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# Investment Policy Reform in Thailand

**Greater Mekong Investment Policy Forum**  
**Government Palace**  
**Sisowath Quay, Wat Phnom, Phnom Penh, Cambodia**  
**28-29 March 2012**

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# Outline

- **Investment-related reforms in the past and planned in the future**
- **Strengths and weaknesses of the business environment**
- **What are the key opportunities and priorities ahead?**
- **Role of international collaboration and regional platforms**

# Investment-related reforms in the past and planned in the future

# Thailand Board of Investment

Thai government agency under the Ministry of Industry

## VISION:

**Your Partner for Sustainable Investment**



## Tax Incentives

- ❑ Import duty reductions or exemptions on machinery and raw materials
- ❑ Corporate income tax holidays up to 8 years
- ❑ Additional 50% reductions of corporate income tax for 5 years
- ❑ Double deduction of public utility costs
- ❑ Deductions for infrastructure construction/installation costs

## Non-Tax Incentives

- ❑ Land ownership rights for foreign investors
- ❑ Permission to bring in foreign experts and technicians
- ❑ Work permit & visa facilitation
  - ❑ **One-Stop-Shop: Visas & Work Permits are issued in 3 hours**



# Investment-related reforms in the past

- Start promoting private investment in 1954
- Streamline investment promotion process with transparent guideline on incentives in 1958
- Establish investment promotion agency in 1966
- Liberalize foreign investment in export production in 1985
- Deregulate investment with free entry in manufacturing sector without consideration whether domestic demand more than existing production capacity or not in 1991.
- Liberalize foreign investment in manufacturing sector in regional area in 1993.
- Liberalize foreign investment in manufacturing sector in 2000.

# Investment-related reforms planned in the future

- Investment promotion reform planned:
  - Focus more on high value-added activities
  - Reduce incentives to low value-added and labor intensive activities to compensate for reduction in government tax revenue from corporate tax reduction
  - Strengthen promotion of outward foreign investment
- Further investment liberalization in services sector according to commitment on ASEAN Economic Community



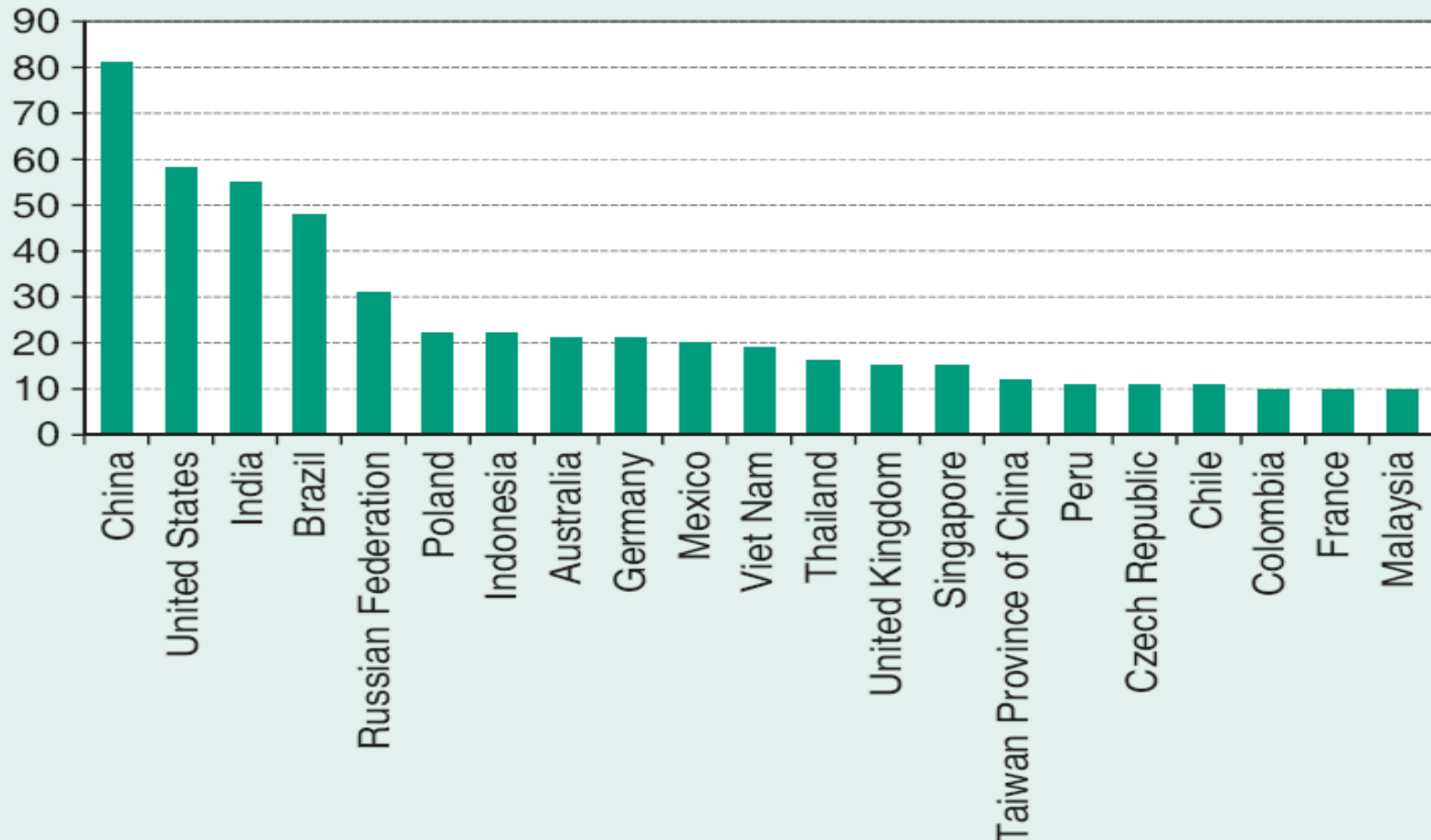
# **Strengths and weaknesses of the business environment**

# Thailand's Strengths

- Strong macroeconomic fundamentals
- Good infrastructure
- Low cost and good quality of living for expatriates
- Strategic location at the center of ASEAN
- Competitive corporate income tax rate of 23% at present and will be reduced to 20% from Jan 1, 2013

# Thailand is 12<sup>th</sup> most attractive FDI destination in the world

**Figure I.19. Top host economies for FDI in 2011–2013**  
(Number of times the country is mentioned as a  
top FDI priority by respondent TNCs)



# JBIC's Survey in 2010 on Promising Countries for Overseas Business in Medium-term

The respondents were each asked to name the top 5 countries that they consider to have promising prospects for business operations over the medium-term (the next three years or so).

Percentage share =  $\frac{\text{No. of responses citing country/region}}{\text{Total No. of respondent companies}}$

Ranking			Country/Region (Total)	No. of Companies		Percentage Share	
2010	← 2009			2010 516	2009 480	2010	2009
1	—	1	China	399	353	77.3	73.5
2	—	2	India	312	278	60.5	57.9
3	—	3	Vietnam	166	149	32.2	31.0
4	—	4	Thailand	135	110	26.2	22.9
5	↑	6	Brazil	127	95	24.6	19.8
6	↑	8	Indonesia	107	52	20.7	10.8
7	↓	5	Russia	75	103	14.5	21.5
8	↓	7	USA	58	65	11.2	13.5
9	—	9	Korea	30	31	5.8	6.5
10	—	10	Malaysia	29	26	5.6	5.4
10	↑	11	Taiwan	29	21	5.6	4.4
12	—	12	Mexico	25	20	4.8	4.2
13	↑	18	Singapore	21	7	4.1	1.5
14	↓	13	Philippines	14	14	2.7	2.9
15	↓	14	Australia	8	9	1.6	1.9
15	↑	28	Bangladesh	8	2	1.6	0.4
15	↑	17	Turkey	8	8	1.6	1.7
18	↓	14	Germany	7	9	1.4	1.9
19	↑	20	Great Britain	6	5	1.2	1.0
20	↑	35	Myanmar	5	1	1.0	0.2
20	↑	23	Poland	5	4	1.0	0.8
20	↓	14	Saudi Arabia	5	9	1.0	1.9
20	↑	23	South Africa	5	4	1.0	0.8
20	—	20	UAE	5	5	1.0	1.0

## ■ There were no changes in the top 4 countries

- China was first, followed by India, Vietnam, and Thailand, meaning that there was no change to the rank of the top 4 countries. The number of companies responding and percentage shares both rose from last year.
- Some companies voiced concerns over social/political instability in Thailand, but it still remains attractive for investment.

## ■ Brazil and Indonesia rose in rank

- Brazil ranked 5<sup>th</sup> and Indonesia 6<sup>th</sup>, which are higher than last year. Indonesia got double the responses as last year (+55 companies).

## ■ Future growth potential of local markets was a key factor

- One feature of the top countries was that companies saw potential for future growth of their local markets. With the exception of Brazil, the countries seeing the largest jump in attention were in Asia.

## ■ Bangladesh and Myanmar entered the top 20

- One new change is that Bangladesh and Myanmar entered the top 20. Companies in the textiles, parts assembly and consumer goods industries are taking notice of them as inexpensive sources of labor, good for risk diversification, and as bases of export.

Note 1: In addition to the countries listed above, the following regions also gained responses:

EU/Europe (22 companies, 4.3% of the total); North America (17 companies, 3.3%);

Eastern Europe/Central and Eastern Europe (7 companies, 1.4%); Middle East (13 companies, 2.5%).

Note 2: Countries/regions are listed in alphabetical order in cases where they ranked the same.

# Promising Countries/Regions for Overseas Business over the Medium-term (by major industry)

## Chemicals

(No. of responses: 258)

Rank	Country	Share
1	China	23.4%
2	India	18.0%
3	Vietnam	8.2%
4	Brazil	7.8%
5	Indonesia	6.6%
6	Thailand	6.3%
7	USA	5.1%
8	Russia	4.3%
9	Singapore	3.1%
10	Korea	2.3%
10	Malaysia	2.3%

## Automobiles

(No. of responses: 305)

Rank	Country	Share
1	India	23.9%
2	China	21.6%
3	Thailand	11.1%
3	Brazil	11.1%
5	Indonesia	9.8%
6	Vietnam	6.9%
7	Russia	3.3%
8	Mexico	3.0%
9	USA	1.3%
10	Malaysia	1.0%

## Electrical Equipment & Electronics

(No. of responses: 265)

Rank	Country	Share
1	China	26.0%
2	India	19.6%
3	Vietnam	9.4%
4	Thailand	6.8%
5	Brazil	5.3%
6	Russia	4.2%
7	Indonesia	3.0%
8	USA	2.6%
9	Korea	2.3%
9	North America	2.3%

## General Machinery

(No. of responses: 190)

Rank	Country	Share
1	China	21.1%
2	India	19.5%
3	Brazil	10.0%
4	Vietnam	9.5%
5	Russia	7.4%
6	Indonesia	6.8%
7	Thailand	5.3%
8	Korea	2.6%
9	Malaysia	2.1%
10	Taiwan	1.6%
10	USA	1.6%
10	Middle East	1.6%

# World Bank's Ease of Doing Business 2012

# 17 out of 183 countries around the world / # 2 in South East Asia

1	Singapore	11	Finland
2	Hong Kong	12	Saudi Arabia
3	New Zealand	13	Canada
4	United States	14	Sweden
5	Denmark	15	Australia
6	Norway	16	Georgia
7	United Kingdom	17	Thailand
8	South Korea	18	Malaysia
9	Iceland	19	Germany
10	Ireland	20	Japan

Evaluation Criteria
Starting a business
Dealing with construction permit
Registering property
Access to credit
Protecting investors
Paying taxes
Trading across borders
Enforcing contract
Resolving insolvency
Getting Electricity

Source: World Bank & IFC Study: *Doing Business in*

# Details on Worldbank's Ease of Doing Business

Thailand has very high ranking on getting electricity, construction permit & investor protection, but low on tax payment, start a business, & getting credit

<b>THAILAND</b>		East Asia & Pacific		GNI per capita (US\$)	4,210
Ease of doing business (rank)	17	Upper middle income		Population (m)	68.1
✓ Starting a business (rank)	78	✗ Registering property (rank)	28	Trading across borders (rank)	17
Procedures (number)	5	Procedures (number)	2	Documents to export (number)	5
Time (days)	29	Time (days)	2	Time to export (days)	14
Cost (% of income per capita)	6.2	Cost (% of property value)	6.3	Cost to export (US\$ per container)	625
Minimum capital (% of income per capita)	0.0			Documents to import (number)	5
		Getting credit (rank)	67	Time to import (days)	13
Dealing with construction permits (rank)	14	Strength of legal rights index (0-10)	5	Cost to import (US\$ per container)	750
Procedures (number)	8	Depth of credit information index (0-6)	5		
Time (days)	157	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	24
Cost (% of income per capita)	9.5	Private bureau coverage (% of adults)	41.7	Procedures (number)	36
				Time (days)	479
Getting electricity (rank)	9	Protecting investors (rank)	13	Cost (% of claim)	12.3
Procedures (number)	4	Extent of disclosure index (0-10)	10		
Time (days)	35	Extent of director liability index (0-10)	7	Resolving insolvency (rank)	51
Cost (% of income per capita)	77.6	Ease of shareholder suits index (0-10)	6	Time (years)	2.7
		Strength of investor protection index (0-10)	7.7	Cost (% of estate)	36
				Recovery rate (cents on the dollar)	43.3
		Paying taxes (rank)	100		
		Payments (number per year)	23		
		Time (hours per year)	264		
		Total tax rate (% of profit)	37.5		

# Survey in 2010 by American Chamber of Commerce

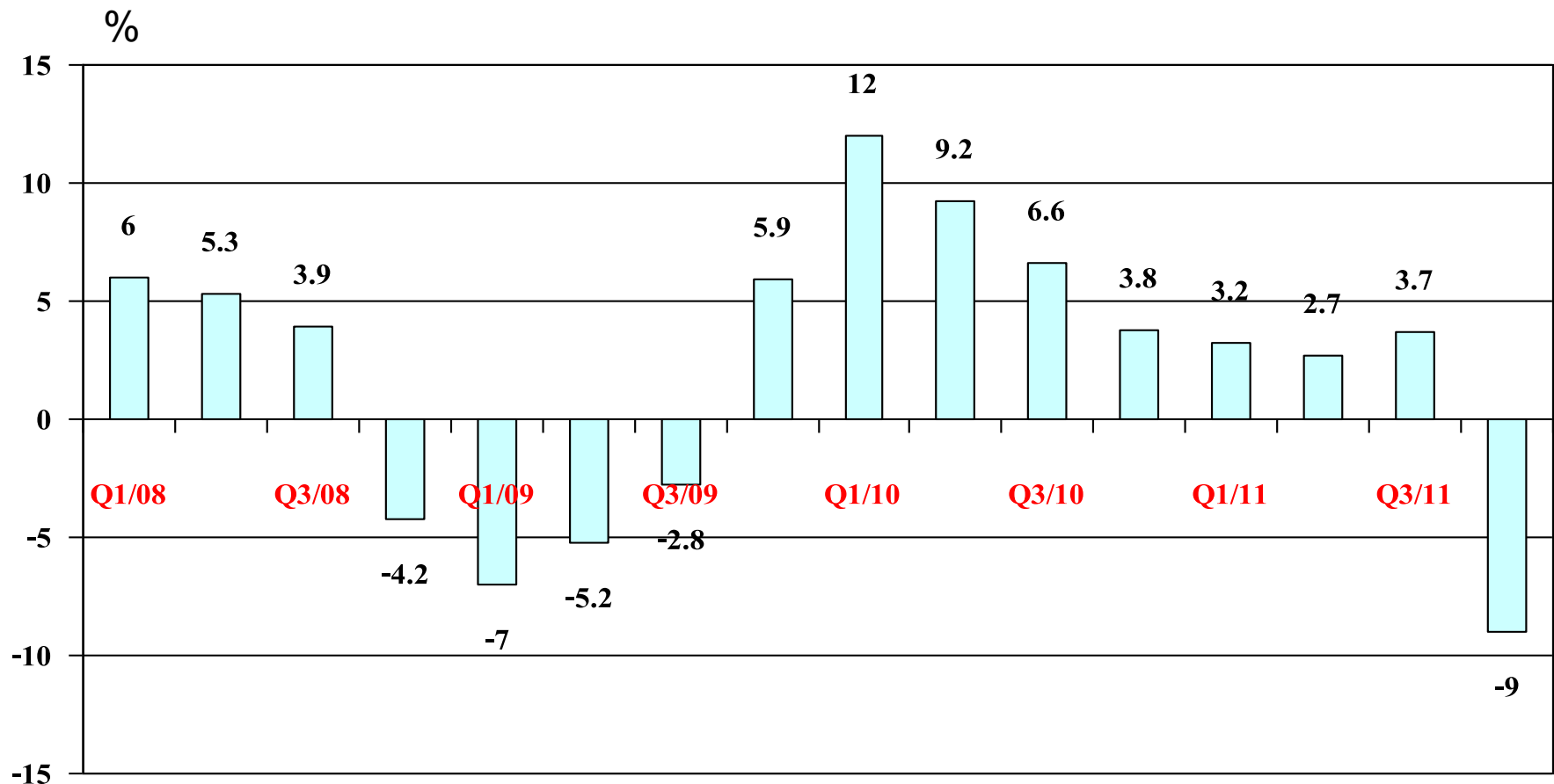
- Thailand's strengths:
  - affordable housing cost & office cost
  - availability of low cost labor
  - infrastructure
  - personal security
- Thailand's weaknesses:
  - unstable government and political system
  - corruption.



# Key opportunities and priorities ahead

# GDP -9% in Q4 of 2011

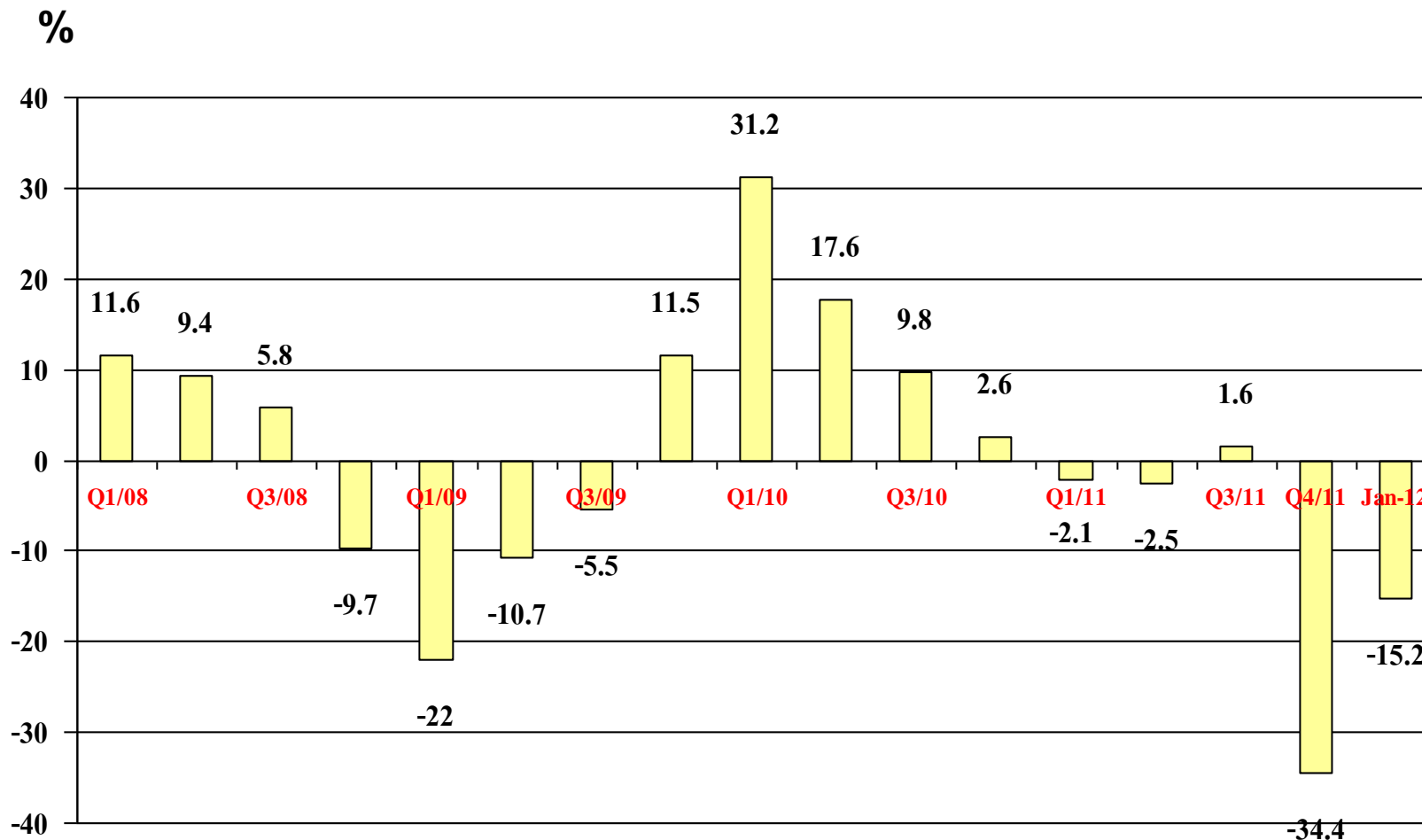
GDP in the 4<sup>th</sup> Quarter drastically change from forecasted 5% (annual rate) to -9% because of the flood, which makes GDP growth rate of Thailand at very low rate of 0.1% in 2011



Source : NESDB

# MPI -34.4% in Q4 of 2011

Manufacturing Production Index (MPI) plummeted as much as -34.4% in the Q4 because of flood in Thailand. It recovered to -15.2% in Jan 2012.



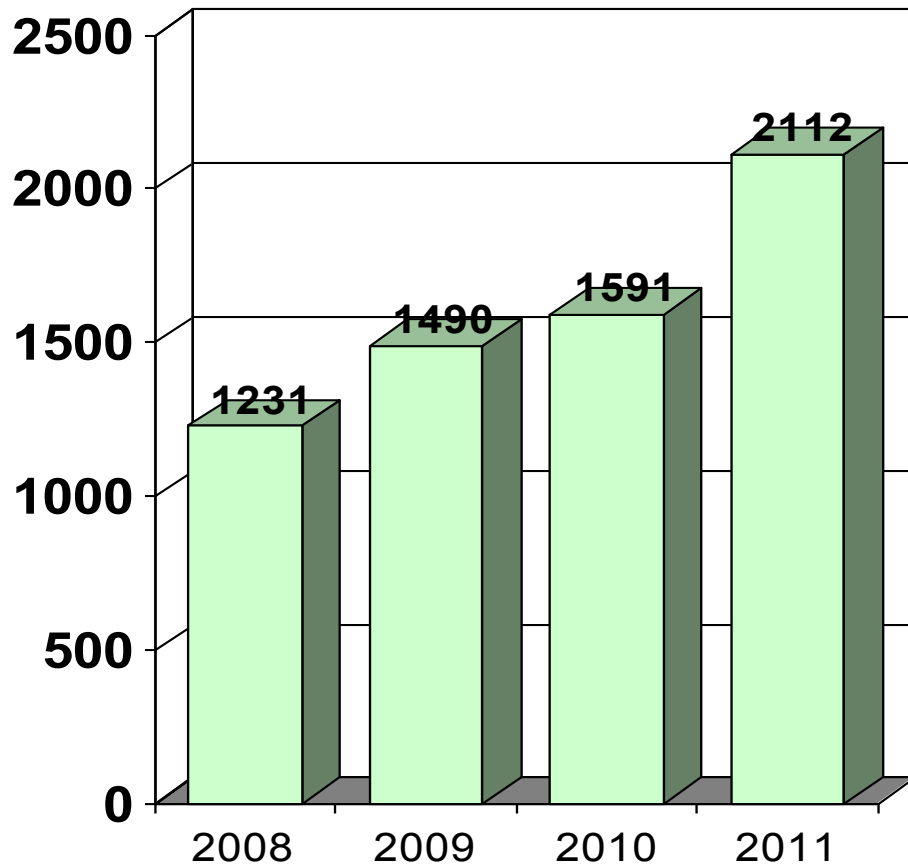
Source: OIE

# Economic Performance

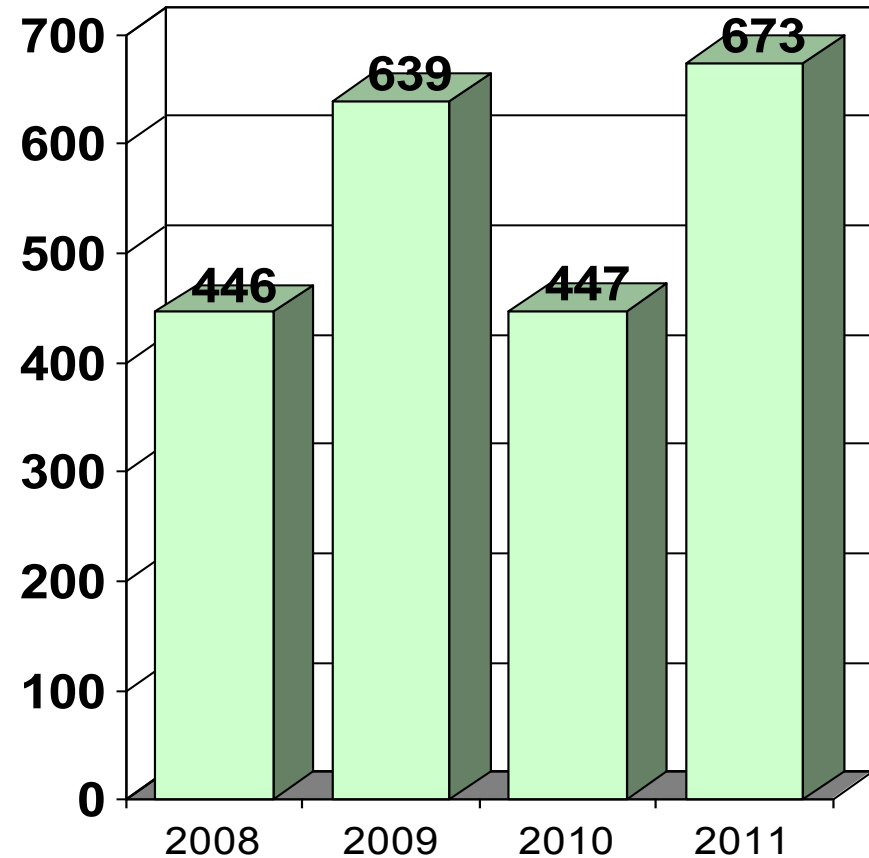
Economic Projections	2009	2010	2011	2012e
1) GDP (%)	-2.3	7.8	0.1	5.5 - 6.5
2) Export, FOB value (%)	-14.0	28.5	17.2	17.2
3) Import, CIF value (%)	-25.2	36.8	24.9	
4) Manufacturing Production Index (%)	-7.2	14.4	-9.3	
5) Headline Inflation	-0.9	3.3	2.9	3.5 - 4
6) Core Inflation	0.3	1.0	1.7	2.2

# Net Application for Investment Promotion at Recorded Level in 2011

Number of  
Projects



Investment Value  
(Billion Baht)

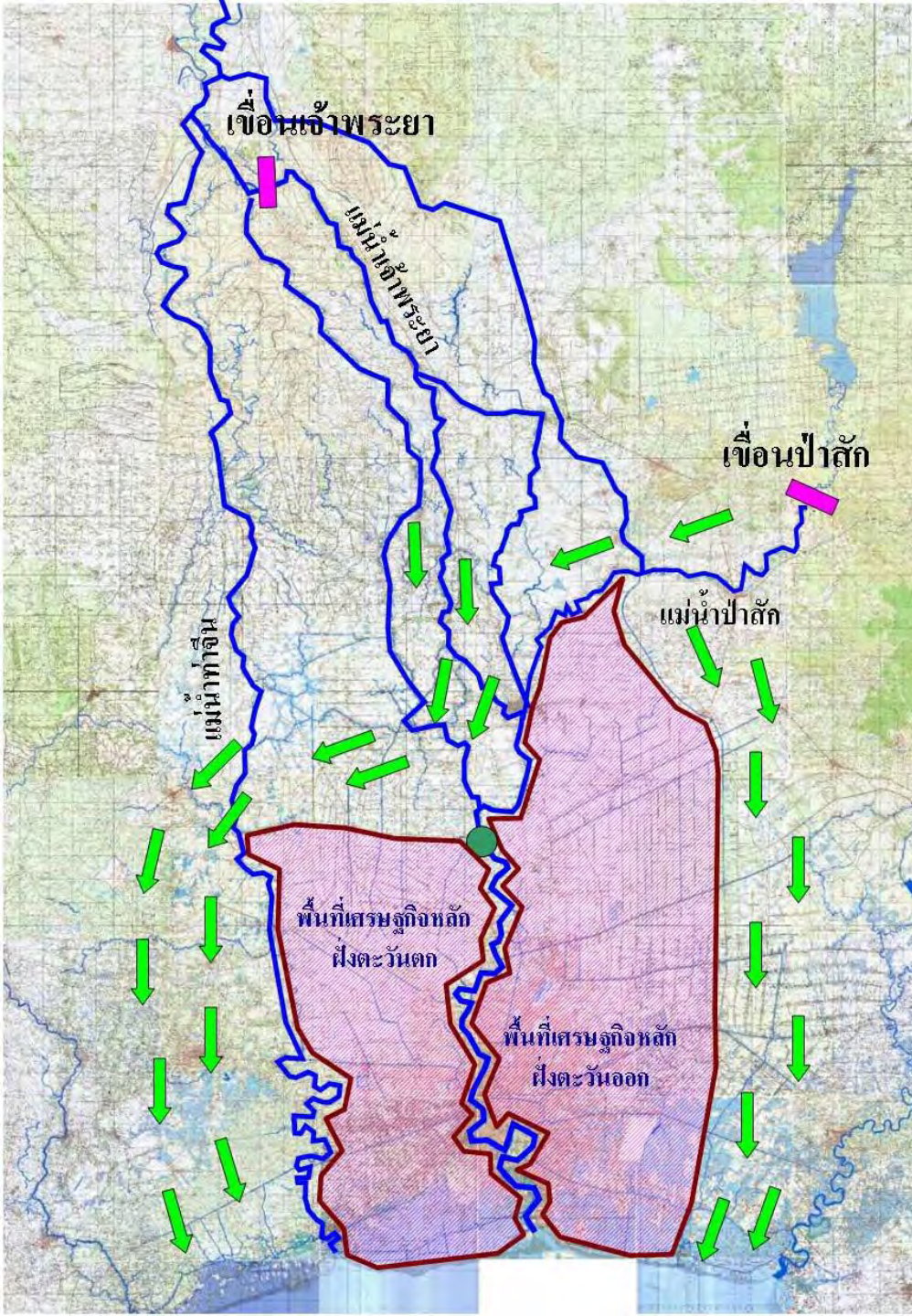


# Priorities ahead

- Short term : industrial rehabilitation from flood damages.
- Long term :
  - Sustainable development through science, technology, innovation, human resources, environment protection, etc.
  - Outward foreign investment

# Short term priority : industrial rehabilitation

- a) Tax exemption on machinery and equipment to replace those damaged by flood.
- b) Normal investment promotion package to new projects
- c) Special investment promotion package to BOI-promoted companies directly affected by the great flood that are still enjoying their tax holidays

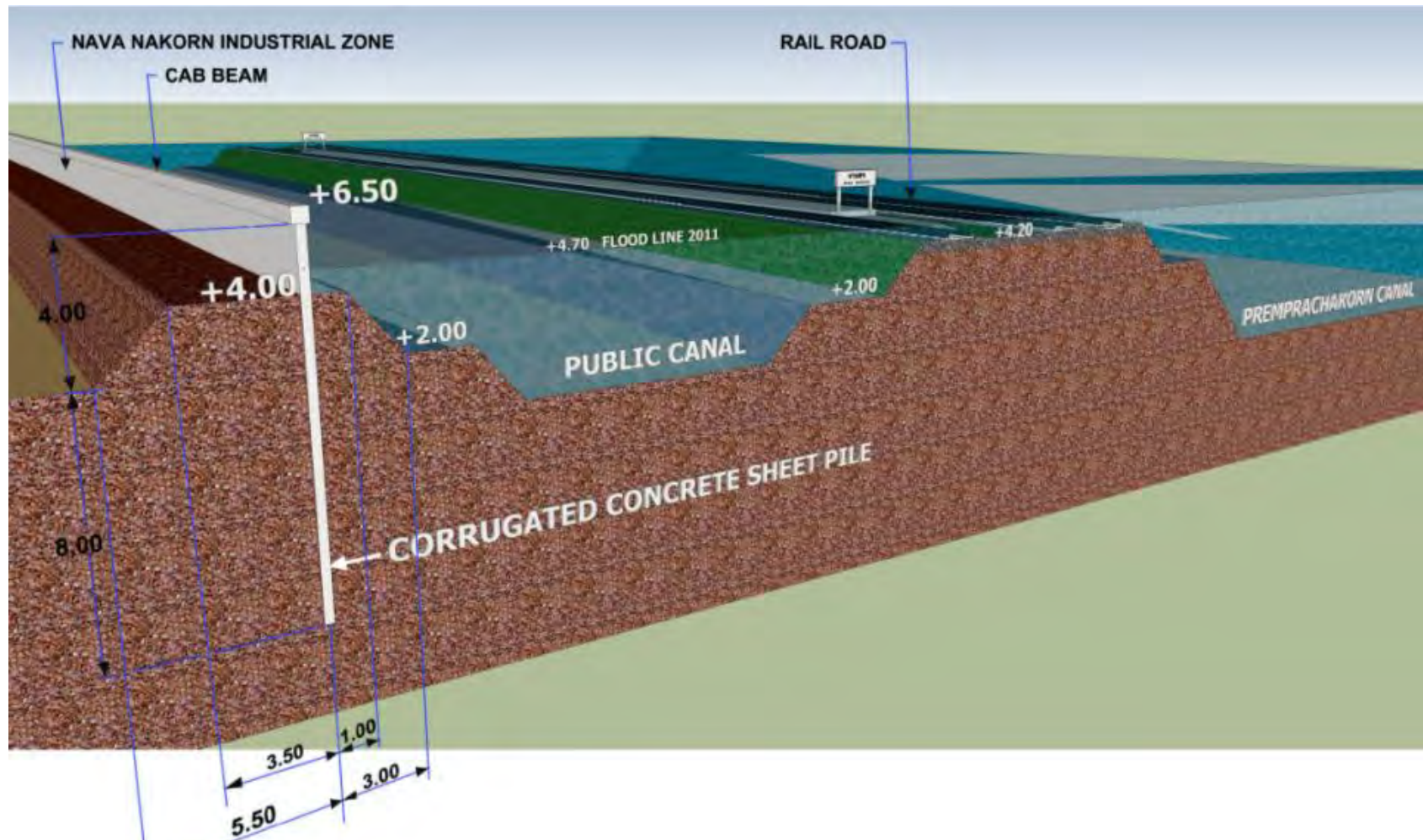


Integrated water management system with single command will be implemented, including construction and upgrade of many reservoirs, flood ways or water diverting channels, preventive dikes, etc.



# Support construction of flood prevention system by industrial estates

Industrial estates that invest in flood prevention systems will be offered 8-year tax holidays with the corporate income tax exemption ceiling of 200% of their investment excluding land cost and working capital.



# Key opportunities

- Asia has very high growth potential and will be very large market.
- Business opportunities through Thailand's existing competitiveness as center of many strategic industries/services: food, automotive, petrochemical, HDD, white goods, tire, tourism, medical services, etc

# Role of international collaboration and regional platforms

- Enhance international competitiveness
  - integrated production bases
  - economies of scale
- Create overseas investment opportunities
- Reduce costs of doing business
- Increase regional attractiveness as investment location
- Promote rural development at border area to serve as economic gateways connecting with neighboring countries.

[www.boj.go.th](http://www.boj.go.th)

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**THANK YOU**