10

Monday, 24th of June 2019

Today, the first part of our class discussed trade and foreign direct investment in the CLMV sub-region. Given time to interpret the graphs by groups on our own, I really enjoyed having this group dynamic and autonomy in analysing material in class. We first looked at trade of CLMV with the rest of the world, finding high fluctuations in Myanmar and Laos with exports and imports, and more stability with Vietnam and Cambodia. Laos, especially had a unique rapid increase of imports from 2012-2013, perhaps from the new elected leader Aung San Suu Kyi as well as the construction boom. The whole CLMV area faced a trade deficit with the world – but Vietnam seemed to maintain a balanced trade throughout 2010 – 2016. Myanmar thrives mostly on their petroleum gas industry, exporting lots to Thailand but having to import processed oil back for use. With Thailand, again, imports into CLMV exceed exports, therefore Thailand has a trade surplus with CLMV countries. Inward FDI to CLMV is generally increasing – Vietnam carrying the most FDI compared to CLM, Thailand also plays a strong role of investment into CLMV, with important sectors in wholesale and retail.

It's interesting learning about Thailand's relations to CLMV. Before doing this programme, I always considered ASEAN countries' development to be quite equal and on the same place – but to see that Thailand thrives and is ahead of CLMV is quite fascinating. To learn about the general imports and exports of CLMV and their relations with China can be frightening – seeing the amount of control and effect China can have on CLMV and how reliant CLMV is on China reinforces the status of China as a global (and still growing) power.

In the second part of class, we discussed the importance of branding and how branding is navigated in CLMV. Starting with symbolic animals of the nation, we discussed how branding acts as "the heart of marketing". Where elephants represent Thailand and Laos, Kouprey represents Cambodia, Water Buffalo Vietnam and Peacock Myanmar. It is crucial that marketing is integrated into the culture of a country, otherwise consumers cannot relate.

We also learnt about the importance of culture and technology – how it has strong clout in affecting consumer behaviour. The "digital economy" plays a vital role in today's society – Thailand grew to have the fourth highest internet penetration in Asia. Focusing on campaigns from Coke and Unilever (including Axe), we looked at how branding led to dramatic increases in demand for the product.

What I found fascinating was when Ajarn mentioned how even countries could be "branded" – something I've definitely never considered before. It actually made me think about what we did over the weekend: visiting Museum Siam, which introduced the concept of "Thainess". Now, reflecting on it, "Thainess" can be considered a branding strategy used by Thailand to represent and market the country for tourists to visit. I remember reading the history of "Pad Thai", how it was used also to establish the identity of Thailand – and I realise how it indeed was such an intelligent form of marketing the country. It made me reflect on how Hong Kong brands itself – a finance hub? A trade connector between Western nations and China? A former British colony with Chinese traditions? Taking this class made me introspective about Hong Kong's mixed identity – and the current political and economic sphere of Hong Kong trying to establish an image of themselves away from China (extradition bill protests, Umbrella Movement).

10

Tuesday, 25th of June 2019

In class, we discussed Logistics and Supply Chain Development in ASEAN. Instead of interpreting logistics and supply in the micro, business-focused sense, we looked at it through the macro, aggregate economic perspective. He mentioned how logistic channels have shifted from truck delivery and sea delivery to efficient, low-cost Asian flights. Though agricultural products are hard to manage because of shelf life, innovation is necessary in order to preserve non-durable goods. Discussing the 4.0 Thailand, Ajarn mentioned four different approaches to innovation: product, process, service and business model innovation. He talked about Industry 1.0 – 3.0 as well, starting from Germany in the last 70 years in agriculture, and developing innovative equipment, machinery, Industry 1.0 leaving subsistence farming to conducting business in Industry 2.0. In 2.0, raw materials are processed into canned goods, finding ways to increase shelf life and export into countries far away. 3.0 is the beginning of technology, computer-use and heavy-industry revolution. Whilst Industry 1.0 – 3.0 had a cost-oriented concentration – diminishing price in order to attain economies of scale, decreasing cost-by-unit, with heavy B2B strategies, Industry 4.0 focuses more on B2C, collaborating and innovating. With innovation becoming a key aspect of market growth, computers are used to attain customer information, tracking behaviour, with a growing e-commerce demand and supply-chain redesigns.

I really loved learning about red ocean, blue ocean and white ocean strategies – I think these concepts are very applicable to country and firm relations. In the context of Industry 1.0 – 4.0, Industry 1.0 – 3.0 is more red-ocean based, with homogenous products and heavy competition between undifferentiated goods. The use of pricing strategy is important to attain economic upscaling. However, during Industry 4.0, the use of blue and white ocean is more crucial – innovation and collaboration, connection, and networking. Ajarn mentioned the importance of "fast fish in groups" instead of "big fish eating small fish" – outlining the importance of working together. An example of this, would be within ASEAN, using the white ocean strategy to compete against world economies. US-China relations would be more blue and red-ocean based, competing on innovation but also low-price production.

What Ajarn talked about today about logistics and trade through sea actually made me reflect on the South China Sea geopolitical conflict, between China, Vietnam and Philippines. Learning about transport processing in ASEAN to East Asia, a lot of shipping between Japan, South Korea and ASEAN countries such as Thailand must deliver through the South China Sea. The growing territorial dispute and unrest around the area might lead to disruptions in the $3 trillion trade revenue it produces every year, as well as the fish industry that many SEA countries depend on for food security. The island building by China on Spratly Island and Paracel Island region, because of its richness in oil, has led to a lot of disagreement of the claims that China made. Because of this, I am curious whether this complicates the logistics behind trade between EA and SEA, and whether that will, in the future, lead to other forms of delivery outside of shipping.

10

Wednesday, 26th of June 2019

We spent the beginning of class discussing our topic for our final group project – something we found difficult because of the broadness of choices. Interested both in e-commerce, cryptocurrency, to ageing communities and sin taxes, we decided to brainstorm our interests individually then reconvene and discuss. For the second part of class, we discussed FDI more in detail and its different types. There is inward and outward investment, horizontal and vertical FDI, FDI based on modes of entry (owned subsidiaries, merger and acquisition, joint venture), FDI based on nationality of investors (wholly foreign owned, joint venture between foreign and local firms), and motives of FDI (natural resource-seeking, market-seeking, efficiency-seeking, strategic asset-seeking).

This made me reflect on my home Hong Kong and why it is such a desired place for foreign direct investment. For one I believe HK is a desirable destination for market-seeking FDI. For foreign investors in Hong Kong – not only are they attaining HK markets but also China. A trade port for trade, and with its close geographical and economical relations with China, foreign investors can take advantage of the market access HK provides them. Secondly, I think HK's appeal to FDI also lies within strategic asset-seeking FDI. Because labour in HK is quite skilled and effective, infrastructure is strong with reliable roads and HK has an efficient transport system, low taxes and strong law system.

Afterwards, we delved in different frameworks used to analysis advantages of firms – Dunning's OLI Framework, FSA framework, and CSA framework. For Dunnings, it focuses on ownership advantages (assets and transaction skills), location advantages (government regulations, politic risks, cultural values), and internalisation advantages (overcome market imperfection problems). Looking at FSA and CSA, firm-specific advantages focuses on a firm's "unique resources and heterogeneous capabilities" that generate competitive advantages, whereas country-specific advantages look at “natural market factor endowments, factor prices, government regulations and market access”.

Learning about these frameworks, I believe, is very compelling, because it provides tools that allows me to apply such knowledge onto real-life examples. Looking at OLI in the context of coffee-bean producers in Laos, firms definitely will be able to benefit from location advantages – with low tariffs, policies from the government to encourage agricultural farming. From the CSA framework, Laos has a country-specific advantage too – mostly arising from the geographical environment of the country, having large pieces of fertile land elevated at the perfect climate for the growth of coffee beans. This geographical advantage provides a lot of comparative advantage – with strong demand on quality, organic coffee beans from the West, coffee as a luxury good is priced high and profitable for farmers. With the rise of youth demand for coffee shops and organic coffee, a new niche market is open for opportunity. I enjoy having these frameworks at hand, as when I read the news I can now apply the theories learnt in class to the articles I read online.

10

Thursday, 27th of June 2019

Today we talked about whether international trade and investment leads to the consequence of environmental degradation – or whether they can work hand in hand. Whilst first discussing the pros and cons of free trade and FDI, what I found compelling was the discussion of whether trade was good or bad in the context of environment. Whilst FTAs can lead to positive impact on the environment – liberalisation of countries can lead to sharing of technology that is more environmentally friendly and produce goods with comparative advantage, there are many concerns from environmentalists. For one, they believe that reducing barriers to trade will lead to pollution havens – with different policies imposing costs on competing countries, this leads to firms to relocate to countries with less stringent environmental policies. This then will lead to the "race to the bottom", as well as a rise of "environmental tariffs" on countries with not-strict-enough environmental policies. We then discussed the Heckscher-Ohlin Theorem, which says that the pattern of trade between two economies is determined by differences in factor endowments, which implies that "countries well-endowed with environmental resources should specialise in producing more environmentally damaging good".

What I enjoyed learning most about, however, was the Environmental Kuznets Curve – a model examining the relationship between economic growth and pollution. The inverted U-shape is determined by high industrialisation with high pollution levels when growth is priority, then shifting into a higher care for the environment as countries move into a more service-sector based economy. I believe, with the growing economies yet to reach or is currently at its industrialisation stages – CLMV countries, India, countries in Africa – it is important to keep in mind this model and expect perhaps an influx of pollution. Many countries now in the service sector are still currently struggling in inhibiting carbon emissions and water waste – whilst some cities in the U.S. are fully in its service stages, they still struggle with lowering their fossil fuel emissions, with still the highest per-capita emissions in the world (though have been at its lowest levels since 1993). Applying Grossman and Krueger's model, this model can quantify and decompose the reasons underlying changes in emissions – a theory perhaps that can be applied to the future growing economies. Emissions are defined by scale of activity, multiplied by share of dirty commodities, and then emission intensity – scale, composition, and technique effects.

We also learned about the resource curse – also known as the paradox of plenty – where mineral-rich countries abundant with natural resources often fail to reach their full potential due to less democracy, conflict, inefficient spending and borrowing, Dutch disease, limited government capture of benefits. With CLMV, Myanmar would be a strong example of this – with abundant amounts of jade, the civil war and authoritarian leadership led to military taking resources over the local people.

Looking at the negative externalities of environmental problems within ASEAN, the haze problem is crucial and a rising "transboundary pollution problem". Because of solid waste burning, forest fires, and agricultural waste burning, this led to dust and smoke suspended in the air. Ajarn Anin asked us to consider how to reduce the conflict between economic growth and environment for problems such as this. With air pollution as a crucial issue rising in the world – heavy carbon emissions leading to enhanced greenhouse effect and adding to the climate crisis – I think a good strategy would be to economise the environment. Because air is a common access good in which all firms abuse in their own self-interest, using the cap-and-trade strategy in placing a country-wide quota and creating a market of permits that allows firms to produce, such a strategy could limit a country's production of carbon.

In the second part of the class, we discussed about the Asian Miracle and presented about multiple indexes. During the Asian Miracle, ASEAN5 had high economic growth, alongside South Korea, Taiwan, and Hong Kong. This is mainly because of industrialisation, foreign investments streaming in, and export and trade encouragement. It was here where the Four Asian Tigers maintained extremely high growth rates – around 7% per year, attaining the status of high-income economies. Krugman outlined the interesting perspective of total factor productivity led to long-term prosperity. Whilst ASEAN grew a lot, the countries still struggle with climbing up the middle-income ladder into high-income – there is not enough economic growth to shift away from the middle-income trap, into a productivity-driven economy. We also learnt about the development thinking path – structuralism being the first wave with government intervention and import substitution, and neoliberalism being the second wave, focusing on exports and market power.

I loved learning about the indexes in class – because it made me realise how GDP is quite a one-dimensional measure for prosperity in an economy. A low GDP does not necessarily mean a low-productive economy – a high Corruption Perception Index and low Political Stability Index can mean that a lot of leakages occur away from the economy. The indexes are often compounded and compositional, with different dimensions included to thoroughly reflect its use. It reminded me that it is important to not only focus on GDP and GDP per capita, because it does not necessarily measure the social and political satisfaction – though GDP per capita is high in Hong Kong, a lot of individuals are unhappy and stressed living in the city. Inequality too, is often hidden beneath averages – the Gini Coefficient of Hong Kong shows a large wealth gap and large number of low-income individuals, often living under minimum-wage conditions and within bed-space apartments. Just because the GDP is flourishing does not mean that its citizens are all flourishing – it is crucial we analyse different factors of an economy and city with different measures, such as the indexes we explored today.

10

Friday, 28th of June 2019

This discussion was very interesting because we learnt about a topic I've never had much experience with before: Strategic Industrial Policy, the "forward-looking packages of policies aimed at steering economic activity in a particular direction". There are three distinct goals of SIP: industrial diversification, focusing on expanding industrial capacity and sector diversification and attempting to differentiate from other businesses, industrial deepening, the creation of local linkages and complementarities and a stronger inter-linked industry, as GDP is based on value-added, and industrial upgrading, attempting to advance the industrial structure by specialising in complex technologies and "value creation". He discussed the contrast between export-orientation and import-substitution industrial strategies. ISI can only be truly viable for countries with large domestic markets and huge economies of scale – this is because of "non-selective and non-temporal" trade protection, favouring capital-intensive production and "technological dependence". EOI, on the other hand, relies on exports – there are very little linkages locally, with many raw materials imported.

I really enjoyed learning about the "learning curves effect" – how there exists a negative correlation between number of repetitions in producing a good and its cost. The more a firm produces, the more production it will become. It gives perspective why trade barriers may exist – how infant industries cannot compete under world market pressures. With the lower prices from the world market because of comparative advantage, domestic firms struggle to compete – by setting tariffs or trade embargos, domestic firms just starting up will have an opportunity to build productivity and engage in economies of scale. I thought learning about this was interesting because such a thought can give perspective on why President Trump may set tariffs on Chinese steel products. Outside of politics, the economics behind the issue can be based on the idea of protecting domestic firms. However, I think that Trump underestimates the complexities of "value-added" – how many firms rely on Chinese low-cost manufactured and natural products to product domestic products (i.e. iPhones rely on steel casings and electronics from Foxconn in China – Foxconn produces 40% predicted of all consumer electronics worldwide), therefore by setting tariffs means US must produce goods at a more expensive costs.

Then, we discussed how a country can successfully create a strong SIP. Ajarn talked about the process of policy formation in economics – an intertwined circle between world capitalist forces (United

Nations, World Trade Organisations, World Bank, Multi-National Corporations etc.), super-structures (government cabinets, president and prime ministers), supply (power elites, technocrats, political parties, economic advisors), and demand (interest groups, people, mass media, economists, NGOs, social movements). I found this to be extremely compelling – but also quite distressing. The fact that MNCs have so much power within the chain of policy-creation, and has such a strong determining-factor within decision-making shows the flaws and biases that could occur in our system. From this structure, I feel like demand has a very small voice in comparison to the capitalist forces and super-structures, sometime that should not be the case – whilst many super-structures claim to represent the voice of the people, it is impossible to fully represent everyone. Following from the structure above, Joseph Stiglitz rightfully mentions that successful industrial policy really requires right "political" conditions. I find it so interesting how politics and economics is so intertwined – only with a reliable political system, can economics flourish and do well. And yet, "reliable" doesn't have to come in the form of "transparent" or "trustworthy" – look at China, despite having a government that is extremely secretive – they have the ability to discipline the nation.

Lastly, Ajarn talked about the problem of the ageing society and how to country it: through machinery, AI and robotics, or by offshoring into another country. Though AI has lots of potential to grow as an industry, with Japan specialising too in robotic production – a lot of industries cannot function with robots. Examples he listed would be food processing, picking out fish-bones from fish takes delicacy and intricacy that machines cannot refine. Furthermore, service industries such as politics and therapy are very difficult to be replaced. I find that interesting because a huge concern for developed economies is that robotics will replace humankind and decrease job opportunities – but perhaps there will not be a displacement, but a shift in labour from repetitive, low-skilled jobs to even higher-skilled jobs, therefore leading to a stronger emphasis on attaining skills, education, and qualifications. Ajarn made me reflect how the future is extremely uncertain and how we must be prepared, and how SIP can be a way to shape the economy, braced for twists and turns we may encounter.