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GEO-CENTRIC THAILAND DRIVES TRADE AND INVESTMENT WITH CLMV NEIGHBORS



Southeast Asia is gaining global attention as it counts down to the official year-end launch of the ASEAN Economic Community (the "AEC"). ASEAN as a regional trading bloc is the third largest behind only the European Union and the North American Free Trade Area comprising a combined GDP in excess of US\$2.3 trillion. At this point it is worth clarifying that the AEC is not a "customs union" which applies a unified customs policy and tariff rates on non-member countries; in reality come December 31 2015, the AEC will indeed create a free trade area while each country retains independent customs policies and is permitted to set different tariff rates on imports from non-AEC states.

While the Community has largely eliminated all intra-ASEAN import and export duty taxes on items and services under the ASEAN Free Trade Agreement's Common Effective Preferential Tariff Scheme, Cambodia, the Lao PDR, Myanmar and Vietnam (the "CLMV Countries") are not required to achieve zero tariffs until 2018 in order to help address the economic development disparities between the CLMV nations and the ASEAN-6. Our article this month analyses the progress made on eliminating trade barriers between Thailand and the CLMV countries, and determines how Thailand can further enhance trade specifically with its lesser-developed CLMV neighbors.

CLMV countries are considered 'new' members of ASEAN, having joined after the original ASEAN-6. Upon signing the ASEAN Free Trade Agreement and therefore committing to eliminate all intra-ASEAN trade barriers, concerns were raised that if the CLMV countries liberalized at the same pace as their more economically developed counterparts, fragile domestic markets could collapse under increased competition and the government would suffer from tariff-related revenue losses. Therefore, the CLMV countries were given an extended timetable for compliance in order to implement tariff reductions more gradually and prevent economic shocks.



However, while formal tariff eliminations are on track, this effort in effect has had minimal impact as both the ASEAN-6 and CLMV countries have increased non-tariff trade restrictions to recover the lost revenue. These barriers include customs surcharges, technical measures, product characteristic requirements (marking, labeling, packaging, testing, inspection and quarantine requirements), and monopolistic measures.



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Thailand and CLMV Trade Overview

The geo-centric location of Thailand in ASEAN places it in a position to drive trade and investment with its CLMV neighbors. Although Thailand's cross-border trade partnerships have historically been dominated by Malaysia, which accounted for 60% of Thailand's total border trade in 2013, Thailand's trade with CLMV had doubled during the previous five years, accounting for around US\$6.4 billion. This substantial increase in volume was driven by rapid econom-

ic growth in Thailand's CLMV neighbors and rising Thai-outbound investment. Although Thai exports are facing new competition from China and Japan, Thailand's CLMV imports continue to increase. Primary imports include hydroelectricity from the Lao PDR, natural gas from Myanmar, computers and parts, electrical machinery, plants and plant products, mining products and scraps, textiles, chemical fertilizers and pesticides, and paper pulp and paper.

Since Thailand opened its economy in 1960 with the establish-

ment of the National Economic and Social Development Board and the Thailand Board of Investment to encourage trade and commerce with its neighbors, Thailand's GDP has grown at an average rate of 7% annually. This positioned Thailand as a regional economic leader to its neighbors, whose economies remained closed to the outside. By the time these countries were ready to open their economies, they had a stable trading partner waiting on their borders to help fuel much-needed development. This economic disparity between Thailand and the CLMV

ASEAN Cross Border Trade DFDL LEGAL & TAX



Source: <http://www.chiangraibulletin.com/wp-content/uploads/2013/08/Screen-Shot-2556-08-09-at-12.49.19-PM.png>
Trade figures: Jan-May 2014 (SCG)



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countries continues to exist today, giving Thailand a responsibility to assist in strengthening these economies in order to benefit its own exports and the prosperity of ASEAN as a whole.

Drivers of Trade between CLMV and Thailand:

There are several factors which are driving trade between Thailand and the CLMV countries:

- Accelerated economic development of CLMV countries;
- Declining tariff levels under the ASEAN Free Trade Agreement;
- Increasing urbanization and new Special Economic Zones along the borders;
- Thai-outbound investment to expand production chains regionally; and
- Financial support mechanisms from Thailand's Department for International Trade Promotion and the Export-Import Bank.

Developing a Stronger Infrastructure between Thailand and CLMV Countries:

Border trade between Thailand and the CLMV countries remains constrained by a lack of infrastructure to support such trade, and where infrastructure does exist, it is insufficient. While the average annual trade growth between Thailand and the CLMV countries rose from 2001-2012, road links from Thailand to CLMV countries remain unreliable, and the additional costs of sea-freight

prices put many small-medium enterprises out of the export market. Intra-ASEAN trade is the cornerstone of the AEC, and more substantial infrastructure investment is needed to put the Master Plans into practice.

The Thai government has allocated THB 5.5 trillion (US\$179.85 billion) for new infrastructure investments planned until 2019. Of these infrastructure investments, THB 243 billion (US\$ 7.95 billion) are to build multiple four-lane highways to Thailand's largest border crossings, and THB 403 billion (US\$13.18 billion) for 768km of double-track rail lines extending through the Lao PDR and Cambodia. In addition to its transportation infrastructure investments in Myanmar, Thailand is considering another bridge over the Mekong River into the Lao PDR, extending on the "friendship bridge" project completed in 2003 with joint investment from the Lao PDR and China.

Thailand has greatly benefited from sharing borders with CLMV countries despite the logistical issues. The proximity to CLMV countries has enabled Thailand to export with lower costs and greater ease. This is also reflected by the high growth in border provinces which has resulted in inflated land prices in cities like Kanchanaburi, Nakhon Ratchasima and Chiang Rai. As these cities develop, the infrastructure will also be improved to address the high demands

of those residing in such areas. Despite Thailand focusing on its efforts to provide CLMV with Official Development Assistance in regard to the infrastructure, trade development is still dependent on CLMV countries to invest in their own logistics upgrades in order to see significant benefits. Thailand owing to the advantages of geographic proximity has maintained a closed economic relationship with its northern neighbors as materialized by the expansion of trade, investment and service-sector cooperation.

In terms of Thai investment into CLMV countries, Thailand's investment projects comprise of natural-resource related projects, agricultural projects and agro-industries, and service-based investments such as those in hotels, tourism businesses and eateries. Despite the various drivers of trade identified earlier, experts from Credit Suisse have suggested that it would take up to 2018 for major gains to be seen in Thailand as well as CLMV countries.

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