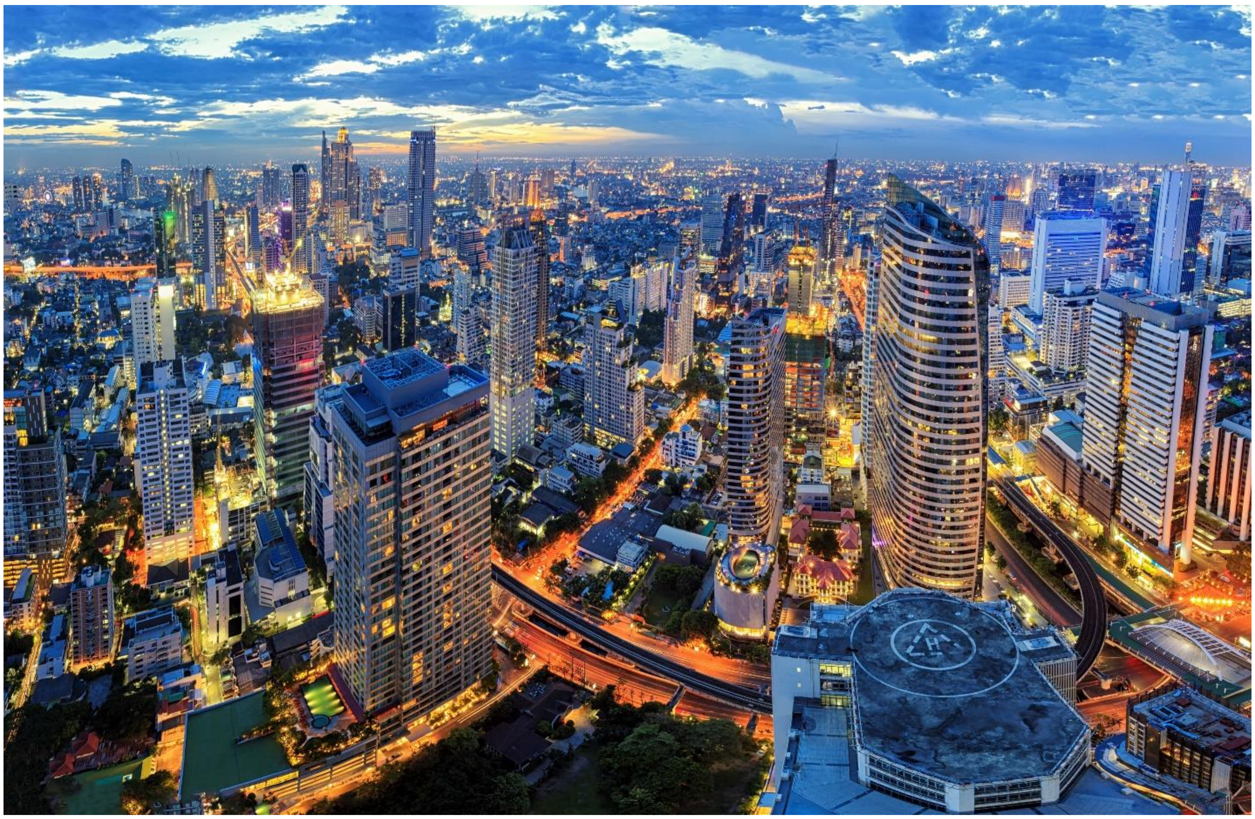
Thailand's New Economy Game-Changer

Riding a surge in investment pledges, the kingdom woos the smart industries of tomorrow

When Akio Toyoda, head of the world's largest carmaker, Toyota Motor Corp., flew into Bangkok to mark the 60th anniversary of the company's Thai unit, he described Thailand as his second home.



Modern Bangkok offers a wide range of world class yet affordable office buildings and residential accommodation — all served by a well developed infrastructure that makes the city a top pick for international companies and expatriates looking to do business in Southeast Asia.

The same could equally be said for the auto empire Toyoda's family built. Thailand, a nation where, in 1962, a handful of workers assembled the first Thai-made Toyota using parts imported from Japan, is today home to the company's Asia headquarters, overseeing engineering and manufacturing in 20 countries and serving as a research and development hub.

Such is Thailand's importance to Toyota that Toyoda chose the December 2022 celebration to unveil the first battery electric (BEV) version of its best-selling Hilux truck and announce a partnership with Bangkok-based CP Group to turn agricultural biomass into fuel for hydrogenpowered vehicles. "The future of Toyota and Thailand is very bright, and it's only going to get brighter," Toyoda declared.

The bond between Toyota and Thailand is just one example of how Southeast Asia's second largest economy has not only successfully lured some of the world's biggest and most technologically advanced companies to invest billions of dollars there, but also make it their regional headquarters and R&D hubs.

In 2022, those investors included companies as diverse as Amazon Web Services, the cloud computing division of U.S. tech giant Amazon.com Inc, which has pledged to invest $5 billion; BYD Co., China's largest electric car maker which has committed to spending $660 million; and Taiwan's Foxconn Technology, best known as the world's largest assembler of iPhones but now branching into EVs via a more than $1 billion joint venture with Thai energy giant PTT.

In total, Thailand's Board of Investment (BOI) received some $20 billion worth of new investment applications in 2022 – a 39 percent increase on the previous year. And as 2023 dawned, the BOI doubled down by launching an even more ambitious five-year investment promotion strategy aimed at catapulting Thailand into the new economy by offering much-improved incentives attractive both to existing investors and newcomers able to bring in upstream industries and advanced technologies.

Under the strategy, premium incentives, including up to 13 years corporate income tax exemption without a cap, will be granted to investments in upstream industries and advanced technology, such as wafer fabrication, biotech, nanotech, and advanced materials, entailing innovation, and technology transfer through research cooperation with Thai entities.

In another important strategic move, key long-term investors will for the first time be rewarded for their loyalty with additional tax holidays and other privileges. Those thinking of following the example of Toyota and establishing regional headquarters and R&D operations will also be heavily incentivized. So, too, will small and medium-sized enterprises and new economy startups in sectors such as fast-growing digital media. For certain categories, investors and their top foreign talent will have the opportunity to apply for 10-year Long-Term Resident visas.

Orchestrated by the BOI, the new strategy's stated aim is to restructure the economy to ensure Thailand remains innovative, competitive and inclusive in a post-Covid world. More ambitiously, it also aims to implement a long-cherished dream to become the showplace for digital innovation in Southeast Asia and a hub for business, trade and logistics. "We will use the BOI and investment as a tool to drive Thailand to the new economy," BOI Secretary General Narit Therdsteerasukdi said in an interview.

Critical to the strategy is Thailand's so-called Bio-Circular Green Economy, or BCG – a government policy that has spawned a burgeoning sector of green, smart, renewable-focused foreign and home-grown industries. The BCG, along with the electric vehicle supply chain, smart electronics manufacturing, the digital sector and the creative industries are the five priority sectors at the core of the strategy, according to Narit. "We believe these five industries will be a game-changer for Thailand," he says.

Among the foreign companies Narit would like to snare are those facing mounting pressures at home from stakeholders to conform to environmental, social and governance (ESG) concerns. "As the world focuses on ESG, investors need clean energy and we can provide it," he says. "Thailand has the answer."

Even the geopolitical and financial turmoil that has plagued global business may be working in Thailand's favor. For a country that attracts investors from all the world's leading economies – Japan, China, the U.S. and Europe -- today's superpower rivalries, trade wars and supply chain disruptions present opportunity amid crisis. "We are neutral – a safe zone for investors," Narit said. "We are open for all. We welcome investors from every country."

Official figures bear that out. Of the $20 billion investment applications in Thailand last year, the leading source countries span geopolitical divisions.

In dollar terms, Chinese companies ranked number one, accounting for more than $2.3 billion pledged. However, Japanese investors retained first place measured by the number of projects approved and remain the biggest accumulated source of foreign direct investment.

Measured by investment size, U.S. companies came a close third in 2022 with Asian powerhouses Taiwan and Singapore in fourth and fifth place.

Early investor feedback to the new strategy has been positive. "We like what we see. It's a roadmap that is recognizing change, designed to reshape the investment landscape and it is important to bring in the industries they are focused on," Vibeke Lyssand Leirvåg, Chairwoman of the Joint Foreign Chambers of Commerce in Thailand, which represents 9,000 foreign companies doing business in the kingdom, said in an interview. "The BCG is attractive to many foreign investors and is giving the strategy a focus."

Thailand's geographical location at the heart of Southeast Asia's 685 million-strong consumer market, "liveability" and "stability", seen in the predictability of its business environment irrespective of the political climate of the day, or the efficient handling of the Covid crisis which allowed business operations to continue, also gave the country advantages over rival investment destinations. "Quality of life and quality of business life are good in Thailand," she said.

A BOI roadshow recently headed by Secretary General Narit to Japan was also warmly received, according to the Japan External Trade Organization (JETRO). Some 5,800 Japanese companies have invested in Thailand, a country that shares Japan's carbon neutrality goals, and many of them see opportunities to invest in BCG-related technologies such as hydrogen cell fuel development, JETRO's Chief Representative for ASEAN Kuroda Jun, said in an interview. There was also strong interest in automation and robotics and the privileges available to companies moving headquarters functions to Thailand. "According to our latest survey, many Japanese companies have confirmed that they will expand their operations in Thailand," Kuroda said.

Thailand is already the world's second biggest exporter of computer hard disk drives, the 10th biggest auto manufacturer and one of the planet's leading food suppliers. These existing industrial clusters, robust supply chains and good infrastructure including ports, roads and power supplies are among its key attractions for Japanese investors, according to the JETRO survey. "We have some advantage back in Japan but also in some aspects Thailand is even more advanced than Japan like in e-commerce and the mobile banking system," Kuroda said.

Investors acknowledge that they also encounter challenges in Thailand. The nation of 70 million faces headwinds ranging from traffic congestion to an aging population to an education and training system that sometime struggles to keep pace with the country's transformation into a knowledge economy. "Although we have relatively strong human resources, the challenge now is to raise Thailand's manpower to a higher level," says Dr Somkiat Tangkitvanich, President of the Thailand Development Research Institute, an independent private not-for-profit think tank.

Dr Somkiat, who also serves as an advisor to the BOI board, sees the new investment strategy as being instrumental in addressing such challenges. He points to the BOI's increasing flexibility towards different types of companies, saying additional incentives to long-established investors would encourage them to raise their game. "They have to be dynamic, move up the value-added ladder," Dr Somkiat said. "The country has to move forward and investors have to move forward as well."

Amata City Chonburi, with its 700 factories and award-winning 18-hole golf course, exemplifies the high-quality industrial estates Thailand offers to international investors seeking manufacturing facilities, warehouses and data centres in the heart of ASEAN.

Thailand's futuristic ambitions are built on firm present-day foundations. While the country will remain a major manufacturer of conventional internal combustion engine-powered vehicles, it is also fast becoming a regional EV hub. In addition to BYD, which is building separate vehicle and battery plants, Chinese rivals Great Wall Motor and SAIC Motor, manufacturer of the MG brand in partnership with Thailand's CP Group, also plan to use the country as a base to manufacture vehicles in Southeast Asia.

Meanwhile, German luxury car maker Mercedes-Benz, which has been building internal combustion engine (ICE) vehicles in the country since 1979, chose Thailand as the first location in the region to build its fully-electric Mercedes-EQS model.

By 2030, the government estimates that 30 percent of all autos manufactured in Thailand will be electric. However, reflecting ongoing demand for ICE, total investment in the auto sector in 2022 was almost equally balanced between ICE and EV supply chains. "EV and ICE will co-exist for some time," the TDRI's Dr Somkiat says.

Similarly, while continuing to feed the world, the agricultural sector is also quite literally fuelling the bio-circular green economy. Just as Toyota and CP group seek to source hydrogen from agricultural biomass to fuel zero-emission vehicles, other companies ranging from long-established multinationals, such as TotalEnergies Corbion and Cargill Inc.'s subsidiary NatureWorks, to biotech startups are using Thailand's vast cane sugar resources and agricultural waste to produce sustainable alternatives to oil-based products such as plastics and textiles.

In one revolutionary example, Spiber Inc. of Japan has invested $100 million in Thailand's high-tech Eastern Economic Corridor to build the world's largest factory producing brewed protein to manufacture synthetic spider silk – a strong and environmentally friendly fiber already found in garments such as the North Face Moon Parka. "Spiber can change the whole business structure of textile manufacturing and they chose Thailand as their cutting-edge technology factory outside Japan," says JETRO's Kuroda.

Such technology often requires top imported talent and that's where Thailand's Long-Term Resident, or LTR, visa could prove crucial. It offers successful applicants up to 10 years' residence, a 17 percent tax rate for highly skilled professionals, tax exemption for overseas income and even fast track service at Thailand's international airports.

Like Toyota's Akio Toyoda before them, a new generation of foreign investors will soon be able to call Thailand their second home.