Bangkok Global Law
540, Unit 1705, 17th Floor, Mercury Tower,Ploenchit Road,
Lumpini, Pathumwan, Bangkok 10330 Thailand
Tel: +(66) 2 2525895-6 Fax: +(66) 2 2525897
Website: www.bgloballaw.com
E-mail: info@bgloballaw.com

Legal Insight Vol. March 2026

Proposed Reformation to Thailand's Free Zone Regime by Strengthening Local Content and Substantial Transformation Requirements

Thailand is in the process of revising its regulatory framework governing Free Zones, with particular emphasis on the calculation of local content and the qualification criteria for duty exemption on goods released into the domestic market. These proposed amendments follow growing regulatory concerns that the existing rules may allow Free Zone operators to benefit from customs privileges despite limited economic contribution within Thailand. As such, the reforms are designed to ensure that Free Zone incentives are aligned with genuine domestic value creation and prevent the misuse of duty exemption mechanisms.

Under the current legal framework, goods manufactured in Free Zones may qualify for import duty exemption if they satisfy two key conditions: (i) a local content threshold of at least 40% of the ex-factory price, and (ii) the presence of substantial transformation. Notably, the definition of "local content" is relatively broad, encompassing not only Thai-origin raw materials and labour, but also ASEAN-origin inputs, production costs, and even profit margins. This expansive calculation methodology has, in practice, enabled certain operators to meet the threshold without undertaking meaningful manufacturing activities within Thailand.

The proposed amendments seek to introduce a more stringent and substance-based approach to local content determination. In addition to maintaining the 40% threshold, the Customs Department is considering imposing a minimum Thai-origin content requirement, ranging from 10% to 20% of the ex-factory price. Importantly, this requirement would be limited strictly to Thai-origin raw materials and domestic labour, thereby excluding other elements such as profit or indirect costs. This shift reflects a policy intention to more directly incentivise the use of domestic inputs and strengthen the link between Free Zone privileges and actual economic activity within the country.

In parallel, the authorities are proposing clearer and more rigorous criteria for determining "substantial transformation." Specifically, the adoption of a tariff classification change test—whether at the chapter (2-digit), heading (4-digit), or subheading (6-digit) level—would serve as an objective benchmark for assessing whether sufficient manufacturing has occurred. This approach is consistent with internationally recognised rules of origin and would effectively exclude minimal processes, such as packaging or simple assembly, from qualifying for duty exemptions. As a result, businesses operating in Free Zones will be required to reassess their production processes to ensure compliance with the enhanced standards.

The legal and practical implications of these proposed reforms are significant for Thailand's trade and customs regime. While the stricter requirements may increase compliance costs and necessitate supply chain adjustments for Free Zone operators, they are likely to enhance the credibility and integrity of Thailand's customs system. From a legal perspective, the reforms represent a clear shift toward alignment with international trade principles, particularly in relation to origin rules and anti-circumvention measures. In the broader context, these developments are expected to strengthen Thailand's position as a responsible trading jurisdiction, reduce exposure to trade disputes, and reinforce the robustness of its legal framework governing cross-border manufacturing and customs incentives

Should you have any question, please do not hesitate to contact us via info@bgloballaw.com