

# THAILAND

## Thailand: FDI, Investment Climate, Investment Policy

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Bangkok  
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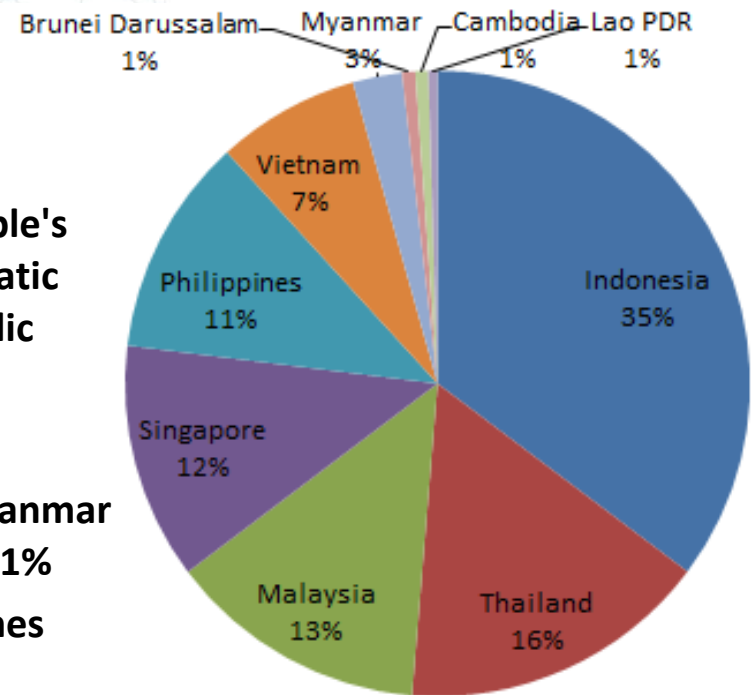
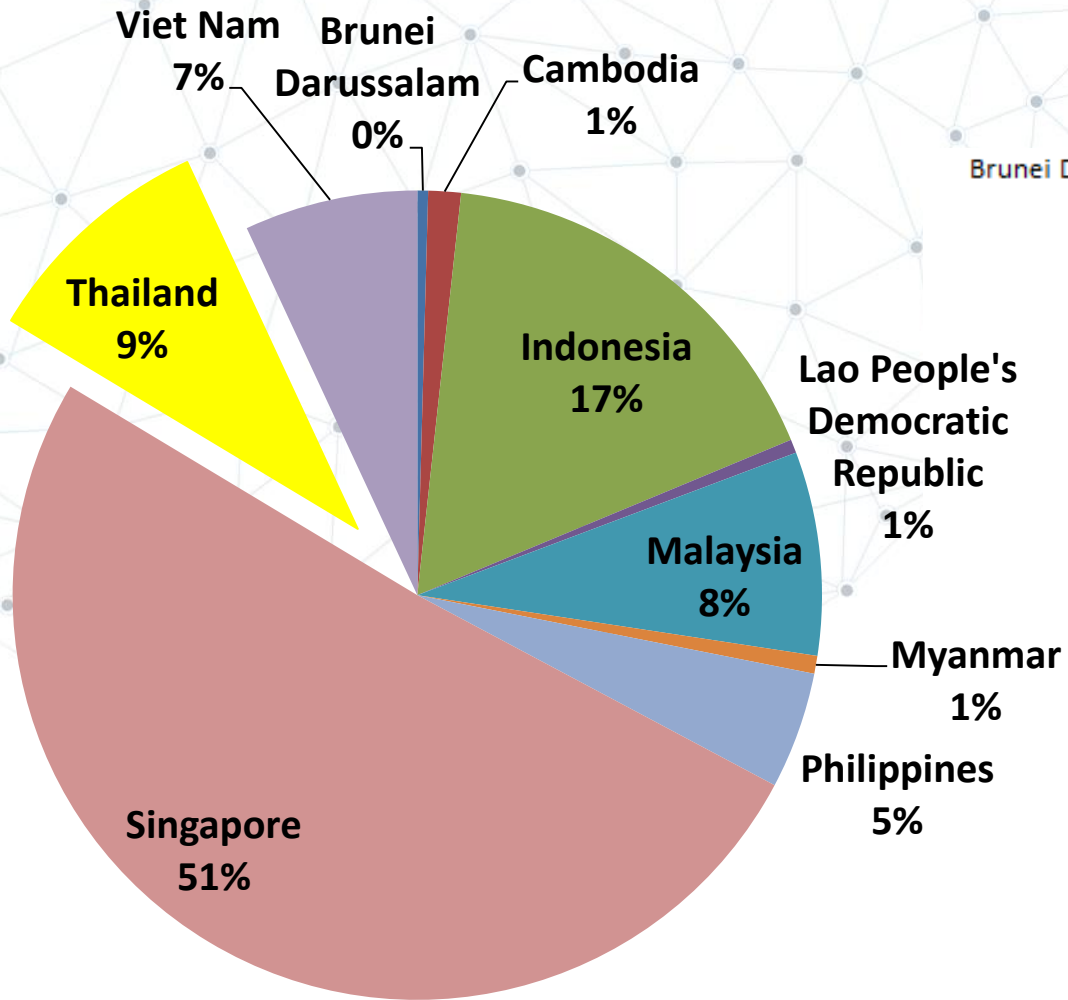


## **PRESENTATION OUTLINE**

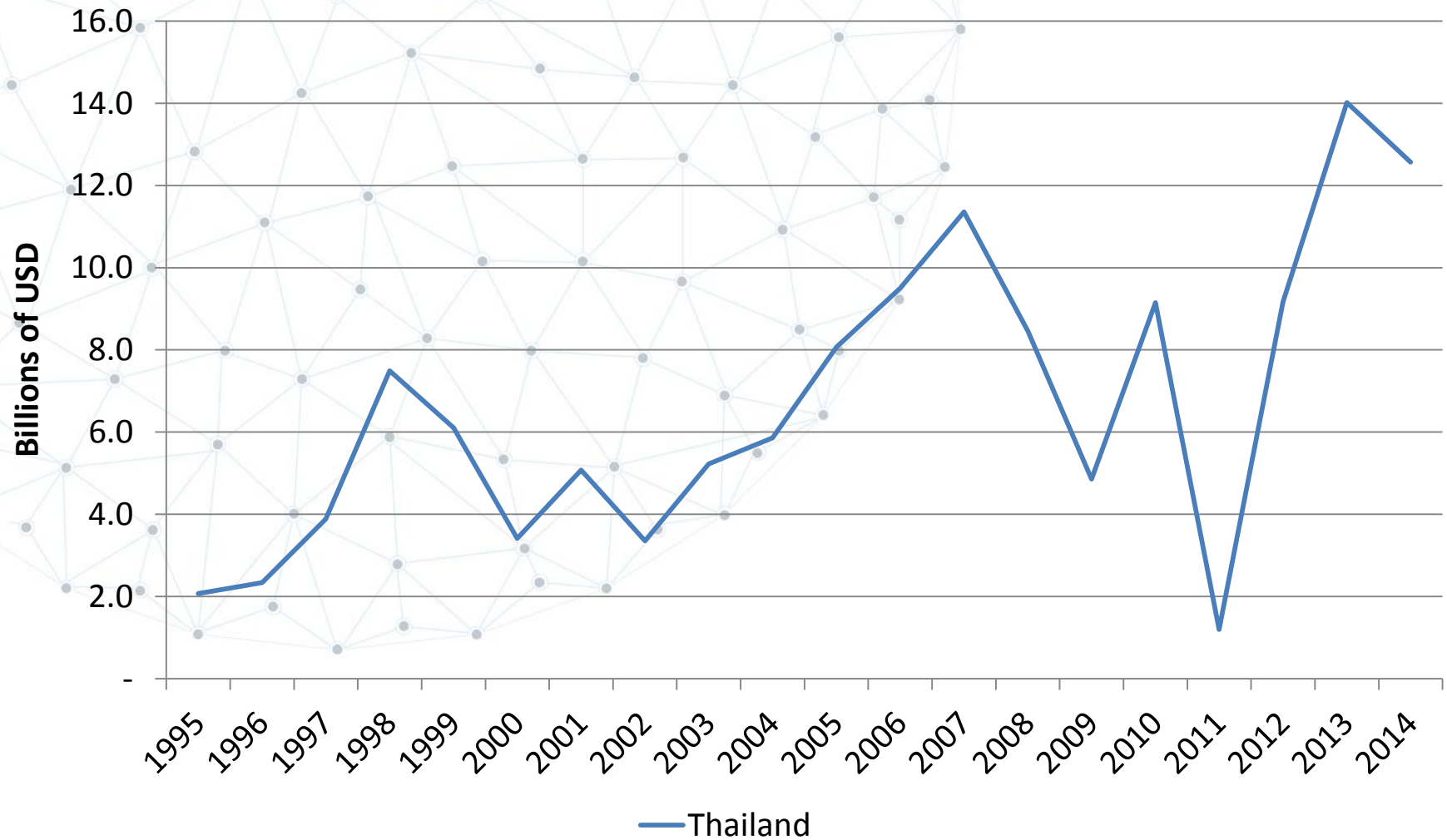
**1. How is Thailand doing in terms of FDI attraction?**

**2. What can Thailand do to improve or sustain its FDI performance?**

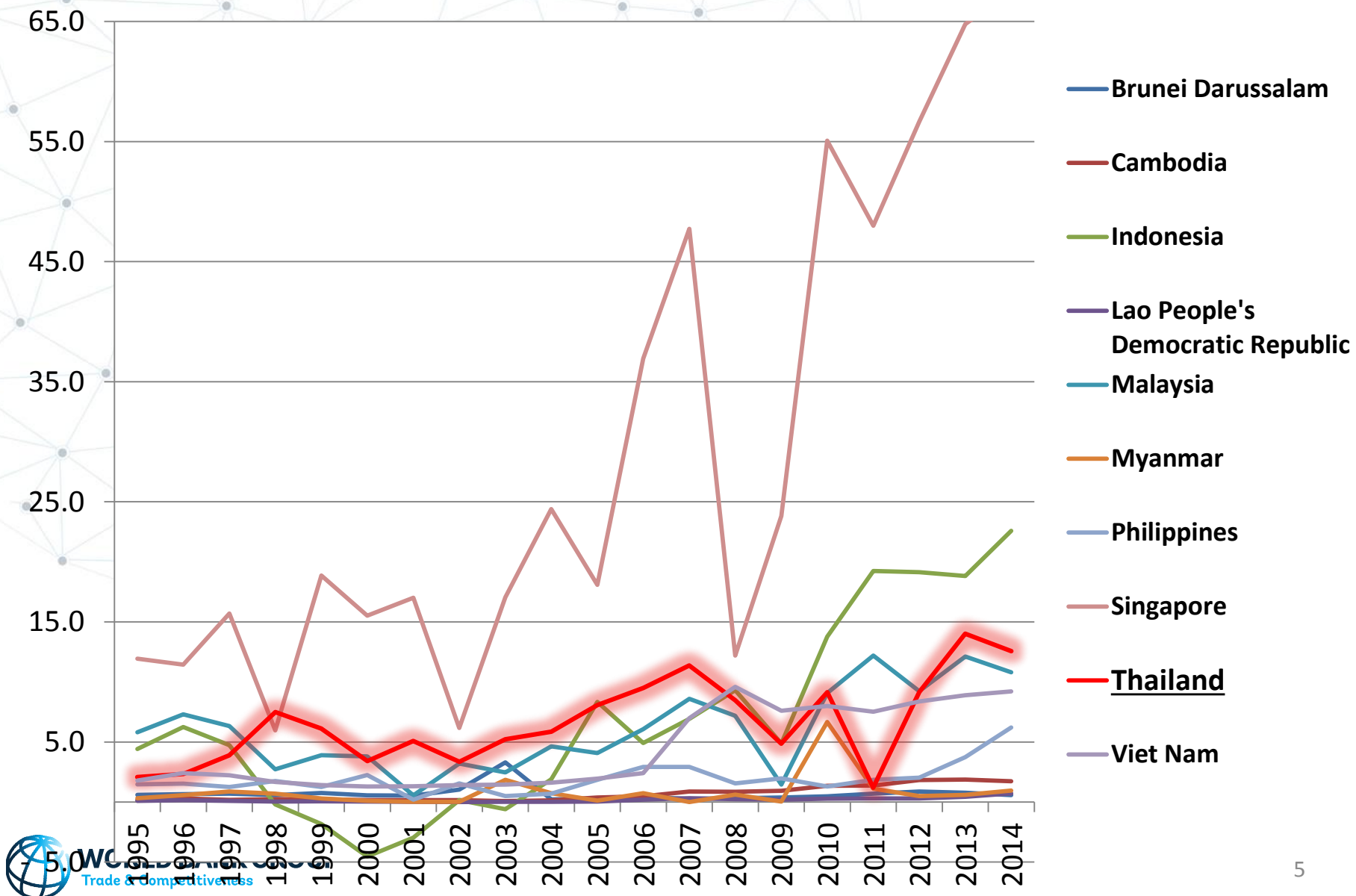
# Putting things into a regional context: FDI inflows into ASEAN & EAP (2014, in percentage of total)



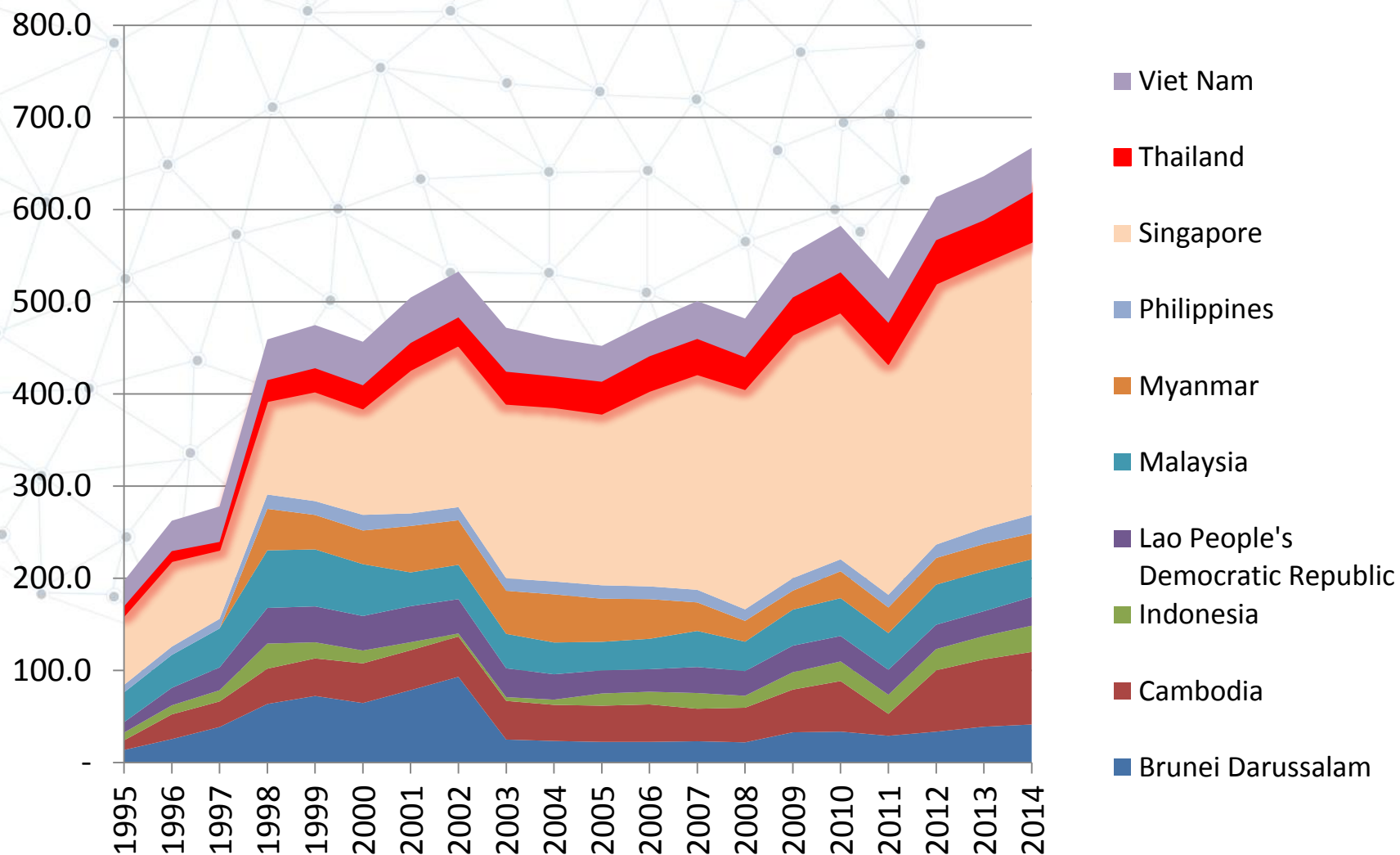
# FDI inflows to Thailand (1995 to 2014)



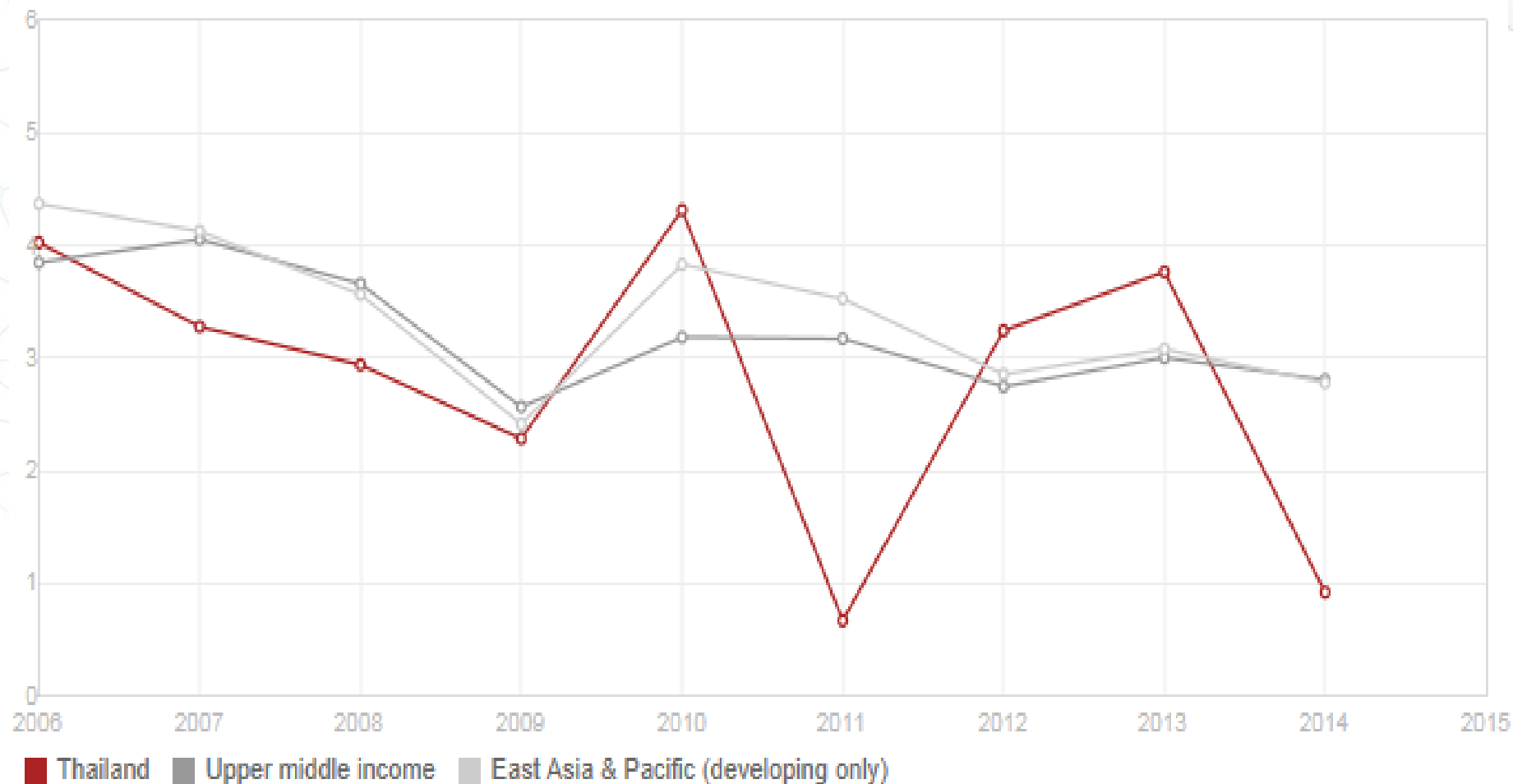
# FDI inflows to ASEAN, 1995 to 2014 (value, \$ billion)



# FDI inward stock as a percentage of GDP, ASEAN 1995 to 2014 (%)



# FDI inflows to Thailand as a percentage of GDP vs. Developing East Asia, 2006-2014



Thailand ✕

Upper middle income ✕

East Asia & Pacific (developing only) ✕

# Foreign Investment in Thailand (2013-2015)

- Of last 3 years, 2013 was the best. FDI inflows increased by about 21% to reach \$13 billion. Mainly driven by a rise in M&A activities.
- In 2013, Thailand was the second-largest target of M&A in South-East Asia, behind Singapore, with concluded sales worth \$6 billion. A major deal was the acquisition of Bank of Ayudhya by the Bank of Tokyo, for \$5.3 billion.
- 2014 marked a 11% decline in inflows. Political turmoil.
- No complete data for 2015. From BOI/media accounts it seems that it was not a very good year in terms of approvals.

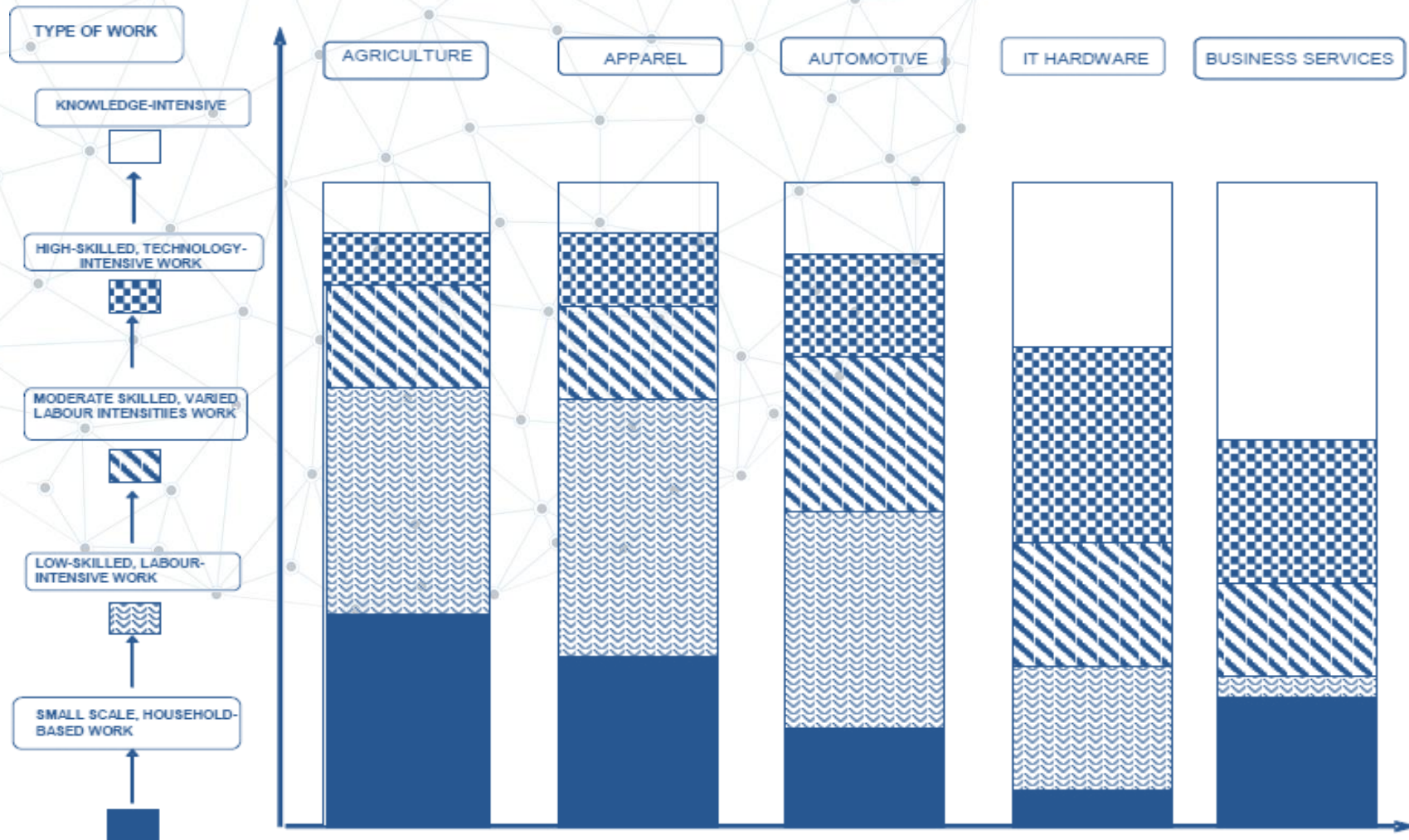
## Two Questions:

- **Will there be a rebound in 2016 or is Thailand entering a downward trend ?**
- **Could foreign investors begin to find neighboring countries more attractive if the long-term political outlook remains uncertain ?**

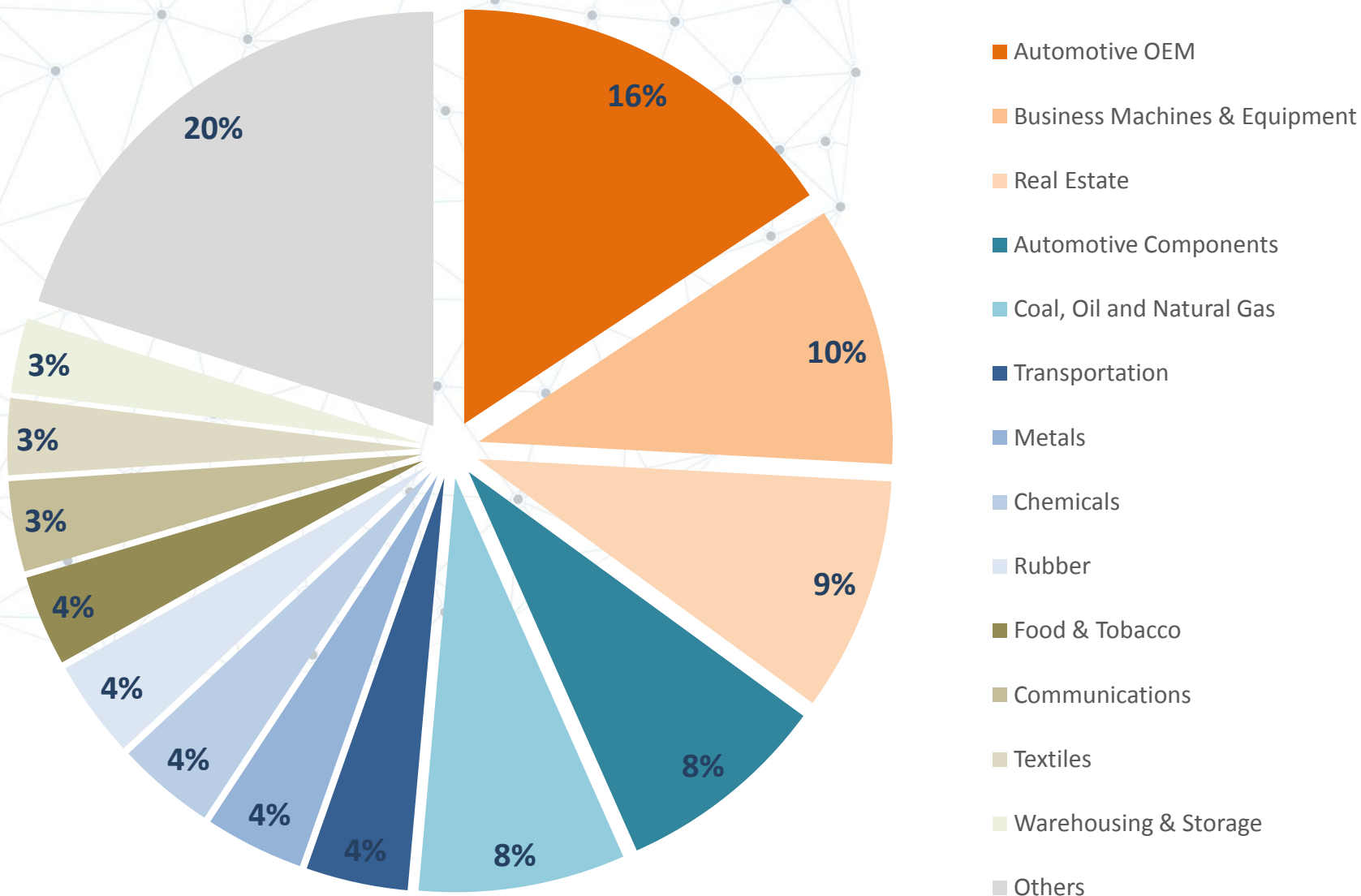


# Why the type of FDI Thailand receives matter for its socio-economic objectives (e.g., diversification, innovation...)?

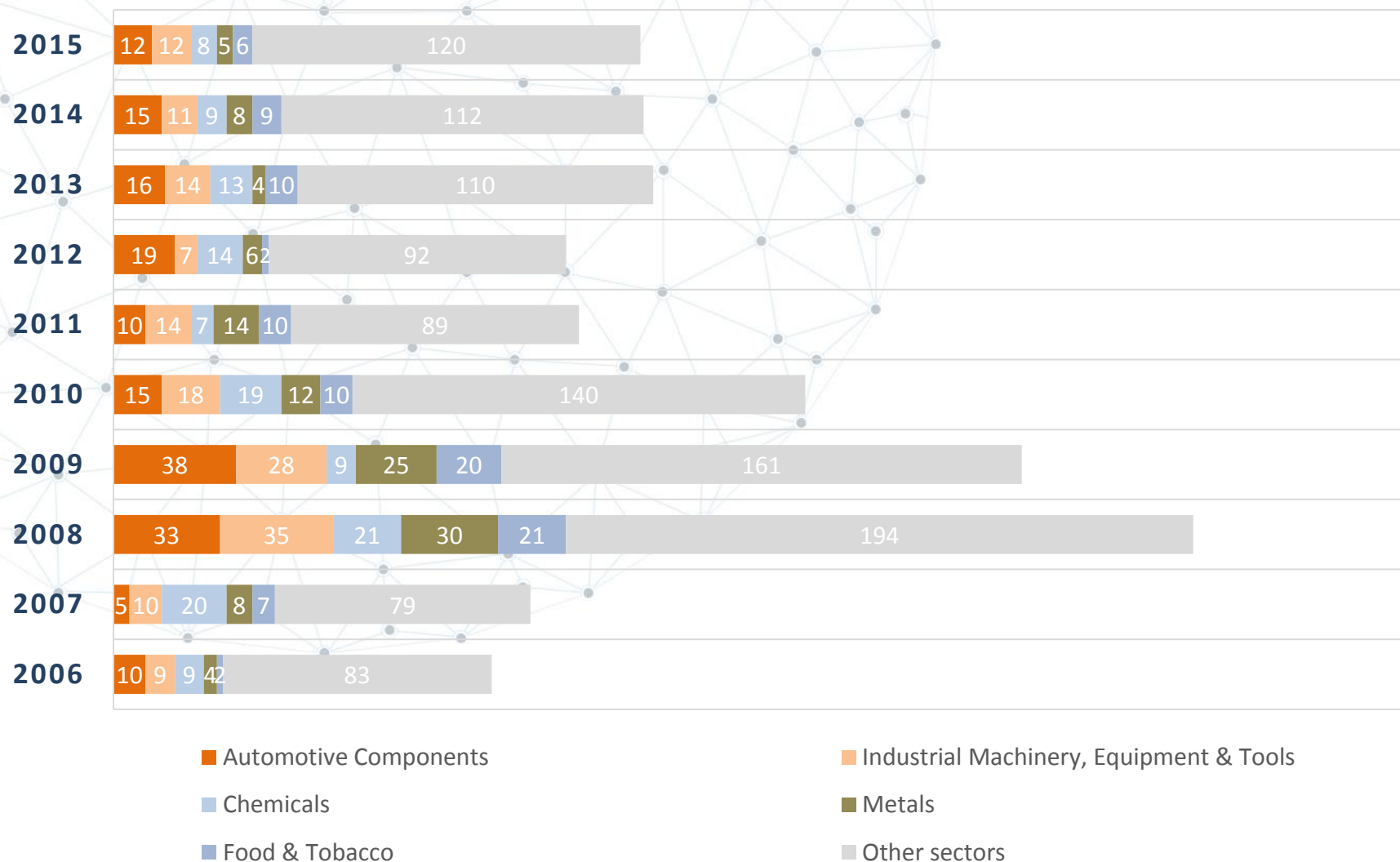
Because each type of investment creates different types of jobs



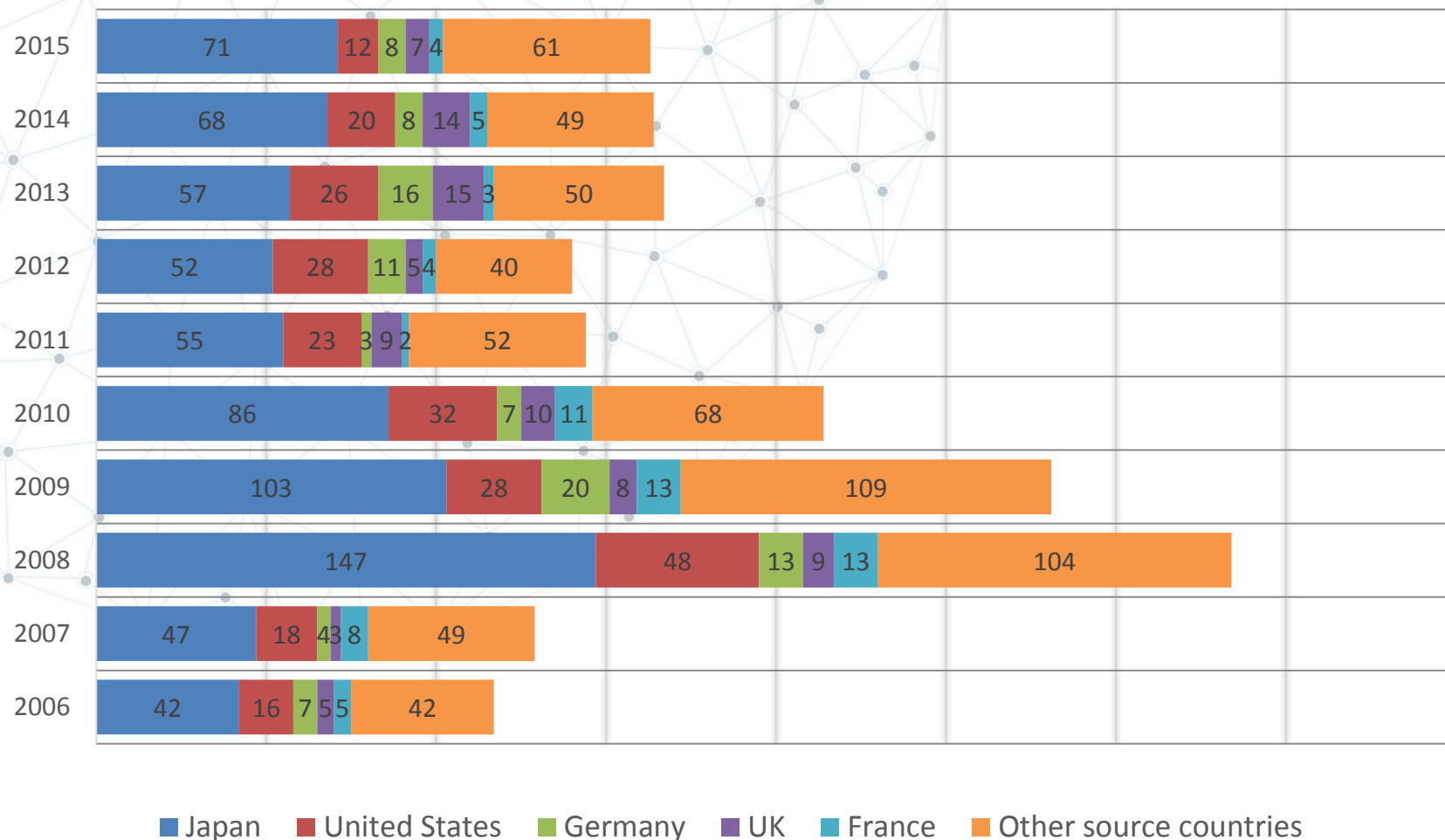
# Type of FDI coming to Thailand: 2006 to 2015



# Number of FDI projects by year and sector



# Who invests in Thailand ? Top 5 source countries (by number of projects)

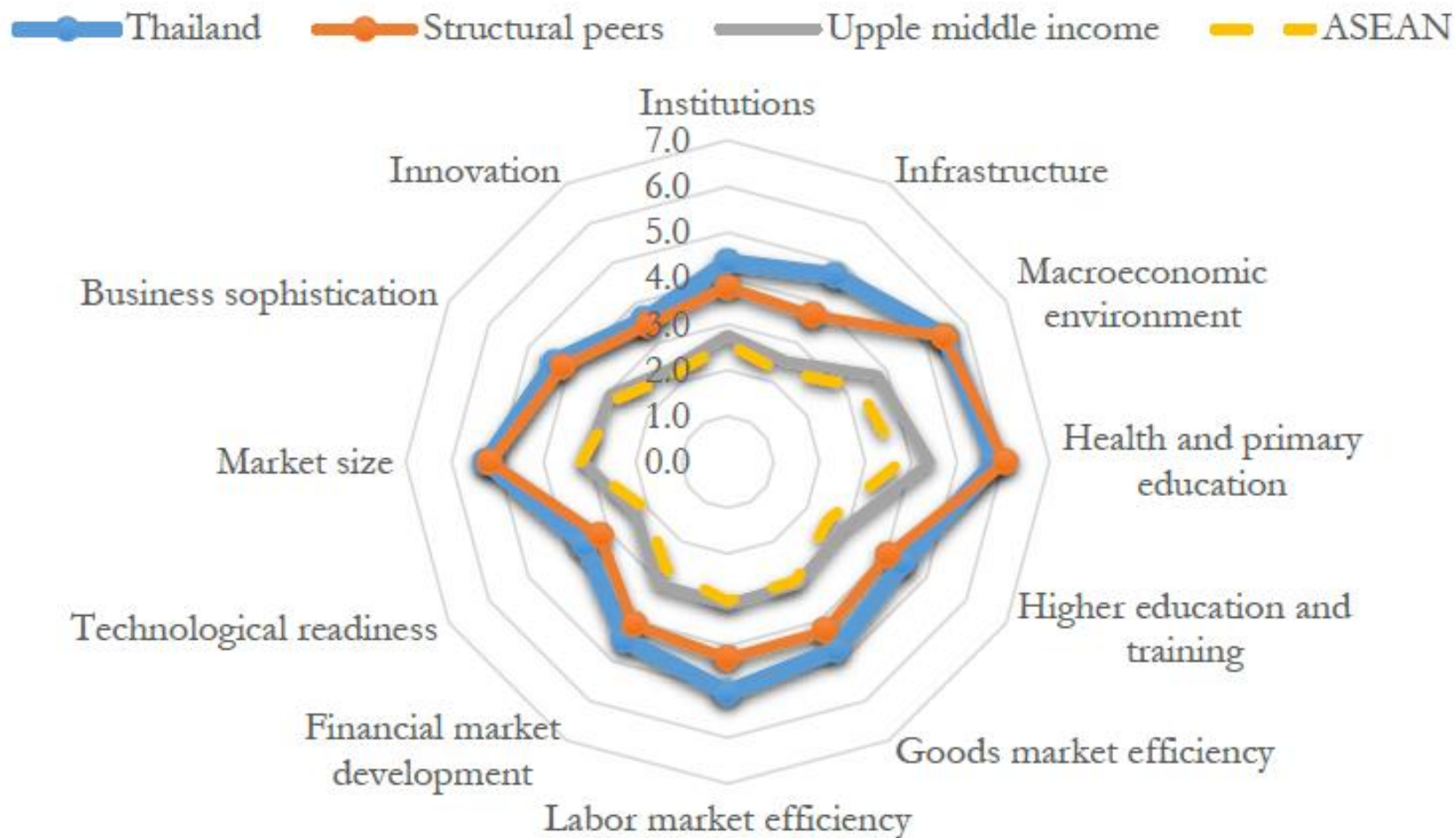


## **2. What can Thailand do to improve or sustain its FDI performance?**

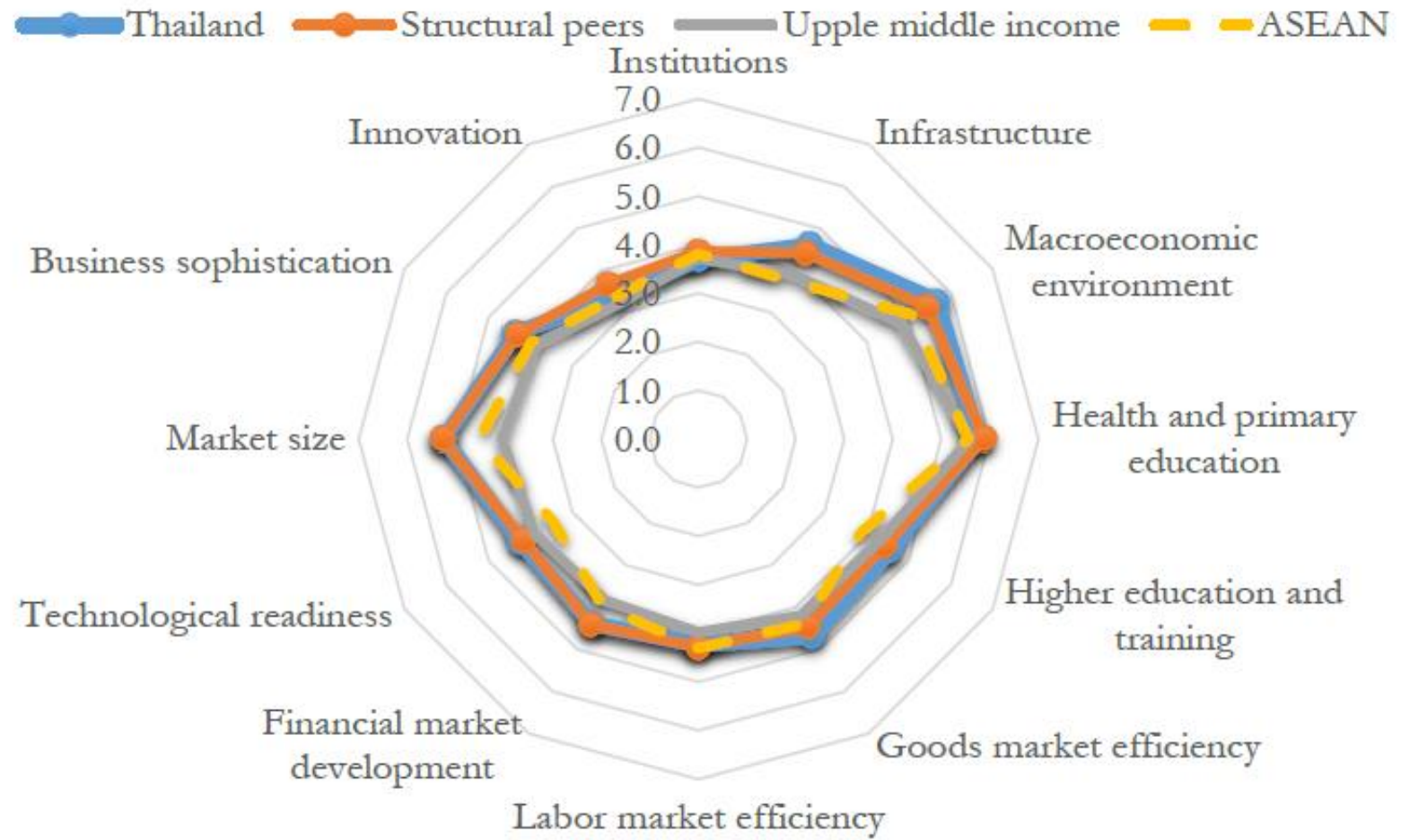
**Competitiveness  
Investment Climate  
Investment Policy  
Investment Incentives (Promotion)**



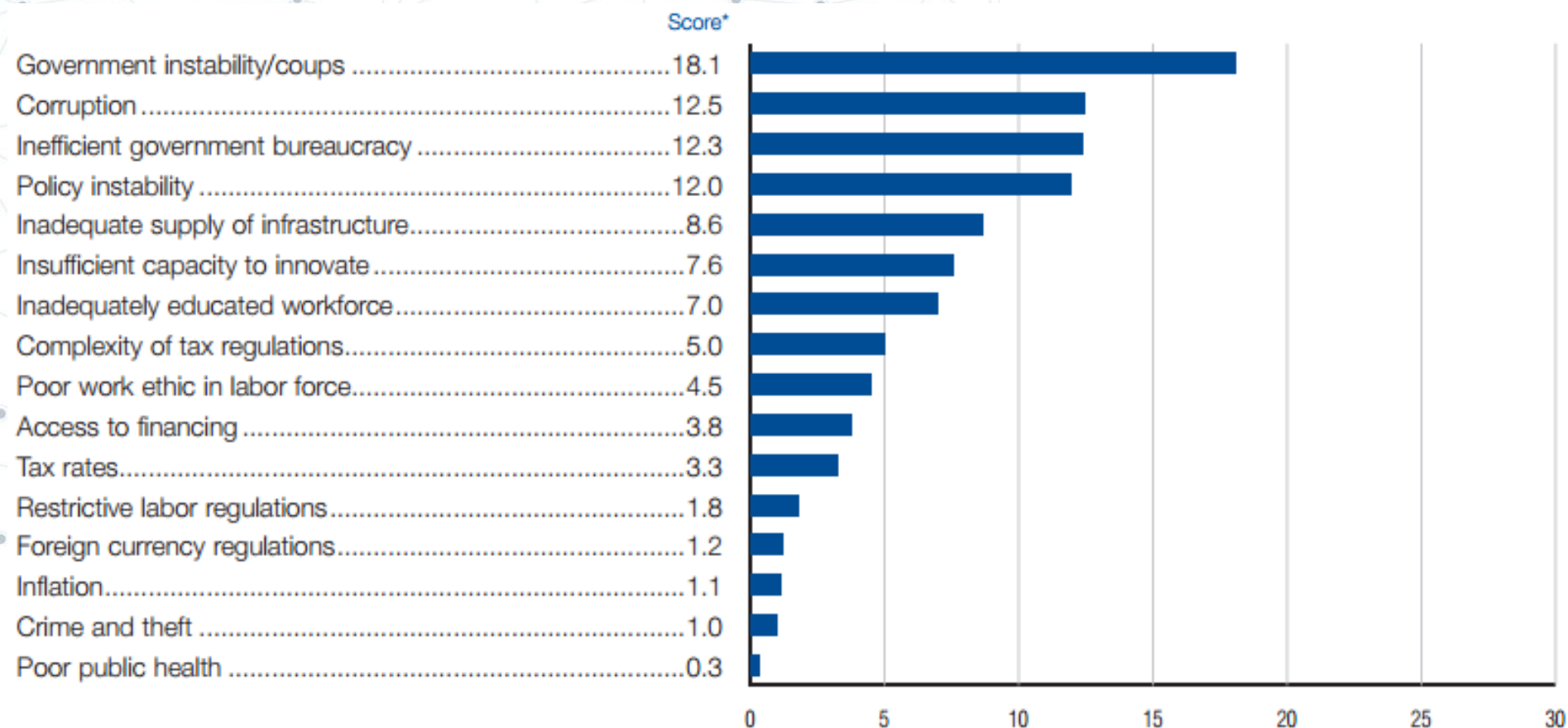
# Thailand's Competitiveness, 2006 to 2007, (score, 7=best)



# Thailand's Competitiveness, 2014-2015, (score, 7=best)



# Thailand: top constraints to competitiveness (business executives)



\* From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Source: WEF (2015) The Global  
Competitiveness Report 2015–2016



# Key Investment Constraints: AustCham 2015 Business Survey

EXTREMELY IMPORTANT	POLITICAL STABILITY
MODERATE IMPORTANCE	Work permit and visa arrangements
	Wage Pressures
	Protection of IP
	Licensing (obtaining required licences to business)
	Customs procedures (documentation costs, processing time)
	Cost pressures other than wage pressures (living/office costs)
	Corruption
	Access to skilled labour
	Access to low cost labour
	Access to digital infrastructure

# Key Growth Drivers: AustCham 2015 Business Survey

## Business growth drivers



### MOST IMPACT

Opportunity to grow sales.

Proximity to customers.

Thailand as a regional hub.

### LEAST IMPACT



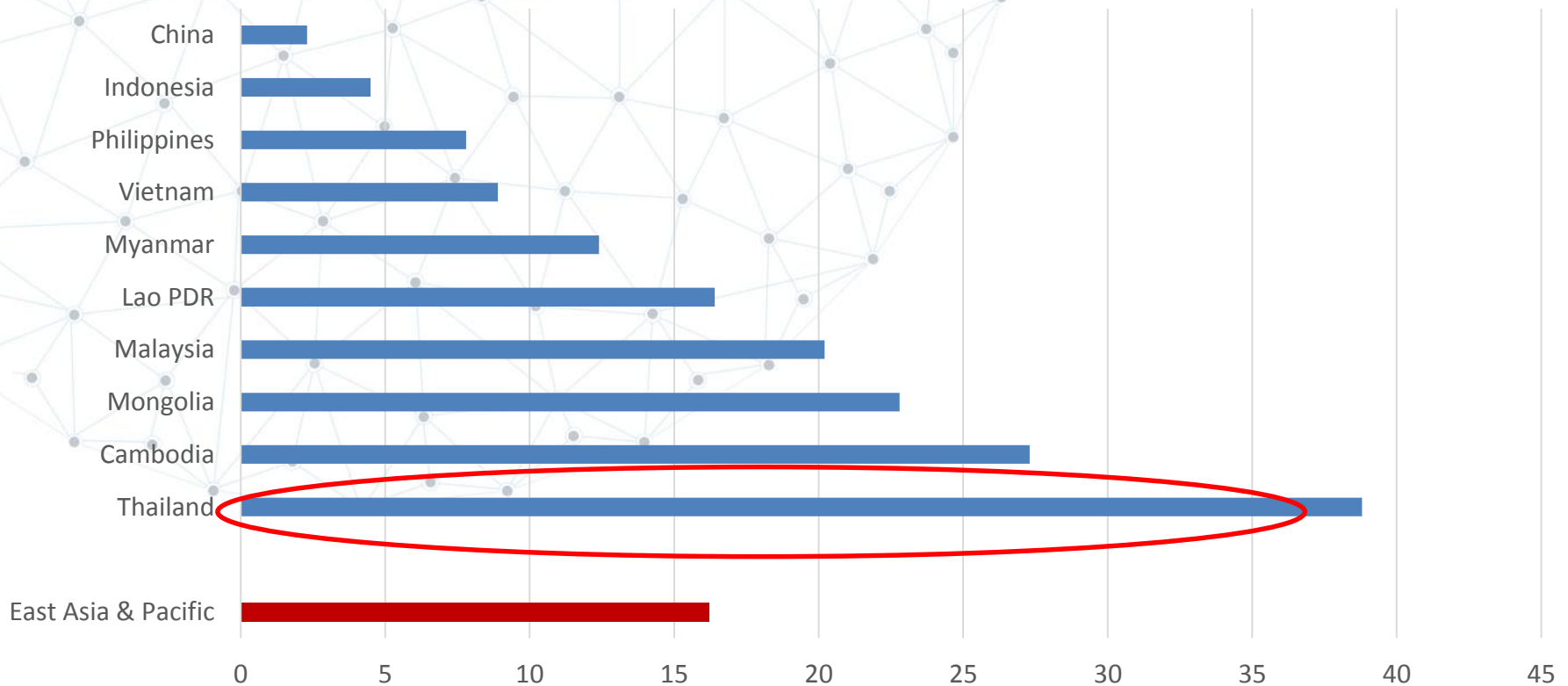
Market entry incentives.

Tax benefits.

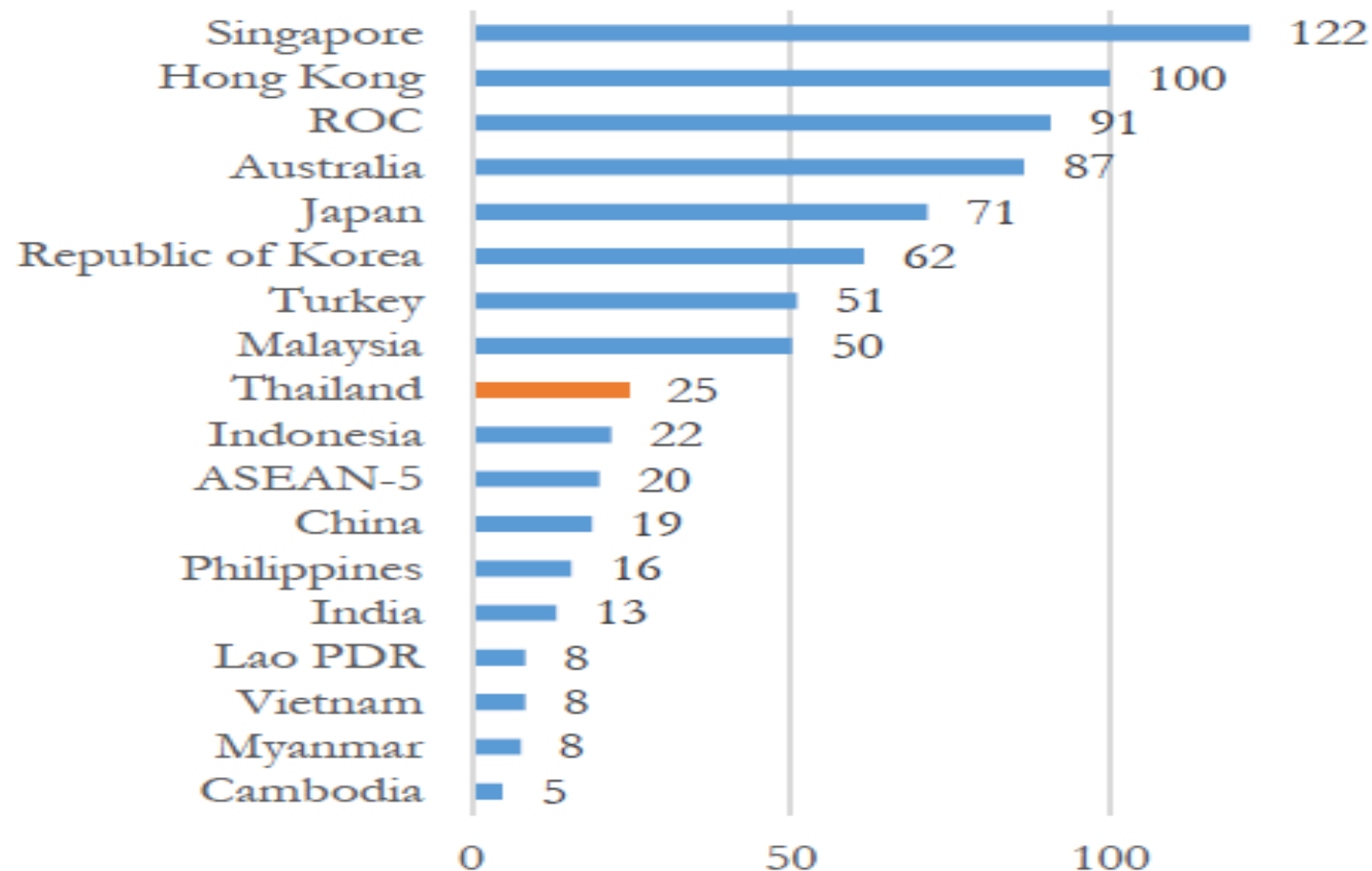
Ease of establishment of doing business.

# Skills shortages : a big investment constraint for Thailand (Source WBG Enterprise Surveys)

% of firms identifying inadequately trained workforce as a key business constraint



# Labor Productivity : Thailand vs. Competitors

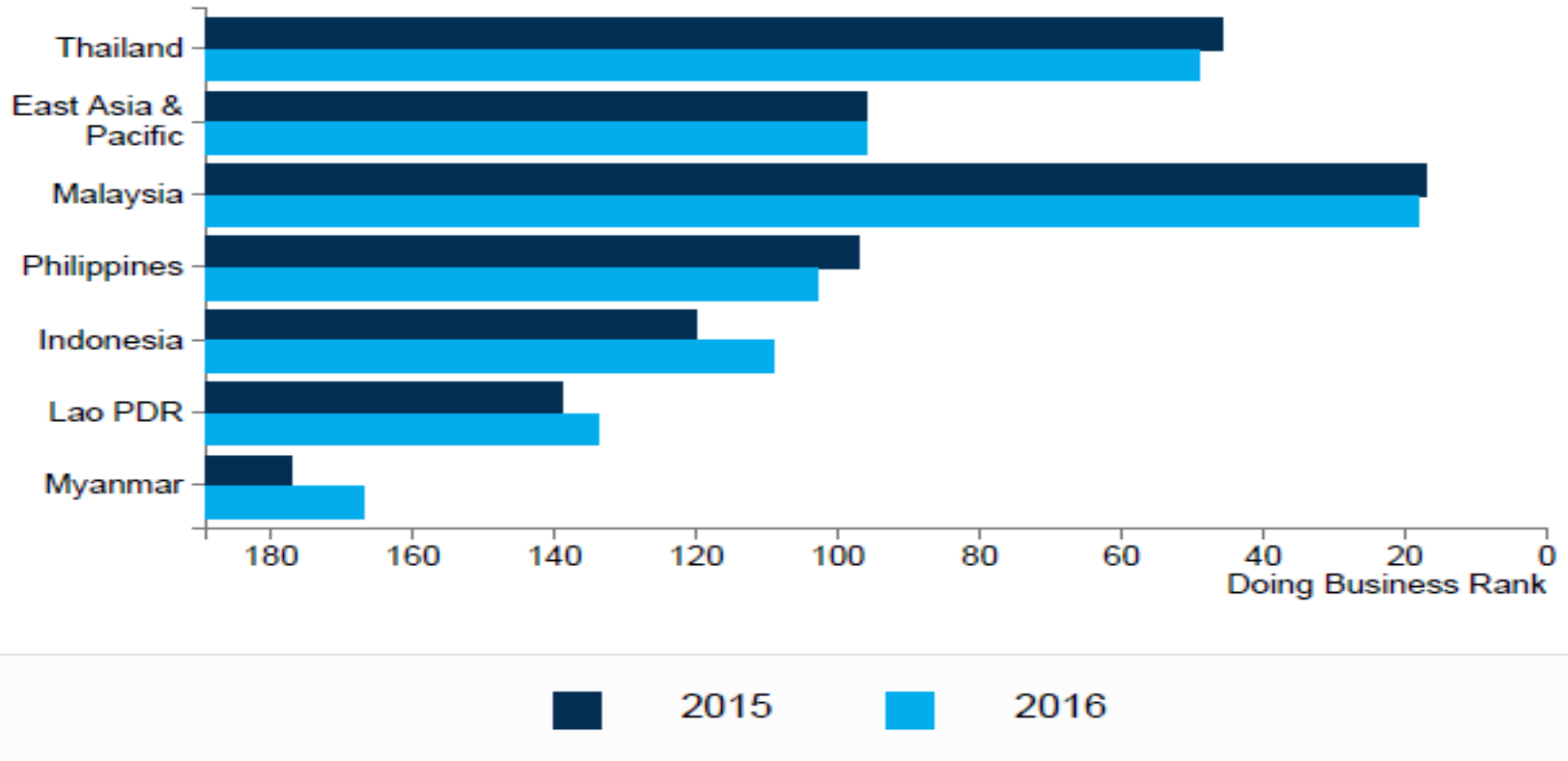


Thousands of US dollars in PPP terms (as of 2013)

# PISA results, selected Asian countries, 2012

	Mathematics				Reading		Science	
	Mean PISA score	Share of low achievers in mathematics (< Level 2) (Per cent)	Share of top performers in mathematics (Level 5 or 6) (Per cent)	Annualized change in score points	Mean PISA score	Annualized change in score points	Mean PISA score	Annualized change in score points
OECD average	494	23.0	12.6	-0.3	496	0.3	501	0.5
Shanghai-China	613	3.8	55.4	4.2	570	4.6	580	1.8
Singapore	573	8.3	40.0	3.8	542	5.4	551	3.3
Rep. of Korea	554	9.1	30.9	1.1	536	0.9	538	2.6
Viet Nam	511	14.2	13.3	m	508	m	528	m
<b>Thailand</b>	<b>427</b>	<b>49.7</b>	<b>2.6</b>	<b>1.0</b>	<b>441</b>	<b>1.1</b>	<b>444</b>	<b>3.9</b>
Malaysia	421	51.8	1.3	8.1	398	-7.8	420	-1.4

# Doing Business 2016 (overall ranking on Ease of DB)



Source: [Doing Business 2016 \(World Bank Group\)](#)

DOING BUSINESS 2016  
RANK

49

DOING BUSINESS 2015  
RANK ①

46

CHANGE IN RANK

↓ -3

DOING BUSINESS 2016  
DTF (% POINTS) ①

71.42

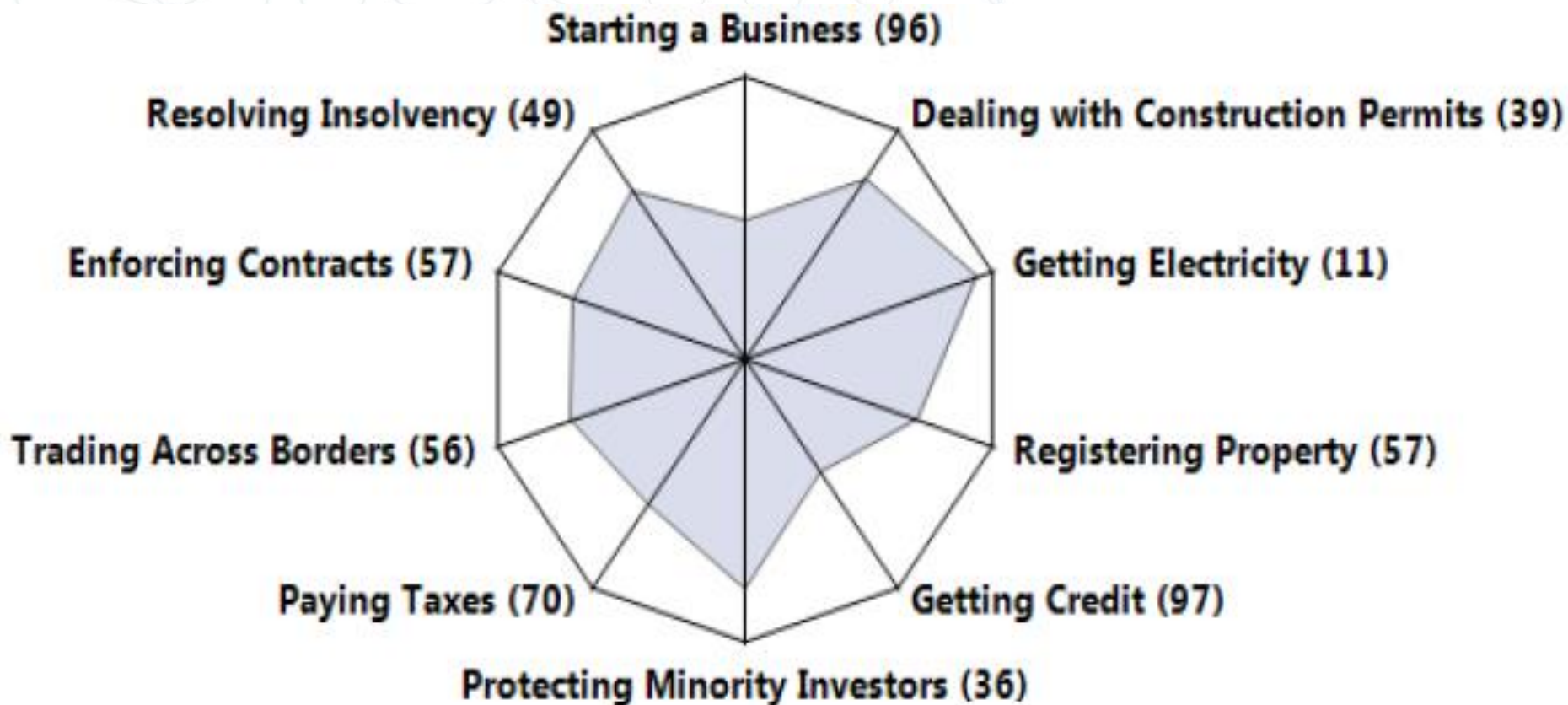
DOING BUSINESS 2015  
DTF (% POINTS) ①

71.33

CHANGE IN DTF (%  
POINTS) ①

↑ 0.09

# Rankings on Doing Business topics



Scale: Rank 189 center, Rank 1 outer edge

# Doing Business 2016

<b><u>Topics</u></b>	<b><u>DB 2016 Rank</u></b>	<b><u>DB 2015 Rank</u></b>	<b><u>Change in Rank</u></b>
<b>Starting a Business</b>	<b>96</b>	<b>91</b>	<b>-5</b>
<b>Dealing with Construction Permits</b>	<b>39</b>	<b>47</b>	<b>8</b>
<b>Getting Electricity</b>	<b>11</b>	<b>11</b>	<b>No change</b>
<b>Registering Property</b>	<b>57</b>	<b>57</b>	<b>No change</b>
<b>Getting Credit</b>	<b>97</b>	<b>90</b>	<b>-7</b>
<b>Protecting Minority Investors</b>	<b>36</b>	<b>33</b>	<b>-3</b>
<b>Paying Taxes</b>	<b>70</b>	<b>62</b>	<b>-8</b>
<b>Trading Across Borders</b>	<b>56</b>	<b>55</b>	<b>-1</b>
<b>Enforcing Contracts</b>	<b>57</b>	<b>57</b>	<b>No change</b>
<b>Resolving Insolvency</b>	<b>49</b>	<b>45</b>	<b>-4</b>

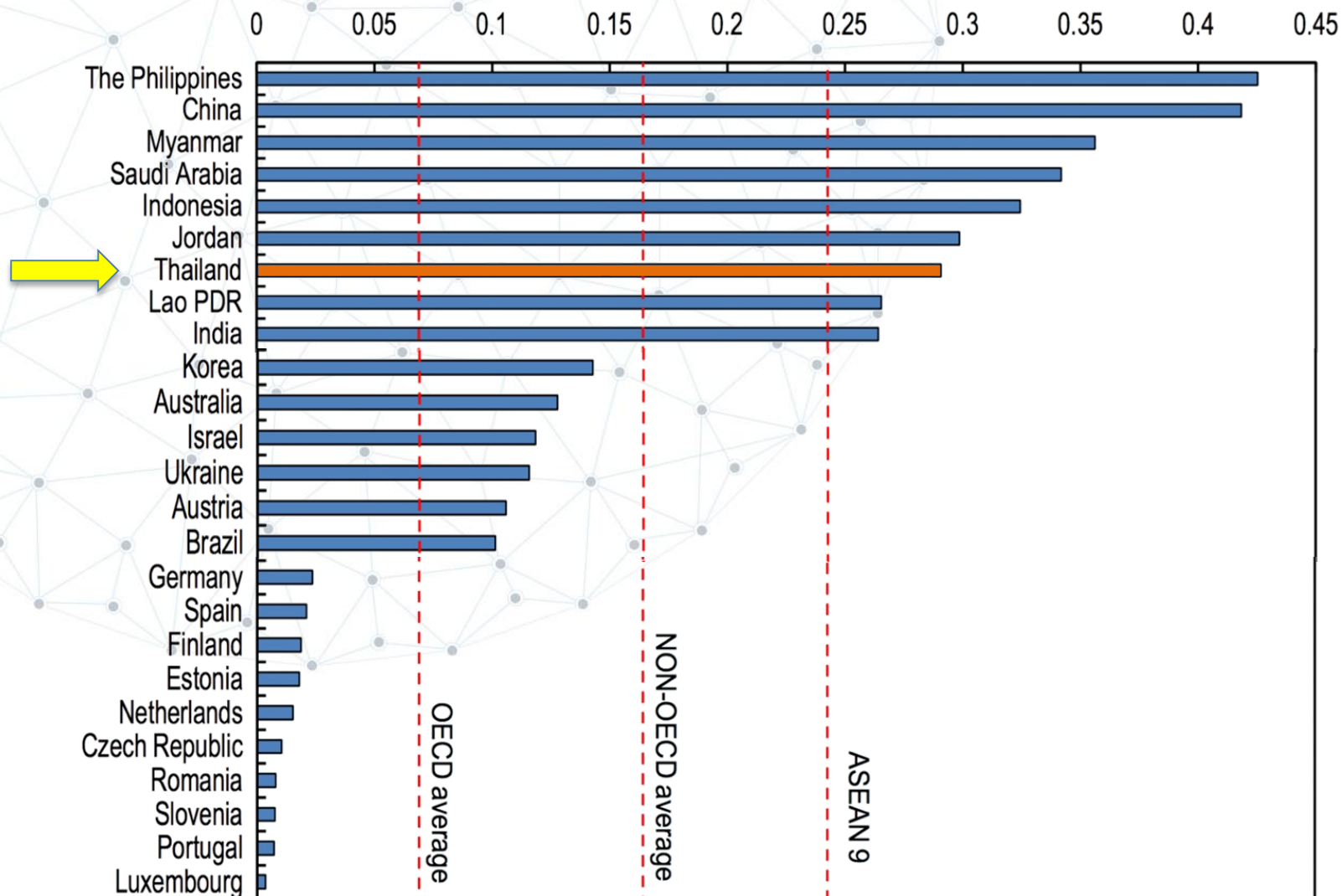


# Investment Policy

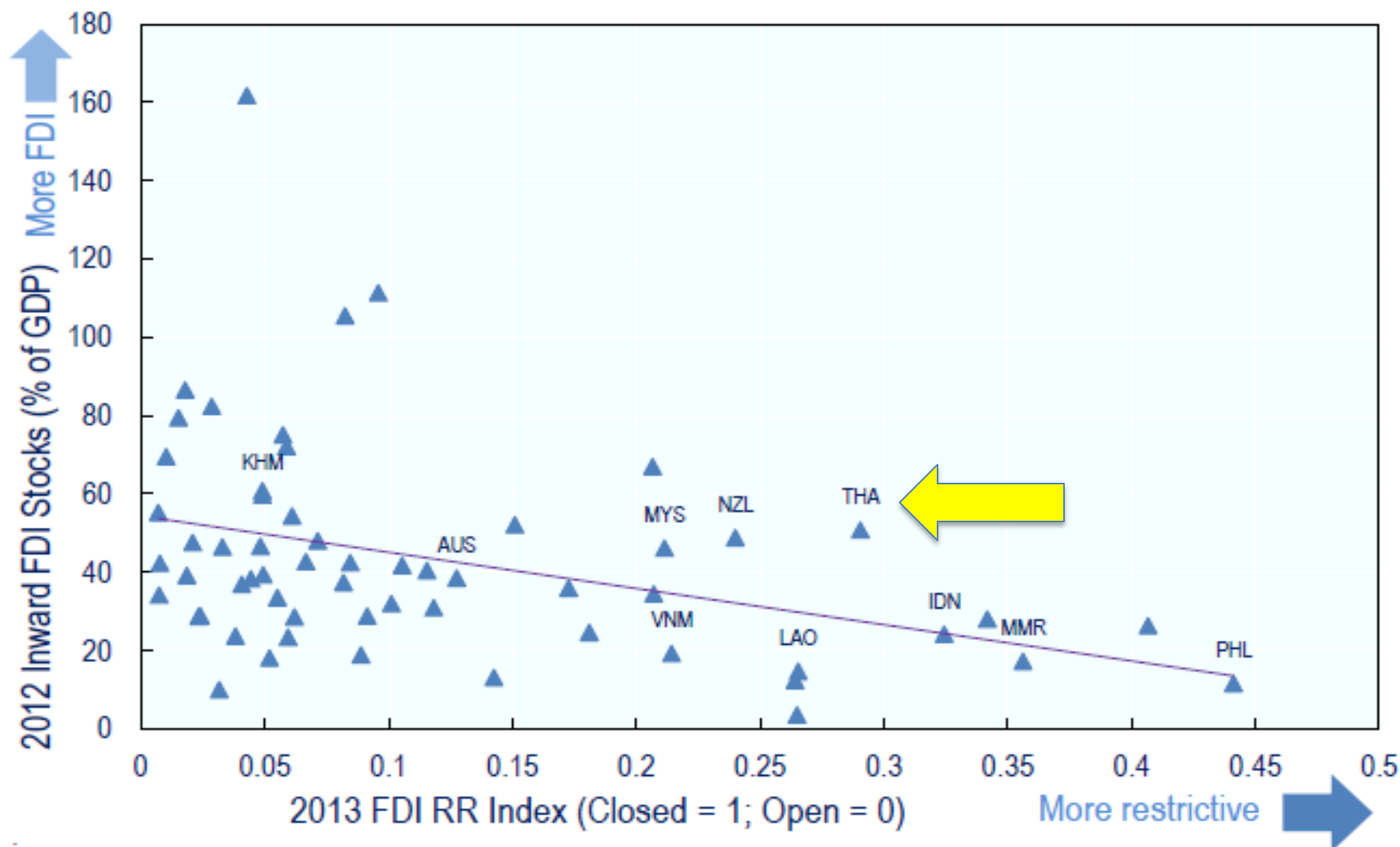
- Investment Entry
- Investment Protection
- Investment Incentives [I will leave it to my colleague]
- International Investment Agreements (IIA's)

# Investment Entry: OECD FDI Restrictiveness Indicator

(Open = 0; Closed = 1)

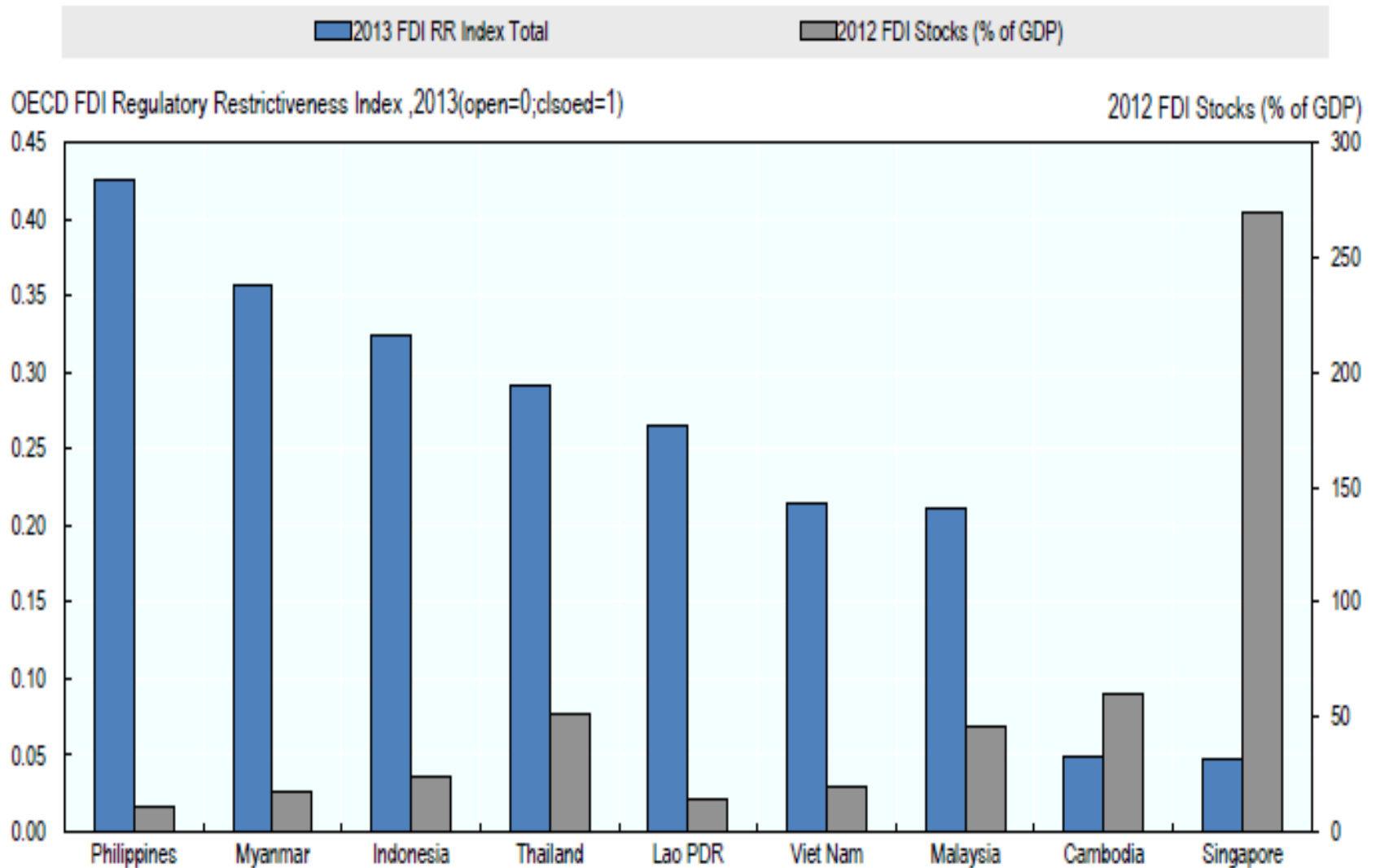


**Fewer restrictions generally means more FDI !**

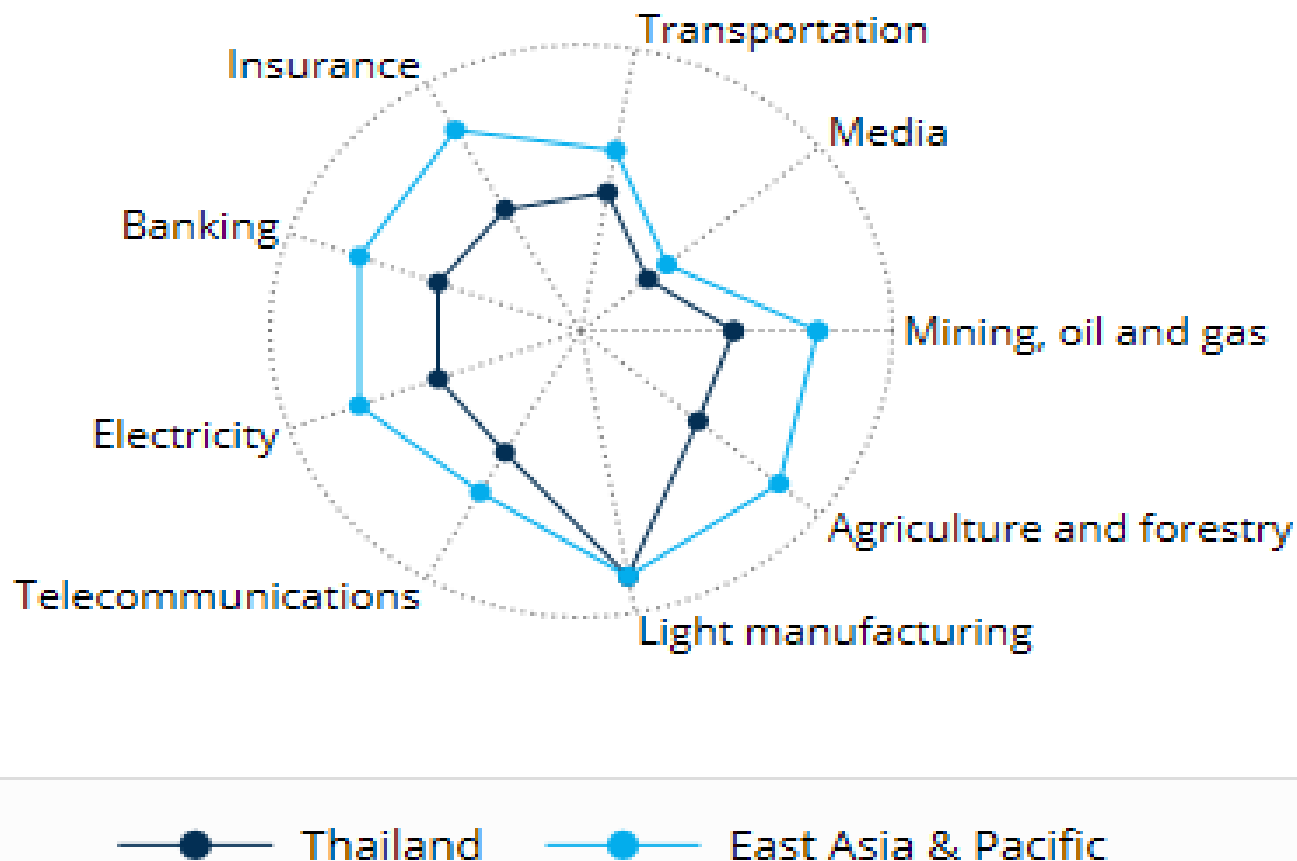


Source: OECD FDI Regulatory Restrictiveness Index and IMF

# Less restrictions generally means more FDI : evidence from ASEAN



## Thailand : Barriers to FDI entry and participation (Foreign equity ceilings)



Source: Investing Across Borders 2010 (World Bank Group)

# INVESTMENT PROTECTION

- WHY IT MATTERS?
- HOW IS THAILAND DOING IN THIS AREA?

# Thailand's Investment Protection

## Positives:

- Transfer of Funds guaranteed by Law
- No discrimination in eligibility for incentives (both domestic and foreign investors can apply)
- Protection against Expropriation (but imperfect guarantee).
- NY Convention ratified.

## To be improved:

- Principle of National Treatment not in the Investment Framework
- Dispute Resolution: Thailand has signed (1985) but not ratified the ICSID Convention...
- Expropriation guarantee
- **Possible solution:** upgrade domestic legislation based on ACIA (implement AEC).

# Increased relevancy of IIAs

- WTO not a real, comprehensive multilateral framework on Investment but some rules “here and there” (TRIMS, TRIPS, SCM...).
- BIT's → fewer are signed
- **Growth**: Preferential Trade Agreements (PTA), Regional Trade Agreements (RTA) which are both trade & investment agreements (entry, protection, dispute resolution)
- Latest, “hot” trend → “Mega-Regionals” (TPP, TTIP, RCEP)



# Thailand's Participation in IIA's

## Other IIAs (Includes FTA, PTA, RECP)

AANZFTA (Australia, New Zealand)  
 ASEAN - India Investment Agreement  
 ASEAN Investment Agreement  
 ASEAN Services  
 ASEAN-China Framework Agreement  
 ASEAN-China Investment Agreement  
 ASEAN-EU Cooperation Agreement  
 ASEAN-India Framework Agreement  
 ASEAN-Japan Framework Agreement  
 ASEAN-Japan FTA  
 ASEAN-Korea Framework Agreement  
 ASEAN-US TIFA  
 Australia-Thailand FTA  
 BIMSTEC Framework Agreement (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)  
 Chile-Thailand FTA  
 India-Thailand Framework Agreement  
 Japan-Thailand EPA  
 New Zealand-Thailand EPA  
 Peru-Thailand Framework Agreement  
 Peru-Thailand Framework Agreement  
 Thailand-US TIFA  
 RECP (Regional Comprehensive Economic Partnership)

## BILATERAL AGREEMENTS

Argentina, Bahrain, Bangladesh  
 BLEU (Belgium-Luxembourg Economic Union)  
 Bulgaria, Cambodia, Canada, China  
 Croatia, Czech Republic, Egypt  
 Finland, Germany, Hong Kong, China  
 Hungary, India, Indonesia, Israel  
 Jordan, Korea, Lao PDR  
 Myanmar, Netherlands  
 Peru, Philippines, Poland  
 Romania, Russian Federation  
 Slovenia, Sri Lanka  
 Sweden, Switzerland  
 Taiwan, Tajikistan  
 Turkey, United Kingdom  
 Vietnam, Zimbabwe



# RCEP :

## Regional Comprehensive Economic Partnership

- Members: 10 **ASEAN** member states plus 6 Asia-Pacific trading partners : Australia, China, India, Japan, New Zealand and South Korea
- Around 3.4 billion people or 45% of the world's population
- About a third of the world's GDP
- Also about a third of global trade

# TPP : the Trans-Pacific Partnership

- 12 countries: Australia, **Brunei**, Canada, Chile, Japan, **Malaysia**, Mexico, New Zealand, Peru, **Singapore**, United States, **Vietnam**
- 40% of the world's GDP
- More than 25% of global trade
- About 800 million consumers

# Should Thailand consider joining TPP?

## – Potential Benefits of joining:

- Signaling effect to potential international investors
- Encourage Thai firms to innovate, to be more productive
- Would stimulate some reforms (SOE, competition)

## – Potential Risks of not joining:

- Possible relocation of factories out of Thailand (Vietnam, Malaysia?)
- Adverse effect of TPP Rules of Origin

# How TPP rules of origin could hurt Thailand

- If Thailand exports a good to a TPP country, that is an input in the production of another good, it may not qualify as originating under the TPP. TPP countries would most likely shift from Thailand to a TPP producer.
- In NAFTA, US automakers shifted from outside (i.e., Asian) suppliers of auto parts to Mexican and Canadian manufacturers in order to comply with the NAFTA auto rule of origin: autos must be composed of 62.5 percent “local” (=originating in NAFTA) content. This was great for Mexico and Canada’s auto industry, but really bad for Asian manufacturers.



# Thank You!