

Thailand

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Introduction

The Association of Southeast Asian Nations (ASEAN) was established in 1967, with the founding members consisting of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Later, ASEAN's membership expanded to include Brunei Darussalam, Cambodia, the Lao PDR, Myanmar, and Viet Nam. The main objectives of ASEAN are to accelerate the economic growth of its Member States, promote social progress and cultural development in the region, and promote regional peace and stability (ASEAN, 2016).

One of ASEAN's milestones has been the establishment of the ASEAN Economic Community (AEC), which was formally launched at the end of 2015. The four pillars of the AEC are a single market and production base, a competitive economic region, equitable economic development, and integration into the global economy. Since the first pillar has progressed much more than other pillars, this paper will focus on its role in promoting the free flow of goods, services, investment, and skilled labour from the perspective of Thailand.

This paper aims to assess the substance and significance of ASEAN economic integration for the Thai economy, examine the policies and strategies, identify the potential challenges for Thailand, and propose a way forward for further economic integration within ASEAN.

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ASEAN Economic Integration and Thailand's Economy, Policies, and Strategies

Tariff reduction through ASEAN economic integration has made tangible progress; however, it is still very much a work in progress, especially the elimination of non-tariff barriers (NTBs) and the promotion of the free flow of cross-border services, investment, and skilled labour.

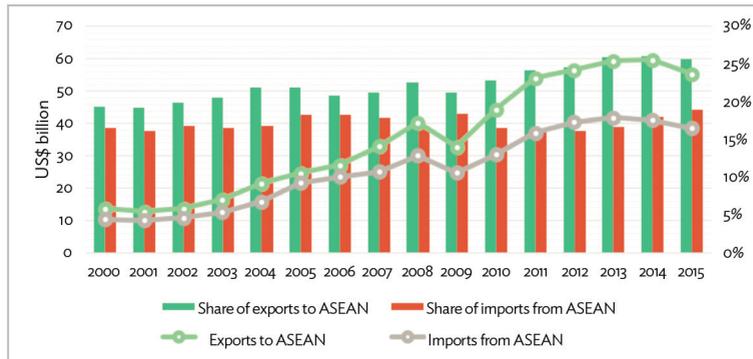
Regarding trade in goods, tariff reduction under ASEAN has brought about higher - value trade among ASEAN Member States, but the existence of NTBs is still a main issue that needs to be addressed. Through the ASEAN Free Trade Area, the Common Effective Preferential Tariff scheme requires ASEAN-6 countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam) to reduce most of their tariff rates to 0% by 2010 and for Cambodia, the Lao PDR, Myanmar, and Viet Nam (CLMV) to do the same by 2015 with the flexibility to postpone the obligation to 2018.

Since 1993, ASEAN-6 have gradually reduced their intra-regional import tariff rates to zero for almost all items, except copra, coffee beans, fresh flowers, and potatoes, which have tariff rates of 5%. CLMV also have 0%–5% rates for over 98% of their tariff lines (ASEAN Secretariat, 2015). With the tariff cuts, intra-regional trade has significantly increased.

For example, the value of imports from ASEAN to Thailand increased from US\$10.3 billion in 2000 to US\$38.4 billion in 2015, while the country's import share from ASEAN in total imports increased from 16.6% to 19% over the same period (see Figure 1). ASEAN is currently Thailand's second-largest import market after China.

Similarly, the value of exports from Thailand to ASEAN increased from US\$13.5 billion to US\$55.2 billion during 2000–2015, and the export share of Thailand to ASEAN increased from 19.3% to 25.7% over the same period. ASEAN has replaced the United States as Thailand's largest export market since 2003.

Figure 1. Trade between ASEAN and Thailand



Source: Thailand Economic and Financial Data, Bank of Thailand.

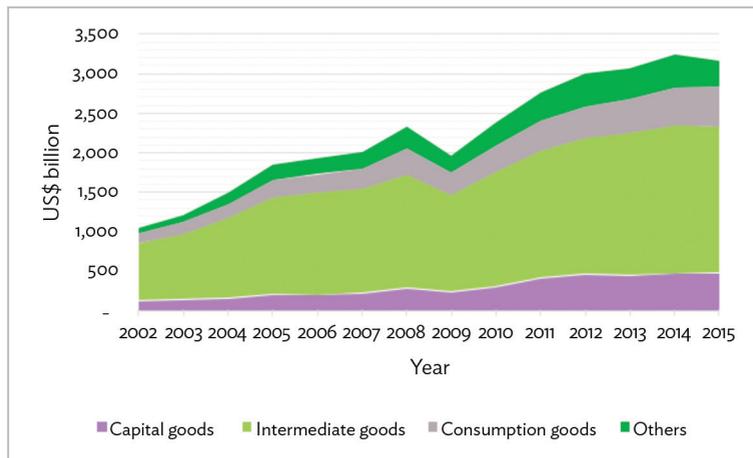
In addition to lower tariff rates, the relatively simple and transparent rules of origin under ASEAN, which require 40% regional value added or a change in the tariff heading, expedite the free flow of goods among ASEAN Member States.

The trade flows between Thailand and ASEAN, especially CLMV, are likely to increase in the future due to two factors. Firstly, during 2016–2020, the annual average gross domestic product growth rates in ASEAN and CLMV are projected to be around 5.2% and more than 6%, respectively (OECD, 2016). Secondly, the Common Effective Preferential Tariff rates for CLMV are scheduled to be reduced further by 2018.

Trade in intermediate goods, which has increased significantly (see Figure 2), dominates intra-regional trade between Thailand and ASEAN.¹ This is because Thailand and ASEAN are increasingly becoming part of the regional and global value chains of many products. This trend is expected to continue given the fact that Thailand and ASEAN are undergoing deeper economic integration.

¹ Goods are classified into capital goods, intermediate goods, and consumption goods based on the Broad Economic Categories scheme.

Figure 2. Trade in Goods between Thailand and ASEAN



Source: Author, data from the Ministry of Commerce of Thailand.

However, the extensive use of NTBs, also known as core non-tariff measures (NTMs), still hinders the free flow of goods in ASEAN. According to the core NTM restrictiveness index in ASEAN, Indonesia has the greatest restrictions, followed by Malaysia and Viet Nam, while Thailand and the Philippines are less restrictive (ERIA, 2012).² A study by the Thailand Development Research Institute (TDRI, 2013) shows that for Thailand, most NTBs are applied to protect consumers and the environment.

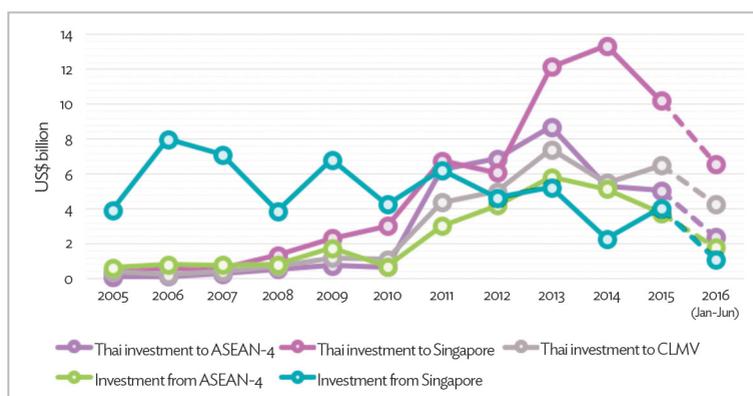
The ASEAN Comprehensive Investment Agreement was entered into force in 2012 to create a freer and more open investment regime. It covers five main sectors, namely manufacturing, agriculture, fishery, forestry, and mining and quarrying, as well as services related to these sectors. ASEAN Member States are expected to liberalise investment by phasing out their remaining restrictions by 2015.

Thailand has compiled a temporary investment exclusion lists in four sectors, consisting of (i) the production of flour from rice and field crops; (ii) fishery, especially aquaculture; (iii) plant cultivation, propagation, and breeding; and (iv) forestry from forest plantation. So far, Thailand has liberalised its market in a few subsectors of the first three sectors but has yet to do the same for the last sector, which is still under consideration by the Royal Forest Department (BOI, 2016). The sensitive list is based on Thailand's Foreign Business Act (1999), which prohibits foreigners from becoming majority shareholders in many sectors, especially the agriculture and services sectors. It is noted that the list of the restricted sectors has not been revised for almost 20 years, reflecting the lack of dynamism in Thailand's investment liberalisation policy.

² Core NTMs include non-automatic licensing; quantitative restrictions; prohibitions; enterprise-specific; single channel for imports; and foreign exchange market restrictions (ERIA, 2012).

Despite slow progress in the implementation of the ASEAN Comprehensive Investment Agreement, cross-border investment between Thailand and ASEAN has organically increased. Outward direct investment (ODI) from Thailand to ASEAN Member States has significantly surpassed foreign direct investment (FDI) from these ASEAN Member States to Thailand since 2011 (see Figure 3). The notable surge in outward investment from Thailand in 2011 was mainly because the Bank of Thailand allowed Thai companies to invest abroad freely from October 2010.³

Figure 3. Investment Flow between ASEAN and Thailand



CLMV = Cambodia, Lao PDR, Myanmar, and Viet Nam.

Note: ASEAN-4 comprises Indonesia, Malaysia, the Philippines, and Thailand.

Source: Thailand Economic and Financial Data, Bank of Thailand.

ASEAN, especially CLMV, has become Thailand's main destination for ODI in the past decade. In particular, Thai investment to CLMV has greatly exceeded Thai investment to ASEAN-4 countries (Malaysia, Indonesia, the Philippines, and Brunei) since 2014. Among the ASEAN Member States, Singapore is the top destination for Thailand's ODI, accounting for 17% of its total ODI.⁴ However, the majority of the investment in Singapore is used to set up holding companies to enjoy tax reliefs on dividends and capital gains. After Singapore, the CLMV countries are major investment destinations for Thailand, with an average share of 9% of Thailand's total ODI.

Mainly to seek new markets and resources, Thai companies listed on the Stock Exchange of Thailand have rapidly expanded their business in ASEAN, especially CLMV (Rattanakharnfu and Tangkitvanich, 2017). In 2014, among 575 companies,

³ The Bank of Thailand had continuously increased the limit of the amount of investment abroad for Thai companies. From October 2010, there is no limited amount of investment abroad for Thai companies anymore (Bank of Thailand, 2010).

⁴ The average share of Thailand's ODI in ASEAN was 33% of its total ODI during 2005–2015.

at least 129 companies had already set up 591 subsidiaries or joint ventures in ASEAN countries. The top five business sectors of Thai firms investing in ASEAN were energy and public utilities (110 subsidiaries or joint ventures); food and beverage (58 subsidiaries or joint ventures); commerce (58 subsidiaries or joint ventures); construction (57 subsidiaries or joint ventures); and material, petrochemical, and chemical products (47 subsidiaries or joint ventures).

ASEAN has become a major source of FDI for Thailand, with an average share of 18% during 2005–2015, second only to Japan (23%). Among ASEAN Member States, Singapore accounted for 13% of Thailand's FDI, followed by Malaysia (3%) over the same period.

Thailand has also made little progress in services liberalisation. Under the ASEAN Framework Agreement on Services, ASEAN Member States have committed to allowing at least 70% foreign equity participation in all services sectors by 2015. However, Thailand still lags far behind schedule (see Table 1). This is because Thailand's Foreign Business Act restricts foreign equity participation to be no more than 49% of the registered capital for most major services sectors, such as mobile telephone services, healthcare services, education services, and maritime and road transport services. Unwilling to revise its law, Thailand has committed little to opening its services sectors to ASEAN investors. Some of its specific commitments under the ASEAN Framework Agreement on Services Ninth Package are not meaningful, such as its offers to open up bicycle courier services for food delivery, day-care services for children with disabilities, and space passenger transportation services (excluding the launching and placing of satellites in space).

Although the productivity of Thailand's services sectors is relatively low, compared to the manufacturing sector (Lee and McKibbin, 2014), Thailand has not shown a strong will to liberalise its services sectors. Restrictions on foreign investment and behind-the-border barriers also prevent effective competition in services sectors. As competition can bring about higher productivity, Thailand should consider liberalising its services sectors by revising its Foreign Business Act.

Table 1. Foreign Equity Participation in Services Sectors

Sector/Subsector	Target	ASEAN Framework Agreement on Services Ninth Package (% of allowed foreign equity participation)									
		2015	Thailand	Malaysia	Singapore	Philippines	Indonesia	Brunei Darussalam	Cambodia	Lao DPR	Myanmar
E-ASEAN											
Mobile phone services	>=70	49	70	73.99	40	49	100	100	100 (with facilities)	100	<65 (non-facilities) <49 (facilities)
Online data and database services	>=70	49	100	100	100	51	100	100	100 (with facilities)	100	<65 (non-facilities) <49 (facilities)
Consultancy services on hardware installation	>=70	49	100	100	100	49	100	100	100 (with facilities)	100	100
Healthcare											
Hospital services	>=70	49	70	100	>50	70 (East) 51 (Medan and Surabaya)	100	100	100	70	100
Medical services	>=70	49	100	100		70 51 (Makassar and Manado)	100	100	100 (except clinics)	70	100
Dental services	>=70	49	70	100		70 51 (Makassar and Manado)	100	100	100 (except clinics)	70	100
Tourism											
Hotel lodging services	>=70	49	70	100	100	100 (East) 70 (Others)	70	100	100	100	100
Catering services	>=70	49	70	100	100	70 (East)	70	100	100	100	100
Tour agent services	>=70	49	70	100	70	<49	70	51	70	100	<100
Construction	>=70	49	51	100	40	<55	55	100	100	100	100

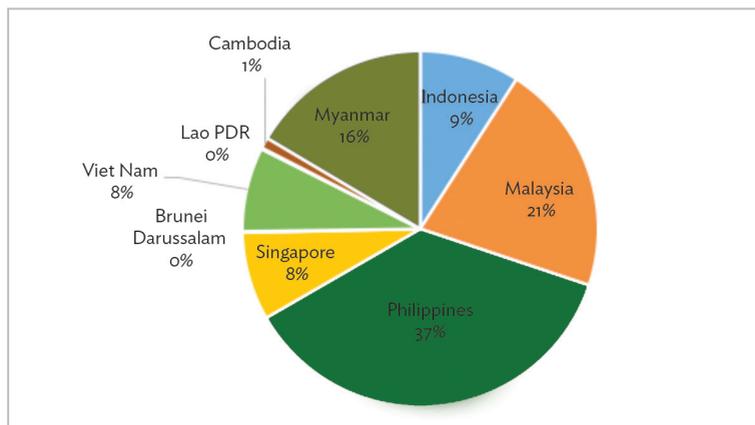
Source: Author.

The ASEAN Mutual Recognition Arrangement (MRA) scheme is designed to promote the free flow of skilled labour by facilitating the cross-border movement of eight types of professionals, namely engineers, architects, medical practitioners, dental practitioners, nurses, accountants, surveyors, and professionals in tourism services. Despite the implementation of the scheme, the cross-border flow of such professionals in ASEAN is still limited. As of October 2016, the total number of ASEAN skilled and semi-skilled workers in Thailand was only 22,942, constituting only 1.7% of the total number of ASEAN workers in Thailand (Department of Employment, 2016).

In particular, only 813 ASEAN architects and engineers are currently permitted to work in Thailand, constituting 11.5% of total foreign architects and engineers in the country. Most of them are from the Philippines (37%), followed by Malaysia (21%) and Myanmar (16%) (Figure 4). It should be noted that these professionals are working in Thailand as skilled workers or experts under the existing frameworks, not as licensed

professional architects and engineers under ASEAN’s MRA schemes.⁵ In fact, ASEAN MRAs for engineering and architect services do not provide significantly easier or simpler movement procedures. For example, meeting the qualifications specified in the MRA for engineering services does not result in automatic recognition to work in other Member States. To do so, ASEAN engineers are also required to meet domestic regulations, as previously required. In addition, the ASEAN MRA does not allow independent practices but requires joint work with local professional engineers in the host countries. For example, Thai law requires skilled foreign engineers to work alongside Thai counterparts. Those who aspire to work independently must pass the examination of the Council of Engineers (in Thai).

Figure 4. ASEAN Architects and Engineers in Thailand



Note: Data as of October 2016.

Source: Statistics on Foreign Workers Permitted to Work in Thailand, Department of Employment (2016).

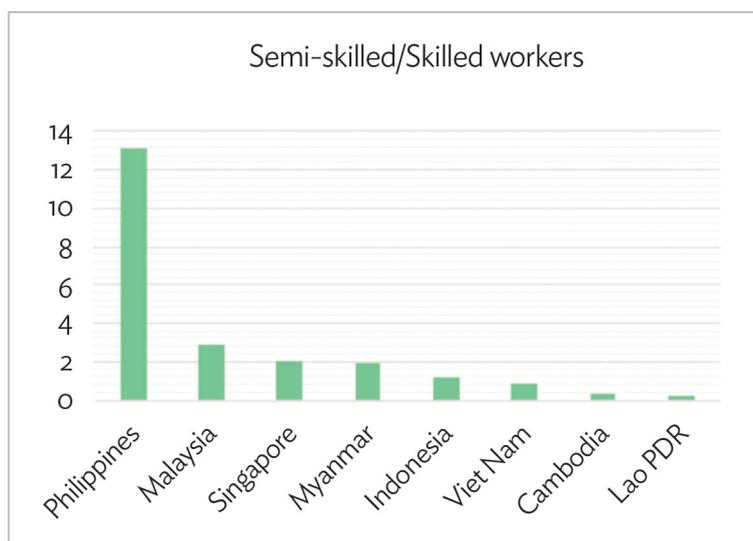
For other types of professionals, the picture is even less heartening. Thus far, no foreign nurses have worked in Thailand. The total number of registered nurses in Thailand in 2014 was 187,030, and all were Thai (Thailand Nursing and Midwifery Council, 2016). The main obstacle for foreign nurses to practise in Thailand is the requirement to pass the national licensing examination, which is only available in Thai. As Thailand is facing a shortage of nurses while aspiring to be a major medical hub in Asia, the country should consider allowing foreign nurses to work in Thailand, at least to provide services to foreign patients in the country.

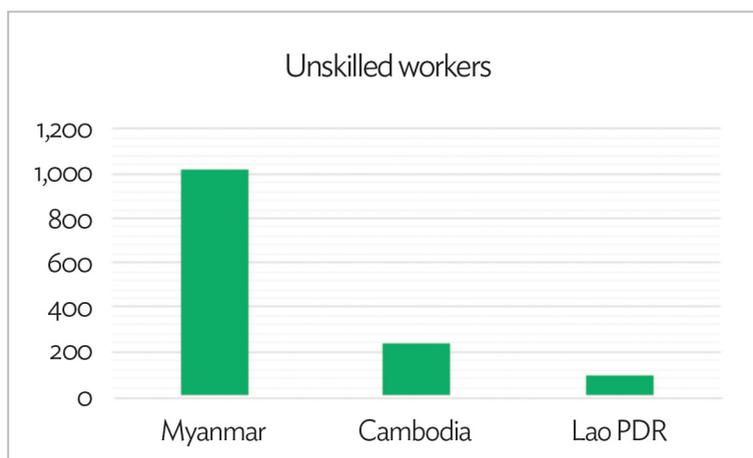
⁵ Under the existing frameworks, foreign workers are not allowed to work in engineering and architectural work except for necessary and urgent work for a period not exceeding 15 days under the Law on Investment Promotion. (according to the Alien Working Act B.E. 2551, Occupations and Professions prohibited for foreign workers, the list appended to the Royal Decree B.E.2522, and Engineer Act B.E.2542).

Similarly, foreign medical professionals are required to pass the licensing examination in Thai to work in Thailand. During the past 70 years, there have only been 247 licensed medical doctors with non-Thai nationalities; 26 of them graduated from medical schools in Thailand, and 221 graduated from other countries (Medical Council of Thailand, 2016). These medical doctors with non-Thai nationality likely stayed in Thailand for a long time or had Thai parents, allowing them to have the required Thai language proficiency. Similar constraints exist for dentists. As there is a shortage of medical doctors and dentists in Thailand, allowing foreign professionals to work in Thailand, at least to treat foreign patients, would help support government policy to develop Thailand as a medical hub in the region.

Although no agreement on unskilled workers exists in ASEAN, the number of unskilled workers from ASEAN Member States in Thailand has reached more than 1.33 million workers compared to only 22,942 skilled workers (see Figure 5). The top three nationalities of ASEAN workers in Thailand are those from Myanmar (72%), followed by Cambodia (19%), and the Lao PDR (8%). Due to Thailand’s labour shortages, the flow of ASEAN workers, especially from Cambodia, the Lao PDR, and Myanmar, into Thailand is expected to increase in the future.

Figure 5. ASEAN Workers in Thailand
(‘000 workers)





Note: Data as of October 2016. The data account for workers with work permits only, excluding illegal workers without work permits. Unskilled workers include labourers and housemaids.

Source: Office of Foreign Workers Administration, Ministry of Labour.

Challenges for Thailand

Thailand's economy has benefited from ASEAN economic integration. In particular, Thailand has benefited greatly from the increasing cross-border flows of goods, investment, and labour with ASEAN. In the future, ASEAN economic integration will be one of Thailand's few growth engines as the country faces the challenges of sluggish economic growth and an ageing population.

Due to the global economic slowdown, Thailand's export growth has declined since 2010 and has had negative growth rates since 2013 with a historically high negative growth rate of -5.8% in 2015. Looking for growth, Thai firms are increasingly investing in ASEAN, especially CLMV. This trend is likely to continue as the economic growth rates of CLMV are projected to be relatively higher at around 6% per year during 2016–2020, whereas that of Thailand is expected to grow only 3.6% per year (OECD, 2016).

On the supply side, Thailand is facing the problem of an ageing population. In 2015, 15.8% of the Thai population were 60 years or older. This share is projected to reach 26.9% (18.4 million people) by 2030 (United Nations, 2015). This demographic factor will be a strong headwind for Thailand to grow in the future.

The Thai government is aware of the opportunities of ASEAN economic integration, as reflected in its national plan (The 12th National Economic and Social Development Plan, 2017–2021) and the new draft constitution. However, its ASEAN economic

agenda is limited to only trade and investment promotion and facilitation, without a focus on liberalisation.

The Government of Thailand must overcome its challenges to reap the full benefits from ASEAN economic integration. Most importantly, it should focus on building the competitiveness of the country by upgrading the skills of Thai labourers to compensate for rising labour costs and solve the problem of skilled labour shortages. In addition, Thai companies should be supported and promoted to upgrade their capabilities to higher value-added activities, such as research and development, design, and marketing, while shifting low value-added activities, such as assembling, to neighbouring countries. It should also improve competitiveness by promoting competition in the services sector. However, it is still questionable how these ambitious policies can be formulated and implemented amidst Thailand's political instability. In particular, the instability leads to the lack of long-term strategies on trade and investment in the country. In addition, with short-lived governments, Thai government officials tend to maintain the status quo on sensitive issues, such as service liberalisation and the movement of skilled labour. Under this situation, it is crucial for the private sector to take the leading role and provide a united voice on these issues.

Conclusion and the Way Forward

ASEAN economic integration has made tangible progress on tariff reduction; however, it is still very much a work in progress, especially the elimination of NTBs and the promotion of the free flow of cross-border services, investment, and skilled labour.

Thailand's economy has benefited from ASEAN economic integration despite its limited progress. In particular, Thailand has greatly benefited from the increasing cross-border flow of goods, investment, and labour between itself and ASEAN. In the future, ASEAN economic integration will be one of Thailand's few growth engines as the country is facing the problems of a sluggish economic growth rate and an ageing population.

Thailand should utilise ASEAN economic integration as a stepping stone to escape from the 'middle-income trap' before it becomes a completely aged society by 2025. To reap the full benefits of ASEAN economic integration, Thailand should do the following.

Firstly, ASEAN economic integration should be used as a catalyst for Thailand's domestic institutional and regulatory reforms to improve its productivity and competitiveness, particularly by lifting restrictions on foreign skilled workers and service operators. It is crucial for Thailand's trade policy to focus not only on gaining market

access but also on reducing domestic restrictions. Thailand should align its domestic regulatory reforms with regional integration strategies to reap the full benefits from integration. For example, the Foreign Business Act should be revised to be less restrictive and promote more competition and better resource allocation in major services sectors, such as telecommunications, public utilities, and energy.

Secondly, the Thai government should inform the public of the benefits of ASEAN economic integration to gain public support. Moreover, it needs to pay attention to measures to compensate those who receive adverse effects from economic integration as well as improve the competitiveness of small and medium-sized enterprises by enhancing their capacities.

Thirdly, Thailand should improve its physical infrastructure to enhance connectivity with its neighbouring countries, namely Cambodia, the Lao PDR, and Myanmar, in order to utilise its strategic locational advantages. It should also provide financial and technical assistance to improve the hard and soft infrastructure with its neighbours to promote mutually beneficial integration.

Finally, Thai people should be encouraged to have a more international mindset through understanding and respecting the cultural differences among ASEAN Member States. Some Thai people have little interest in learning about and understanding their neighbouring countries even though Thailand is becoming increasingly dependent on them. Recent initiatives by the Ministry of Education to allow schools in the border areas to teach classes to Thai students in the languages of the neighbouring countries is a welcome starting point. However, further efforts in this area are required.

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