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Thought Leadership | Foreign Direct Investment

Could Thailand Become a Manufacturing Hub for Medical Equipment?

Over the past decade, Thailand has struggled to keep pace with the rest of ASEAN in terms of increasing its foreign investment inflow. From the floods in 2011 to a period of political instability a few years later, to the country's economic slowdown amid the 2020-1 Covid-19 pandemic, Thailand has [had difficulty](#) maintaining an extended period of FDI-fueled growth.

The post-pandemic environment, however, could very well mark the start of sustained growth period across Thailand in certain key industries – thanks in part to targeted support from the Thailand Board of Investment. Medical equipment manufacturing is among the sectors specifically favored by the BOI, and the reality of our global health situation all but ensures a strong market for these products going forward.

The BOI has [already approved](#) 12 separate ventures to manufacture medical masks, with the Federation of Thai Industries also increasing its production of medical health devices to meet ongoing needs. Reusable PPE has also been the subject of high demand among health workers. As Thailand looks ahead to reopening later in the year, its status as a popular travel destination and medical treatment hub means that it will need to maintain a health-oriented focus in the years ahead.

In short, the signs suggest that the time is right to capitalize on this foreign direct investment trend in Thailand. However, in order to maximize returns from such an investment, it is essential to understand the present system of government-supported business incentives in this industry (and how to apply for them), the current difficulties related to production and competition, and the forces

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shaping the market for medical equipment and devices around the region.

BOI support – and how to get it

FDI inflows to Thailand have dropped relative to GDP in recent years, largely due to the reasons mentioned above, yet Thailand is still ranked 21st on the World Bank's [Ease of Doing Business list](#), and the BOI is lending its considerable support to help close the gap between the status quo and Thailand's true potential for business activities.

To encourage greater levels of investment, the BOI is offering tax incentives for ventures that would increase local research into medical devices. Factories producing items such as masks, medical gowns, and other PPE would also be eligible for this type of support. Other benefits include the ability to bypass regulations that would otherwise be applicable. Restrictions on bringing in materials and personnel from outside Thailand can also be waived if certain conditions are met.

Meeting those conditions, of course, is easier said than done. The application process is demanding, and [can seem labyrinthine](#) for those unaccustomed to working with the BOI. Though the benefits of government support are very real, one wrong move when registering with the BOI can result in delays and headache, disrupting the timing of operations that may otherwise be well-planned.

Statistics from the BOI's annual Foreign Investor Confidence Survey attest to the excellent business conditions in Thailand and the value of the support provided by government. A [summary](#) of the survey reads: "Despite the COVID-19-induced economic hardship, as much as 96% of foreign direct investors operating in Thailand are confident in the country's potential and have plans to expand or at least maintain their investment, citing attractive investment incentives, a strong supporting industry supply chain and the availability of raw materials and parts."

The same document also reports that "FDI applications contributed 60% of the total number of [BOI] projects and 53% of total investment value pledges." With Thailand's economic recovery expected to gather pace in the second half of 2021, more foreign investors are certain to discover the benefits of doing business in Thailand sooner rather than later.

How Thailand compares with its neighbors

As an emerging economy with modern manufacturing infrastructure, Thailand provides an excellent balance between cost and capability. Yet businesses will need to contend with certain limitations.

Among these is the country's labor force, whose workers are relatively unskilled yet are paid more highly than in some neighboring countries. Moreover, the working population itself is decreasing, as Thailand begins to take on the demographics of an aging society.

The Thai government has begun investing in upgrades to the country's education system, hoping to better prepare younger generations for careers in a thoroughly modern economy. However, the fruits of these efforts will not be accessible for some time, meaning that companies will need to pay a premium to bring in highly skilled talent.

These challenges, however, overlap nicely with the types of benefits provided for eligible companies through the BOI. Until Thailand can definitively improve the talent level in its labor pool, businesses can make do with foreign employees in specialized positions. Tax breaks can then soften the financial blow of these expenses, to preserve the added value of doing business in Thailand.

Thailand as a medical production hub

Thailand's modern healthcare infrastructure, reputation as a medical tourism destination, strong manufacturing capabilities, as well as excellent domestic and international transport links, have attracted the attention of many investors who see the country as a [promising destination](#) for medical equipment manufacturing.

Thailand has also fared [unusually well](#) during the COVID-19 crisis, finding itself near (or at) the top of global pandemic response rankings for most of 2020. Although the country has seen some outbreaks in recent months, its high level of social coordination and health consciousness *vis a vis* the pandemic have only enhanced Thailand's reputation as a modern health success story.

In short, the pieces are in place for businesses to build upon Thailand's strong health infrastructure and modern manufacturing facilities. The next step is to incorporate expert insight and guidance

About Us

Foreign Direct Investment Practice Group

We are commercially-minded and solutions-oriented legal advisors whose every move is made with your objectives in mind. We act as trusted legal and business advisors to leading international private and public corporations, start-ups, private equity funds, and foreign individuals on all aspects of their foreign direct investment (FDI) transactions in Thailand.

Our team has extensive experience in providing legal services to international clients on every aspect of investing in or expanding their business in Thailand. We help foreign clients navigate Thailand's foreign ownership laws to ensure that their businesses are structured and are carried on in compliance with legal requirements. We also regularly work with US clients on obtaining benefits under the Thai-US Treaty of Amity and Economic Relations.

on all issues surrounding foreign investment in Thailand – both legal and practical.

Kudun & Partners can advise clients on all matters concerning the BOI regulations, as well as foreign ownership rules, investment structuring, business licensing, tax issues, due diligence, and much more. Our solution-oriented approach also helps introduce clients to potential investors, joint venture partners, and other experts who can provide professional assistance. Contact us today to find out more.

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