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Number 91

"The Construction Industry in Thailand with special  
reference to the Export of Its Services"

By

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## 1. THE CONSTRUCTION INDUSTRY AND ECONOMIC DEVELOPMENT

Among the industries capable of facilitating the process of economic development and industrialisation, the construction industry holds a very important place by providing basic infrastructure and generating employment for all levels of the workforce. It typically contributes from three to eight per cent of the gross domestic product of developing countries.<sup>1/</sup> The more dynamic and wealthier the country becomes, the higher is the proportional contribution of construction activities to gross domestic product. The output of the construction industry tends to reflect the upswing and downswing of the economy more strongly than other sectors.

Table 1.1 shows the contribution of the construction sector to Thailand's GDP between 1974 and 1983. It grew from 3.9 per cent in 1974 to 5.7 per cent in 1980 then declined slightly in the past few years.

Construction also plays a dominant role in gross fixed capital formation as indicated by the figures in Table 1.2. In the past 6 years, its contribution ranged from 40 to almost 50 per cent. In this role, it produces the basic infrastructure facilities required for transportation, communications, water and electricity supplies, building structures for commercial uses and factories for industrial activities. Construction works therefore provide the foundations on which living standards are established.

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<sup>1/</sup> See the World Bank, The Construction Industry: Issues and Strategies in Developing Countries, Table 1, pp. 12-17.

An important feature of the construction activities is that it is highly susceptible to economic fluctuation. This is mainly due to the specialised character of the product and the seasonal nature of the work. The tendency of the construction output to fluctuate is inherent in the demand structure of capital goods industries where relatively small changes in demand will cause the production capacity to expand or contract at a considerably higher rate. Because of the high cost of the product, stockpiling construction facilities is not possible, therefore there is usually no buffer between production and demand<sup>1/</sup>

In developing countries, the public sector usually plays a dominant role in generating demand for construction. For example, in African countries, the public sector share accounts for about 80 per cent of the total construction demand.<sup>2/</sup> The share is also high in capital abundant countries such as Saudi Arabia and Kuwait which are in the process of accelerating the development of their basic infrastructure. However, the share tends to decline at a higher level of development.

In Thailand, as in most developing countries, the construction industry can be divided roughly into two sectors. The first is a modern, formal sector dominated by only a small

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<sup>1/</sup> Fred Moavenzadeh and Frances Hagopian. "The Construction Industry and Economic Growth" in National Development, June/July, 1984. p. 56.

<sup>2/</sup> The World Bank, op.cit., p. 39.

Table 1.1

Gross Domestic Product by Industrial Origin, 1974 to 1983 (in percentage)

Industry \ Year										
	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agriculture	29.9	30.4	29.2	26.9	27.8	25.8	24.8	24.9	24.2	23.7
Mining and quarrying	1.5	1.2	1.3	1.5	1.6	1.6	1.6	1.5	1.4	1.3
Manufacturing	18.1	18.2	19.5	20.7	20.1	20.9	20.7	20.7	20.8	21.1
Construction	3.9	4.2	4.5	5.0	5.2	5.2	5.7	4.9	4.7	4.6
Electricity and water supply	1.5	1.5	1.6	1.7	1.7	1.9	1.9	2.0	2.1	2.1
Transportation and communication	6.4	6.1	6.1	6.3	6.2	6.4	6.4	6.5	6.7	6.8
Wholesale and retail trade	18.0	17.7	17.5	17.2	16.7	16.4	16.5	16.4	16.3	16.1
Banking, insurance and real estate	4.7	4.8	4.7	4.9	5.1	5.6	5.9	6.2	6.6	7.1
Ownership of Dwellings	1.8	1.7	1.7	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Public administration and defence	4.1	4.1	4.0	4.2	3.9	4.2	4.2	4.2	4.3	4.2
Services	9.9	9.9	9.9	10.0	10.1	10.4	10.6	10.9	11.5	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Bank of Thailand.



Table 1.2

Percentage Distribution of Gross Fixed Capital Formation  
by Type of Capital Goods at 1972 Prices. 1979-1984

	1979	1980	1981	1982	1983	1984
Construction	40.3	44.4	43.9	47.8	47.0	48.4
- Private	23.9	21.8	20.1	22.0	23.4	24.2
- Public	16.4	22.6	23.8	25.8	23.6	24.2
Machinery and equipment	59.7	55.6	56.1	52.2	53.0	51.6
Gross fixed capital formation	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Income Account, NESDB.

number of firms, including foreign ones, that use advanced technologies and management methods. These firms are responsible for the construction of major infrastructure works, as well as major commercial and industrial buildings. The second is an informal sector comprising many very small concerns, operating in rural areas or on the periphery of big cities. These small builders provide assistance to local efforts in building shelters for their families. They are usually small enough to escape most government regulation and statistical enumeration. There has been a rapid proliferation of construction firms in the informal sector to satisfy the need for private housing with the subsequent improvement in skills and building techniques.

One aspect of the construction industry which makes it an important agent for development is its ability to provide gainful employment for a large number of workers. Demand for labour is often met by taking unskilled workers from rural areas. These workers may not have the benefits of job security, promotion and training but in many ways construction jobs are suitable for the seasonal migrants who only intend to stay in the cities for a few months, earning extra cash during the slack period on the farm. For these farm labourers, construction is often their only significant employment alternative. Those who stay longer can usually upgrade their skills through on-the-job training and gradually take up more demanding, higher pay jobs.

Table 1.3 shows the proportion of employed persons in the construction industry. These data came from the Labour Force Surveys conducted by the National Statistical Office twice a year, during the peak (July-September) and slack (January-March) agricultural periods. There is a significant increase in the proportion of labour force engaged in construction activities during the slack agricultural period. For example, an increase from 1.92 per cent to 4.48 per cent was observed in 1981, which showed the ability of this sector to absorb seasonal migrants.

#### Stages of development

The construction industry in developing countries generally proceeds in five stages.<sup>1/</sup>

Stage one: foreign firms handle most construction of the larger projects, particularly in civil engineering and large scale infrastructure.

Stage two: as a result of experiences gained from subcontract work on stage one projects, indigenous subcontracting firms begin to develop.

Stage three: small local contractors execute the small projects and the maintenance and repair of projects completed in stage one.

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<sup>1/</sup> Moavenzadeh and Hagopian, op.cit., p. 59.

Stage four: domestic contractors take over most local work, regardless of magnitude. Foreign contractors find it increasingly difficult to compete with local firms as the latter become stronger, taking on tasks of higher level of complexity. Joint ventures between local and foreign firms can be formed if necessary, which allow technology transfer to occur.

Stage five: local contractors may go abroad. Foreign firms now supply highly specialised services or work only on projects which exceed the capacity of domestic companies.

It is most important that the construction capability of the country be improved continuously. In the early years of development, the basic infrastructure is built up at high cost, possibly with the assistance of organizations like the World Bank, and the contracts awarded to foreign firms through international bidding procedure. The maintenance and repair of this infrastructure should be handled by local contractors, not by bringing back foreign firms. In any case, many of the new investments are in small works that are not suitable for large multinational firms but can be executed much more efficiently using the skills and technology of local firms. In the fifth stage of construction industry development, exports of construction services can become an important source of foreign exchange earnings.

#### Purpose of the Study

The construction industry in Thailand has undergone the development from stage one through stage four successfully and for

Table 1.3

Employed Persons in Construction Industry as a Percentage  
of Total Employment, 1978-1982, during the Slack (January-  
March) and Peak (July - September) Agricultural Periods.

1978		1979		1980*		1981		1982	
slack	peak	slack	peak			slack	peak	slack	peak
2.42	1.44	3.44	1.93	1.94		4.43	1.92	3.98	2.10

Note: \* In 1980, the census year, only one round of the Labour  
Force Survey was undertaken.

Source: Report of the Labour Force Survey, Whole Kingdom,  
1978 - 1982.

the past several years has been struggling to climb up to stage five but many serious obstacles lie in its path. The purpose of this study is to look at the role of the construction industry as a foreign-exchange earner, analyse the problems facing Thai construction firms in obtaining overseas contracts and suggest the proper role of the Thai government in promoting the construction industry. Chapter 2 provides a description of the migration of construction workers to the Middle East. Chapter 3 discusses major problems constraining the export of construction services; while the future prospects for construction exports are described in Chapter 4. Chapter 5 looks at the role of government in promoting construction service exports, and the summary and conclusions are given in Chapter 6.



## 2. OVERSEAS MIGRATION OF THAI CONSTRUCTION WORKERS

After the formation of the Organisation of Petroleum Exporting Countries (OPEC), most of the Middle Eastern countries became extremely wealthy as a result of the rapid increases in oil price imposed by the cartel during the 1970s. With the massive inflow of oil revenues they embarked on highly ambitious economic and social development programmes. The emphasis in the first phase of the development plans was on building infrastructure, offices, housing and factories. However, the indigenous labour force in those countries was relatively small and lacked the necessary technical skills, and had an aversion to manual labour. Furthermore, Islamic religious beliefs resulted in a very low labour force participation rate for women.

It was necessary, therefore, to employ foreigners for those construction projects. Workers were first brought in from the poorer Arab countries such as Jordan and Egypt, but later political necessities caused the OPEC countries to seek their workforce from developing countries in Asia, mostly from India, Pakistan, Korea, Philippines and Thailand.

The Thai government has always been in favour of labour migration overseas. The fifth five-year plan specified measures to promote the migration of workers. Reducing unemployment and underemployment in the country were important reasons behind this support; but workers' remittances were seen as the most attractive

aspect of overseas migration, particularly when the country has been experiencing a chronic balance of payments deficits and the government needed all the foreign exchange it could obtain.

#### Brief History of Migration to the Middle East

Although Thailand did not enter the Middle Eastern labour market until around 1971, the migration of Thai workers actually started long before that with U.S.A. as the main destination. That first group of migrants, however, was the very skilled and highly educated - doctors, nurses and engineers, while the migration to the Middle Eastern countries was for a much shorter period and consisted mostly of construction workers. At first the number were small, and then increased very rapidly. The main attractions were the high wages, and the demonstration effect from friends and neighbours who were able to increase their standard of living substantially after only one year of working abroad.

In the early period, 1971 - 1974, migration was relatively smooth; demand was high and workers did not have to pay any commission. The agent who arranged their travel could usually claim his management fee after a period of about three months. The major problems encountered by the workers were adjusting to the climate, the loneliness and the Islamic customs. Wages were very good as most of the employers were European or American companies who not only paid well but were generous with other welfare benefits as well.

During the next period, 1975 - 1978, oil prices rose dramatically causing worldwide repercussions. The oil importing developing countries were particularly hard hit, growth rates slowed down considerably while the unemployment rates soared. For Thailand, there was also the withdrawal of American troops from their bases during 1974 - 75, resulting in mass lay-off of about 50,000 workers, most of whom worked in and around the military bases in the Northeast. This group of workers was relatively well-trained with experience and skills in construction techniques and a good command of English. The skills they possessed fitted in well with the type of jobs available in the Middle East.

It was at this time that new employment agencies began to flourish, charging sometimes exorbitant fees from the applicants as expenses for application, skill testing, passport and visa, medical check-up and so on. The situation became serious enough to warrant government's intervention. The announcement made in July 1977 on "The Sending of Thai Workers to Overseas Employers" warned the workers to contact only licensed agencies and those agencies were required to submit details of job position, employment contract and agreement between placement agencies and job applicants to the Department of Labour. Officials from the Labour Department were also sent out to inspect the agencies and arrest those which operated without a license.

The period since 1979 saw the opportunities becoming scarcer. Demand from overseas employers was still increasing but

more and more workers was competing for the jobs. Many of them had to go into debt in order to raise the money for the agency's fees. The problem of illegal or dishonest agencies became worse despite the efforts of the Labour Department to publicise the situation. The large wage differential between Thailand and the Middle East ensured that there were always large numbers of workers willing to take up contracts.

#### Estimates of Thai Workers Overseas

The estimates of Thai workers overseas vary widely among the various sources. There are no reliable data either on the annual flow or the stock of workers. Part of the problem is that many workers did not go through official channels, and some of the receiving countries are not willing to reveal data on migrant workers for political reasons.

Official Labour Department figures in Table 2.1 shows the annual outflow of workers to the Middle East and other countries between 1976 and 1984. Table 2.2 shows various estimates of the stock of Thai workers in the Middle East. The stock estimate made by the Labour Department recently indicates that the number of Thai workers overseas in 1983 was 367,352 persons, 80 per cent of whom were in the Middle East. About 60 per cent of labour migrants from Thailand went to Saudi Arabia; other major countries of destination are Iraq, Libya and Kuwait.

### Benefits to the Workers

The principal cause of this migration was the net economic benefit to be earned. Considering the large wage differential between Thailand and the Middle East, these workers were behaving rationally. As Table 2.3 indicates, workers on the average earn 4 times more than they would in Thailand. Those who were previously employed received an average monthly wage of 2,251 baht while the average wage abroad was 5,522 baht. A majority of migrants came from rural areas of the Northeast. A comparison of their overseas wage with the average wage for construction workers in the Northeast shown in Table 2.4 points out even more clearly the economic benefit these workers stand to gain from migrating.

Furthermore, the figure in Table 2.4 still understates the true earning differentials since almost all workers are provided with free food and accommodation, and they also receive about 50 per cent of their basic monthly income as overtime payments and an end of contract bonus.<sup>1/</sup> When adjustments are made to account for overtime and bonus payments, the earnings would amount to more than 12,000 baht per month.

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<sup>1/</sup> Peeratthep and Suchai estimated that overtime payment is about 43 per cent of basic salary and the workers also receive a one-month bonus at the end of the year. See Peeratthep Roongcheevin and Suchai Piyaphan, "Gold Digging in the Desert by Thai Workers", paper presented at the eleventh NIEO Workshop on Thai Workers Abroad, 27 April 1982, p. 19. (in Thai)

Table 2.1

Number of Thai Workers Sent Overseas through the Department of Labour  
by Country, 1976-1984

Country	1976	1977	1978	1979	1980	1981	1982	1983	1984
Bahrain	960	776	-	75	306	380	10	198	970
Saudi Arabia	327	2,855	8,502	7,657	9,990	9,862	88,271	51,955	48,395
Libya	-	-	-	-	6,497	10,189	9,034	5,084	7,215
Kuwait	-	-	2,176	188	958	631	611	2,573	2,617
Jordan	-	-	-	10	33	-	580	1,833	232
Iraq	-	-	-	175	988	1,979	3,140	1,472	5,900
Qatar	-	-	76	165	1,017	1,538	2,825	1,020	821
United Arab Emirates	-	-	262	146	757	59	310	161	540
Algeria	-	-	-	-	-	-	150	228	799
Oman	-	-	-	-	-	-	-	109	736
Yemen	-	-	-	6	215	-	20	-	4
Ethiopia	-	-	-	-	-	-	-	35	21
Israel	-	-	-	100	-	-	362	-	-
Iran	-	-	3,199	-	-	-	-	-	-
Malaysia	-	-	-	-	-	73	199	1,971	2,214
Singapore	-	-	500	1,911	723	1,594	1,975	1,437	2,921
Brunei	-	-	-	-	-	261	960	240	494
Macau	-	-	-	-	-	15	31	14	1
Japan	-	-	-	-	-	150	41	152	325
Other	-	239	-	134	-	9	-	-	816
Total	1,287	3,870	14,715	10,567	21,484	26,740	108,519	68,482	75,021

Source: Office of Overseas Employment Services, Department of Labour.



Table 2.2

Some Estimates of the Stock of Thai Workers in the Middle East

	(1)	(2)	(3)
Thailand	159,000	116,400	367,352
Philippines	342,300		
Korea	182,400		
Indonesia	20,000		

Notes: (1) Estimates based on origin-country sources.

(2) Interpolation of World Bank Projections.

(3) 1983 estimates by Department of Labour, Thailand.

This estimate was based on:

- a) statistics on number of contracts approved by the Department of Labour;
- b) number of the bank accounts maintained by overseas workers and the amount remitted through the banking system;
- c) information attained from the Labour Attaches of Thai embassies in the Middle East.

Source: (1) and (2) from Demery (1983).

Table 2.3

## Wages in Thailand and the Middle East

Position	(Baht per month)	
	Wages in Thailand	Wages in the Middle East
Labourer	1,404	5,135
Carpenter	2,540	8,273
Mason	2,548	8,199
Mechanic	2,251	12,004
Welder	2,600	9,131
Electrician	2,236	9,691
Painter	2,080	9,015
Driver	2,392	11,295
Foreman	4,379	11,416
Others	3,849	9,133
Average Wage	2,251	8,522

Source: Nipon Poapongsakorn, "Thai Workers Abroad: Causes, Consequences, Problems and Policies" paper presented at the Eleventh NIEO Workshop on Thai Workers Abroad, 27 April 1982, Faculty of Economics, Thammasat University, Bangkok (in Thai).

Table 2.4

Average Monthly Earnings of Unskilled Workers  
in Construction Industry, Northeastern Region

Year	Salaried workers	Regular wage earners	Temporary wage earners	Contract workers
1980	1,115	1,203	962	1,835
1981	1,426	1,316	1,312	1,499
1982	1,589	1,495	1,313	1,660
1983	1,689	1,528	1,592	1,516

Source: The Survey of Wage Structure in Thailand 1979/80 - 1982/83,  
organised by the Bank of Thailand and the Department of  
Labour.

In order to secure these well paid jobs, however, the Workers have to incur large amount of expenses such as commission fees charged by recruiting agencies, passport and visa fees, cost of transportation and accommodation during the job application process. The largest proportion of these expenses is the commission fee. The legal amount is 25 per cent of the worker's first month salary,<sup>1/</sup> which means it should come to only about 2,130 baht, given an average wage of 8,522 baht per month. But in fact, the average charge was much higher than that; a survey in 1980 found it to be almost 20,498 baht.<sup>2/</sup> Since there is excess demand for the available jobs, the recruiting agencies usually have no trouble collecting the fee.

#### Benefits to the Country

The benefits to the country as a result of workers overseas migration are not easily measured except for the foreign exchange earned from the workers' remittances. The remittances are shown in Table 2.5 growing from 485 million baht in 1976 to 19,315 million baht in 1983. These figures represent only the money remitted through official banking channels. It is well known among those who are familiar with the financial behavior of migrant

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<sup>1/</sup> In March 1984, this regulation was revised. The overseas employment agent can now legally charge a fee for his services at the rate equivalent to no more than a worker's first month salary.

<sup>2/</sup> This amount does not include interest payments and opportunity cost of wages foregone. If these two items are included, the total costs become 52,966 baht, see Peewathap and Suchai, op.cit., p. 26.

workers that upon their return to Thailand at the end of the contract, the workers normally bring with them the bonus and the last few months' wages. What is still being debated is the proportion of total earnings that was brought back with the workers, either in cash or in kind, and the proportion that was sent through informal channels. One survey estimated that on average 62 per cent of total receipts was remitted through official banking channels or brought back in the form of cash.<sup>1/</sup> The Labour Department added a figure of 25 per cent to the official remittances to represent earnings brought back in the last column of Table 2.5 raising the total remittances by overseas Thai workers during the year 1983 from 19,315 million baht to almost 24,144 million baht, which amounted to 16.6 per cent of merchandise exports in that year compared to 13.3 per cent calculated in Table 2.6.

#### Effects on Domestic Labour Market

Although the number of workers migrating to the Middle East was high, it represented only a small percentage of the domestic market labour force. For example, in 1982, the number of migrants to all countries was only .05 per cent of the labour force. It has often been debated whether this migration has led to shortage in the domestic supply of skilled workforce. When we consider that the migration process is selective, that is, workers

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<sup>1/</sup> See Charles W. Stahl, "International Labour Migration and the ASEAN Economies", ASEAN-Australia Working Paper, No. 1, 1984, Table 11, p. 18.

Table 2.5

Remittances Sent by Thai Workers Abroad through the Banking System by Country, 1976-1983

Country	Amount of Remittances									
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1983*
Bahrain	-	-	-	0.4	0.1	-	17.5	28.1	23.8	35.1
Cyprus	-	-	-	0.3	0.7	0.2	1.2	0.5	0.6	0.7
Jordan	-	-	0.1	-	1.6	4.3	8.7	10.3	2.6	12.9
Kuwait	-	0.2	2.7	10.8	29.6	57.2	177.2	280.6	639.2	350.1
Libya	-	-	0.1	-	21.2	231.3	286.3	264.6	251.9	331.2
Qatar	-	-	5.8	7.1	22.2	39.9	39.5	29.7	20.9	37.1
United Arab Emirates	0.1	2.2	16.5	5.4	14.6	10.6	20.2	26.9	37.1	33.7
Oman	-	-	0.9	7.6	16.2	27.7	23.4	32.2	29.7	40.2
Egypt	-	-	0.2	2.3	3.8	9.9	7.8	5.7	9.1	7.2
Iran	3.0	9.3	16.5	36.6	8.8	0.6	0.3	1.2	2.3	1.5
Israel	0.3	-	0.1	1.3	181.1	358.0	40.2	3.8	4.4	4.7
Lebanon	-	-	0.2	0.1	0.7	1.8	14.1	20.9	11.6	26.1
Saudi Arabia	11.6	76.0	468.4	1,212.2	3,874.5	5,814.4	9,243.0	14,666.5	15,252.3	18,333.1
Syria	-	-	-	0.3	0.1	-	-	0.02	0.03	0.03
Yemen	-	-	-	-	11.6	7.1	3.8	0.5	0.1	0.7
Algeria	-	-	-	-	-	-	-	-	-	-
Iraq	-	-	0.2	11.6	47.2	190.5	443.6	175.6	121.5	219.5
Total remittances from the Middle Eastern Countries	15.0	87.7	511.7	1,296.0	4,234.0	6,753.5	10,326.8	15,547.1	16,407.5	19,434.7
United States	367.4	591.7	1,189.0	1,842.4	2,164.9	2,358.5	2,206.7	2,071.7	2,383.0	2,589.7
Singapore	8.1	12.1	25.0	37.5	107.3	111.7	211.6	380.9	546.7	476.1
Brunei	-	-	-	-	-	-	9.9	24.6	9.9	30.7
Others	94.6	220.3	385.9	642.4	1,196.8	1,204.5	1,466.7	1,290.3	1,604.0	1,612.9
Total	485.1	911.6	2,111.6	3,818.3	7,703.0	10,428.2	14,221.7	19,315.0	20,951.1	24,144.2

Source : Bank of Thailand

Note: The figures in this column are calculated by adding 25 per cent to the figures in the third last column. This additional 25 per cent represents an estimate of cash and commodities brought back into Thailand by the return workers.



who go overseas are usually in their prime, possessing skills and experiences, and that the existing situation of excess supply for overseas labour market means only the ones with higher skills will be selected, there is a possibility of a negative effect on the domestic market.

Most contracts for Middle Eastern jobs are only for the duration of one year. The "Circulating" migration does not result in a permanent loss of human capital, but it can still represent a temporary removal of skilled manpower from domestic labour market, with subsequent shortage of certain skills. A 1980 survey in Thailand identified construction sector skills as being in short supply,<sup>1/</sup> but executives of major construction firms interviewed in 1985 did not consider labour shortage to be a significant problem, nor did they foresee it becoming serious in the near future. A slight adjustment problem may occur while new workers or workers of lower skill levels are being trained to take up the positions vacated by migrated workers.

Wage indices in Table 2.7 can be used to identify whether there are any general skill shortages. Although evidence for Thailand indicated that construction wages increased more rapidly than the average for all occupations, it was considerably milder than the conditions in Korea.

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<sup>1/</sup> Peeratthep and Suchai, op.cit., p. 37.

Table 2.6

Comparison of Exports and Remittances Sent through  
The Banking System, 1976-1983

Unit : million baht			
Year	Exports <sup>1/</sup>	Remittances <sup>2/</sup>	Remittances as a proportion of exports
1976	60,797	485.1	.80
1977	71,198	911.6	1.28
1978	83,065	2,111.6	2.54
1979	108,179	3,818.3	3.53
1980	133,197	7,703.0	5.78
1981	153,001	10,428.2	6.82
1982	159,728	14,221.7	8.90
1983	145,079	19,315.0	13.3

Source : Bank of Thailand.

### Future Demand for Thai Construction Workers

The Middle East, which has been absorbing almost 80 per cent of migrants from Thailand and probably as much as 90 per cent of migrants in construction services does not represent a bright prospect for future migration. Declining oil revenues and war in some countries resulted in a slowdown of government expenditures in most development projects and particularly in construction. This has had negative repercussions on the employment of foreign labour. In February 1985, a study published in Bahrain reported that employers in the Gulf area laid off 700,000 foreign workers during the previous year and would send home a further 300,000 workers in 1985 as the combined oil output and income of the area continued to decline.<sup>1/</sup>

In most of the Gulf countries, foreigners outnumber local workers. The fast growing presence of Asian workers has been causing official concern for some time, since the locals felt that their cultural identity was being swamped. Migrants are often blamed for social ills including the rising crime rates. A number of Thai workers had been arrested and punished for violating Islamic law by drinking and gambling. This behaviour can have a detrimental consequence on future demand for workers from Thailand.

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<sup>1/</sup> Jonathan Wright, "Job opportunities are fast dwindling as Gulf Economies Shrink, "in The Bangkok Post, 14 March 1985, p. 11.

Among the many Asian nationals migrating to the Middle East, Thai Workers have a good reputation for their honesty, skills and efficiency. As shown in Table 2.8, employers in Saudi Arabia ranked Thai workers above workers from the Philippines, India and Pakistan, and slightly below the South Koreans.

Construction firms in the Middle East have shown themselves to be quite sensitive to wage changes. When the cost of Korean workers rose sharply in the late 1970s, Korean companies quickly switched to non-Koreans, mostly from Southeast Asia, whose wages were around 60 per cent of the Koreans. In the future Thailand will face tough competition from China whose workers are both hard working and inexpensive. Indonesians also have an advantage because the Saudi government emphasised that it preferred to recruit Muslim workers.

Seeing the tough competition coming ahead, the Department of Labour has agreed to decrease the minimum wages that employment agencies were required to observe. The new levels are as follows.

Categories of Workers	<u>Monthly Wages in U.S. Dollar</u>	
	Former level	Current level
Unskilled	200	180
Semi-skilled	200 - 340	200 - 280
Skilled	350 - 390	300 - 350
Specialist	450 - 500	420 - 480

Government Policy towards Overseas Employment

The migration of Thai workers overseas has received strong support from the government, which specified in the Fifth National Economic and Social Development Plan (1982 - 1986) that its employment objectives included the following:

1. To promote surplus Thai workers to work overseas, especially in the Middle East and South Asia without creating any problem of manpower shortage in the country.
2. To promote and support registered employment agencies so that they can serve their overseas employment function efficiently and provide equal benefits to everyone concerned.
3. To promote and support Thai construction companies to gain more opportunities to be contractors or sub-contractors abroad, especially in the Middle East and South Asia.
4. To serve, supervise and solve the problems of Thai workers who were deceived by private employment agencies as well as to protect them in order that they can be treated fairly and receive fair wages while working overseas.
5. To promote and help Thai workers to remit their income to the country as much as possible.<sup>1/</sup>

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<sup>1/</sup> See Vichitra Prompunthum. "Overseas Employment Policy in Thailand", paper presented at the Conference on Asian Labour Migration to the Middle East, 19-23 September 1983, East-West Population Institute, East-West Center, Honolulu, Hawaii.

Table 2.7

## Selected Money Wage Indices in Asian Labour Exporting Countries

	1971	1972	1973	1974	1975	1976
<u>Korea</u>						
Non-agricultural	-	100	-	-	382	-
Manufacturing	-	100	-	-	382	-
Construction	-	100	-	-	418	-
<u>Philippines</u>						
Skilled	-	100	-	-	151	-
Unskilled	-	100	-	-	126	-
<u>Thailand</u>						
All occupations	-	-	100	-	-	173
Construction	-	-	100	-	-	194
<u>Pakistan</u>						
Agricultural	100	-	100	287	-	-
Manufacturing	100	-	-	324	-	-
Construction			(20-30% p.a.)			(20-30% p.a.)

Source: Demery (1983). Table 10 p. 29.



Table 2.8

Evaluation of the Efficiencies of Asian Workers by  
Saudi Employers

Nationality	Number of hours worked	Efficiency hours equivalent
Korean	8	8
Thai	8	$7\frac{1}{2}$
Filipino	8	$6\frac{1}{2} - 7$
Pakistani and Indian	8	2 - 3

Source : Labour Review in Thailand, Department of Labour, Ministry  
of Interior, January - March 1983, p. 46.

As stated above, the Fifth Plan specifically recognised that the promotion and support of Thai construction companies to obtain overseas contracts should be an integral part of promoting Thai workers to go overseas. Apart from expanding job opportunities for the workers, other benefits include reduced expenses which would have gone to pay commission fees for the recruiting agencies, as the construction firms may conduct the recruitment themselves. On this issue, the existing regulation of the Department of Labour will have to be revised. The current regulations do not allow firms with overseas projects to bring out workers directly. Rather, they have to use the services of the registered agencies. The problem concerning remittances would also be substantially reduced. Instead of workers individually sending their money from abroad, the employer can arrange to have most of the wages paid directly to the workers families in Thailand.

Thai employers are also less likely to be caught in a situation where their skilled workers have just gone off to the Middle East and they are left with the task of training new workers for replacement or hiring trained workers away from other firms at high cost. If a Thai contractor obtains an overseas project, he will know in advance what type of skilled workers will be required for the job, how many and when. He can accordingly plan his training and hiring programmes so that no shortages occur.

As the various benefits to be derived by both the workers and employers, plus the obvious benefits to the country in the form of increased foreign exchange are clear, the rest of this study will address the issue of the role of government in promoting the export of construction services.

### 3. MAIN PROBLEMS CONSTRAINING THE EXPANSION OF THAILAND'S CONSTRUCTION EXPORTS

The last Chapter showed that Thai construction workers have been much in demand by overseas employers; and in the past several years they have sent back an increasingly large amount of remittances, providing our country with the much needed foreign exchange. These workers, unfortunately, face quite a few problems both in the process of applying for the jobs and in the course of their employment overseas. It has often been contended that if Thai construction firms can get more and larger contracts overseas, not only will there be an increase in employment opportunities for Thai workers but they will also receive better treatment than working with foreign employers. Furthermore, additional benefits for the country will arise from an increase in the export of construction materials, food and other related goods and services. This chapter will look at difficulties facing Thai construction firms in their efforts to obtain overseas contracts.

Thai contractors have shown by their performance domestically that they are capable of handling construction projects of various kinds at a standard equal to that of other Asian firms, such as Korea, Pakistan and the Philippines which have all been awarded a large number of construction contracts in the Middle East. However, up to the present time, Thai firms

have not been able to compete successfully for those contracts. The major reason was the lack of government support in the form of guarantees and fiscal incentives.

### Requirements for Undertaking Overseas Construction

#### Contracts

In order to understand the obstacles facing Thai construction firms, it is necessary first to outline the various steps and requirements involved in bidding for an undertaking overseas construction contracts.<sup>1/</sup>

1. Pre-qualification: for most major projects, the client will hire an internationally reputable firm of consulting engineer to select a short-list of construction firms which will be eligible to tender their bids for the contract. Factors that are considered by the consulting engineer usually include recent experience of the construction firm in similar projects, the quality of its personnel and equipment, the readiness to undertake the project and the strength of its financial position.

2. Bid guarantee: in making a bid, the contractor is required to have a bid guarantee or a bid bond deposit amounting up to five per cent of the contract value. This bond has to be guaranteed by a bank of the country in which the project is located

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<sup>1/</sup> Sub-Committee on Overseas Contracting Relating to Financial Matters, "Proposal to Establish a National Construction Company for Overseas Projects", June 1978, pp. 1 - 3.

and counter-guaranteed by a bank in the home country of the contractor. The contractor forfeits the bond if he wins the bidding but does not accept the contract.

3. Performance guarantee: at the time of signing the contract, the contractor has to provide a performance bond amounting from 5 to 10 per cent of the value of the contract. This performance bond has to be guaranteed in the same way as the bid bond deposit. The performance bond is forfeited if the contractor fails to complete the project in accordance with the specification of the contract.

4. Advance payment guarantee: at the beginning of the project, the client usually makes an advance payment to the contracting company amounting from 10 to 20 per cent of the contract price to cover mobilisation costs such as buying capital equipment. This advance payment also needs a guarantee similar to the performance bond but the period of coverage is considerably shorter since the client generally recovers the advance payment by deductions from the monthly payment to the contractor.

5. Retention guarantee: in some cases the client retains a portion (usually 10 per cent) of the monthly payments to the contractors as a retention fund to pay for possible damages or faults arising from completed works. If the contractor prefers to have the cash available for operating expenses, the retention fund can be substituted by an acceptable bond or bank guarantee.

### Other Financial Needs

Apart from the fees charged by the banks at each stage of the guarantee, an additional financial cost associated with this guarantee practice is that in most cases, the Middle East client insists on an unconditional demand guarantee which means it can be called on by the buyer without the need to prove any breach of contract. Since the Middle East was such a lucrative market, foreign contractors have had to accept this burden, taking out insurance to cover the risk. In the 1970s when oil revenue was flowing steadily into the reserves of the Middle Eastern countries, the insurance premium was reasonable as the risk of the client unfairly calling the bond was small. However, now that these countries are suffering from declining revenue as result of the oil glut, the risk that they may call the bond unfairly becomes greater and consequently the insurance premium has increased.<sup>1/</sup> All this means that the cost of doing business in the Middle East is rising all the time.

The requirements that contractors have to meet in their Middle Eastern business dealings can become very burdensome when it is considered that each project involves a large amount of money, about \$100 million on the average, therefore the financial exposure of the contractors often prevent them from even attempting to enter the bid. For example, a firm can find that the guarantee it has taken out with its bank has reduced its ability to borrow for other purposes since outstanding guarantees are

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<sup>1/</sup> Middle East Review 1984 "Bonds and Guarantees: Hidden Costs of Doing Business", pp. 37 - 38.

usually considered as part of a firm's credit. Furthermore, if a firm is bidding for several projects at the same time, all the bid guarantees put together can make it very difficult for the firm to obtain financing for the performance bond of the project awarded. Some banks have a policy that they will not issue a bid bond if the subsequent performance bond would breach a firm's credit ceiling.<sup>1/</sup> Large companies dealing with several banks therefore have an advantage over small ones and they can also negotiate for lower fees. The fee currently paid by Thai construction firms is about 1 - 1.5 per cent.

We have just seen that bid bonds, covering less than 5 per cent of contract value, can impose a severe restriction on small firms. Performance bonds which cover 5 - 10 per cent of contract value will therefore involve much greater financial exposure and the advance payment bond can be even more serious since advance payment sometimes covers as much as 20 per cent of the contract value. The guarantee required is consequently very large, often more than the capacity of any one bank to cover fully. In such a case, the common practice is a "syndicated guarantee" which spreads the risk among several banks, sometimes from many different countries.

Besides the various bonds and guarantees, there are other basic financial needs of construction companies in undertaking

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<sup>1/</sup> Ibid.



overseas contracts. These consist mainly of short-term funding for working capital and medium-term funding for equipment purchases.

Contractors need short-term financing on a project by project basis to meet the costs incurred prior to receiving any payment under the contract for work executed. These costs occur in the process of bid preparation, mobilisation of labour and equipment, advance payment to material suppliers, and so on. In addition, during the period before receipt of payment for any work done, overdraft facilities may be required to meet day-to-day operating expenses. Furthermore, contractors need medium-term financing for their fixed assets and permanent working capital requirements.<sup>1/</sup>

#### Reasons for Financing Difficulties

It is extremely difficult for Thai contractors to get financing from commercial banks in the country where the construction projects are located since the banks have no information on their credit worthiness. Any loan or overdraft application to the banks in the project country will have to go through the same procedure as the guarantee discussed in the previous section, that is, require endorsements not only from a Thai bank but also from at least one other large foreign bank acceptable to the local bank of the client.

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<sup>1/</sup> Sub-Committee on Overseas Contracting Relating to Financial Matters, op.cit., p. 4.

Even the largest Thai contractors have found that Thai commercial banks are not willing to finance overseas construction projects. The reason for this behaviour is simple. There is no denying that the risk involved in lending or guaranteeing construction activities is greater than most types of economic activity such as manufacturing or services. A construction firm does not operate at a fixed location but moves from site to site wherever and whenever work is available. Contractors generally have a small office building and a plant yard, located on cheap industrial land. The machinery and equipment, their principal physical asset, have to move with site of work and are constantly subject to rough treatment. They have a useful life of just five to seven years. These assets provide a narrow collateral base.<sup>1/</sup>

There are various risks the construction entrepreneur must face. His main task involves the organisation of men, machines and material inputs. Each job involves a new bid and the cost can vary greatly for products that are similar, depending on location, weather condition, inflation, labour and equipment productivity, and the time required for the delivery of output. In some countries such as those in the Middle East or Africa, political conditions prevailing at the time the project is being undertaken can be crucial factor in determining the cost and consequently the success of the project.

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<sup>1/</sup> The World Bank, op.cit., p. 73.

With the various risks mentioned above, commercial banks in many developing countries are reluctant to finance construction firms except when loan applications are backed by real assets as collateral. Even then, loans issued are often for a small fraction of the assets' worth. Therefore, contractors frequently have to obtain additional financing from non-bank sources and pay very high interest rates.<sup>2/</sup>

Thai commercial banks do not have staff who are qualified enough to monitor construction projects efficiently even when the projects are located in Thailand. For overseas projects, the supervision becomes practically impossible. The expected rate of return from extending credit facilities to overseas contractors is thus very low which is the major reason for their reluctance to support the contractors or will only do so at fees high enough to compensate for the risks involved. The cost to the contractor rises accordingly, reducing his competitiveness in the world market, especially against contractors who receive strong support and subsidies from their governments.

In sum, Thai construction companies have not been able to compete overseas for large projects because of their inability to obtain the necessary guarantees and financing or can only do so at a high cost. Therefore, they were forced to be satisfied with the status of subcontractors or with projects of small value.

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<sup>2/</sup>

Ibid., p. 76

Having considered the problems constraining the expansion of overseas construction exports on the supply side, the next chapter will discuss the constraints on the demand side by looking at future prospects of overseas demand for construction services and the competition that Thai firms are likely to face in the world market.

#### 4. FUTURE PROSPECTS FOR CONSTRUCTION SERVICES EXPORTS

This chapter will consider future prospects for Thai contractors in securing overseas projects in the Middle Eastern and ASEAN countries. It will discuss the difficulties that Thai firms may encounter in some countries that have been important markets in the past, both in the form of competition from foreign construction firms and in the form of the governments' protectionist measures.

##### Prospects in the Middle Eastern Countries

##### Saudi Arabia

The 1970s were the boom years for overseas contractors in Saudi Arabia. Since then declining oil prices and revenues have caused the market to contract considerably. The third development plan (1980 - 85) is coming to an end while the fourth plan has just been outlined; therefore the future trend of the construction sector in this important market has not been analysed in much depth.

The general indication, however, is that the Saudi construction market may recover in 1985 but the period beyond that does not look too promising. High level Saudi officials who in the past had advocated a freewheeling business approach now tend to be more conservative and begin to support protectionist measures. New policies were announced which favour Saudi Businessmen over foreigners.

The construction sector in Saudi Arabia was first dominated by European and American multinational firms and then later by South Korean firms. The stage now belongs to Saudi contractors who were once confined to the bottom end of the market but when their government embarked on an accelerated development path, they have had the opportunity to gain experience over the years, first as sub-contractors but later in an increasingly significant role as prime contractors. Not only are they now winning contracts for public buildings, roads and plant engineering but they are also competing for operation and maintenance contracts which foreign contractors had thought they could fall back on after a long period of dominance in building and road construction. South Korean contractors which used to draw around 60 per cent of their business from Saudi Arabia found their new orders dropped from \$ 5 billion in 1983 to \$ 3.9 billion last year.<sup>1/</sup>

Furthermore, there have recently been some changes in contracting practices openly favouring local companies. For example, in consideration of the local firms' small capacities, whenever possible the Saudi government has tried to break big projects into small parts. The average project size is now around \$ 20-30 million, compared to \$ 150-200 million in the past.<sup>2/</sup>

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<sup>1/</sup> Paul Ensor, "Sinking Foundations", in Far Eastern Economic Review, 7 February 1985, p. 91.

<sup>2/</sup> Ibid.

This practice has increased overhead costs for the contractors and reduced profitability. Net profit per project declined rapidly, for example, the profit rate for Korean construction companies dropped by nearly half between 1980 and 1981, from 10 per cent to just over 5 per cent.<sup>1/</sup>

An additional protectionist measure was introduced in March 1983 by the Saudi government. A decree was issued requiring contractors with majority foreign ownership to sub-contract at least 30 per cent of their government contracts to local companies. This "30 per cent rule" means that foreign contractors are now seeking new Saudi partnerships, often on conditions obviously of great advantage to local firms. Another move which seems to be motivated by Saudi Arabia's concern for the transfer of technology was the requirement applied to defense contractors whereby they were required to invest 35 per cent of the value of project in high technology industries in Saudi Arabia. This offset investment may also soon be applied to contracts in other fields.

The cost of entering the Saudi construction market is now even further beyond the capacity of small firms. Bid documents are priced outrageously and with many more firms competing in the Saudi market, rebidding is now a widely accepted practice, resulting in bids that are often "suicidal". A few contractors went bankrupt

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<sup>1/</sup>

Shin Jae Hoon, "Tough at the Top", in Far Eastern Economic Review, 12 March 1982, p. 98.

as a result of projects on which they had bid too low. When a cash flow problem develops, they bid lower still for other projects in an attempts to use advance payments to complete outstanding projects.

The failure of South Korean contractors results in financial loss to the banks that provided them with guarantees. Realising the possibility of serious problems in the future, the Korean Construction Ministry was prompted in 1981 to set up a \$ 500 million fund, to be contributed by construction companies over a 10 year period. The fund will help cover losses from penalty claims.<sup>1/</sup>

Since 1982, construction companies were encountering difficulties in receiving progress payments from their Saudi Arabian customers. But since most of them have made large investments in machinery and equipment in the country, they could not afford to leave. In 1984, Saudi clients owed \$ 3 million to South Korean firms in back payments. Disputes over purported defects in completed works have been used as an excuse to stall on payments. There was one case where the client took two years before issuing the final certificate of completion to the contractor.<sup>2/</sup>

After the completion of her basic infrastructural development, Saudi Arabia has embarked on the next phase of her

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<sup>1/</sup> Ibid.

<sup>2/</sup> Paul Ensor, op.cit., p. 91



drive to industrialisation, involving the development of petrochemical, steel, and shipbuilding industries. Large South Korean companies, which have been under a great deal of pressure from local and Turkish firms have started to move out of labour-intensive into technology-intensive work. An executive of the Hyundai conglomerate commented that for South Korea to stay on in the Middle East, the only way is to handle plant operation and high technology work. Since South Korean companies have had great experience in building power stations. nuclear plants, gas separation plants and so on, they stand a better chance than contractors from the Philippines, Pakistan or Turkey who have recently been trying to gain a foothold in the Saudi market by tendering bids as much as 20 per cent lower than South Korean firms.<sup>1/</sup>

With large foreign companies now competing in the Saudi market, it is clear that the smaller projects and maintenance and service works seem to hold out the best prospects for Thai firms.

#### Kuwait

Elsewhere in the region such as Kuwait the construction sector has also been somewhat depressed since 1982 when the country's unofficial stock exchange collapsed. The government responded to reduced oil revenues by economising, for example, by cutting down on government payrolls for civil servants. Overall,

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<sup>1/</sup> Shim Jae Hoon, op.cit., p. 97.

however, Kuwait is still in a much better position than most of her neighbours. The discovery of new oil fields in 1984 has added more than 23 billion barrels to the country's known reserves.

The Kuwait commercial sector was hard hit by recent setbacks from the Iran-Iraq war and stock market crisis. The private sector has put pressure on the government and this pressure will have some impact on the contracting scene, at least in the short run. There has already been serious concern about placing more emphasis on local contractors, for example, the Kuwait Chamber of Commerce and Industry has started lobbying to award more contracts to Kuwaiti companies wherever possible. It also proposed that when foreign firms were awarded the contract, 40 per cent of the work should be allocated to local companies. In April 1984, the cabinet approved measures to bar foreign contractors from taking part in public sector construction work except in cases where the overseas company has certain kinds of expertise that Kuwaiti firms lack. In such cases, foreign contractors are still obligated to buy all their construction materials locally and must sub-contract work to Kuwaiti companies.

#### Oman

Oman is one Middle East country that still seems to provide good prospects for construction firms. Its third five-year development plan (1985-89) includes for example, a \$115 million sewage programme, a \$290 million extension to the main ports

and a \$131 million water catchment project.<sup>1/</sup> The plan also continues to emphasise rural development. The contracts for these programmes are likely to be broken down into small packages to give local firms a better chance of winning them. However, since there are no specifications favouring local firms, these small projects also mean that there should be a better chance for Thai contractors to compete with other foreign firms.

#### Opportunities in the ASEAN Countries

With the prospects in Middle Eastern countries becoming dimmer, many Thai contractors have already begun turning towards ASEAN markets. But there again, they have to be prepared to face protectionist measures from the host country and fierce competition from multinational contracting firms returning from completed projects in the Middle East.

#### Malaysia

In Malaysia, even though large projects will continue to be undertaken, such as the \$1.6 billion rapid transit project and the \$4.8 billion to upgrade the country's rail transport system, there are several factors that could complicate contracting work in that country. Foremost among them is the New Economic Policy, inaugurated in 1970. The policy was designed to

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<sup>1/</sup> Worldwide Projects, Vol. 9, No. 5, October-November 1984, Intercontinental Publications, Inc. p. 28.

reduce poverty and ensure that the country's wealth and job opportunities are evenly distributed within this multi-racial society. Its goal is to place ownership of at least 70 per cent of the nation's corporate wealth in the hands of Malaysians, with at least 30 per cent owned by indigenous Malays, the Bumiputras. And this goal is expected to be achieved by 1990.

In practice, this means that a foreign firm must have a local partner, preferably with a Bumiputra at its head, to stand a chance of winning a contract. Malaysian contractors, however, are reluctant to acquire joint-venture partners unless the partner has a specialised skill required in a particular project. The governments of South Korea and Malaysia signed an agreement in 1981 to undertake major government projects. The agreement which was signed with the countries' construction association provides for "most favoured" treatment of South Korean joint ventures. In exchange for this commitment, South Korea will provide on-the-job training to Malaysian skilled workers.

Furthermore, the government has been following the "Look East Policy" which aims at reducing the country's dependence on the West and instilling Japanese and South Korean work ethics and management style. The policy has resulted in Japanese and Korean contractors taking the lion's share of projects. Recently however, there have been signs that the government is reassessing this policy.

Singapore

In Singapore, the property glut has resulted in a slow-down in the progress on several construction projects. This surplus supply of office, retail, residential and hotel space is expected to last until 1987.

In mid-1984, the Singapore government created a Construction Industry Development Board, which aimed to promote the modernisation of the local building industry by importing, adapting and transferring foreign building technology and by nurturing a stable pool of Singaporean construction workers. A Construction Industry Training Center has been set up with the objective of turning out two to three thousand skilled workers each year to replace the hundred thousand foreign workers currently employed in construction.

The government has resolved to phase out Indian, Sri Lankan, Filipino, Indonesian and Thai workers by 1991. At the same time, it has reclassified work from Hong Kong, Macau, an Economic Island, South Korea and ethnic Chinese from Malaysia as "traditional-source" labour, with the possibility of assimilation and citizenship.

A list of "super builders" has also been drawn to register firms that can produce work of uniformly high standards. Foreign firms may register with the board, detailing their net worth and work experiences. Except for the Mass Rapid Transit

Project, contractors not on the register will not be allowed to tender for government projects.<sup>1/</sup>

#### Brunei

Although the overbuilding of offices, hotels and shopping complexes is occurring throughout most of Asia from Singapore to Hong Kong, not to mention Bangkok itself, this problem is less acute in countries that have started their drives to development only recently, where there are still significant amount of infrastructural facilities to be completed. One example is the tiny, oil-rich Brunei which has just gained its independence from England in December 1983.

While most oil-exporting countries are scaling down their development budget, Brunei is launching a large economic development programme, which is financed by the government's Brunei Development Fund, focuses on diversifying the economy by developing agriculture, forestry and fisheries, it also seeks to improve Brunei's road, sea and air communications. This means a steady flow of projects, the bulk of which will be contracted out to foreign firms, using foreign labour and imported materials. Foreign contractors interested in undertaking projects in Brunei have to be registered with the Legal Department by submitting a letter of intention, stating their qualifications. The Public Works Department who oversees the bidding of all construction

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<sup>1/</sup> For further details on upcoming construction projects in various countries, see Worldwide Projects, op.cit.

projects will then classify the contractors into one of the four levels, which will determine the size of the projects they are qualified to undertake. This process takes about six months. The registration can be in the form of setting up a branch office, a new company with 100 per cent foreign ownership or as a joint venture with a local firm.

The invitations to bid are announced weekly in an official malay publication about 15 days beforehand except for large size, highly technical project which will be given more time. Bidding documents are all in English and the bid guarantee is usually 5 per cent of the contract value. The guarantee has to be from local banks only but many projects do not require a bid guarantee. Instead there has to be a letter from a local bank confirming that it will issue a performance bond if the contractor wins the bid.

Even though the wealth of the government and the lack of protectionist measures make the construction opportunities in Brunei look the most promising among the Asian countries, the small size of the country and its population means that the process of building up basic infrastructure, offices and housing will soon reach its saturation point, and the government is also very careful with its spending.

### Foreign Competition

At the same time that construction activities in most Asian countries are taking a downturn. Competition among the builders has been made more keen by the return of several firms from completed Middle East projects. The Asian construction industry has undergone a rapid growth during the 1970s when there were opportunities for massive contracts in the Middle East with Korean, Japanese and an Economic Island's firms receiving most of the benefits. However, now that Saudi Arabia, the largest market, has completed most of its infrastructural works, Iran and Iraq are engaging in a war, and oil price is declining, the Middle East area is no longer as profitable, and Southeast Asia is seen as the next obvious choice. Korean, Japanese and an Economic Island's firms begin appearing on the tender lists of contracts in Asia in increasingly larger numbers. These firms brought with them advanced management techniques, large capital reserves, high technology construction methods and a sophisticated bidding system. All these factors enable them to undercut local contractors and win major contracts.

From the situation described thus far, it is clear that Thai contractors are facing more serious competition than ever before in a market that is declining. If the Thai government is to rely on construction firms as a source of foreign exchange earnings and employment generator, some form of support will be needed. In the next chapter we shall look at past attempts at cooperation between the government and the contractors, the reasons for their failure and a possible course of action for the future.



## 5. ROLE OF THE GOVERNMENT IN PROMOTING CONSTRUCTION

### SERVICES EXPORTS

For many years there has been an ongoing dialogue between Thai contractors and the government about the appropriate role and support of the Thai government in promoting overseas contracting business. The government has maintained an interest in this matter since it considers that Thai firms possess experience and skills on the same level as those of other Asian countries. Appropriate support could help them to be more flexible and reduce their costs to a level competitive with other Asian firms. It will also create opportunities to expand Thailand's economic base which is in line with the government's general policy. Once the construction industry has gained a foothold, the contracts established could lead to the promotion of other businesses, such as supply of materials, maintenance and repair, shipping and other services.

#### Review of Past Efforts

The interest in promoting overseas construction started in 1977 when Prime Minister Kriangsak Chamanan, seeing the export of construction services as a means to earn needed foreign exchange to ease the country's balance of payment problem, issued an order to several government agencies to consider policies and measures supporting the attempts of the private contractors to bid for overseas construction projects particularly those in the Middle East.

In January 1978, the President of the Thai Contractors' Association submitted a report to the government detailing the problems and obstacles facing Thai contractors in bidding for overseas contracts. The problems could be summarised under three categories:

One. Most construction projects in the Middle East were very large, involving around one billion baht. Bidding or undertaking a project required of such scale the submission of various types of bonds or guarantees. Those guarantees in aggregate could amount to 25 per cent of total project value which made it virtually impossible for any one private company to find a financial institution which would be interested or willing to take the very high risk of supporting the project.

Two. There were no tax exemptions for overseas business, unlike in other countries such as Korea and the Philippines. This meant that Thai companies had to bear much higher costs than their competitors, resulting in higher bids and therefore reduced their chance of winning.

Three. Many of the existing rules and regulations did not facilitate private firms to undertake overseas contracting business.

Soon after that, the Council of Ministers appointed a committee chaired by the Minister of Commerce to study measures to support overseas business. Two sub-committees were set up to

investigate and report on the possible measures relating to finance and labour respectively. The main area of focus was the Middle Eastern countries which were enjoying a period of construction boom at that time.

Proposal of the Finance Sub-Committee<sup>1/</sup>

The Finance Sub-Committee proposed that in order to be in a stronger position to qualify and compete for construction contracts in the Middle East, it would be necessary to form a National Construction Company to pool capital as well as construction and marketing capabilities. The objectives of the company were:

1. To issue the various guarantees required for the construction contracts.
2. To arrange loan financing up to 25 per cent of the value of the contract, which will be secured only by assigning the right to receive payment under a contract to the company.

In addition, it was expected that the company will also perform the following functions:

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<sup>1/</sup> Sub-Committee on Overseas Contracting Relating to Financial Matters, "Proposal to Establish a National Construction Company for Overseas Projects", June, 1978, pp. 4 -5.

- (i) Maintain high professional standards by ensuring that only fully competent and reliable Thai contractors are its members.
- (ii) Bid for overseas contracts on behalf of its members.
- (iii) Allocate contracts among its members or form consortium of members if necessary, but retain responsibility for the satisfactory completion of the contract.
- (iv) Assist members who have problems fulfilling their contract.
- (v) Provide training facilities for construction skills and professions.

A number of Thai contractors later agreed to establish the Thai Contractors consortium (TCC) with stated purposes similar to those listed above but with no direct financing or guarantee function. It has a registered capital of 100 million baht and office was set up in Riyadh, Saudi Arabia..

Existing financing facilities available Thailand were considered to be adequate for the requirement of the overseas and limited in their capacities to provide guarantees for overseas contractors. The finance sub-committee therefore recommended the following alternative guarantee schemes which would be essential in order to enable Thai construction companies to compete on an equal basis with those from Korea.

1. Direct government guarantee through the Ministry of Finance. This method, although direct and simple, would require revision of existing legislation in order to empower the Ministry of Finance to guarantee private firms.

2. The government could set up a guarantee corporation which would provide guarantees for high priority areas, including the overseas construction industry.

3. Private sector financial institutions could form a guarantee corporation with the specific purpose of providing guarantee for the overseas construction industry. This corporation should be established under a special law to enable the government to guarantee its obligations.<sup>1/</sup>

Additional supportive measures recommended by the sub-committee include reduction of duties levied on machinery and equipment used in overseas construction projects, exemption or reduction of taxes on income earned overseas and permission to open foreign currency accounts.

In the meantime, however, although the contractors had indicated their seriousness in going overseas, the government moved extremely slowly. The proposal submitted by the finance sub-committee received many objections from the several related

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<sup>1/</sup> Sub-Committee on Overseas Contracting Relating to Financial Matters, "The Promotion and Support of Overseas Construction Work by Thai-Contracting Companies, October, 1978.

government agencies especially regarding financial support. Officials of the Ministry of Finance and Bank of Thailand were very reluctant to extend assistance as the financial situation of the Thai government during that period (1978-79) was very tight. They also felt that the setting up of special financial institutions was not yet necessary and existing private institutions should be used to the fullest extent first. But it was difficult for contractors to obtain support and guarantees from Thai Commercial banks which at that time were not familiar with this form of extending credit plus the fact that each project was of extremely high value. The risk involved would have been too great for them.

After the committee headed by the Minister of Commerce was dissolved in September 1979, a new committee was again formed to consider policy measures to promote the overseas construction business. This new committee never had a chance to do much and was automatically abolished when the government resigned in early 1980. The Thai Contractors Consortium, seeing no help coming from the government and incurring a large amount of expenses in maintaining a Riyadh office, finally gave up and closed down its office in July 1980.

#### Recent Attempts

The new government headed by Prime Minister Prem Tinsulanond, however, continued to be interested in this issue. Again a committee, and sub-committees were set up to suggest

policies and measures towards overseas contracting business.

In March 1981, the Governor of National Housing Authority led a group of representatives from the Thai Contractors Association to meet the Prime Minister and asked his government to reconsider made three years earlier by the committee chaired by the Minister of Commerce in which a National Construction Company was to be set up with government holding a majority share. The National Housing Authority proposed to play an active role such as selecting eligible companies to undertake the bidding and arranging joint-ventures when appropriate. The provision of guarantees was to be the responsibility of the Krung Thai Bank, the Government Housing Bank and the Industrial Finance Corporation of Thailand. That meeting did not provide any fruitful result either, except another announcement by the Prime Minister that his government strongly supported private contractors' effort to bid for overseas contracts. Two years later, the Committee to Coordinate Thai Business Abroad and the Coordinating Center for Promotion of Business Abroad were set up. The function of the centre was to:

- i. screen overseas business projects that request the government's support and submit them to the committee;
- ii. coordinate the process of solving the problems relating to business abroad both on the public and private sides;

- iii. coordinate work which concern the creation of opportunities to expand the market for construction and other business abroad;
- iv. coordinate with foreign government and businessmen both in Thailand and abroad in relation to bidding and contractual arrangements with foreign governments and companies.

Since its establishment, the centre has directed its major effort towards solving the guarantee problem as this is considered to be the most important obstacle preventing Thai contractors from expanding their overseas markets. It has also coordinated the formation of jointventures between Thai firms which enables them to bid for projects of high value.

#### Lessons from South Korea

When the issue of government promotion measures towards the export of the construction industry was brought up, one example that was always referred to was South Korea which had given various kinds of support to her construction industry. But were all those measures really appropriate? Were there any problems encountered by the government after the support has been granted? Can Thailand draw any lessons from the Korean experience?

There have been some doubts whether the Korean government measures were necessary and welfare-improving. Given that Korea was experiencing very large current account deficits, rising unemployment and excess capacity in the construction industry,



those measures may have been the expedient solution. The oil crisis may have justified the all out support given at that time, but there was evidence which indicates that the support was maintained well beyond the crisis and might have had an adverse effect on the Korean economy.<sup>1/</sup>

The government of Korea began taking measures to promote an "Advance to the Middle East" since 1975. The Overseas Construction Promotion Act was established in December 1975 - two years after a Korean company won a construction contract in the Middle East. The Act requires a construction company to be licensed by the Ministry of Construction. The licensed company needed to obtain a permit to bid for a construction project. The Minister of Construction was also empowered to arrange for the formation of a joint venture among Korean companies if he considered that to be necessary such as in the case of a large scale construction project. Furthermore, the Minister may restrict some firms to the status of subcontractor to work only with other Korean companies that have obtained overseas construction contracts.

The stated purpose of the Act was to support and manage the export of construction services and the requirements above were meant to increase the professionalism of the construction

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<sup>1/</sup> See Chung H. Lee, "Government Promotion Measures for Construction Service Exports to the Middle East", Department of Economics, University of Hawaii, 1984, and Byung Ho Park, "Economic Consequences of Middle East Advance in Overseas Migration of Koreans, Seoul National University, Institute of Population and Development, 1983, pp. 11-51 (in Korean).

industry, to improve its technical competence and thereby strengthen the international competitiveness of the Korean construction industry. What it has done, however, was to reduce competition among Korean companies abroad and in so doing Korea may have been able to retain some of her monopoly rent. Lastly, since the Minister of Construction has the authority to issue licenses, to specify which company will have the status of prime or subcontractors, it is very likely that the opportunity is open for the rent to be shared by some officials in the government.

Another important supportive measure of the Korean government is in the form of various subsidies, both direct and indirect, through the provision of bond and guarantee services by government controlled banks. The banks posted bonds on behalf of the construction companies and the cost of these services is borne by the banks which also provide the contractors with a stand-by letter of credit in case they need to borrow funds in the Middle East.

The government also provided insurance on losses that could occur to the companies as a result of foreign exchange control, war or abrogation of the contracts by the Middle Eastern clients.

Another subsidy given to the contractors was in the form of a lower tax rate. In 1975, the corporate income tax on earnings from overseas construction activities was reduced by 50 per cent. But in 1982, the government announced that only 2 per cent of foreign exchange earned from construction activities will be tax-exempt.

All the above subsidies and supports were rooted in the Korean government's desire for foreign exchange, therefore, in return for the support given, the government required that 80 per cent of wages and salaries of construction employees be paid in Korea and the companies may keep only up to 3 per cent of foreign exchange earnings on site, the rest having to be remitted to Korea within thirty days.

Have all these measures achieved the desired result ?  
Has the balance of payment deficit and unemployment rate been reduced ?

It has been contended that the policy was appropriate when it was instituted, that is, when Korea was suffering from the effects of the oil crisis. The country was facing high oil prices and weakening world demand for her manufactured exports. The obvious answer to the problem of the current account deficit and unemployment was thought to be the promotion of construction service exports.

Given that the Korean economy was experiencing labour surplus and excess capacity in the construction industry, the initial effects of the measures outlined above were very positive; the current account deficit improved tremendously and the unemployment rate went down. However, only a few years after the measures were in use, the labour surplus condition disappeared, and the expansion of construction service exports was made at the expense of the other sectors of the economy. This action cannot be justified by the usual infant industry argument since

The Korean construction industry in 1975 was not at an infant stage needing support in order to be able to compete with contractors from developed countries. On the contrary, at the time of government intervention, some Korean firms had already been working in the Middle East, although they had not yet been operating with highly advanced technology and management know-how. The external effect argument cannot be supported either. Korean firms did not seem to be acquiring any technology which they otherwise could not obtain at home. The technology they possessed was already quite adequate for undertaking most of the projects in the Middle East.

It is difficult and probably not relevant to try and draw implications from the Korean experience in our discussion of the proper role of the Thai government towards the exports of construction services. Most of the arguments about the adverse effects of construction exports in Korea focus on macro variables such as economic stability and the structure of the economy. But the situation in which Korea found herself when all those supportive measures were instituted was not likely to be repeated again especially the demand side factor, that is, the construction boom of the sort that occurred in the Middle Eastern countries in the 1970s. Korea's construction industry had the capacity to take advantage of it and the government was desperate enough for foreign exchange to attempt those measures which required very strong political will. Under the leadership of President Park, and the very controlled nature of the Korean economy where the government

already has large amount of intervention in the market, the measures proved to be successful in achieving its primary objectives of reducing the balance of payments deficit and unemployment.

When the Thai Contractors Association made its urgent request to Prime Minister Kriangsak eight years ago, the demand for construction services in the Middle East had already begun its downward trend. The present market conditions, as described in chapter 4, indicates very tough competition for Thai firms. Therefore, we cannot simply pick up the measures that the various government committees and sub-committees and the contractors themselves have spent so much time and effort devising but we need to consider the practicality of those measures given the market conditions that have drastically changed.

#### Appropriate Role of the Thai Government

In order to analyse and recommend what could be the appropriate role of the government and the proper measures to be undertaken in promoting construction service exports, it is first necessary to discuss the government's objectives, then we can discuss whether these objectives can be met without direct government intervention in the private market.

The two most important objectives of government in promoting construction exports are to reduce the balance of payment deficit and domestic unemployment. Thai construction workers have proved themselves in the past decade to be capable of earning increasingly large amounts of foreign exchange and the

contractors have also shown themselves to be capable of undertaking various kinds of construction projects at a standard equal to that of foreign firms who have in the past been awarded projects of very high value in the Middle East. The contractors have maintained that the main reason they were not able to compete successfully in overseas market was the lack of fiscal incentives and guarantees.

Why should the government undertake financing responsibility for construction firms ? One argument is that it should assume that role in the early stages when the industry was trying to break into the new market. It in effect performs the function of screening the qualified contractors for potential clients overseas. During the early period in any market, a seller of goods and services should provide as much information as possible to potential buyers (that is, if he sincerely believes that his product is as good as or better than those of his competitors). Some goods and services, however, have very high information costs. Information about the performance of a particular construction company can best be obtained by the potential buyer only through the experience of using it. The next best alternative is to find out the firm's reputation from a reliable source, such as from the person that has recently used the service.

Being newcomers, Thai firms have to bid against well-known foreign companies with many recently completed overseas projects. In addition, those foreign firms often have strong support from their own governments in the form of subsidies which lower their costs and thus their bid price. Thai firms, going on their own,

do not stand much chance in the face of such competition. Therefore, the case for government support seems to be valid on this ground. Construction firms should be given support in the early stage of trying to gain a foothold in new markets.

An issue to be raised here is : how long does this support have to go on ? If other foreign governments continue to provide subsidies and incentives to their construction firms, must the Thai government up its support also? These are not easy questions but ones that seriously need to be considered before any measure is instituted.

The next issue involves the nature of the guarantee itself. If the government is to assume the role of a guarantor, which will have to be the case if the guarantee is to be of equal status to those received by most foreign firms, it is in effect removing the risk for both the buyers and sellers of construction services, which implies that the government may be encouraging more contracts to be signed than they would be if the risk is considered by both private parties as part of the costs of doing business. In view of the increasingly high risk of contracting in the Middle East, as discussed in section 4, this issue should be analysed carefully. An analogy can be made with the massive amount of foreign debt now held by many government agencies and state enterprises. There is no doubt that a large proportion of those loans would never have been made by overseas financial

institutions if there were not guaranteed by the Thai government. There has recently been heated debate on the potentially crippling effect these loans can have on the Thai economy; will the guarantee for construction firms ultimately cause the same problem ?

Foreign exchange earnings and increased employment that will result from the expansion of construction services can certainly be of great benefit to the Thai economy. But the risk involved should be properly evaluated and after all careful deliberations are made, it is likely that Thailand may find that for the time being it will have to be contented with the role of exporter of construction workers.



## 6. SUMMARY AND CONCLUSIONS

This study has discussed the construction services in Thailand with special reference to the proper role of the Thai government in encouraging the export of the services.

For the past decade, the exports of construction services from Thailand have been in the form of sending workers to participate in construction projects overseas, mostly under the employment of foreign firms. Remittances sent back by these workers represent an increasingly larger proportion of foreign exchange earnings. Recently, the Thai government which has been trying to find measures to alleviate the domestic unemployment problem has also been facing the problem of reducing the balance of payment deficit. Expanding the construction services by encouraging Thai contractors to bid for overseas projects is seen as a convenient way to solve the two problems simultaneously.

Direct economic benefits from promoting overseas construction industry will be foreign exchange earnings in the form of remittances of wages and salaries by the workers. Another benefit is the increased income of Thai workers who are already being hired by foreign firms. Since the current employment procedure whereby employers use the services of recruiting agencies, workers have to pay a large proportion of their income as commission fees to the agent, these fees will presumably be eliminated or reduced substantially if Thai firms undertake the projects and recruit workers directly. An additional benefit to the workers is that

they will be better treated and feel more secure if they could work for Thai firms.

Although a number of Thai construction firms have already been working overseas both in the Middle East and ASEAN countries, they have either been working as subcontractors or obtaining only projects of small value. The major reason was their inability to secure the required guarantees and necessary funding, or only at high cost.

The Thai contractors and the government have held several discussions over the past eight years concerning various forms of supportive measures that could be provided by the Thai government in order to allow Thai firms to compete with other Asian firms on an equal basis. The construction situation has now changed considerably both in Thailand and overseas and the focus of the government's proper role should be changed accordingly.

#### Overseas Construction Situation

In the 1970s when there was a construction boom in the OPEC countries, it seemed that the main problem constraining the expansion of Thai firms into overseas market was the lack of guarantee facilities. A proposal was made to the government to consider setting up an institution that could provide the necessary guarantees required by overseas construction contracts. But since such a proposal would necessitate the legal backing of the government, it had to gain the approval of the various ministries and institutions concerned. The financial risk involved for the government was

considered too high and the proposal was suspended, with a suggestion that credit facilities available at commercial banks should be used to the fullest extent first.

Thai commercial banks have up until now been unable to provide guarantee for Thai firms directly to clients in Middle Eastern countries since only financial institutions on the guarantee list approved by the clients can do so. Thai contractors have tried to encourage the government to endorse Thai banks to the Middle Eastern governments but have not been successful. In early 1985 when a Thai Mission led by the Minister of Foreign Affairs visited Saudi Arabia, this problem was brought up and the Saudi authorities merely confirmed their previous stand, that is, in order to be approved on the guarantee list, Thai commercial banks need to submit their intention together with detailed information of their financial position and past performance. The Saudi also emphasised that Thai commercial banks should try to increase their dealings with Saudi Banks which could lead to mutual trust and understanding.

The feeling of Thai banks and Thai contractors regarding this matter is that unless the Bank of Thailand provides its endorsement, the chance of Thai banks getting on that list will be small. But even if they manage to do so, it is doubtful that commercial banks will be willing to take the risk or absorb the expenses of the monitoring<sup>of</sup>/such loans. In any case, the physical assets of construction businesses provide too narrow a collateral base for the banks to be willing to grant large loans or guarantees.

The recent decline in oil prices and revenues has meant a substantial cut back in Middle Eastern construction projects. Basic infrastructural facilities were also mostly near completion. The future demand is likely to be in maintenance and repair which would be handled mostly by local firms. ASEAN countries do not provide bright prospects either. With the preference given to local firms or joint ventures and the strong competition from other Asian firms particularly the Korean, Japanese and Taiwanese , the chance for Thai firms securing projects of high value is minimal.

It is expected, however, that there may soon be an upturn in the Middle East market. An end to the Iran-Iraq war will bring about immense opportunities for construction contracts. In Asia, China is seen as the future hope for contractors. Even though the Chinese is likely to try and use local labour and materials as much as possible, there is still a prospect for a sizeable amount of construction works becoming available to outside companies. Many of these works will involve the building up of basic infrastructure which Thai firms can handle quite well.

There will be the usual financial requirements in the form of bonds and guarantees although they will probably be less stringent than the situation in Saudi Arabia. If the government is keen on encouraging the overseas expansion of the Thai construction industry in order to serve the twin goals of easing domestic unemployment and earning foreign exchange, some form of government

involvement in the guarantee procedure is necessary. The proposal made several years ago by a government committee which was discussed in detail in section 5 should be brought back into consideration.

In essence, it involves a close cooperation between the government and financial institutions in Thailand and the contractors. The Thai Contractors Association should take an active role in screening the construction firms to undertake the bidding and contracting overseas. For projects of high value or complicated technical requirement which are beyond the capability of any firm, the association should encourage and arrange joint-ventures to ensure that the contracts are fulfilled efficiently. These arrangements should make it easier for contractors to obtain guarantees either from private commercial banks or from financial institutions such as the Government Housing Bank, the Krung Thai Bank or the Industrial Finance Corporation of Thailand.

Information on the important foreign construction markets should be gathered and distributed to interested contractors. The relevant information includes upcoming projects, business laws and customs, and so on. This could be a major function of the Coordinating Center for Promotion of Business Abroad.

#### Domestic Construction Situation

Thai contractors are not only facing increased competition in the weakening overseas market, but domestically they also find that foreign firms are taking larger share of the construction

market than ever before. These firms either come in as joint ventures with the local partner or come in directly for projects financed by loans from organisations like the World Bank, the Asian Development Bank or the Overseas Economic Cooperation Fund. Thai firms have lost almost all the large contracts to the foreign firms who bid as much as 40 per cent lower than the estimated value, causing them to be accused of the practice of "dumping", having a long-run plan to ultimately reduce Thai firms to the role of sub-contractors.

The accusation of dumping is not easy to prove. Large multinational firms do by nature have many kinds of advantage over local firms, and thus are able to submit lower bids. For example, for large civil projects using specialised equipment, multinational firms with large capital and equipment backing will naturally have an advantage over smaller local firms that need to purchase new equipment on short notice for a particular job. For large structural work such as bridges or plant engineering, foreign firms can often buy large amounts of materials and equipment directly from the manufacturer or through their own trading firms which give them much better payment terms.

The most obvious advantage that foreign firms possess was in the ability to obtain financing for the project. Japanese firms, for example, can obtain a loan at only 5 per cent interest rate -- 3 times less than what Thai commercial banks charge local firms.

For large-scale government projects financed by foreign borrowing which generally require international bidding, local firms are often not even qualified to enter the bidding since the specifications drawn up by foreign consulting engineers often require a large amount of registered capital and revenue or recent experience in similar projects. On this issue, the government has been requested to negotiate with the lending agencies that Thai firms at least be allowed to submit their bid even though they may have failed to meet all the specifications.

Another request made by Thai contractors to the government is that a 5 per cent price priority be instituted, that is, Thai firms are allowed to bid as much as 5 per cent above their competitors and still be awarded the contract. This practice is common in many developing countries and is accepted by lending agencies such as the World Bank. In fact, the priority is sometimes as high as 15 per cent.

On the issue of competition from foreign firms, there are again certain problems that may block any government support measures. For government projects financed by the annual budget and most of the private projects, the contracts are still awarded mostly to local firms, partly because these projects are too small to be considered attractive by multinational firms. Almost all of the large scale projects that go to foreign firms happen to belong to the government, and the low bids result in substantial savings to the government. The immediate benefits are therefore large and

obvious, and enjoyed by the government itself, while the long run cost are not only unclear, but are also seen only as remotely concerned with the government.

Furthermore, the projects won by foreign firms are implemented efficiently, using the latest available technology and employing large numbers of local workers at all skill levels and with subcontracting work for local firms. Thus there can be a counter-argument that whatever costs local firms have to bear now are the costs that they must incur in the learning process, by working as subcontractors to these highly efficient multinational firms. As construction technology is also constantly moving upwards, and a considerable amount of time will elapse before Thai firms can catch up with it, the presence of foreign contractors should be accepted as suppliers of specialised services for projects that exceed the capacity of domestic companies.

However, instead of Thai firms remaining only as subcontractors, more joint-ventures should be encouraged. The recent offer by the Finance Ministry of tax exemption for profits derived from joint-venture between Thai and foreign engineering firms -- a privilege not available to foreign firms that merely subcontract to Thai companies -- is a step in the right direction.

Technology transfer should be the major responsibility of the foreign partner to enable the Thai companies to stand by itself as soon as possible. Such transfer should be done on the



basis of on-the-job training. Well-educated engineers are already plentiful in Thailand, but they have difficulty keeping up with new technology. Local-foreign cooperation on an equal basis should lead to the ultimate goal of technology transfer. The know-how and experience gained in high technology works will also be an important stepping stone for Thai contractors for eligibility in the increasingly competitive overseas construction markets.

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