

# IE Insights

Vol. 24\_Sep 2015

## Thailand: Opportunities Amidst Changes

In May 2014, Thailand's military took control of the government and suspended the constitution in the nation's 19<sup>th</sup> coup since 1932 – the year constitutional monarchy was introduced. The move ended six months of political and widespread street protests in Thailand's capital that had impacted the economy significantly. The military had since appointed an interim government which reshuffled top positions of State-Owned Enterprises, reviewed key infrastructure development plans and laid out a three-step road map to restore democracy in Thailand. In this issue, we examine the challenges of doing business amidst these changes, and identify opportunities arising from the country's long-term development.

By **Kevin NEO, LAI Shu Ying**

Southeast Asia Group  
[enquiry@iesingapore.gov.sg](mailto:enquiry@iesingapore.gov.sg)

**03**

**Summary**

**04**

**Political and economic overview:  
Mixed but stable growth outlook**

- // The end of political deadlock
- // Economic recovery
- // Bright spots remain

**08**

**Road to economic recovery:**

**Overview of government initiatives**

- // Encourage foreign investment
- // Increase government spending
- // Promote tourism

**11**

**Windows of opportunity**

- // Thailand Infrastructure Development Plan (2015-2022)
- // Resilient consumer segments
- // Key mall operators in Thailand
- // Key government regulations
- // Promoted manufacturing sectors
- // Food manufacturing

**23**

**Macro business considerations:  
Challenges and suggestions for  
Singapore companies**

- // Election watch
- // Regulatory hurdles
- // Labour market
- // How Singapore companies should approach Thailand

**25**

**Conclusion**

---

**Disclaimer**

While every effort is made to ensure that the information in this document is accurate, the information is provided by IE Singapore to you without any representation or warranty. Any reliance on the information in this document is at your own risk. IE Singapore does not accept any liability for any errors, omissions or misleading information. IE Singapore and its employees shall not be held responsible for any consequence arising from your reliance on any information provided by us. You are advised to consult your own professional advisors.

# Summary

---

- // Notwithstanding the recent bombing incidents, Thailand's economy is forecasted to grow 3% in 2015. Assuming the Thai government is able to control the situation well, in a steady state, growth is expected to be driven by infrastructure investments, consumer spending and the continued boost of tourism initiatives.
- // Elections are slated to be held by 2017 and will be closely watched by domestic as well as international observers. The outlook for Thailand's economy will hinge on the incoming government's ability to enact structural reforms and merge the political divide.
- // Nevertheless there continue to be opportunities for Singapore companies in the infrastructure, consumer goods & services and manufacturing sectors. The ASEAN Economic Community (AEC) will bring about an integrated regional economy and may provide new opportunities and a needed boost for the Thai economy. The long-term development plans of Thailand include:
- **Infrastructure development**  
The government approved a 3.3 trillion baht (US\$101 billion) infrastructure development plan to improve transport links in Thailand and its neighbours. Singapore companies can participate by bringing in their technical expertise and project management experience through partnerships with local conglomerates and to leverage their strong local connections.
  - **Consumer services**  
Consumption expenditure makes up more than half of Thailand's economy. Coupled with a market of 67.7 million consumers, Thailand is the second largest consumer market in ASEAN. Singapore companies can explore franchising agreements, partnerships with multi-brand retail operators or ride on the e-commerce wave to capture consumer opportunities in Thailand.
  - **Manufacturing**  
Thailand's strengths in automotive and food processing have earned it the labels of "Detroit of the East" and "Kitchen of the World". Singapore companies should leverage on Thailand's edge in manufacturing to address emerging demand for eco-car and automotive electronics, as well as ready-made meals and halal food sectors.

# Political and economic overview:

## **Mixed but stable growth outlook**

---

With Thailand's 19<sup>th</sup> coup that ended the political deadlock troubling the country since late 2013, sentiments towards the country's economic outlook has improved. Some challenging years lie ahead before Southeast Asia's second largest economy can return to its past strong growth rates. Despite the challenging global environment, Thai economists and international institutions such as the World Bank foresee recovery of the Thai economy, albeit at a slower growth rate. Nonetheless, sectors such as infrastructure, manufacturing and consumer-related services should remain resilient.

### **The end of political deadlock**

On 22 May 2014, the Royal Thai Army staged a coup and formed the National Peace and Order Maintaining Council (NPOMC)<sup>1</sup> to govern the country, ending six months of anti-government protests in Bangkok.

Observers noted that although the coup broke the political impasse and restored peace to Thailand, the country continues to be afflicted by underlying domestic issues such as weak consumer sentiment and spending, impending elections and an imminent royal transition.

The interim government has laid out a three-step road map to return Thailand to democracy by 2017 (Figure 1).

---

<sup>1</sup> NPOMC was renamed National Council for Peace and Order (NCPO).

**Figure 1: Thailand three-step roadmap to democracy**

<b>Phase 1</b> (June 2014 to September 2014)	<ul style="list-style-type: none"> <li>• National reconciliation</li> <li>• Drawing up of a Provisional Constitution by the National Council for Peace and Order (NCPO)</li> </ul>
<b>Phase 2</b> (October 2014 to September 2015)	<ul style="list-style-type: none"> <li>• Setting up of the National Legislative Assembly (NLA)</li> <li>• Appointment of an interim Prime Minister by the NLA</li> <li>• Appointment of cabinet members by interim Prime Minister</li> <li>• Setting up of the National Reform Committee</li> <li>• Drafting of a new Constitution (Current stage)</li> </ul>
<b>Phase 3</b> (Planned by 2017)	<ul style="list-style-type: none"> <li>• Democratic Elections</li> </ul>

### Economic recovery

Thailand registered an economic growth rate of 0.8%<sup>2</sup> in 2014, a lacklustre performance attributable to draw out political turbulences in the country.

Most local financial institutions are cautiously positive about the recovery of Thailand's economy in the face of challenging export environment and slow global economic recovery. Bank of Thailand (BOT) puts Thailand's growth forecast at 3% in 2015, a view echoed by Thailand's major banks and business community<sup>3</sup>.

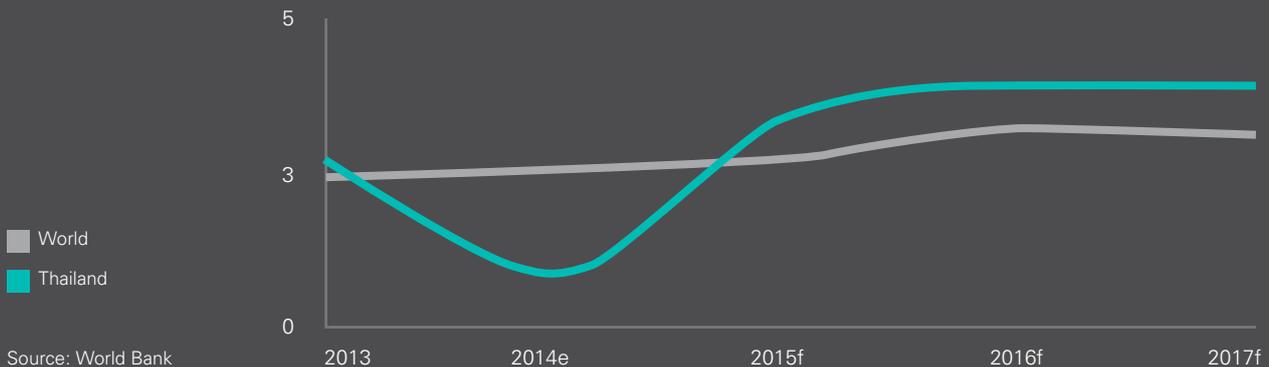
For the longer term international analysts from World Bank, Economist Intelligence Unit and Business Monitor International expect Thailand's real GDP growth to average 3.5% to 4% over the next two years, albeit at a rate lower than its regional neighbours such as Myanmar (>8%), Cambodia and Laos (7%), and other Southeast Asian nations such as Indonesia, Malaysia and Vietnam (5% to 6%) (Figure 2).

<sup>2</sup> Source: Bank of Thailand

<sup>3</sup> According to the Joint Standing Committee on Commerce, Industry and Banking (JSCCIB), which consists of the Federation of Thai Industries, the Thai Chamber of Commerce and the Thai Bankers' Association the Thai economy has made a gradual recovery, with growth momentum in tourism and signs of recoveries in consumption for durable goods and services. "JSCCIB cuts economic growth forecast by 5 points to 3%", The Nation, 8 Jul 2015.

Political and economic overview:  
Mixed but stable growth outlook

Figure 2: Economic growth in Thailand



Source: World Bank

### Bright spots remain

#### Manufacturing

A key component of Thailand's GDP, the manufacturing sector contributes approximately a third<sup>4</sup> of Thailand's economic output. Thailand is one of the world's top producers of hard disk drives, food and automobiles; the Kingdom is ASEAN's top automobile and parts producer<sup>5</sup>, and an important production base for players in the automotive global supply chain<sup>6</sup>.

Thailand is the biggest manufacturing hub for Japanese companies in Southeast Asia and is entrenched as a key production hub in its global supply chain for exports in Asia and other parts of the world<sup>7</sup>.

Against downward pressures from the sluggish global economy, depressed commodity prices and weak demand from its key trading partners of EU, Japan and China, Thailand's exports to neighbouring ASEAN countries retains its positive outlook. Strategically located in the centre of mainland Southeast Asia, Thailand's trade with neighbouring Indochina economies' grew by an annual average of 12% from 2009-2014, and at 20% to Myanmar, Cambodia and Laos during the same period<sup>8</sup>.

4 CIA The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

5 International Organization of Motor Vehicle Manufacturers (OICA), 2014 Production Statistics

6 Of the top 100 auto parts manufacturers in the world, 50% have factories in Thailand according to Thailand Board of Investment. Autopart manufacturers who have set up in Thailand include Robert Bosch, Denso, and Continental.

7 According to Board of Investment FDI by Country Japan remains as Thailand's top investor in 2014.

8 "Thailand: ASEAN's Key Logistics Hub", HKTDC Research, 23 Apr 2015

### **Consumerism**

With a population of 67 million, Thailand is the 4<sup>th</sup> most populous country in Southeast Asia and the second largest market in terms of total consumer expenditure. In recent years income distribution has improved and supported the expansion of the middle class and real consumer spending growth<sup>9</sup>. Thai households topped ASEAN for discretionary spending in 2014<sup>10</sup>.

Despite challenges such as weakening spending due to high level of household debt, companies in consumer retail sectors such as Central Group, which is one of the most diversified retail groups in Thailand, have earmarked plans worth 14 billion baht to expand outlets in 2015 for its 7-11 and Siam Makro store operations<sup>11</sup>. Central Pattana, Thailand's largest shopping-mall developer, has announced that it would follow through its development plans for its mall portfolio despite current challenges in the macro environment<sup>12</sup>.

Thailand experienced a strong growth in visitor arrivals of 27% in the first half of 2015 from the same period last year, signalling resumption in tourist spending and opportunities in the consumer services sector. While the bombing incidents in August 2015 are expected to cause a dip in tourist arrivals in the short term, we expect the tourism sector to hold up if the Thai government is able to contain the situation well. The traditional peak travel season in October would be the litmus test to watch.

---

9 Incomes in Thai rose by 13.1% in real terms between 2009 and 2014 to THB116,675 (US\$3,592), in the face of political turbulence and 2011's severe floods in the country. Euromonitor expects per capital annual gross income to post average real gains for 3.6% from 2015-2030 to stand at 204,040 baht. "Income and Expenditure: Thailand", Euromonitor, 6 Apr 2015

10 "Marketing to the ASEAN Consumer", Euromonitor, 2015

11 "CP All in B14bn drive to expand store operations", Bangkok Post, 25 Feb 2015

12 "Central Pattana to accommodate Ikea's second store in Thailand at Central WestGate Complex", The Nation, 2 Jul 2015

# Road to economic recovery: **Overview of government initiatives**

---

The interim Thai government has introduced various measures to foster economic growth in the country. This included Thailand's new seven-year investment promotion strategy aimed at attracting investments with stronger local spin-offs to the country, as well as plans to increase government spending and initiatives to drive tourism. The 3 trillion baht (US\$101 billion) Infrastructure Development Plan will be the main driver of economic growth.

## **Encourage foreign investment**

The Board of Investment of Thailand (BOI)'s new seven-year investment promotion strategy took effect from 1 January 2015. Zone-based incentives for investments were replaced with incentives for investments that focused on research and development, innovation, and value creation, aimed at enhancing national competitiveness. The seven promoted sectors remain the same, encompassing a total of 236 promoted activities across these sectors<sup>13</sup>:

1. Agriculture and agricultural products
2. Mineral, ceramics and basic metals
3. Light industry
4. Metal products, machinery and transport equipment
5. Electronics and electrical appliances industry
6. Chemicals, paper and plastics
7. Service and public utilities

---

<sup>13</sup> For the full list of activities and the applicable incentives, please visit BOI website at [www.boi.go.th](http://www.boi.go.th)

Under the new investment promotion strategy, the general incentives provided were streamlined into two groups: Group A (with corporate tax exemption) and Group B (without corporate tax exemption) as shown in Figure 3. On top of the general incentives, additional incentives will be provided if the project enhances Thailand’s general competitiveness, is located in an industrial area or in a selected list of 20 less-developed provinces.

**Figure 3: General incentives under BOI’s new investment promotion strategy**

	Applicable incentives	Examples of qualifying activities
<b>Group A</b> <ul style="list-style-type: none"> <li>Split into four tiers (A1, A2, A3 and A4)</li> <li>Covers 188 activities deemed to be of high importance to economic restructuring or knowledge/capital-intensive activities</li> </ul>	<ul style="list-style-type: none"> <li>Up to 8 years corporate tax exemption without cap;</li> <li>Exemption of import tax on machinery or raw material and other non-tax incentives<sup>14</sup></li> </ul>	<ul style="list-style-type: none"> <li>Vocational training centre</li> <li>Cloud service</li> <li>Data centre</li> <li>Waste to energy</li> <li>Regional distribution centre</li> <li>Water and steam production</li> <li>Inland container depot</li> <li>Digital content development</li> </ul>
<b>Group B</b> <ul style="list-style-type: none"> <li>Split into 2 tiers (B1 and B2)</li> <li>Covers 48 activities in the supporting industries which do not use high technology but are still important to the production value chains</li> </ul>	<ul style="list-style-type: none"> <li>Duty exemptions on imported machinery and/or raw materials as well as non-tax incentives (such as land ownership)</li> </ul>	<ul style="list-style-type: none"> <li>Ecommerce</li> <li>International HQ/trading centres</li> <li>Industrial estates</li> <li>Selected manufacturing (generally products with minimal R&amp;D content)</li> </ul>

Many investors viewed the new privileges as less attractive; 53 activities were removed from the list and some promoted activities were subjected to new requirements. For example, in the logistics sector, regional distribution centres are now subject to a minimum investment of US\$3.07 million, excluding cost of land and working capital, criteria which was previously not required. Such sentiments have led to a surge of applications to the BOI at the end of 2014. BOI attracted a 50-year record high of 3,469 investment applications worth US\$67.4 billion in 2014, 60% of which was made in December.

Singapore companies planning to expand their operations or enter the Thai market should review if their planned activities are covered under the new BOI incentives. Where clarifications from BOI are needed, IE Singapore can help to do so.

<sup>14</sup> Non-tax incentives include 100% foreign ownership, land ownership and the hiring of foreign skilled workers.

### **Increased government spending**

Since the 1997 Asian Financial Crisis, there has been a general under-investment in infrastructure in Thailand.

Thailand's infrastructure investment to GDP ratio fell significantly from its peak of 42% in 1996 to 26.3% in 2011<sup>15</sup>. This under-investment in infrastructure is particularly pertinent in Thailand's antiquated 120-year-old rail network, which remains the weak link of Thailand's transportation system. Thailand has just 4,431km of rail network (3,755km of which is still single track) compared to 15,947km of rail in Spain, which is of a similar land area.

Thailand government has announced a 3.3 trillion baht (US\$101 billion) Infrastructure Development Plan aimed to upgrade the country's transport infrastructure over the next eight years, in addition to stimulating economic growth. Opportunities available for Singapore companies to partake in this development will be elaborated in the next section.

### **Promote tourism**

Tourism is a key contributor to the Thai economy, accounting for about 10% of the country's GDP.

Bangkok is the second most popular city after London in the world for overnight international visitors, according to the 2015 Global Destination Cities index compiled by MasterCard. Despite the unrest in 2014, Bangkok remains popular. According to the Tourism Authority of Thailand, visitor arrivals in January 2015 increased 15.9% year-on-year to reach 2.65 million, with a 12.7% increase in tourist receipts to US\$3.69 billion.

A "Discover Thainess" campaign was launched to draw 28 million overseas visitors in 2015, a 13% increase from 2014. Tourism revenues are expected to rise 16%, to 1.35 trillion baht (US\$40.9 billion).

Coupled with rising domestic consumption and lower fuel prices, Singapore companies can look to capture both tourist and local expenditure by focusing on the right consumer segments, which will be covered in the next section.

---

<sup>15</sup> "Asia Special Report: Thailand: New Growth Engines", Nomura, 24 Sep 2012

# Windows of opportunities

---

The initiatives taken by the interim government, along with the country's strong economic fundamentals are expected to drive growth in the sectors of infrastructure development, consumer services and manufacturing.

In the infrastructure space, Singapore companies should focus on the priority projects identified in the newly announced infrastructure budget such as the mass transit projects and expansion of gateway airports. On the consumer services front, demand is expected to be driven by the rising Thai middle class as well as the return of foreign visitors – encouraged by the government's new tourism drive. In terms of manufacturing, Thailand's strengths in automotive are likely to remain a key pillar in its economy, but Singapore companies should look to niches such as eco-car and automotive electronics production, as well as food manufacturing.

## **Thailand Infrastructure Development Plan (2015-2022)**

Successive governments have attempted to boost infrastructure spending in Thailand. The current government approved an eight-year infrastructure development plan (2015-2022) worth 3.3 trillion baht (US\$101 billion) consisting of railway, roads, water transportation, aviation and mass transit projects (Figure 4).

This infrastructure development plan mirrors the 2 trillion baht infrastructure plan proposed by the previous Pheu-Thai led administration, with the exception of a slight revision in the rail projects' specifications<sup>16</sup>. The development time frame for the new infrastructure plan has also been extended from seven to eight years, with 50% higher proposed budget.

---

<sup>16</sup> The previously proposed high-speed rail projects have since been revised to standard gauge double track railways.

**Figure 4: Thailand Infrastructure Development Plan**



**Rail**

**Six double-track railroads** with one-metre gauge running diesel-fuelled trains for a combined 903km

- // Total budget of 129 billion baht
- Under bidding process - 3 routes
- Under Environmental Impact Analysis (EIA) - 3 routes
- // Bidding for the six routes expected to be completed in 2016

**Eight double-track railroads** with one-metre gauge running diesel-fuelled trains in the second phase for a combined 1.626km

- // Under design-study and EIA report consideration
- // Studies and the EIA report on all eight routes scheduled to be completed in 2015

**Two dual-track railroads** with 1.435-metre gauge running electricity-driven trains at a speed of up to 180km/h

- // Design being studied and EIA report being drawn up
- + 867km railroads for Nong Khai-Nakhon Ratchasima-Kaeng Khoi-Map Ta Phut and for the Bangkok-Kaeng Khoi route were approved by the Cabinet as cooperation between Thailand and China under G-to-G deal.

**12 routes of mass transit electric trains** in Bangkok and its suburbs covering a combined 257.3km

- // Four routes under construction
- // One route under bidding process
- // Six routes under bidding preparation
- // One route under design study
- + Extension of Airport Rail Link from Suvarnabhumi to U-tapao Airport 190km (29 billion baht)



**Road**

- // 12 routes nationwide with total length of 2,162km
- // Multi-modal shift transport depot in Chiang Khong, Chiang Rai
- // 15 inland container depots - 7 in border provinces and 8 in main cities
- // 41 truck service and rest areas
- // Acquisition of 3,183 NGV buses



**Air**

- // Expansion of Suvarnabhumi Airport for phase 2 (85 billion baht)
- // Improvement of Don Mueang Airport's terminal (3 billion baht)
- // Development of Phuket Airport's new terminal (5 billion baht)



**Water**

- // Deep-sea port in Satun
- // Laem Chabang sea port (A)
- // Chumphon sea port
- // Inland water port in Ang Thong
- // Cruise and marina project in Krabi and Koh Samui
- // Laem Chabang rail transfer terminal

Source: The Nation, 26 Dec 2014

## Thailand Infrastructure Development Plan (2015-2022) (cont'd)

The Infrastructure Development Plan has three main objectives:

### 1. Enhance Thailand's connectivity with neighbouring countries.

The Infrastructure Development Plan is aimed to leverage Thailand's strategic geographical location and position as the transportation and logistics hub of the region. The neighbouring CLMV (Cambodia, Laos, Myanmar, and Vietnam) countries are key export destinations for Thai products as they experience rapid growth and exports to these markets thrive despite the poor existing transportation linkages<sup>17</sup>. The rail and road projects under the Infrastructure Development Plan will enable Thailand to better tap the opportunities available in the fast growing CLMV economies.

### 2. Improve logistics efficiency and reduce reliance on road freight.

Thailand had a high logistics costs to GDP ratio of 15.2% in 2013 compared to Malaysia (12%) and Singapore (8%). This is partly due to an over-reliance on roads for transportation, accounting for 82.5% of logistic activities in Thailand; only 2.5% is via rail transportation<sup>18</sup>. The double track railway project which constitutes a large proportion of Thailand's Infrastructure Development Plan is expected to relieve the pressure on road transportation and enhance Thailand's logistics efficiency and cost effectiveness.

### 3. Reduce crowding in central Bangkok and spur expansion into the suburbs.

Traffic congestion is an issue in Thailand's capital city. The planned mass transit projects will improve inner-city mobility as well as connect downtown Bangkok with its ancillary suburbs where most of its working population reside.

## Opportunities for Singapore companies

### // *Mass transit projects*

Six mass transit projects in Bangkok<sup>19</sup> are in various stages of study for tender by Thailand's Ministry of Transport. Feasibility studies and environmental impact analysis (EIA) for these projects were completed under previous governments. The upcoming mass transit projects are expected to be implemented under Thailand's new public-private partnership (PPP) framework. The government has announced that it will cover land expropriation and the private sector would invest in construction, trains, operations and maintenance of the rail services with a single contract each for the Pink and Yellow Line<sup>20</sup>. Singapore companies could find opportunities in project management, mechanical and electrical consultancy, operations and maintenance as well as the supply of equipment (passenger information system, signalling system, platform screen doors, automatic fare collection and Command-Control-Communication systems) for these projects.

17 "Thai Exports: Love Thy Neighbour", Credit Suisse, 31 Oct 2012

18 "Thailand's Logistic Opportunities: In the cross-border trades and AEC development", Solidiance, Jan 2014

19 Red Line Phase 2-3, Light Red Line, Airport Rail Link Extension, Orange Line Phase 1, Pink Line, Yellow Line

20 "Bidding for 2 electric monorail lines next year", Bangkok Post, 15 Jul 2015

### **Opportunities for Singapore companies (cont'd)**

#### **// Airport expansion**

Bangkok's Suvarnabhumi International Airport is operating beyond its 45 million passenger capacity to cater to increased tourist arrivals. The second phase expansion of Suvarnabhumi<sup>21</sup> will include annexes to the first passenger terminal, more aircraft parking areas, and a new office building for airlines. Airports of Thailand (AOT) is also studying the feasibility of a second passenger terminal according to its master plans and looking into assessing the environmental impact of a third runway at Suvarnabhumi. Singapore companies could supply equipment (baggage handling, passenger information system, runway foreign object detection system etc) and provide consultancy services for the airport expansion project.

#### **// Development of international cruise ports**

The Thai government has announced two new purpose-built international tourist shipping ports to be constructed in southern Thailand, to supplement existing ports in Phuket, Laem Chabang and Bangkok handling cruise liners<sup>22</sup>. Leveraging the strong foundation of cruise management in Singapore, our companies can offer expertise in areas such as project management, mechanical & electrical consultancy, operations and maintenance as well as the supply of equipment.

We encourage Singapore companies interested in infrastructure opportunities in Thailand to partner local conglomerates with complementary strengths in order to leverage on their strong local connections. A joint venture would also mitigate some restrictions imposed by Thailand's Foreign Business Act on foreign companies. Singapore companies can value add to the partnership by bringing in their technical expertise and track record to the bid.

### **Resilient consumer segments**

Although Thailand's population of 67.7 million is the fourth largest consumer market in ASEAN after Indonesia (253.6 million), Philippines (107.7 million) and Vietnam (90.7 million), Thai consumers have an average purchasing power of about US\$6,000. This is substantially higher than that for the Indonesian, Filipino and Vietnamese consumers. In 2013, Thailand's consumption expenditure was US\$214.5 billion, ranking it only behind Indonesia (US\$485.8 billion), ASEAN's largest economy<sup>23</sup>.

Consumption expenditure accounts for more than half (53.5%) of Thailand's GDP. Total household retail spending in Thailand is estimated at US\$222 billion in 2014 and is expected to grow at 8% until 2019 to reach US\$326 billion. Currently, the retail and F&B segments cumulatively account for half of the spending by households in Thailand, or an estimated US\$110.2 billion in 2014<sup>24</sup> (Figure 5).

21 "Suvarnabhumi expansion pegged back to master plan", Bangkok Post, 21 May 2015

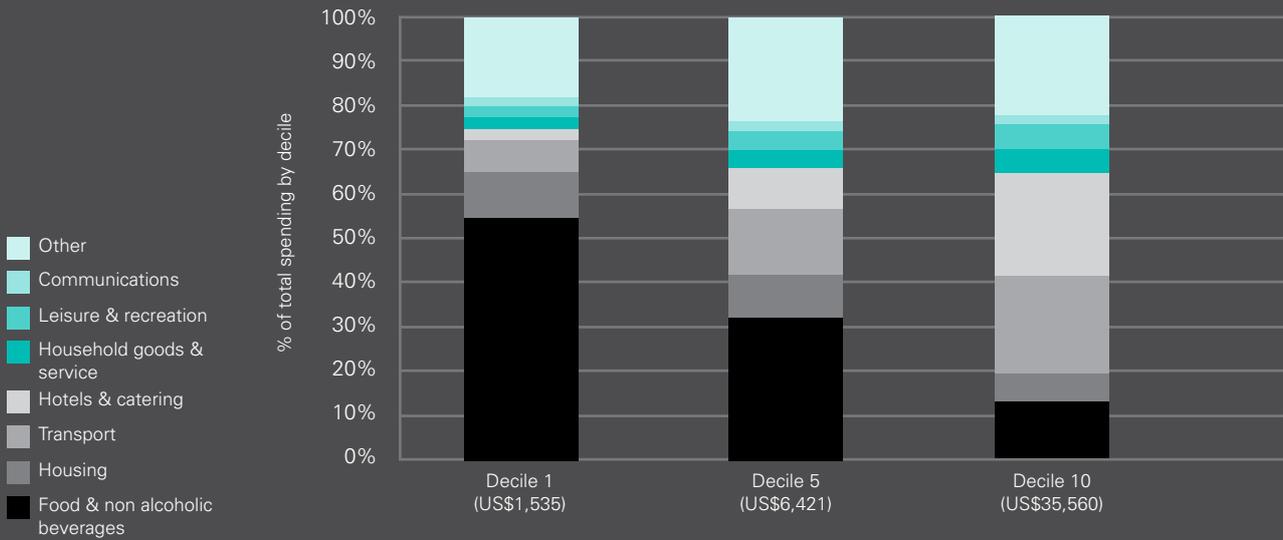
22 "Two new cruise liner ports planned", Bangkok Post, 2 Mar 2015

23 The World Factbook, Central Intelligence Agency

24 Data & Forecasting, Business Monitor International

**Figure 5: Composition of Thailand household spending**

**Spending patterns of Thailand's low, mid and high income households: 2014**

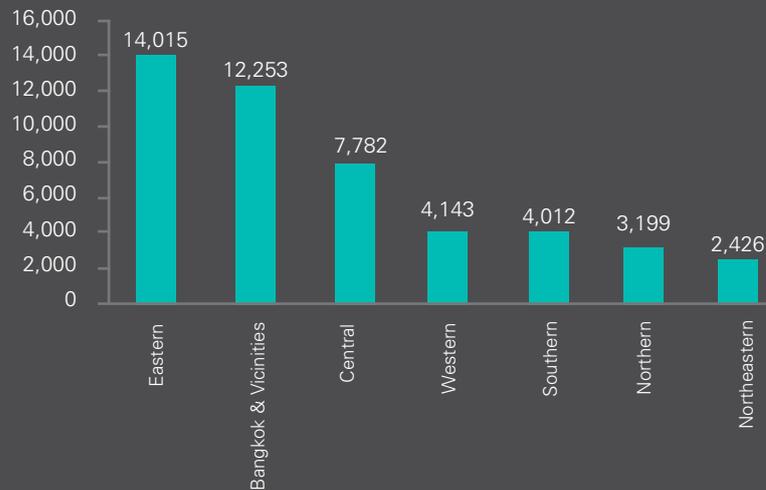


Source: Euromonitor International from national statistical offices/ OECD

Note: The figures in brackets refer to the average disposable income of households in each decile.

Purchasing power outside of Bangkok and its surrounding vicinities, especially in Central and Eastern Thailand, is growing due to populist policies by successive Thai governments, such as the minimum wage policy of 300 baht a day as well as the rice pledging scheme (Figure 6).

**Figure 6: Distribution of wealth across Thailand**



Source: "10 Year Forecasts – Facing Multiple Growth Headwinds", Business Monitor International, 4 Jun 2015

## Resilient consumer segments (cont'd)

### F&B

With the rise in income, Thais are increasingly spending more on food, reaching US\$744 spent per capita in 2013. Thais in major cities tend to eat out as it is cheaper to do so than cooking. Rice remains as the staple though noodles and sticky rice are also popular among the locals. Thais also enjoy snacking on street food, and are amenable towards sweet foods such as desserts.

Thailand has a wide range of food options, ranging from fine dining to roadside stalls. As the population is increasingly urbanised, ready-made meals are gaining popularity among the city dwellers and younger segments of the population as more value is placed on convenience.

Thais are generally open to novel food concepts from abroad. Recent foreign entrants to the Thai market that have done well include TWG, Garrett Popcorn, Laduree and Nitrogenie.

### Retail

Thais spent an average of US\$140 on fashion annually. The retail scene is vibrant with a wide range of retail offerings ranging from leading global designers, international mass market fashion, local designers, outlet stores to street vendors. Although low-end apparel markets such as street stalls and wholesale centres remain popular, there is a niche mid to luxury segment in retail where local and international fashion brands are priced comparable to Singapore. In recent years, Bangkok has also gained reputation as an international fashion centre supported by the bi-annual Bangkok Fashion Week.

Online shopping is increasingly predominant in Thailand with a 52 million strong internet user base (Figure 7). E-commerce sites such as Rakuten Tarad, Zalora and Lazada are thriving in Thailand. For instance, Rakuten Tarad reported a 71% rise in e-commerce sales during the anti-government protest compared to a 50% drop in sales of physical store fronts.

Figure 7: Thailand's e-commerce landscape (2012)

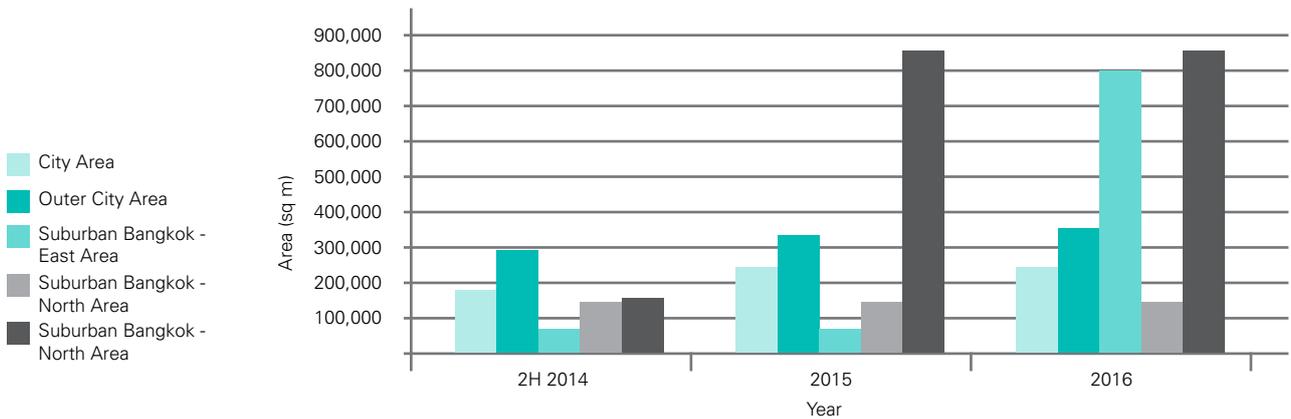


Source: Nielsen, AT Kearny, Digital Advertising Association (Thailand), Euromonitor

### Key mall operators in Thailand

Most of Thailand’s retail space stock is in Bangkok and its surrounding area, where nearly 10 million people reside. As of 2014, there are over 7 million square metres of retail space in Greater Bangkok<sup>25</sup>. In 2015 alone, an additional 1.1 million square metres of retail space will come online, accounting for more than 15% of the existing stock (Figure 8). Most of these upcoming retail developments are located in suburban locations to tap into the urban sprawl driven by the expansion of the mass transit network, and the lack of prime locations in central Bangkok. Despite the increase in retail space, take-up rate has remained strong as many foreign and Thai retail brands continue to expand rapidly.

**Figure 8: Retail space supply in Bangkok and surrounding areas**



Source: Bangkok Thailand Retail 3Q 2014, Colliers International Thailand Research

25 Bangkok Thailand Retail 3Q 2014, Colliers Thailand

### Key mall operators in Thailand (cont'd)

Two main developers, Central Group and The Mall Group, dominate Thailand's shopping mall landscape. These two developers operate nearly 40 shopping malls in prime locations across Thailand. Two other developers have also carved themselves a niche in Thailand's retail scene: Siam Future specialises in community malls across Bangkok; while Siam Piwat has developed a cluster of three malls (Siam Paragon, Siam Discovery and Siam Centre) in central Bangkok. The general leasing terms in most malls are summarised in Figure 10.

Figure 9: Snapshot of key mall developers in Thailand

Key Mall Operators	Market Positioning
Central Group 	<ul style="list-style-type: none"> <li>• Largest mall operator</li> <li>• Operates 26 malls across Thailand</li> <li>• Flagship Mall: CentralWorld</li> </ul>
Mall Group 	<ul style="list-style-type: none"> <li>• Second largest mall operator</li> <li>• Operates 11 malls across Thailand</li> <li>• Flagship Malls: Emporium, EmQuartier</li> </ul>
Siam Future 	<ul style="list-style-type: none"> <li>• Focused on developing community malls</li> <li>• Operates 18 community malls across Bangkok</li> <li>• Flagship Mall: Mega Bangna</li> </ul>
Siam Piwat 	<ul style="list-style-type: none"> <li>• Mall developer and retailer</li> <li>• Operating 4 malls in Central Bangkok</li> <li>• Flagship Malls: Siam Paragon (joint development with Mall Group), Siam Centre &amp; Siam Discovery</li> </ul>

Figure 10: General leasing terms in Thailand

<b>Rental Period</b>	<ul style="list-style-type: none"> <li>• Usually in blocks of 3 years due to tax issue</li> <li>• Short Lease: 3 years; Long Lease: 15 – 30 years</li> <li>• Sub-leasing is generally not allowed without prior consent from the landlord</li> </ul>
<b>Base Rent</b>	<ul style="list-style-type: none"> <li>• Quoted in Thai Baht on a square metre per month basis</li> <li>• Usually payable one month in advance</li> </ul>
<b>Service Charge</b>	<ul style="list-style-type: none"> <li>• Covers utilities, communications and third party insurance fees</li> <li>• Normally included in rent but charged separately in large retail centres</li> </ul>
<b>Value added tax</b>	<ul style="list-style-type: none"> <li>• The base rent of an immovable property is exempted from value added tax</li> <li>• Service charge is subject to value added tax at prevailing rate (currently 7%)</li> </ul>
<b>Security Deposit</b>	<ul style="list-style-type: none"> <li>• Usually equivalent of six months of base rent</li> <li>• Refundable on expiry of lease</li> </ul>
<b>Opening Hours</b>	<ul style="list-style-type: none"> <li>• Monday – Sunday</li> <li>• 10am – 10pm (subject to centre management)</li> </ul>

Source: Guide to Retail Lease Terms, CBRE Thailand Website <http://www.cbre.co.th/en/SubServices/bangkok-retail-lease-guide>

### Key government regulations

Thailand's Foreign Business Act (1999) regulates the business activities of foreign companies. In the retail sector, foreign companies are limited to five outlets and are not allowed majority shares unless there is total registered capital of more than US\$3.07 million (fully paid up) or more than US\$614,000 in capital per outlet. In the F&B sector, foreign companies are also not allowed majority shareholding. The only exemption to the rule is if the foreign company obtains a foreign business license from the Ministry of Commerce, which is subjected to minimum capital investment of 100 million baht<sup>26</sup>.

### Opportunities for Singapore companies

#### // Partner multi-brand operators

Singapore retail and F&B companies can partner multi-brand operators via a joint venture, distribution or franchise model, the last being most preferred by international brand names (Figure 11). Established multi-brand operators understand the local market and have the necessary hardware (logistics network) and software (marketing channels) in place. Working with multi-brand operators also allow Singapore retail and F&B companies to secure prime locations and negotiate for better rental rates by leveraging on the long-term relationship that the multi-brand operators have with the mall owners. This is especially critical in Thailand as key mall owners have strong bargaining power due to the consistent high demand for limited prime retail space.

**Figure 11: A selection of international brands retailing with multi-brand operators**

Multi-Brand Retail Operators	Franchised Brands
Central Marketing Group	French Connection, Mango, United Colors of Benetton, Ralph Lauren, Calvin Klein, Clarins, Accessorize
Jaspal Group	Fred Perry, Footwork, Love Moschino, Models Own, Lyn, Misty Mynx, Royal Ivy Regatta, CPS CHAPS
ICC Group	Arrow, ELLE, Guy Laroche, Lactoste, Le Coq Sportif, Wacoal, Mizuno, Speedo
Minor International	Bossini, Charles & Keith, Espirit, Gap, Pedro, Red Earth, Tumi

<sup>26</sup> A Business Guide to Thailand 2015, Thailand Board of Investment

**Opportunities for Singapore companies (cont'd)**

*// Seek out franchising opportunities*

Thai franchisees often like to take on well-established and globally known brand names, particularly in the fast fashion and fast food sectors (Figure 12). Singapore retail and F&B companies should look beyond the traditional franchisees and consider other potential partners such as the second- or third-generation family members of top conglomerates in Thailand. They tend to want to try new businesses and are able bring into the collaboration funds and strong connections in Thailand. Singapore retail and F&B companies considering the franchising option in Thailand have to adopt a long-term outlook with their Thai franchisees who typically prefer brand owners who are able to offer longer-term support in operations and marketing to jointly popularise the brand in Thailand.

**Figure 12: Fast food concepts are popular among Thai franchisees**

Company	Franchised Food Concepts
Central Marketing Group	Mister Donut, KFC, Auntie Anne’s, Pepper Lunch, Chabuton, Cold Stone Creamery, Ootoya, Yoshinoya
Minor Food Group	The Pizza Company, Swensen’s, The Coffee Club, Thai Express, Dairy Queen, Burger King, Sizzler
Evolution Capital	Domino’s Pizza, Kyochoon, The Coffee Bean & Tea Leaf
Fuji Group	Bangkok Kitchen, Brasserie Nakawara, Coco Ichibanya, Sushi Tsukiji, Shin Daikoku

// ***Ride on the e-commerce trend***

The National Statistical Office puts Thailand's e-commerce market to be worth 744 billion baht (US\$22.8 billion) in 2014 and it is expected to grow by 35% to 40% in 2015<sup>27</sup>. Besides established local e-commerce sites such as Weloveshopping.com and Rakuten-Tarad.com, Thailand has also drawn Southeast Asia focused marketplaces such as Lazada and Zalora.

The mobile commerce sector has good potential for growth with increased smartphone penetration<sup>28</sup> and general popularity of social media<sup>29</sup> with Thais. Lazada reported that 45% of its total traffic from mobile visits<sup>30</sup>, and Tarad reported a 300% leap in mobile payments within a 12-month duration in 2013<sup>31</sup>. LINE Pay has also debuted in Thailand, for mobile payments online and in stores to serve its 33 million Thai users<sup>32</sup>.

Singapore retail companies should leverage the rapidly growing e-commerce sector as a potential lower-cost channel to test the receptivity of their products in Thailand.

// ***Look beyond Bangkok***

Purchasing power outside of Bangkok and its surrounding areas has grown over the years; Thai retailers with an eye on the trend have built strong portfolios outside of Bangkok to tap into surrounding growth. Thailand's top mall developers Central Group and The Mall Group both have mall operations in the provinces such as Hua Hin & Phuket.

In the greater Bangkok area, Tokyu has also set up the first Japanese department store in Thailand in 20 years to cater to suburban consumers. Takashimaya has also announced a joint venture with Siam Pivat and CP Group to develop another suburban site near the western side of the Chao Praya river.

The strong expansion plans of these leading mall developers provide a clear indication of the potential outside of Bangkok. Singapore retail and F&B companies should take heed and explore other regions and suburban locations outside the traditional capital.

---

27 "E-commerce heats up as market ripens", Bangkok Post, 16 Dec 2014

28 "Smartphone ownership soars among Thais", Bangkok Post, 24 Apr 2015

29 Thais are avid users of social media on their mobile devices, and apps in particular Instagram and Line have gain popularity in recent years. One of Bangkok's flagship malls, Siam Paragon, was the most "instagrammed" location globally in 2013. Other social media platforms such as YouTube, Facebook and Twitter are also key marketing channels being adopted by retailers to reach consumers.

30 New Trends in Thailand's Retail Market, HKTDC, 13 May 2015

31 "Smartphones + LINE Drive Online Sales In Thailand", Forbes Magazine, 28 Jul 2014

32 "Line Pay debuts in Thailand", Bangkok Post, 15 Jul 2015

## Promoted manufacturing sectors

### Eco-car scheme

Under the Automotive Industry Master Plan (2012-2016), Thailand plans to leverage on its existing eco-system of automotive companies and transform itself into a global green automotive production base. This will largely be driven by the eco-car scheme under the BOI, which provides maximum tax incentives to companies engaged in eco-car manufacturing activities in Thailand. BOI has approved the applications of 10 global carmakers that have collectively committed a total S\$5.7 billion to produce more than 1.5 million vehicles over two phases (Figure 13). Thailand's car production is likely to reach 3.8 million per annum by 2019.

**Figure 13: Global carmakers' commitment under the eco-car scheme**

Thailand Eco-car Scheme	Automotive Companies	Planned investment	Planned Production (per annum)
Phase 1	Toyota, Honda, Mitsubishi, Suzuki, Nissan	S\$3.5 billion	753,000 vehicles
Phase 2	Mazda, General Motors, Ford, SAIC, Volkswagen	S\$2.15 billion	828,000 vehicles

### Opportunities for Singapore companies

Singapore companies should leverage the eco-car scheme and set up manufacturing facilities for parts that are expected to be in demand. Under the new investment promotion strategy, BOI offers a range of tax and non-tax incentives for the manufacturing of high-technology parts, safety parts, energy-saving parts and parts for hybrid/electric vehicles in Thailand. Another area of interest for Singapore companies is automotive electronics. Demand for automotive electronics is expected to grow rapidly as car owners increasingly seek sophisticated gadgets and electronic applications in their vehicles.

### Food manufacturing

Thailand is a food production hub with an estimated US\$31 billion worth of food exports in 2014. An abundance of natural resources, stringent food safety requirements, adherence to international quality standards and government support for training of the workforce has earned Thailand the title of "Kitchen of the World". More than 80% of the raw materials required for production are available locally and more than 800,000 workers are employed in the food manufacturing sector. In particular, Thailand has developed strengths in rice, sugar, cassava, fishery products as well as seasoning and ingredients.

### Opportunities for Singapore companies

The ready-made meal and halal food segments present opportunities for Singapore companies. Demand for ready-made meals is growing rapidly worldwide with increased urbanisation and changes in lifestyle. As the global Muslim population continues to grow, the demand for halal food is also expanding rapidly. Thailand's high standard of halal food accreditation recognised by the Central Islamic Committee angles it as a potential manufacturing location for Singapore companies looking to meet these global trends.

# Macro business considerations: **Challenges and suggestions for Singapore companies**

---

Thailand's political stability remains a key consideration for foreign investors and the planned elections will be closely watched. Beyond the immediate political situation, Southeast Asia's second largest economy will need to ensure that the business climate remains competitive and pro-business to remain attractive to foreign investors. Singapore companies should thus take a long-term perspective when investing in the country and focus on projects aligned to Thailand's long-term development goals. Singapore firms can also forge win-win relationships with Thai conglomerates and tap on their extensive networks in the region for third country collaboration opportunities.

## **Election watch**

Investors continue to keep close watch on the country's return to democratic, civilian rule. While elections were initially planned for late 2015, elections would likely be held in 2017 on the grounds of drafting a new constitution and a potential referendum.

## **Regulatory hurdles**

Under Thailand's Foreign Business Act (FBA), there are significant restrictions on foreign companies having a majority stake in many sectors such as F&B, wholesale and retail operations, as well as in professional services such as law and accountancy. At present, foreign businesses are still able to retain management control in Thailand by appointing Thai nominees or by issuing preferential voting shares – a practice that the Ministry of Commerce tried to clamp down on in December 2014 through the proposed tightening of the FBA. After seeking extensive feedback from the business community, the FBA was eventually left intact, a move that was much welcomed by foreign investors.

### **Labour market**

Thailand had an unemployment rate of 0.8% in 2014. Although the Thai government has tried to address the labour shortage issue by bringing in foreign workers, Singapore companies could still find it challenging to source for suitable manpower in Thailand. Since 2013, the implementation of a nationwide minimum wage policy (300 baht or US\$9.20 a day) has also driven up the general cost of labour in Thailand. Singapore companies should be prepared to pay more in the greater Bangkok region where the cost of living is generally higher. Singapore companies should also note that the employment law in Thailand is generally more pro-employee.

### **How Singapore companies should approach Thailand**

To mitigate some of the political and regulatory challenges, Singapore companies should focus on building strong business-to-business engagements. Like most Asian economies, relationships remain integral for successful business pursuits in Thailand. Singapore companies are encouraged to work with local partners to leverage their connections which will aid the business greatly, especially for government projects. The business structure in Thailand remains hierarchical and key decisions are usually made at the very senior level, often by the Chairman who tend to take on an executive role within Thai companies. It is thus also important for Singapore companies to engage their local partner at an appropriately senior level in order for the collaboration to move ahead.

As the largest economy in mainland Southeast Asia, Thai businesses are also the most integrated with the CLMV economies within ASEAN. Singapore companies can leverage on their Thai partners' strong and extensive networks across the region to access business opportunities outside of Thailand. Thai Conglomerates such as TCC Group, Berli Jucker, ThaiBev and Central Group have made several high profile mergers and acquisitions (M&A) in the region, particularly in consumer related sectors. Singapore companies can explore leveraging on such M&As and tap into the burgeoning consumer demand across Indochina, particularly in the areas of distribution, logistics and e-commerce opportunities. This is particularly useful with the approach of AEC 2015.

# Conclusion

---

Thailand's current regime has stated its commitment to economic growth and fiscal prudence. A backlog of applications for investment privileges was cleared, and the government's recent stimulus measures are expected to drive growth into 2015. In the longer term, the outlook for Thailand's economy hinges on whether the government possesses the necessary authority to enact structural reforms and merge the deep political divide.

While uncertainty looms on the horizon, Thailand's strong fundamentals such as a generally pro-business environment and strong integration with Indochina economies remain. The economy has also proven time and again to be resilient and among the top regional growth drivers. Singapore companies should continue to stay engaged in Thailand and focus on the long-term trends of infrastructure development and rising middle class. As AEC 2015 approaches, Singapore companies should also partner Thailand's strong business sector that has extensive regional networks for third country collaboration.

---

## International Enterprise Singapore

International Enterprise (IE) Singapore is the government agency driving Singapore's external economy. We spearhead the overseas growth of Singapore-based companies and promote international trade. Our vision is a thriving business hub in Singapore with Globally Competitive Companies (GCCs) and leading international traders.

Trade has always been the backbone of Singapore's economy. In addition to promoting export of goods and services, IE Singapore also attracts global commodities traders to establish their global or Asian home base in Singapore. Today, Singapore is a thriving trading hub with a complete ecosystem for the energy, agri-commodities and metals & minerals trading clusters.

GCCs are a critical growth engine for the next phase of Singapore's development. GCCs compete on the global stage against the very best in their industries. They contribute to Singapore's economic resilience, develop Singaporeans into global business leaders and strengthen the Singapore brand. Through our Global Company Partnership, we work with Singapore-based companies in their various stages of growth towards being globally competitive. We customise total solutions in capability building, market access and financing for these companies as they internationalise.

Our global network of overseas centres in over 35 locations provides the necessary connections in many developed and emerging markets. In Southeast Asia, we are present in eight locations namely Bangkok, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Manila, Surabaya and Yangon.

Visit [www.iesingapore.com](http://www.iesingapore.com) for more information.

## Our Offices in Southeast Asia

### Bangkok

International Enterprise Singapore  
Unit 1702-1703  
17th Floor Sathorn Square Office Tower  
98 North Sathorn Road  
Bangkok 10500  
Thailand  
T +66 2108 1270  
F +66 2108 1272

### Hanoi

International Enterprise Singapore  
Floor 21, Him Lam Street Business Centre  
Capital Tower  
109 Tran Hung Dao Street  
Hanoi  
Socialist Republic of Vietnam  
T +84 4 3848 9151  
F +84 4 3848 9150

### Ho Chi Minh City

International Enterprise Singapore  
c/o Consulate-General of the Republic of  
Singapore – Ho Chi Minh City  
Saigon Centre, 65 Le Loi Boulevard  
8th Floor, Unit 1, 1st District  
Ho Chi Minh City  
Socialist Republic of Vietnam  
T +84 8 3822 5173/74  
F +84 8 3825 1600

### Jakarta

International Enterprise Singapore  
c/o Embassy of the Republic of Singapore  
- Indonesia (Jakarta)  
Block X/4, Kav No. 2, Jln HR. Rasuna Said  
Kuningan, Jakarta 12950  
Indonesia  
T +62 21 522 9274  
F +62 21 520 1488

### Kuala Lumpur

International Enterprise Singapore  
Singapore Centre KL  
Unit 6.3, Level 6  
Menara Standard Chartered  
30 Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia  
T +603 2141 0046  
F +603 2141 0951

### Manila

International Enterprise Singapore  
c/o Embassy of the Republic of Singapore  
505 Rizal Drive, Bonifacio Global City  
1634 Taguig City  
Metro Manila  
Philippines  
T +63 2 551 4856  
F +63 2 551 4366

### Surabaya

International Enterprise Singapore  
SPAZIO 7th floor, Unit 710  
Graha Festival Kav. 3,  
Jl. Mayjen Yono Soewoyo  
Kelurahan Pradah Kali Kendal,  
Kecamatan Dukuh Pakis  
Graha Famili – Surabaya  
Jawa Timur, Indonesia 60226  
Indonesia  
T +62 31 99001265  
F +62 31 99001238

### Yangon

International Enterprise Singapore  
Union Business Center, #03-11  
Nat Mauk Road, Bo Cho Quarter  
Bahan Township, Yangon  
Myanmar  
T +95 1 860 3357  
F +95 1 860 3359

## Our Past Issues

// Vol.1\_Jul 2012 China's Twin Paradigm Shifts - Beacons in a Sea of Change  
// Vol.2\_Jul 2012 Myanmar: Opportunities in Asia's Last Frontier Economy  
// Vol.3\_Sep 2012 Thailand: Resilience and Economic Revival  
// Vol.4\_Oct 2012 A Win-Wind Situation: Opportunities in the European Offshore Wind Industry  
// Vol.5\_Nov 2012 Indonesia: Partnering the Private Sector for Growth  
// Vol.6\_Jan 2013 Malaysia: State of Transformation  
// Vol.7\_Mar 2013 Forging Ahead in China: A Survey of Singapore Companies  
// Vol.8\_Apr 2013 Japan: Opportunities Amid Change and Recovery  
// Vol.9\_Jun 2013 Central China: A Growth Story  
// Vol.10\_Sep 2013 Driving Singapore's External Economy Beyond 30 Years  
// Vol.11\_Sep 2013 Vietnam: Prospects Amidst Challenges  
// Vol.12\_Oct 2013 Brazil: Beyond the World Cup and Olympics  
// Vol.13\_Nov 2013 Indonesia's Consumer Sector: Tapping the Consumer Dollar in Food and Retail  
// Vol.14\_Jan 2014 Myanmar: Navigating the Risks and Opportunities  
// Vol.15\_Feb 2014 China's Third Plenum: Decisive Shifts towards a Market-Oriented Economy and People-Centric Urbanisation  
// Vol.16\_Oct 2014 Mexico: The Aztec Tiger  
// Vol.17\_Oct 2014 Recipe for Success in the London Food Services Market  
// Vol.18\_Oct 2014 Making Inroads: Capturing Intrastructure Opportunities in Asia  
// Vol.19\_Nov 2014 The Philippines: A New Awakening  
// Vol.20\_Nov 2014 Turkey: Stepping into a New Era  
// Vol.21\_Apr 2015 Indonesia's New Administration: Infrastructure and Manufacturing Opportunities  
// Vol.22\_May 2015 ASEAN Economic Community: Opportunities through Economic Integration in Southeast Asia  
// Vol.23\_Jun 2015 M&A Opportunities: Guide to Successful M&A in Germany

Scan for past  
issues of  
IE Insights



## Our Global Network

Abu Dhabi  
Accra  
Bangkok  
Beijing  
Chengdu  
Chennai  
Chongqing  
Dalian  
Doha  
Dubai  
Frankfurt  
Guangzhou  
Hanoi  
Ho Chi Minh City  
Istanbul  
Jakarta  
Jeddah  
Johannesburg  
Kuala Lumpur  
London  
Los Angeles  
Manila  
Mexico City  
Moscow  
Mumbai  
New Delhi  
New York  
Qingdao  
Riyadh  
São Paulo  
Seoul  
Shanghai  
Surabaya  
Sydney  
Taipei  
Tokyo  
Wuhan  
Xi'an  
Yangon



This brochure is printed using  
soy ink on recycled paper.

V2/Sep 2015

## International Enterprise Singapore

230 Victoria Street #10-00  
Bugis Junction Office Tower  
Singapore 188024

1800-IESPORE (1800-4377673) local toll-free

**T** +65 6337 6628

**F** +65 6337 6898

**www.iesingapore.com**



Driving  
Singapore's  
External  
Economy