THAILAND

OVERVIEW OF POLITICAL AND ECONOMIC CONDITIONS

JULY, 1980

1.0 BACKGROUND

In 1978, the population of Thailand was 45.1 million, its Gross Domestic Product (GDP) was $21.8 billion, and GDP per capita was $483. Per capita energy consumption was 2.8 percent of that in the U.S.

Thailand is a developing country and a net oil importer. Although political instability plagued the country during the 1970's, it was not a major deterrent to investment. Thailand has no proven oil reserves and its proven gas reserves amount to 1,360 million barrels of oil equivalent. Coal reserves are negligible--there are only 78 million tons of geological resources. The government is striving toward decreased reliance on oil and development of alternative energy resources.

2.0 SOURCES OF INFORMATION

2.1 Government Information Sources

- Board of Investment (BOI) (New York Office: Five World Trade Center, Suite 3443, New York, New York 10048, Telephone: (212) 466-1745/6).
- Overseas Trade and Commercial Offices of the Government (United States Office: Five World Trade Center, New York, New York 10048).

2.2 Other Information Sources

- Bangkok Bank, investor advice and information service.
- Other banks, including Thai Farmers Bank and the Bankok Metropolitan Bank.
- "Thailand to 1980," a Business International research study giving political and economic projections for the country.
- "The Future of Southeast Asia," a Business Asia publication.
- U.N. Economic and Social Commission for Asia-Pacific, Sala Santitham, Rajadamnern Avenue, Bangkok 2, Thailand.
- Association of Southeast Asian Nations, Indonesian Secretariat, 14 Merdeka Barat, Djakarta, Indonesia.

3.0 STATE ROLE IN INDUSTRY

3.1 Attitude Toward Free Enterprise

- Policies of the Prem government (on March 3, 1980 General Prem Tinsulanand formed the 44th government since 1932) specifically favor free enterprise.

- Private business participation is to be enlarged in the economic sectors formerly considered the province of the state, such as mass transit, communication, and some forms of energy production.

- The government is active in a wide variety of state enterprises, particularly those considered vital to national welfare, an involvement which dates from the time of the nationalist governments of the early post-war period.

- Current policy dictates that whenever possible, the government's role will be limited to regulating the economy, with actual economic activity in the hands of private enterprise.

3.2 Political Climate

- The political peace that returned to Bangkok with the appointment of Gen. Prem should continue in the immediate future.

- Political instability is always near the surface; however, "international businessmen agree that Thailand's government does not greatly affect the business environment."

- In the past, contractual arrangements have been honored by successive governments.

3.3 <u>State-Owned Industry</u>

- The government monopolizes air, rail, and some motor transport; communications; and the production of cigarettes, sugar, alcoholic beverages, arms, explosives, and playing cards.

- The government closely regulates the exploration, production, and refining of petroleum; public utilities; mining; forestry operations; and banking and insurance.

- The government sometimes grants licenses--often exclusive--to private investors in certain areas in which it has monopoly or regulatory control.

4.0 CONDITIONS FOR INVESTMENT

- Real GDP growth fell to 6.7 percent in 1979 from 8.7 percent in 1978.

- Until 1972, inflation had never been a problem because the country's largely agricultural economy had remained unaffected by price spirals. Consumer prices rose 17-20 percent from 1978 to 1979.

- Industries are now subject to pollution controls, and standards have been established by the Industrial Environmental Division of the Department of Industrial Works, Ministry of Industry, for control of factory effluents.

- Investments in mining fall under the Minerals Act (1967 and 1973), which provide for the Ministry of Industry's Department of Mineral Resources to issue prospecting licenses and mining concessions in exchange for royalties.

- To set up, expand and operate a factory, two basic licenses are required from the Ministry of Industry: a factory establishment license and a factory operation license.

- The Investment Services Center at the Board of Investment (BOI) can help investors obtain all necessary licenses and permits.

- The government is rapidly expanding its industrial estate program to provide suitable factory sites in all sections of the country.

5.0 COMPETITIVE ENVIRONMENT

- In theory, the government has broad discretionary powers in antitrust matters, but in practice there are no antitrust laws or agencies charged with controlling such practices.

- The government has the power to curb or break up companies if it feels they are acting in a monopolistic fashion without its consent, or are cornering a vital market.

- Because of regulations governing mergers and the fact that most companies are closely held, mergers and acquisitions are infrequent.

- Manufacturers have complete freedom to set prices and choose customers.

- A new patent law drawn up in March 1979 makes major improvements in the protection available to business. It covers patents, inventions, processes and designs. Patents are granted for a period of 15 years.

6.0 PRICE CONTROLS

- The government has the power to fix wholesale and retail prices to prevent profiteering, and at times the Ministry of Commerce has used the power to set price ceilings on basic foodstuffs and fuels.

- New price control legislation (passed in January 1979) gives the government powers to take over management of the production and distribution of goods to ensure that they meet public demand; consider complaints against monopolistic practices; require submission of evidence and documents by firms; enter premises to inspect stocks; seize price-controlled goods; control the prices of goods; require the display of prices of controlled goods; prescribe rules for manufacturers or distributors regarding production, distribution, trading, and storing of goods; and place businesses under direct control if they are found to be operating in a monopolistic manner or in collusion with other firms so as to create a monopoly.

- In July 1979, some price controls were relaxed, but controls were retained on oil products and 35 other essential items.

p p

7.0 CORPORATE TAXES

7.1 General

- Thailand raised its tax rates in 1978 and again on May 21, 1980. The corporate tax burden in Thailand no longer compares favorably with that of other Asian countries.

- Although "promoted" companies are eligible for a tax holiday in the first three to eight years, they are subject to a host of indirect taxes. The most important of these are customs duties, the business (sales) tax and excise taxes.

7.2 Corporate Income Tax Rates

- As of January 1978, the progressive income tax rates of 20 percent, 25 percent and 30 percent were replaced by a single rate of 30 percent for companies listed on the stock exchange and 35 percent for others. As of May 1980, these rates were raised to 45 percent for companies not listed on the securities exchange, and 35 percent for those listed.

- Income taxes are levied only by the central government; there are no provincial or municipal income taxes.

- All companies and partnerships registered under Thai law, or incorporated under foreign laws and conducting business in Thailand (e.g. branches), are subject to Thai income tax.

7.3 Taxable Income Defined

- In computing taxable income, normal expenses incurred in the course of doing business may be deducted. In addition, the following guidelines apply: inventory is to be valued at cost or market price, whichever is lower; inventory stock cards are required, and it is now not permissible to write down inventories for obsolescence unless they are actually sold; no reserves may be established for bad debts; deductions for contributions to charity may not exceed 1 percent of net profits; interest and royalty payments and other Thai taxes paid (e.g. business tax) may be deducted; foreign taxes may be deducted only if there is a double-tax treaty in force between Thailand and the country where the tax was paid; and deductions for salaries to shareholders may not exceed reasonable amounts for services rendered.

7.4 Depreciation

- Firms may depreciate buildings at 5 percent per year. The cost of acquisition of leasehold right, process, formula, goodwill, trademark or right to operate under license may be depreciated at 10 percent per year when there is no time limit established for the usage rights (or limit on renewal of short-term contracts or leases); otherwise, they may be depreciated in equal amounts over the given number of years of the usage rights.

7.5 Excess Profits Tax

- None.

7.6 Capital Taxes

- None.

7.7 Capital Gains Taxes

- Most capital gains are treated as ordinary income for companies and for individuals and are taxed accordingly.

- A 10 percent capital gains tax on shares held for less than six months was introduced in May 1978 but was so strongly opposed that the government has rescinded it. A business tax of 0.1 percent and a municipal tax of 0.01 percent on each sale of shares on the stock exchange have replaced it.

7.8 Taxes on Dividends

- Dividends remitted abroad by a company incorporated under Thai law are now subject to a 20 percent withholding tax, reduced from 25 percent in May 1980. The tax may be reduced by tax treaty.

7.9 Taxes on Interest

- Interest payments remitted abroad are subject to a 25 percent withholding tax, except for interest paid to foreign financial institutions, which is taxed at a flat 10 percent.
- Interest on bank deposits (with the exception of time deposits) is exempt from income tax.
- Interest from time deposits, government bonds, state enterprise bonds and finance company notes may be excluded from ordinary income tax calculation and taxed at a flat rate of 10 percent until 1984, when such interest will be treated as ordinary income and taxed accordingly.

7.10 Taxes on Royalties and Fees

- Royalty and fee income remitted from or paid in Thailand is subject to tax. Thailand-based recipients include such fees as part of their gross income, to be taxed in the same manner as income from other sources. Royalties remitted abroad are subject to a flat 25 percent withholding tax, with no deductions for expenses allowed.
- Technical-service fees and know-how sales are taxed in the same manner as royalties, as far as income taxes are concerned, except that fees for engineering, legal, accounting and architectural services are subject to only a 15 percent withholding tax instead of the usual 25 percent.

- Royalties are not subject to business tax.

7.11 Taxation of Headquarters Companies

- Headquarters companies may operate in Thailand without incurring Thai company income-tax liability. To be entitled to this tax-free status, the regional headquarters must comply with the following conditions: (1) the activities of the headquarters shall be limited to acting as a supervisory, communications, and coordinating center for its affiliates, subsidiaries or branches of the region, and (2) the headquarters will not derive any income from Thai sources, with the exception of investment income (interest and dividends), and will not participate in any manner in the management of any subsidiary or branch office that the parent company might have in Thailand.

7.12 Turnover, Sales, and Excise Taxes

- All companies and individuals engaged in industry, commerce or services are subject to the business tax, unless exempt under the incentives program. The tax is levied on gross monthly receipts and collected at the point of origin, e.g. on importers at the time of import and on producers at the time of sale.

- The business tax is deductible for income tax purposes. It is not payable on exports, and tax paid on imported components, materials, etc. is reimbursable upon exportation in the case of promoted industries and in others if the export occurs within a year.

- The rate of business tax varies by activity.

- A municipal surcharge of 10 percent applies to all categories of activities.

- Excise taxes are levied on nine commodities: alcoholic beverages, soft drinks, matches, cigarettes, snuff, cement, playing cards, domestically produced petroleum products and cigarette lighters.

7.13 Other Taxes

- A local development tax is payable by owners of land and persons in possession of land not under private ownership.

- A separate house and land tax is payable by the owner of a house, building, structure and land on a yearly basis.

- Other fees and taxes include stamp duty on financial transactions, alien registration fees, signboard tax, residence fee and an entertainment tax.

8.0 GOVERNMENT INCENTIVES

8.1 General

- The Investment Promotion Act was revised in 1977 to give greater incentives to export-oriented ventures and to those locating outside of the Bangkok-Thonburi metropolitan area.

- The Board of Investment (BOI), which administers the program, maintains a list of industries eligible for promotion and will consider other industries if they offer promising proposals.

- The criteria that qualify an investment for incentives (referred to as "promotional status") are written in general terms that allow the authorities considerable discretion.

- Export-oriented industries are strongly favored and receive incentives with few limitations. Also favored are industries that use local components or raw materials.

- Additional incentives are offered for location in any of ten promotion zones in various parts of the country.

- Promoted entities are usually granted the following guarantees and privileges:

  (1) The state will not engage in a competitive industry (other than those it already operates).

(2) The state will not nationalize any promoted industrial activity.

(3) A promoted business may own land required for its operations, provided it is a limited company registered in Thailand.

(4) A promoted business may freely remit foreign currency to cover repatriation of capital, profits, interest and principal on foreign loans, royalties or other like obligations, unless the economic situation requires temporary preservation of foreign exchange.

(5) A promoted business may export its products, if such export is not contrary to the security and economic interests of Thailand.

(6) Entry of foreign experts, technicians, staff and their dependents will be permitted in such numbers and for such periods as fixed by the BOI. Under the new Investment Law, the BOI is empowered to secure visas and work permits for these aliens.

(7) A promoted enterprise may be exempted from import duties and/or business taxes on machinery required for its business, provided comparable machinery is not available locally.

(8) A promoted business may be exempted from corporate income tax on net profits for three to eight years. This exemption may be extended to income derived from the sale of by-products and semifinished products. Any losses incurred during this period may be carried forward and deducted from profits for up to five years after the tax holiday.

(9) A promoted enterprise may be exempted from up to 90 percent of the import duties and business taxes on raw or essential materials imported for production, provided that comparable materials are not available locally.

(10) Fees for goodwill, copyright or other rights may be exempted from income tax for five years from the date the promoted firm first derives income from the promoted activity.

(11) The recipients of dividends derived from promoted firms granted a tax holiday are exempted from tax on such dividends during the tax-holiday period.

8.2 Corporate Tax Incentives

- The 1977 incentive revisions allow the BOI to exempt promoted companies from corporate income tax for three to eight years, depending on the location of the project and its contribution to the economy. The most favorable treatment is accorded to factories located in rural areas outside Bangkok, employing many people and utilizing local raw materials.

- In addition, payments for goodwill, royalties or other intangibles by the promoted company under a contract approved by the BOI are exempt from taxation for a period of five years from the date income is derived by the promoted business. Dividends paid by the promoted enterprise enjoying a tax holiday are exempt from taxation for the duration of the holiday. Following expiration of its tax holiday, a promoted company can carry forward any losses incurred and can deduct them as expenses for up to five years.

- If the industry is located in a designated promotion area, it may qualify for further discretionary benefits such as:

  (1) Reductions (not exceeding 90 percent) of business taxes on sale of products for a maximum of five years;

  (2) Following expiration of the tax holiday, deduction from taxable income of double the actual cost of transport, water and electricity;

(3) Deduction from taxable income of up to 25 percent of the capital investment in plant and amenities. This may be carried forward for a maximum of 10 years. Normal depreciation allowances may also be claimed; and

(4) Reduction of income tax by 50 percent for a further five years after the expiration of the initial 100 percent tax holiday period.

8.3 Personal Tax Incentives

- None.

8.4 Tariff Incentives

- Any promoted industry may receive an import duty waiver on machinery, construction materials and office equipment needed to build and run its plant.

- Firms that produce for export are given complete relief from customs duties and business taxes on imported raw materials and components used in export products. Other firms may be given reductions of up to 90 percent of import duties and business taxes on raw and other materials for one year at a time, provided comparable materials are not available locally.

- In addition, the BOI has extensive powers to help promoted ventures by placing higher tariffs or tariff surcharges on competing imports or even by banning such imports.

8.5 Capital Incentives

- No special loans, grants or subsidies are available. The government will provide infrastructure (such as electric power and water) for large projects.

- There is an active program to develop industrial estates in conjunction with the private sector, and the government has created the Industrial Estate Authority to oversee the development.

8.6 Research and Development Incentives

- None.

9.0 CAPITAL AVAILABILITY

9.1 General

- The capital market is poorly developed, but the situation is improving now that a number of foreign financial institutions have established finance companies in Thailand that will lend to viable business ventures.

- The government started up a stock exchange in 1975 and introduced incentives for listed firms.

- In the past few years, the Bank of Thailand has played a more active role in controlling credit.

- Credit conditions were very easy throughout 1976 and 1977, when depressed economic conditions and political uncertainty resulted in high bank liquidity and low demand for loans.

- Credit became increasingly tight in 1978 as the widening trade deficit reduced the banking system's liquidity. The central bank's discount rate rose from 10.5 percent to 11 percent in February 1978 and was hiked again to 12.5 percent in December 1978, as part of a drive to bring domestic interest rates more closely in line with overseas rates.

9.2 Short-Term Credit

- The commercial banks are mainly engaged in short-term trade and export financing.

- The central bank sets interest rate ceilings. The limits previously set on these rates (15 percent for commercial and export bills, 12.5 percent for others) have been allowed to float up to 18 percent, the legal limit for bank interest rates.

- The Thai Bankers' Association determines the prime rate limit, which in early 1980 reached a record-high 17.5 percent, but has since eased to 16.25 percent.

- The most common form of short-term finance is the one-year overdraft, currently costing 16.25 percent for prime borrowers, but most customers pay 17.25-18 percent.

9.3 Medium- and Long-Term Credit

- Medium-term capital is in short supply, and long-term funds are even scarcer.

- Investment banks, formed by leading international banks, combine corporate lending with the usual investment banking functions.

- Finance companies, also formed by international banks, concentrate on smaller loans and commercial finance.

- The state-controlled Industrial Finance Corp. of Thailand (IFCT) is also a source of medium- and long-term funds. It is empowered to make term loans, purchase securities, underwrite share issues, guarantee loans from other private sources and furnish managerial and technical services.

9.4 Stock and Bond Financing

- The local capital market is still undeveloped compared with those in other Asian countries.

- Large firms have been able to raise funds through bond issues and share offerings. The cost is relatively high and the process burdensome and this approach is seldom used.

- Some 66 companies are listed on the Securities Exchange of Thailand (SET), which began operations in 1975.

10.0 LABOR CONDITIONS

10.1 Labor Availability

- As in other parts of Asia, relatively cheap, unskilled labor is abundant and should continue to be available for the next few years.

- Skilled workers and technical personnel in a few fields are scarce.

- Absenteeism among Thai workers is low, and turnover is not a problem if the employer pays good wages and provides decent working conditions.

10.2 Labor Relations

- After being banned since 1958, trade unions are now permitted under a Labor Relations Act, effective March 29, 1975. The law converted all existing "labor associations" (of which there were 55) into labor unions and laid down rules for their operation and control.

- All of the major government enterprises and most large manufacturing plants now have unions of some sort.

- The 1975 law makes labor contracts mandatory for all companies with 20 or more employees.

- Strikes were prevalent in 1974 (350 strikes) and 1975 (241 strikes) when almost all employers were faced with demands for higher wages during a period of soaring inflation.

- The inflationary effect of the March 1978 hike in import duties, coupled with the new petroleum excise tax, eroded real wages and prompted another labor outburst. A number of strikes and slowdowns against state enterprises occurred during 1978, despite the legal ban on such actions.

- The Labor Relations Act lays down specific procedures for labor and management to follow in negotiating for changes in the work agreement.

10.3 Wages

- Minimum wages covering the entire country are set by the Minister of the Interior. In October 1979, the daily minimum wage was again increased, this time to B45 in Bangkok, B38 in the South, B35 in the North and B35 in the Northeast.

- In practice, wages for unskilled labor in the Bangkok area are B50 a day, while in up-country areas, daily wages fluctuate around the legal minimum rate. Typical monthly salaries for skilled workers are as follows: workers performing assembly and light tasks, B1,600-B3,000; welders, B2,000-3,800; semiskilled machine operators, B1,500-3,000; electricians, B2,500-4,000; and carpenters, B2,000-3,500.

- The currency is the baht (B). In June, 1980, B24.1 - $1.00 U.S.

11.0 ENERGY IN THE DOMESTIC ECONOMY

- Imports of mineral fuels and lubricants accounted for 21.1 percent or B22.851 billion of total imports in 1978.
- Crude oil is subject to import control.
- Work has now commenced on the Fifth National Development Plan (1982-86), which will emphasize energy substitution among other things. A comprehensive energy policy, including the search for alternative forms of energy and reduction of reliance on oil, will be developed.

11.0 ENERGY IN THE DOMESTIC ECONOMY

11.1 Energy Resources

Coal

- Total Resource: no relevant information.
- Production: no relevant information.

Brown Coal/Lignite

- Total known economic reserves in place: 235 million metric tons (1967).
- Total resource: no relevant information.
- Production: 440 thousand metric tons (1977).

Crude Petroleum

- Reserves: 0 million metric tons (1977).
- Production: 8 thousand metric tons (1977).

Natural Gas

- Reserves: 133 thousand million cubic meters (1977).
- Production: no relevant information.

Natural Gas Liquids

- No relevant information.

Uranium

- No relevant information.

11.2 Energy Production and Consumption

- Percent five-year increase: 88% (1973-78).

Energy Production

- Total energy production: 0.68 million metric tons coal equivalent (1976).

Energy Consumption

- Total energy consumption: 13.22 million metric tons coal equivalent (1976).

- Per capita energy consumption: 308 kilograms per capita (1976).

- Per capita energy consumption as a percent of U.S. per capita consumption: 2.8 percent.

Electric Energy: Installed Capacity

- Total installed capacity: 2,820 thousand kW (1977).

- Nuclear installed capacity: no relevant information.

- Hydroelectric installed capacity: 930 thousand kW (1977).

Electric Energy Production

- Total production: 11.69 billion kWh (1977).

- Percent five-year increase: 88 percent (1973-78).

Manufactured Gas

- No relevant information.

11.3 Miscellaneous

- Imports of mineral fuels and lubricants accounted for 21.1 percent or B22.851 billion of total imports in 1978.

- Crude oil is subject to import control.

- Work has now commenced on the Fifth National Development Plan (1982-86), which will emphasize energy substitution among other things. A comprehensive energy policy, including the search for alternative forms of energy and reduction of reliance on oil, will be developed.

12.0 MISCELLANEOUS

- Thailand is not a member of GATT but is negotiating to join.
- It is a beneficiary of schemes giving preference to developing-country exports introduced by Japan, the EEC, the U.S. and other countries in recent years.

INDIA

OVERVIEW OF POLITICAL AND ECONOMIC CONDITIONS

MAY, 1980

1.0 BACKGROUND

India is one of the world's most populous and poorest countries. In 1978, population was 662.9 million, gross domestic product (GNP) was $117.0 billion, and GNP per capita was $176. Energy consumption per capita averaged a minuscule 1.5 percent of U.S. per capita consumption.

In view of the country's meager reserves of oil and natural gas, coal gasification is the main alternative for industries in India. India has vast reserves of non-coking coal--some 33.7 billion tons of recoverable reserves and 56.8 billion tons of geological resources.

2.0 SOURCES OF INFORMATION

2.1 Government Information Sources

- Indian Investment Center (United States office: 445 Park Ave., New York, N.Y.).

2.2 Other Information Sources

- Central Fuel Research Institute, Dhanbad, India.
- Chemical Age of India (journal).
- The World Bank, 1818 H. Street, N.W., Washington, D.C., 20433.
- U.N. Economic and Social Commission for Asia-Pacific, Sala Santitham, Rajadamnern Avenue, Bangkok 2, Thailand.

3.0 STATE ROLE IN INDUSTRY

3.1 Attitude Toward Free Enterprise

- Indian policy aims at promoting economic growth by emphasizing public-sector investment in heavy industry.

- The public strongly supports a socialist orientation for the government, allowing it to closely regulate the private sector to prevent a concentration of wealth or the means of production.

- The government asserts considerable authority over the private sector by establishing industrial laws that limit its growth and by exercising the state-owned financial institutions' options to convert loans into equity.

- Another sector, called the joint sector, is emerging. It comprises partnerships between private entrepreneurs and the national or state governments or their corporations.

3.2 Political Climate

- India's democratic political institutions have shown remarkable strength since the country achieved independence in 1949.

- Indira Gandhi returned to power with a two-thirds parliamentary majority in January 1980 and established a government with a right-of-center inclination.

p p

3.3 State-Owned Industry

- Under the Industrial Policy Resolution of 1948, Schedule A industries may be established only by the state; however, existing private producers in this category have been allowed to expand. Schedule A includes arms and ammunition, atomic energy, iron and steel, heavy castings, heavy plant and machinery for basic industries, mineral oils, mining, aircraft, telephone cables and electricity.

- State monopolies have been established for shipbuilding, air and rail transportation and mining of copper ore, gypsum, gold, sulfur and lignite.

- Schedule B covers industries in which both the government and private enterprise may start new undertakings, although the initiative generally comes from the state. Among them are the manufacture of aluminum, ferroalloys and special steels, antibiotics, fertilizers, synthetic rubber and chemical pulp. Sea and road transportation are included in this group.

- All remaining industries are open to private enterprise, although foreign companies are often excluded if industrial know-how and capital are available locally.

p p

- Energy-related state-owned industries include:

  - Indian Rare Earth Ltd.
  - National Coal Development Corp.
  - Neyveli Lignite Corp.
  - Coal India.
  - Oil and Natural Gas Commission.
  - Indian Oil Corp.
  - Cochin Refineries.
  - Hindustan Petroleum.
  - Bharat Refineries.
  - Madras Refineries.
  - Lubrizal India.
  - Minerals and Metals Trading Corp.

- In 1969, the government nationalized India's 14 major commercial banks, which control 80 percent of the country's banking assets.

- The government plans to take complete control of the oil sector.

4.0 CONDITIONS FOR INVESTMENT

- Real GDP growth over the past five years averaged about 3.8 percent, but annual growth rates have been very uneven, mainly because of variable weather conditions and harvests.

- Real economic growth declined by 2 percent in 1979/80.

- Inflation registered 16 percent in 1979.

- Industrial growth was stagnant in 1979, due to shortages of power and coal, transport bottlenecks, and insufficient steel and other primary raw materials.

- The establishment or expansion of an industrial undertaking for the manufacture of any items listed in the first schedule of the Industries Act requires an industrial license. Environmental considerations are taken into account when licenses are granted.

- All coal industries require an industrial license.

- A few years ago, the Indian government overhauled its machinery for processing investment applications, forming a Secretariat of Industrial Approvals (SIA) within the Ministry of Industry and Civil Supplies. The SIA receives applications for industrial licenses, sends the forms through the correct channels for processing, monitors delays, convenes meetings and issues industrial licenses and letters of intent. A Project Approval Board (PAB) was also established to oversee and coordinate the operation of the industrial approval system. Four committees--the Licensing Committee, the Foreign Investment Board, the Capital Goods Committee and the Licensing-cum-Monopolies and Restrictive Trade Practices (MRTP) Committee--handle applications.

p

5.0 COMPETITIVE ENVIRONMENT

- The Indian government believes that ownership and control of material resources should be widely distributed and that the operation of the economic system should not result in a concentration of wealth and perpetuation of marked inequalities of income. However, the constitution condemns such concentrations of economic power only when they lead to the "common detriment."

- The Monopolies and Restrictive Trade Practices Act, which took effect June 1, 1970, is aimed at controlling "dominant undertakings" and "monopolistic trade practices." The law created a permanent Monopolies Commission to control restrictive practices and requires that firms entering an arrangement defined as a restrictive trade practice register the agreement with the Registrar of Restricted Trade Agreements. The Monopolies Commission may then reach a decision to void the pact.

- Under the act, prior approval of the Monopolies Commission is necessary for substantial expansion of an undertaking; for establishment of a new enterprise that would be connected with a venture already set up; and for certain mergers, amalgamations, acquisitions and takeovers.

- The Monopolies Act also regulates monopolistic trade practices, including trade by any firm (regardless of size) that controls, produces, supplies or distributes more than half the total goods of any category produced or distributed in India. The law also applies to a company that, together with one or two others, controls half the market for goods of any category sold in India. A monopolistic trade practice is one that maintains prices at an unreasonable level or lessens competition in the production and supply of goods. It may be referred to the Monopolies Commission for examination, on which basis the government may take steps to end the practice.

- Cartels are not common in India, since the Monopolies Act discourages their formation.

- The government also has powers under the Company Law to object in court to mergers it thinks are harmful to the public.

- Most restrictions on freedom to sell are found in the Monopolies Act.

- India legislation covers patents, copyrights, and trademarks. For certain products, the law limits patent protection to the individual processes; it does not protect the goods themselves.

- Industrial designs and models are registrable for five years, renewable for two like periods.

6.0 PRICE CONTROLS

- Most goods are subject to price regulation. Controls are enforced at both wholesale and retail levels. Ex-factory prices are to be shown on labels.

- Commodities deemed "essential" may be subject to price controls, and the government has other powers as well to control prices at the factory and wholesale levels under the Essential Commodities Act. These direct controls were extended for a time to cover steel, coal, cement, fertilizers, kerosene, woolen yarns, ethyl alcohol and other products.

7.0 CORPORATE TAXES

7.1 General

- Taxes are high, and the tax system is complex.

- The effective tax paid by a firm depends on its residential status, whether its stock is closely or publicly-held and whether it engages in industry or commerce.

- Among domestic companies, those with stock widely dispersed among the public (or held by the government) pay lower rates than those closely held, and industrial ventures are treated more favorably than nonindustrial ones.

- Several government study groups have recommended a complete overhaul of the present tax system, but little in this direction has been accomplished so far.

- Tax evasion is still a major problem in India, although a crackdown on tax evaders carried out in the past few years has yielded substantial results.

7.2 Corporate Income Tax Rates

- The following income tax rates currently apply (R = rupee and R7.85 = $1 U.S. as of May, 1980):

  (A) Public companies

  With taxable income under R100,000 - 45 percent

With taxable income over R100,000 - 55 percent

(B) Private companies

Industrial firms - 55 percent on first R200,000 and 60 percent on remainder

Nonindustrial firms - 65 percent on total income

- In addition to the normal income tax, all corporations are subject to a surcharge of 7.5 percent of income tax payable (raised from 5 percent by the 1979/80 budget). A surtax is also imposed on profits over a certain level.

7.3 Taxable Income Defined

- Tax is levied on gross worldwide income less allowable expenses, which are essentially outlays incurred wholly and exclusively for purposes of the business, including materials, wages, salaries, reasonable bonuses and commissions, rent (presumed rent if the building is owner occupied), repairs, insurance, interest, certain taxes (not income tax), depreciation, expenses on scientific research and contributions to scientific research associations.

- Business losses may be carried forward for eight years. Depreciation that cannot be absorbed may be carried forward until fully absorbed. There is no provision for loss carry-back.

7.4 Depreciation

- Depreciation must be calculated by the declining-balance method (except for oceangoing ships, for which the straight-line method is used, with a rate of 5 percent).

- There are seven categories of plant and machinery. Typical rates are: first-class factory buildings, 5 percent; plant and machinery, 10 percent and 15 percent (except for precision engineering, 30 percent); trucks, 30 percent; office equipment, 15 percent.

- If more than one shift is worked, depreciation rates are increased by 50 percent for every additional shift up to two extra shifts.

- Depreciation is figured on actual cost, which is the purchase price plus capital additions (including certain installation expenses).

- Capital expenditures on scientific research may be written off in the year incurred.

- Patents may be amortized over a 14-year period.

- Preliminary expenditures for project or feasibility reports, market surveys, engineering services, company registration charges--up to a limit of 2.5 percent of the cost of project or capital employed--may be amortized over 10 years from the commencement of business.

- The 1976 Finance Act provided for a system of investment allowances, in addition to normal depreciation, to replace the previous system of 20 percent initial depreciation allowances permitted in specified industries.

7.5 Excess Profits Tax

- Companies with aftertax earnings exceeding 15 percent of employed capital are subject to a surtax of 25 percent on aftertax earnings, exceeding 15 percent of employed capital, and 40 percent on earnings exceeding 20 percent of employed capital.

7.6 Capital Taxes

- None.

7.7 Capital Gains Taxes

- Since the 1977/78 tax year, capital gains arising from the transfer of assets held less than three years (lowered from five years) are taxed as regular income (but see below for exceptions).

- Gains from the sale of assets held longer are normally taxed at 50 percent if the property is land or buildings and 40 percent in other cases.

- However, widely held firms with taxable income of R100,000 or less are taxed at 40 percent on capital gains arising from the sale of land or buildings.

- No income or capital gains taxes are payable when companies merge; taxes are due if a merged company sells its assets at a later stage.

- The 1977/78 budget also exempts investors from the capital gains tax if they reinvest the entire sales proceeds in shares, bank deposits, the Unit Trust of India, debentures specified by the government or national rural development bonds.

- Finally, the budget permits the holder of an asset bought before 1954 to use its 1964 value when computing the capital gain, which generally reduces tax liability.

7.8 Taxes on Dividends

- For dividends paid by one Indian company to another, the allowable deduction is normally 60 percent, making an effective rate of 22-28 (depending on corporate tax category) plus a 7.5 percent surcharge.

- Dividends paid to a foreign parent are taxed at a rate of 70 percent plus a surcharge of 7.5 percent of tax chargeable from 1980/81 onward (previously 5 percent), but a deduction of 65 percent is allowed, so that only 35 percent of the dividend is actually taxed (for an effective 24.5 percent tax before the 7.5 percent surcharge).

- For new affiliates in selected industries including fertilizer, cement, pesticides, paper, inorganic and organic heavy chemicals, machine tools, commercial vehicles and machinery, the allowable deduction is 100 percent, so that such companies pay no tax on dividends.

7.9 <u>Taxes on Interest</u>

- No relevant information on payments to domestic lenders.

- Payments to foreign lenders are withheld at source at a rate of 44 percent, plus a 3.3 percent surcharge. However, foreign investors can get a tax exemption on interest on loans from abroad if: (1) the loans are for the acquisition of plant, machinery or raw materials from abroad and (2) the interest rate is approved by the government. If the actual interest rate is higher than that approved by the government, then a 70 percent tax plus 5.25 percent surcharge is levied on the amount above the approved rate.

7.10 Taxes on Royalties and Fees

- Recurring royalty payments to a foreign firm are subject to a 40 percent tax plus a 7.5 percent surcharge. (The rate is 50 percent plus the 7.5 percent surcharge if the agreement was made prior to March 31, 1976.)

- Lump-sum payments are subject to a 20 percent tax.

- Technical-service fees, payable periodically or on an ad hoc basis, are tax-exempt to the extent that they pertain to services rendered outside India.

- When fees are for services rendered inside India, they are taxable at a 40 percent rate.

- Actual expenditures incurred by a foreign firm in rendering such services are deductible up to 20 percent of taxable income for agreements made before April 1, 1976. No deduction is allowed for agreements since then.

- Purchase of technical know-how, installation costs and design and engineering expenses may be capitalized and amortized at specified rates.

7.11 Taxation of Headquarters Companies

- None.

7.12 Turnover, Sales, and Excise Taxes

- As of fiscal 1978/79, most goods produced for sale or for other commercial purposes are subject to a 5 percent levy ad valorem (2 percent the previous year), provided they are not already subject to excise tax.

- Exempt are components and intermediate products produced and used in the same plant in the manufacture of finished goods, as well as the output of small plants.

- Various state governments levy sales taxes, ranging from 2 percent to eight percent.

7.13 Other Taxes

- Real estate taxes, based on assessed value, are imposed by the states.

- States also levy moderate taxes on motor transportation and freight traffic.

- Municipalities tax land, services and professional fees.

- Other taxes on corporations include a wealth tax on urban immovable property, excluding business premises, owned by a company. (Business premises also include buildings used for the residence or welfare of persons employed in the business.)

8.0 GOVERNMENT INCENTIVES

8.1 General

- India's investment tax incentives are numerous and varied, covering corporate and personal taxation, tariffs and exports.

- Capital incentives, in the form of long-term financing packages from the development institutions, are also available.

- States also grant special concessions to new industries. Many state governments have set up special industrial development organizations that offer industrial estates with zoned plots, water and power.

- In addition, some state governments offer other financial concessions, such as rebates on state taxes.

- Tax incentives are generally confined to selected industries, exporters and companies that set up or expand in India's backward regions.

- The government also offers capital incentives to speed development in India's 246 less-developed areas.

8.2 Corporate Tax Incentives

- Tax incentives take the form of tax holidays for corporate profits, exemption from dividend, interest and wealth taxes, accelerated depreciation, investment allowances, deduction of R&D expenses and others.

- A five-year tax holiday on profits, up to 7.5 percent of employed capital (excluding debentures and other long-term borrowing), is allowed for new industrial operations, provided that they employ more than 10 workers (20 workers in the case of non-powered operations) and that at least 80 percent of their fixed assets are new. If profits are below the 7.5 percent ceiling during the tax holiday period, the shortfall may be carried forward for up to three years after the holiday.

- In 1976, a system of investment allowances was introduced to replace the former development rebates and initial depreciation allowance schemes. Under the current program, most industrial undertakings may deduct from taxable income 25 percent of the cost of plant and machinery in the year of installation. The investment allowance is 35 percent for manufactured goods using local technology and products invented in India.

- Companies are eligible for the investment allowance only if they credit 75 percent of the amount to an investment allowance reserve account (50 percent in the case of a ship) to be used for purchasing new equipment within the next 10 years.

- Companies that establish in designated backward areas may deduct from taxable income 20 percent of annual pretax profits for a period of 10 years after starting operation.

8.3 Personal Tax Incentives

- Nonresidents are exempt from personal taxes if they stay in India no longer than 91 days in any one tax year, if their employer is not engaged in any trade or business in India and if their remuneration is not charged as a business expense to a company normally liable for Indian taxes.

- In addition, a special tax holiday is given to foreign technicians in manufacturing and construction fields (as specified by the government). Such personnel are completely exempt from tax on fees or salary of up to R4,000 a month for up to two years from the date of arrival, extendable up to four years, provided the contract of service between the employer and the employee is approved by the government within six months.

8.4 Tariff Incentives

- A strict import licensing system keeps out goods that would compete with those produced locally in adequate amounts.

- There is no rebate on tariffs on imported capital goods.

- Easier access to imports is granted to some priority industries, and duty exemptions are now available for about 200 raw materials when they are used in exports.

8.5 Capital Incentives

- Central and state industrial development banks extend medium- and long-term loans and sometimes take equity in new projects.

- Most states provide subsidies for building worker housing and for establishing industrial estates.

- In the backward areas, cash grants are available for up to 15 percent of fixed capital investment to a maximum of R1.5 million. Firms establishing operations in 110 of the 246 areas are eligible. Subsidies are also available to cover transportation of raw materials and finished products. In addition, loans with favorable terms may be obtained by investors that set up in these areas.

- Almost all states in India have developed industrial estates, but only small- and medium-scale operations have been set up in them.

8.6 Research and Development Incentives

- Research and development expenses, including capital outlays, are fully deductible from taxes in the year incurred.

9.0 CAPITAL AVAILABILITY

9.1 General

- The financial sector in India is heavily controlled by the government. The 14 largest commercial banks were nationalized in 1969, followed by the entire general insurance industry in 1972. The Reserve Bank of India (RBI) regulates the availability of funds to the banking sector by adjusting the bank rate, imposing reserve requirements and engaging in open-market securities operations.

- All loans exceeding R20 million require RBI approval.

- Loans from foreigners, which require the approval of the RBI and the Ministry of Finance, are usually discouraged, since they require outflow for interest payments. Rather, companies are encouraged to bring in equity capital or to approach the Industrial Credits and Investment Corp. of India (ICICI).

9.2 Short-Term Credit

- Commercial banks are the chief source of short-term funds, mostly in the form of overdrafts.

- Credit lines are generally set for one year and renewed or expanded annually.

- In the past few years, credit has been tight, and banks have been charging a 1 percent commitment charge on the unused portion of the line and a penalty rate of 2 percent for utilization in excess of the line. The interest rate charged to prime borrowers for overdraft facilities is now around 16-18 percent, computed on the daily outstanding balance.

- Some companies accept fixed deposits from the public as unsecured term loans, typically for one to three years at rates between 9.5 percent and 15.5 percent, depending on the term of the deposit, the company's reputation and the size of the loan.

- A few foreign banks provide financing in the form of 90-day notes. Discounting trade paper is becoming a popular form of short-term borrowing.

9.3 Medium- and Long-Term Credit

- Medium- and long-term credit is mainly supplied by the government-owned development banks: they are the Industrial Development Bank of India (IDBI), the Industrial Finance Corp. of India (IFC) and the Industrial Credit and Investment Corp. of India (ICICI).

- In March 1978, the RBI fixed maximum interest rates for loans exceeding three years at 12.5 percent for the priority sector and 14 percent for others. The IDBI and the IFC currently provide loans at 11 percent p.a.

- Financial institutions have the right to include an equity conversion clause of up to 20 percent of the loan.

- The Industrial Development Bank of India (IDBI), now under the aegis of the central government, has a paid-up capital of R500 million. It provides both medium- and long-term loans, although its principal purpose is to back up the resources of other term-financing institutions.

- The Industrial Finance Corp. (IFC), which is held 50 percent by the IDBI and 50 percent by commercial banks, insurance companies and investment trusts, primarily lends to private firms in which the Indian investing public holds substantial equity. It grants medium- and long-term loans and underwrites and invests in new stock and debentures.

- The IFC sponsored the Risk Capital Foundation in 1975 to provide assistance to new businessmen, particularly technicians and professionals, promoting medium-sized industrial projects. Loans are interest-free but carry a nominal service charge.

- The Industrial Credit and Investment Corp. of India (ICICI) is jointly owned by Indian and foreign banks; the government-owned Indian banks hold the majority. Groomed by the World Bank as a model for other development banks, the ICICI is important not only as a lending institution, but also as a catalyst in launching new ventures through underwriting activities.

- The Indian states operate financial corporations modeled on the IFC. They can assist industry with loans and guarantees for deferred payments for domestic equipment.

9.4 Stock and Bond Financing

- More companies are trying to raise funds through debentures, and the government is encouraging this form of financing.

- At end-1979, interest rates were 10.5 percent up to seven years and 11 percent between seven and 12 years. However, many firms are offering to increase rates if their equity dividend is above a certain level.

- A large number of foreign-owned firms have tapped the Indian capital market since 1976.

10.0 LABOR CONDITIONS

10.1 Labor Availability

- The labor force is estimated at about 202 million (72 percent in agriculture, 10.2 percent in industry and 17.8 percent other).

- Unskilled labor is easy to find, and a large pool of skilled workers, technicians and engineers is also readily available.

- The ranks of the educated unemployed are considerable. Consequently, competent staff can be found without much difficulty.

- No reliable estimates are available about the future availability of managerial and office staff and other personnel. But the number of persons with managerial and other white-collar skills should increase, since new management institutes have been established.

- Employment exchanges facilitate the channeling of skilled workers and technicians into the workforce.

- No figures are available on productivity, but it is very low. In a 1974 study of factor productivity in civil construction projects in India and Indonesia by the International Bank for

Reconstruction and Development, it was found that labor-intensive construction methods are more expensive and less efficient than capital-intensive methods. This is primarily a result of low labor productivity.

- Although some improvement has occurred recently, absenteeism is traditionally high (up to 30 percent in the summer).

- Turnover rates are moderate, generally 1-2 percent a month.

10.2 Labor Relations

- The labor union movement is not highly developed, despite government encouragement. Total union membership is estimated at nine million. Although this is less than 3 percent of the workforce, it is probably 30-35 percent of all workers who could be expected to join unions (i.e. those not in agriculture, village industries, household employment, etc.).

- Most of the unions are grouped into five major national organizations, all of which are weak financially and organizationally: (1) the Indian National Trade Union Congress (INTUC), the labor wing of the Congress Party, which generally favors settlement of labor disputes through arbitration, the wage boards or the tribunals;

(2) the All-India Trade Union Congress (AITUC), tied to the Communist Party of India and a great champion of workers' rights and strikes; (3) Hind Mazdoor Sabha (tied to several socialist parties and strongly opposed to INTUC); (4) the United Trade Union Congress; and (5) Bharatiya Mazdoor Sangh (affiliated with the Jan Sangh Party). Another major group, the Center of Indian Trade Unions, is a Maoist-oriented splinter of AITUC, but is more powerful than its parent.

- The unions squander much of their time in jurisdictional disputes and often have only weak control over their members. Few factories have shop stewards.

- In manufacturing companies, prior discussions between management and labor leaders help stall strikes. Strikes are settled by mutual negotiations or through conciliation boards.

- Collective bargaining is not common, although it has gained some ground in recent years. Instead, industry wage boards, comprising representatives of labor and management, set basic wage scales and minimum working conditions.

- Man-days lost because of strikes and lockouts in 1978 totaled 21.51 million, compared with 25.32 million in 1977 and 11.8 million in 1976. In 1978 and early 1979, turmoil in the state-owned banking sector, consisting of go-slows and strike actions, paralyzed financial transactions. Labor strife, often politically motivated, is expected to continue throughout 1980.

10.3 Wages

- Wages vary considerably by industry, size of company and region. The differences generally reflect levels of skill and competence.

- The highest wages normally are paid in the basic metal, cement, petroleum electrical machinery and transportation equipment industries. Within these industries, wide variations can be found from state to state.

- Wages are governed by the Payment of Wages Act of 1936 and the Minimum Wages Act of 1948. Under their provisions, industry wage boards recommend the minimum wage and fix the wage-rate structure for each industry. The states fix minimum wages under the Minimum Wages Act.

- Wages comprise two components--the basic salary and the dearness allowance linked to the cost-of-living index.

- As part of the effort to control inflation, the government declared a wage freeze in July 1974 that lasted until July 1977 under Congress Party rule. The Janata government withdrew the measure in May 1977 in a move to appease labor. Consequently, wages in 1977 soared by about 20 percent. Increases moderated to about 15 percent in 1978 and 1979 and are expected to register 12-15 percent through 1980.

11.0 ENERGY IN THE DOMESTIC ECONOMY

11.1 Energy Resources

Coal

- Total resource: 80,953 million metric tons (1972).
- Production: 100,000 thousand metric tons (1977).

Brown Coal/Lignite

- Total resource: 2,026 million metric tons (1972).
- Production: 3,628 thousand metric tons (1977).

Crude Petroleum

- Reserves: 281 million metric tons (1977).
- Production: 10,185 thousand metric tons (1977).

Natural Gas

- Reserves: 96 thousand million cubic meters (1977).
- Production: 11,494 teracalories (1977).

Natural Gas Liquids

- No relevant information

Uranium

- Resources: 29,800 metric tons (1978).
- Production: no relevant information.

11.2 Energy Production and Consumption

Energy Production

- Total energy production: 121.09 million metric tons coal equivalent (1976).

Energy Consumption

- Total energy consumption: 132.92 million metric tons coal equivalent (1976).
- Per capita energy consumption: 218 kilograms per capita (1976).
- Per capita energy consumption as a percent of U.S. per capita consumption: 1.5 percent.

Electric Energy: Installed Capacity

- Total installed capacity: 25,063 thousand kW (1977).
- Nuclear installed capacity: 640 thousand kW (1977).
- Hydroelectric installed capacity: 9,353 thousand kW (1977).

Electric Energy: Production

- Total production: 108.58 billion kWh (1978).

- Percent five-year increase: 49 percent (1973-78).

Manufactured Gas

- Total: 7,810 teracalories (1977).

- Gaswork: 310 teracalories (1977).

- Cokeries: 7,500 teracalories (1977).

11.3 Miscellaneous

- All petroleum products are imported by the Indian Oil Corp. (IOC).

- No relevant information concerning the volume of petroleum imports.

12.0 MISCELLANEOUS

- India is one of the eight Asian countries that ratified the Bangkok agreement, under which multilateral tariff reductions averaging about 30 percent on more than 160 product categories are envisaged. The other countries are Bangladesh, South Korea, Laos, Pakistan, the Philippines, Sri Lanka and Thailand.

SOUTH KOREA
OVERVIEW OF POLITICAL AND ECONOMIC CONDITIONS
JULY, 1980

1.0 BACKGROUND

In 1978, the population of Korea was 36.6 million, gross domestic product (GDP) was $47.6 billion, and GDP per capita was $1,300. The country is a middle-income developing country. All oil requirements are imported.

Energy production is owned, operated, and subsidized by the government. In 1978, per capita energy consumption was 12.0 percent of the comparable U.S. figure.

2.0 SOURCES OF INFORMATION

2.1 Government Information Sources

- Economic Planning Board.
- Ministry of Commerce and Industry.
- Economic Affairs Bureau of the Ministry of Foreign Affairs.
- Korean embassies and economic offices.

2.2 Other Information Sources

- Korean Chamber of Commerce and Industry.
- Federation of Korean Industries.
- Korean Traders Association.
- Bank of Korea.
- Korea Trade Promotion Corporation (Kotra).
- "Asian Manufacturing Sites," research report by Business International.
- "Korea to 1986," an in-depth survey on the political and economic outlook for Korea, by Business International.
- U.N. Economic and Social Commission for Asia-Pacific, Sala Santitham, Rajadamnern Avenue, Bangkok 2, Thailand.

3.0 STATE ROLE IN INDUSTRY

3.1 Attitude Toward Free Enterprise

- The free enterprise system is guaranteed in Korea and is generally accepted. The government's overall policy is to encourage private enterprise.
- Most productive activities are still carried out by the private sector, but government influence throughout the economic system is considerable.
- State economic planners set industrial priorities through development plan goals, and the government uses a combination of incentives, persuasion, and on occasion more direct techniques to realize its objectives.
- The government participates most directly in utilities and other public services, in banking, and in industries requiring heavy capital investment.
- At present, the government still owns or controls most of the country's commercial banks, through which it exercises control over most major local businesses.
- The government may increase its ownership in a company to benefit the economy.

3.2 Political Climate

- President Park Chung-hee, who ruled with an iron fist for 18 years, was assassinated by his intelligence chief on October 26, 1979. An interim government, headed by caretaker president Choi Kyu-hah, was installed, and a democratization process was begun.

- Pressure from North Korea is an ever-present concern to the South, and fear of conflict has tended to serve as a uniting force within South Korea.

3.3 State-Owned Industry

- Two state monopolies, one in tobacco and the other in ginseng, are operated by the Office of Monopoly under the jurisdiction of the Ministry of Finance.

- State-owned firms also provide public services such as electricity, housing, water, export promotion, and farm development.

- The state owns or controls most commercial banks and is active in oil refining and heavy industries.

- Energy-related state-owned enterprises include:

  - Dai Han Coal Corporation.

- Korea Mining Promotion Corporation.
- Korea Oil Corporation.
- Petroleum Development Corporation.
- Korea Electric Company.

- The government influences most major local business through its bank ownership.

4.0 CONDITIONS FOR INVESTMENT

- Until 1979 Korea had the world's fastest growing economy, aside from the oil-exporting countries.

- Annual rate of growth in GNP has averaged:

  - 7.8 percent in the 1962-66 period.

  - 10.5 percent in 1967-71.

  - 11.2 in percent in 1972-76.

  - 15.5 percent in 1976.

  - 10.3 percent in 1977.

  - 11.6 percent in 1978.

  - 7.1 percent in 1979.

- The country's main economic problem is inflation. Inflation rose in 1979, with a 23.8 percent increase in wholesale prices and a 21.2 rise in the consumer price index, as a result of a big jump in domestic oil product prices, substantial hikes in utility rates, and the relaxation of price controls.

- The government has become very sensitive to the question of industrial pollution and now requires that plants be equipped with pollution-prevention or control devices. The Ministry of Health and Social Affairs (NHSA) has a number of regulations setting maximum permitted levels of concentration of various by-products.

5.0 COMPETITIVE ENVIRONMENT

- The Price Stabilization and Fair Trading Law went into force in 1976. It includes a number of provisions regulating market-dominating situations, particularly those involving goods the state considers essential.

- The government is considering scrapping the 1976 law entirely and replacing it with a new one focusing on monopoly prohibition and fair trade rather than prices.

- The 1976 law does contain provisions regulating companies in monopoly or market-dominating positions. If abuse of a monopoly position occurs, the government can exert administrative control under the fair trade law.

- No special laws govern mergers. Recently, the government has discouraged diversified conglomerates--some corporations have even been "persuaded" to dispose of enterprises and properties not directly connected to their main line of business. Mergers are, however, sometimes encouraged when consolidation will improve productivity, reduce uneconomic competition, or result in better allocation and use of scarce or costly raw materials.

- Freedom to sell is restricted in some cases under the 1976 trade law.

- Patents and trademarks in Korea are protected by law. Korea is a member of the 88-nation Paris Convention on patents and trademarks.

- Patent coverage is available for industrial designs and models.

6.0 PRICE CONTROLS

- In 1976, the Price Stabilization and Fair Trading Law was introduced to stabilize prices and hold down inflation.

- This policy remained in force until 1979, when the government adopted an economic stabilization plan that incorporated a price decontrol policy to readjust the distorted price structure.

- The 1976 law contains the following price control provisions:

  - The government may set maximum prices on goods, rental charges, service charges and fees if deemed necessary to stabilize prices.

  - Price ceilings may be set for each stage of commodity flow--i.e. the ex-factory, wholesale and retail levels--or by area.

  - "Emergency economic measures" may be imposed, requiring manufacturers to increase production and stock in the event of critical shortages.

  - Manufacturers of "low-competition" goods must consult with the pertinent ministry when determining price levels or changing prices. "Low-competition" products are those for which one company has a market share of over 50 percent, two firms have a combined market share of over 60 percent with each holding over 30 percent, and certain other items.

7.0 CORPORATE TAXES

7.1 General

- On the whole, the tax burden in Korea is rather high, but several incentives enable firms to reduce it, mainly through the Foreign Capital Inducement Law (FCIL).

- The basic tax laws were rewritten in late 1974, and the changes--affecting corporate income, excess profits, capital gains and business taxes, as well as taxation of dividends, interest and royalties--took effect Jan. 1, 1975. The purpose of the revisions was to broaden the tax base and to encourage more firms to list their shares on the stock exchange by establishing an even wider spread of rates between "open" and "closed" corporations. Additional changes were made in 1976 and 1978, mainly in the form of adjustments to corporate tax rates.

- A defense tax, which is essentially a surtax applied to a number of tax areas, took effect Aug. 1, 1975 and will remain in force until 1985.

- Tax evasion was once prevalent, but the government has made the tax collection process more efficient and equitable.

7.2 Corporate Income Tax Rates

- To encourage firms to go public, the corporate tax favors "open corporations" (i.e. those with shares listed on the stock exchange) over "closed corporations," whose shares are not listed.

- The tax rates are as follows (W = the won, with a rate of W588 = $1 US, as of July 1980):

  Closed Corporation

  In designated small/medium industries:

W3 million or less.........	15 percent
W3 million to W5 million...	15 percent on first W3 million and 25 percent on excess
W5 million or more.........	19 percent on first W5 million and 35 percent on excess

  In other industries:

W3 million or less.........	20 percent
W3 million to W5 million...	20 percent on first W3 million and 30 percent on excess
W5 million or more.........	24 percent on first W5 million and 40 percent on excess

Open Corporation

More than 65 percent open:
W5 million or less.........20 percent
Over W5 million............20 percent on first W5 million and 30 percent on excess

Less than 65 percent open:
W5 million or less.........25 percent
Over W5 million............25 percent on first W5 million and 35 percent on excess

- Under the defense tax law, corporations earning less than W500 million a year are required to pay a surtax of 20 percent of corporate income taxes due; those earning more than W500 million pay 25 percent.

7.3 Taxable Income Defined

- Taxable income is defined as the gross amount of income from domestic sources and most income from foreign sources, less certain nontaxable items prescribed in the corporation tax law (e.g. various forms of interest) and less tax-deductible income (e.g. income accruing from navigation of vessels and aircraft abroad and from certain land reclamation projects).

- Interest payments are generally tax-deductible; however, the firm making the payment is often required to withhold the tax the recipient would have to pay and remit it to the government before making payment.

- Royalties are not usually tax-deductible. Formerly, companies could credit up to 50 percent of tax paid on dividend income against their income tax, but this concession is no longer available.

- Some taxes paid, including certain foreign taxes, may be deducted from income.

- Losses may be carried forward for three years. There is no provision for carry-back.

7.4 Depreciation

- Depreciation is allowed on the basis of the statutory useful life of the assets.

- The following methods may be used: declining-balance method for tangible fixed assets; straight-line method for intangible fixed assets; service-output method or straight-line method for fixed assets used in mining (except mining rights).

p p

- Typical declining-balance depreciation allowances are 4.5 percent for 50 years for steel or concrete warehouses, 7.4 percent for 30 years for brick manufacturing plants, 17.5 percent for 12 years for machine tools, 43.8 percent for four years for trucks and 36.9 percent for five years for office equipment.

- Special depreciation allowances may be claimed under a number of categories and conditions. Typical examples include the following: fixed assets for corporations earning foreign exchange (ordinary rate plus 30 percent); mining and manufacturing equipment in use for at least 12 hours a day (ordinary rate plus 20 percent); and equipment and facilities used for developing scientific technology, technical innovations, etc. (50 percent of the purchase price for the first year).

- Investments made in locally produced machinery and equipment for the mining, manufacturing, construction and fisheries sectors are entitled to special depreciation of the ordinary rate plus 80 percent, whereas investments made in other sectors are subject to the ordinary rate plus 40 percent.

- The following items are considered depreciable: (1) buildings, structures, aircraft, vessels, fishing gear, fishing boat equipment, vehicles, transportation equipment, machine tools, apparatus, fixtures and fixed assets by type of business; (2) patent rights; (3) trademark rights; (4) design rights; (5) utility model rights; (6) irrigation rights; (7) fisheries rights; (8) goodwill; (9) development expenses; (10) mining rights; and (11) industrial railway siding utility rights.

- Assets may be revalued; depreciation is then figured on the basis of the new value on the remaining useful life, but does not apply retroactively. There is a 3 percent asset revaluation tax on net gains resulting from revaluation.

7.5 Excess Profits Tax

- The tax laws that took effect Jan. 1, 1975 provide for continuation of the excess profits tax instituted by the Presidential Emergency Proclamation in 1974. This provides for a levy of 100 percent on receipts above prices approved and posted by the Office of National Tax Administration. The tax is paid with the usual corporate tax and covers prices of goods, real estate, rents, commissions and utilization fees, etc. at the manufacturer, wholesale and retail levels.

7.6 Capital Taxes

- Capital taxes do not exist as such.

7.7 Capital Gains Taxes

- The capital gains tax, effective 1975, has undergone some changes, mostly in order to discourage land speculation. Gains from sales of land are subject to a 50 percent tax, and those from sales of buildings and other assets, 30 percent. However, gains from sales of houses and land within two years of acquisition are subject to a 70 percent tax.

- No taxes are levied on gains resulting from mergers, since government policy is to encourage consolidation of small, weak firms into larger competitive units.

7.8 Taxes on Dividends

- A withholding tax of 25 percent (upped from 20 percent since the 1974 tax reform) is levied on gross payments of dividends to shareholders of closed corporations. For open corporations, a withholding tax of 10 percent is levied on dividends to major shareholders and 5 percent on dividends to minor shareholders. But dividends of up to W36,000 to minor shareholders are tax-exempt.

7.9 Taxes on Interest

- A withholding tax of 5-25 percent is applied at the source.

- There is no withholding tax on interest for firms benefiting from Foreign Capital Inducement Law incentives.

- Interest income up to W18,000 per six months is tax-exempt, and interest is excluded from global income computation. (These conditions do not apply in cases in which interest is the primary source of income--i.e. lending institutions.)

7.10 Taxes on Royalties and Fees

- A withholding tax of 25 percent is levied on gross royalties, fees and other payments.

7.11 Taxation of Headquarters Companies

- There are no special provisions governing headquarters operations; the country has had little experience with them.

7.12 Turnover, Sales, and Excise Taxes

- In 1977, a value-added tax (VAT) replaced the former business, commodity, textiles, petroleum products, electricity and gas, passenger, admissions and entertainment, and eatery taxes.

- The basic tax rate is 13 percent, levied on the value added at all stages of the distribution system. But the government, at its discretion, can raise or lower the rate by three percentage points.

p p

- The tax applies to all domestically supplied goods and services as well as imported products, except coal and other essential goods and services.

- The value-added tax is backed up by a new special excise law with rates for commodities ranging from 10 percent (diesel fuel, woolen textiles) to 160 percent (gasoline).

7.13 Other Taxes

- A variety of other taxes exist. The registration tax covers the registration of "acquisition, transfer, alteration and lapse of property and other rights" and applies, for example, to the registration of real estate, mining rights, joint stock corporations, and copyrights, patents and trademarks. It is levied at 0.01-30 percent of the value of the property, or at a flat rate of W2,000-75,000, depending on the item.

- There is also an asset revaluation tax of 3 percent on the net gain resulting from a revaluation (i.e. new value minus old value and any losses permitted to be carried forward).

- Other levies are the property, property acquisition, inheritance, gift, liquor, telephone, city planning, stamp and automobile taxes.

- A new local tax, the workshop tax, was introduced in 1977. Like the resident tax, it comprises two parts: a property tax and a payroll tax. The property tax is levied on the aggregate floor space of the offices, plants and facilities used by businesses. The rate is W500 per pyong per year (one pyong equals 35.6 sq ft). The payroll tax equals 0.5 percent of total monthly payroll.

- A stock exchange tax of 0.5 percent, introduced in 1978, is levied on shares transferred by non-financial institutions and individuals.

8.0 GOVERNMENT INCENTIVES

8.1 General

- A wide range of tax, tariff and capital incentives is available.

- A new program has been introduced to promote local R&D.

- Special incentives are available for domestic exporters, although they have been reduced recently under pressure from developed countries, which claim they constitute illegal, unfair subsidies.

- All foreign-affiliated firms approved under the Foreign Capital Inducement Law (FCIL), all exporters and certain "critical" industries (animal husbandry, mining, iron and steel, shipbuilding, etc.) are eligible for one or more special incentives.

8.2 Corporate Tax Incentives

- Firms formed under the Foreign Capital Inducement Law are eligible for a number of tax exemptions and reductions. They enjoy an exemption from corporate tax, defense tax, property tax and property acquisition taxes for the first five years (starting from the arrival of the plant's facilities), and a 50 percent reduction in those taxes for the ensuing three years. The same reductions now apply to capitalized reserves.

- The income tax law revisions in December 1976 slightly modified an incentive that previously was available only for new investments in machinery and equipment in certain basic industries. Now, when the government deems it desirable, an amount equal to 8 percent of the invested amount may be deducted from the income tax due in the year an investment is completed.

- To encourage the establishment of industrial plants outside Seoul, Pusan and some other industrial areas, the government grants similar tax holidays and reductions to any industry relocating from these areas to designated sites.

8.3 Personal Tax Incentives

- Expatriate employees of FCIL-approved foreign-owned firms and foreigners working under government contracts or technical-assistance agreements will be exempted from the tax on wages and salaries and the defense tax for five years from the date of registration if they file an application for tax exemption with the head of the district tax office.

8.4 Tariff Incentives

- No relevant information on domestic enterprises.

- New foreign enterprises are exempt from customs duties and commodity taxes on capital goods imported for investment purposes. An initial six-month supply of raw materials may also be imported duty- and commodity-tax-free. On subsequent raw material imports, import duties and the value-added tax are refunded if the finished goods are exported.

8.5 Capital Incentives

- A number of loans are given by banks upon approval of the Finance Ministry and the Economic Planning Board. They are primarily for export financing and are normally extended only to Korean firms.

- There are industrial estates operated by the provinces and by the central government.

8.6 Research and Development

- The government has introduced a program to encourage companies to set aside funds for establishment of R&D facilities. Under the program, firms may deduct from taxable income an amount equal to royalties and fees paid for foreign technology if it is deposited in the special fund.

9.0 CAPITAL AVAILABILITY

9.1 General

- Credit has been extremely tight and costly in Korea recently, because of the government's stringent monetary policy to curb inflation. For example, in 1978, the government held credit increases to 37.3 percent and tightened the monetary spigots even further in 1979, when it held credit increases to 24.7 percent.

- The government will continue to be selective in extending financial support to industries. Areas that are not considered crucial will be given less emphasis, while important projects will receive considerable financial support.

- The government has taken steps to upgrade its banking facilities to support the growing economy.

- The Bank of Korea is the central bank, and its board of directors is appointed by the government and chaired by the Minister of Finance. There are five local commercial banks (all except one are owned by the government) and seven government-related banks. Ten local banks were established to promote regional development.

- Because most Korean banks are at least partly owned by the government, they participate in the government's monetary policies and development programs. The government exercises control over the banking system through these banks and by establishing interest rates.

9.2 Short-Term Credit

- Interest rates on commercial bank loans range from 21 percent to 25 percent, but these are hard to come by.

- According to a survey among 422 members of the Federation on Korean Industries, in the first half of 1979, member companies drew 8.7 percent of their funds from the private lending market, which was charging 3.2-5 percent interest per month.

- The short-term money market is now dominated by commercial paper, handled mainly by the short-term finance companies, with merchant banks increasing their presence.

- In January 1980, interest rates on commercial paper ranged from 24.5 percent for top companies to 30.9 percent for unsecured paper of less-than-prime firms.

p p

9.3 Medium- and Long-Term Credit

- Medium- and long-term credit is difficult to obtain in Korea.

- The Korea Development Bank (KDB) is a wholly government-owned institution authorized to give financial assistance to large and medium-sized companies. Many of the KDB's funds come from international lending institutions, including the World Bank, the International Finance Corp. and the Asian Development Bank, or through floating bonds in international markets.

- In 1975, the Integrated Financial Company Law (IFCL) was enacted to stimulate the growth of merchant banks to supply medium- and long-term funds to domestic businesses. The IFCL allows merchant banks to engage in syndications, lending, and refinancing of equipment and operating funds. It also allows discounting and underwriting of promissory notes issued by local firms, underwriting of securities and issuing of corporate bonds.

- To further develop the long-term won market, the government passed a law in 1979 to create long-term credit banks modeled on those existing in Japan. The first one to be established in Korea will be Korean Long-term Credit Bank, formerly the Korea Development Finance Corp. (KDFC).

9.4 Stock and Bond Financing

- The public capital market is not very well developed, but the government has taken steps to strengthen it. The January 1973 Open Enterprise Promotion Law stipulates that the government may require certain firms to list their shares for public trading.

- To encourage companies to go public, the government offers a number of incentives, including tax benefits and the right to float bonds, neither of which is available to non-traded firms.

- Since 1975, more than 300 companies have been selected by the government to have their shares made available for public subscription. In 1977, the number of listed companies rose to 323 from 128 in 1974. At end-1979, there were 355 firms listing capital stock totaling W2,202.26 billion at the Korean Stock Exchange.

p

10.0 LABOR CONDITIONS

10.1 Labor Availability

- With a booming economy, labor supply became tight in industrialized areas up to end-1978; the unemployment rate hit 3.5 percent and skilled workers, especially mechanics and technicians, were in short supply.

- The economic slowdown since 1979, however, has eased the shortage.

- According to a government plan, by 1981 the nation will have 1.8 million additional skilled workers and technicians--732,300 to come from vocational training schools to be established by private companies, 384,500 from technical high schools and the rest from other training programs.

- Nevertheless, the demand for skilled workers and technicians is expected to outrun supply, and the shortage will be aggravated by the booming overseas-construction contract field, which entails the hiring of Korean workers.

- In the recent past, middle-management personnel, engineers and scientists were also difficult to recruit, as companies underwent fast expansion because of high economic growth and successful export promotion.

- Labor turnover averages about 4-5 percent annually.

- The literacy rate among Korean workers is high.

6.2 <u>Labor Relations</u>

- Korea has a wide array of labor legislation (primarily the Trade Union Law, the Labor Disputes Mediation Law and the Labor Committee Law), but in the past it has had difficulty enforcing these provisions.

- About one-third of Korea's nonagricultural workers are members of unions that participate in the Federation of Korean Trade Unions (FKTU).

- Unions are not particularly well financed or organized, but at times organized labor has proved troublesome to business.

- Revisions in Korea's labor laws made in 1973 prohibit collective action by workers in firms with operations deemed important to the national economy.

- The government also tries to alleviate any labor problems in the export-processing zones and frowns on work stoppages in such vital industries as petroleum, coal and electricity.

- Company unions are not allowed. In establishments without union organizations, labor relations are generally informal.

- The machinery for settlement of labor disputes is not very formal. The government has the power to intervene and arbitrate.

10.3 Wages

- Korea has no legal minimum wage, although the Office of Labor Affairs puts pressure on employers paying workers less than W50,000 a month.

- Wages can be extremely low (e.g. in the textile industry), about W2,000 per day for unskilled male workers and W1,500 for women. However, the majority of blue-collar workers now earn close to W70,000 a month.

- Wages used to be significantly lower away from the Seoul and Pusan areas, but the spread has been narrowing rapidly because of rising demand for manpower as well as the government's policy of discouraging firms from locating in the major metropolitan areas and fostering development of "down-country" regions.

- Generally speaking, workers in manufacturing industries earn less than those in mining and services. According to one official survey, workers in the electricity and gas, construction, and finance and service sectors are the highest paid and textile and wood-product workers are the lowest paid.

11.0 ENERGY IN THE DOMESTIC ECONOMY

11.1 Energy Resources

Coal

- Total resource: 1,450 million metric tons (1974).
- Production: 17,233 thousand metric tons (1977).

Brown Coal/Lignite

- Total resource: no relevant information.
- Production: no relevant information.

Crude Petroleum

- Reserves: no relevant information.
- Production: no relevant information.

Natural Gas

- Reserves: no relevant information.
- Production: no relevant information.

Natural Gas Liquids

- No relevant information.

Uranium

- No relevant information.

p p

11.2 Energy Production and Consumption

Energy Production

- Total energy production: 16.65 million metric tons coal equivalent (1976).

Energy Consumption

- Total energy consumption: 36.58 million metric tons coal equivalent (1976).
- Per capita energy consumption: 1,020 kilograms per capita (1976).
- Per capita energy consumption as a percent of U.S. per capita consumption: 12.0 percent.

Electric Energy: Installed Capacity

- Total installed capacity: 6,338 thousand kW (1977).
- Nuclear installed capacity: 564 thousand kW (1977).
- Hydroelectric installed capacity: 711 thousand kW (1977).

Electric Energy: Production

- Total production: 31.51 billion kWh (1978).
- Percent five-year increase: 106 percent (1973-78).

Manufactured Gas

- No relevant information.

11.3 Miscellaneous

- Korea must import all of its oil requirements, and cooperation with Middle Eastern oil producers has become a cornerstone of the country's economic diplomacy.

p

12.0 MISCELLANEOUS

- Korea encourages trade with practically any nation that is willing to reciprocate, although it does not belong to any special trade group.