Sustainable Growth: Electrification and the Rise of ESG in Thailand's Manufacturing

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Recent years have witnessed a trend of corporations prioritizing environmental, social and governance (ESG) factors in their operations. This has propelled ESG into the spotlight as a framework for companies seeking to align their business practices with sustainability and social responsibility. Thailand finds itself significantly impacted in the environmental realm, as its leaders, businesses, and consumers increasingly seek to address climate change and foster a more sustainable future.

Manufacturing is Prioritizing the "E" in ESG

Thailand's industrial sector, a key force of the country's economy and a major contributor to greenhouse gas emissions, plays a pivotal role in accelerating the country's adoption of sustainable practices. As companies look to integrate sustainability into their business operations and investment decisions, the country's manufacturing landscape is undergoing considerable change.

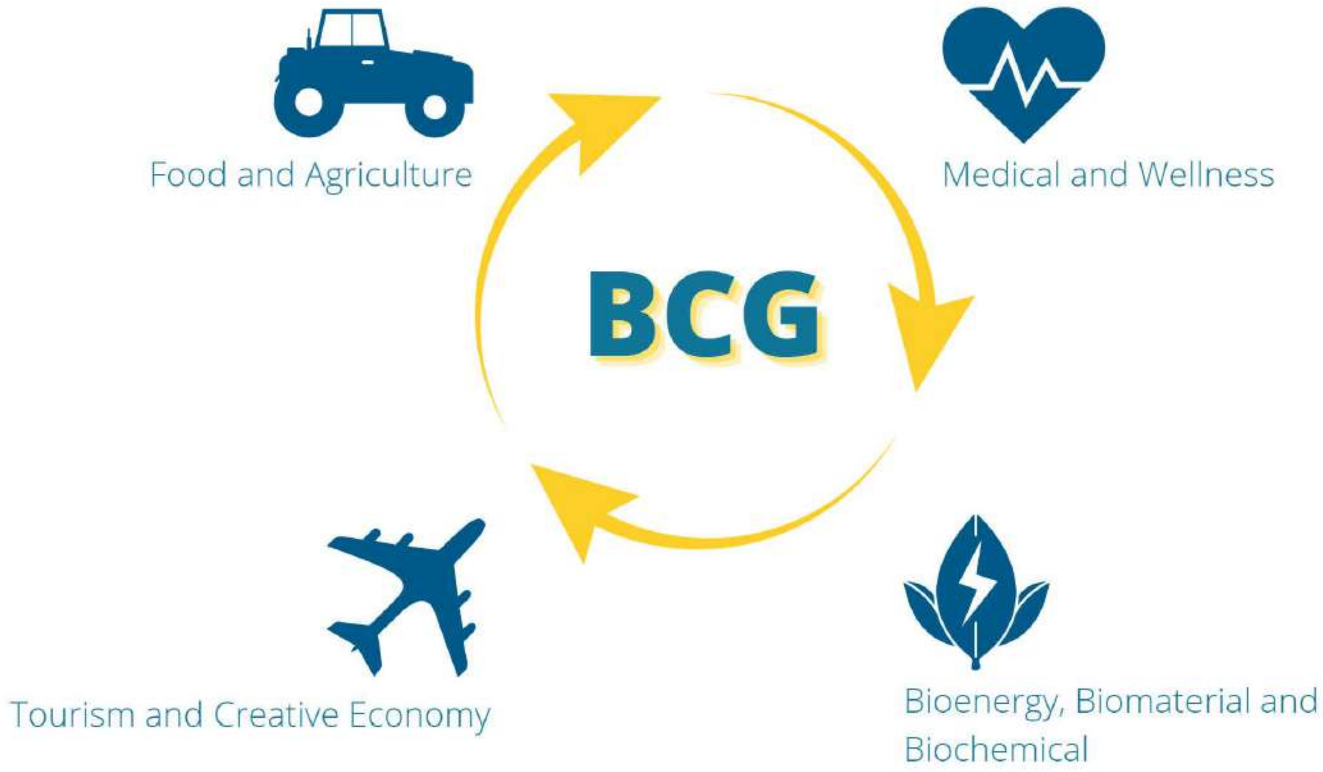
Until recently, industrial site selection decisions have relied on evaluating options based on traditional factors such as workforce availability, quality of local suppliers, level of bureaucracy, and "ease of doing business" issues, as well as investment and operating costs and risks. However, as sustainability gains prominence, ESG considerations have emerged as a focal point in manufacturing location decisions. Responding to shifts in government policy and consumer demand, boards and executive leadership are more frequently requiring that manufacturing locations support the achievement of their sustainability and ethical business practice objectives. Environmental factors, such as the renewable energy composition of the existing electrical grid, the ability to invest in wholly owned and co-located solar power generation, and wastewater treatment options that fully meet local requirements, have become particularly critical in site selection decisions.

Manufacturers across sectors are also making incremental investments in existing operations to meet sustainability goals, incorporating renewable energy sources where possible, and taking advantage of government subsidy and incentive programs that promote improved energy efficiency and sustainability investments across their supply chains. As a key example, Thailand's export-driven automotive industry is witnessing change, not only in where large players are locating their investments, but also in the sustainability of the investments themselves, as major original equipment manufacturers (OEMs) begin to shift their existing production capacity from internal combustion engines (ICE) to electric vehicles (EVs) and invest in new Greenfield EV assembly plants.

Accelerating the Sustainability Shift through Effective Policy

Government regulations and incentives have played a crucial role in driving this change. Last year, the Thai government announced an ambitious goal to cut emissions by 30-40% by 2030, on its path to achieving carbon neutrality by 2050. It also revised its Long-Term Low Greenhouse Gas Emissions Development Strategy to further guide efforts in addressing emissions and promoted the development of its Bio-Circular-Green (BCG) economic model. In industrial zones specifically, the Ministry of Natural Resources and Environment is implementing stricter air-emission standards.

In addition to policy changes, Thailand heavily relies on incentives to spur sustainable investment. To support the implementation of the BCG model, the country's Board of Investment (BOI) offers a range of incentives to new investors and existing businesses, such as tax exemptions and reductions and other non-tax privileges. These incentives encourage companies to adopt sustainable practices, invest in green technologies, and contribute to Thailand's vision of becoming a model economy for green energy and sustainability. These incentives include exemptions or reductions on corporate income tax for up to ten years, import duty exemptions on capital equipment and raw materials, and even utility benefits and other cost subsidies for eligible companies. Furthermore, non-tax incentives such as a streamlined process for approving work permits for foreign nationals, the ability to own freehold title to land, and simplified procedures for remitting dividends are also available.



Bio-Circular-Green (BCG) Model

Thailand Has Begun to Transition the Automotive Industry to EVs

While current incentives have already begun to stimulate more sustainable investment, the most effective packages for achieving Thailand's goals will combine eco-friendly manufacturing sites with environmentally sustainable industries, a concept that is particularly salient for the numerous players in the Kingdom's robust automotive industry. Already Southeast Asia's leading car manufacturing location and the 10th largest automotive-producing country in the world, Thailand aims to become a regional hub for EV production.

In addition to other sustainability incentives, the BOI offers attractive incentives to both manufacturers and consumers in the automotive industry to support this transition towards EVs. Tax and non-tax incentives across the entire EV value chain are aimed at lowering the cost of EVs for both manufacturers and consumers while stimulating demand. Qualified businesses may receive exemptions on corporate income tax for up to eight years, while buyers of EVs can qualify for subsidies of up to 150,000 Baht (4,545 US dollars) per vehicle.

Numerous companies are already planning to take advantage of these incentive programs, with leading global EV producers announcing plans for large-scale investments in Thailand.

Finding the Right EV Assembly Site Can be Challenging

As Thailand positions itself as a hub for EV production its strength as a major global ICE vehicle manufacturing location has given it a significant head start. Outside of the automotive sector it remains an attractive option for many advanced manufacturers looking to diversify their investments outside of China.

However, challenges including limited availability of mega-sites in Thailand's Eastern Economic Corridor (EEC) and time constraints for new industrial estate development must be addressed to meet companies' investment needs and schedules. Mega-sites suitable for automotive assembly operations should provide room for firms interested in investing in their own solar power generation capacity and be zoned to permit both activities to be co-located. Additionally, ensuring adequate water supply for production is becoming a challenge, as the EEC's rapid industrial development and corresponding population growth propels demand for this resource. While Thailand continues to tackle these issues and remains at the top of the list of countries to be considered as an EV assembly location, the devil in any site location decision is in the details.

Regardless of the industry, investors must gain a thorough understanding of how they can maximize government support and leverage the benefits provided by BOI to accelerate change, meet Thailand's climate and EV goals, and ensure their investments are positioned for long-term success.

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