

2020-2021

# EYES ON CHINA INFLOW TO THAILAND

Insights and Opportunities for Investment after COVID-19

An on-line survey of Chinese firms across China to gain a deeper understanding of the impact of COVID-19 on inbound investment into Thailand





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## INSIGHTS AND OPPORTUNITIES FOR INVESTMENT AFTER COVID-19

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### Executive Summary

Chinese FDI into Thailand by application investment value witnessed a spectacular nearly 10-fold increase from 28 billion THB (0.9 billion USD) in 2017 to 262 billion THB in 2019 (8.42 billion USD). This pushed the nation's FDI ranking up to number one for the first time in 2019 according to the Board of Investment (BOI). We believe Chinese investment will be one of the key drivers for the Thai economy as China will likely be the only major economy showing sustainable growth momentum post COVID-19. It is therefore important for businesses in Thailand to understand the trends and characteristics of Chinese FDI. This report aims to address these issues and highlights a number of findings that contrast with traditional perceptions of Chinese investment.

To accomplish that goal, Siam Commercial Bank (SCB) conducted an on-line survey of effectively 170 private and public Chinese firms across China. We specially designed our survey methodologies to include investors currently conducting business in and/or having investments in Thailand and also potential investors yet to enter the Thai marketplace. Further details can be found in Section 3: Survey Methodology.

Here are our key survey findings:

**#1: The overall sentiment for Thailand among Chinese investors remains very bullish, despite the COVID-19 setback. There will be potentially a large number of new investors in the post-pandemic era.**

About two-thirds of the respondents plan to increase their investment in Thailand in the coming two years, with about 61% of those respondents having not yet entered Thailand.

We are encouraged by this finding, because there remains a good portion of bullish respondents who have not engaged in business activities in Thailand yet. Despite Chinese FDI into Thailand growing dramatically over the years, Thailand cumulatively accounted for less than 1 percent of overall Chinese outbound investment - not commensurate with Thailand-China trade activities - implying tremendous room for growth.

**#2: Chinese investors increasingly view Thailand and the ASEAN countries as a potential market for their products and services. As a result, Thai businesses should see more opportunities for expanding market at the local and regional level, but at the same time may face a more competitive business environment. A reduced priority has been given to operation costs and the Eastern Economic Corridor (EEC) policy by Chinese investors.**

Thailand has never been a low-cost investment destination, though many large Chinese manufacturing firms are choosing to relocate to Thailand to avoid anti-dumping levies

imposed by the US/EU. While the intensifying China-US conflict should mean more investment and expansion by Chinese firms, Thai and ASEAN market attractiveness were cited as the top consideration by most respondents. We believe this is particularly true with tech-driven and service firms that see ASEAN markets as among their first choice for overseas expansion. The following primary investment purposes are local material sourcing, the Chinese ‘Going Out’ strategy, and BOI incentives respectively. In addition, the EEC is also one of the purposes stated by respondents, but was not a key decision factor in comparison with other purposes in this survey. This may be partly because the EEC is still in the development stage and partly because Special Economic Zones (SEZs) have been developed in many countries to attract FDI as well.

**#3: A shift in investment structure to market expansion mode, the rise of Chinese service sector FDI, and the integration of downstream supply chains are reducing the scale of individual Chinese investment projects.**

This finding runs counter to the trend toward larger Chinese investment project sizes of late. The trend for smaller scale investment projects may be driven by the fact that Chinese firms increasingly look to Thailand and ASEAN for market opportunities, not just as a place for re-exporting goods. As such, initial investment tends to be smaller to allow Chinese businessmen to learn the market.

Additionally, there will be a shift from manufacturing-based to service-oriented investment structures, which require relatively smaller amounts of fixed asset investment. Upstream players with larger scale projects bring in downstream supply chains and play a significant role in this shift in investment size.

**#4: More than half of respondents already source goods from Thailand, and among them over 80% plan to increase their purchases or the number of their suppliers in Thailand. An additional 38% are considering using Thai suppliers this year.**

This finding is in contrast with the original perception that Chinese investors mainly rely on supplies from China for their overseas production. It is encouraging to see existing Chinese firms in Thailand looking to more local sourcing and new potential buyers adding Thai suppliers this year. While this survey result cannot quantify the value of investment, we believe this development should help alleviate the impact of the global trade downturn during the current crisis.

**#5: There is a shift in the type of Chinese firms coming to Thailand, from traditionally large manufacturing-based firms to smaller privately-owned firms (with less than 300 million RMB in annual revenue) across diversified groups of industries.**

Early investment in Thailand tended to be manufacturing-based, led by large enterprises, and often state-owned. Once these key manufacturers have established successful businesses in Thailand their upstream and downstream supply chains tend to be of smaller size and are often privately owned enterprises that established operations in Thailand to supply the larger enterprises.



**In conclusion, we believe the prospect for Chinese investment in Thailand during the post-pandemic era remains bright. Business competition in Thailand will however be much more intensified as Chinese firms are poised to attack local markets with abundant resources and technology. The only way to stay ahead of the challenges is to fully understand the dynamic of the changing environment, or as Sun Zi said, “To know one’s own strength and the enemy’s is the sure way to victory”, (知己知彼，百战不殆).**



## Section 1 Macro View

Amid a volatile and fast changing global economic environment, Thailand continues to be one of the most attractive and ideal destinations for foreign direct investment (FDI) in the Asia-Pacific region. According to data from the Board of Investment (BOI), there was a rising trend in foreign investment projects applying for BOI promotion, an indicator for future foreign investment. This is particularly true for investment applications from China that have increased significantly since 2017 as seen by CAGR shooting up by 208% and becoming Thailand's top source of BOI applications in 2019. During January - September 2020, overall foreign applications for BOI investment promotion have fallen due mainly to the spread of COVID-19 pandemic. Nonetheless, Chinese remained the second largest source of BOI investment applications and ranked the first in BOI approval of investment projects. Looking ahead, Chinese investment into ASEAN and Thailand will continue on a rising trend due to global supply chain rearrangement, supporting policies of China and a newly Regional Comprehensive Economic Partnership Agreement (RCEP). With Thailand's various attractive including its strategic location, efficient infrastructure, extensive Free Trade Agreements network (FTAs) and special government support, it makes Thailand an outstanding choice as a preferred investment destination for both Chinese and other foreign investors.

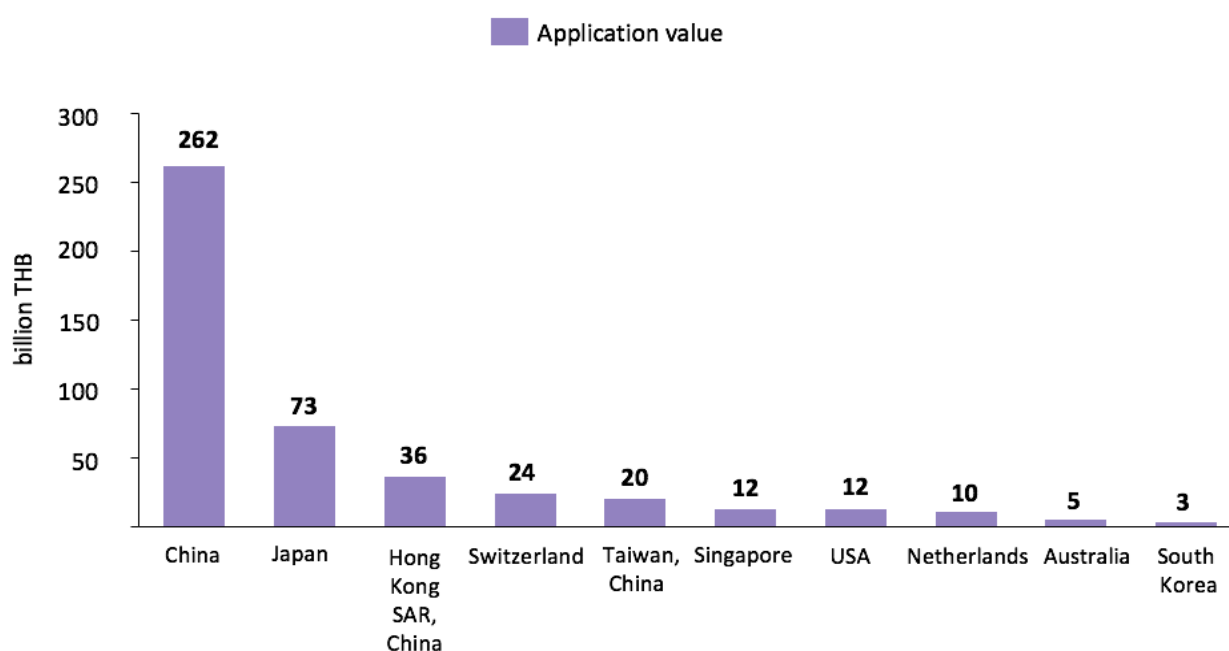




## Overall foreign investment trend in Thailand<sup>[1]</sup>

**BOI investment applications from China have risen over the past few years, especially in 2019, when China became Thailand's top source of BOI applications.** As a result of strong interest from Chinese companies, mainly in response to continued China-US trade tensions, in 2019 the value of BOI applications from China formed the leading share of applications, rising to 50% out of a total 506 billion THB in investment applications (16.3 billion USD), followed by Japan at 73 billion THB (2.3 billion USD), and Hong Kong SAR, China at 36 billion THB (1.2 billion USD) as shown in Figure 1. Furthermore, Chinese investment has also outpaced almost all other countries over the last three years (2017-2019), with CAGR shooting up by 208% from 28 billion THB (0.9 billion USD) in 2017 to 262 billion THB in 2019 (8.42 billion USD) and stepping up to second place in cumulative value at 345 billion THB (11.1 billion USD), just behind the US with a value at 366 billion THB (11.8 billion USD) as shown in Figure 2.

Figure 1: BOI investment applications from major originations in 2019

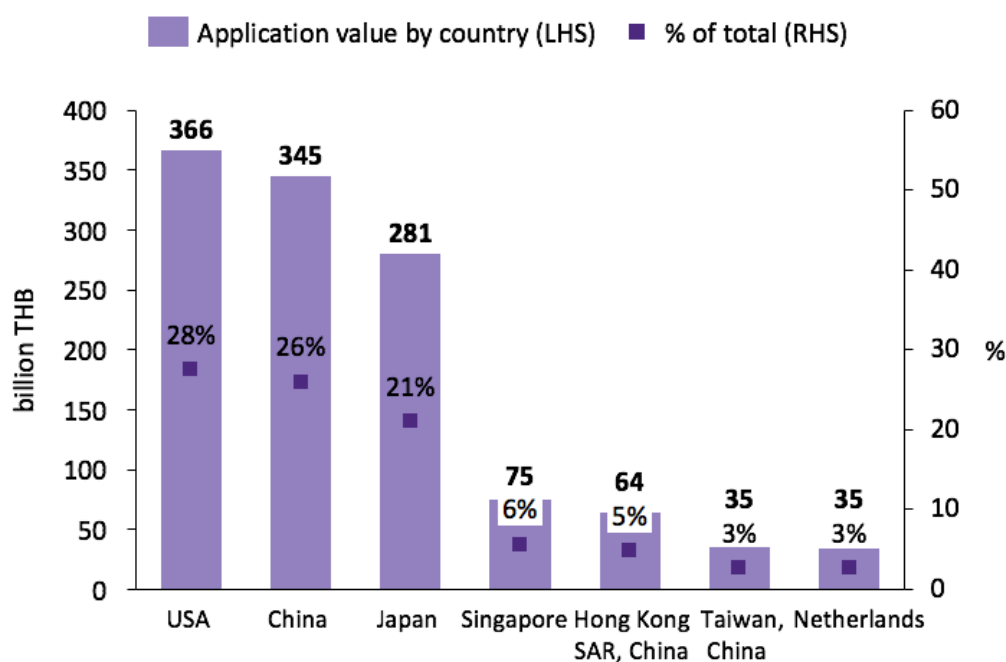


Source: EIC analysis based on data from the Board of Investment of Thailand (BOI)

[1] Foreign investment applications reported by the Board of Investment (BOI) are based on the total investment value of all projects applying for BOI investment promotion, which can be either new or expansion projects, while FDI data from Bank of Thailand (BOT) reflects the volume of transactions associated with the increase in investment during the period (either in the form of equity capital, reinvestment of earnings, or borrowing from affiliates)



Figure 2: Cumulative value of BOI applications from major originations from 2017-2019

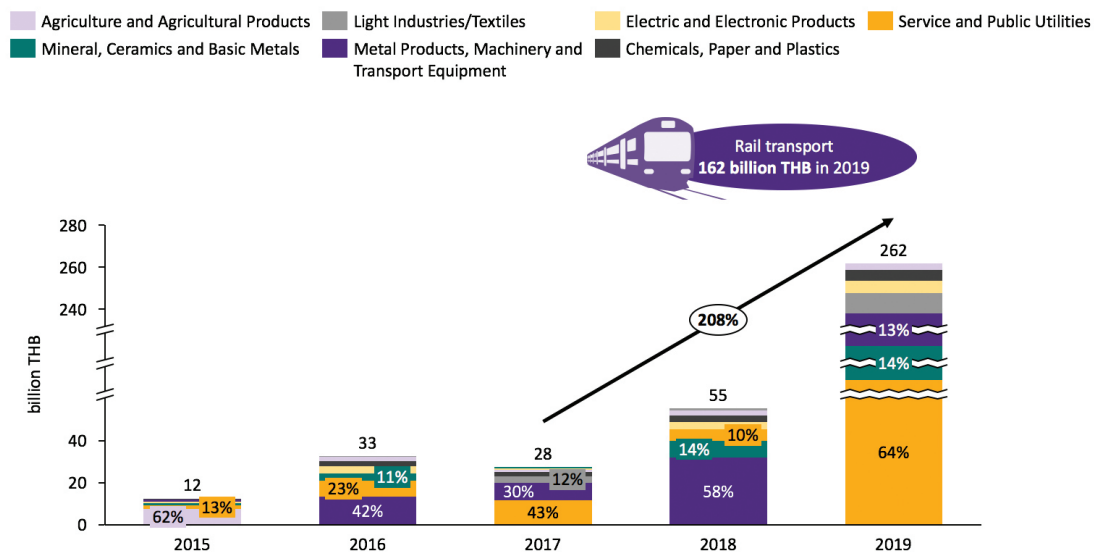


Source: EIC analysis based on data from the Board of Investment of Thailand (BOI)

**In terms of industry classification, the Service and Public Utilities category principally attracted the bulk of investment from China.** As illustrated in Figure 3, the top three categories representing almost 90% of total investment applications from China during 2017-2019 were 1) Service and Public Utilities, 2) Metal products, Machinery, and Transport Equipment, and 3) Mineral, Ceramics, and Basic Metals. The majority of application value for the Service and Public Utilities category was occupied by rail transport mega-projects, which were valued at 162 billion THB (5.2 billion USD), while the other large projects in this category were hotel businesses. Under the Metal Products, Machinery, and Transport Equipment category, there were many large-scale projects submitted for radial tires for vehicle manufacturing. Among those projects that have been applied and approved by the BOI included projects belonging to Linglong Tire, General Rubber, Prinx Chengshan, and Zhongce Rubber. Finally, the key projects in the Mineral, Ceramics and Basic Metal category were mainly in sintered products, aluminum products, and iron pipes. Apart from the top three categories from Chinese applications, Chemicals, Paper and Plastics was another category that attracted significant interests from overall foreign investors to Thailand as it ranked in first place and accounted for approximately 32% of total BOI investment application value during 2017-2019.



Figure 3: Chinese BOI applications by category

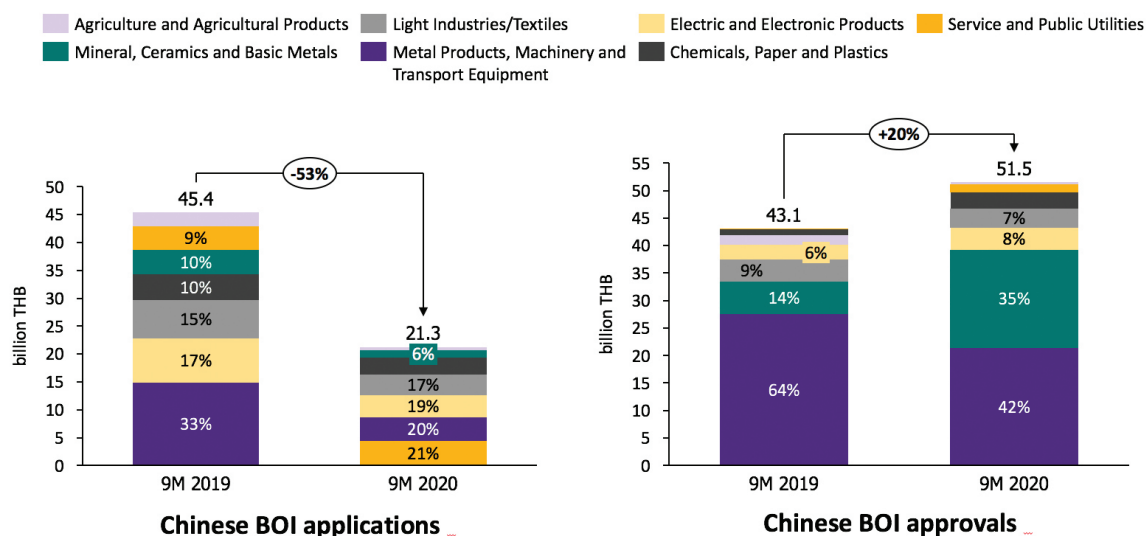


Source: EIC analysis based on data from the Board of Investment of Thailand (BOI)

**For the nine-month period of 2020, overall foreign applications for BOI investment promotion have fallen due mainly to the spread of COVID-19 pandemic. Nonetheless, Chinese remained the second largest source of BOI investment applications and ranked the first in BOI approval of investment projects. This reflects the continuing interest from Chinese investors that will propel investment momentum to Thailand in the following years.** The COVID-19 has undoubtedly brought negative impact to outbound investment flows from China to Thailand in line with investment trend around the world. The pandemic ultimately caused the delay in new investment projects reflecting in the slowdown in BOI applications submitted for investment privilege by -53%YOY from 45.4 billion THB (1.45 billion USD) to 21.3 billion THB (0.68 billion USD) as shown in Figure 4. Nonetheless, Chinese BOI investment applications remained the second largest amount of BOI applications after Japan of 37.5 billion THB (1.2 billion USD) which implied the continuing interest of Chinese investors to Thailand. In addition, in 2020, BOI investment approval from China continued to increase, reflecting rising application value during the past few years, by 20%YOY from 43.1 billion THB (1.38 billion USD) to 51.5 billion THB (1.65 billion USD). This made China ranked the first on a total investment project approvals among other foreign countries in 2020. Among the top three approved categories were 1) Metal products, Machinery and Transport Equipment (42% of total value of approved projects), 2) Mineral, Ceramics and Basic Metals (35%) and 3) Electric and Electronic Products (8%). **Looking forward, we should expect foreign investment to gradually increase again after COVID-19 resolution. This sentiment has been confirmed by many major local industrial estate developers, who report that their foreign clients intend to continue investing in Thailand once international travel restrictions are eased.**



**Figure 4: Chinese BOI applications and approvals category during January-September 2020**



Source: EIC analysis based on data from the Board of Investment of Thailand (BOI)

## Future foreign investment trends

Looking forward, outbound investment from China into ASEAN will likely continue due to global supply chain rearrangement, supporting policies of China and a newly Regional Comprehensive Economic Partnership agreement (RCEP) which is expected to further accelerate regional trade and investment. With more than 650 million consumers and being a supply chain hub for major industries, ASEAN countries are becoming an important strategic market. In particular, Thailand with its own unique advantages, including strategic location, efficient infrastructure, productive labor force, and supportive policy ecosystem would certainly attract investors' interest as one of the world's most preferred destinations for foreign investment in years ahead.

### 1. Global supply chain rearrangement

Rising geopolitical risks and COVID-19 impact have accelerated global supply chain rearrangement in order to achieve a more resilient supply chain. From China-US Trade tensions turning into a Tech War and now the Coronavirus pandemic, various supply and demand shocks have highlighted the fragility of today's global supply chains, especially chains depending on a few key suppliers or specific locations. Despite the expectation of a more predictable and multilateral approach to trade policy under the Biden administration, the China-US trade tensions is likely to persist over the coming years. In addition, supply disruption during COVID-19 outbreak further focus the need for a more diversified supply chain, especially for critical products. As a result, these recent experiences with supply chain disruptions have encouraged industries to build more resilient supply chains and productions by placing increased consideration on balancing efficiency and security, for which factors related to low-cost supply chains become less critical.

Thus, the global supply chain is likely to rearrange in two fundamental ways: diversification and regionalization. The diversification trend will see more firms adopting multi-sourcing and reducing aggressive reliance on sole-source in order to protect supply chain against future disruptions such as geopolitical conflicts, pandemics and natural disasters. Meanwhile, regionalization trend will observe more relocation of production networks within regional level. In addition, some critical productions such as pharmaceuticals and hi-tech sectors may be moved back to the home country (reshoring) to lessen supply risks as well as increase the product's speed-to-market. As a result of these regionalization trend, more multinational companies have in recent years adopted a strategy called "China Plus One" as a means of diversifying risks from core operations in China by setting up alternate production bases or seeking more supply sources in at least one other country. Due to their large market size and efficient production bases, ASEAN countries, including Thailand, have attracted much interest as a major destination for foreign investors.

## 2. Supporting policies of China

**The continuity of the China's supportive policies on outward direct investment, mainly from Going out Strategy and Belt and Road Initiative, is another key driver.** Since 1999, the Chinese government has introduced the Going out Strategy to promote Chinese firms to invest abroad for expanding new markets for Chinese products, enhancing local firm competitiveness, and promoting Chinese brand recognition. As a result, China has become a primary FDI source for countries around the world nowadays, including Thailand.

Moreover, in October 2013, the Chinese government has introduced the next stage of the Going out Strategy by proposing the Belt and Road initiative (BRI), a grand strategy for economic development projects mainly related to infrastructures. The BRI aims to create transport connectivity from China to essential parts of the world, including Europe, Asia, Africa, South America, by investing in infrastructure development such as roads, high-speed rails, ports, and pipelines. According to American Enterprise Institute, the period between October 2013 to June 2020, there are over 1,400 projects in investment and construction contracts with a total of USD 755 billion in over 130 BRI countries particularly in ASEAN, where 23% of those total investment flowed into the region. Regarding Thailand, the ongoing railway project linking Kunming with Bangkok as part of BRI projects will stimulate the movement of both passengers and goods among two countries and neighbors due to its advantages on logistics costs and lead time compared to different modes of transport. Therefore, the BRI, together with the Going out strategy, would contribute to Thailand becoming a transportation hub in ASEAN as well as enhance the trade and investment activities between the two countries in the coming years.

## 3. Regional Comprehensive Economic Partnership agreement (RCEP)

**The sign of much closer integration between China and ASEAN in the years ahead has also come from newly signed free trade bloc called Regional Comprehensive Economic Partnership (RCEP) which is currently the world's largest trade deal.** This new trading bloc consists of 15 members: 10 member states of ASEAN plus China, Japan, South Korea, Australia and New Zealand, covering a market of 2.2 billion people, or almost 30% of the world's population. Under the deal on increasing market access and transparency of administrative procedures for investors, the agreement is expected to help boost intra-regional trade and provide more opportunities for investment flows especially from China to ASEAN. With RCEP, Chinese investors will find it even more attractive to establish their production networks based in ASEAN and gain preferential market access at a lower cost. As a result, economic cooperation and trade integration between China and ASEAN will continue to increase and this will create vast opportunities for Thailand to be a China's strategic gateway to ASEAN.



**Opportunities arising from supply chain rearrangement, supporting Chinese policies and the RCEP agreement will likely result in greater economic integration between China and ASEAN in coming decades. Certainly, Thailand with its own unique advantages is one of the world's most preferred investment destinations including Chinese investors.**

## **Key factors attracting FDI to Thailand**

**A strategic location catching the eyes of foreign investors.** Its location in the heart of ASEAN means Thailand is well-connected to the 10 member-nations, including the fast-growing CLMV countries (Cambodia, Lao PDR, Myanmar and Vietnam). This sub-region with a population of approximately 650 million will be an ideal target market for businesses across a range of industries.

**Expanding infrastructure to support production and logistics activities.** A well-connected transport network with domestic and international airports, deep-sea ports, regional rail links, and highways offers access not only to the whole country, but also paves the way for facilitating cross-border trade in the sub-region. Apart from transport infrastructure, the country has also stepped up its investment in ICT and digital infrastructure and promoted a digital economy through multiple high capacity bandwidth submarine cable systems and 5G technology.

**Attractive tax incentives and support to facilitate foreign investment.** Regarding tax incentives, businesses can be granted corporate income tax exemption or tax reductions of up to 15 years depending on business activities and receive other tax benefits such as import duty exemptions. Moreover, foreign businesses promoted by the BOI could be entitled to 100% foreign ownership, land ownership rights, and work permit and visa facilitation. To accelerate investment activities, in 2020 the BOI also announced a Thailand Plus package as a special measure to attract large-scale investment projects focusing on high-technology industries.

At the policy level, the Thai government is aiming toward an innovation-driven and knowledge-based economy by implementing a Thailand 4.0 policy calling for an increasingly digitized economy and organizations, along with launching the Bio-Circular-Green Economic model (BCG) for more inclusive and sustainable growth. The Eastern Economic Corridor (EEC) has also been developed as a designated area for attracting 10 targeted industries in line with the Thailand 4.0 and BCG models. The EEC will undoubtedly be a prime destination for domestic and international investors supported by special incentive package offers, coupled with large scale infrastructure development to strengthen its networks such as the U-Tapao airport and Eastern Airport City, the Phase 3 Laem Chabang seaport, the Phase 3 Map Ta Phut seaport, the high-speed rail network linking 3 major airports, and the double-track railway network project.



**Membership in extensive Free Trade Agreements (FTAs)**, including many large economies such as ASEAN, China, Hong Kong SAR, China, South Korea, Japan, India, and Australia. Especially, a newly signed Regional Comprehensive Economic Partnership (RCEP), this could offer vast opportunities for businesses based in Thailand to obtain access to the larger markets accounting for over 2 billion people, with reduced trade barriers and near-zero tariff rates. Additionally, Thailand is considering participating in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Thailand-European Union Free Trade Agreement (Thai-EU FTA) for further trade promotion.

**A large pool of cost-effective labor that can make products competitive in the global marketplace.** The country has a plan to up-skill and re-skill its workforce to achieve its Thailand 4.0 goal, which aims to create a knowledge-based economy. Multiple workforce up-skilling and re-skilling programs, especially digital and IT skills, are being carried out at the vocational, college, and higher education levels to boost the supply of workers with skill sets matching various private sector demands.

**Apart from Thailand's advantages, its business-friendly environment and successful COVID-19 recovery are undoubtedly important elements in affirming investor confidence.** According to the World Bank's 2020 Ease of Doing Business rankings, Thailand has moved up to 21<sup>st</sup> from 27<sup>th</sup> in 2019 among 190 countries across the world. Its current position puts Thailand in third place among ASEAN countries, after Singapore (2<sup>nd</sup>) and Malaysia (12<sup>th</sup>). Significant improvement can be seen in two indicators: dealing with construction permits and protecting minorities. In addition, Thailand's response to COVID-19 has been successful so far. According to a report by the Global COVID-19 Index (GCI), Thailand's COVID-19 response is among the top 10 countries in 184 countries worldwide. These elements will affirm foreign investors' confidence in investing in Thailand.



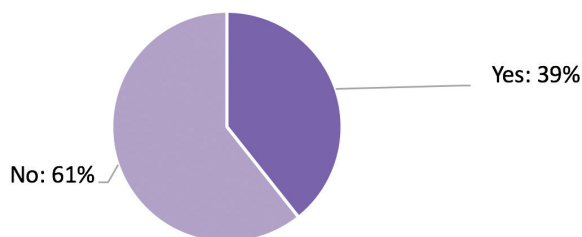
## Section 2: Survey Findings

The survey results have confirmed our observation that there remains strong interest in investing in Thailand by Chinese investors, even during the COVID-19 period. We also uncovered a number of insights that challenge traditional perceptions about Chinese investment in Thailand. We expect that growth in Chinese outbound investment into Thailand will continue once the cross-border travel ban is lifted, amid an ongoing and escalating China-US trade war, the need to rearrange supply chains, and the attractiveness of Thailand as an investment destination. While there has been a pause in capital flows due to a continued ban on cross-border travel causing disruptions, the growth trend in investment to Thailand by Chinese investors is expected to continue post COVID-19.

**Key Finding #1: The overall sentiment for Thailand among Chinese investors remains very bullish, despite the COVID-19 setback. There will be potentially a large number of new investors in the post-pandemic era.**

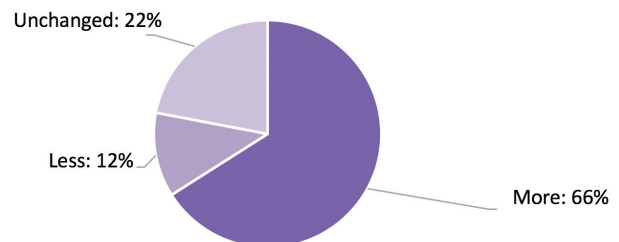
Sixty-six percent of those surveyed responded positively to the proposition that their company will consider increased investment in Thailand in the coming two years, with 39% of respondents having either already invested in or conducted business in Thailand.

**Figure 5: Respondent is either an existing investor or has a business entity in Thailand.**



Source: Results, survey question 1

**Figure 6: Respondent's direct investment plan in Thailand in the next 2 years.**



Source: Results, survey question 2

A number of Chinese companies interviewed stated that they will continue with their BOI application for planned investment and will make trips to Thailand to finish due diligence and close the purchase of land for a manufacturing site once the travel ban is lifted. They consider the impact of COVID-19 to be temporary, only bringing inconvenience and prolonging the process, but not derailing their investment decision. Some new investors have been considering setting up a production base in an offshore market for quite some time but are hoping that things may improve, so they are taking a wait-and-see attitude. The escalation of the trade war and the growing supply chain shift has pushed them to make a final decision.

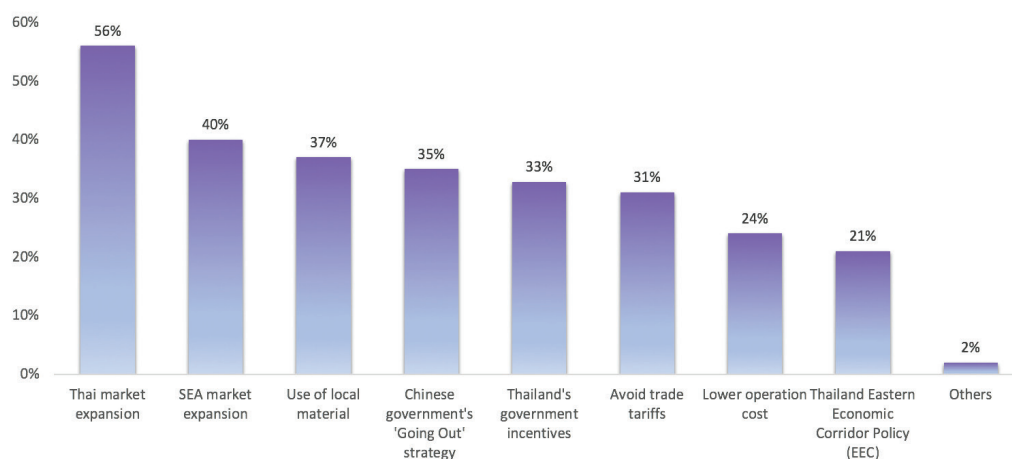
Those who have already invested in Thailand or overseas felt blessed that they were able to position themselves better than their industry peers who have not; and enjoy a certain competitive advantage being an early mover. The decision to increase investment in the coming years also comes naturally, out of the need to expand their existing capacity to meet demand.



**Key Finding #2: Chinese investors increasingly view Thailand and the ASEAN countries as a potential market for their products and services; while costs and the EEC are not key considerations. This will mean both opportunities and intensifying competition from Chinese firms.**

Survey results, as shown in Figure 7, show that targeting Thailand as a market for their products and services has become a key driver for Chinese investment in Thailand (56%), followed by expansion to South East Asian countries (40%).

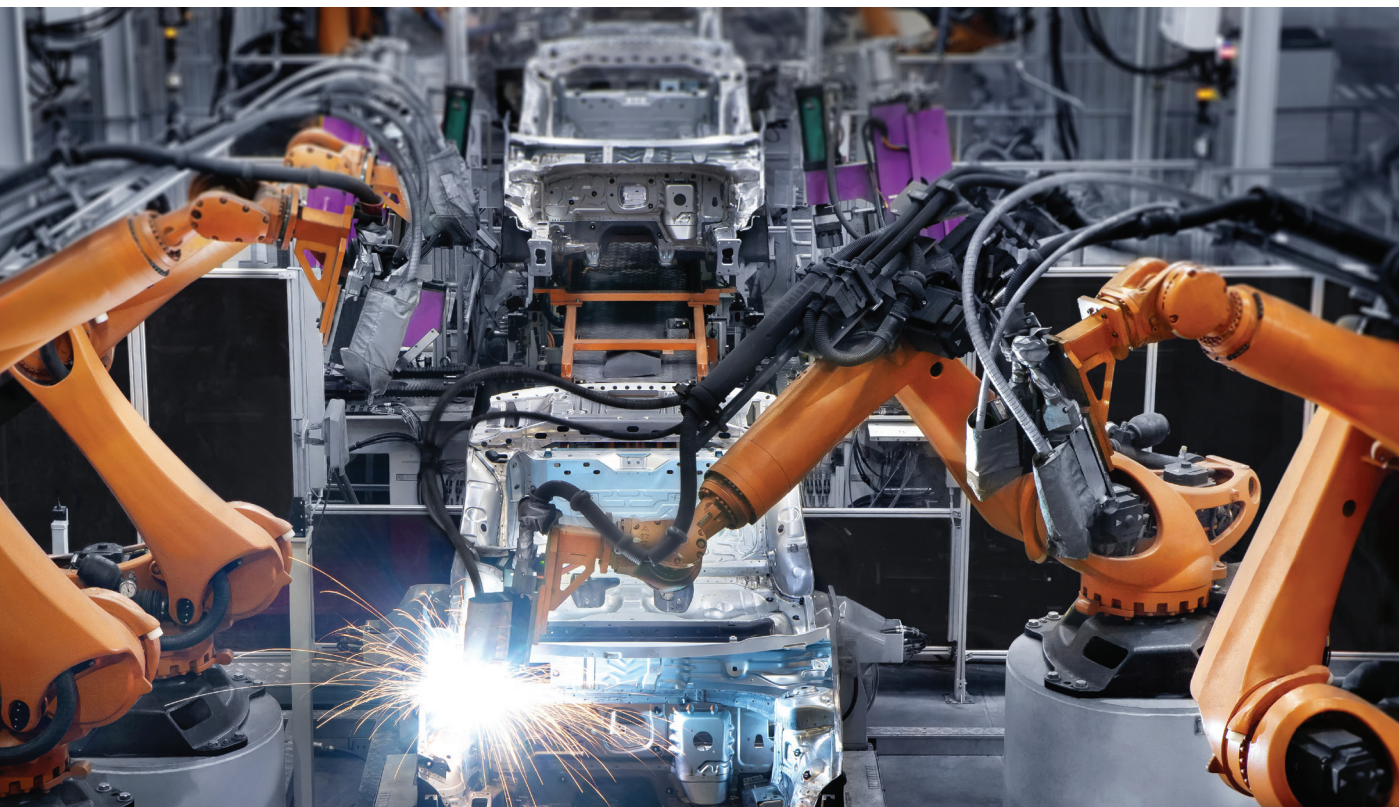
**Figure 7: The main purpose of investment in Thailand by Chinese companies**



Source: Results, survey question 4



Historically, the top three (3) key investment considerations for Chinese companies going to Thailand were: an overall favorable business environment for foreign investors, to be closer to raw materials (i.e. rubber for tire manufacturers), and to avoid anti-dumping and anti-subsidy measures (solar panel manufacturers) and other trade/tariff issues. This coincided with large investments historically focused on metal products & machinery, electrical & electronic products, and minerals & ceramics. While some of these manufactured products were sold locally in the Thai marketplace, a significant percentage were exported elsewhere.



While the above still holds true for traditional manufacturing industries, we do note a change in the trend, with an increasing number of companies targeting Thailand as a market rather than production base. This is particularly evident in areas such as the Information Communication Technology (ICT) industry, represented by companies such as Huawei and ZTE, e-commerce, and payment and logistics. Alibaba has invested in Lazada, and Alibaba's logistics arm Cainiao has built up its warehousing/logistic infrastructure in Thailand as well. In the past few years, Alipay and WeChat Pay have rolled out ambitious plans to increase coverage to cater to the growing number of Chinese tourists. Major Chinese logistics companies such as Shun Feng, YTO Express, and Best have all invested in Thailand.

Like many other countries, Thailand has sped up the development of its information technology infrastructure in recent years and is committed to adopting new digital technologies to elevate living standards in rural areas. China Mobile and China Unicom have both established operating entities in Thailand to actively promote mobile communication connectivity between the two countries. Chinese information technology companies represented by Huawei and ZTE have continuously increased their investment in Thailand to actively participate in the development of a digital economy. These Chinese ICT companies enjoy competitive advantages in both costs and advanced technology.

The Coronavirus pandemic has accelerated the development of e-commerce and created huge demand for delivery services in Thailand. It is estimated that the market value of delivery services amounted to over 200 billion THB in 2019 and will continue to grow. Delivery/logistics services in China are about five years ahead of Thailand, and many of the business models and much of the technology and management experience can be replicated and adapted to the Thai market, presenting huge investment opportunities for Chinese e-commerce/logistics companies.

With Thailand's Eastern Economic Corridor initiatives and the rolling out of infrastructure development and construction plans, Chinese engineering and construction companies have also played an increasingly active role in participating in these mega-projects, such as the China-Thailand high speed railway and three new airports and ports.

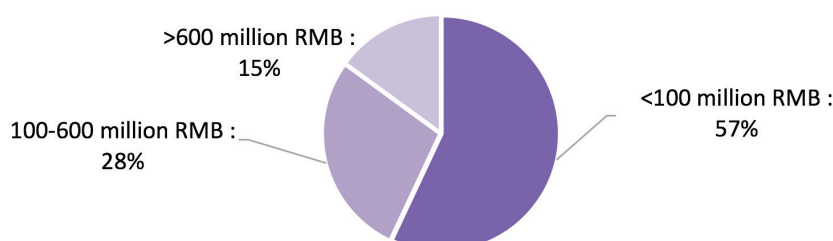
Following the flow of capital and people, an increasing number of Chinese real estate companies and other investors are also targeting this market, although the scale and the capital flow has been somewhat dampened by both the Chinese government's restrictions on overseas investment in real estate and restrictions on foreign ownership of properties imposed by Thai legislation.

All of the above explains why Thailand and the other ASEAN countries are increasingly becoming an important overseas market for Chinese companies.

**Key Finding #3: A shift in investment structure to market expansion mode, the rise of Chinese service sector FDI, and the integration of downstream supply chains are reducing the scale of individual Chinese investment projects.**

Fifty-seven percent of respondents said their investment will be less than 100 million RMB, 28% responded with figures between 100-600 million RMB, while only 15% will be large scale investments with project sizes over 600 million RMB.

**Figure 8: Potential investment amounts in the coming two years**



Source: Results, survey question 5



As explained in key finding #2, a shift in the investment structure from a manufacturing-based to service-oriented focus will require relatively smaller amounts of fixed asset investment. The establishment of upstream or downstream supply chains will reduce the size of investment projects. There has been significant manufacture-based investment by a number of top-tier Chinese state-owned and private enterprises over the past few years in Thailand, particularly the automotive, tire, and solar panel industries. One of the largest investments to date is a joint venture between SAIC Motor and CP Group, with an investment size of up to 10 billion THB.

The survey results are in line with our observations, whereby we see an increasing number of incoming smaller-scale investment flows by small and medium-sized enterprises (SMEs) following the production shift from China to Thailand as an integral part of upstream or downstream supply chains supplying a number of major manufacturers. Taking the tire industry as an example, over the past few years a number of tire manufacturers have shifted their manufacturing hubs to Thailand, which has driven upstream, midstream, and downstream players to open or expand operations in Thailand to take advantage of supply chain demand.

Apart from manufacturing-based investment, the Thailand 4.0 project has earned its share of attention among international businesses, particularly those involved in technology and IoT industries given the nation's commercial and manufacturing potential. The growth of the Thai consumer market, urbanization, and digital adoption make Thailand an attractive investment destination for those Chinese tech companies. China tech giants like JD.com, Alibaba, Tencent Holdings, Huawei, and Xiaomi have acted as magnets attracting many Chinese tech startups with lower operational costs and smaller scales of investment to build up an entire ecosystem. Last but not least, we see the Chinese becoming Thailand's biggest investors in the future in various streams.





Thailand is considered a production hub destination for its manufacturing processes, which allows Chinese enterprises to expand production bases to other potential Asian nations and to utilize local resources to fulfill the requirements of manufacturing supply chains. Chinese investors' interest in overseas investment depends on the type of industry in relation to its suitability with the local environment in both economic and technological terms. Thailand will always enjoy the competitive advantages of its strategic location as a gateway into the heart of Asia, according to Mr. Vikrom Kromadit, CEO of AMATA Corporation. Moreover, the long record of historical achievements by long-established Chinese immigrants help provide plenty of opportunities for the country to move forward, he added.

"Favorable investment incentives and a pro-business environment are factors necessary to draw foreign investment flows. We also need to avail ourselves of our geographical and historical competitive advantages effectively, for it is what distinguishes us from others. If Thailand is to attract more Chinese investment, it is advisable for our workforce to develop Chinese language efficiency, international work experience, and technological know-how."

## Mr. Vikrom Kromadit

CEO of AMATA Corporation  
Chairman of the Thailand-China Business Council



**Key Finding #4: More than half of respondents already source goods from Thailand, and among them over 80% plan to increase their purchases or the number of their suppliers in Thailand. An additional 38% are considering using Thai suppliers this year.**

The survey results show positive sentiment by Chinese companies when it comes to sourcing goods from Thai suppliers both overseas and from Chinese companies with a presence in Thailand. This contradicts the long-standing perception that Chinese investors mainly rely on sourcing their materials and goods purchasing from Chinese suppliers.

Historically, Thailand has always been a supplier of high-quality agricultural products such as rice and fruit, as well as intermediate goods such as electronics and auto parts. The China-US trade war has had a mixed impact on Thailand's exports to China. Total exports to China have slipped along with China's total exports to the US and other parts of the world as a result of the trade war and impacts from COVID-19. However, this has been partly offset by demand for goods for domestic consumption in China.

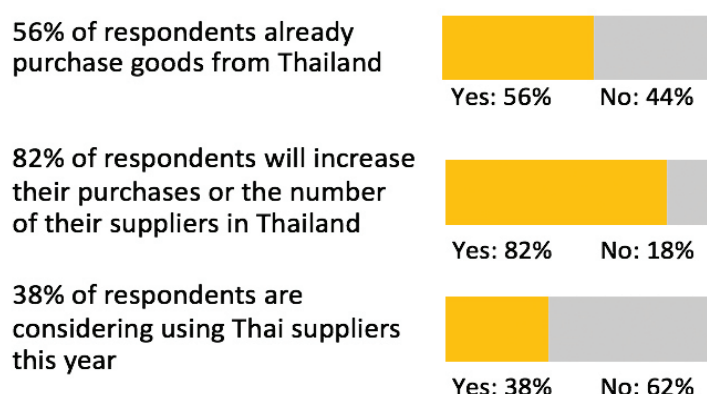
A recent study by the United Nations Conference on Trade and Development (UNCTAD) shows that Thailand is among the top 12 countries to benefit from trade diversion from the China-US trade dispute, valued at a minimum of 5 billion USD. Aside from traditional manufacturing products, food and agricultural products from Thailand are experiencing high demand from Chinese importers, growing by 7% YoY. Notably, during Jan-Apr 2020 Thailand exported 567 million USD of durian fruit to China, accounting for 78% YoY growth from 2019. This robust growth was driven by trade agreements and advance orders placed by Chinese fruit dealers before the start of the annual harvest season, and growing trade figures are expected as the COVID-19 outbreak has prevented Chinese people from traveling abroad.





Thai exporters encountered delays in delivering agricultural products to China due to road closures and flight reductions as a result of the COVID-19 pandemic. Originally, goods were sent from Thai farms and warehouses by truck, going through either Vietnam or Laos. In May 2020 the government began experimenting with a two-pronged system that involved trucking products to Vietnam, where they are moved into containers on trains which then complete the deliveries to China. This gives Thailand a competitive edge as rail transport is cheaper and faster than shipping by truck, thereby reducing overall costs and delivery times.

**Figure 9: Sourcing goods from Thai suppliers**



Source: Results, survey questions 6, 7, and 8

Survey results show 56% of respondents already purchase goods from Thailand, among which 82% said they will increase their purchases or the number of their suppliers in Thailand. An additional 38% of respondents are considering using Thai suppliers this year.

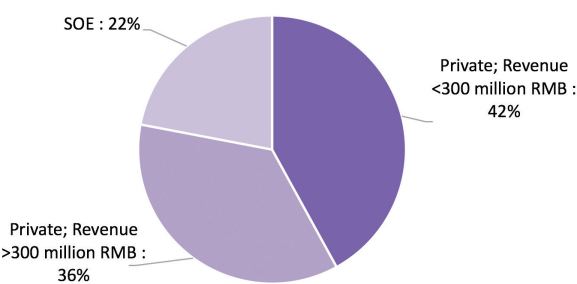
**Key Finding #5: There is a shift in the types of Chinese firms coming to Thailand from traditionally large manufacturing-based firms to smaller privately-owned firms (with less than 300 million RMB in annual revenue) across diversified groups of industries.**

Similar to reasons for Key Finding #3 above, early investment in Thailand tended to be manufacturing-based and led by large enterprises, often state-owned. Once these key manufacturers establish successful businesses in Thailand, their upstream and downstream supply chains tend to be of smaller size and are often privately owned enterprises that established operations in Thailand to supply the larger enterprises.

We also noted a trend of smaller-sized private enterprises across a diversified group of industries who have moved, or have considered moving, their manufacturing operations outside of China as a result of the escalation of the China-US trade war. Many of them have previously been exporting their products to the US, whether kitchen utensils, homewares, furniture, or electronic appliances. They are now faced with either closing businesses for good or shifting their operation base to a third country such as Thailand. The survey result has generally confirmed the above two trends.

Forty-two percent of the respondents are from private enterprises with annual revenue of less than 300 million RMB; 36% are private enterprises with annual revenue of more than 300 million RMB, and the remaining 22% are state-owned enterprises.

Figure 10: Respondent's type of business



Source: Results, survey question 10

## Section 3: Survey Methodology

The purpose of conducting the survey was to develop a deep understanding of the impact of COVID-19 on inbound investment into Thailand by Chinese corporates so as to assess future investment trends and possible impacts on the Thai economy. Our key focus was aimed at FDI and corporates, not high net worth individuals, individual property buyers, or those involved in tourism related activities.

Siam Commercial Bank (SCB) specially designed our survey methodologies to include samples of investors currently having business and/or investments in Thailand as well as potential investors yet to enter Thailand.

We conducted an on-line survey based on existing and potential Chinese firms from across China, including all enterprise categories and composed of diversified corporate sizes and industry groups. Private enterprises made up over two-thirds of the businesses surveyed, with state-owned enterprises accounting for approximately one-third of the total. The total number of respondents was 326. Out of that total, we removed firms submitting incomplete or invalid responses, so our survey analysis was based on responses from 170 private and public Chinese firms. Of that total, 13 respondents are currently based in Thailand and existing investors or those having a business in Thailand.

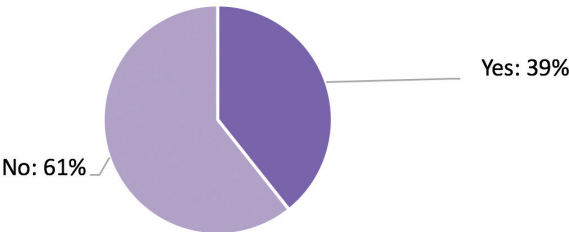
The analysis in this report is based on a survey conducted digitally through a Chinese on-line survey called Tencent Questionnaire Platform in May-June 2020. The questionnaire consisted of eleven questions in Chinese in a multiple-choice and open-ended format. We also conducted exclusive interviews with a number of Chinese executives to gain further insight for our analysis.

In addition to using private-sector research and government resources in conducting this research paper, the survey was conducted independently and was not commissioned by any business, government, or other institutional survey of Chinese corporates contemplating investing in Thailand or with existing investments.



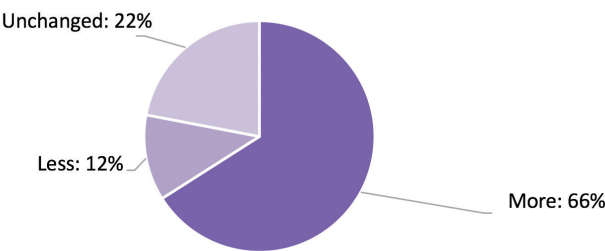
# Section 4: Survey Question Results

## 1. Are you an existing investor, or do you conduct business in Thailand?



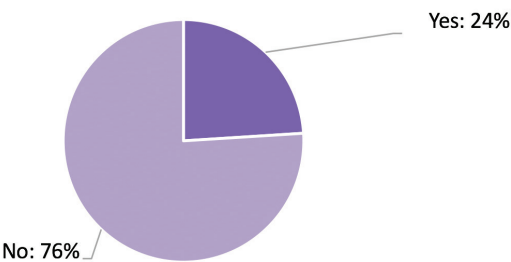
Some 39% of respondents indicated that they were already investors or conducting business in Thailand. The remaining 61% were not existing investors and were not conducting business in Thailand.

## 2. What is your plan for investing in Thailand over the next 2 years?



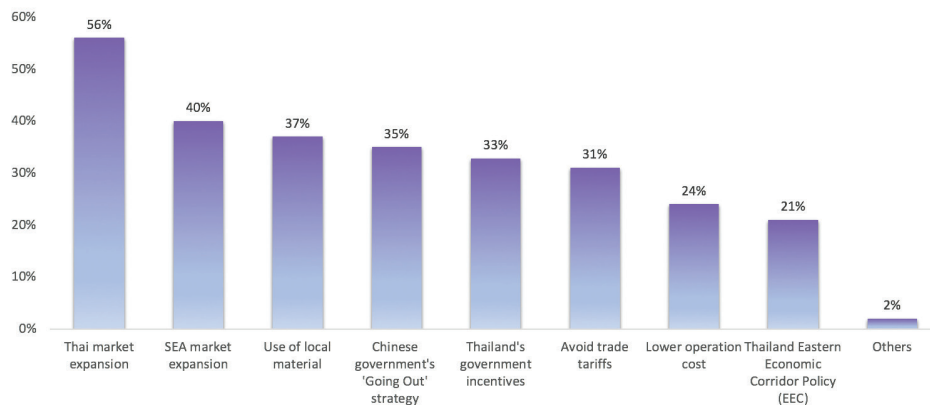
Sixty-six percent of respondents planned to increase their investment in Thailand over the next 2 years. This was followed by 22% of respondents whose investment plans will remain unchanged, and 12% who plan to decrease their investment in the next 2 years.

## 3. Will you consider investing in Thailand over the next 2 years?



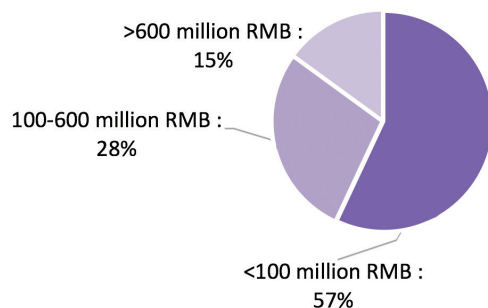
Some 24% of respondents are considering investing in Thailand in the next two years, while 76% are not considering any investment.

#### 4. What is the main purpose of your company's investment in Thailand?



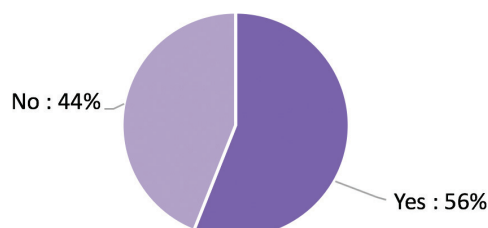
The majority of respondents stated that their main aim for investing in Thailand was to expand into the Thai market (56%), followed by South-East Asia (SEA) market expansion (40%). Beside market expansion, 37% of respondents are sourcing material from local Thai suppliers, while 35% of respondents are following the Chinese government's 'Going Out' strategy. Thirty-three percent of respondents benefited from Thai government incentives, 31% are seeking to avoid trade tariffs, 24% benefited from lower operation costs, 21% benefited from Thailand's Eastern Economic Corridor (EEC) policy, and 2% expressed other purposes for investing in Thailand.

#### 5. How large is your project amount for your investments or plans to invest in the next 2 years?



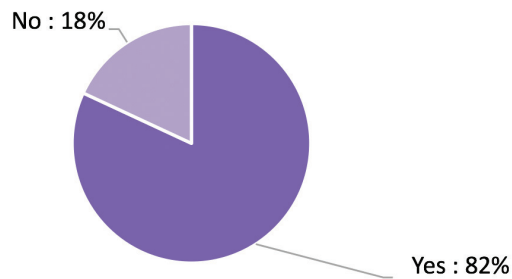
The majority of respondents (57%) said their projected investment amounts will be relatively small (less than 100 million RMB), while 28% of respondents stated projected investment amounts between 100 - 600 million RMB. Fifteen percent of the respondents expressed projected investment amounts exceeding 600 million RMB.

#### 6. Are you currently using suppliers from Thailand?



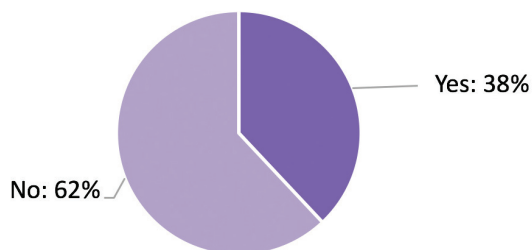
Fifty-six percent of respondents are already using Thai suppliers, while 44% are not.

**7. Do you plan to increase your order quantity from existing suppliers, or increase the number of your suppliers in Thailand?**



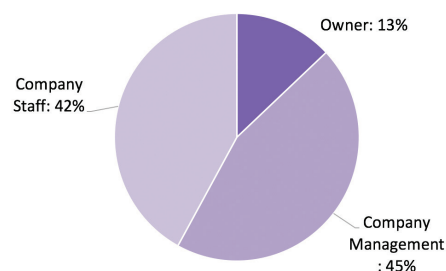
Eighty-two percent of respondents planned to increase their order quantities from existing Thai suppliers or planned to increase the number of suppliers from Thailand, and 18% were not considering any increase in either order quantity or the number of suppliers they used.

**8. Do you plan to order from Thai suppliers this year?**



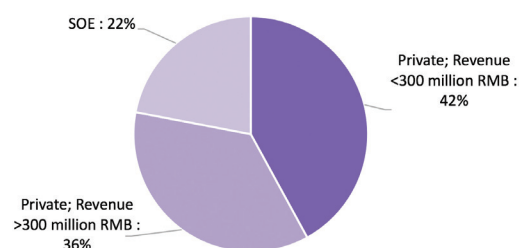
Thirty-eight percent of respondents plan to order from Thai suppliers this year, while 62% are not considering placing any orders with Thai suppliers during the same period.

**9. What is your current position in the company?**



Forty-five percent of the survey respondents were in company management, 42% were company staff, and 13% of respondents were company owners.

**10. What type of business are you in?**



Seventy-eight percent of respondents worked in private companies. Forty-two percent of companies had annual revenues equal to or less than 300 million RMB, while 36% had revenues exceeding 300 million RMB. Only 22% of respondents were working for state-owned enterprises.





## Siam Commercial Bank's Regional Network

The Siam Commercial Bank (SCB) was established by Royal Charter as Thailand's first indigenous bank in 1906. Since its inception, the Thai Royal Family, and later the Crown Property Bureau, have been the Bank's major shareholders. Over the past 114 years SCB has played a pivotal role in shaping the Thai financial services landscape through many economic cycles and periods of difficulty. With the strong support of its major shareholder, SCB has managed to emerge from these changes as a bigger, better, and stronger bank.

As a leading universal banking group in Thailand, SCB provides a wide array of financial products and services, including corporate and personal lending, retail and wholesale banking, foreign currency operations, international trade financing, cash management, custody services, credit and charge card services, and investment banking services, to meet the needs of a broad range of customers. Befitting its status as a universal bank, SCB has a large footprint across the financial services landscape in Thailand covering all customer and product segments.

Siam Commercial Bank currently provides its financial services and products through its Head office and branch network in Thailand, its branches in Singapore, Hong Kong, Laos, Vietnam, and Shanghai, its subsidiary in Cambodia, and representative offices in Beijing and Myanmar (the latter now being granted preliminary approval to prepare for commencement of operations as a SCB subsidiary bank in Myanmar).

SCB has committed to promoting China's "Belt & Road Initiative" and supporting Chinese companies investing in Thailand. We have been named the "Best Local Bank for the Belt and Road Initiative in Southeast Asia" by Asia Money for four years in a row since 2017, and "The Best Belt and Road Bank in Thailand" by Finance Asia in 2018. Our operations will continue to support bilateral trade and investment as always, by providing integrated financial services to both Chinese and Thai businesses.

## ***Siam Commercial Bank PCL, Shanghai Branch***

Our Shanghai branch was officially opened in May 2018. The branch is the first business institution set up by Siam Commercial Bank in mainland China and works with the Thailand Head Office, Hong Kong Branch, and Beijing Representative Office to support trade and investment activities between Chinese and Thai enterprises. The branch also provides all-round tailor-made financial and advisory services for Chinese enterprises investing in Thailand.

### **Services Available**



Corporate Deposit



Corporate Lending



Trade Finance & Service



Account & Remittance



Cross-border RMB Clearing



Financial Advisory Service



FX & Money Market



Customized Service

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General Manager  
Ms. June Qiong Fu

Address  
Room T15, 74F, Shanghai World Financial Center, No 100 Century Avenue,  
Shanghai 200120, P.R. China

Telephone  
86 21 - 6058 - 7777

## ***Siam Commercial Bank PCL., Hong Kong Branch***

The Siam Commercial Bank PCL Hong Kong Branch has been serving Thai, Hong Kong, Chinese, and multi-national companies expanding their businesses in the region since 1978. Thanks to 40 years of experience, the branch provides clients with a full range of services that address ever-changing market conditions and strives to meet client needs. Hong Kong is not only a major global financial center but also a gateway to China. Our clients benefit from our service coverage and financial support through SCB Hong Kong and our network, Shanghai Branch, and Beijing Representative Office.

### **Services Available**



Corporate Deposit



Corporate Lending



Trade Finance & Service



Account & Remittance



RMB Business Providing



Financial Advisory Service



FX & Money Market



Customized Service

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General Manager & Chief Executive  
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## ***Siam Commercial Bank PCL, Beijing Representative Office***

Our Beijing Representative Office assists with contacting Chinese government agencies and private enterprises, collecting data, and other services. As an information provider, we provide customers with relevant regulation and business investment information advice.

### **Services Available**



Assists with contacting Chinese government agencies and private enterprises, collects data, and other services



Provides customers with relevant regulations and business investment information advice as an information provider

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**Disclaimer:** The above report was conducted with existing and potential Chinese firms from across China, including all enterprise categories and composed of diversified corporate sizes and industry groups. However, neither we nor any of our respective affiliates, employees, or representatives make any representation or warranty, express or implied, as to the accuracy or completeness of any of the information contained in this report, and we and our respective affiliates, employees, or representatives expressly disclaim any and all liability relating to or resulting from the use of this report or such information by the recipient or other persons in whatever manner. This report is for the recipient's information only. It does not represent or constitute any advice, offer, recommendation, or solicitation by us and should not be relied upon as such. We, or any of our associates, may also have an interest in the companies mentioned herein. Reproduction or dissemination, of research data and reports of Siam Commercial Bank PCL. in any form is prohibited except with the written permission of Siam Commercial Bank PCL.