



Development in Partnership

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New Study Shows Thailand's Investment Climate Constrained by Macroeconomic and Policy Uncertainty

A joint study by the Thai government and the World Bank has found that the overall environment for investment in Thailand worsened slightly in 2007 when compared with 2004. However, future investment decisions by Thai companies could well be affected by the uncertain macroeconomic and policy environment.

The study, *Thailand Investment Climate Assessment Update 2008*, is based on a comprehensive survey of 1,043 firms during May-November last year. In this survey, more than two-thirds of the firms rated macroeconomic instability and unclear government policy direction as the major concerns for doing business in Thailand in 2007. This is twice as many as in 2004, the last time Thailand's investment climate was assessed.

While this perception is subjective, it could have an impact on future business decisions, said **Dr. Xubei Luo**, the World Bank economist who led the team that prepared this study.

"When company managers make business decisions, they often depend on their subjective judgments of the business environment," Dr. Luo said. *"If they are not confident that the current environment is favorable to business, they will postpone their decisions. So improving investor confidence should be one of the government's*



World Bank economists, **Dr. Xubei Luo** (far left), and **Dr. Kirida Bhaopichitr**, (with microphone), presented the findings of the new study, *Thailand Investment Climate Assessment Update*, to the press at the Grand Hyatt Erawan Hotel on Aug. 22. The study, supported by the Ministry of Industry, is the result of collaboration between the Thailand Productivity Institute, the National Economic and Social Development Board (NESDB), and the World Bank. Also attended the press briefing were **Dr. Phanit Laosirirat** (second right), Executive Director for TPI, and **Khun Thanin Pa-Em** (far right), Senior Advisor, NESDB.

priorities. In many studies we did, we found the correlation between improving investment climate and improving productivity."

Thailand Investment Climate Assessment Update 2008 is a result of collaboration between the National Economic and Social Development Board (NESDB), the Foundation for Thailand Productivity Institute (FTPI), and the World Bank. Building on a similar work done in 2004 by the same tripartite group, this study is sponsored by the Thai Ministry of Industry.

Other factors affecting business decisions in Thailand included shortages of skilled workers, limited access to finance, unreliable infrastructure, and burdensome business regulations, the study shows. These are the same concerns most Thai firms have raised in the 2004



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investment climate survey, and the Thai government has been working closely with the private sector to address them, Dr. Luo said.

Despite these concerns, Dr. Luo noted that Thailand's infrastructure, regulations, and other objective investment measures are comparable with similar middle-income countries, including Brazil, China, India and Turkey. "Thailand lags behind Singapore, but that's understandable since Singapore is the region's leader," Dr. Luo said.

The investment climate survey measures specific constraints facing firms and relates them to measures of company performance, growth, and investment. The investment climate can be defined by three broad sets of variables. These include macroeconomic policies

such as fiscal, monetary and trade policies; governance and institutions; and infrastructure.

Firms and entrepreneurs making decisions about investment of limited resources and other company efforts will base their decisions on perceptions of the overall business climate as well as the risks and returns associated with that business climate. Improving the business climate can encourage more business and investment, creating more jobs for the people.

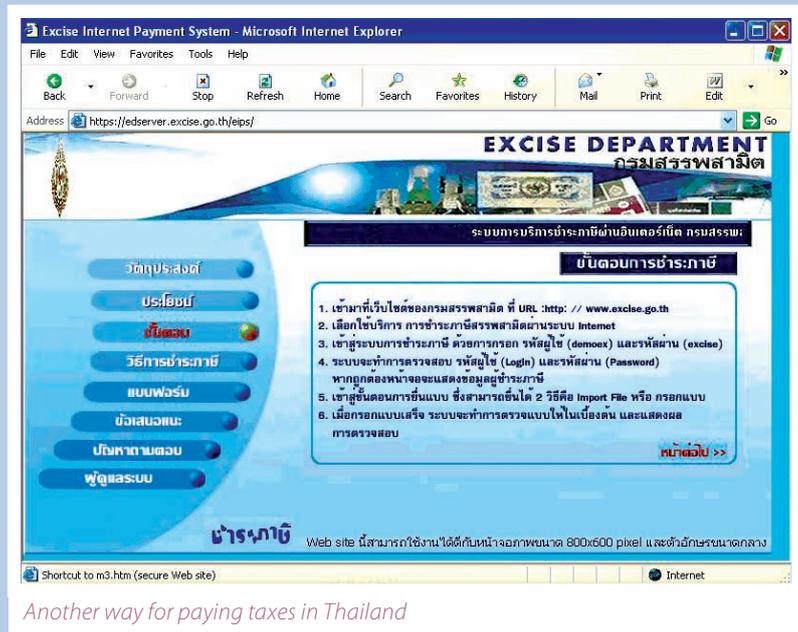
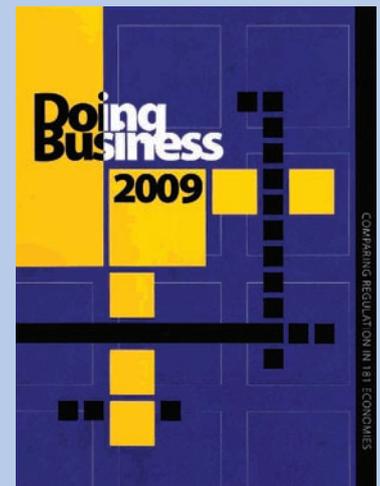
The Thailand survey covered nine industries in six regions, including Bangkok and other metropolitan areas. The nine industries are food processing, textiles, garments, automobile parts, electronic parts, electrical appliances, rubber/plastic, furniture/wood products, and machinery.

Thailand Ranked 13th in Doing Business 2009

East Asia Gains Momentum in Regulatory Reform-China and Thailand Make Key Improvements, Singapore Tops Global Rankings

East Asia and the Pacific had the greatest momentum among regions in reforming business regulations this year, according to Doing Business 2009 -the sixth in an annual series of reports published by IFC and the World Bank. The new report identifies 26 reforms between June 2007 and June 2008 that make it easier to do business in 24 economies across the region.

Among the world's large emerging markets, China led with reforms that make it easier to obtain credit, pay taxes, and enforce contracts. The region's other top economies in reforming business regulations include Thailand, Cambodia, and Malaysia. Improvements made it easier to pay taxes, start a business, trade across borders, and register property. These countries also took steps to protect investors, improve bankruptcy procedures, and strengthen the legal rights of creditors and borrowers. Cambodia's new secured transactions law made it the world's leading economy in easing access to credit.



Thailand led other reformers in the region with improvements in four areas - Registering Property, Protecting Investors, Paying Taxes, and Trading across Borders. As a result, the country moved up to 13th in the Doing Business ranking. It made paying taxes easier by reducing some fees and facilitating online filing and payments. In addition, it now exempts companies with taxable income not exceeding 1.2 million baht from corporate income tax and applies concessionary 25 percent rates for newly listed companies.

Amendments to the Thai Securities and Exchange Act strengthened minority shareholder rights. Directors now have greater duties with respect to transactions between

interested parties. If held liable for using the company's assets for their own benefit, they will have to pay damages, disgorge profits, and pay fines-and may even go to jail.

Provisional reductions of the property transfer fee and specific business tax have lowered the cost to transfer property from 6.3 percent of the property value to 1.13 percent. A new internetbased customs clearance system reduced the number of documents that must be submitted in hard copy from 9 to 3 for imports and from seven to four for exports.

Doing Business ranks economies based on 10 indicators of business regulation that track the time and cost to meet government requirements in starting and operating a business, trading across borders, paying taxes, and closing a business. The rankings do not reflect such areas as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Singapore leads the global rankings on the overall regulatory ease of doing business for a third consecutive year. New Zealand is runner-up, and the United States third. Hong Kong (China) retains fourth place, while Thailand advanced to 13 and Malaysia to 20.

"Countries in the region are clearly committed to reform agendas," said Dahlia Khalifa, a coauthor of the report. "Regardless of their stage of economic development, they are recognizing the role that regulatory reform can play in staying competitive while boosting entrepreneurship and job creation," she added.

Among regions, Eastern Europe and Central Asia led the world in reforms for a fifth consecutive year. And the trend is moving eastward as newcomers join the list of economies making the most reforms. The top 10 are, in order, Azerbaijan, Albania, the Kyrgyz Republic, Belarus, Senegal, Burkina Faso, Botswana, Colombia, the Dominican Republic, and Egypt.



Joining the press conference were **Khun Acksiri Buranasiri** (far left), Deputy Director-General, Fiscal Policy Office, Ministry of Finance, **Khun Pimpapaan Chansilpa** (2nd from left), Chief of Inspector General, Ministry of Commerce, **Khun Avoot Wannvong** (2nd from right), Deputy Secretary-General, Office of the Public Sector Development Commission, and **Dr. Kirida Bhaopichitr** (far right), Country Economist, World Bank .

"Economies need rules that are efficient, easy to use, and accessible to all who have to use them. Otherwise, businesses get trapped in the unregulated, informal economy, where they have less access to finance and hire fewer workers, and where workers lack the protection of labor law," said Michael Klein, World Bank/IFC Vice President for Financial and Private Sector Development. "Doing Business encourages good rules, and good rules are a better basis for healthy business than 'who you know,'" he added.

Doing Business 2009 ranks 181 economies on the overall ease of doing business. The top 25 are, in order, Singapore, New Zealand, the United States, Hong Kong (China), Denmark, the United Kingdom, Ireland, Canada, Australia, Norway, Iceland, Japan, Thailand, Finland, Georgia, Saudi Arabia, Sweden, Bahrain, Belgium, Malaysia, Switzerland, Estonia, Korea, Mauritius, and Germany.

To download full report, please visit www.doingbusiness.org

New Thailand-World Bank's Environmental Partnership to Address Climate Change

BANGKOK, September 12, 2008 - The World Bank and the Ministry of Natural Resources and Environment agreed on Friday on a new environmental partnership program to help Thailand address the impacts of climate change and sustainable environmental management.

Called the Country Development Partnership for Environment, Phase II (CDP-E II), this is the second

environmental partnership program between Thailand and the World Bank. The program provides for World Bank technical support to inter-related environmental issues under the unifying theme of climate change, including:

- Coastal erosion and mangrove degradation
- Integrated water resource management
- Ozone-depleting substances (ODS)

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- Livestock waste management
- Reducing greenhouse gas emissions in the energy, waste, industry, and forestry sectors
- Urban air quality and solid waste management.

In addition, the World Bank will continue to provide technical support for strengthening policy and developing institutional capacity to address each of these issues.

The CDP-E II builds on the first and very successful CDP-E (2004-2007), which focused on air quality in Bangkok; water quality in priority river basins; global environmental commitments (ODS and climate

change); and institutional capacity and instruments to address environmental issues.

“Formidable environmental challenges come with development. Under our newly extended partnership which we launch today, the World Bank pledges to work with the Thai government, our UN partners, and other stakeholders to meet these challenges,” said **Ian Porter**, World Bank Country Director for Thailand. *“Our common goal is to assure a clean, safe and sustainable future for coming generations. We look forward to another three years of working together to achieve this goal.”*



For comments or questions about this newsletter,
please contact Mr. Tinnakorn Sareenun
The World Bank Office, Bangkok
Siam Tower, 30th Floor, 989 Rama I Road, Pathumwan, Bangkok 10330

Tel.: +66 (0) 26868300
Fax: +66 (0) 26868301
Email: tsareenun@worldbank.org
Website: <http://www.worldbank.or.th>