EE401 Political Economy

Chapter 10 Globalization and Thailand

Ploy Thammapiranon 2/2017
BE, Thammasat University

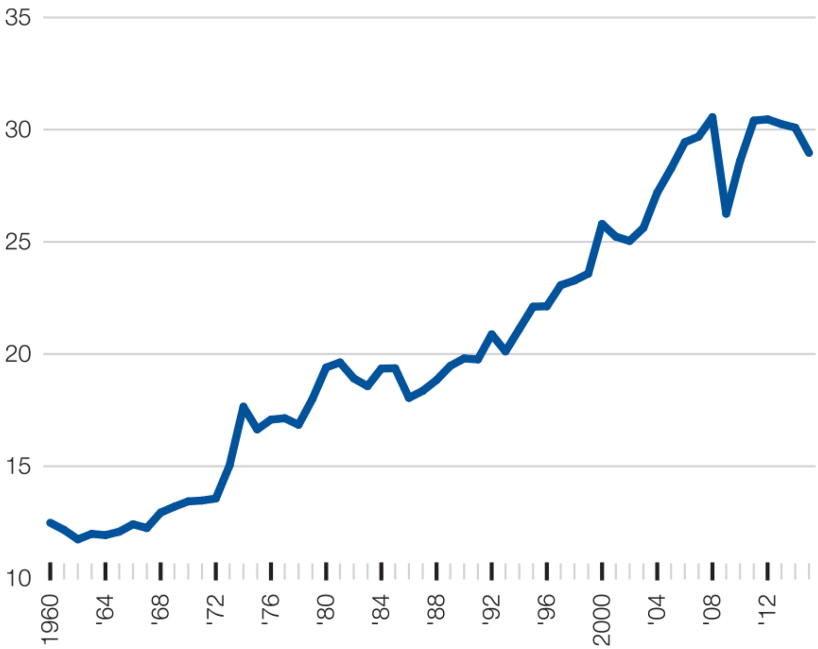
Globalization and Thailand

1. Globalization
2. Thailand facing difficulties
   2.1 International competition on trade.
   2.2 Proliferation of trade agreements.
   2.3 Structural changes.

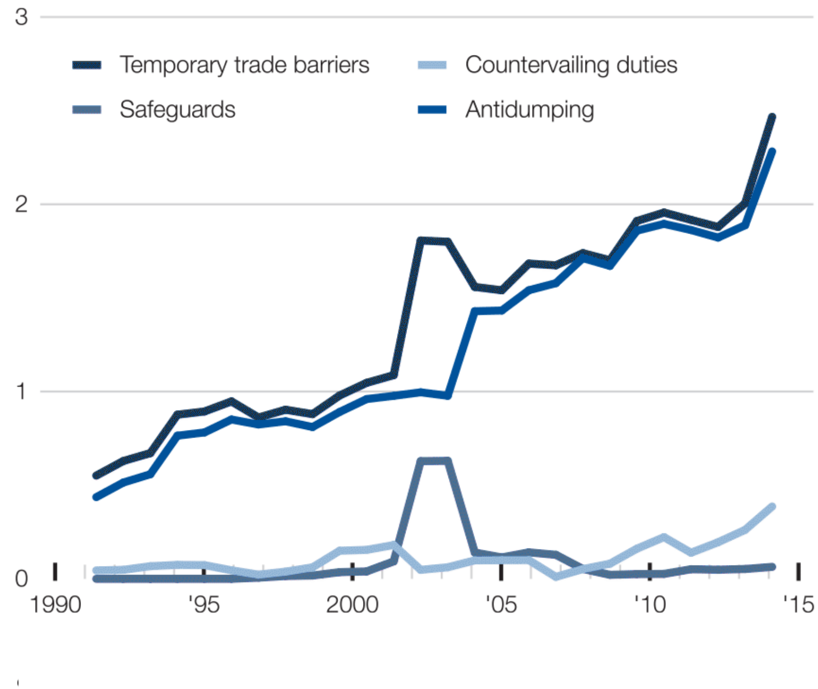
1.1 Characteristics of globalization

1) Globally integrated goods markets.

Average of imports and exports of goods and services (% of GDP)



Temporary trade barriers by type, share of total products

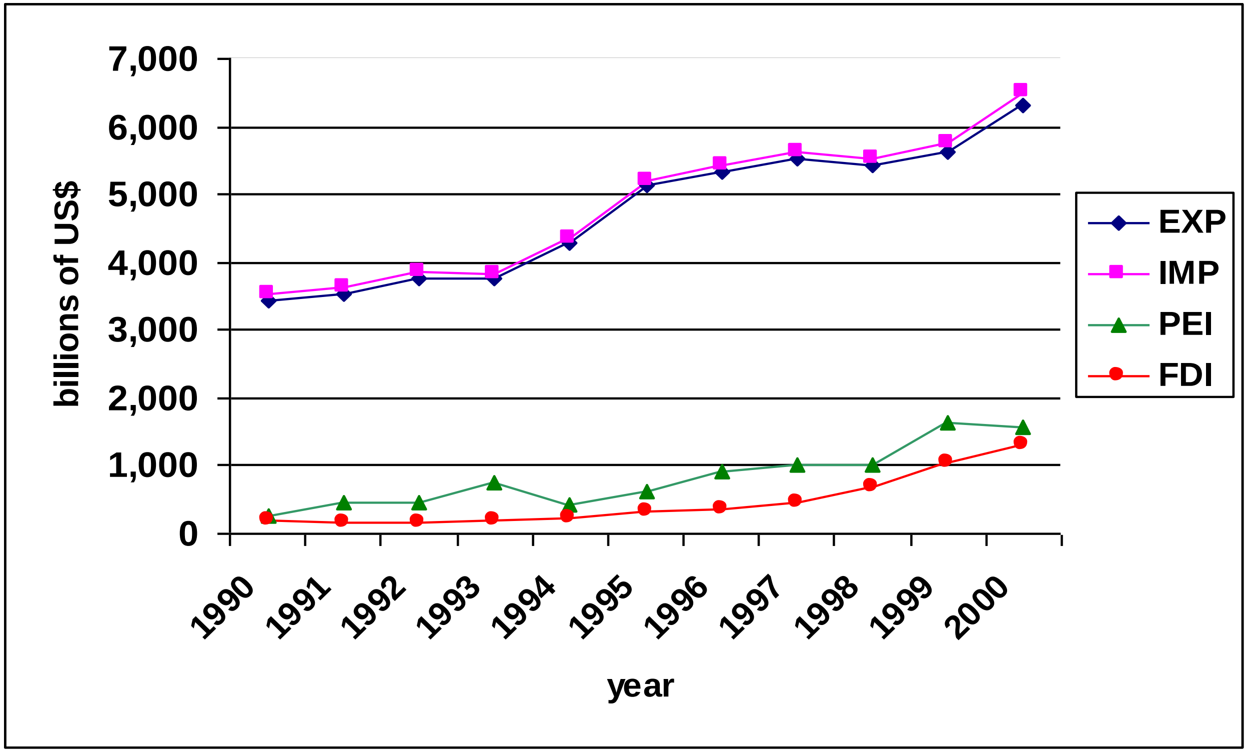


Source: World Economic Forum, 2016

1.1 Characteristics of globalization

2) International capital movement and services.

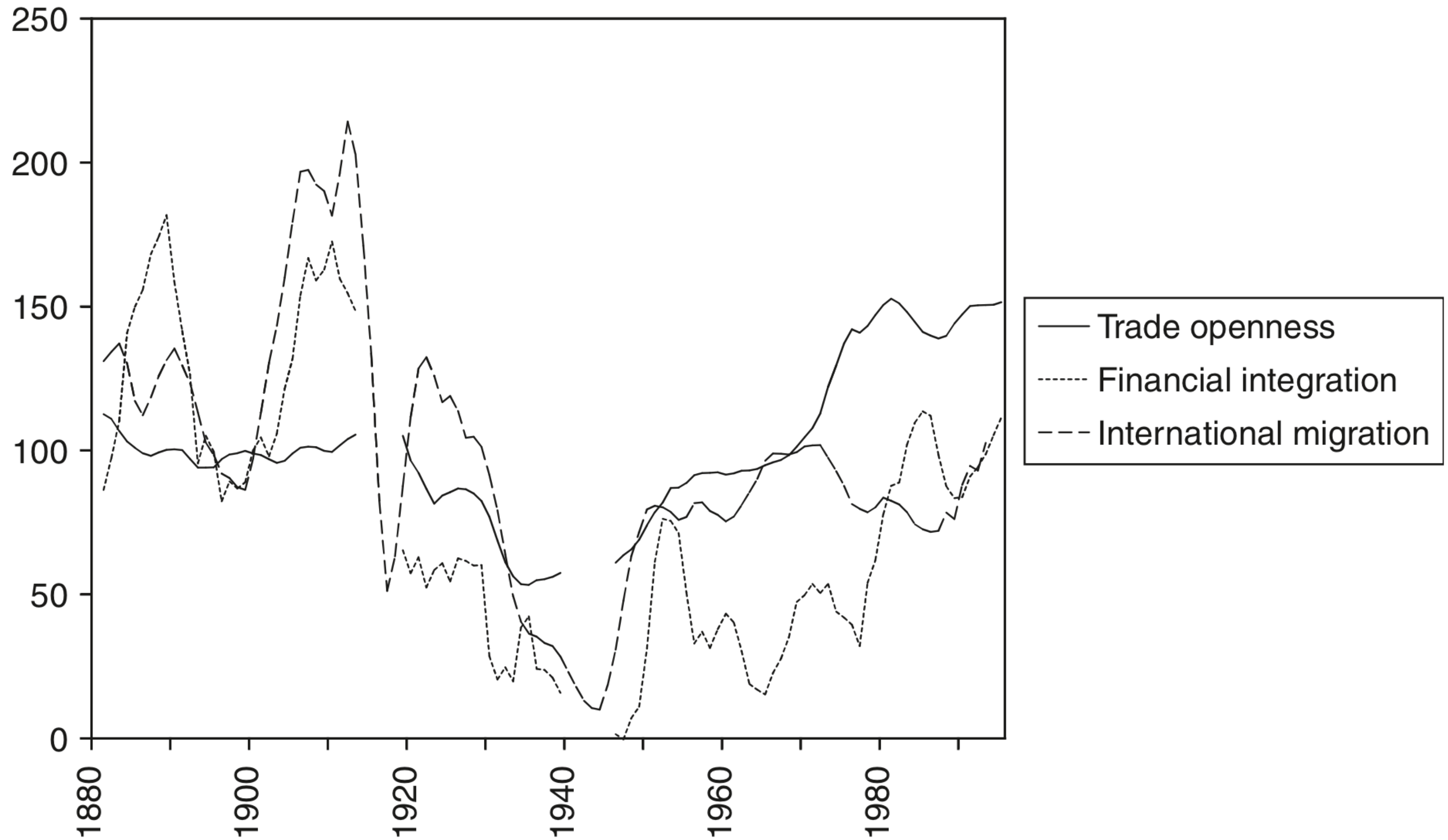
- National treatment of foreign investment.



Source: IMF, International Financial Statistics Yearbook, 2001 (for export and import data) and IMF, Balance of Payments Statistics Yearbook, 2001 (for PEI and FDI data).

1.1 Characteristics of globalization

2) International capital movement and services.



Source: Our World in Data

1.1 Characteristics of globalization

3) Rapid flow of goods, services, capital and people

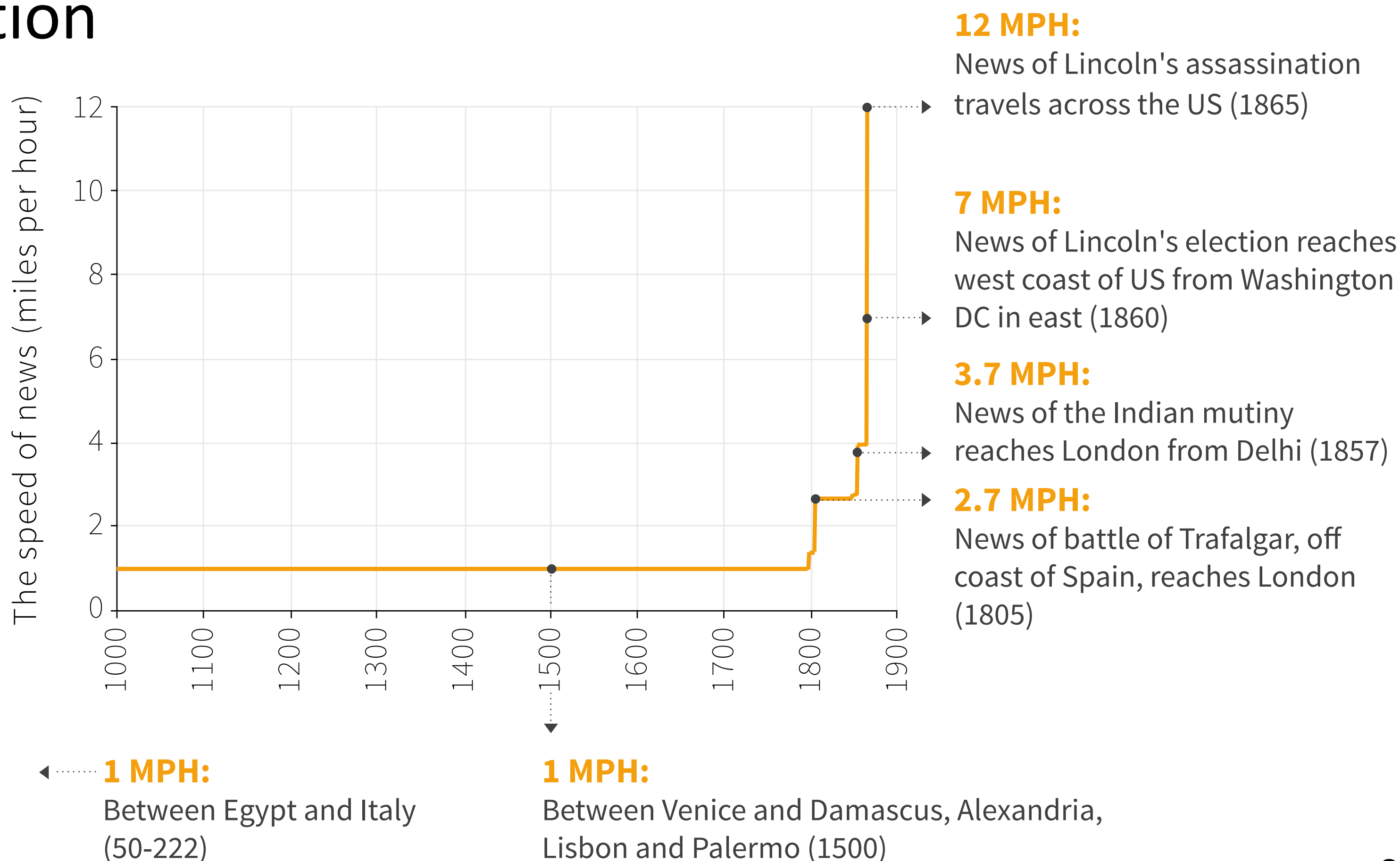
➔ ***international competition***

1.2 Factors contributing to globalization

1) The collapse of socialism

1.2 Factors contributing to globalization

2) Information and communication technology (ICT) revolution



Source: The core project, 2016.

1.2 Factors contributing to globalization

3) Shifts in government policy towards markets.

ZHANG CHENGLIANG / CHINA DAILY

1.3 Potentials of globalization

Opportunity for trade, service, and investment.

- Economies of scale
- Lower cost
- Investment funds and technology
- Competition and efficiency

VS

More volatility

- Rapid capital movement – ***crisis contagion***
- Economic dislocations and uncertainty

1.4 Challenge of globalization

- Open culture and society.
- Pressure on domestic markets and players
- Challenge on government to reform
- International anti-globalization movement.

2. Thailand facing difficulties

2.1 International competition on trade.

2.2 Proliferation of trade agreements.

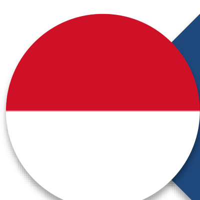
2.3 Due to competition for investment funds, Thailand needs to move up the value chain in production – ***structural change*** needed.

2.1 International competition

Opening-up

Software and electronic corridors

Agenda on IP



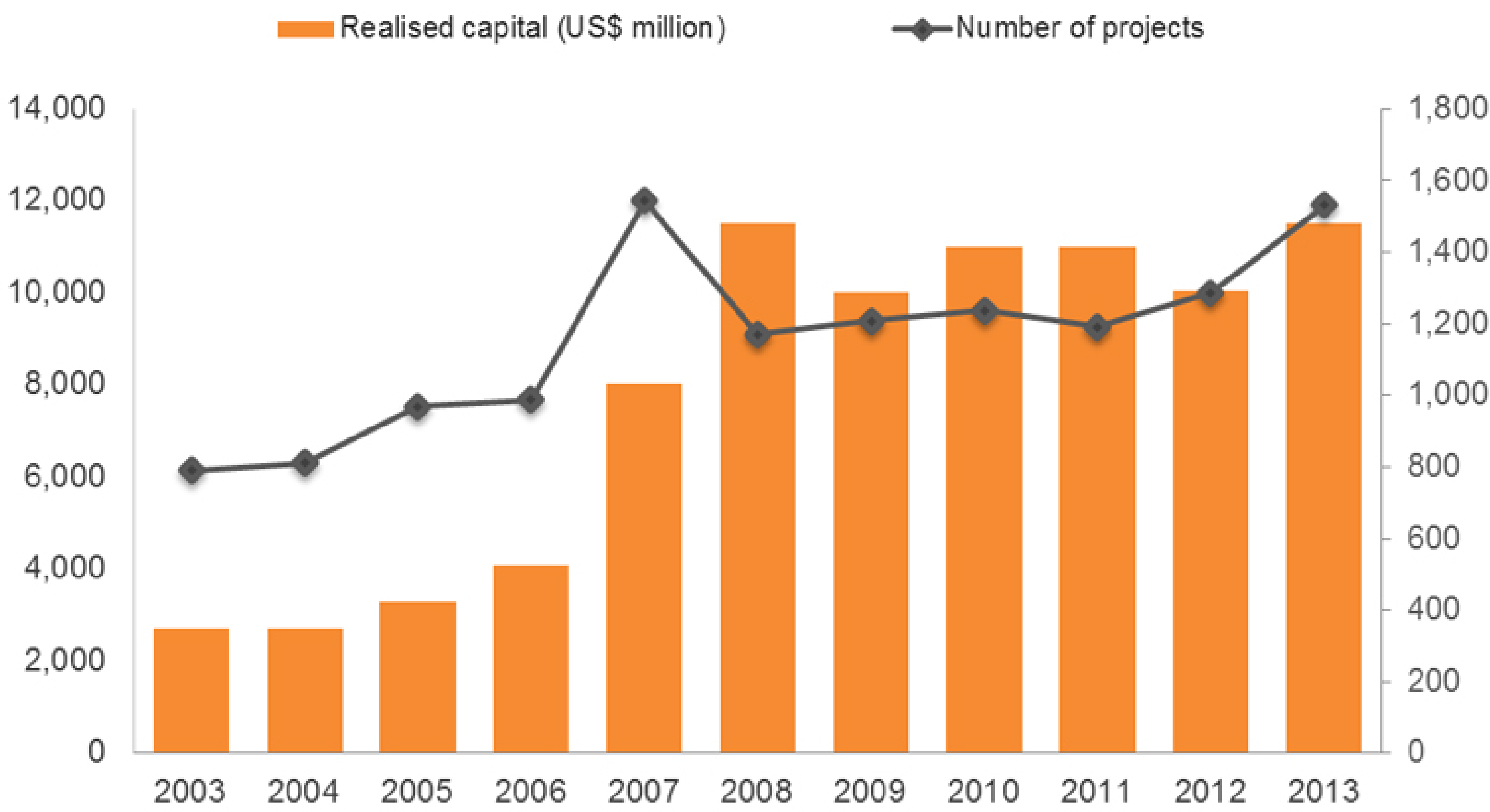
Political and economic reform

2.1 International competition

- CLMV taking-off
- ***Vietnam***:
  - WTO membership in 2007
  - More open trade and investment regime.
  - Huge **capital inflow** since 2007.

Foreign direct investment in Vietnam

Realised investment



Source: General Statistics Office of Vietnam

2.1 International competition

- ***Vietnam***:
  - Deep-sea ports with new international airport to be completed in 2020.
  - Rail transport reforms.
  - Oil refineries and exports of finished oil.
  - Two nuclear power plants.
  - National Space Center with Japan to be completed 2018.
  - A founding member of the TPP.

2.2 Proliferation of trade agreements

- Failure of WTO's Doha Development Agenda
- ***NAFTA & EU***
- **TPP**

- More than 300 FTAs…

2.2 Proliferation of trade agreements

- **Thailand sticks to ASEAN**
  - Some other countries have joined or applied to TPP

2.3 Thailand’s structural problems

- **Thailand’s Industrialization: The import substitution era (1960-1980)**

Infant industries

- Producing consumer goods for domestic markets through BOI promotion.
- Labor-intensive industries.
- Strong trade protection and domestic anti-competition policy.

State enterprises.

- Public utilities and 'strategic industries'.

The banking cartel.

- ‘Guided lending practices' by Bank of Thailand.

2.3 Thailand’s structural problems

- **Thailand’s Industrialization: Export-oriented industries (mid-1980s)**

Capital –intensive industries

- Energy, petrochemicals, steel, and automobiles.
- Most industries were concentrated in a small group of families with political influences.

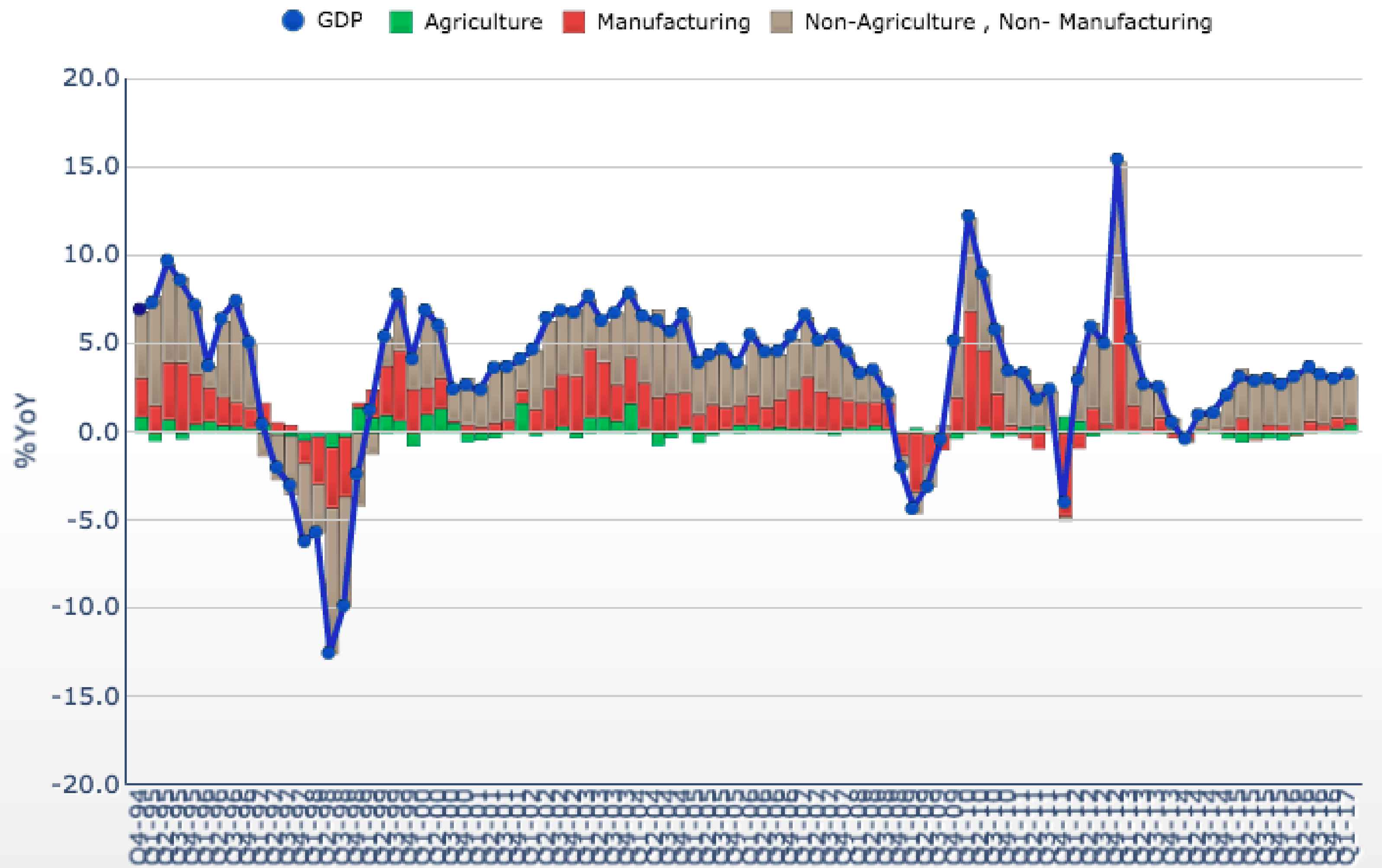
Export bases for Japan's investment

- Electrical appliances, auto parts, processed food.
- Garments, jewelry, furniture.
- Since 1987: investment from Japan, Korea, Taiwan

Strong protection remained

2.3 Thailand’s structural problems

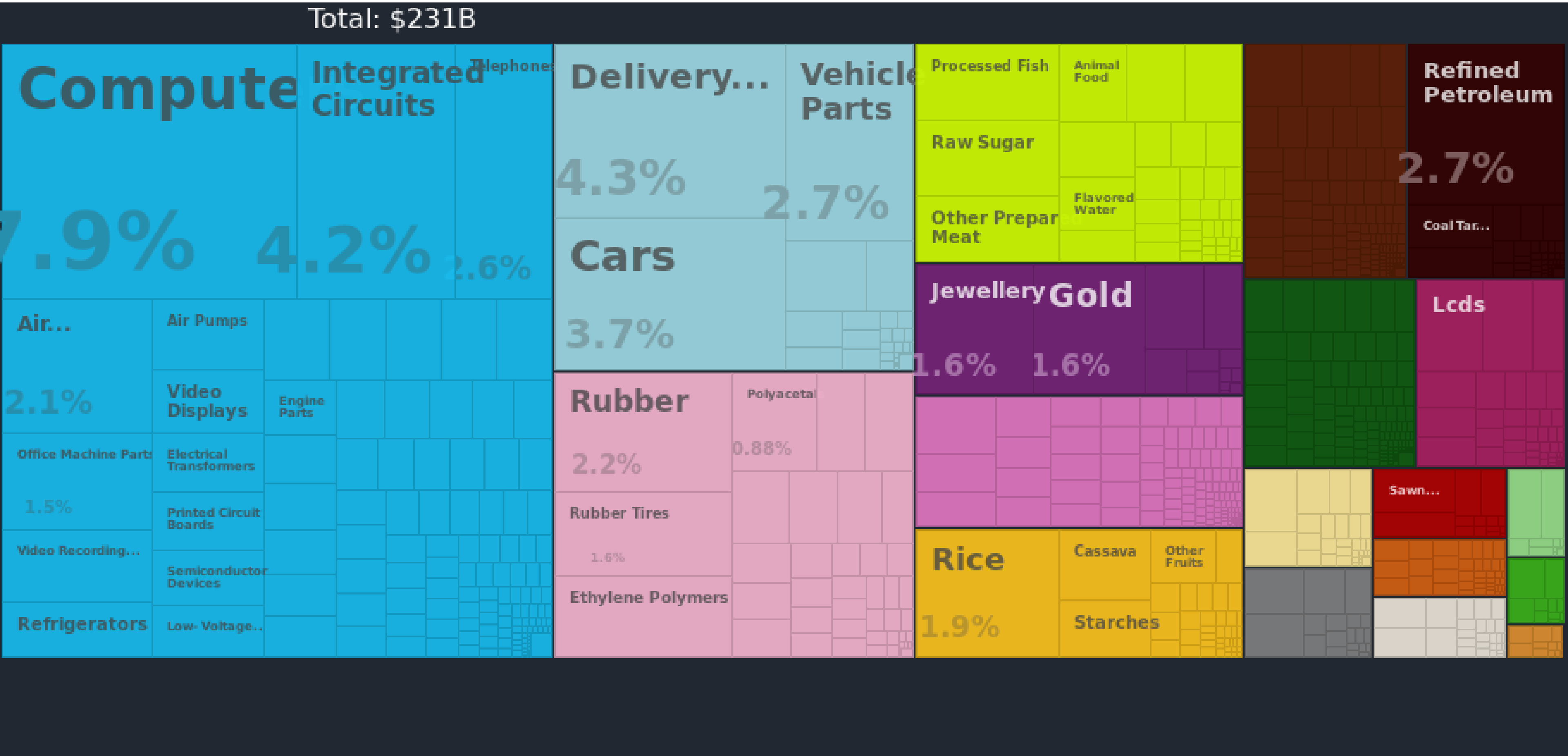
- **GDP structure since 1980**



Source: Bank of Thailand.

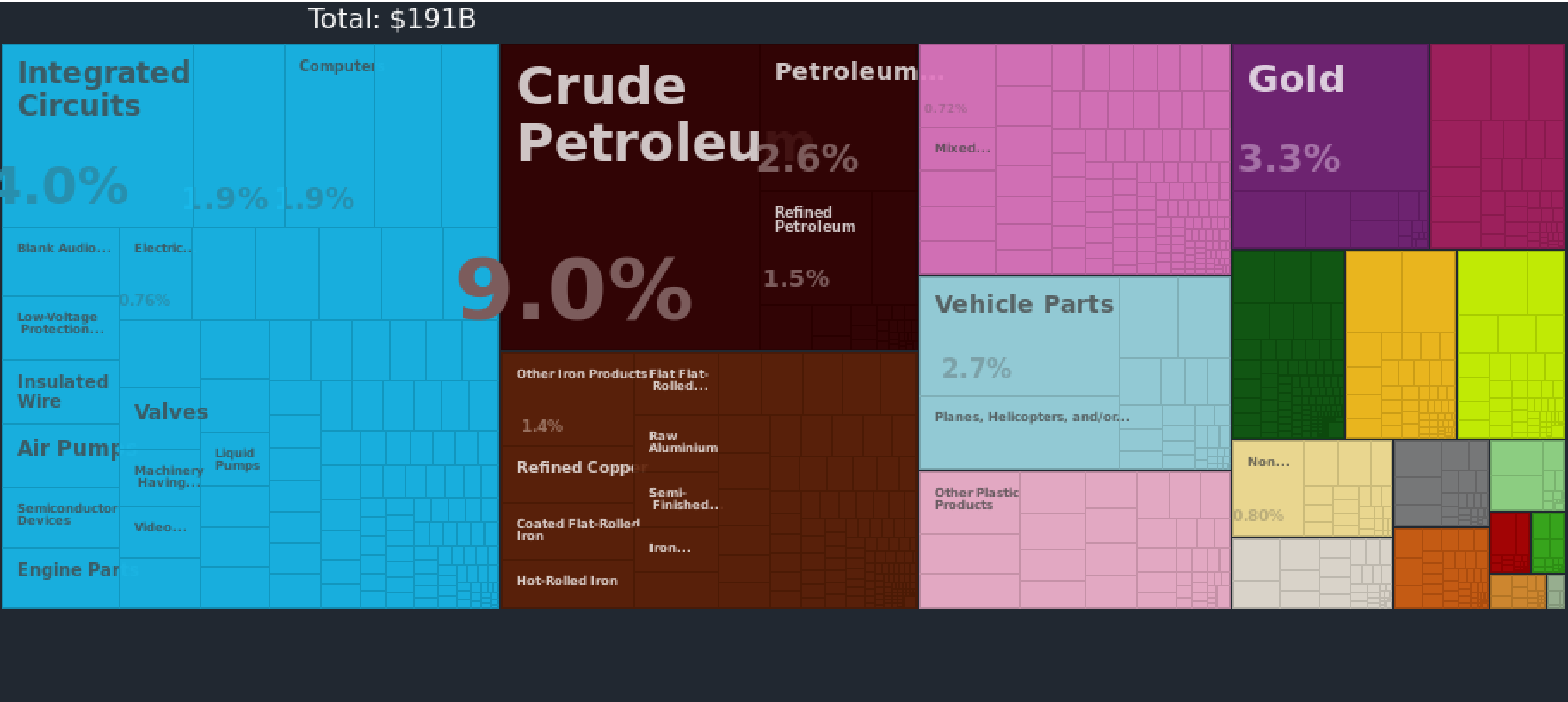
2.3 Thailand’s structural problems

- **Trade structure: Exports**



2.3 Thailand’s structural problems

- **Trade structure: Imports**



2.3 Thailand's structural problems

- **The 1997 financial crisis**
  - **The Bangkok International Banking Facilities (BIBF)** is NOT financial liberalization
    - ✓ Free borrowing of foreign funds via **banking cartels**.
    - ✓ Lack of supervision and monitoring.
    - ✓ Thai business **overinvested**.

Frauds and bubbles in stock and property prices

– Misallocation of funds.

2.3 Thailand's structural problems

- **The 1997 financial crisis**
  - **Fixed exchange rate** and BOT's guarantee of financial institutions ***– 'moral hazards'.***
  - Private foreign debt
  - Low returns and stagnant exports.
  - Currency attacks.
  - **Lessons:**
    - ✓Restructuring and **market reform** is needed.
    - ✓Financial liberalization → more competition.
    - ✓Law reform and ***good governance***.

2.3 Thailand’s structural problems

- **Thailand’s structural problems**
  - Outdated physical infrastructures.
  - Lack of energy sources.
  - High transport and communication costs.
  - Wage rates higher than similar countries.
  - Low skills in English, mathematics, engineering and science.
  - Poor R&D, lack of technological base.
  - Trade and investment flows to other countries.
  - Declining competitiveness since 2006.

2.3 Thailand's structural problems

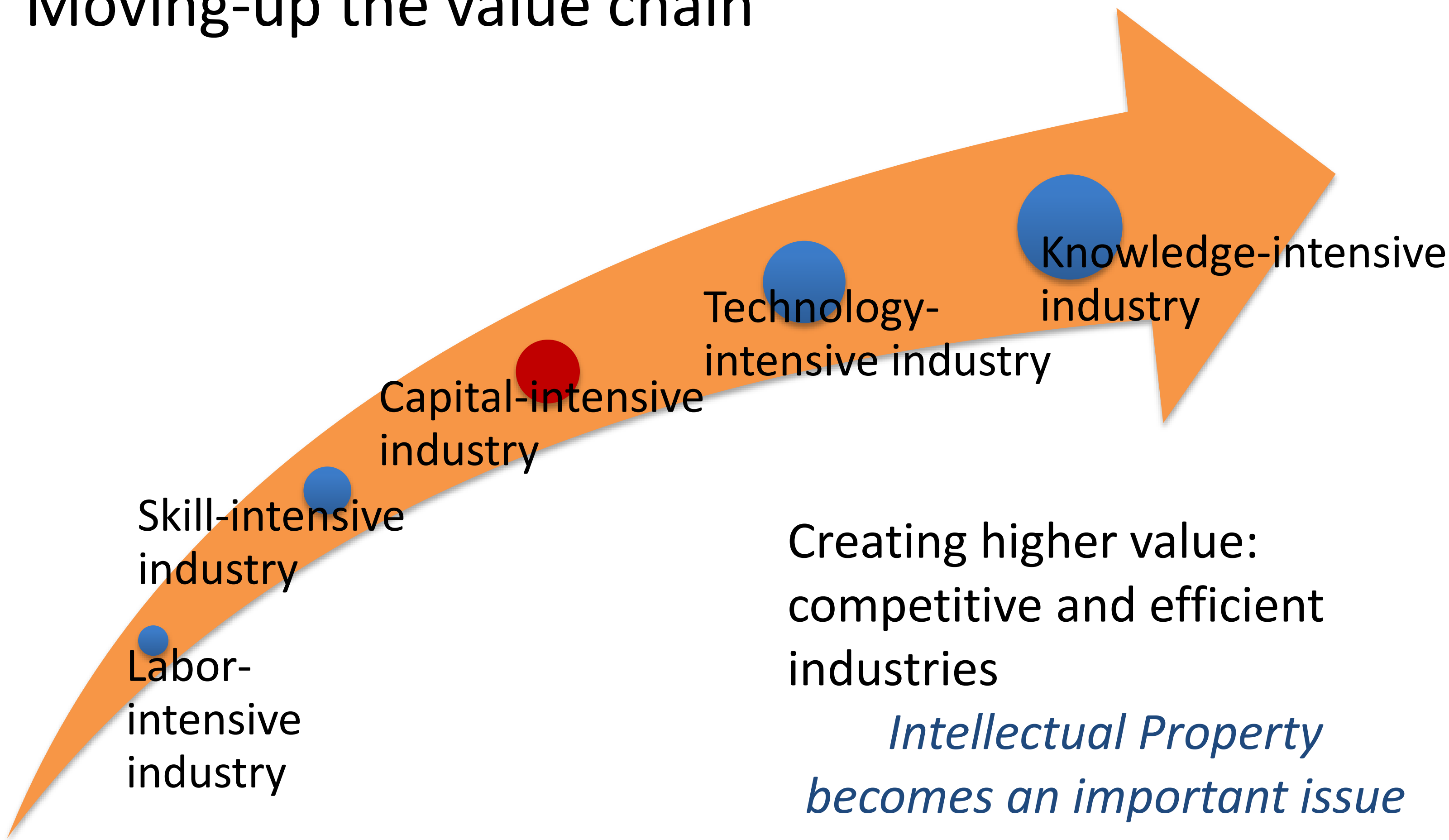
- **Thailand's structural problems**

Year	GCR Ranking
2001/2002	**33**
2006/2007	**28**
2007/2008	28
2008/2009	34
2009/2010	36
2012/2013	**38**
2009/2010	36
2012/2013	**38**
2013/2014	37
2014/2015	31

Indicators of Intellectual Property Creation Capacity 2004				
Country	Patent app in US (per million people)	Domestic patent app (per million people)	Tech license fees (% GDP)	R&D exp (% GDP)
China	1.27	50.60	0.23	1.23
France	112.80	235.67	0.15	2.16
Germany	240.29	585.69	0.21	2.49
India	1.21	6.29	0.06	0.85
Indonesia	0.07	1.04	0.39	0.05
Italy	52.03	136.52	0.10	1.14
Japan	506.34	2,836.02	0.30	3.25
Korea	283.70	2,184.32	0.65	2.64
Malaysia	13.09	20.97	0.77	0.69
Philippines	1.00	1.92	0.30	0.11
Singapore	207.30	120.04	5.25	2.25
Thailand	1.08	12.86	0.98	0.25
UK	130.08	314.30	0.43	1.89
USA	644.68	644.68	0.20	2.68

2.4 Structural reform agenda

1) Moving-up the value chain



Creating higher value: competitive and efficient industries

Intellectual Property becomes an important issue

2.4 Structural reform agenda

1) Moving-up the value chain
   - Skill training and engineering.
   - Government spending on R&D.
   - Encouragement of applied R&D in private sector
   - Intellectual property must be a national agenda.

2.4 Structural reform agenda

2) Upgrading of transport and communication infrastructures.

3) Liberalization, privatization, and deregulation.

- Trade, investment and financial liberalization.
- State enterprise privatization with transparency & measures to assist those negatively affected.
- Fiscal discipline.

4) Tax reform: broaden tax base.

Thailand’s political crisis

- Struggle between **reforms** and **anti-reform**.
- Entrenched interest in cartels and import substitution industries ***resist changes***.
- The elected government of 2001-2005 largely followed the reform agenda.
- **Attempts to turn the tide** by the 19 Sep 2006 coup and its follow-ups.

Thailand at the cross road

- **Globalizing economic** reform **requires political reform**.
- Struggles between two opposing camps:
  - ✓ Parliamentary power.
  - ✓ Traditional power.

Thailand at the cross road

- Remaining questions…
  - ✓**Economic reforms?**
  - ✓Liberal Democracy vs royalist authoritarianism?

Modern, democratic and rich Thailand or conservative, authoritarian and stagnant Thailand