Asian Studies Center

Backgrounder

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A GUIDE TO U.S. ECONOMIC OPPORTUNITIES IN ASIA

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INTRODUCTION

The free market economic miracle in the noncommunist nations of North and Southeast Asia offers the United States extraordinary commercial and investment opportunities. The total gross national product (GNP) of Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, the Philippines, Singapore, the Republic of China on Taiwan, and Thailand has grown from US$ 1.36 trillion in 1980 to US$ 2.39 trillion last year--and from 11 percent to 17 percent of the world's GNP in the same period. U.S. trade with these nine nations has doubled during the first seven years of the 1980s to an expected US$ 200 billion this year, and U.S. economic relations with these nations will continue to expand in the coming years. As such, a comprehensive agenda for American national interests must include a clear understanding of North and Southeast Asia's dynamic economy and its unique political forces. American businessmen have an excellent opportunity to expand exports and reap the financial gains from timely investments in this rapidly expanding economy while helping these industrializing countries attain higher standards of living.

The expansion of two-way trade not only benefits the Asian trading partners but also spurs the American economy. At least 5 million Americans owe their jobs to export trade. One of every three acres of American farmland grows crops for export. Some 80 percent of all new manufacturing jobs are now linked to international trade. For every billion dollars of export trade, the U.S. gains 25,000 new jobs. Since American industries, farmers, and workers depend more and more on expanding international markets, stimulating the growth of these North and Southeast Asian nations through investment will bring higher standards of living to the American people.

What follows is a country-by-country analysis of the trade and investment in each of the nine countries.

HONG KONG

POLITICAL AND ECONOMIC ENVIRONMENT

Although the People's Republic of China (PRC) has offered assurances that Hong Kong's free market economic system will endure beyond 1997, the year that Britain returns Hong Kong to China, apprehension and uncertainty over Hong Kong's economic future will undoubtedly increase as that date nears. If China meanwhile keeps its promise not to interfere with Hong Kong's internal affairs until 1997, the risk of political unrest and violence will remain low.

Hong Kong continues to play a significant role in the movement of goods in Southeast Asia. Its proximity to China's Shenzhen Special Economic Zone, Shanghai, and Macao, as well as its history as an entry port for trade with China establishes Hong Kong as a central player in the PRC's growing trade ties with the region. In 1986 optimism with regard to China's promises of a continued open-door policy helped Hong Kong's GNP growth rebound to 8.7 percent from a low of 0.6 percent in 1985. Inflation was held to 3.6 percent in 1986, down significantly from the early 1980s.

Hong Kong's government maintains a classic laissez-faire economic policy. Transactions take place efficiently with little government interference. The government primarily provides a stable environment for economic activity and growth. Hong Kong has a very productive labor force of over 2.7 million. The prevailing wage in Hong Kong is set by economic forces rather than by government statute. The average daily wage in September 1984 was US$ 11.64, and working conditions were generally good.

TRADE AND INVESTMENT PROSPECTS

As a free port, Hong Kong has no general tariff. With the exception of tobacco products, alcoholic beverages, and certain hydrocarbon oils and methyl alcohol, there are no import duties on incoming goods. The Hong Kong Trade Department oversees the issuing of licenses for import and export. All licenses are issued free of charge, except textile licenses, which carry a charge of US$ 15.

Hong Kong relies heavily on trade to support its economy. Supplies in constant demand from the U.S. include:

1) **foods and agricultural commodities,**

2) **textile fabrics,**

3) **consumer goods,**

4) **telecommunications equipment,**

5) **computer and peripheral equipment,** and

6) **electronic industry production and testing equipment.**

Recent expansion in the hotel and restaurant area, including the construction of fifteen new hotels, has strengthened the demand for associated supplies. The Hong Kong government plans to build four new hospitals, offering opportunities to U.S. suppliers of medical and health care equipment.

Hong Kong welcomes foreign investment to diversify its industrial base and develop high-technology industries. There are no restrictions on ownership or management of any foreign company. Many U.S. businessmen have invested in manufacturing, trade, banking, and finance.

Hong Kong is well located for Asian regional trade and has excellent shipping, banking, and communications facilities. Additionally, Hong Kong has no tariffs, low tax rates, and no foreign exchange controls, which allows for free repatriation of profits by overseas firms. Hong Kong remains an attractive investment area for:

1) **electronics,**

2) **computer assembly and software,**

3) **business machines,**

4) **electrical machinery,**

5) **plastic materials,**

6) **manufacturing equipment,** and

7) **telecommunications equipment.**

INDONESIA

POLITICAL AND ECONOMIC ENVIRONMENT

President Suharto and his 19-year-old regime are likely to remain in control of Indonesia's government for the foreseeable future. Muslim fundamentalists, students, and disgruntled retired military officers might foment sporadic minor threats to Suharto, but such disturbances could be controlled easily. GOLKAR, Suharto's so-called political party, was victorious in this year's carefully managed April general election, assuring Suharto of a fifth five-year term as president beginning in 1988.

After oil and commodity prices fell sharply in recent years, Indonesia's GNP growth rate flattened in 1986. This year, it should improve slightly. Since petroleum sales account for roughly 70 percent of Indonesia's export revenues and 60 percent of its government revenues, the fall in world oil prices has created a large trade deficit (US$ 5 billion in 1986) and forced the government to adopt rigorous austerity measures. To curb the growing trade deficit, the Indonesian government devalued the rupiah 31 percent against the U.S. dollar on September 12, 1986. Along with the devaluation, the government took measures to reduce import monopolies, reduce or abolish import duties, and increase investment opportunities.

TRADE AND INVESTMENT OPPORTUNITIES

Indonesia prohibits the importation of 32 products, including certain textiles, car tires, books in Indonesian, completely assembled motor vehicles and air conditioners and refrigerators, batteries, any second-hand goods, and office supplies. Other than these prohibited items, imports in general do not require an import license or special permits. Tariff rates are generally high: basic duties range from zero (parts for trucks and other automotive products, computers, aircraft) to 100 percent (certain textiles, assembled motorcycles, and cocoa) based on the goods' perceived value to Indonesian development and basic consumer needs. Indonesian nationals are the only authorized importers, although foreign investors are permitted to import items required for their own projects. Nonetheless, sales prospects for U.S. exports are very good for a wide range of machinery, equipment and other products, including:

1) **aircraft and parts, avionics, and ground support equipment,**

2) **telecommunications equipment, computers and peripheral equipment,**

3) **medical instruments and supplies,**

4) **analyzing and controlling instruments,**

5) **electric power generating equipment,**

6) **food processing and packing equipment and agricultural machinery,** and

7) metalworking equipment, pumps, valves and compressors, and mining equipment.

Indonesian government policy unwisely requires that all new foreign investments must constitute a joint venture with an Indonesian partner, and become Indonesian majority-owned within ten years. Foreign investors may be able to side-step this requirement, however, in industries that export their total production, in which domestic marketing would be impossible or large employment opportunities would be created.

The Indonesian government recognizes that foreign investment plays a major role in the continuing development of the economy. It wants to diversify foreign investment out of the petroleum sector and into more labor-intensive enterprises. Preferential treatment is accorded those investments that generate foreign exchange earnings or are targeted for the rural areas. The government also encourages the development of related industries in automotive manufacturing, agricultural investment, marine enterprises, electronics, and textiles.

Indonesia offers rewarding opportunities to the American investor. Government planners take into account the technological, communications, and transportation needs of private investors. As the government continues to develop the infrastructure of the country, investment in Indonesia will become increasingly attractive. Areas of potential U.S. investment include:

1) **agriculture and food processing,**

2) **manufacturing, mining, and energy,**

3) **basic chemicals and metals,**

4) **public transportation equipment and road improvements,**

5) **housing,** and

6) **the pharmaceutical industry.**

JAPAN

POLITICAL AND ECONOMIC ENVIRONMENT

After almost five years in power, Prime Minister Yasuhiro Nakasone will step down and a new Prime Minister will be installed by this November. Since the transfer of the premiership will occur within the ruling Liberal Democratic Party (LDP), there will be little political instability and no significant change in overall policy.

Second only to the U.S. in leadership of the free world's economy, Japan's real economic growth rate has slowed in recent years from the 10 percent annual rates of the 1950s and 1960s, to a 2.5 percent growth rate in 1986 and an expected rate of 3 percent this year. This slowdown has been caused mainly by the sharp appreciation (over 50 percent in 1985-1986) of the Japanese yen in terms of the U.S. dollar and the generally slow growth of the world market. Despite the yen's appreciation, Japan recorded an historic current account surplus in 1986 of nearly US$ 60 billion. Consequently, trade friction increased between Japan and the industrialized world, especially the United States.

Nakasone has introduced an economic policy that emphasizes stronger domestic demand, including lower interest rates, increased government spending, privatization, and deregulation, rather than continued dependence on export markets. This action, combined with the rising yen, appears to be working. Japan's current account surplus has begun to decline.

Because of multilateral negotiations and unilateral reductions, Japan's tariffs today average only 3 percent and are no longer a significant trade barrier for imports as a whole. Yet, Japan maintains quantitative restrictions on many agricultural products such as beef, oranges, fruits, juices, and processed foods. In addition, many manufactured imports face a myriad of nontariff barriers, such as government imposed stringent safety standards, testing, and inspection requirements.

Although difficulties still exist for U.S. exporters, significant American business opportunities remain in Japan. Areas where Japanese demand is strong and the U.S. remains competitive include:

1) **aircraft and parts, avionics, and ground support equipment**

2) **telecommunications,**

3) **electronic components,**

4) **computer hardware and software,** and

5) **medical supplies.**

Establishing long-term relationships with Japanese producers to supply advanced U.S. components has been the strategy through which many U.S. firms have succeeded in breaking into the Japanese market. Japan is the eighth largest recipient of U.S. investment. The U.S. last year accounted for more than half of all major direct foreign investment in Japan; Britain was the next largest. While many restrictions were placed on foreign investment in the post-World War II period, Japan has removed almost all of them by now. The Japanese government appears to take a positive attitude toward foreign investments, subsidizing research and development projects with special financing and depreciation rates.

For national security reasons, restrictions on investments remain in specific areas such as broadcasting, telecommunications, electric power generation, and air transportation. In addition to these areas, agriculture, forestry and fisheries, petroleum refining, leather, and mining are still restricted.

The Japanese market is quite competitive, yet offers significant opportunities for U.S. investors. In fact, in 1984 U.S. subsidiaries in Japan sold US$ 43.9 billion worth of goods, nearly twice as much as Japan imported directly from the United States. Currently, the most promising markets for U.S. investment include:

1) **beverages and food,**

2) **paper and paper products,**

3) **chemical and pharmaceutical products,**

4) **oil products,**

5) **medical and health-related products,** and

6) **commerce and trade.**

REPUBLIC OF KOREA

POLITICAL AND ECONOMIC ENVIRONMENT

The current student unrest, political turmoil and labor unrest in the Republic of Korea, or South Korea, may continue at varying levels of intensity as democratization proceeds. President Chun Doo Hwan will step down in February 1988, to be succeeded by a president elected late this year. This will be the first peaceful transfer of political power in Korea's recent history, ushering in a new era of a more open political system.

Along with South Korea's democratization and continuing vibrant economy, the 1988 Olympics in Seoul are expected to enhance domestic stability. The biggest threat to stability has been, and remains, communist North Korea. Well-armed and well-trained, the North Korean Army is positioned to capitalize on domestic unrest by terrorizing or invading the South.

South Korean economic growth has been phenomenal. It was 11.4 percent in real terms in 1986, while inflation was stabilized at a low 2 percent. South Korea has made rapid improvements in its balance of trade. Last year, Korea posted its first trade surplus in recent history, US$ 4 billion.

TRADE AND INVESTMENT OPPORTUNITIES

Although import duties are not assessed on capital goods and raw materials needed for foreign investment projects or export industries, high tariffs on many items often make importing very expensive. This form of protectionism began to change as Seoul liberalized its trade policy in 1984. Though South Korea plans to reduce tariffs significantly through 1988, it needs to relax its tariff rates even further, especially on consumer goods.

Nontariff import controls are much less difficult to overcome. Some 90 percent of all import licensing requests are processed automatically. Restricted categories still apply, however, where the government considers domestic production of high quality and sufficient to meet demand. South Korea seeks to promote development in such areas as water projects, telecommunications and postal systems, high technology industrial development, agricultural productivity, pollution controls, and improvements in housing and medical care. Thus, promising areas for U.S exports include:

1) **telecommunications equipment, computers and peripheral equipment,**

2) **medical supplies,**

3) **electronics industry production and test equipment,**

4) **industrial process controls,**

5) **printing and graphic arts equipment,**

6) **pollution control equipment,** and

7) **food processing and packaging equipment.**

South Korea welcomes direct foreign investment, particularly from the U.S. The Ministry of Finance assists potential investors in initial investment explorations and application procedures. Liberal tax exemption policies and other incentives are available to investors whose contributions will improve Korea's balance of trade, aid the development of its key industries, and improve the national economy and social welfare. The most welcome areas for U.S. investment are:

1) **medium-sized computers, peripheral equipment, and software,**

2) **cable telecommunication equipment,**

3) **electronic measuring equipment,**

4) **medical equipment and supplies,**

5) **construction and mining equipment,** and

6) **food processing and packaging equipment.**

MALAYSIA

POLTICAL AND ECONOMIC ENVIRONMENT

The National Front government of Prime Minister Mahathir Mohamad, who has held office for six years, is likely to remain in power, despite continued charges of corruption and considerable infighting within the governing political coalition. However, friction between Malaysia's two major ethnic divisions, Malay and Chinese, might cause some domestic conflicts, as it did in 1969. Athough the Malays comprise only 50 percent of the population, they insist on maintaining control of the political system.

Economic recession and growing pressure from Islamic fundamentalists will create new challenges for the regime. The communist threat to Malaysia is, however, negligible. Sporadic communist terrorist attacks still occur, but only in rural areas.

After growing by nearly 8 percent annually for the last two decades, Malaysia's economy suffered its first recession in ten years in 1985. The growth rate resumed at 1.3 percent last year and is expected to continue at the same rate this year. The fall in world prices of such key Malaysian commodities as oil, tin, liquified natural gas, timber, and rubber all contributed to the 1985 decline. If prices of these raw materials rise, the Malaysian economy will rebound.

The government is continuing to privatize government services and assets, relax investment guidelines, and reform the banking system. Areas identified for future privatization include: telecommunications, the national airline Malaysian Airline System (MAS), a container service in the port of Kelang (Malaysia's largest port), aircraft maintenance services, rubbish collection, medical services, and highway maintenance and toll collection.

Malaysia has evolved over several decades from an agriculture-based economy dependent upon rubber and tin exports to a well diversified economy exporting electronic components, oil, liquified natural gas, palm oil, and timber as well. Agriculture remains the largest economic sector in Malaysia, although its importance is shrinking as expansion in manufacturing, mining, transportation, and communications continues. There is continued optimism that, when Western industrial nations begin to increase their economic growth, Malaysia's economy will begin to expand more rapidly.

TRADE AND INVESTMENT OPPORTUNITIES

Malaysia's tariffs are moderate, averaging 15 percent, and nonexistent for some goods. Major imports from the U.S. include chemicals, refined petroleum products, synthetic resins, industrial machinery, electronic parts, transportation equipment, and agricultural products.

High demand exists for virtually all types of computers. The market for computers and computer equipment grew at a phenomenal rate of nearly 60 percent in 1984, with U.S. firms controlling 52 percent of the market. Malaysia relies almost entirely on imports to satisfy the demand for medical equipment. Demand for this equipment and related supplies has increased strongly with the government's plans to build eight new hospitals. The top categories for U.S. export opportunities are:

1) **aircraft and parts,**

2) **computers and peripherals,**

3) **process control instrumentation,** and

4) **medical apparatus and supplies.**

Malaysia encourages foreign investment, granting special tax exemptions to foreign businesses. It has established free trade zones. The government, however, has guidelines for equity participation favoring the employment of ethnic Malays, especially for projects not meant for the export market.

Investment incentives are structured to provide relief from income, development, and excess profits taxes. These incentives encourage the importation of fixed capital, employment of ethnic Malays, priority location of plants, production of priority products, and Malaysian domestic content in the final products. Free trade zones have been established in ten locations for companies that export most or all of their final products. The use of local raw materials is encouraged in these areas.

Investment barriers limiting foreign equity to 30 percent of total investment (with 30 percent for ethnic Malays and 40 percent for other Malaysians) were relaxed in 1986. A foreign company that exports 50 percent of its products or sells 50 percent of its products to companies in Malaysia's Free Trade Zones or licensed manufacturing warehouses is permitted a 100 percent foreign equity. In addition, a foreign company employing 350 full-time Malaysian workers can hold whatever level of equity for which it applies. Opportunities for U.S. investment are greatest in the following areas:

1) **computers and peripheral equipment,**

2) **process control, testing and analytical instruments,**

3) **printing and graphic art equipment,**

4) **medical apparatus and supplies,**

5) **plastic production machinery,** and

6) **mining and petroleum.**

THE PHILIPPINES

POLITICAL AND ECONOMIC ENVIRONMENT

In the eighteen months since "People's Power" deposed Ferdinand Marcos, President Corazon Aquino's government has been beset by a mild flurry of plots, attempted coups, and a growing communist insurgency. The Aquino-supported constitution passed overwhelmingly in the nationwide plebiscite this February, and nearly all of Aquino's candidates won seats in the Senate. This has laid the foundation for the long-term political stability necessary for genuine economic development. Aquino, however, continues to experience difficulties gaining the full support of the military, as demonstrated in the latest attempted coup on August 27. Led by officers involved in the revolt that removed Marcos, it was the most serious coup attempt Aquino has yet faced. Aquino must have the confidence of the military if the communist insurgency is to be dealt with effectively.

The Philippine economy suffered greatly under the Marcos regime's final years and from the political instability following his exile. Economic growth dropped 5.5 percent in 1984 and 3.9 percent in 1985. The current account deficit grew to US$ 2 billion in 1986. Inflation reached 50 percent in 1984 and 23 percent in 1985. In 1986, the trend reversed with inflation climbing only 2.8 percent and the economy growing .18 percent. The economy is expected to grow 4 to 5 percent this year. Inflation should remain in the 1 to 2 percent range for the remainder of 1987.

Free market economic reforms by the Aquino government have laid the groundwork for future long-term growth. Moreover, the government has instituted a version of Reaganomics tax reform. The country's sugar and coconut monopolies, long in the hands of Marcos cronies, have been disbanded. Scores of nonperforming government enterprises will be privatized. The Philippine debt, US $28 billion or 80 percent of the country's overall economy, remains an immediate and serious problem. However, the Philippine peso has been very stable in foreign exchange markets. It is currently valued at 20 pesos to one U.S. dollar.

TRADE AND INVESTMENT OPPORTUNITIES

Because of weak domestic demand and government austerity programs, imports into the Philippines dropped from US$ 7.8 billion in 1983 to US$ 5.9 billion in 1986. To conserve foreign exchange, a 13 percent surcharge is applied to all imports. Protective tariffs of 50 percent apply to products that are considered nonessential or competetive with local manufacturers.

Today's principal imports are petroleum, electronics parts, machinery, base metals, transport equipment, and chemicals. To reduce dependence on imported sources of energy, especially oil, the Philippine government has begun a program to develop alternative energy sources that can be supported by domestic supplies. This program presents substantial business opportunities to firms specializing in energy resource exploration, energy generation, and transmission and distribution equipment.

Major imports from the U.S. are machinery, cereals, chemicals, and electronic parts for processing and reexport. Other promising areas for U.S. exports include:

1) **computers and peripheral equipment,**

2) **security and safety equipment,**

3) **textile machinery,**

4) **scientific and industrial analytical equipment,** and

5) **construction, mining, and metal fabrication equipment.**

A program of tariff cuts and import liberalization has begun for a broad range of goods, including machinery, rubber tires, and textiles. The depressed state of Philippine domestic demand will limit any U.S. export increase, but as trade liberalization progresses, U.S. exports will likely experience a slow growth.

The Philippines has a restrictive investment climate that limits its attractiveness to American firms. Measures such as strict equity participation, which limits the amount of foreign ownership in an enterprise, export performance and involuntary divestment requirements, forced use of Philippine managerial personnel, and prohibitions on land ownership make foreign investment unattractive.

On the other hand, foreign investors are guaranteed repatriation of investments, remittance of profits, freedom from expropriation of investment, protection of patents and intellectual property rights, and (under certain circumstances) exemption from the capital gains tax. The Philippine government also offers a number of other tax incentives such as the recent establishment of an Export Processing Zone project. Foreign investments in these zones are eligible for special tax breaks and are designed to promote the processing of goods for export, thereby increasing foreign exchange, generating employment, and broadening the industrial base. Fifteen such zones are planned, with five already being serviced. However, the Philippines must liberalize investment regulations if it is to attract the foreign investment it so badly needs. Currently, major areas of U.S. investment include:

1) **food and agricultural processing,**

2) **textile, shoes, and leather manufacturing,**

3) **computers and peripheral equipment,**

4) **analytical and scientific instruments,** and

5) **telecommunications equipment.**

SINGAPORE

POLITICAL AND ECONOMIC ENVIRONMENT

The process of transfering political power within the ruling People's Action Party from Prime Minister Lee Kuan Yew, who has ruled Singapore since its independence in 1965, to a younger generation of politicians and bureaucrats will be the main political task in the next five years. Goh Chok Tong, First Deputy Prime Minister, and other younger leaders are likely to be given more power by the Prime Minister in the near future. Lee has hinted at retiring in 1989 or 1990. Although the government recently has accused Singapore's churches and student groups of being infiltrated by communists, political turmoil as a result of communist or fundamentalist Muslim actions is very unlikely.

Singapore's economy suffered its first post-independence recession in 1985, when its GNP fell 1.8 percent. Though modest in absolute terms, the drop was viewed as an economic crisis in the context of Singapore's 8 to 9 percent yearly growth over the last twenty years. The economic slump derived, in large part, from the weak world demand for petroleum and shipping, which hurt Singapore's oil refining and maritime industries. Singapore also suffered from its government's policy to drive up wage rates, designed to promote high-tech, capital-intensive industries, which effectively priced Singapore's labor out of the regional market. This damaged Singapore's exports of manufactured goods at a time when the construction industry was severely depressed after years of overbuilding. Singapore's economy recovered slightly in 1986, registering a 1.8 percent rate of growth, still far below its historic average.

TRADE AND INVESTMENT OPPORTUNITIES

Export and import activities dominate Singapore's economy; indeed, total trade is actually three times bigger than the nation's GNP. Despite the 1985 recession, Singapore's trade environment remains healthy. Exports have remained steady in the 1980s, fluctuating between US$ 20 and 22 billion. Singapore has run a consistent trade deficit, though the gap has narrowed to US$ 3 billion in 1986, half of its 1982 level.

Singapore's market is unique since it serves as a transshipment point for Southeast Asia, especially Indonesia and Malaysia. This includes not only trade, but services such as banking, communications, and transportation. Prospects for expanding U.S. exports to Singapore are bright, especially in the high-tech field. Products in highest demand include:

1) **aviation-related products,**

2) **scientific and laboratory equipment,**

3) **electronics industry production and test equipment,**

4) **biotechnology,**

5) **food processing and packaging machinery,**

6) **automation equipment and industrial robots,** and

7) **information technology.**

Singapore actively seeks foreign investment. Indeed, Singapore's government offers numerous financial incentives for foreign investment. These include tax concessions and financial assistance for worker training. The repatriation of profits is unrestricted, and there are no local equity requirements. The U.S. remains Singapore's largest foreign investor with more than US$ 5.3 billion in investments. The environment for trade and investment in Singapore remains attractive, despite the economic slowdown in recent years. Prospects for U.S. investment are best in the following areas:

1) **computers and peripheral equipment,**

2) **electronic components,**

3) **medical and health care equipment,**

4) **security and safety equipment,**

5) **aviation and avionics support equipment,** and

6) **banking and finance.**

REPUBLIC OF CHINA (TAIWAN)

POLITICAL AND ECONOMIC ENVIRONMENT

Although the health of the Republic of China's 77-year-old President Chiang Ching-kuo remains an unknown factor, the current ROC collective leadership of the ruling Kuomintang (KMT) party is likely to remain in power throughout the remainder of the decade. Democratic political reforms have been introduced at a slow but impressively steady rate. One result is the formation of the opposition Democratic Progress Party. Recently the 38-year-old martial law decree was lifted in Taiwan. Along with the political democratization will come the increased influence of the native Taiwanese, as attrition depletes the mainland generation.

Political integration with the mainland at this point remains highly unlikely. Extended political disruption is unlikely as long as the economy is stable and the government continues to tolerate increased political participation.

The ROC has enjoyed one of Asia's fastest growing economies. Last year, while several other countries were fighting stagnation as demand for exports fell, the ROC's GNP rose by 10.8 percent. Inflation, meanwhile, was held to a modest 2.4 percent. Since 1980, the ROC's trade surplus has grown steadily. Last year its exports of US$ 39.88 billion outpaced its imports by US$ 15 billion.

Nearly all of the increase in exports, which nearly tripled in the 1980 to 1986 period, has gone to the U.S. Most of these products sent to the U.S. from the ROC are produced by American corporations, which have located production facilities there to take advantage of low labor costs. In fact, Taiwan's biggest exporter is General Electric. This trend has led to a trade surplus with the U.S. in 1986 of US$ 16 billion. Capital transactions and foreign exchange were liberalized substantially by the ROC's Central Bank this year.

TRADE AND INVESTMENT OPPORTUNITIES

The ROC's mounting trade surplus has forced increasingly liberalized trade policies. Still, the average tariff remains over 26 percent. It affects primarily luxury and consumer items. Duty-free items include some navigational, scientific, and medical instruments, educational materials, pollution control intruments, and items exempted under the Statute for Encouragement of Investment.

Nontariff import controls include import licensing restrictions and authorized importation laws. U.S industrial products are very popular on Taiwan because of their reputation for high quality and technical superiority. Promising U.S. export areas for Taiwan include:

1) computers and peripheral equipment,

2) electronic components and electronics industrial production equipment,

3) industrial process controls,

4) **pollution control devices,**

5) **energy management and conservation equipment,**

6) **air conditioning and refrigeration equipment,** and

7) **telecommunications.**

Demand for advanced components and high-technology production equipment from the U.S. also is increasing. The ROC's rising standard of living and increased standards of technology are widening the demand for medical, analytical, and scientific instruments, especially for research and development.

The government is primarily interested in foreign investment and business that will bring a higher standard of living and increased technology. Currently, Taipei allows the establishment of virtually any kind of U.S. business investment from partnerships with local firms to wholly owned subsidiaries. Foreign investment incentives include generous tax benefits, a highly developed infrastructure, established industrial districts and export processing zones, a growing domestic market, a well-educated and industrious labor force, absence of labor strife, and political and economic stability. The government continues to exercise much control over imports and seeks to increase capital-intensive and high-technology industries. The best opportunities for U.S. investment in the ROC are in the following areas:

1) **computers and peripheral equipment,**

2) **electronic components,**

3) **telecommunications,**

4) **biotechnology,**

5) **petrochemical products,** and

6) **medical equipment.**

THAILAND

POLITICAL AND ECONOMIC ENVIRONMENT

Since 1932, the military has established itself as a powerful presence in the political process. Several successful military coups have occurred, most of which were bloodless and did not affect government policies toward business or foreign enterprises. Recent coup attempts, such as the abortive 1981 and 1985 efforts, have been resisted more strongly by the government. As a result, civilian democratic ideals have become increasingly secure. Political violence, kidnappings, and terrorist incidents are rare, and the communist insurgency has been declining steadily. It is of little concern today. The conflict along the Cambodian border is not likely to escalate in the foreseeable future.

The Thai economy managed to avoid the 1985 recession suffered by Indonesia, Malaysia, and Singapore. The Thai economy grew by 4.1 percent in 1985, 4.8 percent in 1986, and is expected to grow 5 percent this year.

This impressive performance is caused mainly by the transformation of the Thai economy from an agricultural and raw materials producer to a light industrial manufacturer. This transformation was manifest in the excellent growth in manufactured exports. Combined with the drop in the price of imported petroleum, manufactured exports helped the Thai current account to reach its first surplus in more than a decade.

Thailand has maintained a surplus in international reserves, totaling US$ 2.4 billion in 1986. Inflation is expected to stay at about 3 to 4 percent. Government fiscal and monetary policies have relaxed considerably. This economic performance has drawn increased attention to Thailand as a place to trade and to invest.

TRADE AND INVESTMENT OPPORTUNITIES

Thai restrictions on trade remain modest. They include quotas and price controls and usually are product-specific and not directed against individual nations. There is, however, a list of prohibited imports to protect domestic industries. Because the government relies on import duties as an important source of income, tariffs are levied on nearly all goods. Rates range from zero to 60 percent. The highest are on luxury goods or goods competing with local products. The lowest are on agricultural and industrial equipment.

Thailand's major imports from the U.S. include electronic components, cotton, plastics, aircraft and parts, oil and gas field equipment, tobacco, and wheat. Future export markets include:

1) food processing and packing equipment,

2) medical equipment,

3) computers and business equipment,

4) **pumps, valves and compressors,** and

5) **electric power generation equipment.**

The Thai government's pro-business stance, conservative fiscal and monetary policies, abundant natural resources, skilled labor, and strong infrastructure all help to create a generally good investment climate. In order to encourage investment in certain priority sectors, the Thai Board of Investment (BOI) offers certain "promotional privileges," such as tax holidays, waiver of import duties on machinery, components, and raw materials. Areas of potential U.S. investment include:

1) **electronic and mechanical industries,**

2) **agricultural and food industries,**

3) **automobile parts and other metal industries,**

4) **light industries,**

5) **jewelry industries,** and

6) **plastic, paper, and other chemical products.**