

Reaction Essay (Week2)

#1: CLMV Trade and Investment (24/06/19)

As it was previously mentioned in the last lecture, CLMV countries has been trying to promote their economic linkage and one of the mechanisms that helps boost the growth is trade. This lecture was given by Ajarn Nessara who gave us facts and figures on CLMV trade with the rest of the world, CLMV trade with Thailand, Inward FDI in CLMV and Thai direct investment in CLMV.

What can be extracted from the graphs are that both exports and imports generally tend to increase overtime and most of the countries tends to have trade deficit, meaning export exceeds import. Myanmar's graph stands out the most as from 2012 to 2014, the imported value more than doubled and the reason for this may be because there were political reforms where Aung San Suu Kyi tried to encourage more peace and openness. The other three countries can be said to have a relatively stable growth trend. The highest trade volume among CLMV countries is Vietnam, whose export goods are mainly electronic parts, telephone sets and footwear. Contrasting with Lao PDR, which has the lowest trade volume and its main export commodities are mostly in the agricultural and mining sector, for example, copper ores and bananas.

Looking into more details, CLMV countries export and import with Thailand follows the same pattern, where Vietnam shares the largest portion of both. All of the CLMV countries except Myanmar has trade deficit with Thailand who mainly export petroleum gas, fish (both fresh and chilled), crustaceans and copper. Furthermore, all CLMV countries import motor vehicles for transport of goods and petroleum oil from Thailand which makes sense as Thailand plays an important role as the top five trading partner amongst all.

From analysing all the graph, it is reasonable that Vietnam carries more FDI from other countries because it is the wealthiest among the CLMV countries and I also believe that

investors from countries such as, China, South Korea, Singapore and Thailand aim to achieve efficiency in Vietnam as it has a relatively low labour cost than those countries.

From my perspective, this lecture has given me a rough idea of what the trade and investment condition in CLMV countries and Thailand is like. I have always understood that Thailand's main export commodities is rice and that the majority of Asian countries' export are agricultural commodities so it was unexpected that the exports were, in reality, electronic parts and transmission apparatus parts etc. However, it could be clearly understood as the parts that are imported into Thailand will be assembled here into a product, which will then be exported to other countries.

#### #1: Marketing Strategies in CLMV (24/06/19)

Marketing is about connecting to consumers and adapting to consumer's tastes so with different cultures, traditions and certain characteristics, appropriate strategies need to be implemented to suit different countries. In this lecture, Ajarn Suwalya has taught us about the importance of brand and brand building.

A brand is something that differentiate a particular good or service from one another, which the definition of a brand is so vast that it could be anything ranging from a country to an object. It is what makes them stand out so it is really important to have a strong brand in the market and to be able to convey the message or advertise the brand itself.

In the case of using a country as a brand, it is essential to understand the cultural context and technology in each country as their traditions and lifestyles are diverged in many ways, for instance, Asians tend to be more conservative so when penetrating into the CLMV markets, investors need to realise this matter. As for technology, it is always advancing but at a different pace for different countries, this factor could influence many aspects including

business, politics and any more, for example, using social media as a tool to make something go viral or sending a message across the community.

Brand activation is one key element of building a successful brand, it encourages customers to become physically or digitally involved with the brand, for example, taking photos with the product and checking in or adding line official and getting a free drink etc. This would result in making people become aware of your brand and it will also increase the market share.

When discussing about brand building, the firm should be able to identify their target, segment and position. So different firms will implement different strategies depending on their target groups and the segment that they want to penetrate into. An example would be McDonalds having different menus for customers in various countries, such as, spicy menus for Thai people and menus with cucumber and vegetables for Vietnamese.

Being a finance student, this lecture certainly has given me a new way of looking at things. It has shown me that understanding the market and consumer's behaviour is as important as all the other processes! I actually recently just experienced this in person, Disney has just released an episode of a cartoon where Chip and Dale are wearing traditional Thai clothes and singing a catchy Thai song, I feel like they have done a great job in marketing and have done their research well as Thai people get impressed easily when they see their culture being advertised.

#2: Logistics and Supply Chain Development in ASEAN (25/06/19)

What is logistics? The first idea that pops up in many people's mind will probably be shipping and transportation. This is not wrong; however, it is incomplete as there are so many other components in logistics. Ajarn Suthep has given us a lecture on logistics management and cross border development in ASEAN, emphasising on the trend the industry is heading towards and how companies could adapt to that change.

There are two levels of logistics; business logistics or firm level which focuses on the firm's process with their supplier, distributor and customer and macro logistics or country level which focuses on larger scale transactions, such as, linkage between Thailand and ASEAN; as for this lecture, it is centered on the macro level.

Cross border trade is trade between neighbouring countries which is usually done on land through trucks and trains. This is common among ASEAN countries who want to avoid official transportation since they prefer the 'Brother System' where the host country provides benefit to the exporter in terms of lower tariff etc.

There are so many logistics limitations, for instance, agricultural sector needs to be concerned about the shelf life of their product when exporting as it could take weeks. So, to mitigate this issue, countries focus on the four innovations; product, process, service and business model innovation. These innovations are designed to help countries understand and adapt to changes in customer's behaviour.

Currently, one of the popular trends is the change in customer's segment from B2B to B2C and switching to use the white ocean strategy as the economy is approaching Industry 4.0. White ocean strategy is a new strategy which highlights the concept of collaboration and connection allowing smaller businesses to survive in the market and also transforming logistics service to a smaller one so that everyone will be able to access, for example, Grab Food, Line Man, Lazada and many more.

To develop further ASEAN business linkage, countries need to transform themselves from supply push to demand pull, concerning more about customer's satisfaction, and this can occur via logistics development. There are three flows redesign; people, product and capital. People redesign aims at understand more about customer's demands and adapting our product to that. Product redesign aims at transforming the product to fit with travel routes.

In my opinion, a country with a more developed logistics will certainly provide them with more advantages in terms of attracting business partners and consumers. However, this also depends on the structure of the country itself, for instance, there are three possible travel routes that links Thailand to Southern China but investors prefer R3A over R3B as R3B passes through Myanmar which the government and some minority groups are having conflicts.

### #3: Economics of Multinational Enterprises (26/06/19)

There were two parts to this lecture, the first part Ajarn Nessara provided us with some definitions and concept related to multinational enterprises and the second part was on discussions of FDI motives and determinants in Lao PDR.

Multinational Enterprises (MNEs) are entities or organisations that operates in many countries but is managed in one home country which the ownership may be private, state or mixed. Foreign Direct Investment (FDI) is an investment that is made by an investor in one country into an enterprise located in another country, aiming to develop a 'lasting interest.' This differs from portfolio investment where investors do not expect to have some degree of management capability or influence the internal control. The types of FDI can be categorised into many classifications, for example, based on direction of investment, based on types of activity, based on modes of entry and on nationality of investors.

The lecture is focused on types of FDI based on motives; natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking FDI. Natural resource-seeking FDI is when investor choose a host country based on the lowest cost of natural resource, for example, Myanmar is rich of precious stones and Laos has a lot of land. Market-seeking FDI is when investor wants to penetrate a new market or expand the existing one. Efficiency-seeking FDI relates to specialisation in order to lower cost and keeping everything well-organised. Strategic asset-seeking FDI is when, through common ownership, the assets of home and host country are combined to create synergies.

FDI can also be determined by Dunning's OLI framework; advantages of ownership, location and internalisation as well as firm specific advantages (FSAs) and country-specific advantages (CSAs). FSAs refer to one firm's ownership of resources that the other firms do not have, for example, knowledge, managing capability etc. CSAs is linked with location advantage; it refers to a comparative advantage a country has which usually arises from natural components of that country.

FDI brings several benefits and changes to both home and host country; resource allocation which means that some resources in the agricultural sector could shift to manufacturing sector when there are more factories, technology and knowledge transfer which brings positive externalities to the domestic labour force, increase in employment, income distribution and economic development in terms of rising GDP.

In the case of Lao PDR, FDI flows has been quite stable for several but started to rise in 2013 and the sector that has the largest portion is the industry sector. I believe that the FDI motives that attracts investments into Lao PDR are mainly natural resource-seeking and efficiency-seeking as Lao PDR is rich of natural resources such as, gold and copper, a lot of firms also receive concession for mining. The labour cost in Lao PDR is also relatively cheaper than other ASEAN countries so countries like China, has invested a lot in terms of

infrastructures like roads and bridges as this will facilitate trading between China and Lao PDR in the future.

In conclusion, FDI certainly helps a country develop in terms of more capital and investments but countries also need to be concerned about other factors that it could affect, for example, more FDI means more factories affecting the environment.

This lecture is similar to a course that I have taken so many of the theories are not new to me but I really enjoyed the discussion part because it provided me with new knowledges about Lao PDR's business in various sectors and made me realised that Lao PDR has so much potential to go further in the energy sector, so with the help of constant inflows of FDI, Lao PDR could become the 'Battery of Asia!'

#### #4: International Trade and Investment vs. Environment (27/06/19)

This lecture, which was given by Ajarn Anin, focuses on effect of trade on the environment and the issues which could arise from trade with supporting evidence from international trade theory.

Some of the facts about trade statistics among CLMV was revised, then the pros and cons of free trade and FDI were discussed. The pros of free trade are that there will be more varieties of product for consumers to choose which will increase their utility and resources can be utilised more efficiently; a country with a comparative advantage on a certain product, meaning that they can produce that product at a relatively lower cost, should focus on doing what they do best and export that commodity. As for the cons of free trade, this will definitely hurt the domestic industry because they will have to compete harder in terms of lowering the cost and some may have to go out of business.

Is trade good or bad for the environment? There are many perspectives to seek an answer to this question. From an economist's point of view, they would certainly be in favour of trade liberalisation as they believe that it has a positive impact on the environment. They believe that countries will have access to environmentally friendly technologies, countries will use less resources if they focus on producing commodities with comparative advantage and that environmental quality is a normal good, which implies that as income increases due to trade, the population will become more concerned about the environment.

However, from an environmentalist's point of view, more economic growth implies more polluting industries and this pushes the polluting industries to countries with less regulations on the environment. The environmentalists are concerned about three main issues; pollution havens, race to the bottom and environmental tariffs.

Pollution havens suggest that with FTA, countries will export commodities that make use of resource-intensive production factors meaning countries with less environmental regulations will export more polluting goods. The solution to this could be to impose environmental tariffs on those polluting commodities but we don't often see this as it is against the WTO agreement.

Some economics theory such as the Environmental Kuznets Curve (EKC) and Scale, composition and techniques effects were brought up. EKC suggest that pollution rises at low level of development and decreases at higher level of development. Scale, composition and technique effect states that pollution emission consists of three factors, scale effect is positively correlated with pollution but composition and technique show an ambiguous relationship.

The part of this lecture that really interest me was the case study of the resource curse in Myanmar as there are still so little solutions to this because this matter is related to the political structure of the country. Myanmar's specific advantage is that it is rich with natural

resources so if there are some kind of ways to alter the system from a military owned to a more democratic one, I believe that Myanmar could improve the welfare of the locals and stimulate the domestic economy more, increasing its potential to catch up with the rest of the CLMV countries.

All in all, this is one my favourite lecture so far as the environmental problems are close to home for everybody so this makes me feel more involved in trying to mitigate the problem. Ajarn Anin mainly emphasised on the pollution problem and trying to reduce CO<sub>2</sub> but the matter has raised my awareness the most was about plastic bags because I believe that a smaller scale solution where everyone can participate would lead to a great result, for example, supermarkets in Thailand are now saying no to plastic bags on certain days to encourage people to bring their own bags which by far is showing a satisfying result.

#### #4: Development Economics (27/06/19)

When speaking of economics development, majority the people would think about economic growth, GDP, GDP per capita and other indicators with similar characteristic but in reality, there are so many indicators that plays a role in determining the development. This lecture was given by Ajarn Chayanee who firstly, educated us on the development path, then let us do some research and presented on various indicators.

With the passage of time, GDP levels in Asia has increased at a considerably fast pace due to rapid industrialisation, high exports and high interest rate to attract FDI, advancing technology and sound institutions, this is the first wave of the 'Asian Miracle.' However, Krugman viewed this growth as a result of only capital investment while total factor productivity, which relates to other factors other than the inputs, only increased by a little so he believed that this could cause bubbles. As for the second wave, there is a potential that

China and Vietnam could become the new miracle. After Doi Moi (Vietnam's political reform), the country was opened to more trading, it started to let private organisations manage their own business and Vietnam also gave more importance on developing human and physical capital.

There are two waves of development thinking, the first wave was structuralism which focused on trying to build up an industry but it was not beneficial to the whole world and the second wave was neoliberalism which focused on trade liberalisation and government failure. Regardless of this, many developing countries are still stuck in the middle-income trap where they are unable to climb up the innovation ladder, this includes, Thailand, Malaysia and many countries in Asia.

Industrialisation is also one of phase of development which emphasised on technological innovation, not all countries succeeded in adopting industrial policy as they were not the industry with comparative advantage. FDI also plays a role during this phase in creating technology spillovers and either backward or forward linkages.

As previously mentioned, looking at only monetary terms does not capture all economics development so UNDP created HDI (Human Development Index) where it also incorporates aspects such as health, education and the economy. A more deepened version is called Inclusive Development Index. To sustain high growth, countries should consider characteristics such as, macroeconomic stability, market allocation, investments, governance and openness.

There are many indices that could be linked to economic development, for instance, global competitiveness index, doing business index, rule of law index and so on. I find the rule of law index, which relates to system of laws and institution, quite unreliable because many of their principles are somewhat vague and subjective, for example, corruption within the institution is still really difficult to measure.

To summarise, when measuring economic development, we should consider all the possible aspects that could influence the welfare of the population. Considering this within ASEAN countries, I believe that if Vietnam can improve their human capital in terms of education and practical skills of labour, they will definitely improve their country's income because according to the graph, their productivity and competitiveness is still quite low comparing to Thailand and Malaysia.

#### #5: Industrial Policy and CLMV Economy (28/06/19)

Economists believe that in order to improve an economy, that country should transform itself from an agricultural country to an industrialised one. This lecture was given by Ajarn Peera who highlighted on strategic industrial policy and its implication to CLMV.

Strategic industrial policy (SIP) combines various policies into a package aiming to push the economy into a certain direction, for example, a package could include trading, development and education policies. The main idea of development economics is on improving productivity and creating inter-industry linkage which if successful, would increase the welfare of the people.

There are three goals of SIP. First, industrial diversification which is to promote product's varieties as this would come with an increase in utility. Second, industrial deepening which is to support the locals because focusing just the product itself is not enough, the goal is to create forward linkages, using local parts means more value added a country can get from MNC. Lastly, industrial upgrading which aims at creating value and becoming more competitive. SIP focuses more on the private sector as firms knows best about arising business opportunities but it must also cooperate with the public sector. It must also be flexible to adapt to the dynamic world market as technology is changing all the time.

The industrial policies can also be classified into two types; export-orientated (EOI) and import-substitution (ISI). ISI suggests that a country should create opportunities for local producer by imposing import tariff. However, if that country does not have a big domestic market, economy of scale will not occur and this would create inefficiencies. EOS encourages country to export product with comparative advantage to the world market but there would be problems if that product is not upgraded, for instance, if a country has a comparative advantage on an agricultural product, they will need to be concerned about shelf life and adapt to natural conditions.

SIP should be implemented because the market could not function on their own so government intervention is essential. Government should intervene to allocate resources, to control natural monopoly market, to promote services with positive externalities and deal with negative externalities. Government also needs to facilitate the system by acting as an intermediary, linking the demand side with the supply side.

One of the problems that many ASEAN countries are currently facing is being trapped in the middle-income status. In order to climb out of this status, SIP will play a great role as collaboration, new innovations and industrial upgrading are required, the policy itself should also evolve overtime.

East Asian industrial policy includes using state-owned enterprise to promote their industry and to become a major exporter, for example, petroleum industry in Thailand requires a huge investment so government support is needed. Some people argued that government should not select some industry to promote but in reality, because of resource scarcity, it is too difficult to support every sector all at once.

Looking at the statistics, among all ASEAN countries, Singapore has the largest portion of FDI. In my opinion, this is definitely not because of cheap labour cost but because their business facilitation and effective policy implementation. Large portion of Singapore's

FDI is from Japan due to Japan's aging society problem so their tactic is to expand their production base into foreign countries.

In conclusion, strategic industrial policy plays an important role in so many aspects. Even though economists suggest that countries should transform themselves out of the agricultural sector, I believe that this is impossible as we still need to rely on agricultural products so countries should actually support and collaborate with one another and government institutions should implement the right strategy depending on the stage of development.