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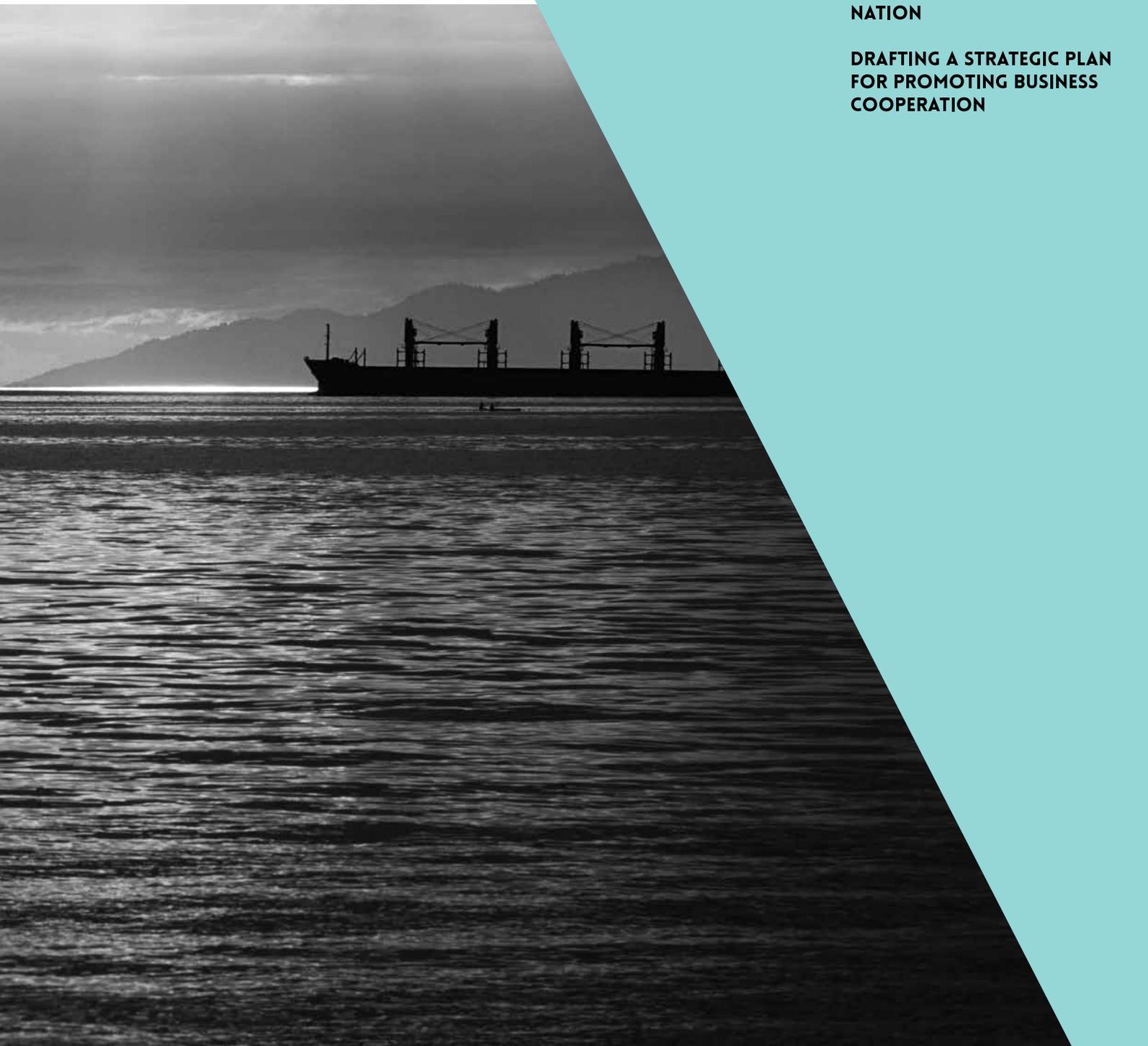
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**DRAFTING A STRATEGIC PLAN
FOR BUILDING THAILAND'S
CAPACITY AS A TRADING
NATION**

**DRAFTING A STRATEGIC PLAN
FOR PROMOTING BUSINESS
COOPERATION**



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The Thailand Development Research Institute Foundation was established in 1984 to conduct policy research and disseminate results to the public and private sectors. TDRI was conceived, created and registered as a non-profit, non-governmental foundation, and is recognized as such by the Royal Thai Government. The Institute does technical and policy analyses to support the formulation of policies with long-term implications for sustaining social and economic development.



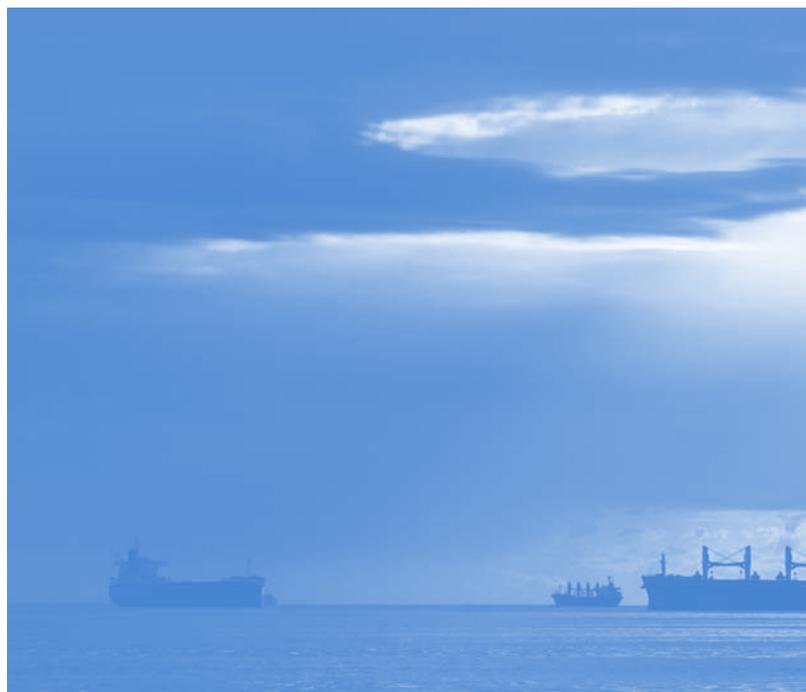




Exports have always been Thailand’s main engine of growth since the country adopted an “outward-oriented” economic policy in the late seventies and did away with import substitution policy. But now Thailand’s labor-intensive exports face stiff competition from emerging economies the likes of Vietnam, Indonesia, Myanmar, Laos and Cambodia that offer lower wages. If the country is to continue to be a successful “trading nation,” it needs to make sure that it can produce high-value products that the World “demands” not low-value products that the country can “supply.” But industrial upgrading will require skilled personnel and state-of-the-art technology that may need to be imported. Again, protective trade and investment rules and regulations need to be overhauled. Finally, Thailand needs to ensure that its products are widely distributed and can be procured with minimum cost and delivery time. This may mean striking more free trade agreement deals, developing e-commerce platforms, etc. The Strategic Plan for Building Thailand’s Capacity as a Trading Nation will address these challenges.

The success of Thailand as a trading nation will depend not only on the state, but also on its private sector. The implementation of the Strategic Plan mentioned above will require close and effective coordination and communication between the government and trade associations and among various trade associations within a supply chain. The Strategic Plan for Promoting Business Cooperation will address how to strengthen the role of trade associations.

DRAFTING A STRATEGIC PLAN FOR BUILDING THAILAND'S CAPACITY AS A TRADING NATION¹

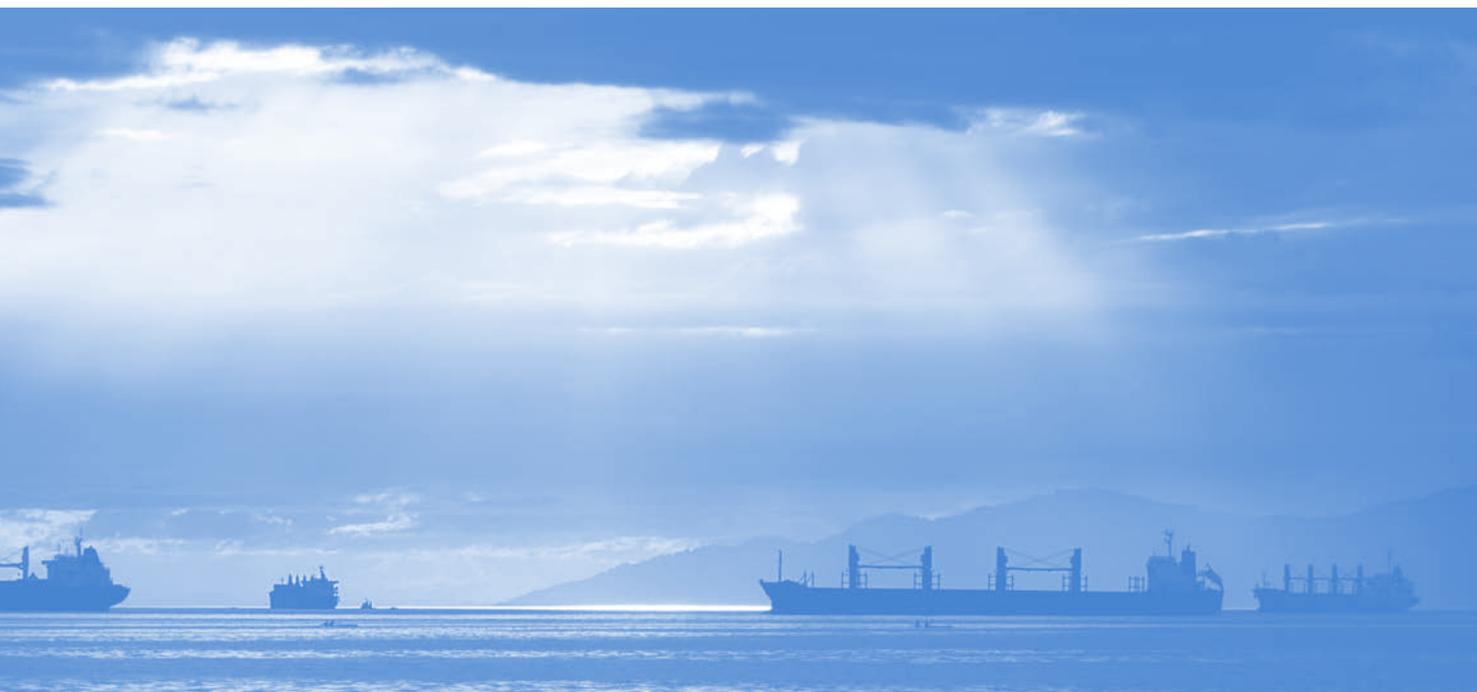


EXECUTIVE SUMMARY

The global economy has remained relatively subdued ever since the subprime mortgage crisis that started in 2008 in the United States. The economic growth rates of many of Thailand's leading trading partners, particularly the United States and countries in the European Union, have remained low for the last few years even after recovery from the crisis. In Asia, Japan has so far failed to reinvigorate its long-stagnant economy, and China is currently experiencing an unprecedented economic slowdown. All of these factors have had significant impacts on Thailand's exports; as a small open economy, Thailand is heavily reliant on exports, which means that, without a fresh approach, Thailand would be unable to achieve the growth rates it once did despite the current application of constant domestic stimulus measures.

Furthermore, Thailand is currently faced with four challenging megatrends, namely urbanization, a rapidly aging population, rapid technological development, and environmental issues, particularly

¹ This article is the executive summary of a research paper under the project on drafting a strategic plan for building Thailand's capacity as a trading nation and a strategic plan for promoting business cooperation, which was submitted to the Trade Policy and Strategy Office, Ministry of Commerce, in August 2017.



climate change. These megatrends all affect Thailand's strategic plan to become a trading nation as they adversely affect the evolution of global goods and services markets. Although these changes may be viewed as threats, they also come with opportunities. Exciting opportunities for Thai businesses include the provision of goods and services for the elderly and for urban dwellers, with other products related to health, technology, and the environment. Moreover, Thailand also has a sufficiently large domestic market to support the development of such novel goods and services before they enter the global market.

Therefore, it is imperative that Thailand reform its domestic commercial strategy in order to support the country's transformation into a trading nation that will once again be driven by a highly competitive export sector. This desired outcome also coincides with the country's 20-year strategic plan (2017-2036), in which it is stated that, by 2036, Thailand will have "become a trading nation driven by an expanding commerce and an advanced digital economy."

EVALUATION OF THE THAI ECONOMY'S COMPETITIVENESS

Formulating the strategic plan to become a trading nation involves a SWOT (Strength, Weakness, Opportunity, and Threat) analysis of the Thai economy.

In terms of strength, Thailand enjoys a relatively large and robust domestic market of about 66 million people in 2017. This means that the development of new products and services that respond to the aforementioned megatrends can first be tested and refined in the domestic market before moving abroad. Furthermore, as Thailand still has a relatively low cost of living, adjustments in investment regulations have the potential to attract large amounts of foreign capital, which would help in further elevating Thailand's competitiveness.

With regard to opportunities, the Thai economy is surrounded by several burgeoning economies, four of which share their borders with Thailand. These fast-growing economies are important engines for the Thai export sector, which

means that Thailand should prioritize and facilitate border trade through the promotion of investment in neighboring countries and improvement of cross-border logistics infrastructure, among other things.

As for weaknesses and threats, many Thai laws are outdated, and many Thai businesses are still rather primitive and simply not ready for increased integration within the global economy. To secure the greatest benefits from opening the Thai economy to the world, Thailand must revise its many outdated regulations while Thai businesses will have to adapt and invest more in technology, research and development in order to avoid being left behind.

STRATEGIC PLAN TO BUILD THAILAND'S CAPACITY AS A TRADING NATION

Mission of Strategic Plan

Thailand shall become a trading nation with a production base that produces high-quality goods that are in demand globally, with systematic channels of distribution to access various markets worldwide. Additionally, Thailand shall have an economic system that is friendly to trade and foreign investment so that Thailand's total value of goods exports can grow by no less than 4 percent per year and total value of services exports can grow by no less than 10 percent per year by 2021 onwards.

Four main strategies to build Thailand's capacity to become a trading nation are explained below.

STRATEGY 1: PROMOTE THE PRODUCTION OF GOODS THAT MATCH GLOBAL DEMAND

Goods that Thailand produces should meet

global standards and respond to the changes in market demand in order for Thai businesses to be competitive. Hence, access to accurate and updated information regarding consumer tastes and demand is critical. This means that Thai businesses must pay greater attention to the market rather than solely emphasizing production. The strategies to assist Thai businesses in producing goods that better match market demand are described below.

1.1 Provide exporters with in-depth market insights

To promote foreign trade, the government should establish a body which would be equipped with in-depth market insights from which the private sector could benefit. Offices of commercial affairs in foreign countries should be requested to assist in gathering such information. Market intelligence services should be provided free of charge to business alliances to promote their establishment, but the Department of International Trade Promotion may wish to set fees for such services provided to individual companies.

1.2 Promote sharing of market information throughout the product value chain

The 11 industrial development institutes administered by the Ministry of Industry should take a central role in promoting information connectivity among enterprises throughout a product's value chain as a non-interested third party. The management of these institutes, however, would require greater involvement of the private sector to be able to better serve the private sector's needs.

1.3 Develop a database on foreign trade and investment information

The Trade Policy and Strategy Office should develop a website with comprehensive information on foreign trade and investment. As with the

websites of Singapore's International Enterprise and Australia's Austrade, this website should contain in-depth information on each trading partner that includes information on local market conditions and future trends, commercial opportunities, prospective local business partners, political environment, business laws, and any statistics that would be useful for carrying out commerce in those countries.

STRATEGY 2: PROMOTE PRODUCTION OF GOODS THAT MEET GLOBAL STANDARDS

With an increasing number of bilateral and multilateral free trade agreements causing tariffs to plummet, many countries have turned to regulating product quality in order to manage product inflows. Consequently, trading nations which rely on exports must improve their product quality in order to maintain competitiveness by taking the following steps.

2.1 Enhance the effectiveness of state product certification agencies

Ensuring high-quality and safety standards throughout the food production chain requires thorough integration of the entire production and marketing process. The government should establish a single agency to regulate the safety of food products at every step of the production process from upstream to downstream. Foreign examples of "farm-to-fork" food safety regulatory bodies are the European Food Safety Authority of the European Union and the Food and Drug Administration of the United States.

2.2 Supply small-sized exporters with product testing equipment

Increasingly complex food standards involve increasingly costly testing laboratories and equipment. While the government-run Central

Laboratory Thailand provides product testing services, those services do not meet the private sector's demands. It is imperative that these laboratories be managed more like a private company than a government bureaucracy, which would require an amendment in the institutional structure of these organizations to allow for the private sector to take a greater role in their management. The Central Laboratory Thailand may also consider delegating certain tasks to local tertiary institutions.

2.3 Formulate a plan to handle risks associated with non-tariff measures

As multiple non-tariff measures (NTMs) are being introduced continuously by various trading partners, the government should closely monitor the introduction of new NTMs and formulate a plan to deal with them over the next 10 years. It should also establish a one-stop NTM helpdesk to provide Thai exporters with relevant information and assistance.

2.4 Develop a comprehensive traceability system

Traceability demands that every step of the production chain be documented and traceable, from farm to factories and packaging. One way to do this is to develop the contract farming ecosystem which can help control product quality. The government should also develop a database that compiles traceability information from each producer for risk evaluation, inspection and the immediate halt of the sale of products that could harm consumers.

STRATEGY 3: EXPAND MARKETS AND INCREASE DISTRIBUTION CHANNELS FOR GOODS AND SERVICES

Producing high-quality goods and services that meet global standards and satisfy consumer demand may be critical but it is only part of



the equation. The other part entails increasing distribution channels to make it easy for consumers to access such goods and services. The following can be done to increase access to Thai products in the global market.

3.1 Enter into free trade agreements with important trading partners

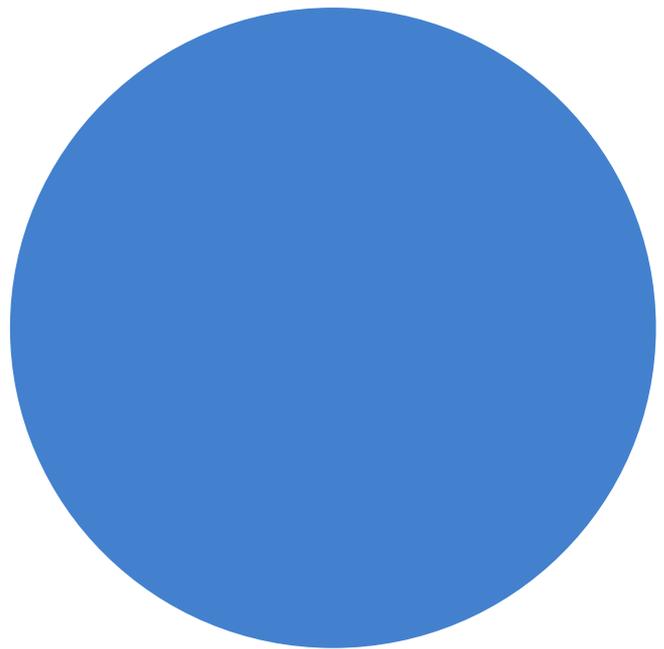
For Thailand to become a fully fledged trading nation, the government needs to secure free trade agreements (FTAs) with important trading partners, especially the United States and countries in the European Union. In addition, there should also be a report on the benefits and drawbacks of each FTA. The government must also formulate a plan to assist those businesses adversely affected by FTAs.

3.2 Develop e-commerce platforms

The government should promote the sale of Thai products in various online marketplaces, such as Alibaba, Rakuten, Amazon, and e-Bay, rather than promote only the government-run Thaitrade.com. It should provide potential exporters with information, including profiles of each marketplace, such as entrance fees, payment schemes, or technical support. It should also provide training to ensure that suppliers are “e-commerce ready.” For example, suppliers should know techniques for setting prices, handling large orders and managing inventories.

3.3 Utilizing Thai retailers and franchises abroad to sell Thai products

Many Thai retailers and franchises currently have successfully expanded their business overseas, particularly in ASEAN countries. Thus, one way to promote Thai products overseas is to have these successful Thai retailers and franchises provide critical market information, such as on local consumer tastes, competing products and niche



product markets with commercial potential. At the same time, Thai retailers could also help promote Thai products through their outlets and shops.

3.4 Promote trading firms

The government should promote robust Thai trading firms that could help local suppliers find customers overseas and assist with trade procedures, such as opening letters of credit, handling logistics or dealing with complicated customs procedures. These trading firms should also provide small and medium-sized enterprises (SMEs) with insights about various markets, product improvement recommendations and product quality inspection. The government should also implement incentive schemes for SMEs to form themselves into an “export consortium” in order to share costs, such as container costs, and market research or development costs.

3.5 Improve border customs areas

Border customs areas should be improved to better respond to the needs of the private sector

in cross-border trading. Suggested improvements include the expansion of custom areas in order to provide sufficient parking space for the inspection of cargo trucks, an extension of working hours to ease congestion at borders, the establishment of a single national window service in all border control areas to minimize paperwork and shorten customs and immigration clearance procedures, and the development of a common border control area system with neighboring countries.

3.6 Establish product distribution centers along Thailand's borders

The establishment of digital product distribution centers along Thailand's borders could go a long way in promoting border trade and reducing transportation costs.

3.7 Develop a national brand on which small and medium-sized enterprises can capitalize

The government should aggressively promote and develop a national "Thai" brand that is accepted globally, much like the "100% Pure New Zealand" brand. Initial focus should be on food products that are of high quality; they should be promoted in ASEAN countries where Thai cuisine is already highly regarded.

STRATEGY 4: REGULATORY REFORM TO CATER TO FOREIGN TRADE AND INVESTMENT

Trading nations must rely on foreign trade and investment in order to produce goods and services that meet global demands and standards. Nevertheless, existing laws and regulations often impede foreign trade and investment; therefore, they should be reformed in order to attract investment and high-caliber entrepreneurs into the country.

4.1 Enhance the competitiveness of services that support foreign trade and investment

The Annex of the Foreign Business Act 1999 should be revised. In particular, list 3(21) should be annulled in order to open up the service sector to foreign investment.

4.2 Allow foreigners to engage in professions that assist in fostering foreign trade and investment

The government should liberalize the movement of foreigners in professions that support foreign trade and investment by revising the Annex of the Alien Employment Act 1979. It should also revise the Order of the Royal Thai Police Office No. 606/2549 which requires that, for every foreign worker hired, four Thai workers must be employed. This type of regulation, designed for labor-intensive industries, is outdated in the information or skill-intensive digital economy. Lastly, the government should introduce a business visa which would enable foreigners to enter the country to attend business meetings, meet potential business partners, conduct preliminary market research, etc., without having to obtain a work permit.

4.3 Reduce tariffs for raw materials and intermediate goods

If Thailand is to become a trading hub, products should flow freely across borders. While tariffs on most final products are relatively low, the government still needs to reduce current relatively high tariffs on raw materials and intermediate goods. Such a move would help reduce costs and increase the availability, variety and quality of inputs for exported products.

4.4 Simplify the tariff structure

The government should simplify the tariff structure, such as by applying the same tariff rates for products in the same category in order to minimize complications in determining the amount

of the import duty levied on specific products. Fewer tariff rates could also help increase the efficiency and transparency of customs procedures.

4.5 Increase the role of the Export-Import Bank of Thailand in supporting exports and foreign investments by small and medium-sized enterprises

A trading nation should support enterprises of all sizes in engaging in overseas trade. The EXIM Bank should provide SMEs with credit for exports and foreign investment in a systematic fashion. It could do so by setting the target business size, specifying conditions for loans and collateral, and setting export targets for SMEs.

4.6 Revise the funding strategy of the Trade Promotion Fund

The reorientation of trade promotion schemes from supply-driven to demand-driven mode, focusing on knowing markets and consumers, will require financial resources. The guidelines for allocating funds from the Trade Promotion Fund should be revised by placing greater emphasis on medium and long-term projects for building the marketing capacity of local suppliers rather than short-term projects focused on finding outlets for products, such as overseas trade fairs. To do this effectively, a database of projects that have received funding is required, as is a system to monitor and evaluate the individual projects.

4.7 Revise regulations that are obstacles to foreign trade and investment

A trading nation must have domestic rules and regulations that minimize business costs. The government should undertake a comprehensive law review to eliminate outdated and cumbersome regulations that currently plague both domestic and foreign businesses alike. Making rules more welcoming to foreign trade and investment is necessary to increase Thailand's Ease of Doing

Business ranking, a widely used indicator to gauge the quality of domestic regulations.

4.8 Revise regulations to abide by the World Trade Organization's Trade Facilitation Agreement

As a signatory, Thailand needs to reform urgently its customs and relevant regulations to comply with the WTO Trade Facilitation Agreement, which came into effect in February 2017. Such reforms would greatly reduce costs associated with customs clearance procedures.

DRAFTING A STRATEGIC PLAN FOR PROMOTING BUSINESS COOPERATION¹



EXECUTIVE SUMMARY

The experience of several leading trading economies, such as Japan, South Korea and Taiwan, has shown that a strong private sector is a fundamental component of a successful trading nation. One way to strengthen the private sector is by having businesses come together to form business alliances. This is because no single business on its own, particularly small and medium-sized enterprises (SMEs), has the resources to fulfill every activity in a product's value chain, from sourcing raw materials to marketing and branding.

Therefore, promoting business alliances and greater cooperation within the private sector is vital to enhancing Thailand's competitiveness to become a trading nation in addition to transforming the economy to become a "value-based economy" as called for in the government's "Thailand 4.0" policy.

¹ This article is the executive summary of a research report under the project on drafting a strategic plan for building Thailand's capacity as a trading nation and a strategic plan for promoting business cooperation, which was submitted to the Trade Policy and Strategy Office, Ministry of Commerce, in August 2017.



BUSINESS ALLIANCES IN THAILAND

Although there are numerous business associations in Thailand, most are only short-term associations crafted to solve immediate and pressing issues rather than to foster the long-term growth and development of member companies. Such associations usually collect minimal, if any, membership fees and often do not have permanent employees. As a result, the day-to-day financing and operation of such associations are heavily reliant on “in-kind” personnel contributions from large member companies, which give them outsized influence in the association. This situation often results in smaller companies breaking off to form their own associations.

Consequently, most existing trade associations lack depth and are characterized by little meaningful cooperation. Of the more than 800 business associations in Thailand, only 131 are members of the Thai Chamber of Commerce and the Board of Trade of Thailand. In addition, most are horizontal alliances among businesses involved in

the same type of trade rather than vertical alliances involving businesses from different stages of a product’s value chain, which is vital for enhancing the country’s competitiveness. Moreover, there are also many more business alliances that are informal and are not registered with the Department of Business Development. All this creates a rather scattered and inefficient business alliance landscape in Thailand.

Although rare, there are examples of business associations that effectively promote the development of their members. The Thai Garment Manufacturers Association (TGMA) is one such association. The success of the TGMA stems from the willingness of large members to share knowledge and information with smaller members. Such cooperation cultivates trust and an atmosphere that is mutually beneficial for all parties. As a result, TGMA members are able to remain competitive despite the pressures they face from having to increase wages. Because of tangible benefits, members are willing to make contributions of non-trivial annual membership fees. The TGMA

is relatively well resourced; hence, it is one of the very few known associations with a full-time professional managing director who oversees the operations of the association.

SWOT ANALYSIS OF THAI BUSINESS ALLIANCES

SWOT (Strength, Weakness, Opportunity, Threat) analysis of Thai business alliances shows that attempts have been made to form business associations within the private sector, although most associations have so far been limited in scope, and they yield few benefits for several reasons. First, there is often a lack of trust among members, which hinders information-sharing and cooperation. Second, with a large number of associations having overlapping roles, it has become difficult for any association to effectively represent an industry. Third, many associations lack sufficient funds, which damages operational efficiency. Lastly, most associations lack an internal self-regulation mechanism among members. All of these factors mean that existing associations are by and large ineffective and unable to increase their members' product standards and therefore enhance the country's competitiveness.

STRATEGIC PLAN TO PROMOTE BUSINESS ALLIANCES

Vision of Strategic Plan:

Thai businesses involved in a product value chain are closely associated, such that the network they form is responsive to the needs of its members and to the ever-changing market conditions in a timely and effective manner.

Three main strategies to promote business alliances are as follows.

STRATEGY 1: PROMOTE CONNECTIVITY WITHIN BUSINESS ALLIANCES

Forming strong connections among businesses, whether through business associations, cooperatives, community enterprises or vertical business associations, is critical in the development of the entire value chain. Possible benefits from cooperation include greater research and development, resource sharing to achieve economies of scale and gain access to expensive state-of-the-art technology. The government can facilitate such connections throughout the value chain by doing the following.

1.1 Support the establishment of business federations that can formally represent the particular business or industry in communication with the government

The presence of many overlapping business associations impedes the ability of such associations to effectively represent businesses in communication with the state. The Department of Business Development should therefore encourage trade associations involved in the same or connected businesses to form a federation. Moreover, the Department should also support the formation of an SME federation. Such a federation should serve as the formal representative of businesses in that sector when communicating with the state. However, to ensure that the federation is truly representative of a particular business or industry, it should represent the majority of companies in the particular sector. In order to incentivize businesses to come together, the government should consider providing co-funding for the activities of federations which would enhance the competitiveness of their members, such as conducting in-depth market research or providing

training in essential skills required for industrial upgrades or product development.

1.2 Support vertical business alliances

As the relationship between businesses along the vertical supply chains often involves buyers and sellers, they may find it difficult to share information. The government, as a non-interested third party, should thus step in to help pool and distribute information among players throughout the value chain (upstream, midstream, downstream). It can do so by utilizing various state agencies, particularly the 11 industrial development institutes administered by the Ministry of Industry, as intermediaries to solicit, analyze and disclose useful information for the business community in the same value chain. However, these institutes should be restructured in order to enable greater private representation on the boards of industrial development institutes in order to be able to work more efficiently with the private sector.

1.3 Promote trust among businesses

A lack of trust leads to weak business associations. To promote trust, the government should revise several regulations to make business operations more equitable for all parties, particularly with regard to contract farming.

STRATEGY 2: STRENGTHEN BUSINESS ALLIANCES

For business alliances to function fully, they need sufficient resources in the form of both financial and human capital. Furthermore, they also need unity among members. This strategy is aimed at strengthening business associations by reducing operational obstacles and providing the necessary assistance to enable associations to function effectively.

2.1 Increase sources of income for business alliances

Revise laws concerning business associations, such as Section 22 of the Trade Association Act 1966, to allow business associations to invest under certain conditions, as prescribed by the Department of Business Promotion.

2.2 Delegate tasks to business alliances

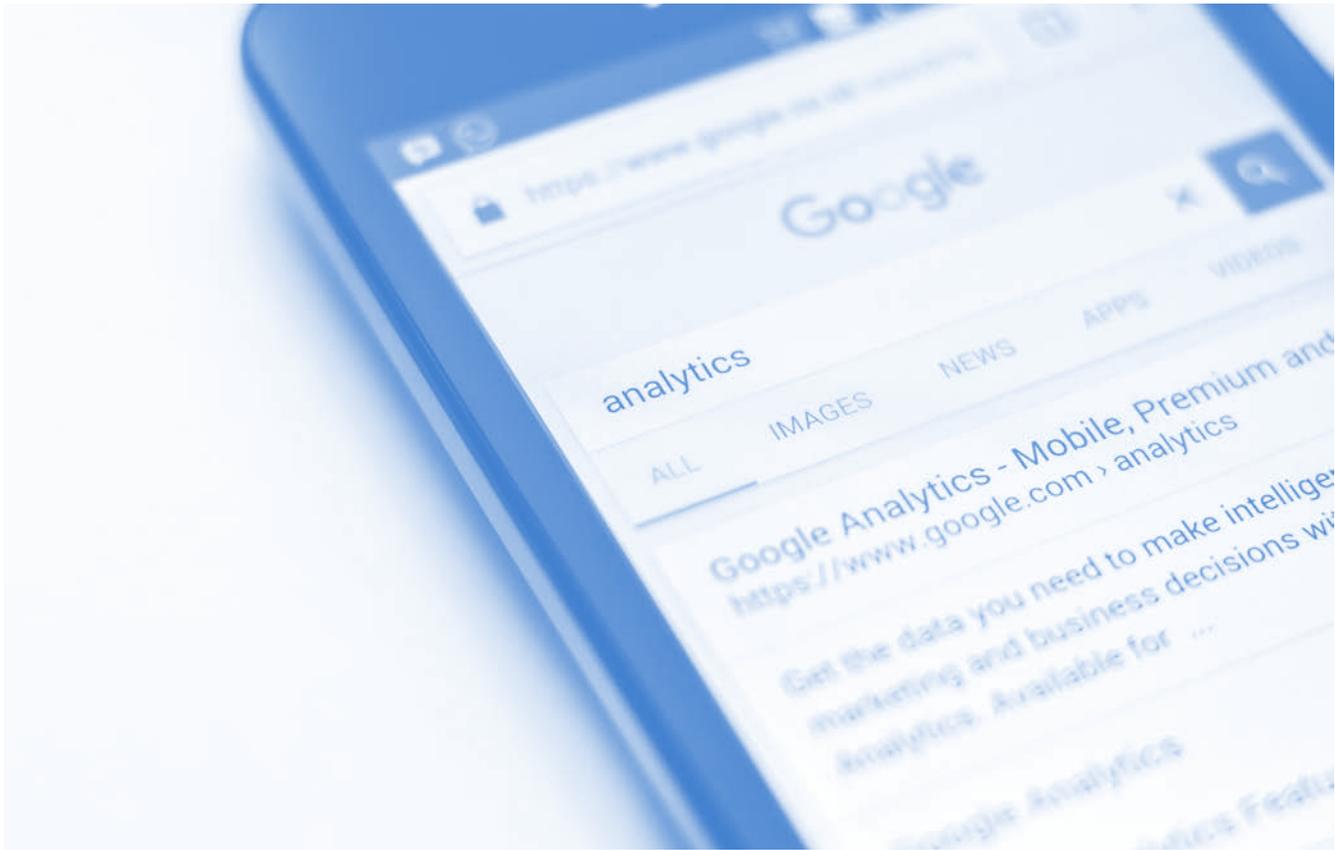
The government can and should delegate certain tasks, such as document certification, and inspection and product certification, to business alliances. This would not only create additional income for business associations, but also relieve the government of having to carry out administrative procedures that could be better handled by the private sector.

2.3 Encourage business alliances to develop product quality standards

The government should encourage the development of product quality standards by business federations. The state can assist through the provision of information regarding consumer demand in the context of product quality, technical information on elevating product quality, and procedures for developing product quality standards that emphasize the participation of businesses.

2.4 Enhance the capability of business alliances

The government should organize trainings to increase the management skills and knowledge of business alliance personnel, such as business association presidents, managers, and information managers, to enhance the capability and competitiveness of business alliances.



STRATEGY 3: IMPLEMENT MEASURES TO PROMOTE BUSINESS ALLIANCE COMPETITIVENESS

One purpose of forming business alliances is to secure the interests of the member companies through increased leverage in negotiations with various bodies, especially the government. The government should thus develop clear protocols regarding its communication with the business sector. At the same time, it needs to ensure that trade associations do not form monopolies or engage in any collusive behavior so that business alliances can fully utilize their resources and capabilities to enhance their members' competitiveness.

3.1 Set guidelines to prevent monopolies or competition restrictions by business alliances

Set out guidelines for business associations in order to prevent actions that may violate Section

27 of the Trade Competition Act 1999, which prevents businesses from cooperating to reduce competition.

3.2 Improve and update the database of business associations

In order to track the development and the role of business associations, the Department of Business Promotion should develop a publicly accessible, updated and comprehensive database of all registered Thai business associations. This database should be searchable by geographical area and the type, size and sector/industry of the associations. On the other hand, business associations themselves should also maintain an updated list of their members and make the list available to the Department while also notifying the Department whenever there are changes in an association's membership.