

Section 4

Export opportunities: Thailand in the global economy

Section profile

The expansion of Thailand's economic relations with the world market, in particular the expansion of trade and investment, has been a key factor for the country. This section provides an overview of Thailand's economic relations with major countries and geographic regions. An examination of trade patterns is followed by an examination of investment patterns. Detailed information and analysis is provided on important global economic trends, specific export and import trends for each geographic region, and both foreign direct investment and Thai investment for each geographic region. The section also includes an overview of the main regional groupings – or selected sub-regional grouping such as the Greater Mekong Sub-region (GMS) – that have an impact on Thailand's business prospects, and a note on strategies that Thailand and Thai diplomatic posts abroad can employ to improve the country's economic relations with the rest of the world.

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4.1 World economic growth

Globalisation took a step backward in 1998 after many years' progress, world output growth fell sharply from a strong 4.2 percent in 1997 to 2.2 percent. The crisis-induced contraction of many Asian developing economies, the Russian devaluation and default, the fiscal problems and currency instability in Brazil, and the deepening recession in Japan all had an impact on the world economic slowdown. The economic slowdown caused a significant import contraction, while export volumes started to pick up in the second quarter of 1998, pointing the way to an export recovery. This indicates opportunities to expand Thai exports. Regulatory and technological change are the other factors that will vary from country to country and therefore open better opportunities for Thailand in some geographic areas than in others.

Growth in the industrial countries was strong in 1998, with the exception of Japan. The sizes of these markets make growth attractive. The Asian developing economies experienced their slowest growth in a decade (averaging -6.9 percent in Southeast Asia and -1.4 percent in the newly industrialised economies), however, the People's Republic of China (PRC) and most South Asian economies managed substantial growth (Asian Development Outlook 1999).

In developing countries such as Latin America and Southeast Asia, the rising share of exports in gross domestic product (GDP) in 1980-1997 attests to a growing exposure to international trade. Developing countries are indeed exporting more to their industrial counterparts. The growth of trade is firmly buttressed by international institutions such as the World Trade Organisation (WTO) to build on the legacy of the General Agreement on Tariffs and Trade (GATT). The successful completion of the Uruguay Round of multilateral trade negotiations and the growing popularity of regional trading arrangements (RTAs) have created considerable momentum for integrating countries further into the global trading system.

Thailand's main export markets will continue to be the more developed countries, but at the same time economic growth in some developing countries opens up prospects for new markets. Based on growth rates alone, it seems like South Asia and the PRC should be major targets for Thai exports. Even though South Asian growth will decline from an annual average rate of 5.7 percent in 1998 to 5.5 percent by the end of 1999, its growth is expected to continue to 5.8 percent in 2000.

The other fastest growing area is the PRC, with a predicted growth rate of 6.5 percent in 2000. The impact of this growth on consumption is perhaps even more important. With some exceptions, such as Hong Kong, Asia has experienced decreasing population growth rates. Much of the additional GDP in Asia is expected to go directly into the ability to spend on new goods and services. China, for instance, has reduced its birth rate from 26 per 1,000 population in 1975 to only 17 in 1996. Indonesia's birth rate has gone from 40 to 23 over the same period. Thailand has been even more successful, reducing the birth rate from 34 to 18 per 1,000 (Asian Development Bank 1998). With the PRC and South Asian growth rates averaging 6.5 percent and 5.8 percent in 2000, low population growth allows consumption per capita to grow over two percent annually. This, coupled with the tremendous size of the market – China and India's combined population alone is more than two billion, or over one-third of the world's total population – can lead to steep increases in purchases of consumer goods.

Growth, of course, is not the only factor that creates economic opportunities for Thailand. These opportunities will be influenced by a variety of factors, including trade liberalisation, the impact of regional groupings such as ASEAN, NAFTA and the European Union, the mobility of capital, and the effect of technological developments in telecommunications and computerised production.

Multilateral trade liberalisation

In 1995, the creation of the WTO built on the GATT is the latest multilateral step toward creating an environment conducive to the exchange of goods and services. In the past 15 years, mainly due to the environment created by the GATT and the WTO, many developing economies have unilaterally reduced their trade barriers. The trend toward outward-oriented trade policies is not confined to any continent or region, it predates the completion of the Uruguay Round. Nevertheless, a number of other important measures must follow to maintain the momentum for reform. The Millennium trade discussion is scheduled to start in November 1999 under WTO auspices, which will require an agenda for broader trade liberalisation. For the developing countries, it is important to be fully engaged and use the technical expertise to achieve favourable outcomes in areas such as liberalisation of agricultural trade and trade in those services of greatest relevance to their future development.

Multilateral trade negotiations are not the only means of tilting the political balance to favour trade liberalisation. Many industrial and developing countries are signing RTAs with neighbouring countries. This regionally based liberalisation has increased intra-regional trade and investment flows.

Developing countries succeeded in substantially reducing their levels of tariff protection, especially non-tariff barriers (NTB) protection, during the past decade. A number of developing countries, both within and outside Asia, had already reduced their tariffs on imports to below Uruguay Round levels by 1997. Recent trade liberalisation has been the greatest in the Southeast Asian countries, however, average tariff rates remain relatively high in these countries (20-30 percent) for two categories of goods: food and miscellaneous other manufactures.

Concluded in 1994, the Uruguay Round of trade negotiations includes the establishment of a new round of negotiations on agriculture and services, starting in January 2000. The Uruguay Round agreement on trade in agricultural products laid the foundation for future liberalisation. Countries agreed to convert non-tariff agricultural barriers into tariff barriers and to set their tariffs at or below a certain level at the bound tariff rate. Similar maximums were agreed to for export subsidies and domestic subsidies. The Agreement on Sanitary and Phytosanitary Measures that resulted from the Uruguay Round seeks to strike a balance between protecting the well-being of human health and unnecessary restrictions by ensuring that sanitary and phytosanitary regulations do not deliberately discriminate against foreign suppliers.

In regard to trade in textiles and clothing, the Multi-Fibre Arrangement (MFA) will be phased out over a 10-year period, which commenced in 1995 and which is scheduled to be completed by January 2005. The downside is that each country can choose the order in which it will liberalise particular product lines. Therefore, the greatest improvements in access will not be seen until the end of the phase-in period. Despite the longstanding MFA, Thai firms have achieved growth by diversifying products and markets.

Thailand has experienced more competition from lower wage countries such as China and Vietnam, however, the depreciation of the baht should result in a resurgence of textile and clothing exports. Thai manufacturers still have time to upgrade quality, increase productivity, improve technology and develop market niches, toward ensuring the longevity of domestic production bases. Some Thai firms have invested in neighbouring countries to take advantage of lower labour costs and to increase access to quota shares allocated on a national basis under the MFA regime.

In response to the Third WTO Ministerial Conference and the New Round, the Thai government has agreed to participate in new issues as follows:

- 1) Transparency in government procurement regulation – Thailand will sign the agreement, under the condition that developing countries should have a minimum of a three-year adjustment period and it is subject to ratification thereafter.
- 2) Trade and investment – as Thailand has a policy of foreign direct investment promotion, it is rational to support trade and investment negotiations. Nonetheless, under such negotiations, it excludes investment incentive measures, investment condition measures, and dispute resolution between public and private sectors.
- 3) Labour – Thailand agreed in principle to support the EU countries organising a Standing Working Forum in a form of a joint ILO-WTO seminar, which is a special round and disregards labour standards as a condition under the WTO.
- 4) Correction of rules and procedures understanding for WTO dispute settlement – Thailand agreed to make corrections to sections 21 and 22.
- 5) Establishment of the Advisory Centre on WTO Law (ACWL) – Thailand will join as a member and founder of the ACWL.

Capital mobility

A trend complementing the unprecedented increase in world trade is the dramatic increase in capital movements. Capital has long flowed between countries, with the direction of flow generally running from the rich to poorer countries.

Official and private flows of capital to developing Asia were roughly equal in magnitude in the mid-1980s, a surge in private capital flows, especially to East and Southeast Asia, since then has resulted in their making up a much larger fraction of total capital flows to the region. Net private capital flows to the PRC and Southeast Asian countries were less than two percent of their GDP in 1985, but they had grown to more than five percent of GDP by 1995.

Compared with flows to these economies, the size of capital flows to the East and Southeast Asian economies have made greater strides toward liberalising capital flows than South Asia. A distinct change has occurred in the composition of private capital flows in recent years. While the majority of private capital flows to the Asian Developing Economies (ADEs) consisted of bank and trade-related lending in the early 1980s, the past decade has seen a significant increase in foreign direct investment (FDI) and portfolio bond and equity flows. Thailand has also been successful in attracting such foreign capital.

The available investment monies are not sufficient to meet demand as numerous countries develop. The result is that many countries and sub-national regions are locked in competition with one another for investment inflows. In terms of investment in the so-called productive sectors, tax holidays and tariff reductions on imported inputs are among the most common incentives available to investors in developing countries. One of the major achievements of the Uruguay Round was the agreement on Trade Related Investment Measures (TRIMs). The TRIMs agreement set the protocol for the eradication of competition over FDI, which generally benefits the investor at the expense of labour and the environment. Nevertheless, the

TRIMs agreement has only addressed the use of measures which tie investment promotion to certain performance criteria, specifically, the use of local content requirements (LCRs) and the use of trade balancing requirements.

The developed countries, led by the United States, have increasingly pressured the developing countries to open their finance and banking sectors to foreign investment. In the case of Thailand, the increased number of Bangkok International Banking Facilities (BIBFs) resulted in a dramatic increase in debt held by Thai firms, including short-term dollar denominated debt for longer-term projects. Also, a number of non-competitive projects were able to secure financing for project start-up; this was particularly true in the real estate sector. The bursting of the speculative bubble in the property market, accompanied by the downward slide of the Stock Exchange of Thailand (SET) and the depreciation of the baht, has caused ripple effects throughout the productive sectors. The Thai lesson is not that financial liberalisation in itself is inadvisable, rather, financial liberalisation requires the concomitant development of a strengthened set of rules governing the banking and finance sector, accompanied by an effective monitoring system which is open and free from political interference.

The global information super highway

A factor affecting the speed and mobility of capital flow is the rapidly increasing speed and volume of information flows. The so-called “information super highway” will have a significant impact on Thailand’s ability to attract investment and trading partners in the future.

The most efficient companies have learned to lower their overhead expenses by producing exactly those goods that world markets demand, at the right time, in the correct quantities, and in the exact styles needed. This type of decision-making requires an enormous flow of information at very fast rates through multi-point systems.

The world information technology market – whose products include personal computers and workstations, multi-user computer systems, data communications equipment and packaged software – grew by about 12.2 percent a year in real terms between 1985 and 1995, almost five times faster than world GDP. The production of information technology remains highly concentrated – with more than 90 percent in the Organisation for Economic Co-operation and Development (OECD) countries. However, the use of modern communications media is expanding rapidly in other countries. Meanwhile, the Internet has become the best known and most widely used medium for the collection of information technology applications. Demand for services available through the Internet continues to increase and as the market available through the Internet expands, new services are being created.

The year 2000 (Y2K) problem arises from the common practice in older computer programs of designating years by the last two digits only. It is expected to affect systems in many different sectors, including communications, banking, public utilities, health care, and defence. It has the potential to seriously disrupt public and private sector operations at all levels. The precise dimensions of the Y2K problem are not known, but the global cost of fixing it is often estimated in the hundreds of billions of dollars. Although the first and necessary step in addressing the Y2K problem is to be aware of it, its solution will require resources, financial as well as human and technical.

These developments are equally important for Thai companies investing outside of Thailand. To remain competitive as they internationalise, Thai companies will have to develop the capability to manage information flows to and from their overseas investments.

Thailand’s public and private sector leaders will need to follow the development of the telecommunications industry closely to both understand the available resources in other

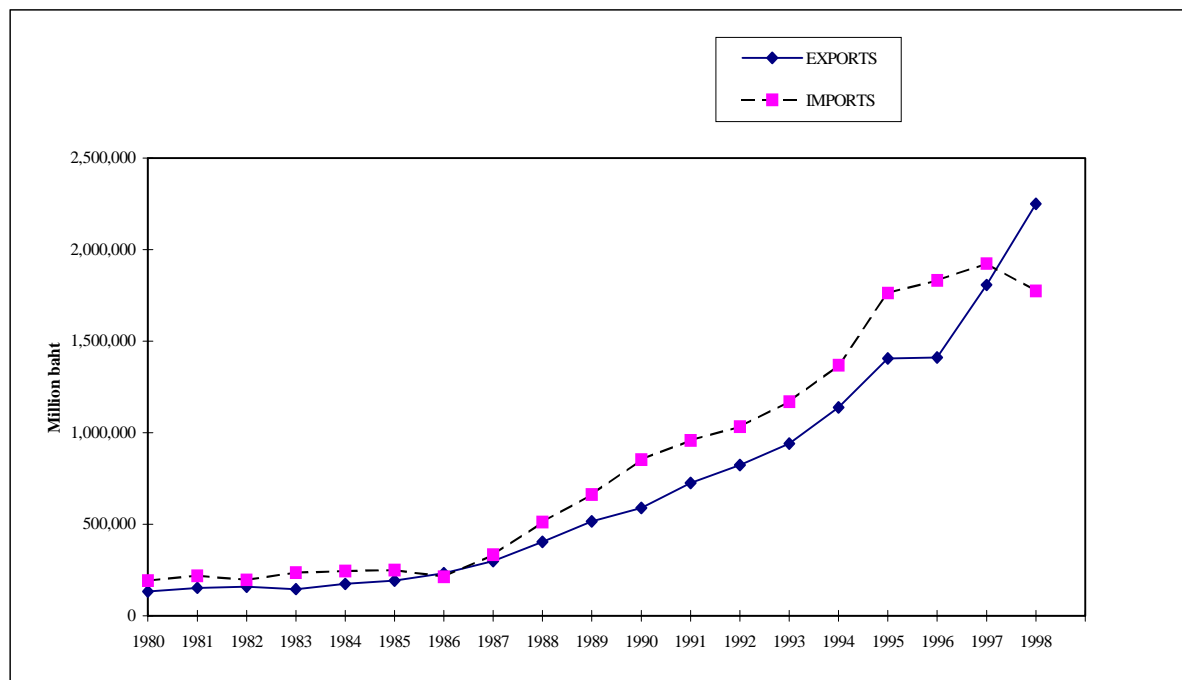
countries and also to help build the co-operative relations that will maximise Thai participation in the world information system. At the same time, they will need to understand how to use the new tools offered by advancing information technology, such as the world wide web, teleconferencing, video conferencing, electronic data interchange and so on.

4.2: Overview of Thailand’s economic relations with the major countries and regions of the world

Thailand’s overall trade activity has accelerated since the mid-1980s when the country’s policy makers made a conscious decision to move from import-substitution policies to export-led growth. Figure 4.1 indicates the pace at which Thailand’s trade with the rest of the world has expanded, except for imports after the financial crisis in 1997. Thailand has registered a trade deficit every year since 1987, however, the bulk of its imports have been used in productive investment.

Figure 4.1: Thailand’s trade with the world

(million baht)



Source: Ministry of Commerce

Thailand’s growing exports

Thailand has been extremely successful in expanding its exports, with growth rates between 14 percent and 28 percent per year from 1990 until 1998. Compared to the structure of exports in the 1970s or even the 1980s, the structure of Thailand’s exports in the 1990s has clearly diversified into a wide variety of products.

Figure 4.2 contains Thailand’s top exports and the growth trend of these products over the past three years. In 1998, aggregate export growth increased significantly, with the exception of rubber.

Exports continued to be the main factor preventing the Thai economy from contracting. In 1998, export volume grew by 8.1 percent during the first half of the year. Exports which showed substantial volume increase were manufacturing exports using high technology,

including electronics and automobile products, and agricultural exports, such as rice and canned fish. Nevertheless, total export value decreased by 6.8 percent, resulting from the slowdown of the world economy and financial crises in Asian countries. The value decline was caused mainly by the 13.8 percent reduction in export prices following intense price competition among Thailand's major competitors, whose currencies also depreciated substantially, while the export volume increased at a lower rate than in the previous year.

Some investors in Thailand will be tempted away by investment incentives and cheap labour in neighbouring countries such as China, Vietnam and Indonesia, which will lead to further stagnation of Thai exports. Skilled, but relatively low cost, labour gave impetus to exports such as garments, footwear, jewellery, integrated circuit boards and other electronic products, including hard disk drives and keyboards. These industrial sectors have received rapid increases in foreign direct investment and domestic capital accumulation.

It is unclear which of these industries will remain competitive into the future as new competitors have emerged. These countries, with their large domestic markets, are receptive to foreign investors.

There are reasons to be optimistic about Thailand's export outlook. The private sector is forward looking and a number of firms are already in the process of upgrading. Thailand's natural resource advantages will ensure the longevity of the jewellery industry and agricultural sector. The downstream move into the processing industries for freezing and canning has led to a rise in exports of processed foods such as canned tuna fish and chilled or frozen shrimp. And some firms in the computer industry are using cutting-edge production processes. These are only examples of the dynamism of Thailand's private sector.

Figure 4.2: Thailand's major exports by product category

Product Category	1996	1997	1998	Increase 1997 (%)	Increase 1998 (%)
Automatic data processing machines and parts	167.7	220.3	320.5	31.4%	45.5%
Garments	79.9	97.1	123.1	21.6%	26.8%
Electronic integrated circuits	58.5	75.8	93.8	29.6%	23.7%
Rice	50.7	65.1	86.8	28.3%	33.4%
Motor cars, motor vehicles, parts and accessories	29.2	48.4	68.4	65.6%	41.2%
Canned fish	34.2	49.3	68.0	44.0%	37.8%
Shrimp, fresh and frozen	43.4	47.2	58.3	8.7%	23.7%
Radio-broadcast receivers, television receivers and parts thereof	34.6	43.6	58.1	25.9%	33.2%
Precious stones and jewellery	54.3	55.6	57.4	2.5%	3.1%
Rubber	63.4	57.5	55.4	-9.3%	-3.5%
Total	1,411.0	1,806.7	2,248.8	28.0%	24.5%

Source: Ministry of Commerce

Note: Figures may not sum due to rounding

Looking at Thailand's major export markets, the NAFTA countries, especially the US, are the largest export market with the export share rising from 19.4 percent in 1997 to 22.3 percent in 1998. This is partly due to the baht's depreciation and Thailand's ability to retain market share. The second largest market is the European Union with the export share rising to 17.8 percent. Japan remains Thailand's largest single market. Meanwhile, the export value to the

Asia Pacific (comprising ASEAN, GMS, China, Taiwan, Hong Kong, and South Korea) declined by 18.6 percent.

Figure 4.3: Thailand's major export markets by geographic region

(billion baht)

Region	Value in 1996	Value in 1997	Value in 1998	Growth 1997	Growth 1998	Share in 1997	Share in 1998
NAFTA	270.7	379.1	537.4	40%	42%	21%	24%
EU	224.9	290.4	401.4	29%	38%	16%	18%
ASEAN 1/	296.3	380.8	396.7	29%	4%	21%	18%
Japan	237.5	270.8	308.5	14%	14%	15%	14%
NIEs 2/	143.8	187.7	212.3	31%	13%	10%	9%
Middle East	54.7	62.3	77.5	14%	25%	3%	3%
China	47.4	55.5	72.9	17%	31%	3%	3%
GMS 3/	41.1	51.0	66.2	24%	30%	3%	3%
Former USSR	5.4	4.9	3.6	-9%	-27%	1%	1%
Eastern Europe	12.3	14.6	13.0	18%	-11%	1%	1%
Others	76.9	156.2	159.3	103%	2%	8%	7%
Total	1,411.0	1,806.7	2,248.8	28%	25%	100%	100%

Source: Bank of Thailand

Notes: 1/ includes Myanmar, Viet Nam, and Lao People's Democratic Republic. 2/ includes Taiwan, Hong Kong, and South Korea. 3/ Myanmar, Viet Nam, Lao People's Democratic Republic, and Cambodia, excluding Yunnan. Figures may not sum due to rounding.

Thailand's imports

Generally, imports are examined by looking at the economic purpose and the major import products. In terms of purpose of imported goods, it is clear that more than three-quarters of Thai imports are capital goods, and intermediate products and raw materials. These types of goods and materials are used in expanding industrial capacity and supply inputs into many of Thailand's export industries. Figure 4.4 organises imports according to economic classification, with growth rates for 1996 to 1998.

Figure 4.4: Thailand's imports by economic classification

(billion baht)

Economic classification	1996	1997	1998	(%) Increase 1997	(%) Increase 1998
Capital Goods	832.2	925.8	886.5	11%	-4%
Machinery and parts	459.2	474.1	411.4	3%	-13%
Metal manufactures	54.4	62.5	85.8	15%	37%
Fertilisers and pesticides	22.6	22.0	23.2	-3%	5%
Scientific and optical instruments	47.9	51.6	46.8	8%	-9%
Construction materials	0.6	0.4	0.3	-32%	-35%
Other	247.5	315.2	319.0	27%	1%
Intermediate products and raw materials	530.1	552.5	535.8	4%	-3%
Chiefly for consumer goods	334.6	349.3	370.2	4%	6%
Chiefly for capital goods	195.5	203.2	165.6	4%	-19%
Consumer Goods	151.1	160.7	154.5	6%	-4%
Non-durable goods	51.8	58.6	56.0	13%	-3%
Durable goods	99.3	102.1	98.5	3%	-4%
Fuels and lubricants	160.6	178.3	142.1	11%	-20%
Vehicles and parts	123.3	67.3	18.9	-45%	-72%
Other imports	35.6	39.6	36.2	11%	-9%
Total	1,832.8	1,924.3	1,774.1	5%	-8%

Source: Bank of Thailand

Note: Figures may not sum due to rounding.

The value of imports in 1998 was 1,774.1 billion baht, an eight percent decline from the previous year when the financial crises hit Thailand. Nearly one-quarters of Thai imports originated in Japan. This reflects Japan's high level of investment in Thailand. The NAFTA, the ASEAN and EU member countries are other major source countries.

Figure 4.5: Thailand's major import suppliers by geographic region

(billion baht)

Region	Value '96	Value '97	Value '98	Growth '97	Growth '98	Share '97	Share '98
Japan	518.1	492.1	420.3	-5%	-15%	25%	24%
NAFTA	246.7	286.3	265.7	16%	-7%	15%	15%
ASEAN 1/	243.3	245.4	265.6	1%	8%	13%	15%
EU	276.1	268.5	221.8	-3%	-17%	14%	12%
Others	548.6	632.0	600.7	15%	-5%	33%	34%
Total	1,832.8	1,924.3	1,774.1	5%	-8%	100%	100%

Source: Bank of Thailand

Notes: 1/ includes Myanmar, Viet Nam, and Lao People's Democratic Republic. Figures may not sum due to rounding.

4.3 Investment patterns: foreign direct investment inflows and Thailand's investment outflows

Although inward foreign direct investment has been one of the growth factors of Thailand's economy, another factor has been the outward flow of investment funds from Thailand to the rest of the world. Since the 1990s, the amount of outward investment funds from Thailand has played significant role.

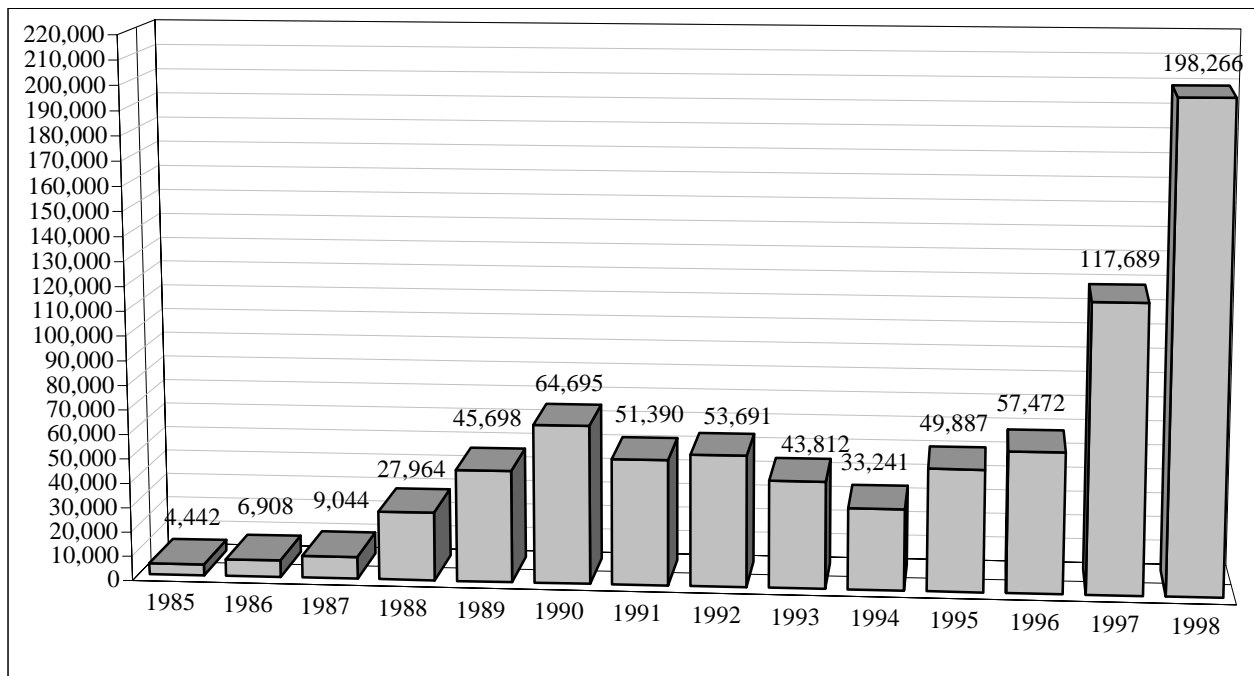
Foreign direct investment

Two government agencies track foreign direct investment data in Thailand, the Board of Investment (BOI) and the Bank of Thailand (BOT). The BOT's net foreign direct investment figures account for both the inflows and related outflows of foreign investments, while the BOI tracks inward investment on a project-by-project basis. In the sections for each geographic region that follow, BOT foreign direct investment and Thai outflow statistics will be considered along with the BOI figures for those regions that have substantial investment activity in Thailand.

By way of an overview, Figure 4.6 plots the level of foreign direct investment into Thailand each year. These flows reached a high point in 1990 (during the period of 1985-1996), however, inflows in 1997 and 1998 have rapidly increased again after the financial crises. As opposed to thinking of such inflows on an annual basis, such inflows should be considered as contributing to the stock of FDI, with depreciation of this stock occurring on an ongoing basis. Recent annual inflows have maintained and increased the total stock of foreign direct investment in Thailand.

Figure 4.6: Thailand's foreign direct investment, 1985-1998

(million baht)



Source: Bank of Thailand

The main sources of Thailand's inward foreign direct investment have historically been Japan, the US, and Hong Kong, which account for over half of the total foreign direct investment Thailand has received over the period 1970-1998. Other major sources of investment capital include Taiwan, the United Kingdom, Germany, and Switzerland.

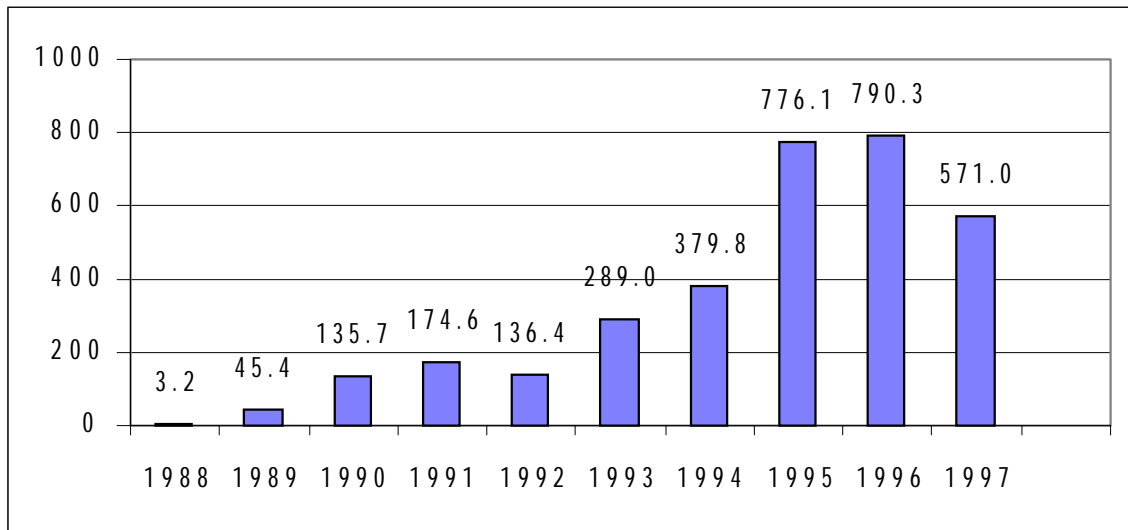
The sectors receiving high levels of foreign direct investment in recent years include financial institutions, manufacturing industries (such as machinery and transport equipment, and electrical appliances), and trade.

Thailand's outward investment flows

Prior to 1993, Thai outward flows were lower than US\$200 million. Thailand's outward investment began to surge from that time and reached a peak in 1996. Even in 1996, the outward flows started to increase slightly. In 1997, Thai outward investment dropped suddenly, primarily due to the drastic slowdown in economic activity and liquidity problems faced by the private sector.

Figure 4.7: Thailand's outward investment flows, 1988-1997

(million US\$)



Source: Bank of Thailand

Note: Data in 1998 was not available

Major destinations for outward investment include the ASEAN countries, the GMS, and the PRC. These investments were channelled mostly into the manufacturing industry and services sector. In 1996, Thailand's Prime Minister formed a special committee to examine the country's outward investment flows and to find ways to support the investing activities of Thais abroad. This committee has the task of prescribing measures that could increase those flows. The committee decided in July 1996 to target the countries of the GMS, ASEAN, South Asia, Mexico, Eastern Europe, North Africa, and the PRC. The industries and services targeted for special promotion include: agro-industries, fisheries and livestock, textile and garments, jewellery and ornaments, electrical appliances, construction, construction materials, hotels and tourism, transport and telecommunications, as well as natural resources development projects that would include petroleum, mining, electricity, and petrochemical projects.

Figure 4.8: Thailand's outward investment by sector, 1988-1997

(million US\$)

Sector	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Trade	1.4	1.5	2.7	9.7	13.8	10.1	23.7	27.9	26.1	92.4
Manufacturing	1.7	39.9	119.9	66.5	49.4	90.3	138.9	190.3	304.3	185.9
Financial Institutions	-	0.8	9.9	23.7	17.2	14.0	30.3	34.5	27.3	19.0
Services	0.0	3.3	0.8	28.1	12.9	87.1	85.6	294.3	232.8	118.3
Other	0.1	0.0	2.4	46.6	43.1	87.5	101.4	229.1	199.8	155.4

Source: Bank of Thailand

Note: Data in 1998 was not available

The data available from the BOT does not fully measure outward investment. Transactions financed through borrowing from overseas banks, or through reinvesting profits from one subsidiary to another, would not be measured. Despite these limitations, the BOT data clearly demonstrates the trend toward Thai's investing abroad.

4.4 Thailand's economic relations with North America

In terms of both exports and imports, Thailand's trade with North America, or the NAFTA countries, is dominated by its trade with the United States. The US has been Thailand's number one export market for several decades, and the US has been the number two supplier of imports to Thailand (after Japan). Thailand has maintained a trade surplus with the NAFTA countries since the mid-1980s, and the gap has broadened in recent years. The Thai-registered surplus was 271,554.5 million baht in 1998, soaring from 24,046.3 million baht and 92,849.5 million baht in 1996 and 1997, respectively.

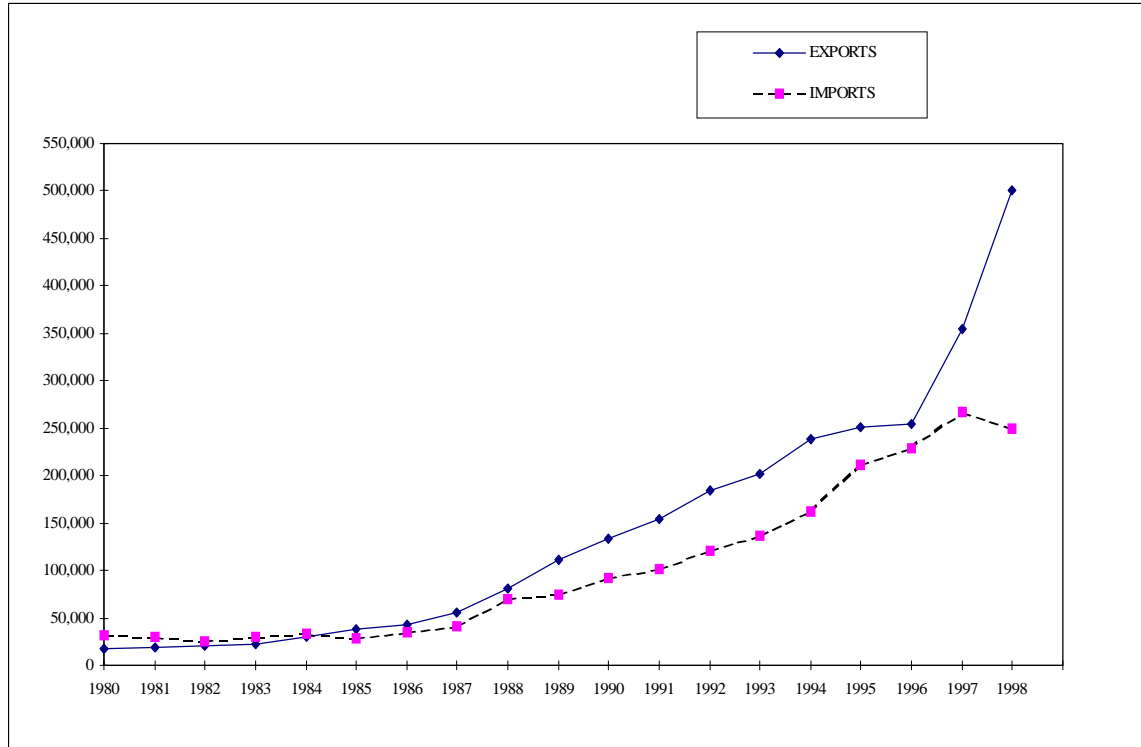
In terms of exports, data processing machines surpassed garments as the export of largest value since 1996. Other exports to NAFTA include (in order of value): garments, canned fish, electronic integrated circuits, shellfish, radios and televisions, precious stones and jewellery, footwear, rubber products, and travel goods.

Trade with the United States

Exports to the US accounted for 22 percent of total Thai exports in 1998. With a population of 270 million people and GDP per head of US\$31,487 (The Global Competitiveness Report 1999, World Economic Forum), the US is still the largest market in the world. Relatively strong economic growth in the US – at approximately three percent in 1998 (the growth was generally robust, compared to the negative tone of the world markets) – has helped keep the US market strong. At the same time, inflation has remained under control at about 1.6 percent.

Figure 4.9: Trade between Thailand and the United States

(million baht)



Source: Ministry of Commerce

Leading Thai exports to the US include high-technology products, agricultural products, and textiles. Imports supplied to Thailand include industrial inputs and raw materials, as well as high-technology products that are not produced locally.

Figure 4.10: Leading exports and imports with the United States

(billion baht)

Thailand's main exports to the US	Value in 1997	Value in 1998	Thailand's main imports from the US	Value in 1997	Value in 1998
Data processing machines	46.7	87.4	Integrated circuits	43.2	45.8
Garments	42.3	63.1	Electrical machinery and parts	23.9	34.1
Canned fish	20.3	29.4	Industrial machines	27.8	24.8
Integrated circuits	23.6	29.0	Chemicals	21.2	19.1
Frozen shrimps, prawns and lobster	14.5	20.6	Aircraft and parts	32.0	19.0
Radio & television receivers	11.3	17.5	Computers parts	23.0	14.9
Precious stones and jewellery	13.6	16.8	Scientific instruments	10.4	9.3
Footwear and parts	12.9	15.0	Metal manufactures	6.4	9.2
Travel goods	7.0	10.9	Electrical appliances	9.7	8.0
Rubber products	6.5	10.7	Oil seeds	5.5	4.2

Source: Ministry of Commerce

US exports to Thailand are particularly important since Thailand has consistently shown a trade surplus against that country. Meanwhile, imports from the US have recently dropped in the wake of the Thai financial crises beginning in mid-1997.

The development of NAFTA has had an impact on Thai trade patterns with the US. While Thailand has access to a larger market (US, Canada, and Mexico), it also faces increased price competition from Mexico in some product lines.

Another issue affecting Thai exports is the use of anti-dumping measures and counter-veiling duties on Thai products, as initiated by US producers and carried out by the US government. Anti-circumvention measures could become a highly potent instrument of protection. Given the high degree of global integration and multinationals operating simultaneously, determining the origin of goods is often difficult.

The dispute over the protection of intellectual property rights (IPR) has also affected US-Thai trade relations. US efforts to control the piracy of intellectual property throughout the world have resulted in the loss of General System of Preferences (GSP) privileges for several countries, including Thailand, and trade tensions have endured for a decade. The passage of a copyright protection law and efforts by Thai officials to clamp down on intellectual property rights violations represent significant progress in this area.

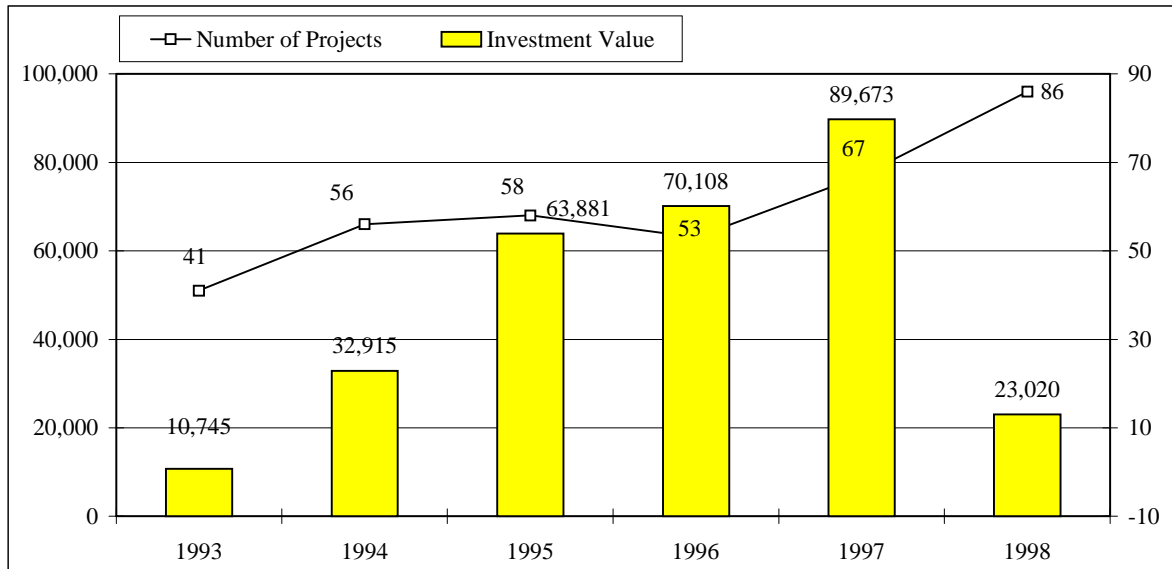
Investment patterns

The share of US investment in Thailand is second only to Japanese investment in Thailand. Many Thai export industries have benefited from foreign direct investment by US companies, in particular the computer and telecommunications industries. US investment has brought in significant technology transfer, particularly in such industries as computers and parts, computer software, gas and oil development, refineries, petrochemicals and a variety of service industries such as banking and insurance.

The US has been trying to secure greater market access in regard to services. It faced a great deal of resistance in the General Agreement on Trade in Services (GATS) talks. The GATS issue is at the top of the US's trade agenda. Increased openness is desirable as it will improve service provision to the individual and it will strengthen the private sector. In Thailand, there is a great deal of vested interest in maintaining the status quo in some sectors, for instance, telecommunications, and there is nationalistic resistance in regard to others, for instance, banking and finance. For these reasons, progress on the liberalisation of service industries will not come easily. In regard to Internet services, customers located in Thailand can by-pass inefficient, over-priced Thai Internet access providers (IAPs) and obtain service directly from US-based firms. The fact that IAPs are over-priced in Thailand can be at least partially attributed to the oligopoly functioning upstream. The decreased competitiveness of downstream telecommunications services should provide an impetus for liberalisation of the industry.

Figure 4.11: BOI-approved US investment in Thailand, projects and investment value, 1993-1998

(million baht)

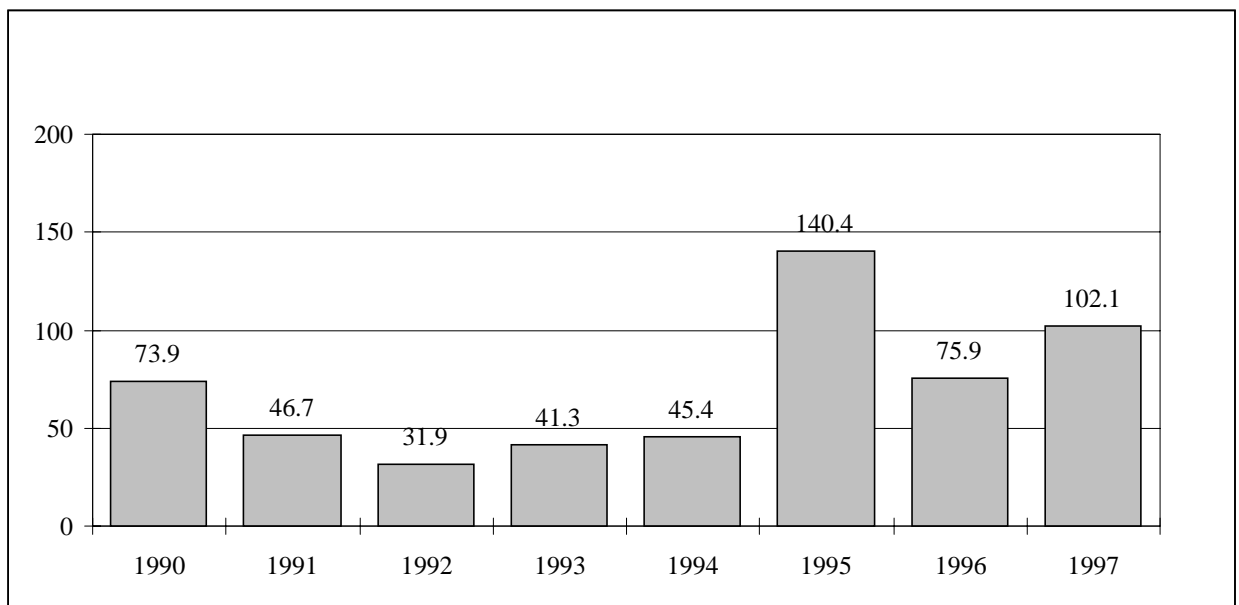


Source: Board of Investment

Investment between Thailand and the US has been reciprocal. The US receives the large portion of overseas Thai investment funds. Thai business people have invested over 100 million US\$ in the US in 1997. This is equivalent to approximately 18 percent of total Thai overseas direct investments.

Figure 4.12: Thailand's investment in the United States

(million US\$)



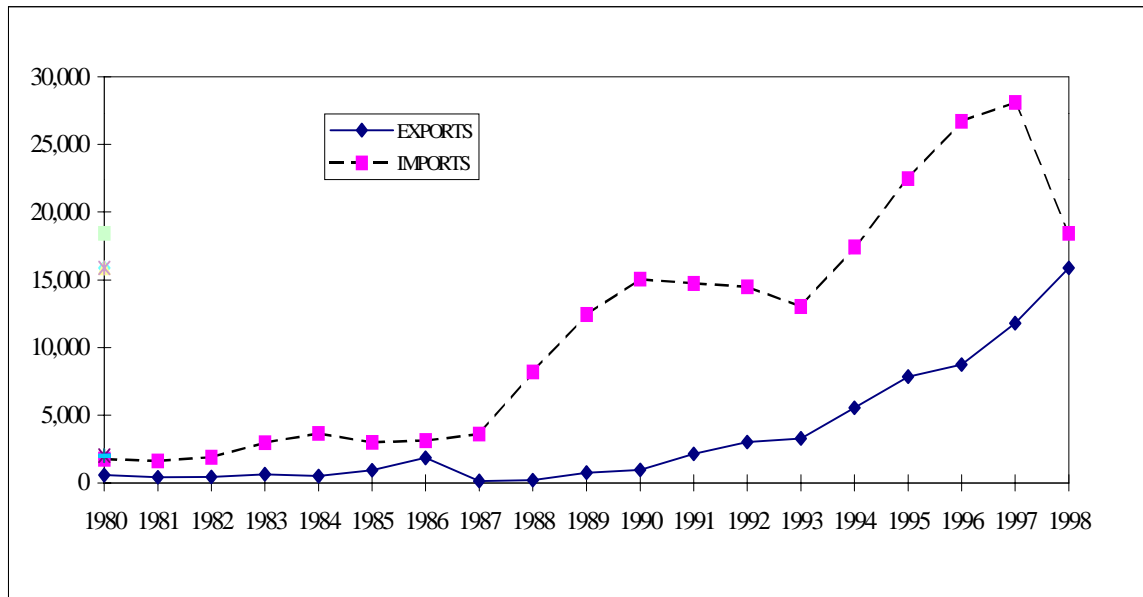
Source: Bank of Thailand

4.5 Thailand's economic relations with South America

Thailand's trade with South American countries is much lower when compared its trade with North America. Of the South American countries, Thailand's trade with Brazil accounts for most of the trade activity followed by Argentina and Chile. Thailand's exports to South American countries have been overshadowed by a high level of incoming imports, resulting in a trade deficit with South America.

Figure 4.13: Trade between Thailand and South America

(million baht)



Source: Ministry of Commerce

The major imports from South America are dominated by raw materials. Imports declined in value in 1998 affecting the smaller gap of Thailand's trade deficit with South America.

Thailand's exports to South America continued to increase in 1998, with a significant growth in rice exports. Thailand also exports medium technology products such as radio and television receivers and parts, and air conditioners and parts. Automatic data processing machines and parts exports increased by approximately 39 percent in 1998.

Figure 4.14: Leading exports and imports with South America

(million baht)

Thailand's main exports to South America	Value in 1997	Value in 1998	Thailand's main imports from South America	Value in 1997	Value in 1998
Motor vehicles, parts & accessories	1,658.7	1,839.1	Vegetable oil extracts	7,488.6	4,176.7
Rice	480.6	1,355.6	Metal waste and scrap	4,054.7	2,908.0
Canned fish	802.2	1,215.5	Vegetable oil seeds	2,761.1	2,889.1
Rubber products	755.5	1,018.9	Iron and steel	3,437.9	2,625.3
Rubber	539.8	730.1	Raw hide & leather	913.4	958.6
Radio & television receivers, and parts	678.9	630.7	Cereal and cereal preparation	1,102.8	795.1
Air conditioners and parts	528.6	564.5	Chemicals	1,188.1	638.4
Automatic data processing machines and parts	405.2	563.9	Pulp and scrap of paper	631.5	519.7
Footwear and parts	579.5	558.6	Textile fibres	165.1	326.0
Garments	323.6	501.0	Pesticides	136.8	247.2

Source: Ministry of Commerce

Investment patterns

The amount of foreign direct investment Thailand receives from South American countries is very small, therefore it is difficult to measure. Similarly, Thailand's outward investments in South American countries are low. As noted above, neither Bank of Thailand nor Board of Investment figures capture all of the investment activity, although it can be concluded that Thailand-South American investment is not on the scale of that with the US or with other Asian countries.

4.6 Thailand's economic relations with Japan

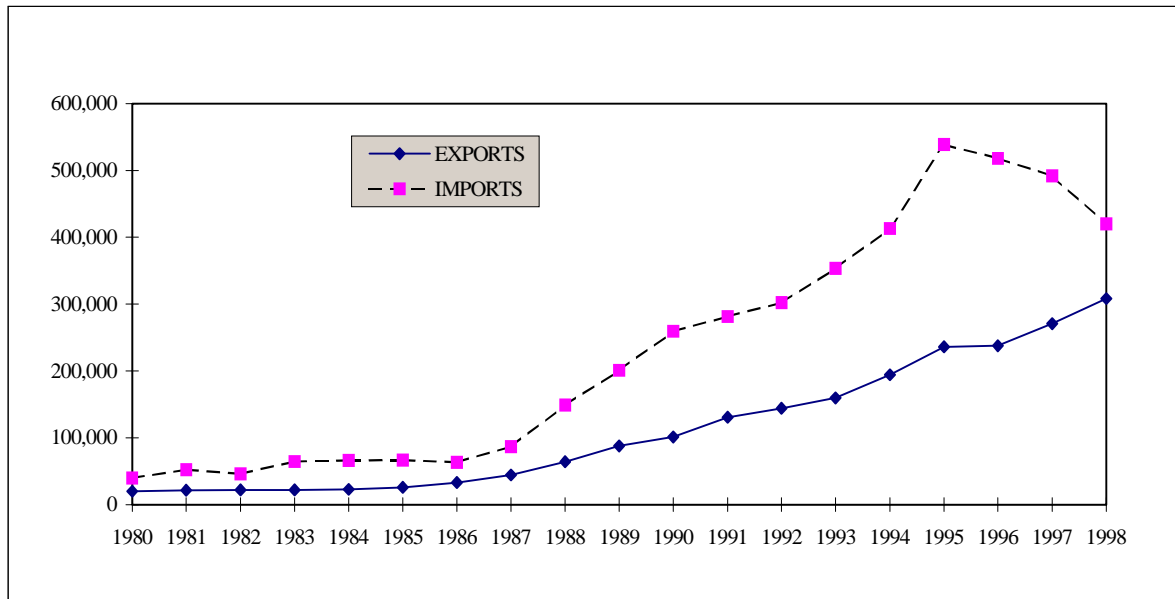
Japan has long been one of Thailand's major trading partners, taking 14 percent of the country's total exports in 1998. Meanwhile, Thailand's import from Japan account for 24 percent of total imports.

Strong investment ties with Thailand have resulted in severe trade deficits for Thailand. The persistent deficit is due largely to the import of Japanese electrical and non-electrical machinery and parts, chemicals, and iron and steel.

At the same time, Japanese markets have been very difficult to penetrate, a problem which is not unique to Thailand. In terms of agricultural goods, the agricultural agreement under the Uruguay Round is expected to improve this situation. The WTO agreement on sanitary and phytosanitary measures should also help to improve market access as it harmonises agricultural health standards. Other access problems include high product quality standards, logistics and distribution problems.

Figure 4.15: Trade between Thailand and Japan

(million baht)



Source: Ministry of Commerce

Figure 4.16: Leading exports and imports with Japan

(billion baht)

Thailand's main exports to Japan	Value in 1997	Value in 1998	Thailand's main imports from Japan	Value in 1997	Value in 1998
Computers and parts	20.5	25.9	Electrical machines	66.6	69.5
Rubber	18.0	15.7	Industrial machines	111.5	67.4
Diodes, transistors and semi-conductor device	9.9	14.7	Integrated circuits	32.9	44.1
Frozen shrimp	12.3	12.7	Chemicals	38.7	42.9
Furniture and parts	11.1	10.6	Iron and steel	40.1	38.2
Frozen poultry	6.6	10.2	Metal products	28.0	34.2
Canned seafood	7.6	9.7	Scientific instruments	19.9	16.9
Radios and televisions	9.4	9.2	Television tubes	9.8	10.9
Garments	9.3	8.9	Computers and parts	12.2	10.7
Integrated circuits	7.0	8.5	Plastic products	7.7	8.6

Source: Ministry of Commerce

Investment patterns

The Japanese economy has gone through a major economic transformation due in large part to the depreciation of the yen beginning in 1995. This has been a key factor in changing export structure of Asia, including Thailand, particularly increased specialisation and fast growth in the electronics industry during 1990-1995. Since mid-1995, Thailand has also experienced the largest declines in the unit prices for its exports. The eruption of the financial crisis in Asia in 1997 provided a stimulus to exports through depreciating exchange rates. Thai exports are unlikely to recover in the short term due to the low growth in world trade, the recession in Japan, and the weakening of intra-regional trade.

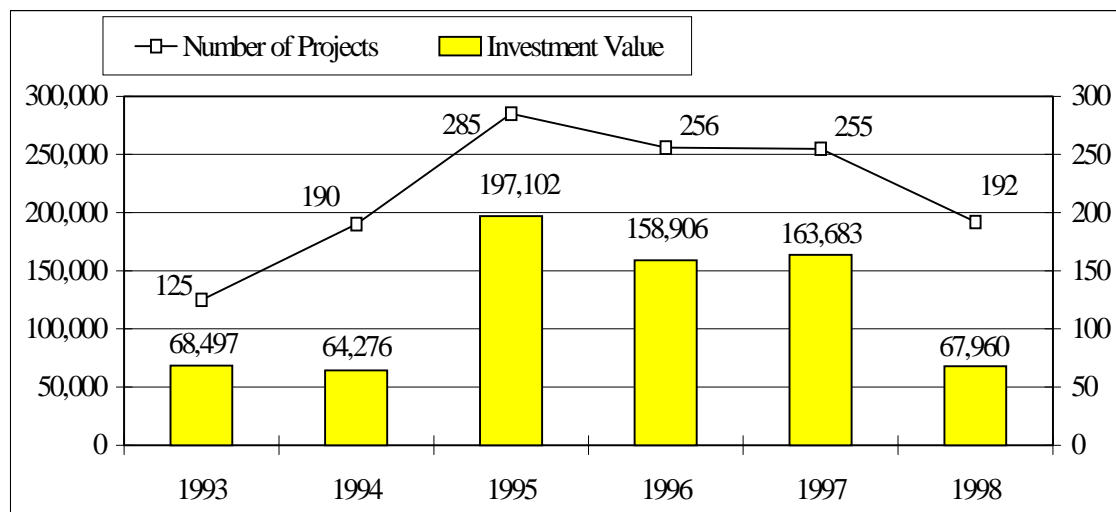
Nevertheless, Thai exports should start to recover over the medium term since Japan has announced a large fiscal stimulus package which is in the process underpinning Asian export performance.

Japanese manufacturers have been seeking lower cost manufacturing platforms offshore to preserve their market share around the world. Thailand remains one of the favoured areas for investment. These production platforms served a variety of markets depending on the cost advantages available. While the cost-effective factories produced for world markets, others were focused on regional or domestic markets where proximity would compensate for higher costs.

Although there was a significant drop in Japanese investment value in 1998, Japan is the second largest foreign investor in Thailand after the Netherlands. Through a large number of joint ventures, Japanese manufacturers forged highly successful alliances with Thai industrialists. These joint ventures, in which Japanese companies held minority shares yet had effective control, succeeded in transferring many Japanese systems and business practices to Thailand. Backed by Japanese government training programs, these joint venture organisations trained a number of Thai workers in Japanese factory systems that emphasised quality and efficiency.

Figure 4.17: BOI-approved Japanese investment in Thailand, projects and investment value, 1993-1998

(million baht)



Source: Board of Investment

The investments included the smaller Japanese companies that were the suppliers to larger and more well-known companies. This helped deepen the industrial base of Thailand. However, Japanese companies have traditionally guarded their higher level design and development processes very closely, therefore, many of these processes have remained in Japan and technology transfer has been lower than expected.

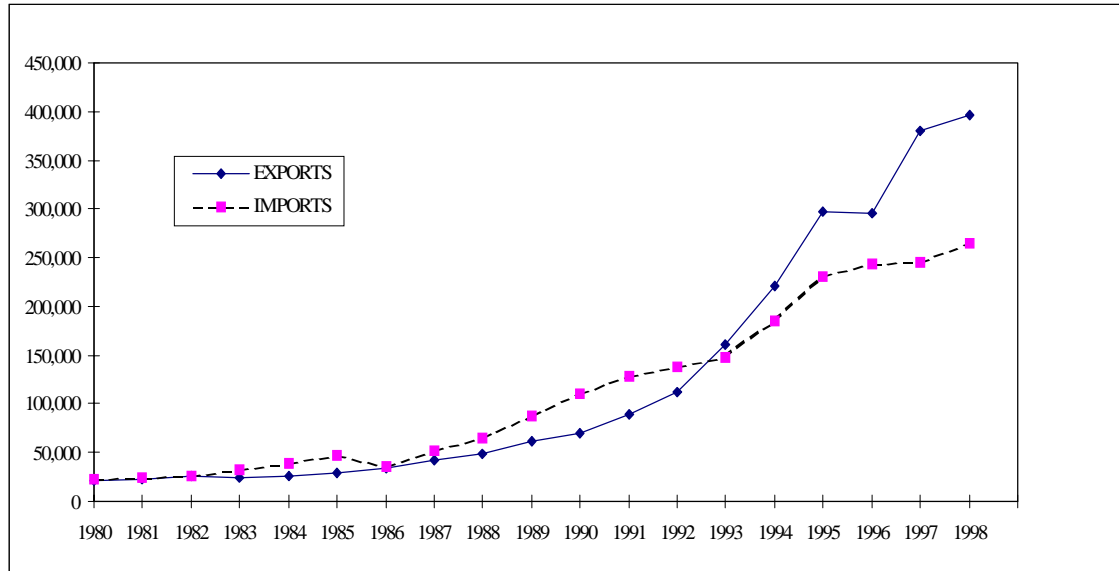
Thailand has registered investment flows in Japan, but at relatively low levels in comparison to other major trading partners.

4.7 Thailand's economic relations with ASEAN

Trade between Thailand and the ASEAN member countries has increased significantly in the 1990s. Since 1993, Thailand has begun to gain trade surpluses with ASEAN countries. The ASEAN market is also important, taking 18 percent of Thailand's total exports in 1998.

Figure 4.18: Trade between Thailand and ASEAN

(million baht)



Source: Ministry of Commerce

The economic slowdown caused a significant import contraction, affecting the aggregate current account for ASEAN countries to register a surplus for the first time in a decade. Export volumes started to pick up in the second quarter of 1998, leading the way to an export recovery. The ASEAN market is quite important, on par with the US, EU, and Japanese ones. Given the special political ties and the efforts to create a regional trading group through the ASEAN Free Trade Area (AFTA), intra-regional trade in intermediate goods should continue to expand.

The similarity of the products produced among ASEAN member nations has hindered trade relations. Nevertheless, it is expected that trade in intermediate products will surge as production structures become more harmonised in the region, particularly as the CEPT Scheme under AFTA comes into affect by 2003. This will reduce the tariff level on all goods with sufficient ASEAN content to the 0-5 percent range. Finally, it is expected that economies of scale will be achievable as firms can begin to produce for the ASEAN market.

The base of this regional intra-industry trade has already been formed, particularly in the electronics, computer, and automotive industries. The point of conflict may arise in areas characterised by state-led investment. Most ASEAN countries are unwilling to give political concessions in the effort to harmonise economically, so the matter of achieving economies of scale will ultimately be settled by the private sector.

Figure 4.19: Leading exports and imports with ASEAN countries

(billion baht)

Thailand's main exports to ASEAN	Value in 1997	Value in 1998	Thailand's main imports from ASEAN	Value in 1997	Value in 1998
Computers, parts and accessories	83.1	86.5	Electrical machines and parts	38.1	48.0
Rice	17.9	32.1	Computers, parts and accessories	35.2	32.4
Integrated circuits	16.7	17.7	Metal manufactures	7.4	23.3
Refine fuels	20.4	14.0	Integrated circuits	16.5	23.1
Motor vehicles, parts and accessories	12.4	13.5	Chemicals	15.9	22.9
Sugar	14.0	13.1	CRT	13.1	12.9
Printed circuits	5.8	12.8	Industrial machines	9.3	9.4
Iron, steel products	9.2	10.1	Electrical appliances	10.1	7.6
Chemicals	7.5	9.9	Crude oil	19.2	7.4
Motors & electric generators	10.2	9.7	Lubricating and hydraulic brake oil	4.9	7.4

Source: Ministry of Commerce

Having laid the foundations for achieving tariff liberalisation, ASEAN countries have been looking to reduce non-tariff barriers. Customs harmonisation of the investment regimes and industrial standards are in progress.

While some pioneers have already penetrated the ASEAN consumer market, it will be of use to render assistance to Thai businesspeople to help in identifying export opportunities with other ASEAN countries. This will require familiarity with both existing exports and an understanding of the local market so that new Thai products can be successfully introduced.

Imports from ASEAN are also important as they help provide lower cost goods for Thai consumers and inputs for industry. One of the key assumptions supporting AFTA is that all countries will benefit by the availability of goods at lower prices and that all member countries will gain by maintaining production within the region.

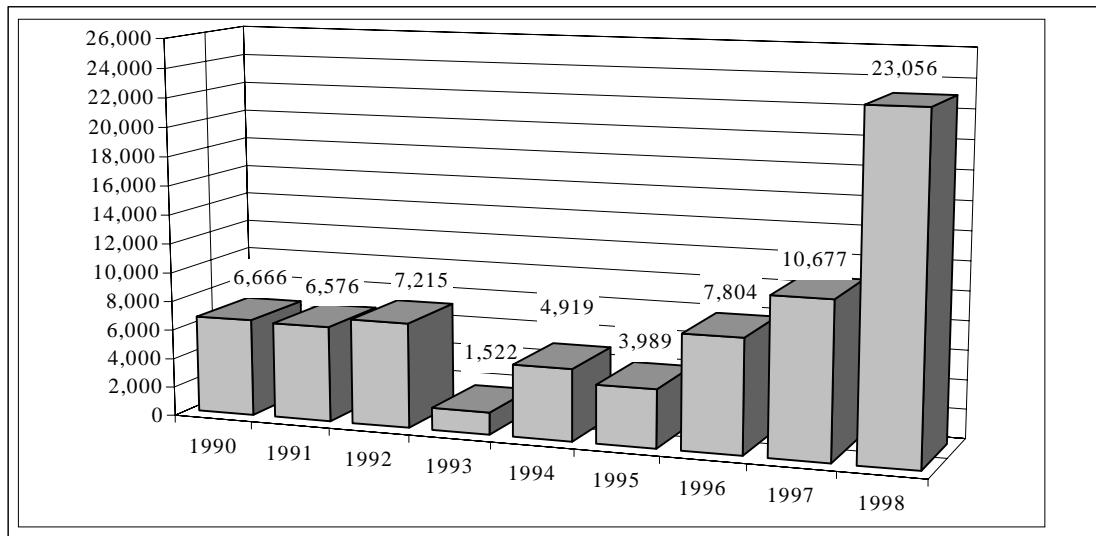
Investment patterns

There are significant investment inflows from Thailand's ASEAN partners, especially Singapore. Foreign direct investment statistics indicate that investment activities accelerated up to 1992, and then dropped off for a few years before rebounding in 1996.

There have been significant outflows of Thai capital to her ASEAN neighbours as well. In 1997, Thailand invested approximately US\$114 million, US\$18 million, and US\$11 million in Singapore, Indonesia, and the Philippines, respectively.

Figure 4.20: Foreign direct investment from ASEAN countries, 1990-1998

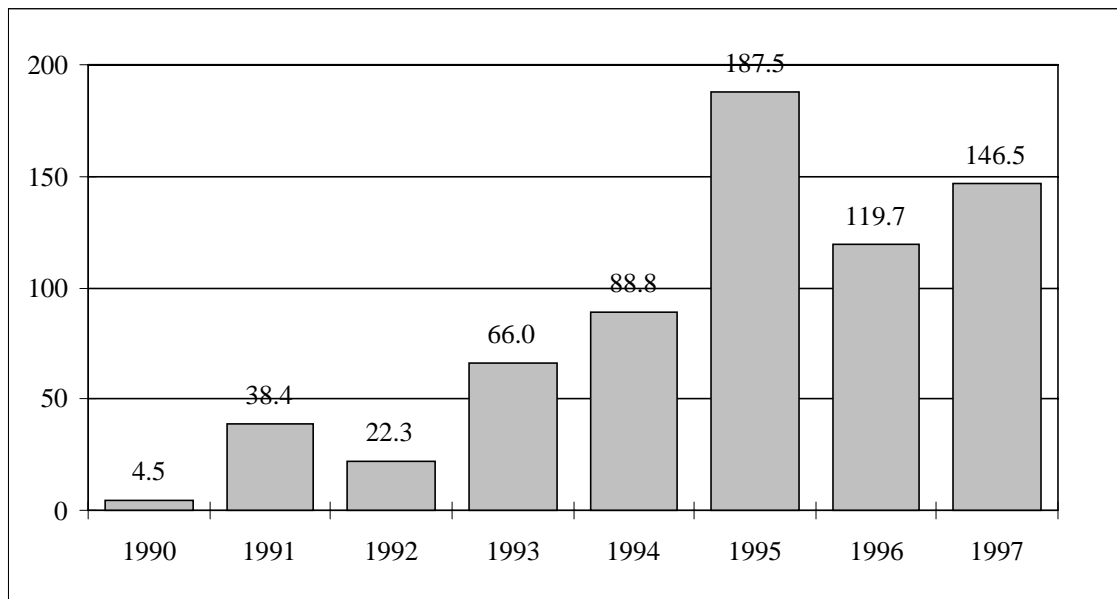
(million baht)



Source: Bank of Thailand

Figure 4.21: Thailand's investment in ASEAN countries

(million US\$)



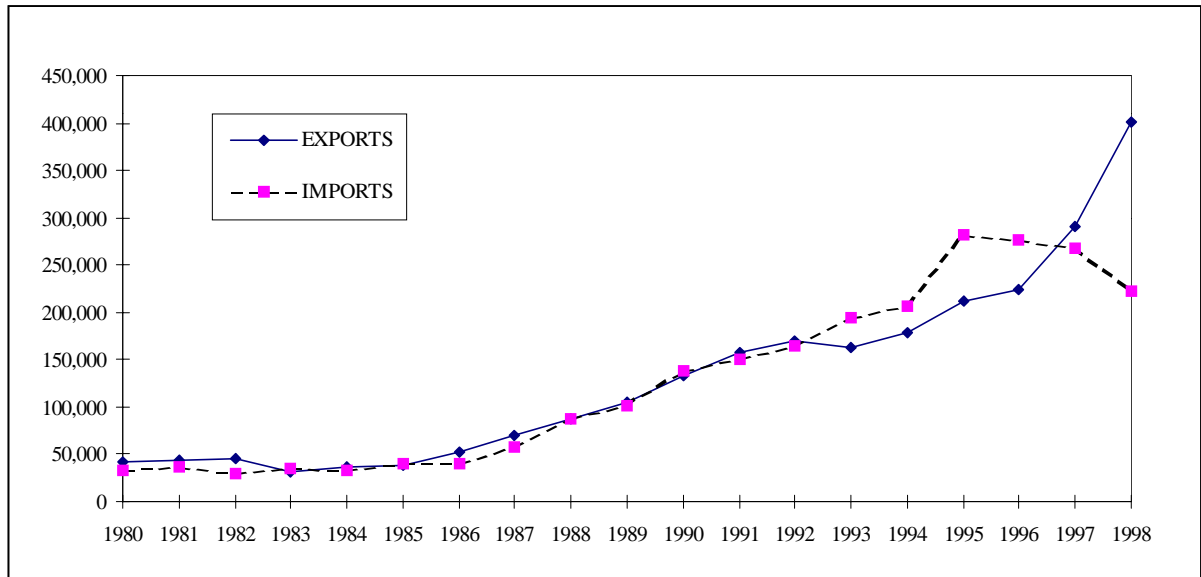
Source: Bank of Thailand

4.8 Thailand's economic relations with the European Union

The EU is Thailand's fourth largest trading partner after the US, Japan, and the ASEAN countries.

Figure 4.22: Trade between Thailand and the European Union

(million baht)



Source: Ministry of Commerce

The EU has traditionally been a strong market for many Thai goods, including garments and precious stones and jewellery. The fact that the economic growth in Europe was generally robust in the past year compared to the world economy, the Thai export ratio going to the EU has increased. The countries of the European Union took 18 percent of Thai exports in 1998, up from 16 percent in 1997.

The rules and trading policies among EU member countries must be closely followed to ensure continued access, unhindered by non-tariff trade barriers, such as health and safety regulations.

Figure 4.23: Leading exports and imports with the European Union

(billion baht)

Thailand's main exports to the European Union	Value in 1997	Value in 1998	Thailand's main imports from the European Union	Value in 1997	Value in 1998
Computers and parts	39.1	62.9	Industrial machines	67.1	39.9
Garments	21.6	26.5	Electrical machines	37.8	35.4
Motor vehicles and parts	14.6	20.1	Chemicals	25.0	23.1
Integrated circuits	13.1	19.6	Integrated circuits	12.9	15.2
Precious stones and jewellery	14.9	16.7	Jewellery including silver bars and gold	7.8	7.9
Footwear and parts	11.7	14.8	Scientific instruments	7.8	7.4
Radio and television receivers, and parts	5.1	10.8	Electrical appliances	3.8	6.5
Tapioca products	10.5	9.8	Metal manufactures	9.2	6.4
Precious metal and articles clad with precious metals	8.5	8.5	Pharmaceutical products	7.3	6.2
Woven fabrics	6.4	8.4	Aircraft and instruments	0.7	5.9

Source: Ministry of Commerce

Investment patterns

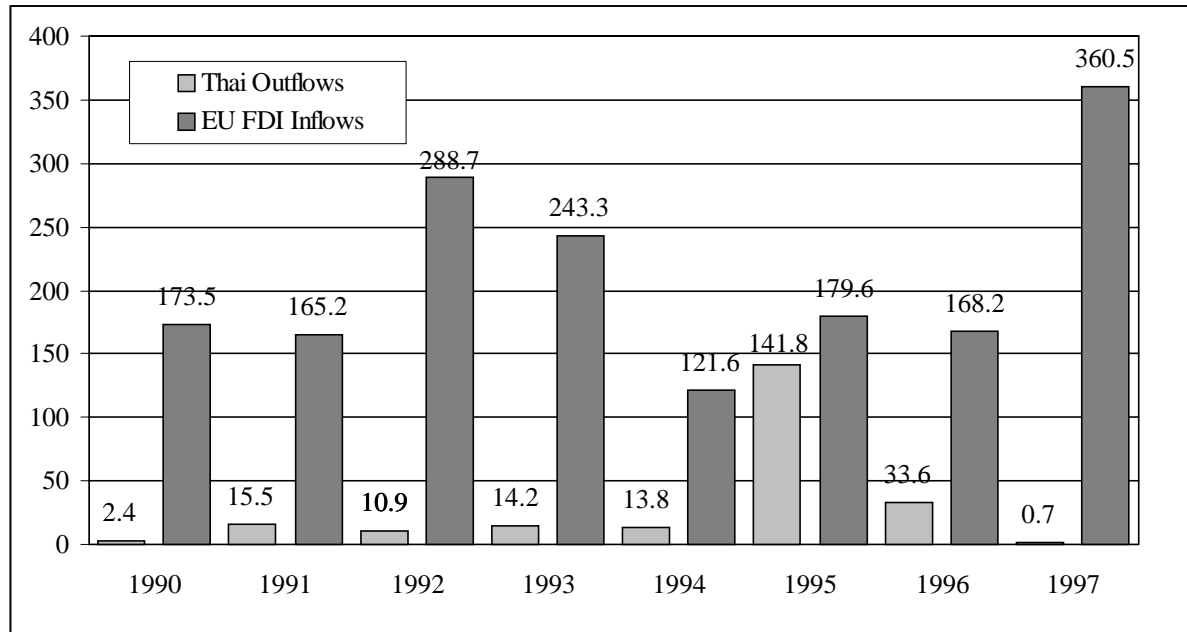
European companies continue to have interest in Thailand's consumer market, but they have also taken advantage of direct investment opportunities in the development and construction of infrastructure in Thailand. European companies, including major state firms and privatised companies, are particularly interested in investing in the development of Thailand's telecommunications, transportation and environmental infrastructure.

The EU countries have been active trade partners with Thailand, and become more active in terms of direct investment in Thailand as well.

A number of measures have been discussed toward improving trade and investment relations between Thailand and the EU under the Asia-Europe Investment Promotion Action Plan (ASEM) umbrella, released in July 1997. This plan aims to promote public and private sector co-operation on the issue of removing trade and investment barriers between the two regions. Proposed actions fall into two broad pillars. The first pillar deals with investment promotion and aims for: a Virtual Information Exchange; a series of Decision-Makers Roundtables; a Business-to-Business Exchange Program; and various Public Relations events. The second pillar deals with investment policies and regulations and aims for: the consideration of non-binding investment principles or guidelines; and dialogues among ASEM senior officials on issues including settlement of business disputes, and intellectual property rights.

Figure 4.24: Investment flows between Thailand and the EU, 1990-1997

(million US\$)



Source: Bank of Thailand

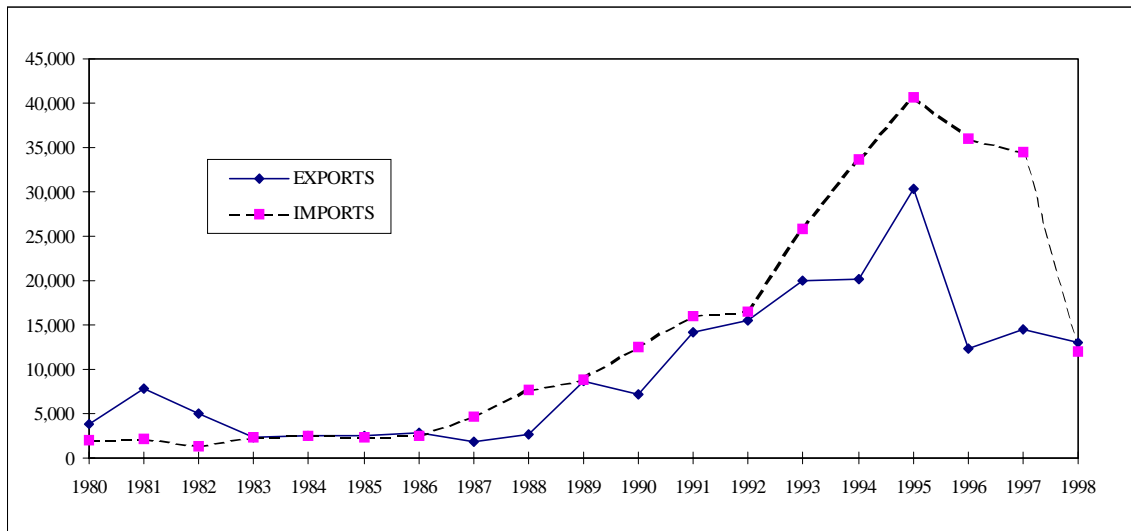
Most of the European inflows can be attributed to investment activities by the Netherlands, French, and the United Kingdom companies.

4.9 Thailand's economic relations with Eastern Europe

While trade with the Eastern European picked up significantly from a previously small base during the 1990-1994 period (at an average growth rate of 28 percent per year), growth in total trade slowed to two percent and one percent for 1995 and 1997 respectively, and actually dropped by 49 percent in 1998 from 1997 levels.

Figure 4.25: Trade between Thailand and Eastern Europe

(million baht)



Source: Ministry of Commerce

The bulk of Thai exports to Eastern Europe has been in garments and footwear. The majority of imports have been steel and chemicals, along with metal products, fertiliser, and industrial machines.

Figure 4.26: Leading exports and imports with Eastern Europe

(million baht)

Thailand's main exports to Eastern Europe	Value in 1997	Value in 1998	Thailand's main imports from Eastern Europe	Value in 1997	Value in 1998
Garments	2,856.8	1,788.7	Iron and steel	22,224.0	4,965.3
Electric motors and generators	1,002.7	1,711.4	Chemicals	1,195.9	1,216.1
Canned fish	654.1	962.7	Metal waste and scrap	1,171.8	929.4
Sugar	924.6	811.3	Fertiliser	1,742.6	815.5
Automobiles and parts	386.6	680.6	Dairy products	1,522.3	623.3
Computers and parts	942.6	496.7	Industrial machines	1,169.4	507.5
Footwear and parts	2,367.2	469.0	Metal manufactures	248.7	357.9
Electrical transformers and parts	108.6	406.4	Crude oil	702.7	334.4
Rubber products	249.5	361.7	Textile fibres	819.0	259.2
Rice	728.5	350.4	Crude mineral	447.2	252.7

Source: Ministry of Commerce

Investment patterns

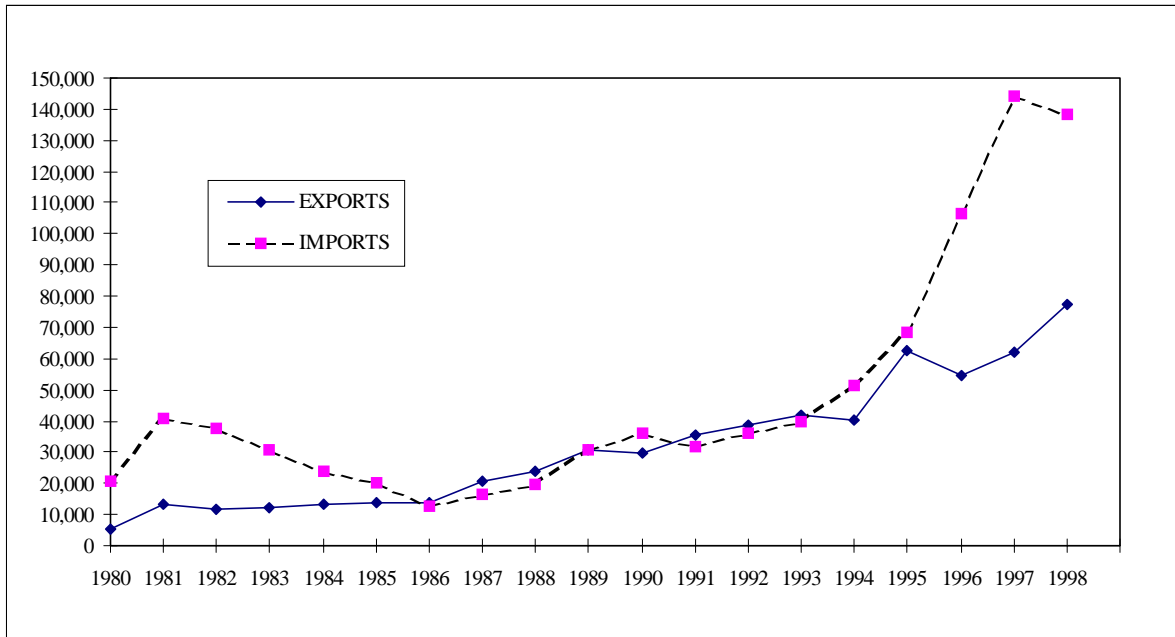
There has not been much investment activity between Thailand and the countries of Eastern Europe. As Thais become familiar with opportunities, it is expected that Thailand's economic relations with the countries of Eastern Europe will broaden.

4.10 Thailand's economic relations with the Middle East

Trade between Thailand and Middle Eastern countries has grown steadily. In the early 1980s, most of Thailand's trade with the Middle East consisted of imports of energy products such as crude oil. Thai exports to the Middle East grew steadily, if not quickly, until 1996 when exports fell, and then started to pick up again in 1997. Imports from Middle Eastern countries have outpaced exports for several years resulting in a severe trade deficit with the Middle East, particularly in the past three years.

Figure 4.27: Trade between Thailand and the Middle East

(million baht)



Source: Ministry of Commerce

Thailand's exports to the Middle East are distributed across the spectrum of Thailand's main export products, from rice to garments to canned fish. Imports from the Middle East largely consist of crude oil, chemicals, jewellery including silver bars and gold, lubricating and hydraulic brake oil, and fertiliser for agro-industries.

Investment patterns

Flows of investment funds between Thailand and the Middle East have not been significant, although, as has been noted, investment statistics do not record all of the investment activity that takes place.

Figure 4.28: Leading exports and imports with the Middle East

(billion baht)

Thailand's main exports to the Middle East	Value in 1997	Value in 1998	Thailand's main imports from the Middle East	Value in 1997	Value in 1998
Rice	9.4	10.8	Crude oil	116.7	110.6
Garments	8.4	8.3	Chemicals	5.7	6.6
Precious stones and jewellery	6.0	7.3	Jewellery (includes silver bars and gold)	4.2	5.3
Woven fabrics	4.8	5.5	Lubricating oil, liquid for hydraulic brake	4.6	3.7
Motor vehicles, parts and accessories	1.4	4.8	Fertiliser	3.0	3.4
Air conditioning machines and parts	3.8	4.8	Metal waste and scrap	2.8	2.6
Canned fish	2.0	3.4	Electrical machinery and parts	0.7	1.2
Radio and television receivers and parts	1.2	2.2	Textile fibres	0.5	0.7
Footwear and parts	2.0	2.1	Crude mineral	0.1	0.6
Plastic products	1.0	1.4	Iron and steel	2.3	0.6

Source: Ministry of Commerce

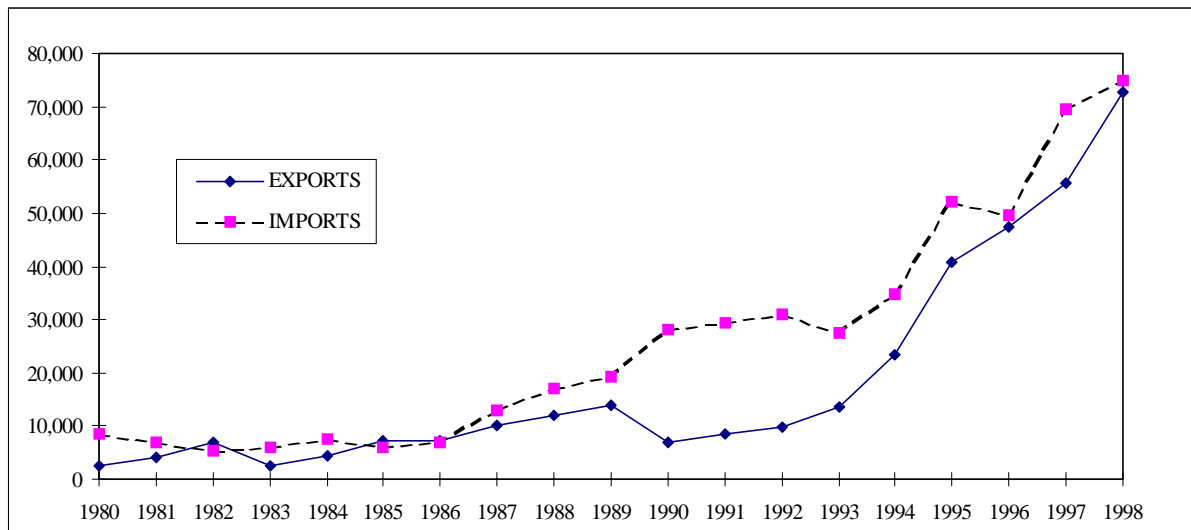
4.11 Thailand's economic relations with Northeast Asia (the PRC and the NIEs)

The People's Republic of China (PRC)

The economic reforms that stretch back for more than 15 years in the PRC have sparked incredible growth even though certain problems remain unresolved. The PRC has grabbed the attention of world businesses with the combination of relatively strong economic growth and the huge size of its population. Thailand is particularly well placed geographically, culturally and historically to play a key and highly rewarding role in the PRC's economic development. A number of Thai companies have won contracts and have developed projects in the PRC. Despite these successes, however, the PRC accounts for only three percent of Thai exports. Much of this export volume comes from computers, and agricultural products.

Figure 4.29: Trade between Thailand and the PRC

(million baht)



Source: Ministry of Commerce

A major challenge for the Thai business community is to increase exports to the PRC. Thai industries should be able to make much larger inroads into the Chinese market both in the form of sales of finished products or parts and sub-assemblies. Further efforts must be completed to successfully integrate the Thai and Chinese industrial sectors.

To achieve this integration, more backward linkages should be developed into the Thai industrial sector from projects in the PRC. This will require major improvements in transport (better land transport networks from northern Thailand to the PRC's southern Yunnan province), customs procedures and legal processes. Much of this work has to be done on the Chinese side, but with co-operation and encouragement from Thailand wherever possible.

Figure 4.30: Leading exports and imports with the PRC

(billion baht)

Thailand's main exports to China	Value in 1997	Value in 1998	Thailand's main imports from China	Value in 1997	Value in 1998
Computers and parts	7.2	21.7	Computers and parts	9.9	13.4
Rubber	8.5	6.9	Electrical machines and parts	8.4	12.2
Rice	5.4	5.0	Chemicals	6.4	6.7
Fresh, chilled or frozen shrimps	4.1	4.8	Fabrics	4.2	5.8
Fresh, chilled or frozen fish	2.1	3.8	Industrial machines	5.0	4.9
Polymers in primary forms	2.3	3.3	Iron and Steel	7.6	2.9
Chemicals	2.4	2.3	Metal manufactures	2.2	2.5
Liquid petroleum gas	2.6	1.9	Integrated circuits	1.1	2.4
Paper, pulp and products (excluding cartons and boxes)	0.8	1.6	Clothes, footwear and other textiles	2.4	2.3
Tapioca products	1.1	1.3	Electrical appliances	2.5	2.1

Source: Ministry of Commerce

The trade relationship must be two ways. Chinese industries must be encouraged to export to Thailand and barriers to the entry of Chinese products should be lowered, however, there will be some risk since the PRC's huge market is much more conducive to the development of economies of scale. When lower tariffs take effect after full Uruguay Round tariff cut implementation, there is the possibility that cheaper Chinese goods will replace domestic Thai products. Therefore, it is important to cement alliances while Chinese goods are still relatively substandard in many aspects.

The fiscal stimulus package announced in the second quarter of 1998 consisted of Y200 billion of additional public investment to be implemented during 1998 and 1999. The package covered mainly infrastructure investments, with most of the financing going toward projects in irrigation, forestry, urban infrastructure, transport, and communications. The government's investment stimulus package affected production that did not rely heavily on imports, and contributed to the decline in imports. The PRC's growth prospects for the next two years depend on implementation of the remainder of the public investment stimulus package and changes in the world economy.

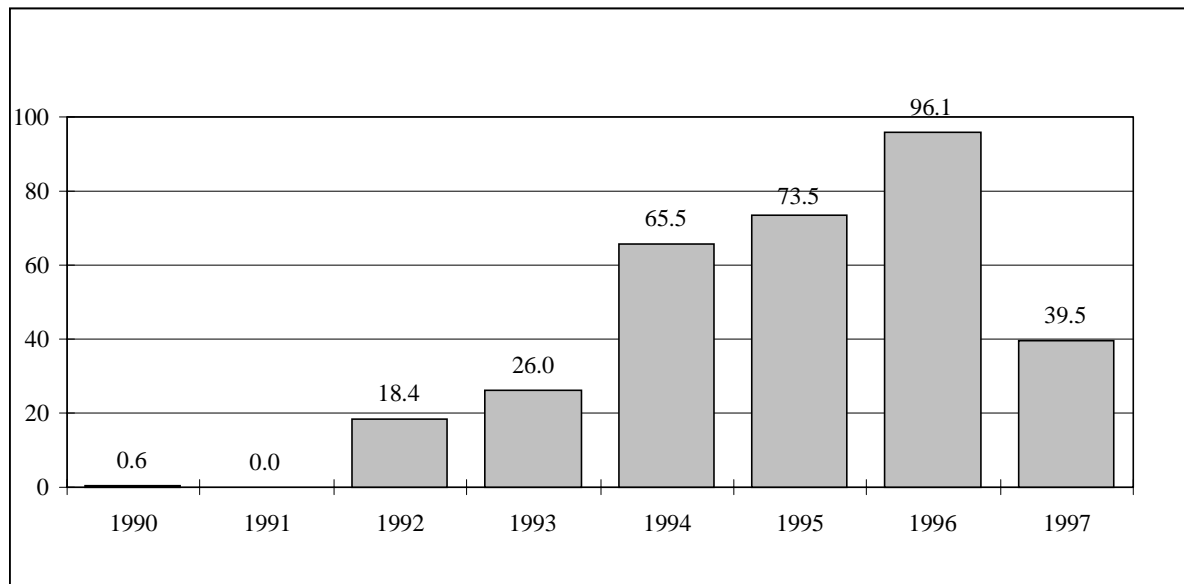
The PRC provides an immense opportunity for Thailand in the 21st century. Despite some isolated successes, Thailand needs to be much more active in developing economic relations on a practical level. This will allow Thailand to benefit as the PRC moves towards becoming one of the largest economies in the world.

Investment patterns

Thailand's investment in the PRC has dropped since the financial crisis occurred. Direct investment by Thais in the PRC declined from US\$96 million in 1996 to US\$40 million in 1997.

Figure 4.31: Thailand's investment in the PRC

(million US\$)



Source: Bank of Thailand

Most Thai projects in the PRC are small, the biggest investment involved in oil exploration. Thai businessmen invest in the PRC in order to supply products to Thailand. Investment opportunities in China include the industries of mining, ceramics, metal, paper and chemical production.

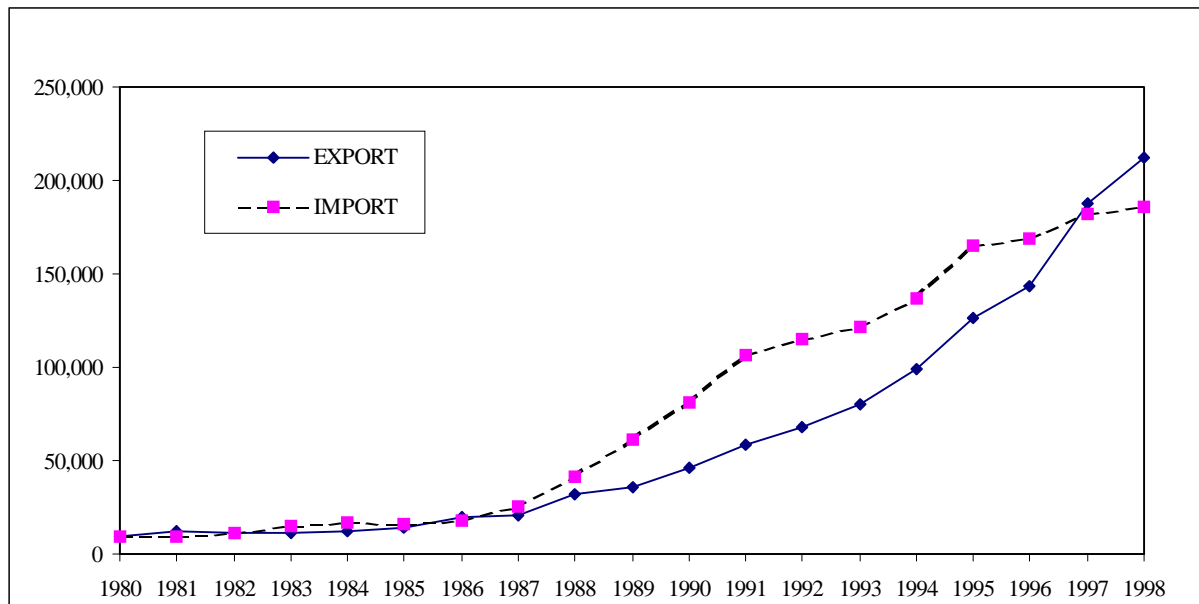
The Newly Industrialised Economies (NIEs): Hong Kong, Taiwan, and Korea

The newly industrialised economies of Northeast Asia include Hong Kong (as a part of the PRC), Taiwan, and Korea. These dynamic economies, along with Singapore, have formed the basis for many challenges to political economy theories about development and change. Whether the explanation of their success is to be found in an examination of active intervention by the state in the economy, or fortunate historical circumstances, we can say that these countries are approaching the status of developed countries.

In 1998, the crisis engulfed emerging Asia's richest economies, spilling over to Hong Kong and Singapore, except for Taiwan, which managed substantial growth. Meanwhile, Korea's recession turned out to be worse than anticipated at the end of 1997. In Hong Kong and Korea, outflows of foreign capital forced up domestic interest rates and reduced domestic demand. Nevertheless, investment increased in Taiwan, partly due to opportunities arising from the privatisation of public utilities and expansion in the airline industry. Despite all these factors, the productive capacity these countries represent still makes them a potential market for Thailand's exports, and a main supplier of Thailand's import needs. In the past, Thailand had been in a persistent trade deficit with the NIEs, however, the country has recently experienced a significant trade surplus with the NIEs for the first time in 1998.

Figure 4.32: Trade between Thailand and the NIEs

(million baht)



Source: Ministry of Commerce

Thailand's exports to the NIEs grew by 13 percent in 1998 to a total of 188 billion baht. Thailand's major exports to the NIEs include computers and parts, integrated circuits, raw materials, and industrial inputs.

Figure 4.33: Leading exports and imports with the NIEs

(billion baht)

Thailand's main exports to the NIEs	Value in 1997	Value in 1998	Thailand's main imports from the NIEs	Value in 1997	Value in 1998
Computers and parts	13.1	21.5	Electrical machinery, parts	25.9	31.9
Integrated circuits	14.4	17.4	Chemicals	17.4	19.9
Polymers in primary forms	10.0	16.1	Industrial machines	23.3	16.9
Leather and bovine leather products	7.4	7.1	Electronic integrated circuits	15.1	16.3
Diodes, transistors and semi-conductor devices	3.9	5.8	Fabrics	11.7	14.2
Rice	4.8	5.2	Iron and steel	12.4	11.0
Clocks, watches and parts	5.0	5.0	Cathode-ray tubes	5.3	10.5
Paper, pulp and products	2.4	4.3	Metal manufactures	7.1	7.7
Precious stones and jewellery	8.8	3.8	Plastic products	3.5	4.2
Rubber	3.5	3.4	Fertiliser	3.4	3.3

Source: Ministry of Commerce

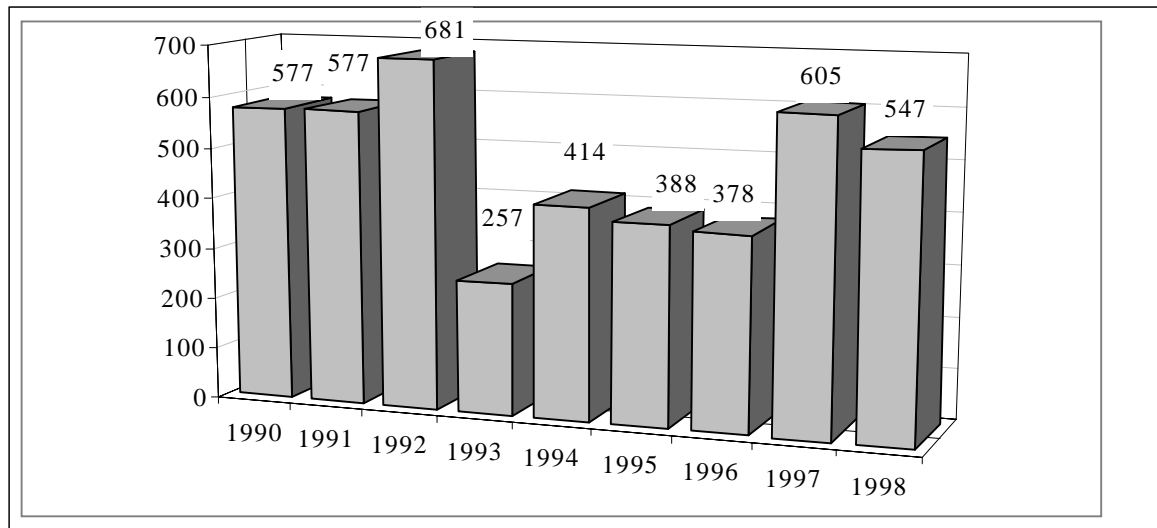
Main imports from the NIEs include mostly industrial inputs, such as electrical machines and parts, chemicals, industrial machines, integrated circuits, fabrics, iron and steel, cathode-ray tubes, and metal manufactures.

Investment patterns

Hong Kong and Taiwan have been major foreign direct investors in Thailand. The total amount of foreign direct investment funds from the NIEs reached its peak in the early 1990s and started rebounding again in 1997.

Figure 4.34: Foreign direct investment from the NIEs

(million US\$)



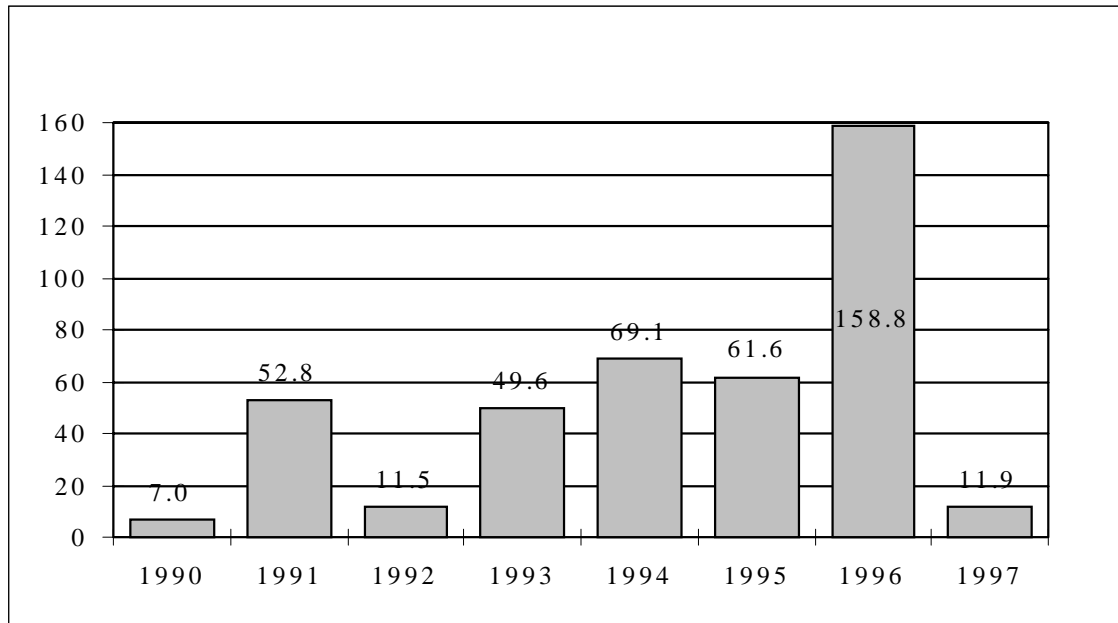
Source: Bank of Thailand

Most of the investment activity from Hong Kong and Taiwan involves light industries such as chemicals, paper and plastics, and electronics, as well as agro-industry and metal-working industry.

Thailand's outward investment flows to the NIEs are often destined for Hong Kong. Direct investment by Thais in Hong Kong reached the peak in 1996 and then dramatically dropped in 1997. Again, these figures reflect those investments that are traceable through the Bank of Thailand. Actual investments by Thai companies are likely to be much higher than recorded in Figure 4.35.

Figure 4.35: Thailand's investment in Hong Kong

(million US\$)



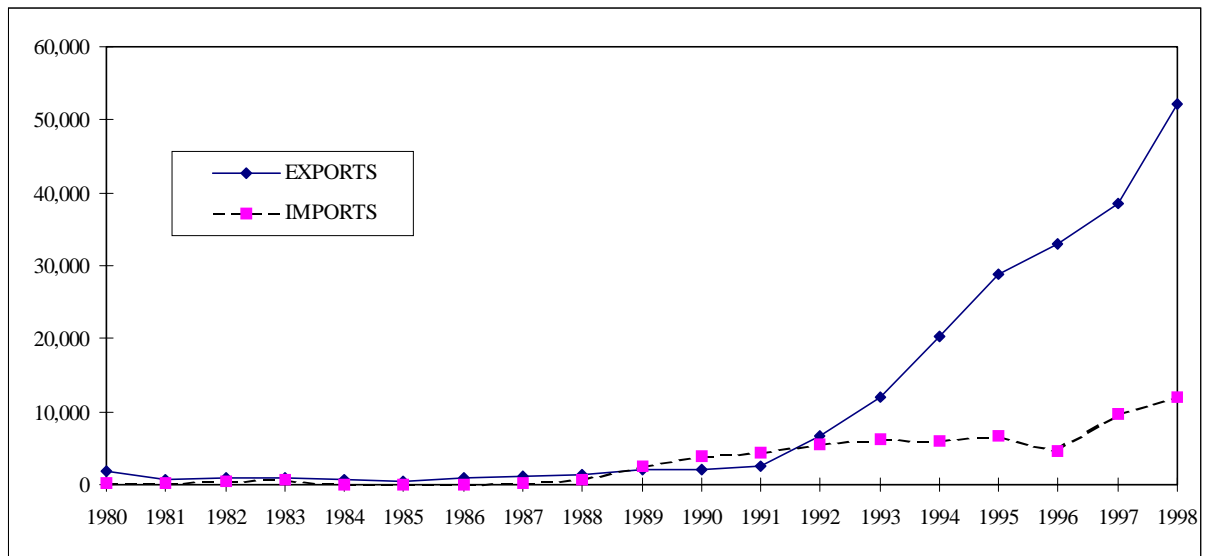
Source: Bank of Thailand

4.12 Thailand's economic relations with the Greater Mekong Sub-region

Trade with the countries of Lao PDR and Vietnam has grown rapidly during this decade as political regimes have stabilised and moved toward market-oriented economies. However, Cambodia has faced a resurgence of political instability. Cross border trade has been significant, but statistics on that type of trade are not readily available. According to official data, imports dropped in 1996 and then started kicking off again in 1997. Historically, total trade was highest between Lao PDR and Thailand, but trade with Cambodia, Myanmar, and Vietnam has presently caught up, particularly in terms of Thai exports, when exports to Vietnam increased by 43 percent in 1998 compared to the previous year in 1997.

Figure 4.36: Trade between Thailand and the GMS

(million baht)



Source: Ministry of Commerce

Thailand's major exports to the GMS countries include basic industrial goods and raw materials, and agro-processing products. Meanwhile, Thailand imports light consumer goods, raw materials, and agricultural commodities from those countries.

Figure 4.37: Thailand's leading exports and imports with the GMS

(million baht)

Exports to GMS	Value in 1997	Value in 1998	Imports from GMS	Value in 1997	Value in 1998
Motor vehicles and parts	5,375.8	10,051.7	Electrical machines and parts	4,160.4	7,306.5
Polymers in primary forms	2,125.4	3,402.0	Wood	2,981.9	1,978.8
Refine fuels	3,570.0	3,312.6	Wooden products	346.4	261.9
Chemical products	2,283.3	3,272.6	Raw hide and leather	205.3	254.6
Iron or steel products	2,007.8	2,860.6	Jewellery including silver bars and gold	114.6	224.6
Cement	1,725.3	2,183.6	Metal manufactures	14.6	193.8
Machinery and parts	1,243.6	1,923.7	Shrimps and prawns	118.3	183.3
Woven fabrics	1,453.0	1,814.3	Fish and crustaceans	148.7	171.7
Rubber products	1,283.5	1,751.4	Crude oil	253.0	166.0
Beverages	1,215.7	1,086.5	Textile fibres	61.0	146.2

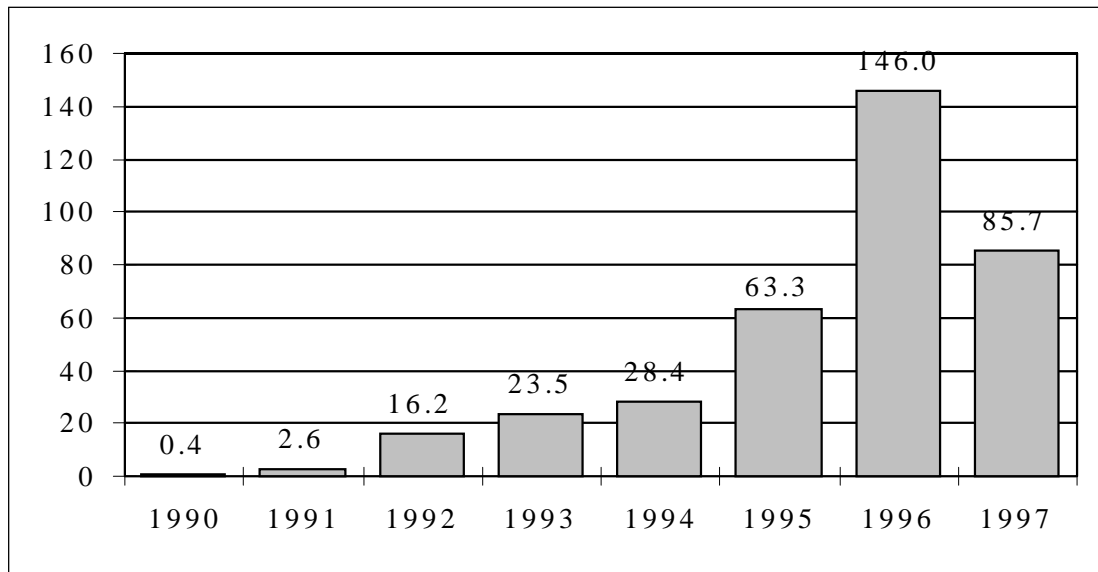
Source: Ministry of Commerce

Investment patterns

Thailand had been an active investor in the neighbouring countries of the GMS. As Figure 4.37 indicates, outflows increased on a large scale only after 1992, with total outward flows roughly doubling in 1995, and again in 1996. Nevertheless, the economic downturn has virtually stopped Thai overseas investment, including in the GMS countries. Thailand is the largest investor in Lao PDR, third largest in Myanmar, and ranks among the top nine and top eight in Cambodia and Vietnam, respectively.

Figure 4.38: Thailand's outward investment in GMS

(million US\$)



Source: Bank of Thailand

Lao People's Democratic Republic (Lao PDR)

From January 1988 to early 1998, Lao PDR officials reported that 36 countries had invested nearly US\$7 billion in the country, with Thailand ranked first (38 percent of total investment, US\$2,657 million). Other countries investing in Lao PDR include the US (US\$1,483 million as of 1998), and South Korea, France, Australia, Malaysia, Taiwan, Norway, the PRC, and the UK rounding out the top 10. Thai business people are investing in the hotel and tourism industries, processing industry and handicrafts, banking and insurance, and telecommunication and transportation.

Figure 4.39: Approved FDI by sector, 1992-1996

Sector	Value (million US\$)	Percentage of investment
Agriculture	1.0	0.1
Textile and garments	1.0	0.1
Wood processing	N/A	-
Processing industry and handicrafts	12.2	1.0
Mining	N/A	-
Trade	0.2	-
Hotel and tourism	211.1	17.3
Energy	586.8	48.1
Banking and insurance	6.0	0.5
Consultancy services	N/A	-
Other services	0.8	0.1
Construction	N/A	-
Telecommunication and transport	400.0	32.8
Total	1,219.1	100.0

Source: Foreign Investment Management Committee of Lao PDR

Note: First six months of 1996

Figure 4.40: Approved FDI by country of origin, 1992-1996

Country	Value (million US\$)	Percent share
Thailand	2,377.0	41.7
United States	1,736.9	30.5
Republic of Korea	592.1	10.4
France	317.6	5.6
Australia	303.5	5.3
Malaysia	188.7	3.3
Taiwan Province of China	65.2	1.1
Norway	54.0	0.9
People's Republic of China	38.6	0.7
United Kingdom	28.7	0.5
Total	5,702.3	100.0

Source: Foreign Investment Management Committee of Lao PDR

Note: Cumulative data from 1992-1996

Myanmar

As of December 1997, Thailand ranked third in terms of amount of capital investment in Myanmar (US\$1,165 million). Other countries that have invested heavily in Myanmar are Great Britain and Singapore. Great Britain has invested in oil exploration while Singapore has invested in hotel and industrial estates development, as well as in consumer goods manufacturing.

Thai investors have put money into hotels, fishery products, transportation, and agriculture in addition to industry projects.

Kingdom of Cambodia

In 1997, Thailand had a capital investment in Cambodia of US\$21 million. The main industries attracting Thai investment include wood production, restaurants and hotels and tourism. Nevertheless, some Thai investors have presently withdrawn from major projects due to political instability in Cambodia.

Vietnam

In 1997, Thai companies had invested approximately US\$53 million in Vietnam. The main areas of Thai investment include agro-businesses such as agricultural production, feed production, as well as industrial production of ready-to-wear clothes, jewellery, mining, and the hotel and tourism services industries.

4.13 Thailand's economic relations with South Asia

Thailand's main exports to South Asia are directed toward India and consist largely of raw materials such as polymers, woven fabrics, and other fabrics. Imports from South Asian countries consist largely of jewellery and vegetable oil extracts in addition to some industrial inputs such as chemicals, and agricultural inputs such as shrimps and prawns.

Figure 4.41: Leading exports and imports with South Asia

(million baht)

Thailand's main exports to South Asia	Value in 1997	Value in 1998	Thailand's main imports from South Asia	Value in 1997	Value in 1998
Polymers in primary forms	1,982.1	3,838.9	Jewellery (inc. silver bars and gold)	5,041.2	5,521.3
Woven fabrics	1,705.6	2,263.0	Vegetable oil extracts	3,341.8	3,264.7
Synthetic filament & staple fibres	1,170.5	1,577.3	Chemicals	1,797.6	2,092.0
Chemicals	2,664.2	1,481.1	Shrimps and prawns	706.7	1,868.1
Other fabrics	1,003.6	1,160.3	Textile fibres	1,146.7	939.3
Iron and steel products	391.3	1,055.7	Computers, parts and accessories	379.8	897.4
Computers and parts	1,153.7	1,012.3	Fresh, chilled, frozen tuna	356.8	777.3
Rubber products	619.2	830.3	Electrical machinery and parts	556.0	737.8
Plastic products	680.1	822.1	Textile yarn and thread	380.1	711.7
Cement	452.2	817.9	Fabrics	647.0	652.6

Source: Ministry of Commerce

Investment patterns

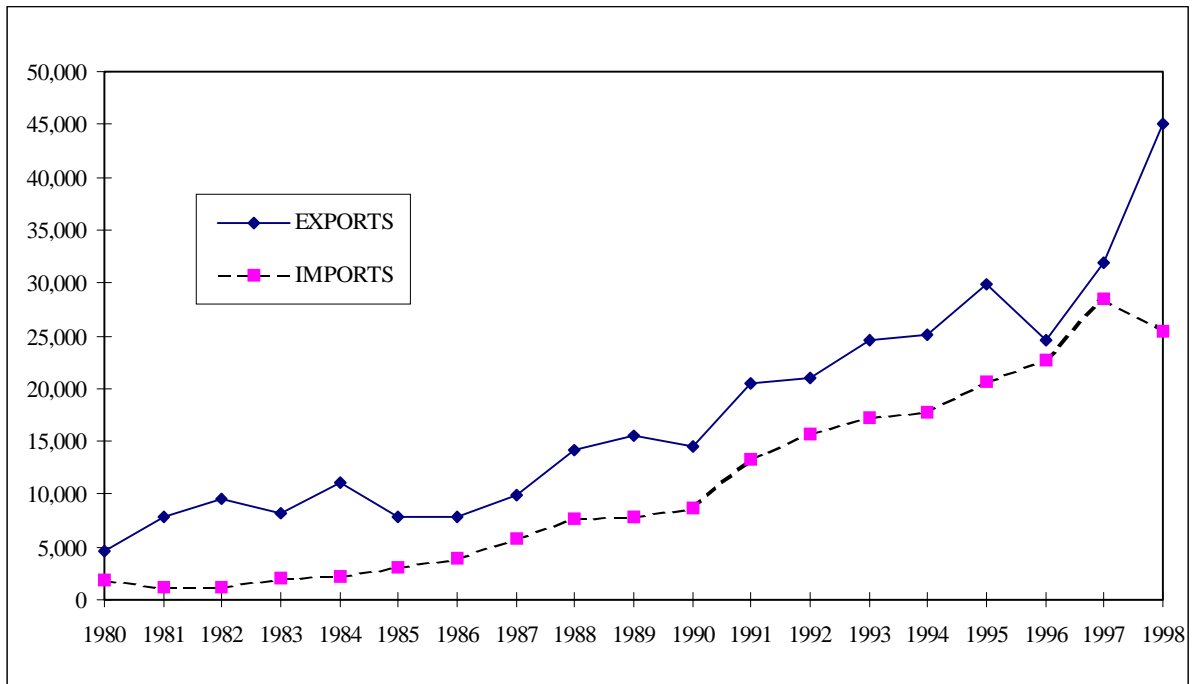
In aggregate, Thailand is the 10th largest foreign investor in India. In 1998, there were 18 projects worth of 10,448 million baht from India approved by the Thai Board of Investment.

4.14 Thailand's economic relations with Africa

Africa has been a relatively new market for Thai exports. During 1980-1996, trade between Thailand and the African countries had been growing steadily, if rather slowly. Since Thailand encountered the financial crisis in 1997, exports to Africa have been sharply increased whereas imports from Africa have been rapidly dropped.

Figure 4.42: Trade between Thailand and Africa

(million baht)



Source: Ministry of Commerce

African countries have been purchasing rice, garments, and agricultural products from Thailand and supplying Thailand with textile fibres, scrap metal, jewellery, inputs in the paper, chemicals, and iron and steel.

Figure 4.43: Thailand's leading exports and imports with Africa

(million baht)

Main exports to Africa	Value in 1997	Value in 1998	Main imports from Africa	Value in 1997	Value in 1998
Rice	12,835.9	15,835.4	Textile fibres	6,241.3	7,730.2
Garments	3,256.0	3,411.8	Metal waste and scrap	6,173.5	4,056.9
Canned fish	1,210.3	2,811.6	Jewellery (inc. silver bars, gold)	3,696.9	3,749.2
Woven fabrics	1,096.7	1,660.5	Pulp and scrap paper	1,286.4	1,967.7
Precious metal and articles clad with precious metals	1,734.2	1,616.7	Chemicals	722.1	1,483.2
Plastic products	1,017.5	1,390.0	Iron and steel	1,938.0	1,419.8
Cement	66.7	1,378.4	Fertiliser	244.5	988.9
Polymers in primary forms	613.8	1,292.5	Lubricating and hydraulic brake oil	2,109.6	802.1
Sugar	620.9	1,242.7	Fresh, chilled, frozen tuna	598.8	667.7
Rubber products	619.8	1,001.3	Fresh, chilled, frozen cuttlefish and squid	555.5	624.0

Source: Ministry of Commerce

Investment patterns

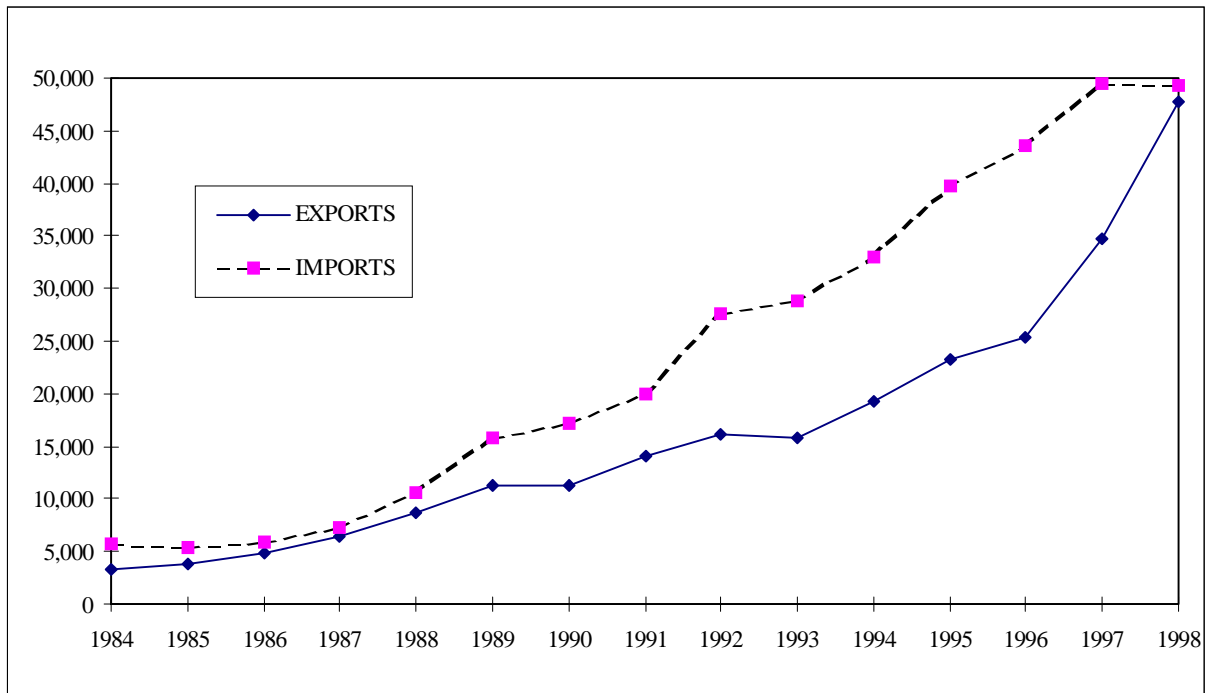
There is presently low investment activity between Thailand and the African countries, at least in comparison to other geographic regions of the world.

4.15 Thailand’s economic relations with Australia and Oceania

Over the past 15 years, trade between Thailand and Australia and Oceania countries has been growing continually. Thailand has experienced trade deficits with Australia and Oceania countries since the 1980s, however, the gap has become smaller since Thailand increased exports sharply and reduced imports slightly in 1998.

Figure 4.44: Trade between Thailand and Australia and Oceania

(million baht)



Source: Ministry of Commerce

Australia and Oceania countries have been buying consumer goods, such as motor vehicles and air conditioners, and agricultural products such as canned fish and processed shrimps, from Thailand and supplying Thailand with industrial inputs, such as metal scrap and textile fibres, and agricultural products such as dairy products and processed tuna.

Figure 4.45: Thailand's leading exports and imports with Australia and Oceania

(million baht)

Main Exports to Australia and Oceania	Value in 1997	Value in 1998	Main Imports from Australia and Oceania	Value in 1997	Value in 1998
Motor vehicles and parts	2,669.4	4,886.4	Metal waste and scrap	8,115.0	7,848.0
Air conditioners and parts	1,749.3	3,127.9	Dairy products	5,380.0	7,033.7
Canned fish	2,464.2	2,819.7	Textile fibres	4,612.0	5,837.5
Automatic data processing machines and parts	2,283.8	2,812.0	Fresh, chilled or frozen tuna	3,368.0	5,273.6
Fresh, chilled or frozen shrimps, prawns and lobsters	1,861.8	2,745.5	Cereal and products	3,046.6	3,862.8
Radio, television receivers and parts	1,790.4	2,117.2	Jewellery (including silver bars and gold)	3,773.7	3,722.4
Plastic products	1,521.6	1,852.0	Chemicals	2,073.3	1,959.3
Iron or steel products	958.4	1,520.0	Iron and steel	2,273.3	1,733.7
Rice	1,290.8	1,459.5	Electrical machinery and parts	1,702.4	1,410.5
Rubber products	782.4	1,106.1	Raw hide and leathers	1,467.3	1,406.9

Source: Ministry of Commerce

Investment patterns

Direct investment from Australia reached a peak in 1997 (US\$119 million) and then dropped to US\$48 million in 1998, whereas New Zealand has historically spent a small amount of investment in Thailand. Meanwhile, there is little Thai investment in Australia and Oceania countries.

4.16 Overview of the main regional groupings that have an impact on Thailand's business prospects

In addition to long-term trade barrier reduction under the WTO, several areas have implemented, or at least initiated, regional arrangements to reduce tariffs and other barriers to trade. Regional trade arrangements, such as the Common Market of the South (MERCOSUR), the European Union (EU), the North American Free Trade Agreement (NAFTA), have substantial trade diversion effects that have a world-wide impact.

Countries outside of these groupings must face the reality of trade diversion. Under trade diversion, imports, which were formally purchased from countries outside of the regional bloc, are presently substituted with goods from other countries within the bloc since the price has become more appealing due to lowered trade barriers. Trade diversion is a fact that Thai exporters and investors should consider as they decide on points of market entry.

Regional trade arrangements in Asia are limited. The Asia-Pacific Economic Co-operation Forum, as the most important regional institution in Asia, has a strict principle of non-discrimination in trade policy. The two institutions in Asia that appear in the WTO register of regional trade agreements are the Association of Southeast Asian Nations (ASEAN) Free Trade Area and the South Asian Preferential Trade Area. Nevertheless, neither of these institutions has promoted significant preferential trade policy.

The ASEAN Free Trade Area (AFTA) was formally launched in 1992, with the goal of integrating production structures toward improving ASEAN's export outlook in the world market. The chief tool used is the Common Effective Preferential Tariff (CEPT) scheme, which initially targets the removal of tariff barriers. By 2003, the tariffs on manufactured goods will be reduced to the 0-5 percent range. In order to qualify for the CEPT rate, the member country must have a tariff rate not higher than 20 percent on that product and an ASEAN content of 40 percent.

Members of the AFTA have generally opted for liberalising trade on a multilateral basis, so that any tariff reductions they undertake as a part of their obligations are extended to non-members as well.

4.17 Strategic options for improved economic performance in the world market

Looking forward to developing a strategy for improving Thailand's economic performance in the world market, both in terms of exports and in terms of investment activity, there are several factors to be considered: diversification and growth in Thailand's top markets; activities of Thai private sector companies and associations to foster trade with new markets; the value of the Thai baht; and lastly, government-led efforts to improve trade regulations and to promote specific industries. Although government-led activities are important to the fortunes of Thai companies abroad, and the impressions that foreign investors have of Thailand, it is equally important to remember that Thailand's economic performance depends on the decision-making and activities of Thai companies.

Lower export prices and constraints on export financing contributed the major impact on decreases in export earnings in dollar terms, however, export volumes grew steadily in 1998. The baht depreciation should help promote the growth of exports. The decline in imports was far more dramatic (a decline of 32.3 percent in 1998), as a result, the current account balance registered a surplus of US\$13.5 billion (11.5 percent of GDP), showing a large turnaround from a deficit equivalent to two percent of GDP in 1997.

Recently, while Thailand has shown signs of moderate recovery in private consumption and manufacturing production, the decline in private investment has continued and the performance of the external sector has remained weak. The immediate challenge is to promote growth. When the government adopted the stabilisation program in consultation with the International Monetary Fund (IMF) in August 1997, it involved eliminating the current account deficit and stabilising the exchange rate, but at the cost of a severe recession. Moreover, the unsettled conditions in the region have also reduced expected export demand and delayed the recovery in private capital flows.

The government has adjusted its macro-economic policy stance appropriately since early 1998 in response to the recession. Fiscal policy has been relaxed to allow larger public sector deficits, which should help to stimulate the economy. Meanwhile, the government has also adjusted its monetary policy to reduce interest rates. To restore growth sufficiently, other factors in addition to the fiscal and monetary policies include the success of financial sector restructuring and the progress made in recapitalising financial institutions, restoring investor confidence, resuming liquidity flow to the real sector, and improving the external economic environment.

Thailand's trade and investment activities are largely conducted with the US, Japan, the EU, and increasingly, ASEAN, the NIEs of Northeast Asia and the PRC. Economic growth in the US is on track and the world's largest market will continue to provide opportunities for Thailand's exports. Similarly, economic growth in the EU provides a positive sign for Thai exporters to that market.

Even with the widespread regional contraction in 1998, a number of Asian countries are in the process of recovering from the economic downturn. Taiwan, Hong Kong, the PRC, Singapore, and South Asian countries were able to avoid the impact of the regional slowdown on their trade. Therefore, the Asian market will eventually become active and provide opportunities again.

In addition to maintaining and/or increasing economic activity in Thailand's more traditional export markets, Thai companies are exploring new market niches and developing new business relations. In addition to trade, bi-lateral investment flows between Thailand and ASEAN countries have increased.

Trade with countries in South Asia, the Middle East, East Asia, Africa, and Australia and Oceania also continued to grow, however, sometimes resulting in an increased trade deficit for Thailand. Still, this is in keeping with the broader trend toward globalisation.

Efficient information flows are crucial to successful economic performance, where both accuracy and speed are crucial. More and more countries recognise that investors and traders need sufficient information about economic trends and opportunities before executive decisions can be made. The Thai government has made strides in information dissemination as it has gone on-line. Information flows between Thai embassies and consulates abroad and Thai nationals can be facilitated through the heightened exchange of information via the Internet. This is already occurring, but could be improved through closer contacts and more frequent exchanges.

Government-led efforts to improve the trade and investment environment

Although the private sector is the engine of growth in Thailand, government efforts can also provide support and assistance. Ministry of Foreign Affairs diplomatic posts can assist Thai companies and foreign investors and traders through their information gathering and sharing activities, as well as helping to familiarise Thai companies with the changing rules of the world market. The WTO, AFTA, and other regional institutions, groupings, and agreements will have an important impact on the rules that govern international economic activity. Ministry of Foreign Affairs diplomatic posts can make a significant contribution if they can explain and inform Thai businesses about these changing rules and new mechanisms.

The promotional activities of the Board of Investment have been instrumental in encouraging foreign investment. Despite the economic slowdown, Thai investment activities abroad are also encouraged through government-led efforts to support Thai economic activity abroad. Since investments and trade usually go hand-in-hand, the efforts to increase outward investment would likely lead to an increase in export trade as well.

Ultimately, whether Thai companies invest abroad or engage in trade activities will depend on those companies and the managers that make executive decisions. Government-led programmes and activities can certainly provide support and information – the key ingredients in any executive decision.