998 the pace of the manufacturing sector in general, but resulting in an unusual drop of imports during the first half of 1999.
The most important positive sign for a rebound of the market of woodworking machinery in 2000 is the high number of enquiries and requests of quotation that local importers received in December 1999. Enquiries are mainly from manufacturers of intermediate wooden products who are looking for offers and quotations for complete plants, more than single machines.
European suppliers of woodworking machinery (mainly German and Italian companies) are well established in the Thai market, and Thai agents and end-users have a perception of high quality for European made machinery
Since Thai end-users do not appear to be particularly brand-conscious, an accurate selection of a reliable local agent and distributor is the key to enter in the Thai market of woodworking machinery for a newcomer foreign supplier.