

## **Week 2 Essay**

### **CLMV Trade and Investment (24 June 2019)**

According to world trade statistics, Cambodia, Laos, and Myanmar, have trade deficit while Vietnam tends to have trade balance over the past 6 years. The negative trade value could be resulted from an increase in FDIs through machinery and raw materials import.

Despite negative balance, export among CLMV is continuously rising which implies growing economy. Meaning that, more income is distributed to population in which helps increase purchasing power. Based on import tables provided, this fast-growing region imports a lot of vehicles and beverages especially in Laos where cars import is about 9 percent.

Most of CLMV exports are mainly garment in Cambodia, copper in Laos, natural gas in Myanmar, and electronic parts as well as clothes in Vietnam. However, the trade between CLMV and Thailand is interesting since many export goods from CLMV are later re-export back to their countries such as gold in Cambodia and petroleum gas and oil in Myanmar. The main reason is that they lack of skilled labors and advanced technology contributing to this specialized production. Currently, it is a good opportunity for Thai producers because they can add more value to the products so as to supply more for the growing CLMV markets.

FDIs in CLMV gradually soars due to investments from China, Korea, and Thailand. It is not surprising since CLMV is an attractive destination with abundant of natural resources and lower cost of labor. For me, to avoid trade war between The US and China, Vietnam is the best production base because of Doi Moi policy involving human development and government support. As a result, Vietnam's GDP growth is 7 percent on average in which the domestic market has higher potential to purchase more products. Moreover, Vietnam has extensive infrastructure and is located close to China that help facilitate supply chain certainly and lower the cost of transportation compared to other countries.

From this class, it widens my perspective on investment a lot since investment does not only depend on lower cost but also involve in opportunity in profit gain. For CLMV, they have higher GDP growth compared to other countries, GSP support from The US, good location that is close to big influential market like China, and an increase in demand for various goods. Using strength on specialized skills could lead to higher profit for investors.

### **Marketing Strategies in CLMV (24 June 2019)**

To make the brand achieve, brand activation is necessary because it helps boost clients' awareness that the brand could be a part of their daily lives.

Due to digital economy, internet is a vital platform for connecting brand and customers together. Nowadays, online users are increasing especially in ASEAN. In class, I am so interested in Coca-Cola advertisement because the brand activates its customers online by launching documentary to encourage people to be happy and also launch advertisement about labelling names on the cans. In my opinion, this brand activation is definitely brilliant idea since the key message under advertisement help improve customers' everyday lives better that they can express more feeling, they can give a can of beverage as a special gift, they can make friend with cola, and they can create their own unique cans. After that, trade volume and market share of Coca-Cola increase just because they do what customers want.

To be a product that people think of as the first choice is not easy. Not only brand activation is critical but culture understanding also matters in order to capture customers in CLMV market as it directly reflects behavior, lifestyle, and attitude of the locals. So, marketing strategies are different among countries. If we do not understand local people, brand will not be successful. For instance, in class, I've learnt that Vietnam teenagers prefer using emoticon to share their feeling, so Coca-cola introduced a new set of emoticon and then became very successful in engaging brand with consumers.

## **Logistics in ASEAN (25 June 2019)**

Despite being grey business, cross-border plays key role on ASEAN logistic because of shorter time for transportation and lower tariff incentive in which can help small businesses and farmers to survive on highly competitive market.

Logistic is not only about transportation but also a business since it is a channel between consumers and producers. Nowadays, infrastructure among ASEAN countries are more developed and connected in which helps facilitate supply chain in lowering cost and time of transportation. Additionally, China has construct road which are R3A and R3B road to link between China with Laos and Myanmar respectively. Furthermore, China also implemented “One belt, one road” project to link all partners together. So, logistic is another major factor for business expansion. As a result, the change in ASEAN countries leads to business re-design through people, product, and investment. Re-design business has both positive and negative impacts. For example, tourists visiting Thailand differ from the past that ASEAN visitors exceed western visitors because of connected transportation. To capture this new target group, many businesses change their services such as airline businesses that currently increase flights between ASEAN countries and eliminate direct flight to western countries.

Another interesting example is about Chinese business such as banana plantation in Myanmar. Due to a higher demand in agricultural products in Chinese market, natural resources provided and also transportation facilitation, all of these drive a large flow of Chinese investment into CLMV countries. With technique and skills, Chinese increase a large variety of agricultural products. Unfortunately, the huge number of products is a result from chemical which has negative consequences toward people’s health and soil infertility.

From above, the importance of logistic toward business is obvious that many countries re-design businesses by using white ocean strategy or become a partner like ASEAN instead of competitors so that they all can gain advantages. However, the most interesting part from this class is about information flow along supply chain in which I think it is more crucial than logistic. People behavior and lifestyle have changed due to development in urbanization and world market. Doing business in traditional way might no longer work. Information can help enhance business effectiveness since information can help producers understand more on their consumers' tastes, preferences, demands, and needs. As businesses observe an importance of data, customer-orientated strategy is widely implemented such as CP company in Thailand stating that data is the most significant factor driving success of the company. Moreover, Lineman and Grabfood use logistic as their service providing for customers since the companies understand what consumers wants.

Because of digital world and data development, industry 4.0 emerges. In my opinion, it will eventually benefit most sectors especially e-commerce. With improved infrastructure, technology, and data analysis, producers can increase productivity increasing trade volume while consumers are able to purchase things globally easily. However, there are some drawbacks and challenges for this mega trend since communication and internet infrastructure required advanced innovation which are expensive to invest. Moreover, data system needs improvement and also data analysts that are in shortage.

## **Laos PDR and FDI (26 June 2019)**

Investment can be classified into 2 categories that are portfolio investment and FDI. FDI differs from portfolio investment in management influence of the enterprise. The main advantage of FDI are natural resources seeking, efficiency-seeking or lower cost of labor, market-seeking, and strategic asset-seeking or collaboration with local. With these four motives, FDI are widespread among CLMV.

To run a business in oversea, there are many key determinants ensuring achievement such as ownership advantage involving managerial skills, strong brand perception like KFC and Starbuck, and specific knowledge. Moreover, location is another essential factor such as government regulation, transportation cost, and customer accessibility. Regarding successful FDI, internalization advantage is also crucial since export from home country would be more expensive than sale in host country. So, transactional benefit matters for FDI.

Definitely, FDI usually has positive impact toward society because of resource allocation, income distribution, technology and skill transfer that lead to economic development with higher employment and increase international trade.

Laos has a large number of FDI especially from China since its economic growth is relatively high compared to other countries. The reason that China invest a lot in this region could possibly because of production shift to seek for cheap workforce and natural resources. Moreover, there is a R3A road which facilitate goods transportation back to China. Laos is currently well-known for mining and hydropower that attract a lot of FDI since Laos has potential to be a hub of electricity in this region.

After I've learnt about basic information of Laos, we then discuss doing business in Laos in the class which interested me a lot. Laos population demand for various products and have higher purchasing power since there are many Chinese, Vietnamese, and other

foreigners living there. Furthermore, Laos still lacks of many fundamental needs such as hospital, consumer goods, and infrastructures, so government also supports a lot for many businesses like hospital, beauty clinic, restaurant business, and technology-intensive business for industrial sector. Therefore, this is a good opportunity for foreign investors since the competitor in Laos is still small. Particularly, Thai investor could gain benefit a lot from language barrier because of the similarity between two languages. Also, Laos people's perception toward Thai products is positive because of lower price and higher quality.

Overall, I agree with the advantage on economic development from FDIs. However, I think that FDIs somewhat has negative externalities as well. For instance, environment problem and inequality. Some local people will not get any benefit if the government deregulate too much. For example, mining in Laos leads to current environmental issues, the ecosystem is destroyed, pollution increases, and water is ruined. Hydropower also devastate habitats and deforest. These problems directly affect local population. If the government continuously ignores the problem, Laos will no longer be a destination for FDI in the future when all foreign investors used up their resources. Sustainability is needed so as to enhance economy and people's well-being.

From my point of view, although Laos is very attractive for doing business, but the population in Laos is very low as opposed to other CLMV countries implying smaller number of labors, lower productivity, and small market. But to take advantage from FDI in Laos is about generalized system of preference (GSP) from the US which lead to lower tariff. Somehow, this privilege can engage larger customers from the world market apart from Laos.

## **Trade and environment (27 June 2019)**

International trade helps boost varieties of products, increase social welfare, allocate resources efficiently, and reduce cost of production by import the product that the country has lower comparative advantage. However, some domestic industries could suffer from international trade as well from price competitiveness.

FDI significantly has positive impacts on economic growth including higher employment, income distribution, skill and technology transfer. Unfortunately, economy prosperity comes at cost, investment usually ruins environment leading to negative impacts toward people's livelihood.

Based on environmental Kuznets curve (EKC) theory, pollution will skyrocket at the early stage of industrialization then it will gradually drop since advanced clean technology will be adopted as people will concern more on their health when income rises.

Trade liberalization leads to higher pollution emission. According to Grossman and Krueger, pollution emission can be divided into three effects that are scale effect (negative impact), composition effect (ambiguous impact), and technique effect (positive impact).

From my point of view, carbon emission is the problem that should be solved immediately since it is the main cause of several severe environmental disasters such as Haze pollution resulted from burning is widespread around ASEAN countries. I believe that both economy growth and environment can become better as theory suggests. However, sustainability is needed. All sectors involving manufacturer, government, distributor, consumer, should be aware of this problem. Obviously, plastic is considered to be the cause of global warming, the trend of plastic use reduction is now prevailing among convenience store and supermarket. Not only usage reduction is crucial, manufacturing also matters. Producers should use sustainable procedure like reusing material. For instance, Nike

nowadays recycles used material to make products. Also, encouraging people to plant more could help reduce carbon emission as well. Singapore is a great example that urbanization can go along with abundant plants from government support under Garden City policy.

### **Economic development (27 June 2019)**

GDP growth reflects an increase in overall revenue. During 1960s – 1990, The Asian Miracle was well-known. The dramatic growth is resulted from capital investment. However, to sustain long-term growth, total factor productivity is the key factor.

Among CLMV, Vietnam economy is outstanding which is an effect from Doi Moi policy regarding three factors that are human development, government deregulation, and trade liberalization. These three factors leads to higher FDIs. Various businesses in CLMV mostly relates to backward linkage so as to supply intermediate products to investors.

In my opinion, GDP cannot determine the whole country's well-being since the measurement is involved with the value of trade volume. GDP growth indicates the trend of overall performance. Even though consumption is counted as GDP implying income and purchasing power, but some aspects like inequality, income distribution gap, health, and education cannot be explained by GDP growth. To measure people well-being, other indicators are needed. For example, Human Development Index (HDI) measures healthy life, knowledge, and standard of living. To measure the inequality gap, Gini may help illustrate the widen gap. So, if we only use GDP as an indicator to drive economic activities, some group of people will be left behind because not everyone can improve their livelihood from higher growth unless government helps them since the problems is not about economy but their basic needs such as education, healthcare, and poverty. Using other index would definitely help boost people's well-being along with better economy sustainably.

## **Industrial policy and CLMVT economy (28 June 2019)**

Strategic industrial policy is a mean to boost economic activities and raise capacity that covers three areas that are industrial diversification, industrial deepening, and industrial upgrading. Through production diversification, productivity increase, learning improvement, internal linkage, and shifting toward higher technology, these can foster and improve competitiveness in domestic and world market since the products will have more value-added from new innovation. Moreover, the cost of production is lower due to learning curve that worker can contribute more product as time passes and also because of economies of scale from variety of products produced.

To prevent market failure, strategic industrial policy is necessary. Private and public sectors need collaboration. Import substitution policy is a well-known in the past in which government raise higher tariff in order to promote domestic infant industry until it achieves higher competitiveness such as South Korea. Then, the excess supply was resulted from this policy. So, the trend moved toward export-oriented policy through trade liberalization and also become a partner so as to expand the market such as European union.

Competing globally, each country has to upgrade their technology due to market mechanism and comparative advantage that other competitors will sell at the lower price with large quantity of product. So, innovation development is concerned for industrialization.

Apart from technology development, national innovation system is also crucial. Many countries try to establish city like Silicon Valley but cannot succeed because they lack of complete system especially intermediary that helps facilitate financing. Also, political system and government support through infrastructure, policy regulation, and human development.

The most interesting part from this class is about middle income trap because this is a first time I've heard about that. Middle income trap implies how important the

industrialization is for Thailand. Advanced technology is required to push Thailand up from middle to high income country in which Thailand remains middle income for 40 years.

Unfortunately, government cannot promote all sectors at the same because of scarce resources. To improve any sector, huge capital investment and workforce are essential factors. So, many countries chose to promote one sector for a long-term goal such as Thailand promote automobile industry and Taiwan focused on ship building.

In my opinion, to enhance industrialization, government is the most important factor. Since many policy, trade agreement, infrastructure support, investment, R&D, etc. can be supported only by government as the cost of long term investment is relatively high. From overall, I observed that many high income countries such as Japan and South Korea, they all have government behind this big achievement.

Currently, most countries are facing aging population, so many industries shift toward capital instead of labor. In particular, AI innovation and robot are phenomenon so as to solve labor shortage problem in the future generation. This latest innovation can somehow lead to growth without employment together with income inequality. Although there are some sectors that cannot be replaced by machinery like hair service, food and garment industry, but the proportion of sector using technology would be bigger. So, government should concern on this problem in the nearly future not only to raise economic growth but also well-being.

Because of advanced technology, labor market becomes more competitive. Another interesting point from lecturer is that nowadays, skilled labor is more important than lower cost of labor in which accounted for less than 10 percent of total cost of production. Therefore, education is very important that government should immediately support to reduce unemployment among the younger generation.