2020

Asia Next-Gen Business Outlook

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Business Mutual Aid Association

Asia Next-Gen Business Outlook

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Introduction

I would like to start off by expressing my thanks to Mr. Kobchai Sungsitthisawad, the Permanent Secretary of the Ministry of Industry (MOI), Kingdom of Thailand, Mr. Panuwat Triyangkulsri, the Deputy Permanent Secretary of the MOI, and ministry staff for their support and cooperation in preparing this report.

As of June 1, 2020, the world is in the midst of the novel coronavirus (COVID-19) pandemic. COVID-19 is a threat that is comparable to the Spanish flu, which ravaged the world a century earlier and caused many deaths.

Major cities around the world have gone into lockdown to prevent the spread of COVID-19. Japan also followed suit. The government declared a state of emergency. In response the companies curbed corporate activities and citizens refrained from going outside for around six weeks. Following this, the increase in newly infected individuals in developed countries slowed to a moderate pace and on May 25 Japan lifted its nationwide state of emergency. However, on the flip side, conditions in the emerging countries of Brazil and India remain unpredictable.

The Asian Development Bank (ADB) on May 15 estimated that the economic loss due to the spread of COVID-19 is likely to expand to around ¥940 trillion, which is equivalent to a maximum of 10% of global GDP. In Japan, it has been reported that the largest economic impact has mainly been to the passenger transport, hotel, department store and restaurant businesses in particular.

However, more important than this economic loss is the grief people are suffering owing to the loss of many lives due to COVID-19. I would like to respectfully extend my sincere sympathy to those who have lost their lives due to COVID-19. In addition, I would like to express my deepest respect and gratitude to medical practitioners.

Returning to the subject at hand, in recent years Japan's current account surplus reflects its change from a trade nation, in which it generated a positive account balance from exports, to an investment nation, which currently accounts for the majority of its surplus. At present, one out of four Japanese companies that possesses a manufacturing site overseas has entered the ASEAN market. Thailand is the largest manufacturing hub in the ASEAN region, which has accumulated 30%-plus of these Japanese manufacturers.

In light of this, this research report focuses on Thailand 4.0, a 20-year National Strategy, and the Eastern Economic Corridor (EEC) Development plan. We tracked recent progress by conducting a fact-finding survey and gathering information from 16 institutions, including the Ministry of Industry. Moreover, this report sheds light on a survey on the expectations of the Thai government and private-sector companies in the Thailand 4.0 Scheme, which was implemented by the Royal Thai Embassy, Tokyo. The goal of this survey was to explore the potential for collaboration between private-sector companies in Thailand and Japanese companies. Furthermore, this report introduces SME Overseas Business Expansion Platform, which is being deployed by the Japan External Trade Organization (JETRO), and incorporates data from reports released by public institutions, including the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, and an analysis of statistical materials.

Our goal is to make this report an effective manual for SMEs that are actually planning to expand overseas as well as for their supporters.

In closing, I would like to express my gratitude to all the committee members and everyone at the Office of Industrial Affairs, at the Royal Thai Embassy in Tokyo for their assistance in preparing this report.

June 1, 2020

Yuzuru Hata
Chairman, Business Mutual Aid Association (BMAA)

Greetings from the Ministry of Industry

คำนิยม

เมื่อปีที่แล้ว ในขณะที่ผมดำรงตำแหน่งอธิบดีกรมส่งเสริมอุตสาหกรรม ผมได้พบกับคุณ Yuzuru HATA, Chairman of Business Mutual Aid Association ท่านเล่าให้ผมฟังว่า ผู้ประกอบการญี่ปุ่นจำนวนมาก ยังไม่ทราบข้อมูลต่าง ๆ เกี่ยวกับประเทศไทย ไม่ว่าจะเป็นนโยบายเศรษฐกิจอุตสาหกรรม หรือนโยบายด้านการลงทุนของประเทศไทย ทำให้ผู้ประกอบการญี่ปุ่นเหล่านี้เสียโอกาสในการขยายธุรกิจและการลงทุนในประเทศไทย ทาง Business Mutual Aid Association จึงได้ตั้งคณะทำงานที่ประกอบด้วยผู้เชี่ยวชาญเกี่ยวกับประเทศไทย เพื่อจัดทำรายงานข้อมูลดังกล่าว โดยเฉพาะนโยบายเรื่อง Thailand 4.0 และ Eastern Economic Corridor (EEC) ผมขอขอบคุณ คุณ HATA และ Business Mutual Aid Association เป็นอย่างมาก ที่เล็งเห็นปัญหาดังกล่าว และริเริ่มโครงการนี้ขึ้น

ในรายงานฉบับนี้ แสดงให้เห็นว่า ประเทศไทยให้ความสำคัญกับอุตสาหกรรมเป้าหมาย ๑๒ อุตสาหกรรม ซึ่งผมคิดว่า ประเทศญี่ปุ่นมีความถนัดในอุตสาหกรรมเป้าหมายของไทยเหล่านี้อยู่แล้ว จึงอยากขอเชิญชวนผู้ประกอบการญี่ปุ่นในอุตสาหกรรมเป้าหมายเหล่านี้ ร่วมมือกับผู้ประกอบการอุตสาหกรรมของประเทศไทย ใช้ไทยเป็นฐานการผลิตและพัฒนา เพื่อจำหน่ายทั้งในประเทศ และประเทศต่าง ๆ ในภูมิภาค โดยเฉพาะการแปรรูปผลิตผลทางการเกษตร การผลิตชิ้นส่วนอากาศยาน อุปกรณ์ IT เป็นต้น ซึ่งเมื่อผู้ประกอบการไทยและญี่ปุ่นมีความร่วมมือกัน นำจุดเด่นและจุดด้อยมาเสริมซึ่งกันและกัน ทำให้โอกาสที่จะประสบความสำเร็จในธุรกิจมีมากยิ่งขึ้น

นอกเหนือจากอุตสาหกรรมเป้าหมาย ๑๒ อุตสาหกรรมแล้ว ปัจจุบัน ประเทศไทยมีโครงการก่อสร้างรถไฟความเร็วสูง รถไฟใต้ดิน รถไฟบนดิน หลายโครงการ ดังนั้น อุตสาหกรรมที่เกี่ยวกับอุปกรณ์ชิ้นส่วนรถไฟเหล่านี้ นับเป็นอุตสาหกรรมที่มีศักยภาพที่จะเติบโตต่อไปในอนาคต นอกจากนี้ อุตสาหกรรมที่ผมคิดว่าประเทศญี่ปุ่น เป็นผู้นำและมีศักยภาพสูง คือ อุตสาหกรรมที่รองรับสังคมสูงอายุ ไม่ว่าจะเป็นอุปกรณ์อำนวยความสะดวก อุปกรณ์ที่ใช้ในการดูแลผู้สูงอายุ หรืออาหารและอาหารเสริมสำหรับผู้สูงอายุ เป็นต้น จากผลการศึกษาพบว่าประเทศไทย จะเข้าสู่สังคมสูงอายุในปี ๒๐๒๑ ดังนั้น กระทรวงอุตสาหกรรมจึงมีความประสงค์ที่จะผลักดันให้เกิดความร่วมมือระหว่างผู้ประกอบการไทย และผู้ประกอบการญี่ปุ่นในอุตสาหกรรมนี้ด้วยเช่นกัน

ท้ายที่สุดนี้ ผมต้องขอขอบคุณ Business Mutual Aid Association และคณะทำงานทุกท่านอีกครั้ง ที่ได้จัดทำรายงานฉบับนี้ ได้อย่างละเอียดครบถ้วนสมบูรณ์ และหวังว่ารายงานฉบับนี้ จะเป็นประโยชน์ช่วยในการตัดสินใจของผู้ประกอบการญี่ปุ่นที่จะมาขยายกิจการ และการลงทุนในประเทศไทย ให้เกิดความร่วมมือระหว่างประเทศไทยและประเทศญี่ปุ่นเพิ่มมากขึ้น

(นายกอบชัย สังสิทธิสวัสดิ์)
ปลัดกระทรวงอุตสาหกรรม

Greetings from the Ministry of Industry, Kingdom of Thailand (English translation of the Japanese translation)

Prologue

In 2019, when I was still the Director-General of the Department of Industrial Promotion, I met Yuzuru Hata, the chairman of the Business Mutual Aid Association (BMAA). At that time, I learned from Chairman Hata that "in addition to many Japanese business operators having little knowledge, primarily about the economic and investment policies of Thailand, opportunities for business expansion and investment in Thailand were being lost." In light of this, he informed me that the "BMAA has created a committee that will survey economic policy in Thailand, particularly Thailand 4.0 and the Eastern Economic Corridor (EEC) Development Plan to put together its findings in a report." I would like to take this opportunity to thank everyone at BMAA, including Mr. Hata, for their efforts in carrying out this project.

As indicated in this research report, the government of Thailand is promoting 12 key industries. These 12 key industries are all fields in which Japan has expertise. I believe this is a good opportunity for business people in Japan and Thailand to cooperate together to make Thailand a manufacturing hub and to expand the sales network domestically in Thailand and neighboring countries. In particular, focus is on processed agricultural products, aircraft parts, and IT industry devices. It is my believe that by cooperating together, businesses in Japan and Thailand can complement each other's weaknesses and come closer to achieving successful businesses.

In addition to the 12 key industries, at present, the establishment of rapid transit railways, subways and other railroad systems are being carried out at a high pace in Thailand. The railway related business is likely to be a field with growth potential. Moreover, Thailand is expected to achieve the status of an aging society in 2021. Taking this into account, other promising fields include goods for well-being and nursing equipment necessary for an aging society, and industrial fields related to functional foods for senior citizens. These are also fields in which Japanese companies have expertise. I believe that as a part of the Ministry of Industry I would like to promote these types of collaborative relationships between Japan and Thailand.

In conclusion, I would like to express my gratitude to the Business Mutual Aid Association and all association members that assisted in the preparation of this report. We hope this report will be used by Japanese business entrepreneurs to make decisions on entering or investing in the market in Thailand, and look forward to this being a vehicle to build a closer friendship between Thailand and Japan.

Kobchai Sungsitthisawad
Permanent Secretary of the Ministry of Industry, Kingdom of Thailand

Research overview

Research method

This research was carried out by a research group made up of researchers well-versed in the policies of the Kingdom of Thailand and individuals with practical business experience. Members of the research group submitted interim reports on the sections they were in charge of and committee members scrutinized the report content. In addition, activities to gather necessary information were carried out during field surveys to ensure the collection of the newest information at the time of the preparation of this report.

Research period

June 2018 to October 2019 (Field survey: March 3 to March 8, 2019)

Information contained herein

Excluding the final chapter, all information in this report was valid as of October 2019. In light of this, this report does not reflect the impact of COVID-19 and the incidents that occurred in late 2019 leading up to this global pandemic.

Research group

The following individuals were invited to participate as research group members.

List of research group members (honorifics have been omitted, names are in random order, professional affiliations/positions are current at the time of participation in this research group)

(Project manager) Seiya Sukegawa;	Associate Professor, Faculty of Political Science and Economy, Kokushikan University (currently professor)
(Committee member) Yoichi Yajima;	Plan Manager, Tokyo Metropolitan Small and Medium Enterprise Support Center
(Committee member) Keiichiro Oizumi;	Senior Researcher, Economics Department, Japan Research Institute, Limited
(Committee member) Junichiro Haseba;	Deputy Director, Innovation Promotion Section, Intellectual Property and Innovation Department. Intellectual Property Division, Japan External Trade Organization (JETRO)
(Committee member) Manabu Fujimura;	Professor, Department of Public and Regional Economics, College of Economics Aoyama Gakuin University
(Committee member) Hideaki Tange;	Department of Business Design, School of Management and Information Sciences, Tama University (At present: Associate Professor, Business School of Innovation Management, Hosei University Graduate School of Business)
(Committee member) Baworn Sattayawuthiphong;	Minister-Counsellor, Office of Industrial Affairs Royal Thai Embassy, Tokyo
(Committee member) Yuko Sakaguchi;	Director, Small and Medium Enterprises Promotion Department, Japan External Trade Organization (JETRO) Bangkok

Cooperating organizations

In implementing our research, we received considerable cooperation from the following organizations (listed in random order).

- Ministry of Industry (MOI)
- Office of Industrial Economics (OIE)
- Royal Thai Embassy, Tokyo
- Industrial Estate Authority of Thailand (IEAT)
- Thai-German Institute (TGI)
- Telecom Public Company Limited (CAT)
- Thailand Science Park, Eastern Economic Corridor of Innovation (EECi)
- Embassy of Japan in Thailand
- JETRO Bangkok
- Ministry of Transport (MOT)
- Office of Transport and Traffic Policy and Planning
- Thai Airways International Public Company
- Amata Nakorn Industrial Estate
- Laem Chabang Port
- U-TAPAO International Airport
- Map Ta Phut Industrial Port

Note:

This report is prepared based primarily on information made public through local field surveys and by research organizations in the Kingdom of Thailand. In addition, the goal of this report is to help readers and their organizations when they consider entry into overseas markets. This report is not meant to be a criticism of or intended for other purposes regarding projects being carried out domestically in the Kingdom of Thailand.

Preface
Positioning of this report

Introduction

In recent years, overseas development has become a significant economic agenda for Japanese companies. There has been a shift in the structure of Japan's current account surplus, of which the majority is generated from investments. Japan is turning into a trade and investment country. In fact, in the balance of international payments, the current balance in 2018 was a surplus of ¥19.3 trillion. A large contributor is primary income, which includes investment revenue (direct investments and securities investments). This surplus is totals ¥21.2 trillion, which substantially outskirts the trade balance surplus (¥1.1 trillion).

According to the Ministry of Foreign Affairs (MOFA), as of October 1, 2016, the number of overseas sites of Japanese companies totaled 71,820 locations, of which 17,950 were manufacturing sites. Of this total, sites in the ASEAN region accounted for around 25% (4,353 companies/share of 24.3%). In comparison with other regions, one characteristic is the high ratio of small- and medium-sized enterprises (SMEs). In addition, going forward the number of companies entering into this same region is expected to continue to increase.

However, there was a variance in the management resources possessed by companies and the information available, mainly among SMEs. Not all companies that expand overseas will be successful. This research focuses on Thailand, as a mid-sized country in the ASEAN region, and business mainly conducted in Thailand, in other words "Thailand-Plus-One." Our research clarifies the expectations the Thai government has in Japanese companies and what Japanese companies seek of the countries in the ASEAN region, including Thailand. We delved into the possibility of a sustainable coexistence and co-prosperity model via a rapid change in industry structure in the same region and an improvement in the income environment going forward.

Contents of this research

This research report focuses in particular on clarifying the following points.

1. Position of Thailand in the ASEAN region (economic scale, location/environment, etc.)
2. Thailand 4.0 Scheme, 20-year National Strategy (scheme summary and government strategy)
3. Thai government's expectations in companies entering the local market under Thailand 4.0 Scheme
4. Expectations placed on the destination market for SMEs, which are planning to enter the ASEAN region
5. ASEAN business expansion scenario using Thailand as a foothold (Thailand-Plus-One policy)
6. Most up-to-date information on the business environment in Thailand (tax system, regulations, benefit, employment, energy environment, etc.)
7. Current status of SMEs entering the local market (examples of success and failure), earnings trends, type of human resources required, etc.
8. Follow-up survey of companies that used the matching service for SMEs

That being said, we initially planned to release this report in March 2020. However, we experienced major work delays due to various circumstances. When reading and utilizing this report, note that the information contained herein is current as of October 2019.

Chapter 1

Thailand, a Strategically Important Country for Japan

Seiya Sukegawa
Professor, Faculty of Political Science and Economy, Kokushikan University

Introduction

Referred to many names, including the honor student of Southeast Asia, Thailand achieved smooth economic development up to the mid-2000s under a monarchy system. Against this background, Japanese companies made multi-layered investments of capital over many years. At present, the total number of Japanese companies has grown to around 5,500 firms, boasting the most developed industrial cluster in Southeast Asia. For Japan, Thailand is positioned as a strategically important manufacturing and export hub, as well as a promising market.

Following the September 2006 coup d'etat which deposed the Prime Minister Thaksin Shinawatra government, the political and social situation in Thailand entered a "liquid" phase. The country was domestically split in two, with the supporters of Thaksin on one side and the opponents on the other. There has since been a repeated change in regimes between the Thaksin government and its opponents. Anti-government demonstrations have not only led to political dysfunction time and again but have even caused the capital to stop functioning.

However, the stance of Japanese companies, which positions Thailand as an important hub, has changed little. Despite periods of extreme instability, mainly due to anti-government protests, the political and social situation has had limited negative impact on corporate business activities. There was also no disruption in the supply chain.

In this chapter, we will confirm the position that Thailand holds for Japan and look back on the interdependence between Japan and Thailand from the perspective of economics, industry and investment. Based on this, we will uncover the issues that will arise when the Thai government proceeds with Thailand 4.0, its flagship policy, and the Eastern Economic Corridor (EED).

Section 1 The position of ASEAN and Thailand for Japan

1. Thailand is important for Japan, an investing nation

Among the many overseas sites that exist, Thailand is regarded as a country of particular importance as a manufacturing and export hub for Japanese companies. One factor behind this is the booming growth in the members of the Association of South East Asian Nations (ASEAN). In addition to welcoming investments from Japan, Thailand actively listened to what companies, i.e. investors, had to say. It was based on this, that Thailand created an investment environment and established its systems and programs.

Thailand makes up a major portion of the ASEAN region, which is the only regional cooperation organization

in Asia. At the end of 2015, ASEAN declared the establishment of the ASEAN Economic Community (AEC). The AEC is a single market and production base with a population of 647.5 million people and a market scale worth US$ 2.9229 trillion[1]. Furthermore, ASEAN is at present undertaking AEC 2025, a blueprint for becoming a more deeply-and widely-integrated regional economy in 2025. In recent years, protectionism has become increasingly prevalent worldwide. Given this, under the flag of free trade, the importance and role of ASEAN, which aims to systematically establish this economy, is expanding.

ASEAN is increasing in importance for Japan in terms of overseas earnings. Thus far Japan has been a "trade nation," generating its current account surplus from exports. However, Japan is realizing a transformation into an "investment country," which generates the majority of its revenues from investments. In 2018, Japan recorded a current account surplus of ¥19.3 trillion. The largest contributor was primary income, which includes direct investments and securities investments. This primary income (¥21.2722 trillion) substantially overshot the trade surplus (¥1.1265 trillion) posted in the same year.

Primary income is comprised of profits from direct investments, securities investments and other investments. Focusing on direct investment earnings, which are the profits from overseas business operations carried out by Japanese companies, in the past five years (2014-2018), direct investment earnings from around the world were in the neighborhood of ¥10 trillion to ¥14 trillion. Although this amount varied by year, the manufacturing industry and the non-manufacturing industry each account for roughly 50% of the annual total. Looking at the top five ranking companies for the manufacturing industry and the non-manufacturing industry, Thailand ranked 3rd in the manufacturing industry after China and the US. Thailand accounts for around 10%-12% of the direct investment earnings of Japanese manufacturers. It should be noted that looking at ASEAN as a whole, the ASEAN region generates roughly 25% of the direct investment earnings in the manufacturing industry. Meanwhile, in the non-manufacturing industry, developed countries generally account for the top ranking countries, with the exception of China. This indicates that this is a system where revenues are generated in developed countries (Table 1-1).

Table 1-1 Top 5 ranking countries for Japan's foreign direct investments

<Manufacturing industry> (100 million yen, %)

	2014			2015			2016			2017			2018		
		Revenue	Share		Revenue	Share		Revenue	Share		Revenue	Share		Revenue	Share
1st	US	16,227	29.1	US	16,820	28.9	US	16,636	28.6	US	13,879	21.2	China	14,442	21.4
2nd	China	9,918	17.8	China	10,301	17.7	China	11,425	19.7	China	13,370	20.4	US	12,632	18.7
3rd	**Thailand**	**5,592**	**10.0**	**Thailand**	**5,584**	**9.6**	**Thailand**	**6,129**	**10.6**	**Thailand**	**7,814**	**11.9**	**Thailand**	**7,713**	**11.4**
4th	Netherlands	4,193	7.5	Netherlands	4,388	7.5	Singapore	2,728	4.7	Netherlands	2,896	4.4	Netherlands	5,036	7.5
5th	Singapore	2,089	3.7	Singapore	2,396	4.1	Netherlands	1,853	3.2	Singapore	2,596	4.0	Taiwan	2,486	3.7
(Ref.)	ASEAN	12,482	22.4	ASEAN	13,223	22.7	ASEAN	14,473	24.9	ASEAN	16,733	25.5	ASEAN	16,675	24.7
	Global	55,799	100.0	Global	58,146	100.0	Global	58,067	100.0	Global	65,518	100.0	Global	67,384	100.0

<Non-manufacturing industry>

	2014			2015			2016			2017			2018		
		Revenue	Share		Revenue	Share		Revenue	Share		Revenue	Share		Revenue	Share
1st	US	15,285	30.4	US	19,418	33.2	US	18,800	30.2	US	18,541	26.7	US	20,112	28.4
2nd	UK	5,302	10.5	Netherlands	6,434	11.0	Netherlands	6,014	9.7	Australia	7,686	11.1	Australia	7,069	10.0
3rd	Netherlands	4,886	9.7	China	5,029	8.6	UK	5,845	9.4	Netherlands	6,318	9.1	Netherlands	5,827	8.2
4th	China	3,295	6.6	Singapore	3,955	6.8	China	4,723	7.6	China	5,351	7.7	UK	5,777	8.2
5th	Singapore	2,987	5.9	UK	3,922	6.7	Australia	4,048	6.5	UK	5,203	7.5	China	5,647	8.0
(Ref.)	ASEAN	7,411	14.7	ASEAN	8,140	13.9	ASEAN	7,393	11.9	ASEAN	8,009	11.5	ASEAN	8,054	11.4
	Global	50,299	100.0	Global	58,450	100.0	Global	62,163	100.0	Global	69,439	100.0	Global	70,735	100.0

Source: Compiled based on the balance of international payment statistics issued by the Bank of Japan

[1] Nominal GDP as of 2018. IMF world economic outlook April 2019.

Japan and the ASEAN region are further deepening their interdependence through overseas business expansion by companies. Japanese companies deem the ASEAN to be a "single market and production base" and have been actively utilizing the ASEAN region as a manufacturing and export hub, and also as a market in recent years. Economic and industrial trends in the ASEAN region are considerably having an impact on the economy in Japan. For instance, the major flooding in Thailand in 2011 not only had an impact on plants in Thailand but also on production at many countries in neighboring countries and in Japan. The supply chain of Japanese companies is widely spread throughout the ASEAN region and Japan.

Looking at ASEAN from the perspective of being a "market," the region forms a single market comprised of 650 million people underpinned by the ASEAN Free Trade Area (AFTA), which will be discussed later. AFTA makes it possible to regard the 10 ASEAN members as a single market. In other words, this agreement serves as the epoxy that holds the region together. In January 2018, ASEAN eliminated intra-regional tariffs, with the exception of some goods. Since 1993, after spending a quarter of a century to reduce and eliminate tariffs, the AFTA agreement was completed, making the ASEAN region a truly single market for the trade of commodities. Under the AFTA agreement, the free trade ratio for all products traded by the 10 member countries was 98.6% for the ASEAN region overall[2]. This sharply surpasses Japan's highest free trade ratio of 95.1%, which it boasts in its Trans-Pacific Partnership (TPP-11[3]), a free trade agreement (FTA) Japan has with 11 Pacific Rim nations. Among this, Thailand has also secured Japanese companies entering its market, therefore it has the most developed industrial cluster in ASEAN. Owing to the completion of the AFTA agreement in 2018, the realization of the "free movement of goods" became an opportunity of Thailand to achieve its own economic growth through the expansion of exports.

From the viewpoint of the country being a "manufacturing and export hub," Japanese companies are making multi-layered and ongoing investments into ASEAN. The amount of capital being invested substantially exceeds the global economic presences of these Japanese companies. Consequently, they established an industrial cluster, mainly in Thailand. ASEAN only accounts for a mere 3.5% of global nominal GDP (global economic scale). Regardless of this, 16.6% (12,545 companies, as of October 2017) of all Japanese companies venturing overseas to set up shop are in the ASEAN region[4]. Furthermore, when focusing on Japanese companies in the manufacturing industry, this ratio rises to 26.9% (5,182 companies). In other words, of the overseas manufacturing sites established by Japanese companies, more than one in four companies has a base in the ASEAN region. In addition, of the total number of Japanese manufacturing companies in the 10 ASEAN nations, more than 30% (1,587 companies) have integrated operations in Thailand. Thailand is the largest manufacturing hub in the ASEAN region for Japanese companies (Table 1-2).

Table 1-2 Number of Japanese companies that have entered overseas markets

	No. of companies		Share (%)		Mfg. industry ratio (%)
	All industries	Manufacturing industry	All industries	Manufacturing industry	
Global	75,531	19,257	100.0	100.0	25.5
ASEAN	12,545	5,182	16.6	26.9	41.3
Thailand	**3,925**	**1,587**	**5.2**	**8.2**	**40.4**
China	32,349	3,641	42.8	18.9	11.3
US	8,606	3,257	11.4	16.9	37.8

Note: Data current as of October 1, 2017

Source: 2018 statistics on Japanese Nationals Residing Overseas, Ministry of Foreign Affairs

[2] Reported at the Meeting of the ASEAN Economic Ministers (AEM), which was held in September 2019. Looking more closely, the liberalization rate is 99.3% for the six starting member countries and 97.7% for later member countries.

[3] The official name is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

[4] Ministry of Foreign Affairs (2018)

2. The AFTA agreement and the Mekong region are key to ASEAN trade policy

The AFTA agreement is the reason Japan views the ASEAN region as a "single market and production base." The AFTA initiative dates back to 1993. AFTA originally began as an initiative undertaken by the six original members of ASEAN. In 1993, the first year of AFTA, the simple average for the AFTA preferential tariff rate was 12.76%. Since then, under the AFTA agreement, ASEAN steadily lowered the intra-regional tariff on primary products. In 1997, the Asian financial (currency) crisis hit the ASEAN region. This aroused concern that the international community and direct investors would divert their attention away from the ASEAN region. ASEAN decided on and implemented the acceleration and cross-development of integrated measures, including front-loading its tariff reduction schedule and revising its final goal for tariff reduction/elimination to 0%-5%. The six original ASEAN members achieved its goals of reducing tariffs for including list (IL) products to 0%-5% by 2013 and eliminating tariffs by 2010[5].

In actuality, the simple average for the AFTA preferential tariff rate for the six original ASEAN member nations was 1.51% in 2003. In 2010, the deadline for eliminating tariffs, it was 0.05%. In 2010, the six original ASEAN member countries had nearly completed the AFTA initiative. Based on the AFTA concession tax rate schedule for ASEAN members, I calculated the recent simple average AFTA preferential tariff rate and found it has declined to 0.02% since 2015 (Chart 1-1).

Meanwhile, member nations that joined after the original six included Vietnam, which joined in 1995, Laos and Myanmar, which joined in 1997, and Cambodia, which joined in 1999, all came to participate in AFTA. These four members that joined ASEAN later on had a simple average AFTA preferential tariff rate of 7.51% as of 2000[6]. The later four members planned to maximize the phased reduction of tariffs for IL products to 0% in their 10th year in participating in AFTA. In other words, Vietnam aimed to realize a 0% tariff in 2006, Laos and Myanmar aimed to achieve this goal in 2008, and Cambodia in 2010. Then in 2015, these four newer ASEAN members eliminated tariffs, with the exception of 7% of those items in the IL for which it is difficult to eliminate tariffs. The deadline for the remaining 7% was deferred to January 1, 2018. I also calculated the simple average AFTA preferential tariff rate based on the AFTA concession tax rate schedule, and found that the simple average AFTA preferential tariff rate for the four members that joined later had declined to 0.53% in 2015 and then to 0.12% in 2018. Accordingly, in 2018 the ASEAN region had become a "single market and production base" from the standpoint of tariffs.

As such, the free-trade rate Thailand stood at 99.9%[7], the highest level next to the free trade port of Singapore, There are still 14 items, including cut flowers, flower buds, potatoes, coffee and copra, for which tariffs are still levied.

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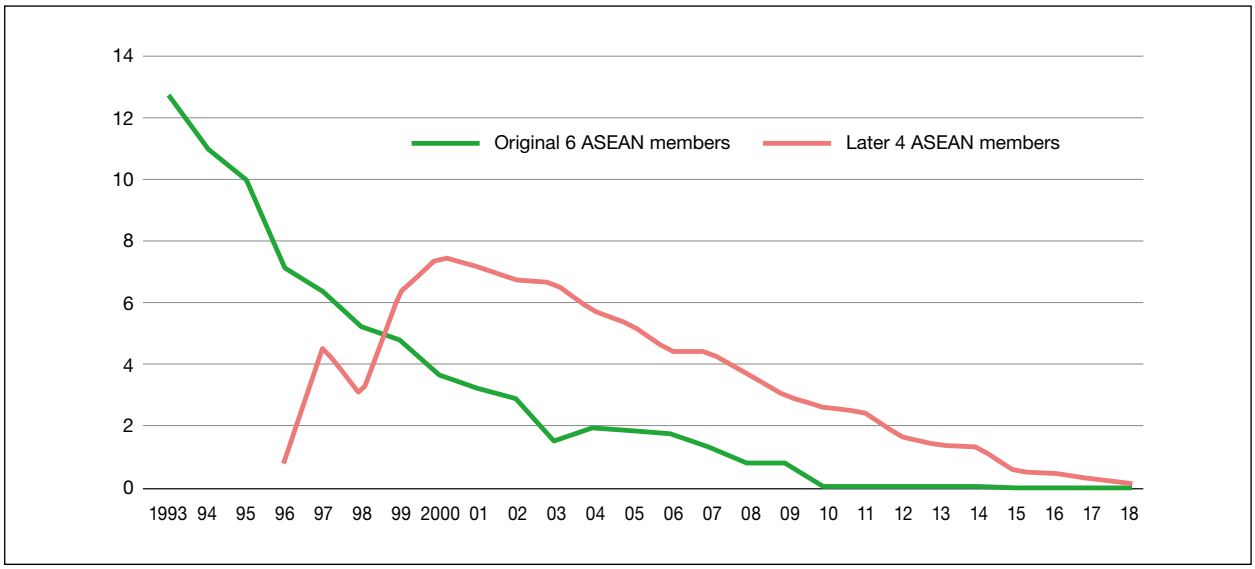
[5] However, for unprocessed agricultural products which are designated on the highly sensitive list (HSL) and the sensitive list (SL), a remaining tariff of 5% or lower was permitted.

[6] From 1996 onward, the simple average AFTA preferential tariff rate temporarily rose at the newer four ASEAN members. This reflects (1) a delay in other companies joining ASEAN after Vietnam joined in 1995, and (2) the gradual increase in items that were subject to tariff reductions.

[7] Total number of items is 9,558, of which tariffs have been eliminated for 9,544 items.

Chart 1-1 Simple average AFTA preferential tariff rate trends for the ASEAN region

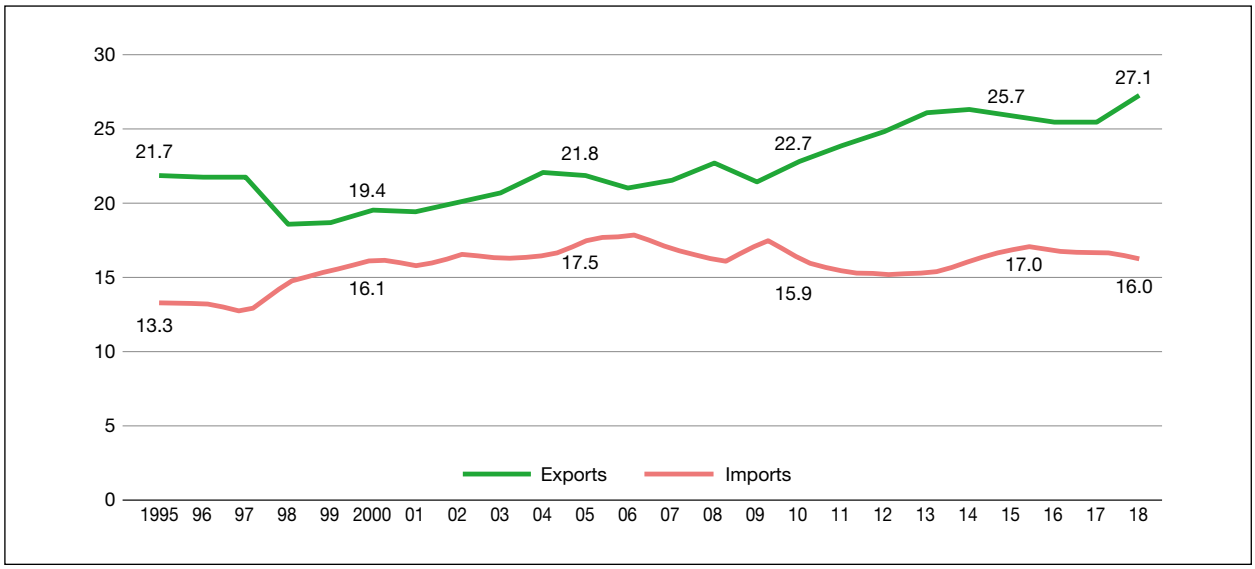


Source: ASEAN secretariat. For 2016 onward, calculations are based on the author's schedule for concessions.

Thailand possesses the most developed industrial cluster in the ASEAN region. The free movement of goods within the ASEAN region contributes to the economic growth of Thailand via the expansion of exports. The presence of the ASEAN market is actually rising annually as a destination for exports from Thailand. The percentage of total exports from Thailand to areas within the ASEAN region has risen since its bottom in 1998 (18.5%), due to the impact of the Asian financial crisis. In addition to the strong economic growth of ASEAN member countries, the percentage Thailand's total exports to the ASEAN region is surpassing 25% and closing in on 30%, shored up by impetus from the reduction/elimination of intra-regional tariffs under the AFTA agreement. This is nearly double the percentage of exports to China (12%), which is the largest destination for exports from Thailand. Meanwhile, imports are exhibiting a rise from its bottom in 1997 (12.6%). In and after 2000, imports have trended stably at the 16%-18% level. Disregarding import trends, this is evidence that the intra-regional export functions of Thailand are being fortified (Chart 1-2).

Laem Chabang Port, a cornerstone of sea trade (Chonburi Province)

Chart 1-2 Trade ratio trends from Thailand to the ASEAN region



Source: UNCTADSTAT (UNCTAD)

3. ASEAN + 1 FTA and Mega-FTA trends

As previously discussed, AFTA was a major factor that prompted Japanese companies to set up bases and expand their supply chain throughout the ASEAN region. Furthermore, triggered by China's proposal to establish a free trade area (FTA), ASEAN members fortified their export functions and aimed to position the region as a hub to build an FTA with major countries in East Asia. This is known as "ASEAN+1 FTA." Since 2000, ASEAN has formed six ASEAN+1 FTAs. By becoming a hub for the FTAs in East Asia, ASEAN aimed to enhance its role as a unifying force as an investment host region. ASEAN, since the FTAs with China came into effect in 2005, FTAs have been established and put into effect with South Korea in 2007, with Japan in 2008, and with India, Australia and New Zealand in 2010. Consequently, in four and half years, ASEAN has created five ASEAN+1 FTAs. Furthermore in June 2019, an FTA was put into effect with Hong Kong, which is known as the gateway to China. The year in which tariffs are to be reduced or eliminated differs for each area. However, focusing on Thailand, the country has already eliminated tariffs with China, South Korea and India. The primary products of Thailand and ASEAN, which have low or zero tariffs, have created an environment conducive for access to each country (Table 1-3).

Table 1-3 Year ASEAN+1 FTA takes effect and tariff reductions are complete

FTA		Effective	Completed tariff reductions		
	Country		Original 6 members	Later 4 members	Other
AFTA	ASEAN region	1993	2010	2015 (18)	
ACFTA	China·ASEAN	2005	2012	2018	
AKFTA	South Korea·ASEAN	2007	2012	2020	2018 for Vietnam only
AJCEP	Japan·ASEAN	2008	Effective from 2010 to 2015	2026	
AIFTA	India·ASEAN	2010	2017	2022	2020 for the Philippines only
AANZFTA	Australia/ New Zealand·ASEAN	2010	2020	2025	2022 for Vietnam only
AHKFTA	Hong Kong·ASEAN	2019 (tentative)	2028	2036	2027 for Vietnam only

Source: Compiled by author based on various materials

In addition, the building of two mega-FTAs was carried out in and after 2010: (1) The Regional Comprehensive Economic Partnership for East Asia (RCEP) and (2) the Trans-Pacific Partnership (TPP-11[8]). The RCEP aims to create one FTA consisting of the 10 ASEAN member countries and the ASEAN+1 FTA partners. The agreements and rules are separate for each ASEAN+1 FTA. This new structure creates a new agreement by using the same framework. In 2012, the RCEP was launched and in the following year, 2013, negotiations began. Negotiations were prolonged and are now about to enter the eighth year.

Meanwhile, from ASEAN, Brunei, Malaysia, Singapore and Vietnam are participating in TPP-11. This agreement came into effect in December 2018. In February 2019 in Thailand, Deputy Prime Minister Somkid Jatusripitak, who was in charge of economics, instructed the Ministry of Commerce to participate during the first Prayuth administration. However, the Thai government has yet to officially announce its participation. Japanese companies in Thailand and industrial circles are strongly voicing their desire for Thailand to quickly participate in TPP-11. However, given the need to carefully coordinate with concerned parties on issues including agricultural and pharmaceutical patent issues, it appears that the government is hesitant to take the step and officially announce its participation.

Originally, following the coup d'etat that ousted Prime Minister Thaksin in 2006, Thailand was not actively engaged in building an FTA, excluding undertaking the ASEAN+1 FTA. The government allocated time and labor to internal affairs, including domestic reconciliation. Priority on establishing an FTA within the government declined. This was the same under the Prayuth regime, which was launched in 2014. Meanwhile, Pakistan, Turkey and Sri Lanka were the only three countries that commenced FTA negotiations on their own. The share of two-way trade of each of these countries is less than 0.3%[9].

Although FTA negotiations between ASEAN and the EU, which has a large trade share, began in May 2007, given concerns over human rights issues in Myanmar, negotiations came to a halt in March 2009, less than two years from their start[10]. Following this, the EU transitioned to a bilateral basis for negotiations with ASEAN. Negotiations with Thailand under the Yingluck administration were kicked off in May 2013 but came to a halt due to a military coup in May 2014. In January 2015, the EU removed Thailand as a beneficiary under the Generalized System of Preferences (GSP) putting it at a competitive disadvantage in comparison with other emerging countries. Thailand is looking to resume FTA negotiations but it appears to be running into difficulties.

For Japanese companies that plan to enter the market in Thailand, the global FTA network that Thailand aims to build will directly fortify their manufacturing and export functions. However, as was previously discussed, after the coup d'etat that led to Thaksin's removal from office, Thailand's operations to establish an FTA stalled but in recent years Vietnam has rapidly emerged as a country focusing on the development of FTAs and is pouring energies into the establishment of the export environment. The FTAs that Vietnam is proprietarily undertaking are with Chile, the Eurasian Economic Union, the TPP-11 and furthermore an FTA was concluded with the EU in June 2019. Vietnam is also in negotiations with the European Free Trade Association (EFTA) and Israel. In response to this, the number of manufacturing companies setting up bases in Vietnam is increasing. The number of companies that are members of the Japanese Chamber of Commerce in northern, central and southern Vietnam stood at 1,878 companies as of June 2019. This is 2.2-times the number a decade earlier in 2009 (839 companies) and also surpasses the number of members of the Japanese Chamber of Commerce, Bangkok (1,772 companies).

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8 Official name is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

9 Share of two-way trade in Thailand in 2018 was 0.3% with Pakistan and Turkey and 0.1% with Sri Lanka.

10 At a lecture at the Lee Kuan Yew School of Public Policy, National University of Singapore, held on March 3, 2010, Karel De Gucht, commissioner of the European Commission, pointed out that the reasons for termination were human rights violations in Myanmar and difficulties to flexibly carry out negotiations owing to economic disparity within the ASEAN region.

Section 2 Japan and the direct investment environment in Thailand

1. Japanese companies that contribute to direct investment and employment

For many years, Thailand have accepted direct investment, created employment and promoted exports as an engine for economic growth. Japan is always at the top as the largest direct investor in Thailand. Rankings by country/region and investment shares have been calculated every five years based on BOI investment statistics (approval basis) for the 34 years from 1985, when the Plaza Accord was signed, and up to 2018.In all periods, Japan has always been the largest investor. Of the total amount of direct investments that Thailand has accepted during this 34-year period, Japan's share is 41.0%. This is a long lead over the US, which is in 2nd (share of 11.5%), and Singapore, which ranks 3rd (Table 1-4).

Table 1-4 Top 5 ranking countries based on the amount of direct investment received by Thailand (approval basis)

	1985-1989		1990-1994		1995-1999		2000-2004		2005-2009		2010-2014		2015-2018		Cumulative (1985-2018)	
	Country/ region	Share	Country/ region	Share	Country/ region	Share	Country/ region	Share	Country/ region	Share	Country/ region	Share	Country/ region	Share	Country/ region	Share
1st	Japan	44.6	Japan	32.1	Japan	39.8	Japan	43.0	Japan	38.7	Japan	52.2	Japan	30.9	Japan	41.0
2nd	Taiwan	11.4	US	18.6	US	19.8	US	13.7	US	13.5	Singapore	4.8	China	9.4	US	11.5
3rd	US	7.9	Hong Kong	11.5	Singapore	10.6	Singapore	6.4	Singapore	6.8	US	4.5	Singapore	9.1	Singapore	6.8
4th	UK	7.1	UK	9.6	Taiwan	9.8	Malaysia	4.9	Malaysia	4.3	Hong Kong	4.2	Netherlands	6.3	Netherlands	5.3
5th	Hong Kong	6.1	Netherlands	7.8	Netherlands	9.5	Taiwan	4.9	Netherlands	4.2	China	4.1	US	6.1	Taiwan	4.7

Source: Compiled by the Thailand Board of Investment

According to a survey by JETRO Bangkok based on the corporate register of the Department of Business Development, Ministry of Commerce, the existence of 5,444[11] companies was confirmed as of May 2017. Of this total number of companies, 2,346 (or 43.1%) are manufacturers, 2,890 companies (53.1%) are non-manufacturers and 150 companies (2.8%) are construction companies.

In this report we did not research the number of employees. The contribution to employment in Thailand by Japanese companies is unknown. However, the Japanese Chamber of Commerce, Bangkok (JCCB) has a grasp on the number of employees, although only for its member companies. At JCCB members companies (as of August 2019), there are a total of 1,768 companies, 769 manufacturing companies and 999 non-manufacturing companies. The total number of employees at JCCB member companies is 902,968 employees, of which 597,605 work at manufacturing companies and 305,363 at non-manufacturing companies[12]. Based on this, the average number of employees at Japanese manufacturing companies that are JCCB members is 777.1 employees.

According to the National Statistics Office of Thailand, the total number of workers in Thailand was 37,619,000 in August 2019. Of this total, 5,923,500 worked in the manufacturing industry. This accounts for 10.1% of JCCB member companies in the manufacturing industry. However, the number of JCCB members companies actually consists of companies mainly located in Bangkok and the surrounding areas. In Rayong Province, which has been penetrated by many large-cap companies, there are many companies that are not members of the JCCB. In light of this, the number of Japanese manufacturers (2,346 companies) which was clarified in the aforementioned JETRO survey, and the average number of employees (777.1 workers) per manufacturing company, we estimate the number of employees at Japanese manufacturing companies in Thailand overall is 1,823,123 workers. This makes up 30.8%

[11] Regarding the 4,660 companies identified by shareholders in Japan, there are 2,288 large-cap companies (49.1%), and 1,859 small- and medium-cap companies (39.9%), and 513 privately managed companies (11.0%).

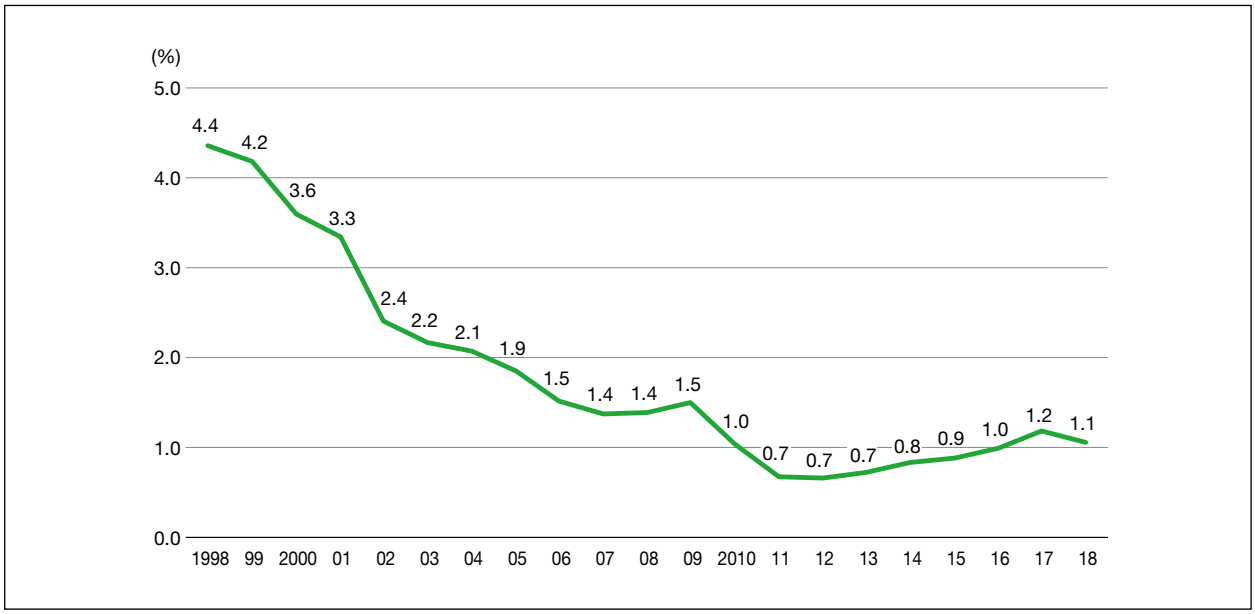
[12] Japanese Chamber of Commerce, Bangkok (2019)

of Thailand's workforce in the manufacturing industry. From the standpoint of employment, this contribution by Japanese manufacturers is worth mentioning.

2. Labor shortage and rising wages

In recent years, a major concern for Japanese companies deploying business operations in Thailand is the chronic labor shortage and rising wages. The unemployment rate in Thailand hit a record 4.4% in 1998 immediately after the Asian financial crisis, the largest economic crisis post-World War II. However, the unemployment rate shrank in tandem with economic recovery after the crisis. In the five-year period from 2011 to 2015, the unemployment rate remained under 1%. Since then the unemployment rate was trended at around the 1% level, suggesting Thailand is suffering a chronic labor shortage (Chart 1-3).

Chart 1-3 Unemployment rate in Thailand (1998 – 2018)



Source: Compiled based on the Labor Force Survey (National Statistical Office, Thailand)

One factor for the chronic labor shortage in Thailand is the issue of a distorted industry structure and labor market. Thailand is suffering from a substantial distortion in the breakdown of GDP by industry and the working population. Specifically, Thailand's industry structure is shifting to higher value-added fields from primary industries to secondary industries and to tertiary industries, in tandem with economic development. The employment structure is not keeping up with this trend. This is triggering a distortion in industry structure.

Looking at GDP by industry, in 2018 primary industries, including the agriculture, forestry and fishery industry, only accounted for 8.1% overall. Meanwhile, of the total working population, the percentage of employees working in primary industries was 32.1% in 2018. In comparison with the share of total production the number of workers in primary industries is extremely high. The percentage of workers in primary industries decreased by 12 percentage points in contrast with 20 years ago (2000). However, the percentage of workers in the agriculture, forestry and fishery industry remains at 32.1%. In addition, the majority of workers in this industry during this 20-year period was not in the manufacturing industry but was primarily in the service industry. The proposal and implementation of polices that smoothly facilitate the promotion of labor-saving via automation in primary industries, the movement of the working population between industries, and particularly the migration to the manufacturing sector are indispensable (Table 1-5).

Table 1-5 GDP breakdown by industry and employment rate in Thailand

(Units:1,000 people, %)

	Nominal GDP ratio (%)			Employment rate by industry (%)			No. of employees
	Agriculture, forestry and fisheries	Manufacturing	Services, etc.	Agriculture, forestry and fisheries	Manufacturing	Services, etc.	
2000	8.5	28.4	63.1	44.2	14.9	40.9	31,293
2005	9.2	29.6	61.2	38.6	15.8	45.5	35,257
2010	10.5	30.9	58.5	38.2	14.1	47.7	38,037
2015	8.9	27.4	63.8	32.3	17.0	50.7	38,016
2018	8.1	26.8	65.1	32.1	16.5	51.3	37,865

Source: Compiled based on materials from the National Statistical Office and Office of the National Economic and Social Development Council

One factor behind the labor shortage is that companies are raising wages to secure employees. This is a natural action economically. However, in Southeast Asia, some countries and political parties, in an attempt to win election votes, are making pledges to boost the minimum wage. Examples of this can be seen in Cambodia and other countries. Given sacrifices by industrial circles, the impact to the economy and investments would be unfathomable should an artificial wage hike be implemented that surpasses the rise in consumer prices and economic growth. An example of this is also evident in Thailand. The Yingluck administration, which took office in 2011, won the general election based on a platform to boost the statutory minimum wage uniformly to 300 bahts nationwide. Given the residual impact of the major flooding in Thailand which occurred in autumn of 2011, the government overcame the opposition of industrial circles, and started off by boosting the minimum wage to 300 bahts, from 215 bahts, first in 7 provinces, including Bangkok from April 1, 2012. Next, in January 2013 the minimum wage was uniformly raised to 300 bahts nationwide. The sharp rise in the minimum wage hoisted the overall wage standard for workers. In the period from 2011 to 2013, prior to the wage hike, Thailand's economic growth rate was 5.0% on average annually. During this period, the average wage hike in the manufacturing industry was 15.4%[13]. This is currently creating difficulties for the national border SEZ policies being carried out by the Prayuth administration, which we will discuss later.

For Japanese companies entering the local market, a "chronic labor shortage" and "rising wages" are serious concerns. According to a Fact-finding Survey of Japanese Companies Entering Markets in Asia and Oceania conducted by JETRO in October-November 2018, of the top four risks in the investment environment in Thailand, the third items are related to wages and labor (Table 1-6). The largest risk is soaring personnel costs in both the manufacturing and non-manufacturing industries. Companies where soaring personnel costs have become a management issue account for more than 60% of companies in the manufacturing and non-manufacturing industries. Focusing on the manufacturing industry, "unstable political and social circumstances" ranks second, and "labor shortage and hiring difficulties (professional, technicians, mid-level management, etc.)" accounts for 38.8% of responses. After the military coup which occurred in May 2014, the second Prayuth administration was put in place in July 2019, following the general election in March the same year. Up to that point, the country's government continued to operate under military rule. Domestic conflicts, which had continued for a long period of time, calmed down on the surface by suppressing the military junta. However, this fire continues to smoke. Furthermore, in the manufacturing industry, companies that list high employee turnover rate as a risk accounted for 27.9% for responses, and in the non-manufacturing industry this comprises 39.3% of responses. To solve these labor issues, it will be necessary to revise the labor structure and the training system. We have yet to find a fast-acting solution. Long-term ongoing measures will likely be necessary.

[13] According to the National Statistical Office of Thailand, the average wage in the manufacturing industry in 2011 was 8,361 bahts. However, in 2013, the average wage rose to 11,143 bahts.

Table 1-6 Investment environment risks in Thailand (Top 10 items)

Rank	Overall (Valid responses: 579)		Manufacturing industry (Valid responses: 312)		Non-manufacturing industry (Valid responses: 267)	
1	Soaring personnel costs	61.0	Soaring personnel costs	62.8	Soaring personnel costs	58.8
2	Unstable political and social circumstances	43.2	Unstable political and social circumstances	38.8	Unstable political and social circumstances	48.3
3	Labor shortage, hiring difficulties (professional, technicians, mid-level management, etc.)	33.3	Labor shortage, hiring difficulties (professional, technicians, mid-level management, etc.)	38.8	High employee turnover rate	39.3
4	High employee turnover rate	33.2	Natural disasters	29.2	Labor shortage, hiring difficulties (professional, technicians, mid-level management, etc.)	27.0
5	Local government unclear policy management (industry policies, energy policies, foreign capital regulations, etc.)	23.7	High employee turnover rate	27.9	Local government unclear policy management (industry policies, energy policies, foreign capital regulations, etc.)	24.7
6	Natural disasters	22.6	Local government unclear policy management (industry policies, energy policies, foreign capital regulations, etc.)	22.8	Shortage of land/office space, rise in land prices/rents	24.7
7	Complex tax system and tax procedures	21.6	Complex tax system and tax procedures	21.2	Complex tax system and tax procedures	22.1
8	Shortage of land/office space, rise in land prices/rents	20.0	Complex administrative procedures (approval, etc.)	19.6	Difficult and complex procedures for acquiring visa and work permit	19.1
9	Undeveloped legal system, unclear operations	18.1	Undeveloped legal system, unclear operations	18.3	Undeveloped legal system, unclear operations	18.0
10	Complex administrative procedures (approval, etc.)	18.0	Shortage of land/office space, rise in land prices/rents	16.0	Complex administrative procedures (approval, etc.)	16.1

Source: 2018 JETRO Survey on Business Conditions of Japanese-Affiliated Companies in Asia and Oceania

Section 3 Thailand is the economic hub of the Mekong region

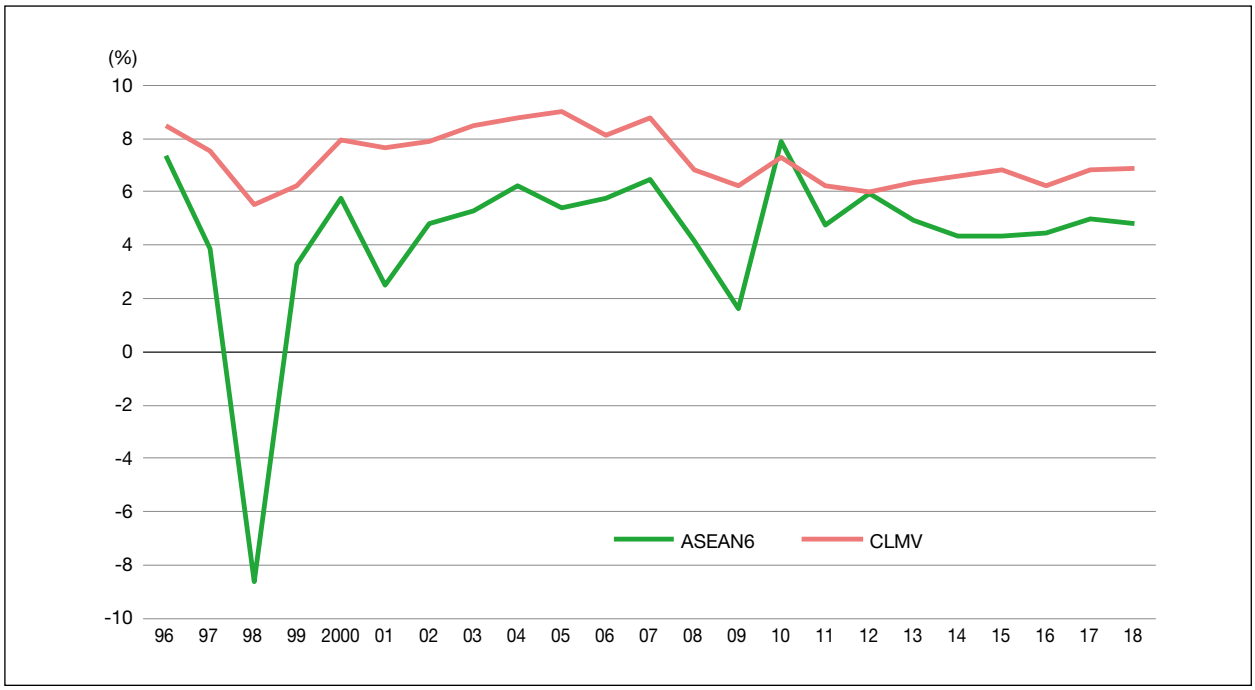
1. Thailand's expanding trade with neighboring countries

For the later members of ASEAN and the adjacent Thailand, which are exhibiting pronounced growth, the completion of the elimination of intra-regional tariffs in these countries is an opportunity to more advantageously access the Mekong emerging markets. Even among ASEAN members, in particular Thailand, positioned in the center of the Mekong region, and the economic corridor[14], which runs vertically across the Indochina Peninsula, connects overland routes. This is expected to bring about more significant economic benefits. For Thailand, which is positioning at the center of Mekong region, this means the acquisition of an environment that can be more effective use of surrounding later ASEAN members as markets or as production bases.

The four later members of ASEAN are constantly posting economic growth that outperforms that of the original six ASEAN members for the 20-year period after 1995 when Vietnam joined ASEAN, but excluding the 10-year period from 2009 which was impacted by the US subprime loan issue, including the collapse of Lehman Brothers (Chart 1-4). The average annual growth for the ASEAN region in 2010-2018 was 5.0%.This breaks down to a growth of 4.8% for the six original ASEAN members and 6.5% for the later members.

[14] At the 10th Greater Mekong Subregion (GMS) Ministerial Conference in 2001, of the 10 flagship projects, three are economic corridor projects. In 2016, at the 21st GMS Ministerial Conference, it was decided to move forward with considerations on the direction for expanding the structure of the economic corridor that connects all the capitals, major cities and key ports in the GMS.

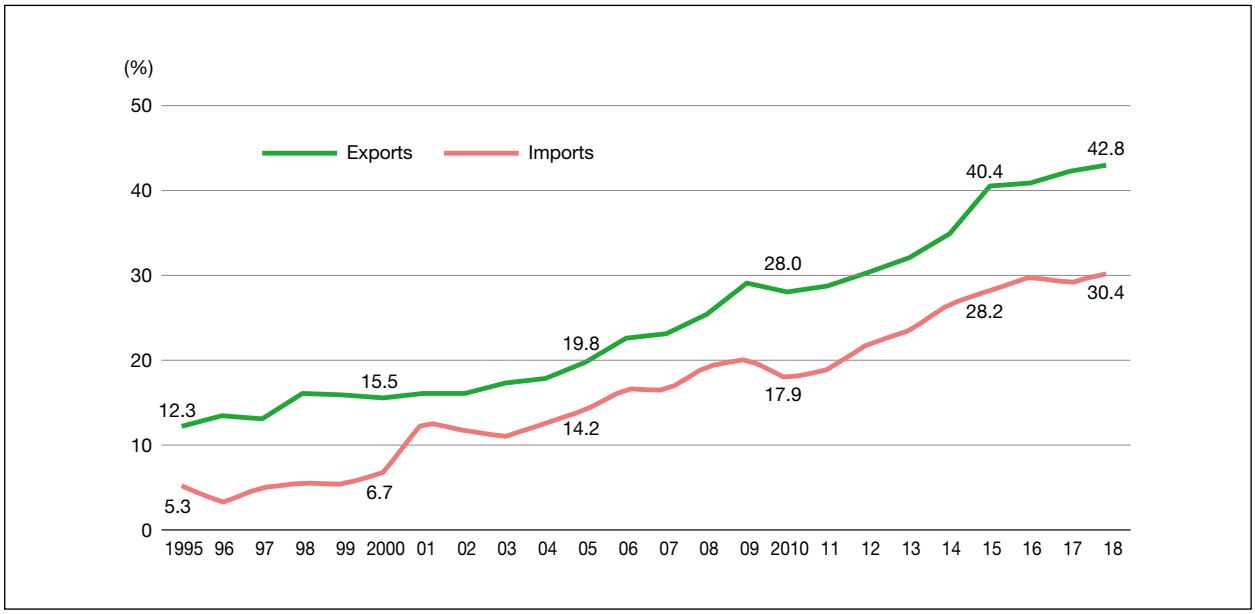
Chart 1-4 Economic growth rate of original ASEAN member countries and late member countries



Source: Compiled based on UNCTADSTAT

In 2018, the market scale of the ASEAN region totaled US$2.9229 trillion, excluding Thailand. Mekong countries (Myanmar, Cambodia, Laos and Vietnam) which surround Thailand are became members of ASEAN after the original six. This makes up a mere 12.1% (US$352.8 billion) of the total market scale for the ASEAN region. However, Thailand's trade with Mekong countries substantially outperforms the positioning of its economic scale. As of 2000, of Thailand's total exports to the ASEAN region, 15.5% of exports are to the Mekong region, and imports from the Mekong only account for 6.7% of total imports from the ASEAN region. In addition to a reduction in tariffs owing to AFTA, progress was made in the establishment of hard infrastructure, including the economic corridor that runs vertically in the Mekong region, and bridges across the Mekong River, and the development of soft infrastructure, including the signing of bilateral and trilateral transportation agreements. Owing to this, the share of trade with countries in the Mekong region continues to increase, outperforming the economic scale. In and after 2015, exports to the Mekong region from Thailand surpassed 40% of Thailand's overall exports to the ASEAN region. Moreover, in 2018, imports also reached the 30% level (Chart 1-5).

Chart 1-5 Ratio of Thailand's trade with 4 Mekong countries as a total percentage of trade with the ASEAN region



Source: UNCTADSTAT (UNCTAD)

In addition to the economic growth in Mekong emerging countries, movements with the "Thailand-Plus-One" strategy is also a driver for Thailand's trade expansion with surround companies. The mainstream method being undertaken is the establishment of a branch factory in a neighboring country with cheap wages. Raw materials, parts and other supplies are shipped from plants in Thailand via land routes. Labor-intensive processes are carried out at the branch factory. The finished product is then shipped by to Thailand via land routes. In light of this, both imports and exports arise between Thailand and the Mekong emerging countries. In addition, this also means that production networks cross borders and expand into Mekong emerging countries. While contribution is localized mainly to areas surrounding national borders, this is likely to shore up industries in the four later ASEAN members. This is the participation of the later ASEAN members in international supply chains, which was an aim for ASEAN. This can said to be the outcome of the AEC through the establishment of systems and programs.

2. Problem-solving by Thailand utilizing the neighboring countries

In the previous section, it was stated that industrial circles in Thailand are confronting a "chronic labor shortage" and "rise in wages." There is also a movement to explore problem-solving for some time by engaging surrounding countries. Thailand is becoming more dependent on the foreign labor forces from surrounding countries, including Myanmar, Cambodia and Laos, mainly for menial labor. The working population in Thailand in 2018 is 38.43 million people, of which the number of workers is 37.86 million people. According to the Employment Office, at the Ministry of Labor in Thailand, the number of immigrant workers that have proper work permits reached the 2-million mark for the first time in 2017. In 2018, this rose further to 2.12 million people[15]. However, when including the number of irregular immigrant workers that have not acquired work permits, it is estimated this figure is 4 million people. It appears to be reaching around 10% of the number of workers. But, in cases where immigrant workers are hired from surrounding countries to work domestically in Thailand, the minimum wage in Thailand is applied. Consequently, even if this resolves the labor shortage, there still remains the issue of labor wages.

[15] http://statbbi.nso.go.th/staticreport/Page/sector/TH/report/sector_02_24_TH_.xlsx

There are companies that employ the previously mentioned Thailand-Plus-One movement to use labor resources at cheap wages. From around 2010, a movement has arisen to resolve this issue by setting up branch factories (satellite factories) and outsourcers. Thailand is adjacent to the 3 countries of Myanmar, Laos and Cambodia. Taking one step over the border, would mean earning a wage that is less than half that of Thailand. There is also expectation of the existence of manpower that is not being fully utilized. Indexing the wage of factory workers at Japanese companies in Thailand at 100, the wage level in Cambodia is 49, the wage level in Myanmar is 39, and the wage level in Laos is 44[16]. Keeping the diversification of various risks in mind, including the labor shortage and rising wages in Thailand, and flooding and political instability, in the early 2010s, branch factories were set up in surrounding countries, including Cambodia, Laos and Myanmar. There was an apparent shift of a portion of labor-intensive production lines from Thailand. This was driven by the Cross Border Transport Agreement (CBTA), which will be discussed later, and also by the bilateral exchange of transportation rights.

The Thailand-Plus-One strategy, which aims to build a supply chain with surrounding countries with the plant in Thailand serving as a hub, was temporarily prosperous in the early 2010s. However, in the host country, the anticipated quantity of manpower will not gather given a government-led boost to the minimum wage that does not give proper consideration to the undeveloped infrastructure, supply chain risks due to daily border crossing over land routes, a lack of human capacity development, and the inflation rate and economic growth rate. Based on this and other factors, in recent years the same strategy has dwindled. The unemployment rate in surrounding countries is generally low. In 2017, the highest unemployment rate was 2.1% in Myanmar. In contrast with this, the unemployment rate in Vietnam was 2.0%, in Laos it was 1.8% and in Cambodia it was 1.6%. It is not a rich environment for manpower.

3. Mekong region aims to reduce border barriers

ASEAN issued the AEC Blueprint 2015 at the Summit held on November 2007. In addition to this Blueprint, many action pans were also released for realizing the AEC. Multilayered activities in accordance with these action plans complement the development of the AEC. At the 17th ASEAN Summit in October 2010, the improvement of the transportation and transport fields in the ASEAN region and the enhancement of connectivity are key to the formation of the AEC. In addition, the Master Plan on ASEAN Connectivity (MPAC) based on the recognition to boost fair economic development was established, which aims to correct disparity.

In the Mekong region, an economic corridor, which runs vertically, and crosses national borders, was established. The MPAC is for the establishment of the soft and hard infrastructure in the Mekong Region, the lowering of national border obstacles, and to drive the fortification of connectivity across national borders.

The strategic use of the Mekong region by Thailand is a key issue for the soft infrastructure, including developing a cross-border transport system. In the Great Mekong Subregion (GMS), a CBTA was signed by six countries (Laos, Vietnam, Cambodia, the Yunnan Province and Guangxi Zhuang Autonomous Region, Thailand and Myanmar), and preparations were carried out to put the agreement into force. The CBTA aims to establish a soft infrastructure to realize cross-border transports. This includes regulations on (1) single-stop/single window customs procedures, (2) cross-border transports by workers engaged in transportation facilities, (3) exemptions requirements for various inspections, including quarantine, (4) cross-border vehicle requirements, (5) international transit freight transports, (6) road and bridge design standards, and (7) matters related to road signs and signals.

The CBTA was originally established around 1998 and signed in November 1999. Since then, domestic ratification procedures were conducted in each country. Myanmar, which is at the back of the line, ratified the agreement in September 2015. Although the ratification work was completed, 20 years have passed since the

[16] Based on the results of 2018 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania (2018, JETRO). Thailand (US$413/month), Cambodia (US$210/month), Myanmar (US$162/month) and Laos (US$180/month).

agreement was established. The content of the agreement itself does not conform nor align with current customs systems which utilize IT technologies. The agreement itself needs to be revised to put the CBTA into effect. To this end, the goal is to realize the mutual entry of transport vehicles. CBTA 2.0 (the revised version of CBTA) was revised owing to the support of the Australian Agency for International Development (AusAID). The revision work itself for this agreement was completed by June 2018. CBTA 2.0 needs to be ratified by six countries to be put into effect. This is likely to take a fair amount of time.

In light of this, in order for industrial circles to quickly realize one-off imports of vehicles and containers to other countries, the governments of each country were encouraged. As a result, at the 5th Joint Committee of the CBTA, which was held in December 2016, it was agreed that this portion will be designated as the early harvest measure for early implementation. This measure approves the mutual entry of 500 vehicles from each country. This is to be implemented in advance[17] at the five countries, excluding Myanmar. The memorandum that describes the details of this measure was signed in March 2018, in line with the GMS Summit. Vehicles with temporary admission documents (TAD) and vehicles that are not transferred can enter five countries, excluding Myanmar, for a maximum of 30 days. In the five countries, excluding Myanmar which requires a preparation period for implementation, began mutual entry in August 2018[18].

Regarding Myanmar, which was late in participating in early-harvest projects, Thailand, which is adjacent to the national border, signed a memorandum in accordance with a CBTA for mutual vehicle passage between Myanmar and Thailand. There is an upper limit of 100 vehicles, respectively, with a maximum 30-day authorization to drive between Yangon Thilawa district, Myawaddy national border, Mae Sot national border, and Bangkok/ Laem Chabang Port. Operations were commenced starting with the October 2019 release by Thai customs of Notification No. 227 related to the customs procedures at the Mae Sot and Myawaddy national border associated with the CBTA.

4. Lackluster special economic zone (SEZ) policies

The Prayuth Regime established the Special Economic Zone (SEZ) Development Committee in March 2015 and decided to set up the national border special economic zone (SEZ). Through these national border SEZs, the National Economic and Social Development Council (NESDC) brings prosperity to the region, reduces income inequality and improves the quality of lifestyles while receiving benefits from ASEAN. In addition, the NESDC aims to solve national border security issues.

The SEZ plan is comprised of two stages. Phase 1 covers five provinces and Phase 2 also covers five provinces. A portion of the region surrounding national borders in 10 provinces will receive SEZ[19] designation, and infrastructure development[20] and industrial park development will be carried out. The Prayuth government restricted labor-intensive companies to the national border SEZs positioned in Thailand. The aim was to revitalize regions while utilizing foreign labor from surrounding nations. In addition, the same policy aimed to alleviate the regional economy's dependence on primary industries by shifting labor from agriculture to other industries, including the manufacturing industry in the national border regions.

The SEZ Policy Committee started off by designating 13 industries in the labor-intensive manufacturing sector.

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[17] Myanmar was given a two-year extension which ended on June 1, 2020. A further one-year extension was granted and at present the country is scheduled to participate from June 2021.

[18] According to Japanese distribution/logistics companies, the Land Transport Bureau of the Thai Ministry of Transport has set the ceiling on permits for participating countries at 500 vehicles, The bureau has issued permits to China for 154 vehicles and to Vietnam of 25 vehicles. Laos is currently in the process of getting permits for 152 vehicles. Meanwhile, Cambodia stated it does not require permits (based on a hearing conducted on September 3, 2019).

[19] This applies to 90 tambons in 23 counties in 10 provinces. Phase 1 covers Tak, Mukdahan, Sa Kaeo, Trat, and Songkhla Provinces. Phase 2 consists of Chiang Rai, Kanchanaburi, Nong Khai, Nakhon Pathom, and Narathiwat provinces.

[20] Transport (roads, bridges, railways, ports and airports), customs and border checkpoints, electric power, waterworks and irrigation.

Based on this, the committee decided on granting investment perks, including the BOI waives corporate income tax for 8 years, and the further reduction of corporate income tax by 50% for another five years. In addition, the SEZ Policy Committee aimed to relocate to the national border SEZ those companies that are worried about a labor shortage, including acquiring approval to use unskilled foreign labor when conducting business in the SEZ[21].

However, the national border SEZ policy appears to produce little-to-no benefit that is anticipated by the government. At the SEZ Policy Committee held on September 2018, it was reported that investments in the national border SEZ were progressing very slowly. In actuality, 54 investments were approved in 2015-2018, of which 12 were investments by foreign capital. The total investment only amounted to 9.06 billion bahts (of which investment by foreign capital accounted for 3.14 billion bahts). In comparison with Thailand overall, the number of cases accounted for 8% and the investment amount was a mere 0.3% of the investment for Thailand overall (Table 1-7).

Table 1-7 SBEZ direct investment trends (approval basis)

(Units: Million THB, %)

	No. of investments				Amount of investments			
	Thailand overall		National Border SEZ		Thailand overall		National Border SEZ	
		Foreign capital		Foreign capital		Foreign capital		Foreign capital
2015	2,237	1,151	6	n.a.	809,378	493,690	280	n.a.
2016	1,688	925	25	5	861,340	358,109	5,505	1,377
2017	1,227	730	15	6	625,077	227,053	2,628	1,619
2018	1,469	914	8	1	549,481	255,605	646	148
Cumulative	6,621	3,720	54	12	2,845,276	1,334,457	9,059	3,144

Source: Thailand BOI

Given the sluggishness of the national border SEZ policy, in accordance with a Cabinet meeting on May 14, 2019, the government is making an effort to invite companies to set up shop in a national border SEZ. Based on the condition that the company submits an application by the end of 2020, the Ministry of Finance aims to lower the corporate tax rate from the current 20% to 10% over a 10-year period for companies that were omitted from BOI approval and which engage in the industries designated by the ministry.

A hindrance to the entry of companies into the national border regions is the nationwide uniform 300 bahts minimum wage policy, which was introduced during the Yingluck administration[22]. The policy to introduce a uniform minimum wage nationwide will result in the loss of benefits from entering the rural area, owing to expectations of abundant foreign manpower at cheap wages, and for companies that are considering entering a national border region. Although the nationwide uniform minimum wage policy collapsed under the Prayuth regime, it is difficult to lower a minimum wage that has already been hiked. At present, the is a minimal gap between provinces where the minimum wage is the highest, Chonburi, Rayong and Phuket (330 bahts/day), and the three provinces with the lowest wage (308 bahts/day). It is hard to find the benefit of investing in national border SEZ, other than the employment of unskilled foreign labor. It is difficult to escape the slump in the national border SEZ.

[21] Regarding Board of Investment (BOI) incentive companies, special measures to hire unskilled foreign workers expired at the end of 2014. Following this, in principle, BOI incentive companies are prohibited from hiring unskilled foreign labor.

[22] Prior to the Yingluck Cabinet, the minimum wage in the Tak Province which has the largest national border with Myanmar in Mae Sot, for example was 162 bahts (THB), the second lowest level nationwide in Thailand.

Conclusion

An economic team, headed up by Deputy Prime Ministry Somkid Jatusripitak, was in charge of economic policy under the government of Prime Minister Prayuth Chan-ocha. The flagship policy under the Prayuth administration is the Thailand 4.0 Scheme and the underlying EEC plan, which were launched by the same economic team in April 2016. The government is working as one to implement this policy. Thailand took a hint from Germany's Industry 4.0. Thailand avoided the "middle-income country trap" and domestically introduced advanced technologies, in particular digital technologies, by inviting foreign companies to set up shop in Thailand. Through this, Thailand aims to achieve its growth strategy vision[23] to enhance its industrial structure and become a developed country.

The Eastern Economic Corridor (EEC) development plan is a component of the Thailand 4.0 Scheme which is being implemented in advance in a limited area. The goal of the EEC development plan is to introduce advance technologies into Thailand by inviting foreign companies to Thailand to enhance its industrial structure. Another goal is to join the ranks of developed countries by 2037.

The plan, which was approved by the Thai Cabinet on June 28, 2016, designated the three eastern provinces of Rayong, Chonburi and Chachoengsao as the EEC. The goal is to develop a cluster in these regions by investors to invest in the previously discussed S-curve industries. To this end, the government plans to conduct priority infrastructure investments to establish basic infrastructure within the region.

The EEC development plan is largely divided into 3 phases. In Phase 1 (2017-2018), energies were poured into attracting investments from inside and outside Thailand. In Phase 2 (2019-2021), development is being conducted on transport and logistics. In Phase 3 (2022 onward), Thailand and its neighboring countries will come together to fortify its infrastructure. There are five high-priority projects to develop infrastructure in the EEC: (1) major transformation of the U-Tapao International Airport, which is managed by the navy, and urban development of the area adjacent to the airport, and connection of the three major airports, Don Mueang International Airport, Suvarnabhumi Airport, and U-Tapao International Airport, (2) high-speed rail line development, (3) Phase III development of the Laem Chabang Port, a deep-sea port, (4) Phase III development of the Map Ta Phut Industrial Port, and (5) Sattahip Commercial Port for use in tourism.

The target of Thailand 4.0 Scheme is to enhance industry structure by domestically introducing advanced technologies by inviting foreign companies to Thailand. In light of this, the nature of the scheme is strongly reliant on foreign capital, including the training of personnel. As such, the success of the policy is dependent on the success of actions undertaken by foreign companies. The advanced technologies sought by Thailand are still the core businesses of industry even in developed countries. Consequently, a transfer overseas will be difficult. Furthermore, another issue is the rapid cooling off of consumer sentiment, given a harsh external environment, including the BREXIT issue (the UK's withdrawal from the EU), US-China trade conflicts, and fluidity of the situation in the Middle East.

Extrapolating from these trends, the Thai government plans to achieve closer-knit communications mainly with foreign investors, which are the key players in Thailand 4.0. Thailand will need to listen to foreign investors and flexibly and dynamically address issues. Concurrently, it will also be necessary to review the Thailand 4.0 Scheme so that it is not excessively reliant on foreign capital.

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Chapter 2

Business Environment Required by SMEs and Expectations in Government Policies

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Introduction

Japan's direct investments in 2017 totaled US$168.6 billion (international payment basis, net, flow), a decrease of 3.0% year-on-year, according to the balance of international payments (Ministry of Finance/Bank of Japan). This was the second highest level historically. Based on country and region, North America accounts for 31.4% of this total, Europe made up 35.3% and Asia represents 22.7%. The US and Europe stood out among countries and regions in 2017. This comprised of massive investments, such as overseas M&A that included equity capital. In regions in Asia where M&A investments are scant, the majority of re-investment consists primarily of re-investment by local subsidiaries that have already entered the local market and are investing to set up a new site.

Investment in Asia is expected to remain strong. The 1985 Plaza Accord afforded SMEs the opportunity to turn their attentions overseas as the yen appreciated in value against major currencies. Consequently, the entry into overseas markets by Japanese companies increased rapidly, mainly activating entry into markets into regions in Asia. During this period, the majority of companies venturing overseas were large- and medium-cap companies. After a bit, SMEs (small and medium-scale enterprises) began to make their way overseas. It was in tandem with this trend that other companies continued to follow suit going overseas to protect commercial rights within the market they had entered. In other words, the overseas market entry modes followed two key patterns—the trailing model or the so-called "wild geese flying pattern." However, in the 2000s, there was an increase in the number of SMEs entering overseas markets in alignment with their own risks and business strategies. This was primarily attributable to the contraction of the market in Japan, which reflected a low birth rate and aging society, as opposed to forex issues, chiefly due to the appreciation in the yen's value in the latter half of the 1900s. Given the sense of uncertainty over the future of the market in Japan, SMEs aimed to strengthen measures to expand overseas to remain in the running.

In this chapter, I will reveal the motives and strategies behind these Japanese SMEs that prompted them to establish production bases and sales sites overseas.

Section 1 Current trend in SME expansion overseas and their outlook for the future

At present, in Japan there are approximately 3.809 million SMEs (according to the 2017 White Paper on Small and Medium Enterprises in Japan). Looking at slightly older data, the 2013 White Paper puts the number companies in the manufacturing industry that are engaged in exports at 6,397 firms. In the 2016 White Paper, the total number of companies making direct investments was 6,346. Accordingly, overall, we can see that the ratio of exporters and the ratio of companies making direct investments is a mere 0.17%, respectively. Next we will consider why more SMEs do not expand overseas or why they are unable to opt for offshore expansion.

Section 2 Why don't Japanese SMEs expand overseas?

The Survey on SMEs International Business Expansion (May 10, 2018), compiled by the Industry Research Division of the Shoko Chukin Bank, contains the results of interviews conducted with SMEs at two different times (January 2015, January 2018). According to the responses received, the following are the main reasons why SMEs do not opt to enter markets overseas.

Reasons for not entering markets overseas (2018)

	2018	(2015)
• Business continuity possible given the current level of domestic demand	62.3%	(66.0%)
• Lack of personnel required to launch business operations overseas	20.1%	(18.0%)
• Aim to maintain employment in Japan	19.7%	(18.9%)
• Feasible to secure and expand earnings by dredging up demand in Japan	17.2%	(17.3%)
• Do not/cannot forecast return on investment	14.9%	(14.7%)
• Uncertain on securing personnel	14.9%	(15.3%)
• Do not know what launching a business overseas will entail	14.5%	(13.0%)
• Lack of information on business and systems	12.9%	(11.4%)
• Sales outlook falls short of our margin line	12.6%	(10.4%)
• Lack of capital	9.4%	(9.8%)

Meanwhile, I worked at the Tokyo Metropolitan Small and Medium Enterprise Support Center (Support Center) which assisted SMEs in expanding overseas. I frequently encountered people in corporate management that came in for a consult but had no overseas expansion plan. When asking these corporate executives what the reason was for this, some of the most common response were—"We generate a sufficient amount of profit and are therefore able to make a go of domestically," "We are busy with our domestic operations and have no time to manage operations overseas," "We do not have the knowledge necessary for conducting international operations," "We do not have the capital to fund an expansion overseas," "We are unable to secure overseas personnel," "When I hear about the failures other companies have had expanding overseas, I can't bring myself to attempt to expand overseas," and "I don't think we can find clients on our own."

This overlaps with some of the responses from the Shoko Chukin Bank survey above. When asked further, there are a number of companies that have the ambition to go overseas as they are aware that they can expand their sales channels overseas as long as they secure financing and overseas personnel and have a clear outlook for sales and other factors.

The Support Center accurately grasps the needs of these types of companies considering the expansion of their business operations into overseas markets. For example, in cases where a company wants to sell proprietary

products, (1) sales assistance is acquired by collaborating with a distributor or sales agent that will sell the company's products from Japan, and for companies that want to sell their proprietary products directly overseas, the Support Center will collaborate with its overseas office (Thailand Branch Office) or the office of a partner Japanese consulting firm (Indonesia, Hanoi (Vietnam)) to create an opportunity for business matching with a potential local company. In this and other ways, the Support Center actively provides assistance. In addition, for companies that want to establish a local unit and carry out manufacturing locally, the Support Center will provide information, analyzed from many facets, including political, economic and employment trends in the country the company plans to enter. The Support Center provides consistent support from registration of incorporation to plant operations. In addition, for those companies wishing to form technological alliances, the Support Center will assist in finding a suitable local company. The Support Center provides advice and guidance while working closely with the SME to ensure it safely opens for business.

Given that the company is situated in a different business environment, it is possible it will lead to the creation of new commercial rights. Furthermore, some surveys have shown that companies that expand overseas have experienced a rise in hiring in Japan, as opposed to companies that do not expand overseas. The age where SMEs follow large-cap companies overseas is over. The time has come where SMEs are aware of the strengths of their proprietary products and hammer out measures to improve their weaknesses. Based on this, I will explain the current trend in overseas expansion among SMEs.

In tandem with the progress in globalization, many companies are no longer restricting their business activities to the confines of their own country but are exhibiting cross-border expansion. In Thailand in particular, industrial clusters are forming, mainly consisting of Japanese companies in the high added-value automobile, electrical and electronic, and food processing industries. These clusters, in a manner, function as industrial hubs. However, given the changes in various conditions, including political, economic and social affairs, as well as a rise in personnel costs, the centralization of industries in Thailand is not viewed as desirable from the standpoint of risk management. The aforementioned industries and factors (2) do not represent a vertical specialization of labor in which a single company manufactures identical products. These companies employ a horizontal division of labor whereby a company outsources a specific portion of the manufacturing process.

In addition, impediments for foreign companies in Thailand are the shortage of labor (particularly at the plant worker level) and the difficulty faced in hiring mid-level management. In particular, soaring wages will weaken price competition. In light of this, to avoid this, a system of international division of labor is being built to divide labor between processes by leaving core manufacturing processes in Thailand while relocating other processes to surrounding countries, such as Laos and Cambodia, where labor costs are low.

Meanwhile, companies are recently introducing a horizontal division of labor, which denotes a division of labor between products, in addition to the vertical division of labor. Using automotive manufacturing as an example, automakers are aiming to further improve efficiency by producing engines in Thailand, undercarriage parts in Indonesia and transmissions in the Philippines.

As previously discussed, industries are continuing to evolve, mainly in Thailand. The focus on Thailand, including the adequacy of the infrastructure, high degree of industrial clustering, existence of skilled workers with a certain degree of expertise, and an acceptable training environment, is shifting from large-cap companies to SMEs. The strengthening of connections with local Thai companies, particularly Thai SMEs, is thought to function as an alternative market for Japanese SMEs as the Japanese market is undergoing a low birth rate and aging society.

Accordingly, given limited resources, personnel and other assets, when considering overseas expansion, SMEs likely contemplate over what type of business format is advantageous. In general, the platforms companies employ for their connections with overseas markets are categorized into the four patterns below.

1) Resource-oriented direct investment (development and import, including mineral resource development)
2) Market-oriented direct investment (establish a local unit with the goal of conducting sales to the target market)
3) Efficiency-oriented direct investment (construct a plant overseas, mainly to reduce production costs, including rich labor force, low personnel costs, and raw materials)
4) Strategic asset seeking direct investment (establish R&D facilities overseas, enter market via M&A (merger and acquisitions of companies))

SMEs have limited management resources, such as people, assets and capital. As potential patterns, the main motives for overseas market entry are the abovementioned 2) market entry in pursuit of a means of escape in an overseas market, or 3) market entry to reduce production costs.

Meanwhile, I worked as an investment advisor for around eight years at JETRO Bangkok. I handled diverse consultations in a wide range of fields from many SMEs. Of those companies that aimed to enter the market in Thailand, we asked what was their reason or motive. In this case, the SMEs followed a "wild geese flying pattern" for market entry in which they pursued major suppliers in Japan who entered the market in Thailand. This accounted for more than half of the number of market entry consultations we initially received. Meanwhile, aside from this "wild geese flying pattern" (follow-up market entry), Japanese SMEs are attracted to the business environment in Thailand. There were also many SMEs that achieved market entry backed by their own business strategies and risks. Consequently, this reflects (1) set up production and sales bases as a part of management diversification (development of new commercial rights), (2) contraction of the market in Japan, (3) ease to procure components and parts, and a labor shortage in Japan, and (4) use of personnel in Thailand, forex measures (ease fluctuations triggered by an appreciation/depreciation in the yen's value). Looking at this practically in more details, the goals of overseas expansion by SMEs are (1) overseas export of proprietarily manufactured products (sales channel expansion-oriented development), (2) provision of proprietary manufacturing technology to overseas companies to earn royalty income (technology provision-oriented development), and (3) outsourcing of management of proprietary products to overseas companies primarily with a focus on reducing manufacturing costs for proprietary products (manufacturing consignment-oriented development), and finally the launch of overseas expansion (overseas market entry) by establishing an overseas unit. Furthermore the goal of establishing this local unit is divided between a) being close-knit with the local market and b) being trade oriented (trading activities). Moreover, this involves (1) direct export to a third country from the local site or export of cargo to a third country with transaction settlements going through headquarters in Japan, a so-called triangular trade pattern. (2) The direct trade-oriented model is where product is exported from the parent company in Japan. The platform a company chooses to follow depends on the business environment in which the company operates and the company's management resources.

During my work supporting the overseas expansion of SMEs, given that it was difficult for companies to expand overseas on their own, the predominate request was to find potential business matches, mainly with local sales agents/trading companies that would provide assistance in exporting an SMEs proprietary products. The next largest request was to find subcontractors to which manufacturing could be outsourced. This was followed by requests to find overseas plants to which an SME could provide their proprietary technologies as they wanted to secure royalty income. Note that although there were only a few cases in which support was provided, there were also projects for business succession by overseas partners and M&A deals. And, while SMEs were expanding overseas, a recent characteristic is that this overseas expansion is coming in many different forms.

The first consideration that needs to be made when an SME plans overseas expansion is to decide on which country or region it aims to enter. However, given that the market in Japan is saturated or is continuing to shrink, the more extensive the overseas expansion, the higher the risk. In the case of large-cap companies, there are departments that specialize in and have the personnel to conduct operations including research, market surveys, and analyze country risk and international affairs. They also possess the necessary knowhow. Meanwhile, SMEs do not

have these means therefore they have to make decisions based on movements of their peers. Deciding that things will work out once they go over overseas without any preparations will potentially result in a higher level of risk.

In most cases, even if an SME attempts to conduct a detailed analysis, it tends to not go as planned. In light of this, the SME can only extract factors that will possibly impact their business operations, including their strengths and weaknesses, the existence of competitors, the ability or ease of procuring raw materials, and conditions for establishing an infrastructure. Researching the target country alone will make it possible to reduce the risk of failure. For over 15 years, I worked to support SMEs. In the ASEAN region, where overseas expansion is relatively easy, Thailand in particular is a promising target country.

Among ASEAN countries, even prior to its modernization Thailand enjoyed a remarkable ongoing economic growth from the 1960s. The country achieved an average economic growth rate of 7%-plus from 1961 to 1985. Japanese companies accelerated their expansion overseas from 1986 reflecting the rise in the yen's value owing to the Plaza Accord, which was signed in 1985. As such, up until 1996, the year before the Asian financial crisis, Thailand boasted an extremely high economic growth rate of 9.2%.

However, due to the Asian financial crisis, the region inevitably fell into a temporary economic slump. After this, Thailand posted an economic growth rate of around 4.5% for a while. In addition, the ratio of industrial added value to GDP climbed straight upward from 19% in 1960 to 48% in 2011. It was around this time that Thailand achieved a transition from a primarily agricultural economy to an industrial economy. As such the industrial sector came to drive Thailand's economy.

Thailand was the epicenter of the 1997 Asian financial crisis. This incident prompted Thailand to shift from its protectionist policies for domestic industry to deregulation of restrictions on foreign capital and to steer the country toward further industrialization. As the Eastern Seaboard Development Program, the government designated the three provinces of Chachoengsao, Chonburi and Rayong for the building of a social basic infrastructure, including roads and port/harbor facilities. Following this, the government led the way for the establishment of industrial parks in these three provinces. In response to this movement, the Thai government, under the management of the Ministry of Industry at that time set up the Board of Investment (BOI)[24]. This organization was formed mainly to attract foreign capital to investment domestically in Thailand and had the right to approve such investments. Up to this point, Thailand had posed various restrictions on entry into its markets, including investment regulations that restricted ownership by foreign capital. However, due to the Asian financial crisis, Thailand allowed full ownership by foreign capital in the manufacturing industry.

The BOI is actively attracting investment by granting foreign capital with tax-free benefits and favorable treatment, including support for acquiring work permits, in addition to tax incentives. In particular, energies were poured into developing an import replacement industry, as well as focusing on export promotion measures as a part of the country's measures to enhance its economic power and took great pains to acquire foreign capital. Consequently, coupled with the rapid acceleration in the yen's value owing to the 1985 Plaza Accord, Japanese companies gushed forward into the Thai market in the period from 1986 to 1988. This was the arrival of the first so-called "Thai boom."

During this period, the Japanese companies entering Thailand were mainly medium- and large-cap companies. These companies promoted market entry by calling out mainly to suppliers of raw materials and parts. In the automobile industry, for instance, first-tier parts manufacturers entered the market accompanying by major automakers, such as Toyota Motor Corporation and Nissan Motor Corporation. This was followed by second- and third-tier suppliers, forming the so-called "wild geese flying pattern."

Among second- and third-tier suppliers, there was concern that as their customers entered the market in Thailand, dealings in Japan would decrease. This prompted some companies to decide on making the entry on their

[24] At present, under the direct control of the Office of the Prime Minister. The prime minister chairs the committee.

own. However, concurrent with the growth of business partners, companies that entered the market also were also to reap benefits.

The impetus for overseas expansion in general is to seek tax benefits, including the waiver or reduction of corporate tax in the country it enters, and the exemption of customs duty (tariffs) on machinery and equipment for a certain period. At the time, the incentives offered by the BOI were not as generous as they are now. Regardless, many SMEs entered the market at the behest of their business partners. As this trend was reported by the media both domestically and abroad, various industries made their way into the market in Thailand. According to BOI statistics, Japanese companies rank overwhelmingly at the top for the value and number of direct investments made by foreign companies. At present, although there is some fluctuation in share, Japan continues to sit at the top of foreign investments in Thailand. In this manner, Japanese companies, mainly in the automobile and electrical and electronic industries continued to follow one another into Thailand.

However, in the year after the Asian currency crisis (also referred to as the Tom Yum Kung financial crisis), Thailand's economy exhibited double-digit negative growth. Following this the Thai economy made a recovery from the crisis. Despite this, the economy could not expect to see a recovery to its previous growth rate. Given this, the Thai government implemented industry structural reforms, embarked on strengthening the technological infrastructure to train supporting industries, and made further efforts to attract foreign capital. It was from this time that the economy in Thailand was driven mainly by foreign capital. The domestic market also trended strongly.

Section 3 Decisive factors for overseas expansion by SMEs

Determinants for SMEs when entering an overseas market are not only wage levels, ease of procuring raw materials and infrastructure conditions. The degree of industrial clustering by Japanese companies in candidate markets is also a variable that cannot be ignored. Overseas, Japanese companies possess a stronger sense of comradery than when in Japan. In other words, a factor driving market entry is the potential to "flock" together with one of its own. This factor cannot be measured numerically indicating that non-numerical factors are just as important.

The following is a breakdown of factors SMEs take into account when expanding overseas.

1) Social basic infrastructure (basic infrastructure for daily life)
   i. Utilities, including electric power and water/sewage
   ii. Communication conditions (telephone, Internet and other modes of communication)
   iii. Establish infrastructure, including roads, railways and ports/harbors
   iv. Living environment (social order, residential environment, medicine, sanitation and hygiene, etc.)
2) Government
   i. Degree of political and social stability
   ii. Efficiency of government
   iii. Transparency of legal management (uncertainty of discretionary supervision)
   iv. Status of signed international agreements (EPAs<economic partnership agreements>/ <FTAs (free trade agreements)>/investment agreements, etc.)
   v. Foreign investment incentives (independent market entry possible)
   vi. Costs, including corporate taxes and taxes
   vii. Protection of intellectual properties
   viii. Ease of acquiring a visa
   ix. Existence of foreign labor work restrictions etc.
3) Labor affairs
   i. Personnel costs

ii. Labor quality (particularly excellent mid-level management) and ease in securing labor
iii. Favorable labor-management relations
iv. Frequency of labor disputes
v. Job hopping (employee turnover)
vi. Internal unfair practices (including drug use, etc.) etc.

4) Business practices and marketability
i. Market growth potential
ii. Possibility of the purchase of property
iii. Rent cost
iv. Forex translation risk
v. Existence of money transfer restrictions (profit remittance/royalties, etc.)
vi. Ease of financing
vii. Business practice etc.

5) Business environment
i. Degree of clustering of supporting industries
ii. Market size
iii. Existence of local company competitors in market that was entered and competitors to Japanese companies that have already entered the local market
iv. Ease of procuring materials and equipment
v. Ease of procuring raw materials
vi. Degree of market entry by Japanese companies
vii. Status of competitor market entry
viii. Existence of excellent technological partners
ix. Geographic advantage (spatial proximity)
x. Efficiency of logistics
xi. Complexity of customs clearance
xii. Efficiency of ports/harbors (customs delays due to ship congestion and other factors)
xiii. Prevalence of English (language infrastructure) etc.

6) Other
i. National character
ii. Favorable sentiment towards Japan
iii. Religion
iv. Cost of living
v. Facilities, including entertainment facilities etc.

SMEs extract the predominant factors from these various components and prioritize them to determine the destination of market entry. As the domestic market shrinks, Japanese SMEs are establishing methods that contribute to growth through globalization. Many SMEs are selecting Thailand as the country of choices based on factors such as market growth, investment incentives, a developed social and basic infrastructure for daily life, and as the environment facilitates business development.

One appeal of the investment environment in Thailand is that it is not solely suited for large-cap companies but also facilitates business development for SMEs. In addition, for Japanese, the living environment is nearly the same as it is in Japan. The number of golf courses and gyms is top class among ASEAN countries. The following points reflect the appeal of the living environment.

(1) Favorable living environment despite instability in political affairs
(2) Extensive commercial facilities (Japanese department stores, supermarkets, etc.)
(3) Extensive Japanese restaurants (According to a JETRO survey, there were 3,004 restaurants as of June 2018)
(4) Extensive medical facilities (Hospitals with permanently stationed Japanese doctors)
(5) Advanced industrial clusters (clusters by supporting industries, including automobile, electrical and electronic, chemical, and food processing industries are nearly completed)
(6) Establishment of an infrastructure (Extensive social basic infrastructure, including railways and ports/harbors, extensive basic infrastructure, including hygiene and sanitation, extensive medical facilities, and many industrial parks, both public and private sector)
(7) Geopolitical advantage (Located almost centrally in the ASEAN region)
(8) Product and export based in Southeast Asian countries, India, Australia and the Middle East
Thailand has entered into EPAs (Economic Partnership Agreements) and FTA (Free Trade Agreement) with various foreign countries. It is possible to deploy trade using these EPAs/FTA with Thailand as a base.

Shoppers in the local market (Chiang Mai Province)

Table 2-1 Thailand's FTA negotiations (as of July 2019)

US$ hundred million

		Status of negotiations	Export value	Import value	Balance
Bilateral	India	Early harvest	76.0	48.6	27.3
	Australia*	Issued	107.7	59.3	48.3
	New Zealand*	Issued	16.4	7.2	9.2
	Japan*	Issued	249.1	352.6	-103.5
	Peru*	Early harvest	3.1	1.3	1.8
	Chile*	Issued (goods/services)	7.8	4.5	3.3
	Pakistan	Under negotiation/aim to each agreement within the year	14.8	2.1	12.7
	Turkey	Under negotiation/aim to each agreement within the year	10.8	3.4	7.4
	EU	Move to discussions to resume negotiations	250.2	222.8	27.4
	Sri Lanka	Under negotiation	4.4	0.8	3.5
Multilateral	ASEAN	Issued (goods/services/investment)	683.4	455.0	228.4
	Japan* (vs. ASEAN)	Issued (goods/services/investment)	249.1	352.6	-103.5
	South Korea (vs. ASEAN)	Issued (goods)	48.9	88.8	-39.9
	Australia* New Zealand* (versus ASEAN)	Issued	124.3	66.5	57.8
	India (vs. ASEAN)	Issued (goods/services/investment)	76.0	48.6	27.4
	Hong Kong (vs. ASEAN)	Partially issued	125.0	29.5	95.5
	RCEP	Under negotiation	1483.1	1511.1	-28.0
	TPP-11	Preparing to file for participation	768.7	717.5	51.2

Source: Ministry of Commerce, Kingdom of Thailand

Trade results for 2018

*indicates countries participating in the TPP

(9) International competitiveness which ranks at the top and an environment surpasses Japan when it comes to facilitating business operations. In the 2019 global competitiveness ranking, Thailand ranks third among ASEAN countries, behind Singapore and Malaysia. In the comprehensive ranking, Singapore ranks No.1, Malaysia ranks No. 22 and Thailand ranks No. 25 (Refer to Table 2-2 global competitiveness ranking (2019; 63 countries). Furthermore, in the ranking of countries that promote business feasibility (2019), Thailand once again follows Singapore and Malaysia in the ASEAN region, and is commended for exceeding Japan in the facilitation of business development.

Table 2-2 International competitiveness ranking (2019; 63 countries)

Rank	Country
1	Singapore (3)
2	Hong Kong (2)
3	US (1)
4	Switzerland (5)
5	UAE (10)
6	Netherlands (4)
7	Ireland (12)
8	Denmark (6)
9	Sweden (9)
10	Qatar (14)
11	Norway (8)
12	Luxembourg (11)
13	Canada (10)
14	China (13)
15	Finland (16)

Rank	Country
16	Taiwan (17)
17	Germany (15)
18	Austria (19)
19	Australia (18)
20	Iceland (24)
·	—
22	Malaysia (22)
23	UK (20)
·	—
25	Thailand (30)
·	—
28	South Korea (27)
·	—
30	Japan (25)
·	—

Rank	Country
31	France (28)
32	Indonesia (43)
·	—
35	Estonia (31)
·	—
43	India (44)
·	—
45	Russia (45)
46	Philippines (50)
·	—
50	Mexico (48)
·	—
59	Brazil (60)
·	—
63	Venezuela (63)

Note: Numbers in parentheses indicate ranking in 2018

Assessment criteria: (1) macro-economics/(2) business efficiency/(3) government efficiency/(4) degree of infrastructure development

Colored country names are ASEAN members and Japan

Source: IMD World Competitiveness Yearbook 2019

Table 2-3 Countries that promote business feasibility (2019)

Ranked based on criteria for the 10 items below (ranking for each factor is omitted)

(1) Easy start-up/(2) easy to acquire construction permit/(3) electric power conditions/(4) easy to register assets/(5) financing/(6) protect minority shareholders/(7) tax rate/(8) international trade environment/(9) status of contract compliance/(10) easy to file for bankruptcy (Scores omitted)

Overall ranking	Country	Score
1	New Zealand	86.49
2	Singapore	85.24
3	Denmark	84.64
4	Hong Kong	84.22
5	South Korea	84.14
6	Georgia	83.28
7	Norway	82.95
8	US	82.75
9	UK	82.65
10	Macedonia	81.55
11	UAE	81.28
12	Sweden	81.27
13	Taiwan	80.90
14	Lithuania	80.83
15	Malaysia	80.60
16	Estonia	80.50
17	Finland	80.35

Overall ranking	Country	Score
18	Australia	80.13
24	Germany	78.90
27	Thailand	78.45
31	Russia	77.37
32	France	77.29
38	Switzerland	75.69
39	Japan	75.65
46	China	73.64
54	Mexico	72.09
69	Vietnam	68.36

Overall ranking	Country	Score
73	Indonesia	67.96
77	India	67.23
92	Saudi Arabia	63.50
124	Philippines	57.68
138	Cambodia	54.80
154	Laos	51.26
171	Myanmar	44.72
189	Eritrea	23.07
190	Somalia	20.04

Colored country names are ASEAN members and Japan

Source: The World Bank (Doing Business 2019)

(10) More than 40,000 Japanese companies have entered the market

The number of members of the Bangkok arm of the Japan Chamber of Commerce ranks second in the ASEAN region (No. 1 is Vietnam).

Table 2-4 Number of Japan Chamber of Commerce and Industry members in ASEAN (as of the end of June 2018)

	2013	2014	2015	2016	2017	2018
Thailand	1,479	1,552	1,624	1,716	1,749	1,762
Vietnam	1,213	1,323	1,463	1,562	1,683	1,780
Singapore	772	801	832	854	854	836
Philippines	674	721	745	776	805	830
Indonesia	631	703	743	786	773	680
Malaysia	568	582	607	610	574	593
Myanmar	107	168	239	310	351	376
Cambodia	144	168	192	218	245	252
Laos	56	71	77	79	93	95
Brunei	3	3	3	3	3	3
Total	5,647	6,092	6,525	6,914	7,130	7,207

Vietnam: Includes Hanoi, Ho Chi Minh and Da Nang

Philippines: Includes Manila, Cebu and Mindanao

Indonesia: Jakarta only

Source: Compiled based on materials from the Japan Chamber of Commerce offices in each respective country

(11) Favorable sentiment towards Japan

Sentiment towards Japan is positive in all countries in the ASEAN region but it is particularly favorable in Thailand. According to an opinion poll on Japan conducted in the ten ASEAN countries and which was released by Japan's Ministry of Foreign Affairs (MOFA) in November 2017, 89% of those polled in ASEAN overall indicated positive sentiment towards Japan and 91% believed the Japanese were reliable. According to MOFA, in detailed questionnaires taken of citizens in each country, there was a high level of interest in Japan, and this was particularly true among the citizens of Thailand, in contrast with other ASEAN countries[25].

(12) Largest population of Japanese in ASEAN

According to MOFA, there are 72,754 Japanese citizens living in Thailand (a rise of 4.3% year-on-year). This population is centralized in the capital of Bangkok, as 50,966 or around 70% of the total number of Japanese citizens living in Thailand reside in the city[26]. It should be noted that the US has the largest number of Japanese citizens who are residents (426,206 people). This is followed by China, No. 2, with 124,162 Japanese, and Australia, No. 3, with 97,223 Japanese taking up residence. Thailand ranks No. 4 and is followed by Canada (70,025 people).

(13) BOI investments by foreign capital stand at the top based on value and number of investment deals. (Refer to Table 2-5 and Table 2-6)

[25] Refer to the following URL for detailed results. https://www.mofa.go.jp/mofaj/press/release/press4_005211.html

[26] As of October 2017. Annual Report of Statistics on Japanese Nationals Overseas.

Table 2-5 Statistical table for the BOI's investment applications (application criteria)

Million bahts (THB)

	2016			2017			2018		
	Projects	Total filing amount	% of total	Projects	Total filing amount	% of total	Projects	Total filing amount	% of total
Japan	270	55,004	21.7%	311	136,020	47.1%	334	74,416	12.8%
Taiwan	44	6,795	2.7%	58	9,918	3.4%	48	6,019	1.0%
Hong Kong	34	20,108	7.9%	42	7,484	2.6%	44	20,321	3.5%
South Korea	35	8,998	3.5%	27	3,204	1.1%	27	2,752	0.5%
Singapore	107	28,005	11.0%	96	40,132	13.9%	102	22,285	3.8%
Malaysia	32	3,647	1.4%	23	10,035	3.5%	35	16,569	2.8%
Indonesia	3	4,972	2.0%	5	6,210	2.1%	4	7,114	1.2%
Philippines	1	4	0.0%	3	8	0.0%	5	609	0.1%
Myanmar	1	9	0.0%	1	10	0.0%	1	5	0.0%
China	99	23,837	9.4%	83	25,762	8.9%	131	55,475	9.5%
India	30	1,309	0.5%	24	1,290	0.4%	13	237	0.0%
US	27	5,274	2.1%	31	19,804	6.9%	38	333,955	57.3%
Canada	11	430	0.2%	13	307	0.1%	5	230	0.0%
Australia	27	948	0.4%	15	4,550	1.6%	23	2,336	0.4%
New Zealand	8	119	0.0%	5	96	0.0%	1	4	0.0%
UK	24	4,865	1.9%	31	2,977	1.0%	25	3,745	0.6%
Germany	33	2,701	1.1%	24	3,099	1.1%	36	4,006	0.7%
Switzerland	7	211	0.1%	14	3,861	1.3%	17	3,041	0.5%
France	21	179	0.1%	28	1,138	0.4%	23	7,908	1.4%
Belgium	3	39	0.0%	4	37	0.0%	13	298	0.1%
Italy	3	9	0.0%	6	375	0.1%	8	186	0.0%
Netherlands	42	29,946	11.8%	29	15,953	5.5%	69	8,411	1.4%
Other	55	29,097	11.5%	15	7,839	2.7%	34	12,636	2.2%
Total foreign capital	900	253,834	100%	888	288,878	100%	1,036	582,558	100%

Note: Posted projects for which foreign capital accounted for 10% or more of investment
Investments in two or more countries are posted for each respective country

Source: BOI

Table 2-6 Statistical table on the BOI's investment approval (approval criteria)

Million bahts (THB)

	2016			2017			2018		
	Projects	Total investment	% of total	Projects	Total investment	% of total	Projects	Total investment	% of total
Japan	300	86,638	34.1%	280	80,902	28.3%	314	61,436	16.4%
Taiwan	36	8,032	3.2%	38	5,684	2.0%	31	7,221	1.9%
Hong Kong	42	2,681	1.1%	33	2,847	1.0%	43	4,081	1.1%
South Korea	32	5,926	2.3%	36	7,713	2.7%	20	1,334	0.4%
Singapore	116	18,383	7.2%	88	32,520	11.4%	106	32,703	8.8%
Malaysia	22	1,868	0.7%	26	8,298	2.9%	20	7,445	2.0%
Indonesia	3	14,543	5.7%	4	8,252	2.9%	3	487	0.1%
Philippines	1	4	0.0%	2	6	0.0%	3	15	0.0%
Myanmar	—	—	—	1	4	0.0%	1	10	0.0%
China	7	19,999	7.9%	80	13,095	4.6%	81	21,350	5.7%
India	17	975	0.4%	9	351	0.1%	10	841	0.2%
US	23	11,596	4.6%	19	6,379	2.2%	28	25,329	6.8%
Canada	6	327	0.1%	11	1,060	0.4%	6	215	0.1%
Australia	17	808	0.3%	9	104	0.0%	13	872	0.2%
New Zealand	6	103	0.0%	5	176	0.1%	4	112	0.0%
UK	30	2,230	0.9%	22	4,275	1.5%	30	5,139	1.4%
Germany	23	1,108	0.4%	25	3,268	1.1%	24	2,247	0.6%
Switzerland	12	953	0.4%	11	588	0.2%	15	3,585	1.0%
France	11	73	0.0%	24	367	0.1%	15	879	0.2%
Belgium	3	25	0.0%	3	35	0.0%	11	1,955	0.5%
Italy	3	10	0.0%	3	16	0.0%	5	398	0.1%
Netherlands	33	20,175	7.9%	32	20,856	7.3%	34	24,060	6.4%
Other	128	57,916	22.8%	19	88,601	31.0%	20	172,022	46.0%
Total foreign capital	871	254,373	100%	780	285,397	100%	837	373,736	100%

Note: Posted projects for which foreign capital accounted for 10% or more of investment
Investments in two or more countries are posted for each respective country
Source: BOI

Section 4 Thai government attracts foreign capital

The BOI, which is under the supervision of the Office of the Prime Minister, is in charge of enhancing Thailand's appeal as a destination for market entry. The government in Thailand has delegated substantial rights to the BOI related in part to taxation and authorizations/approval for companies entering the market in Thailand. The BOI is actively supporting entry into the market in Thailand. The BOI anticipates entry into Thailand mainly by companies in the manufacturing industry. Companies received authorization from the BOI and are offered various investment incentives.

Here are a few examples of the incentives offered: a) Potential for full independent ownership (100% foreign capital), b) potential to own property, c) waiver of corporate tax for a certain period, and d) waiver of customs duty (tariffs) on imported raw materials used in products that are to be exported[27]. Thailand has grown into a major industrial nation even in the ASEAN region owing to the aggressive activities by the BOI thus far to attract foreign capital, chiefly in the manufacturing sector. Currently, Thailand is investing into neighboring countries.

Thailand exhibits fairly muscular economic strength unlike before. In 2017, following the advent of the Trump administration in the US, President Trump began to advocate an America First policy. His comments and actions

[27] Refer to the following URL for details on investment incentives: https://www.jetro.go.jp/world/asia/th/invest_03.html

brought about turmoil to the global economy. This impact reached Thailand as well. Frictions between the US and China have resulted in tariffs being raised for a fair number of items by both countries. Also, the slowdown in China's economy is having an impact on the ASEAN region, including Thailand. Furthermore, given that the US has hiked its interest rate, there is a possibility that an outflow of capital from Thailand and other emerging countries could occur. However, even if situation occurs where there is a sudden outflow of capital, mainly from emerging economies, it is believed that Thailand will be able to steer clear of a situation resembling the 1997 Asian financial crisis. Thailand has an abundant reserve of foreign currency. As of the end of December 2018, its balance of foreign currency reserves was around US$205.0 billion, equivalent to approximately 11 months worth of imports. As a separate yardstick to measure the abundance of foreign currency reserves, the Assessing Reserve Adequacy Metric[28], which was released by the IMF, stands at 100%-150%, which is a safe line. According to the IMF, Thailand's reserve adequacy stood at 221% at the end of 2017. Based on this, it can be assessed that the country can withstand a currency crisis. Meanwhile, Malaysia, to which Thailand is frequently compared, has a reserve adequacy metric of only 84%.

In this manner, Thailand is boosting its resilience from the viewpoint of foreign currency, and is aiming to rapidly transform from a manufacturing country into an investing country. At present, the professed "middle-income trap" is a concern for the government of Thailand. The middle-income trap is an economic development predicament where growth lulls as a country cannot change its development pattern or strategy after achieving middle-income level status. The Thai government, at present, is developing various measures to avoid falling into this middle-income trap. The main scheme is Thailand 4.0, a new industry policy that was announced by the government in 2016.

Thailand 4.0 took its name from Germany's Industry 4.0. However, in short, Germany's Industry 4.0 is about integrating existing technology with digital technologies. Meanwhile, Thailand 4.0 is the vision of a long-term national strategy for 2017-2036, which was officially advocated by Prime Ministry Prayuth in 2016. This new policy aims to turn Thailand into a high income nation by 2036.

This policy is positioned as an extension of industrial policies implemented thus far. Going forward, the Thai government plans to maintain and develop its economic growth by creating a digital economy, and aims for growth on the back of innovations in next-generation industries, including next-gen automobiles, robotics, smart electronics and food products. In brief, Thailand 4.0 is positioned as a measure to contribute to high added value and competitive fields.

The road to Thailand 4.0, which aims to enhance the country's growth, was preceded by Thailand 1.0, which focused mainly on agriculture. This was followed by Thailand 2.0, which involved the development of light industry and import replacement industries. Then came Thailand 3.0, which involved a transition to heavy and chemical industries, shored up by foreign capital. The vision of Thailand 4.0 is to transition to high-tech and high value-added industries. Focus should be on the fact that Thailand 4.0 transversely covers all industries. In Thailand 1.0, although advancements were made in automation in the field of agriculture, it still relies on manual labor and has not emerged from being a labor-intensive sector. However, even in the field of agriculture, the plan is to adopt advanced technologies to create a new model for agriculture, in other words smart farming, which will realize a reduction in labor, high quality and large-scale production, or achieve an artificial light plant factory. In addition to this, the Thai government is pouring energies into the achievement of Thailand 4.0 not only in the field of agriculture, as discussed above, but also into securing water resources to avoid conflicts with neighboring countries over water rights, medical technologies, personnel training, education, particularly education using e-Learning (to alleviate education gaps between remote and urban areas), the development of functional foods, environmental measures,

[28] The IMF formula for calculating the optimum level for foreign currency reserves, in cases where floating exchange rates are employed: Export amount X 5% + money supply in a broad sense X 5% + short-term debt X 30% + other liabilities X 15%.

including waste disposal solutions, and the further enhancement of Thailand's appeal to tourists to lure in foreign tourists to a level that surpasses Japan[29]. In particular, Thailand aims to launch a policy that emphasizes "Thainess," a facet of interest for foreign tourists (i.e. develop hotel facilities in a manner similar to Japan's Hoshino Resort), and also the active deployment of e-commerce, which is expected to expand further.

Thailand has been active in attracting manufacturers thus far. Although the country still plans to further strengthen this, it also aims to concurrently fortify the service industry. The aim is to realize sophisticated quality of services themselves by providing services customized to the needs of individual customers. Based on a variety of requests and claims from customers, product development will be implemented based on feedback from the consumer to a business (C to B). The starting point is the concern of falling into the middle-income trap and Thailand 4.0 is a policy established by the Thai government. However, in the process of implementing this policy, while it is natural to incorporate the functions, pricing and quality of products and services into business strategies, solutions to issues that society is confronting should also be integrated so that companies can contribute to the enhancement of creating social values (social creating value). This movement is a break for Japanese SMEs to find new business opportunities in Thailand. In Japan, where there is a low birth rate and society is aging, markets are rapidly shrinking depending on the industry. Amid these conditions, companies, even SMEs, are at a stage where overseas expansion offers a way out. There is a large appetite for investment in Thailand regardless of whether the company is a Japanese large-cap firm or SME. According to a survey released annually by the Japan Bank for International Cooperation (JBIC), Thailand continually ranks high as a promising investment country in the medium/long-term (refer to Table 2-7).

[29] The number of foreign tourists visiting Thailand in 2018 was 38.28 million people (Ministry of Tourism & Sports). This substantially outperforms the 31.20 million foreign tourists that visited Japan in the same year (Japan National Tourism Organization: JNTO).

Table 2-7 Promising countries for investment based on a medium/long-term perspective (manufacturing industry)

2014			2015			2016			2017				2018			
Rank	Country	% of votes	Rank	Country	% of votes	Rank	Country	% of votes	Rank	Country	% of votes	YoY	Rank	Country	% of votes	YoY
1	India	45.9%	1	India	40.4%	1	India	47.6%	1	China	45.7%	↑	1	China	52.2%	-
2	Indonesia	45.7%	2	Indonesia	38.8%	2	China	42.0%	2	India	43.9%	↓	2	India	46.2%	-
3	China	43.7%	2	China	38.8%	3	Indonesia	35.8%	3	Vietnam	38.1%	↑	3	Thailand	37.1%	↑
4	Thailand	35.3%	4	Thailand	30.7%	4	Vietnam	32.7%	4	Thailand	34.5%	↑	4	Vietnam	33.9%	↓
5	Vietnam	31.1%	5	Vietnam	27.5%	5	Thailand	29.4%	5	Indonesia	33.1%	↓	5	Indonesia	30.4%	-
6	Mexico	202.0%	6	Mexico	23.6%	6	Mexico	25.9%	6	US	26.1%	↑	6	US	28.8%	-
7	Brazil	16.6%	7	US	16.6%	7	US	19.3%	7	Mexico	18.2%	↓	7	Mexico	13.7%	-
8	US	13.2%	8	Philippines	11.5%	8	Philippines	10.6%	8	Philippines	10.6%	-	8	Philippines	10.0%	-
9	Russia	12.0%	9	Brazil	11.1%	9	Myanmar	10.1%	9	Myanmar	9.0%	-	9	Myanmar	8.6%	-
10	Myanmar	11.0%	10	Myanmar	7.9%	10	Brazil	7.2%	10	South Korea	6.3%	↑	10	Malaysia	8.4%	↑
11	Philippines	10.0%	11	Malaysia	6.2%	11	Malaysia	6.8%	10	Brazil	6.3%	-	11	Germany	5.8%	↑
12	Malaysia	9.2%	12	Russia	5.5%	12	Singapore	4.8%	12	Malaysia	5.9%	↓	12	Brazil	5.6%	↓
13	Turkey	5.2%	13	Singapore	4.6%	13	Taiwan	4.6%	13	Russia	4.3%	↑	13	South Korea	5.1%	↓
14	Singapore	5.0%	14	Turkey	3.9%	14	Germany	4.1%	14	Singapore	3.8%	↓	14	Taiwan	4.4%	-
15	Cambodia	4.0%	14	South Korea	3.9%	15	Russia	3.5%	14	Taiwan	3.8%	↓	15	Russia	3.7%	↓
15	South Korea	4.0%	16	Taiwan	3.7%	16	South Korea	3.1%	16	Germany	2.9%	↓	16	Singapore	3.5%	↓
17	Taiwan	3.8%	17	Cambodia	3,2%	17	Turkey	2.5%	17	Turkey	2.7%	-	17	Cambodia	3.0%	↑
18	Germany	1.8%	18	Germany	3,2%	17	Cambodia	2.5%	18	Australia	2.3%	↑	18	Australia	2.8%	↓
19	France	1.4%	19	Saudi Arabia	1,6%	19	Australia	2.3%	19	Canada	2.3%	↑	19	Turkey	2.1%	↓
19	Saudi Arabia	1.4%	20	Bangladesh	1.4%	20	Iran	1.7%	20	Cambodia	2.0%	↓	20	Laos	1.6%	↑
19	South Africa	1.4%	20	Laos	1.4%								20	France	1.6%	↑
			20	UK	1.4%											

Source: Compiled based on JBIC, Report on Overseas Business Operations by Japanese Manufacturing Companies, Results of direct investment survey for each respective year
Approximately 1,000 target companies, number of valid responses: about 600 companies)

As this table shows, next to China, Thailand is the next largest production base in scale for Japanese companies. In addition, the data suggests that it serves as a relay point for deployment in regions in Asia, including ASEAN. According to JBIC, around 30% of the companies responding to its survey are SMEs. In addition, in JETRO's 2018 Survey on the International Operations of Japanese Firms under measures for overseas expansion (by country and region), of those companies that responded they "currently had an overseas base and plan further expansion going forward," Thailand ranked third, after China and Vietnam as the country/region in which they plan expansion. A survey by JBIC also provided similar results (Table 2-8).

Table 2-8 Countries & regions planning overseas business expansion (top 20 countries/regions)

(Multiple response, %)

Country/region	FY2018		FY2017		FY2016		FY2015		FY2014	FY2013	FY2012	FY2011
	n=1,050	Rank	n=938	Rank	n=992	Rank	n=895	Rank	n=1,001	n=1,119	n=1,149	n=1,602
China	55.4	1	49.4	1	52.3	1	53.7	1	56.5	56.9	59.2	67.9
Vietnam	35.5	2	37.5	2	34.1	3	32.4	4	28.7	29.6	25.9	20.3
Thailand	34.8	3	36.7	3	38.6	2	41.7	2	44.0	47.0	41.2	27.9
US	32.3	4	29.0	4	33.5	4	33.7	3	31.3	25.4	26.0	21.1
Indonesia	23.4	5	24.8	5	26.8	5	31.8	5	34.4	35.0	32.0	24.7
Western Europe	21.9	6	21.5	6	19.7	7	20.6	7	18.1	15.7	15.9	15.7
Taiwan	21.3	7	20.0	7	20.6	6	21.6	6	21.0	20.0	21.8	18.5
India	20.9	8	18.2	8	18.5	8	20.1	8	16.1	19.2	19.4	21.8
Singapore	15.0	9	17.1	9	17.7	9	16.1	10	19.3	18.3	17.8	14.0
Malaysia	14.2	10	14.0	10	14.7	11	15.5	11	14.8	15.4	15.7	12.2
South Korea	13.6	11	12.6	13	15.0	10	16.5	9	15.9	17.2	18.8	18.8
Hong Kong	13.5	12	13.6	11	14.1	12	14.2	12	16.1	15.4	15.8	14.2
Philippines	9.9	13	13.1	12	13.4	13	11.3	14	10.8	10.9	7.5	5.1
Myanmar	8.7	14	10.2	14	12.7	14	11.5	13	10.1	10.9	-	-
Australia	5.5	15	4.3	18	4.6	19	4.6	19	2.8	3.3	3.7	4.0
Mexico	4.6	16	6.9	15	8.5	15	10.9	15	10.1	7.6	5.6	3.1
Central/Eastern Europe	4,5	17	5.2	16	5.9	16	7.0	16	6.1	3.3	4.2	4.7
Russia·CIS	4.1	18	4.1	19	4.9	18	4.1	20	6.2	6.5	5.8	6.9
Cambodia	3.3	19	4.8	17	5.2	17	6.0	17	5.3	5.4	-	-
Canada	3.2	20	2.2	23	3.2	22	3.4	21	2.3	24.0	2.5	2.9
ASEAN 6	67.3		69.2		70.5		73.2		73.5	74.8	69.0	56.3

Notes: (1) The parameters for FY2011 and FY2012 is the figure for expansion functions, excluding the number of companies that did not respond, for companies that plan to newly enter the market or further expand overseas.
The parameter for FY2013 onward is the figure, excluding the number of companies that did not respond, for companies that currently have an overseas base and plan to further expand overseas going forward.
(2) Companies that selected one of the ASEAN 6, Singapore, Thailand, Malaysia, Indonesia, the Philippines and Vietnam. In the breakdown for Western Europe, Russia, CIS and Central and East Europe, there were no options provided. There is only survey data for Myanmar and Cambodia from FY2013 onward. For West Europe in FY2017, companies that selected the UK or a Western European country (other than the UK).
(3) Percentage of companies with more than one expansion function per country/region. Companies with several expansion functions in more than one country or region is counted as one company.

Source: JETRO
Summary of results of the JETRO Survey on the International Operations of Japanese Firms (JETRO overseas business survey) for FY2018 (page 20)

In addition, the Development Bank of Japan has been implementing a survey of business trends at overseas units of business partners for many years. According to the survey in November 2018, the response rate was a low 24.0% but in the ASEAN region, 56.1% or more than half of companies responded they plan to expand business operations in the future. The ASEAN region continues to be positioned as the world's growth center.

According to the survey, based on the most recent financial statements available, 52.1% of companies that responded said they posted net income, an increase of 8.7 points versus the previous survey (June 2017). In addition, 61.2% of companies that responded said they planned to record a profit in the upcoming years, which was nearly flat compared with the previous survey. Meanwhile, 6.8% said they expected a decline in profit, which was up 0.3 percentage points from the prior survey.

The numbers mentioned at the start of this report explain trends for ASEAN overall. An overwhelmingly large number of responding companies are located in Thailand[30] and the trends at companies can be interpreted to represent trends and conditions in Thailand to a certain extent.

[30] Survey of business trends at overseas units of business partners (Japan Finance Corporation) page 5. https://www.jfc.go.jp/n/findings/result_index_o.html

Section 5 Thailand facilitates market entry in the manufacturing industry but barriers to entry are high in the service industry

As seen thus far, in contrast with other ASEAN countries, Thailand offers easy market entry with few problems for Japanese, in areas such as investment, daily life and sanitation/hygiene. However, for SMEs it cannot be denied that there are numerous restrictions that cannot be unconditionally accepted, including the investment environment. The following are major obstacles, mainly in the service industry.

(1) Restrictions on foreign investment (Majority investment by local capital is mandatory)
(2) Ambiguous interpretation of the legal system (Arbitrary interpretation by regulatory authorities)
(3) Secure personnel (Difficulty securing personnel, including mid-level management)
(4) Regulations restricting foreign labor (Strict terms on acquiring work permits)
(5) Financing
(6) Issues with payment collection

Regarding item (5), collateralization is strongly deep-rooted in Thailand. Without collateral, it is difficult to get a loan from a local bank. In light of this, when SME procures capital locally, it must rely on the parent company to either issue standby credit, which is a loan guarantee, or depend on a loan from the parent. Also, regarding item (6), although bank transfers are becoming more common, the use of cheques is still mainstream. Consequently, at times, an SME will receive a bad cheque. In addition, there is no punishment for writing a bad cheque, with the exception of filing a lawsuit. Even if a bad cheque is issued, this will not lead to a suspension of bank transactions as is the case in Japan.

Furthermore, regulations related to the service industry, continue to restrict foreign capital in the service industry, which is indispensable for the maintenance and development of the manufacturing industry. The Thai government sees Thailand 4.0 as an important national policy. In light of this, it is difficult to understand the restrictions placed on the service industry, which is vital to the manufacturing industry. Manufacturing, maintenance and other services are like the wheels of a car. Bundling manufacturing as manufacturing and peripheral industries as service industries runs the risk of not only impeding the development of the manufacturing industry but of also reducing its competitiveness. The following are major areas of the service industry which are crucial for the manufacturing industry.

- Engineering (including design work)
- Logistics industry (including domestic transport and warehousing, etc.)
- Maintenance, repairs, consigned manufacturing (In Thailand, OEM is categorized as part of the service industry)
- Inspection and analysis services, including testing technology (chemical analysis to test for residue, etc.)
- Personnel training industry (operations management, including for educational facilities for personnel training, etc.)

In many cases, Japanese SMEs do not only engage in manufacturing but also integrate the above services. A large-cap company cannot complete a major product on its own. A project will be complete once SMEs that possess technologies in their respective field of expertise participate in the project. For instance, in the case of the Shinkansen bullet train project being planned by Japan and Thailand, SMEs are deeply involved in the manufacturing on a single railway car. Package business development is required. This includes creating systems to operate a train, vocational training for drivers, and maintenance and inspections among other operations. This is essentially a value-added service for a series of processes undertaken to manufacture the Shinkansen bullet train. The sale of a singular item halts the transfer of technology in the service field and results in a loss of opportunity for Thailand.

Rather than just seeing certain points, the integration of services, including goods and personnel training, provides an overall view. As previously stated, the deregulation of the service industry will enable the enhancement of the frontlines where goods are manufactured. This is likely to give way to new innovations. While advocating the EEC, which is at the core of Thailand 4.0, to promote well-balanced development in Thailand overall, the service industry, which is crucial to the manufacturing industry, should be deregulated and SMEs should be actively enticed to enter the market.

Japan is in the lead globally when it comes to a low birth rate and aging society. Management at SMEs are no exception. Management continues to age. Moreover, a serious issue is the lack of successors. SMEs are confronted with two issues, aging and a lack of successors.

Meanwhile, Thailand, while not to the extent of Japan, is also seeing its society age. According to statistics on the progress of aging in Thailand based on the elderly population in ASEAN, which were released in June 2016 by the Information and Communication Technology Center, which is under the supervision of the Office of the Permanent Secretary at the Ministry of Social Development and Human Security, and National Statistical Office of Thailand, senior citizens made up 10.47% of the population in Thailand as of 2015 (7.22 million people were 65 years of age or older, versus a total population of 68.96 million). It is projected that by 2030 19.45% of the population will be 65 years or older. If Thailand does not take action immediately, then it could potentially confront the same problems as Japanese SMEs.

Given these conditions in Thailand, to contribute to further industrial development in Thailand by promoting market entry into Thailand by Japanese SMEs, in addition to an investment environment that offers the various incentives discussed thus far and a favorable cluster of manufacturing companies, improvement to the service industry will be necessary, including a review of service industry regulations, so that Japanese SMEs can fully leverage their proprietary service capabilities.

At the start of this chapter, I touched upon the number of Japanese companies that have entered the market in Thailand (direct investment). The percentage of SMEs that have or plan to enter the market is estimated at 14.7% of the overall total. Based on this number, it can be said there is a large leeway for overseas expansion at Japanese SMEs. To achieve this, public institutions in Japan and Thailand will need to collaborate to further improve the environment so that it is conducive for SMEs to easily launch start-ups in both countries.

Large-cap companies create the business environment, and the destiny of SMEs is to align themselves with this environment. Both parties exert their individuality while aiming to achieve the common interest and co-existence with society in Thailand.

Conclusion

In this chapter, we examined overseas expansion by SMEs. Given limited management resources, including people, assets, capital and information, it is difficult for SMEs to go it alone when expanding overseas. In light of this, it is important to collect data and conduct research prior to market entry, including using the services of JETRO and other public institutions to gather a variety of information on countries being considered for entry. Furthermore, several factors should be considered as a doorway for expansion overseas. An SME should analyze its own strengths and weaknesses prior to entering an overseas market. This includes a) clarifying the purpose for entry (enter the manufacturing industry, establish a sales base, outsource production, form a technology alliance, etc.), b) has an internal organization been established to support overseas expansion, and c) secure a supplier for raw materials in the case of a manufacturers (stability, long term).

I engaged in providing support to SMEs for overseas expansion. Amid this, the most frequent example of failed market entry was insufficient local business feasibility study (F/S). Consequently, in this case, these SMEs were unable to achieve the earnings performance they expected and inevitably were forced to withdraw from the market. In addition to this, there are substantial differences in the business environment, including the legal system, business practices and work values, between Japan and overseas. Japan and Thailand are in close proximity given that both countries are Buddhist countries in Asia. Management methods used in Japan cannot be transferred. The key to success is whether a management method suited for the overseas market (Thailand) is compatible or not. Additionally, it is best to realize the "localization of management," including training local personnel and delegating management to these trained employees.

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Chapter 3

Investment Policies of the Thai Government (BOI Policies)

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Introduction

The purpose of this chapter is not only to learn about the Foreign Business Act (FBA) which is essential for attracting investment to Thailand and for foreigners to conduct business in Thailand, but also to understand "the story" leading up to today by explaining the historical background of these policies. The understanding of current rules is naturally necessary for thinking about conducting business in Thailand. However, understanding the background factors and trends underpinning the introduction of these systems and transitions—trade deficit, anti-Japanese sentiment, Plaza Accord, the Asian financial crisis, and middle-income trap—and comprehending the direction the Thai government is currently moving toward, will likely be helpful for future business activities.

In addition, businesses promoted by the BOI will receive certain advantages, namely corporate tax exemptions and the expedient issuance of visas and work permits. However, the flip side is that accounting documents must be divided up for each recommended businesses, and there is a risk of additional tax being levied if raw materials used in exports, which were granted an import tax exemption, are not accurately managed. Requirements for strict management can prove to be a disadvantage for office administration. Nonetheless, without the benefits granted by the BOI, there is a possibility that foreign companies will not even be able to engage in some service businesses in which the company maintains majority ownership owing to provisions in the FBA.

Accordingly, this does not only apply to Thailand but when expanding business operations overseas it is essential to accurately understand and recognize local rules. When receiving consultations from many companies locally, we make it a point to warn companies when they initially set up their local unit. However, once the original expatriates leave, this is not passed on to the new, incoming staff. I saw cases where the new staff violated laws and ordinances as there were not cognizant of the rules.

I hope this chapter will serve as a reference for Japanese companies that are considering entering an overseas market and also as materials to reconfirm rules by companies that have already set up shop overseas.

Section 1 Historical transition of systems

1. The start of investment incentives

The Korean War, which started in June 1950, (unofficially) ended in an armistice in July 1953. During the Korean War, Thailand's export of primary goods, including rubber and tin, expanded making for positive economic conditions. Once the armistice was signed, these goods were no longer necessary, causing the country's trade deficit to balloon. In light of this, the government of Thailand aimed to reduce its trade deficit by producing goods at home, thereby moving forward with the country's industrialization[31].

In addition, it was around this time that the Thai government implemented an assimilation policy for Chinese immigrants. At the time, Chinese immigrants were mainly engaging in trade. Given their high level of mobility, there was a risk that these Chinese immigrants would flee to another country, along with all their capital. In light of this, it is said that the government encouraged Chinese immigrants to engage in industry (own plants) so that they would permanently stay in Thailand.

In 1954, the Industry Promotion Act, a precursor to the current Investment Promotion Act, was enacted as an industrialization policy. The THAILAND Board of Investment, the predecessor of the present-day Board of Investment of Thailand (BOI), was launched to act as the operation's window for this law.

However, although this is acknowledged by the BOI itself, given the lack of the law's transparency, the procedures were complex as it was necessary to obtain approval of the National Assembly to receive a recommendation. Meanwhile, even though time was spent on receiving approval, the corporate tax exemption period was a short 2-5 years. Furthermore, when approving the introduction of foreign capital, guidance was put in place citing the government of Thailand would hold a certain ratio of ownership in the business. The enactment of this law did not always connect to Thailand's investment in foreign companies. In actuality, applications during the period from 1954, when the law was enacted, to 1958, were for a mere nine projects. Moreover, only six approved projects were mainly for state-affiliated public enterprises[32].

2. Private sector-driven industrialization

Reflecting this, the government of Thailand aimed to change direction. Entering 1959, the government attempted to transition from government-driven to private sector-driven industrialization. At the outset, the government made a proclamation in January 1959 that clearly specified the (1) denationalization of private-sector companies, and (2) denied the establishment of rival companies that are akin to promoted companies.

In addition, private sector-driven industrialization was supported by advice given by the World Bank in 1959. The World Bank made the following recommendations to the Thai government: (1) Improve its trade balance (reduce its trade deficit), (2) Utilize market mechanisms, (3) Secure government revenue, and (4) Promote public works. The Thai government, based on the advice it received, ratified the Act for the Promotion of Industrial Investment (1960) to push forward with private sector-driven industrial policies. This law became the Investment Promotion Act in 1972. Since then, the law was repeatedly revised into its current form.

In the 1960s, the Vietnam War broke out triggering special demand, making the economy prosperous in Thailand. The price of goods and politics were fairly stable at this time. Owing in part to this, many foreign companies entered the market in Thailand. During this period, there was a relatively fair amount of leeway on the part of Thailand for accepting foreign capital.

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[31] Economic Overview of Thailand, JETRO Bangkok

[32] Board of Investment website

3. Introduction of alternative foreign capital

In the 1960s entry into Thailand by foreign companies went smoothly. However, around 1968, there was strong backlash to foreign capital (particularly Japanese capital). The Thai people feared that their economy would be engulfed by foreign capital. Anti-Japanese sentiment arose as the trade deficit with Japan continued to increase, coupled with arrogance towards the people of Thailand by Japanese residing in Thailand (boycott against Japanese products). Owing to stronger economic nationalism, the Thai government began to move in the direction of being selective about foreign capital and restricting the business activities of foreign capital. It was during the 1970s that Thailand boosted its ratio of ownership in foreign companies (in the case of a joint venture between Japanese and Thai companies, boosted the percentage of ownership of the Thai company). In 1972, the Thai government enacted the Investment Promotion Act and the Alien Business Act (currently the Foreign Business Act).

<Key points of the 1972 Investment Promotion Act>

- Priority recommendations in the export industry
  The exemption of import taxes on imported raw materials and the exemption of business taxes were widely accepted for businesses promoted by the government. However, at this time, exemptions were limited to companies that produced goods for export
- Decentralization of plants
  To correct gaps between urban and rural areas, the government granted various tax incentives to companies that conducted business in designated regions
- Strengthening the authority of the BOI
  Previously, the same 5-year corporate tax exemption and other incentives were extended. However, the corporate tax exemption period was changed to 3-8 years. This was decided by the BOI (Furthermore, after the tax exemption period ended, there was a potential 5-year 50% tax cut period)
- Other
  In the following cases where (1) promoted companies are not nationalized, (2) state-owned companies that would be rivals of promoted companies are not newly established, and (3) promoted companies require protection, the BOI set a surcharge on foreign products based on a scope that does not surpass 50%. In cases where this is insufficient, terms were specified in writing, including the prohibition of the import of the same type of products. Regarding items (1) and (2), proclamations were issued in the past. This is clearly specified the Investment Promotion Act as a higher law.

The Alien Business Act lists up and places restrictions on businesses conducted by foreigners in Thailand. In other words, this law put the brakes on entry into Thailand by foreign companies while the Investment Promotion Act accelerates entry. Since then, the Thai government has been selectively introducing foreign capital based on these two laws.

4. Oil shock

The oil shock was triggered by the Arab-Israeli War which broke out in October 1973. Due to this impact, the economic growth rate, which exceeded 10% in 1973, dropped to the 4%-level in 1974 and 1975, putting the country in a recession. Furthermore, there were frequent labor disputes, the Khmer Rouge came to power in Cambodia advocating extreme Communism, and there was conflict and war in Vietnam in 1975. Reflecting this, the number of foreign companies entering Thailand decreased. To this end, the Thai government revised the Investment Promotion Act in 1977 to once again institute policies to attract foreign capital.

<Key points of the 1977 Investment Promotion Act>

(1) The director of the BOI was appointed by the Cabinet but this was revised to clearly state "the prime minister"
(2) In the case a foreign company posted losses during the tax exemption period (3-8 years), it is possible to deduct this from profit within five years after the end of the tax exemption period[33]
(3) The BOI can grant visas and work permits for foreign workers to conduct an investment feasibility survey

5. Requiring entry into the Thai market through joint ventures

Foreign company investment increased owing to the 1977 Investment Promotion Act. This did not mean foreign companies, owned solely by foreign capital, entered the market in Thailand. At the time, conditions were imposed on businesses promoted by the BOI, including (1) a minimum investment scale, (2) ratio of manufactured products to be imported, and (3) ratio of ownership by parties in Thailand. Moreover, to clarify this issue, the government issued standards for joint ventures in 1981. Owing to this proclamation, excluding cases where a company is promoted and all of the products it produces are for export, it is clearly stated that a joint venture must be set up with a Thai company to enter the market in Thailand.

<1981 proclamation: Standards related to joint ventures>

(1) A Thai national must own 51% or more in the case of a manufacturer operating in the domestic market
(2) In the case a manufacturer exports 50% or more of its product, foreign ownership can exceed 50% and in cases where all products are exported, 100% ownership is permissible
(3) A Thai national must own 60% or more of a company that invests in agriculture, livestock breeding, fishing, exploration and mining, and the service industry
(4) There are exceptions whereby foreign investment restrictions are waived by taking into account factors including scale of business investment, technological standards, employment in Thailand, location, profit impacting the Thai economy and society and matters deemed appropriate by the BOI.

For foreign capital, there were regulations that imposed many restrictions. Owing to an appreciation in the value of the yen owing to the Plaza Accord, signed in September 1985, many Japanese companies aimed to enter the ASEAN region seeking cheaper production bases. The momentum was incredible. The number of investments from Japan (BOI approval basis) went from 20 projects in 1985 to 38 project in 1986, 137 in 1987, 256 in 1988, and 224 in 1989.

Note that in tandem with the growth of the domestic market in Thailand, criteria (2) for cases where all products produced are exported, was alleviated to the export of 80% or higher. As the first project under this new criteria, a Japanese home appliance manufacturer was promoted. However, many companies entered the Thai market by forming a joint venture with a Thai company owing to the above standards related to joint ventures. This triggered issues during the financial (currency) crisis that are discussed below.

[33] After the end of the period set for corporate tax exemption benefits at this time, the interpretation on the carry-over of losses 40 years later in 2016 had a substantial impact on some Japanese companies.

6. Financial (currency) crisis and foreign capital deregulation

Up to June 1997, the Thai baht (THB) was pegged at THB24.5 to the US dollar. However, due to a wave of selling of the THB mainly by hedge funds, in July 1997 it became impossible to purchase the THB to provide support. This made it difficult to maintain a fixed exchange rate system. Ultimately, in a half year, the bottom fell out of the value of the THB, with the THB trading at 50 baths to the US dollar. This triggered the Asian financial (currency) crisis.

Many Thai companies borrowed capital denominated foreign currency without conducting forex hedges. However, given the value of the THB dropped around 50%, hindering the ability to repay loans. Repaying borrowings in foreign currencies resulted in the amount of THB-denominated loans doubling. Furthermore, this currency crisis set off a historical slump in Thai's economic growth (-2.8% in 1997 and -7.6% in 1998). In light of this, both Thai companies and the joint ventures of Thai and Japanese companies found themselves in a predicament across the board. The Japanese parent companies attempted to offer support to their subsidiaries in Thailand through capital increases but the foreign capital ratios were limited by the standards related to joint ventures. To comply with this rule, it was necessary for the partner in Thailand to also boost their capital in the joint venture. Partners in Thailand did not have the excess capacity given the currency crisis. Nonetheless, without a capital increase, the subsidiary in Thailand would eventually go bankrupt.

Accordingly, on December 3, 1997, the BOI permitted 100% ownership by foreign capital based on the condition that the consent of Thai shareholders was obtained. In light of this, the parent companies in Japan not only boosted capital in their subsidiaries in Thailand but in many cases also acquired the equity held by their Thai partners. This allowed these partners to obtain cash from the sales of shares in their joint ventures with Japanese companies and helped them overcome the crisis. Owing to this measure, capital flowed into Thailand from around the world with the goal of conducting capital increases or acquiring equity. This helped to save Thailand which had depleted its foreign currency reserves. As a emergency during at this time, foreign capital was permitted 100% ownership in its local units. In August 1, 2000, this measure, which was implemented as an investment incentive, was made permanent.

In addition, in January 2000, a mandatory local procurement ratio (local content) of 54% or higher, which was due to mandatory passenger car production in Thailand, was eliminated.

7. Industries attracted to rural areas (zone system)

The BOI employed a system that allowed foreign companies to receive long-term tax exemptions up to the end of 2014. The further away the company was from Bangkok, the longer the exemption. This system, which is called the zone system, categorized Thailand into three types. By offering incentives, industries were enticed to locate in regional areas.

The zone system has been implemented until 2014. During that time, the number of zones and the target provinces were shuffled around depending on the season. In the final year of the zone system, 2014, each zone, shown in the table below, was granted the corporate tax exemption benefits also shown in the table below (Table 3-1).

Table 3-1 Corporate tax exemption benefits under the zone system up to 2014

Zones	Corporate tax exemption benefits
1 (Capital and 6 provinces)	Three-year corporate tax exemption for companies located in industrial parks/ industrial zones. No tax exemptions for companies located in a general zone
2 (18 provinces)	Five-year corporate tax exemption for companies located in industrial parks/ industrial zones. Three-year corporate tax exemption for companies located in a general zone
3 (58 provinces)	Eight-year corporate tax exemption regardless of location. (1) 40 provinces: For companies located in industrial zones, corporate tax is halved for five years after completion of the corporate tax exemption period (2) 18 provinces: Regardless of location, corporate tax is halved for five years after completion of the corporate tax exemption period

Source: BOI guidelines

Section 2 Current investment attraction policies (2015 – 2021)

1. Transition from the zone system to a promotion system by business

The target period of the investment promotion strategy currently being introduced by the BOI spans a period of 7 years from 2015 to 2021. The completion of this new strategy was aligned with the completion of the next five-year National Economic and Social Development Plan established by the National Economic and Social Development Council (NESDC, former NESDB). The new strategy's incentive program has done away with the zone system and stipulates incentives granted for each business regardless of its location. Location, which was a criteria for incentives thus far, is no longer a factor, with the exception of special cases. A major transformation was in which incentives were set for each business based on where the Thai government believes the business was necessary to Thailand. Moreover, in 2017 the Thai government revised the Investment Promotion Act, and extended the period that the BOI could grant for tax exemptions from a maximum of 8 years to a maximum of 13 years.

Each business was categorized into large categories, numbered 1 to 8, in Table 3-2 below. Of these eight categories, 1-7 are divided into Group A (A1-A4), which are eligible for corporate tax exemptions, and Group B (B1 and B2), which are not eligible for corporate tax exemptions. Category 8 only contains businesses related to the development of technology and innovations. These companies are eligible for a 10-year corporate tax exemption. Furthermore, an additional maximum 3-year corporate tax exemption period can be added based on the merit-basis incentives. However, the tax exemption period for companies grouped in A1 and A2 ends after eight years and the corporate tax levied is halved for five years.

Table 3-2 Types of BOI incentives & examples of businesses and benefits

Category	Example of business
1. Agriculture & agricultural products	Organic fertilizer manufacturing (A3), plant and animal selective breeding (A3)
2. Mining, ceramics and base metals	Glass product manufacturing (B1), forged steel parts manufacturing (A3)
3. Light industry	Specialty fiber manufacturing (A2), non-woven fabric manufacturing (A4)
4. Metal products, machinery and transport equipment	Standard automobile manufacturing (B1), manufacturing of car engines (A3 or A4), key aircraft components manufacturing (A1)
5. Electric and electronic machinery industry	Air conditioner, refrigerator, freezer, washing machine and dryer manufacturing (A4), wire harness manufacturing (B1), e-commerce (B2)
6. Chemical industry, paper and plastics	Industrial chemical manufacturing (A4), industrial plastic product manufacturing (B1), pharmaceutical manufacturing (A3)
7. Services, public works	Power generation from waste (A1), international business center (B1), trade and investment support office (B2)
8. Technology and innovation development	Bio, nano, digital technology development, advanced material development

Source: BOI guidelines

2. Basic incentives

Incentives are granted by businesses which have been operating since 2015. Table 3-3 is the basis for basic incentives. Additional incentives can be added on to this. There are eight types of corporate tax exemption, with the longest being 10 years. The incentive gets gradually shorter for A1, A2, A3, A4, B1 and B2. The following is an explanation of each incentive.

1) There is “no limit” for corporate tax exemption period in category 8 and for A1. In general the maximum limit for the BOI corporate tax exemption amount is total investment, excluding land and working capital. Assuming a provisional corporate tax exemption period of 8 years, if the tax exemption reaches the maximum limit by the fifth year, then the company is no longer eligible for a tax exemption. In the case of Category 8 and A1, the limits have been eliminated and the company is eligible for the tax exemption for the full period. For A2 and lower, there is a limit for tax exemption. The limit is the investment amount, excluding land and working capital.
2) Exemption of import tax on machinery. Machinery necessary to operate the promoted business must be mentioned in the master lease and filed with regulatory authorities. The import tax is waived when the machinery mentioned in the list is imported. The machinery that is imported tax free can be sold after 5 years. The company must pay the import tax if the machinery is sold before 5 years have passed. The import tax referred to herein is basically a VAT and tariff levied at the time of import.
3) Exemption of import tax on raw materials imported and used for exports. Should the company import raw materials which are to be used to process products in Thailand and which are ultimately exported, the import tax is waived at the time of import. In addition to the BOI benefits, the company can receive a tax refund under the Customs Act. It is necessary to file for the refund with tax authorities. However, there is a possibility a refund application will trigger a tax audit. So many companies choose to avoid this. Meanwhile, the BOI offers tax exemption at the time of import so there is a low level of risk involved. As this is managed using a computer system, it is necessary to reconcile inventory when the final product is exported.
4) Exemption of import tax for raw materials used in R&D. Raw materials used in R&D will not be exported but are eligible for an import tax exemption. Under the Investment Promotion Act, revised in 2017, this benefit was newly incorporated.
5) Non-tax benefits. (1) Potential to operate a business with 100% foreign capital. (2) Acquire and extend visas and work permits based on general capital requirements (Paid-in capital of THB2 million per foreigner) and

employment of Thai nationals (four for every foreigner). However, these conditions do not apply should the foreign technicians and professionals engaging in the BOI promoted business be deemed necessary to said business. Visas can also be acquired for the families of these employees. The application process has been simplified in comparison with normal procedures. (3) Under Thailand's Land Act, companies in which foreigners have an ownership of 49% or higher are not allowed to own land. However, land ownership is possible for BOI promoted companies.

Table 3-3 BOI basic incentives

	Corporate tax exemption period	Machinery import tax exemption	R&D raw material import tax exemption	Import tax exemption for raw materials used in exports	Non-tax benefits
Category 8	10 years No limit	○	○	○	○
A1	8 years No limit	○	○ (some businesses)	○	○
A2	8 years	○	—	○	○
A3	5 years	○	—	○	○
A4	3 years	○	—	○	○
B1	—	○	—	○	○
B2	—	—	—	○	○

Source: BOI guidelines

3. Merit-based Incentive

The additional incentives are referred to as merit-based incentives. Companies that meet the conditions in Table 3-3 are eligible for additional corporate tax exemption in Table 3-4 and extended corporate tax exemption outlined in Table 3-5.

1) Additional benefits to improve competitiveness

To attract more advanced industries and technologies to Thailand, and to nurture Thai companies, a new system was introduced from 2015. Companies can write off an additional amount equivalent to around 3-times the cost and investment used in R&D which is added to the basic corporate tax exemption amount. In addition, by cooperating with the nurturing of industry in Thailand, including personnel training and advanced technological training for Thai suppliers, double the amount of cost and investment can be written off from corporate taxes.

Table 3-4 Additional benefits to improve competitiveness (Additional corporate tax exemptions)

Details of activities to improve competitiveness	Added corporate tax exemption (Percentage of investment or expenditures incurred)
R&D for technology and innovation (proprietary R&D, R&D by outsourcing domestically in Thailand, joint R&D with an institute outside of Thailand)	300%
Support with an training/educational institution in Thailand and professional training center approved by the committee	100%
Licensing fee for technology developed in Thailand	200%
Advanced technological training	200%
Development of a company with 51% ownership by a Thai national, raw materials in Thailand, and a parts manufacturer (Advanced technological training and technical support)	200%
Product and package design approved by the committee (proprietary or outsourced to a company in Thailand)	200%

Source: BOI guidelines

If the percentage of investment or expenditure in activities in Table 3-4 is more than 1% or THB200 million, then the company will be granted an additional corporate tax exemption period as shown in Table 3-5.

Table 3-5 Additional incentives to improve competitiveness (additional corporate tax exemption period)

Terms	Additional corporate tax exemption period
1% or THB200 million, whichever is less	1 year
2% or THB400 million, whichever is less	2 years
3% or THB600 million, whichever is less	3 years

Source: BOI guidelines

An additional corporate tax exemption can be obtained but the maximum length is 13 years. This is the longest corporate tax exemption period stipulated in the Investment Promotion Act.

Table 3-6 Tax exemption period in cases where an additional incentive is granted to improve competitiveness

	Basic corporate tax exemption period	Additional corporate tax exemption period	Total
Category 8	10 years No limit	1-3 years No limit	11-13 years No limit
A1	8 years No limit	8 years No limit	9-11 years No limit
A2	8 years	8 years Add maximum amount	9-11 years No limit
A3	5 years	5 years Add maximum amount	6-8 years Add maximum amount
A4	3 years	3 years	4-6 years Add maximum amount
B1	—	1-3 years	○
B2	—	—	—

Source: BOI guidelines

2) Additional benefits for decentralization

The zone system was eliminated from 2015. A special measure was introduced for regional development. Regarding the 20 provinces with low per-capita income[34], additional corporate tax exemption benefits are granted.

Table 3-7 Tax exemption period in cases where additional incentives were granted for decentralization

	Corporate tax exemption period (Basic)	Corporate tax exemption period (Additional)	5-year 50% corporate tax cut after end of tax exemption period	Total	Expense deduction Special provision[35]
Category 8	10 years No limit	3 years	—	13 years No limit	○
A1	8 years No limit	—	○	8 years (no limit) + 5 year 50% tax break	○
A2	8 years	—	○	8 years + 5 year 50% tax break	○
A3	5 years	3 years	—	8 years	○
A4	3 years	3 years	—	6 years	○
B1	—	3 years	—	3 years	○
B2	—	—	—	—	—

Source: BOI guidelines

[34] Kalasin, Chaiyaphum, Nakhon Phanom, Nan, Bueng Kan, Buriram, Phrae, Maha Sarakham, Mukdahan, Mae Hong Son, Yasothon, Roi Et, Sisaket, Sakon Nakhon, Sa Kaeo, Sukhothai, Surin, Nong Bua Lamphu, Ubon Ratchathani, and Amnat Charoen (excludes the southern border region and special economic zones, which have separate special measures).

[35] Double 10-year deduction for transport, electric power and water utility costs; additional 25% deduction for infrastructure investment and construction cost.

3) Additional benefits owing to locating in an industrial park

Companies located in industrial parks or industrial zones are granted an additional year for corporate tax exemption. However, as shown in Table 3-8, this additional period of exemption is not granted for A1 and A2 companies.

Table 3-8 Tax exemption period in cases where additional benefits are granted for industrial land development

	Corporate tax exemption period (Basic)	Corporate tax exemption period (Additional)	Total
Category 8	10 years No limit	1 year	11 years No limit
A1	8 years No limit	—	8 years (No limit)
A2	8 years	—	8 years
A3	5 years	1 year	6 years
A4	3 years	1 year	4 years
B1	—	—	—
B2	—	—	—

Source: BOI guidelines

4. Benefits in the Eastern Economic Corridor (EEC)

The Eastern Economic Corridor (EEC)[36] spans the three provinces of Chonburi, Chachoengsao and Rayong in eastern Thailand. The BOI has prepared benefits/incentives for companies conducting operations in the EEC. There are also additional benefits/incentives for industrial parks in the EEC, and industries that are the target of EECi, EECd and EECA. Those business that are not target are only eligible for basic benefits/incentives.

In addition, there are conditions for receiving EEC benefits. The company must cooperate with personnel training. To this end, the company must have several programs, such as a program to take in interns.

[36] See Chapter 4 for details on the EEC.

Table 3-9 Tax exemption period in cases where EEC additional benefits are granted

Site with the EEC	Corporate tax exemption period (Basic)	Corporate tax exemption period (EEC benefits/conditional)
- Innovation zone (EECi) - Digital Park Thailand (EECd) - Aviation city (EECA)	Target industries covered by EECi, EECd and EECA 10 years 8 years 5 years	13 years 12 years 7 years + 5-year 50% tax break
	Target industries for which regions are not eligible	Basic + 3-year 50% tax break
Designated regions for target industries (12 regions)*	Target industries eligible in the designated region 10 years 5-8 years	12 years Basic + 5-year 50% tax break
	Target industries for which regions are not eligible	Basic + 3-year 50% tax break
Other industrial parks and industrial zones	All target industries 10 years 5-8 years	11 years Basic + 3-year 50% tax break

Note: The 21 districts indicate the following industrial parks and industrial zones. Chachoengsao (1 location): TFD 2; Chonburi (12 locations): Yamato Industries, Amata city 1-2, Pinthong 1-5, Hemaraj Chonburi 1-2, Hemaraj eastern sea board 2-3; Rayong (8 locations): Smart Park, Hemaraj eastern sea board 1, 4, Hemaraj west (Map Ta Phut), Eastern sea board (Rayong), Hemaraj Rayong 36, Amata city, CP Rayong

Source: Lecture materials from the January 31, 2019 BOI Osaka seminar

5. Act on Strengthening Industrial Competitiveness

Basically the Thai government's industrial policies have been an "exemption type," in other words the government did not take what it should have (including corporate taxes and tariffs). However, the Act on Strengthening Industrial Competitiveness, which was enacted in February 2017, was an industrial policy that took a step forward in offering a corporate tax exemption of a maximum of 15 years, and contributing subsidies from the THB10 billion fund. Owing to this subsidy and the long-term corporate tax exemption, the conventional benefits based on the Investment Promotion Act aims to attract businesses with sophisticated new technologies and which have a significant impact on Thailand's economy.

The details of this law, which was created with Singapore in mind, are unclear about the specific names of the companies that received subsidies are anonymous as the screening process and results are undisclosed.

6. Other

In the case of the 10 special economic zones set up in the provinces adjacent to the borders[37], additional corporate tax exemption benefits are available. However, this is determined based on whether the business is promoted in each special economic zone. Whether this applies to your company's business or not needs to be confirmed in advance.

[37] Also applies to some administrative districts of Tak, Sa Kaeo,Trat,Mukdahan,Songkhla,Chiang Rai,Nong Khai,Nakhon Phanom,Kanchanaburi,and Narathiwat.

Table 3-10 Tax exemption periods in cases of where Special Border Economic Zone addition benefits are granted

	Corporate tax exemption period (Basic)	Corporate tax exemption period (Additional)	5-year 50% corporate tax cut after end of tax exemption period	Total
A1	8 years No limit	—	○	8 years (no limit) + 5 years with 50% tax cut
A2	8 years	—	○	8 years + 5 years with 50% tax cut
A3	5 years	3 years	—	8 years
A4	3 years	3 years	—	6 years
B1	—	3 years	—	3 years
B2	—	3 years	—	3 years

Source: BOI guidelines

Section 3 Foreign Business Act

As stated in Section 1, the Alien Business Act, which was enacted in 1972, is the prototype for the Foreign Business Act. The current Foreign Business Act is the revised law enacted in 2000. Most businesses in the service industry are in conflict with this law, with some exceptions, including the manufacturing business, trade business dedicated to exporting from Thailand, and a representative office. The purpose of this law is for foreigners to consider doing business in Thailand and must be the first matter to be taken into consideration.

This law must be closely heeded. Violation of this law is punishable by 3 years or less imprisonment or a fine of THB100,000 to THB1 million, or a combination of the two.

1. Foreigners regulated under the Foreign Business Act

The definition of "foreigner" as stipulated in the Foreign Business Act will be of importance as it restricts the businesses that a foreigner can conduct. If a person/entity does not correspond to a foreigner as stipulated under the law, this law is not applicable. According to Article 4 in the Foreign Business Act basically defines foreigners as follows:

(1) A natural person who is not of Thai nationality
(2) A juristic person not registered in Thailand
(3) A juristic person registered in Thailand under (1) or (2) and possesses a majority of shares
(4) A juristic person registered in Thailand under (1), (2) or (3) and possesses a majority of shares

Thinking conversely from these definitions, in the case of companies owned by a Thai citizen or where Thai citizens hold a majority of shares, the company has Thai nationality. Therefore in this case the restrictions under the Foreign Business Act do not apply. In light of this, many of the companies that conduct businesses contained in the lists under the Foreign Business Act choose an ownership ratio of 51% for Thai shareholders and 49% for Japanese shareholders.

2. Regulated businesses

Under the Foreign Business Act, the businesses that foreigners can operate are restricted and categorized in Lists 1-3. List 1 consists of those businesses that are absolutely prohibited and which foreign companies are not able to engage in. List 2 consists of businesses that foreign companies can undertake but require the minister's approval. Many of these fields are areas Japanese companies have little interest in. In actuality, no Japanese companies have acquired approval. Meanwhile, List 3 is an issue for Japanese companies.

List 1: Absolutely prohibited

(1) Newspaper, radio station and television station businesses
(2) Rice farming, crop (upland) farming, horticulture
(3) Livestock
(4) Forestry and processing of forest products
(5) Fishing in Thai territorial waters and exclusive economic zone
(6) Extraction of Thai herbs
(7) Sales and auction of Thai antiques and goods with historical value
(8) Production of Buddhist statues, casting and production of bowls for Dhutanga (begging by monks)
(9) Land transactions

List 2: Possible with ministerial approval

<Group 1: National security related businesses>

(1) The following manufacturing, sales, repairs and maintenance
    a. Firearms, ammunition, gunpowder, explosives
    b. Components for firearms, ammunition, and explosives
    c. Arms, warships, military aircraft, military vehicles
    d. Military equipment, parts and all other supplies
(2) Land and marine transports, and air transportation, including airlines, domestically in Thailand

<Group 2: Businesses that impact traditional arts, culture, and crafts>

(1) Transactions of antiques and fine art, which comprise of Thai fine art and crafts
(2) Production of wood carvings
(3) Sericulture, reeling, weaving and dyeing of Thai silk
(4) Production of Thai musical instruments
(5) Goldsmithing, silver goods, Niello work, gold inlaid goods, and lacquerware production
(6) Production of Thai ceramics considered fine arts or have cultural value

<Group 3: Businesses that impact natural resources and the environment>

(1) Sugar manufacturing from sugar cane
(2) Salt production from salt marshes
(3) Salt production from rock salt
(4) Mining, including blasting and crushing
(5) Wood working for furniture and household items

List 3: Possible with approval (FBL) by the Director of the Department of Business Development, Ministry of Commerce

(1) Rice milling, production of rice and grain flour
(2) Aquaculture of marine products
(3) Afforestation
(4) Manufacturing of plywood, chipboard, paperboard
(5) Production of lime
(6) Accounting services
(7) Legal services
(8) Architecture and design
(9) Engineering services
(10) Construction excluding the following
  a. Construction of public facilities and public institutions requiring special equipment/machinery, skills, and skilled labor, and with foreign capital of THB500 million or higher
  b. Other construction designated by ministerial ordinance
(11) Brokerage and agency business, excluding the following
  a. Brokerage and agency operations for securities sales, instruments and other financial futures
  b. Brokerage and agency operations for the transaction of goods and services at affiliates
  c. Brokerage and agency operations handling both domestic and international transactions, which foreign capital of THB100 million or higher, and based on a international business format and for the sales of domestic products or imported products
  d. Brokerage or agency for other items designated by ministerial ordinance
(12) Auction business, excluding the following
  a. Auction using an international bidding system for items other than Thai fine arts, crafts, antiques and goods with historical value
  b. Auction of other items designated by ministerial ordinance
(13) Domestic transactions of domestic agricultural products that are not prohibited by law
(14) Retail business where the total capital is under THB100 million or THB20 million per store
(15) Wholesale where capital per store is below THB100 million
(16) Advertising
(17) Hotel business, excluding hotel management
(18) Tourism guide business
(19) Restaurants
(20) Plant seedling and breeding business
(21) Other services, excluding those designated under ministerial ordinances

3. Nearly all businesses in the service industry are subject to regulations

List 3, which cover wholesale and retail, is an issue for Japanese companies. Implementing the wholesale or retail business requires capital of THB100 million. Doing both would entail capital of THB200 million. In addition, in the case of repairs and maintenance of goods manufactured and sold, this would end up corresponding to (21) Other services, excluding those designated under ministerial ordinances.

In cases where these businesses are carried out, a Foreign Business License (FBL) must be approved by the director of the Department of Business Development at the Ministry of Commerce. However, this would not permit limitless wholesale, retail, repair and/or maintenance activities. Following this, restrictions were placed on this, including only applying this to brand products. In addition, from the time an application is filed, it will take around 3 months to receive the FBL and the fee is 0.5% (maximum of THB250,000) of capital.

4. Watch out for different views on service businesses with Japan

In Japan, it is believed that business-to-business (B-to-B) transactions refer to wholesale and business-to-consumer (B-to-C) transactions are considered retail. In Thailand, the Ministry of Commerce defines retail as the "sales of goods or commodities to the end user or ultimate consumer." Consequently, attention needs to be paid to the fact that the sale of imported machinery to a factory is defined as being retail.

In addition, the FBA does not apply to the manufacturing industry. For example, in the case of piecework production, when parts are supplied, a product is delivered after processing and your company receives as processing fee, this is regarded as the "manufacturing service industry," but not when the transaction consists of the purchase of parts and the product is sold after processing. Also businesses that specialize in plating and surface treatment are also deemed as the manufacturing service industry therefore this warrants attention.

5. The BOI & IEAT are special

The BOI promotes services, such as those listed in Category 7 in Table 3-2. Meanwhile, the FBA restricts service businesses that can be operated by foreigners. Regarding this relationship, under Article 12 of the FBA, "In the case of a company conducting a business promoted by the BOI or a company located in an industrial park that is under the auspices of the IEAT and which operates a business in List 2 and List 3, these entities may conduct business operations by acquiring a Foreign Business Certificate (FBC) from the Ministry of Commerce. Thanks to this regulation, it is now possible for foreign companies to engage in a service business that is being promoted by the BOI.

The "industrial estate" portion of the IEAT's name is attached to the names of industrial parks. Those named Industrial Zone or Industrial Park are not subject therefore attention needs to be given. The services the IEAT provides at its Industrial Estate are detailed in an announcement released in 2008. Given that this system is relatively new, only a few cases have been handled. Nonetheless, there are examples where permits have been acquired, mainly for the wholesale, repair or maintenance of industrial products.

<Feasibility of businesses having majority foreign capital>

(1) Industrial goods trade and trade of goods necessary for industrial production
(2) Logistics management business and logistic business, warehousing and distribution terminals related to the supply chain, etc.
(3) Businesses related to trade fairs, expos, seminars and conference centers
(4) Repair and maintenance business, and engineering service business
(5) R&D service business related to industry
(6) Telecommunication Service, Computer Service, Information Service, Multimedia Service, Documentary and Entertainment Media Service
(7) Health and hygiene related businesses
Examples: Hospitals, nursing, circular health development center, vacation and sports center, health management center
(8) Educational service business
Examples: Educational institution, training centers, etc.
(9) Other related services

Source: IEAT declaration, October 6, 2008

Chapter 4

Thailand 4.0 20-year Strategic Vision & EEC Scheme

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Introduction

The purpose of this chapter is to sort out the features of the development strategies the Thai government has been promoting in recent years and to discover perspectives that contribute to the deployment of business operations by Japanese SMEs.

Since the 2014 military coup, a provisional administration under Prayuth Chan-o-cha took charge of the country's politics. In March 2019, a House of Representatives election was finally held for the first time in eight years. The election outcome saw the Pheu Thai Party, the leading party which is said to be a pro-Thaksin faction, won 136 seats, while the Prayuth-aligned Palang Pracharath Party gained 115 seats. Both parties fell substantially short of winning a majority. However, given the upper house, whose members are in actuality are designated by the military administration, possess authority over the election to select a prime minister, Prayuth Chan-o-cha, who had served as the prime ministry of the provisional government, won the June 6, 2019 prime ministerial election to become nominated the first prime minister since Thailand returned to civilian rule. The Prayuth administration, a long-term regime, is in its sixth year (if he serves a full four-year term as prime minister, the accumulated total of his tenure will be 10 years). However, a new administration was launched on July 16, despite the time it took to form a Cabinet due to a multi-party coalition.

The Prayuth provisional government not only maintained public order but also actively implemented economic measures[38]. The provisional government prepared and creating legislature mainly for the 20-year National Strategy, Thailand 4.0, which is the economic vision of this strategy, the selection of the high-tech industries in charge of handling this strategy and vision, and the Eastern Economic Corridor (EEC) Development Plan, which will be covered in this chapter. Owing to the results of this election, some were of the opinion that these growth strategies would undergo a major review. However, since Prayuth was elected prime minister, this scenario was avoided. Naturally, since the current Cabinet is a coalition consisting of multiple parties, there is a risk that the government will be slower in creating and implementing policy going forward.

Thailand is an important business hub for Japanese companies. Among countries in Southeast Asia, Thailand hosts the largest cluster of Japanese companies. In recent years, numerous business issues, including rising wages,

[38] Refer to NESDC reports for results. https://www.nesdc.go.th/

are surfacing. However, the country remains a vital location for Japanese companies. Rather, given the intensifying trade friction between the US and China, Thailand is becoming more attractive as a production base, as it can avoid this friction. Taking this into account, it is advisable to sort out the above policies implemented by the Prayuth provisional government and consider business development while factoring in changes in the environment surrounding the economy in Thailand.

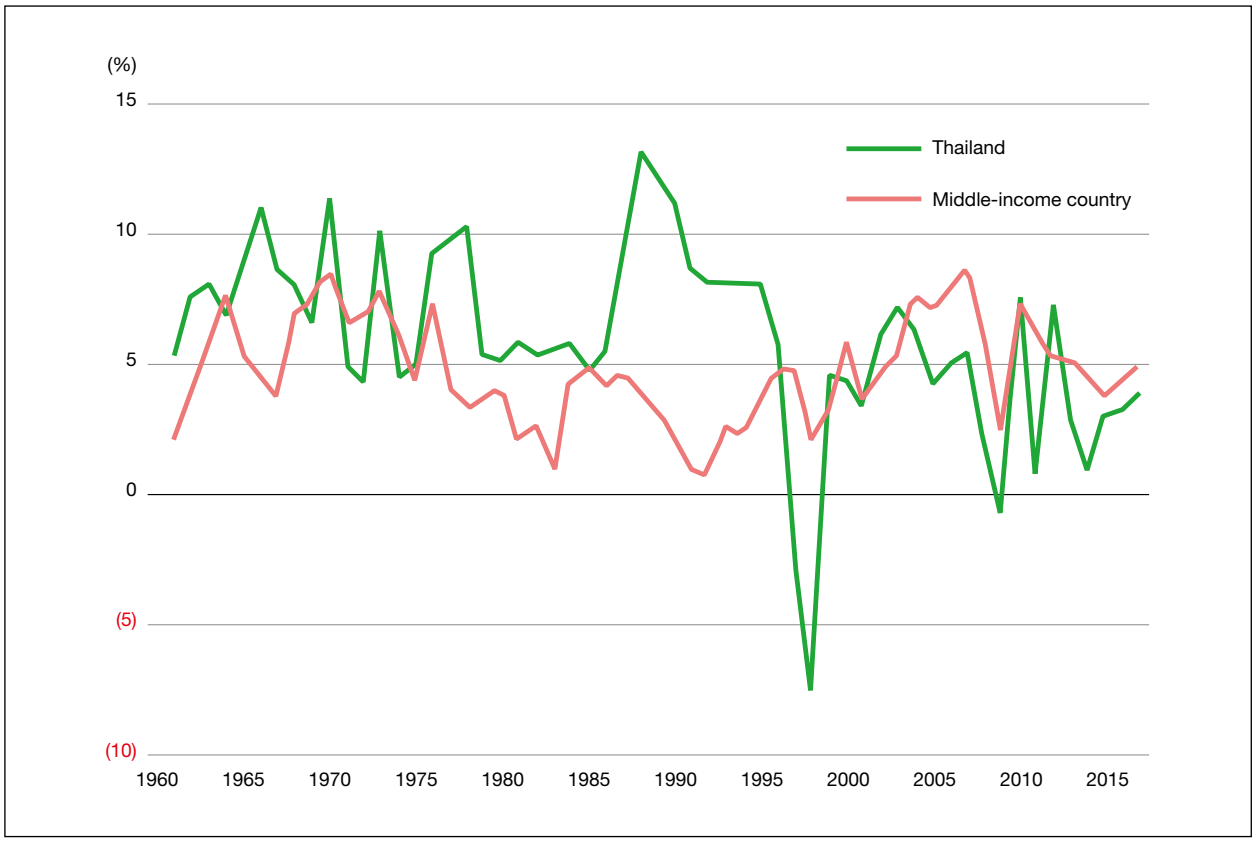
This chapter is composed of three parts. Section 1 will provide an overview of the current trends and issues impacting the Thai economy, which are the background for Thailand 4.0 and the EEC scheme. The "middle-income trap" and the "low-birth rate, aging society," issues we will discuss in Section 1 which Thailand is facing, are social phenomenon that will impact the business operations of Japanese companies. In Section 2, we will outline the National Strategy, which is a long-term growth strategy and then look at the Thailand 4.0, which is being promoted as a vision by the Thai government. Amid this, the country is pushing forward with the digitalization of its economy. We will also discuss how the timing is nearing for Japanese companies to incorporate digitalization into their own activities. In Section 3, we will cover the Eastern Economic Corridor (EEC), which will be economically underpinned by the 20-year National Strategy. The EEC does not involve new regional development but is a measure to improve the industrial zones along the Eastern seaboard of Thailand. The policy aims to contribute to an improvement in the productivity of areas where a number of Japanese companies are already carrying out business activities. Assuming establishment of the infrastructure goes in line with plans, there is potential for a decline in distribution costs and business that targets new markets (emerging countries).

Section 1 Current trends and issues in the Thai economy

The growth rate in post-war Thailand trended stably in comparison with other developing countries. This led to Thailand becoming referred to as a "role model" among developing nations. Chart 4-1 illustrates the change in the real GDP growth rate in Thailand from 1960 onward. The growth rate took a plunge in the late 1990s due to the financial crisis but overall the growth rate substantially surpassed the average for middle-income countries and trended consistently. That said, the annual average GDP growth rate in 1961-2017 was 6.0%, exceeding the average for middle-income countries of 4.7%.

Evening in the city (Chonburi Province)

Chart 4-1 Real GDP growth rate in Thailand



(Source) World Development Indicators

However, looking closely at the chart, one can see that in and after 2000, the growth rate trended sluggishly. One can confirm that the number of years increased in which Thailand underperformed the average level for a middle-income country. The average GDP growth rate in 2000-2017 was 4.0%, eclipsed the average GDP growth rate of 5.6% of middle-income countries. This low growth can be explained as initial concern that the impact from political unrest would be prolonged. In recent years, a wider range of people are of the opinion that this reflects the middle-income trap[39].

The notion of the middle-income trap discussed herein is the concept presented in the "An East Asian Renaissance: Ideas for Economic Growth, a World Bank study publishes in 2007 (Gill and Kharas, 2017). Although there is no clear-cut definition for the middle-income trap, in general, it describes "a developing country, which matures into a middle-income country mainly through the use of its natural resources and by attracting foreign companies to its market, by adhering to the growth strategy implemented thus far. However, should efforts to improve productivity be neglected, the growth rate will gradually slow, making it difficult to transition to a high-income country." In actuality, the basis for the sluggishness in the economy of Thailand is the labor shortage and a strong level of concern that R&D expenditures are low[40].

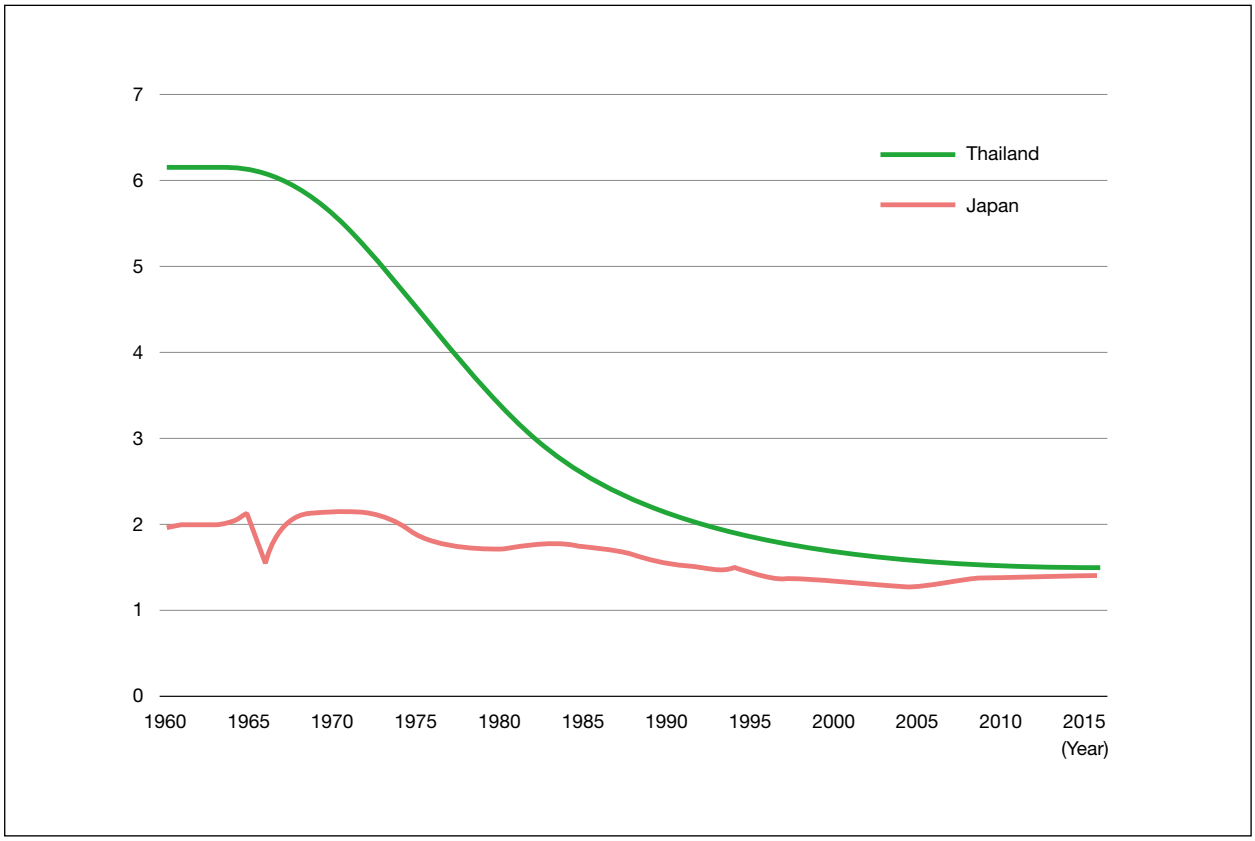
Meanwhile, people share the opinion that the listless economic growth rate is due to impact from a population demographic, the low birth rate and aging society. The birth rate in Thailand is declining rapidly reflecting population

[39] In the Eleventh National Economic and Social Development Plan (2012-2016) no mention can be found of the "middle-income trap." However, this term appears often in the Twelfth National Economic and Social Development Plan (2017-2021). For instance, this later plan points out that by improving productivity and enhancing its innovative capabilities, Thailand can avoid the middle-income trap and will have the potential to compete with developed nations (NESDB 2017).

[40] According to the World Bank, in 2016 the R&D expenditure as a ratio of GDP was 0.8%, sharply underperforming the global average of 2.2%.

control measures and the ensuing change in the socio-economic structure (Chart 4-2). The total fertility rate (TFR), which previously had exceeded 6, stood at 1.5 in 2015, which is at the same level as present-day Japan. Reflecting impact from the low-birth rate, from 2019 the working-age population (15-64 years old) began to trend downward. In light of this, the labor shortage is becoming more pronounced. The unemployment rate is at a low level.

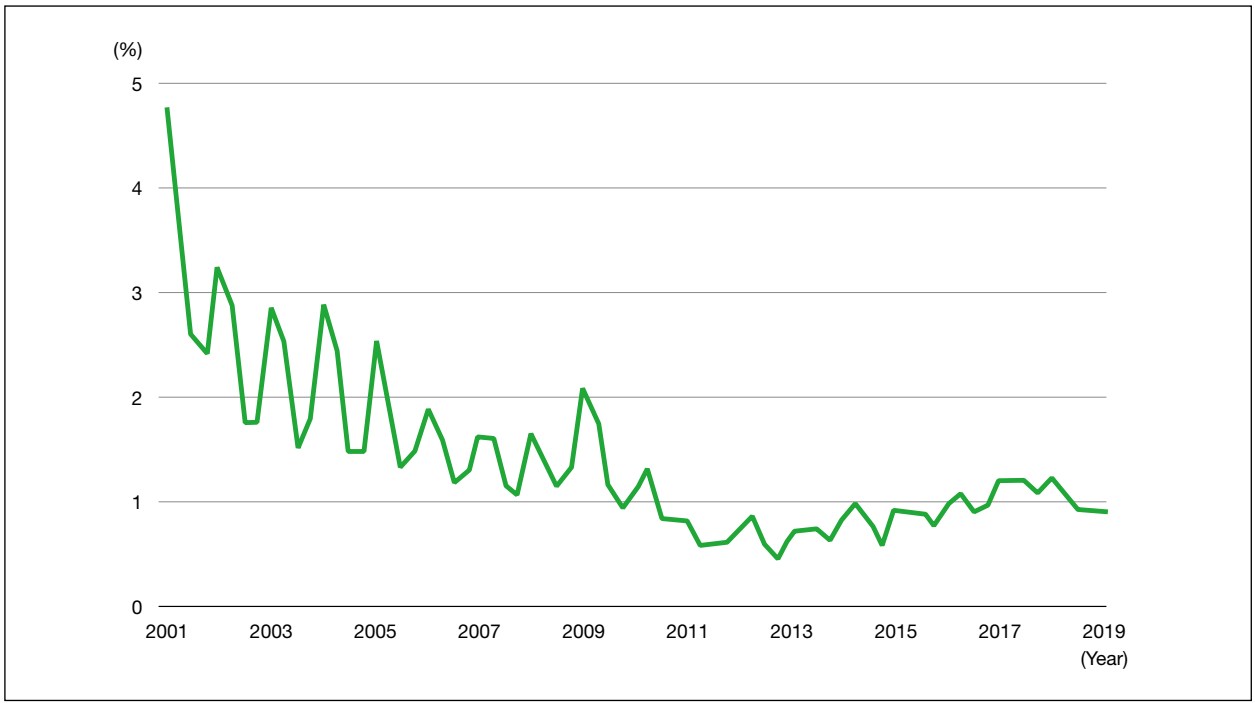
Chart 4-2 Trends in total fertility rate (TFR) in Thailand



Source: World Development Indicators

Chart 4-3 shows the changes in the unemployment rate in recent years. First, it reveals that the unemployment rate rapidly declined from 5% in 2001, to a current low level of around 1%. Next, it should be noted that the intense seasonal changes in the unemployment rate prior to 2010, disappeared in 2010 onward. The seasons in Thailand are clearly divided into the rainy and dry seasons and a definite seasonality in employment. During the dry season, which is the off-season for agriculture, there is an increase in number of migrant workers from rural areas. The unemployment rate would rise due to this. During the rainy season, the agricultural season, the unemployment rate would decline. However, in and after 2010, this seasonality disappeared. This indicates that there is no longer surplus labor in regional areas.

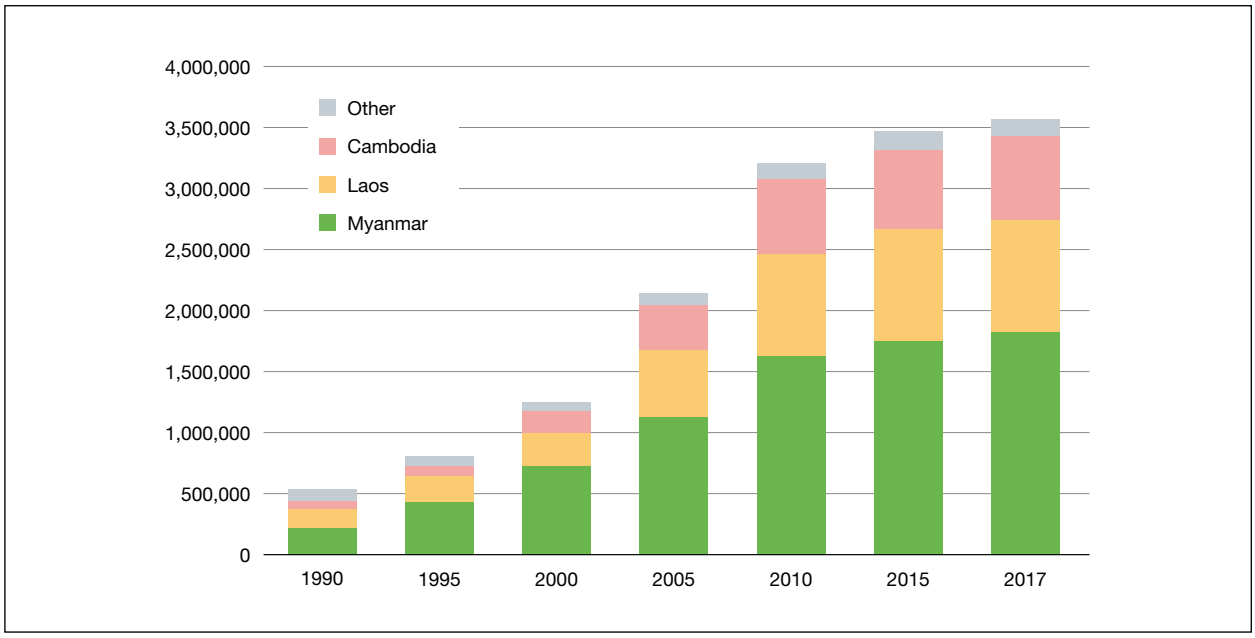
Chart 4-3 Unemployment rate in Thailand



Source: Compiled based on statistics from the Central Bank of Thailand

The increase in the influx of foreigners from surrounding countries offsets this labor shortage. According to immigration statistics released by the United Nations, the number of foreigners accepted by Thailand increased 6-fold, going from 530,000 immigrants in 1990 to 3.22 million in 2010. In 2017, Thailand took in 3.59 million immigrants. The largest number of immigrants came from Myanmar, 1.84 million immigrants. This was followed by Laos, with 920,000 immigrants and then Cambodia with 680,000 people.

Chart 4-4 Number of foreign immigrant trends in Thailand



Source: International migrant stock: The 2017 revision

In other words, for the Thai government, to attain sustainable growth, it is essential transition to a high-productivity industry structure that does not rely on manpower. Naturally, this dialogue is not new since the Prayuth administration came to power. In addition to economic recovery after the financial crisis, although all administrations that had taken office have recognized the need to improve productivity, policies were not formulated amid the political unrest, or even if policies were proposed they were not implemented.

Amid these conditions, the provisional Prayuth administration aimed to stabilize political affairs while preparing procedures for a transition to civil government, and furthermore moving forward with the formulation of plans to take the country forward.

Taking the current status of the above Thai economy into consideration, there are several points that surface that should be taken into mind by Japanese companies when conducting business activities in Thailand. The first is that there should not be excessive expectation of cheap labor cost as a reason for entering the market. These companies are likely to confront the issue of a labor shortage and rising wages. Under the Prayuth administration, in addition to the enhancement of industries, companies should consider a continued hike in the minimum wage going forward from the standpoint of building a prosperous society. Securing human resources/manpower is in actuality an issue for Japanese companies in Thailand. According to the JETRO 2018 Survey on Business Conditions of Japanese Companies in Asia and Oceania, the number 1 issue management is facing in Thailand is rising employee wages (JETRO 2018).

Industries in Thailand need to have a Thailand-Plus-One model in place, including using manpower from neighboring countries that share a border with Thailand, taking into account that Thailand is starting to rely on manpower from neighboring countries. Thailand-Plus-One is a business model in which production bases in Thailand are maintained as is while labor-intensive processes for which wage levels are still low are transferred to neighboring countries. This can be said to be the expansion of a new supply chain that leverages the geographical environment in which the border with countries, including Laos, Myanmar and Cambodia, can be reached within a day by car. There are actually industrial parks on the other side of the border with Cambodia and Laos. Japanese companies have also set up shop in these industrial parks. Incidentally, the monthly wage for workers in the manufacturing industry in 2018 was US$201 in Cambodia, US$180 in Laos and US$162 in Myanmar, versus US$413 in Thailand. Although the wages have been rising faster in recent years, actual wages are still less than half that of the monthly wage in the manufacturing industry in Thailand (JETRO 2018).

One idea is to use production sites on the Thai side of the border, if the goal is only to offset a shortage of labor. At present, the Thai government is pouring energies into the construction of production bases along the border[41]. Therefore, laborers of Myanmar, Laotian and Cambodian nationality are able to work legally at production sites in Thailand. Japanese companies also consign out production to Thai companies in these regions.

Consequently, the labor shortage and rising wages should not simply be interpreted as a negative factor. A strategy to expand the breadth and avenue of businesses is necessary by strengthening ties between production bases in Thailand and neighboring countries.

[41] The Thai government is pouring energies into the development of Special Economic Zones (SEZ). At present, there are border areas designated for development in 10 provinces, Tak, Sa Kaeo, Trat, Mukdahan, Songkhla, Nong Khai, Nakhon Pathom, Kanchanaburi, Narathiwat, and Chiang Rai. In addition to corporate tax exemptions for investments in these regions, manpower from various surround countries can also be utilized (at present this applies to around 300,000 people).

Section 2 20-year National Strategy

In October 2018, the National Strategy Act was announced by the provisional Prayuth administration. This act has been written as dictated by the long-term national development plan in accordance with Section 65 of the 2017 Constitution. The plan covers a period of 20 years. This plan is positioned above the National Economic and Social Development Plan, which was prepared once every five years thus far. It should be noted that Section 65 of the 2017 Constitution stipulates "the state should set out a national strategy as a goal for sustainable development of the country under the principle of good governance."

This 20-year National Strategy was announced in 2017 in accordance with the National Strategy Act (2017) and was drawn up by the National Strategy Committee (NSC). To prepare this strategy, the NSC established six subcommittees and formulated said strategy, mainly through public hearings, and coordination with related ministries. The preparation and implementation of a long-term plan that spans over 20 years is a first for Thailand. The goal of this strategy is to become a developed country accompanied by peace and order, prosperity and sustainability in line with Setthakit Phoophiang (Sufficiency Economy Philosophy) which was put forward with the former King.

Although this was drawn up under the provisional government, this should be seen as progress given that detailed discussions of a long-term development strategy were not held given the country's political unrest.

Next, let's see what type of vision is depicted by the national strategy. Table 4-1 compiles a summary of the vision in the national strategy. As discussed earlier, the vision in the national strategy is to become a developed country accompanied by peace and order, prosperity and sustainability in line with Setthakit Phoophiang (Sufficiency Economy Philosophy). This is comprised of three pillars: 1) security, 2) prosperity and 3) sustainability. In specific this entails a 1) national security strategy, 2) national strategy to strengthen competitiveness, 3) human resource development strategy, 4) strategy to correct disparities, 5) eco-friendly lifestyle strategy, and 6) well-balanced public strategy.

Table 4-1 Thailand's Vision (2037)

Thailand aims to become an advanced country in terms of security, prosperity and security, in line with Setthakit Phoophiang (the Sufficiency Economy Philosophy: SEP)

Security	Prosperity	Sustainability
· The nation will build solidarity, preserve the established social, economic, environmental and political security, and strengthen resistance to threats from inside and outside the country as well as changes. · Protect national sovereignty. · Citizens will unite in harmony, and their lives will be protected from the viewpoint of occupation, income, residence, and the safety of life and property. · The nation will guarantee the safety of food, energy and water resources.	· The nation will enjoy stable economic growth, and transition to a high-income country by decreasing the development gap. · The nation will possess the capital required for sustainable development, including human, intellectual and financial capital. · The nation will enhance the country's economic competitiveness, develop the economy and society, and strengthen alliances with regions from the perspectives of transport, distribution, production, trade and investment.	· Development will be conducted through an eco-friendly method that does not exploit natural resources, and promotes constant growth from the standpoint of people's incomes and quality of life. · Production and consumption is to be carried out in line with eco-friendly standards and in accordance with regulations that are recognized by the international community. · Promote social responsibility that focuses on sustainable public interest among citizens. Support and conform to the Sufficiency Economy Philosophy at all levels.

Source: Compiled based on NESDB (2018)

Prosperity as it pertains to the economy emphasizes the following three points: (1) transition to a high-income country owing to the state's maintenance of stable economic growth and a reduction in development disparities, (2) promotion of all capital necessary to sustain development, including human, intellectual and financial capital, and (3) enhance competitive strength, carry out economic and social development, and strengthening of alliances in regions from the viewpoint of transport, distribution, production and trade.

The national strategy focuses on fortifying competitive strength based on the following three points. First, it aims to leverage the diversify of Thai culture, tradition, lifestyle and natural resources to achieve further development by learning from the past. Second, from the standpoint of distribution, science, technology and advanced digital technology, adjust current conditions to promote the development of infrastructure and future industry and services. And third, place priority chiefly on the nurturing of the younger generation and a transition of business models to create new added-value.

From these three standpoints, there are five key fields: 1) high value-added agriculture, 2) development of the future manufacturing and service industry, 3) development of diversified tourism services, 4) development of a high-quality infrastructure to connect Thailand with the rest of the world and 5) promotion of a new start-up industry.

Regarding the development of the future manufacturing and service industry, the government selected five industries that are to be nurtured for the time being, and another five industries that are to be nurtured in the future. The first five industries are 1) next-generation automobiles, 2) smart electronics, 3) medical tourism, 4) agriculture and biotechnology and 5) food and food processing. The next five industries are 6) robotics, 7) distribution and aviation industries, 8) biofuels and biochemicals, 9) digital technology, and 10) medical device industry[42].

<Thailand 4.0>

Thailand 4.0 is one of the visions in the long-term growth strategy. Thailand 4.0 is influenced by Germany's Industrie 4.0 (Industry 4.0). This is fourth in a series of phases that were divided based on economic and social characteristics, not technological innovations.

Thailand 1.0 is a model that focuses on an economic society, chiefly centered on an agricultural society and cottage industries. It is equivalent to the phase of pre-war industrialization. Next, came Thailand 2.0, an economic society that launched industrialization based mainly on the keywords of light industry, import substitutes, natural resources and cheap labor. This phase was equivalent to the period from the end of the war to the 1980s. This was followed by Thailand 3.0, an economic society based on the keywords of heavy industry, export oriented and introduction of foreign capital. This phase covers the period from the 1990s to present day Thailand. This brings us to Thailand 4.0. The keywords for this economic society, which will continuously produce added value, are innovation, productivity and service trade. This is the society that Thailand is aiming to realize.

Thailand 4.0 is close to Society 5.0, which Japan is aiming to achieve. That said, the Japanese government defines Society 1.0 as the hunter-gatherer society, Society 2.0 as the agricultural society, Society 3.0 as the industrial society, and Society 4.0 as the information society. At present, Japan is in Society 4.0. Society 5.0 aims to realize a super-smart society. Referencing these phases in Japan clarifies Thailand's position. Present-day Thailand is equivalent to Japan's Society 3.0. In other words, Thailand's trajectory to move beyond the information age, the phase Japan is currently in, to the super-smart society stage has become clear.

Meanwhile, in contrast with Germany's Industrie 4.0, Thailand 3.0 is somewhere in between Industrie 2.0 (mass production by using electric power and automation) and Industrie 3.0 (automated production by using computers). Going forward, Thailand will sufficiently acquire technology, including the use of computers to achieve automated manufacturing, after which it will move toward Industrie 4.0 (smart factories that use IoT).

[42] Following this, the education and defense industries were added, making for 12 industries in total.

Based on this, the road toward the realization of Thailand 4.0 is long. Naturally, the Thai government is fully aware of this. This is likely clear given that the realization of the goal of the 20-year National Strategy, which was shown above, in other words the achievement of Thailand 4.0 two decades from now.

However, this does not indicate that the introduction of digital technologies by Japanese companies should move forward gradually. Attention needs to be paid to the fact that various conditions are changing in the age of the Internet. This is because it is possible to immediately and globally utilize the business models created in places in developed countries, such as the Silicon Valley. Although this is not an example that applies to Thailand, the Malaysian vehicle dispatch app Grab is already providing services throughout Southeast Asia overall. Even in Indonesia, Go-Jek vehicle dispatch service for motorbikes was launched. At present, both companies have entered the service industry, such as for distribution and finance. These have become unicorn companies (companies with a market capitalization of US$1.0 billion or higher).

According to World Bank statistics, in 2016 there were 176 mobile phone service contracts (per 100 people) in Thailand, sharply topping Japan's 136 mobile phone service contracts. In September 2016, the Thai government renamed the Ministry of Information and Communication Technology (MICT), the Ministry of Digital Economy and Society. A 20-year digital plan was formulated, to move forward with the digitalization of the economy and society. The plan is already under implementation.

Given these trends, I would have to say that Japanese companies operating in Thailand are behind in using digital technologies. Table 4-2 depicts the survey results related to the use of digital technology, which was included in the 2018 Survey on Business Conditions of Japanese Companies in Asia and Oceania. The average value for Asia-Oceania overall is also low but the value for Thailand is even lower. At present, Thailand outperforms the average in robotics and in the medium term cloud technology is the only area that surpasses the average. It is vital that Thailand not get left behind in the digitalization of its economy and society.

Table 4-2 Survey related to the use of digital technologies

	Current		Medium-term	
	Average for Asia/ Oceania	Thailand	Average for Asia/ Oceania	Thailand
Cloud	27.4	20.9	19.6	22.2
e-Commerce	14.3	12.2	15.2	13.5
Digital marketing	12.1	5.0	11.9	8.7
Robotics	10.2	17.3	15.1	14.0
Vehicle dispatch/delivery app	9.1	2.8	–	–
IoT	8.6	10.2	24.7	24.2
Big Data	4.9	3.0	14.7	10.5
Artificial intelligence	–	–	20.3	19.1

Source: JETRO's 2018 Survey on Business Conditions of Japanese Companies in Asia and Oceania

Japanese companies, including SMEs should actively deal with the digitalization of the economy and society that is taking place in Thailand. Mobile payment settlements using smartphones are advancing at a faster pace than in Japan. People in Thailand are also using e-commerce via the Internet to do their shopping. This reflects our current age where these types of digital technologies can be used for all processes, spanning from areas such as personnel hiring to business matching, settlement services and marketing.

In recent years, the Thai government is actively engaging in the development of and investment in start-ups. There is a possibility that these SMEs may enter the market in Thailand along with Japanese start-ups.

Section 3 Eastern Economic Corridor (EEC) [43]

As highlighted in the national strategy, areas that require accelerated growth are intensive infrastructure investment and personnel training. In addition, it goes without saying that it will be necessary for Thailand to attract foreign companies, as it has done in the past. The three provinces of Chonburi, Chachoengsao and Rayong are designated as regions in which these points are being concentrated and regions for realizing Thailand 4.0 and is named the Eastern Economic Corridor (EEC). These three provinces form an industrial zone which is positioned to the east of Bangkok.

Although the region was given the name EEC, the area is in actuality an updated version of the industrial corridor along the Eastern Seaboard. The development of the Eastern Seaboard began owing to the discovery of a natural gas field in the Gulf of Siam in 1973. In 1980, the Committee to Develop Basic Industries on the Eastern Seaboard was established. From 1982, establishment of an infrastructure was carried out mainly using yen loans from Japan. In Rayong Province, heavy chemical industries and Map Ta Phut Industrial Port were established to utilize the natural gas field. In Chonburi Province, which is close to Bangkok, an automotive industry cluster is forming and Laem Chabang Port was developed as a port for loading automobiles.

In 1993, the said region achieved a certain level of development and the Eastern Seaboard Development Plan was brought to a close. Since then, foreign companies have continued to enter the region at a faster pace than before. In 2017, the GDP generated by these three provinces accounted for 14.9% of Thailand's nationwide GDP. Looking solely at the GDP produced by the manufacturing industry, it accounted for 28.0% of Thailand's total GDP and is rising as time goes by (Table 4-3). The national average per-capita GDP was US$6,729. In contrast with this, the GDP generated in the EEC was more than double at US$20,093. This level is even higher than that generated in the capital of Bangkok. This is a result of a cluster of value-added manufacturing companies.

As was discussed before, the EEC is not a newly developed economic region. It is evident that this is an improvement of the Eastern Seaboard industrial zone. However, at present there are industrial parks scattered across the area. The goal of the EEC is to establish an infrastructure to connect these parks.

[43] Reflecting the build up in EEC development, in August 2018 the Cabinet approved the development of the Southern Economic Corridor (SEC), which consists of Chumphon, Rayong, Surat Thani and Nakhon Si Thammarat Provinces.

Table 4-3 Share of per-capita GDP by manufacturing companies in regions surrounding Bangkok, Thailand

	1995	2000	2005	2010	2015	2017	Population (1,000 people)	Per-capital GDP (US$)
Nationwide	100.0	100.0	100.0	100.0	100.0	100.0	67,654	6,729
Bangkok	18.8	20.2	16.1	12.7	15.2	14.2	8,751	16,909
Samut Prakan	9.8	13.1	11.9	10.2	8.1	7.0	2,089	10,112
Samut Sakhon	7.5	6.5	6.9	6.5	6.1	6.3	968	12,119
Pathum Thani	10.3	7.7	5.9	6.7	5.1	4.8	1,495	7,502
Nakhon Pathom	3.8	3.3	3.2	2.4	4.4	4.2	1,079	9,080
Nonthaburi	0.8	1.6	1.6	1.2	1.2	1.3	1,549	6,023
Ayutthaya	6.4	7.5	6.6	8.0	7.8	6.4	866	13,729
EEC	**20.9**	**19.4**	**23.4**	**24.8**	**26.0**	**28.0**	**3,376.4**	**20,093**
Chonburi	10.8	8.8	10.5	10.5	10.5	11.6	1,679	17,132
Rayong	6.2	7.1	8.5	9.3	9.9	11.1	899	32,282
Chachoengsao	3.9	3.5	4.4	4.9	5.6	5.4	798	12,593

Source: Compiled based on NESDC data

In the history of Thailand's economic policies, preferential treatment was never given to Bangkok and its surrounding areas. In contrast, policies have focused on decentralizing industry from Bangkok, where it had continued to be concentrated thus far, to regional areas. One example is the division of regions separated by distance from Bangkok, into several zones. Policies were implemented, including tax benefits and infrastructure establishment support the further away from Bangkok an industry was located. However, investments continued to be made in regions (the Eastern Seaboard industrial zone and Ayutthaya Province), that are eligible to receive preferential treatment but are located close to Bangkok.

Table 4-4 shows the areas by province where Japanese companies that were recognized by the Board of Investment (BOI) for preferential treatment are located. In Bangkok and its nine surrounding areas, which make up the Bangkok Mega Region (BMR), in 1970-2017, the cumulative total of approved investment projects conducted by Japanese companies is 6,932. This is more than 80% of the total number of approved investment projects. Up to the 1980s, many investment projects were carried out in Bangkok and the adjacent Samut Prakan and Pathum Thani Provinces.

In and after 1990, the number of investments increased in Ayutthaya, Chonburi and Rayong Provinces. The cumulative number of investments was the highest in Chonburi Province, with a cumulative total of 1,643. This was followed by Ayutthaya Province with 1,250 investment projects and Rayong Province with 1,058 investment projects. In 2010-2017, the cumulative number of investments in the EEC was 1,525 projects, which accounts for 45% of the overall total. As this shows, nearly 50% of Japanese companies invested in projects in the EEC. In this manner, the EEC took over development of the Eastern Seaboard industrial zone, which was already developed owing to entry by foreign companies, including Japanese companies. It is clear that the development of the EEC is clearly a policy that will contribute to the deployment of business activities by foreign companies.

Table 4-4 Number of direct investment projects by Japanese companies (by region)

	1970–1974	1975–1979	1980–1984	1985–1989	1990–1994	1995–1999	2000–2004	2005–2009	2010–2014	2015–2017	Total
Bangkok	1	5	4	59	36	61	73	184	277	137	837
Samut Prakan	2	4	16	118	55	67	68	97	193	62	682
Samut Sakhon	0	0	2	9	6	4	9	13	9	3	55
Pathum Thani	1	3	7	124	128	122	141	142	197	27	892
Nakhon Pathom	0	1	0	9	2	0	6	3	5	2	28
Nonthaburi	1	1	1	2	1	3	4	4	7	0	24
Ayutthaya	0	0	2	32	73	182	241	238	420	62	1,250
Chonburi	1	1	1	25	64	149	225	360	653	164	1,643
Rayong	0	0	2	13	18	127	188	187	404	119	1,058
Chachoengsao	0	0	1	30	33	47	69	98	159	26	463
Other	0	3	9	51	130	234	231	232	364	132	1,386
Total	6	18	45	472	546	996	1,255	1,558	2,688	734	8,318

Source: Compiled based on materials from the BOI

EEC development differs from the Eastern Seaboard industrial zone development is that there is large-scale government-driven infrastructure projects. There are plans to invest a total of THB1.7670 trillion (around ¥6 trillion) (Table 4-5). However, this capital is not earmarked in the government's budget. It should be noted that this capital is scheduled to primarily be covered by Public-Private Partnerships (PPP). Groups of companies, mainly centered on Charoen Pokphand (CP), a Thai zaibatsu (family-owned business group) has already won bids at the end of 2018 for construction on a high speed railway network to connect Don Mueang International Airport, Suvarnabhumi Airport and U-Tapao International Airport. There are also plans to leverage PPPs to fund work on the Map Ta Phut Industrial Port and Laem Chabang Port. Not all of these projects are going as planned by the Thai government.

Table 4-5 Breakdown of the EEC Investment Plan

	(Million bahts)
New city/hospital construction	400,000
Tourism	200,000
Industry	500,000
Highways	35,300
Railway track duplication	64,300
High-speed railway	200,000
Expansion of the Laem Chabang Port (Phase 3)	150,000
Expansion of the Map Ta Phut Industrial Port (Phase 3)	11,100
Expansion of the U-Tapao International Airport	200,000
	1,760,700

Source: Compiled based on materials from the EEC Secretariat

Ties with the Chinese government may grow stronger going forward to secure capital for infrastructure development. This is because under its One Belt, One Road Initiative, China is active engaging in infrastructure establishment in regions surrounding China[44]. In addition, there is a possibility that prolonged US-China trade friction could accelerate the transfer of production bases in China to Thailand. Should this occur, infrastructure development in EEC could be accelerated by support and investment by Chinese public-private entities. Although the Japanese government has not clearly stated its support for the One Belt, One Road Initiative, it has decided to cooperate with China in third country market development. The list of possible projects includes urban development in Chonburi (Sriracha). (Ministry of Foreign affairs data)

EEC development includes the establishment of the EECd (digital) and EECi (innovation). EECd is scheduled to be set up in Chonburi Province, and the goal is mainly to collect and manage data, and create a start-up cluster. The aim is to create a data hub for the ASEAN region. At present, a concrete design is under consideration. The EECi is slated to be established in Rayong Province and to promote practical development in the field of R&D. For instance, the EECi plans to test results in an agricultural laboratory based on actual scale. However, a realistic view is that it will still take time to achieve this and attain concrete results.

There are no businesses directly connected to Japanese SMEs for infrastructure establishment. From the point of connecting industrial parks that are scattered and from the point of contributing to an improvement in productivity, consideration should likely be made to pinpoint positive factors. Building comfortable places to live in the city is also a plus for expatriates in Thailand.

The production bases in Thailand thus far mainly served the US, Europe and Japan. Going forward, activities should be carried out with a focus on entering emerging markets, including in the ASEAN region, India and China. In addition, Thailand will require a strategy to participate in a corner of the supply chain driven by China. In other words, sites should be developed to uncover new added value by further deregulating cluster areas.

Conclusion

In Asia, the highest number of Japanese companies is concentrated in the area surrounding Bangkok, Thailand. As of the end of 2018, the balance of direct investment in Thailand by Japanese manufacturers reached ¥4.6936 trillion, which is more than 50% of the balance of direct investment in China, which was ¥8.7934 trillion. Meanwhile, the number of registered Japanese living in Thailand as of October 2017 exceeded 70,000 people. The majority of these Japanese lived in the area surrounding Bangkok. One aspect of this society of Japanese people is that they have come to form another Japanese business community overseas. Wage levels are certainly rising in Thailand. In addition, although the issue of securing manpower has arisen, there still continues to be many attractive points enticing SMEs to enter the market in Thailand. Moreover, repeating what was already stated in this chapter, we recognize that the economic system in Thailand is undergoing digitalization and the advent of a new era for considering new businesses is upon us. There are 800,000 Thai citizens working at Japanese companies (this is twice the population of Wakayama Prefecture). In closing, I would like to emphasize that advancements at Japanese companies is indispensable for the sustainable growth of both countries.

[44] Refer to Suehiro (2018: 115-119) on the relationship between the EEC and the One Belt, One Road Initiative.

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Chapter 5

Expectations the Thai Government and Private-Sector Companies have in Thailand 4.0

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Minister-Counsellor, Office of Industrial Affairs, Royal Thai Embassy, Tokyo

Section 1 Ministry of Industry

The Ministry of Industry (M-Industry) in Thailand was established after the Department of Industrial Works was spun off from the former Ministry of the Economy on May 5, 1942. The main mission of the ministry is to promote the manufacturing and mining industries. The vision for 2019-2021 is to promote industrial reform for Thailand 4.0 and to improve growth in the field of industry to 4.5%. In addition, the ministry is citing the following four missions.

(1) Make it possible to compete in the global market mainly by promoting manufacturers and enhancing their potential.
(2) Promote and develop an ecosystem to transition industries in Thailand to Industry 4.0.
(3) Promote eco-friendly industries.
(4) Integrate operations inside and outside the ministry to achieve goals.

Investments by Japan in Thailand accounts for around 40% of the total overseas direct investment in Thailand. In light of this, M-Industry regards Japan as a principal country. It is the only overseas desk, Japan Desk, in the ministry, set up by M-Industry, JETRO and the Japan International Cooperation Agency (JICA) in 2009. The Japan Desk, which is under the auspices of the Department of Industrial Promotion (DIP), at M-Industry, aims to promote collaborations between Japanese and Thai SMEs and is undertaking the support of Japanese-Thai collaborations. A decade has passed since the opening of the Japan Desk.

Up until recently, many Japanese-Thai collaborations were conducted at the central government level. In addition to this, H.E. Dr. Somkid Jatusripitak, Deputy Prime Minister of the Prayuth administration (Deputy Prime Minister in charge of economy), promoted collaborations between municipalities in Japan and Thailand and is implementing a “Local-to-Local” policy. In addition, as of October 2019, M-Industry signed 25 Memorandums of Understanding on cooperation to support SMEs with regional municipalities, government institutions and the Department of Industry Promotion, M-Industry. To this end, based on these MOUs, Japanese regional municipalities will cooperate with regions in Thailand.

Section 2 Key industries in Thailand 4.0

In 2015, the Thai government presented the Thailand 4.0 policy and a 20-year long-term development policy. This became the country's long-term economic and social vision. The goal is to become a high-income nation by 2036.

The definition of Thailand 4.0 is as follows. The development stages of Thailand is divided into 4 phases.

Thailand 1.0 …… Age of agriculture
Thailand 2.0 …… Age of light industries. This was an era of development, mainly of light industries, including textiles and food processing, by using natural resources and cheap labor.
Thailand 3.0 …… Age of heavy industries. This era was marked by manufacturing and exports, including steel, automobiles, natural gas and cement, by using overseas technologies.
Thailand 4.0 …… Based on the keywords of technology and innovation, create high added value via R&D and through personnel training. To this end, the government is aiming to attract and enhance the 10 key industries.

10 key industries

As industries responsible for sustainable development utilizing a new economic model, the Thai government announced and is promoting 10 key industries. The 10 key industries are largely divided into two groups.

Ten key industries in Thailand 4.0: Excerpt from the BOI

1. First S-Curve industry

First S-Curve industries are those industries that are already rooted in Thailand and which require new investment in new products to enhance international competitiveness. The following five industries are First S-Curve industries.

(1) Next-generation automobile industry
(2) Smart electronics industry
(3) Agriculture and biotechnology industries
(4) Food processing industry
(5) Tourism and health tourism for high-income consumers

2. New S-Curve industry

New S-Curve industries are those industries that do not have a foundation in Thailand yet. These industries are necessary as impetus for the growth of Thailand going forward. The following five industries are New S-Curve industries.

(6) Automated system and robotics industries
(7) Aviation and logistics industries
(8) Biofuel and biochemical industries
(9) Digital technology industries
(10) Comprehensive medical care

In recent years, in addition to the aforementioned 10 key industries, the education and defense industries were added. Energies are also being poured into industry development.

These target industries mainly consist of fields related to cutting-edge technology and innovation. Independent development at domestic companies in Thailand is difficult. In light of this, the knowledge of foreign companies and the nurturing of domestic personnel are indispensable. Another important point is accelerating methods to attract investment. Consequently, these target industries should receive higher benefits from the government, versus other industries, in the event of domestic investment in these target industries. In addition, the Thai government plans to promote investment into these industries and has therefore hammered out the Eastern Economic Corridor (EEC). The details are introduced in Chapter 4. I will give one example. In the EEC policy, the government plans to develop a new airport and nurture the aviation industry around the airport. The government is supporting the establishment of aircraft maintenance plants and parts factories.

The following are target industries announced by the BOI in each of the key industries.

(1) Target industries in the next-generation automobile industry

1-1 Vehicle engine manufacturing
- 1-1-1 Automobile engine manufacturing (excluding engine assembly)
- 1-1-2 Motorcycle engine manufacturing (excluding engine assembly)

1-2 Vehicle parts manufacturing
- 1-2-1 Manufacturing of vehicle parts that use advanced technologies
  - 1-2-1-1 Catalytic converter substrate manufacturing
  - 1-2-1-2 Electronic fuel injection system manufacturing
  - 1-2-1-3 Automobile transmission manufacturing
  - 1-2-1-4 Electronic control unit (ECU) manufacturing
- 1-2-2 Safety and energy-saving parts manufacturing
  - 1-2-2-1 Anti-lock braking system (ABS) and electronic braking systems (EBD) manufacturing
  - 1-2-2-2 Electronic stability control (ESC) manufacturing
  - 1-2-2-3 Regenerative braking system manufacturing
  - 1-2-2-4 Idling-stop system manufacturing
  - 1-2-2-5 Autonomous Emergency Braking System manufacturing
- 1-2-3 Hybrid vehicle, electric vehicle, and plug-in hybrid vehicle parts manufacturing
  - 1-2-3-1 Battery manufacturing
  - 1-2-3-2 Traction motor manufacturing
  - 1-2-3-3 Electric air-conditioning system and related parts manufacturing
  - 1-2-3-4 Battery management system (BMS) manufacturing
  - 1-2-3-5 Drive control system (DCU) manufacturing
  - 1-2-3-6 On-board charger manufacturing
  - 1-2-3-7 Charging cable, outlet and connector manufacturing
  - 1-2-3-8 DC/DC converter manufacturing
  - 1-2-3-9 Inverter manufacturing
  - 1-2-3-10 Manufacturing of mobile/portable chargers for electric vehicles
  - 1-2-3-11 Electric circuit breaker manufacturing
  - 1-2-3-12 EV smart charger system development
  - 1-2-3-13 Electric bus front axle and back axle beam manufacturing

1-2-4 Vehicle rubber tire manufacturing
1-2-5 Fuel system parts manufacturing
1-2-5-1 Fuel pumps
1-2-5-2 Injection pumps
1-2-5-3 Injectors
1-2-6 Transmission system parts manufacturing
1-2-6-1 Sun gears
1-2-6-2 Ring gears
1-2-6-3 Shift gears
1-2-6-4 Transfer case
1-2-6-5 Torque converter
1-2-6-6 Carrier
1-2-6-7 Propeller shaft
1-2-6-8 Drive shafts
1-2-6-9 Universal joints
1-2-6-10 Differentials
1-2-6-11 Transmission cases
1-2-7 Engine system parts manufacturing
1-2-7-1 Turbo chargers
1-2-8 Safety parts manufacturing
1-2-8-1 Airbag inflator, gas generator, gas forming agents
1-3 Manufacturing of motor bikes with a total engine displacement of 500cc
1-4 Fuel cell manufacturing
1-5 Battery Electric Vehicles (BEV) and BEV parts manufacturing

(2) Target industries in the smart electronics industry

2-1 Electronic goods manufacturing
- 2-1-1 Advanced technology level electronic goods manufacturing
  - 2-1-1-1 Advanced technology level electronic goods manufacturing with product design
  - 2-1-1-2 Advanced technology level electronic goods manufacturing without product design

2-2 Manufacturing of electronic parts and/or machinery, or parts used in electronic goods and machinery
- 2-2-1 Manufacturing of power inverters, distribution transformers and industrial electrical equipment for main shut-off devices
  - 2-2-1-1 Manufacturing of power inverters, distribution transformers and industrial electrical equipment for main shut-off devices with product design processes
- 2-2-2 High Density Energy Storage device manufacturing
  - 2-2-2-1 High Density Battery
  - 2-2-2-2 Supercapacitors

2-3 Electronic goods manufacturing
- 2-3-1 Organics & Printed Electronics (OPE) manufacturing
- 2-3-2 Telecommunications equipment manufacturing
  - 2-3-2-1 Manufacturing of luminous, transmission and receivers used in optic fiber and wireless communication systems
  - 2-3-2-2 Other electronic communication device manufacturing
- 2-3-3 Industrial/agricultural electronic control and measuring equipment manufacturing
- 2-3-4 Safety management machinery manufacturing

2-4 Manufacturing of electronic parts and/or machinery, parts and/or machinery using in electronic goods
- 2-4-1 Organics & Printed Electronics (OPE) parts manufacturing
- 2-4-2 Solar battery and/or solar battery materials manufacturing
- 2-4-3 Electronic communication device parts manufacturing
  - 2-4-3-1 Optic fiber and wireless communication system light emission, transmission and receiver parts manufacturing
- 2-4-3-2 Other electronic communication device parts manufacturing
- 2-4-4 Manufacturing of parts for electronic control devices and measuring instruments for industrial, agricultural, medical/scientific and vehicle use
- 2-4-5 Safety management device parts manufacturing
- 2-4-6 HDD and/or HDD parts manufacturing
  - 2-4-6-1 Manufacturing of advanced technology HDD and/or related parts (excluding Top Cover, Base Plate and Peripheral)
  - 2-4-6-2 Manufacturing of general HDD and/or related parts (excluding Top Cover, Base Plate and Peripheral)
- 2-4-7 Solid State Drive and related parts manufacturing
- 2-4-8 Manufacturing of machinery that uses solar energy and related parts
- 2-4-9 Semiconductor and/or semiconductor part manufacturing
- 2-4-10 Manufacturing of photonics parts and/or machinery and/or systems that use photonics
- 2-4-11 Flat panel display manufacturing

2-4-12 Flexible printed circuit board and/or multilayer printed circuit boards and/or parts manufacturing
2-4-12-1 Manufacturing of flexible printed circuit boards with circuit pattern design process and/or multilayer printed circuit board and/or parts
2-4-12-2 Manufacturing of flexible printed circuit boards with no circuit pattern design process and/or multilayer printed circuit board and/or parts

2-5 Microelectronic material manufacturing
2-5-1 Wafer fabrication
2-5-2 Manufacturing of materials that use thin film technology

2-6 Electronics design
2-6-1 Microelectronics design
2-6-2 Embedded system design

(3) Target industries in the agriculture and bio-technology industries

3-1 Bio-fertilizer, organic fertilizer, nano organic chemical fertilizer, and bio-herbicide and insecticide
3-2 Breeding of plants and animals (in the case of out of scope biotechnology business)
3-3 Quality selection, packaging and storage of plants, vegetables and fruits
3-4 Milling of modified starch or from special plants
3-5 Biotechnology
3-5-1 Biotechnology development

(4) Target industries in the food processing industry

4-1 Manufacturing/storage of food using cutting-edge technology, beverages, Food Additives and Food Ingredients (excluding drinking water, ice cream, candy, chocolate, gum, sugar, carbonated beverages, alcohol, caffeinated drinks, plant powder and starch, bakery, instant ramen, chicken extract, and swallow nests)

(5) Tourism for high-income group and health tourism

(6) Target industries in the automated system and robotics industries

6-1 Manufacturing automation machinery with engineering design process and/or automation devices
6-1-1 Engineering design, development and design process for automation system integration, automation machinery with design process for automated control system for operations and/or automation device manufacturing
6-1-2 Engineering design and machine operations for automated control system design process for automation machinery and/or automation device manufacturing

6-2 Robot, automation device, and related parts assembly
6-3 Manufacturing of construction and industrial metal structures with engineering design processes (Fabrication Industry)
6-4 Scientific instrument manufacturing
6-4-1 Manufacturing of scientific instruments that use advanced technologies
6-4-2 Manufacturing other scientific instruments

(7) Target industries in the aviation and logistics industries

7-1 Manufacturing and repair of aircraft and aerospace devices
- 7-1-1 Aircraft and related parts manufacturing. Examples: Aircraft body, aircraft base parts, peripheral parts, and other parts
- 7-1-2 Manufacturing of aircraft cabin supplies and equipment (excluding consumables and reusable supplies and materials). Examples: Seats, life jackets, trolleys and cooking utensils
- 7-1-3 Repair of aircraft and aircraft parts
- 7-1-4 Aerospace-related machinery manufacturing. Examples: Spacecraft parts, artificial satellites, drive systems, guide rockets, aerospace-related electronics and communication devices, exploration devices, measures instruments and navigation devices
- 7-1-5 Aerospace-related operation system. Examples: Exploration system, ground station system, measuring system, evaluation system, aerospace navigation system

7-2 Commercial airports

7-3 Air transport (excluding airline services)

7-4 Airline and space industrial park, or industrial park

7-5 Shipbuilding and repairs
- 7-5-1 Shipbuilding and repairs of vessels weighing over a gross ton
- 7-5-2 Shipbuilding and repairs of vessels weighing less than a gross ton (only metal or fiber glass ships loaded with an engine and machinery)

7-6 Train, related supplies and parts manufacturing (restricted to rail transit systems)
- 7-6-1 Train, related supplies and parts manufacturing (restricted to rail transit systems)
- 7-6-2 Train, related supplies and parts manufacturing (restricted to rail transit systems)

7-7 Inspection of exports using container method and inspection of facilities and imported goods outside the wharf for container loading, and exports in the Inland Container Depot (ICD)

7-8 Loading and unloading service for marine transports

7-9 International Distribution Center (IDC)

7-10 Logistics Park

7-11 Distribution center that uses artificial intelligence

(8) Target industries in the biofuel and biochemical industries

8-1 Manufacturing fuels from agricultural products (including scraps, waste and waste matter from agricultural products)
- 8-1-1 Manufacturing of fuel from agricultural products
- 8-1-2 Manufacturing of fuel from agricultural products, including agricultural product scraps , waste and waste matter (Example: Biomass to Liquid (BTL), natural gas from waste water)

8-2 Manufacturing of eco-friendly chemical, polymers and eco-friendly polymer products
- 8-2-1 Manufacturing of eco-friendly chemicals and polymers, manufacturing of products with eco-friendly polymer manufacturing processes in the same project
- 8-2-2 Eco-friendly polymer product manufacturing

8-3 Petrochemical product manufacturing

8-4 Special polymer product and special chemical manufacturing

8-5 Excluding waste and waste-based fuels, generation of electric power from renewable energy, including solar, wind, biomass and biogases, etc. and the production of electric power and steam

(9) Target industries in the digital technology industry

9-1 Manufacturing of and services for modern agricultural systems. For example, status detection and tracking system, the use of water, fertilizer, pharmaceuticals and other materials, control systems and smart greenhouse systems

9-2 Software business
- 9-2-1 Embedded software development
- 9-2-2 Corporate application software
- 9-2-3 High Value-added Software development
  - Analytic and coordinated software development and services for information processing of data analytics, including Big data and forecast analytics
  - Information security and Cyber Security software development, software development to coordinate and manage devices that use advanced technology, including business process management
  - Industrial Software development

9-3 Digital Service
- Software Platform services
- Managed Services
- Digital Architecture Design Services
- Digital services. Example: FinTech, DigiTech, MediTech, AgriTech, etc.

9-4 Digital printing equipment manufacturing

9-5 Data center industrial park or data center park

9-6 Innovation Incubation Center

9-7 Cloud Service

9-8 Services for film-making

9-9 Digital technology development

(10) Target industries in comprehensive medical care

10-1 Medical food or nutritional supplement and food supplement manufacturing

10-2 Medical tools and machinery and other parts manufacturing

- 10-2-1 Manufacturing of high risk and high-tech medical devices (X-ray machines, MRI machines, CT scan machines, human body implants, etc.) and commercialized medical tools and devices based on research results from public institutes or public-private joint research
- 10-2-2 Manufacturing of other medical tools and devices (excluding medical tools and devices made from cloth and textiles)

10-3 Active Pharmaceutical Ingredient manufacturing

10-4 Pharmaceutical manufacturing

Section 3 Cooperation businesses from Japan International Cooperation Agency

Every year, each institution of the Thai government makes a request to JICA on cooperation related to domestic issues and issues in surrounding countries. In accordance with this, JICA will consider the potential of cooperations. The table below compiles the number of requests for cooperation from 2013 to 2018 (Table 5-1).

Table 5-1 Number of requests for cooperation to JICA by year

Year	Environment	Health/ welfare	Auto	Agriculture	Specialty products	ASEAN collaboration projects	SME support	Immigration control	Infrastructure development	Collaboration project with other regions	Total
2013	7	3	1	2		1	1	2			17
2014	6	2	2	1		2	1	1			15
2015	7	4	1	1		4	1	2			20
2016				5	1	4					10
2017	2	2		4		3			6		17
2018	5	6		1	1	4		1	4	1	23
Total	27	17	4	14	2	18	3	6	10	1	102

Source: Ministry of Foreign Affairs, Thailand

As Table 5-1 indicates, the highest number of requests for cooperation is in the field of the environment. This is followed by ASEAN collaboration projects, health and welfare, and agriculture. Japan's environment-related technologies are excellent. That is why it is the field in which there are many requests.

The reason there are many ASEAN collaboration projects, Thailand is geographically located in the continental part of the ASEAN region. In addition, economic development is progressing at a faster pace than in its surrounding countries. Under the current government, the growth in this region overall is believed to contribute to the growth in Thailand. Thailand aims to cooperate with the Japanese government to support the growth of surrounding countries.

In health and welfare, as Thailand will become an aging society in the near term, it is anticipated that the experiences in Japan, a super-aging society, can be used in Thailand. In addition, in Thailand supporting industries for the auto sector are developing. These supporting industries are diversifying. Using these facilities, it will likely be feasible to manufacture welfare and medical devices, as these markets are expected to grow going forward. Thai and Japanese companies are expected to collaborate. By complementing each other, it will be possible deploy operations into the ASEAN market.

Section 4 Survey results on expectations Thai private-sector companies have in Japanese companies

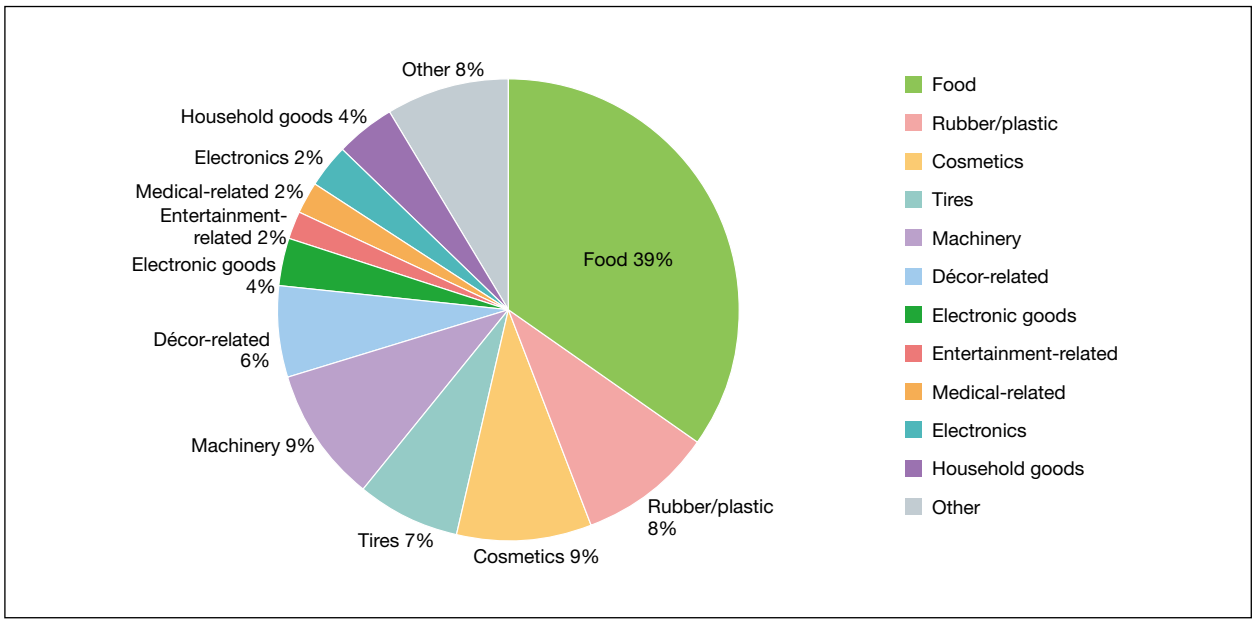
In July 2019, a survey (public poll) was taken of the Thai business operators that collaborated with Japanese business operators. 102 responses were received. The results are as follows.

4-1 Data on respondents

(1) Industries the respondents belong to (No. of responses: 102)

The following is a breakdown of the industries the respondents to this survey belonged to: 33 food companies, nine rubber and plastic related companies, nine cosmetics companies, seven tire companies, nine machinery companies, six décor related companies, three electronic goods companies, two entertainment related companies, two medical related companies, three electronics companies, four household goods companies, and eight "other" companies (one textile company, one printing/papermaking related company, one environment lab, one distribution company, one whole vendor and one coconut charcoal production company).

Chart 5-1 Survey respondents by industry

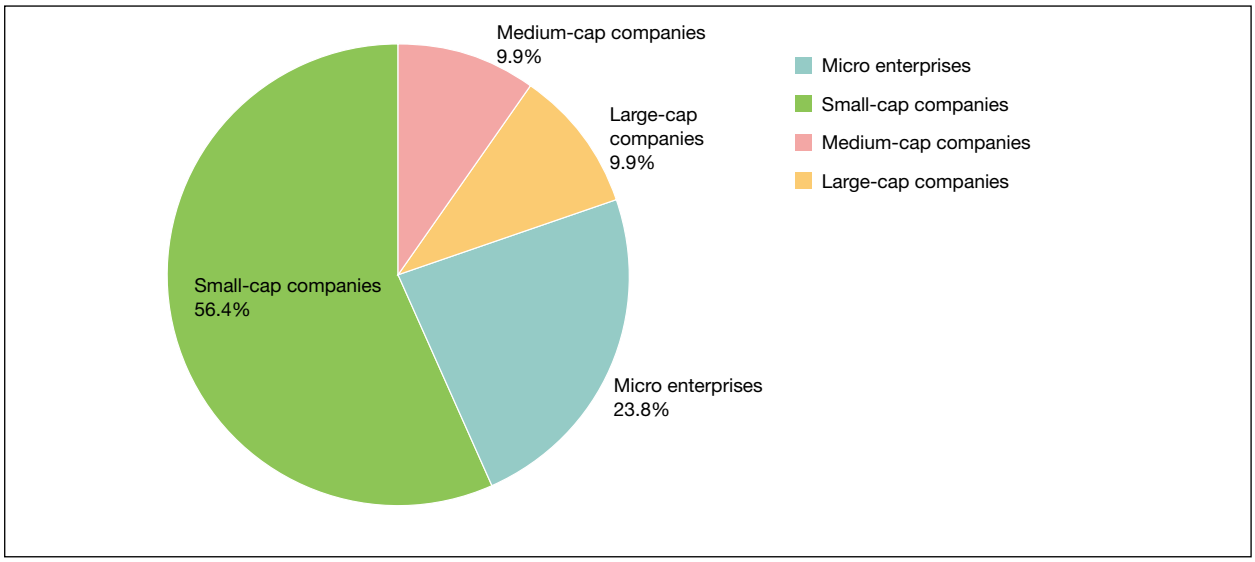


(2) Respondent sales (Number of responses: 101)

Sales at business operators that responded to the survey: 24 companies had sales of under THB1.80 million, 57 companies had sales of THB1.80 million – THB100 million, 10 companies had sales of THB100 million-THB500 million, and 10 companies had sales of THB500 million or higher.

In Thailand, companies with sales of THB1.80 million or lower are defined as micro enterprises. Companies with sales of THB1.80 million-THB100 million are small-cap companies. Company with sales of THB100 million-THB500 million are medium-cap companies. Companies with sales of THB500 million or higher are large-cap companies.

Chart 5-2 Scale of respondent companies



(3) Degree of recognition of Thailand 4.0 (Number of respondents: 95)

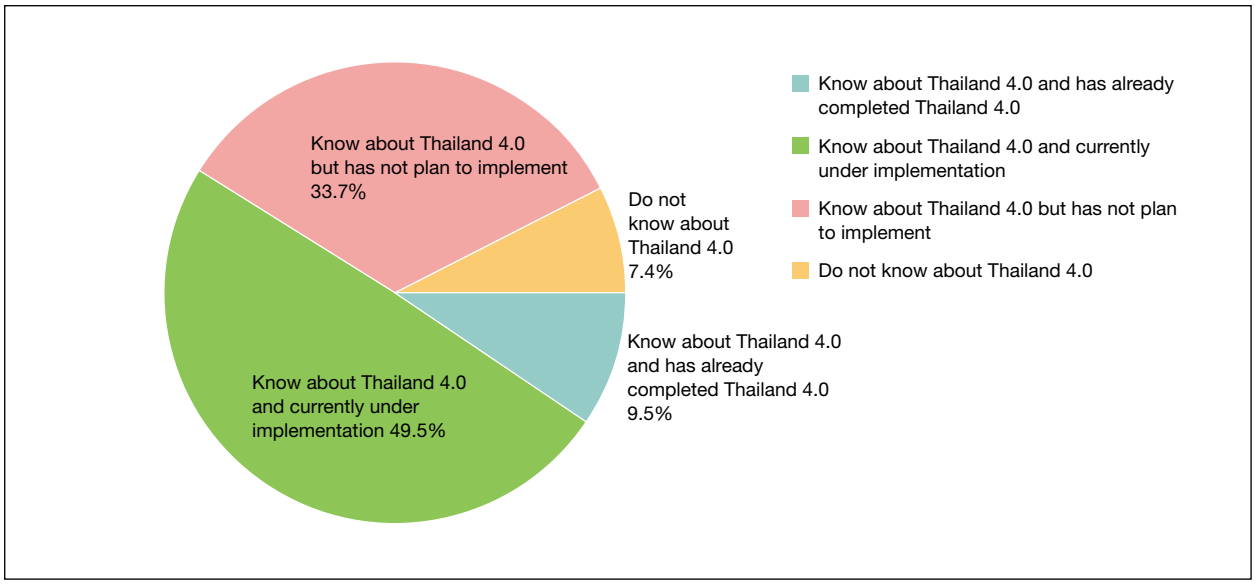
–Companies that responded they know about Thailand 4.0 and are already implementing Thailand 4.0:… 9 companies
(Large-cap companies: 0, medium-cap companies: 0, small-cap companies: 6, and micro enterprises: 3)

–Know about Thailand 4.0. Currently conforming with and implementing Thailand 4.0: …… 47 companies
(Large-cap companies: 7, medium-cap companies: 5, small-cap companies: 28, and micro enterprises: 7)

–Know about but do not plan to implement Thailand 4.0 policies: …… 32 companies
(Large-cap companies: 3, medium-cap companies: 3, small-cap companies: 17, and micro enterprises: 9)

–Do not know: …… 7 companies
(Large-cap companies: 0, medium-cap companies: 1, small-cap companies: 4, and micro enterprises: 2)

Chart 5-3 Recognition of Thailand 4.0



4-2 Image of Japanese companies

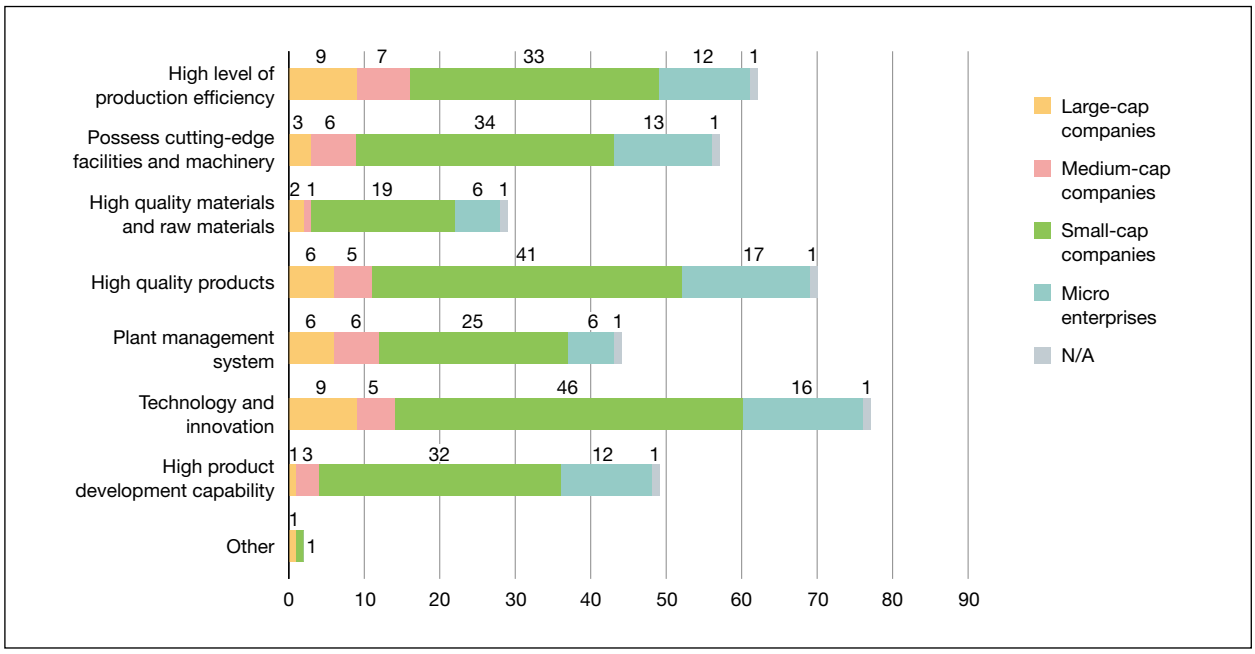
(1) Characteristics of Japanese manufacturing companies (Multiple choice)

–High level of production efficiency ..... 62 companies
–Possess cutting-edge facilities and machinery ..... 57 companies
–High quality materials and raw materials ..... 29 companies
–High quality products ..... 70 companies
–Plant management system ..... 44 companies
–Technology and innovation..... 77 companies
–High product development capability ..... 49 companies
–Other ..... 2 companies

(1) Reliable
(2) Long-term transactions (business practices)

Thai companies are attracted to Japanese manufacturers mainly owing to their “technology and innovations.” This is followed by “high quality products.” This trend is nearly the same even based on corporate scale.

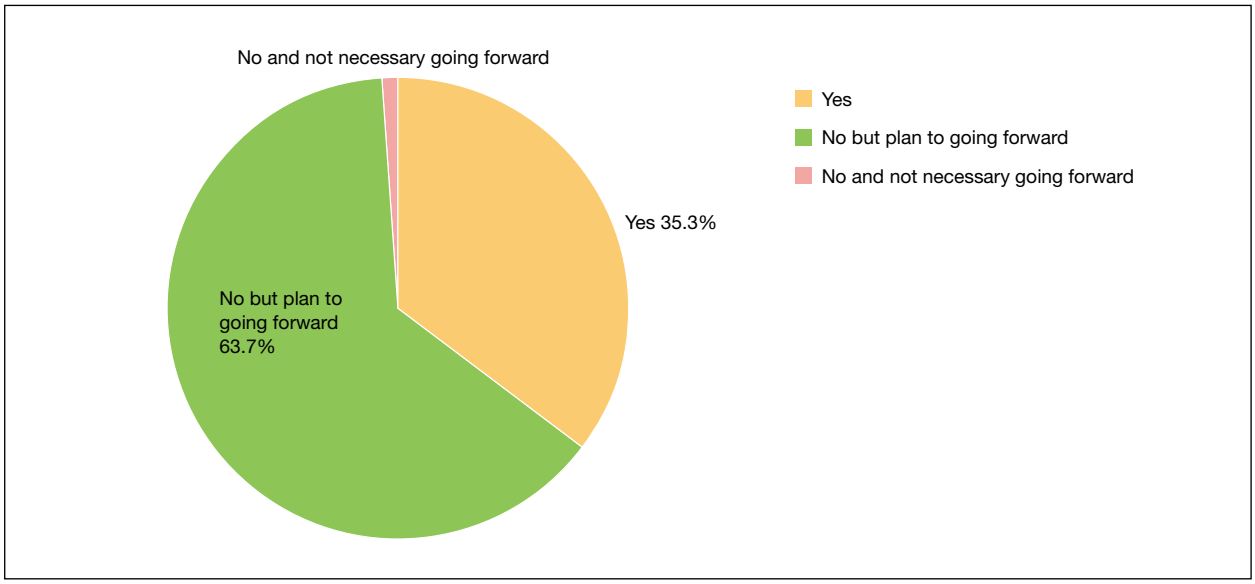
Chart 5-4 Image of characteristics of Japanese manufacturing companies



(2) Have you conducted a business collaboration/cooperation with a Japanese company?
(No. of responses: 102)

–Yes ..... 36 companies
(Large-cap companies: 7, medium-cap companies: 5, small-cap companies: 21, micro enterprises: 2, N/A: 1)
–No but plan to (collaboration/cooperation) going forward ..... 65 companies
(Large-cap companies: 3, medium-cap companies: 5, small-cap companies: 36, micro enterprise: 1)
–No and not necessary going forward ..... 1 company
(Micro enterprise: 1)

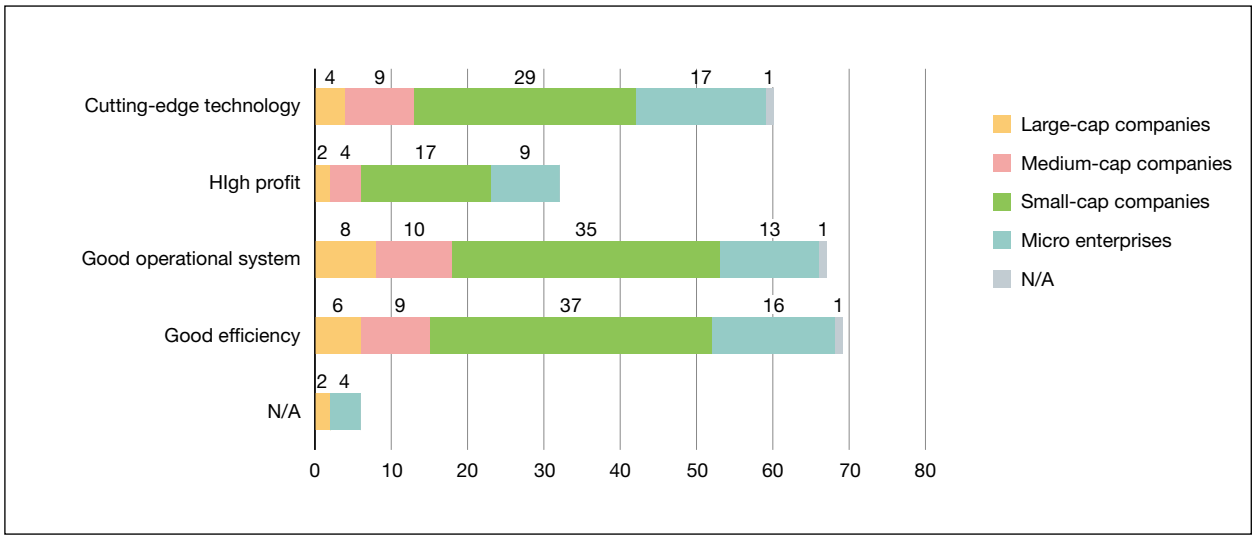
Chart 5-5 Experience in business collaboration with Japanese companies



(3) Conducted collaboration/cooperation or desires to carry out collaboration/cooperation for companies that responded “yes” or “no but plan to going forward” to (2) (Multiple choice) (No. of responses: 100)

–Cutting-edge technology ..... 60 companies
–High profit ..... 32 companies
–Good operational system ..... 67 companies
–Good efficiency ..... 69 companies
–Other ..... 6 companies
(1) Reliance on knowledge and customers
(2) Technological support
(3) Cultivating customer market with Japanese companies
(4) Reliability
(5) Stability
(6) Capital

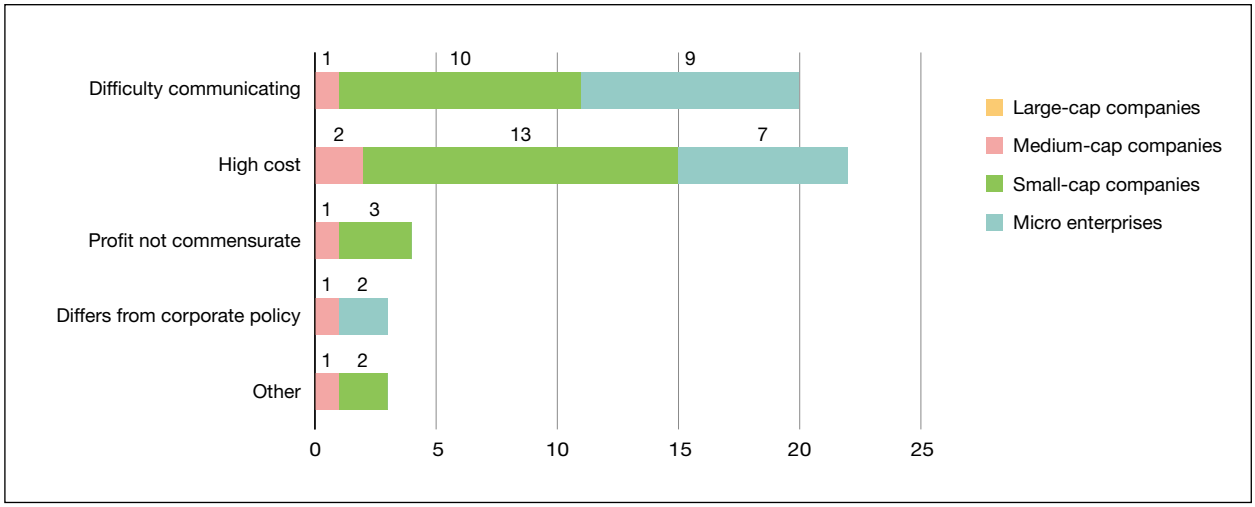
Chart 5-6 Reasons for wanting to collaborate in business with Japanese companies



(4) Reasons companies responded “no” in (2) (Multiple choice) (No. of responses: 32)

–Difficulty communicating ..... 20 companies
–High cost ..... 22 companies
–Profit not commensurate ..... 4 companies
–Differs from corporate policy ..... 3 companies
–Other ..... 3 companies
(1) Price competition
(2) Still have not found a business partner
(3) Do not know

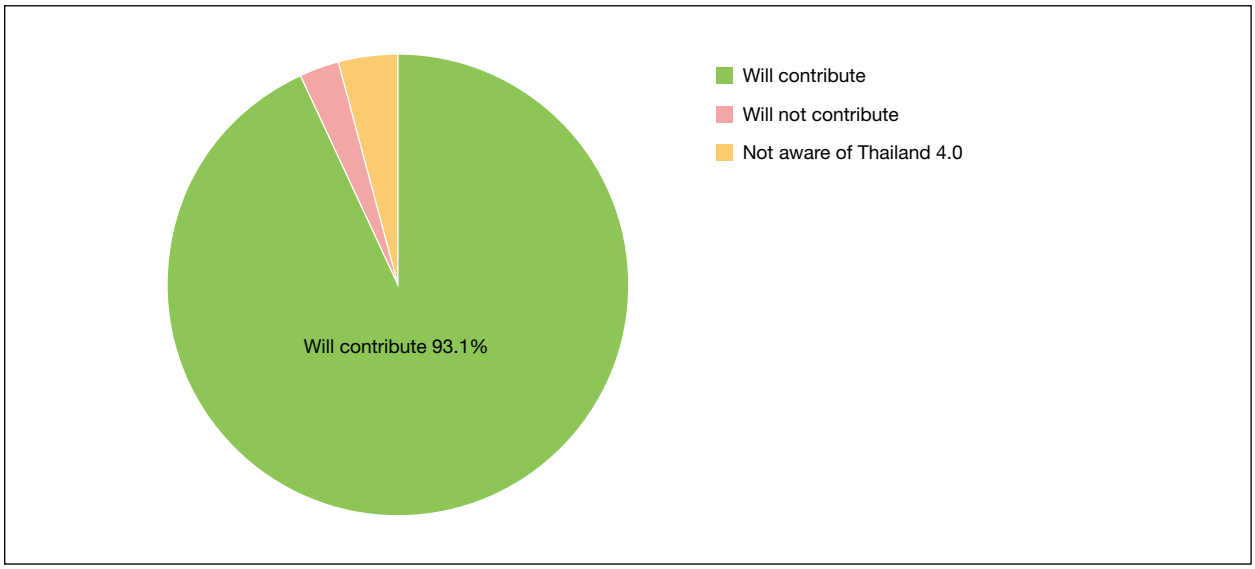
Chart 5-7 Reasons why do not want to collaborate with Japanese companies



(5) Will collaborations with Japanese business operators contribute to your own company's transition to the Thailand 4.0 policy? (No. of responses: 101)

–Yes ..... 94 companies
(Large-cap companies: 9, medium-cap companies: 9, small-cap companies: 53, micro enterprises: 23)
–No ..... 3 companies
(Large-cap company: 1, medium-cap companies: 0, small-cap company: 1, micro enterprise: 1)
–Do not know about Thailand 4.0 ..... 4 companies
(Large-cap company: 0, medium-cap company: 1, small-cap companies: 3, micro enterprise: 0)

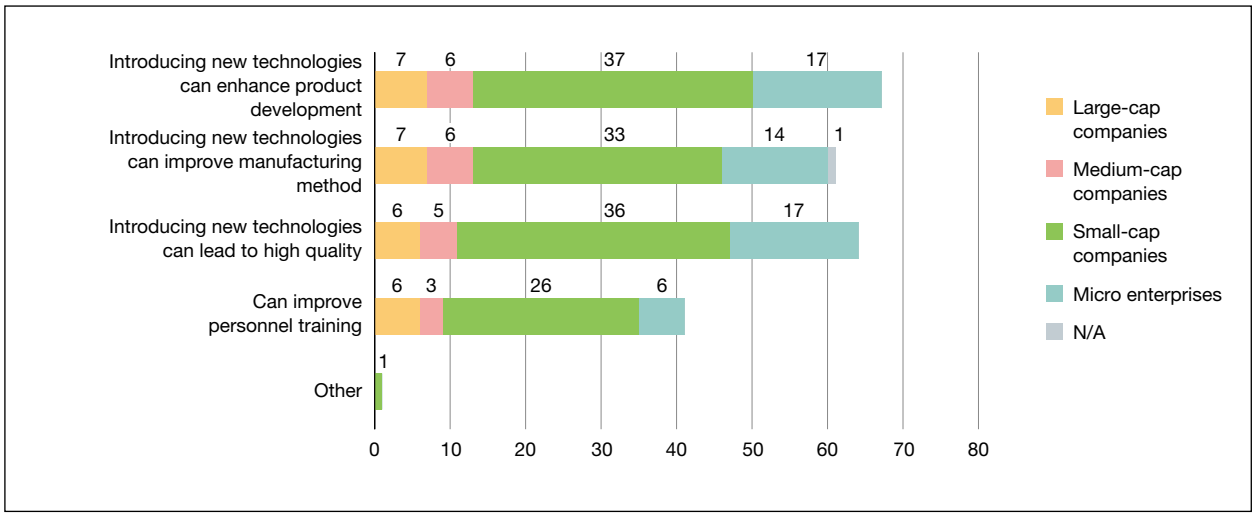
Chart 5-8 Will collaborations with Japanese companies possibly contribute to a transformation to Thailand 4.0?



(6) Reasons business operators responded will contribute in (5) (Multiple choice)
(No. of responses: 95 companies)

–Introducing new technologies can enhance product development ..... 67 companies
–Introducing new technologies can improve manufacturing method ..... 61 companies
–Introducing new technologies can lead to high quality ..... 64 companies
–Can improve personnel training ..... 41 companies
–Other ..... 1 company
(1) Investment capital to create standards

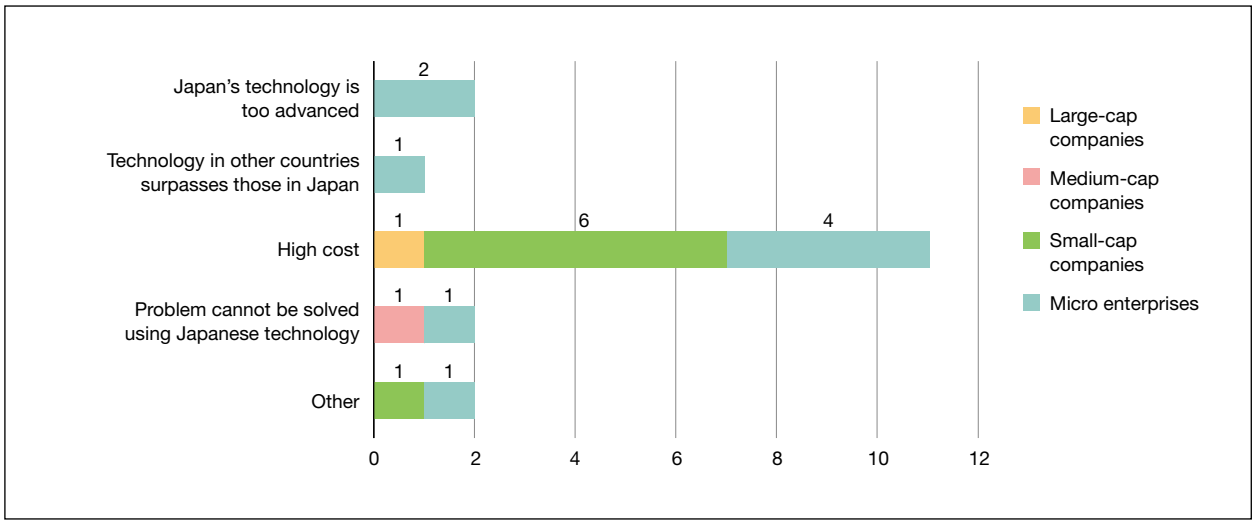
Chart 5-9 Reasons why collaborations with Japanese companies can contribute to Thailand 4.0



(7) Reasons why business operators responded that collaborations would not provide contribution (Multiple choice) (No. of responses: 16)

–Japan's technology is too advanced ..... 2 companies
–Technology in other countries surpasses those in Japan ..... 1 company
–High cost ..... 11 companies
–Problem cannot be solved using Japanese technology ..... 2 companies
–Other ..... 2 companies
(1) No correlation with proprietary products
(2) No response

Chart 5-10 Reasons why collaborations with Japanese companies will not contribute to Thailand 4.0

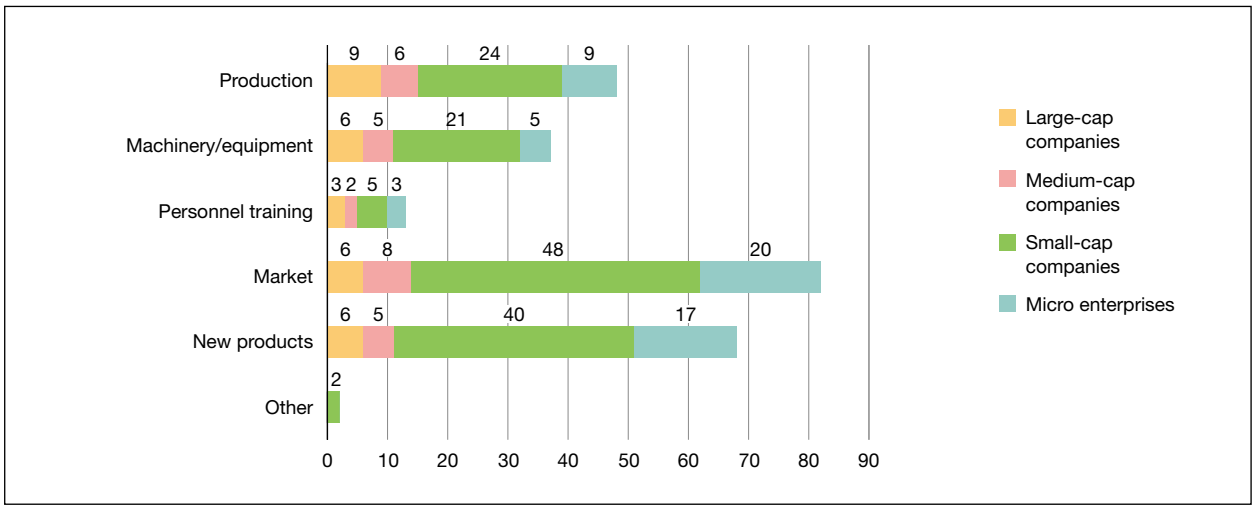


4-3 Collaboration with Japanese companies

(1) Fields in which business operators desire collaborations with Japanese companies (Multiple choice) (No. of responses: 101)

–Production ..... 48 companies
–Machinery/equipment ..... 37 companies
–Personnel training ..... 13 companies
–Market ..... 82 companies
–New products ..... 68 companies
–Other ..... 2 companies

Chart 5-11 Fields in business operators desire to collaborate with Japanese companies

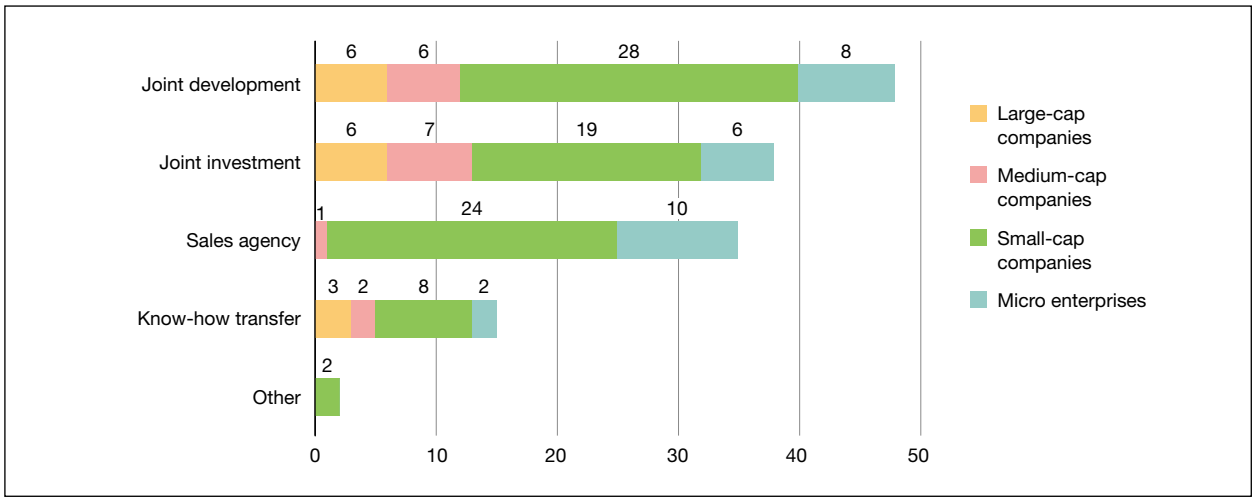


(2) Types of collaborations envisaged by business operators that desire collaborations in the "production" field in (1) (Multiple choice) (No. of responses: 70 companies)

–Joint development ..... 48 companies
–Joint investment ..... 38 companies
–Sales agents ..... 35 companies
–Know-how transfer ..... 15 companies
–Other ..... 2 companies
*Two companies are both Japanese OEMs.

Based on the survey results, small-cap companies and micro enterprises mainly sought collaboration with sales agents. Large-cap and medium-cap companies are seeking cooperation with "development" and "investments."

Chart 5-12 Types of collaborations with Japanese companies in the field of production



In addition, the following are responses regarding the field of technology (No. of responses: 26 companies)

(1) Food related ..... 6 companies
(Large-cap company: 1, medium-cap company: 1, small-cap companies: 4)

(2) Industrial Management ..... 1 company
(Large-cap company: 1)

(3) R&D ..... 1 company
(Micro enterprise: 1)

(4) Smart Farming Management System ..... 1 company
(Micro enterprise: 1)

(5) Technique ..... 1 company
(Medium-cap company: 1)

(6) Engineering ..... 1 company
(Small-cap company: 1)

(7) Manufacturing related ..... 10 companies
(Large-cap: 1 company, medium-cap: 1, small-cap: 5, micro-enterprises: 3)

(8) Health related ..... 1 company
(Small-cap company: 1)

(9) Agent sales..... 1 company
(Micro enterprise: 1)

(10) Manpower ..... 2 companies
(Large-cap company: 1, small-cap company: 1)

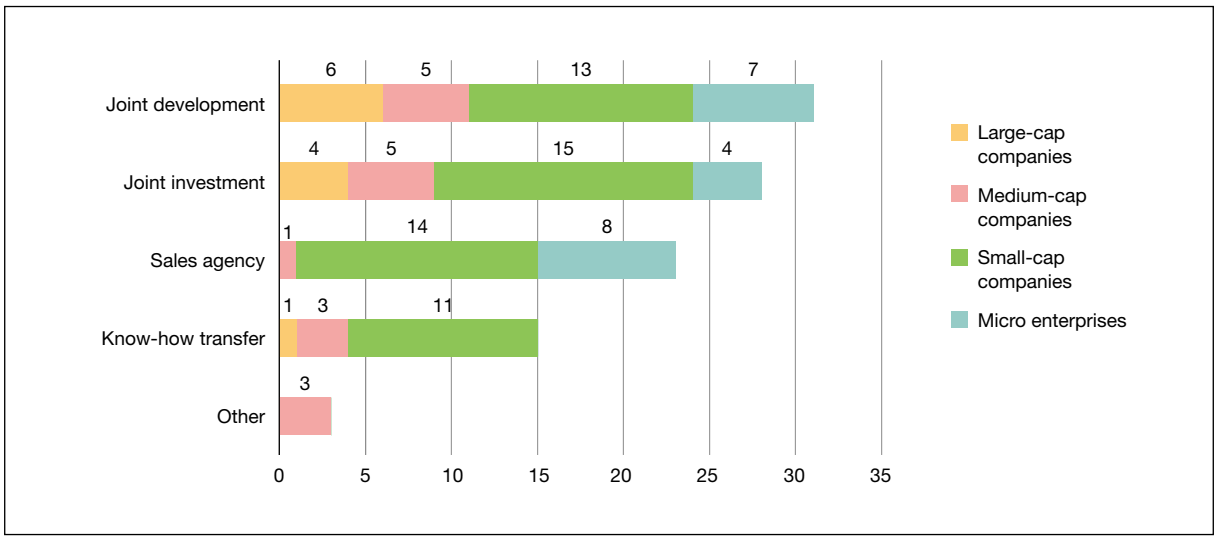
(11) Beauty related ..... 1 company
(Small-cap company: 1)

(3) Type of collaboration envisaged by business operators that desire collaborations with “machinery and equipment” field in (1) (Multiple choice) (No. of responses: 57 companies)

–Joint development ..... 31 companies
–Joint investment ..... 28 companies
–Sales agency ..... 23 companies
–Know-how transfer ..... 15 companies
–Other ..... 3 companies
(1) Not needed for machinery
(2) Curb cost by manufacturing in Japan using OEM
(3) Manufacturing assistance

The significant difference based on corporate scale is the trend among small-cap companies and micro enterprises, in contrast with large/medium-cap companies, to seek cooperation as a sales agent. Large-cap companies are relatively interested in joint investment and joint development.

Chart 5-13 Types of collaboration between Japanese companies and machinery sector



The following are responses regarding the field of technology.

(1) Cutting-edge technology machinery …… 1 company
(Large-cap company: 1)

(2) Food processing machinery …… 6 companies
(Large-cap company: 1, medium-cap company: 1, small-cap companies: 4)

(3) Industrial management machinery …… 1.company
(Large-cap company: 1)

(4) Manufacturing machinery …… 3 companies
(Medium-cap company: 1, small-cap company: 1, micro enterprise: 1)

(5) Packaging machinery …… 4 companies
(Small-cap companies: 2, micro enterprises: 2)

(6) Steel wire forming machinery …… 1 company
(Small-cap company: 1)

(7) Printing, Coffee machine …… 1 company
(Small-cap company: 1)

(8) Engineering, energy, and environment related …… 2 companies
(Small-cap companies: 2)

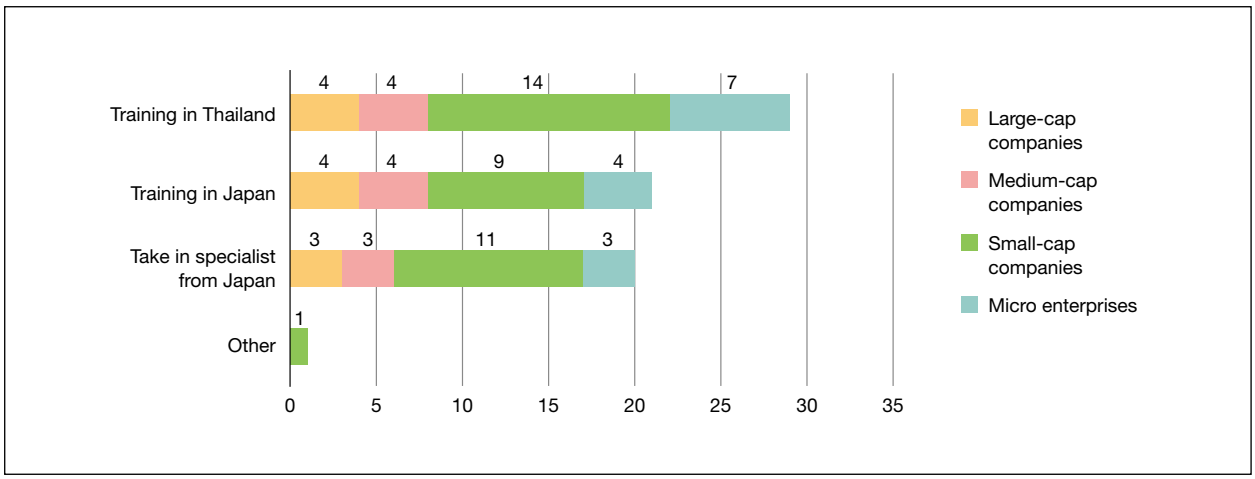
(9) AGV, SI, Robot …… 1 company
(Micro enterprise: 1)

(10) Aluminum production …… 1 company
(Large-cap company: 1)

(4) Types of collaboration envisaged by business operators that responded they wanted to collaborate in the field of “personnel training” in (1) (Multiple choice) (No. of responses: 44)

–Training in Thailand ..... 29 companies
–Training in Japan..... 21 companies
–Take in specialist from Japan ..... 20 companies
–Other ..... 1 company

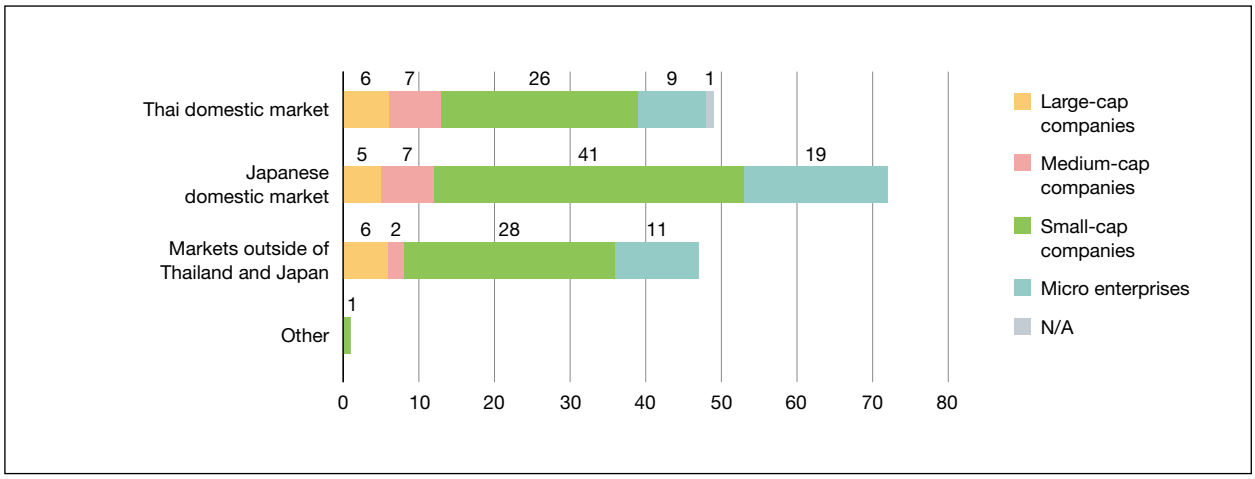
Chart 5-14 Details of desired cooperations between Japanese companies and personnel training sector



(5) Scope of collaboration envisaged by business operator that responded they were to collaborate in the “market” field in (1) (Multiple choice) (No. of responses: 92)

–Thai domestic market ..... 49 companies
–Japanese domestic market ..... 72 companies
–Markets outside of Thailand and Japan ..... 47 companies
–Other ..... 1 company
*Japanese market in Thailand

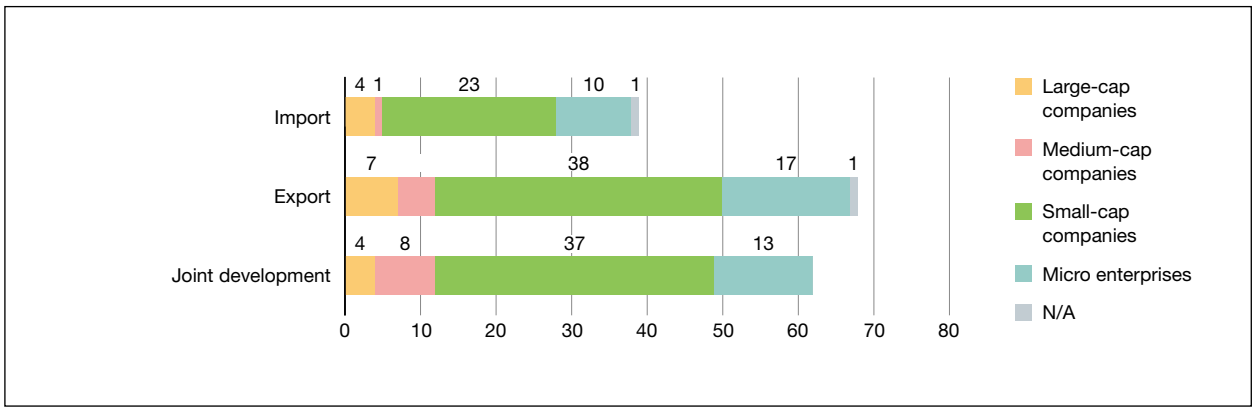
Chart 5-15 Market scope containing companies that wish to collaborate with Japanese companies



(6) Details envisaged by business that responded they wanted to collaborate in "new product" fields in (1) (multiple choice) (No. of responses: 92)

–Import ..... 39 companies
–Export ..... 68 companies
–Joint development ..... 62 companies

Chart 5-16 Details of cooperation with Japanese companies in new product markets



(7) The following responses were from businesses that want to collaborate with Japanese companies in areas other than those above (No. of responses: 10 companies)

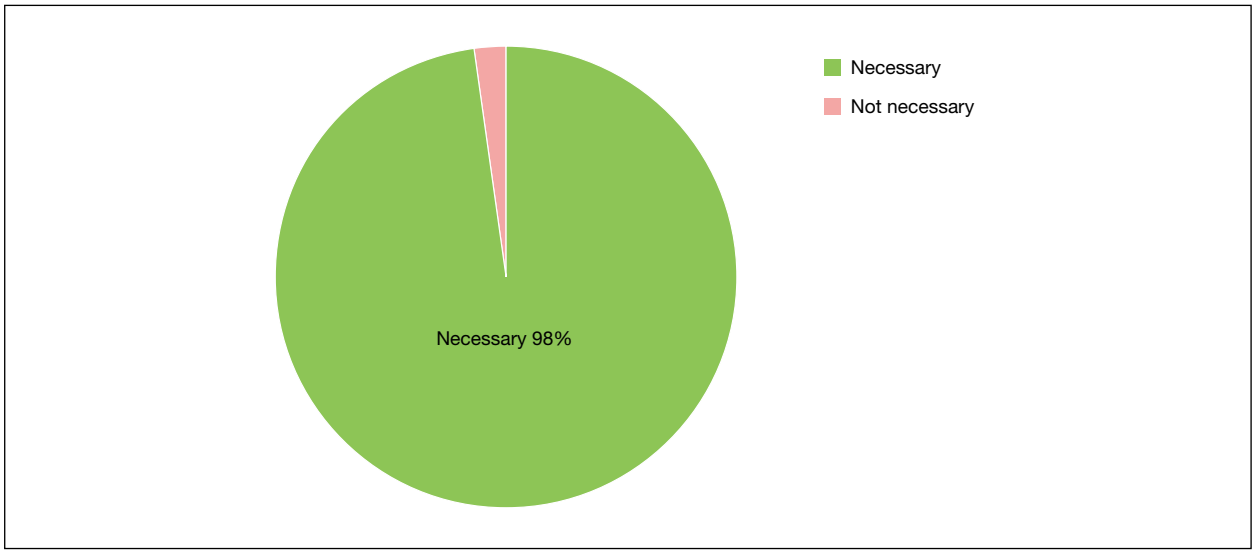
(1) OEM supplier (Small-cap companies)
(2) Marketing (Small-cap companies)
(3) Innovation (Micro enterprises)
(4) Manufacturing technology (Micro enterprises)
(5) Export of Thai processed goods (Small-cap companies)
(6) Market (Micro enterprises)
(7) Technology on Plant Factory from Chiba University and others. (Small-cap companies)
(8) Cooperation to expand testing and joint venture businesses (Small-cap companies)
(9) Production process machinery and technology (Micro enterprises)
(10) Development project that addresses market demand (Small-cap companies)

4-4 Support from M-Industry

(1) Necessary M-Industry support for collaborations with Japanese companies (Number of responses: 101)

–Necessary ..... 99 companies
(Large-cap companies: 10, medium-cap companies: 10, small-cap companies: 56, micro enterprises: 23)
–Not necessary ..... 2 companies
(Large-cap companies: 1, micro enterprises: 1)

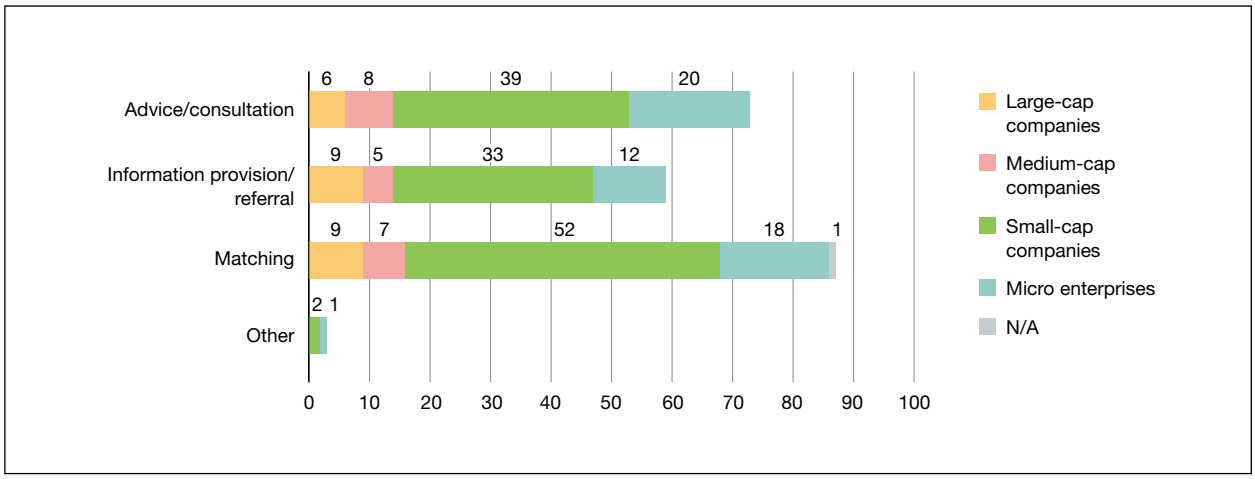
Chart 5-17 Necessity of M-Industry support for collaboration with Japanese companies



(2) Desired M-Industry support (multiple choice) (Responses: 92)

–Advice/consultations ..... 73 companies
–Information provision/referrals ..... 59 companies
–Matching ..... 87 companies
–Other ..... 3 companies
(1) Training/technological guidance at universities in Thailand
(2) Improve political and economic conditions (Previously discussed M&A with Japanese companies. But Japanese companies shifted their focus to Vietnam due to political and economic conditions in Thailand.)
(3) Investment in a smart agriculture management system

Chart 5-18 Details of M-Industry support being sought after



Chapter 6

Thailand's Standing in the GMS Economic Corridor

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Introduction

In the first half of the 1990s, the internal conflict in Cambodia came to an end. The neighboring countries began to undertake a genuine economic-open door policy. The leading emerging economies were in Mekong region. Thailand, the sole market economy, promoted a slogan of turning "Indochina from a battlefield to a market place." Based on this, Thailand took the lead role in active regional economic integration with the aim of shoring up the overall region and further developing its own economy. The Greater Mekong Subregion (GMS*), a concept which has been led by the Asian Development Bank (ADB) starting from 1992, has served as a driving element that backed Thailand's intentions. (GMS consists of the following countries and regions: Cambodia, Laos, Myanmar, Vietnam, Thailand, and the Yunnan Province and Guangxi Zhuang Autonomous Region).

Economic corridors, which are based on the premise of a geographical proximity to the border by land, are an effective economic integration platform (Chart 6-1). The phenomenon is the same whether it occurs internally in one country or if it took place in several countries. In the Mekong region, this is substantially significant as it is transpiring in several countries.

In this chapter, we will discuss Thailand's position in the GMS economic corridor, look back on the relationship between Thailand's economic policies and economic integrations in the Mekong region, and organize current trends in land border trade with current neighboring countries and connectivity. In addition, we will report on the latest trends combined results of hearings with local institutions and Japanese companies in each GMS economic corridor with which Thailand maintains ties. The term economic corridor was used by ADB in and after 2018 as a way to easily describe geographical features (Chart 6-1).

Chart 6-1 GMS economic corridors (name prior to 2018)

Source: ADB (2018) "Review of Configuration of the GMS Economic Corridors" Manila, p.6.

Section 1 Thailand's economic policies and the GMS economic corridors

Thailand has boosted its standing in Southeast Asia as it actively participated in multilateral economic cooperation and integration in the GMS. In 1992, when the GMS program was officially launched, the National Economic and Social Development Board (NESDB), under the Chuan administration, incorporated economic cooperation with neighboring countries into national policy for the first time. The government pushed forward with infrastructure investments to strengthen connectivity. For instance, the 4-lane road construction project to build a road that extends radially from Bangkok and the Eastern Seaboard Development area to Laos, Vietnam and towards China is an example of supplementing functions to strengthen connectivity under Thailand's economic development plan and the GMS program.

In its 7th Five Year Plan (1992-1996), the Thai government hammered out a policy to position the provinces of Chiang Rai and Chiang Mai as the gateway for the Golden Quadrangle, which intersects with China, Laos and Myanmar. The government applied investment tax incentives to these two provinces as the third zone.

In 1997, Thailand and the surrounding economies in Southeast Asia took a hard hit from the Asian financial crisis. Following a V-shaped recovery, Thailand aimed to rebuild its economy by leveraging integration and cooperation with surrounding countries. In 2003, the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy

(ACMECS) was launched under the Thaksin regime, the administration at the time. In 2005, the Neighboring Countries Economic Development Cooperation Agency (NEDA) was established as a public organization to aid economic development cooperation with surrounding countries. The ACMECS, as a step to fortify national border control, also includes policies that prevent a chaotic influx of migrants.

In 2015, based on the Twelfth National Economic Social Development Plan (NESDP) which spans 2017 to 2021, the government embarked on the Border SEZ policy, which focuses on the development of GMS economic corridors and synergistic benefits. In Phase 1, the government designated the following five regions as SEZs: Tak (1,419 km^2), Mukdahan (579 km^2), Sa Kaeo (332 km^2), Trat (50 km^2) and Songkhla (552 km^2). In Phase 2, the following five regions are scheduled to be added: Nong Khai (474 km^2), Narathiwat (235 km^2), Chiang Rai (1,524 km^2), Nakhon Phanom (795 km^2) and Kanchanaburi (552 km^2).

The business sector, the Thai Chamber of Commerce, also played an important role in the regional integration process in the GMS. For example, to promote cross-border trade along the Mae Sai-Tachileik border in Chiang Rai Province, the Thai Chamber of Commerce, in collaboration with NESDB, proposed the second Mae Sai bridge construction project to the ADB and construction of the bridge was completed in 2006. In addition, the Thai Chamber of Commerce cooperated with the GMS Business Forum contributed to the establishment of the GMS Freight Transport Association (FRETA).

Meanwhile, China is also strengthening its participation in the framework of the GMS regional economic cooperation program. On one hand China is exhibiting its support of multilateral cooperation, including hosting the GMS Economic Corridor Forum. In 2016, China launched its own proprietary scheme, the Lancang-Mekong Cooperation (LMC), and is pushing forward with economic cooperation with the CLMVT, an acronym for the five Mekong region countries of Cambodia, Laos, Myanmar, Vietnam and Thailand (CLMVT), to vie against the Mekong River Commission (MRC). On the LMC website, aside from the GMS program, information is also being disclosed on various projects being sponsored by China. The LMC was originally an idea proposed by the government of Thailand in 2012. Ironically, the LMC is quick to move and China is overwriting and providing financing, including Thai NEDA projects to improve connectivity with surrounding countries[45].

1. Role of Thailand in the multilateral cooperation scheme[46]

Regarding public infrastructure-related financing, for the Thai government, the order of financing is clear: ADB offers the best terms and conditions for financing, this is followed by the AIIB and then the World Bank. Since the Asian currency crisis, the Thai government has been very vigilant of its debt, and is extremely cautious about foreign borrowing.

Related to China's One Belt, One Road policy, the Thai government is covering the construction funds of the infrastructure portion for the Bangkok–Nong Khai high-speed railway (also referred to as the Northeastern high-speed rail line) project on its own. However, it is relying on financing from China for the technical standards for the railway system and to purchase rolling stock. However, the Thai government is not borrowing public funds from China to finance infrastructure construction but is instead shifting to public-private partnerships (PPPs), including build-operate-transfer (BOT) packages.

Cambodia and Laos have become a mere passage through the GMS Economic Corridor. Consequently, there is concern with respect to funding allocation that the two countries will end up only shouldering the cost of road repairs rather than aiming to reap benefits for establishing a cross-border road infrastructure. On the part of Thailand, as a show of consideration towards Laos, NEDA extended low-interest financing for the fifth Mekong Friendship Bridge linking Bueng Kan and Paksan. This can be interpreted as a step to achieving balance between the benefits

[45] This paragraph is an excerpt from an interview (September 24, 2019) with Assistant Professor Soavapa Ngampramuan of Ramkhamhaeng University.
[46] This section is an excerpt from an interview (August 14, 2019) with Hideaki Iwasaki, country director representing Thailand at the ADB.

and cost allocation for establishing an economic corridor.

Steps are underway to start an experimental Single Stop Inspection (SSI) for infrastructure development along the Mukdahan-Savannakhet national border. However, this is being delayed due to dispute over where to locate the Common Control Area (CCA). Laos is insisting on locating the CCA within Savannakhet but it is likely that Thailand is expressing disapproval.

There are measures for early harvest implementation of the Cross Boarder Transportation Agreements (CBTA), which are being promoted under the GMS program. There are plans for each country to distribute Temporary Admission Documents (TADs) for 500 vehicles, respectively. A total of 500 TADs have already been distributed in Thailand, with another 150 or so being distributed by China, a few by Vietnam, and although unclear, a total of 600 TADs by Cambodia and Laos. The Transport Forum, a task force by GMS sector will monitor the early harvest implementation.

There was talk of the new Prayuth administration in Thailand setting up the ACMECS fund, which envisages bilateral development financing for neighboring countries, including CLMV. The plan is to procure funds from the capital markets but the fund's rating is still too low. In light of this, the role of financing from the ADB, which has an AAA rating, likely remains relatively important.

2. Evaluation of the Border SEZ[47]

The respective geographical and historical characteristics, population elements and other features differ for each type of SEZ which exists in the Mekong region. In light of this, it is difficult to evaluate the success or failure based simply on the economic benefits of each individual SEZ. Speaking in general, in many cases SEZs will require many years to generate benefits. Such as in the case of the Laos Savan-Seno SEZ, it took nearly a decade from the time of establishment until a decent number of manufacturing companies moved into the zone. There are other cases like this. Another factor that likely prompted Thailand-Plus-One Japanese companies to locate in this SEZ was the major flooding disaster in Thailand. Meanwhile, in situations such as the Tak SEZ, garment and other labor-intensive industries, which employ Myanmar laborers, formed a cluster prior to being designated as an SEZ by the Thai government. There are also cases in point and fact where a border economic zone was formed. The Sa Kaeo SEZ also saw brisk cross-border trade between Aranyaprathet and Poipet prior to receiving special economic zone designation. The area virtually formed a border economic zone from long ago. There is a high possibility that these border economies are prospering even with designation as a special economic zone. It is uncertain exactly what degree of difference there from promoting a border SEZs as a policy. As of March 2016, the ADB evaluation team arrived at a conclusion for the two SEZs. Although the special designation yielded additional manufacturing industry investment to enhance competitiveness in the border region, the team did not recognize special contribution. The team also conjectured that the border economy in Aranyaprathet and Mae Sot, regardless of the existence of SEZs, exhibited an advantage in comparison with labor-intensive industries owing to connectivity, and also possessed competitiveness as a tourism and distribution hub.

Meanwhile, ADB argues that the degree of effectiveness and the flexible adoption of various incentive programs in the frontlines, practical issues, are more important than the SEZ designation policy. According to a survey of 100 local companies in Mae Sot, a major benefit is the public investments the government injects in infrastructure development at the time of SEZ designation as opposed to status as an SEZ.

An additional issue for Thailand's border SEZ policy is how to handle the fact that competition occurs in attracting investments as there are already rival SEZs in the neighboring country on the opposite side of the border (this includes Sa Kaeo versus Poipet, Mukdahan versus Savan-Seno, Trat versus Koh Kong, etc.). In cases where

[47] This section references ADB (2018) "The Role of SEZs in Improving Effectiveness of GMS Economic Corridors" Manila and factors in the author's considerations.

tax incentive competition arises, it will likely have a mutual negative impact on financial affairs. To avoid this situation, there is a necessity to have some type of cooperation between the neighboring country and the SEZ policy regulatory authorities. The Thai Chamber of Commerce is also encouraging the Thai government to discuss this point with Cambodia to reach some type of arrangement. However, there is no sign the Thai government is taking any specific action.

Section 2 Thailand's land route border trade

The first matter that needs to be pointed out is the share of land border trade to Thailand's total trade. Based on the combined total for the 11 land customs stations (Mae Sai, Chiang Saen, Chiang Khong, Nong Khai, Nakhon Phanom, Mukdahan, Chong Mek, Aranyaprathet, Mae Sot, Sadao and Sungai Kolok), the scale is small (tally of respective customs statistics) with land border exports accounting for around 6% of total exports, and about 5% of total imports. In particular, the percentage of land trade with Malaysia is large in comparison with neighboring countries in the Mekong region. I will point out that mainstream trade for Thailand is sea trade originating from Laem Chabang Port.

Despite this, there is no doubt that land trade with the Mekong region is steadily growing along with the establishment of roads and bridges. Nevertheless, in the past few years trade value has been rising for trade via Mukdahan along the East-West Economic Corridor[48] (Chart 6-2, Chart 6-3).

[48] All the years displayed in the figures in this section are for the fiscal year in Thailand (October (prior year) to September (present year).

Chart 6-2 Export value trends by land customs stations (Billion bahts)

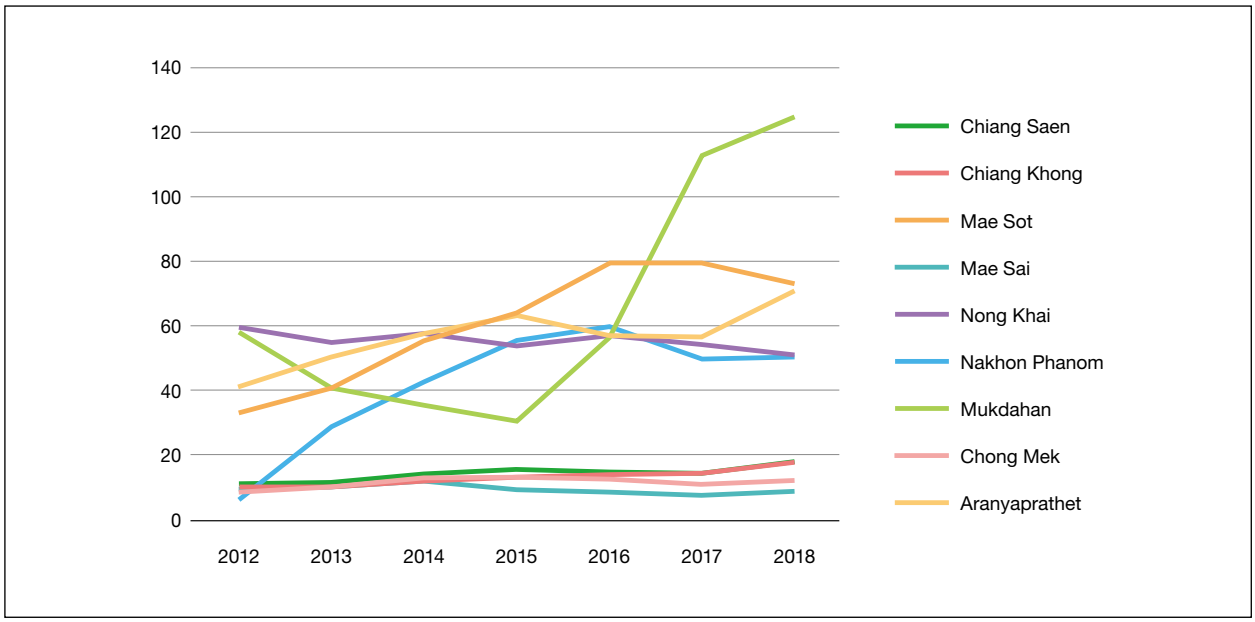
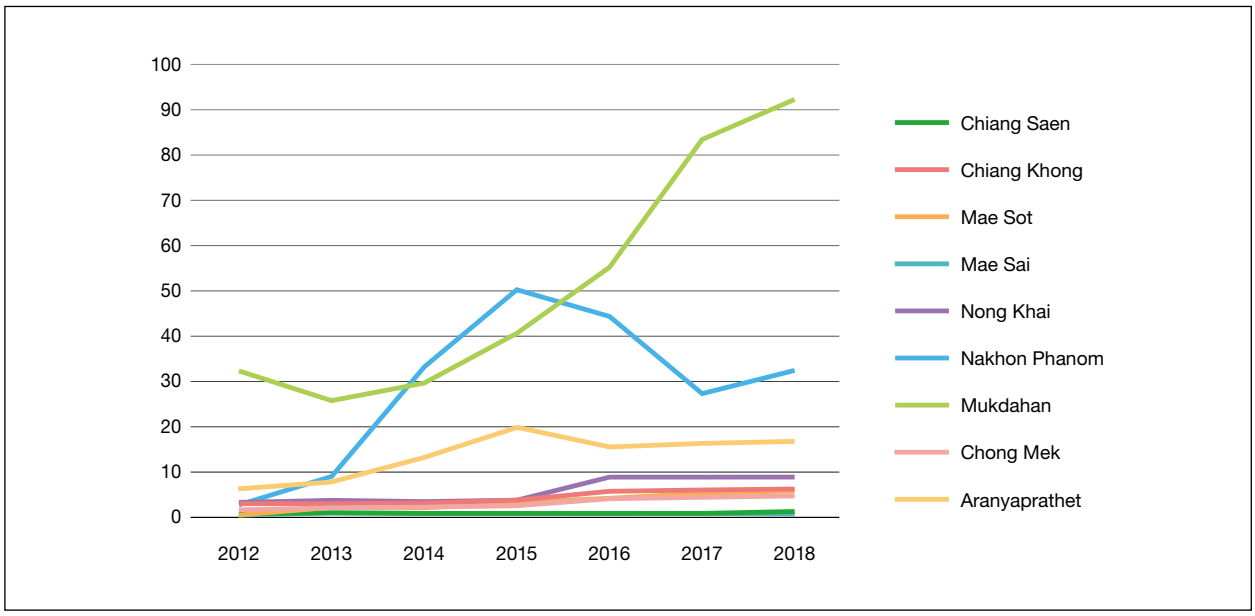


Chart 6-3 Import value trends by land customs stations (Billion bahts)



Source: Relevant Thai customs station websites

Thailand's land customs stations in the Mekong region mainly show an "excess export" structure. Nakhon Phanom and Mukdahan are the only two stations that have maintained a ratio of exports to imports within 2-to-1 (Tables 6-3 to 6-10). This factor is roughly reflected into the trend of vehicles passing through these stations. The "excess export" structure is particularly pronounced at Mae Sot (versus Myanmar), Nong Khai (versus Laos), and Aranyaprathet (versus Cambodia) (Table 6-1). This one-sided load structure, in the formation of a supply chain reflecting the Thailand-Plus-One strategy for Japanese companies, is contributing to land transport costs plateauing at a high level. Meanwhile, in Mukdahan, which is a nodal point for the Bangkok-Hanoi land supply chain the unwinding of the one-sided load structure is a positive factor.

Table 6-1 Number of vehicles that pass through the Thailand cross-border points

Border crossing point		2012	2013	2014	2015
Mae Sai (Myanmar route in the North-South corridor)	Exit	13,817	18,179	18,177	16,267
	Entry	13,810	18,043	18,030	16,243
Chiang Khong (Laos route in the North-South corridor)	Exit	20,557	23,706	23,655	34,395
	Entry	19,726	21,516	22,895	29,596
Nong Khai (Central corridor)	Exit	99,969	113,492	94,311	103,961
	Entry	20,716	18,444	17,534	16,170
Mukdahan (East-West corridor)	Exit	37,239	38,139	37,844	38,251
	Entry	35,466	37,739	38,112	35,689
Mae Sot (East-West corridor)	Exit	20,098	38,992	62,383	94,855
	Entry	1,089	1,061	1,467	1,888
Aranyaprathet (Southern corridor)	Exit	52,515	51,481	58,069	73,380
	Entry	5,221	4,605	4,624	5,244

Source: ADB (2018) "GMS Transport Sector Strategy 2030: Toward a Seamless, Efficient, Reliable and Sustainable GMS Transport System" p.13

Characteristics of land trade are accurately reflected in trade value trends as a tradeoff between geographic traits with neighboring countries and changes in transport costs owing to the development of transport infrastructures (Table 6-2). In the East-West Economic Corridor, owing to the construction of the Second Mekong (Thai-Lao) Friendship Bridge and the establishment of the No. 9 route in Laos, the trade value with Laos for both imports and exports is increasing at the Mukdahan customs station. The share of imports from Laos is accounting for more than 100% for imports to Thailand from China and Vietnam that are transported through Mukdahan. In other words, the East-West Economic Corridor is fulfilling its role of forming a supply chain in Bangkok, Hanoi and the South China region.

Meanwhile, the trade value for the Chiang Saen customs station represents the water transport along the Mekong River. As indicated in Table 6-2, the position of this customs station is relatively declining. Chiang Khong's share of exports to Laos is increasing reflecting substantial impact from the Fourth Mekong (Thai-Lao) Friendship Bridge, which was completed at the end of 2013. This likely led to a switch from water transports along the Mekong River to distribution using the Fourth Mekong (Thai-Lao) Friendship Bridge. The share of trade with Myanmar at Mae Sai is declining corresponding with the increase in share at Mae Sot. Extrapolating from this, we can interpret this as indicating sluggishness along the Myanmar route in the North-South Economic Corridor and growing briskness in the East-West Economic Corridor.

Table 6-2 Each customs station share of trade value with partner country (%)

		2012	2015	2018
Mae Sai	Share of exports to Myanmar	9.86	7.15	6.47
	Share of imports from Myanmar	0.15	0.13	0.31
Chiang Saen	Share of exports to China	0.52	0.50	0.32
	Share of imports from China	0.05	0.05	0.04
	Share of exports to Laos	4.03	6.11	7.62
	Share of imports from Laos	0.07	0.93	0.04
	Share of exports to Myanmar	2.75	2.56	2.01
	Share of imports from Myanmar	0.00	0.00	0.00
Chiang Khong	Share of exports to Laos	8.88	9.77	13.24
	Share of imports from Laos	8.28	7.71	7.60
Nong Khai	Share of exports to Laos	55.95	39.90	38.26
	Share of imports from Laos	9.24	8.66	10.64
Mukdahan	Share of exports to Laos	54.36	22.45	92.40
	Share of imports from Laos	86.77	82.04	111.43
Chong Mek	Share of exports to Laos	9.09	10.09	9.17
	Share of imports from Laos	4.74	5.37	5.52
Aranyaprathet	Share of exports to Cambodia	38.33	39.21	30.94
	Share of imports from Cambodia	87.70	85.42	68.37
Mae Sot	Share of exports to Myanmar	35.42	47.20	49.47
	Share of imports from Myanmar	1.02	3.02	6.81

Source: Relevant Thai customs station websites

Table 6-3 Major trade items at the Mae Sai customs station (January 2014; Million bahts)

Export items	Value	Import items	Value
Alcohol	219	Teak wood	104
Fuel oil	214	Raw tangerines	22
Iron (bars) / zinc	74	Tractor / tractor parts	3
Cement	66	Manganese	1.28
Drinking water / beverages	61	Apparel	1.13
Instant coffee / food	60	Excavation machinery	1.08
Passenger cars	60	Tea leaves	0.78
Passenger car and motorbike tires	46	Electrical products	0.20
Machinery	34	Hats	0.11
Lubricant	28	Electric lamps	0.09
Total export value	1,169	Total import value	134

Source: Mae Sai customs station website

Table 6-4 Major trade items at the Chiang Saen customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Fuel oil	3,335	Raw garlic	159
Rubber	2,958	Sunflower seeds	120
Frozen chicken parts	2,660	Potatoes	98
Live cattle / water	1,767	Dried garlic	86
Whiskey	932	Pumpkin seeds	31
Sugar	835	Paper cups	26
Live pigs	708	Rubber tree bark	26
Passenger cars	447	Fried garlic chips	19
Energy drinks	305	Green tea leaves	14
Chinese alcohol	277	Kaolin clay	12
Total export value	18,906	Total import value	712

Source: Chiang Saen customs station website

Table 6-5 Major trade items at the Chiang Khong customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Fresh fruit (C, L)	7,289	Vegetables (C)	2,547
Consumer goods (C, L, M)	1,712	Fresh fruit (C, L)	2,520
Rubber, wood (C, L)	1,653	Flowers, plants (C, L)	423
Live cattle and water buffalo (L)	1,354	Lignite charcoal (C)	213
Diesel oil (L)	1,027	Mechanical equipment (C, L)	210
Construction materials (L)	938	Algorithms (L)	116
Rice (C, L)	828	Aluminum (C, L)	66
Frozen chicken / duck meat	553	Rock (C)	44
Linens	262	Palm seed (L)	25
Vegetables / processed fruits	260	Tea leaves (L)	23
Total exports	17,876	Total imports	6,298

Note: The trade partner countries are displayed in the country of origin in parentheses. C = China, L = Laos, M = Myanmar
Source: Compiled by the JETRO Bangkok office based on Chiang Khong customs station data

Table 6-6 Major trade items at the Nong Khai customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Petroleum products	9,866	Electric power	5,318
Passenger cars	4,493	Insulated wires	693
Organic surfactants	1,223	Outer shoes parts	353
Trucks	1,192	Silicon metal	281
Non-alcoholic beverages	1,173	Beverages	278
Motorbikes	967	Transformers	129
Mobile phones	893	Hydrometers and similar equipment	115
Animal feed	523	Temperature control equipment	108
Pasta	478	Palm seeds in syrup	96
Non-alloy steel sheets	293	Cardboard / waste paper	51
Total export value	49,845	Total import value	8,783

Source: Nong Khai customs station website

Table 6-7 Major trade items at the Mukdahan customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
CPUs / same parts	83,060	CPUs / same parts	14,518
Printed wiring boards (PWBs)	5,577	Data storage devices / parts	13,806
Reserve power storage device parts	4,693	Copper	11,805
Transistors and other parts	3,420	Telephones	9,341
Fuel oil	1,741	Camera parts	8,785
Camera parts	1,249	Electric power	8,139
Plastic parts	966	PWBs	1,925
Beverages	912	Transistors and other parts	1,349
Integrated circuits for electronic products	812	Parts for data analysis machinery	1,162
Sugar	646	Women's shirts / blouses	659
Total export value	124,743	Total import value	92,346

Source: Mukdahan customs station website

Table 6-8 Major trade items at the Chong Mek customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Fuel oil	4,164	Rod cassava	1,473
Passenger cars	617	Electric power	1,106
Tractors	263	Cabbages	437
Ajinomoto	220	Coffee beans	368
Wafers	155	Instant coffee	184
Animal feed	167	Cassava	174
Plastic containers	157	Yams	134
Juice / green tea / soy milk	141	Roasted coffee beans	141
Iron bars	133	Tamarind	75
Processed food / energy drinks	116	Wire sets	67
Total export value	12,525	Total import value	4,433

Source: Chong Mek customs station website

Table 6-9 Major trade items at the Aranyaprathet customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Non-carbonated beverages	4,882	Cassava	4,075
Motorbike parts	4,295	Aluminum motor parts	1,640
Motorbike engines	3,634	Aluminum pieces	1,345
Passenger cars	3,559	Copper pieces	930
Motorbikes	2,405	Dog food	684
Tractors	2,340	Compact DC motors	494
Cement	1,963	PWBs	489
Rice harvester	1,737	HDD parts	456
Plastic products	1,584	Soybeans	359
Knit dyed cloth	1,446	Wire connector parts	306
Total export value	71,467	Total import value	16,926

Source: Aranyaprathet customs station website

Table 6-10 Major trade items at the Mae Sot customs station (Fiscal 2018; Million bahts)

Export items	Value	Import items	Value
Motorbikes	3,136	Live cattle and water buffalo	1,427
Energy drinks	3,126	Used steel	1,057
Telephones / peripherals	2,436	Peanuts (nearly in the AFTA framework)	763
Benzene	1,831	Antimony oxide ore	450
Deisel oil	1,756	Mobile phones	352
Sugar	1,551	Transformers	204
Chemical fertilizers	1,491	Wood furniture / ornaments	196
Patterned cotton	1,330	Women's under garments	130
Dried betel palm	1,234	Cashew nuts	110
Flooring tiles	1,177	Sesame seeds	98
Total export value	73,272	Total import value	6,489

Source: Mae Sot customs station website

Section 3 East-West Economic Corridor and Thailand

In central Vietnam, construction of the Hai Van Tunnel and improvements to Da Nang Port was completed in 2006. Construction of the Second Mekong Friendship Bridge which connects Mukdahan in Thailand and Savannakhet in Laos was completed in 2008. In the Laos section, Route 9 was previously extremely dilapidated and is under improvement making it difficult to pass. This improvement project was complete in March 2015. In addition, a new road between Myawaddy and Kawkareik was completed in August 2015. This resolved the biggest bottleneck to transport.

Table 6-11 Mobility data between Da Nang and Mawlamyine (for the period July 2013-August 2018)

Country	Section	Mode of transportation	Distance	Real transit time	Average speed
Vietnam	Danang - Hue	Passenger cars	about 100km	80 mins	75km/h
	Hue - Dong Ha	Passenger cars	about 60km	Est. 1 and a half hours	(40km/h)
	Dong Ha - Lao Bao	Mini bus	82km	about 1 and a half hours	55km/h
Laos	Dansavanh - Savannakhet	Public bus	225km	about 5 and a half hours	41km/h
Thailand	Mukdahan - Kalasin	—	about 160km	Est. 2 and a half hours	(64km/h)
	Kalasin - Khon Kaen	—	about 100km	Est. 1 and a half hours	(67km/h)
	Khon Kaen - Phitsanulok	—	about 300km	Est. 5 hours	(60km/h)
	Phitsanulok - Sukhothai	—	about 70km	Est. 1 hour	(70km/h)
	Sukhothai - Tak	Public bus	about 110km	about 1 and a half hours	73km/h
	Tak - Mae Sot	Mini bus	about 80km	about 1 and a half hours	53km/h
Myanmar	Myawaddy - Pa-an	Passenger car	about 148km	about 4 hours	37km/h
	Pa-an - Mawlamyine	Passenger car	about 60km	about 2 hours	30km/h

Note: The figures for the route between Mukdahan and Sukhothai are estimates based on secondary information.

The following are several changes that have occurred in the past few years in the East-West Economic Corridor. The trade value along the Mukdahan border doubled from the first half to the second half of the 2010s. There is a concern that the increased traffic volume could accelerate damage to the road surface. Reflecting an increase in the land trade of computer parts (HDD units) between Thailand and China, transported via Laos and Vietnam, the percentage of industrial products to total export value at the Mukdahan customs station rose to 67% in 2018. In contrast, exports of fresh fruit (nearly all durian) over the Nakhon Phanom border sharply rose. The export of HDD units disappeared in 2017. This reflects impact from a road slide with caused the shoulder of the road to collapse on Route 12. Owing in part to the completion of reinforcement work along Route 9 in Nakhon Phanom, industrial products that are transported by land across Laos were switched from Route 12 in Nakhon Phanom to Route 9 traveling via Mukdahan[49].

1. Mae Sot-Myawaddy border economy (August 2018 observation tour)

According to a hearing conducted at Mae Sot City Hall, the population of Thai people in the city is around 120,000 people, while the number of Burmese people is approximately 300,000, including around 50,000 to 70,000 Burmese legally registered as permanent residents in the city as well as illegal Burmese residents. In the 9 districts in Tak Province, there are a total of 14 sub-districts, including Mae Sot, which are designated at the Tak SEZ by the Thai government. Migrant workers from Myanmar are able to work for a fixed time in the special economic zone without a passport.

According to hearings at Thai garment companies (headquartered in Bangkok) located in the suburbs of Mae Sot, around 1,200 Burmese were hired for a 20ha site. The employees sew shirts and pants, providing OEM supply

[49] This section is based on a hearing with Ryohei Kamata from JETRO Bangkok (August 13, 2019).

to major domestic retailers, including Central and Robinson, and 15% of sales are made up of exports, including product shipped to Japan. These Thai companies are not considering crossing the border to set up operations as there are various risks, including complicated border procedures and lack of an infrastructure. In Tak City, there are around 600 garment factories that hire Burmese workers.

Around 7km west of Mae Sot City, the Moei River, a border river, intricately flows between Thailand and Myanmar. In addition, the existing First Friendship Bridge is the largest land trade between Thailand and Myanmar. This bridge is becoming decrepit and it is difficult to manage the increasing volume of traffic. In light of this, at a site around 5km north of the city, the Thai government is constructing the Second Friendship Bridge dedicated for cargo vehicles. An access road (Route 130) which detours around Mae Sot City by approximately 10km before the border of Route 12. The bridge is completed and once border gateway facilities on the Mae Sot side are completed, a new cargo-dedicated route will open[50].

There are more than 20 piers along the Moei River between the First and Second Friendship Bridges for simple ferries and boats crossing the river with goods and people. There are around 10 casino facilities on the Myawaddy side, on the opposite bank of these piers. The area around these piers are places for exhibiting goods and holding negotiations with Burmese merchants who come from the opposite bank, and also diverse recycled resources originating from Japan, including used Japanese cars, used bicycles, baby strollers, kitchen goods, as well as tennis rackets. These businesses, which are in a gray area, including casinos, apparently have become prosperous owing to an improvement in security and public order after the Karen conflict wound down in 2011.

2. Land infrastructure between Myawaddy, Pa-an and Mawlamyine (August 2018 observation tour)

Route 85 extends west from Myawaddy. Construction of a new road that crosses the mountain pass up to Kawkareik was completed in August 2015. Thanks to this, travelers can pass through the first 50km or less of the route in around 40 minutes. This road construction was established with assistance from the Thai government. In Myanmar, this road is of relatively high standard. However, there is a possibility that the road will need to be refurbished as it is used by heavy trucks and due to erosion from rain and winds.

The road is severely damaged from Kawkareik onward therefore drivers have to go at a slower speed. In comparison to travelling the road three years ago, road conditions have deteriorated further. This section of the road is being refurbished and expanded. Progress is still in the initial stages. We are under the impression that this is not keeping up with the pace of increase in traffic demand.

The Gyaing-Kawkareik Bridge, which crosses the Gyaing River, is located at around the 90km point from Myawaddy. The bridge was built by the Myanmar government, with assistance from China, in 1999. However, the bridge has become extreme worn. There is risk it will collapse should a heavy vehicle pass over it. A pontoon bridge was established parallel to this bridge. Trucks and buses are made to use the pontoon bridge to cross the river. However, only one vehicle can cross at a time. This pontoon bridge is believed to currently be a bottleneck in the overall East-West corridor, which spans more than 1,400km.

In addition, there is the Gyaing-Zathapyin Bridge, a suspension bridge which crosses over the Gyaing River and connects Pa-an and Mawlamyine, as well as the Atran Bridge, a cable-stayed bridge. Both were constructed in the late 1990s under the technological guidance of China. The Myanmar government repaired the bridges in 2013 but they are deteriorating due to aging. The speed limit going over these bridges is 16km/h.

The land infrastructure in this sector is being supported by the ADB and the Japan International Cooperation Agency (JICA). Support is being provided to improve road conditions on Route 85 between Kawkareik and Eindu. JICA is slated to provide support for the aforementioned Gyaing-Kawkareik, Gyaing-Zathapyin and Atran bridges.

[50] A ceremony to celebrate the formal opening of the Second Friendship Bridge was held in March 2019. Services started on October 30, 2019.

3. Distribution between Bangkok and Yangon

The following is a summary of the hearings conducted with Japanese distribution companies located in Yangon (August 2018).

Company A (situated in Yangon City)

- In 2014, in addition to engaging in marine transports to Yangon, Company A embarked on land transport services between Bangkok and Yangon. Land transport services between Bangkok and Yangon are in the form of a freight consolidator and are conducted once a week. The company flexibly arranges for vehicles that facilitate the level of demand. The cargo that leaves the companies warehouse in Thailand reach Yangon in 3-4 days at the earliest.
- The issue of land transport between Bangkok-Yangon is that the cargo loads are mainly one-way and this not been resolved. There is limited demand for Burmese goods shipped to Bangkok in comparison with the level of demand for various Thai-made consumer and capital goods shipped to Yangon. For the time being, on top of finished garments, the only other product that can readily be shipped is agricultural products.
- China Plus One strategy companies are located in the Thilawa SEZ. They utilize the Thilawa Port for distribution. Meanwhile, it is possible to categorize Thailand Plus One policy companies by pattern of selecting land transports between Thilawa and Bangkok. The latter companies do not only consist of garment manufacturers but also furniture, electrical machinery and expendable parts related to automobiles. The cargo content varies for these companies.
- Many of the customers of Company A are labor-intensive companies that are tenants in industrial parks and within a one and a half hour range from the downtown area. This includes Mingaladon in Yangon suburbs, North Okkalapa, Hlaingthaya and Shwe Pyithar. In general, these companies use the Yangon Port for distribution. When Yangon Port is congested, they switch to Thilawa Port to escape the crowds.

Company B (Thilawa SEZ tenant)

- One recent trend in the Thilawa SEZ is the demand for machinery transport, which includes goods such as injection molding machines. Transport demand is still not substantial but sales are growing. Going forward, the Thilawa SEZ is at the stage where development is being anticipated.
- Regardless of the industry, customer companies import most of these parts from China and Thailand. In Yangon jurisdiction, during peak months when cross-border land transports are busy, there are around 10 shipments. Other than this, in general there is little-to-no demand. The one-way flow of goods is major issue. The goods shipped from Myanmar mainly consist of watermelons and vegetables. This one-way cargo transport issue can be solved, mainly by using mixed cargo shipped over sea routes or through transshipment.
- Land distribution faces a variety of obstacles from the point of technology. The trip from Bangkok to Yangon takes an overall 3-5 days by land. When Japanese companies utilize land transports, there issue is that borer customs officers are not used to using the electronic customs system MACCS. For example, when importing components from Myawaddy, an application cannot be filed at Yangon for import tax payment. It must be done at Myawaddy. When MACCS was first introduced, imports and exports were halted for a week.

Company C (Thilawa SEZ tenant)

- Used cars with a right hand-side steering wheel are a rarity, resulting in rising prices, as the import of cars with a right hand-side steering wheel is prohibited. A new trend has emerged where cars with a right hand-side steering wheel are being resold, and South Korean-brand cars with a left hand-side steering wheel are being imported from the Near and Middle East. At the same time, this is creating advantageous market conditions for locally-manufacturing cars.
- Land cargo leaving Bangkok run into the issue of the driving lane being on the opposite side from the Myawaddy border. Given safety issues, consequently transshipment is necessary. Even if there are plans to facilitate smoother traffic in vehicle lanes, drivers still require training. A regular round-trip trucking would be ideal on this land distribution route but this does not resolve the issue of one-way cargo demand.

Section 4 North-South Economic Corridor and Thailand

In December 2013, the Fourth Mekong Friendship Bridge was opened connecting Chiang Khong, in Chiang Rai Province, Thailand with Huay Xai, Bokeo Province, Laos. This bridge completed the land infrastructure from Kunming to Bangkok via northern Laos.

Table 6-12 Mobility data between Kunming and Bangkok (Laos route) (for January 2014-August 2019)

Country/ Province	Section	Mode of transportation	Distance	Real transit time	Average speed
Yunnan Province	Kunming – Jinghong	Public bus	523km	about 7 and a half hours	70km/h
	Jinghong – Mengla	Public van	176km	about 2 and a half hours	70km/h
	Mengla – Mohan	Public van	53km	about 50 mins	67km/h
Laos	Boten – Luang Namtha	Rental van	57km	1 hour 20 mins	43km/h
	Luang Namtha – Huay Xai	Rental van	192km	about 3 and a half hours	55km/h
Thailand	Chiang Khong – Chiang Rai	Rental van	135km	1 hour 50 mins	73km/h
	Chiang Rai – Bangkok	Public bus	785km	about 10 hours	79km/h

1. Chiang Rai Province economy and its development[51]

The ASEAN China Free Trade Agreement (ACFTA) was 2005. As an early harvest measure, China implemented a tariff exemption scheme (zero customs duty) on agricultural imports from Thailand. In return, this series of events sparked brisk trade between Thailand and China. Farmers in Chiang Rai began cultivating crops, including longan. Construction was also started on a factory to produce dry longan. However, the Thai partners in these factories were nominal owners with Chinese companies controlling 98% of the supply chain. On top of this, when there was surplus supply, the risk of a collapse in prices was shouldered by the Thai farmers, resulting in an asymmetric structure.

At a point where Thai farmers no longer had the capacity to process agricultural products, the Chinese government launched its "Go Global" policy (including zero-interest financing for overseas investments). Consequently, major Chinese companies flocked to regional areas in Thailand in search of potential import goods. For the Chiang Rai economy, this was a sudden onslaught by Chinese capital. The negotiation powers of Thai farmers were weak. Due to free trade, the unfair distribution of profit was unavoidable.

Three years ago, the monthly number of tourists from China traveling to Thailand via personal car was at the 4,000 vehicle level owing to the completion of the Fourth Mekong Friendship Bridge in Chiang Khong. During the Chinese Lunar New Year this number of vehicles rose to the 30,000-40,000 level. This ensued in mayhem on the Thai side of the border. To alleviate this problem, Thai regulatory authorities required Chinese travelers crossing the border in their own personal vehicle to file an application up to one month prior to their planned trip. In addition, prior to driving in Thailand, these travelers were required to take a half day of training and purchase auto accident insurance. As a result, Chinese tourists refrained from travelling to Thailand using a personal vehicle and appeared to have changed their destinations to Luang Prabang or Vientiane in Laos. The economic benefit of the Fourth Mekong Friendship Bridge was a trade surplus, for the three borders combined in the Chiang Rai Province. With the completion of this bridge, the trade surplus on the Thai side is likely to increase further.

Chinese entrepreneurs sense an appeal in carrying out economic transactions with Thailand. This is evident in their stance. Chinese entrepreneurs send their sons to Thailand to absorb the local language and culture by going through the educational system and to build a personal network of connections. In particular, it is said that more

[51] This section is an excerpt from a hearing with Mr. Pattana Sittisombat, President, BIZ Club Thailand and former president of the Chiang Rai Chamber of Commerce and Mr. Anurat Intron, current president of the Chiang Rai Chamber of Commerce (August 17, 2019).

than half of the condominiums (apartments) in Chiang Mai are purchased by Chinese. Lately, there appears to be a rising number of local tour guides who are Chinese but fluent in Thai.

As a special economic zone scheme in Chiang Rai Province, there was a request from China around 2006-2008 to develop an industrial park in Chiang Saen. China's goal was to use Chiang Rai as a stepping stone to expand sales channels for Chinese products into the ASEAN market. However, in and after 2008, in light of the full-fledged start of the ACFTA and China's apparent advantage in exporting industrial products from the mainland to ASEAN markets, China withdrew from its industrial park scheme. Meanwhile, Chiang Rai Province was aiming to expand its edge in the three fields of (1) border trade and distribution hub, (2) agriculture and the processing of agricultural goods, and (3) tourism. However, the economy in Chiang Rai has not yet picked up. In the tourism industry, Chiang Rai is far behind Chiang Mai. The airport at Chiang Mai is bustling due to congestion but this is not the case in Chiang Rai.

2. Mae Sai-Tachileik border zone (August 2019 observation tour)

Land trade at the Mae Sai-Tachileik border is divided into trade via the First Mae Sai Bridge (able to cross on foot) and the Second Mae Sai Bridge (cannot cross on foot). Export cargo via the First Mae Sai Bridge is mainly of daily goods which can only be carried by compact trucks. On average around 450 trucks pass over the bridge daily. The Second Mae Sai Bridge is used during the export of goods including large-scale cargo, construction materials and gasoline. Imports that cross the bridge include teak wood, tangerines, manganese (likely mainly used as a strength improver during the production of crude steel), and apparel.

Crossing the First Mae Sai Bridge from Thailand to Myanmar, one will find a market spreading at the foot of the bridge to the east. As was and still is the case, the market is overflowing will counterfeit brand handbags, polo shirts, shoes, wristwatches and pirated DVDs made in China. The shopping arcade on the Mae Sai side is predominantly lined with products circulating from Bangkok by sea transport, while on the Tachileik side, the majority of products are contraband that came in via the Yunnan Province. On the Mae Sai side, the product lineup of pirated goods not extensive therefore Thai tourists looking for illegal imports and casinos cross the border to Tachileik.

I toured the Allure Resort, a casino that is around 400m west of the First Mae Sai Bridge. Although the exterior was impressive, the interior of the casino was not that grand. On the 2nd floor, there are a diverse number of table games, including baccarat. The floor is crowded with around 200-300 players, who are mostly Thai. They are betting with cash bahts. The Allure Resort is small in comparison with the Kings Romans in the Golden Triangle SEZ, which I visited later in my trip, and the Savan Vegas in Savannakhet, which I previously saw but the Allure Resort has a strangely higher density of customers. It is estimated that operations are funded by Thai capital (or the capital of overseas Chinese living in Thailand).

Unlike the Tachileik side, the shopping arcade on the Mae Sai side does not blatantly sell pirated products. The shops mainly sell products manufactured in China, including fruits, apparel, electronic products and miscellaneous goods. A section of the arcade is dubbed "China Town." The import routes for the Chinese goods sold at this arcade differ depending on the season and product. The majority of the electronic products are manufactured in Guangdong Province and sold in Bangkok, the main site for distribution and sales for lots of these products. This is due to the low purchasing price. It is likely that fruits, miscellaneous goods, apparel and other products are transported mainly along the Myanmar route in the North-South corridor via the Daluo-Mong La border, while during the rainy season they are likely chiefly transported by water via the Mekong River. Peaches and plums, Chinese fruits, are carried by boat down the Mekong River from around Mong La.

The Second Mae Sai Bridge was opened in 2006. The Myanmar route in the North-South economic corridor is an important position that links Yunnan Province and Chiang Rai Province. The area from Kengtung (Kyaingtong), on the Myanmar side, to Mong La on the China border is under the control of an armed ethnic minority group in Shan State. In light of this, security in the area deteriorates each time there is a conflict with the Myanmar

government making it difficult to implement stable distribution on this route. The gate has never been closed on the Thai side but the distribution volume fluctuates depending on the condition of security on the Myanmar side. The last time the First Mae Sai Bridge was closed due to security reasons was nearly 20 years ago. The official import-export values for this border gate are roughly THB8 billion-9 billion in exports and THB200 million-300 million in imports, indicating a huge imbalance. In the past decade, this trade value and structure has changed very little.

Official major export items include products such as gasoline, construction materials and daily goods. The distribution destinations for these goods are limited to three urban areas of Tachileik, which is on the opposite bank of the Sai River, Keng Tung (Kyaingtong), which is located en route to China, and Taunggyi, which is on the way to Naypyidaw.

Due to a lack of facilities and technology on the Myanmar side of the border, it is prohibited to transport goods by trailer. Large trucks with 10 or more wheels carrying heavy bulk cargo—gasoline and construction materials—are the only cargo vehicles permitted to cross the Second Mae Sai Bridge. Other cargo must pass through the CIQ complex at the Second Mae Sai Bridge after which it reloaded onto a compact truck and taken over the First Mae Sai Bridge for export.

There is a wide site for the Inland (inbound) Container Depot and Outland (outbound) Container Depot between the Second Mae Sai Bridge customs office and the immigration gate. Conventionally, the Outland and Inland depots are designed to separate operations. However, given the low volume of distribution, the Inland depot handles all procedures for trucks carrying imports and exports going through the CIQ complex.

The daily average for the number of large trucks crossing the Second Mae Sai Bridge to the Tachileik side is less than 30 trucks. Cargo, other than bulk cargo, is reloaded and transferred to the First Mae Sai Bridge. These small trucks also go through CIQ at the Inland Container Depot, after which they move to the First Mae Sai Bridge via a designated route stipulated under the law.

Although the physical distribution of cargo at the Mae Sai border is sluggish but the flow of people is intense. The middle class and wealthy among the Burmese cross the border daily to take advantage of Thailand's social infrastructure, including hospitals and schools, which are relatively well maintained. Students commute daily to Thailand from kindergarten to high school. It is estimated that about 1,200 students commute to school in Thailand riding on one of around 30 vans (which hold 20 people) that make two round trips. Thai regulatory authorities have established special needs classes in public schools for these students. The government has also prepared an English language program and other classes. The sons of wealthy families attend private or international school. Owing to the sharp increase in these cross-border students, the school vans that pass over the First Mae Sai Bridge are being transferred to the Second Mae Sai Bridge. Meanwhile, Burmese laborers working on the Mae Sai side possess border passes to cross the First Mae Sai Bridge to get to and from work.

3. Water transports upstream on the Mekong River[52]

The hubs for water transportation distribution on the Mekong River in order starting from downstream are Chiang Saen, Golden Triangle, Wan Pong (a Myanmar territory), Sop Loi (a Myanmar territory), Guanlei and Jinghong. Around the Chiang Saen Port and the Golden Triangle, there are patrol boats so that Laotian and Burmese authorities can maintain peace, many of which were donated by China.

Many bananas, produced in Laos, are unloaded at Wan Pong Port. After they are unloaded, they are likely transported by land to China. Cargo that is directly exported from Thailand to China undergo inspection at the CIQ[53]

[52] This section is an excerpt from a hearing with the Chamber of Commerce's Mae Sai representative Ms. Pakaimas Vierra, President, Thai-Myanmar Cultural and Economic Cooperation Association (TMCECA); Chairman and CEO, Meakhong Boutique Hotel Co., Ltd.; Meakhong Delta Travel Agency Co., Ltd. (August 19, 2019).

[53] C stands for China, not Customs. China Inspection and Quarantine.

complex at Guanlei Port in Yunnan Province.

In the Shan State in Myanmar, the United Wa State Army (UWSA), a militant ethic minority group, maintains partial control and reigns significant power over the river trade along the Mekong River. In the case of river trade from Chiang Rai Province to China, cargo is unloaded at the Sop Loi Port, which is under the control of the UWSA, and is then transported to China from a local border along an unofficially established route. The official stance of the Chinese government is that the products transported along this route are illegal therefore the government warns related parties that it will not take responsibility even if there is an accident mid-shipment.

The value of exports leaving from one of the three borders in Chiang Rai Province is around several tens of billions in bahts annually. However, only around 20% of this shows up in China's import statistics (for which customs are being collected). The majority of this gap likely reflects unofficial trade.

4. Golden Triangle Special Economic Zone on the opposite bank of the Golden Triangle (August 2019 observation tour)

From long ago, Mae Sai, Chiang Saen and Chiang Khong have been the three international borders of Chiang Rai Province. A new international border was established around 2013 to get to the opposite bank of this border (Sobruak village). To cross the border, a boat that seats around 30 people (the driver and staff are all Chinese) arrives on the opposite bank in Laos in a little more than 5 minutes. The name of the immigration control facility is displayed in both English, Golden Triangle International Check Point, and Chinese, "金三角国際口岸."

Tour groups of Chinese people aiming to go sightseeing in Chiang Mai and Chiang Rai also push their way into the immigration control facility causing congestion. In light of this, the Laos government awarded China long-term development rights for a 3,000ha plot of land. According to rumors, a person that manages a Chinese company who has had success in the casino business in Macao started construction of a special economic zone from 2011. When I observed this site six years ago, aside from the casino Kings Romans, there was literally nothing else to see so I was surprised by the change that the surrounding area has undergone this time around. Immediately behind the casino, a flashy and ostentatious hotel is under construction. The hotel is likely to be around 20 stories. Furthermore, construction was completed on an arch for China Town (shopping arcade), which is just behind the hotel. Within a diameter of about 2km around the casino, it is believed that a populous of several 10,000 Chinese people, related to these businesses and construction, have built their own living community. The apartments stand close together as one would see in an urban area in China. Along the main thoroughfare, which stretches south from the casino, high-rise condominiums are continuing to be built one after another. About 1km from the casino a shopping street dubbed Kapok Island stands along the bank of the Mekong River. A sandbar in the Mekong River was filled in. Previously, the area was unpaved and there were only several souvenir shops. Today, the area is cleanly paved and there is a brand new building that houses fashion brand stores. The quiet farming areas of Laos have undergone major remodeling and have been transformed into a China City which is nearly unrelated to local Laotians.

5. Chiang Saen Port (August 2019 observation tour)

The First Chiang Saen Port has been in operation since 2003. In line with government policy, cargo ships that call at the port have been transferred to the second Chiang Saen Port, which was opened in 2012. The government decided to transform the First Chiang Saen Port into a tourist spot. As a temporary measure, cargo ships meeting certain restrictions were allowed to continue to use the First Chiang Saen Port up to 2017. From 2017, only cruise ships can stop at the port. The port is operated and managed as a joint venture of the Thai government and a Chinese company, Yunnan Investments.

At present there are a total of five cruise ships. Three ships are being operated and managed by a company run by a Dutch person (and his Laotian wife). The ships are operated under the Laotian flag and registered under the same company name. Two of the five ships are being loaned out to Yunnan Investments. The cruise ships only

sail on the Mekong River and do not let passengers off on the Laos side. (The ships only carry 200 passengers or less at once. This is likely due to the depth of the river.) The passengers are mainly Thai but there are also Chinese passengers.

Only small ships of shuttle boat scale can dock at the Golden Triangle tourist port. Demand is being compartmentalized with this port. One or two Chinese tourist ships stop by this port weekly. Cargo ships dock at the Second Chiang Saen Port but during the dry season water levels decline. This is a risk for large Chinese ships unless they are equipped with a sonar device that can detect the water level. For Laotian cargo ships, the Second Chiang Saen Port is conversely inconvenient as it is 10km downstream from the First Chiang Saen Port which they previously used for distribution to the opposite bank.

6. Current trends in the Chiang Khong economy[54]

- The women interviewed was born in Mae Sai and previously served as chair of the Chiang Rai Province Business Women's Association. From around 2008, trade via the Mekong River was launched using longtail boats. The boats haul agricultural products, including corn, from Laos and transport them to Thailand, and on the return trip, construction materials and daily goods are carried to Laos. Rafts are also constructed to carry wood and gasoline tanks.
- Around the time the Fourth Mekong Friendship Bridge was completed (December 2013), the number of transport companies increased in Chiang Khong as did land transports. Owing to bridge construction, supplies are now able to reach this area from Nong Khai. In addition, the number of new trading companies increased on the Laos side. In light of this, the geographical advantage for local Chiang Khong traders has decreased and competition has intensified. Chiang Khong vendors have lost their pricing power resulting in a contraction in transaction margins.
- With the completion of the Fourth Friendship Bridge, land prices are expected to rise so there was a lot of speculative movement. (However, there is no remarkable development in the local economy.) Speculators seem to have missed their target.
- There is a plan to establish a town called Wiang Kaen around 15km from Chiang Khong in the direction of Chiang Rai. There are plans to invite hotels, museums, a zoo, industrial parks and other commerce to the area. However, talks are not progressing.
- At present, Chiang Khong special zone planning is moving in the direction of creating a distribution hub and this is being supported by the central government. In addition to supporting the expansion of the Chiang Rai International Airport, the strategy calls for establishing a One Stop Service (OSS) Center near the Fourth Friendship Bridge to create the largest cargo transshipment base in China (I viewed the leveled site for the OSS Center. The site is wide. I came away with the impression that once the center is completed, it will possibly be a large distribution hub).
- Up until two years ago, a large number of vehicles driven by Chinese crossed over to the Thai side (via Route 3 in Laos) owing to the completion of the Fourth Friendship Bridge. This has led to chaos due to accidents in Thailand and traffic rule violations (car lanes and steering wheels are on the opposite side). To this end, Thai regulatory authorities established new regulations. In order for Chinese people to drive outside of the Chiang Rai area they are required to take training beforehand at the border. This has resulted in a decreased inflow of vehicles. At present, there are many Chinese tourists who travel to Chiang Rai from Laos by a tour group bus.

[54] This portion is an excerpt from a hearing with Ms. Sriwanna Laohateeranont, a Chiang Khong representative at the Chiang Khong Chamber of Commerce (president of Chiang Khong construction materials and interior equipment wholesaler) (August 22, 2019).

7. Area around the Fourth Mekong Friendship Bridge (August 2019 observation tour)

Prior to crossing the bridge from Chiang Khong to Huay Xai, the road switches from left-side traffic to right-side traffic. The cross section of the Mekong International Bridge between Thailand and Laos was handled by Laos for the first and third bridge, and by Thailand for the second and fourth bridge.

The friendship bridge is 630m in length. The width of the river is 480m. This bridge is shorter that the first through third friendship bridges. About half of the construction of the bridge on the Laos side was supported by China while the half on the Thai side was supported by the Thai government. The bridge was opened in December 2013.

The following are the results of our hearings conducted on the Huay Xai side of the friendship bridge.

- On average, 100-150 trucks pass through the border daily. However, due to seasonality, this fluctuates intensely. The trucks that cross this bridge mostly transport fruits from China to Thailand.
- The majority of fruit that comes from Thailand was originally produced in China. After being imported into Thailand, it is then transported to Nong Khai and Mukdahan, and then re-exported to Laos. The reason for this is Laotians have a mistrust of fruit produced in China but feel safe about buying fruit from Thailand. This psychology is rooted into the minds of Laotian consumers.
- Less than 50 passenger cars pass across the bridge daily. The number of passenger cars from China has decreased due to regulatory measures instilled by the Thai government.
- On average the number of Laotians possessing border passes that cross the bridge daily is around 50 people. The main purpose is to go shopping on the Thai side.
- A casino was constructed on the right hand side of the exit gate from Laos. However, most of these facilities have been neglected as they are not profitable. I remember that construction of one of the casinos was completed five and a half years ago. It appears that the facility has had little-to-no customers. Construction of facilities other than casinos was also commenced. However, construction was suspended midway. There are several such buildings.
- Two buildings in the front of these casinos are under construction. There is a sign that reads Laos Huay Xai Association of International Commerce, Trade and Tourism. According to immigration police, it is assumed that this is a shopping center under development by Chinese capital.
- Extrapolating from the condition of these commercial facilities, the majority of frontloaded investments related to casinos underpinned by an expectation of economic benefits from an increase in tourists, including those from China and Thailand, owing to the opening of the friendship bridges, struck out. It seems that investments are still continuing in anticipation of tourist demand.

Section 5 Central Economic Corridor and Thailand

The route that cuts across northern Laos is a rough passage with intense ups and downs in the mountainous area. Paving of roads in this route has been completed. Overland intermodal transportation is possible from Boten to Vientiane. The portion of the route in Thailand does not pose any problems. However, the Chinese government is constructing a high-speed railway and highway in the Laos section.

Table 6-13 Mobility data between Boten and Bangkok (for July 2013-August 2019)

Country	Section	Mode of transportation	Distance	Real transit time	Average speed
Laos	Boten – Oudomxay	Rental van	107km	2 hours 20 mins	46km/h
	Oudomxay – Luang Prabang	Rental van	190km	about 5 hours	38km/h
	Luang Prabang – Vang Vieng	Rental van	about 240km	about 6 hours	40km/h
	Vang Vieng – Vientiane	Rental van	156km	about 4 hours	39km/h
Thailand	Nong Khai – Udon Thani	Public bus	about 50km	50 mins	63km/h
	Udon Thani – Khon Kaen	Public bus	about 120km	1 hour 35 mins	77km/h
	Khon Kaen – Nakhon Ratchasima	Public bus	about 200km	2 hours 40 mins	75km/h
	Nakhon Ratchasima – Bangkok	Public bus	255km	about 4 hours	64km/h

1. Boten Border (August 2019 observation tour)

The border town of Boten in northern Laos is undergoing a major transformation. The Yunnan Hai Cheng Industrial Group, a Chinese company, was awarded development rights by the Laotian government in 1999. The company is currently developing the Boten Special Economic Zone in Laos, which sits on a 1,640ha plot of land. According to information at the company's exhibition room, the company plans the following zoning—international residential zone, international commerce and finance center, international education center, international medical industry park, international bonded logistics processing park, Boten train station (The sales staff do not understand English and Laotian so they use Siri to converse). The international commerce and finance center is nearly complete. The creation of an artificial basin, which is likely 3km square, is underway by shaving down the surrounding mountains. When I visited this area seven years ago, the Chinese government demanded that the Laotian government be stricter in issuing visas due to a casino gambling incident in 2010. Because of this, the number of visitors to the area sharply declined. The casino and hotel went bankrupt and from 2011 onward, Boten became a ghost town. Since then, there has been talk about redeveloping the land through comprehensive development of a special economic zone, moving away from a focus on the casino industry. In contrast with my previous impression, I would have never envisaged that things would change to this extent. In 2016, construction was started on a high-speed railway from Kunming, Yunnan Province to Vientiane via this border. Owing to this opportunity, Chinese capital invested a huge amount into the town of Boten. Remodeling is being carried out that will leave no trace of its original form. The surrounding landscape is changing from green to red clay.

2. Boten-Vientiane high speed railway construction, etc. (August-September 2019 observation tour)

A tunnel for the high-speed railway (scheduled to be a passenger train with a speed of 160-200km/hour) will penetrate a 9.6km area around the border of Boten. Excavation work is being carried out from both ends. During my observation tour this time around, I saw the entrance from the Boten side. However, this tunnel is just the beginning. The entire line from Boten to Vientiane is 417km, of which only 38% runs above ground like a normal train. The remainder of the line traverses through 167 viaducts and 75 tunnels. The total distance for the bridges and tunnels is 61km and 198km, respectively. A railway bridge, which crosses over the Mekong River, was just

recently completed around 12km in the suburbs of the World Heritage City Luang Prabang. While take five days to travel the entire distance of the northern section of Route 13, which cuts across Laos, I saw numerous viaduct legs, tunnel construction sites, and the leveling of grounds for laying track. The prime contractors are Chinese state-owned companies, including China Railway No. 2 Engineering Group Co., Ltd., China Railway No. 5 Engineering Group Co., Ltd., China International Railway Construction Corporation, China Railway No. 8 Engineering Group Co., Ltd., and Power Construction Corporation of China, Ltd. are assembled to handle construction work for their respective fields, including route sections, bridge parts, tunnel parts and other areas. Construction work is scheduled to be completed by the end of 2021.

In addition, Yunnan Construction is constructing a highway between Vientiane - Vang Vieng (a tourist town around 160km north of Vientiane). Lastly, the plan is to extend the highway to Boten. Furthermore, Sino Hydro, which is partially owned by Chinese capital, has constructed or is constructing seven hydroelectric dams where the Mekong River merges with the Nam Ou River in northern Laos.

An "All China" strategy is being implemented along Route 13. This includes among other facilities, high-speed railways, highways, construction material plants related to dam construction, cement plants, construction offices, simple accommodations, construction vehicles, and an emergency hospital for workers. At construction sites here and there, there are propaganda banners reading "Creating a new era for both China and Laos under the One Belt, One Road policy."

Based on a hearing conducted at the JICA Laos office, preparation of ground for the high-speed railway Vientiane Station is under way near a stadium which was completed for the SEA Games. The Luang Prabang Station is scheduled to be located south of the Luang Prabang International Airport. There are plans for development of a special economic zone that will include the UNESCO World Heritage site on the Mekong River, as well as a new railway bridge to the opposite bank. This station will also be included in the special economic zone. The Phousi Group, a local publicly listed company, was awarded a concession. There is a connection issue with the standard gauge in the China-Laos section and narrow gauge in the Thai section. China likely wants to create another railway bridge to connect Vientiane and Nong Khai. However, this will require coordination between the governments of Thailand and Laos. The details are still pending.

3. Trends at Japanese companies in Laos[55]

Many Japanese garment companies entered the market in Laos as part of the "China Plus One" strategy. For example, Company A (garments including suits and formal wear) has sites in Hubei, Shanghai and Anhui Provinces. Owing to the soaring personnel costs in China, companies began to enter Vietnam in 1991. Expansions were expanded in Laos, with the first plant constructed in 2008, the second in 2011, and the third in 2013. China, produced products mainly in response to changes in trends, and Laos, which produces products that are resilient to trends, play complementary roles. As part of the Thailand Plus One strategy, Japanese companies with a site in Bangkok outsource their labor-intensive processing to Laos companies in Vientiane (Example: Wire harness companies). In Savannakhet Province, Nikon Corporation (partial manufacturing process for digital SLR cameras), Toyota Boshoku Corporation (car seat covers and other interior parts), Aderans Co., Ltd. (wigs), and other companies entered the Savan-Seno Special Economic Zone, which is situated along the border, up to 2015.

[55] This section reflects content from a hearing with Kenichiro Yamada of JETRO Vientiane office (September 4, 2019) and materials prepared by Kenichiro Yamada.

Section 6 Southern Economic Corridor and Thailand

The land route was completed with the opening of the Tsubasa or Neak Loeung Bridge in April 2015 connecting Phnom Penh with the Bavet border. In July 2015, a trilateral agreement was reached between Thailand and Myanmar, and with the cooperation of the Japanese government, for development of a road between the new Kanchanaburi border crossing and Dawei and the Dawei port but progress is slow. Given the lack of progress in plans to create a site for heavy chemical industries, the Japanese side is placing priority on the development of ports and distribution facilities with exports to India in mind. According to the media, it has been proposed that this area should be developed as a hub for distribution and light industries by 2030 (July 8, 2019 Nikkei).

Table 6-14 Mobility data between Dawei and Vung Tau (for February 2014 to March 2016)

Country	Section	Mode of transportation	Distance	Real transit time	Average speed
Myanmar	Dawei - Htee Khee	Mini bus	141km	about 4 hours	35km/h
Thailand	Phu Nam Ro – Bangkok	Mini bus	About 200km	about 3 hours	67km/h
	Bangkok – Aranyaprathet	Public bus	About 250km	about 3 and a half hours	71km/h
Cambodia	Poipet – Sisophon	Public bus	49km	about 40 mins	73km/h
	Sisophon – Battambang	Public bus	67km	about 1 and a half hours	45km/h
	Battambang - Phnom Penh	Public bus	291km	about 6 hours	49km/h
	Phnom Penh - Neak Loeung	Passenger car	66km	1 hour 20 mins	50km/h
	Neak Loeung - Bavet	Passenger car	103km	1 hour 40 mins	62km/h
Vietnam	Moc Bai - Ho Chi Minh	Passenger car	74km	1 hour 50 mins	40km/h
	Ho Chi Minh - Vung Tau	Public bus	115km	about 3 hours	38km/h

1. Sa Kaeo border SEZ[56]

The construction of the Sa Kaeo Industrial Estate located 5km from the Aranyaprathet border began in 2017. The area of the site was around 106ha. Construction was completed at the end of 2018. An opening ceremony is scheduled to be held in March-April 2019. Two companies, Thai company (detergent manufacturer) and a Canadian company (apparel importer/exporter) have signed tenant agreements. The commercial area in the industrial estate is schedule to have 17 Thai SME tenants, including restaurants. In addition to the benefits from the IEAT, the tenant companies will also receive additional benefits from the BOI. A focal benefit of a border SEZ is an employment permit which allows the hiring of non-skilled labor from surrounding countries. Temporary employment companies registered with the Bureau of Employment refer Cambodian workers to companies.

2. Trends surrounding the Aranyaprathet-Poipet border

To alleviate congestion of cargo trucks in the area around the Cambodian border, the Ministry of Public Works and Transport gained the cooperation of the Neighboring Countries Economic Development Cooperation Agency (NEDA) and started to establish cargo dedicated customs facilities and access roads in the Stung Bot region, positioned around 7km from the current customs point.

In April 2019, the cross-border route from Aranyaprathet to Poipet City was opened for the first time in 45 years. It is my understanding that the "northern line," which connects Poipet and Phnom Penh, was opened after a rush construction job which was carried out with assistance from Japan. The issues are what degree of cargo demand exists, is it profitable, and does railway freight demand consist mainly of agricultural products.

[56] Excerpt from information from a JETRO inspection tour on August 15, 2018.

3. Poipet customs station (as of October 2017)

- Imports from Thailand have been increasing in recent years. In particular, the import of motorbikes, home appliances and construction materials is substantially increasing.
- Exports from Cambodia to Thailand consist mainly of finished products (apparel, Minebea products).
- Minebea is able to go directly from Thailand to Phnom Penh without undergoing a check (Best Trader status).

4. Sanco Poipet SEZ Toyota Tsusho Techno Park (as of October 2017)

- Declarations for customs clearance at Aranyaprathet go smoothly but the issue is physical congestion. During peak times on weekdays, cargo trucks form a line 500m long.
- At the same border, basically there is a necessity reship cargo. This is primarily attributable to the fact that the passing lane is on the opposite side and the steering wheel is on the opposite.
- Within 20km from the border, Thai vehicles can enter the park as is therefore there is no need to transfer cargo for the Poipet Techno Park at the 8km point.
- The business operations at the Techno park at (1) rental plants, (2) support to set up a company, (3) support for accounting and taxes, (4) dispatch of workers, (5) meals provided at a shared canteen, (6) consigned manufacturing and (7) support for customs.
- Toyota Tsusho (Thailand) Co., Ltd. has been certified as an Authorized Economic Operator (AEO) and acts as a customs clearance agent for tenant companies.
  - There are a total of five companies in the park. CH Industry (a Thai company dealing in automotive parts), and four Japanese companies, i.e. Sumitronics Corporation (electronic devices, etc.), EXEDY Corporation (auto-related parts), Sanko Electric Co., Ltd. (auto-related parts) and Mabuchi Corporation (packaging materials).
  - The basis for operations of these tenant companies is to bring components and raw materials to the park where they convert them into products, after which they are returned to Thailand.
  - Customs in Cambodia have introduced the ASCYUDA system and launched operations around 2016. Regardless, procedures are still carried out on a paper basis. However, customs clearance goes relatively smoothly as the products of export processing manufacturers are eligible for duty-free importation.
  - Customs clearance does not take that much time but at the border there are lines of trucks resulting in waiting time. There is a 3-4 hour wait on the Thai side of the border. Users of this customs station await the establishment of a dedicated cargo gate.

Note: Factual errors of details extracted from each hearing are the responsibility of the author.

Chapter 7

Current Status & Issues with SMEs in Thailand

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Introduction

In this chapter, we will analyze current trends and issues involving SMEs that have entered the market in Thailand. Specifically, taking into account previous research, our goal will be to clarify factors using statistical data and through case studies of SMEs in Thailand.

This chapter is composed of the following sections.

In Section 1, we will review previous research. In Section 2, we will analyze current trends and issues surrounding SMEs that have entered the market in Thailand based on statistical data. In Section 3, we will conduct case studies in accordance with interview surveys conducted of SMEs in Thailand that were conducted in March 2019 by the author and others. In Section 4, we will analyze current trends and issues of SMEs in Thailand based on said case studies. Finally, in Section 5, we will make our conclusion as well as pose a direction for SMEs in Thailand going forward.

Section 1 Previous research

In this section, we will review previous research. Here we will analyze the current trends and issues of SMEs in Thailand in light of the purpose of this chapter. We will also place focus on and review recent research.

1. The appeal and issues of business in Thailand from the viewpoint of SMEs

What lured SMEs to Thailand to do business? Seki (2012) pointed out that there are three appealing points for conducting business in Thailand. The first is the development of business transactions with no strings attached (free of ties). Second, is the establishment of a profit source, i.e. a base for generating profit. Third is the realization of growth as a company. These three appealing factors are benefits SMEs entering the market in Thailand are actually enjoying. At the same time, these three factors serve as motivation for SMEs, planning to expand overseas, to enter the market in Thailand.

Meanwhile, Seki (2012) states that there are three appealing factors to entering the market in Thailand but there are also potential issues that SMEs face regarding each of these three factors. Regarding the first point of appeal for SMEs, the development of business transactions with no strings attached (free of ties), business ties themselves

are free of ties. This can mean that the new business transactions developed with major companies are free of constraining ties. In other words, it is unsure whether the newly cultivated transactions will stably continue for the long term.

The second appealing factor is the establishment of a profit source. This gives rise to doubt. Should the base of profit generation be located in Thailand instead of Japan, a question emerges as to the standing of the Japanese companies in the medium-to-long term.

Regarding the realization of growth as a company, the third appealing factor, there is a high possibility that management cannot keep up with the rapid speed of business scale expansion. In particular, there is a strong likelihood that the nurturing of management power will be a major obstacle to the globalization of SMEs. This is an issue especially with the development of organizational management capabilities.

Although these types of issues exist in Thailand, Seki states that as long as SMEs can overcome various issues, they will be able to roll out alluring businesses in Thailand. Essentially, Seki commends the business possibility in Thailand.

In actuality, SMEs have actively entered the market in Thailand. Seki (2014) analyzes the business development of SMEs using Teikoku Databank data. Seki revealed that in the 2000s, there was a trend among Japanese companies to enter the Thai market. This trend was supported by SMEs. It is clear trans-industry transaction among a cluster of Japanese companies, emulating a "Japanese village," form the business infrastructure.

2. SMEs demand measures to address policy change by the Thai government

The question is how have conditions pointed out by Seki (2012) changed up to now? According to Seki (2014), in recent years the policies of the Thai government have changed. One change has been a revision to policies on attracting foreign companies to Thailand. Another factor is a change in the minimum wage system.

Consequently, SMEs inevitably had to take two measures for business development to address these changes. In the first measure it is essential for SMEs that entered Thailand to engage in a field that contributes to the economic system of Thailand. Keywords are "environment," "high-tech" and "reusable energy." Only those companies that are operating in business fields that contribute to the economic system in Thailand are capable of entering the market. In addition, it is necessary to align with the Thailand Plus One concept. According to Seki, for SMEs that entered the market in Thailand, realizing the international division of labor by leveraging the disparity in the development stage of the 10 ASEAN countries is the key to success.

In actuality, how are SMEs that entered into Thailand addressing the Thai government's policy changes? Tahara (2017) analyzes the response of SMEs entering the Thai market by placing focus on the change in the minimum wage system, from among the previously mentioned policy changes.

As a result of case studies of five SMEs that entered the Thai market, a common factor among companies with which we conducted hearings is that there are polices in place to retain Thai employees for the long term and to gradually promote them to position in mid-level management or as executives. This, in other words, is one style of Japanese management. In general, job hopping is a common practice among Thais. However, it was pointed out that by offering incentives and implementing other schemes, Thai employees appear to accept employment practices to a certain extent. In addition, Tahara points out that there is also a trend to set up personnel training bases so that Thais can enter and work in other regions.

The labor market in Thailand has changed in recent years, including a rise in wages. While confronting difficulties, SMEs that entered the Thai market are implementing originality and ingenuity to tackle the training of local personnel.

3 Significance and issues with previous research

We reviewed previous research and overviewed the current trends and issues being faced by SMEs that entered the Thai market. For SMEs, business in Thailand is a major point of appeal but at the same time there are also underlying issues. In recent years, given changes in the policies of the Thai government, SMEs that have or plan to enter the market in Thailand need to deal with these changes. This was made clear in previous research. This previous research offers a huge hint for clarifying current trends and issues in SMEs that have entered the Thai market. At the same time, it also shows what research domains need to be covered further out.

First, a verification needs to be done to show the present-day appealing factors and challenges of business in Thailand, which were pointed out by Seki (2012). Also, are the Thai units of SMEs continuing to be profit generation bases, as was indicated by Seki (2012).

Secondly, are the strategies of SMEs that entered the Thai market changing? As Seki (2014) indicated, SMEs that entered the Thai market are likely shifting to business fields, including environment, high-tech and renewable energy, that contribute to the economic system in Thailand. In addition, Thailand Plus One and trends in oversea market development also pose questions.

Thirdly, how are SMEs that entered the Thai market handling organizational management issues? In recent years, the Thai labor market is undergoing changes, including a rise in personnel costs. Also, are the introduction of Japanese style management and trends in personnel training sites, which were mentioned by Tahara (2017), spreading to other SMEs?

Further research on the above issues is required to clarify current trends and issues being faced by SMEs that have entered the Thai market.

Section 2 Current trends and challenges at SMEs that entered the market in Thailand as observed from statistical data

Going forward, let's use statistical data to look at the current trends and issues being faced by Japanese SMEs that have entered the Thai market. We will mainly utilize data from the Business Condition Survey Report on Overseas Local Unit SME Business Partners, which is conducted by the SME Unit International Operations Department, Japan Finance Corporation for each respective year[57].

1. Earnings trends at SMEs that enter the market in Thailand

(1) Net income (loss) trends for the most recent fiscal year

In Table 7-1, the local subsidiaries/affiliates in Thai that responded to the survey provided figures for net income (loss) for the fiscal years from 2013 to 2018. Looking at this data, the percentage of companies in the black in recent fiscal years in the 2018 survey was 53.0%. In addition to 8.5% of local subsidiaries/affiliates who responded they broke even in recent fiscal years, 61.5% of the local subsidiaries/affiliates said they posted profit or broke even.

The percentage of companies in the black increased in recent years. Looking at Chart 7-1, the percentage of profitable companies was 35.4% in 2016. This was the bottom. In 2018, the percentage of profitable companies rose to 53.0%. Recently, earnings have been trending toward recovery.

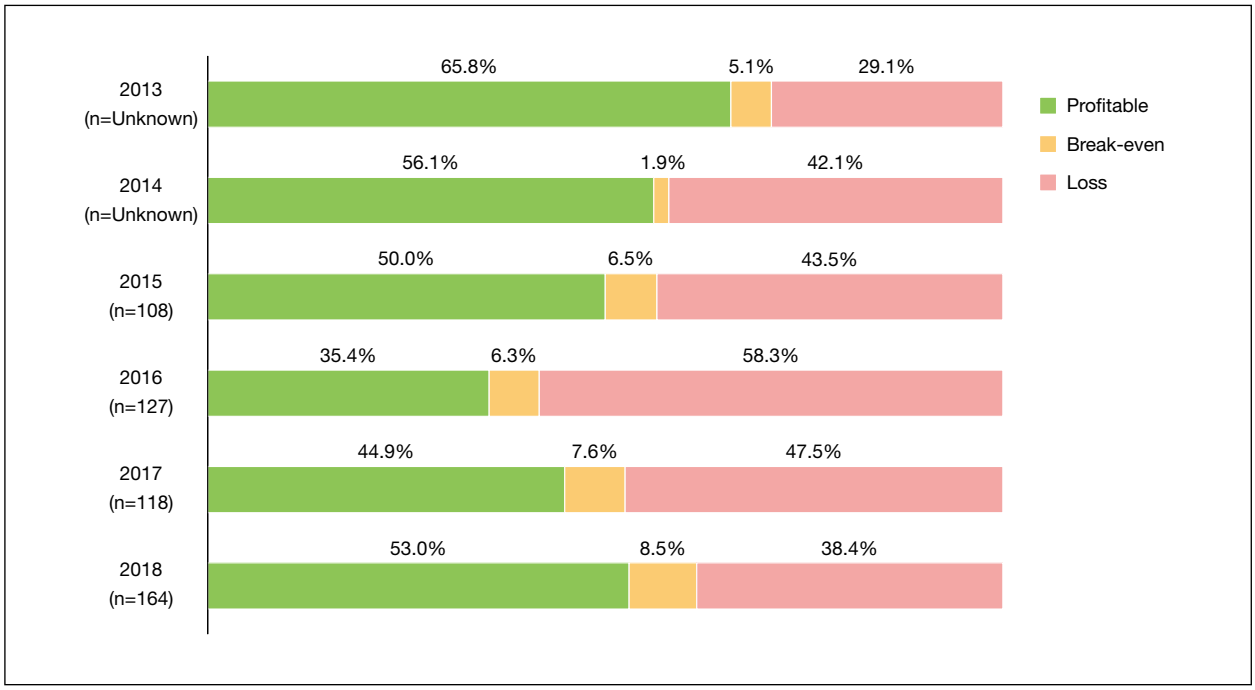
Meanwhile, looking at the percentage of profitable companies in Thailand in the long term, the level is low in comparison with the peak period. According to Chart 7-1, looking at the percentage of profitable companies over the most recent six-year period, the level was the highest in 2013 at 65.8%. In 2014, the level was at 56.1%. In

[57] Summary of the 2018 survey is as follows:
- Survey target: Local overseas units that are business partners of Japan Finance Corporation SMEs
- Number of companies survey forms were sent to: 3,825; Number of companies that responded: 917 (of which 167 entered into the market in Thailand)

2018, the percentage of companies in the black was 53.0%, lower than the previous two years mentioned. Although earnings performance at Thai subsidiaries/affiliates is recently trending upward, in contrast with the peak period performance is getting tougher.

In addition, earnings at Thai subsidiaries/affiliates are not protruding above the level for ASEAN overall. According to the same survey, the percentage of profitable companies among ASEAN companies overall was 52.1% in 2018. This is nearly the same level of the percentage of profitable Thai subsidiaries/affiliates, which was 53.0%. In ASEAN, this indicates that Thai subsidiaries/affiliates are the only companies generating profit.

Chart 7-1 Net income (loss) trends for the most recent fiscal year



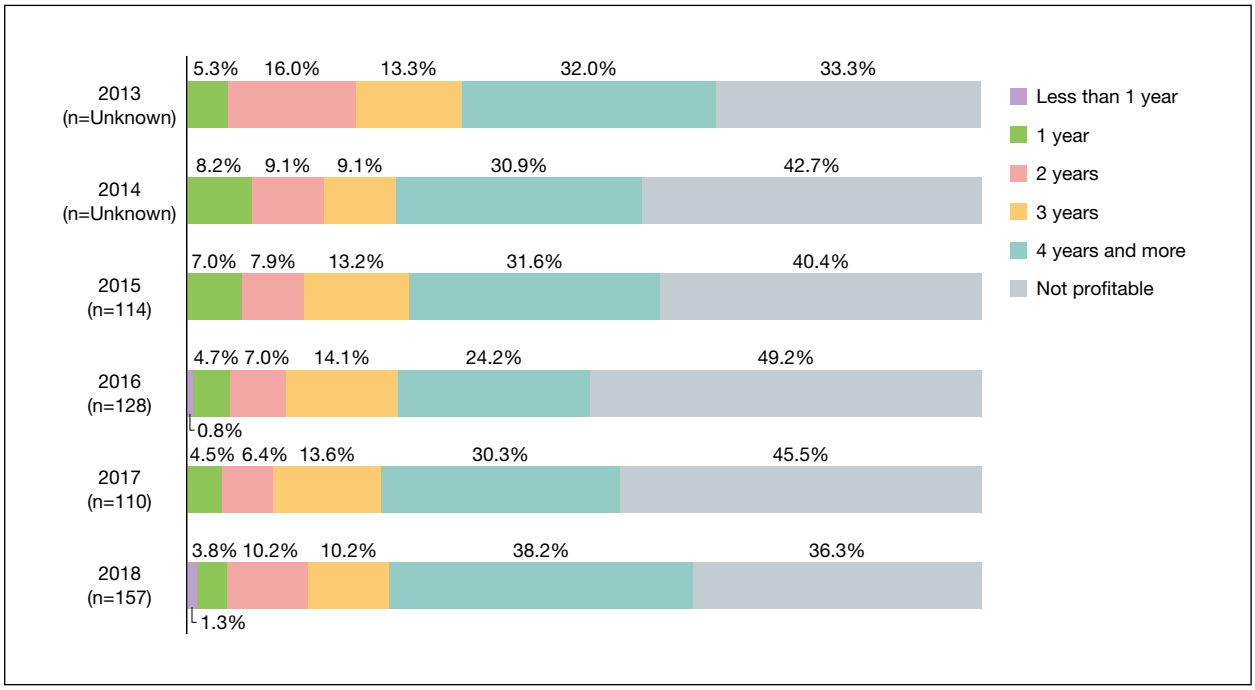
Source: Compiled based on the Business Condition Survey Report on Overseas Local Unit SME Business Partners, SME Unit International Operations Department, Japan Finance Corporation (respective year)

(2) Period until SMEs turn profitable

Chart 7-2 exhibits the number of years required to realize profit at the local subsidiaries/affiliates among the companies that responded. The percentage of companies that did not realize profit in the 2018 survey was 36.3%. Consequently, 63.7% of local subsidiaries/affiliates in Thailand have already achieved profit.

Comparing these figures with ASEAN overall, the percentage of companies that did not post profit in the 2018 survey was 35.2%. This is nearly the same level of local subsidiaries/affiliates in Thailand that had not posted profit, which was 36.3%.

Chart 7-2 Period until SMEs turn profitable



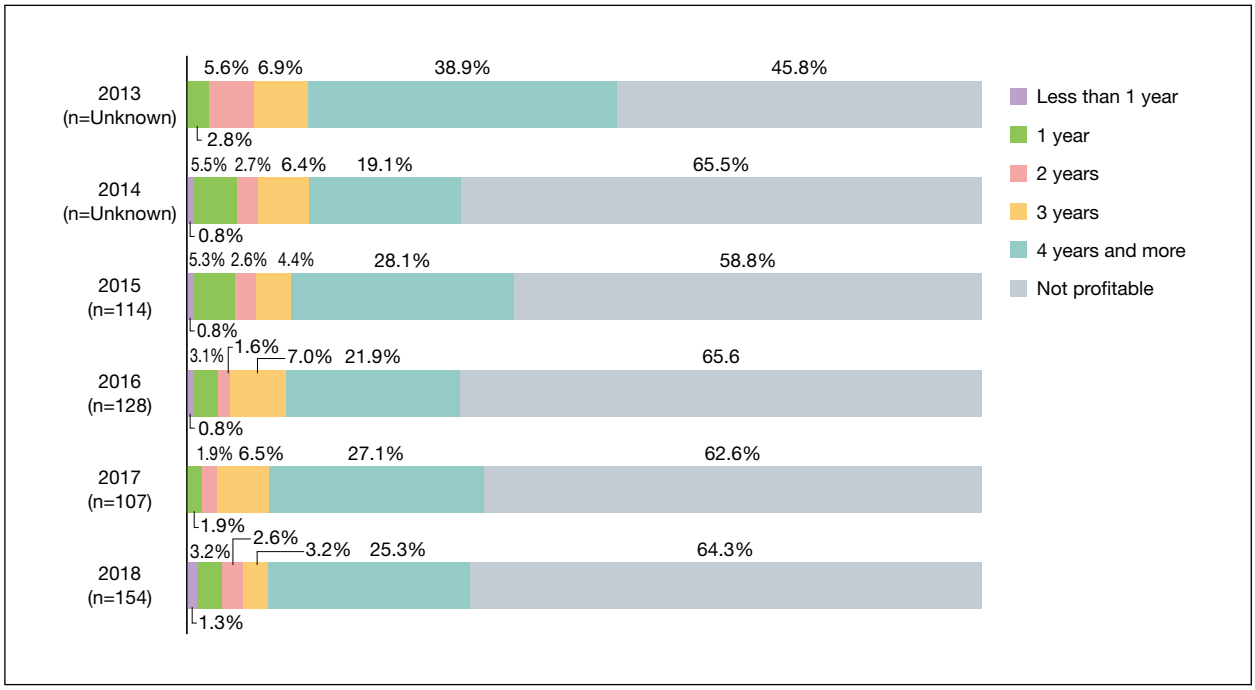
Source: Same as Table 7-1

(3) Period for unwinding cumulative loss after market entry

By survey year, Chart 7-3 shows the period it takes companies that responded to the survey to unwind the cumulative loss after the local subsidiary/affiliate in Thailand entered the market. Looking at this, in the 2018 survey, 64.3% of companies have not eliminated their cumulative losses. As seen in (2), 63.7% of local subsidiaries/affiliates in Thailand have achieved profit on a single fiscal year basis. However, there are not many local subsidiaries/affiliates in Thailand that are posting profit sufficient enough to resolve cumulative losses.

Note that, in comparison to ASEAN overall, the period to unwind cumulative losses after entering a market, there are many companies in Thailand that have not yet unwound their cumulative losses. In ASEAN overall, the percentage of responses for not yet unwinding cumulative loss is 58.1% in 2018 versus 64.3% in Thailand, which surpasses the average for ASEAN countries. Based on these points, we can see that among ASEAN countries, the subsidiaries/affiliates in Thailand are not the only companies generating profit.

Chart 7-3 Period for unwinding cumulative loss after market entry

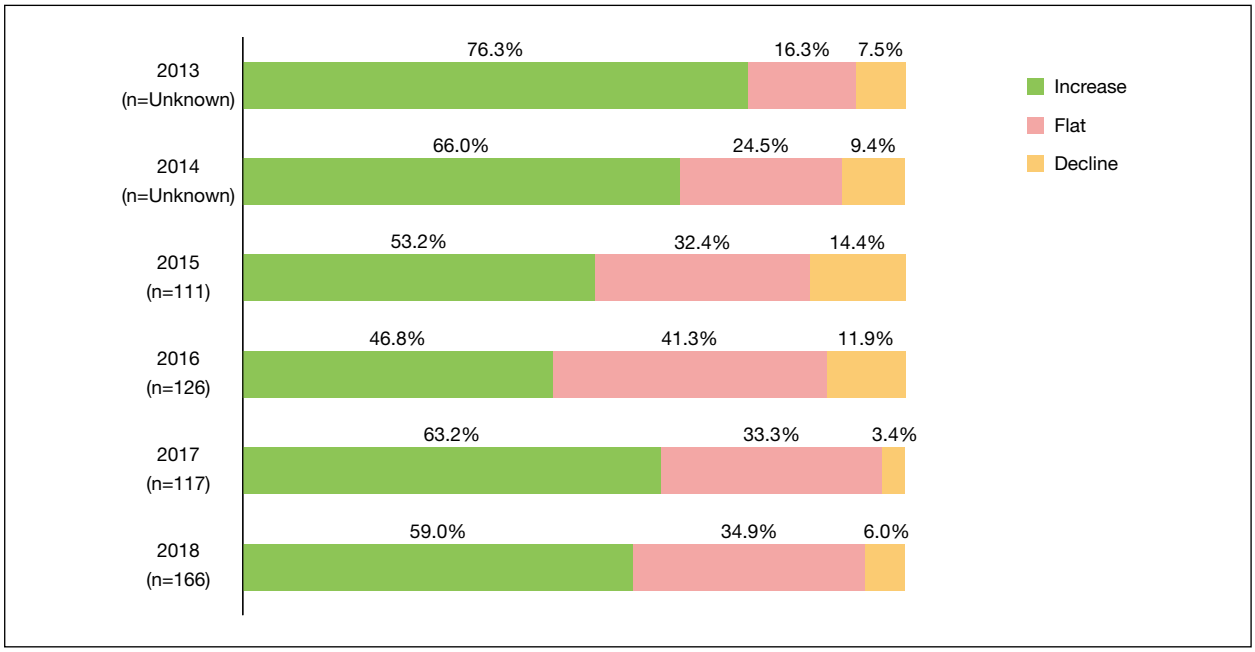


Source: Same as Table 7-1

(4) Annual sales forecast

Chart 7-4, which is based on survey responses, shows sales forecasts for local subsidiaries/affiliates in Thailand for each respective fiscal year. Looking at 2018, 59.0% of companies surveyed forecast a sales "increase" for the upcoming years. The next most frequent response was "flat" growth, 34.9% companies surveyed. A mere 6.0% of companies surveyed responded they expected sales to "decrease."

Chart 7-4 Annual sales forecast



Source: Same as Table 7-1

Meanwhile, looking at sales forecasts for the long term, levels are low in comparison with the peak period. Chart 7-4 shows that in the sales forecasts for the six-year period, 76.3% of respondents in 2013 anticipated sales growth, followed by 66.0% in 2014. In 2018, the percentage of profitable companies was 59.0%, well below these other levels. You can see that sales forecasts at local subsidiaries/affiliates in Thailand are likely to be harsh in the long term.

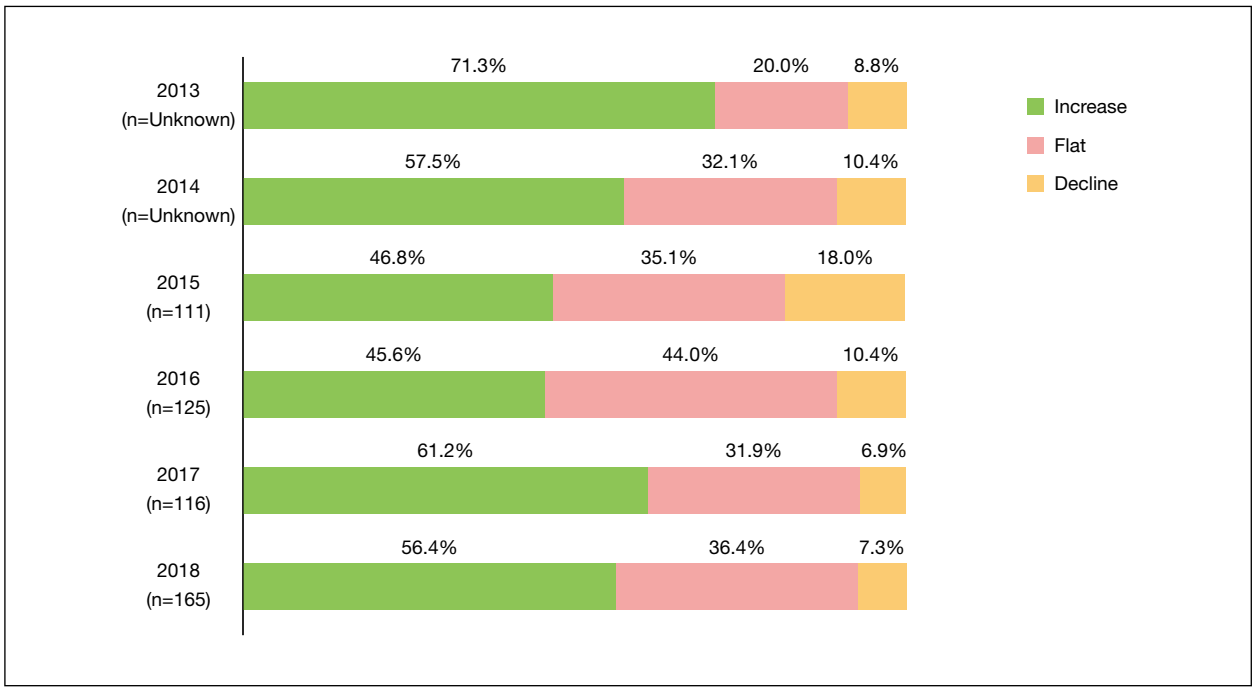
In addition, in contrast with ASEAN overall, the percentage of companies that answered they forecast sales growth was low. In ASEAN overall, in 2018 the percentage of companies that responded the forecast a sales "increase" was 64.3%. In contrast with this, the percentage for companies in Thailand was 59.0%, which undershot the average for ASEAN overall. In 2017, there was no difference in the percentage of companies that answered "increase" between companies in the ASEAN regions and Thailand (ASEAN overall was 63.7% and Thailand was 63.2%). However, among ASEAN countries, sales at local subsidiaries/affiliates in Thailand are faltering.

(5) Annual profit forecasts

Now let's look at profit forecasts. Chart 7-5 depicts profit forecasts for the upcoming fiscal year at local units in Thailand. In 2018, 56.4% of respondents answered that they forecast a profit "increase" in the upcoming fiscal year.

Meanwhile, in the long term, profit levels are likely to be low in comparison with the peak period. Looking at profit forecasts for the six-year period in Chart 7-5, the percentage of respondents forecasting a profit increase was highest in 2013 (71.3%). This was followed by 61.2% in 2017. In 2018, the percentage of profitable companies was 56.4% but this did not match up with the levels for profit forecast. The profit forecast for local subsidiaries/affiliates in Thailand was the same are for sales forecasts. In the long term, profits are expected to be harsh.

Chart 7-5 Annual profit forecast



Source: Same as Table 7-1

In addition, in comparison with ASEAN overall, the percentage of companies that responded profit is expected to "increase" was low in Thailand. In ASEAN overall, the percentage of responses saying they expect a profit "increase" was 61.2% in 2018. In contrast, this percentage was 56.4% in Thailand, underperforming ASEAN overall. In 2017, there was not much of a difference in the percentage of respondents forecasting an "increase" between ASEAN overall and Thailand (ASEAN overall was 61.3%, Thailand was 61.2%). In light of this, it can be said that in ASEAN, companies in Thailand are experiencing lackluster profits.

2. Issues being faced by SMEs that entered into the Thai market

(1) Issues being confronted

So what types of problems are SMEs that entered the Thai market facing? Also, are the issues confronting these companies changing?

Table 7-1 shows the top five issues that local Thai subsidiaries/affiliates of the responding companies are facing by year. Looking at this table, in the 2018 survey, the No. 1 issue being faced was "securing managers," with a score of 37.3% of all respondents citing this as an issue. This was followed by "rising wages" (34.2%) and "local worker training" (33.5%). Recently, personnel issues, including "securing workers" 19.9%) are ranking among the leading issues.

Looking at the years in which these issues were being faced by local Thai companies, one can see distinct features. First, personnel related issues have constantly ranked high in and after 2015. In particular, "securing managers" is an issue that ranks high every year. In the past few years, personnel-related matters have been a major issue for companies that entered a local market.

Table 7-1 Issues being confronted

Year	Secure managers	Rise in labor costs	Training local workers	Secure workers	Cost reduction requests from customers	Decline in sales volume	Forex translation loss
2015 (n=Unknown)	41.8%	33.6%	29.1%	29.1%	—	30.0%	—
2016 (n=127)	44.1%	28.3%	28.3%	—	—	31.5%	28.3%
2017 (n=115)	32.2%	29.6%	32.2%	—	21.7%	26.1%	—
2018 (n=161)	37.3%	34.2%	33.5%	19.9%	17.4%	—	—

Note 1: Multiple choice up to 3 answers

Note 2: Top five only

Source: Compiled based on the Business Condition Survey Report on Overseas Local Unit SME Business Partners, SME Unit International Operations Department, Japan Finance Corporation (respective year)

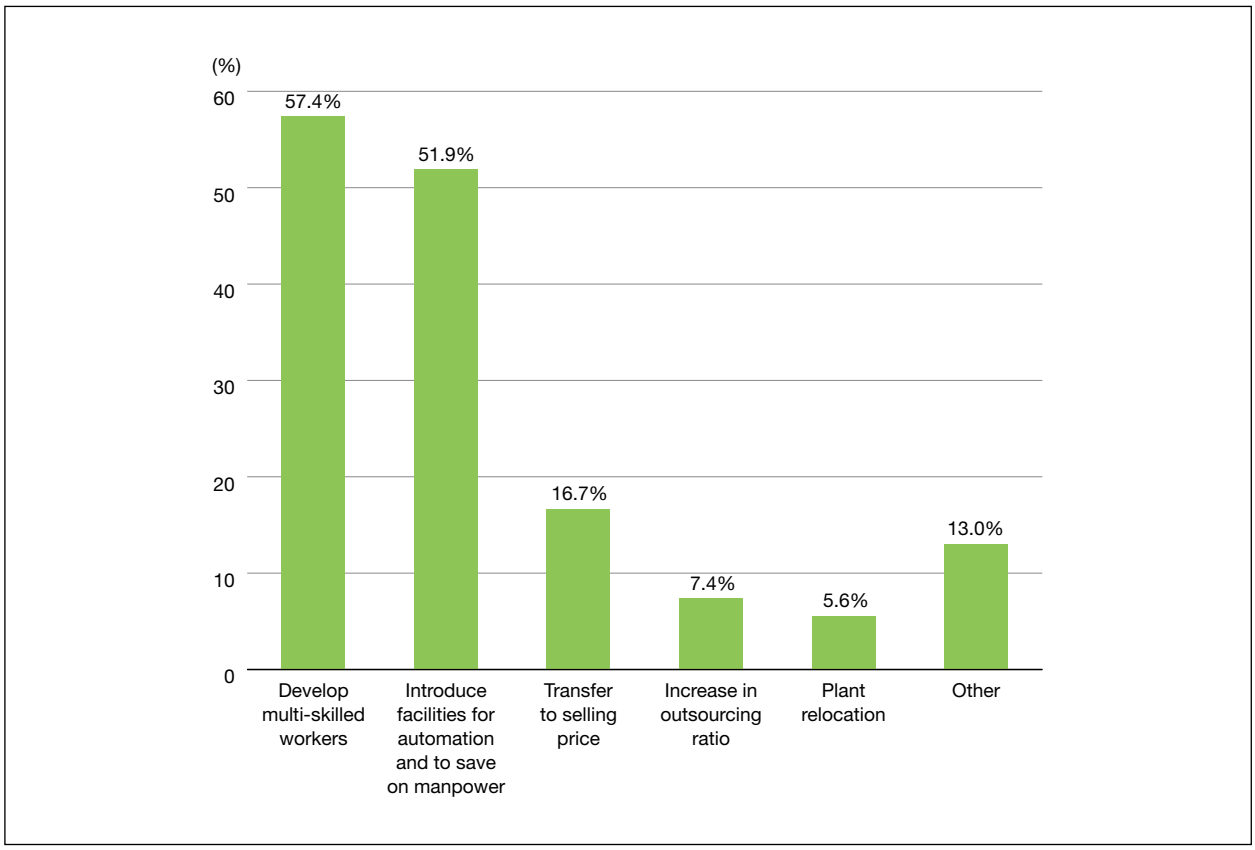
Second, from 2017, another high ranking issue has been "requests from customers to lower cost." As shown in Table 7-1, in 2015- 2016, "requests from customers to lower cost" was not ranked in the top five. In light of this, in recent years "requests from customers to lower cost" has started to become an issue for local Thai subsidiaries/affiliates.

(2) Measures being implemented in response to rising labor expense

In Table 7-1, "rising labor cost" placed as a high ranking issue. So what measures are local Thai subsidiaries/affiliates taking to alleviate rising labor costs?

Chart 7-6 shows the results of questions in the 2018 survey on measures being implemented to address rising labor costs. Based on this, 57.4% of responding companies said the "development of multi-skilled workers." This was followed by 51.9% saying they were "introducing automation and facilities to save on manpower." This tells us that local Thai subsidiaries/affiliates are developing multi-skilled workers and introducing automation and facilities to save on manpower as a way to address rising labor costs.

Chart 7-6 Measures being implemented in response to rising labor expense



Source: Same as Table 7-1

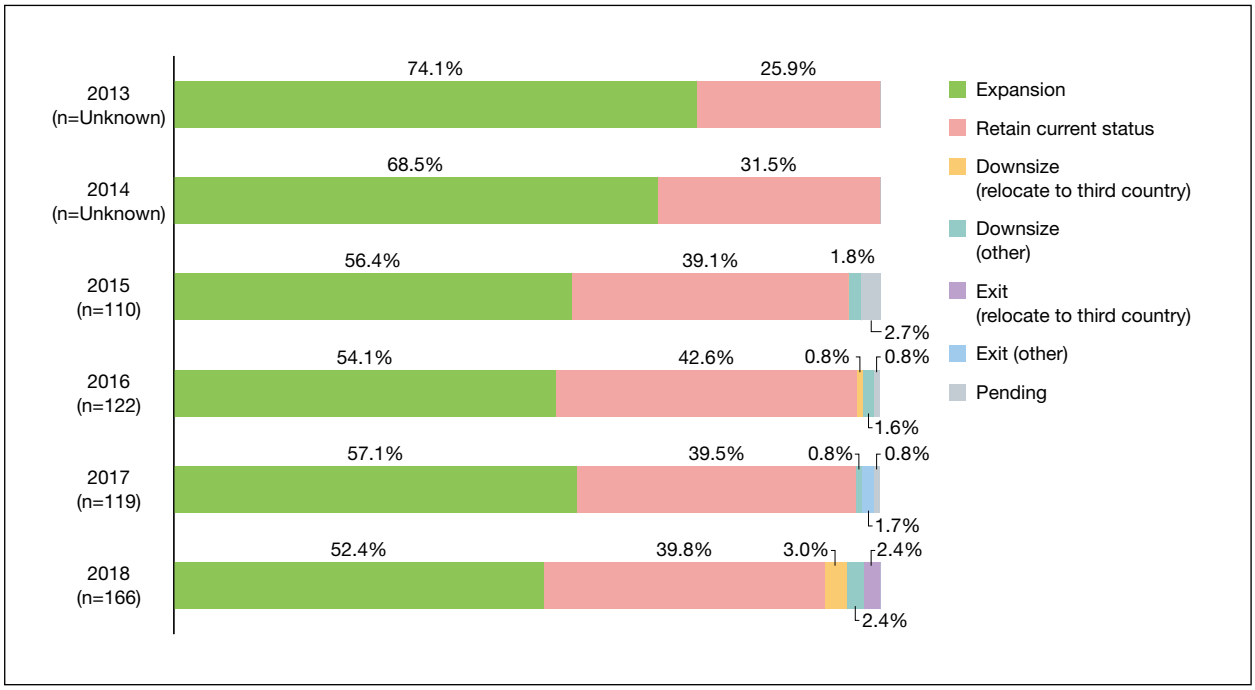
3. Business development going forward

(1) Management policies for the time being (1-3 years) (Business expansion destination)

Chart 7-7 contains the responses to hearing on management policy for the time being (1-3 years) at local Thai subsidiaries/affiliates. In 2018, 52.4%, or over half, of companies that entered the Thai market responded that they had business expansion policies.

Meanwhile, management policies for the time being changed by year. This mainly reflects a decline in the percentage of responses for business "expansion" in Thailand. In 2013, the 74.1% of companies with the intent to implement business "expansion," repeatedly fluctuated, declining to 52.4% in 2018.

Chart 7-7 Management policies for the time being (1-3 years) (Business expansion destination)



Source: Same as Table 7-1

Second, the percentage of companies that responded they planned to "downsize" or "exit" is rising annually. In 2013, 0% of companies showed intent to "downsize" or "exit" but in 2018 this rose to 7.8% of responding companies.

In this manner, the management policy of local Thai subsidiaries/affiliates for the time being is shifting from business "expansion" to "downsizing" and "exiting" business operations in Thailand.

(2) Promising countries and regions for medium-term business development

What countries/regions are SMEs that entered the Thai market planning to expand their business operations into? Table 7-2 shows which countries and regions SMEs that entered the Thai market believe are promising for business expansion in the medium term. In 2018, the No. 1 pick was Vietnam. This was followed by India in second and Thailand and Indonesia in third. From this we can understand that SMEs that entered the Thai market are considering business expansion into Vietnam. This trend is gaining attention as a movement to push forward with business expansion through exports from Thailand mainly by SMEs that entered the Thai market.

Table 7-2 Promising countries and regions for medium-term business development (SMEs expanding into the Thai market)

Year	1st	2nd	3rd
2013	Thailand	Vietnam	Indonesia
2014	Vietnam	Indonesia	Myanmar
2015	Vietnam	Thailand	India
2016	Vietnam	Myanmar	Indonesia
2017	Vietnam	Thailand	India
2018	Vietnam	India	Thailand Indonesia

Note: For example, SMEs in Thailand that selected Vietnam as No. 1 have already entered Thailand. This shows the percentage of companies that selected Vietnam as a promising country/region for business expansion in the medium term.
Source: Same as Table 7-1

In addition, we can see that Thailand's ranking as a promising country/region for business expansion in the medium term is declining year after year. In 2013, Thailand ranked No. 1. However, in 2018 Thailand slipped to No. 3. SMEs that entered the Thai market are oriented toward expanding business in countries such as Vietnam and India, as opposed to Thailand.

(3) Thailand's standing among SMEs looking to expand overseas

In (2), we only analyzed SMEs that entered the Thai market. In this section, we will confirm which countries/regions, companies, out of all corporate respondents (SMEs expanding overseas), are considering for business expansion.

For SMEs entering overseas markets overall, Table 7-3 illustrates the countries/regions believed to be promising for business expansion in the medium term. Based on this, Vietnam has ranked No. 1 since 2014.

Meanwhile, Thailand's ranking has been declining annually. Thailand ranked No. 2 from 2013 to 2015. However, in 2016, Thailand fell to No. 3 and then to No. 4 from 2017 onward. For SMEs expanding overseas, the appeal of Thailand as a destination for business expansion in the medium term is waning.

Note that as a promising country for business expansion, the reasons corporate respondents picked Thailand is as follows: "existing customers have already entered the market" (51.1%) and "local market has high potential" (51.1%) were the most frequent responses. Other responses were "geographical advantage" (25.5%) and "infrastructure is well maintained" (25.5%). These points are currently recognized as appealing points of the Thai market.

Table 7-3 Promising countries and regions for medium-term business development (SMEs overall that are expanding overseas)

Year	1st	2nd	3rd	4th
2013	China	Thailand	Vietnam	Indonesia
2014	Vietnam	Thailand	Indonesia	China
2015	Vietnam	Thailand	Indonesia	China
2016	Vietnam	Indonesia	Thailand	China
2017	Vietnam	China	India	Thailand
2018	Vietnam	China	India	Thailand

Source: Same as Table 7-1

4. Trends in exiting Thailand

As shown in 3 (1), the number of companies considering downsizing or exiting local subsidiaries/affiliates in Thailand is increasing. In this section, we look at conditions in which companies actually exit Thailand. Let's look at the FY2016 report on the fact-finding survey for overseas activities by SMEs, which was released by the Organization for Small & Medium Enterprises and Regional Innovation in 2017[58].

At the Organization for Small & Medium Enterprises and Regional Innovation (2017), companies conducting direct investment (establishing overseas sites) at the time of responding to this survey asked about respondents' experience in exiting overseas operations. Companies that responded "experience exiting overseas site" or "no experience exiting an overseas site but considering withdrawal" were asked what country or region they exited or where considering exiting. Looking at the results, the most number of responses was for "China." Corporate respondents said they exited or planned to exit 170 sites. This accounts for approximately half of the total (340 sites). Thailand ranked No. 5 with 15 sites, following behind South Korea (22 sites), the US (21 sites), and Singapore (16 sites).

In addition, looking at the timing of exit from Thailand, nearly half or 7 sites were exited in and after 2015. This compares with 2005 – 2009 (2 sites) and 1999 or earlier (2 sites)[59]. The number of sites being exited in Thailand appears to be increasing in recent years.

Looking at the reasons for exiting Thailand, the biggest reason is "intensification of competition locally" (22.2%). This was followed by "HQ in Japan changed its management policies (including relocation of overseas sites, etc.)" (18.2%) and "difficulty dealing with matters such as local business customs and legal system" (11.1%). In Thailand, competition is intensifying. This is the reason for exiting the country.

The reason for exiting the market in Thailand differs from the reason for exiting overseas markets by SMEs, as indicated by Tange (2016). According to Tange (2016), a questionnaire was conducted of SMEs with past experience exiting a market. Based on the results of this questionnaire, the principal reason that SMEs are exiting overseas market is "sluggish demand for products." It was made clear that the next reasons were "difficulty securing management personnel" and "discord with local partners." The reasons for exiting Thailand differ from this.

What issues do SMEs face when exiting Thailand? Looking at the reasons for exiting the market, the most significant reason is "difficulty recouping investment capital" (26.7%). Next in line are the "dissolution of an agreement with a local partner" (13.3%) and "dealing with management-labor issues and employees (retirement, firing, etc.)" (13.3%).

5. Brief summary

In this chapter, we analyzed the current trends and issues faced by SMEs that entered the Thai market using statistical data. There are two points that were made clear by this. First, owing to changes in the external environment, the local sites of Japanese SMEs in Thailand can no longer always be called a "profit generation site," as was pointed out by Seki (2012). The percentage of local companies that cannot unwind their cumulative losses is 64.3% of all companies surveyed. This surpasses the average for ASEAN overall. The percentage of local subsidiaries/affiliates that responded that they expect an "increase" in profit is declining in the long term. In addition, in comparison with ASEAN overall, the percentage of local subsidiaries/affiliates that responded that they expect an "increase" is at a low level.

Second, SMEs that entered the Thai market are focusing on business expansion mainly in Vietnam and India mainly through exports. The percentage of respondents that said they planned to expand their business operations in Thailand is declining. Also, as a promising country for business development in the medium term, Thailand's

[58] Organization for Small & Medium Enterprises and Regional Innovation (2017), "2016 SME Overseas Business Activity Fact-Finding Survey Report," March 2017, pp.76-82.

[59] Excluding "no answer" (3 sites)

ranking is declining annually. Meanwhile, the ranking of Vietnam and India is rising up to the higher ranks. Local subsidiaries/affiliates in Thailand are said to be focusing on Vietnam and India, as opposed to Thailand, as promising countries for business expansion in the medium term. It can be said that SMEs entering the Thai market are aiming to develop markets in areas outside of Thailand mainly through exports.

Section 3 Case study: Current trends and challenges for SMES that entered Thailand

1. Summary of case studies

In this section, we will carry out three case studies of Japanese SMEs that have entered the market in Thailand. A summary of case-study companies is in Table 7-4.

The reason for selecting this case study is that it provides more in-depth, abundant information as opposed to the survey (Yin, 2009). In implementing case studies, an effort was made to collect information from diverse facets. Information was naturally gathered from various public media. Direct interviews were conducted with the case-study companies[60]. The interviews were conducted by several people. Information was collected via a semi-structured interview. The main interview items are shown in Table 7-5.

Table 7-4 Summary of case-study companies

Local companies	Establishment date for local companies	Production items	Capital	Investment format	No. of employees at local companies
Company A	2012	Manufacturing and sales of hydraulic/water pressure gauges and parts	THB103 million	Full ownership of capital	20 employees
Company B	April 2007	Manufacturing and sales of precision press parts	THB41 million	Full ownership of capital	60 employees
Company C	April 2014	Wholesale business for machine tool parts	THB 2 million	Joint venture	6 employees

Table 7-5 Main interview items

1. Corporate profile, strengths of your company
2. Current issues and solutions, handling of risks in Thailand • Competition with rivals • Rise in personnel costs, labor shortage • Political disaster risk
3. New business development in Thailand • Approaching local companies, markets and neighboring countries (sales, procurement and division of production labor) • Review organizational structure (personnel evaluation, strengthen personnel training) • Measures to improve productivity, create innovations that originate locally
4. Policies going forward
5. Advice to SMEs that plan to expand overseas going forward

[60] We are implementing interview surveys of local Company D, which develops and operates industrial parks, to grasp conditions for SMEs that entered the market in Thailand.

2. Case studies

(1) Company A

Company A conducts R&D, production and sales of hydraulic and water pressure gauge machinery in Thailand. Local product was commenced from March 2014. Company A is wholly owned by headquarters in Japan.

As a destination point for market entry, Company A chose Thailand as there were no other companies handling the same products in Thailand. In addition, other reasons for selecting Thailand were that the country is pro-Japan and labor costs were cheap.

At present, the head office in Japan accounts for 50% of total sales at Company A and ASEAN, including Thailand, makes up the other 50%. Given there were few competitors, earnings performance trended strong after entering the Thai market.

The No. 1 issue being faced by Company A at present is rising labor cost. Thus far, labor cost has been on the rise annually. In light of this, from 2019, the company has switched to a wage system in which overtime pay is included in salary. In addition, a two-day off work week system was employed. Owing to these measures, Company A is achieving a (1) decrease in total wages, (2) a reduction in electrical power cost (a cut of roughly THB20,000/month), and (3) a rise in productivity.

The second issue is the procurement of raw materials. There are no suppliers in Thailand that possess the level of functions sought by Company A. This includes for press and plastic products. At present, Company A is procuring from a Japanese manufacturer that was referred by JETRO. It is also procuring supplies from its head off in Japan.

Company A is making progress since its entry into the market in Thailand. It has started to receive orders for products other than hydraulic/water pressure gauge equipment. The company received requests from customers that do not possess a high-pressure hose department of their own to produce high-pressure hoses for excavators and machine tools. Company A embarked on the production of high-pressure hoses based on conditions that it would be the customer's sole manufacturer of said hoses.

Company A is implementing various measures to retain employees. Prior to dispatching Thai employees to Japan for training, the management of Company A makes it a point to visit the homes of the employee's parents. In addition, the company hosts drinking parties and recreational events. Individual members of management also extend temporary loans to employees. Owing in part to these measures, the employee turnover rate is very low.

The skill level of employees is also rising. Although there are no proposals to improve products, enhancements are being made owing in part to proposals to better production processes. For instance, there was a proposal to improve operations in front-end processes to prevent products from being blackened during the heat treatment process. This proposal was something that even people at the head office in Japan were not aware of. Going forward, Company A is considering stimulating improvement proposals, including adopting a point reward system.

In this manner, Company A is undertaking various reforms in Thailand. Company A states that one point that makes these reforms possible is that the president of the local company is a member of the company's founding family.

At present, mainly companies have made their way into the market in Thailand. This not only includes companies in the manufacturing industry, but also restaurants and service providers. In light of this, the overall market has become saturated. Although the company does not feel there is a shortage of labor in Thailand, there is an insufficiency of manpower in Japan. Accordingly, in Japan the company plans to hire employees from India, China and Nepal going forward. Company A is looking to hire non-Japanese labor as it focuses on its next step for the future.

(2) Company B

Company B engages in the manufacturing and sales of precision pressed parts in Thailand. The company set up shop in Thailand in 2007 aiming to expand its sales channels in Thailand given the contraction of the market in Japan. Company B is wholly owned by its head office in Japan.

In the period up to and around 2011, following its entry into the Thai market, the company saw orders trend straight upward for precision pressed parts for optical cameras. However, since then orders have turned downward.

This is not only true for camera parts. Order momentum is unstable. As a result Company B leveraged its optical technologies and made its entry into the field of automotive parts. In 2009, Company B acquired ISO/TS16949 certification which is a specification for the development of a quality management system within the automotive industry.

Around 95% of net sales at Company B are to the automotive industry. Earnings performance is strong. The company possesses expertise in thin and company parts and mainly produces parts that include components for fuel supply devices and auto-lock mechanisms.

At the time, orders for fuel supply device parts involved Japanese plastics manufacturers with which the company already had business dealings and also consisted of offering VA/VE proposals[61] to customers to which it made deliveries. The company won orders by working with Japanese plastics manufacturers to create prototypes. Also, as Japanese plastics manufacturers could not manufacture metals parts in house, customers turned to Company B.

At present, sustaining quality is an issue. Given current conditions—an issue of awareness among employees and an increase in workload—managers are unable to manage operations and an inconsistency in quality is arising. As solutions, the company is implementing visual controls including the (1) introduction of inspection machines, (2) employee training (participation in external seminars, guidance by external consultants), and (3) decision-making on where to position machinery and the full-fledged execution of the 5Ss.

As previously discussed, to improve productivity the company installed 8 inspection devices starting from 2015 with the goal of achieving automation. The company aimed to reduce the man-hours used in carrying out inspections through this investment. These facilities were not introduced in Japan.

Moving forward, Company B aims to digitalize processes to grasp progress in production at plants, a process that is currently conducted manually. In addition, a lack of production capacity is also an issue. The current plant is cramped and further expansion is difficult. As such, the company is looking into leasing land to expand its plant in the future.

(3) Company C

Company C is a wholesaler of machine tool parts which was established in Thailand in 2014. The head office in Japan owns 49% of this company while a local company maintains 51% ownership.

The company made its way into the Thai market a customer in Shiga Prefecture, where the head office in Japan is located, increased its operations in Thailand. The company's aim was to secure overseas projects. In addition, this was significant for creating an environment that would provide an opportunity for the company to expand into Southeast Asia, including countries such as Vietnam.

In Thailand, at its customer's plants, Company B currently conducts air quality measurements (calculates the amount of impurities contained in devices that use air, including machine tools) and performs an energy-saving diagnosis for air compressors (measures the electric power and voltage of compressor units) and makes recommendations to customers on how to reduce their electric power and maintenance costs. At present, demand is highest for air quality measurement.

When the company initially entered the market in Thailand, it was mainly a wholesaler of machine tool parts.

[61] "VA" stands for Value Analysis and "VE" stands for Value Engineering.

However, at the time the company entered the Thai market in 2014, only counting Japanese companies, there were already around 100 machine tool trading companies. In light of this, Company B found it necessary to differentiate itself from its rivals. From 2018 the company switched to a proposal-based sales business model which focused on the aforementioned air quality measurement and energy-saving diagnostics businesses. That said, in Japan the company has already been conducting proposal-based sales for around a decade.

Sales in Thailand are increasing owing to benefits from a shift to proposal-based sales. On a monthly basis, we understand the number of months the company is posting profit is increasing. In addition, at present 80% of sales are directed to Japanese companies but recently it has also begun servicing major local companies.

A current issue is the training and retention of its Thai staff. In a recent two–year period, although the company is managing to retain staff, none of its staff speaks Japanese. In addition, it is not easy to ensure employees are punctual or to make them manage delivery schedules. These are areas that require improvement.

Another issue is the establishment of a performance evaluation system. At present, employees are evaluated based on a grading of A-C in five categories. However, there is no system that details what needs to be accomplished to receive a raise. Yet another issue is the lack of numerical targets (quotas) for each individual.

Moving forward, the company will likely need to start charging for its energy-saving diagnostics service, which is currently being offered free of charge.

Section 4 Current trends and challenges for SMEs that entered the Thai market as seen in case-study companies

In our analysis of the case-study companies, from the time they entered the market in Thailand up until recently, three changes are evident—(1) a change in the external environment, (2) changes in the products and services supplied, and (3) a change in organizational management. Below we analyze these changes.

(1) Changes in the external environment

The external environment surrounding these case-study companies is changing immensely since the companies first entered the market in Thailand.

First, competition in Thailand is intensifying in tandem with the increase in companies entering the market. In the case of Company C, when the company entered the Thai market in 2014, there were already around 100 rival machine tool trading firms, and this is only counting Japanese companies. In light of this, from 2018 Company C has been aiming to differentiate itself from competitors by switching to proposal-based sales that leverage its air quality measurement technology.

Second, orders are dwindling coupled with a decline in production at its mainstay customers. Company B mainly engaged in the manufacturing and sales of precision pressed parts for optical cameras but due in part to a drop in demand for digital cameras, orders at Company B also turned downward. Owing to this, the company entered the automotive parts field by leveraging its optical technologies cultivated thus far.

Third, personnel costs are on the rise. At Company A personnel costs have been rising annually thus far. To thwart this, the company began implementing a wage system from 2019 that includes overtime into an employee's salary. Company A is not alone. Rising personnel costs are having a major impact on each of these case-study companies.

Meanwhile, amid the current external environment, there are some items that are showing little-to-no change. One such item is "business transactions with no strings attached (free of ties)," which was pointed out by Seki (2012). Looking at the case-study companies, some companies are winning new orders owing to the practice of implementing "business transactions with no strings attached (free of ties)." Company B has been successful in developing new customers by cooperating with a Japanese plastics manufacturer from the prototype stage.

(2) Changes in products and services being provided

The case-study companies revised the products and services they provide by in response to changes in the external environment discussed in (1). Company B switched its mainstay from camera parts to automotive parts. Company C shifted from being a machine tool parts wholesaler to proposal-based sales, which includes air quality measurements.

In particular, it is very interesting that there are sites in Thailand that embarked on their own unique evolution, including manufacturing products that are not produced by their counterparts in Japan. Company A received requests from customers that do not possess a high-pressure hose department of their own to produce high-pressure hoses for excavators and machine tools. As such the company is newly embarking on the manufacturing of high-pressure hoses. The manufacturing of high-pressure hoses is a business field that is not being undertaken in Japan.

Meanwhile, as Seki (2014) pointed out, there is a shift to business fields, including "environment," "high-tech," and "renewable energy." This was not observed in this case study. Going forward, we believe issues will arise requiring solutions reflecting an increase in companies related to the environment, high-tech and renewable energy.

(3) Changes in organizational management

As seen in the case studies, organization management is undergoing change. Local Thai companies are carrying out various measures to utilize their employees.

Company A is implementing numerous measures to prevent employees from quitting the company. Prior to dispatching Thai employees to Japan for training, the management of Company A makes it a point to visit the homes of the employee's parents. In addition, the company hosts drinking parties and recreational events. Meanwhile Company B is undertaking measures to improve employee skills. This includes having employees participate in external seminars and receiving guidance from external consultants. Company C is engaging in improving the skill level of its employees by continually taking on employee education through OJT.

In the manner, the case-study companies are actively engaging in utilizing employees. This is reflected in "actions to make Thai employees a permanent fixture," which was discussed by Tahara (2017). It is likely that this is expanding to other SMEs as well.

These measures are contributing to a rise in the employee retention rate at these case-study companies. Company A has a very low turnover rate owing to the aforementioned steps it is taking. Company C also has been making its employees a permanent fixture in recent years. In Thailand, job hopping is said to be a common practice among many employees. Efforts to actively utilize employees are shown to contribute to an improvement in the employee retention rate.

In addition, measures to actively utilize employees are also contributing to an improvement in the skill level of local employees. At Company A, the skill level of employees is rising, including their ability to provide proposals on improving work processes. Some proposals are even ideas that the home office in Japan is not aware of. Going forward, local companies will want to encourage improvement proposals, including by employing a point reward system.

As discussed herein, the external environment surrounding the case-study companies has undergone substantial change since these companies initially entered the market in Thailand. In response to this the case-study companies have transformed the product and service. This is underpinning a rise in the employee retention rate, owing to the utilization of employees, and an upgrade in the skill level of employees is supporting innovations at local companies.

Conclusion

In this chapter, we attempted to clarify the actual current trends and issues of Japanese SMEs that entered the Thai market, taking into account previous research and based on statistical data and case studies. The conclusion of this chapter is as follows.

First, the external environment surrounding SMEs that entered the Thai market has undergone major transformation in recent years. The Thai government is revising its policies, including promoting commercialization in the area of the "environment," "high-tech," and "renewable energy" as a way to attract foreign companies into Thailand. In addition, locally competition is growing intense in tandem with the increase in Japanese companies entering the Thai market. The SMEs that entered the Thai market will confront demands for cost reductions by customers. In addition, the government is also changing its minimum wage system[62]. The ongoing rise in personnel costs is the current state of affairs.

Second, as Seki (2012) pointed out, the Thai units of Japanese SMEs are not always profit generating bases owing to the change in the external environment. In the questionnaire analysis conducted in Section 2, the percentage of local companies that cannot unwind cumulative losses is 64.3%, exceeding the ASEAN overall average. Even when looking at profit forecasts going forward, the percentage of local companies that responded that they expected profit to "increase" is trending downward in the long term. Also, in comparison with ASEAN overall, the percentage of local companies that responded that they expected a profit "increase" is at a low level.

Third, SMEs that entered the Thai market are intent on expanding their businesses, mainly in Vietnam and India, through exports. In the questionnaire analysis conducted in Section 3, the percentage of companies that responded that they aim to expand business operations in Thailand is trending downward. In addition, as a promising country for medium-term business development, local subsidiaries/affiliates in Thailand, list Vietnam and India high up. They are also aiming for business expansion in areas other than Thailand, such as Vietnam and India.

Fourth, companies that entered the Thai market are undergoing changes owing to these conditions, which are a (1) change in supplied products and services, and (2) a change in organizational management. In particular, it is very interesting that sites also exist in Thailand that are achieving their unique advancements, including proprietary production of products that are not manufactured in Japan.

Taking the above analysis results into account, moving forward what direction will SMEs in Thailand be required to take?

First, it is essential to uniquely transform and advance sites in Thailand. Owing to a change in the policies of the Thai government, the fields of "environment," "high-tech," and "renewable energy" are expected to grow going forward. SMEs will need to figure out how to penetrate these fields and will need to remain highly alert. In the production front, progress is necessary. To improve productivity, it will be necessary consider steps, such as introducing automation facilities.

Many SMEs often only considered overseas plants, including those in Thailand, to simply be a branch factory of headquarters in Japan. However, as indicated in this chapter, the competitive environment in Thailand is intensifying. Amid this, overseas plants should not merely be positioned as a brand factor of headquarters in Japan, but should be equipped with functions and evolve to cultivate a new market.

It is necessary to consider using the unique advancements made at sites in Thailand to give back to companies in Japan or other overseas units. Tange (2018) pointed out that among Japanese SMEs, there are companies that achieve change on their own and transfer the benefits of this change back to Japan. Naturally, this is not a simple task to undertake. It will require a conscious effort going forward.

Second, further utilize local personnel to make Thai employees a permanent fixture of the company. To achieve

[62] For details, refer to Chapter 1, Section 2 "2. Labor shortage and rising wages."

further progress at the Thai site, as discussed earlier, it is essential to make Thai employees a permanent asset. To this end, to begin with, as depicted in the examples in this chapter, management needs to take meticulous care of its employees. Example of this including sending out birthday messages and present to employees, hosting a social gathering, with the bill footed by the company, at the end of the fiscal year, plan a company trip for employees and have management participate, have management participate in employee ceremonial occasions, and sent talented local employees to Japan for training. These types of measures are pointed out as being effective[63]. Thai employees do not work at a company simply for the purpose of garnering wages. Therefore it is important to recognize Thai employees are being a member of the corporate family.

Third, it is necessary to clarify the personnel system for local employees. There are five matters that must be dealt with. (1) A transparent performance evaluation should be conducted and an objective explanation provided of the reasons behind the evaluation, (2) preparation of a persuasive evaluation sheet and explanation by interview, (3) delegation of authority to local personnel, (4) clarification of career paths, and (5) position local employees at the top echelons of the company[64].

In this chapter we analyzed the current trends and issues at SMEs that entered the Thai market. There were only 3 companies that were taken up in this chapter. Further research is necessary, including conducting a quantitative survey, to generalize our findings. Taking these factors into account, we aim to undertake further research going forward.

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[63] Based on a hearing with members of this study group

[64] Based on a hearing with members of this study group

Chapter 8

Follow-up Survey of Companies that Use SME Support Services (Business Matching Services)

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Introduction

JETRO established an SME support platform to support the overseas business expansion of Japanese SMEs at 26 of its offices globally. The platform handles consultations from SMEs in Japan that aim to expand overseas and Japanese SMEs overseas that have already expanded overseas.

The support platform to aid the overseas business expansion of SMEs was also set up in the JETRO Bangkok office. In the past few years, the number of consultations has been trending upward annually.

While the number of consultation cases is on the rise, recent consultations on expanding into the service industry in Thailand not only involve industrial goods but many are also concerned with developing sales channels for consumer goods. This likely reflects Thailand's standing among Japanese companies, which was discussed in Chapter 1, and the trends and issues with the Thailand Plus One strategy, which was introduced in Chapter 6.

In addition, regarding consultations on the development of sales channels, as opposed to requests for surveys, including a market summary, there is a growing need for matching support, i.e. the introduction of subcontractors and suppliers, during consultations on the referral of distributors that will serve as business partners or the introduction of potential customers, and cost reductions.

Matching support services are not only offered by JETRO but are also carried out as one of the various public support projects provided by public financial institutions, including the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, Japan Finance Corporation (JFC) or The Shoko Chukin Bank, Ltd., and prefectural SME support organizations. The trends witnessed are likely similar to those mentioned above.

In this chapter, we will discuss trends in the use of the SME overseas business expansion platform, which the author of this chapter is in charge of, trends in consultation content, and based on this, we will look at recent SME business expansion trends in Thailand as well as introduce companies that took advantage of these services.

Section 1 Summary of support platform for SME overseas development

First, I will introduce the SME overseas business expansion platform, which is one of the main public support systems that aid Japanese SMEs in overseas expansion.

At present, the SME overseas business expansion platform is set in and operates out of JETRO offices (26 locations in 18 countries/regions) in countries and regions in which Japanese SMEs have a high level of interest for business development.

A platform coordinator is positioned at each platform. The platform coordinators boast knowledge of the location they are in overseas and a strong network with local government institutes and local companies. They are equipped to handle a variety of consultations from SMEs. In addition, local Japanese SME support organizations and local government agencies also participate in this platform. Owing to collaborations between these institutions, SME support systems are being established locally and more beneficial and effective support is provided.

Table 8-1 Regions in which the platform has been installed

Asia		**Americas**	
India	Mumbai Chennai	US	San Francisco Chicago New York
Indonesia	Jakarta/Surabaya	Brazil	Sao Paulo/ Paraguay
Cambodia	Phnom Penh	Mexico	Bajio region/ Mexico City
Thailand	Bangkok	**Europe**	
Taiwan	Taipei	Germany France UK	Dusseldorf Paris London
China	Chongqing/Chengdu Shanghai Guangzhou/Shenzhen/Xiamen Beijing/Tianjin Hong Kong	**Middle East**	
		UAE	Dubai
Bangladesh	Dhaka		
Philippines	Manila		
Vietnam	Hanoi Ho Chi Minh		
Malaysia	Kuala Lumpur		
Myanmar	Yangon		

Platform coordinators discuss support services in Japanese. They handle consultations related to local business expansion, by providing responses in person, by teleconference, via email, reports or telephone.

Platform coordinators include lawyers, tax accounts, financial accounts and consultants who are responsible for their area of expertise. In light of this, the platform is able to cover a wide range of consultations.

Table 8-2 Details of support services

No	Item	Content
1	Consultation services	Overall assistance for entry into local market (Platform coordinator will answer questions, via email, telephone, locally, or individual interviews (briefing) via teleconferences regarding consultations and questions on matters such as incorporation, market surveys, legal, labor and tax affairs.)
2	Matching support to find local partners and customers	The platform coordinator will provide support, including creating a candidate list of local partners and customers, making appointments for business negotiations, accompanying users to interviews with potential business partners, and performing a follow-up after business negotiations, regarding overseas local market entry, expansion of sales channels, production outsourcing to reduce costs, and other matters.
3	Referral and agency services for local cooperating organizations and various experts	Refer/act as agent when necessary, including introducing local government institutions, Japanese SME support institutes, public organizations, law and accounting offices, interpretation/translation companies, consultants, etc.

Note 1: The scope of coordinator services differs depending on platform.

Note 2: Platform coordinators cannot respond in certain cases depending on the content of the consultation or question.

Note 3: Cost related to services (preparation of various materials, accompany user to/attend interviews, acquire permits/license, document translation, file various applications, prepare contracts, prepare employment regulations, etc.) provided by agency experts are to be shouldered by the user.

Note 4: The user will be in charge of making arrangements for 2 in the table above, including the method of transportation to the business negotiation meeting and interpreter, and will also be responsible for the cost.

Note 5: There are limitations to the number of times this service can be used. Regarding 1. Consultation services (email, briefings) and 2. Creation of a candidate list for matching support, up to six times per fiscal year medium-term plan. Regarding 2. Acquisition of appointments and accompaniment to business negotiations for matching support, up to six companies per fiscal year medium-term plan.

Table 8-3 Companies eligible for these services and application method

Eligible companies	Application method
SMEs in Japan considering overseas expansion (export, investment, etc.)	Near-by JETRO office
SMEs that already have a site overseas	Near-by overseas office

JETRO, Bangkok (in Bangkok)

Chart 8-1 Flow of use

Step 1 Inquiry

First, make an inquiry at the local JETRO office and obtain the designated application form.

Step 2 Application

Fill in the necessary items in the application and submit to the local JETRO office.

Step 3 Receipt

Based on the application content, the person in charge at JETRO will arrange an interview with the platform coordinator and contact the applicant.

*In certain cases, we cannot comply with request, depending on the content of consultations.

Step 4 Provide support services

Platform coordinators respond to consultations and questions via interview and emails.

Step 5 Cooperate with questionnaire after use

Respond to questionnaire to evaluate support services after use and business expansion after support.

Section 2 Summary of platform for local support for SME overseas business expansion in Bangkok, Thailand

Next, I will discuss the SME overseas business expansion platform in Bangkok. The platform in Bangkok was set up in 2013. The number of consultations is trending upward. The content of consultations is also becoming diverse. In light of this, in 2019 the number of platform coordinators was increased to 15. They address consultations and questions from SMEs in Japan and locally in Thailand.

Moreover, the content of support services covers a wide range of matters. These services span from overall entry procedures, including incorporation, market surveys and matching support, including sales channel development, and management practices at the local unit, including legal, HR/labor, tax and accounting matters.

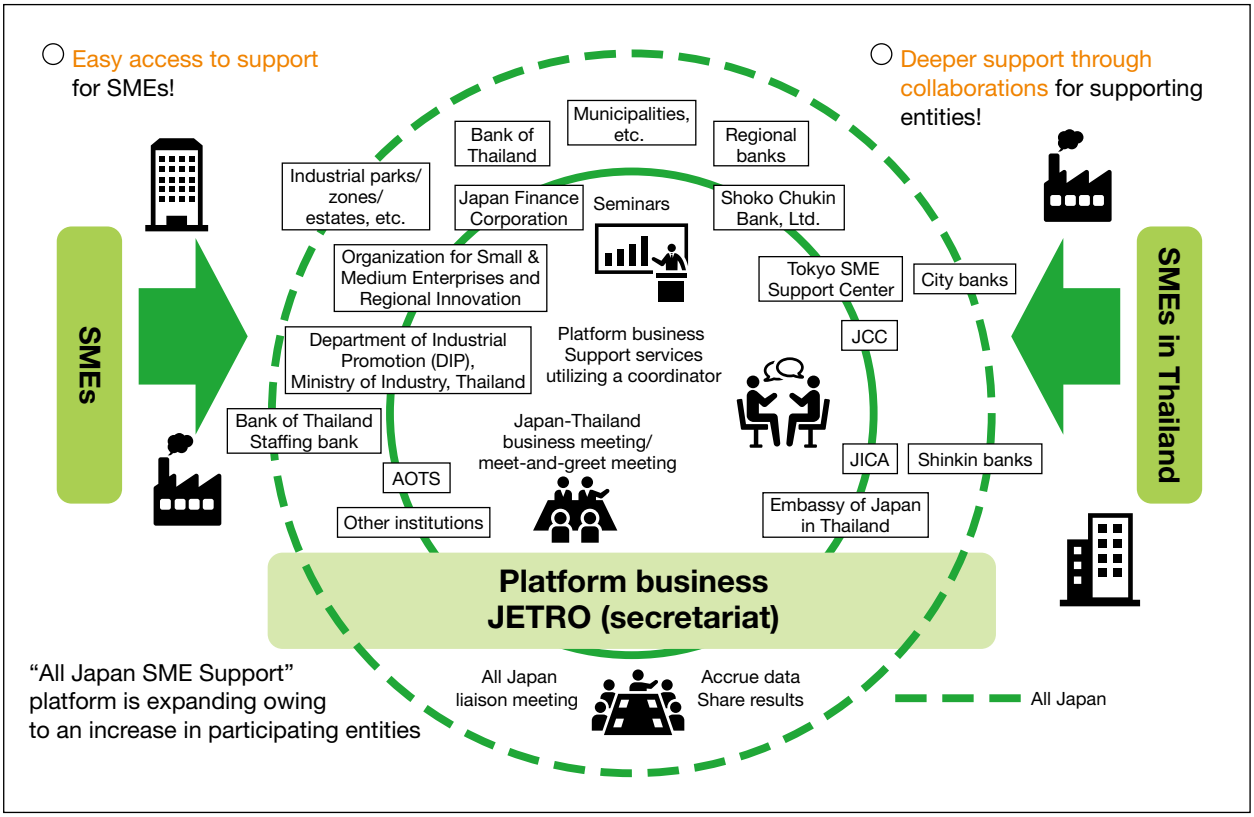
Table 8-4 Overview of Bangkok platform coordinators

Area of responsibility	Staff
Legal and HR affairs (lawyers)	3 people
Tax affairs/accounting (tax and financial accountants)	3 people
General manufactured goods (market survey, matching support, etc.)	4 people
General consumer goods (market survey, matching support, etc.)	3 people
Contents	2 people

Furthermore, to enrich these support services, in addition to boosting the number of platform coordinators, measures were taken to improve the accessibility and convenience of support services. From June 2019, local Japanese public institutes (municipal offices, etc.), financial institutions and others were encouraged to take part in the platform. Steps were also taken to strengthen the collaboration system with "All Japan SME support," an organization in Thailand to assist Japanese SMEs. Also, in addition to platform support services, the following actions are underway through comprehensive use of support programs offered by other SME support organizations.

- ○ Promote collaboration with support organizations (share information by holding organizational liaison committees and other meetings)
- ○ Implement joint business operations, etc. to support SMEs
- ○ PR and global dissemination of the best practices in these undertakings
- ○ Other necessary actions to support Japanese SMEs in Thailand

Chart 8-2 Platform fortification for the "All Japan SME Support"



Section 3 Use of platform support services in Bangkok

This section is an overview of SME overseas business expansion trends based on trends in the use of support services provided by the platform in Thailand. That said, in addition to the SME overseas business expansion platform services for SMEs, JETRO also offers other support services, including overseas briefings. Here we will discuss SME overseas business expansion platform services as the core form of support.

In recent years, the number of support cases has been increasing: 187 cases in 2016, 307 cases in 2017, and 417 cases in 2018. In 2019, as of the end of September, JETRO has handled 204 cases, a rise of 8% year-on-year. Looking at the results of the Trend Survey of Japanese Companies in Thailand 2017, which was implemented by JETRO Bangkok in 2017, in comparison with the same survey given in 2014, the number of large-cap companies that entered the Thai market increased by 404 companies. Meanwhile, the number of SMEs entering the Thai market rose by 432 companies, outnumbering the growth in large-cap companies entering the Thai market. This also serves as proof that the number of support cases has increased in recent years.

On top of this, the number of support cases is increasing for the SME overseas business expansion platform overall (all 26 locations).

Table 8-5 Number of cases of Bangkok support by the SME overseas expansion support platform

Year	2016	2017	2018	2019 (as of the end of Sep)
Support (cases)	187	307	417	204 (up 8% YoY)

The content of support services has not changed substantially on an annual basis. The following is a breakdown of overall support services provided to companies that have entered a local market. Handling consultations and questions on matters such as incorporation, market surveys, legal, labor and tax affairs account for around 30% of total support services. About 60% of overall support services consist of matching support and arranging appointments to find local partners and customers. The remaining 1% mainly comprises of referrals and agency services for local cooperating organizations and various experts.

As for the industries of companies requesting support, this is the same as support content, and there has been little change on an annual basis. It basically breaks down nearly 50-50 into manufacturing industries and non-manufacturing industries.

However, from 2017 to 2018, the rate of increase in the number of support cases related to products (consumer goods) rose sharply. This reflects the increasing number of companies considering entering the consumer market in Thailand. This suggests that the position of Thailand is shifting from a production base to a sales market.

In addition, in a comparison of 2018 versus 2017, the number of support cases for SMEs located in Thailand rose around 4-fold. A feature of the content of support was that it was mostly on developing sales channels to neighboring countries or to local Thai companies, as opposed to management practices, including labor and tax affairs. Extrapolating from this, we believe that the functions of Thai units, which was previously mainly to export to Japan or to conduct business with Japanese companies in Thailand, is changing substantially.

As a recent characteristic, the number of cases is still small but consultations have become pronounced from the following types of companies, which respond to global economic trends and social and economic trends in Thailand.

1. Companies looking to transfer production out of China due to soaring costs and US-China trade friction. These companies find the business environment in Thailand appealing owing to “a rich supply chain which makes procurement relatively easy” and “the existence of skilled labor owing to industrial clusters.”
2. Start-up companies which provide business support services in the fields of IoT and AI. Focusing on progress of

the Thailand 4.0 policy, this is expected to contribute to the enhancement and improved efficiency of production in Thailand.

3. Companies in the fields of medical care and nursing that aim to enter the market with products and services that leverage Japanese know-how and experience, given the aging of society in Thailand.

Section 4 Companies using Bangkok platform support service

In this section, we will discuss the other SME support services provided by JETRO, in addition to the SME overseas business expansion platform. In particular, regarding companies that utilize matching support, the following cases illustrate the types of support provided and the results of that support.

1. Company A

Industry	IT services (Web marketing consulting)
Capital	Approx. ¥150 million
No. of employees	Around 70 people
Thai unit	Established
Support content	Company A provides comprehensive consulting services for web marketing. In 2016, the company established a local unit in Thailand. The company is smoothly securing customers, including being employed by local major companies, and aims to further expand its sales channels. Company A requested a list of potential corporate customers. First, a hearing was conducted. Based on the results, a list of candidate companies was created and provided to Company A. In addition, support was provided to check the level of interest candidate customers have in Company A products. Appointments are made with companies (potential customers) that showed interest.
Support results	Business meetings were held a number of times with a company (a Taiwanese e-commerce company in Thailand) that JETRO secured an appointment with. Company A made an appeal by showing how its product is being used by major companies and proposed solutions for the issues the Taiwanese company is facing. Ultimately the Taiwanese company adopted Company A's services.

2. Company B

Industry	Medical/nursing supplies manufacturing
Capital	Approx. ¥40 million
No. of employees	Around 280 people
Thai unit	No
Support content	Company B engages in the manufacturing of medical and nursing supplies, including wet tissues (wet wipes). The company aims to export its products from Japan to Thailand and therefore wants to be matched with a local distributor that will become its partner. A meeting was arranged for Company B to meet with the distributor (local Thai company) when Company B's executives visit Thailand.
Support results	Business meetings were conducted with two companies. One of these two companies, a distributor, showed its interest in carrying Company B's products. They agreed to move forward with preparations, including obtaining an FDA import permit and customs procedures, to handle Company B's products. About one month after that meeting, a second meeting was carried out. A meeting was held mainly on the required documents to acquire FDA approval and to confirm in detail the terms and conditions of transactions going forward and the content of the MOU. Following this, more business meetings were conducted. The distributor, who would become Company B's partner, not only wanted to roll out Company B's product in Thailand but was also eyeing export to Myanmar, Cambodia, Laos, Malaysia, Singapore, and Indonesia. At one business meeting, the Thai company brought along its Singapore partner to sit in, demonstrating it was highly motivated in doing business with Company B. It is likely that sales activities will be accelerated after filing for FDA approval.

3. Company C

Industry	Sphere manufacturing and sales
Capital	¥45 million
No. of employees	80 people
Thai unit	No
Support content	Company C aimed to newly enter the medical device industry in Thailand by leveraging its sphere manufacturing technology for ball valves. As such, the company requested a summary of the artificial joint industry in Thailand, and introductions to and a list of candidate partners (including manufacturers). In addition to a briefing on legal regulations, import flow and distribution, as candidate partners the Chulalongkorn University Center of Excellence for Prosthetic and Orthopedic Implant, and a Thai company engaging in the development of artificial joints were introduced.
Support results	Since then, Company C and the Thai company have taken turns visiting the other's company to deepen ties. At present this has not turned into concrete business talks. Nonetheless, according to Company C, they formed close ties between families and the level of mutual trust is increasing. Company C believes it feels a strong response for potential business dealings going forward.

4. Company D

Industry	Medical device manufacturing
Capital	¥3 million
No. of employees	30 people
Thai unit	No. There is a partner company in charge of developing sales channels.
Support content	The company sought the creation of a list, mainly of medical device distribution agents, when it planned to deploy its surgical needles in Thailand. A list of medical institutions and distributors was provided after advice was given at an interview regarding a profile of medical device market and distribution. In addition, support was provided for participation in business meetings in the medical device field.
Support results	Company D has a partner company in charge of developing sales channels. The partner company was utilized to actively approach the companies in the list. The surgical needle is superior in many ways, including that it is easy-to-use and as the suture marks after surgery do not scar. The company decided to do business with several distributors. In addition, the partner company continued to properly utilize public support, including participating in JETRO hosted lectures on filing for FDA approval. Furthermore, the company also partook in medical device field business meetings co-sponsored by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN and JETRO and is actively undertaking the development of sales channels.

5. Company E

Industry	HR-related application development
Capital	Approx. ¥100 million
No. of employees	12 people
Thai unit	No
Support content	As test marketing, Company E participating in a business matching program implemented by JETRO, as it is considering deploying an HR management application in Thailand. In preparation for participation in this business matching (business meeting), support was provided in the preparation and brush up of business plans and business presentation materials for Thailand. Assistance was also given in the selection of potential target customers and partner companies. Business meetings were arranged with around 20 companies.
Support results	Participation in this program was the first time Company E gave specific consideration to the overseas expansion of its business operations. Advice was provided through interviews over several sessions including suggestions on from the establishment of a business plan, to English presentation materials, speech practice. Although there was no progress at the business meetings, such as sealing a specific deal, the meeting provided an opportunity for the company so conduct hearings of HR management issues and needs in Thailand. The company realized it can capture opportunities to contribute to problem-solving with its proprietary application. In light of this, the company was able to develop a new app for the overseas market by reworking and making improvements on its overseas expansion plan. At present, the company is once again tackling the overseas deployment of this application.

6. Company F

Industry	Martial arts supplies manufacturing
Capital	¥10 million
No. of employees	30 people
Thai unit	No
Support content	To address rising manufacturing costs in China, Company F was considering relocating production outside to another country. In light of this, the company requested the creation of a list of garment factories in Thailand, to which production can be outsourced. As this would not only entail sewing, but also the procurement of thick fabric (raw material), communication with local Thai garment factories, and other factors, this did not only involve specifically listing up factories. We referred specialists that coordinate in apparel product manufacturing locally in Thailand.
Support results	It was difficult to find a local Thai company that could procure and sew the thick fabric required for martial arts supplies and production consignment has yet to be achieved. However, there are prospects for procuring the necessary thick fabric. At present, a sewing test is underway. Although this is taking time, we are continuing to provide support so the company can move forward to the production consignment step.

7. Company G

Industry	Manufacturing of products that apply ultrasound technology
Capital	¥100 million
No. of employees	210 people
Thai unit	Yes
Support contents	The Thai unit of Company G requested a list of potential partner companies and target corporate customers when it decided to expand sales channels to neighboring countries. JETRO Bangkok requested the support of JETRO offices in neighboring countries to list up possible candidates. Based on the company list provided by JETRO, appointments were coordinated with companies on Company G's own list. There were companies that did not respond. Another request was received to approach these companies to make an appointment. JETRO served as an agent for coordinating appointments.
Support results	JETRO coordinated appointments. Arrangements were even made with companies that do not respond, which made visitation possible.

Conclusion

As exhibited by the companies introduced in the prior section, there are varied results. Some companies reaped concrete results by using support services while others continue to implement measures. However, no matter which company, products and services conform to the needs and issues in the market in Thailand, and possess strengths, including functions and pricing not enjoyed by other companies. For instance, common factors that contribute to results are believed to be transactions with major companies in Japan and Thailand and an easy-to-understand track record for use of support services.

That being said, in many cases a contract is not reached. Although companies on the list of candidates are contacted by using support services, the candidate company does not respond. Even though business negotiations are conducted, the terms of pricing and other factors are not agreed upon.

When using matching support services, the marketability in Thailand and other factors of products and services are sufficiently monitored. Even for business negotiation methods, Japanese companies entering the market in Thailand should not bring in a Japanese style of doing business. It is necessary that they prepare practices that conform with the local business mind and customs.

The success of overseas expansion is not guaranteed simply because a public support service is utilized. However, the process will progress more smoothly that if a company goes it alone. As some type of benefit is likely to be obtained, we recommend that these services are actively used when undertaking overseas expansion.

Chapter 9

Opportunities and Risks Associated with Market Entry in Thailand

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Introduction

In and after 2006, political instability has continued in Thailand. Then major flooding swept through Thailand in 2011 making it clear that the country was vulnerable and fragile to natural disasters. Despite this, the appeal of Thailand as an investment destination for Japan remains healthy.

The coup d'etat which ousted the Thaksin regime in September 2006 divided Thailand in two between the supporters and opponents of Thaksin. The regime at the time was perplexed by anti-government demonstrations. Most recently, the military launched a coup in May 2014. General Prayuth Chan-o-cha appointed himself to the position of prime minister, which his administration continues to control today.

In addition, there is risk of natural disasters in Thailand. In recent years, natural disasters are becoming larger and more intense. In October 2011, the area around Ayutthaya Province, where a large industrial cluster of electric and electronic companies was located, was engulfed in a huge amount of floodwater from the north. More than 500 Japanese companies, both inside and outside industrial parks in the area, were flooded. The impact of this disaster spread worldwide via the supply chain.

The risks faced by business operations overseas differ from risks in Japan. This also holds true for ASEAN countries, which are said to mainly be pro-Japanese. Around one-third of Japanese companies in Thailand do not feel that they are exposed to business risks. However, although few, there are some Japanese companies that continue to recognize the "political and social situation and security" (3rd) and "natural disasters and environmental pollution" (5th) as risks (Table 9-1).

Table 9-1 Business issues in ASEAN countries

(%)

Rank	Thailand (n=1,002)		Vietnam (n=1,107)		Indonesia (n=797)		Philippines (n=588)	
1	No particular issue	31.6	No particular issue	25.4	No particular issue	26.0	No particular issue	28.6
2	High/rising personnel cost	23.6	Administrative procedures	22.4	Infrastructure	22.6	Political and social situation and security	27.6
3	Political and social situation and security	18.2	Infrastructure	20.0	Political and social situation and security	22.3	Infrastructure	24.0
4	Administrative procedures	11.8	Legal system/ operations	19.8	Administrative procedures	21.8	Payment collection	19.2
5	Natural disasters and environmental pollution	11.5	Payment collection	18.5	Legal system/ operations	19.4	Natural disasters and environmental pollution	15.1
6	Labor shortage/hiring difficulties	10.3	High/rising personnel cost	15.3	Payment collection	17.7	Legal system/ operations	12.2
7	Forex risk	10.1	Tax system/tax procedures	13.9	Forex risk	16.3	Administrative procedures	11.6
8	Payment collection	10.0	Related industrial clusters	10.7	Natural disasters and environmental pollution	16.1	Related industrial clusters	11.4
9	Additional customs measures between the US and China	7.8	Political and social situation and security	9.4	Tax system/tax procedures	14.6	Forex risk	8.7
10	Legal system/ operations	7.1	Forex risk	8.5	High/rising personnel cost	12.3	Tax system/tax procedures	7.7

Source: Survey on the International Operations of Japanese Firms (JETRO, February 2020)

In Thailand, political conflicts recurred over and over again. The administration at the time focused their attentions on ensuring political turmoil had no impact on the business operations and investment of foreign companies. In addition, during the major flooding in 2011, the government listened to the opinions of disaster-stricken Japanese companies and undertook quick restoration via collaborations between Japan and Thailand. This reflected the bond of trust between Japan and Thailand which the two countries had forged and deepened over a long period of time.

For Japanese companies, Thailand boasts appeal as an investment destination as the cultivated bond of trust amply offsets negative factors, including risks. This overwhelming advantage and appeal in the investment environment in Thailand is the reason why companies that handle final assembly, customers, have set up shop in Thailand. There is a cluster of companies within a 150km radius of Bangkok. It is said an industrial cluster has formed to the point where, no matter what the part, necessary parts can be had within 2 hours.

In and after 2010, the business environment in Thailand has been worsening, including issues such as a labor shortage and soaring wages. However this actuality has expanded the functions of Thai units. Satellite plants have been set up in neighboring countries where labor is cheap and there are potential, untouched labor resources. This gave way to the Thailand Plus One strategy in which operations are carried out in close collaboration with the Thai unit. The realization of this strategy is being supported by an improvement in connectivity, including the establishment of economic corridors in the Greater Mekong Subregion (GMS) and a single market and product base formed under the ASEAN Economic Community (AEC). Thus far the Thailand Plus One strategy has mainly been deployed in Cambodia and Laos. However, movements to carry out this strategy with Myanmar are quickening. Focus should be on trends going forward.

Meanwhile, Thailand is undertaking full-fledged measures for industrial advancement. The Prayuth administration aims to turn Thailand into a high-income country by 2036. Under Thailand 4.0, the country is pushing forward with its Eastern Economic Corridor (EEC) policy. As a part of this, the Thai government is promoting 10 next-generation target industries[65]. Measures to attract investment are in full swing. However, many Japanese

[65] Currently there are 12 industries as education and defense have been added.

companies are hesitant about this. These industries that Thailand is seeking investment in are still regarded as core technologies by Japan, which is a developed country. By shifting production lines in these industries to Thailand, there is a possibility this will trigger an employment issue in Japan. Meanwhile, there is also the issue of an overwhelming lack of sophisticated labor that can take responsibility for handling these advanced technologies.

In recent years, the lead investors in Thailand are companies that have already entered the market and are reinvesting capital. To ensure the success of Thailand 4.0, the Thai government plans to carry out close-knit communications with key players, i.e. Japanese companies already operating in Thailand. It will be necessary for the government to listen to the opinions of these companies and work together to achieve industrial advancement.

In this chapter, we will clarify the risks and opportunities in Thailand when SMEs consider market entry into Thailand. We will also consider ideal collaborations for Japan and Thailand going forward.

Section 1 Risks related to Thailand and overcoming those risks

1. Thailand's political instability

From the 1990s to the mid-2000s, with the backing of the 9th Dalai Lama, Thailand was regarded as the most politically stable country and "prize pupil" in the ASEAN region. A major opportunity presented itself in the form of Black May or Bloody May (Phruetsapha Thamin) which took place in May 1992 when protesters gathered demanding democracy and the military shot and killed many protesters. King Bhumibol Adulyadej summoned representatives from the democracy group and the military to the palace. By directly advising both sides, the King let the world know that the king boasted an overwhelming presence.

However, after the coup d'etat in September 2006 which saw the overthrow of the Thaksin government, Thailand became regarded as a representative of political unrest. Thailand was subsequently split into two, divided between the Thaksin supporters and his opponents. During this time, the government repeatedly switched between the pro-Thaksin regime and the anti-Thaksin regime. The government at the time was perplexed by ongoing protests. After the 2006 coup, anti-government protesters took hold of the Prime Minister's residence and major airports, forced their way into the East Asia Summit, seized and blocked the Ratchaprasong intersection in the middle of Bangkok (Bangkok riot), and seized and closed down seven major intersections in Bangkok (Bangkok blockade). Due to these and other actions, not only the government but functions of the country's capital were frequently paralyzed.

Prayuth Chan-o-cha, a military general of the Royal Thai Army lost his patience over the recurring domestic conflicts annulled the constitution and seized full power in May 2014. This was the first military coup in eight years. Following this, Prayuth installed the National Council for Peace and Order (NCPO) and became its chair. At the same time, in August he appointed himself prime minister. This military government reigned for around five years up to July 2019.

After the March 2019 general election for a transfer from military rule to a democratic government, the second Prayuth administration took office in July 2019 owing to multiple political parties. However, the political coalition of nearly 20 parties at last took hold but this government has a shaky foothold. Furthermore the opposing parties are putting strong pressure on the leading party. In the general election in March 2019, anti-junta Thanathorn Juangroongruangkit, leader of the Future Forward Party, and an executive at the Thai Summit Group, an automotive parts company, secured more lower house seats than the traditional Democratic Party and broke through to become the No. 3 party in the country. However in November 2019, party leader Thanathorn had shares in a media company at the time he announced his candidacy for the general election. The Thai Constitutional Court invalidated his win to the lower house. In addition, in February 2020, the Constitutional Court found Thanathorn's financing of the Future Forward Party to be in violation of political party law and disbanded the party and banned senior party executives from policies for 10 years. This pressure on the political party is triggered further political unrest in the country.

2. Risk of natural disaster in Thailand

The flooding in central Thailand in 2011, a natural disaster that caused major economic damage, likely triggered the largest devastation in Thailand's long history of industrialization. The Chao Phraya River, which flows through the central part of Thailand, has repeatedly flooded each year, although the scale of flooding differed. The Ping River, which flows from northern Thailand, meets the Nan River in central Nakhon Sawan Province. Furthermore, the Pasak River flows into Ayutthaya Province. The Chao Phraya River runs for 372km from the junction where the rivers meeting in Nakhon Sawan Province to the Gulf of Thailand.

Thus far, typhoons and tropical cyclones have landed on the Indochina Peninsula once or twice a year. During the rainy season in 2011, Thailand was hit by five typhoons. The rainy season in Thailand lasts nearly half a year, from May to the end of October. During 2011, a series of typhoons hit the Indochina Peninsula. Typhoon Haima landed in late June, Typhoon Nock-ten in late July, and Typhoons Nesat, Haitang and Nalgae in September. In addition, there was repeated human error in the management of dams upstream. This results in major flooding, said to have been the first of its scale in 69 years.

On October 4, 2011, the Saha Rattana Nakorn Industrial Estate, which is located at the northern most point of Ayutthaya Province, was hit by flooding. This was followed by flooding at the Rojana Industrial Park, which boasts the largest number of Japanese companies north of Bangkok, during the early morning hours of October 8. Following this, flooding engulfed the Ban Wa (High tech), Bang Pa-In, Wangnoi (Factory Land), Nava Nakorn and Bankadi industrial parks/zones/estates and major industrial parks in the Ayutthaya and Pathum Thani Provinces located north of Bangkok one after another. JETRO confirmed that 804 corporate tenants at seven of the industrial parks/zones/estates suffered damage from major flooding. Of this, 449 were Japanese companies. In addition, there were also companies located outside of these industrial parks/zones/estates. The total number of Japanese companies stricken by flooding was estimated to be over 550.

In Thailand, the industrial parks/zone/estates located in the region surrounding the Chao Phraya River and which were damaged by the flooding in 2011 received government aid and took disaster prevention measures, including installing bulkheads. Meanwhile, there are some issues remaining with the far-reaching flood control measures. Flood control is said to be a permanent national policy. After the flooding occurred, the Yingluck Shinawatra administration earmarked THB350 billion for the water resource management budget. A flood control plan, comprised mainly of flood ways, was established, and as a result of international bidding, projects were mainly won by Chinese and South Korean companies. Nonetheless, this project was sent back to the drawing board when the Prayuth administration came to power in 2014 as there were difficulties gaining the understanding of local residents.

Under the Prayuth regime, the far-reaching flood control plan was reverted back to square one but the government did embark on the execution of many of the short- and medium-term. In the information front, the Royal Irrigation Department (RID), Ministry of Agriculture and Cooperatives opened the Smart Water Operation Center (SWOC) in June 2017. The center consisted of 10 domestic institutions that centrally gathered information on water and the weather, and conducts 24-hour surveillance. After the major flooding in 2011, the government moved forward with hard (tangible) and soft (intangible) flood measures. Sucharit Koontanakulvong, associate professor at the Department of Water Resources Engineering, Chulalongkorn University praised the measures saying the water levels due to flooding in 2011 could be avoided with proper management and operations.

However, tropical low-pressure systems, which include typhoons and cyclones, are growing larger and stronger due to climate changes, such as global warming. According to the World Economic Forum's Global Risk Report 2019, as a global risk over the next decade, environment risk is reported to be the most serious given the level of impact and damage and the probability of occurrence. Especially, in the area surrounding Bangkok, studies have reported that in addition to the low elevation, there is ground subsidence, erosion of natural defenses along the coast, and a rise in the sea level in the Gulf of Thailand, which is increasing faster than the global average. Consequently,

Bangkok is becoming fragile due to elevating sea level in the southern area and that gradually intensifying monsoon rains in the north. In light of this, it is estimated that by the year 2050 a population of 12 million people is at risk of suffering flood damage along the coastal area of Bangkok[66].

3. Strong relations between Japan and Thailand make them capable of jointly overcoming hardships

Since 2006, Thailand experienced a long-period of political chaos and change in political policy. Then, in 2011, Thailand was hit by unprecedented major flooding. In recent years, the investment environment in Thailand is unstable. However, each time, Japan and Thailand have joined hands to overcome difficulties. In May 2014, after the NCPO fully took power due to the coup d'etat, the US and Europe immediately froze aid cooperation. Meanwhile, soon after the coup, Japan continued to carry out economic and working level exchanges. In the month following Prime Minister Prayuth's assumption to office, a Japan-Thailand foreign ministerial meeting was conducted. In October, Minoru Kiuchi, Parliamentary Vice-Minister for Foreign Affairs of Japan visited Thailand. Talks were held with cabinet ministers, including Prime Minister Prayuth. Japan did not conform with the US and Europe, and chose to maintain its proprietary route with Thailand.

One reason Japan took a distinct diplomatic stance as opposed to the US and Europe is that Japanese industrial circles in Thailand controlled the Japanese government's alignment and compliance with the US and Europe. The Japanese Chamber of Commerce, Bangkok (JCCB) verbally told the Japanese Embassy that it wanted the government to take steps that took economic ties between Japan and Thailand into account. The embassy sent a letter to the Japanese government detailing the same content. According to the JCCB, numerous commerce members and related Thai parties voice their opinions stating that they hoped that the Japanese government and Japanese companies would not take the same actions (as the US and Europe)[67]. Japanese companies in Thailand were considerably impacted by the anti-government protests prior to the coup[68]. It was strongly requested that the Japanese government help maintain the stability of political affairs in Thailand and the two countries bilateral ties.

In addition, at the time of the onslaught of the major floods, both countries once again collaborated to deal with the situation. The citizens of Thailand were the biggest victims of the major flooding in central Thailand in 2011. Looking at the nationality of the disaster-stricken companies, the majority were Japanese companies. From the viewpoint of quickly restoring damaged industrial parks/zones/estates and companies, the Thai government listened to the needs of the disaster-stricken companies and extended a helping hand to implement support measures that would achieve restoration as soon as possible.

Ten days after the disaster at the Rojana Industrial Park, the largest industrial park north of Bangkok, the Minister of Industry and others gathered to listen to the heart wrenching stories from Japanese industries. In addition, at the end of October, when the disaster hit, the Prime Minister's office held a cabinet committee for economic ministers concerning flood relief. Representatives from Japanese industries were invited to attend to discuss their current conditions and present their demands. In addition, individual meetings were held with Prime Minister Yingluck and cabinet members. In addition to complaining about their dilemma, they also requested that the government provide aid.

Through this, the Japanese companies submitted a request for emergency measures covering 13 items in six fields to the Thai government. The Thai government examined the feasibility of these demands and implemented many of them as emergency relief measures. For example, when salvaging and transporting machinery and

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66 "Flooded Future" (Climate Central, 29 October 2019)

67 Japanese Chamber of Commerce, Bangkok (2014), June Board of Directors minutes, The Shoho Magazine (September, No. 629)

68 According to the emergency business trend survey (474 corporate respondents), conducted by the Japanese Chamber of Commerce, Bangkok during April 9-22, 2014, as the "most concerning factor for business conditions," 40% of corporate respondents answered "prolonged anti-government protests." The total percentage of corporate respondents was 60% when combing this with those who selected "significant impact" or "fairly significant impact" for the question on "impact to sales from anti-government protests."

equipment damaged in the flood, the Thai Royal Army lent large rafts to disaster-stricken companies free of charge. In addition, the government provided subsidies to companies that aimed to continue to employ its workers during the period in which it could not continue to carry out operations. The Ministry of Labor paid employees the equivalent of 75% or more of their salaries during the temporary shutdown, with the condition that the company would not let go of these employees during the period covered by these subsidies. Under this program, the government provided a subsidy of THB2,000 per month per worker for a maximum of three months.

In addition, many support staff were expected to be dispatched to Thailand from overseas. This included specialists and engineers in various fields, including the inspection and report of flood-damaged machinery, and non-life insurance appraisers. Requests were made so that support staff could enter the country without work visas. The Thai government issued courtesy visas to this support staff and undertook measures so that this staff could engage in restoration operations. In this manner, during the 2011 major flooding in Thailand, the Thai government worked as one to consider and implement deregulation for a limited period, and thereby support the restoration of the disaster-stricken Japanese companies.

Moreover, Thai employees that worked at these damaged factories not only aimed to complete restoration but also did their utmost to fulfill their delivery obligations to customers. The companies whose Thai plants were damaged by flooding had no choice but to suspend operations. These employees desired to keep the supply chain connected with alternative production sources in surrounding countries, as well as Japan. This was an urgent issue. At the time, it was difficult for general Thai citizens to flight to Japan and it was an even more difficult feat for them to work. However, to maintain the supply chain and support early restoration, the government, under the guidance of the Ministry of Economy, Trade and Industry, allowed Thai employees working at Japanese companies in Thailand to travel to and work in Japan for a period of six months, as an emergency measure, as long as certain conditions were met. In and after December 2011, 5,409 Thai employees entered Japan to carry out alternative production. According to the Immigration Bureau, Ministry of Justice, all 5,409 left Japanese without incident after completing the alternative production[69]. In this manner, the Thai employees from the disaster-stricken plants were dispatched as assets to Japan to carry out alternative production. They were able to fulfill a major role in keeping the supply chain intact owing to the deep ties between Japan and Thailand.

Section 2 Opportunities Thailand offers as an investment destination

1. Industrial clusters are a strength of Thailand

In the ASEAN region, Thailand ranks second after Indonesia in economic scale. As an emerging economy with an expanding middle class, Thailand's presence is growing. The policies of past administrations had a considerable impact on increasing domestic demand, making the country a promising market. In 2013, the Yingluck administration, in spite of strong opposition from industrial circles, boosted the minimum wage nationwide to THB300. Depending on the region, the minimum wage doubled. The Yingluck government focused on expanding domestic demand owing to this hike to the minimum wage, and aimed to stimulate the economy[70].

Reflecting the improvement incomes and the Japanese government's relaxation of short-stay visas, in recent years, there has been a boom in Thailand for travel to Japan. In 2019, Thais accounted for 1.31 million tourists that visited Japan, ranking 5th by country and region. This is more than six times the number in 2010 (210,000). This increase in the number of Thai tourists to Japan reflects an improvement in per-household income in Thailand as well as an improvement in sentiment towards Japanese and a rising interest in Japanese products and food.

[69] Author's hearing with the Immigration Bureau, Ministry of Justice, conducted on January 16, 2014.

[70] On the flip side, this policy causes a loss of benefit of "cost reductions owing to entry into regional areas" and triggers a "side effect" of curtailing the motivation of foreign capital to enter into regional areas.

Table 9-2 Thailand's appeal & strong points (Top 10)

(Multiple choice, %, % point)

Rank	Appeal & strong points	2013 (n=1,372)	2017 (n=1,299)	2019 (n=1,264)	2013 →2019
1	Market scale/growth potential	73.5	69.2	73.4	-0.1
2	Pro-Japanese sentiment	—	52.1	47.7	—
3	Delivery destination cluster	39.1	35.5	31.3	-7.8
4	Personnel cost/labor force	18.6	17.7	18.8	0.2
5	Ease of local procurement	20.4	19.6	18.2	-2.2
6	Lifestyle environment	21.4	20.2	17.4	-4.0
7	Political/social stability	7.3	11.2	12.1	4.8
8	Infrastructure	23.9	13.9	11.9	-12.0
9	Personnel quality	13.7	10.9	10.3	-3.4
10	Land/office	4.7	6.7	9.7	5

Source: Survey on the International Operations of Japanese Firms (JETRO, February 2020)

The overwhelming appeal and advantages of Thailand for Japanese manufacturers is the vast number of final assembly companies, who are the customers of manufacturers, located in Thailand. In as 150km mainly around Bangkok, there is a cluster of companies. This has led to the belief that an industrial cluster has formed that will provide any types of parts a manufacturer needs within 2 hours. This is best reflected in the local procurement ratio. Every year, JETRO implements a survey of Japanese manufacturers to grasp the local procurement rate. In the 2019 procurement trend survey, 60.8% of Japanese manufacturers procured parts and materials locally. Within the ASEAN region, Indonesia has the next highest local procurement rate. Thailand's procurement rate is around 15 percentage points higher than that of Indonesia.

Table 9-3 Local procurement rate at Japanese manufacturers in Thailand

(%)

	2010	2015	2019
ASEAN	45.9	39.8	42.5
Cambodia	23.8	9.2	12.1
Indonesia	42.9	40.5	45.9
Laos		23.2	23.4
Malaysia	45.9	36.0	37.8
Myanmar	15.0	5.0	20.0
Philippines	27.2	26.2	33.4
Singapore	36.1	36.7	26.2
Thailand	56.1	55.5	60.8
Vietnam	22.4	32.1	36.3

Source: Survey on Business Conditions of Japanese Companies in Asia and Oceania (JETRO)

In particular, Thailand, which became known as the Detroit of Asia, as it possessed the largest industrial cluster in Southeast Asia which supports the automotive industry. According to the Thai Automotive Industry Association (TAIA) and the Thailand Automotive Institute (TAI), as of February 2017, there were 18 car assemblers, and 9 two-wheel vehicle manufacturers. There are 710 tier 1 suppliers (of which 58% are foreign owned, and 39% in which Thai capital holds a majority, and 3% which are joint ventures). And there are more than 1,700 companies that are tier 2 and 3 suppliers. This forms the automotive production pyramid. Altogether these suppliers employ 550,000 people.

The trigger that made Thailand the ASEAN region's largest and one of the world's leading automotive production countries was, ironically, the Asian Financial Crisis, which was the largest post-war economic crisis. At the time of the 1997 Asian Financial Crisis, a major Japanese automaker proclaimed it would produce automobiles wherever there was a market. The company consecutively transferred pick-up truck production lines from Japan. Thailand became a production and export base for this pick-up truck model. Moreover, from 2007 the Thai government introduced an eco-car policy for company, low fuel consumption vehicles. The Thai government actively offered incentives, including providing various investment benefits, including a low excise tax for assemblers that relocated to Thailand in response to this project. Accordingly, Thailand became a production and export base for pick-up trucks and eco-cars.

In recent years, automobile-related companies in Thailand have evolved to possess R&D functions. In addition to being an export base targeting three countries and regions, including ASEAN, the Middle East and Australia, Thailand also began exporting to Japan owing to an improvement in quality in tandem with fortified functions. Mitsubishi Motors Corporation was the leader in exports to Japan from Thailand. In 1997, the company began exporting the pick-up truck Strada. Following this, in 2002 Honda Motor Co., Ltd. launched exports of the Fit Aria. In 2010, Nissan Motor Co., Ltd. rolled out exports of the new-model March. Even Toyota Motor Corporation, which was hesitant to export to Japan for many years, commenced export of its Hilux pick-up truck in August 2017.

Eco cars were the second pillar alongside pick-up trucks in Thailand's automobile industry. They were expected to support the industry in the long term. However, Thailand made the choice to quickly move to the next stage of development. In accordance with Thailand 4.0, which aims to nurture, enhance and give high-added value to next-generation industries, Thailand began to promote next-generation cars, including the hybrid electric vehicle (HEV), plug-in hybrid electric vehicle (PHEV) and the battery electric vehicle (BEV). Consequently, the country embarked on the development of a third pillar, together with pick-up trucks and eco-cars. However, as was the case with pick-up trucks and eco-cars, developing a third pillar meant it was vital to develop and establish an environment that was balanced between exports and domestic demand. An excess dependence in either case would mean Thailand could not address economic fluctuations. As with the Asian Financial Crisis in 1997, there was a risk that the country would suffer major damage.

In 2019, automobile production in Thailand reached 2,013,710 vehicles. According to TAI, next-generation automobile only accounted for 1.3% or 27,171 units of the total. Of this, HEV and PHEV production volume was 26,447 while BEV production output was 724 units. At present, next-generation vehicles come with a steep price tag. To create a market in Thailand, it will be necessary for prices of next-generation vehicles to come down to a level where they can compete with existing internal combustion engine cars. In Thailand, thus far the government has not come out with a policy, such as providing subsidies, on the purchase of a next-generation vehicle. During the Yingluck regime, the government instituted a "first car program." People that purchased their first car would be eligible for a subsidy in the form of a refund of the excise tax on their purchase. This policy ate away at demand in advance and led to sluggishness in the automotive industry later on. However, with some type of subsidy, it is unclear whether a domestic market can be cultivated or whether the automotive industry can be installed as the third pillar.

2. Thailand actions to nurture next-generation industries

In the mid-2010s, the Thai government took up policies to attract omnidirectional investment. Thailand supported business activities mainly in the manufacturing industry. If it could boost added value in Thailand by 20% or more, it could provide investment incentives, including corporate tax and machinery import tax exemptions, even in areas that were losing export competitiveness. However, since the Yingluck regime took office, in addition to its populist policy, there was a risk that national coffers would be squeezed due to the large-scale budget required for radical flood control measures due to the massive floods in 2011. In light of this, opinions erupted over investment incentives should only be given for investments that contribute to industrial advancement. This led to discussions on reviewing investment incentive policies.

The Prayuth administration, which rose from the coup in 2014, strongly launched policies that emphasized attracting investments to promote advancements in Thai industries. The Deputy Prime Minister Somkid Jatusripitak, who was in charge of the economy, was leader of the economic team that hammered out the Thailand 4.0 scheme in April 2016. A hint was taken from Germany's Industrie 4.0. Thailand 4.0 is Thailand's long-growth visions. Through this plan Thailand aims to escape the middle-income trap, introduce sophisticated technologies, primarily digital technologies, domestically by luring foreign companies to Thailand, and enhance its industrial structure, thereby becoming a developed nation (for details see Chapter 4).

The Eastern Economic Corridor (EEC) plan is the first step of the Thailand 4.0 scheme which is being implementing in a limited area. This plan designates Rayong, Chonburi and Chachoengsao Provinces as the EEC. The goal is to create industrial clusters in these regions in a total of 10 industries, with five industries as (1) primary S-curve industries which are existing industries aiming to be strengthened to achieve sustainable growth, and five industries as (2) secondary S-curve industries, which are future industries which are to be developed to achieve further growth.

However, in many cases, the businesses that Thailand aims to attract to its country are the still the core businesses of Japanese companies. This will make it difficult for Japanese companies to differentiate from their domestic operations. The processes of transferring these businesses to Thailand would inevitably have an impact on employment and maintaining technological prowess in Japan. In addition, even if Japanese companies were to consider the transfer of businesses, there is the issue a tremendous shortage of skilled laborers in Thailand that can handle advanced technologies. Owing to this and other issues, Japanese companies are hesitant to invest in these areas[71]. Also, the majority of direct investment in Thailand comprise of investment by existing companies looking to expand their operations. In light of this, even if the government did up its incentives, it would be difficult to relocate existing plants and offices. In recent years especially, the dependence on investment for expansion as a portion of inward direct investment in Thailand is shrinking[72]. This trend is pronounced particularly among Japanese companies.

The conversion of Thailand's policies to attract omnidirectional investment, the rise in wages, Thailand's current investment policies, and a mismatch with Japanese companies has led Japanese companies in recent years to shift their focus to Vietnam as an investment destination. Thailand has strong expectations for foreign investment to enhance its industries. The Thai government is not only one-sidedly presenting its desires in the form of Thailand 4.0 but is aiming to carry out close-knit communications with Japanese investors, who they anticipate will be a

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[71] According to a survey of Japanese companies in Thailand (252 corporate respondents in the manufacturing industry) conducted by the Japanese Chamber of Commerce, Bangkok, the major obstacle to overseas expansion for Thailand 4.0 was the "lack of highly skilled labor" (70%; 176 companies) and "rising personnel costs" (52%; 131 companies) . Refer to the Japanese Chamber of Commerce (2019).

[72] Looking at statistics on foreign investment in Thailand (approval basis), expansion investment in 2018 accounted for 60.5% of the total number of investment projects, 80.8% on a monetary basis, and in 2019 expansion investment accounted for 55.6% of the total number of investment projects and 62.0% on a monetary basis.

major player. However, the government will need to listen to the views of these investors and don a flexible and agile stance to realize Thailand 4.0 together.

Conclusion Japan and Thailand, a united front

The history of Japan's exchange with Thailand spans over 630 years. The oldest recorded interchange dates back to the Muromachi era (1337-1573). In 1388, during the rule of Yoshimitsu Ashikaga, the 3rd shogun of the Ashikaga shogunate, a ship from Siam spent one year in Japan. In addition, King Naresuan of the Kingdom of Ayutthaya hired a large number of Japanese mercenaries as the shogunate-licensed trading ships grew more active. As a result, a "Japanese village" was built in the suburbs of Ayutthaya. One of the most famous Japanese figures in Thailand at the time was likely Nagamasa Yamada. Nagamasa Yamada was appointed leader of the Japanese village in 1621. Yamada was responsible for fending off two separate invasions of Ayutthaya by fleets from Spain. As a reward for his achievements, he made a high official.

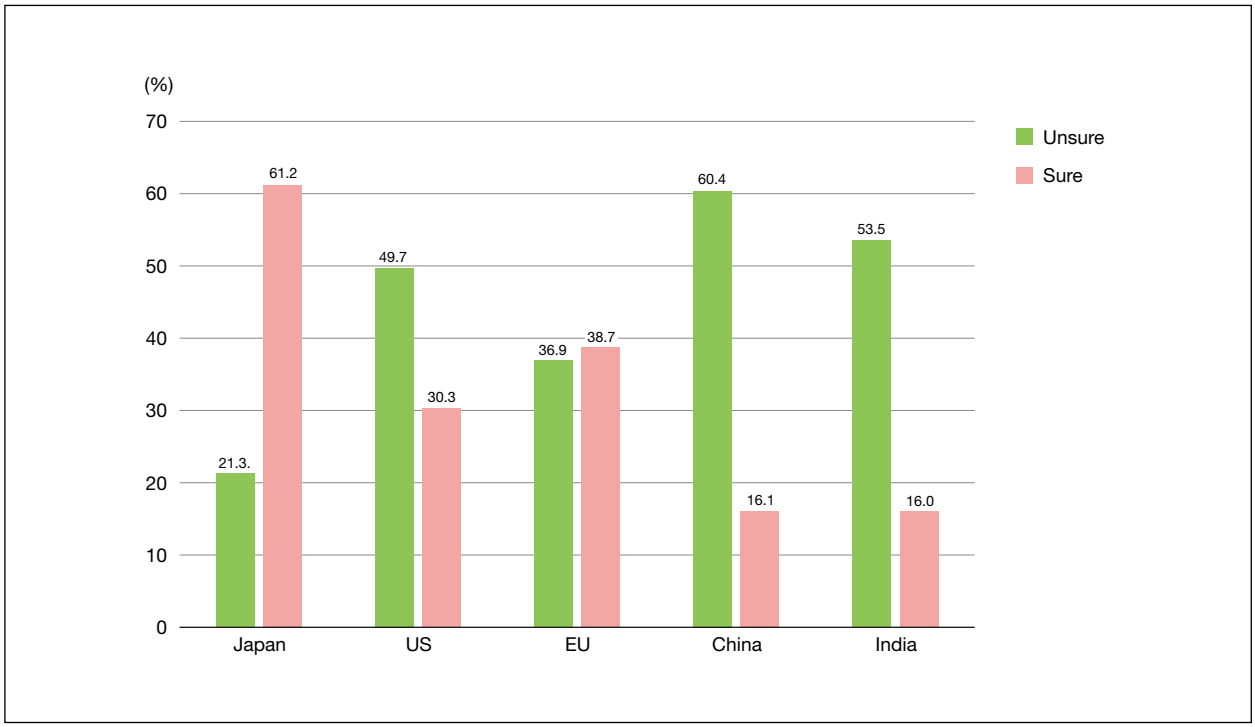
Japan and Thailand also underwent tough times. During Japan's period of high economic growth, which took place approximately 20 years after the end of World War II, Thailand also became embroiled in anti-Japanese sentiment. In 1974, when then Japanese Prime Minister Kakuei Tanaka visited Southeast Asia, Japan was referred to as an economic animal. This moniker was coined as Japanese products flooded markets, owing to the bad manners of Japanese tourists, which were increasing at the time, and the actions and behavior of Japanese companies that did not take consideration of local circumstances. When Kakuei Tanaka visited Thailand, he was greeted by protesters wherever he went. Radical student leaders and Kakuei suddenly arranged a meeting to talk. A letter from a representative of the students cited numerous complaints, including (1) practices of Japanese companies, (2) problems and pollution related to investments from Japanese companies, and (3) trade imbalances. Japanese and corporations learned a lot from this incident.

Thailand underwent its worst post-war economic crisis in 1997, during the Asian Financial Crisis. During this time, Japan extended support to Thailand. Within the framework of the International Monetary Fund (IMF), Japan will extend a maximum of US$4 billion, the same amount as to be funded by for each country by the IMF. In October 1998, at the Finance Ministers and Central Bank Governors meeting, then finance minister Kiichi Miyazawa proposed his New Miyazawa Initiative which called for a total of US$30 billion dollars in financial assistance to five countries, including Thailand, which were impacted by the Asian Financial Crisis. The portion of medium/long-term financing for Thailand was US$2.87 billion, including manufacturing industry capital assistance. At the time, Thailand expressed its gratitude to Miyazawa, whose name was recognized to the point where it eclipsed that of Nagamasa Yamada or Kobori, the Japanese general who was a character in the novel Sunset at Chaophraya. In addition, during this unprecedented crisis, although Japanese companies experience difficulties, they did not exit the market and maintained employment. This contributed to the high praise and trust in Japanese industries.

In November-December 2019, the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute, National University of Singapore implemented the State of Southeast Asia 2020, which targeted 1,308 experts, including researchers in the 10 ASEAN countries and government-related parties. According to the survey, 61.2% of respondents chose Japan as a country that will "do the right thing," to contribute to global peace, security, prosperity and government, making it the most trusted country. This was followed by the EU (38.7%) and the US (30.3%). The gap between these percentages with Japan is overwhelming.

Regarding the reason for trust in Japan (valid responses from 800 people), the most selected response was "responsible stakeholder that respects and champions international law" (51.0%). This was followed by "I respect Japan and admire its civilization and culture," (23.2%), and "Japan has vast economic resources and the political will to provide global leadership" (18.5%).

Chart 9-1 Confidence in "Doing the Right Thing" to contribute mainly to world peace, security, prosperity and governance



Source: Compiled based on State of Southeast Asia: 2020 Survey Report (ISEAS-Yusof Ishak Institute)

It has been approximately 50 years since the anti-Japanese protests were held in Thailand. Since then, Japanese companies have spent many years supporting the establishment of Thailand's infrastructure via Official Development Assistance (ODA). ODA served as stimulus encouraging many Japanese companies to make direct investment by entering the market in Thailand. According to Ryutaro Komiya, "Direct investment is in itself the movement between countries of companies that conduct management activities. Companies embody management resources. Management resources comprise a wide range of technologies and expertise, such as corporately managed knowledge, experience, and marketing approaches, including patents and knowhow." By transferring these to Thailand, Japanese companies contributed to the country's industrialization. Direct investments from Japan, and the Japanese engineers and corporate executives taking on these important roles, shored up the industries in Thailand through the transfer of technologies and knowhow. There is no doubt that through this Japan and Thailand enhanced the nurturing of trust between the two countries.

At present, the world is once again in crisis due to COVID-19, a virus which originated in Wuhan, China in December 2019. The first case of infection and death due to COVID-19 outside of China was in Thailand on January 13, 2020. The World Health Organization declared this a pandemic on March 11, 2020. In late March of that year, Thailand also declared a state of emergency. The Thai government launched a series of strong measures, including shutting down Pattaya and Phuket, placing restrictions on travel, and suspending business operations at commercial facilities. In addition, the country closed its land borders and in April ordered a ban on air travel.

Thailand is among the countries that have been successful in implementing measures to curb the number of people infected and the number deaths due to COVID-19. However, Japanese companies in Thailand are meeting head-on with a difficult time. According to the Survey of Business Sentiment on Japanese Corporations in Thailand for the 1st half of 2020 (JCCB), the business conditions in 1H 2020 was the third worse level since the survey was first started in 1971. This is a more severe situation than the 1997 Asian financial crisis, the collapse of Lehman Brothers and the major flooding in Thailand.

Owing to this national crisis, Japan and Thailand once again solidly worked together to confront these issues while brainstorming. In the history of exchanges that extended over 630 years, all related parties aim to write a new page in history about the Japanese and Thai governments and industrial circles overcoming this national crisis.

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