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Changes in Trade and Investment Policies in Thailand and Implication of Medium-term Growth

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Motivation

- This paper focuses two policies, trade and investment policies, both of which have undergone noticeable changes since the new millennium. Other policies (human capital, macroeconomic management) continue on the same pace/direction.
- The change began with trade liberalization approach from unilateral or WTO-based multilateral trade liberalization pursued toward preferential trade agreements and bilateral free trade accords (FTAs)
- From 2014, a new policy initiative was launched during the Gen Prayuth Administration (2014-2019) and is expected to be continued in the current government.
- It aims to boost economic growth and productivity which exhibited clear slowdown since 2006 onward.



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Changes in trade policies

- The slowdown of WTO liberalization negotiation resulted switch in political attention and negotiating resources toward preferential trade agreements and bilateral free trade agreements in particular.
- It was also accelerated by a significant change under Thaksin's administration (2000-2006).
- And then, the speed to sign FTAs has been on and off since 2006.
- By 2017, there were 18 FTAs signed with partners including ASEAN members, Japan, Republic of Korea, China, Australia, New Zealand, India, Chile, and Peru, many of which have more than one FTA in effect.
- The changes are not only to ensure firms in Thailand are not in a disadvantageous position with respect to accessing partner markets but also maintain Thailand's attractiveness for export-oriented FDI, *all of which will enhance productivity and promote medium-term growth.*

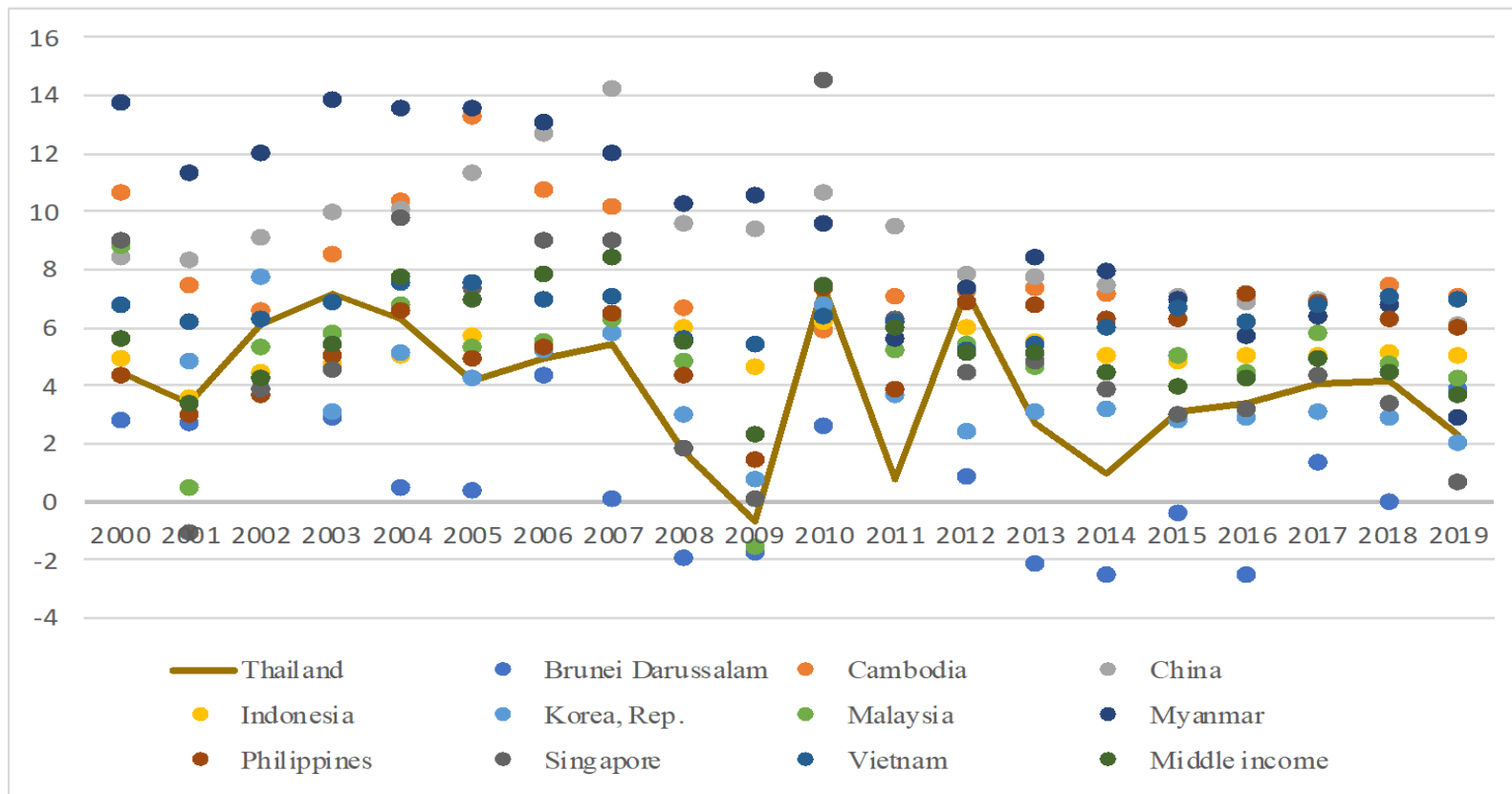


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Figure 1
Annual GDP growth (%) of selected countries from 2000 to 2019



Source: World Development Indicator database



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Changes in investment policies

- The decade long growth sluggish caused worrisome and induced the changes.
- In fact, Thailand experienced successive internal and external shocks from 2005 onward.
 - Political unrest starting in 2005,
 - the sickness of King Rama IV from 2006 to 2016,
 - the 2011 Great Floods,
 - the deteriorating global situation (e.g., the global financial crisis beginning in 2008, Brexit, the European crisis, and the trade war between the US and China starting in 2018).
- Nonetheless, such a slow growth episode after the financial crisis is often claimed as the symbol of the middle-income trap in Thailand



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- Whether the causes of growth slowdown listed are economically sound remains debatable, but a newly policy package was launched, known as *Thailand 4.0 Policy*, the latest economic policy flagship of Gen Prayuth's administration (2014–the present) to transform the economy.
 - Picking up the winner strategy (10 newly targeted industries known as 5-S curve and 5-new S curve industries (The next slide)
 - Amending investment promotion policies *to grant more incentives to hi-tech activities and emphasize new investment.*
 - EEC, the newest special economic zone, is established. It currently becomes the current policy flagship of the Gen Prayuth Administration (2014-2019) and is expected to be continued in the current government (Bloomberg June 21, 2017).



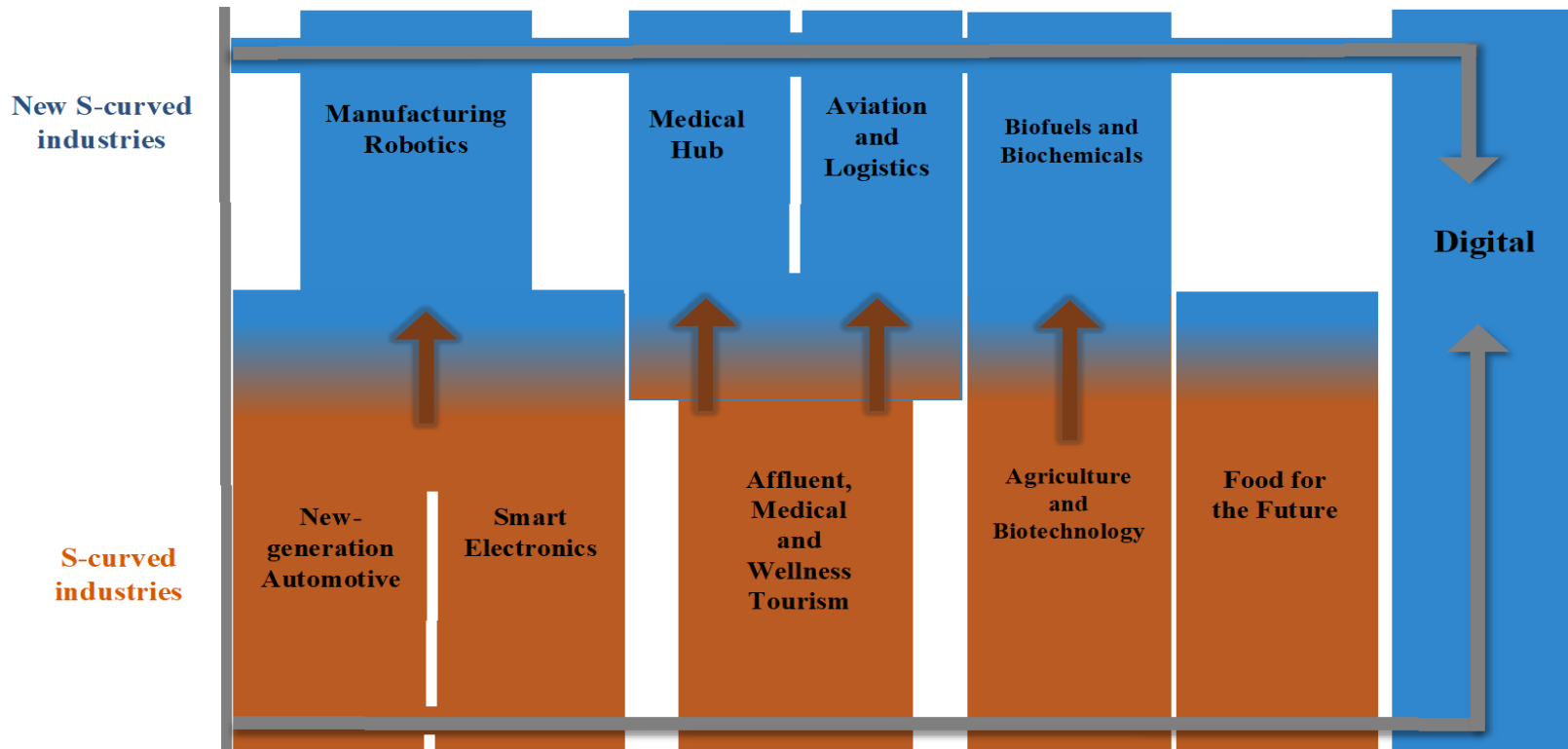
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10 Targeted Industries





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Key features of EEC

- **Huge investment on physical infrastructure development** (enhancing air transport and cargo- The U-Tapao airport, enlarging seaport capacity (Laem Chabang Phase 3), extending road network connectivity with sea and air transport
- **Facilitate private investment by establishing a one-stop service agency**, i.e. EEC Policy Committee chaired by Prime Minister (EECPC) and EEC office (EECO) to implement, and undertaking legal reform.
- **Offer more investment incentives as well as tailor-made incentives** to compete with other countries in the region.

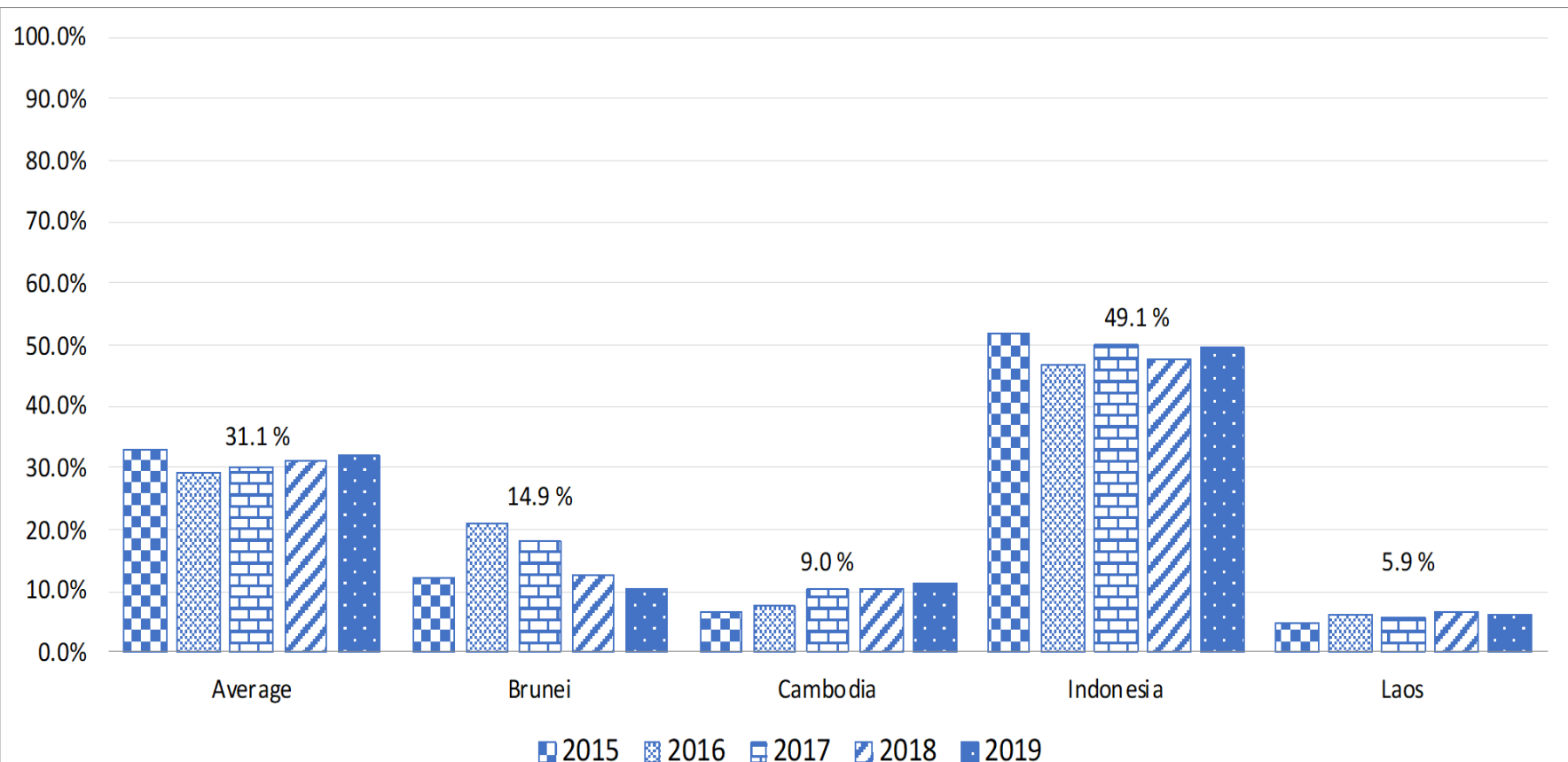


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Figure 3 FTA Utilization in export between 2015 - 2019





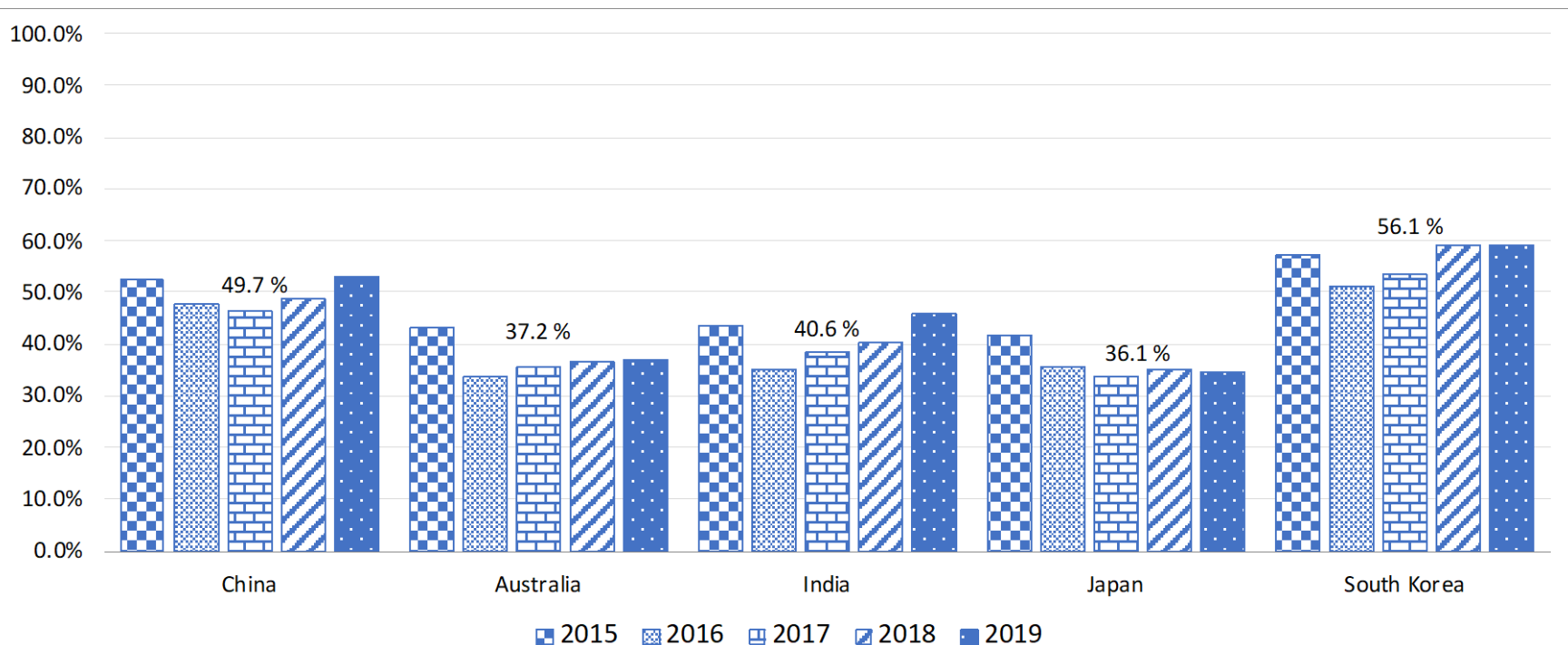
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Figure 3 (cont.)





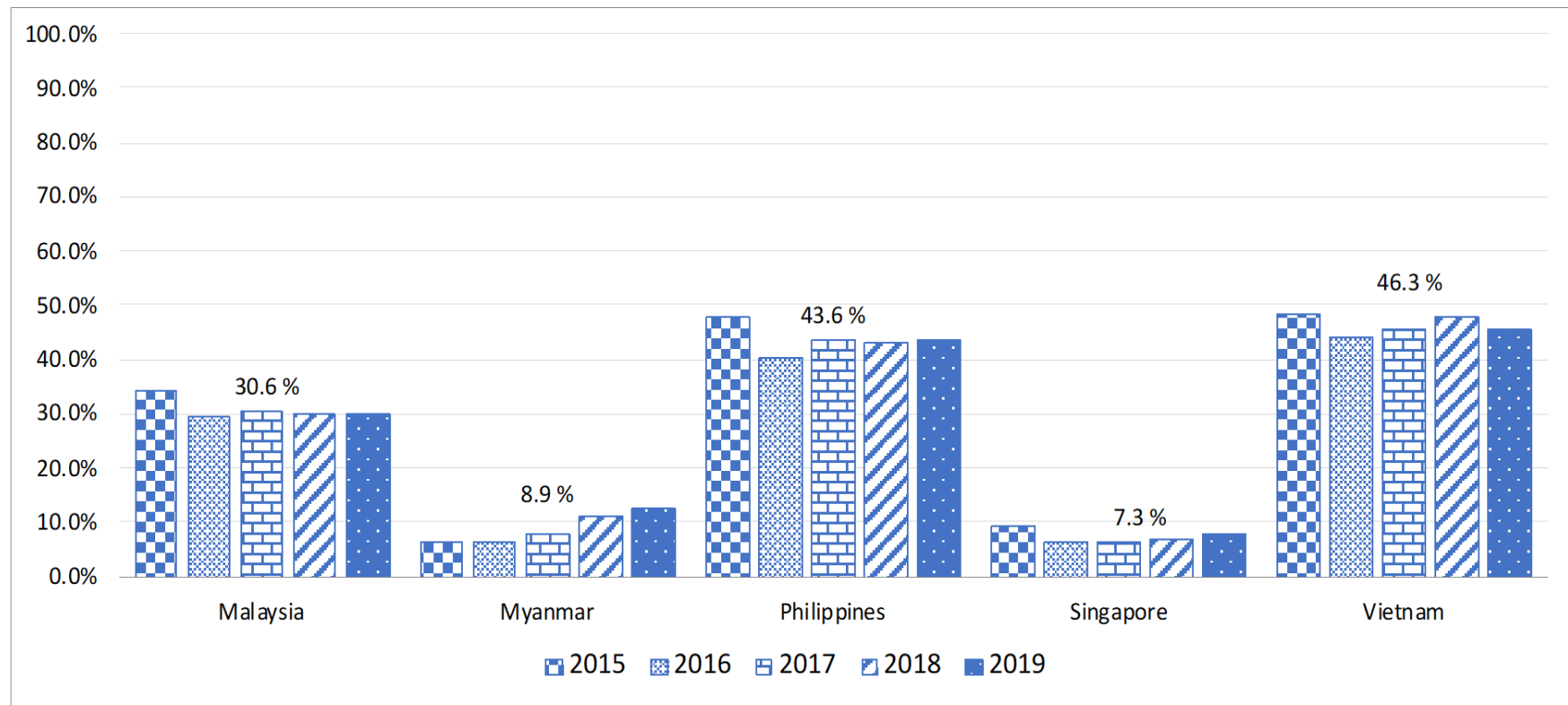
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Figure 3 (cont.)



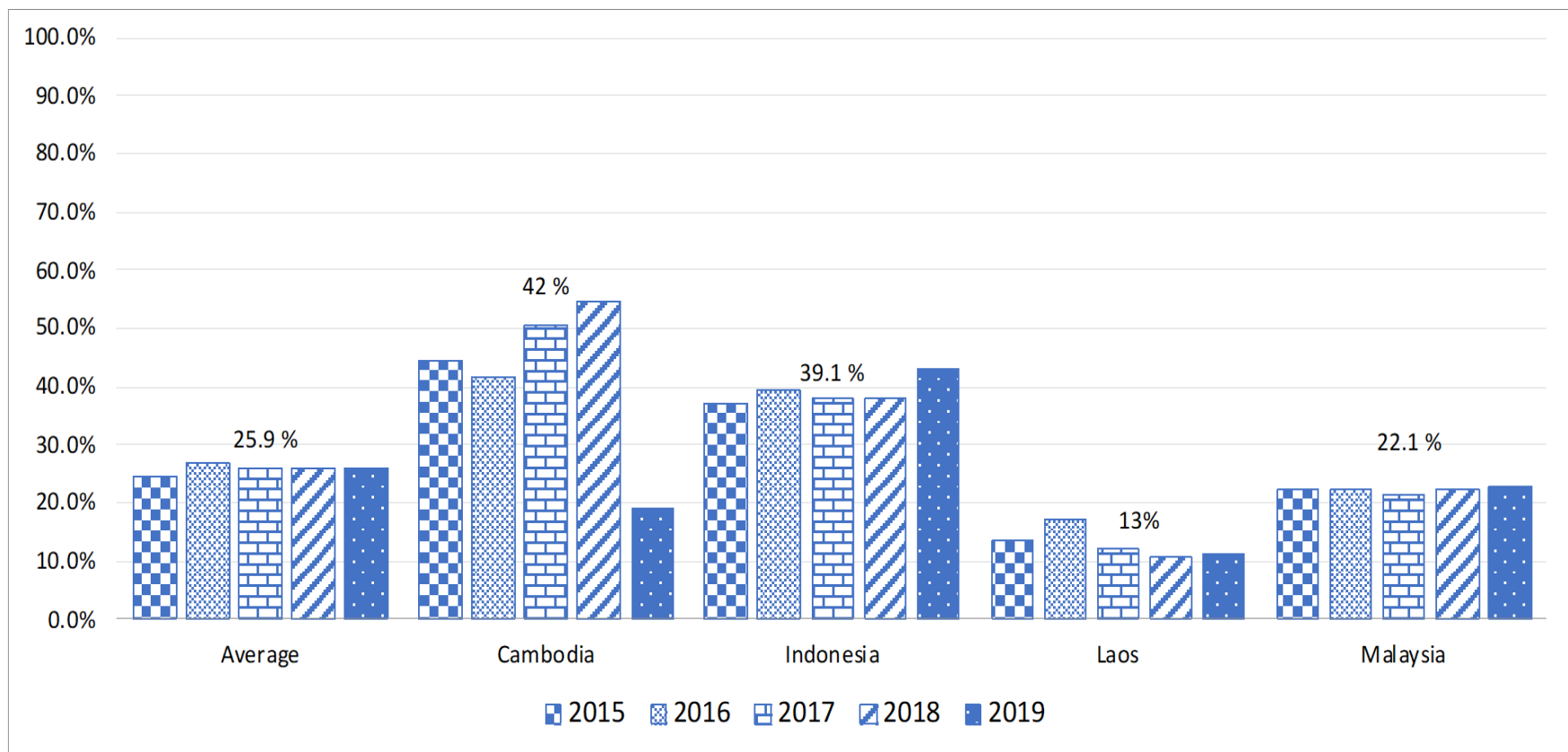


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Figure 4: FTA import utilization between 2015 and 2019





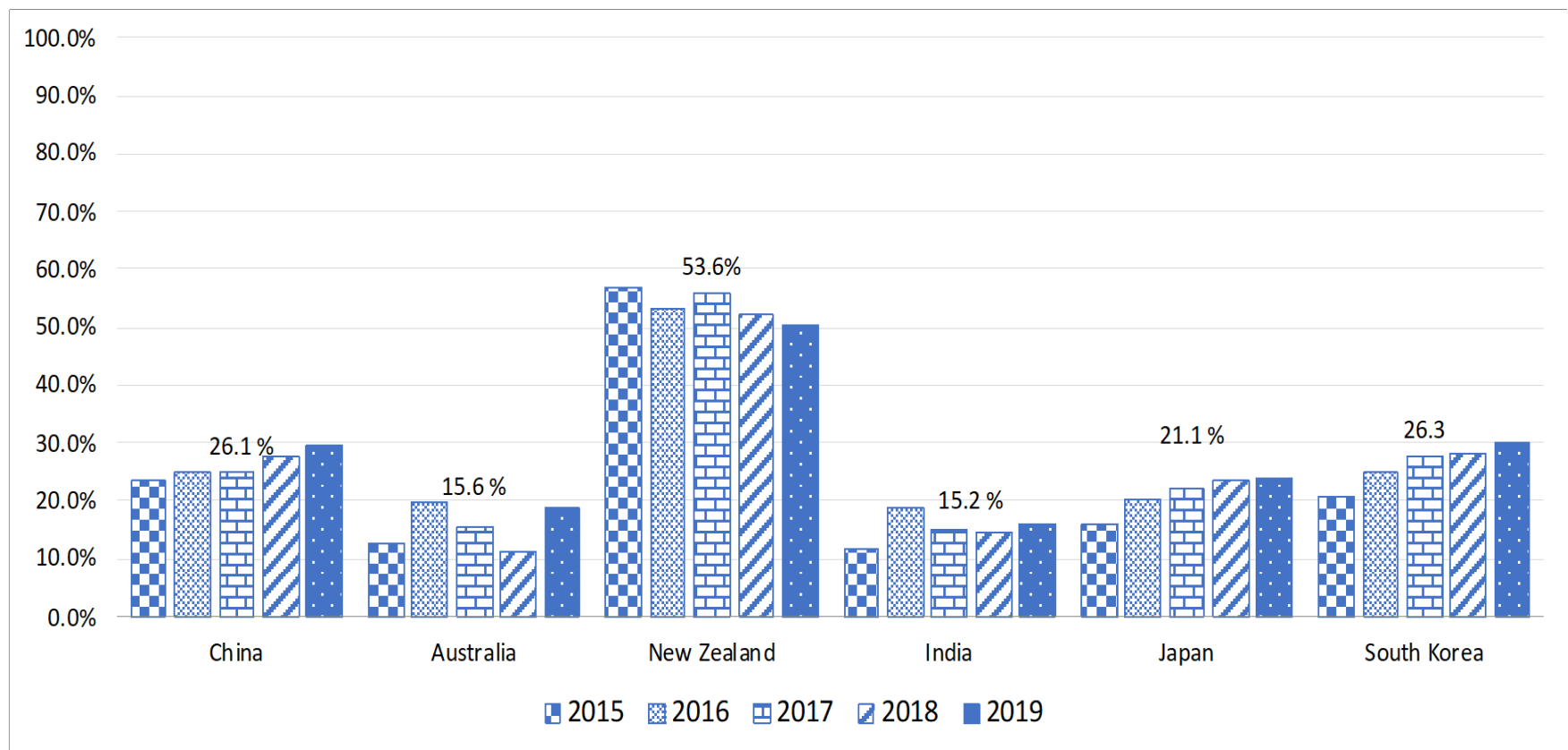
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Figure 4 (cont.)





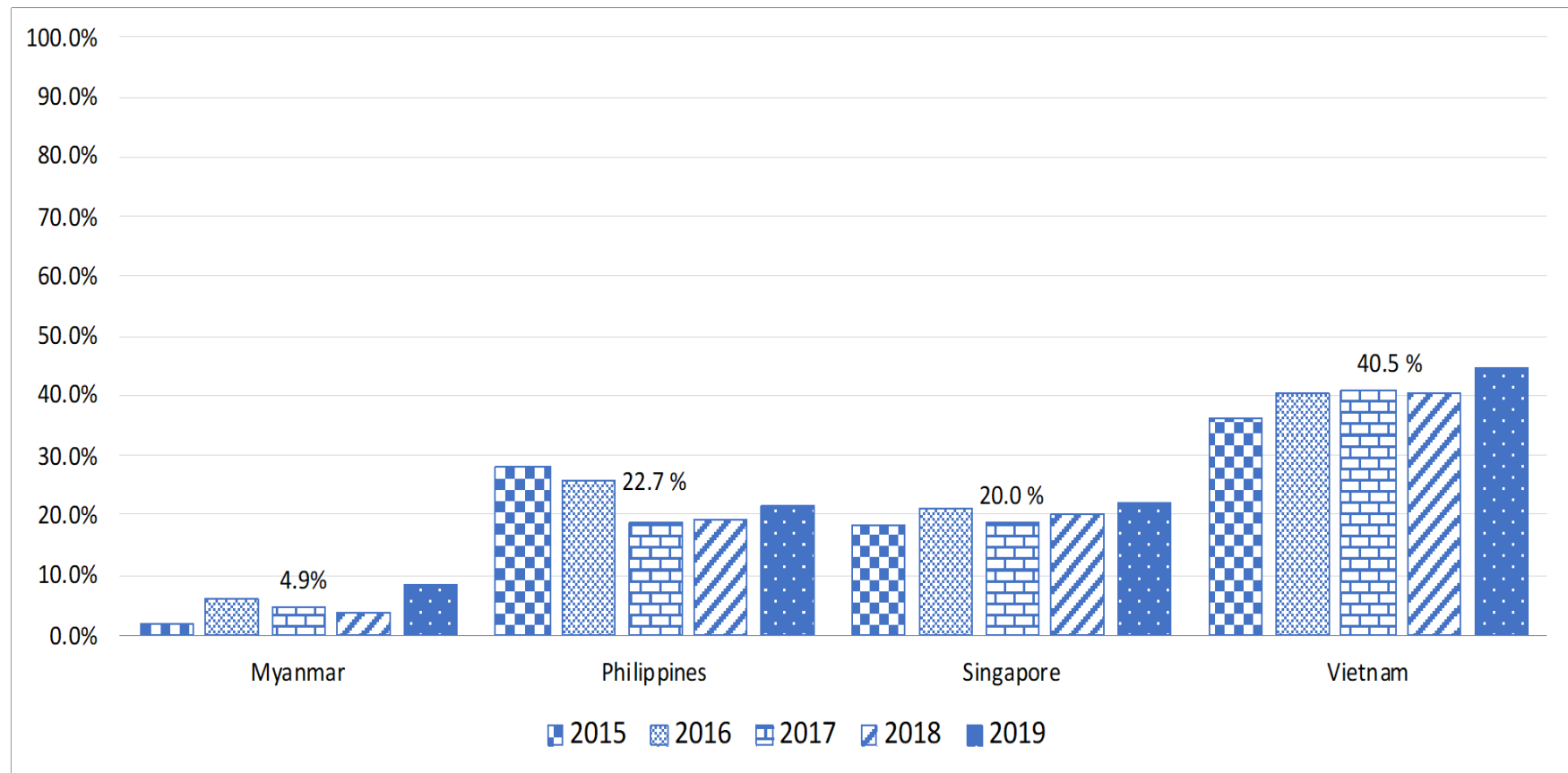
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Figure 4 (cont.)





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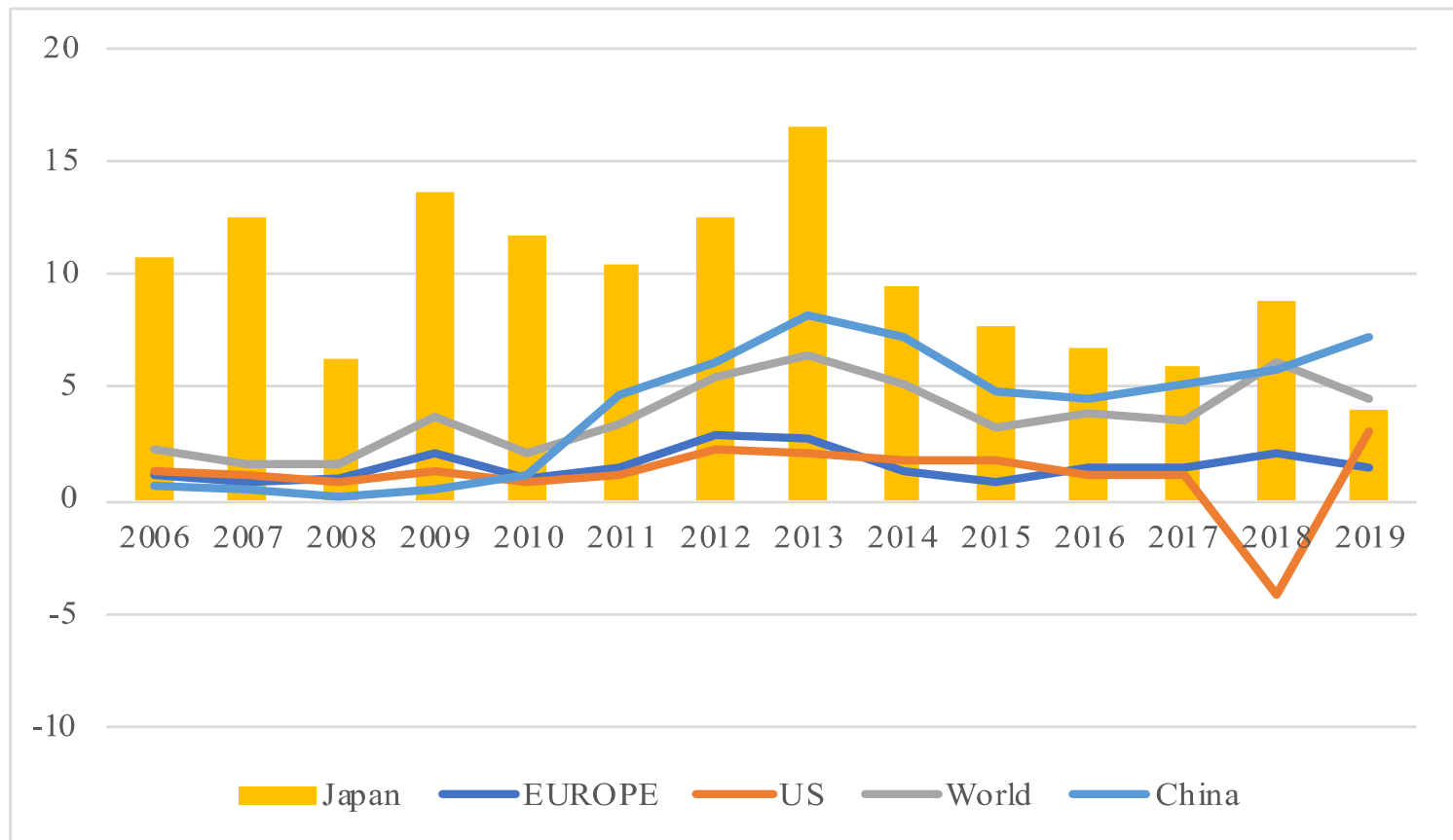
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Figure 6

Share of FDI to Thailand as a per cent of total outward FDI from 2006 to 2019



Source: UNCTAD's Foreign direct investment data base



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Table 5
Total Investment of BOI-promoted Projects from 2016 to 2020

	2016	2017	2018	2019	2020 Jan-Sep
Total investment Fund (Bil Baht)	254.5	476.0	584.1	346.6	346.2
	% to total investmnet fund				
Agriculture and Agricultural products	15.3	13.3	9.8	9.1	9.1
Mining and quarrying	2.3	2.2	1.6	4.3	6.2
Light manufacturing	3.0	3.6	1.6	4.5	4.9
Transport and Machinery Equipment	20.2	18.1	10.7	21.8	21.6
Electronics and Electrical Appliances	13.6	7.8	5.5	10.7	23.9
Plastics, Chemical and Paper	7.4	4.4	31.2	17.9	15.7
Services and Infrastructure	38.3	50.1	39.6	31.6	17.7
Technology and Innovation	0.0	0.5	0.0	0.0	0.8

Source: Authors' calculation from the official data available at www.boi.go.th



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Table 6
Newly targeted activities (as % to total promoted investment by BOI)

	2016	2017	2018	2019	2020 (Jan-Sep)
Total	14.8	13.5	7.1	13.9	25.5
Agriculture and Agricultural products	1	4	4	6	3
Mining and quarrying	0	1	7	18	2
Light manufacturing	64	81	47	15	5
Transport and Machinery Equipment	4	25	21	31	31
Electronics and Electrical Appliances	87	52	64	43	62
Plastics, Chemical and Paper	0	21	0	3	16
Services and Infrastructure	0	0	0	0	0
Technology and Innovation	n.a.	100	n.a.	100	100

Source: Authors' calculation from the official data available at www.boi.go.th



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- Panel data econometric analysis suggests firms' productivity is rather weakly related to FTA-led trade liberalization.
- Similarly, productivity of investment promoted firms is slightly higher than non-promoted ones, but conditioning by the competitive environment among firms.
- All in all, the changes in trade and investment policies yet produce output the government expects.



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- The signed FTAs have been moderately utilized in both export and import sides so that their impact on trade has been limited so far and occurred selectively on certain product lines. So did the FTA-induced direct investment.
- Similarly, changes in investment policies had impact to entice direct investment but varying across foreign investors. In particular, its impact was observed in the case of Chinese direct investors, not the others.



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- Over and above trade war, the covid-19 would make policymakers re-consider the investment strategy which has been ambitious, geographical concentration (in three provinces) and requires new investment. Now, the industry target has been narrowed to **Bio- Circular and Green** industries.
- While trade war caused investment diversion away from China, this has been accelerated by the covid-19. Nonetheless, a huge difference in investment incentives between existing and newly targeted industries as well as between outside and inside EECs caused uneven effects in favor of latecoming investors like China as opposed Japanese and US investors.



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Three policy inferences can be drawn from this study.

- Firstly, our analysis highlights the role of traditional tools, i.e. trade openness, R&D, and skills upgrading, in fostering firm productivity.
- Secondly, in theory, FTAs could be used for partial trade liberalization, but it must be undertaken with the limited level of policy discretion especially scope of liberalization.
- Thirdly, investment incentives provided via the BOI can encourage firms to improve their productivity but enabling environment especially domestic competition matters in further fostering firm productivity.