

Five-Year Investment Promotion Strategy Draft (2013 - 2017)

By

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**Thailand Board of Investment
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- 1. Rationale for revising investment promotion strategies**
- 2. Proposal of 5-year investment promotion strategy
(2013 - 2017)**
- 3. Rationale for amending Investment Promotion Act**
- 4. Time frame for implementing new strategies**

1. Rationale for Revising Investment Promotion Strategies

The situations in the world and the region

- ✓ The developing countries especially in ASEAN play greater role in world's economy and investment.
- ✓ AEC will make ASEAN become a key investment destination, resulting in higher competition for investment among ASEAN members and more opportunity for Thailand to invest overseas.
- ✓ Japan, as the largest investor, need to invest more in ASEAN.
- ✓ The global business trend is changing : technological leapfrog, higher investment in service sector and emergence of fast-growing businesses e.g.
 - Healthcare and businesses related to aging population
 - Business that supports urban population
 - Creative industry
 - Green industry
 - Alternative energy and energy conservation
 - Corporate Social Responsibility (CSR)

The situation in Thailand

- ✓ Thailand is caught in the middle income trap for decades.
- ✓ Thailand's economic structure relies heavily on external sector and is therefore sensitive to global changes.
- ✓ Economic inequality is high and income gap is widened.
- ✓ Thailand's competitiveness is still low especially in S&T and logistics.
- ✓ R&D expenditure remains at a low rate of 0.2% of GDP for decades.
- ✓ The country faces labour shortage both in quantity and quality.
- ✓ Area to support new heavy industry is limited.
- ✓ The energy security will become a major problem in the future.
- ✓ Tax structure has changed:
 - Corporate income tax reduction from 30% to 23% in 2012, and to 20% in 2013.
 - Import tariff reduction due to several FTAs.

Cabinet Resolution on 11 October 2011

BOI in cooperation with Ministry of Finance shall review the criteria of investment promotion rights and benefits in response to the changing situation and investment incentives of other countries as well as the general corporate income tax reduction.

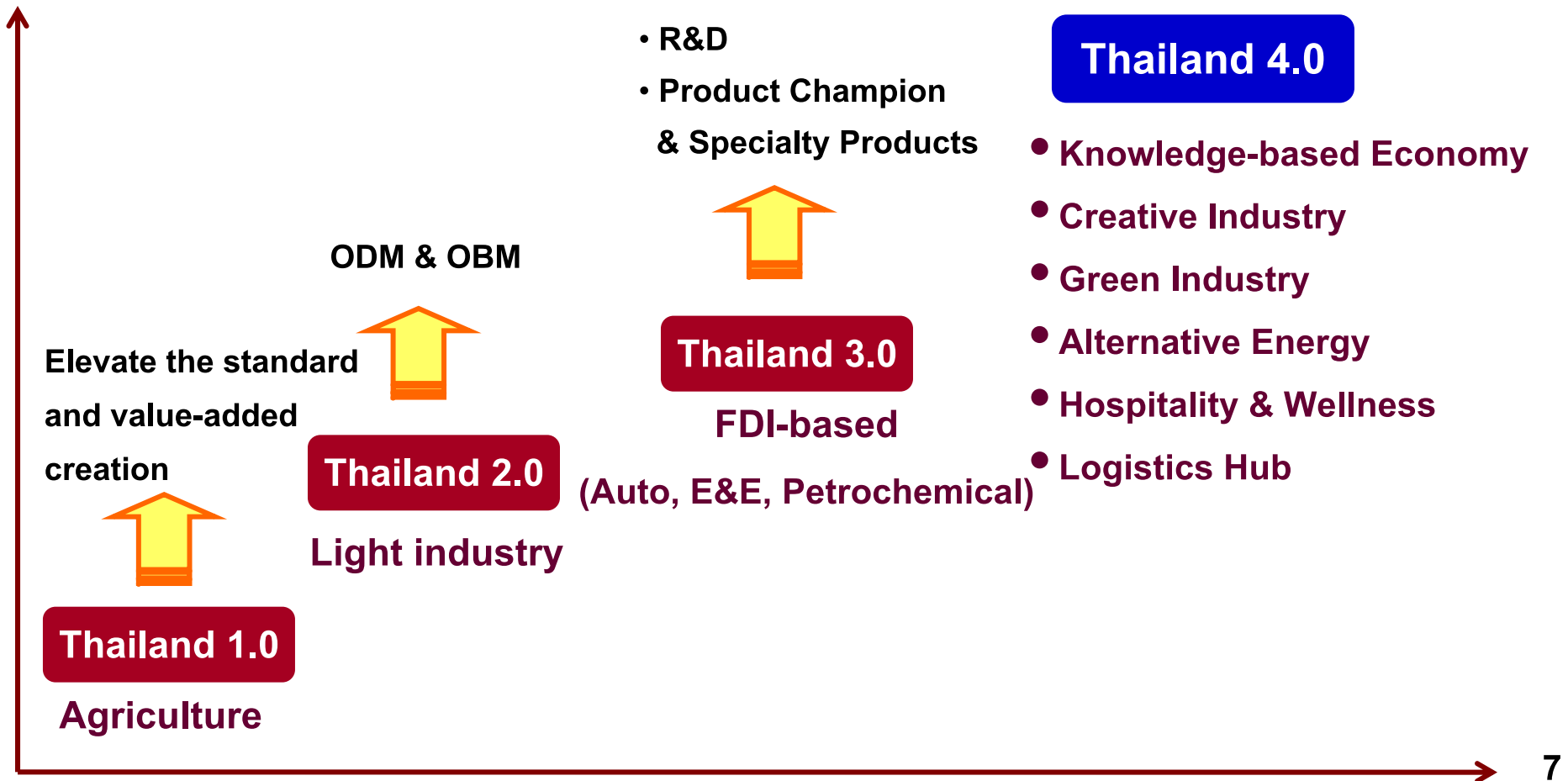
1. Rationale for revising investment promotion strategies

(4/4)



Thailand's Future Industry Direction

(Data compiled from 11th National Economic and Social Development Plan and Thailand's Industrial Development Plan)



2. Proposal for 5-year investment promotion strategy (2013 - 2017)

BOI : Past – Present – Future



Promote investment to restructure Thai economy for sustainable development and to overcome “Middle Income Trap”

- **Promote competitiveness development and value creation of industrial sector**
- **Promote green industry to drive balanced and sustainable growth**
- **Promote new industrial clusters in the regions to create new investment concentration**
- **Promote Thai overseas investment in order to increase competitiveness of Thai businesses**

	Present	New	Action
1	Broad-based investment promotion	Focus & Prioritized investment promotion	<ul style="list-style-type: none"> ■ Refocus the activities eligible for promotion ■ Prioritize: Incentives vary, depending on the importance of activity ■ Different incentives between new and re-investment projects
2	Sector-based Incentives	Sector & Merit-based Incentives	<ul style="list-style-type: none"> ■ Reduce basic tax incentives ■ Provide additional incentives based on projects' merits to encourage competitiveness enhancement activities such as R&D, environmental protection etc.

	Present	New	Action
3	Zone-based incentives	Promote New Regional Clusters	<ul style="list-style-type: none"> Abolish zone-based incentives Promote new industrial clusters in each region or border area to create new investment concentration
4	Tax Incentives – oriented promotion	Tax Incentives & Facilitation – oriented promotion	<ul style="list-style-type: none"> Focus on facilitation through non-tax incentives and one stop service Improve investment rules and regulations, reduce barriers to create better investment environment Promote and coordinate human resources development to support industrial sector Integrate supports from various government agencies as a package

	Present	New	Action
5	Promote inbound investment	Promote both inbound & outbound investment	■ Promote overseas investment more actively in order to increase the competitiveness of Thai businesses
6	Evaluation by Applications	Evaluation by Outcomes	■ Set clear KPIs to measure benefits and cost-effectiveness of investment promotion

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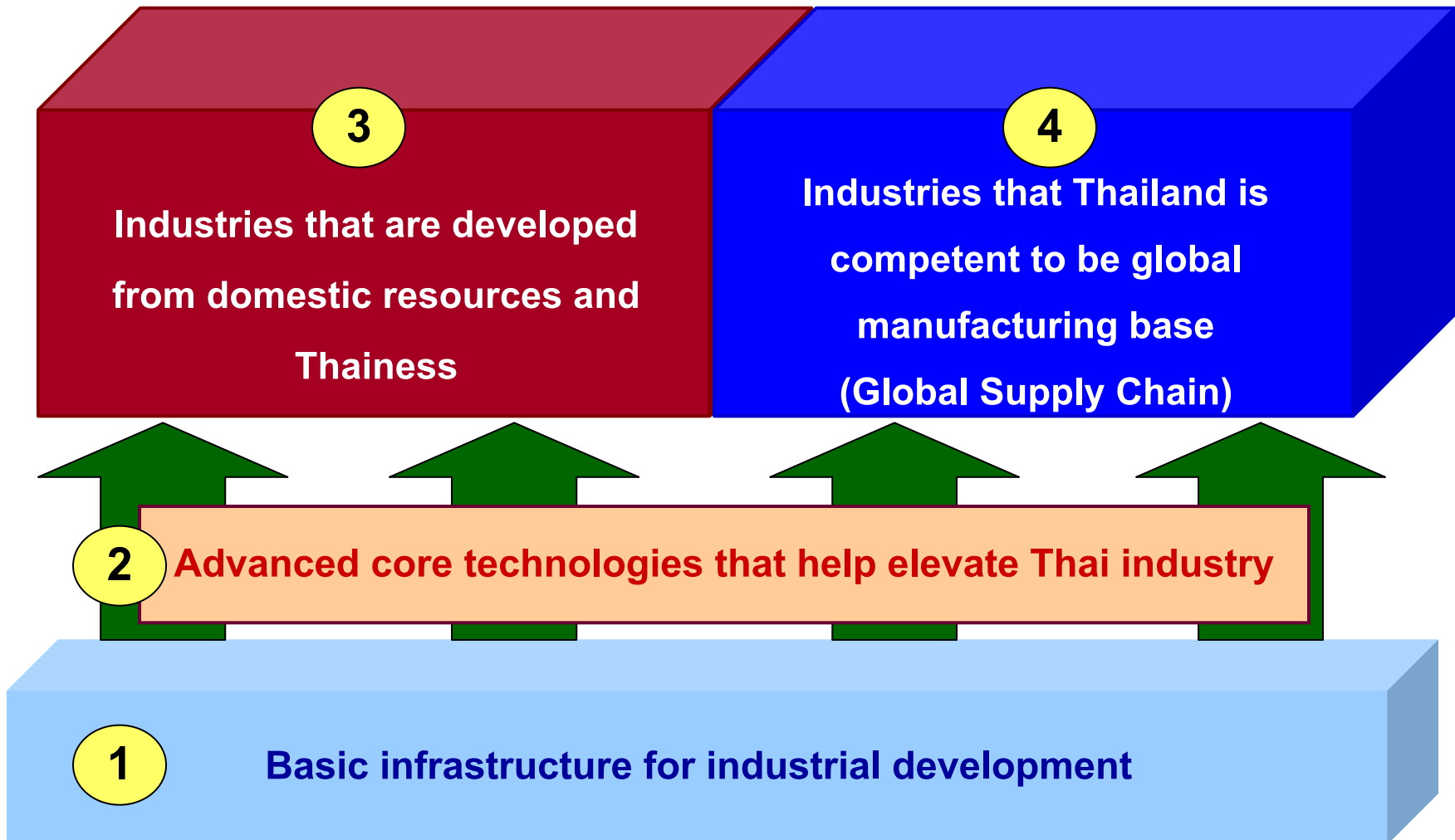
From

Broad-based investment promotion

to

Focus & Prioritized investment promotion

Future industries to be promoted



➤ Industrial Foundation

1. Basic infrastructure and logistics (e.g. industrial zone, power generation from natural gas, tap water or water resources for industrial purpose, transportation and mass transit, commercial airport and logistics center).
2. Basic industry (e.g. steel, petrochemicals, pulp and paper, machinery)
3. Medical device and scientific equipment (e.g. medical device, medicine, medical food, scientific equipment)
4. Alternative energy and environmental services (e.g. power generation from renewable energy, recycling, wastewater treatment and industrial waste disposal service, Energy Services Company: ESCO)
5. Services that support industrial sector (e.g. R&D, HRD, engineering design, software, calibration services, ROH, trade and investment support office)

10 Industries to be promoted in the future

(2/2)

- **Advanced Core Technologies that helps elevating Thai industry**
 6. **Advance core technologies** (e.g. biotechnology, nanotechnology, advanced material technology)
- **Industries that are developed from domestic resources and Thainess**
 7. **Food and agricultural processing industry** (e.g. processed food, food additive, herbal extract, plant propagation and development, product from natural rubber, bio-fuel e.g. ethanol, bio-diesel)
 8. **Hospitality & Wellness** (e.g. tourism and sports promotion activities, Thai motion picture production and related supporting services, dedicated health center, retirement home and care center)
- **Industries that Thailand is competent to be a global 's manufacturing base (Global Supply Chain)**
 9. **Automotive and other transport equipment** (e.g. cars, motorcycle, train, electric train, aircraft, shipbuilding and maintenance)
 10. **Electric and electrical appliances** (e.g. electronic design, organics & printed electronics, HDD & SSD and parts, solar cells, white goods)

A Activities that are granted CIT incentives

The activities that are highly important for country's economic restructuring and need to grant CIT exemption in order to stimulate investment and to be able to compete with other competitors.

Approx. 100 Activities

(Approx. 30 activities will be granted a maximum 8-year CIT exemption)

B Activities that are granted import duty exemption on machinery, and raw materials and non-tax incentives

The activities that still need to be promoted but it is not necessary to grant CIT exemption will receive import duty exemption on machinery and raw materials and non-tax incentives.

Approx. 30 Activities

C Exit group

Approx. 80 Activities

Group A and B Incentives

Group	CIT exemption	Import duty exemption on Machinery	Import duty exemption on raw materials for export	Non-tax
A1*	8 years (<u>without cap</u>)	√	√	√
A1	8 years + Merit (<u>to uncap</u>)	√	√	√
A2	5 years + Merit	√	√	√
A3	3 years + Merit	√	√	√
B1	-	√	√	√
B2	-	√	-	√
B3	-	-	√	√
B4	-	-	-	√

Categories under New Investment Strategy

Activity-focused and priority-based incentives and importance level

Industry Group	A1* (8 Yrs. without cap)	A1 (8 Yrs.)	A2 (5 Yrs.)	A3 (3 Yrs.)	B1	B2	B3	B4
1. Basic infrastructure and logistics	1	-	4	1	1	2	-	-
2. Basic industry	-	5	9	10	4	2	2	-
3. Medical devices and scientific equipment	-	2	3	3	1	2	-	-
4. Alternative energy and environmental services	1	6	2	-	-	-	-	-
5. Services that support industrials sectors	5	-	1	-	-	1	-	1
6. Advanced core technology	1	1	-	1	-	-	-	-
7. Food and agricultural processing	-	2	2	5	-	2	-	-
8. Hospitality & Wellness	-	-	3	-	-	-	-	3
9. Automotive and transport equipment	-	6	1	3	1	-	-	-
10. Electronics and electrical appliances	2	-	10	11	1	-	-	-
	10	22	35	34	8	9	2	4

Tax Rate and Incentives Comparison in ASEAN

	Thailand	Malaysia	Singapore	Indonesia	Philippines	Vietnam
CIT Rate	20% ¹	25%	17%	25%	30%	25% ²
PIT (maximum rate)	35% ¹	26%	20%	30%	32%	35%
CIT Exemption	no more than 8 years+50% reduction with no more than 5 years	5-10 years	No more than 15 years	5 - 10 years + 2 year-50% reduction	No more than 8 years	2-4 years + 50% reduction with no more than 9 years
Investment Allowance	-	60-100% of investment	No more than 100% of investment	No more than 30% of investment	-	-
Grants	-	R&D / Training Grants	R&D / Training Grants	N.A.	N.A.	N.A.
Negotiations	-	Possible through pre-package incentive measure	Customized package	N.A.	N.A.	Local government support e.g. cheaper land price

¹ Effective from 2013 onwards ² Petrochemicals, gas, and natural resources industries pay 32-50% CIT.

Comparison of Return on Investment between Thailand and 3 other countries

(Indonesia, Malaysia, Vietnam)

Thailand’s tax incentives are competitive in most industries except sectors with low investment in assets e.g. R&D and services. Those activities should receive additional grant or funding support.

Industry	Thailand’s Investment Attractiveness Index*		
	8-Year-Corporate Income Tax Exemption	5-Year-Corporate Income Tax Exemption	3-Year-Corporate Income Tax Exemption
Basic infrastructure and logistics	98	105	93
Basic industry	99	99	95
Medical device and scientific equipment	90	99	89
Alternative energy and environmental service	94	100	Activity not included in BOI promoted list
Services that support industrials sectors	95	99	Activity not included in BOI promoted list
Advanced core technology	95	activity not included in BOI promoted list	94
Food and agricultural processing	102	96	93
Hospitality and wellness	Activity not included in BOI promoted list	97	Activity not included in BOI promoted list
Automotive and transport equipment	98	99	87
Electronics and electrical appliances	100	99	93

* METR Index demonstrates Thailand’s investment attractiveness compared with other three countries. The index is calculated from 40 activity types representing each group of industry.

Reasons to exit some BOI-promoted activities

- Low value-added, low technology, low complexity of production process, low linkage with other industries, labor intensive and common businesses which do not require promotion (e.g. hydroponic cultivation, slaughtering, primary rubber, glass packaging, consumer plastic products, paper articles, abrasive paper, body care products, tea and coffee, snack, candy, chocolate, gum, trawling nets, e-commerce business, medium or low income housing)
- They have environmental problems or consume a lot of energy. (e.g. smelting, marble or granite mining, fire-resistant materials or heat insulation, manufacture of ferro-alloy, and tanneries)
- They are concession or monopoly activities under State protection (e.g. concession roads, satellite telecommunications, telephone services, mass transit electric train)
- BOI promotion conflicts with relevant laws and regulations (e.g. hospital activity that conflicts with The Statute on National Health System)

Groups of BOI activities that will be promoted as specific and integrated package with relevant agencies

Agenda	Relevant agencies
SME competitiveness Enhancement	DIP, OSMEP, SME Bank, ISMED, and independent institutes
Creative economy development	National Creative Economy Agency, OKMD, NIA, Ministry of Culture
Fashion industry development	DIP, Thailand Textile Institute, TCDC, Thailand Institute of Fashion Research, Ministry of Commerce
Social enterprise and CSR	Thailand Social Enterprise (TSEO), Ministry of Social Development and Human Security

OR other specific policies issued by the government, or Ministry of Industry

2

From

Sector-based Incentives

to

Sector & Merit-based Incentives

Applying Merit Principles for Encouraging Investors to Improve their Capabilities and Upgrade the Industrial Sector

Basic Incentives

	New Project	Expansion Project
A1*	8 years without cap	8 years without cap
A1	8 years	8 years
A2	5 years	3 years
A3	3 years	1 year

Expansion project is a project that existing BOI-promoted companies apply for promotion to invest in existing product without using more advanced technology or production process.

Merit-based Incentives

(Only activities in Group A1, A2, and A3)

R&D (whether it is in-house, cooperation with educational or research institution, or donation to Technology and Human Resources Development Fund) The number of additional years of CIT exemption depends on the percentage of R&D expenditures to revenues :

- 1 % or not less than 150 million baht, one additional year of CIT exemption
- 2 % or not less than 300 million baht, two additional years of CIT exemption
- 3% or not less than 450 million baht, three additional years of CIT exemption and CIT exemption cap will also be removed.

Environment (Obtain ISO 14000 certificate, Carbon Footprint or other standards approved by the Board of Investment) one additional year of CIT exemption

Projects located within industrial estates / promoted industrial zones one additional year of CIT exemption



Incentives to be granted

Issues

Information to be considered

1

Benefit to national economic restructuring

- Value added to workforce (baht/person)
- Total HR training costs as a percentage of total salary expenditure (%)
- Modern and complicated production process and new machinery usage (in case of used imported machinery, import duty exemption will be granted if the machinery is 5 years old, counting from the manufacturing year to the importing year, and obtains a Machinery Performance Certificate from a trusted institute)

2

Environmental effect

- Adequate and efficient environmental protection systems including wastewater treatment, sludge disposal, dust and flue gas treatment are installed.
- Total sales as a percentage of total energy cost (%)

3

Project feasibility

- Corporate ratio of debt to equity [D/E ratio should not exceed 3 to 1 for new project. Expansion projects are considered on a case-by-case basis.]
- IRR and capital return period of project
- For a project with investment capital of over 750 million baht (excluding cost of land and working capital) must submit a project feasibility study
- Business experiences and duration of business operation in Thailand

3

From

Zone-based Promotion

to

New Regional Industrial Clusters

Abolish Zoning and Create New Regional Industrial Clusters

- 1. Abolish zone 1 - 3** Zone-based promotion had been successful, creating many new major cities. However, these cities are concentrated in the East and the area surrounding Bangkok, such as Rayong, Chonburi, Ayutthaya, Pathumthani, Chachoengsao, Samutprakan, etc. Meanwhile, most of zone 3 still lacks basic factors to support investments.
- 2. Create new investment concentration** New industrial cluster in each region or border area, according to specific area development policy of the government or Ministry of Industry will be promoted. The BOI will consider incentives on a case-by-case basis and actively coordinate with relevant agencies in order to provide other supporting measures e.g. preparation of infrastructure and industrial area, public utility cost reduction, human resources development, and fiscal or financial supporting measures.

Establish “New Regional Industrial Cluster Development Promotion Subcommittee” (under the Board of Investment)

1. Identify clusters to be promoted

- Identify industrial clusters that are important to national economic restructuring and should be promoted as new regional clusters

2. Identify target area

- Identify potential target area, considering specific area development plan of the government or Ministry of Industry, the readiness in terms of infrastructure, labor and other supporting factors. The demand of local people and the strength of network allies are also taken into account to ensure the feasibility of clusters

3. Formulate promotion incentives and measures

- Actively coordinate and discuss with related parties and jointly formulate suitable promotion incentives and measures for each cluster

4. Promote investment in clusters

- Collaborate with related parties to promote investment in each cluster among local investors, Thai investors from other regions, or foreign investors

- ✓ **Food processing cluster**
- ✓ **Halal food processing cluster**
- ✓ **Rubber cluster**
- ✓ **Fashion cluster**
- ✓ **Entertainment cluster**
- ✓ **Aerospace cluster**
- ✓ **Science and technology cluster**
- ✓ **Three southernmost provinces cluster**

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From

Tax Incentives - Oriented Promotion

to

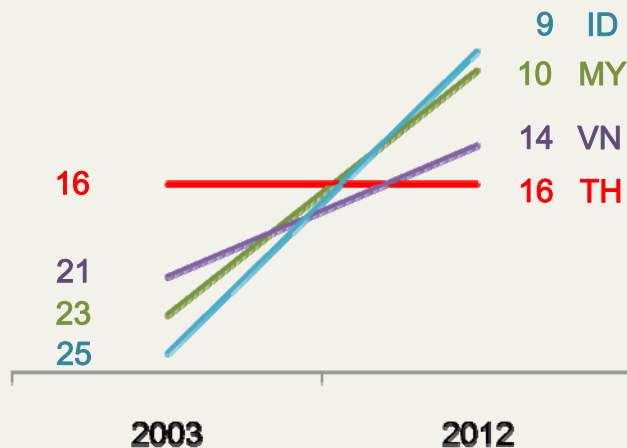
**Tax Incentives & Facilitation - Oriented
Promotion**

Creating Good Investment Climate

- Good investment climate helps attract quality investments into the country.
- Rankings of Thailand's investment climate remain the same, whereas those of competitors have improved.

A.T. Kearney FDI Confidence Index

Unit: Ranking

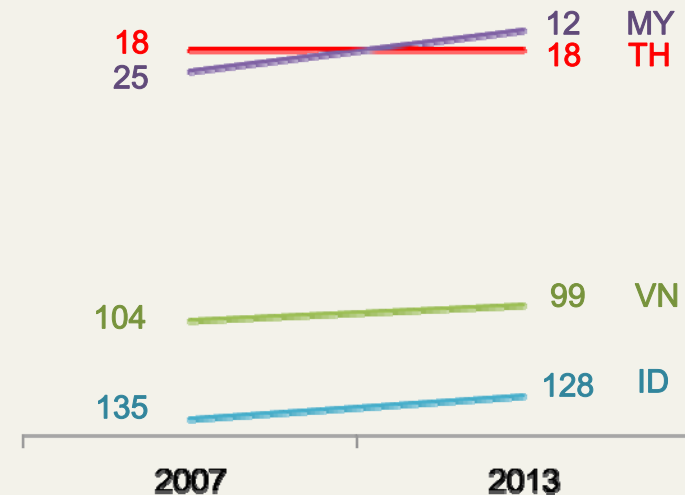


Source: A.T. Kearney

Note : A.T.Kearney FDI Confidence Index is based on the impact of political, economic, and regulatory changes on the FDI intentions and the preferences of the leaders of top companies around the world.

Ranking on the ease of doing business

Unit: Ranking



Source: Doing Business Report, World Bank

Roles	Actions
Support and facilitation	<ul style="list-style-type: none"> ■ Coordinate and encourage law and regulation improvement, investment obstacle reduction, and solution to investment problems to enhance investment climate ■ Create good investment image for Thailand ■ Integrate supporting measures from various agencies into a package ■ Facilitate investments through non-tax incentives, and excellent services in both pre and post investment stages, using One Start & One Stop service approach ■ Act as in-depth investment information and advisory service center ■ Create networks and relations with foreign and Thai investors (CRM)
Regional cluster creation	<ul style="list-style-type: none"> ■ Actively coordinate to create border or regional clusters
Industry linkage development	<ul style="list-style-type: none"> ■ Expand the role of BUILD in various sectors
Human resources development of industrial sector	<ul style="list-style-type: none"> ■ Create networks between private sector, Ministry of Labor, and educational institutions in higher and vocational education levels (University – Industry Linkage)
Promote Thai overseas investment	<ul style="list-style-type: none"> ■ Provide information and consultation / Organize seminars and training courses / Coordinate / Facilitate / Arrange Thai overseas investment promotion activities

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From

Inbound Investment Promotion

to

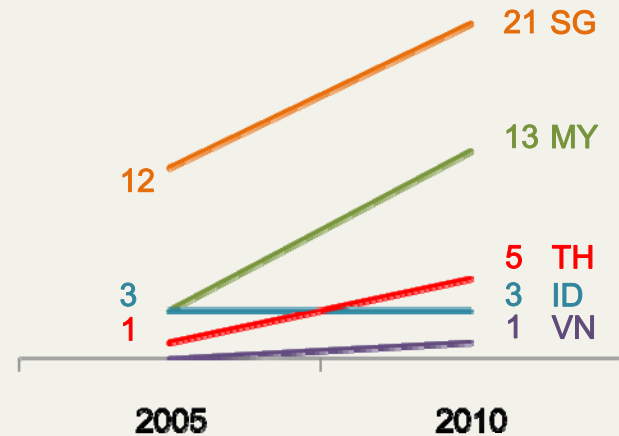
**Inbound and Outbound Investment
Promotion**

Importance of Thai Overseas Investment Promotion

- Thai overseas investment is necessary to enhance industrial competitiveness, to overcome domestic resource limitations and to seek new business opportunities. Presently, the level of Thai overseas investment is quite low compared with neighboring countries.
- BOI is expected to be the main body formulating national strategies and target industries and developing supporting measures and facilitation.

ODI flows from Southeast Asia*

Unit: USD bln



Source: UNCTAD

Promote Thai Overseas Investment to Enhance Domestic Industrial Competitiveness, Generate National Income, and Increase Role of Thailand in the World

Objective	Sample of target industry	Form of investment
1. Seek raw materials which Thailand lacks	Jewelry, mining, tannery, fishery, forestry, energy, steel, and dairy farm	Joint venture with local investors to produce raw materials or primary processing products to supply industries in Thailand
2. Expand markets for domestic services or products	Food products, construction business, tourism business, plastic products (especially household appliances), animal feed, sales office, and distribution centre	100% investment or joint venture with local investors for producing finished goods by importing raw materials or semi-finished goods from Thailand
3. Maintain market bases or expand global market of Thai products (Presently, many Thai products lose their competitiveness due to higher production costs.)	Finished clothes, shoes, jewelry, and electrical appliances	100% investment, joint venture with local investors, or hire local investors to produce goods for exporting to third country, using lower production costs and GSP privileges.

Identify Target Countries

- **No. 1** Indonesia, Myanmar, Vietnam, and Cambodia
- **No. 2** China, India, and other ASEAN countries
- **No. 3** Middle East, South Asia, and Africa



Establish responsible body

- Establish “**Thai Overseas Investment Promotion Subcommittee**” chaired by Minister of Industry to formulate policies and supporting measures including tax incentives, financial measures, and other necessary measures
- Establish “**Thai Overseas Investment Promotion Bureau**” (in the process)

Provide information & Knowledge

- Establish **Thai Overseas Investment Development Center** to organize training course for Thai investors who want to invest overseas. (Now, it is the 3rd and 4th training course)
- Establish **Thai Overseas Investment Information Center** to provide information for investors with consultant team to guide Thai investors to invest in target countries
- **In-depth study on investment opportunities** in target industries
- **Arrange seminars** on investment opportunities on many issues e.g. laws and regulations of doing business overseas, market opportunity in interesting industries, etc.

Explore investment opportunities

- **Lead Thai investors to explore investment opportunities** and discuss with government agencies overseas

Coordinate problem solving

- **Coordinate with other agencies to facilitate investment and solve problems** for investors
- **Negotiate G2G** in target countries to create business opportunities and reduce investor's obstacles

6

From

Evaluation by values of project applications

to

Evaluation by project outcomes

Identify Future BOI indicators

Goal	Indicator
Promote competitiveness development and value creation in industrial sector	<ul style="list-style-type: none">• Number of projects and investment value in Activity Group A• R&D indices e.g. number of BOI-promoted R&D projects, R&D Intensity, number of registered patents, etc.• Value added per worker• Value of industrial linkages• Survey results of Thailand's investment environment
Promote green industry development	<ul style="list-style-type: none">• Number of companies obtaining ISO 14000 certificate, carbon footprint or other environmental standards• Number of BOI-promoted environmental projects
Promote creation of new regional industrial clusters	Success in establishment of new industrial clusters, number of investment projects, values, and benefits
Promote Thai overseas investment	Total Thai overseas investment value, especially in target industries and target countries

Country

- Improved investment environment of the country
- Increased national competitiveness and upgraded industrial value chain
- New industrial clusters in each region or border area leading to decentralization and inequity reduction
- Lower fiscal burden and more cost-effective and efficient use of tax incentives

Investors

- Increased competitiveness due to tax and non-tax incentives especially merit-based incentives that will help upgrade and sustainably develop the industry
- Receipt of better BOI service and facilitation in both pre and post investment stages for inbound and outbound investments

BOI

- Main agency to guide and take care of overall direct investment
- Effective agency implementing policies with clear and measureable goals

3. Rationale for amending Investment Promotion Act

Inward Investment Promotion

Increase flexibility of existing promotional tools e.g.

- CIT exemption for more than 8 years to be able to compete with other countries for attracting high quality investment projects
- CIT reduction up to 90% of the normal rate (at present is 50% reduction) as additional tax incentive option
- Exemption of import duty on products for use in testing or research

Create new investment promotion tools e.g.

- Investment Tax Allowance and Reinvestment Allowance
- Investment Expenses Tax Deduction
- Grants for R&D or Advanced Technology Training

Outward Investment Promotion

Add duty to promote Thai Overseas Investment

- Add the Office of the Board of Investment's duty to promote Thai overseas investment
- Add tools for promoting Thai overseas investment

4. Time Frame for Implementing New Strategies

Process	Deadline
1. Organize public hearings in Bangkok and the regions	Jan-Feb 2013
2. Present the results of public hearings, together with the new strategies, to the Investment Promotion Policy Subcommittee and the Board of Investment	Mar 2013
3. Announce new investment promotion strategies and criteria <ul style="list-style-type: none">■ Expected to come into effect in mid-2013■ Organize seminars to promote new strategies in Bangkok, the regions, and overseas from April 2013 onwards	Mar 2013

Thailand Unparalleled Opportunities



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The Office of the Board of Investment
Ministry of Industry
