cutting through complexity

Thailand

High Growth Markets country profile

With the world's fourth lowest unemployment rate, Thailand is a highly individual country with its own culture, language, cuisine, martial arts and beliefs, taking influences from China and India. Thailand is the only southeast Asian country never to have been taken over by a European power. Real gross domestic product (GDP) growth is expected to be just 3 percent in 2014, owing to weak private consumption and investment. Annual economic expansion should average 5 percent between 2015–2018.

Country overview

Geography and climate

- **Location:** southeastern Asia, bordering the Andaman Sea and the Gulf of Thailand, southeast of Burma
- **Climate:** tropical; rainy, warm, cloudy southwest monsoon (mid-May to September); dry, cool northeast monsoon (November to mid-March); a southern isthmus that is always hot and humid
- **Regions:** 77 provinces
- **Major cities:** Bangkok (6.9 million)

Political system

- **Type of government:** constitutional monarchy
- **Capital:** Bangkok

Population, language and religion

- **Population:** 69.3 million
- **Urban population:** 34.1%
- **Demographics:** 0–14 years: 17.6%; 15–64 years: 71.4%; 65 years and over: 9.8%
- **Median annual household income:** 6,445 US dollars (US$)
- **Official language:** Thai
- **Prominant religions:** Buddhist, Muslim, Christian

Currency and central banking

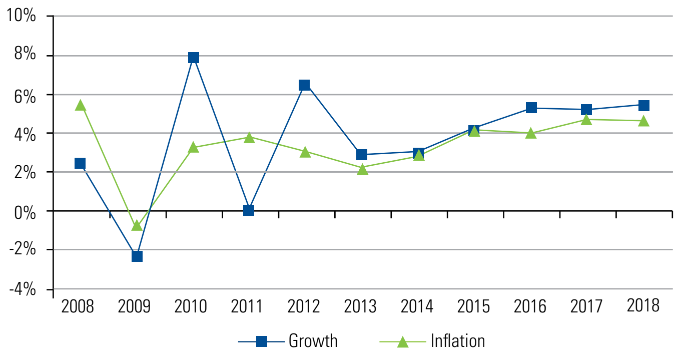
- **Local currency:** Thai Baht (THB)
- **Exchange rate:** 1 THB = US$0.0309 (1 April 2014)
- **Interest rate (average annual rate):** 2.5% (2013); 2.9% (2012); 2.8% (2011); 1.3% (2010); 1.2% (2009)
- **Foreign exchange reserves:** US$167.6 billion
- **Total debt (2013):** external: US$86.1 billion; internal public debt: 47.5% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$689.9 billion.** Real GDP growth is expected to be only 3% in 2014, owing to weak private consumption and investment. Annual economic expansion is set to average 5% between 2015–2018. The median household income is expected to increase to US$8,817 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$8.5 (2008); US$12.8 (2013); US$15.0 (2018 forecast); outbound: US$4.1 (2008); US$6.7 (2013); US$10.0 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$225.8 (2012); US$225.4 (2013); US$332.3 (2018 forecast)
- **Imports FOB (billions):** US$219.8 (2012); US$219 (2013); US$328.2 (2018 forecast)
- **Sector breakdown:** service: 45.5%; industrial: 42.5%; agriculture: 12.0%
- **Trade balance (billions):** surplus of US$6 (2012); US$6.4 (2013); US$4.1 (2018 forecast)
- **Stock exchanges:** AFET, SET

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government has introduced a daily minimum wage of THB300 (US$9.3). In an attempt to appease businesses, the rate of corporate income tax was reduced from 30 percent to 23 percent at the start of 2012, and lowered further to 20 percent at the beginning of 2013. Despite massive costs, in March 2013, the government supported the local price of rice by paying farmers THB15,000 (US$464) per tonne of unfilled grain. The government is expected to introduce new incentives to promote inward investment in targeted industries, while removing incentives in low-value-added sectors.
- **Competition policy:** The Department of Internal Trade administers price controls, enhances fair and free trade and protects the interests of consumers, by ensuring that contractual obligations are equal, valid and enforceable. Thailand has dismantled a number of cartels and state enterprise monopolies to encourage open competition. Legal requirements for mergers are complex, and Thai civil law requires merging companies to consolidate their accounts before completing the process. During 2014–2015, privatization is set to remain a sensitive issue, and the government will almost certainly not proceed with the sale of state assets. Price controls should be applied to a number of goods – mainly food and fuel, but also some metals. Looking forward to 2016–2018, the enforcement of laws protecting intellectual property is likely to encounter some major challenges.
- **FDI policy:** The Bank of Thailand reports that, in the first 9 months of 2013, most FDI inflows went to the financial sector, the manufacturing of motor vehicles and the real estate sector. The main sources of net FDI over that period were Japan, the US and the UK. Potential foreign investors suspended their plans during 2008–2013 because of political uncertainty and the global economic downturn. Thailand generally welcomes foreign investment in most sectors; however the Foreign Business Act still strictly limits foreign investment levels, especially in the service sector. In 2014–2015, the government is unlikely to amend the Foreign Business Act in any way that could hurt foreign investors. There is little government favoritism towards domestic firms. 2016–2018 should see continued opposition to the sale of assets to foreigners, particularly in the utilities sector.
- **Foreign trade and exchange controls:** Thailand has limited powers to impose import bans. There are few restrictions on exports, except those related to national security, environmental protection and cultural concerns, or pursuant to trade agreements. The Bank of Thailand has announced that it will not resort to imposing strict capital controls. Machinery and manufactured goods account for around 50 percent of Thailand's exports, and the country relies heavily on oil imports. During 2014–2015, liberalization of the trade regime should continue ahead of the planned inauguration of the ASEAN Economic Community in 2015. The Bank of Thailand could be prompted to reintroduce capital controls, should the baht exhibit excessive volatility. Due to onerous document requirements, there are likely to be continued and unnecessary administrative delays to trade.
- **Financing policy:** During 2014–2015, the authorities are expected to continue their focus on strengthening the financial sector and increasing its competitiveness. In the period from 2016–2018, banks should enhance their financial positions, and the regulatory environment is due for further improvement. The Bank of Thailand has plans to expand the local bond market, primarily by developing a more active secondary market.
- **Taxes:** The government reduced the rate of corporate income tax from 30 percent to 23 percent at the start of 2012, and lowered it further to 20 percent in 2013. Tax concessions are available for companies that list on the stock market. Value-added tax (VAT) stands at 7 percent. Personal income tax rates rise to 37 percent on annual taxable earnings exceeding THB4 million (US$124,000). During 2014–2015, the rate of VAT will remain unchanged at 7 percent, and there should be no further significant cuts to standard corporate income tax rates. The authorities are likely to continue efforts to encourage new investment by providing tax incentives. During 2016–2018, a new land and buildings tax could come into effect, and steps may be taken towards the introduction of an inheritance tax.

KPMG in Thailand

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KPMG in Thailand aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Thailand website: kpmg.com/th/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

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