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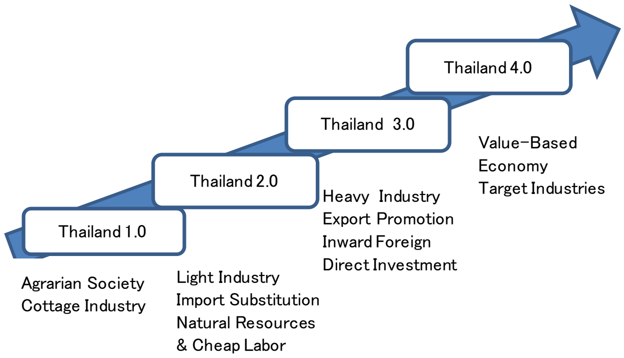
Topics “Thailand 4.0” policies shaping up

The Thai government reveals concrete policies for the realization of its long term vision. Following the long term digitization plan, in February, 2017, the government announced new investment measures that will grant incentives to target industries, such as up to 15 years’ exemption from corporate income tax.

■ What is “Thailand 4.0” ?

Under the Prayut administration, the Thai government has drafted a long term economic development vision called “Thailand 4.0”, which is a long term vision for the kind of economic society that Thailand aspires to.

<Thailand 4.0>

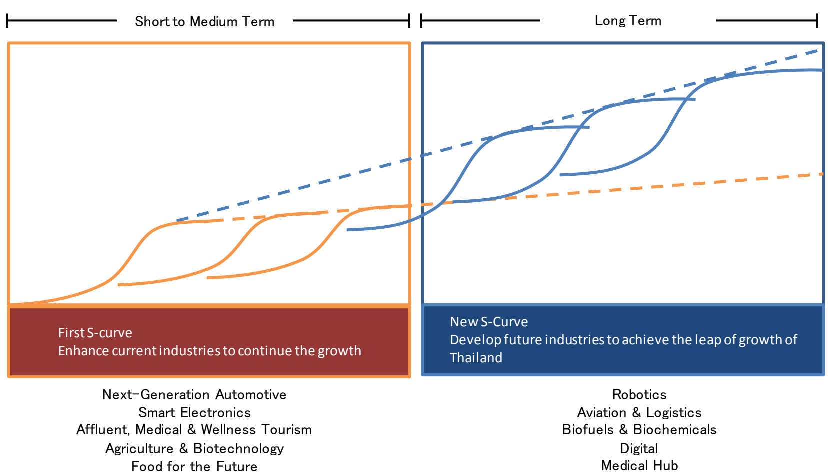


Source: NESDB

According to an explanation of the National Economic and Social Development Board (NESDB), development has gone through the following three phases. Thailand 1.0 was an agrarian society, when cottage industries were the center of economic activity, in other words, Thailand’s pre-industrial age. Thailand 2.0 was the period until the late 1980s that saw the development of light industry, capitalizing on Thailand’s natural resources and cheap labor which drove growth. Thailand 3.0 covers until the present day, during which Thailand has leveraged foreign investment in mainly heavy industrial growth under globalization. Thailand 4.0 refers to an economic society that can create sustainable added value with “innovation”, “productivity” and “service trade” as the keywords.

Of course, the Thai government does not expect that it will be able to transition to Thailand 4.0 in the short term. Thailand 4.0 is a long term vision with a 20-year span, and the target is for Thailand to become a high income economy by the final year of the plan, 2036. Thailand 4.0 is the first time that the Thai government has expressed the transition to a high income economy with a time limit attached. Given that, since the Asian currency crisis of the late 1990’s, the priority has been on economic and social stability rather than economic growth. Thus, Thailand 4.0 represents a significant strategy shift.

<Targeted Industries>



Source: Ministry of Industry

This reflects the Thai government’s sense of crisis that the Thai economy might have fallen into the “middle income trap”. The middle income economy trap is where “a developing economy grows into a middle income economy by utilizing its natural resources and attracting foreign investment, but then stubbornly persists on the same growth path that it has always followed and neglects to put effort into changing its industrial structure, with the result that its growth rate gradually begins to lose momentum and it becomes more and more difficult to transition into being a high income economy”.

Indeed, Thailand’s real GDP growth rate in the period 2010 to 2016 has been an annual average of 3.6%, the lowest among the ASEAN economies. Furthermore, the working age population (15 to 64) has already peaked, and the population aging of Thai society is expected to accelerate.

The Thai government has listed the ten industries that will shoulder Thailand 4.0 as 1) next generation automotive, 2) smart electronics, 3) affluent, medical and wellness tourism, 4) agriculture and biotechnology, 5) food for the future, 6) robotics, 7) aviation and logistics, 8) biofuels and bio-chemicals, 9) digital, and 10) medical hub, and plans to cultivate these in the separate short, mid and long term.

■ Promoting a digital economy society

The leveraging of digital technology is the key to making Thailand 4.0 a reality. In particular, as the Internet environment develops and smartphones spread, Thailand's economic society is changing significantly. For example, there is the PromptPay system, rolled out from January, 2017, which allows users to transfer funds to other users using their mobile phones, and without the need of an account number.

The Thai government, as a plan that fits with Thailand 4.0, adopted the "Thailand Digital Economy and Society Development Plan" in April, 2016. The plan targets 1) improved productivity, 2) a correction of the income disparity, 3) expanded employment, 4) enhancement of the industrial structure, 5) a hub-like role for Thailand within the ASEAN economic community, and 6) enhanced governance within the government, and speaks of the four phases of 1) one year and a half later, 2) five years later, 3) ten years later, and 4) 20 years later. In addition, in order to ensure the implementation of the plan, the Ministry of Information and Communication Technology was reorganized as the Ministry of Digital Economy and Society in September, 2016.

＜Phases and Targets in Thailand Digital Economic and Society Development Plan＞

Period	Phase	Targets
1 year 6 months later	Digital Foundation	Thailand will focus on investing and building digital foundation to reap the benefits in later years
5 years later (2021)	Digital Thailand 1 : Inclusion	At the end of this phase, every one can access and make full use of digital technology, both socially and economicly
10 years later (2026)	Digital Thailand 2 : Full Transformation	Thailand will be driven by digital technology and innovation
20 years later (2036)	Global Digital Leadership	Thailand will become a developed country

Source: Thailand Digital Economy and Society Development Plan

■ New investment strategy "Opportunity Thailand"

On February 15, 2017, a major investment seminar titled "Opportunity Thailand" was held in Bangkok. Opening the seminar, Prime Minister Prayut explained the aims of Thailand 4.0 and also announced a new investment strategy that will grant the largest ever incentives to foreign enterprises whose investments contribute to the realization of the plan.

The three provinces situated to the east of Bangkok, Chonburi, Rayong and Chachoeng Sao, form the Eastern Economic Corridor (EEC), an incentive priority area, and it was announced that companies investing there will qualify for a maximum eight year corporate income tax exemption, as well as a further five year 50% corporate income tax exemption. In addition, the government will spend more than Bt1.5 trillion over the next five years in infrastructure development, promoting target industries, and the promotion of tourism.

Meanwhile, a new committee for the strengthening of domestic competitiveness in target industries, to be headed by Prime Minister Prayut himself, has been established, and will be looking into investment attraction measures that will exceed even the incentives of the Thai Board of Investment (BOI). For example, a company recognized as eligible by the committee will qualify for up to 15 years' exemption from corporate income tax. Furthermore, the committee will operate a fund for the enhancement of domestic competitiveness (Bt10 billion) that will be used to support the nurturing of target industries. Further, the committee is considering offering an across the board 17% personal income tax rate for foreign experts in target industries (Thailand's personal income taxation is a progressive rate, with a maximum of 35%).

While it is as yet unclear to what degree this new investment strategy can contribute to the realizaton of Thailand 4.0, the largest concentration of Japanese firms in Southeast Asia is in Thailand, and Japanese firms need to be making the best use of this strategy from the standpoint of improving the competitiveness of their production and sales bases in Thailand.

(Keiichiro Oizumi)

Korea Concern over slowdown in domestic demand

■ Consumer sentiment sluggish

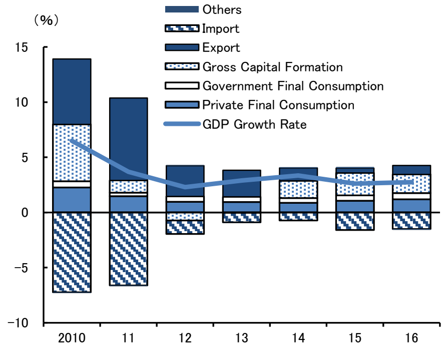
Korea's real GDP growth rate for 2016 was 2.7%, compared to the same period in the previous year, a wafer thin gain on 2015 (2.6%). The background to this includes expanded housing investment encouraged by lower interest rates, and solid private sector consumption due to government consumption stimulus measures.

Exports whose traction has declined since 2014 have begun to recover recently. The export value (dollar denominated) in February, 2017, was 20.2%, compared to the same period in the previous year (and the same hereafter), marking four consecutive months of positive growth after a shift to positive growth in November of last year. In terms of individual export items, in addition to a very solid 54.2% increase for semiconductors and other electronic parts and components, petrochemical exports grew a massive 74.2%, encouraged by the recovery in crude oil prices. In addition, the easing of the over-supply situation allowed iron and steel and other exports to recover. As the economies of the US and other industrialized nations pick up, exports overall are continuing to recover.

However, there is a growing sense of uncertainty with regard to the future of domestic demand, which supported the economy in 2016.

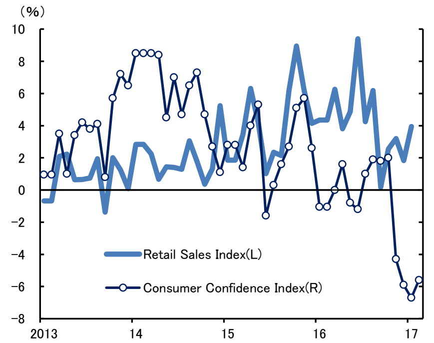
After November, 2016, and in response to a growing sense of uncertainty with regard to political unrest and foreign diplomacy, consumer sentiment deteriorated rapidly. Although indices seemed to have bottomed out in January, 2017, they have continued at well under the 100 mark, which is considered the benchmark. Concerned over this set of circumstances, as measures to stimulate domestic demand, on February 23 the government rolled out a variety of measures, some of which were similar to Japan's Premium Friday, and others aimed at vitalizing tourism or supporting employment in structural adjustment industries. However, in addition to the slow improvement in the income situation, the increase in household debt has caused an increase in the burden of principal and interest repayment, meaning that the economic booster effect is expected to be limited.

＜GDP Growth Rate and Contributions by Expenditures＞



Source: Bank of Korea, Economic Statistics System

＜Retail Sales Index(YoY) and Consumer Confidence Index＞



Note: The January and February data were combined to adjust for the impact of the Lunar New Year
Source: Bank of Korea, National Statistical Office

Also, housing investment, which has played a driving role in the economy thus far, is expected to lose some of its forward momentum. Accompanying the expansion in household debt, the government has promoted the strengthening of real estate restrictions and has lowered the guarantee rates of guarantee companies and tightened up the screening criteria for group loans, a major borrowing method for investment in condominium apartments.

In light of the foregoing, though there will be an improvement in exports, the forecast is that the loss of forward momentum in domestic demand will act as a drag, and that Korea's economic performance in 2017 will decelerate from 2016's performance.

■ Domestic troubles and foreign threats continue

On March 10, Korea's Constitutional Court upheld the impeachment of President Park Geun-hye on suspicion of the involvement of Choi Soon-sil in state affairs, and voted to remove her from office. As a result, President Park was immediately removed from office, forcing presidential elections to be held within 60 days. The resulting political turmoil means that structural adjustment and labor market reforms are expected to be put on hold for the time being. In addition, a host of other challenges, such as arrests among the management of some of Korea's top firms, political confrontation with China over the deployment of THAAD, and a review of the US-Korea FTA by the Trump administration, mean that the Korean economy is facing a moment of truth. The new president will need to exercise leadership in order to deal with these issues swiftly and to put the Korean economy back on track.

(Kentaro Matsuda)

Vietnam Danger of future economic downswing risk

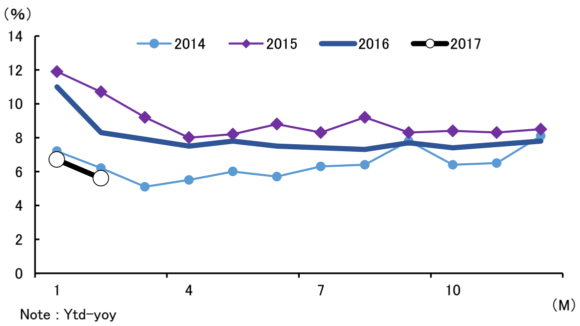
■ Investments and exports are firm, but consumption shows signs of weakness

From the start of 2017, private consumption, which accounts for two thirds of Vietnam's real GDP has been performing weakly. Real retail sales of consumer goods and services in the January to February period of 2017 grew 5.6%, compared to the same period in the previous year, the lowest growth in that period in four years.

Part of the context to this is that, as the inflation rate rises, household purchasing power declines. Since the start of 2017, the inflation rate has been 5.2% in January and 5.0% in February, the highest levels in three years. A breakdown reveals that, while a recoil from last year's drought meant that food prices grew at a slower pace, the recovery in crude oil prices caused increased fuel costs, which pushed up the prices of transportation services, and the gradual increases in medical treatment costs, implemented from the spring of 2016, pushed up prices overall.

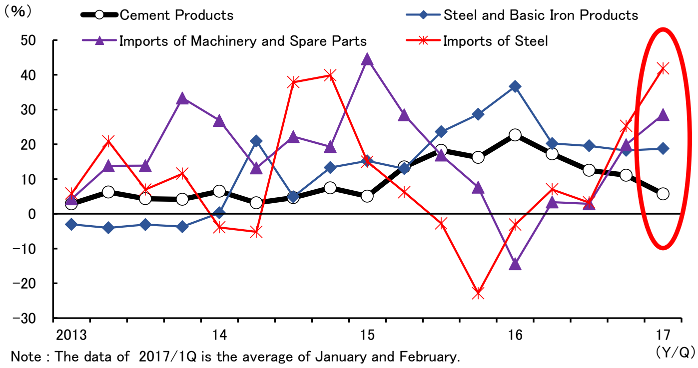
On the other hand, investments and exports have been growing solidly. Investment related indicators for the January to February period of 2017 show that, while cement production growth slowed to 5.7% compared to the same period in the previous year, in a recoil from the previous year's high growth, iron and steel production, imports of machinery and spare parts, and imports of steel all grew at a faster pace. Infrastructure investment and expanded investments on the part of foreign companies can also be seen to be progressing well. Also, nominal dollar denominated exports in the January to February period grew 15.4%, similarly, expanding steadily from the October to December growth rate (14.9%, similarly). Although the boost in export value due to the rising prices of crude oil had an effect, Vietnam's major export items computers, and their parts and components, and textile products, also posted strong growth levels.

＜Real Retail Sales of Consumer Goods and Services＞



Note : Ytd-yoy
Source : GSO

＜Various Investment-Related Indicators＞



Note : The data of 2017/1Q is the average of January and February.
Source : GSO

■ Trump administration's trade policies pose a risk

In terms of the future outlook, a pause in the rise of medical fees and the impact of rising crude oil prices, and a decline in the inflation rate from the latter half of the year onwards, are expected to lead to a recovery in private consumption. In addition, reflecting the gradual recovery in the global economy, exports are expected to be able to maintain their trend of expansion, and the economy overall is expected to remain steady.

However, attention needs to be paid to the trade policies of the Trump administration. Vietnam's export ratio to the US is 20.7% (2015), high in comparison with other Asian emerging economies, and if the US tightens protectionist trade policies, it is not difficult to imagine that exports of textile products and clothes, etc., could fall significantly. Vietnam's trade surplus with the US is not as big as Mexico's, so there is only a very slight probability of immediate trade friction with the US, but in order to lessen the risk of economic downswing, Vietnam will need to make progress in diversifying its export destinations. That being the case, there are high expectations of the FTA with the EU, agreed upon in principle at the end of 2015 and due to come into effect at the start of 2018. The focus of attention for the time being will be whether the work of ratification can advance steadily, so that the Agreement can come into force.

(Yuta Tsukada)

China *Economic growth rate target set at around 6.5%*

■ Advancing structural reform after economic stability

On March 5, Prime Minister Li Keqiang reported on the work of the government at the National People's Congress (NPC), and outlined the economic management policy for 2017.

The economic growth rate target, the focus of much attention both at home and abroad, was set at "around 6.5%". This is slightly lower than 2016's target (6.5% to 7.0%) and actual results (6.7%), but it was stated that every effort would be made to achieve growth higher than the target, and it was emphasized that there would not be a switch to a tighter monetary policy.

＜The Work of the Government(2017)＞

Points	Concrete Target or Policy
Economic Growth	・Around 6.5%
	・Making an effort to achieve growth higher than the target
Employment	・Employment creation over 11 Million a year in urban areas
Reduction of Excess Production Capacity	・Iron and Steel by around 50 million tons
	・Coal by more than 150 million tons

Source: Offcial Website of the National People's Congress

The background to this is the dilemma facing the Chinese economy. In order to avoid an expanding asset bubble, rather than chasing excessive growth targets, the appropriate choice is to apply the brakes to speculative activity. However, further tightening of monetary policy may have an adverse affect on the employment situation, and lead to social instability. This year's economic growth target of "around 6.5%" is assumed to have been arrived at in consideration of this dilemma, and in coordination with the mid-term target of making 2020's GDP double that of 2010 (requiring an annual average growth rate of 6.5% or higher).

In addition, in his report on the work of the government, Prime Minister Li repeatedly emphasized the continuation of reform. The scope of reform ranges widely and encompasses the administrative, fiscal and financial systems, and the continued supply side structural reform, on which the Xi Jinping administration is placing the greatest emphasis, was also mentioned. Concrete targets were also given, such as the reduction of the production capacity of iron and steel by around 50 million tons and that of coal by more than 150 million tons, and the reduction of the burden of taxes and business fees on corporations (by around 550 billion yuan).

■ Administrative management likely to develop with one eye on the Party Congress

The report on the work of the government, described above, was approved by the National People's Congress on March 15, and it is expected that the government's economic management will follow this line in the future. Additionally, the National Congress of the Communist Party of China, held once every five years, is due to take place in the autumn. It is the consensus of the leadership that they would like to maintain economic and social stability in the run-up to the Congress, and the probability is high that the government will continue with prudent administration, taking careful account of the balance of various measures. Nevertheless, as the Congress draws near, there is still a possibility that troublesome reforms will be postponed while other initiatives that produce more easily appreciated results (such as employment creation) will be prioritized. If that happens, there is a danger that the delay in reforms will cause problems for the future of the Chinese economy.

In terms of foreign demand, China's relationship with the US is believed to be one factor that significantly sways economic trends. Although President Trump stopped short of designating China a currency manipulator immediately after his inauguration, the Trump administration maintains a strong stance of pressuring China to do something to reduce its trade deficit with the US. On the other hand, while the Xi Jinping administration wishes to avoid trade friction with the US, its biggest export partner, considering the impact on the government's efforts to consolidate its support base before the Party Congress, it will be difficult for them to make significant concessions. For these reasons, the Trump administration's trade policies may be seen as a major risk factor, which could exert downward pressure on China's exports and potentially bring about an economic downswing.

(Junya Sano)