

Manufacturing Sector Brief  
**THAILAND**



## COUNTRY OVERVIEW

Thailand is Southeast Asia's second largest economy after Indonesia with a nominal gross domestic product (GDP) of around USD 500 billion (World Bank, 2021). With a population of over 69 million, Thailand has a strong domestic market and a growing middle class, with the private sector being the main engine of growth. Thailand has successfully diversified its economy comprising automotive, electrical and electronics, tourism, agro-processing, and financial services and has begun to embrace technologies of Industry 4.0 scaling up innovations in its key economic sectors to become a high-income nation.



## MANUFACTURING SECTOR OVERVIEW

The manufacturing sector plays a significant role in Thailand's economic growth contributing to 25.3% of GDP in 2019 and employing about 16% of the labor force in 2018. Large players, such as Siam Cement Group, Charoen Pokphand Foods Public Co. Ltd (or better known as C.P.), Indorama Ventures Public Company Limited, Toyota Motors Thailand Company Limited, and Thai Beverage (ThaiBev), have significant presence outside Thailand, such as in Cambodia, Lao PDR, and Viet Nam. The manufacturing sector is expected to continue its growth despite setbacks due to COVID-19. The country's manufacturing production index (MPI) is expected to grow by 5.2% in 2021 mainly due to fast-growing exports, an increase compared to an earlier forecast of the Office of Industrial Economics (OIE) of 4–5%.

Main manufacturing subsectors are expected to see growth going forward, such as electronics parts and circuit boards increased by 32.32% year-on-year in the month of August and jewellery and precious metals manufacturing sector grew by 178.89 % year-on-year supported by online sales.



## SUBSECTOR/SEGMENT

In addition to electronics and electronic parts and jewellery, the key manufacturing subsectors include automobiles and automotive parts, computers and components, rubber products, plastic pellets, and chemical products. There are approximately 400 manufacturers in the electronic and electronic parts subsector (with a 2019 export value of USD 32 billion), especially multinationals, such as Seagate, Panasonic, Mitsubishi, Samsung, Sony, Toshiba, and LG.

Thailand is also a major auto assembling centre in Southeast Asia, employing around 500,000 people. In 2019, the export value in the automotive sector was USD 27.8 billion. Leading car brands from Japan, USA, Europe, and India, including Toyota, Isuzu, Honda, Mercedes, Mitsubishi, Nissan, BMW, and Ford have their manufacturing facilities in Thailand. Anchored by a workforce with technical know-how in the automotive sector, Thailand has set its sight on becoming a major manufacturer of electric vehicle, with major brands already assembling hybrid models in the country.

The gem and jewellery sector with an export value of USD 16 billion in 2019 employs nearly one million workers. Thailand is one of the world's major centres of colored stone manufacturing and trading. Thailand's advantage in this sector is its high-level skills in gemstone enhancement "Heat Treatment" and gemstone cutting.

The rubber manufacturing sector with an export value of USD 11.5 billion cover all upstream, midstream, and downstream industries in the supply chain, such as concentrated latex, compound rubber, skim rubber, automobile tires, latex gloves, condoms, elastics, and rubber shoes.

As pressure on plastic manufacturers mount in light of the micro-plastic and ocean plastic debris problem, Thailand's plastic manufacturing sector, with 2019 export value of USD 9.4 billion, is strengthening its image as value-added and environment-friendly plastic manufacturing. There is increasing demand for bioplastics as potential solution to address environmental problems. As such, Thailand has become a leading producer of the raw materials needed for bioplastic synthesis, being well equipped with advanced technology and technical expertise in all phases of the bioplastics supply chain. Indorama Ventures already produces 20% of all PET resins in the world and is among the leading companies developing environment-friendly recycling methods.



## GEOGRAPHICAL PRESENCE

With the main manufacturing hubs are being concentrated in Bangkok, the Eastern Seaboard Development Programme (ESDP) is committed in creating industry clusters and promoting readiness of infrastructure and logistics, including the Laem Chabang Port which will benefit from the Lao-China railway link connecting Kunming to Singapore.

EDSP has created a major industrial zone that extends from east of Bangkok towards the Cambodian border. The region comprises Chonburi Province, Chachoengsao Province, Samut Prakan Province, and Rayong Province where high value goods, such as Japanese branded automobiles, are manufactured and shipped to other ports.

**Laem Chabang Port**, Thailand's largest port, is surrounded by industrial parks, including the country's primary economic and industrial zone – the Eastern Economic Corridor (EEC), which is slated to be the heart of Thailand's Industry 4.0 scheme. A major focus of EEC is to improve existing connectivity and foster manufacturing and innovation.

Like many ASEAN members, such as the countries in the Mekong region, Thailand established special economic zones (SEZs) to drive growth in foreign direct investments (FDIs) and subsequently the economy. These SEZs, such as Tak, Songkhla, Sakeo, and Mukdahan, have spearheaded growth in the agriculture, fishery, furniture, medical, textile, clothing, and plastics manufacturing activities in Thailand.



## BRIEF PROFILE OF MSMES IN THE SECTOR

Large enterprises dominate the Thai manufacturing sectors contributing to 64% of the GDP generated by the sector in 2018. Of the over three million registered enterprises in Thailand in 2018, 99.8% were MSMEs of which about 17% are engaged in manufacturing. MSMEs are known to be concentrated in the Northeastern region of Thailand.

Table 1: Thailand's National GDP and SMEs Contribution to the GDP According to Economic Sector, 2018

● Economic Sector	● Contribution to the National GDP	● SMEs in the sector contribution to sector GDP
Agriculture	8.1	NA
Manufacturing	26.8	22.6
Wholesale and Retail	15.9	31.4
Services	41.0	39.1
Others (mining, construction, power generation, and water utilities)	8.2	6.9

Source: OSMEP

MSMEs in Thailand also have limited involvement in global value chain (GVC) as they contributed to about 29% of 2018 share of exports.



## POLICIES AND REGULATIONS

Thai government policy is favorable to free trade and investment in Thailand, with laws that protect the interest of investors and generous tax and non-tax incentives.

The construction and operation of a factory in Thailand is strictly regulated by Thai laws, like the Factory Act of Thailand stipulating regulations for the construction, operation, expansion, and safety of factories in Thailand, and controls the levels of industrial pollution released through factory activities.



## NATIONAL STRATEGY

Thailand's 20-year strategy called the "Thailand 4.0" aims to drive the country to become high-income by 2036 supported by an innovative, value-based industry. Subsequent national development plans under the National Strategy 2017-2036 aims to scale up human capital development, productivity, innovation, and research and development.

Thailand aims to achieve advanced innovations and technologies in industries, such as integrated medical industry and services; digital, data, and artificial intelligence industry and services; transportation and logistics industry and services; and national security.



## INVESTMENT AND MARKET ENTRY OPPORTUNITIES

The Board of Investment has 10 key industries to promote investment in Eastern Thailand (covering EEC), which includes next-generation automotive, intelligent electronics, advance agriculture, food processing, medical tourism, digital, robotics, aviation, healthcare, and biofuel/chemical. Benefits for investors include an exemption for income tax and import duties.

Investors in the manufacturing sector can expect reduced import duties for 99% of the goods traded between member states when the Regional Comprehensive Economic Partnership (RCEP) kicks in. Thai manufacturers of autos and auto parts, plastic nurdles and plastic products, chemicals, rubber and rubber products, and electronics and parts for electronic appliances, as well as the fishing industry, are expected to benefit from RCEP.

As an aging market and with growing medical tourism, Thailand is expected to become a hot spot for medical device manufacturers to showcase and test the market by providing devices needed by the elderly and the medical sector in general.

Businesses stand to benefit from the government's latest incentives to encourage private sector participation in the initiative and offset the costs involved in adopting new technologies under the Thailand 4.0 strategy. Among these are:

- option to establish companies with 100% foreign ownership
- exemptions on import duties for raw materials and machineries used for research and development and products meant for export
- corporate income taxes exemption for a period of up to 13 years
- tax-deductible allowance equivalent to 70% of invested capital
- tax holiday of up to 15 years for enterprises involved in new technologies
- matching grants for innovation and R&D in selected sectors



## KEY CONSIDERATIONS

Although Thailand fares better than many of its regional neighbors in terms of global competitiveness, it still needs to improve its skilled workforce base. Thailand 4.0 faces some initial challenges in terms of shortage of experts. Manufacturers, especially MSMEs, are slow in technology adoption due to relatively low labor costs and shortage of experts.

MSMEs are only half as productive as larger and foreign firms in wider Bangkok and EEC provinces and even lesser in other provinces. MSMEs with foreign business linkages seem to have better productivity than enterprises that do not have.

Supply chain which leverages Thailand's current expertise in electronics and automotive products can expect great opportunities for growth.



## RECOMMENDATIONS

Robust policies and investments in human capital in the following areas can help address issues in expert shortages to support Thailand 4.0 strategy:

- Research and development and technology transfer from abroad

Being well integrated into regional and global production networks, investors can capitalize on Thailand's workforce ability and government efforts to absorb and apply imported technology and develop indigenous high-technology industries.

- Skills enhancement and business and education partnerships

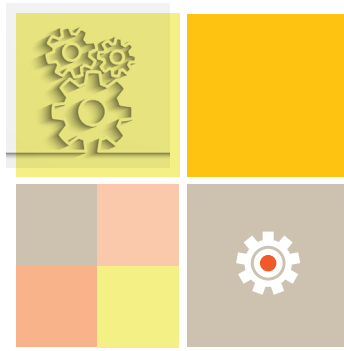
Investors also can take advantage of government policies and incentives, which aims to encourage private sector and education sector partnerships in developing expected skills set to support future workforce needs in realizing the Thailand 4.0 strategy.

Foreign companies should take note of Thailand's review or repeal of duplicate/outdated laws and regulations, which includes regulations governing visas and work permits for non-Thais. These are anticipated to help businesses in industries troubled by labor shortages.



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