

## THAILAND AIMS TO BREAK OUT OF MIDDLE-INCOME TRAP — OECD ACCESSION EXPECTED TO LEAD TO EASING OF FOREIGN INVESTMENT RESTRICTIONS —

Akihiko Yoshida  
Asia Pacific Dept.  
Mitsui & Co. Global Strategic Studies Institute

### SUMMARY

- Thailand has been slow with capital input for plant construction and production equipment installation. In addition, the declining birthrate and aging population limit the scope for further increases in labor input, and the economic growth rate is sluggish. To transition to the status of a high-income country, Thailand needs to pursue industrial upgrading by strengthening its technological capabilities.
- Concerned about the country remaining stalled in the middle-income trap, the government has been successively announcing policies oriented toward industrial upgrading since the mid-2010s. Those policies include “Thailand 4.0” and the “Bio-Circular-Green (BCG) Economy Model.”
- Foreign investment plays a major role in achieving industrial upgrading. However, there are regulatory and political challenges for foreign investment in the country. Thailand has applied for OECD membership and will be required to reform its trade and investment regulations as part of the membership review process. As a result, entry barriers for foreign investment in Thailand are expected to ease in the future.

## 1. MACROECONOMIC TRENDS IN THAILAND

### 1.1 Thailand’s economic growth rate compared to other major ASEAN countries

Following the Plaza Accord of 1985, Thailand achieved high growth on the strength of direct investment inflows, especially from Japan, fueled by the yen’s appreciation. However, the 1997 Asian financial crisis led to a rapid deterioration in the Thai economy. Thereafter, in the 2000s, the economy maintained steady growth of around 5%, until the global financial crisis of 2008 pushed the economy into a recession. Since 2010, Thailand’s economic growth rate has been on a downward trend and has remained lower than those of neighboring countries (Figure 1).

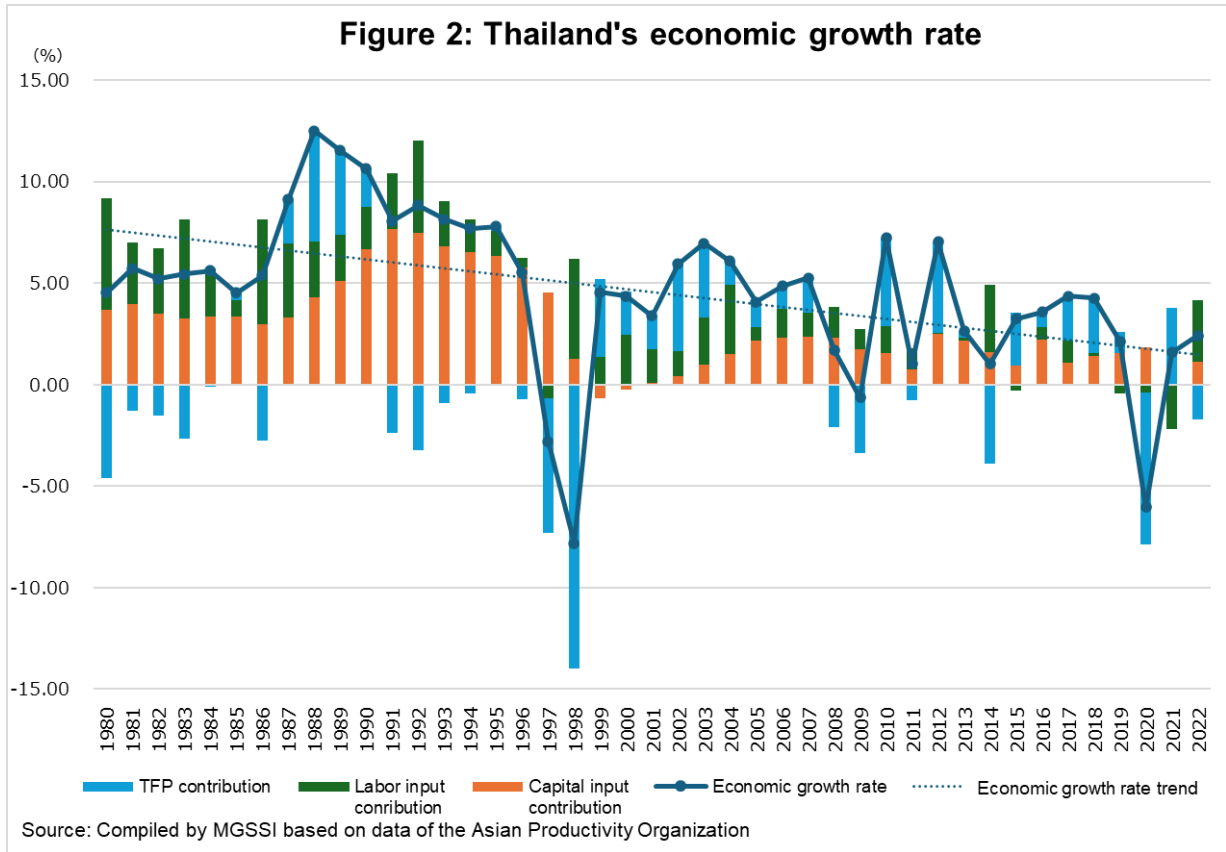
**Figure 1: Real economic growth rates for five major Southeast Asian countries (%)**

	Growth rates for 1990-1999	Growth rates for 2000-2009	Growth rates for 2010-2019	Growth rates for 2000-2024
<b>Thailand</b>	<b>5.2</b>	<b>4.3</b>	<b>3.6</b>	<b>0.5</b>
Indonesia	4.6	5.3	5.4	3.4
Malaysia	7.1	4.7	5.3	2.9
Philippines	2.8	4.5	6.4	2.8
Singapore	7.2	5.3	4.9	2.6
ASEAN (5 leading countries)	5.1	4.9	5.1	2.6

Note: Figures are average annual growth rates  
Source: Compiled by MGSSI based on IMF data

**1-2. Real GDP growth rate**

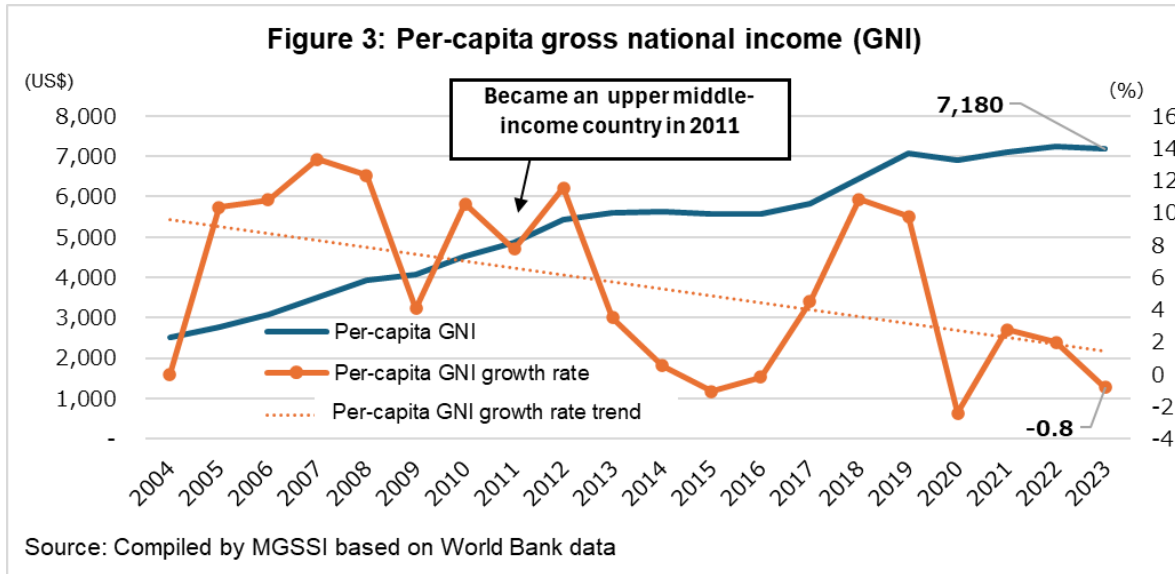
In the late 1980s and early 1990s, an increase in capital input, such as in the form of plant construction and production equipment installation, contributed significantly to Thailand’s economic growth. An increase in labor input also supported growth. However, since the 1997 Asian financial crisis, the contribution from capital input has been weak. Furthermore, with the declining birthrate and aging population, room for further contributions from labor input is limited. As such, the country is facing the need to increase total factor productivity (TFP)<sup>1</sup>, which is a factor of economic growth other than capital input and labor input (Figure 2).



**1-3. Per-capita gross national income**

In 2011, Thailand became an upper middle-income country when its per-capita gross national income (GNI) reached US\$4,210. However, its growth rate has been declining year by year, with negative growth marked in 2023, the most recent year for which data is available. Per-capita GNI in 2023 stood at US\$7,180 (Figure 3). Thailand has become a country that has fallen into the so-called “middle-income trap,” where a country’s economy grows to the level of a middle-income country and then development stagnates.

<sup>1</sup> TFP refers to anything that affects output, excluding capital and labor inputs. It includes technological progress, for example.



## 2. GOVERNMENT INITIATIVES AND INVESTMENT TRENDS

### 2-1. Thailand 4.0

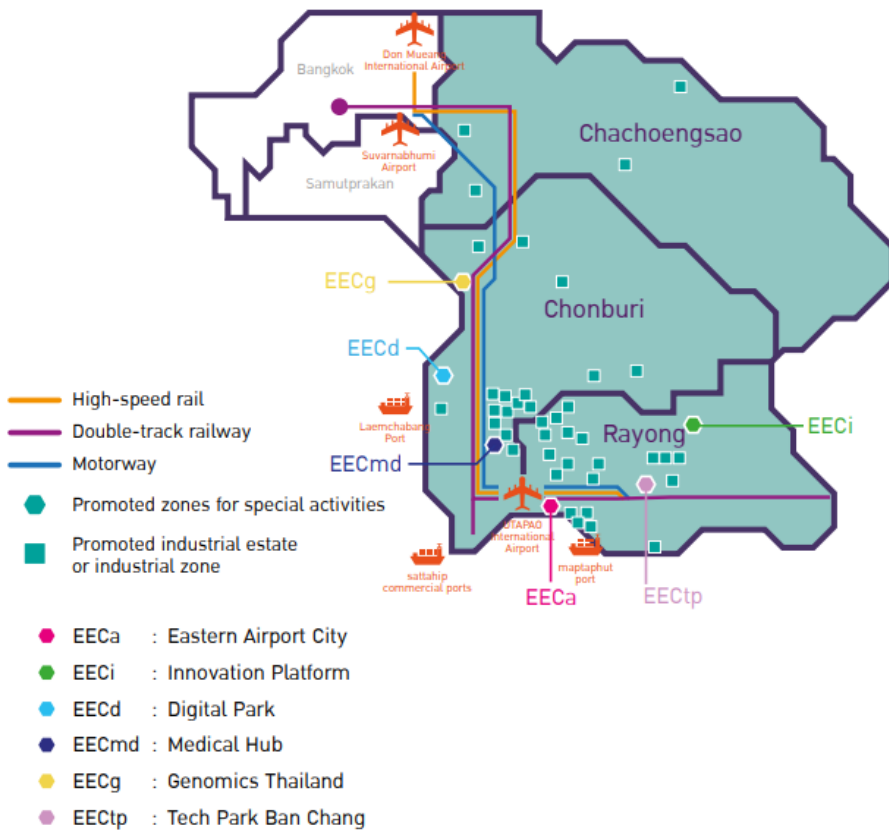
Concerned about remaining mired in the middle-income trap, the Thai government has been announcing various policies. Forming the foundation for these policies are the “National Strategy (2018-2037)” and “Thailand 4.0” vision which was unveiled in 2016. This vision recognizes that the Thai economy has developed from Thailand 1.0, which focused on agriculture, forestry, and fisheries, to Thailand 2.0, which focused on light industries such as textiles after World War II, and next to Thailand 3.0, which focused on heavy industries such as electronics and automobiles after the Plaza Accord. For the 20 years from 2018 to 2037, the government has declared its latest policy is to achieve economic growth through innovation by shifting to Thailand 4.0, which puts the focus on knowledge-based industries.

Specifically, it aims to increase investment in 12 priority industries. Of these, the following five industries will be developed over the short to medium term: (1) next-generation automotive, (2) smart electronics, (3) affluent medical and wellness tourism, (4) agriculture and biotechnology, and (5) food for the future. Meanwhile, the following seven industries will be developed over the long term: (6) robotics, (7) aviation and logistics, (8) biofuels and biochemicals, (9) digital industry, and (10) medical hub. Later, (11) defense and (12) education were also added as priority industries.

In addition, the Eastern Economic Corridor (EEC), an industrial cluster policy, is positioned as the centerpiece of the initiatives to help realize Thailand 4.0. The EEC project aims to promote investment in next-generation automobiles and other high-tech industries, such as medical, aviation, and robotics, by providing tax incentives in the three provinces of Chachoengsao, Chonburi, and Rayong, and integrates the construction and development of land and sea infrastructure, industrial parks, and research facilities (Figures 4 and 5). These provinces have been developed since the 1980s and have a concentration of manufacturing industries, especially automotive-related industries. By building on existing industrial clusters, the government is looking to stimulate investment in high value-added industries.

Thailand 4.0 is based on the government’s pragmatic recognition that innovation is essential to achieving economic growth, and can be considered to be a policy move in the right direction. Moreover, it reinforces the predictability of industrial policy in that it identifies industries to be supported over the medium to long term, regardless of political developments.

**Figure 4: Eastern Economic Circuit (EEC) overview**



Source: BOI Investment Promotion Guide [https://www.boi.go.th/upload/content/BOI\\_A\\_Guide\\_EN.pdf](https://www.boi.go.th/upload/content/BOI_A_Guide_EN.pdf) (accessed December 27, 2024)

**Figure 5: Main projects of the Eastern Economic Corridor (EEC) initiative**

Construction of a high-speed railway connecting 3 major airports	Connect two international airports near Bangkok (Suvarnabhumi Airport and Don Mueang Airport) with U-Tapao Airport in the EEC by high-speed rail service.
U-Tapao Airport expansion project	Develop a new runway and passenger terminal at U-Tapao Airport.
Laem Chabang deep-sea port expansion project	Expand maximum throughput to 18 million TEUs to handle 3 million automobiles per year by building additional container and RORO terminals.
Map Ta Phut industrial port expansion project	Increase overall transport capacity for natural gas to 31 million tons per year and that for liquefied natural gas (LNG) to 11 million tons per year.
Establishment of zones to promote specific industries	Establish EECi Innovation Platform (EECi), Digital Park Thailand (EECd), Eastern Airport City (EECa), and Medical Hub (EECmd).

Source: Compiled by MGSSI based on various announcements

**2-2 Bio-Circular-Green (BCG) Economy Model**

In 2021, the Thai government introduced the Bio-Circular-Green (BCG) Economy Model as a national strategy for development. The BCG economy model capitalizes on the fact that Thailand is an agricultural country with abundant natural and biological resources, and seeks to leverage technology and innovation to increase the competitive advantage and added value aspect of its industries to achieve sustainable economic development. In addition, through value-added improvements in agriculture-related sectors, the strategy aims to increase farmers' incomes and thereby narrow the income gap between urban and rural areas (Figure 6).

**Figure 6: Strategies related to the Bio-Circular-Green (BCG) Economy Model**

Strategy	Main initiatives
Promote sustainability of biological resources by balancing conservation and utilization	(1) Develop a database system containing biological and cultural data. (2) Protect forested watersheds, reduce water use, recycle water, and contribute to water quality improvement.
Strengthen communities and grassroots economies by leveraging resource capital, identity, creativity, and advanced technology	(1) Nurture community economies by utilizing the concepts of bioeconomy and green economy. (2) Promote the development of high-value bio-based products and services by improving quality and safety standards, supporting innovation, and employing circular design.
Strengthen the sustainable competitiveness of Thailand's BCG industries	<p><b>Agriculture and food</b></p> <p>(1) Use science, technology, and innovation to transform agriculture into an industry that produces high value-added and diverse products. (2) Develop agricultural products into high value-added products, such as health foods, medical foods, bioactive substances, functional ingredients, and plant-derived proteins.</p> <p><b>Wellness and medicine</b></p> <p>(1) Support the research and manufacture of pharmaceutical and biopharmaceutical products for the prevention of viral diseases and their deployment in international markets. (2) Promote genomic medical services and advanced therapy medicinal products (ATMPs).</p> <p><b>Energy, materials, and biochemical</b></p> <p>(1) Introduce carbon pricing and carbon credits. (2) Pursue value creation with biomass, agricultural products, and agricultural waste.</p> <p><b>Tourism and creative economy</b></p> <p>(1) Launch a tourism promotion campaign to feature cities outside of major tourist destinations, reduce disparities, and support sustainability. (2) Promote sustainable green tourism. (3) Establish a single payment system to improve convenience for travelers and facilitate data collection for digital marketing analysis and content development.</p> <p><b>Circular economy</b></p> <p>(1) Support research, technology and innovation to create new products and services through recycling and upcycling.</p>
Build resilience to changes in the global environment	(1) Pursue talent and entrepreneur development in BCG fields. (2) Build high-quality infrastructure and facilities. (3) Develop cutting-edge technologies and knowledge.

Source: Compiled by MGSSI based on materials of the National Science and Technology Development Agency (NSTDA) of Thailand

The BCG economy model identifies the following four key industries: (1) agriculture and food, (2) wellness and medicine, (3) energy, materials, and biochemicals, and (4) tourism and creative economy. With regard to (1), for example, Thailand is one of the world's leading producers of rice, cassava, and sugar, but domestic processing of these commodities is minimal and the value added is low. Thailand aims to add value to these products by processing them domestically to make them into biochemicals and other products. Considering the growing global concern about the environment, the Thai government's decision to adopt the BCG economy model is commendable in that it demonstrates the compatibility of sustainability and economic growth in the context of Thailand's current situation.

### 2-3. Ignite Thailand

In February 2024, the administration of then-Prime Minister Srettha Thavisin announced the "Ignite Thailand" vision, outlining a roadmap for Thailand to become a global hub in eight sectors: tourism, wellness and medical services, agriculture and food, aviation, logistics, future mobility, digital economy, and finance. In the vision, the government announced a policy to promote the recognition of Nan Province as a World Heritage Site (Figure 7) and the exemption of tourist visas for entry to Thailand to revitalize the tourism sector. (However, discussions on this vision have stalled since Srettha Thavisin's dismissal from the post of prime minister.)

**Figure 7: Wat Phrathat Khao Noi, a tourist attraction in Nan with a huge golden walking Buddha statue**



Source: Thailand tourist information website of the Tourism Authority of Thailand  
<https://www.thailandtravel.or.jp/areainfo/nan/>  
(accessed January 23, 2025)

#### **2-4. Investment trends in priority areas**

The priority industries under Thailand 4.0 are largely the same target industries covered by the policies the government pursued after the launch of 4.0 (Figure 8). In addition, given that the 20-year National Strategy is based on the Constitution and that it is difficult to change this strategy, the government will continue to support the priority areas of its Thailand 4.0 plan.

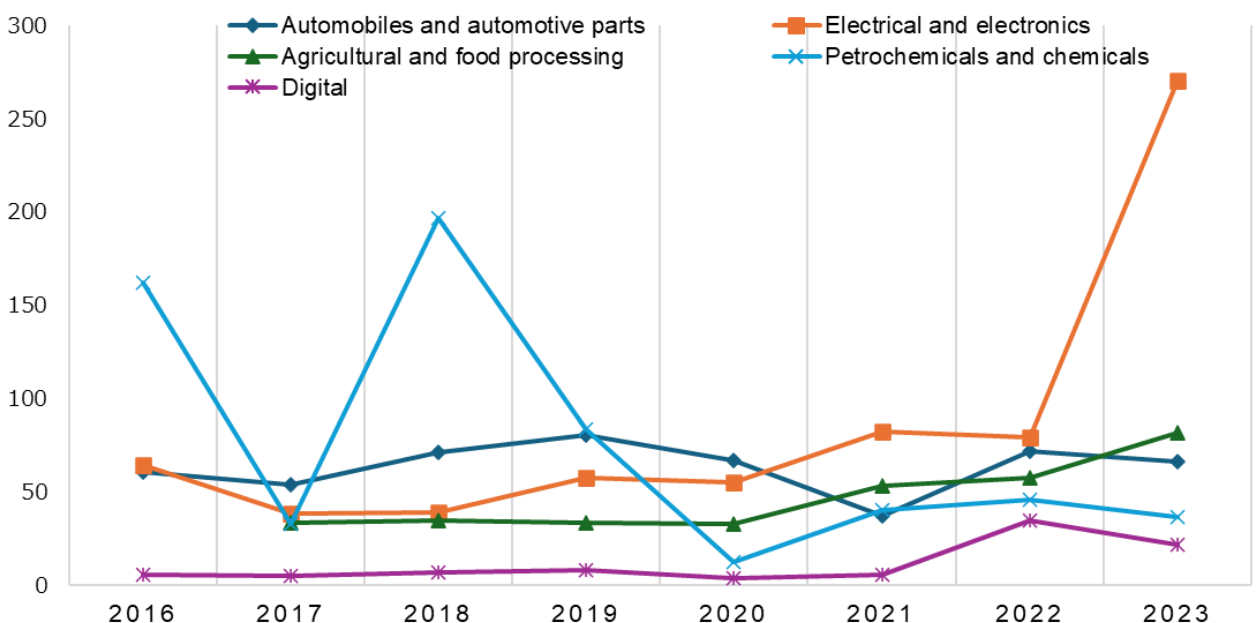
**Figure 8: Policy highlights and areas of focus**

	Thailand 4.0	BCG Economy Model	Ignite Thailand
<b>Year of launch</b>	2016	2021	2024
<b>Initiatives</b>	The plan specifies priority industries for expanding investment. In addition, the Eastern Economic Corridor (EEC) industrial cluster policy was developed.	Aims to leverage technology and innovation to add value to industries, especially agriculture-related fields.	Seeks the registration of local tourism resources as World Heritage Sites and easing of various regulations, including the exemption of tourist visas.
<b>Highlights</b>	The strategy is a long-term vision spanning 20 years, from 2018 to 2037, and serves as the foundation for later industrial policies.	Strong emphasis placed on not only conventional industrial development, but also sustainability and reducing disparities.	Aspires to become a hub in eight sectors, including tourism. The financial industry is included as one of the priority industries.
(1) Automotive and automotive parts industry	•		•
(2) Electrical and electronics industry	•		
(3) Tourism industry	•	•	•
(4) Agriculture and food processing industry	•	•	•
(5) Biotechnology industry	•	•	
(6) Automation and robotics industry	•		
(7) Aviation industry	•		•
(8) Logistics Industry	•		•
(9) Petrochemical and chemical industry	•	•	
(10) Digital industry	•		•
(11) Medical industry	•	•	•
(12) Education industry	•		
(13) Defense industry	•		
(14) Financial industry			•

Source: Compiled by MGSSI based on various announcements

**Figure 9: Investment trends in key priority industries (approved amount)**

(Mn baht, 1 baht = 4.5 yen)



Source: Compiled by MGSSI based on Thailand Board of Investment (BOI) data

Despite such efforts to give attention to those industries, investment in the priority areas identified under Thailand 4.0 has been generally weak. The Thailand Board of Investment (BOI) discloses the value of investments it approves for priority industries (Figure 9). According to the data, the electrical and electronics industry saw a significant year-on-year increase of 241% in 2023, but for other major industries, investment growth has been lackluster since the announcement of Thailand 4.0 in 2016.

---

### 3. CHALLENGES IN ACHIEVING INDUSTRIAL UPGRADING

#### 3-1. Regulations restricting the inflow of foreign capital

The Thai government attaches great importance to inward foreign investment. The reason for this is that the country has not accumulated enough technology domestically to achieve industrial upgrading, making it indispensable to introduce technology by attracting foreign capital. However, according to the OECD's FDI Regulatory Restrictiveness Index, which measures the degree of restrictiveness of a country's FDI regulations, Thailand ranked 6th out of 85 countries in 2020, which means the country is rated as highly regulated.

The law that serves as the basis for foreign investment regulations is the Foreign Business Act, which imposes strict foreign investment regulations on the service sector. The law defines businesses with more than 50% foreign capital as "foreign companies" and regulates and prohibits the entry of foreign companies into 43 industries.<sup>2</sup> In particular, "List Three" of the act sets barriers to entry for foreign companies on the grounds that Thai nationals are not competitive enough to compete against foreigners (Figure 10). Local businesses claim they are not competitive against foreign-capital companies, and therefore want to prevent foreign capital from entering the market. As a result, numbered item 21 of the list, "other service businesses" restricts foreign investment in virtually the entire service sector. Foreign companies are also prohibited from entering the tourism industry, which is a priority industry under Thailand 4.0 and other government initiatives. This situation is one of the factors preventing the service sector from achieving upgrading of its industries in contrast to the manufacturing sector, which has strengthened its competitiveness through aggressive introduction of foreign capital.

The regulatory environment for foreign investment may improve, however, in the wake of Thailand's application for OECD membership. In October 2024, the OECD began its review of Thailand's application. In the review process, various institutions, including trade and investment bodies, are scrutinized to ensure that they meet OECD accession standards. The OECD notes that barriers to market entry, including restrictions on foreign investment, have restrained market competition and impeded productivity growth in Thailand. As such, it is likely that the OECD will require Thailand to deregulate foreign investment going forward.

---

<sup>2</sup> However, foreign companies are permitted to invest in Thailand with the approval of the Foreign Business Commission as well as the Director General of the Department of Business Development of the Ministry of Commerce.

**Figure 10: Regulated and prohibited industries under the Foreign Business Act (List Three)**

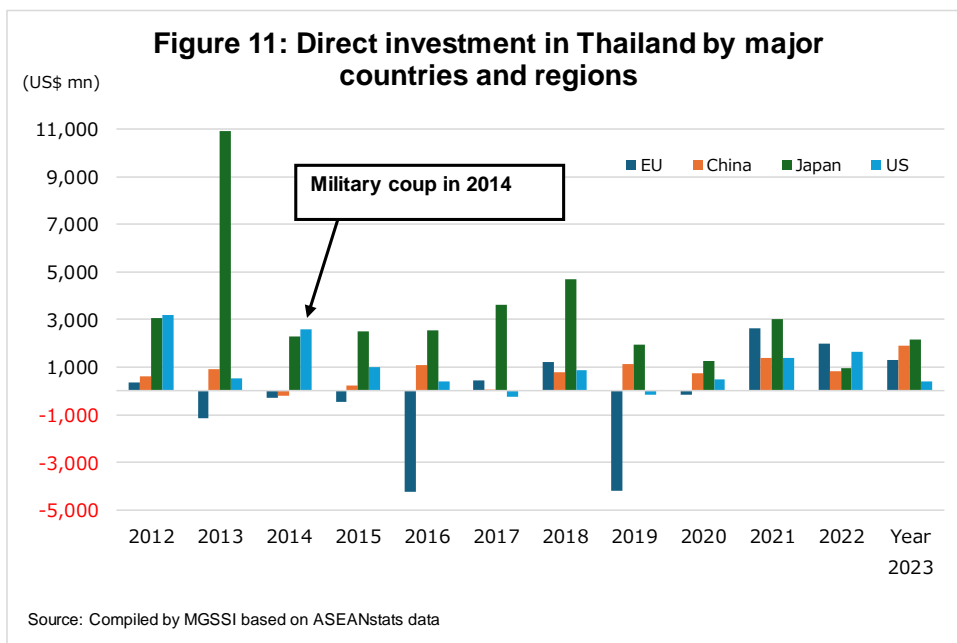
**List Three (21 industries): Industries where entry by foreign entities is banned because Thai nationals are not ready to compete with foreigners**

- (1) Rice milling and production of flour from rice
- (2) Fishery (aquaculture)
- (3) Forestry from a grown forest
- (4) Manufacture of veneer boards, chipboards, and hardboards
- (5) Lime production
- (6) Accounting services
- (7) Legal services
- (8) Architectural design services
- (9) Engineering services
- (10) Construction (except for construction requiring special skills (infrastructure, telecommunications, etc.) with a foreign investment of 500 million baht or more, and other construction as stipulated by ministerial ordinance).
- (11) Agency and brokerage business (except for futures trading of securities and agricultural products, services related to trading of financial products, trading of goods necessary for production within the same corporate group, international trade brokerage with foreign capital of 100 million baht or more, and other agency and brokerage business stipulated by ministerial ordinance)
- (12) Auctions (except for international auctions other than antiques and works of art, and other auctions specified by ministerial ordinance)
- (13) Domestic trading of traditional domestic agricultural products or agricultural products not prohibited by law (except for agricultural futures trading)
- (14) Retail business with a minimum capital of less than 100 million baht or a minimum capital of less than 20 million baht per store
- (15) Wholesale business with a minimum capital of less than 100 million baht per store
- (16) Advertising business
- (17) Hotel business (except management))
- (18) Guided tourism
- (19) Food and beverage sales
- (20) Propagation and breeding of native plants
- (21) Other service businesses

Source: Compiled by MGSSI based on JETRO materials

**3-2. Risk of political intervention by conservative forces**

In Thailand, a military coup d’etat in May 2014 led to the fall of the regime under then-Prime Minister Yingluck Shinawatra. At that time, Western countries condemned the coup, and direct investment from the US and Europe dropped sharply between 2015 and 2016 (Figure 11). In addition, direct investment from Japan has been sluggish since peaking in 2013. After the general election in 2023, a coalition government was formed by



Thaksin Shinawatra's Pheu Thai Party and the conservatives, with Srettha Thavisin of the Pheu Thai becoming prime minister. However, in August 2024, Thailand's Constitutional Court, which is considered conservative-leaning, removed Srettha Thavisin as Prime Minister on charges of his appointing a previously convicted person as a Cabinet minister. Tensions between the Pheu Thai Party and conservatives are expected to continue even within the current coalition government led by Prime Minister Paetongtarn Shinawatra, and political risks remain, including the possibility of the conservatives maneuvering to remove the prime minister through the Constitutional Court. These political risks have a negative effect on the promotion of industrial upgrading as they paint an unfavorable image of the investment environment and discourages foreign investment in business development.

---

#### 4. CONCLUSION

Concerned about the middle-income trap, Thailand has been working on industrial upgrading. However, regulatory and political challenges remain. On the political front, there is the risk of political intervention by conservative forces, which is a factor hindering investment in industrial upgrading. Meanwhile, on the regulatory front, Thailand has applied for OECD membership, and the review for accession will scrutinize whether the country's various systems, including those for trade and investment, meet OECD membership standards. The OECD is concerned about the existence of barriers to market entry, including restrictions on foreign investment in Thailand, and will likely urge deregulation of foreign investment restrictions under List Three of the Foreign Business Act. Consequently, a relaxation of barriers to foreign capital inflow to Thailand is expected at some point in the future.