

## Junta reforms doing nothing to assuage Thai investment flight

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The Thai junta is unhappy with Thailand's current economic paradigm and is attempting to shift the fundamental base of the country's economy. Various branches of the Thai state are attempting to create what is vaguely referred to as 'Thailand 4.0' by the government, the 'next growth phase' by the Ministry of Finance and the '20 Year Strategy' or the '6-6-4 plan' by the Ministry of Commerce.



[Ten industries](#) <sup>[1]</sup> are being targeted to shift Thailand up from a middle-income country that produces other country's ideas, to a fully developed country based on innovation and indigenous creativity by 2036. To achieve this, Thailand's Investment Promotion Act has been 'reinterpreted' into the [Seven-Year Investment Promotion Strategy](#) <sup>[2]</sup>. Rather than offer broad incentives, the new approach is an attempt to 'level up' the economy into specifically selected sectors that are high-tech, high value-added and high creativity.

But a glance at foreign investment from Japan — Thailand's biggest investor — reveals this approach may not be working.

Japan's investment in Thailand has historically been rock solid, representing on average 42 per cent of all foreign direct investment (FDI) into the country. Between 1985 and 2016, Japanese investment into Thailand cumulatively totalled 2.9 trillion baht (US\$85 billion) which is more than double US investment — the next biggest investor — which stands at 631 billion baht (US\$18 billion).

However total FDI in 2016 in addition to the current two quarters of 2017 has dropped to levels

last seen in the wake of the Asian financial crisis. Record high figures in 2013 of 513 billion baht (US\$15.1 billion) dropped to 374 billion baht (US\$112 billion) as of the second quarter of 2017. This is largely due to a pulling back of investment by Japan. Japanese investment totalled 310 billion baht (US\$9.1 billion) in 2013 compared to 125 billion baht (US\$3.8 billion) in 2017. The two years prior to the 2015 introduction of the military's Seven-Year Investment Promotion Strategy and the two years after the strategy are markedly different.

Hence, there must be some significant factors in Thailand that are spooking foreign investors. These are twofold — domestic and regional.

Domestically, Thailand is in trouble. A fragile post-WWII political settlement that has resulted in frequent military coup d'états, while simultaneously facilitating the papering over of the problem through an increase in national ['royalism'](#)<sup>[3]</sup>, is no longer working.

Instead, 'Rama X Day' has arrived: a homonymic term used in Thailand that conveys both a disaster-themed film title as well as the crowning of the [10th Rama](#)<sup>[4]</sup> (Thailand's monarch). Unlike under Bhumibol, Thailand and its networked monarchy of elites will likely unspool as factionalism takes over. This is something that foreign investors have not had to deal with before.

Thailand is also currently suffering from an apparent middle-income trap — an issue which is causing Japanese planners grave concern. This problem is being compounded by another issue: demographics. The country is one of the fastest aging populations in East Asia — surrounded by youthful populations in the Mekong region — with the UN estimating that its working age population will peak this year.

At the regional level, a rising China that represents a threat to Japan's preference for an open and multilateral ASEAN is bearing down on Japanese planners and prompting a diffusion of investment away from Thailand.

Since 2011–2012, Japanese investment into China has slowed down or declined, while investment in ASEAN has increased. In 2011 Japanese investment into China stood at US\$12.6 billion but in 2015 it had shrunk to US\$8.9 billion, meanwhile investment into ASEAN grew from US\$15.7 billion in 2011 to US\$20.2 billion by 2015.

But this shift of investment does not just benefit Thailand. Japan's successful liberalising of Mekong countries around Thailand is facilitating the development of a hub-and-spoke production system that is centred on Thailand but not necessarily concentrated there. Low- and mid-level production can now be transferred to countries surrounding Thailand, prompting a drop in investment in the country.

Japan has also been interested in Myanmar since 2013 when it provided Myanmar with an enormous loan, prompting total official development assistance (ODA) to Myanmar to jump from US\$93 million in 2012 to US\$5.3 billion in 2013. This is just slightly under the US\$5.7 billion of combined Japanese ODA provided to all of Myanmar's neighbours — Thailand, Cambodia and Laos — for the entire period of 1995–2014.

Myanmar's recent 'coming in from the cold' means that Japan's 'Thailand+1' connectivity strategy can be better maximised in the entire Mekong region, not to mention plans that could connect Southeast Asia with South Asia. Thailand is no longer the only secure investment option for Japan in the region, and a strong Myanmar lobby in Japan would likely prefer to see more of Japan's largesse directed at Yangon rather than Bangkok.

Foreign investment is falling, driven largely by falling investment from Japan, and domestic changes made by the current military junta appear to be making a bad situation worse.

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[1] Ten industries: [http://www.boi.go.th/upload/content/TIR\\_Jan\\_32824.pdf](http://www.boi.go.th/upload/content/TIR_Jan_32824.pdf)

[2] Seven-Year Investment Promotion Strategy:  
[http://www.boi.go.th/upload/content/4%20Regions%20Seminar%20New%20Investment%20Promotion%20Criteria%20and%20Policies\\_46892.pdf](http://www.boi.go.th/upload/content/4%20Regions%20Seminar%20New%20Investment%20Promotion%20Criteria%20and%20Policies_46892.pdf)

[3] royalism:  
<http://www.eastasiaforum.org/2017/05/30/thailands-constitutional-dispossession/>

[4] 10th Rama: <http://www.eastasiaforum.org/2016/10/28/thailand-after-king-bhumibol/>