Thailand Country Study: ASEAN Economic Community (AEC) Blueprint Mid-Term Review

Thailand Development Research Institute (TDRI)

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1. Relative Importance of the AEC measures: Private sector perspective

Relative Importance of the AEC measures: Private sector perspective

Critical measures to be fully operated by 2015	**Not important** to be fully operated by 2015
• Improve import and customs administration, efficiency and integrity • Streamline and expedite import and customs procedures and documents • Harmonise conformity assessment and strengthen certification bodies • Flexible and business friendly rules of origin	• Allow at least 70 percent foreign equity in industries except for very limited number of sensitive industries • Minimize sanitary and phytosanitary measures and technical regulations • Allow entry of ASEAN shippers in domestic waters • Accelerate liberalisation of financial services industries (banking, insurance, etc.) in the ASEAN

Source: Authors, data from the private sector survey of 30 firms

2. AEC Measures

2.1 Services Sector

Implementation of the AEC Measure

- **Services liberalization under the AFAS**

Priority actions

- **No restriction for Modes 1 and 2**
- **Progressively remove other Mode 3 market access limitations by 2015**
- **Allow for ASEAN equity participation**

Sectors	By 2008	By 2010	By 2013	By 2015
Four priority sectors	at least 51	at least 70		
Logistics	at least 49	at least 51	at least 70	
Other services sectors	at least 49	at least 51		at least 70

AMSs, except Singapore, still could not meet the targets by 2010.

Sector/ Sub-sector	Target	7th package					
	2010	**Thailand**	Malaysia	Singapore	Philippines	Indonesia	Brunei
E-ASEAN							
Mobile phone services	>=70	49	51	73.99	40	49	*
Online data and database services	>=70	49	51	100	*	51	100
Consultancy services on HW installation	>=70	100	100	51	40*	*	
Healthcare	>=70						
Hospital services	>=70	49	51	100	40*	49	100
Medical services	>=70	49	51	100		49	100
Dental services	>=70	49	51	100		49	
Tourism	>=70						
Hotel lodging services	>=70	49	51	100	100	100 (East) 51(O)	*
Catering services	>=70	49	51	100	100*	51 (East)	*
Tour agent services	>=70	49	51	100	60	49	
Construction	>=51	49	51	100	40*	55	55

Thailand's Performance

Services liberalization

- ASEAN countries, except Singapore, still could not meet the targets by 2010.

Domestic laws and regulations

- Under the Foreign Business Act (1999), foreigners are prohibited to own 50 percent or more shares in services companies (with few exception).
- Foreigners can also own majority shares in services companies if they get permissions under
  - Investment Promotion Act (1977),
  - Industrial Estate Authority of Thailand Act (1979),
  - Treaty of Amity and Economic Relations between Thailand and US
  - any FTAs that allow such investment.

Barrier Factors of Implementation

The vague and broad flexibilities may induce member countries to not give their binding commitment.

The measure of free flow of services mainly covers the limitation on foreign equity participation, but not other key issues on Mode 3 limitations, such as foreign land ownership and license permission.

Thailand's commitments to liberalize its services sectors are mostly not beyond the extent of existing domestic laws and regulations.

The views about protectionism of services sectors are quite widen in Thailand.

Recommendations and lessons learned

•Flexibilities should be improved to minimize the level of being vague and broad for implementation.

• The measure of free flow of services should cover the limitation on foreign equity participation as well as other key commercial presence limitations.

•The implementation of services liberalization is likely to be unsuccessful as long as restrictions on services trade related to domestic laws and regulations are not removed.

• The research studies on the cause and effect of services liberalization should be encouraged more to provide research based evidence to the public.

• The Thai government should have the strong political will to liberalize the services sectors, esp. requiring high technology and high capital, and important infrastructure to other sectors.

Recommendations and lessons learned

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2.2 MRAs and Labor Mobility

MRAs: Performance

MRA	Signing Date and Venue
Engineering Services	9 December 2005, KL
Nursing Services	8 December 2008, Cebu
Architectural Services	19 November 2007, SG
Framework Arrangement for the Mutual Recognition of Surveying Qualifications	
MRA Framework on Accountancy Services	26 February 2008, Cha-Am
Medical Practitioners	
Dental Practitioners	

Thailand's Performance

MRAs on professional services

- There are only 7 completed and signed MRAs.
- The working groups and the secretariats for each of all completed and signed MRAs have been established.
- The implementation progress of MRAs on architectural services and engineering services is more advanced than that of others.
- MRA on tourism professionals was completed in 2009, and all ASEAN countries, except Thailand, had already signed the MRA.

Utilization of MRAs is still at the low level.

Country	Number of ACPEs (ASEAN Chartered Professional Engineers)	Number of ASEAN Architect
Malaysia	136	-
Singapore	161	-
Indonesia	93	-
Vietnam	9	-
Thailand	-	-
Philippines	-	-
Total	**399**	-

Source: http://www.aspecc.org, www. Aseanarchitectcouncil.org (Accessed on July 11, 2011)

MRA: Barrier Factors

Regarding the regulatory environment preparation in Thailand, the main problem is about rules and regulations indirectly to the professional services.

Some professional bodies complain about no allocated budget from the government to work on the AEC issues.

Some professional bodies are not enthusiastic to implement the MRAs because they do not realize or recognize the benefits from MRAs.

The free flow of skilled labor is really not free, but with conditions.

Recommendations and lessons learned

The government should announce the national agenda and set up the clear national policy to support the mobilization of skilled labor.

Since MRAs still are subject to domestic rules and regulations, the AMS have to change or revise their domestic laws and regulations to facilitate the movement of these skilled suppliers.

Working system integration between related ministries and professional bodies can help to speed up the process in the implementation.

The budget should be allocated properly to some professional bodies for the expense for implementation.

The research studies on the impacts and outcomes of free flow of professional services as a result of AEC in particular sectors in Thailand should be encouraged and disseminate the research results to the public.

2.3 Standards and Conformance

Standards and Conformance: Performance

Products	Responsible agencies
Automotive	Thai Industrial Standards Institute (TISI)
Cosmetics	Cosmetic Control Group, Food and Drug Administration (FDA)
Electrical & Electronic Equipment (EEE)	Thai Industrial Standards Institute (TISI)
Medical Devices	Medical Devices Control Division, Food and Drug Administration
Pharmaceutical	Drug Control Division, Food and Drug Administration (FDA)
Prepared foodstuff	National Bureau of Agriculture Commodity and Food Standards
Rubber-based	Thai Industrial Standards Institute (TISI)
Traditional Medicine and Health Supplement	Food and Drug Administration (FDA)

Standards and Conformance: Performance

Standards

- Most of them have been aligned with international standards already

Technical regulations

- There are two agreements on technical regulations in ASEAN member states: Cosmetics and EEE products
- Implementation process in Thailand
  - **Cosmetics products:** the draft ministerial regulation on notification of control cosmetic is in the consideration process by the cabinet
  - **EEE products:** revising their regulations and procedures corresponding to the certificate of conformity in order to meet the requirements

Conformity assessment procedure

- There are two MRAs on conformity assessment: EEE and Pharmaceutical products
- The ratification process of these two products is faster than other products because of completed MRA before the enforcement of Constitute B.E.2550.
- Other products: the process of drafting negotiation frameworks and public hearing events is done. The next process is to summarize recommendations from public hearing events and then propose to the cabinet for approval

Standards and Conformance : Barrier Factors

At national level

- Due to Section 190 of the Constitution, BE 2550, the process on MRA will take more time.
- Lack of laboratories for inspection or certification due to the budget limitation
- Scarcity on technical assistances
- The process on regulation revisions in some products is quite delay.

At regional level

- Unclear rules or procedures lead to difficulties in implementation.
- For prepared foodstuff product, the establishment of the ASEAN Food Reference Laboratory did not receive funding from the EU.
- For THMS product, the knowledge in traditional medicine in each country is different.

Recommendations and lessons learned

The government should provide the budget to CAB to support the implementation of the MRAs, such as the development of testing equipments and human skills.

The government should encourage the private sector or stakeholders to get more involved in the implementation process.

ASEAN should aim to reduce the development gap among AMSs (such as, levels of testing laboratory capacities).

2.4 Investment Facilitation

Performance of Board of Investment: Perspective of officials in BOI

The BOI's performance

- **Excellent**
  - investment promotion and facilitation strategy
  - investment generation
- **Very good:** quality of the Investment Promotion Agency (IPA)
- **Fair**
  - investor servicing
  - investment policy: transparency, predictability, consistency, building constructive stakeholder relationships

Limitations

- fostering a private sector-minded culture
- accumulating deep business knowledge
- in-house research capacity

Perspective of private sector

Major factors influencing the decision to invest

- Investment Incentives (69%)
- low tax rate and total tax liability (55%)
- effective investment promotion agency (53%)

Comparing with the situation in the past two years,

- **Significantly improved factors**
  - Availability of domestic suppliers or support industries
- **Significantly worse factors**
  - Political stability (65%)
  - Level of corruption (65%)
  - Labor cost (59%)

* Based on the surveyed result of 53 firms

Main Barrier Factors

Slow process of permit administration and too many procedures

- OSOS could not help to reduce the amount and processing time of paperwork and procedures required for obtaining permits, licenses, or approvals from different government agencies

Political instability

- Often changes in ministers and high-ranking government officials, and the stagnant performance of some government officials

Recommendations and lessons learned

OSS should strengthen coordination with related agencies and encourage them to provide services regularly.

The related government agencies should increase their effectiveness and efficiencies in processing registration, authorization and permit formalities.

Recommendations for the BOI to improve the investment promotion regimes

- BOI needs to be able to identify the gaps or missing links which the domestic business sectors need or are deficient in.
- BOI should focus more to attract investment which will cause high value added.
- The focused areas should be reconsidered and revised.
- BOI should build the linkages between foreign investors and domestic research and development capabilities.
- BOI should consider allowing stakeholders to share opinions, and provide comments.

2.5 IPR

Implementation

ASEAN IPR Action Plan (2004-2010), (2011-2015)

Accession to the Hague Agreement

- In the process of studying to pursue the international filing system under the Hague Agreement.

Accession to the Madrid Protocol

- Not yet, but there is a plan for the preparation for the Madrid Protocol.

Consultations and information exchanges among national enforcement agencies in IPR protection

- Less active consultation and information exchange with other AMSs in IPR protection.

Promotion of regional cooperation on Traditional Knowledge (TK), Genetic Resources (GR) and Cultural Traditional Expressions (CTE)

- No regional cooperation.

Obstacles

Insufficient infrastructures in the office, i.e. the number of examiners, in order to support the Madrid and Hague systems.

Different definition of IP and low level of protection and enforcement among AMSs.

Enforcement issue is very sensitive as it is related to many organizations, so it is not easy for the real implementation.

Recommendations and lessons learned

Knowledge and information related to IPR should be more publicized and focused directly to the target group.

Infrastructure on IP administration should be improved in terms of HR, technology and equipments.

ASEAN IP database system should be standardized and user friendly.

IP office may provide the assistance for matching between innovators and entrepreneurs .

Enforcement should be stricter, more transparent and on a regular basis by providing efficient incentive contracts.

2.6 Trade Facilitation: National Single Window (NSW) and ASEAN Single Window (ASW)

Trade Facilitation Performance

	2006	2007	2008	2009	2010	2011	2012
Documents for export (number)	9	9	7	4	4	4	5
Time for export (day)	23	24	17	14	14	14	14
Cost for export (US$ per container)	n.a.	848	615	625	625	625	625
Documents for import (number)	14	12	9	3	3	3	5
Time for import (day)	25	22	14	13	13	13	13
Cost for import (US$ per container)	n.a.	1,042	786	795	795	795	750
Trading Across Border Rank	n.a.	103	50	10	12	12	17

Source: Doing Business, 2006-2012

- Thai Customs Department began employing a paperless e-customs procedure in January 2005 and fully in function in 2007.
- A lot of improvement in terms of documents for import/export, time for import/export, and cost for import/export reduced dramatically between 2007 and 2009.
- Since then the rank is relatively unchanged, except in 2012 that the rank has moved down slightly.

Preparedness for ASEAN Customs Integration and ASEAN Single Window (ASW)

Item	Modal response
ASEAN Cargo Processing Model	NO (IN 2012)
ASEAN Customs Declaration Document	NO (IN 2012)
ASEAN Customs transit system	NO (Depending on the readiness of the Agreement)
ASEAN Customs System dealing with Temporary Admission	NO
ASEAN Customs System dealing with Outward and Inward Processing	NO
AEO Mutual Recognition with other ASEAN Member States	NO (IN 2012)
Manifest Processing consistent with ASW	Yes
Declaration processing consistent with ASW	Yes
Rationalization, Simplification and Harmonization consistent with ASW	Yes

Source: From Survey

Implementation of Customs Modernization

- e-Customs is fully implemented.
- Customs Department had set the specific targets on the customs clearance times for goods that if goods are required a physical inspection, the customs clearance time is no more than 30 minutes and if good are required an X-Ray inspection, the customs clearance time is no more than 15 minutes.

Specific target customs clearance time

<table>
<tr><th>Customs clearance time</th><th>Imports / exports specific target time</th></tr>
<tr><td>NOW</td><td>20% for physical inspection / X-ray inspection / 95% < 5 mins/declaration</td></tr>
<tr><td>In 2015:</td><td rowspan="2">It depends on the policy of Thai Customs Department on physical goods inspection at that time; however the target of physical inspection will be continuously decreased.</td></tr>
<tr><td>After 2015</td></tr>
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Implementation of NSW

Customs Department has signed an MOU with a number of government agencies both within and outside the Ministry of Finance.

Currently, the NSW have been implemented, mostly in the pilot phase, in 26 government agencies and with 8,994 agents serving about 125,000 traders.

Other 12 agencies are planned to implement in 2012-2013.

Private Sector Survey

The private sector survey presents the same result as in the government officials survey that there is not much improvement in customs process between 2009-2011 due to the introduction of the e-customs in July 2008.

The perception of the private sector shows that the import/export declarations is not automated (40-50%).

Recommendations

Promoting the Customs Department to be a core agency to implement NSW.

- Currently, the government budget to other authorities will go to the Ministry that the authorities belong to.
- For example, the budget to develop NSW for the port authority will go to the Ministry of Transport. This creates the situation that the core agency (the Customs Department) cannot control the implementation plan as the core agency does not control the budget.
- The synchronized budget and plan is needed to implement NSW.

Improving the capacity of the personnel in related agencies that involved in the NSW, especially the IT capacity.

2.7 SMEs

What do we expect from the implementation of *AEC measures for SME Development*?

ASEAN *Policy Blueprint* for SME Development from 2004-2009	ASEAN *Strategic Action Plan* for SME Development (2010-2015)
▪ Faster development of SMEs in the region; ▪ Enhanced competitiveness and dynamism of ASEAN SMEs; ▪ More resilient ASEAN SMEs to better withstand adverse macroeconomic and financial difficulties and dynamism of economic environment; ▪ Increase in the contribution of ASEAN SMEs to the overall economic growth and development of ASEAN as a region.	▪ Internationalized SMEs and enhanced marketing capabilities of SMEs; ▪ Improved access to financing for SMEs; ▪ Better developed human capital with regard to the improvement in capacity and capability of SMEs; ▪ Establishment of incubators for local SME development; ▪ Establishment of SME Service Center/ASEAN SME Service Desk; ▪ Establishment of ASEAN SME Regional Development Fund

What are key areas of focus?

ASEAN *Policy Blueprint* for SME Development from 2004-2009	ASEAN *Strategic Action Plan* for SME Development (2010-2015)
▪ Human resource development and capacity building ▪ SME capabilities for inter-firm networking and linkages ▪ SME marketing capabilities ▪ Access to financing ▪ Access to technology ▪ Conducive policy environment	▪ Access to financing ▪ Support and facilitation for development of SME businesses ▪ Technology development for SMEs ▪ SME Promotion to international market ▪ Human resource development

Implementation performance & perceived effectiveness:
ASEAN *Policy Blueprint* for SME Development (2004-2009)

Implementation performance

- Activities are regional in nature and hard to put forth the effort to implement certain plans efficiently at the national level, resulting in a slow progress with only few programs implemented:
  - Creation of regional training program in entrepreneurship development
  - Promotion of internship schemes and SME e-commerce, SME capacity building in the preparation of good business plans
  - Collection and dissemination of best practices in SME registration and support services.

Perceived effectiveness

- Slow progress in fostering SME capabilities for inter-firm networking and linkages and the tracking and benchmarking of SME capabilities likely slows down the formation of SME-based clusters, inter-firm networks and linkages within ASEAN, making SMEs not be able to fully enjoy business opportunities from economic integration.
- Proposed activities to promote SME technology upgrading and transfers of innovative technologies have not been successfully implemented.

Implementation performance & perceived effectiveness:

ASEAN *Strategic Action Plan* for SME Development (2010-2015)

Implementation performance

- There has been some progress in terms of existing financing facilities, business facilitation, SME promotion to international markets, and HR development process. However, there are activities that need much attention, especially in the area of technology development. It is often stated that, in addition to constraints on financial capital, most SMEs have low level of technological and innovative capabilities.

Perceived effectiveness

- Although the presence of SME financial facilities is likely to create moderate impacts on SMEs, the scale of credit guarantee system is still limited since only a small number of entrepreneurs use guarantee services. They are not attractive, partly due to high guarantee fee and interest rate.
- The longer term positive impact from the promotion of facilitation is supposed to mainly come from the setting up of seven service desks in various universities.
- There is no/slow progress in the technology development of SMEs particularly in terms of training programs, incubators, performance measurement.
- To actively bring SMEs to international markets and regularly distribute the list of ASEAN SME trade fairs likely create opportunities for capable SMEs to get into new markets.

Challenges

Lack of national agenda for SME development
and for preparing Thai SMEs for market liberalization under the AEC
during the past implementation period

The government's weak determination and inactive response to help promote the development of SMEs.

Lack of collaborative effort with financial sector to facilitate improved SME financing (such as the establishment of credit rating system for SMEs, and credit information reference and referral system)

Slow progress in fostering the capability and marketability of SMEs

SMEs' low level of managerial, accounting, and IT skills as well as financial literacy

The way forward (1)

The local government should have strong determination, commitment and political will to help resolve the problems facing Thai SMEs and to strengthen SMEs' competitiveness.

- One of the critical steps to be committed is higher budget allocation towards SME development.

There should be closer cooperation and coordination among related parties such as private firms, financial institutions, government agencies, SME association.

- This will make it easier for them to participate effectively in national and international dialogues, and to help exchange experience and idea with one another.

Policy coherence should be promoted at regional, national and international level.

- Thailand and other ASEAN member countries should be urged to develop national agenda for SME development.
- Furthermore, related policies and strategies proposed by concerned government agencies that promote SMEs should parallel the national agenda, the ASEAN strategic action plan and the ASEAN policy blueprint.

The way forward (2)

The link and collaborative network between LEs and SMEs should be promoted more.

- The reason is that the majority of SMEs lack of adequate experience and may not be able to meet international requirements.
- To create network with other firms, both horizontal and vertical, SMEs will be able to develop faster.

To help speed up the development process, the government must play an important role to enhance the awareness of the issues concerning the enhancement of competitiveness and resilience.

- Various programs and promotional activities should be held on a regular basis to educate SMEs and create awareness among SMEs, and also to create more coverage of SMEs to participate in the programs.

SMEs should be urged and encouraged to build up human and technological capacity to absorb and implement change, and to ensure their smooth transition and to maintain competitiveness.

- The public sector and business associations will play an important role in supervising and supporting the development.

3. Conclusions

Main Obstacles

Lack of national agenda or strategy about the national position or role to cope with the AEC. So far, the role seems to be passive, not active.

No central agency to directly deal with all AEC related issues. Currently, different agencies deal with different issues based on their responsibilities, and then there is no synergy among various agencies.

Institutional capacity in terms of lack of budget, human resource, and equipments.

Some domestic laws and regulations impose restrictions on trade, investment and labor movement.

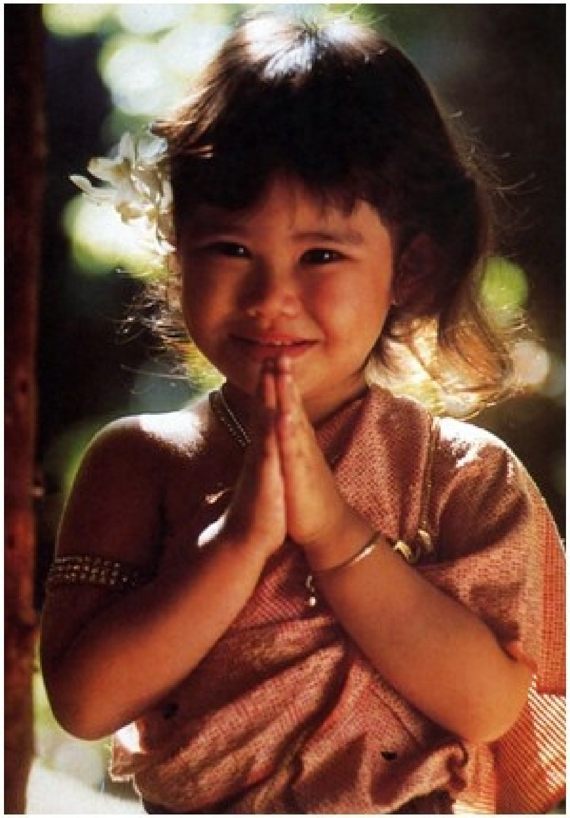
The Way Forward

The Thai government should set up the national agenda or strategy about AEC to give the clear direction about

- Free flow of trade
- Free flow of investment
- Free flow of labor movement

The government should set up an integrated AEC unit for

- Monitoring
- Coordinating
- Planning
- Consulting



Thank you