

# BOI's new investment promotion strategy (2013-2017)

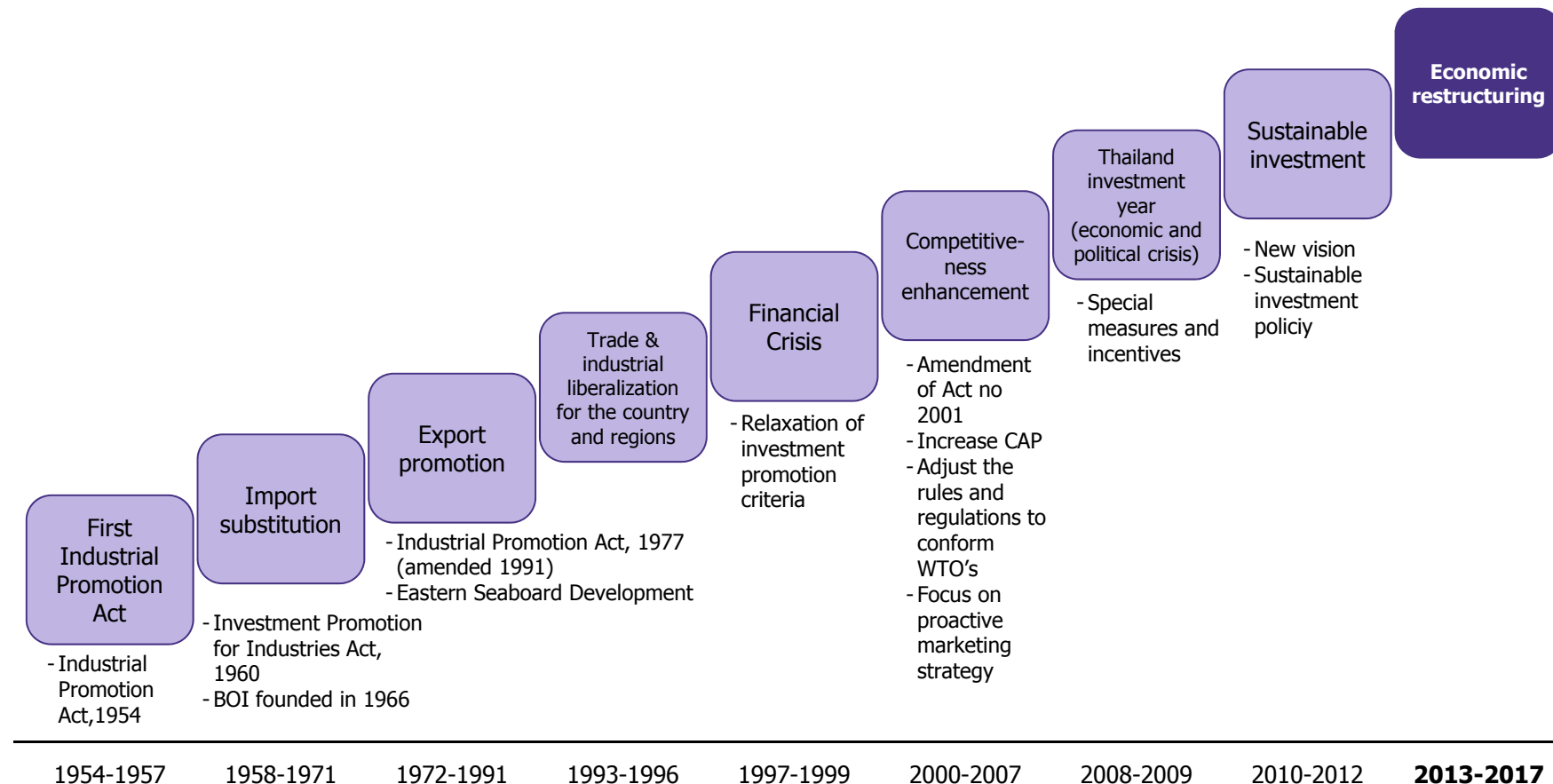
By EIC | Economic Intelligence Center

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# BOI's new investment promotion strategies aim at restructuring Thai economy

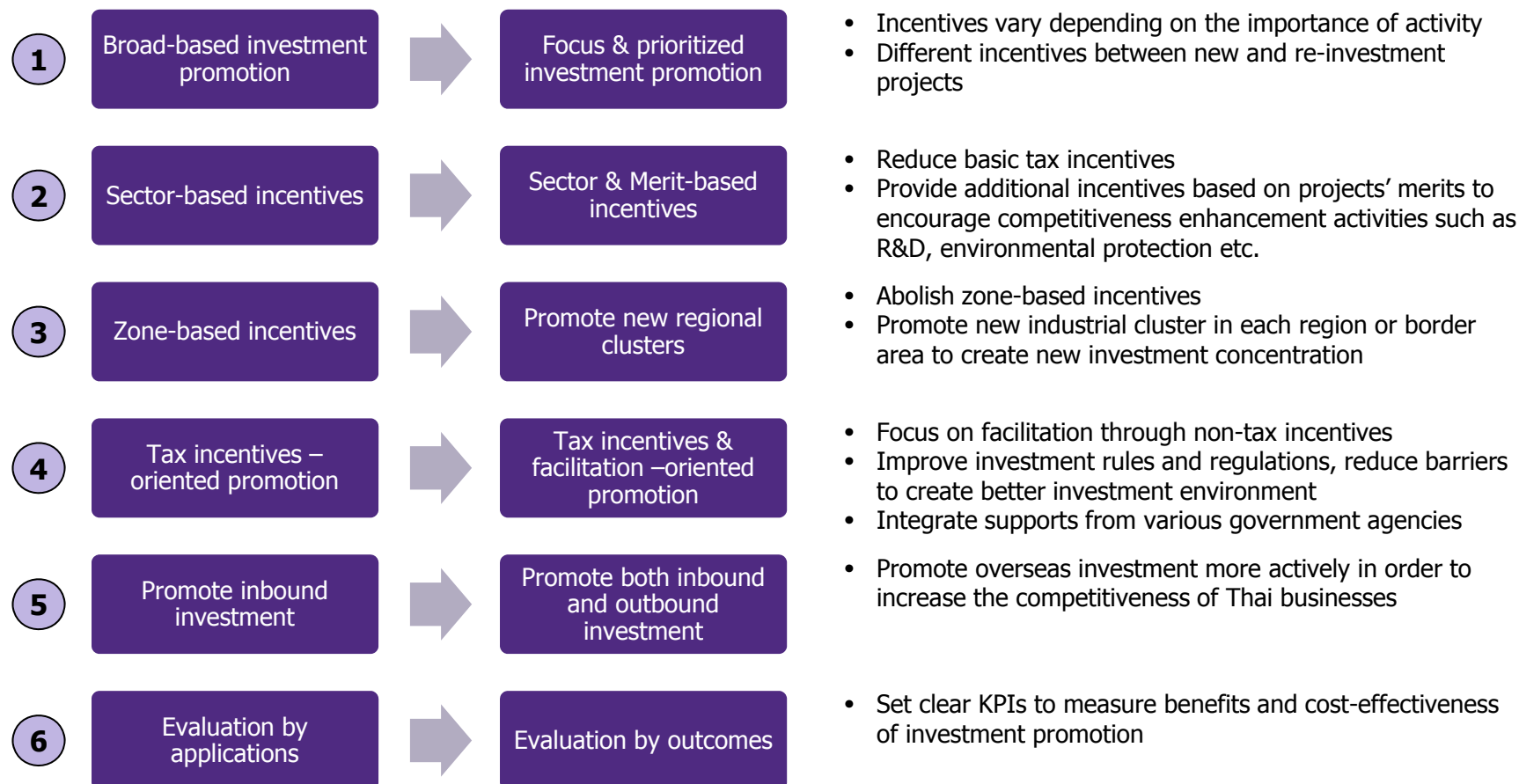
## Direction of investment promotion from past to present



Source: SCB EIC based on data from Board of Investment (BOI) Thailand

# Focused and prioritized promotion instead of broad-based; reduce basic tax incentives

## New investment promotion direction for Thai Economy restructuring



Source: SCB EIC based on data from Board of Investment (BOI) Thailand



# Tax incentives will be given to the activities that are highly important for economy restructuring, while promotion for 80 activities will be cancelled

## Activities and incentives under new strategy

| Group  | Subgroup | No. of activities | CIT exemption                           | Import duty exemption on machinery | Import duty exemption on raw materials for export | Non-tax <sup>2</sup> |
|--|----------|-------------------|---|------------------------------------|---|----------------------|
| <b>A:</b> Activities that are granted CIT incentives   | A1*      | 10                | 8 years (without cap)                   | ✓                                  | ✓   | ✓                    |
|  | A1       | 22                | 8 years + merit <sup>1</sup> (to uncap) | ✓                                  | ✓   | ✓                    |
|  | A2       | 35                | 5 years + merit                         | ✓                                  | ✓   | ✓                    |
|  | A3       | 34                | 3 years + merit                         | ✓                                  | ✓   | ✓                    |
| <b>B:</b> Activities that are granted import duty exemption on machinery, and raw materials and non-tax incentives | B1       | 8                 | -                                       | ✓                                  | ✓   | ✓                    |
|  | B2       | 9                 | -                                       | ✓                                  | -   | ✓                    |
|  | B3       | 2                 | -                                       | -                                  | ✓   | ✓                    |
|  | B4       | 4                 | -                                       | -                                  | -   | ✓                    |
| <b>C:</b> Exit group   | C        | 80                | -                                       | -                                  | -   | -                    |

1 Merit-based incentives are grants on the basis of 1) ratio of R&D per sales- if the ratio is more than 3%, the cap limit for CIT exemption will be unlocked, 2) environmental standard, such as the ISO 14000 certification or reduced carbon footprint and 3) establishing operations in industrial estates or industrial zones that are promoted

2 Non-tax such as permission to own land, permission to import foreign experts

Source: SCB EIC based on data from Board of Investment (BOI) Thailand

## There has also been a new classification of ten industry groups

### Classification under new strategy

|   | Industry group                                   | A1* (8 yrs,<br>no cap) | A1<br>(8 yrs) | A2<br>(5 yrs) | A3<br>(3 yrs) | B1       | B2       | B3       | B4       |
|---|--|------------------------|---------------|---------------|---------------|----------|----------|----------|----------|
| Industrial foundation   | 1. Basic infrastructure and logistics            | 1                      | -             | 4             | 1             | 1        | 2        | -        | -        |
|   | 2. Basic industry                                | -                      | 5             | 9             | 10            | 4        | 2        | 2        | -        |
|   | 3. Medical device and scientific equipment       | -                      | 2             | 3             | 3             | 1        | 2        | -        | -        |
|   | 4. Alternative energy and environmental services | 1                      | 6             | 2             | -             | -        | -        | -        | -        |
|   | 5. Services that support industrial sector       | 5                      | -             | 1             | -             | -        | 1        | -        | 1        |
| Advanced core technologies that helps elevating Thai industry                                   | 6. Advance core technologies                     | 1                      | 1             | -             | 1             | -        | -        | -        | -        |
| Industries that are developed from domestic resources and Thainess                              | 7. Food and agricultural processing industry     | -                      | 2             | 2             | 5             | -        | 2        | -        | -        |
|   | 8. Hospitality and wellness                      | -                      | -             | 3             | -             | -        | -        | -        | 3        |
| Industries that Thailand is competent to be a global's manufacturing base (global supply chain) | 9. Automotive and other transports equipment     | -                      | 6             | 1             | 3             | 1        | -        | -        | -        |
|   | 10. Electric and electrical appliances           | 2                      | -             | 10            | 11            | 1        | -        | -        | -        |
|   |  | <b>10</b>              | <b>22</b>     | <b>35</b>     | <b>34</b>     | <b>8</b> | <b>9</b> | <b>2</b> | <b>4</b> |

Source: SCB EIC based on data from Board of Investment (BOI) Thailand

# Based on previous classification, only electronic industry and electrical appliances and services and public utilities are granted highest tax incentives

## Section of activities under the new strategy

| Section of activities                                | A1* (8 yrs, no cap) | A1 (8 yrs) | A2 (5yrs) | A3 (3 yrs) | B1       | B2       | B3       | B4       | Total      | C         |
|--|---------------------|------------|-----------|------------|----------|----------|----------|----------|------------|-----------|
| 1. Agriculture and agro-industries                   | -                   | 3          | 3         | 5          | -        | 2        | -        | -        | 13         | 12        |
| 2. Mining, ceramics and basic metals                 | -                   | 3          | 5         | 4          | 1        | 2        | 1        | -        | 16         | 9         |
| 3. Light industry                                    | -                   | 2          | 3         | 2          | 2        | 1        | -        | -        | 10         | 21        |
| 4. Metal products, machinery and transport equipment | -                   | 7          | 4         | 6          | 1        | -        | 1        | -        | 19         | 11        |
| 5. Electronic industry and electrical appliances     | 2                   | 1          | 11        | 11         | 1        | -        | -        | -        | 26         | 1         |
| 6. Chemicals, paper and plastics                     | -                   | 4          | 1         | 4          | 2        | -        | -        | -        | 11         | 7         |
| 7. Services and public utilities                     | 8                   | 2          | 8         | 2          | 1        | 4        | -        | 4        | 29         | 17        |
| <b>รวม</b>   | <b>10</b>           | <b>22</b>  | <b>35</b> | <b>34</b>  | <b>8</b> | <b>9</b> | <b>2</b> | <b>4</b> | <b>124</b> | <b>78</b> |

- 1) Electronic design: micro electronics design and embedded system design
- 2) Manufacture of embedded software

- 1) Biotechnology
- 2) Energy service company
- 3) Research and development
- 4) Scientific laboratories

- 5) Calibration services
- 6) Engineering design
- 7) Technological industrial estate/zones
- 8) Vocational training centers

Source: SCB EIC based on data from Board of Investment (BOI) Thailand

# Promotion of activities in section 3: Light Industry is likely to be cancelled the most as they require large amounts of labor and low technology

## Reasons to exit some BOI- promoted activities

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- 1 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**

Such as 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
- 2 They have environmental problems or consume a lot of energy.**

Such as smelting, marble or granite mining, fire-resistant materials or heat insulation, manufacture of ferro-alloy, and tanneries
- 3 They are concession or monopoly activities under State protection**

Such as concession roads, satellite telecommunications, telephone services, mass transit electric train
- 4 BOI promotion conflicts with relevant laws and regulations**

Such as hospital activity that conflicts with The Statute on National Health System

ที่มา: SCB EIC based on data from Board of Investment (BOI) Thailand

# Currently, the draft of new strategies is in the process of public hearing, expect only slight changes though

## Time frame for implementing new strategies

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| Process  | Deadline                       |
|--|--------------------------------|
| <b>1. Organize public hearings in Bangkok and the regions</b>  | <b>January - February 2013</b> |
| <b>2. Present the results of public hearings, together with the new strategies, to the Investment Promotion Policy Subcommittee and the Board of Investment</b>  | <b>March 2013</b>              |
| <b>3. Announce new investment promotion strategies and criteria</b>  | <b>March 2013</b>              |
| <ul style="list-style-type: none"><li>➤ <b>Expect to come into effect in mid-2013</b></li><li>➤ <b>Organize seminars to promote new strategies in Bangkok, the regions, and overseas from April 2013 onwards</b></li></ul> |                                |

ที่มา: SCB EIC based on data from Board of Investment (BOI) Thailand



# Overall, EIC expects only slight impact on applications for investment promotion

## EIC's view on new investment promotion strategies

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- **There should not be much impact on applications for investment promotion.** This is because the majority of businesses that apply for investment promotion (up to 60% of all investments) are in section 4 (Metal products, machinery and transport) and 5 (Electronics and electrical goods). Most businesses in these categories still receive at least 5 years of tax benefits.
- **The success of new strategies will, in part, depend on clarity of the implementation of the facilitation of investment to compensate for reduced tax incentives,** particularly improving investment rules and regulations and reducing barriers and creating coordination between the private sectors and various education institutions
- **The new strategies would be a mechanism to encourage businesses to create more value-added and enhance operation effectiveness through using high-end technology.** The new strategies will provide advantages for businesses that focus on Research and Development, which will eventually create more value-added (through merit-based incentives), and for businesses that focus on sophisticated technology. This will encourage other businesses to follow in the same direction and enhance Thailand's competitiveness in the future.

Source: SCB EIC Analysis

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