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Long-awaited investment promotion strategy arrives

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The silence that followed the introduction of the new investment promotion strategy of the Board of Investment (BoI) in January 2013 has finally been broken.

A BoI meeting last Tuesday, chaired by Gen Prayuth Chan-ocha, approved the principle of the strategy for 2015-21, a seven-year plan aimed at strengthening Thailand's competitiveness, creating value for the industrial sector and shifting the country from the middle-income trap to a high-income nation.

The National Council for Peace and Order last month announced the BoI would be moved from the Industry Ministry's purview to be under the mandate of the Prime Minister's Office and that its secretary-general would hold a rank equal to a ministry's permanent secretary.

According to a cabinet resolution of Oct 11, 2011, the BoI was to coordinate with the Finance Ministry to review the criteria for investment promotion rights and benefits in response to the changing situation of the economy, investment incentives in neighbouring countries and the reduction in corporate income tax rates.

This led to the introduction of the new strategy in January 2013. It created a debate among investors nationwide and was then put on hold for more than 20 months. The new seven-year plan has been amended from the previous five-year plan (2013-17) announced in January 2013.

Under the seven-year plan, the BoI will continue to promote investment in the same seven sectors — agriculture and agribusiness; mining, ceramics and basic metals; light industry; metal products, machinery and transport equipment; electronics industry and electrical appliances; chemicals, paper and plastics; and services and public utilities.

However, criteria will be changed so that broad-based investment promotion will be refocused on activities, and importance of the activities will be prioritised. Sector-based incentives will become merit-based by reducing the basic tax incentives and providing additional incentives based on the project's merit to enhance activities such as research and development (R&D) and environmental protection, while zone-based incentives will be focused more on industrial clusters.

Certain eligible activities under the current regulations will be removed from the promoted activity list such as consumer plastic products, tea and coffee, snacks, confectioneries, chocolate, abrasive paper and marble and granite mining.

The reasons for their exit are they have low added value, low technology, low complexity of production process, environmental problems and are labour-intensive. The objective is to have activities that primarily involve high added value, high technology and innovation, the use of alternative energy and green energy. This includes sectors such as microelectronics, fuel cells and automotive engineering.

As the goal is to create value for the industrial sector and the country, the new strategy will also focus on merit-based incentives to encourage investors to improve their capabilities and upgrade the industrial sector. Merit-based incentives will be given to R&D activities — for example, if an investment is made in an R&D project according to the amount stipulated, it will be eligible for additional year or more of corporate income tax exemption.

Projects involving environmentally friendly attributes — for example, a project with an ISO 14000 certificate or one located within a nominated industrial location — will also be classified within the merit-based criteria and an additional period of corporate tax exemption granted.

Furthermore, in order to build up sustainable growth in the economy, promotion by zoning will be abolished and industrial clusters created. One successful cluster that Thailand has already promoted is the automotive cluster, which has resulted in almost all the supply chain companies being situated along the Eastern Seaboard and in Greater Bangkok.

However, Thailand still needs new industrial clusters to gear up the economy of the entire country. Examples of future clusters may be aerospace — the Asean Economic Community plan stipulates Thailand will be a hub for Asean air transport — electronics and science and technology. These new clusters will be situated in each region or border area, in accordance with the specific development policy of the relevant government.

In the five-year plan introduced in January 2013, the BoI will change its role from that of regulator to facilitator for investors by having a one-stop service and reducing barriers in order to foster a better investment environment.

More details of the criteria for evaluating and measuring projects and how the merit-based incentives and clusters will be set up are expected to be released during BoI roadshows from October-December. The new investment strategy is expected to take effect next Jan 1.