International Business Analysis and Opportunity of Thailand

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Abstract

Thailand is an emerging business tiger at the Southeast Asia, his economic development has been astonishing to its neighbouring countries. This paper is to discuss on Thai economy global position, its potential business opportunities, its challenges ahead and its solutions for future survival.

Keywords: Thailand, economy, development, business, finance.

1. Introduction

Thailand is the second economy of Southeast Asia, it has a good geographical location to occupy regional markets and beyond. The official name for Thailand is The Kingdom of Thailand; its government follows constitutional monarchy system. Their head of state is His Majesty King Bhumibol Adulyadej, their current head of government is General Prayut Chan-o-cha. Its present population is estimated around sixty seven (67) million, this country has an area of five hundred and fourteen thousand kilometre square (514,000 km^2) with a long coastline of three thousand two hundred and nineteen kilometre (3,219 km). Its capital, Bangkok, consists of fourteen (14) million people; other important cities including Nakhon Ratchasima, Chiang Mai, Hat Yai and Udon Thani also possess high density of population. Thailand is located at the time zone of Greenwich Mean Time plus six hours (GMT +6), its currency is in Thai Baht (THB) whereby one Euro (EUR 1) is approximately exchangeable to forty THB (THB 40) (Wikipedia, 2015a).

2. Position in Global Business

In 2014, Thailand had a low inflation rate of one point three percent (1.3%), it achieved a ranking of thirty first out of one hundred of forty four (31/144) in the global competitiveness index (GCI) and eighty fifth out of one hundred and seventy five (85/175) in the global corruption perception index (GCPI). Currently, Thailand is graded as top twenty sixth out of one hundred and eighty nine countries (26/189) for the index of ease of doing business (EDBI). Its active memberships include World Trade Organization (WTO), Association of Southeast Asian Nations(ASEAN) with the subgroup of ASEAN+3 and ASEAN+6,Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Transatlantic Free Trade Area (TAFTA), Japan–Thailand Economic Partnership Agreement (JTEPA) and Thailand-European Free Trade Association Free Trade Agreement (TEFTA). Thailand expressed interest to join Trans-Pacific Partnership (TPP) in 2012.

Presently, it score trading counterparts are United States of America (USA), China, Malaysia, Japan, Singapore, Indonesia, United Arab Emirates (UAE), Australia, Hong Kong, South Korea and European Union (EU) (Kohpaiboon and Jongwanich, 2015). In 2014, Thailand was the second economy of Southeast Asia after Indonesia possessing a gross domestic product (GDP) of United States Dollar (USD) four hundred and five (405) billion. It is an upper middle income country; it possesses a liberal and export-orientated economy with exports occupying almost half its GDP (World Bank, 2014).

2.1 Labour Force

Thailand retains a good and high labor force participation rate as seventy three percent (73%), both sexes are active participants in the labor market whereby the male participation rate is eighty percent (80%) and female is two third. Therefore, Thailand has many exports, majority are electronics and electrical appliances, machinery and equipment, automobiles and parts, aliment and agricultural merchandise. Thailand requires substantial import to maintain its growth such as fuels, machinery and parts, plastic pellets, rubber, electronic integrated circuits, crude oil, machinery and embellishments, electrical machinery and accessories, chemical ware, iron, steel, auto parts and ornament, other metal ores, jewellery with silver bars and gold, computer equipment and others (OEC, 2015).

2.2 FDI

In 2014, the foreign direct investment (FDI) of Thailand reached almost USD twelve (12) billion; its trade volume is around USD fifty nine (59) billion with ASEAN that accountable to twenty six percent (26%) of its total export, USD twenty four (24) billion with USA, USD twenty three (23) billion with EU and USD twenty two (22) billion with Japan. For instance, the Netherlands is the largest cumulative EU investor in Thailand. In 2014, its FDI alone in Thailand attained USD two point one (2.1) billion, it is the third EU business collaborator with a trade volume of USD four point seven (4.7) billion. Due to active import and export with firm FDI in Thailand, the GDP of Thailand has a growth rate increasing in real terms by fifty one percent (51%) over the past five years with a yearly mean growth rate of eight point four percent (8.4%). Thailand holds a good growth in GDP because of several factors. For instance in the past five years, its expansion in manufacturing industry pushed to seventy seven percent (77%), this is comprised of almost one third of total national output. Its financial division doubled up to eleven percent (11%), the electric, gas and water consumption came up to sixty eight percent (68%), transport and communications reached two third, construction increased to fifty seven percent (57%), retail and wholesale trade expanded to fifty three percent (53%), agriculture hiked five percent (5%) and mining surged to forty three percent (43%). These together trigger a high real GDP yearly growth of eight point four percent (8.4%) averagely (OEC, 2015).

3. Potential for business growth and development

There are several areas embraced with great potential business growth and development in Thailand, i.e., agricultural food production and horticulture, medical tourism, energy production and recycle, water treatment and others.

3.1 Natural Resources

Superfluous natural resources in Thailand has given itself a great Darwinian business advantage nationally and globally, currently Thailand is one of the international prevailing providers on daily merchandise including sugar, rice, manioc, fresh or tinned fishery productions, fruits and vegetables. Up to date in Thailand, the number of food processing companies is more than ten thousand (10,000) in order to sustain solely on its domestic demand. The Thai authority begins to implement policy on food safety, hygiene and training to comply with international standards, they also encourage investment, research and development on agricultural technology anticipating itself to be the kitchen of the world. For the past five years, they are attempting to promote Islamic halal food manufacturing and organic farming. They follow guidelines set by the international Islamic council and United States Department of Agriculture (USDA), they are targeting international Muslim market and high end premium expensive organic segment (Suphannachart, 2015).

3.2 Medical Tourism

Medical tourism in Thailand is very successful. Thailand is the international largest medical tourism hub for Asia, they provide latest medical technology, premium medical healthcare.

Distinguish medical consultancy and renowned class hospitals with a great variety of choices and reasonable prices. Annually, at least two and a half (2.5) million patients come from all over the world to Thailand for a great range of therapy including minor dental service and sophisticated transplant procedures. Thailand has prepared itself with several biotechnological and public health plans to strengthen their healthcare system, they are ready to face any unexpected outbreaks. To maintain itself as the top medical hub in Asia, certainly this is a great business chance for FDI to supply and sustain their medical equipment, services and medications in Thailand (IMTJ, 2015).

3.3 Global Trading Hub

Thailand is actively manufacturing and exporting products internationally, energy is vital for their production. Thailand is dependent heavily on natural gas and oil; Thailand has its own reserve but it is unable to cope with demand, almost half of its energy is imported. As time goes by, depletion of its reserve increases import of energy and this condition will be exacerbated gradually. Many foreign companies have foreseen this opportunity, they either source and import energy into Thailand or help Thailand to allocate new source domestically. Services on this area are still very demanding in Thailand, they have predicted that the domestic energy will be ended in 2030 if no new breakdown is found. Thai authority seeks alternative renewable energy, they launched a ten-year Alternative Energy and Development Plan(AEDP) (2015-2036). They targets to deploy such energy up to twenty percent (20%) in 2021, these renewable resources involve solar, wind, hydropower, bio energy and biofuel (BOI, 2013).

3.4 Water Treatment

Thai authority constantly faces gages from water such as water shortages, flooding and surplus waste water production. These are related to drought, heavy rainfall, deforestation, river blockage, increased population, urbanisation, economical advancement, industrialisation and pollution. Floodings at the commercial and industrial areas jeopardise on the export production and FDI, investors encounter financial deficits and they may consider elsewhere. Surplus waste water induces pollution, this increases burden on the healthcare system and investors. To combat with these problems, the Thai authority has launched an international sustainable strategy to achieve a good water resource management system in twenty five (25) major rivers. They have prepared a budget of nine hundred (900) billion THB for a twelve (12) year plan to lead Thailand an advance place for water management in this region. Foreign investors are invited to participate in this giant project (Sathirathai, 2013).

3.5 Infrastructure

Thailand also has a great ambition on its infrastructure transportation. They implement Thailand's Transport Infrastructure Development Strategy (TIDS) for the period of 2015-2022 to improve congestion and quality of their harbours, waterways, naval infrastructure, aviation and railway, Thailand plans to be regional transport hub for aviation, shipping and train. They attempt to complete a corridor that link with China and ASEAN, upon completion of this project heavy traffic and trade go via Thailand before reaching other ASEAN members. This project is aimed nationally throughout the entire country; this surely lures foreign investor or service to supply technology, development and logistic management (Sathirathai, 2013).

4. *Future challenges faced in international business*

Since 2014, Thailand has been governed by the military force, several failed attempts of demonstration drew foreign investor's attention. The Thai army has promised to restore the dispute and democratic election probably in the coming two years, many investors are still waiting for changes and considering their future investment or retreat of business to elsewhere. Simultaneously with global economic slowdown, crushing value of crude oil, increased agricultural cost, enervating currency policy of neighbouring countries and other factors, the Thai export is predicted to be reduced remarkably of which it is accountable for seventy percent (70%) of their GDP (Karunungan, 2015).

4.1 Currency Deflation

Agriculture in Thailand shares a great part of their GDP, unfortunately its neighbouring countries have improved their competitive strength and productivity rapidly; they offer lower wages, tax relief and exemption and cheaper raw materials. The wages in Thailand comparatively is higher and worker shortage is another issue.

Urbanisation in Thailand has drawn rural population into city, this reduces the rural workforce for the agriculture sector. Thailand has a rigid law on hiring foreign worker, this has further aggravated on labour deficit (Ducanes, 2013).

4.2Global Slowdown

Decline of industry is another big challenge for Thailand. Since the 2011 flood crisis, foreign investors have started to shift their hard disk manufacturing and car production service to elsewhere. They are eyeing on the neighbouring countries such as China and Philippine because they are offering ludicrously low wages, unlikely Thailand with a fixed minimum wage as set by the legislation. Beside, due to global economic downturn and the reduction of demand on these industries, foreign investors are also dismissing their local staffs to sustain their operation (Ducanes, 2013).

4.3 Export Stagnant

When two elephants fight, it is the grass that gets trampled; this applies to the regional currency war. If a country currency is deflated, their export should be cheaper and more competitive. However, its neighbouring countries perform similar strategy with a greater measure, Thailand does not gain any advantage and its import and production costs are tremendously elevated. Furthermore, the economic slowdown and falling commodity prices in China and South Korea have triggered these countries to reduce on their import; Thai export is forecasted to be decreased. The Bank of Thailand attempted to salvage the situation by cutting the policy interest rate to improve exports, but it did not show remarkably good result; its public investment is reduced to six percent (6%) in 2014 and the 2015 predicted Thai GDP growth is around three and a half percent(3.5%) only (Sriring and Thaichareon, 2015).

4.4 Trading Deficit

For the past five year period, Thailand has suffered from USD six point three (6.3) billion trading deprecation, i.e., around sixty percent (60%), their import has gone beyond the import with a financial deprivation of at least USD sixteen and an half (16.5) billion. Although its other current account transactions yielded an excess of USD three point three (3.3) billion, in 2014 its current account balance was subjected to a loss of USD thirteen point two (13.2) billion, i.e., eight point one percent (8.1%) of GDP. Thus this has indicated a huge negative discrepancy between domestic savings and investment. A country's balance of payments in its capital accounts is comprised of incoming and outgoing of trade credit, FDI, portfolio investment, bank loan and other global monetary deals. Luckily in 2014, its net incoming funds achieved USD twenty two (22) billion, this surplus was able to resolve the national current account deprecation, and the remaining positive balance was put into its central reserves (Wikipedia, 2015b).

4.5 External Debt

Currently, Thailand is liable to a total external debt of USD eighty three (83) billion, it is around half of GDP. The private entity is responsible for the international financial transaction; the government has nothing to do with it. In fact, these loans are short term; they take benefit of lower interest rates at elsewhere to sustain their domestic expenses, they loan foreign currencies and turned them to THB for business. Thus the Thailand's exchange rate policy plays an important role for the market. Due to high dependent on foreign currency and exchange rate, Thailand has adopted a policy of THB Peg with USD, ie, a comparative fixed rate of THB twenty five point two (25.2) per USD. When USD stays strong, Thailand reduces trade competitiveness and cost of foreign loan for their domestic companies; if USD declines, its trade competitiveness are strengthened but their cost of foreign loan is higher. In short, Thailand bares high dependency risk on export levels and growth rate, import levels and growth rate, balance between domestic investment and trade deprivation, FDI, interest rate on foreign loan and foreign debt (Wikipedia, 2015b).

5. Suggestions and Conclusion

A financial system reform is crucial for Thailand to improve on export competitiveness in World Economy, an in depth and wider financial system will open its economy to a better global financial flows and rivalry from other overseas financial holdings. Their monetary policy operations should aim to reduce its dependency on commercial loan with banks.

So far no more than six hundred (600) companies are listed in their stock exchange, establishment a larger and liquid stock and bond markets may give benefits for short and long terms (Jotikasthira, 2011).Easing on foreign exchange encourages people to trade freely, this may lead Thailand to be a regional exchange centre and enhance global economic flows. This certainly narrows their current account deprivation. Giving out more bank license promotes further currency flows; reduction in tax with more incentive surely boosts the market remarkably. Thai monetary policy should shift from direct policy such as setting loan and interest limit to indirect policy including open market operations and market oriented free floating interest rates. Beside, facilitating Thai securities market allows more domestic developments and operations; funds are able to float readily (ADB, 2015). At last, banks and other financial institutions should provide a greater choice of financial service such as safeguarding on insurance and disposal of securities and trading on mutual funds. Central bank should be firm on its supervision and screening of commercial banks, it must ensure all the commercial banks have achieved international and national standards (ADB, 2015).In summary, Thailand is still a good and potential investment place for international business, in time it will thrive better.

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