11 Promoting Thai outward investments

Outward foreign direct investment (OFDI) from Thailand has increased rapidly in recent years. This chapter presents recent trends, drivers and impacts of Thai investments abroad. It analyses how OFDI can contribute to Thailand's economic growth, competitiveness and access to technology. The chapter also examines Thailand's OFDI policies and presents policy directions on further facilitating and promoting OFDI.

Summary

Outward investment has become an important pillar of Thailand's economy. Thailand's investments abroad have increased rapidly over the past decade and outward flows have surpassed inward flows in recent years. Thailand has become the second largest outward investor in terms of OFDI stock in ASEAN, surpassing that of Malaysia in 2018. The country's outward investment is increasingly important in the economy with OFDI stocks as a share of GDP reaching 25% in 2018. Thai enterprises are venturing into neighbouring ASEAN markets and increasingly beyond regional markets. Slower domestic market growth, rising labour costs and export market access are major factors driving Thai OFDI.

OFDI can increase Thailand's competitiveness and is central for long-term growth, GVC integration and sustainable development. Positive impacts are often less evident as compared to those of inward investments. Inward investments are part of Thailand's productive capital and directly contribute to domestic value added. OFDI could imply less investment and economic activity at home, but there is mounting evidence of a greater positive impact of OFDI in Thailand's economy. Outward investments allow firms to grow by tapping into new and potentially larger markets abroad. Outward investors can improve competitiveness by shifting operations to neighbouring countries that are no longer competitive at home, for example due to rising labour costs. Investors can also access technology and knowledge that may not be available in home markets and thereby contribute to the development of activities and industries targeted under Thailand 4.0. These positive effects benefit OFDI firms themselves, but benefits can also spill over into to the home economy more broadly.

Governments can support FDI outflows both through dedicated OFDI support measures (e.g. loans and grants for outward investors, investment insurance as well as technical and information services) and, more implicitly, through wider policies that support the economy's internationalisation (such as capital flow liberalisation, investment protection, and trade policy). Dedicated OFDI policies can reduce the costs and risks associated with investment projects, making venturing overseas more attractive. Policy prioritisation depends on the intended policy objective of OFDI promotion, as is the case for inward FDI.

The emerging global economic crisis related to the COVID-19 pandemic is expected to interrupt domestic growth (Chapter 2). As inward FDI flows drop (Chapter 4), a similar reduction is expected for Thai OFDI. Negative demand shocks in host markets and increased uncertainty in host markets are likely to push Thai investors to postpone investment plans. Lower expected profits are likely to lead some Thai investors to revise overseas investment projects and investment locations. In the recovery from the crisis, Thai firms may begin to resume investment projects abroad. Economic recovery at different paces may produce investment opportunities abroad, while also providing an opportunity for risk diversification.

Policy considerations

Public policies can play an important role in influencing firms' decisions to invest abroad by reducing the costs and risks associated with investment projects. In Thailand, several public institutions[1] are involved in OFDI related policies and 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, a number of policy considerations can be made that would enable a strong and targeted OFDI policy framework better supporting Thailand's development ambitions:

- *Strengthen the OFDI policy framework through inter-agency coordination.* Thailand has a comprehensive policy package on OFDI ranging from (1) continuing capital account liberalisation, (2) good coverage of investment treaty and double taxation agreements, (3) the availability of financial and insurance instruments to protect and incentivise investments, to (4) the provision of informational services and technical assistance for smaller firms intending to venture into foreign markets. OFDI's concrete contribution to strategic policy objectives under the 2017-21 plan and Thailand 4.0 is still not well defined and, in some cases, agencies have overlapping roles. An inter-agency committee, chaired by one or several state agencies, could be mandated to formulate strategic OFDI objectives, clarify roles and align reform priorities across government bodies. A clear and coordinated policy message is increasingly important in light of COVID-19 uncertainties.

- *Conduct a comparative review of governance of OFDI policies in other relevant outward investing countries*, such as Japan and Korea. The directions below could be included in the discussion on OFDI policy priorities and strategic orientations.
- *Clarify policy approaches for two distinct sets of OFDI priorities in support of Thailand 4.0 ambitions.* Thailand 4.0 aims to (1) enhance productivity and competitiveness of selected high-tech industries and (2) boost technological and innovation capacity, including in new industries (Chapter 2). On the one hand, OFDI can support the relocation of labour-intensive, lower skill production stages to lower cost neighbouring countries (particularly CLMV). This liberates resources for higher value activities at home and enhances overall competitiveness of the investing firm. This type of OFDI has increased importantly in recent years. On the other hand, OFDI has a potential role in acquiring brands, knowledge as well as new technologies and innovation capacity. Thai acquisitions of high-value assets abroad are not yet picking up. It is important to distinguish the two sets of OFDI priorities and then engage in the discussion and formulation on respective – and potentially varying – investment promotion activities.
- *Increase resources dedicated for OFDI information services and technical advice* and align efforts across government and private actors. The assessment shows that Thai firms are sometimes not aware of public and private services to provide assistance on OFDI projects. The BOI reports that their efforts remain limited due to resource constraints, including with respect to staff, and their role vis-à-vis other agencies such as the Department of International Trade Promotion is not fully clear. OFDI information services and technical advice are revealed to be essential in Thailand's efforts to enhance OFDI and competitiveness. Providing up-to-date OFDI information will be particularly important as COVID-19 recovery policies are put in place to stimulate new investments. The government could reconsider resource allocation with respect to these services while aligning efforts across government and private actors.
- *Augment OFDI technical advice with services related to RBC supply chain due diligence.* Under the OECD *Due Diligence Guidance for Responsible Business Conduct,* enterprises are subject to the same expectations in respect to RBC when operating in their home country or overseas (see Chapter 9). Capacity building on RBC supply chain due diligence could be introduced as an add-on training for enterprises benefiting from information services.
- *Design and implement a policy package dedicated to promoting OFDI in high-value assets, potentially including financial instruments.* Thai firms are currently not investing much in foreign assets that could support their transition towards higher value added activities and facilitate the development of their domestic capabilities. Few firms are acquiring assets in technology, R&D or high value brands. Thailand's 2017-21 plan recognises the need to boost OFDI in such assets but does not clarify what policy instruments are dedicated to it. Various state institutions provide financial incentives (such as loans) and investment risk insurance. These incentives (and potentially even OFDI tax incentives which are currently not available in Thailand) could play an important role in promoting investments into high-value and high-risk assets. The government could use available policy instruments to develop a package of targeted support mechanisms and incentives dedicated specifically to OFDI in high-value assets. A pre-requisite for the success of such a policy package would be an assessment of the experience of peer and more developed OFDI investors, including in the OECD.

Investment from Thailand is rapidly expanding

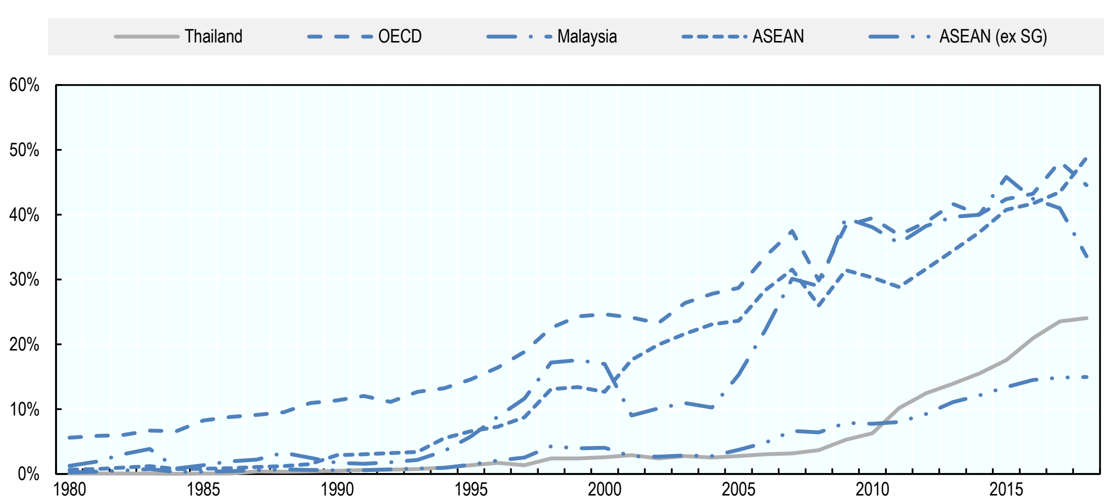
Thailand is becoming an important international investor. Thai OFDI has grown sharply since 2010, with a twelve-fold increase of the OFDI stock over 2008-18. Thailand's OFDI stock surpassed USD 100 billion in 2017, making it the 14th largest among developing economies. Thai companies first began to venture overseas during the 1990s and, after a slowdown following the Asian Financial Crisis in 1997, Thai investment outflows have increased continuously since 2005. Outflows reached USD 11 billion in 2013, partly driven by the liberalisation of capital outflows in the late 2010s. FDI outflows and inflows dropped dramatically over 2013-15 as Thailand experienced low economic growth and political instability (Chapter 2), although outflows have since recovered and grown steadily. The growing importance of OFDI relative to inward FDI indicates that Thailand is consolidating its role as a regional outward investor. The ratio of outward to inward FDI stocks increased from 15% to 54% over 2010-18, with FDI outflows surpassing inflows by 70% in 2018.[2]

After rapid expansion in recent years, Thai OFDI is also expected to fall in 2020 in in light of the emerging global economic crisis related to the COVID-19 pandemic. Worldwide FDI flows are expected to drop by more than 30% in 2020 even under the most optimistic scenario (OECD, 2020). Bank of Thailand preliminary 2020 OFDI figures do not yet point to such a drop. Thai OFDI flows in January and February were similar to those in the previous years.

Thailand is the second largest outward investor in ASEAN in absolute terms and the third largest outward investor relative to GDP. Thai OFDI flows surpassed Malaysian outflows in 2016 and outward stocks in 2018. It is now the second largest outward investor in Southeast Asia, behind Singapore. Thailand's OFDI stock relative to GDP grew from around 5% to almost 25% over 2008-18, surpassing the ASEAN average (excluding Singapore), but lower than that of Singapore (260%) and Malaysia (40%) and only half that of OECD countries (Figure 11.1).

Figure 11.1. Growing outward investments in Thailand and ASEAN

Outward FDI stock (% of GDP)



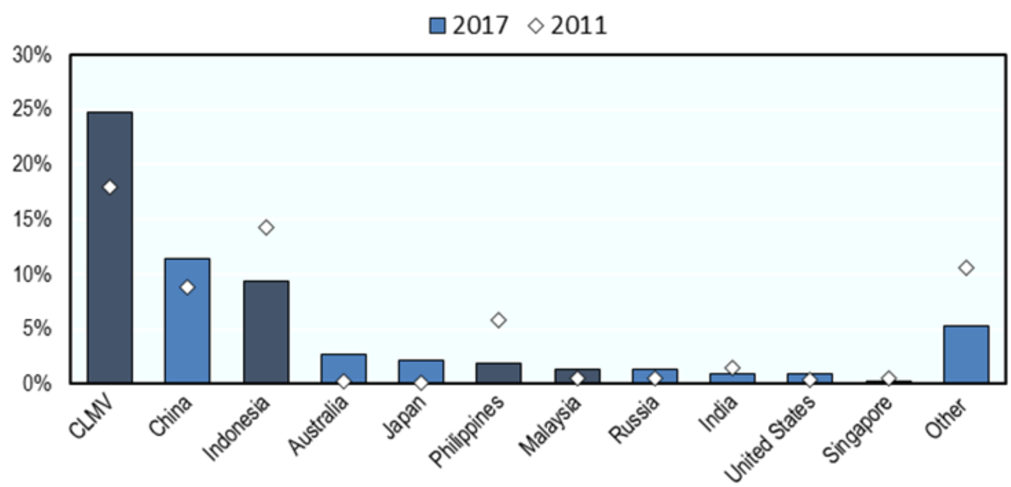
Note: SG = Singapore. ASEAN does not include Myanmar, due to unavailability of data.
Source: OECD based on UNCTAD and World Bank.

Thai greenfield investments go increasingly to the CLMV region

The bulk of Thailand's OFDI goes to a small number of countries. Over a third of Thai greenfield investments are located in ASEAN Member States (AMS),[3] particularly in CLMV countries (Figure 11.2). Indonesia and the Philippines also receive greenfield investments, but their relative share has fallen in recent years while that of CLMV has risen. Thai greenfield projects in CLMV countries are on average smaller than greenfield projects in other countries in the region. Thai investors shift lower value added activities, which are no longer competitive at home, to neighbouring CLMV countries, and Thailand has become one of the top foreign investors in CLMV. It was the 3rd and 4th largest investor in Lao PDR and Myanmar in 2018. Geographic proximity and close cultural affinity are among the main motivations reported by Thai manufacturing firms that are setting up production plants in CLMV (OECD-UNIDO, 2019). Linguistic affinity (particularly with Lao PDR) also facilitates communication between staff, which is important for the transfer of skills and know-how. Beyond ASEAN, over 90% of greenfield investment occurs within Asia, particularly in China, Australia and Japan.

Figure 11.2. Thai greenfield investments are concentrated in ASEAN

Thai outward greenfield investment (% of total)



Note: 2011 = accumulated value of projects 2003-2011, 2017 = accumulated value of projects 2003-2017.
Source: Based on OECD-UNIDO (2019) and Financial Times FDI Markets database.

Compared to greenfield investments, Thai cross-border M&A activity is less concentrated in CLMV (Figure 11.3). Singapore's share as a destination of total M&A activity within ASEAN has increased rapidly since 2011, along with Viet Nam. These shifts were driven by a few large acquisitions in both countries. In the 2000s, Thai investors acquired shares predominately in Indonesia, the Philippines and Malaysia, while the scale of new M&A deals was small in these destinations in recent years.

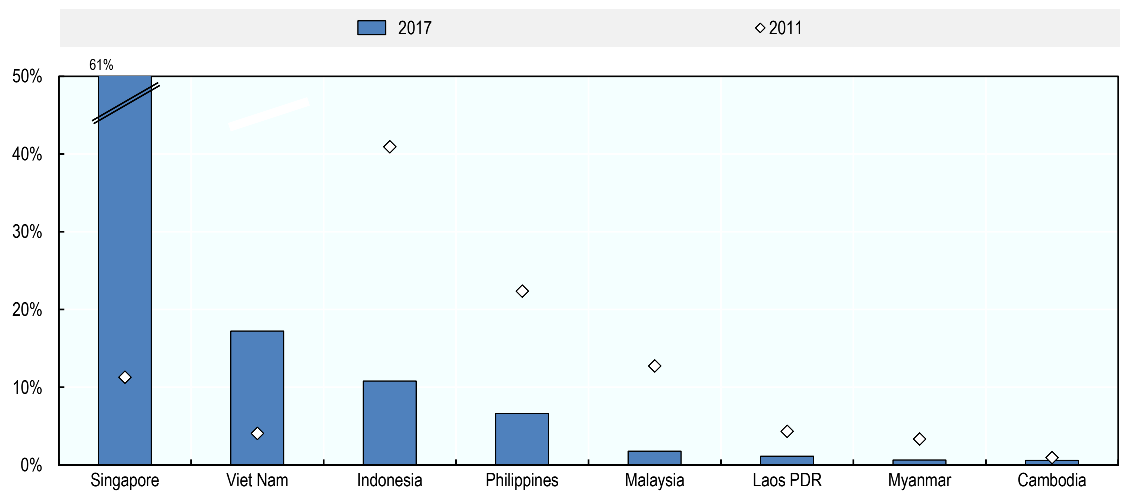
Thai OFDI is diversified across sectors

The sectoral composition of Thai OFDI differs by type of investments (greenfield FDI vs. cross-border M&A). Greenfield projects occur predominately in infrastructure and manufacturing. The composition of M&A deals ranges from manufacturing (mainly food and beverage) and mining to services (particularly finance) (Figure 11.4).

Thai companies are involved in Southeast Asia's largest energy infrastructure projects, particularly in CLMV (Chapter 10). Thailand's largest electricity producer announced its plans to build gas-powered plants and hydroelectric plants in Myanmar, and Thai investors in renewable energy are also expanding abroad. A Thai based-company is developing the first wind power project in Lao PDR and the largest wind farm in ASEAN which is expected to significantly improve Lao PDR's electricity capacity and increase its potential for electricity exports to neighbouring Cambodia, Thailand and Viet Nam (IES, 2017). Thai outward investments in solar and wind power have also been expanding in recent years.

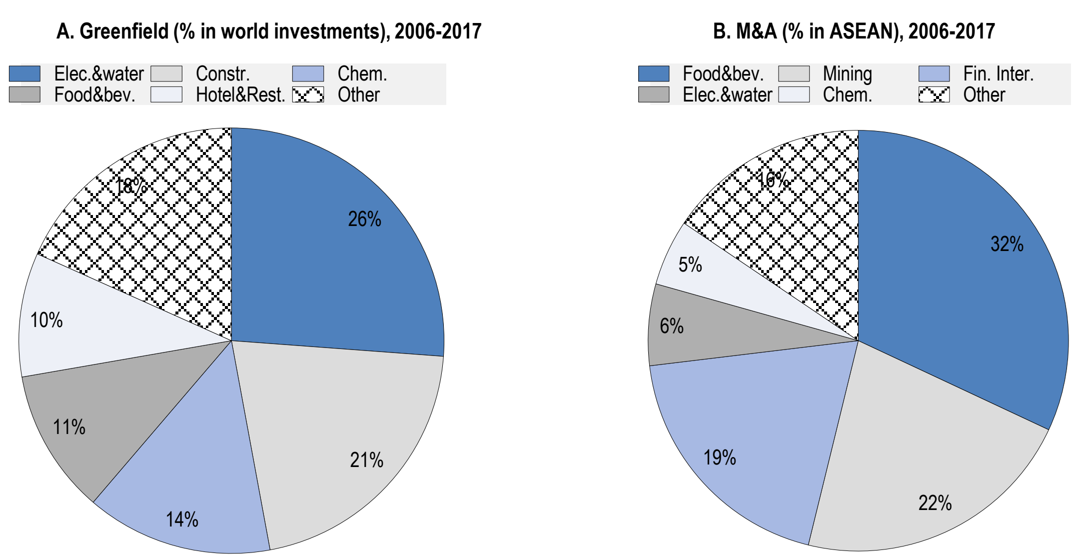
Figure 11.3. Almost two thirds of Thai M&As in AMS occur in Singapore

Thai outward M&A investment (% of ASEAN)



Note: 2011 = accumulated value of projects 2003-2011, 2017 = accumulated value of projects 2003-2017.
Source: OECD based on Dealogic.

Figure 11.4. Thai greenfield investments are concentrated in infrastructure projects, while the majority of M&A deals are in manufacturing, mining and finance



Note: Elec. & water = electricity and water; Food & Bev. = Food and Beverages; Constr. = Construction; Hotel & Rest. = Hotel and Restaurants; Chem. = Chemicals; Fin. Inter. = Financial Intermediation.
Source: OECD based on OECD-UNIDO (2019), Financial Times FDI Markets database, and Dealogic

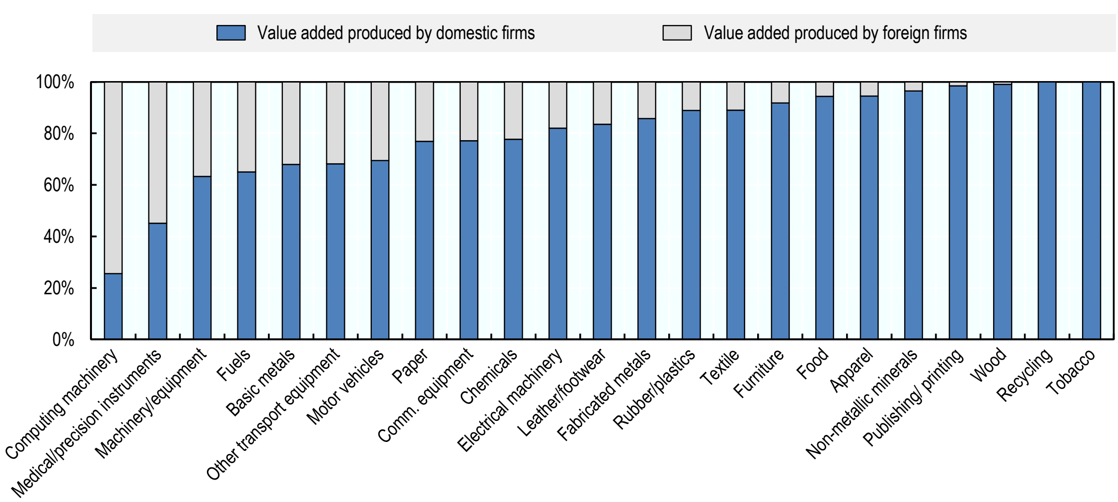
OFDI often occurs in manufacturing industries with strong domestic firms

Thai-owned food companies have been investing actively abroad; both in developed markets (such as the US and Europe) through the acquisition of already established brands, but also in neighbouring countries with investments into processing and packaging. In Thailand, the food and beverage industry is characterised by relatively low participation of foreign firms and in which major market players are Thai enterprises (Figure 11.5). The electronics and automobiles industries, on the other hand, have not seen much OFDI from Thailand. Compared to the food industry, electronics and automobiles account for the bulk of Thailand's inward FDI stock in manufacturing (Chapter 4). For example, in computing machinery, foreign firms produced almost 80% of total value added (Figure 11.5).

An important enabler of OFDI may thus be the presence of strong domestically-owned firms in Thailand, although this argument is challenged by recent trends of relocation of Thailand-based assembly activities in electronics and automobiles by foreign producers, particularly Japanese. These relocations are often considered as Thai OFDI because foreign firms invest into neighbouring CLMV from their regional headquarters in Thailand (see section below).

Figure 11.5. Foreign firms dominate in high-tech industries

Value added by ownership and industry (% total), 2016



Note: foreign firm is defined at those with 50% or more foreign ownership.
Source: OECD based on Thailand's Industrial Census.

OFDI involves benefits for economic and sustainable development

The public debate has traditionally focused on the consequences of inward FDI for economic and sustainable development. Recent literature suggests that foreign investment has economic effects not only in host but also sending countries. Such impacts on the investing countries are often less immediate than those on host countries. As a growing share of developing countries have become important outward investors, the question naturally arises what the long-term economic impacts in the home country are likely to be. OFDI means that capital and potentially other resources are relocated abroad and this could have a negative impact on the overall capital stock, balance of payments, employment, and trade (Sauvant et al., 2014). There is mounting evidence that OFDI can be leveraged to advance economic development at home by enabling firms to grow larger, become more competitive and access new technologies.

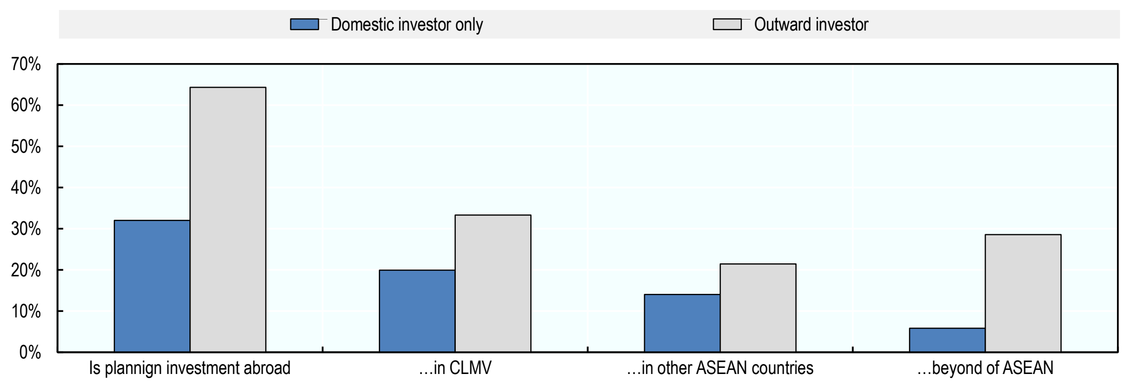
Thai investors planned to expand investments abroad

A 2019 enterprise survey of Thailand indicates that OFDI activity of Thai-based firms is likely to expand in the coming years. Two thirds of the surveyed Thai outward investors (manufacturing and services) planned to expand their investments overseas. Moreover, about one third of Thai companies that are not yet investing abroad reported plans to do so within the next three years (Figure 11.6).

ASEAN remained the most attractive destination for OFDI from Thailand. Many interviewed firms plan to invest within ASEAN. Investments in CLMV will continue to grow, driven by large projects in agriculture, infrastructure and manufacturing. About 30% of the surveyed outward investors plan to invest outside the ASEAN region.

Figure 11.6. A third of Thai companies report plans to invest abroad within 3 years

Does your firm expect to expand operations through new investments abroad in the next 3 years? (Multiple answer)



Note: Figures based on responses of 298 Thai manufacturing and service firms, 42 outward investors and 256 of domestic investors (without investments abroad).
Source: Based on OECD-UNIDO (2019).

The emerging global economic crisis related to the COVID-19 pandemic is expected to lead international investors worldwide to postpone part of planned investments overseas. Thai investors are likely to delay investment in light of increased uncertainty in the short-run. The economic crisis related to COVID-19 is expected to affect Thai OFDI in different sectors to different degrees. OFDI may offer risk diversification and increased resilience to Thai businesses with high exposure, such as the tourism sector (Polkuamdee, 2020).

OFDI allows firms to grow, be more competitive and access technologies

Evidence of home country effects in both developed and developing countries is still relatively scarce (Lim and Teo, 2019; Paul and Benito, 2018). OFDI is a means for investors to access markets, capital, technology, and knowledge abroad. OFDI thus benefits the investor itself; particularly through three main channels (World Bank, 2018):

- *Scale effects*: outward investors grow larger by expanding into overseas markets. Venturing into new markets can also have a complementary effect of creating new export opportunities, both by creating new export channels or by increasing the demand for intermediate exports. By growing larger, outward investors enjoy additional gains based on economies of scale and scope, lowering costs of production and operation.

- *Competition effects*: competition with firms in foreign markets forces outward investors to become more efficient and upgrade production processes, which in turn can contribute to expanding exports and reinforce the scale effects of investor.
- *Knowledge effects*: by directly acquiring firms abroad (through M&As and joint ventures) or by developing partnerships, knowledge can be transferred back to the parent firm and generate reverse technology spillovers, which have positive effects on outward investors' productivity (Amann and Virmani, 2014; Knoerich, 2017). Knowledge effects of acquiring strategic assets may be higher among emerging country MNEs as these are further away from the technological frontier.

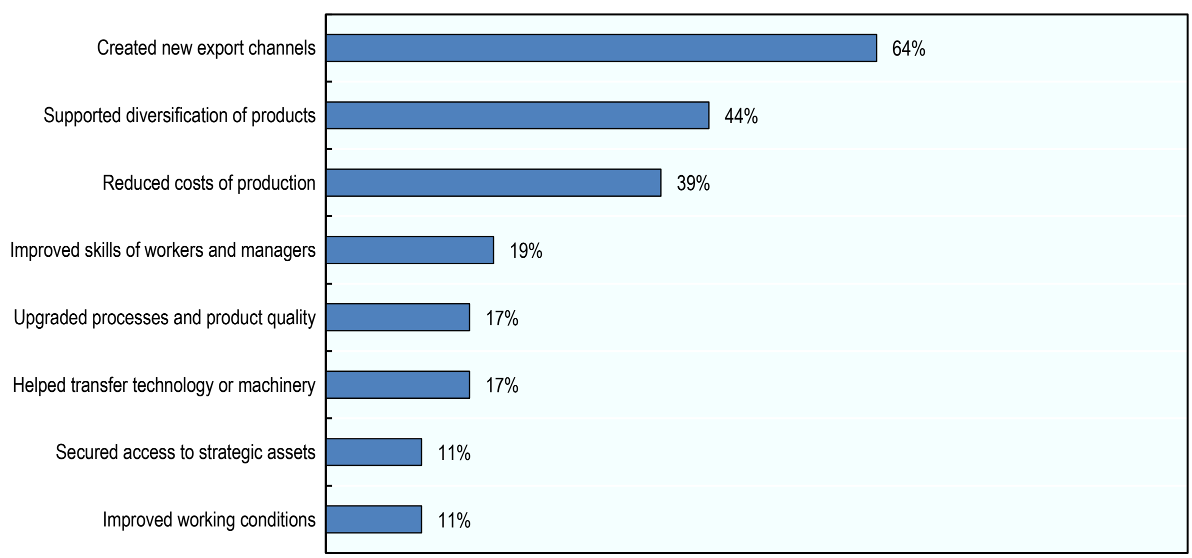
Thai companies report multiple benefits of outward investments

Thai firms engaging in outward investment benefit from OFDI through a number of diffusion channels. The majority of outward investors in a recent enterprise survey of Thailand report that OFDI provided access to new markets; a third of investors mentioned that OFDI helped to diversify products and reduce costs (Figure 11.7).

The survey further reveals that outward investors are on average 40% more productive than those that only import and export, and 11 times more productive than firms that are not internationalised at all (OECD-UNIDO, 2019). Thai outward investors are also larger and tend to form more long-term business relationships with firms outside Thailand.

Figure 11.7. Outward FDI supports product and market diversification

How has your firm benefited from its investment abroad (outside Thailand)? (Select all that apply)



Note: Figures based on 36 responses from Thai manufacturing and service firms with outward investments.
Source: Based on OECD-UNIDO (2019).

OFDI can benefit the Thai economy as a whole

A key policy question is whether OFDI benefits spill over to the rest of the economy. Broadly, OFDI can contribute to economic growth in Thailand. Multiple studies find that OFDI is associated with GDP growth and higher growth of incomes in Southeast Asia (Herzer, 2010; Bano and Tabbada, 2015; ESCAP, 2020). Recent research shows that the observed positive impact of OFDI spills over to the home economies through multiple channels, including employment creation, technology upgrading and trade.

OFDI often increases trade between the investing firms and their foreign affiliates (Thomsen, 2006). As firms that expand production overseas grow and gain competitiveness, they may also increase demand and sourcing of intermediates from firms operating in home countries.[4] That is, Thai firms investing abroad can create new export channels for themselves and their suppliers. For Thailand, Ahmad et al. (2016) finds that a 1% increase in OFDI is associated with an increase of 4% in exports.

OFDI can also generate knowledge spillovers on the outward investing firms when they enter other markets (Criscuolo, 2009). Knowledge spillovers could be higher when Thai firms venture into developed economies, although the extent of these positive effects can vary, depending on the motivation and other specificities of the investment project. More generally, OFDI is associated higher country R&D expenditure in ASEAN countries (ESCAP, 2020). For example, OFDI that relocates R&D activities away from the home market generally benefits the investing enterprise, but its broader benefits on the home economy are likely to be limited (Thomsen, 2006).

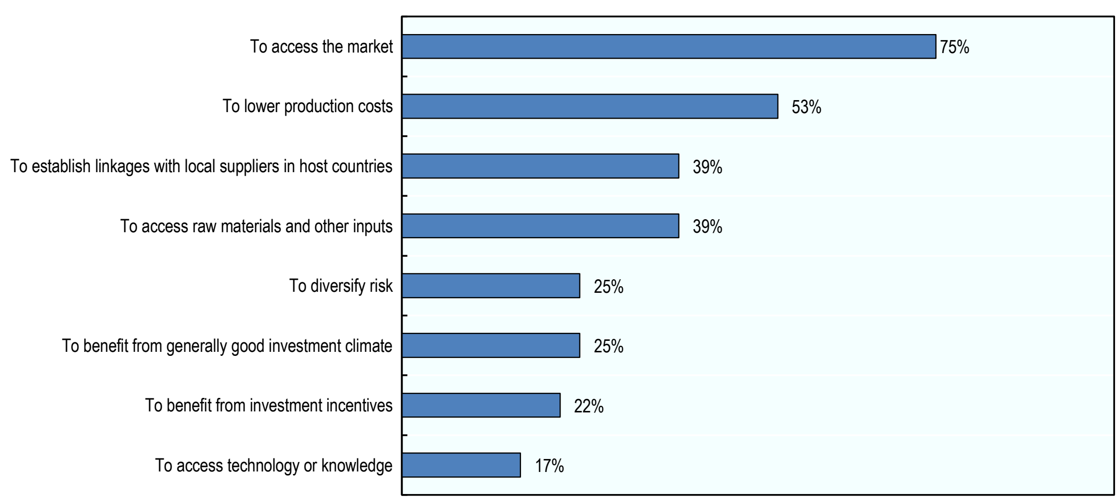
Structural shifts create opportunities for OFDI

Neighbouring markets are growing faster than at home

Thailand has been growing at a much slower pace in recent years compared to the economic boom of the pre-1997 crisis (Chapter 2). The domestic market has become increasingly saturated and sometimes provides fewer growth opportunities for firms. Faster growing markets in ASEAN (particularly CLMV) can provide new opportunities for Thai firms to expand, either through exports or OFDI. Neighbouring ASEAN economies have had growth for 2020 significantly revised downwards following the outbreak of the COVID-19 epidemic, but may continue to provide more moderate market growth opportunities. Three out of four of the surveyed outward investors reported market access as one of the main factors in their decision to invest abroad (Figure 11.8).

Figure 11.8. Thai firms invest abroad to access markets and improve efficiency

What were the most important factors for your firm to decide to invest outside of Thailand? (Select all that apply)



Note: Figures based on 36 responses from Thai manufacturing and service firms with outward investments.
Source: Based on OECD-UNIDO (2019).

Direct investments can give investors better market access than they might get through export channels, as well as facilitating access to distribution networks in the destination market (Buckley, et al., 2007). Thailand's diversified export markets within Southeast Asia can be expected to also facilitate the exporting firm's investment expansion in these markets since securing market access first through exports can lower the uncertainty and risks associated with OFDI (Banga, 2008).

Rising costs at home push Thai firms to internationalise

Economic development and an ageing society in Thailand have led to rising wages (Chapter 2). Increased labour costs make low skilled and low value added activities in manufacturing and services less competitive. These activities are increasingly relocated to neighbouring low-cost destination, again predominately in the CLMV region where abundant and young labour will keep labour costs relatively low in the coming decades (ADB, 2015). OFDI as a means of keeping costs down is an important driver for Thai investors (Figure 11.8).[5]

Shifting lower value added activities to foreign production locations affects labour demand at home and liberates labour and other resources for higher value added activities and can thus enable economic upgrading (Knoerich, 2017). Thailand's National Economic and Social Development Plan for 2017-2022 recognises the implications of rising domestic costs and the need to relocate less competitive activities abroad. This economic upgrading is of course subject to the development of relevant worker skills and other knowledge, which is a key priority of several Thai state agencies (Chapter 2 and 5).

Thailand's loss of trade preference with key partners pushes firms to relocate

Thailand loss of its trade preferences with key trading partners such as the European Union and the United States is pushing Thai firms to relocate production to countries which still receive the preferential trade treatment. The European Union's generalised scheme of preferences (GSP) was withdrawn from Thai products on 1 January 2015, while the United States announced the suspension in trade preferences for Thailand on 25 October 2019. Particularly when combined with the slowdown in economic growth and mounting cost pressures, the loss of GSP status has further induced Thai firms to relocate in neighbouring less advanced countries, namely CLMV, to take advantage of these countries' quotas in industrialised countries' imports.

Graduation from major export market's GSP scheme acts as a driver for a country's firms to relocate production abroad in many countries. South Korean firms relocated to Malaysia, Thailand, Viet Nam and eventually China following the loss for GSP privileges in the late 1980s (Nicolas et al., 2013). More recently, Viet Nam has been a favoured destination for such shifts in trade flows and production chains by Chinese firms. For these countries as well as in Thailand, low-margin lower value adding activities are more affected by the increased cost of their exports, such as apparel and textile.

Thai-based foreign firms are also relocating abroad

Foreign investors operating in Thailand are also restructuring their value chains and relocating labour intensive production stages to lower cost neighbouring countries. Production centres in new locations remain often tightly linked with regional headquarters in Thailand. Known as the Thailand-Plus-One strategy, it was spearheaded by Japanese companies with production in Thailand, but has since been adopted by other foreign MNEs (OECD-UNIDO, 2019).

The relocation of Thai-based foreign firms may create OFDI opportunities for their Thai suppliers. Thai firms could thereby expand their role as suppliers of lead firms. This form of s*upplier following assembler* motivation has been observed in several other Asian economies, such as Singapore and Chinese Taipei (Hiratsuka, 2006). Strategically coupling to global lead firms allows firms to become outward investors at an earlier stage as the client-supplier relationship reduces risks associated with OFDI (Yeung, 2017).

Acquisition of technology and brands is strategic

Thai firms can gain access to foreign strategic assets and capabilities such as proprietary technology, brands and distribution channels by investing abroad. Firm from developing economies in general stand to benefit considerably when acquiring technologies, know-how and skills from firms in more advanced economies, which may allow upgrading their own capabilities, transferring the technology to their home countries and moving into higher value added activities at home. By upgrading and transferring knowledge back to Thailand, the benefits of the acquisition abroad can spill over among other domestic firms. Furthermore, brand acquisition can also be a means to tap into existing consumer markets abroad, which has been particularly important for the expansion of Thai investors in the food and beverage sector.

M&As and strategic partnerships provide valuable opportunities for the generation of intangible capabilities in more advanced economies which can be transferred back to the home economy and enable domestic firms to expand upstream (sales and marketing) or downstream (technology and R&D), potentially into higher value added activities. How much firms can absorb and transfer back depends on their absorptive capacity, which also enhances their capacity to benefit from spillovers from foreign firms operating in Thailand. Many of the policies in place to enhance the benefits of inward FDI in Thailand, also positively affect future outward investor firms. Thailand has a set of programmes and policy instruments to promote R&D spending and boost firm competitiveness (Chapter 5). Promoting the acquisition of firms already engaged in R&D abroad could complement the policies already in place for the promotion of R&D within Thailand.

In many emerging economies, technology- and knowledge-acquisition is an important driver of OFDI, while this appears to be less true of Thai firms venturing abroad (Rasiah, Gammeltoft and Jiang, 2010). A recent enterprise survey indicates that less than 20% of the interviewed Thai firms invest overseas as a means to access technology or knowledge (Figure 11.8). Access to finance can be a constraint for these investment projects, as they can be potentially high-risk projects. Targeted or subsidised lines of credit could provide an alternative for promoting this type of investment abroad.

Policies to pave the way for outward FDI

Public policies can play an important role in firms' decision to invest abroad. Governments can support FDI outflows both through dedicated OFDI support measures (e.g. loans and grants for outward investors, investment insurance as well as technical and information services) and, more implicitly, through wider policies that support economy's internationalisation (such as capital flow liberalisation, investment protection, and trade policy) and competitiveness. Dedicated OFDI policies can reduce the costs and risks associated with investment projects and make investing abroad more attractive, while broader policies create the basic conditions for OFDI to occur. OFDI policies may shape outward investment patterns by encouraging some firms to undertake specific investments overseas (in particular countries or technologies) that they would not otherwise have carried out (Becker-Ritterspach et al., 2019). A partial mapping of the sequence in which OFDI policies are introduced in ASEAN economies indicates that countries initially reduce restrictions on OFDI, followed by the introduction of the provision of information services and negotiations of international treaties (ESCAP, 2020).

Policies positively affecting overall competitiveness of Thailand generally foster spillovers from both inward and outward FDI. Development of firm capabilities and absorptive capacity can enhance spillovers from OFDI in Thailand and dissemination through domestic value chains and are also an important prerequisite for enhancing spillovers from inward FDI. Both developing and developed countries typically use a combination of these policy mechanisms to enhance outward investment (Paul and Benito, 2018). Among developing economies, however, less than a handful have coherent policy packages on OFDI; namely China, Malaysia, Singapore and Chinese Taipei (Sauvant, 2017). This section reviews Thailand's OFDI-specific policies and provides some policy directions.

OFDI policy objectives should be well defined

OFDI policy objectives (e.g., upgrading, innovation, exports, revenue, and diversification) should guide how governments can best support OFDI. Thailand's National Economic and Social Development Plan 2017-2022 envisions enhancing Thai entrepreneurs' business skills, an increase in business cooperation with neighbouring countries and investments in human resources, technology, and innovation as a main outcome of Thai OFDI. Outlined policy objectives are broad, with multiple intended outcomes.[6] Establishing clear policy objectives of OFDI policy is central as these policies may not just provide incentives to firms in general to invest overseas, but could potentially alter the strategic priorities and geographical focus of some firms (Becker-Ritterspach et al., 2019).

Much of the support services that are offered are focused on ASEAN, particular CLMV countries, and contribute to the strengthening of regional cooperation. Investments in higher value added activities (such as technology and innovation) are more likely to take place outside the ASEAN region, in developed economies where investment opportunities are concentrated. Support services for OFDI aimed at developed economies are relatively underdeveloped. A more in-depth vision and objectives for OFDI, together with clearer targets, could facilitate development of a more targeted OFDI policy framework which is more supportive.

Significant research gaps remain related to how governments – both in developed- and developing markets – vary in their support for OFDI. Only a limited number of OFDI policy-mapping case studies exist and among those analysing developing countries, most focus on the Chinese case. OFDI policy best practices are only broadly understood. Conducting a comparative review of OFDI policy frameworks and governance in other relevant outward investing countries with similar policy objectives (such as Japan and Korea) could help define and prioritise OFDI policies in Thailand.

Coordination can help ensure that OFDI policies are coherent

In Thailand, several public institutions are involved in the formulating and implementing of OFDI-related policies: the Bank of Thailand regulates capital outflows; the Ministry of Commerce is in charge of negotiating free trade agreements, the Ministry of Foreign Affairs is in charge of negotiating investment promotion and protection agreements (Chapters 7 and 8); and the Board of Investment (BOI) carries out OFDI promotion and facilitation policy. The BOI focuses on outward investment primarily in ASEAN and other targeted countries, while the Department of International Trade Promotion (DITP) renders indirect support (i.e. providing information through Office of Commercial Affairs) to smaller countries. Business associations also play a role in promoting outward investment in specific destination countries, for instance, through bilateral chambers of commerce. BOI's OFDI promotion policy and mandate was adopted only recently in 2013. Investment promotion agencies (IPA) with a mandate to promote of both inward and outward FDI, as is the case of the BOI, are not uncommon. Around 30% of IPAs accumulate both these mandates in OECD countries, (OECD, 2018b).[7] The Ministry of Finance (Revenue Department) has the authority to grant tax exemptions on dividends from offshore investments, while the Export-Import Bank of Thailand (EXIM Thailand) provides loans and foreign investment risk insurance.

The large number of institutions involved in OFDI promotion requires inter-agency coordination to ensure that policies are aligned and effective. Thailand's National Economic and Social Development Plan 2017-2022 envisions a coherent policy on OFDI that fosters the creation of competitive national firms capable of internationalising. Greater inter-agency coordination can contribute to aligning reform priorities across government bodies.

Liberalising capital controls is a pre-requisite for the expansion of OFDI

Liberalising capital controls is an important ingredient enabling domestic firms to become multinational enterprises.[8] Capital outflow liberalisation promotes OFDI without discriminating by type or destination of investments, ensuring that investments perceived as profitable can take place (Pananond and Cuervo-Cazzura, 2015).

In Thailand, deregulation and liberalisation of capital controls started in the 1990s and proceeded at a slow pace in the years following the 1997 Asian Financial Crisis (Edison and Reinhart, 2000; and Pongpattananont and Annonchar, 2012). The Bank of Thailand has gradually expanded the limits on investments in foreign countries (Pananond and Cuervo-Cazzura, 2015). Liberalisation and restrictions of OFDI capital flows have been introduced to promote more balanced capital flows and as well as to address the volatility of the THB.

Overseas direct investment caps at USD 100 million for Thai listed firms were removed in 2007. Since 2009, enterprises with a value of 5 billion baht (USD 151 million) in assets have been permitted to invest directly in foreign securities without going through mutual or private funds, up to a limit of USD 50 million. Thailand's Capital Account Liberalisation Master Plan 2012 removed remaining outward direct investment caps for Thai residents and companies (Bank of Thailand, 2012). The important role of the removal of these restrictions is illustrated by the significant boost of OFDI as a share of GDP since 2010, from approximately 5% in 2010 to almost 25% in 2017 (see Figure 10.1 above).

Strict regulation was maintained on the repatriation of foreign currency received offshore, as export proceeds had to be remitted back to Thailand except for transactions of less than USD 1 million. In 2019, the Ministry of Finance and the Bank of Thailand decided to further relax exchange control regulations to stimulate capital flows and lower pressure on the Thai baht. Under the new regulation, the exemption on remittances was increased to USD 200 000, with plans to a further increase it to USD 1 million in 2020.

Investment treaties play a role in firms' decision of where to invest abroad

Investment treaties protect covered Thai investors from certain host government conduct and abuse. Treaties typically provide protection from expropriation, discrimination or unfair treatment. They can provide additional protection to covered investors beyond that provided in national legal frameworks, including the constitution, laws and regulations. Traditionally, treaties were signed to attract FDI to Thailand. With expanding overseas investments, these treaties become increasingly relevant for the protection of Thai outward investors as well (see Chapter 8 for a detailed discussion on investment treaties).

Thailand is a party to 47 investment treaties that are in force today (Chapter 8). These include 37 bilateral investment treaties (BITs), three bilateral trade and investment agreements and seven plurilateral agreements concerning investment in the context of Thailand's membership of ASEAN. These agreements cover some of the main investing countries in Thailand (87% of inward FDI stock), as well as some of the major destinations for Thai investments (75% of outward FDI stock), including China and ASEAN Member States.

Double Taxation Agreements and tax incentives reduce the cost of OFDI

Beyond investment protection treaties, double taxation agreements (DTAs) ensure that incomes generated by Thai investments are not taxed twice (i.e. in host countries and in Thailand). The main purpose of DTAs is to divide the right of taxation between the contracting countries, to avoid differences, ensure taxpayers' equal rights and security, and prevent evasion of taxation. Model tax treaties typically do not require tax rate coordination, but do require that credits or exemptions be applied to repatriated earnings.[9] Just like investment treaties, DTAs have often been introduced to alleviate the tax burden for investing firms in Thailand. As Thai firms increasingly invest abroad, these treaties also alleviate the tax burden of Thai companies entering foreign markets.

Thailand uses a worldwide income tax system and Thai companies must pay income taxes regardless of where it is derived. DTAs can eliminate double taxation by either exempting income tax on remitted revenues (exemption method) or retaining the right to tax income on remitted revenues but allowing for deduction of tax paid abroad (credit method). Thailand has signed 61 DTAs including with all AMS, except Brunei Darussalam, which use both these methods (Revenue Department, 2019) (see Annex 10.A for a complete list). Under signed DTAs with a credit method, a Thai company can use foreign taxes paid on business income or dividends as a credit against its CIT liability, but the credit cannot exceed the amount of Thai tax on the income. For countries for which a DTA does not exist, there are provisions within the Royal Decree No. 300, which allow unilateral credit relief against Thai taxation for taxes paid in the other country by a Thai juridical person. Dividends payed to Thai investors in countries with which Thailand has not signed DTAs are also exempt from taxation under certain conditions (PKF, 2016).

Under DTAs, the tax treatment of remitted earnings covers only capital flows between the countries involved in the agreements, but governments may offer broader tax incentives for investments overseas that go beyond avoiding double taxation. For OFDI, tax incentives are frequently linked to deductions for repatriated earnings. Singapore offers tax exemptions on all remitted profits abroad which encourages Singaporean firms to remit their profits back home rather than directing them elsewhere (Rasiah, Gammeltoft and Jiang, 2010). In addition, certain expenses linked to international market expansion and investment development activities are eligible for enhanced tax deduction on payable taxes in Singapore under the Double Tax Deduction for Internationalisation incentive (ES, 2019). Malaysia also implemented targeted tax incentives for OFDI in the past (Box 11.1).

Box 11.1. Tax incentives for Malaysian outward investors

Malaysia's growing importance as an outward investor began in the 1990s. After gradually lifting capital controls in the aftermath of the Asian Financial Crisis, the country experienced an upsurge in outward investments from the mid-2000s. Tax incentives for outward investments may also have contributed to increasing OFDI: first generation tax incentives for OFDI were implemented in the early 1990s, including tax abatement on income generated overseas (Masron and Shahbudin, 2010). Since 1995, Malaysian firms investing abroad have benefited from a complete tax exemption on income generated abroad (Zin, 1999). Banking, insurance and maritime and air transport businesses were excluded from this regime.

Between 2003 and 2008, Malaysian firms acquiring foreign-owned high-tech firms either within Malaysia or abroad as a way to gain new export markets were granted a five-year deduction for the cost of acquisition (Yean, 2007).10 The objective of this incentive was to encourage Malaysian companies to acquire foreign companies which possess specific technologies used in manufacturing and selected services. The incentives was re-introduced between 2012 and 2016, but have now been cancelled. Malaysia continues to promote OFDI through other policies, such as through grants for market research to identify strategies for foreign market entry and other policies (MIDA, 2014).

A substantial amount of FDI income tends to be reinvested, but when remaining funds are repatriated and reinvested in the home economy, the home country stands to benefit economically as repatriated earnings may be reinvested or distributed at home (Knoerich, 2016). Profits kept abroad are used in line with corporate strategies and needs, but may also be accumulated overseas, particularly flowing to tax havens. Policies could be introduced to stimulate the repatriation of profits and reduce offshore tax avoidance.

The Thai policy regime for OFDI does not allow for investment tax incentives on payable taxes based on investment activity overseas. However, the BOI provides tax incentives for foreign and domestic companies with regional or international headquarters (HQ) operations in Thailand. Under the International Business Centre Regime (IBC), companies with subsidiaries abroad (i.e. with OFDI from the perspective of Thailand as a home country) can benefit from reduced corporate income taxation. While this policy may not be intended to foster OFDI as such, it can still benefit outward investors in Thailand.

Investment insurance provides additional guarantees for investors

Investment insurance, also referred to as political risk insurance, is an instrument offered to outward investors to mitigate political risks associated with the unlawful interference by host governments in the operations of foreign affiliates (Sauvant et al., 2014). The provision of such insurance may induce firms to undertake larger investments than they would have otherwise. Such measures were traditionally offered by developed countries, but as some countries in the region have become significant outward investors, they too have begun establishing political risk insurance for their firms. The EXIM Malaysia started offering insurance in 1977, and Singapore in 2012.

EXIM Thailand also offers investment insurance coverage for up to 90% of loss actually incurred (EXIM Thailand, 2019). EXIM Thailand has offered insurance risk only since 2017, when the bank expanded on its policy to stimulate and promote overseas investment. In 2018, the Bank approved insurance for over USD 100 million of investments. Most of its insurance projects are in CLMV countries and are provided for large energy and infrastructure projects. Hedging risks through investment insurance make destination countries with relatively weak institutions more attractive. The EXIM Thailand plans to expand its investment insurance market as Thai investments in CLMV are projected to continue growing.

Financial support can help outward investments

EXIM Thailand is an active player in providing financial support in the form of loans for Thai investments abroad. As of the end of 2018, it had an aggregated amount of credit lines for overseas investment projects of USD 2.8 billion (THB 84 billion). Loans for OFDI are quickly expanding, with the loans in 2018 increasing already 25% compared to the previous year. Around 60% of these credit lines were for investments into CLMV countries (EXIM Thailand, 2019). EXIM Thailand also established a physical presence in some of these countries, for example in Myanmar to provide one-stop-services and stimulate Thai-Myanmar investments. The Neighboring Countries Economic Development Cooperation Agency (NEDA) also provides financial support to OFDI Thai investing in neighbouring CLMV countries.

Financing can cover the entire investment project or specific stages of the investment process, such as feasibility studies and seed funding for smaller domestic firms. Loans to finance OFDI are provided either as direct loans and grants to businesses or through a co-sharing scheme where the risks of default are shared with commercial lenders. For example, the Malaysia-Singapore Third Country Business Development Fund offers grants of up to USD 33 000 for market research to identify strategies for market entry and business opportunities or to analyse the business environment of a specific destination country and sector (MIDA, 2014). Singapore offers similar grants under its Enterprise Development Grants for improving Market Access. The grant funds up to 70% of qualifying project costs, namely third party consultancy fees, software and equipment, and internal manpower cost.

Financing could also be used to support certain types of investment overseas that could be of interest for the domestic economy, such as to technology, R&D capacity, or brand names (Dunning, 2001). Enterprise Singapore has a targeted line of credit for financing the acquisition of overseas enterprises. Companies with at least 30% Singaporean ownership can apply for a loan of up to USD 37 million (SGD 50 million) for acquisitions overseas, including co-shared loan default risk of up to 70% in the event of enterprise insolvency (ES, 2019).[11] A specific line of credit is also available for SMEs (up to USD 22 million) which can be used for either the purchase or construction of factories and business premises under the risk co-sharing guarantees.[12]

OFDI financing can be controversial, particularly concerning subsidised loans in credit restrained economies. The Brazilian Development Bank (BNDES) modified its statute in 2002 to allow financing the acquisition of productive assets abroad by Brazilian companies, conditional on increased exports from Brazil. BNDES failed to effectively show how the OFDI line of credit brought positive impacts.[13] In November 2019, the Brazilian senate approved a law to prohibit new concession of loans for projects abroad, effectively cancelling this instrument. Transparency in use of funds for projects overseas and the benefits generated for the home economy need to be clearly outlined, communicated and linked to the broader development policy.

OFDI promotion can reduce information barriers and provide technical advice on overseas investments

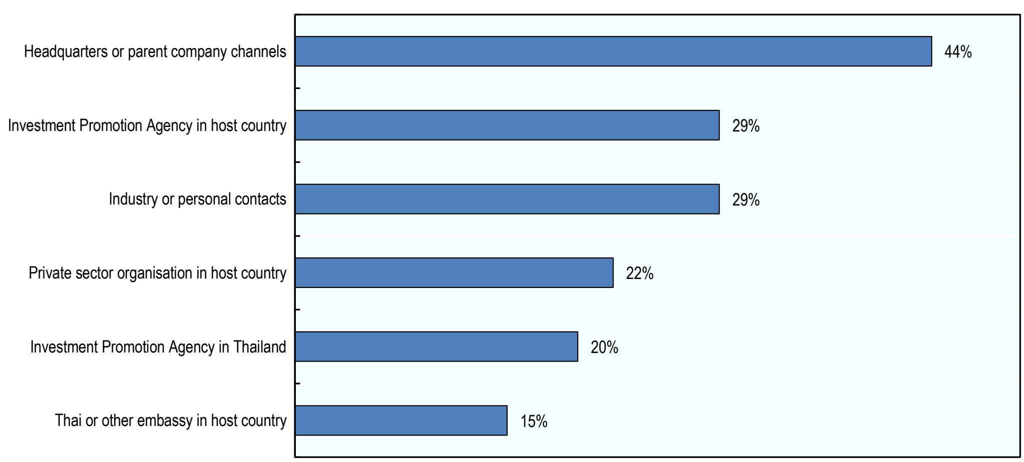
A recent enterprise survey reveals that Thai outward investors rely extensively on firm-internal channels, industry contacts and activities of host country investment promotion agencies for information on investment opportunities abroad (Figure 11.9). One in five of the surveyed outward investors reported that they became aware of OFDI opportunities through the BOI. Some firms participating in the survey mentioned that they were not aware of public and private services to provide assistance on OFDI projects.

Smaller companies that are less connected in foreign markets can benefit extensively from information services and technical advice provided by public and private institutions at home as they lack internal resources to do so independently. Evidence from Japan and Korea provides good practice examples of policies that can be implemented by IPAs to support internationalisation (Box 11.2).

This highlights that current BOI efforts may still lack the scale to be accessible to a broad range of potential outward investors. Since the BOI added OFDI policy to its mandate in 2013, it has supported around 500 Thai SMEs in their OFDI undertakings. The BOI's role in information provision to SMEs vis-à-vis other agencies such as the Department of International Trade Promotion is not fully clear. The BOI reports that their efforts remain limited due to resource constraints, including with respect to staff. The government could consider to expand resources for the BOI to engage in information services and technical advice.

Figure 11.9. Thai firms rely more on internal information channels or host market to inform themselves about investment opportunities abroad

How did your firm initially become aware of investment opportunities outside Thailand?



Note: Figures based on 41 responses from Thai manufacturing and service firms with outward investments.
Source: based on OECD-UNIDO (2019).

As Thai enterprises venture abroad, the government could support outward investors in their supply chain due diligence with respect to responsible business conduct and supply chain due diligence. The OECD *Due Diligence Guidance for Responsible Business Conduct* holds enterprises subject to the same expectations in respect of their conduct when operating in their home country or overseas (see Chapter

9). Establishing guidelines, making business aware of the guidelines and establishing accountability on conduct can help ensure that Thai enterprises uphold the same standards abroad as at home, including during the COVID-19 global economic crisis and recovery period. The 2019-2022 National Action Plan on Business and Human Rights recognises the challenge posed by the lack of clear guidelines on due diligence as a risk to human rights violations in Thai investment projects overseas. The implementation of the action plan for 2019-2022 should contribute to increasing due diligence of Thai firms abroad.

Capacity building for outward investors is a policy option to increase awareness among investors. The Securities and Exchange Commission (SEC) of Thailand and it partners plan to implement a capacity building programme addressing due diligence in investment abroad for listed Thai companies. Specific capacity building for mining and agricultural value chains could also be considered, building on existing industry specific recommendations and good practices.[14] Smaller and non-listed outward investors are an equally important target group as they have more limited resources and are proportionally larger investors in CLMV. The BOI could consider combining its OFDI information services to potential outward investors with follow-up capacity building on due diligence if firms decide to invest abroad.

Box 11.2. Proactive OFDI promotion in Japan and Korea

The Japanese External Trade Organisation (JETRO) was established in 1958 to promote trade and investment relations between Japan and the rest of the world. While JETRO's core focus is to promote inward FDI and exports, JETRO also assists Japanese firms to expand overseas. The Korean Trade and Investment Promotion Agency (KOTRA) similarly supports Korean firms seeking overseas investment.

JETRO advises Japanese companies about business opportunities abroad, facilitates business linkages through exhibitions and trade fairs, and provides investment information through publications and seminars. KOTRA has created an Overseas Investment Information System for potential investors, which provides a range of information about investing overseas: from the latest news about investment activities worldwide to country-specific investment information. KOTRA further provides support throughout the overseas investment process, assisting investors also with host country procedures.

Encouraging SMEs to venture abroad has recently become an important policy objective both for JETRO and KOTRA. Hayakawa et al. (2014) found that outward FDI promotion activities undertaken by JETRO and KOTRA have a significant positive impact on promoting investment of small and less productive firms, as well as in stimulating investments in politically risky countries – where political risk is typically strongly correlated with business risk. SMEs are less likely to venture abroad and have fewer internal resources to evaluate potential projects overseas, making the support of IPAs more central to their decision to internationalise. Larger and more productive firms have greater internal capacity to navigate high-risk markets.

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Annex 11.A. List of Thailand's double tax treaties

No.	DTA partner	Date of entry into force	First taxable year
1	Armenia	12-11-2002	01-01-2003
2	Australia	27-12-1989	01-01-1990
3	Austria	01-07-1986	01-01-1986
4	Bahrain	27-12-2003	01-01-2004
5	Bangladesh	09-07-1998	01-01-1999
6	Belarus	02-09-2006	01-01-2007
7	Belgium	28-12-1980	01-01-1980
8	Bulgaria	13-02-2001	01-01-2002
9	Cambodia	26-12-2017	01-01-2018
10	Canada	16-07-1985	01-01-1985
11	Chile	05-05-2010	01-01-2011
12	China, P. R	29-12-1986	01-01-1987
13	Chinese Taipei	19-12-2012	01-01-2013
14	Cyprus[15]	04-04-2000	01-01-2001
15	Czech Republic	14-08-1995	01-01-1996
16	Denmark	12-02-1999	01-01-2000
17	Estonia	23-12-2013	01-01-2014
18	Finland	26-02-1986	01-01-1987
19	France	29-08-1975	01-01-1975
20	Germany	04-12-1968	01-01-1967
21	United Kingdom	20-11-1981	01-01-1981
22	Hong Kong	07-12-2005	01-01-2006
23	Hungary	16-10-1989	01-01-1990
24	India	05-01-2016	01-01-2017
25	Indonesia	21-10-2003	01-01-2004
26	Ireland	11-03-2015	01-01-2016
27	Israel	24-12-1996	01-01-1997
28	Italy	31-05-1980	01-01-1978
29	Japan	30-08-1990	01-01-1991
30	Korea	29-06-2007	01-01-2008
31	Kuwait	25-04-2006	01-01-2007
32	Laos	23-12-1997	01-01-1998
33	Luxembourg	22-06-1998	01-01-1999
34	Malaysia	02-02-1983	01-01-1983
35	Mauritius	10-06-1998	01-01-1999
36	Myanmar	15-08-2011	01-01-2012
37	Nepal	14-07-1998	01-01-1999

No.	DTA partner	Date of entry into force	First taxable year
38	Netherlands	09-06-1976	01-01-1976
39	New Zealand	14-12-1998	01-01-1999
40	Norway	29-12-2003	01-01-2004
41	Oman	27-02-2004	01-01-2005
42	Pakistan	07-01-1981	01-01-1979
43	Philippines	05-03-2018*	01-01-2019*
44	Poland	13-05-1983	01-01-1983
45	Romania	13-04-1997	01-01-1998
46	Russian	15-01-2009	01-01-2010
47	Seychelles	13-03-2006	01-01-2007
48	Singapore	15-02-2016	01-01-2017
49	Slovenia	04-05-2004	01-01-2005
50	South Africa	27-08-1996	01-01-1997
51	Spain	16-09-1998	01-01-1999
52	Sri Lanka	12-03-1990	01-01-1991
53	Sweden	26-09-1989	01-01-1990
54	Switzerland	19-12-1996	01-01-1997
55	Tajikistan	23-12-2013	01-01-2014
56	Turkey	13-01-2005	01-01-2006
57	Ukraine	27-11-2004	01-01-2005
58	United Arab Emirates	28-12-2000	01-01-2001
59	United States of America	15-12-1997	01-01-1998
60	Uzbekistan	21-07-1999	01-01-2000
61	Vietnam	31-12-1992	01-01-1993

Source: Revenue Department of Thailand.

Notes

[1] The Bank of Thailand regulates capital outflows. The Ministry of Commerce is responsible for the Negotiations of Free Trade agreement (FTA) while the Ministry of Foreign Affairs is in charge of Negotiating Bilateral Investment Treaties (BITs). The Board of Investment (BOI) carries out OFDI promotion and facilitation policy. The BOI focuses on outward investment primarily in ASEAN and other targeted countries, while the Department of International Trade Promotion (DITP) renders indirect support i.e. providing information through Office of Commercial Affairs abroad. The Ministry of Finance (Revenue Department) has the authority to grant tax exemptions on dividends from offshore investments, while the EXIM Bank of Thailand provides loans and foreign investment risk insurance.

[2] Thailand became a net outward investing country since 2012, with the exception of two years (2013 and 2015). OFDI flows surpassed those of inward for the first time in 2012, than again in 2014. Since 2016, Thailand has consistently been a net outward investing country.

[3] This section uses greenfield data from Financial Times FDI Markets and M&A data from Dealogic. Data on greenfield FDI and M&A are likely to vary significantly as they are measuring two distinct types of investments. Moreover, announced greenfield FDI and reported M&A vary significantly from official FDI statistics from the Bank of Thailand. For example, Singapore is the destination of around 12% of Thai FDI according to Bank of Thailand data, while it represents less than 1% of greenfield projects. The difference is partly due to trans-shipping of investment through Singapore and the setting up of international trade and financing functions there (Hiratsuka, 2006). Investments in Singapore may not be the final destination of Thai investments. While official FDI statistics typically capture the immediate destination of OFDI, data on announced greenfield investment capture the final destination. Accordingly, there can be significant differences in terms of destination and sectoral distribution of Thailand's OFDI across data sources.

[4] A positive link between OFDI and exports is found for countries such as China (Liu, Wang and Wei, 2001), Malaysia (Goh, Wong, and Tham, 2013), India (Narayanan and Bhat, 2011) and in Latin America (Cuervo-Cazurra, 2008).

[5] This is discussed in Cheewatrakoolpong & Satchachai (2017), Masron & Shahbudin (2010), and Pananond (2013).

[6] Malaysia, for example, has focused its OFDI policy objectives on maximising the export-generating potential of OFDI and integrating it with the export promotion agency's investment promotion strategy (ESCAP, 2020).

[7] In Malaysia, the OFDI policy mandate lies with the Malaysia External Trade Development Corporation (MATRADE), while the Philippines has not designated a government department with responsibility for OFDI policy (ESCAP, 2020).

[8] Capital controls represents any measure taken by a government, central bank or other regulatory bodies to limit the flow of capital in and out of the domestic economy. The OECD Code of Liberalisation of Capital Movements includes legally binding obligations in the area of capital flows for adhering countries, see full text at: http://www.oecd.org/daf/inv/investment-policy/Code-capital-movements-EN.pdf

[9] When profits are generated overseas, they are taxable by the host government. Once repatriated, the profits may be taxed again by the home country. To avoid the double taxation of profits of MNEs, many governments offer credits, deductions or exemptions for repatriated earnings. Under the deduction method, the home country treats host-country taxes as costs and after-host-tax profits are taxed at the home-country statutory rate. Under the tax credit method, the home country offers a credit when calculating the payable home tax.

[10] To be eligible to receive the tax benefit, companies have to be at least 60% Malaysian owned.

[11] Enterprise Singapore will co-share up to 50% of the loan default risk and up to 70% for young enterprises (less than 5 years and more than 50% equity owned by individuals) and high risk destinations (Standard and Poor country rating below BBB-).

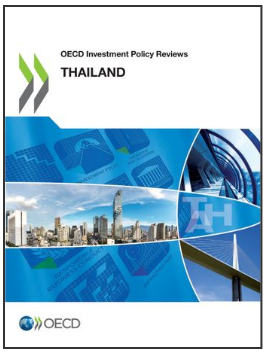
[12] For "SME Fixed Assets", the SME definition refers to Group revenue of up to SGP 100 million or maximum employment of 200 employees. Borrowers must not be part of be majority-owned by a group with a revenue of more than SGP 500 million.

[13] Credit for acquisitions overseas increased steadily and reached an accumulated USD 5 billion by 2011. Since 2013, BNDES has faced harsh criticism for providing financing for infrastructure projects implemented by Brazilian construction firms abroad when opportunities for investment within the country.

A generalised lack of transparency and corruption allegations concerning concession of loans abroad further aggravated the situation.

[14] The OECD *Due Diligence Guidance for Responsible Mineral Supply Chains* provides detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. FAO (2016) summarizes the policy good practices in responsible foreign investment in in nine selected OECD countries.

[15] Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue.



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