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Thailand's Special Economic Zone – National roadmap and new opportunities to watch out

Highlight

- EIC expects Mae Sot, Aranyaprathet, and Sadao to be the three leading Special Economic Zone (SEZ) pilot areas with the greatest potential for development and sustainable growth. These three areas have better infrastructure, production-based business activities, and trade portfolios in place compared to other areas.
- Textiles, processed food, and labor-intensive industries will benefit from the movement of production bases to SEZ. Meanwhile, warehouses, distribution centers, logistics, retail and wholesale consumer goods, and healthcare industry will benefit from investment promotion privileges.

In July 2014, the government approved initial SEZ development covering the five border areas: 1) Mae Sot district, Tak 2) Aranyaprathet, Sa Kaew 3) Khlong Yai, Trat 4) Mueang, Mukdahan, and 5) Sadao, Songkhla (Sadao and Padang Besar checkpoints) (Figure 1). The main objectives of this development are to attract foreign directive investment (FDI), generate employment, improve living conditions through income distribution, improve border area security, and enhance Thailand's competitiveness to prepare for entry into the impending AEC in 2015. Moreover, SEZ establishment will also help tackle the smuggling of migrant workers and goods from neighboring countries.

The five pilot areas, which cover the total area of 1.83 million rai or 2,932 sq. km., have great potential for border trade expansion due to their existing production-based business activities, infrastructure, and labor abundance. These areas also have geographical advantages as they are not prone to natural disasters and have sound international security records.

The BOI supports the government's SEZ policy providing incentives in strategic industries that will be located in SEZs. Investment projects in designated SEZ developments will be eligible for BOI's new investment promotion privileges, including the maximum privilege of 8-year corporate income tax exemption and a 50% reduction of corporate income tax for extra five years after the corporate income tax exemption period expires (Figure 2). Even though the BOI places more emphasis on high tech projects involving research & development (R&D), innovation, and value creation, but labor-intensive projects located within the promoted SEZ will also be eligible for privileges as specified by the SEZ Policy Committee. EIC expects that projects that will be promoted are based on each of the SEZs' economic viability, such as, textiles, processed agricultural products, furniture, tourism, and other businesses related to border trade, such as warehouses, logistics, and industrial estates.

On 15 December 2014, the SEZ Policy Committee has not announced the list of businesses eligible for the maximum investment promotional privileges in the promoted SEZs. However, other than an 8-year corporate income tax exemption and a 50% reduction of corporate income tax for extra five years, investors can also enjoy other tax benefits including a double deduction for transportation, electricity, and water utility costs; deduction from net profit of 25% of the project's infrastructure installation; exemption of import duty on machinery; exemption of import duty on raw materials used in manufacturing for export products; and low-skilled immigrant worker employment. Benefits also include other non-tax incentives, such as permission to own land for foreign investors and permission to employ foreign experts.

In addition, projects that are not listed under the SEZ Policy Committee's promoted businesses but located in a designated SEZ will be eligible for additional benefits, which are a 3-year corporate income tax exemption that shall not exceed 8 years in total. If the project is already given an 8-year corporate income tax exemption, it will then qualify for a 50% reduction in corporate income tax for extra five years in addition to all the benefits mentioned earlier. It is expected that the list of criteria eligible for investment promotion in each SEZ will be announced in January 2015, which will give investors a better picture of the investment promotion policy.

EIC expects Mae Sot, Aranyaprathet, and Sadao to be the three leading pilot areas with great potential for development and sustainable growth. These three areas have better infrastructure, manufacturing activities, and trade portfolios in place compared to other areas. In 2013, the value of total border trade in these three areas was nearly 600 billion Baht, accounting for about 65% of Thailand's total border trade.

Mae Sot, in particular, is the most readiness area for SEZ implementation to support high labor-intensive industries, warehouses, distribution centers, and logistics projects. Feasibility studies into SEZ development ahead of the current policy reveal that Mae Sot has long been prepared for future expansion. In addition, Mae Sot is a vital gateway bringing trade, investment, and tourism to Yangon in Myanmar. It is also a manufacturing base for the Myawaddy SEZ in Myanmar, located just 10 kilometers away. There is a great possibility for establishing parallel projects with SEZ projects in Myanmar that will help enhance bilateral trade and investment.

In terms of work force, Mae Sot is a destination for low-skilled workers from Myanmar. These workers will be essential for labor-intensive industries, such as textiles, apparel, and leatherwear.

Geographically, Mae Sot also benefits from being on the west side of the East West Economic Corridor (EWEC), with great potential for warehouse, distribution center, and logistics industries. EIC sees these activities as interesting and having positive growth potential.

As for Aranyaprathet, the area also has a great potential as a labor-intensive manufacturing base and other businesses such as wholesale and retail trade centers, transportation, and international warehouses. Like Mae Sot, Aranyaprathet benefits geographically from being on the east side of the Southern Economic Corridor (SEC), with a connecting route to the Poipet O'Neang SEZ (POSEZ) and the Sisopon industrial estate in Cambodia. In addition, Aranyaprathet has access to the sea via seaports in Vietnam. These factors are vital for the transportation and international warehouse industries.

Regarding work force, workers from Cambodia are suitable for the textile and apparel industries and the manufacture of processed agricultural products along the Cambodia border. This will also help enhance exports for Cambodia and Thailand, especially for cassava, as Thailand can add value by importing cassava from Cambodia to further process into tapioca chip and starch for re-exporting. Another plus side of Aranyaprathet is that it is an active trading center, especially Rong Gluea Market. During the past five years, border trade in Aranyaprathet grew by 28% with a trade value worth almost 60 billion Baht last year.

Sadao is a suitable location for the manufacture of agricultural by-products, especially rubber and seafood. It also has potential to be a trading center and a major gateway for exports to Malaysia, Singapore, and Indonesia. The fact that Sadao is located close to Penang port, Central Port, heavy-duty industrial sites, Halal industrial sites, and rubber industrial sites in Malaysia will help expand Thailand's exports of primary processed natural rubbers, such as rubber gloves, tires, and auto parts to Malaysia.

It is worth noting that the Sadao and Padang Besar customs checkpoints have the highest border trade value in Thailand. In order to prepare the country for the SEZ promotion, the government currently has a plan to expand the customs checkpoint areas and is in the process of designing infrastructure. The preparations also include building of the Hat Yai – Sadao motorway and the Hat Yai – Padang Besar double-track railway.

The private sector in the SEZ area has requested the allocation of duty free zone within the SEZ, along the border areas between Sadao and Padang Besar. The proposed duty free zone will focus not only on sales of merchandise, but also serve to promote commercial and lifestyle spending to Thai, Malaysian, and Singaporean visitors. EIC feels that the duty free zone will be fruitful for trade, investment, and tourism, especially as the country is preparing for entry into the AEC early next year.

Thailand's three leading pilot areas have greater investment promotion privileges and infrastructure readiness for attracting FDI compared with SEZs in neighboring countries; Myanmar, Cambodia, and Malaysia. Cambodia appears to have a similar level of investment promotion privileges as Thailand's. Eligible projects in Cambodia will be granted a 9-year corporate income tax exemption, exemption of import duty on raw materials, and permission to own land for up to 99 years. These privileges are similar to Thai policy, putting Cambodia into a state of rivalry with Aranyaprathet district in Sa Kaew. However, infrastructure in Thailand is in considerably better condition, such as utilities (electricity and water), road conditions, and transportation routes. EIC therefore expects that Thailand will perform better in attracting FDI than Cambodia.

Nevertheless, one of the drawbacks that can hinder foreign investment is the acquiring of affordable land. The price of the land has sky-rocketed since the announcement of SEZ locations. Mae Sot, for example, has seen the price of land increase up to five times and it continues to rise. Investors could feel discouraged, as high land prices might affect the investments' viability.

In order for a SEZ to achieve its goals, it is advised to encourage infrastructure development for regional connectivity, and truly integrated one-stop services at checkpoints to support impending trade and investment expansion effectively. Investment promotion privileges for SEZs will bring more traffic, footfalls, transportation, and communication activities to these areas, so it is vital to have infrastructure in place beforehand. Transportation development will become essential, such as expanding roads from three to four lanes on routes heading toward border areas, the construction of a motorway route from Hat Yai to Sadao, the construction of double-track railways from designated SEZs to ports near lorry stopover points, and the expansion of Mae Sot airport. In addition, electricity, water supply, and communications utilities in each province must be sufficient to catch up with rapid economic growth in border areas.

Because the investment promotion privilege policy emphasizes in labor-intensive industries, to achieve its purpose, the government plans to implement a one-stop service to help facilitate the employment of immigrant workers in border areas. Strategies include the use of smart cards at immigration checkpoints to monitor immigrant workers on a daily basis, and the introduction of health insurance card as a part of healthcare services for immigrant workers. Having all the infrastructure and systems in place will help boost confidence and attract investors.

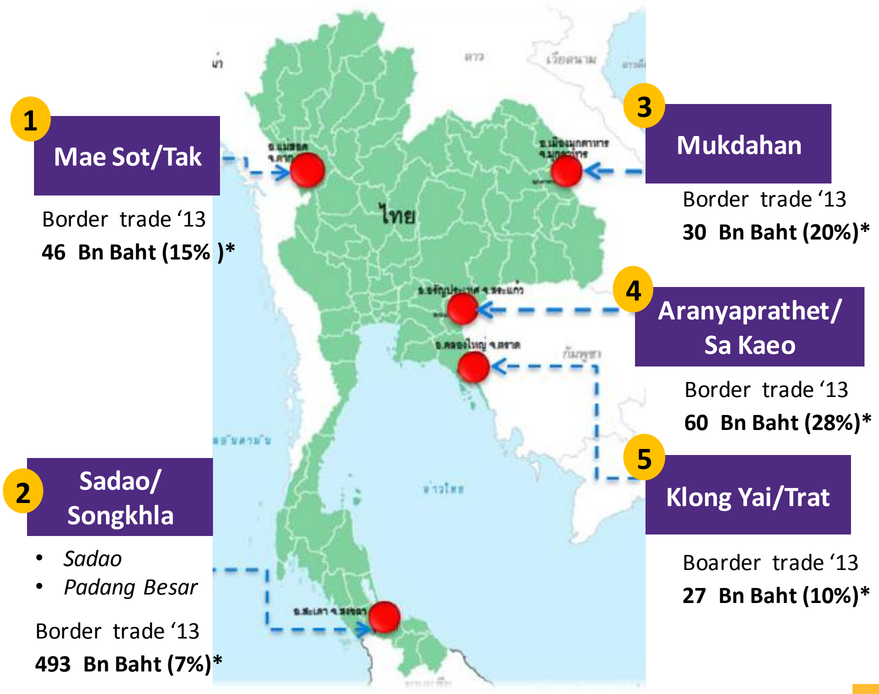
Implication

- **The SEZ policy will most benefit existing industries that already have manufacturing activities and trade portfolios in the designated areas, especially those in the SME category and labor-intensive industries.** In the long run, there is a possibility that labor-intensive industries will move their production bases to SEZs near border areas. This depends on the government's promptness in management and governance, including one-stop service implementation, labor skill development, transportation development (between production bases and ports), and control over land price increases. Due to the fact that most investors will be SMEs, initial investment costs will be an essential factor for making an investment decision.

- **Related businesses in the designated areas will indirectly see more demand,** for instance, accommodations, construction material, energy, wireless communication, transportation, wholesale and retail consumer goods, financial services (for Thailand and neighboring countries), healthcare, beauty care, education (especially skills training) and security services. It is expected that Trat will benefit more from tourism than manufacturing, with the service businesses related to touring, such as transportation, travel agencies, hotels, and restaurants.

- **On the other hand, Thailand's private sector is advised to take this opportunity to expand business in line with SEZ policy** by searching for business expansion opportunities, finding local business partners to penetrate markets in neighboring countries, and improving operational systems and product quality in order to preparation themselves to take advantage of the SEZs promotion or the upcoming AEC.

Figure 1: Five border areas will be developed as SEZs at the initial stage to boost Thailand's border trade and prepare for the arrival of AEC



Key Observations

- Use extension of BOI incentives to attract investment
- Underlying objective is also to reform border community
- Three SEZs are likely to attract sizable investment
  - Mae Sot, Aranyaprathet, and Sa Dao
- Potential additional investment of 13 billion baht in 2015 from
  - Industrial estate
  - Mid-sized to large SME in logistics, agro-industry, and labor-intensive manufacturing

Total 36 tumbol, 1.83 mn rai or 2,932 sq.km.

Note: *Growth during 2009-2013)

Source: NESDB, Department of Foreign Trade

Figure 2: Labor-intensive industries which located in SEZ will be given an 8-year corporate income tax exemption and receive a 50% reduction in corporate income tax for extra five years

Activities and incentives of SEZ based on new BOI scheme announced 1 Dec 2014

Group	Subgroup	Description	CIT exemption	Import duty exemption on machinery	Import duty exemption on raw materials for export	Non-tax[1]	SEZ privileges for promoted business[2]
A: Activities that are granted CIT incentives	A1	Industries with R&D and use high technology	8 years (without cap)	✓	✓	✓	8 years CIT exemption + 50% tax reduction for the next 5 years + Full non-tax incentives
	A2		8 years (with cap)	✓	✓	✓	
	A3	Industries with some technology	5 years (with cap)	✓	✓	✓	
	A4		3 years	✓		✓	
B: Activities that are granted non-tax incentives	B1	Industries using low technology	-	✓	✓	✓	
	B2		-	-	-	✓	

1. Non-tax benefits are permission to own land, permission to import foreign experts
2. Promoted business list is yet to be confirmed by SEZ promotion board; Businesses not listed in the promoted list will receive extra 5 years of 50% CIT reduction (A1,A2) or extra 3 years of CIT exemption (A3, A4, B1, B2)

Source: Data from BOI

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