Executive Summary

Thailand has had an impressive economic development trajectory over the past decades. Foreign direct investment (FDI) and integration in global value chains (GVCs) have been important enablers of this success. Inward FDI's share in GDP has increased to above 50% today. The emerging global economic crisis related to the COVID-19 pandemic is expected to bring this long period of growth to a sudden halt. According to the OECD, the economy is predicted to contract by approximately 7% in 2020, where exports and FDI are likely to slow even more. Thailand's past experience of severe floods in 2011, which also resulted in a sudden – but only temporary – interruption of GVC networks, provides some hope that Thailand's GVC integration is quite resilient.

Progress in the area of inclusive and sustainable development is ongoing, with poverty rates dropping to less than 10%, but challenges remain. Although access to basic education at primary and secondary levels is universal, there is a need to address the quality of education being provided. In particular, higher and vocational education needs to equip the workforce with skills required by the industry and the emerging needs of the services economy. Pressures remain in some areas of responsible business conduct (RBC), but are now being addressed with determination. Rapid economic growth in Thailand has also led to significant use of natural resources, resulting in rising environmental challenges.

Thailand aspires to graduate from an upper middle-income to a high-income country by 2037, along with inclusive and sustainable development, as outlined in the 20-year national strategy. With its recently introduced Thailand 4.0 vision and the Bio-Circular-Green (BCG) economy model, the government would like to achieve its objectives through economic upgrading toward a value-based and green economy.

Investment promotion and facilitation policy under the Board of Investment (BOI) has an impressive record in stimulating foreign and domestic investments. The 2015-21 investment promotion strategy includes novelties, such as a shift toward more targeted and merit-based incentives for R&D and skills development and a reduction of activities eligible for promotion. The incentive scheme could however be further streamlined, simplified and made increasingly merit-based so that all firms, including SMEs, can compete on a more equal basis. Besides investment promotion, the BOI engages in non-tax concessions such as providing eased restrictions on foreign shareholdings and expatriate workers. This could affect its efficacy and credibility as the BOI has to represent investors' interests in policymaking while regulating them at the same time. Streamlining the wider institutional framework for the entry of foreign investors and workers could be a longer term reform priority, potentially liberating the BOI from regulatory mandates.

With the creation of the Foreign Business Act (FBA) in 1999, Thailand was early in opening up to foreign investment in manufacturing, but has not liberalised further since then. Thailand's primary and services sectors remain particularly restrictive to foreign investment, according to the OECD FDI Regulatory Restrictiveness Index. The development of competitive services has great potential to promote inclusive growth and productivity including in manufacturing; liberalising services should therefore be envisaged. Meanwhile, some foreign investors have found ways into restricted activities by exploiting legal loopholes, such as preferential shares and indirect ownership. The resulting policy inconsistency and uncertainty are likely to come at a cost for investors, and resolving them should be prioritised in future reforms.

Thailand has made important reform strides in terms of its domestic legal framework to facilitate investments into knowledge assets; namely with respect to IP protection and cyber security. The implementation of these efforts should be prioritised in the short-to-medium-term, while broader reforms to align investment protection into a single law and removing restrictions to land ownership for foreigners could be longer term priorities.

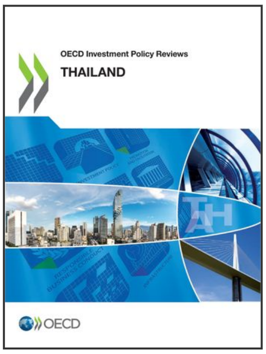
Reviewing Thailand's investment treaties indicates that Thailand, like many other countries, has a significant number of older-style investment treaties with vague investment protections that may create unintended consequences. Where treaties set forth vague provisions, arbitrators deciding investment disputes have had wide discretion to interpret the scope of protection which has generated inconsistencies and uncertainty. The Thai government is well aware of these challenges. It plans to start the process of seeking to update existing older-style BITs with treaty partners once its new model BIT is finalised later in 2020. Experiences with the COVID-19 pandemic may further shape how the government views key treaty provisions or interpretations and how they assess the appropriate balance in investment treaties.

Promoting and enabling responsible business conduct (RBC) is of central interest to policy-makers wishing to attract and keep investment and ensure that business activity contributes to broader value creation and sustainable development. Thailand is a regional leader on RBC; it became the first country in Asia to adopt a standalone National Action Plan (NAP) on Business and Human Rights (2019-2022). While the efforts by the Thai government to set RBC policy direction are commendable, the real test will be in implementation. Building on the support for the NAP and the swell of support for RBC, Thailand is in a unique position to promote bold and consistent implementation of RBC principles and standards across the economy.

Thailand's vision of transitioning into a resilient, innovation and technology driven economy will not be achievable without significant progress towards green growth, especially in a post- COVID context. Recognising these challenges, Thailand has made strides in developing a comprehensive and consistent policy framework for green growth and environment and in promoting green investment. The BCG economy model puts green growth related concepts at the heart of continued development. Priority should be on implementing and strengthening the policies on green growth that are in place and ensuring that environmental objectives are systematically integrated across Thailand's broader policy framework for investment.

Outward foreign direct investment (OFDI) has become an important pillar of Thailand's economy; outward flows have surpassed inward flows in recent years. OFDI can increase Thailand's competitiveness and is central for long-term growth, GVC integration and sustainable development. OFDI is a strategic priority in Thailand's National Economic and Social Development Plan (2017-21). While Thailand's current institutional and policy setup is likely to enable further OFDI growth, policy considerations could focus on better inter-agency coordination and targeted policy packages to promote relocation of labour-intensive activities that are no longer competitive in Thailand, on the one hand, and acquiring brands, knowledge as well as new technologies and innovation capacity, on the other hand.

While the COVID-19 crisis could slow the speed of progress towards Thailand's ambitions, policy recommendations provided in this Review provide potential priority areas for investment climate reform in support of an inclusive and sustainable recovery.



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