

Thailand and the Inflow of FDI under the ASEAN Economic Community (AEC)

Sittichai Anantarangsi

Abstract

The economy of Thailand has been tied to the world's economic system for many decades; Thailand acts as an important production base for distributing products to the global market and 70% of Thailand's GDP is derived from the export sector. However, competition in the global market is likely to intensify and this has helped prompt Thailand to sign several Free Trade Agreements (FTAs) in a bid to sustain its competitiveness in continuing to attract inflows of foreign direct investment (FDI). The ASEAN Economic Community (AEC) is one development that the Royal Thai Government (RTG) has taken very seriously. Following the pattern of the Economic Union (EU), the AEC is intended to create both a single market and a single production base. The RTG has made great play about the benefits the country can expect to obtain from the AEC as a result of being a regional production and distribution hub. However, interviews with Thai executives and major foreign investors in the country, including some from Japan and China, revealed that they are not interested in Thailand so much because of location but because of the market size, access to resources and the availability of business alliances, such as Keiretsu (系列). Consequently, they may prefer to use Thailand as a headquarter site rather than a production base because of the increasing competitiveness in terms of labour costs and availability of resources and technology in the CLMV countries (i.e. Cambodia, Laos, Myanmar and Vietnam), not to mention the overall business environments of Malaysia and Singapore. Thailand requires, therefore, a period of intensive reflection with a view to understanding the important factors that inspire enhanced FDI flows. Rather than simply positioning itself a production base, Thailand should consider

itself a gateway to the CLMV nations and a centre for agricultural and bio-agricultural products, of which the Kingdom is already a major exporter. Thai expertise with respect to CLMV systems and organisations may also prove to be an important benefit. It would also be beneficial for Thailand to position itself as a trade partner rather than a competitor both inside the AEC and beyond.

Keywords: *AEC, ASEAN Economic Community, FDI, Inwards Investment, Thailand*

Author: Sittichai Anantarangsi is a Lecturer at Phetchaburi Rajabhat University, Phetchaburi, Thailand.

1. Introduction

Although some Thai people seem to resent the fact that globalization challenges their concept of economic nationalism and their fear that the processes of trade liberalization will lead to the loss of local jobs, globalization nevertheless represents an important part of the national agenda. Indeed, Thailand's economy is particularly strongly interlinked with the global economy by virtue of its reliance upon export-oriented manufacturing industries and international, inbound tourism. In 2010, approximately 70% of Thailand's GDP resulted from the export of goods and services, indicating a strong recovery from the Asian Financial Crisis of 1997 (U.S. Department of State, 2011). Table 1 below shows the growth in GDP from 2006-10 and the changes in imports and exports to that level of GDP. The volatility of the Thai economy with respect to the international economic environment is shown clearly.

Thailand	2006	2007	2008	2009	2010
Thailand's GDP Growth	5.1	5	2.5	-2.3	7.8
Export % to Thailand's GDP.	74	73	76	68	71
Import % to Thailand's GDP.	70	65	74	58	64

Table 1: The Relationship of Imports & Exports to the GDP of Thailand, 2006-10; source: World Bank, 2011a, 2011b, 2011c.

Table 2 below demonstrates the importance of exports to the Thai economy, since it shows that it is export-oriented products which dominate production. By contrast, leading imports tend to be inputs into the production process or else intermediate or semi-finished goods sent to Thailand for final assembly. Clearly, the role of inwards FDI is important in these forms of production since it is closely associated with the processing of semi-finished goods (Magic, 2003; Kohpaiboon, 2006). At the end of 2010, the total annual inflow of FDI amounted to some 141,763 million Baht and it has been adjudged that

FDI has enhanced the economy of Thailand for several decades (Bank of Thailand, 2011).

	Exports	Export Value	Imports	Import value
1	Computers, parts and equipment	596,677.7	Crude oil	762,474.4
2	Cars, parts and equipment	561,108.8	Machineries and parts	535,241.7
3	Gems and jewelry decorations	366,818.3	Chemicals	403,161.8
4	Electric circuits	255,322.1	Electric machineries and parts	389,188.1
5	Rubbers	249,262.5	Iron, steel and its products	375,048.4
6	Oils	223,131.9	Electric circuits	344,836.4
7	Products from rubbers	203,428.1	Gems, silver and gold bars	319,317.7
8	Plastic chips	200,326.0	Computers, parts and equipment	261,197.7
9	Chemicals	182,464.7	Scrap metals & other metallic ores	240,358.4
10	Rice	168,193.1	Auto parts and equipment	189,094.9
	Total export value in 2010	3,006,733.2	Total import value 2010	3,819,919.6

Table 2: Top Ten Imports and Exports of Thailand, 2010; source: Ministry of Commerce, 2011.

The processes of globalization are intensifying and one result has been the increase in competitiveness of actual and potential competitors to Thailand, including China, India and Vietnam, which all have lower production costs (OECD, 2011; Chiang Mai University, 2011). Thailand has signed a number of bilateral and multilateral FTAs in part to try to respond to the increased competition, including the ASEAN Free Trade Area (AFTA), Japan-Thailand Economic Partnership Agreement (JTEPA), Thai-Peru Free Trade Agreement, Thailand-Australia Free Trade Agreement (TAFTA), Thailand-India Free Trade Agreement, European Free Trade Association (EFTA) and the Greater Mekong Sub-region and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Thailand hopes to lower its costs of production, increase exports and attract more FDI (Department of Trade Negotiation, 2010).

At present, most of the attention of the Royal Thai Government (RTG) in this area is focused on the ASEAN Economic Community (AEC), which not only aims to waive duties and reduce tariffs, as is evident from other FTAs, but also to integrate the markets of ASEAN into a single production and consumption base. It is anticipated that the AEC will attract additional inwards investment from both international and domestic investors from within and without ASEAN. In particular, it is hoped that Thailand will attract investment because of its existing infrastructure, proximity to China and positioning as the centre of the AEC. However, it is not known whether the reality will match the rhetoric about prospects for the future and testing this forms the basis of the research reported on here.

2. Methodology

This research paper reports on the experiences of the author in conducting qualitative research, with supplementary ethnographic observation, in the countries of the Greater Mekong Subregion (GMS) over the course of several years. Observations have been further complemented by secondary sources including academic papers,

official reports, books and media content. The combination of these sources prompted the initial research question, which concerned the nature of the discourse of the RTG on the positive nature of the AEC. Subsequent research was involved with furthering knowledge about FDI and its potential impact as a result of the AEC. Research then turned to a series of personal interviews with 30 Thai executives who had acted as key informants for the author previously. These interviews were conducted by telephone using the Thai language. Extensive note-taking during the interviews was followed by preparation of intensive research reports converted into English. In addition, the author interviewed a further 30 business investors in the GMS who were mostly from China and Japan and who had invested in Myanmar, Thailand, Laos and southern China. Many of these executives had been contracted initially during the author's exporting of mangosteens from Nakhon Sri Thammarat in southern Thailand to Yunnan province of China between 2008-10.

Finally, the author conducted additional interviews with officials of the RTG's Ministry of Labour and relevant university faculty members. Purposive sampling was used to identify Thai executives and RTG officers, while convenience or accidental sampling was used to locate foreign investors in the GMS.

As this research involved qualitative techniques, it used semi-structured question agendas, which enabled respondents to construct a dialogue relating to issues of the most relevance to those respondents rather than having an agenda imposed upon them from the outside. This method enabled the author to become immersed in the data as it was collected and then create and test hypotheses as they emerged. Content analysis techniques have been used to examine the data set collected and the results of the research, in part, are reported in the present paper.

3. What is the AEC?

The concept of the AEC is to create an area of economic integration in which a single production base will promote manufacturing, movement of capital and labour to meet the opportunities provided by newly-created comparative advantages and, also, boost domestic incomes and consumption. Other FTAs in ASEAN have coincided with increases in trade flows both within the region and with other parts of the world. The comparative success of FTAs elsewhere in the world, at least as measured at the aggregate level, have led to the bringing forward of the AEC from 2020 to a projected 2015 (Anantarangsi, 2011).

In fact, the concept and working method of the AEC resemble the single market concept of the European Economic Community (EEC) or European Community (EC) (Hunt, 2011). The objectives of the AEC are: (a) to be a single market and production base; (b) to be a highly competitive economic region; (c) to be a region of equitable economic development and (d) to be a region that is fully integrated into the global economy. Objective (a) will be completed by the free movement of products, materials, services, labour, capital and investment. Objective (b) will be completed by promulgating measures such as competition policies, consumer protection, intellectual property rights (IPR), infrastructure development, taxation, and E-Commerce or the e-ASEAN Framework Agreement. Objective (c) will be completed by following measures such as SME development and the Initiative for ASEAN Integration (IAI). Objective (d) will be completed by measures such as the coherent approach towards external economic relations and enhanced participation in global supply networks (Association of Southeast Asian Nations, 2008: 6 & 26). All countries in the AEC have their own potential to share with and strengthen the others. The countries of the AEC may be classified into three groups, as follows:

Group	Countries	Potential
1	CLMV	Materials and labours
2	Indonesia, Malaysia, Philippines, Thailand	Production bases
2	Singapore, Malaysia, Thailand	Technology

Table 3: Comparing the Potential of Countries in the AEC; source: Department of Trade Negotiations, 2011.

The way in which the AEC can act as a single market is demonstrated in Figure 1 (below). Cheaper inputs from other AEC members (e.g. labour from Myanmar, dyes from the Philippines and buttons from Vietnam) enable Thai-produced shirts to reduce costs for subsequent consumption or export. As a consequence, firms in all countries can utilize cheaper production methods for producing goods and services that should improve the efficient allocation of resources and enhance competitiveness throughout the region. Of course, that will require some attention to structural adjustment in cases where jobs and investment will inevitably be lost. Economies of scale, scope and learning should also flow from this process.

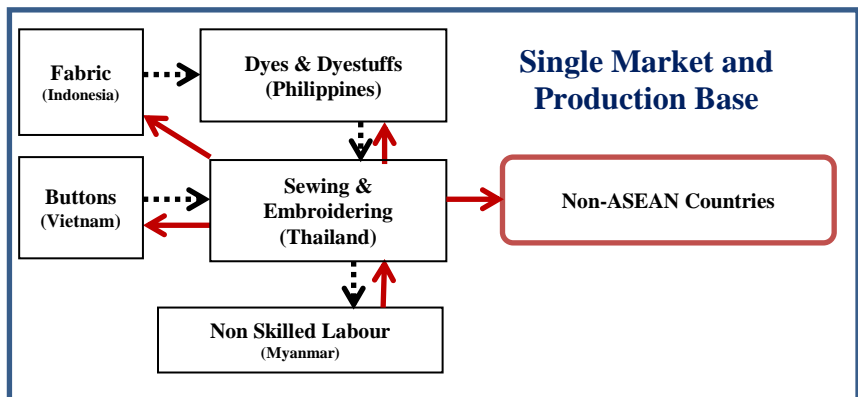


Figure 1: The Concept of the Single Production Base; source: author's own composition

Moreover, the larger size of the AEC market should be able both to attract more inwards FDI from non-ASEAN countries and enhance inter-ASEAN trade and investment flows. In general, most economic benefits can be expected to flow to Singapore, owing to its competitive infrastructure and environment, and the more populous countries. The precedent of China indicates the types of benefits that it is anticipated that the AEC will bring (Ali & Guo, 2005).

4. Perspectives of Thai People to Thailand under the AEC

Over the last few years, the RTG has taken several steps towards preparing the country for the AEC. These include facilitating the construction of the North-South and East-West Economic Corridors and generally improving transportation links with neighbouring countries (Pakarat, 2010). On January 1st, 2010, the ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) reduced tariff barriers to zero in a total of 98.6% of all merchandise exports traded under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT-AFTA) (Vejjajiva, 2011). Further, Thailand has also been subjected to a great deal of propaganda about the importance of the AEC to Thailand via various media channels, such as television, radio and educational institutions, with the intention of encouraging people to prepare themselves and their organizations for the forthcoming environmental change.

The research confirmed that executives had certainly received information about the AEC, although with mixed results. Many respondents felt that the information had not had a very strong impact upon their business intentions, particularly in the case of SME entrepreneurs, who did not have much intention or ability to expand their level of investment. On the other hand, respondents who were members of trade federations tended to have a different response, since they were more receptive to information in that it was clearer to them how changes would affect members of their network of

stakeholders. This was evident particularly in terms of firms in Thailand being able to obtain cheaper material inputs and labour that would sustain competitiveness in international markets, while the country would also become a more attractive place for investment because of reduced tax rates and tariffs resulting from a variety of FTAs that have been signed and enacted. It was also believed that Thailand was well situated in relation to southern China and CLMV countries, which would provide some of those cheaper inputs and also represented future markets for manufactured items. However, the extensive concentration on the manufacturing sector can be problematic in that it places additional pressure on the environment, which might be manifested in unwelcome impacts upon important sectors of the economy, such as tourism and fishing. Similar developments in Japan from 1960-80 represent an instructive example (Hayes, 2008: 129-133).

To date, the AEC 2015 plan has facilitated labour mobility in the region in seven professions: engineering, nursing, architecture, surveying, medicine, dentistry and accountancy, as part of a pilot scheme with a view to expanding the number of professions in the future (EIC, 2011: 13). Some respondents were concerned that the free movement of labour would have the negative effect, from their perspective, that skilled workers would leave for places offering better remuneration, notably Singapore and Malaysia. Further, it was felt that if the free movement provisions were to be extended to unskilled and semi-skilled positions, including welders, carpenters, masons, electrical and engine mechanics, then there would be no guarantee that it would be Thai workers who would benefit, since imported labour might be more wage competitive than them. As a result, this might depress local markets and diminish consumption of manufactured items. Additionally, investors might choose to train unskilled foreign labour to make them semi-skilled at their own expense rather than employ Thai alternatives. Thai workers seeking to travel overseas to other ASEAN countries might also struggle for employment because of their comparatively poor language skills and the importance of

English as the medium of communication in most other markets. Poor skills in Mandarin might also prove to be problematic. By contrast, incoming workers with good language skills might be able to obtain employment as tour guides, teachers and so forth, thereby displacing current Thai incumbents.

5. Perspectives of Foreign Investors Concerning Thailand under the AEC

Although official discourse claims that Thailand is an attractive market because of its location, research among foreign investors suggests that the more important factors are resource-seeking (e.g. for cheap labour and materials) and market-seeking. Japanese automobile companies have, for example, come to dominate the Thai market for just these reasons and Keiretsu (系列) have brought with them in investing in the country their suppliers and business partners, including suppliers of steel, machinery and spare parts, as well as service providers, such as insurance and transportation agents and customs brokerage.

In the case of China, it was found that most Chinese investors were interested in obtaining resources (e.g. rubber for automobile production) for manufacturing items destined for distribution in China, as well as opening the Thai market for subsequent exports. Chinese investors believe that Thailand represents a market of suitable size for exploitation in a number of different sectors. By comparison, using Thailand as a hub for future re-exportation of products into additional markets is considered to be of comparatively minor importance. This is because Chinese goods can already be exported across the Pacific Ocean to countries in North and South America via its eastern seaports. There is no need for China to use Thai ports, therefore, although there would be an advantage in exporting to countries within ASEAN since production or at least assembly in Thailand would take advantage of agreements such as the AEC. However, there is the additional threat that Chinese companies might

prefer to export their products directly from Malaysian ports or Singapore or, even, via the newly opening deep sea port in Dawei (Tavoy) in Myanmar. In respect of Myanmar, respondents noted that the level of political stability there is improving and that recently the Karen National Union (KNU) and the Shan State Army-South (SSA-South) have committed to informal agreements with the central government to hold a ceasefire (Naing, 2011), while the leader of the National League for Democracy (NLD) has agreed to participate in the forthcoming elections (Loyn, 2011).

Of course, it was also noted that although Thailand has signed a number of FTAs, so too have other, potentially rival countries, notably Singapore and Malaysia. In addition, it was observed that, with the enhanced transportation infrastructure represented by the Asian Highway Network, it was possible to move many resources from CLMV countries directly to China without having to cross Thai territory. Thailand's supposed centrality to the AEC is not, therefore, as solid as has been portrayed. There have also been various other factors which have reduced the attractiveness of Thailand, including the apparently chronic political instability following the military coup of 2006 and the violent crackdown on pro-democracy demonstrators in 2010, not to mention the catastrophic flooding of 2011, which have claimed a death toll of more than 750 people. It has been reported that flooding and its management, with the possibility of further climate-induced disasters, has seriously eroded investor confidence (Enjoji, 2011).

6. Discussion

There is evidently a gap between the vision of Thailand under the AEC as promoted by the RTG and the vision as seen by foreign investors, both of the country at the present and in the future. To some extent, this does not really matter as the purpose of the government's communications is not to educate investors, who are generally well-enough informed about economic and commercial issues in any case.

Instead, the RTG is communicating with its people, who are not so well informed and have, over recent years, been subject to a sustained campaign of anti-FTA, anti-globalization rhetoric issued by right wing interests who are able to use a variety of official media channels. It is well-established that, in furthering the spread of capitalism in Thailand, FTAs lead to Schumpeterian creative destruction which causes the creation of both winners and losers. Anti-FTA rhetoric has focused almost entirely on the likely losers of the process and, indeed, has represented the winners as being greedy corporations behaving in a non-Thai manner. In contributing a generally positive message to this debate, then, the RTG is aiming to correct some level of misconception.

Even so, it may be argued that insufficient attention is being paid at the national level to preparing people and organizations for the negative aspects of the AEC by warning them of what might happen in the future. However, such work is being accomplished to a certain extent at the Ministerial level, by for example the Ministries of Labour and of Commerce, working at different levels.

Insufficient attention is being paid to improving the quality of the labour force to take advantage of opportunities and threats emerging from the AEC, while more effort might be expended on encouraging entrepreneurs to plan properly for the future. This is due, at least to some extent, by the fragmented and occasionally overlapping nature of the agencies and institutions of the RTG and the problematic recent political past. The present government, democratically elected in 2011, has been wrestling with the problems caused by the floods, the obstructions to progress within various institutions and finding the most appropriate means towards progressing towards truth and reconciliation. The process of shoring up democracy against the threat of future military action has also proved debilitating. As a result, there is room for future improvements.

7. Recommendations

For Thailand to take its place as a competitive location for inwards FDI under the AEC, it will be necessary for all levels of commercial society to take proper and accurate stock of their current and future situation. This should be a genuine effort. It is instructive to compare Thailand with Singapore in this respect. Although it is only a small island with a limited population, Singapore nevertheless is capable of attracting large amounts of inward FDI by virtue of having developed a skilled labour force with an infrastructure capable of sustaining production of high-quality, high-technology goods and services. Moreover, Singapore has taken steps to ensure that IPR are protected, irrespective of whether they belong to Singaporean citizens or people from elsewhere (Trade Chakra, 2011; Maskus, 1997). In addition, there is a need to take serious steps with respect to environmental protection; otherwise, there are threats of significant natural disasters such as those caused by environmental deterioration in Japan from the 1960-70s and the prospect of further catastrophic flooding in Thailand.

With respect to the CLMV countries, while these tend to be full of natural resources, the people tend to suffer from lack of knowledge and technical capacity, as well as connections to local and international markets. In all of these areas, Thai executives are well-placed to supply the need, owing to their extensive experience and, in many cases, expertise. Additionally, the Thai Baht is well-established as an acceptable currency in the CLMV countries and this too facilitates international exchanges. Consequently, instead of aiming to attract inward FDI and becoming a transnational production base, Thailand would be better advised to position itself as a trade centre and gateway for distributing products in the region and acquiring materials from CLMV countries for subsequent assembly and value-adding activities and re-exporting. This probably involves co-ordination and management as much as actual manufacturing or processing. This approach might have the added benefit of stimulating

FDI flows into Thailand in any case. A precedent, of sorts, is to be found in the case of Hong Kong, which has benefited by acting as the trade centre and gateway to the Chinese production and consumption markets. Co-ordination of production activities might also help in reducing present conflicts in terms of prices of competing agricultural products from Thailand and Vietnam.

Finally, both the RTG and other state agencies should foster the idea that business enterprises might act as partners rather than competitors in international markets. Keiretsu (系列) and certain other business organizations have already demonstrated their willingness to act as business partners rather than competitors, particularly when it comes to an intra-regional context. If properly managed, then partnerships can in fact sharpen competitiveness in the areas of marketing, supply chain management, financing and co-ordinating knowledge of local stakeholders. Business cooperation may, to a certain extent, even help in the overall level of friendship and partnership between the AEC members at the national level, which will in turn promote national and regional competitiveness.

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