Business Promotion incentives -
- successful case in Thailand

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REGIONAL EXECUTIVE FOR INDIA
I. Business in India
Gap between expectations and investment from Japanese corporates

- The number of Japanese corporates in India has been steadily growing and now it is more than 1,200.
- Still, comparing to their expectations to India, the number is still small.

WHY??

**Graph 1: Number of Japanese Corporate in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>627</td>
<td>725</td>
<td>812</td>
<td>926</td>
<td>1,072</td>
<td>1,209</td>
</tr>
</tbody>
</table>

(Source) Japan Embassy in India

**Promising Countries for Medium-term: 3years Business**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>Indonesia</td>
<td>India</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>India</td>
<td>Indonesia</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>Thailand</td>
<td>China</td>
</tr>
<tr>
<td>4</td>
<td>Thailand/Vietnam</td>
<td>China</td>
<td>Thailand</td>
</tr>
<tr>
<td>5</td>
<td>Vietnam</td>
<td>Vietnam</td>
<td></td>
</tr>
</tbody>
</table>

**Promising Countries for Long-term: 10years Business**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>India</td>
<td>India</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>China</td>
<td>Indonesia</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>Indonesia</td>
<td>China</td>
</tr>
<tr>
<td>4</td>
<td>Brazil</td>
<td>Brazil</td>
<td>Vietnam</td>
</tr>
<tr>
<td>5</td>
<td>Vietnam</td>
<td>Thailand</td>
<td>Thailand</td>
</tr>
</tbody>
</table>

(Source) 2014 Survey report of JBIC on overseas business operations by Japanese manufacturing companies.
Investment by Japanese companies

Graph 2: Trend of accumulated FDI from Japan

Graph 3: Sector-wise number of Japanese companies in India (as of 2013)

Graph 4: Return on Investment of Japanese companies (as of 2013)

Graph 5: Prospect of Operating Profit (as of 2014)

ROI = Investment Profit ÷ Accumulated Investment Amount

(Resources: Bank of Japan, Ministry of Finance)
Ⅱ. Asian countries
## Snapshot

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Thailand</th>
<th>Singapore</th>
<th>Indonesia</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population</strong></td>
<td>1,252</td>
<td>67</td>
<td>5</td>
<td>250</td>
<td>30</td>
</tr>
<tr>
<td><strong>Nominal GDP</strong></td>
<td>1,875</td>
<td>387</td>
<td>298</td>
<td>868</td>
<td>313</td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
<td>1,498</td>
<td>5,779</td>
<td><strong>55,183</strong></td>
<td>3,475</td>
<td>10,538</td>
</tr>
<tr>
<td><strong>Real GDP Growth</strong></td>
<td>6.9%</td>
<td>1.8%</td>
<td>3.9%</td>
<td>5.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Ease of Doing</strong></td>
<td>142</td>
<td>26</td>
<td><strong>1</strong></td>
<td>114</td>
<td>18</td>
</tr>
</tbody>
</table>

(Resources: World Bank)
# Business Promotion Policy

<table>
<thead>
<tr>
<th>Promotion Policy</th>
<th>India</th>
<th>Indonesia</th>
<th>Thailand</th>
<th>Singapore</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Make in India”</td>
<td>“Make in India”</td>
<td>Localization (expats are limitedly allowed to work)</td>
<td>“Make in India”</td>
<td>Investment promotion Act</td>
<td>Real Estate Development (Iskandar PJ)</td>
</tr>
<tr>
<td>Infrastructure (DMIC)</td>
<td>Infrastructure (ODA)</td>
<td>Infrastructure (ODA)</td>
<td>Investment promotion Act</td>
<td>Tax incentives for IHQ/RHQ</td>
<td>Gateway for Islamic business</td>
</tr>
<tr>
<td>FDI promotion (except for retail etc)</td>
<td>FDI promotion (except for retail etc)</td>
<td>FDI promotion (except for retail etc)</td>
<td>Tax incentives for IHQ/ITC</td>
<td>Logistics Hub</td>
<td>“Principal Hub” for regional operation center</td>
</tr>
<tr>
<td>INR stabilization</td>
<td>INR stabilization</td>
<td>INR stabilization</td>
<td>INR stabilization</td>
<td>INR stabilization</td>
<td>INR stabilization</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Tax Rate</th>
<th>34%</th>
<th>25%</th>
<th>20%</th>
<th>17%</th>
<th>25%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>sectors of Japanese companies</th>
<th>4-wheeler</th>
<th>2-wheeler</th>
<th>Electronics &amp; Electrical</th>
<th>4-wheeler</th>
<th>2-wheeler</th>
<th>Electronics &amp; Electrical</th>
<th>Regional HQ</th>
<th>Wholesale</th>
<th>Retail</th>
<th>Finance</th>
<th>Electronics &amp; Electrical</th>
<th>Retail</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-wheeler</td>
<td>Electronics</td>
<td>Food</td>
<td>4-wheeler</td>
<td>Electronics &amp; Electrical</td>
<td>Food</td>
<td>4-wheeler</td>
<td>Regional HQ</td>
<td>Wholesale</td>
<td>Retail</td>
<td>Finance</td>
<td>Electronics &amp; Electrical</td>
<td>Retail</td>
<td>Food</td>
</tr>
<tr>
<td>2-wheeler</td>
<td>Electronics &amp; Electrical</td>
<td>Food</td>
<td>2-wheeler</td>
<td>Electronics &amp; Electrical</td>
<td>Food</td>
<td>2-wheeler</td>
<td>Regional HQ</td>
<td>Wholesale</td>
<td>Retail</td>
<td>Finance</td>
<td>Electronics &amp; Electrical</td>
<td>Retail</td>
<td>Food</td>
</tr>
<tr>
<td>Electronics &amp; Electrical</td>
<td>Food</td>
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<td>Electronics &amp; Electrical</td>
<td>Food</td>
<td>2-wheeler</td>
<td>Electronics &amp; Electrical</td>
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<td>Retail</td>
<td>Finance</td>
<td>Electronics &amp; Electrical</td>
<td>Retail</td>
<td>Food</td>
</tr>
<tr>
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<td>2-wheeler</td>
<td>Electronics &amp; Electrical</td>
<td>Food</td>
<td>2-wheeler</td>
<td>Electronics &amp; Electrical</td>
<td>Regional HQ</td>
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<td>Retail</td>
<td>Finance</td>
<td>Electronics &amp; Electrical</td>
<td>Retail</td>
<td>Food</td>
</tr>
</tbody>
</table>

- Manufacturing sector ⇒ RHQ in manufacturing
- Promoting RHQ/hub businesses

Corporate Tax Rate: 34% (India), 25% (Indonesia), 20% (Thailand), 17% (Singapore), 25% (Malaysia)

- Regions: India, Indonesia, Thailand, Singapore, Malaysia
- Policies: Promotion Policy, Corporate Tax Rate, sectors of Japanese companies
- Tax incentives: Investment promotion Act, Tax incentives for IHQ/RHQ, Investment promotion Act, Tax incentives for IHQ/ITC, Investment promotion Act, Tax incentives for IHQ/RHQ, Gateway for Islamic business, “Principal Hub” for regional operation center
- Logistics Hub: Investment promotion Act, Tax incentives for IHQ/RHQ, Logistics Hub
- Tax incentives: Investment promotion Act, Tax incentives for IHQ/RHQ, Logistics Hub
- Corporate Tax Rate: 34% (India), 25% (Indonesia), 20% (Thailand), 17% (Singapore), 25% (Malaysia)
- sectors of Japanese companies: 4-wheeler, 2-wheeler, Electronics & Electrical, 4-wheeler, 2-wheeler, Electronics & Electrical, Regional HQ, Wholesale, Retail, Finance, Electronics & Electrical, Retail, Food
Ⅲ. Business in Thailand
**Graph 6: Trend of GDP**

(USD in billions)

- 1980: 100
- 1985: 200
- 1990: 300
- 1995: 400
- 2000: 500
- 2005: 600
- 2010: 700
- 2015: 800
- 2020: 900

(Source: World Bank)

**Graph 7: FDI (Net inflow)**

(USD in millions)

- 1980: 2,000
- 1985: 3,000
- 1990: 4,000
- 1995: 5,000
- 2000: 6,000
- 2005: 7,000
- 2010: 8,000
- 2015: 9,000
- 2020: 10,000

Marked events:
- Asian currency crisis (1997)
- Coup d'état (2006)
- Flood (2011)

(Source: World Bank)

**Graph 8: Trend of sector-wise FDI into Thailand**

(USD in millions)

- Manufacturing: 2,000
- Wholesale, Retail, Transportation and Storage: 1,000

(Source: Bank of Thailand)
Business circumstance in Thailand

Well-organized Infrastructure and Tax incentive

**Infrastructure**
- Sufficient industrial parks across the country
- Stable Electric & Water supply
- Developed highway network

**Tax Incentive**
- Corporate Tax can be exempted for 8 years maximum by BOI approval, depending on the locations

  *(Zone 1: Nil / Zone 2: 3 years / Zone 3: 8 years)*

BOI is amending investment promotion policy

- Zone-wise ⇒ Sector-wise
- Reduce targeted industries
- Enhance R&D, innovation, value creation in the agricultural, industrial and services sectors, etc.

**BOI Zone Map (until 2014)**

- Zone 1: 6 Provinces
- Zone 2: 11 Provinces
- Zone 3: 58 provinces (incl. 22 promoted industrial zone)
Industrial Estates in Thailand

**Industrial Estate Distribution Map**

- Suvarnabhumi International Airport (2006)
- Bangna-trad Highway (2000)
- Bangkok Gateway City I.E. (1990)
- Motorway (1998)
- Amata City I.E. (1996)
- Map Ta Phut Port (1992)
- Chonburi
- Pin Thong I.E. (2005~08)
- Bangpoo I.E. (1977)
- Padaen I.E. (1992)
- Laem Chabang Port (1991)
- Rayong I.E. (2011)
- Rayong
- Bangkok

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**No. of expatriates in the cities in Thailand**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>22,731</td>
<td>64,285</td>
</tr>
<tr>
<td>Chonburi</td>
<td>1,163</td>
<td>5,814</td>
</tr>
<tr>
<td>Rayong</td>
<td>139</td>
<td>497</td>
</tr>
</tbody>
</table>

**No. of expatriates in major competitors**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>VS 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>8,313</td>
<td>5.50%</td>
</tr>
<tr>
<td>Singapore</td>
<td>35,982</td>
<td>15.90%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>22,056</td>
<td>3.10%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>17,893</td>
<td>9.80%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>13,687</td>
<td>10.60%</td>
</tr>
</tbody>
</table>

(Source: Industrial Estate Authority of Thailand)
Graph 9: Local Procurement Ratio of Japanese companies

Thailand

- Local: 4%
- Japan: 29%
- ASEAN: 12%
- Others: 55%

India

- Local: 13%
- Japan: 29%
- ASEAN: 10%
- Others: 48%

Graph 10: Automotive industry structure in Thailand

- Assembling makers: 13
  Employees: 100,000

- Auto-part Suppliers (Tier1): 635
  Employees: 250,000

- Auto-part Suppliers (Tier2): 1,700
  Employees: 175,000

2,348 Companies
525,000 Employees
## History of Business Promotion Policy

<table>
<thead>
<tr>
<th>Year</th>
<th>Promotion Policy</th>
<th>Remarks</th>
</tr>
</thead>
</table>
| In the 1960s        | ▪ Import-Substitution Strategy                                                    | ▪ High Tariffs on imports  
▪ The role of state enterprises was reduced, replaced by private enterprises.                      |
| In the 1970s        | ▪ Export Promotion Strategy                                                       | ▪ To solve balance of payment problem because most components had to be imported.                   |
| Late 1970s and Early 1980s | ▪ In 1977, a new “Investment Promotion Act” provided BOI with more power for incentives. | ▪ BOI shifted its emphasis from export activities to regional areas.                                |
| In the 1980s        | ▪ Promote openness and competitiveness.                                          | ▪ Strategy of opening up was not well because the selection of sectors was carried out in ad hoc manner. |
| 1997                | ▪ Over 51% foreign investment in BOI status enterprises is permitted with consent from Thai JV partner. | ▪ Asian currency crisis took place.                                                                  |
| 2000                | ▪ 100% foreign investment is permitted for any sectors.  
▪ TISO and IPO incentives were introduced.                                                                 | ▪ Thai government promoted manufacturing sectors (and non-manufacturing sector supporting manufacturing companies) to invest more. |
| 2002                | ▪ ROH incentive was introduced.                                                    |                                                                                                   |
| 2015                | ▪ New Policy                                                                      | ▪ Consolidated some incentives and focus on RHQ function.                                           |
### Business Promotion Framework in Japan – Liaison Office

<table>
<thead>
<tr>
<th>Organization</th>
<th>Establishment Year</th>
<th>Year to set up office in Japan/number of Staffs (as of 31 July)</th>
<th>Tokyo</th>
<th>Osaka</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Establishment Year</td>
<td>Staffs</td>
<td>Establishment Year</td>
</tr>
<tr>
<td>BOI / Thailand (Board of Investment)</td>
<td>1977</td>
<td>1979</td>
<td>5 (Thai 3)</td>
<td>1995-1998 2005-</td>
</tr>
<tr>
<td>EDB / Singapore (Economic Development Board)</td>
<td>1961</td>
<td>1970s</td>
<td>4 (Singaporean 4)</td>
<td>Nil</td>
</tr>
<tr>
<td>MIDA / Malaysia (Malaysian Investment Development Authority)</td>
<td>1967</td>
<td>1974</td>
<td>5 (Malaysian 2)</td>
<td>1980s 1991-</td>
</tr>
</tbody>
</table>
#### Business Promotion Framework in Japan – MoU with Banks

【Joint seminars held by BTMU & BOI】

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Seminars</th>
<th>Number of Participants</th>
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<tbody>
<tr>
<td>2007</td>
<td>7</td>
<td>N.A.</td>
</tr>
<tr>
<td>2008</td>
<td>–</td>
<td>N.A.</td>
</tr>
<tr>
<td>2009</td>
<td>9</td>
<td>N.A.</td>
</tr>
<tr>
<td>2010</td>
<td>4</td>
<td>N.A.</td>
</tr>
<tr>
<td>2011</td>
<td>–</td>
<td>N.A.</td>
</tr>
<tr>
<td>2012</td>
<td>3</td>
<td>N.A.</td>
</tr>
<tr>
<td>2013</td>
<td>3</td>
<td>374</td>
</tr>
<tr>
<td>2014</td>
<td>3</td>
<td>287</td>
</tr>
<tr>
<td>2015</td>
<td>7</td>
<td>900</td>
</tr>
</tbody>
</table>
### What is IPO?
- According to BOI, International Procurement Office is “The entity which has function to procure materials and partly-finished product from overseas and Thailand”

### Condition
- Paid-up capital of over THB10mio (US$ 0.3 mio)
- Own warehouse or rent warehouse for over 3 years
- Multiple suppliers with minimum of 10% from domestic supplier
- Own product management system, etc

### Incentives
- 100% wholly-owned subsidiary
- Exempted import custom duty of machinery
- Exempted import custom duty of materials for export product
- Own land
- Ease procedure of getting visa for foreign expats

⇒ IPO incentive was expired, and consolidated to a different incentive now.
What is TISO?
- TISO is suitable incentive for manufacturing companies, trading companies and IT companies which have multiple service businesses in Thailand.

Condition
- Yearly operating cost of over THB10mio (US$0.3mio)
- Own below businesses set by BOI:
  - Provide service to subsidiaries
  - Provide advices of business
  - Provide information on product procurement
  - Provide engineering and technical service
  - Export product

Incentives
- 100% wholly-owned subsidiary
- Own land
- Ease procedure of getting visa for foreign expats.
Clear Incentive Framework

In Thailand, incentive framework is simple and well-organized, hence many Japanese companies enjoy the incentives.

⇒ Clear incentive framework is necessary for promoting FDI

Direct / Onsight Investment Promotion (i.e. Liaison Office)

Thailand BOI set up their liaison offices in Japan to support potential investors.

⇒ Direct Promotion in Japan generates more opportunities

Promotion of Non-manufacturing sector Investment

In Thailand, not only manufacturing companies but also non-manufacturing companies are accumulating, and supply-chain widely spreads. Hence, many Japanese companies can enjoy profitable businesses.

⇒ Promoting non-manufacturing sector investment further leads manufacturing sector investment
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