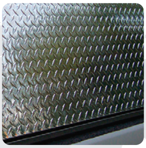
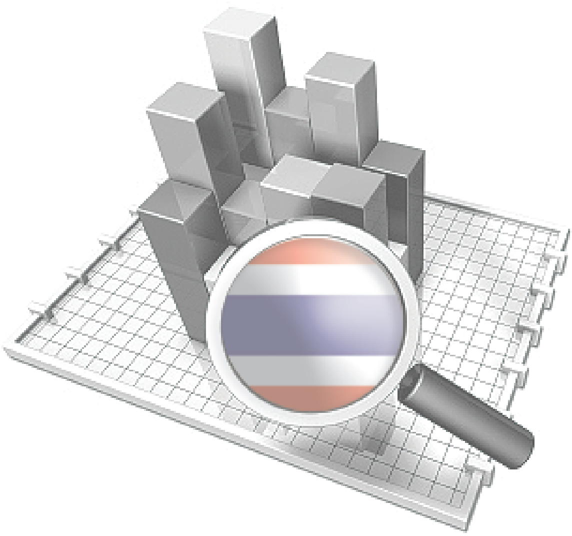
Part 3



Prevailing Issues
on SMEs in Thailand



SMEs and Entering ASEAN Community

Chapter 6

SMEs and Entering ASEAN Community

6.1 Potential of SMEs in Entering New ASEAN Market (CLMV Countries)

6.1.1 Potential and Prospects of SMEs in Entering Cambodian Market

Cambodia is located in Southeast Asia, has an area of 181,035 sq km (or about 1/3 of the area of Thailand). From east to west, it is 500 km and from north to south, it is 450 km. The border length is about 2,000 km. The border with Thailand is 798 km. It borders Thailand (Ubon Ratchathani, Si Sa Ket, Surin, and Buri Ram provinces) and Laos (Attapeu and Champasak provinces) to the north, Vietnam (Kon Tum, Gia Lai, Dak Lak, Dak Nong, Binh Phuoc, Tay Ninh, Long An, Dong Thap, An Giang, and Kien Giang provinces) to the east, Thailand (Sa Kaeo, Chanthaburi, and Trat provinces) to the west, and the Gulf of Thailand to the south.

Economic Potential of Cambodia

When considering the potential of Cambodia as seen by its GDP, in 2009 the Cambodian GDP was USD 11.2 billion. The per capita income was USD 635. The main income was from the agriculture sector, industrial sector, and service sector at 32.5, 22.4, and 45.1 percent, respectively. Nevertheless, in 2009 several institutions predicted different economic growth for Cambodia, ranging from -2.75 to the value of the government at 6 percent. For example, the Asian Development Bank (ADB) estimated a growth of -1.5 percent and will grow 3.5 percent in 2010 while the International Monetary Fund (IMF) predicted a growth of -2.75 percent. The Economic Intelligence Unit of England predicted a growth of -1.5 percent with inflation at 5.25 percent in 2009 and 6 percent in 2010.

Product Potential and Target Area of the Study

The process of the study considered 2 key dimensions, which are the product dimension and the service dimension. The study selected products and services that would benefit Thai SMEs the most by considering data in term of (1) potential market of the target area (2) policy that promote trade and investment (3) demand of products and services by the population (4) business competitor and (5) potential of Thai products and services. In conclusion, the products and services selected were:

(1) Consumer products

(2) Agriculture and agricultural machinery products

(3) Tourism product and service and business continuity

(4) Construction products and construction materials

(5) Vehicle parts and repair services

The Cambodian target cities were large cities, which all 3 cities were prominent both economically and socially. They were also prominent in other ways for each province and had an infrastructure ready to facilitate trade and investment. The 7 main criteria for select target areas for study included: (1) number of population and purchasing power (2) characteristic and type of industry in the area (3) competitor and opportunity of Thai products (4) logistics and transportation system (5) development strategy of the country and the target area (6) the presence of large Thai industrial operator (7) tax and non-tax measures that were opportunities or an obstacles for Thai SMEs. Based on these 7 main criteria, in conclusion, 3 large cities, which were economically and socially prominent and had an infrastructure ready to facilitate trade and investment, were selected including:

Phnom Penh: It is the capital of the country and the center of everything. It has a convenient transportation system and can support all types of travel or product transportation. It can connect with other areas of the country and neighboring countries. The population has high per capita income and high purchasing power. In addition, Phnom Penh has been the most transformed city. In the past several years, there have been expansions of hotels and restaurants because of an increase in a number of tourists. At present, there are daily direct flights from many cities in Asia to Phnom Penh, facilitating Thai SMEs to invest in all groups of products.

Siam Reap: Potential products include: tourism product and service and business continuity - important services include guide, hotel, guesthouse, restaurant, massage, and spa or products such as massage oil, essential oil, aroma incense, aroma candle, and herbal compress, which are important for tourism and are factors attracting domestic and foreign investment.; consumer products - higher demand for food products in accordance with higher number of tourists, the largest market for food and beverage products in Cambodia; construction products and construction materials - such as cement, paint, reinforcing steel and related products.

Battambang: Potential products include: agriculture and agricultural machinery products - such as chemical, fertilizer, organic fertilizer (niche market), water pump, and walking tractor; consumer products - such as ready-to-eat meals, beverages, cosmetics, daily-life products; tourism products and services and business continuity - such as tour companies, food and beverage businesses (ready-to-eat/raw material), and gift/souvenir vendors.

6.1.2 Potential and Prospects of SMEs in Entering the Market of the Lao People's Democratic Republic

Overall Economy of Lao People's Democratic Republic

Thailand and Lao People's Democratic Republic have had a good relationship historically, commercially, and from an investment perspective. Lao trade is highly connected to Thailand. Exports and imports mainly rely on markets and trade with 3 countries including Thailand, Vietnam, and China, with Thailand being the most important. Therefore, the global economic crisis did not link and affect Laos much. The economic status of Laos in 2008 showed a GDP of USD 4,295 million. The economy of Laos has been expanding continuously, resulting in per capita income of USD 728 in 2008 with inflation at 7.6 percent.

The study chose target areas that include Vientiane, Louangphabang, and Champasak. These areas have had continuous economic expansion in trade, investment, and tourism. In addition, development projects by the government and projects support from abroad is increasing. These activities greatly help stimulate the demand for products and services, especially products in target groups that were selected as having potential for Thai SMEs. There were 5 groups that were investigated and data were collected:

1. Consumer products
2. Agriculture and agricultural machinery products
3. Construction products and construction materials
4. Vehicles and parts
5. Service and health service

The study found that consumer products had the best chance for establishment and growth because most of the population has low income and limited purchasing power so the people are living sufficiently. Therefore, products that represent basic needs would be highly needed. Thai SMEs must study and adjust the marketing of their products to be modern and corresponding to the demand of Lao consumers, because if the products can get in the market then they can win the heart and stay in the market for a long time. Since they are products that are regularly consumed, they are also called convenience goods. As a result, these products are frequently purchased, usually weekly or monthly and in some cases every two or three days. Products with potential can be separated to 2 groups. The first is original products including consumer products, such as soap, shampoo, toothpaste, detergent, cosmetics, and shoes and edible products such as seasoning (MSG, fish sauce, sauce, and soy sauce), shrimp paste, snack (seaweed, nuts, and crackers). The other group is new products. Products that should enter the market include fabric cleaning products, appliance, mosquito repellent, and health and beauty products (food and beverage) and designed ornament, which can enter all 3 markets that were studied.

Agriculture and agricultural machinery products: Because the geography of the country is very well suited for agriculture and the government policy that promotes and support, the agriculture sector is being developed. Modern knowledge and technology from abroad are being promoted for use in manufacturing processes. The demand for these products consequently soared. Thai products with trade potential are original products such as large and small tractor, machines for plowing and planting, and walking tractor and new products such as small shoveling and weed eradication machines (for use in sugar, cassava, and rubber tree fields), machines for processing agricultural products, rice milling, small tractor, fertilizing machine, water pump, insecticide sprayer, organic fertilizer, and packaging machine for processed products. These products can be marketed in all target areas especially Vientiane and Champasak.

Construction products and construction materials: These products are crucial for the development of the country. Because of economic expansion, the existing infrastructure and other facilities are insufficient. Therefore, Laos has constructed many new buildings including ongoing projects, new projects, or renovation and expansion projects. Potential trade products include original products such as construction materials, bricks, tile, nets, plastics, road paint, cleaning chemicals, sanitary wares, water pumps, water tanks, and jars. These products can be marketed in all target areas. New products such as solar cells could also be marketed in Louangphabang and Champasak.

Vehicles and parts: These are products that attract constant interest. Due to the development of the transportation system, more vehicles are being used. Thai products with trade potential include original products such as vehicles, motorcycles, trucks, car accessories, tires, and parts, which can be well marketed especially in Vientiane. Marketing in Champasak is possible but may face tougher competition than other areas. In addition, new products such as magnesium alloy wheels, window tinting, GPS, and audio systems are products of interest, which could have a bright future and growth potential.

Service and health service: This is a group of products with good opportunity and is suitable for Thai SMEs. Products with potential include spas, traditional massage, coffee shops, boutiques, restaurants, 3-star hotels, tour companies, souvenir shops, auto repair shops, and car care shops. Most service businesses are related to health, following a new trend of health conscious consumers. In addition, they are also products that are related to the growth of the tourism business, which attracts interest from both Thai and foreign tourists especially Europeans. Tourists from Asian countries such as China, Vietnam, Japan, and Korea also visit every year. These services could have more opportunity in the market and can grow in all target areas.

6.1.3 Potential and Prospects of SMEs in Entering the Market of the Union of Myanmar

The Union of Myanmar is a large market compared to other neighboring countries because of the population of about 59 million. It comprises people from many ethnic groups and has similar traditions to Thailand. The border to Thailand is 1,800 km long.

In the view of Thai operators, Myanmar is a country that is difficult to trade with because it has a military dictatorship political system and has had a closed country policy for a long time. Because the languages are also different, communication and market understanding are not quite convenient. However, Myanmar is still a market with potential and the economy is expanding with a trend of higher growth. Myanmar also has diverse and abundance resources. For example, it has a large agricultural area, approximately 12.8 million hectares, and 50% of the land is a forest. It has plenty of surface water, resources and minerals such as copper, lead, gold, zinc, silver, tin, gemstone, jade, oil, and natural gas. There are many interesting tourism destinations, both art and cultural destinations and nature preservation-type destinations. It is a manufacturing base with potential. The cost of manufacturing is also low and labor costs are low as well. The domestic market is also large and the country is situated between two large countries, China and India.

The research chose the following target areas and products and services with competitive potential:

Area of Study	Product and Service
1. Yangon	1. Consumer products
2. Mandalay	2. Agricultural product and agricultural machines
3. Myawaddy	3. Construction products and construction materials
	4. Vehicles and parts
	5. Service

1. Yangon

Yangon is the city with the highest population density of Myanmar. It is an important economic center of Myanmar in industrial, agriculture and service. It is the hub monetary and banking system. It is the center of transportation including roads, ports, and airports, and is a product distribution center to other regions of the country.

Groups of products with potential in the Yangon area include:

Consumer products - Such as food, processed foods, snacks, vegetable cooking oil, MSG, and seasonings.

Construction products and construction materials - Because Myanmar is now experiencing economic expansion and increasing construction, there are many potential products in the construction group but the products that are very popular are sanitary wares and tile products.

Vehicles and parts - Because the population of Yangon has high purchasing power, usage of vehicles is very high. However, there are many restrictions on buying a new car. Thus, consumers favor buying a used car, which makes the demand of genuine or counterfeit parts very high.

Service - Yangon is a trade center and has many attractions. It also has an international airport so there are many tourists, which help increase the demand for service such as spas, restaurants, and tourism related services.

2. Mandalay

Mandalay has population of about one million with population density second only to Yangon. It is a trade center of northern Myanmar and is also a transportation center with roads, ports, and an international airport in the north of Myanmar. It is undegoing a very high expansion rate because of trade with China through the Muse trade gateway.

Products with potential in the Mandalay area include:

Construction products, construction materials, agricultural machines, and services - These products are transported from Yangon, which is an important distribution center, and will be distributed through Mandalay to other areas in the north of Myanmar. A major competitor China, whose products are cheap and have lower cost of production than Thai products. This is also a problem because cities in the north of Myanmar are not too far away from China.

3. Myawaddy

Myawaddy in Kayin state is an important border city of Myanmar. It is an eastern most frontier city and is important for trade between Thailand and Myanmar, and in particularly border trade because it borders the Thailand at Mae Sot district in Tak province. The border trade value is the highest among Thai-Myanmar trade gateways. It is also an important products transportation route from

Thailand to other areas in Myanmar such as Hpa-An, Mawlamyine, and Yangon, the final destination. Products with potential include consumer products, construction products, construction materials, vehicles and parts, and agricultural machines.

A proper way to market in Myanmar is finding a nominee, who is a Myanmar national and is also a trustworthy person, to be a business partner or indirect exporter. The reason is because Myanmar has extremely strict investment rules and regulations when investor is a foreigner. All expenses including public utility (electricity, water, etc.), wage, or other business expenses such as registration fee must be paid in US dollars. On the other hand, if the owner is local or has local partner then expenses can be paid in kyat, which has lower cost. Therefore, most investors who invest in Myanmar should consider investing in a form of nominee to reduce the cost.

6.1.4 Potential and Prospects of SMEs in Entering the Market of the Socialist Republic of Vietnam

The Socialist Republic of Vietnam has an area of approximately 331,689 sq km or 0.645 times the area of Thailand. It has geography like an "S" along the west coast of the South China Sea. Three quarters of Vietnam are mountains and forests. The geography of narrow but long creates clearly different climate between the north, central, and south of the country. It has great biodiversity and over 2,800 rivers running through canyons and plains. There are tropical forests and mangrove forests with over 13,300 species of plant, of which 7,000 are local perennial plants with economic value and also flowering plants. In addition, there are over 15,000 species of wild animals. The country also has rich natural resources and economic important ores such as oil, natural gas, iron ore, anthracite, and copper.

Vietnam has a population of approximately 87.3 million[1] (in 2009) and most of the population (67 percent) are workforce age, which is 15-64 years old. Vietnam has literacy rates of 95 percent. In 2007 the per capita income was approximately US $818 and rose to US $960 in 2008.[2] However, in terms of labor quality, the labor force still lacks skills and expertise.

Economic Potential of Vietnam

When considering the potential of Vietnam in terms of GDP, in 2008, Vietnam's GDP was US $89.9 billion (or about one third of Thailand's GDP). In 2005-2008 the GDP increased

[1]World Population Data Sheet 2009

[2]Compiled by the Department of Export Promotion

continuously. Vietnam has GDP per capita of US $818 million.

Foreign Direct Investment - The cumulative FDI value up to 20 September 2009 was US $168,391 million with a number of projects by foreign investors in Vietnam at 10,747 projects. Major investors were from Taiwan, South Korea, Japan, and Singapore. Investment by Thai investors was ninth at US $5,744 in 211 projects.

Concerning Vietnamese exports-imports 2006-2009 (January - September), Vietnam has experienced an increase in global trade value every year. In the first 9 months of 2009 (January - September), Vietnam had a trade value of US $90,014 million, of which US $41,736 million was exports and US $48,278 million was imports. The product with the highest export value was garments at US $6,730 million. The next highest products were crude oil, seafood, shoes, jewelry, gold, and ornaments. As for import, Vietnam imported machines and parts the most with a value of US $8,327 million and followed by refined oil, iron, steel, fabric, electronics, computer, and parts.

Industrial Potential and Target Areas of Study

The research has chosen the following target cities with trade potential and products and services with trade competitiveness.

Area of Study	Product and Service
1. Hai Phong 2. Ho Chi Minh 3. Can Tho	1. Motorcycle parts 2. Motorcycle maintenance 3. Construction products and construction materials 4. Consumer products 5. Tourism and business continuity

The selected target areas were big cities, also called “Municipalities,” which are prominent in economy, social, and infrastructure readiness, facilitating trade and investment, which were:

Hai Phong - It is a port city in the north of the country, 105 km from Ha Noi, the capital of the country. It has a modern deep-water port and is the second largest of the country. About 80 percent of products that will be sold in the north have to go through this port. The infrastructure and public utilities have been upgraded and developed to connect by land, train, and air, making it more convenient for traveling. There is also a policy to develop the Cat Bi Airport to be an international airport as well.

Ho Chi Minh - It is a former capital and located in the south of the country. The former name was Saigon. It is an old city, about 300 years old, contains much historical value and has been called "Pearl of the Far East."

Ho Chi Minh used to be ruled under a liberalism system so trade and investment are open. The city has the most purchasing power from Vietnamese abroad. It is the center of trade, service, investment, science, technology, industrial, and tourism.

Can Tho - It is the center of water transportation of provinces in the Mekong basin. It is a production and distribution source of rice, fruit, plant, tropical industry and fishery products. There is convenient transportation from building bridges across the river. There is also rich land. Therefore, there are a lot of investment in the food industry and other industries.

Marketing Opportunity for Target Products and Cities

When considering the population, the increase of GDP, rising rate of foreign investment, the growth of urban community, a process of industrialize country, and potential of target cities, it can be overall concluded that all 5 target products and services that were studied have marketing opportunity in Vietnam.

However, when considering deep in detail about the studied cities and because of the difference between area and consumer behavior, analysis of opportunity for products and services indicated differences in opportunity as following.

Motorcycle pars - For replacement parts, there are opportunities in all 3 cities while decorating parts have the best opportunity in Ho Chi Minh, because the population has relatively high income. In Hai Phong, there is moderate opportunity and in Can Tho, there is little opportunity.

Motorcycle maintenance service - Ho Chi Minh is the city that can be marketed because consumers can more easily accept new things, have high purchasing power, and have many investors living there. In Hai Phong, there are 5 times less target customers than in Ho Chi Minh and in Can Tho, there are as much as 10 times less customers than in Ho Chi Minh.

Construction and construction materials - In construction service, there are high to highest opportunities in all 3 cities but in construction materials, in Ho Chi Minh there are the highest opportunities while in Hai Phong, there are some opportunities but the production must emphasize quality and product differentiation just like in Can Tho.

Consumer products - There are the highest opportunities in Ho Chi Minh and high opportunities in Can Tho while in Hai Phong there are some opportunities but less than the two cities in the south.

Tourism and business continuity - It is a business that cannot operate independently in Vietnam. It must be investment in the form of a joint venture. Therefore, prominent businesses that have opportunities the most are tour business by pushing Thailand to be the center of tourism business in this region.

6.2 The Progress of Free Trade Areas (FTAs) and Their Impact on Thailand

ASEAN now has free trade areas with 6 trade partner countries including China, India, Japan, South Korea, Australia, and New Zealand. In 2010, the FTAs that have gone into effect causing Thailand and trade partner countries to gradually accelerate tariff reduction or completely eliminate tariffs (0 percent) for many products. The ASEAN-China FTA requires removals of tariffs for all items in the tariff reduction list by 1 January 2010. These include the original 6 ASEAN countries, which are Thailand, Malaysia, the Philippines, Indonesia, Brunei, and Singapore, and China. In addition, there are 3 FTAs that ASEAN signed with other countries. One that will be enforced in 2010 is the ASEAN-India FTA, the ASEAN-South Korea FTA (only for Thailand and South Korea because other ASEAN countries and South Korea have previously reduced taxes), and the ASEAN-Australia-New Zealand FTA. There is currently no product with 0 percent tariff but it will gradually decrease to 0 percent within the agreed timeframe.

6.2.1 ASEAN-China FTA

Negotiation Framework:

It covers all area of the economic relationship. The negotiation is divided into: 1) Free trade agreement on goods 2) Free trade agreement on service and investment and 3) other economic cooperation.

The Process

1. **Free Trade Agreement on Goods (already in effect)** - Thailand and China began bilateral tax reduction for agricultural products in HS 07-08 (vegetables and fruits) on

1 October 2003 under the ASEAN-China Early Harvest Program or 3 months ahead of other ASEAN counties.

- Early Harvest Program: For products in HS 07-08 and 2 other specialty products, anthracite coal and coke/semi-coke, the program began on 1 January 2004 by the original ASEAN countries and China, reducing to 0 percent in 2006. For new ASEAN countries, it is extended to 2010.

- FTA of normal products: The agreements for goods trade were (1) Normal goods - start tariff reduction on 20 July 2005 and reduce to 0 percent by 2010 (2) Sensitive goods - begin tariff reduction in 2012 and reduce to 0-5 percent in 2018 (3) High sensitive goods - keep the current tariff rate until 2015 and then reduce to under 50 percent.

2. Rules of Origin (1) Basic agricultural products: Use the "Wholly obtained" principle (2) Other products: The value of raw materials from ASEAN countries must be at least 40 percent (3) Specific origin rules: for some products.

3. Service FTA: Began free trade for group 1 on 1 July 2007. Thailand opened markets in addition to the WTO obligation to cover some services in profession, education, healthcare, tourism, and cargo ships.

4. Investment Agreement - The investment agreement was signed on 15 August 2009 and went into effect on 6 months after the signed date with the ratified countries. Countries that ratified after that date, the agreement would go into effect 30 days after ratification.

5. Memorandum of Understanding on Intellectual Property Cooperation - China and 9 ASEAN countries (except Thailand) signed memorandum of understanding on intellectual property cooperation between ASEAN and China during the 15th ASEAN Summit on 15 October 2009

The next process

The commitment is being negotiated for free trade agreement on service trade group 2.

The impact on Thai business

China is the FTA negotiation partner with high potential for Thai exports because of positive factors from the 2010 economic growth that is expected to be as high as 10.0 percent and the elimination of tariffs of all normal goods under the ASEAN-China FTA (ACFTA) of China and the original 6 ASEAN countries. It is expected that Thai exporters will likely exercise the right more in 2010. Thai products that could benefit from this agreement are agricultural products, processed agricultural products, cassava flour, electronic products, vehicle parts, personal automobiles, pickup trucks, air conditioners and parts, steel pipe, jewelry and ornaments, plastic products, long synthetic fibers, lens, flashes, electric motor parts, and audio products.

6.2.2 ASEAN-Japan Comprehension Economic Partnership (AJCEP)

Negotiation Framework

- It covers 4 major issues 1) Liberalization (product trade, service trade and investment) 2) Trade regulation (rules of origin) 3) trade facilitation (customs clearance and paperless trade) 4) other economic cooperation such as SMEs, ICT, and human resources.

Conclusion of Agreement

- In summary:

1) Liberalization of product trade - For Japan, 96.7 percent of goods by value imported from ASEAN will have tariff reduction/elimination. 90 percent of goods by imported value will immediately have 0 percent tariff when the agreement go into effect.

2) Service trade and investment - No liberalization yet but a service trade sub-committee and an investment sub-committee would be formed in 1 year from the day the agreement goes into effect to further discuss and negotiate.

3) Rules of Origin - Divided into 2 groups. 1) Goods with raw materials from member countries 2) Goods with raw materials from non-member countries. Use the principle of using all domestic raw materials, sufficient transformation or value specification of raw materials.

4) Economic cooperation - There will be a promotion for cooperation in liberalization and facilitation of trade and investment in trade, intellectual property, energy, data and information technology, personnel development, SMEs, tourism, transportation and logistics, agro-fishery and agroforestry, environment, and other areas.

- AJCEP has been in effect for Thailand since 1 June 2009
- The cabinet approved the negotiation framework on service trade and investment on 23 June 2009.

The Next Process

ASEAN and Japan are setting up a service trade sub-committee and investment sub-committee to create regulation of service trade and investment by August 2011.

The impact on Thai business - Tariff reduction/elimination under the Japan-Thailand Economic Partnership Agreement (JTEPA) and the ASEAN-Japan Comprehension Economic Partnership (AJCEP) will help create an opportunity for Thai products to enter the Japanese market even though it is expected that the Japanese economy in this year may grow only 1.9 percent, which is lower than other Thai FTA negotiation partners. Tariff reduction/elimination of AJCEP for 71 items in addition to that of JTEPA will help Thai exporters to take the full advantage by exercising their rights under the FTA. If Thai operators can adjust the manufacturing structure to comply with the Rules of Origin of AJCEP then the export value under AJCEP will increase.

6.2.3 ASEAN-South Korea Free Trade Agreement

Negotiation Framework

It covers liberalization of product trade, service trade, and investment by agreeing on trade regulations, dispute resolution, and operation of various economic cooperation projects.

Conclusion of Agreement

1) Agreement framework on economic cooperation - This covers various areas signed on 13 December 2005 and went into effect on 1 June 2007 with a matter of substance on negotiation framework and various cooperation.

2) Agreement on dispute resolution mechanisms - It was signed on 13 December 2005 and went into effect on 1 June 2007 with a matter of substance on specifying the process of mediation or mitigation of problems which could arise when comply with the commitment.

3) Agreement on product trade - It went into effect on 1 June 2007 but for Thailand it went into effect on 1 October 2009 with a matter of substance on liberalization of product trade by reduction import tariff by 90 percent of the product list and import value with reduction to 0 percent by 2010 for South Korea and by 2012-2020 for ASEAN countries.

4) Rules of Origin - Must comply with regulations: 1. Products that are manufactured or used raw materials wholly from the export country. 2. General regulations 2.1) Products that are manufactured in the member countries with the proportion of domestic raw materials at least 40 percent 3. Product Specific Regulation 4. Other regulations such as accumulation of origin.

5) Agreement on service trade - It went in to effect on 1 May 2009 but for Thailand, it went into effect on 1 June 2009. South Korea will open the market in 43 more areas than the Uruguay Round Agreement, and Thailand will liberalize service under the current regulation framework and in area that will promote a policy for Thailand to be the center of the region.

6) Agreement on investment - It went in to effect on 1 September 2009 with a matter of substance on liberalization and protection of investment between each other. There will be a schedule for liberalization within 5 years.

7) Economic Cooperation - It covers the cooperation in 19 areas such as customs clearance, SMEs, and tourism.

The agreement on product trade and service trade with Thailand went into effect on 1 January 2010.

The Next Process

ASEAN and South Korea will hold the second meeting of the working committee on the ASEAN-South Korea Free Trade Agreement.

The impact on Thai business

The ASEAN-South Korean FTA went into effect on 1 January 2010 causing South Korea to eliminate tariff for Thai products as high as 92.3 percent of product code. It's expected that Thai exporters tend to exercise rights under the FTA more this year because Thai exporters should know the tariff benefits and adapt to exercise the rights under FTA more. In addition to the growth of South Korea's economy, which is expected to rise at 4.5 percent in 2010, an increase from the rate of 0.2 percent in 2009, Thai products that could benefit include crude oil, sugar and molasses, car tires, tin powder, copper sheets, electric motors, rectifiers, yarn, frozen shrimp, squid, cassava flour, jewelry and ornaments.

6.2.4 ASEAN-India Free Trade Agreement (AIFTA)

Negotiation Framework

- It covers product trade, services, investments, economic cooperation, dispute resolution mechanism and flexibility for CLMV.
- Liberalization of product trade. The product trade agreement already went into effect on 1 January 2010, which reduced tariff on most products to 0 percent by 2010 or at the latest by 2015.
- Service trade and investment. To be negotiated after the agreement on product trade by liberalization of service trade and investment, which is being negotiated.

The Next Process

- Present to the parliament to agree on the negotiation framework on trade and investment.

The impact on Thai business

India is one of the most important export markets for FTA because after the Thai-India FTA went into effect in 1 September 2004 covering 82 Thai pilot products that had 0 percent tariff in 2006. Thai exports to India grew at a faster rate than Thai imports from India. As a result, Thailand has a net positive balance of trade with India since that time. It is expected that the tariff reduction on about 5000 items under the AIFTA, which went into effect on 2010, and the Bay of Bengal Initiative for MultiSectoral Technical and Economic Cooperation (BIMSTEC), which includes Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand, which is expected to go into effect in 2010, will help increase Thai exports this year, in addition to the trend of economic growth of India which is expected to rise at 8.8 percent, second to China in Asia. Thailand could export more products under the TIFTA include seasoning salmon, sardines, mackerel, crab, ready-to-eat meals, jewelry and ornaments, para rubber, rubber and rubber products, electric appliances, cooling devices, radio receivers, televisions, transformers, and computers. Thailand could export more products under AIFTA are canned fish, fruit juice, engines, jewelry and ornaments, electric appliances, electronics, aluminium products, furniture, cosmetics, vegetables and nuts, and seasoning food.

6.2.5 The Negotiation on the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)

Negotiation Framework

The major topics for negotiation are product trade, rules of origin, service trade, investment, economic cooperation, regulation, and institution.

Negotiation Process

It used a negotiation technique called single undertaking in which all topics are negotiated at the same time, and agree on all negotiation at the same time. Economic ministers of ASEAN, Australia, and New Zealand signed an agreement to form the AANZFTA on 27 February 2009.

Enforcement of Agreement

AANZFTA went into effect on 1 January 2010 for Australia, New Zealand, Brunei, Malaysia, Myanmar, the Philippines, Singapore, and Vietnam. As for Cambodia, Indonesia, and Laos, the agreement will go into effect 60 days after the day of ratification.

The Next Process

Involving organizations are in the preparation process to comply with the agreement before ratification.

1) The Thai Customs Department is adjusting the tariff schedule and rules of origin from HS 2002 to HS 2007 and the Ministry of Finance announces tariff reduction under the agreement.

2) The Department of Foreign Trade announces tariff reduction for products with import quota and readiness prepare on issuing rules of origin certificate.

The Impact on Thai Business

It is an important market for Thailand and Thai operators have exercised the right under the FTA the most since the Thailand-Australia FTA went into effect on 1 January 2005. Every year Thailand has the ratio of export under the FTA more than half of the overall export to Australia. Part of the reasons could be that Australia eliminate tariffs for almost 83.2 percent of Thai products as soon as the agreement went into effect in 2005 and in 2010 Australia will have to eliminate tariffs for additional 7,900 items. In addition, the AANZFTA that went into effect on 12 March 2010 will result in 0 percent tariffs for 6,000 products. Products that could benefit from the agreements are car tire, rubber gloves, air conditioner, car audio, vehicle and parts, fresh/canned seafood, rice, fruit, garment, clothing, leather products, jewelry, and electric appliance.

New Zealand - It is Thailand's smallest export market among all negotiation partners. Thailand has ratio of export to New Zealand only 0.4 percent of the overall export. At present, Thailand and New Zealand have 2 FTAs, the Thailand-New Zealand FTA which went into effect on 1 July 2005 and the AANZFTA which went in to effect on 12 March 2010. These 2 FTAs require New Zealand to eliminate tariffs for 518 Thai products in 2010, which will make the total of additional products with 0 percent tariffs at about 6,600 products. Products that will benefits from the tariff elimination are plastic, rubber, vehicle, refrigerator, washing machine, and steel container for gas and liquid. New Zealand is the only negotiation partner that allows exporters to self-certify the origin of products.

6.2.6 ASEAN-EU Free Trade Agreement

Negotiation Framework

- In 2007, ASEAN and the European Union (EU) announced an intention to negotiate the FTA between the two regions, which will cover market opening, service, investment, and economic cooperation in various aspects.

Negotiation Plan

- There would be 4 negotiations per year and the first negotiation was in January 2008. In each negotiation, EU would hold a seminar or a meeting to increase the ASEAN negotiation potential ahead of the negotiation.
- In March 2009, EU announced that there was a delay in the negotiation and problems with the negotiation with Myanmar and insisted on changing the negotiation format to be bilateral with ASEAN countries that were ready but EU had limited resources so there were negotiations only with Singapore, Vietnam, and Thailand.

- The Department of Trade Negotiations were evaluating the benefits of the negotiation by hiring Thailand Development Research Institute (TDRI) to study the benefits and impact of bilateral negotiation with EU. It would also find methods to help those who are affected and would open to opinions from stakeholders and the public in various aspects. The study was expected to be done in June 2010.

Conclusion of the Study Thai SMEs: Economic, Social and Cultural Roles

Chapter 7

Conclusion of the Study Thai SMEs: Economic, Social and Cultural Roles

The study of SMEs' roles in 13 target provinces in 13 groups of provinces in the north, northeast, central, east, south, and Bangkok regions between November 2009 and April 2010 by in-depth interview of approximately 250 SMEs and related people, holding 16 small group seminars, and survey with questionnaires of 5,000 samples. It can be concluded that:

7.1 The North Region

Area Potential and Development Direction

1. The northern area is an important forest and water resources of Thailand. It is the only region with ratio of forest higher than what is needed to keep the balanced ecosystem.

2. It is the gateway for trade and service to the upper Mekong basin subregion and South Asia. It has areas that connect the Greater Mekong Subregion (GMS) Economic Cooperation Program both in the North-South Economic Corridor and the East-West Economic Corridor, which connects South Asian countries at Mae Sot, Tak.

3. It is a manufacturing base of vegetables, fruits, grains, and agricultural processing industry. The upper north provinces are the important base for producing vegetables and fruits and the lower north provinces are the important base for producing grains, and crops.

4. There are cultural and natural tourist destinations and the center of handicraft industry especially in the upper north provinces. Chiang Mai is an important Thai and international tourism center. The lower north provinces 1 has World Heritage sites which are historically important and the lower north provinces 2 has the Huai Kha Khaeng Wildlife Sanctuary, which has been declared a World Heritage site as well.

Economic, Social, and Cultural Roles of SMEs in the North

Economy - Most entrepreneurs in the north are SMEs that help drive the economic mechanism. There are agricultural business, small and medium industries, retail business, and service business, based on the potential of the areas which are the agricultural manufacturing base and important tourist destination in many provinces and are suitable for business continuity because of the geography that connects with neighboring countries.

Social - Businesses in the area, especially the agriculture and industry groups, employ many foreign workers because of lower wages and insufficient labor in the area for some businesses. Therefore, there must be an efficient labor management. There are also impacts from measures and regulations that are related to foreign workers. For many community enterprises that established since the beginning of the One Tambon One Product, they are another role of SMEs to connect people in the community by employing, generating income, creating social relationships, and creating economic community. They are also the mechanism to keep the community cultural roots in each area as well.

Culture - The important cultural capital of the northern area is the Lanna culture, which is unique to the upper north region and exists in some area of lower north region. In addition, there are also tribal cultures in many upper north provinces and border provinces, which have tribal population and, therefore, there are cultural mix and various races. In the lower north region, there is Thai-Chinese culture, which has major economic and social influences.

7.2 The Northeast Region

Area Potential and Development Direction

Based on the strategic development framework of the region by the Office of the National Economic and Social Development Board (NESDB) in 2008, the northeast has these important roles:

1.Being the manufacturing base of food crops and renewable energy plants - The central and lower regions have potential for jasmine rice such as the Tung Kula Rong Hai and Tung Sumrit areas. The renewable energy plants should be in the original raw material area such as Nakhon Ratchasima, Khon Kaen, and Udon Thani provinces.

2.Being the manufacturing base for food and ethanol industry of Thailand - Areas with potential include Nakhon Ratchasima, Khon Kaen, and Kalasin by supporting the raw manufacturing improvement to be sufficient for the demand of increasing number of ethanol plants and the demand of the original industrial market.

3.Being a gateway for tourism and a connection to Indochina - Areas with potential include Nong Khai, Nakhon Phanom, Mukdahan, and Ubon Ratchathani by developing facilities in the main border provinces (Mukdahan, Nakhon Phanom, Nong Khai, and Ubon Ratchathani).

4.Being tourist destination and archeological study of Khmer civilization and prehistorical era - Areas with potential include the central and lower Isan by developing the quality of the archeological destinations with Khmer castles in Nakhon Ratchasima, Buriram, Surin, and Si Sa Ket. Develop Buriram and Nakhon Ratchasima to be the center cities similar to pre-historical tourist destinations (dinosaur fossils and Ban Chiang ancient civilization community) in Khon Kaen, Kalasin, and Udon Thani.

Economic, Social, and Cultural Roles of SMEs in the Northeast

Economy - The economy of provinces in the northeast is growing continuously and it has an impact on the growth of a number of SMEs in the region. In Area 3, provinces that were studied included Khon Kaen, Udon Thani, and Surin. It was found that there was still growth, especially in 8 important and prominent businesses including tourism, seminar, education, medical service, healthcare, design, construction, and infrastructure development businesses. SMEs entrepreneurs can engage in the form of sub-contractor for large projects and contractor for small projects.

As for the economic relationship with neighboring countries, SMEs entrepreneurs have connection at local, community, and economic level as well as expanding the connection to neighboring countries such as Laos, Cambodia, and Vietnam because of the needs for economic cooperation. In addition, there is racial relation and the similarity of culture.

Social and Culture - Being fundamentally an agricultural society has resulted in a society with generosity and hospitality. Although the current economic structure of the northeast has changed from agricultural base to industrial, trade and service sectors, the strength and success factors still depend on "friendship, brotherhood, and acquaintance." The bond between owners and employees is stronger than employer and employee. There is still caring manner especially for creating, maintaining, expanding customer base as well as using social dependence.

Provinces in the northeast have historical, cultural and traditional characteristics that are diverse as well as conventional wisdom for producing products to be used in household, bartered, donated and merited. However, they have been adjusted to economic goods such as mulberry planting, sericulture, and weaving.

7.3 The Central and the East Region

Area Potential and Development Direction

1. Agricultural areas / agricultural processing businesses (upper central region)
2. Sources of fishing business / fresh and processed seafood (Samut Sakhon and Samut Songkhram)
3. Areas of major industries (Rayong, Ayutthaya, Saraburi, Samut Sakhon, and Samut Prakan)
4. Sources of marine tourism and eco-agriculture (the east region)
5. Infrastructure for international shipments. Deep-water port (Chonburi and Rayong)
6. Border trade business (Trat, Kanchanaburi, and Prachuap Khiri Khan)

Economic, Social, and Cultural Roles of SMEs in the Central and the East Region

Economic and social capital - The upper and lower central regions are river basins so they are important agricultural society. There are processed agriculture, fresh water fishing, food and processed food manufacturing and way of life along rivers because houses have been built along the rivers. Additionally, there are now cultural tourism, eco-tourism and health-tourism long various rivers. Moreover, there are resources for heavy industry such as rock and cement in Saraburi, which makes Saraburi an important industrial manufacturing base of Thailand, Phra Nakhon Si Ayutthaya, and Lopburi. Agricultural areas have been turned to industrial area because the proximity to Bangkok, which is also an advantage for investing in the electrical appliance and electronic instrument industries. As a result, there are even more areas being turned from agricultural to industrial areas. The creation of the Map Ta Phut Industrial Estate and other estates and vehicle and parts manufacturing industrial estates, which normally are for large industries, also create industry and service at the SMEs level as well. There are marine resources, creating tourism and fishing business both on the coast of the east region and areas border to neighboring countries. This creates natural capital in agriculture, fishing and tourism. The lower central area such as Prachuap Khiri Khan Samut Sakhon, Samut Songkhram and Phetchaburi are the center of marine fishing and marine food business and tourism.

Cultural Capital - Important historical area in the central is Phra Nakhon Si Ayutthaya, which was the capital of Thailand for a long time. It is an important cultural heritage of the country. There are many historical, art, handicraft, and architectural landmarks, which lead to some businesses such as tourism, related services, and souvenir production. In addition, Phetchaburi also has Khao Wang as important place in the King Rama IV era, which is an inspiration for several architectures in the province.

It is the origin of local performing arts, which originated from Thai rural life style, such as Lamtad, Likea, folk music, etc. They are important culture of people in the central and could be extended to create value and start a business.

7.4 The South Region

Area Potential and Development Direction

The south region is an area surrounded by sea. It has rich resources and agricultural, industrial, and tourism potential. Important roles for development include:

1. Being integrated manufacturing base for para rubber and palm oil especially for border provinces, which are important para rubber manufacturing source. Areas on the coast of the Gulf of Thailand have Surat Thani and Chumpon as important processed palm oil industrial source.
2. Being a manufacturing base of processed seafood especially border areas.
3. Being the world prominent marine tourism base especially on the Andaman Sea coast such as Phuket, Krabi, Phang Nga, which are the centers of the business.
4. Being a gateway for trade and transportation connecting to neighboring countries in the south and other countries. There are also land bridges connecting the Gulf of Thailand and the Andaman Sea in Songkhla and Satun.
5. Being a steel industry base and having potential for energy industry from natural gas in the Gulf of Thailand.

Economic, Social, and Cultural Roles of SMEs in the Central and the South Region

Economy - The economy of the south region on the coast of the Gulf of Thailand and the border areas are agricultural base especially para rubber, palm oil, and fishing while most industries are the initial phase of agricultural processing industries. For the Andaman Sea coastal area, the main economy is tourism industry and business continuity. Tourism in the south region is major revenue for the region and the country. However, it is still concentrated in the popular areas such as Phuket, Krabi, and Samui.

Border trade between the south region and Malaysia has the highest trade value compared to border trade in other areas and accounts for 75 percent of the overall border trade of Thailand. It also has a rising trend. Most trades are through Sadao and Padang Besar checkpoint in Songkhla. Major products are agricultural products, vegetables, fruits, initial phase para rubber, industrial goods, and consumer goods.

Social - The strength of the south region is strong community, which has the foundation from religion. Community has good relationship and helps each other so it is an area with strong social protection and plays an important role in restoring and conserving natural resources such as Mai Reang community and the Confederation of Southern Local Fisheman and Mangrove Forest.

Cultural - Cultural heritage caused by the development, adaptation and lifestyle adjustment of people in the south, which consists of many ethnics coexistence in the Malay Peninsula. There are Chinese, Muslim and people from Southern India but most of them are Thai Siam. The fact that people in the south located in diverse geography such as coastal plains, deltas, ports, foothill plains, small and large riverbanks, islands, has created diverse culture based on the location, faith, race, and religion. The wisdom of southern villagers has important context for the southern society. It is a cultivated well such as natural state, creative state, beliefs about the world and the universe, and beliefs and faiths because of religions (such as Buddhism, Brahmanism, and Islam) and has effect on business operation or occupation, which is different for people in each area.

In the local art and handicraft, the south region is a source of cultural heritage of agricultural society, which has continuing knowledge and skills. There is usage of natural materials to create tools in daily life.

Traditionally, the south region has main Buddhist festivals in Nakhon Si Thammarat and Surat Thani provinces such as Chak Phra Festival and Hae Pha Khuen Phratat Festival, festivals of Thais who are ethnic Chinese such as the Somphote Chao Mae Lim Kor Neau in Pattani and the Nine Emperor Gods Festival in Phuket and culture specifically for Thai Muslim. There are also local art performances such as Nora Performance and Nang Talung, dress traditions in Thai Muslim style and Baba Peranakan style, by Thai brides who are ethnic Chinese. These cultures and traditions are ways of life of people in each group, and are also the points of interest of Thai and foreign tourists and are the important cause of manufacturing and service business and business continuity in the region.

7.5 Bangkok

Overall, Bangkok is Thailand's administration center, trade center, industrial/consumer products trade source, Thai and foreign tourist destination and is the image of new and modern city. Even though the economy is led by large businesses, the majority of manufacturing, trade and service businesses are SMEs.

Social and Cultural Capital

Culture of eating: Bangkok is a city of restaurant. There are international restaurants (Japanese, Chinese, and Indian), restaurants by region, and restaurants that are religious base.

Culture and way of ethnic communities: The prominence includes the Chinese community in Yaowarat, which brings Chinese culture and beliefs to apply to trade and to create festival and tourist destination such as the Nine Emperor Gods Festival and the Chinese New Year Festival or the Mon community in Nong Chok district (Klong 14) and Bang Khun Thian, which brings food culture and folk handicraft to build a center of trade and eco-tourism.

Culture and way of community from traditional occupations - Change from traditional agricultural way to eco-tourism especially in the eastern Bangkok area and Thonburi, which is in accordance with policy identity. Some examples are Ban Mai community, in Ratchathewi district, central Bangkok, which used to produce silk fabric for Jim Thompson, Ban Bu community in Bangkok Noi district, northern Thonburi, which produces the famous Khan Longhin (alloy bowl polished with stone), and Ban Bart community, in Pom Prap Sattru Phai district, central Bangkok, which produces monk's bowl.