

Thailand-China Cooperation in Trade, Investment and Official Development Assistance

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1. HISTORICAL DEVELOPMENT OF CHINA'S FOREIGN TRADE

From an isolated economy before 1978, China has become increasingly dependent on the global economy since the latter part of the 1970s. China's export dependence ratio (ratio of total exports to GDP) increased from 9 percent in 1980 to more than 20 percent and 30 percent, respectively, in the 1990s and early 2000s (E.H. Palanca, 2001, p.111). In 2008, China's export dependence ratio reached almost 40 percent.

When compared to the ASEAN members, particularly the "core" six member countries (Thailand, Indonesia, Singapore, Malaysia, The Philippines and Brunei), however, China's export dependence ratio is relatively lower. For example, Thailand's export dependence ratio was almost 60 percent in the early 2000s and increased to almost 70 percent in 2008.

As a giant-sized country with a lot of less developed and low-income provinces located far away from the coastal areas, China can rely more on its domestic market to rebalance its internal and external economies.

Moreover, China also has to depend more and more on imports for its economic development. Hence, its import dependence ratio (ratio of total imports to GDP) has increased from 10 percent to almost 20 percent and more than 30 percent during the same period.

It is to be noted that while China has gained tremendously from foreign trade balance with the Western countries, particularly with the United States (US) - with the US trade deficit with China of US\$100.30 billion in 2002 increasing to US\$125 billion and more than US\$220 billion in 2003 and 2007, respectively - it has lost significantly from its trade balance with the East Asian countries such as Japan, South Korea, Taiwan and some ASEAN members, among others.

Since it has opened its door to the international economy, China's rapid foreign trade growth has not impeded the growth of trade of the East Asian region. Instead, China seems to have played some stimulating effect to the foreign trade expansion of the region.

In the last few years, China's trade with other developing countries such as those in the Latin American and African regions has also increased rapidly as China tried to diversify its trading partners outside of those from the developed countries like the US, Japan and the European Union to the less developed countries (LDCs).

The composition of China's trade commodity has also changed considerably since the beginning of its economic reform in the latter part of the 1970s. Export of China's primary products, for instance, declined from a proportion of 50 percent in 1993 while export of its manufactured products increased from 50 to 82 percent in the same period. Currently, China's export items are totally dominated by the manufactured goods composed of both low technology based and labor-intensive products as well as higher technological and capital-intensive goods.

In terms of wage rates, it is to be noted that although they are rising in China's coastal areas, labor wages in the inner central and western provinces are, however, still relatively much lower than their counterparts in many other Eastern Asian

countries.

The large size of the population, coupled with the rising income of the Chinese people in recent years, has accelerated China's import potentials. Moreover, the increases in all kinds of production from the strong supply bases also stimulate sharp import growth, particularly in terms of high technological products, energy products, basic commodities, raw materials, components and spare parts, among others. The improvements in the standards of living among the Chinese since the opening up of the country in the late 1970s also increased China's imports of some more diversified types of finished products.

Additionally, the changing educational status and age distribution of the Chinese population also stimulate the rapid dynamics of household consumption patterns (E.H Palanca, 2001, p. 120).

The rapid rate of urbanization, accompanied by the increasing number of nucleus families in China, will also change consumer behaviors and lifestyles, stimulating the demand for imports of quality and luxury products and services.

Furthermore, the strict observance of the one-child policy and the increase in life expectancy among the Chinese people since the last several decades will also be significant factors in determining the domestic consumption pattern in China.

2. DEVELOPMENT OF TRADE RELATIONSHIP BETWEEN THAILAND AND CHINA

Thailand restarted trade relations with China in 1976 after the official restoration of diplomatic ties between the two countries in 1975.

The recent historical development of trade relations between Thailand and China

may be traced through the following events (Pisanu, 2003,pp. 123-24):

The first trade agreement between the two countries was signed on March 31, 1978. The Thailand – China Joint Trade Committee (JTC) was established on November 9, 1978. The two countries would host the annual trade conference alternately. During the conference, the Thai side would be chaired by the Director General of the Department of Foreign Trade, Ministry of Commerce while the Chinese counterpart would be presided by the Director General of the Asian Department, Ministry of Foreign Trade and Economic Cooperation (MOFTEC). The major objectives of the annual conference were the setting up of trade volume targets and promotion of trade expansion between the two countries.

The Thailand-China Joint Committee on Economic Cooperation-(JC) was established on March 12, 1975. The JC was chaired by the Deputy Minister of Foreign Affairs of the two countries.

The Thailand-China Subcommittee on Co-operations in Economic, Trade, Investment and Tourism was set up after the official visit of the Deputy Prime Minister and Minister of Commerce of Thailand, Dr. Supachai Panichaphak, to China on April 16-19, 1998. The major objective of the subcommittee was to develop and strengthen trade cooperation between Thailand and China. However, this subcommittee was given up in May 2001, after the changing of the Thai government from the Democrat to the Thai Rak Thai Party in early 2001.

Under the government led by the Thai Rak Thai Party, the Thailand-China Relationship Promotion Committee, chaired by the Deputy Prime Minister, Dr. Somkid Jutusriphitak, was set up.

Thailand-China's foreign trade has been considerably increasing since 1991. From 1991 to 2002, the total trade of the two countries increased to about 31 percent and then increased more sharply after China's accession to the World Trade Organization (WTO) on December 11, 2001.

Although Thailand-China's foreign trade had upward trends since the early 1990s, it was fluctuating. The two countries' trade peaked with a growth rate of 61.5 percent in 1995, owing to the high economic growth of Thailand and the huge devaluation of the renminbi (RMB) in early 1994 (from 5.8 to about 8.3 RMB per US dollar). Since 1996, the foreign trade of Thailand and China had slowed down due to Thailand's declining GDP growth and economic crisis in 1996 and 1997. In the midst of the economic crisis faced by Thailand in 1998, Thailand-China's foreign trade growth bottomed to -10.5 percent. Due to the economic recovery and the high devaluation of the Thai baht after the crisis, however, which led to much cheaper exports from Thailand to China, the foreign trade of Thailand and China picked up once again, with a growth rate of 21.4 percent and 43.7 percent in 1999 and 2000, respectively.

In 2001, the foreign trade of Thailand and China slowed down again to only 5.5 percent growth rate due to the GDP slowdown of Thailand (2.2% GDP growth rate) and the global recession caused by the US' dot.com crisis but then recovered afterwards. In 2002, after China's WTO accession, foreign trade growth of the two countries grew to 30.1 percent and trade between the two countries further grew at impressive rates. Thailand's export growth to China increased more than 60 percent in 2003, which was 4 times higher than the average total export growth (of about 15%) of Thailand. In comparison, Thailand's export to Japan grew at around 14-15 percent in 2003.

In 1991, the proportion of Thailand-China's foreign trade was 2.2 percent of

Thailand's total foreign trade value. This increased to 4.0 percent and 5.2 percent, respectively, in 1999 and 2001, and to almost 10 percent in 2008.

China's rank as Thailand's fourth highest foreign trade partner in 2001, after Japan, the US and Singapore, further went up to number 3 in recent years. Trade balance between Thailand and China has mostly been in favor of China in the last couple of decades. In fact, in the last few years, Thailand's deficits in the balance of trade with China have been significantly increasing, with the ratio of trade deficit with China to the value of Thailand's two-way trade with China registering at 8.88 percent and further increasing to 12.52 percent and 16.20 percent, respectively, in 2001 and 2002.

These figures are better appreciated when seen in terms of the value in US dollars of the total Thailand and China trade which increased from US\$25.3 billion in 2006 to US\$ 36.2 billion in 2008 as shown in Table 1.

Table 1 : Trade Figures for Thailand and China, 2006-2008

Value : Million U.S. Dollar

	2006	2007	2008	Growth 2007/08 (%)
Total Trade Value	25,331.95	31,071.65	36,246.70	16.66
Export from Thailand to China	11,727.95	14,846.75	16,190.84	9.05
Import into Thailand from China	13,604.00	16,224.90	20,055.86	23.61
Trade Balance for Thailand	-1,876.05	-1,378.15	-3,865.02	180.45

Source : Department of Export Promotion, Ministry of Commerce

Total exports from Thailand to China rose from US\$11.8 billion in 2006 to US\$16.2 billion in 2008 while imports from China to Thailand grew from US\$13.6 billion to

US\$20.1 billion in the same period. Said trade figures reflect Thailand's trade deficit position vis-à-vis China, which registered at US\$1.8 billion in 2006 and US\$3.9 billion in 2008.

3. TRADE DIVERSIFICATIONS OF THAILAND AND CHINA

Before the financial crisis in 1996, Thailand's major export products to China were mostly agriculture-based, with rubber ranking as number one export with a proportion to total Thai export value to China of 23.6 percent, followed by rice with a share of 12.7 percent. Computers and components ranked number three with a share of 8.3 percent in the same period. On the other hand, China's major export items to Thailand included textiles and garments, iron and steel products, and chemical products, among others.

During the pre-crisis period of 1988-1996, Thailand's proportion of agricultural exports to its total exports to China stood between 48 and 71 percent but this went down to a range of 20 to 41 percent during the period of 1997-2001.

From 1997 thereon, Thai exports to China have diversified from agriculture-based products to industrial and basic commodity-based goods such as computer components, petrochemical products, crude and finished oil, rubber, and tapioca, among others.

In 2001, the "top 10" Thai export items to China contributed about 61 percent of Thailand's total exports to China. Computers and components ranked number one with a share of 17.69 percent of Thailand's total exports to China, followed by rubber (9.45%), plastic pellets (7.6%) and liquidized petroleum gas (5.20%).

Before China's accession to the WTO, meanwhile, its major export items to Thailand were electrical motors and parts (22.29% of China's total exports to Thailand), computers and computer components (18.01%) chemical products (8.12%), clothes

(6.52%) and electrical appliances (4.11%). The “top 5” of China’s export items contributed about 60 percent of its total exports to Thailand.

4. RECENT DEVELOPMENTS IN TRADE BETWEEN THAILAND AND CHINA, CLASSIFIED BY PRODUCT ITEMS

With regard to product classification of the Thai exports to China, the most important items in 2006-2008 were manufactured products which contributed about 70.26 percent of total exports in 2008 (See Table 2). The second most important exports were agricultural products with a proportion of 16.84 percent of total exports.

Table 2 : Exports of Thailand to China, 2008

Value : Million U.S. Dollar

	Value	Proportion (%)	Growth (%)
Total Exports	16,190.84	100	9.05
Agri Products	2,727.05	16.84	7.58
Agro-Industrial Products	220.85	1.36	-11.29
Manufactured Products	11,375.15	70.26	6.51
Mining and Energy	1,867.79	11.54	36.96
Others	0.01	0.00	-99.97

Source : Department of Export Promotion, Ministry of Commerce

In 2008, the value of the “top 10” export items from Thailand to China was US\$12.3 billion or about 75.94 percent of the total exports (Table 3).

Table 3 : Major Thai Exports to China

Unit : Million U.S. Dollar

Items	2006	2007	2008	Growth (%) 08/07
Computer and Components	2,473.87	3,955.35	4,821.81	21.91
Rubber	1,354.37	1,591.48	1,937.52	21.74
Finished Oil	352.72	666.06	1,185.06	77.92
Plastic Pellets	909.9	994.83	1,075.26	8.08
Chemical Products	1,181.30	1,293.40	817.07	-36.83
Integrated Circuit	654.48	871.15	781.73	-10.26
Crude Oil	556.82	539.59	569.09	5.47
Rubber Products	282.79	345.31	480.27	39.09
Tapioca	529.83	471.52	339.3	-28.04
Wood Products	253.99	268.28	288.38	7.49
Sub- Total	8,550.08	10,996.98	12,295.49	11.81
Other's	3,177.87	3,849.77	3,895.35	1.18
Grand Total	11,727.95	14,846.75	16,190.84	9.05

Source : Department of Export Promotion, Ministry of Commerce

Constituting the 2008 “top 5” export products from Thailand to China were computers and components (29.78% of total exports) rubber (11.97%), finished oil (7.32%), plastic pellets (6.64%) and chemical products (5.05%).

Among the “top 10” products in 2008, the fastest growing were finished oil with a growth rate of 77.92 percent from 2007 and rubber products with a rate of 39.09 percent.

With regard to Thailand's imports from China in 2008, Table 4 shows that the most significant were capital goods (39.21% of total imports from China), followed by raw material and intermediate goods (38.94%), and consumer products (19.11%).

Table 4 : Imports of Thailand from China, 2008

Value : Million U.S Dollar

	Value	Proportion (%)	Growth (%)
Total Import Value	20,055.86	100	23.61
Energy Products	242.58	1.21	44.48
Capital Goods	7,862.92	39.21	19.09
Raw Materials	7,810.40	38.94	24.44
Consumer Product	3,832.88	19.11	30.11
Vehicles and Components	301.33	1.5	39.13
Others	5.72	0.03	-63.9

Source : Department of Export Promotion, Ministry of Commerce

In the same year, the value of the "top 10" import products of Thailand from China was US\$14.2 billion or about 70.63 percent of its total import value as seen in Table 5. Among the "top 10" were computers and components (13.78% of total import value from China), electrical motors and parts (11.79%), household electrical products (8.96%), machinery (8.03%), and iron, steel and steel products (7.33%).

The products with high import growth in 2008 were fertilizer and pesticides (increased by 61.79% from 2007), chemical products (increased by 43.86%) and

clothes (increased 38.28%).

Table 5 : Major Thai Imports from China, 2006-2008

Value : Million U.S. Dollar

Import Items	2006	2007	2008	Growth (%) 08/07
Computer and Components	2,119.67	2,525.27	2,768.31	9.62
Electrical Motors	2,601.44	2,110.83	2,365.15	12.05
Household Electrical Products	662.71	1,353.16	1,796.13	32.74
Machinery	1,034.17	1,232.02	1,611.35	30.79
Iron and Steel Products	1,043.29	1,137.28	1,469.17	29.18
Chemical Products	801.07	1,014.58	1,459.61	43.86
Fertilizers and Pesticides	206.29	424.26	686.42	61.79
Mining and Metal	500.68	676.04	679.65	0.53
Clothes	527.19	579.35	677.95	17.02
Miscellaneous Products	333.41	471.34	651.77	38.28
Sub Total	9,829.92	11,524.12	14,165.52	22.92
Others	3,774.08	4,700.78	5,890.34	25.31
Grand Total	13,604.00	16,224.90	20,055.86	23.61

Source : Department of Export Production, Ministry of Commerce

5. DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT (FDI) IN CHINA

After the Equity Joint Venture Law was enacted in 1979, foreign investors had more

confidence to invest in China. In addition, to substantiate its foreign investment promotion and attract foreign investments, the Chinese government opened five Special Economic Zones (SEZs) comprising of Shenzhen, Zhuhai, Shantou, Xiamen (in 1980) and Hainan (in 1987). To expand foreign investment opportunities, it also opened 14 coastal port cities. As a result, since the enactment of the Equity Joint Venture Law in 1979 up to the pre-Asian economic crisis in 1996, almost 300,000 foreign investment contracts have been approved by the Chinese government, with a total capital worth of US\$469 billion (R.P. Tan, 2001, pp.171-172).

To further increase foreign investors' confidence, the Chinese government likewise formulated a series of Joint Venture Regulations in 1983 and 1984, causing the number of joint-venture contracts to increase from 470 in 1983 to 1,856 in 1984.

In autumn of 1986, the Chinese government approved 22 provisions to attract more foreign investment, including tax incentives, favorable land use fees, and allowance of joint-venture businesses in foreign exchange control relaxation, among others. Moreover, the law on Wholly Foreign-Owned Businesses was also approved. As a consequence, the approved FDIs increased by 31 percent in 1987 and by 43 percent in 1988.

However, the "Tiananmen incident", caused by the suppression of student uprising at the Tiananmen Square in Beijing in mid- 1989, led to a slowdown in the FDI growth in China. The political situation in China was resettled in 1990 which subsequently led to a new boom period of FDI in China. During the period 1990-1993, China recorded an uninterrupted and considerable expansion in pledged investments with an increase from US\$ 6.6 billion in 1990 to US\$11.7 billion in 1993 (R.P. Tan, 2001, p. 173).

Up to the early 1990s, most of China's FDI came from Hongkong. After Deng Xiaoping made a historic tour to the South known as "Nanxun" (or Southern tour) in early 1992, however, a more radical economic reform took place in China, leading to further opening up of the country. This encouraged more FDIs from more diversified sources, particularly from the US, Japan, Taiwan and the European Union (EU).

This particular FDI boom in the early 1990s can be attributed to several factors such as regulations concerning the codification of foreign investment, continuation of foreign exchange and financial-sector liberalization, particularly the abolition of the dual-currency system, and devaluation of the RMB in 1994. Furthermore, sectoral constraints of FDI such as finance, retail trade, construction and some other services were also relaxed (R.P. Tan, *ibid.*).

In the early 1990s, Taiwanese and Korean investors were allowed by their governments to operate business activities with China. Prospects of Taiwanese and Korean investments in China were high owing to the increasing current account and foreign exchange reserve surpluses. Pressures faced by Japan from the yen appreciation and foreign reserve increase in the early 1990s (when there was more obvious "confrontation" between then US President Bill Clinton and Japan's leaders, Mr. Miyazawa and Mr. Hozakawa) also induced the inflow of more Japanese FDIs into China. By the end of 1996, therefore, the cumulative amount of utilized FDIs in China reached a total of US\$174.9 billion (R.P. Tan, 2001, p.174).

Since the early 1990s, FDIs have constituted a major part of China's foreign capital inflows. Approximately more than 70 percent of the capital inflows to China were in the form of FDIs for the period 1993-1997 prior to the Asian financial crisis. It is also to be noted that most of the FDIs in China are in the export sector. In the initial phase of

FDI promotion, the concerned organizations of the Chinese government also concentrated their promotional schemes to the export-oriented sectors, particularly in the special economic zones of the coastal areas and later moving to the inner provinces. It can be said that FDIs have stimulated China's economic diversification and linking of its economy to the global networks. Promotion of manufactured exports has also been an important tool for technological upgrading and productivity expansion in China.

Since 1996, the annual volume of FDI utilized in China has been around US\$40 billion. From the mid- 1990s, there has been more and more big multinational corporations (MNCs) investing in China (Jiang Xiojuan, 2001, pp. 13-14), with almost all the global Fortune 500 companies investing in the mainland. FDI contributes significantly to China's investment of fixed assets, industrial output value and export growth.

After the 1997 Asian financial crisis, China increased its efforts to attract FDI in Research and Development (R&D), and Technological Innovation through various ways such as exemptions from import duty, business and income taxes, and others (Jiang Xiojuan, 2001, pp. 17-18).

In 2000, China amended three major laws concerning the foreign capital utilization, namely, the law of Joint Ventures with Chinese and Foreign Investment, the law concerning Wholly Foreign--invested Enterprises, and the law on Chinese Foreign Contractual Joint Ventures, as steps to bring Chinese legislation in line with relevant WTO stipulations. These will attract and stimulate more inward direct investment to China.

In 2001 before its WTO accession, China's cumulative FDI was in the amount of about US\$380 billion. After its WTO membership, China's FDI had increased

dramatically and has recently surpassed a US\$70 billion per year mark.

6. TRENDS OF THAI INVESTMENT IN CHINA

While a major part of FDIs in China concentrated on export-oriented production, Thai investment in China has been more locally oriented ones.

Looking back to the early stage of China's opening up of its economy in the late 1970s, one can classify the development of Thai investments in China into several phases as follows (Sompop, 2003, pp. 178-182):

1) 1979-1985 period. The Chareon Pokphand (CP) Group was the first Thai business group to go to and invest in China. Its major businesses were feed-mills, livestock production and other related agribusiness and agro-industries.

During this first phase, the CP Group in China could only expand its investment very slowly. Until the end of this phase, there were only less than 10 feed-mills invested (while currently, there are about 100 feed-mills belonging to the CP Group scattered in almost every province in China).

CP Group's difficulties in China's investment during this period were, among others, due to the unsystematic laws and regulations, business cultural gap, and work ethic of Chinese laborers who were still getting used to the new system.

Other important investment activities in China during this period were the gathering of useful information, creation of relationships with local authorities and related organizations, and establishment of personal relations and rapport with other business stakeholders in China.

2) 1985-1990 period. The CP Group in China, despite being faced with some Uncertainties such as the Tiananmen incident, expanded and diversified its investment

from the agro-based businesses. For example, it established the motorcycle factory by obtaining the “know how” from Japan’s Honda.

Besides the CP Group, there were other firms from Thailand which invested in China but were not very successful.

3) 1990-1996 period. The CP Group expanded and diversified its investment much more quickly during this period, particularly after Deng’s Southern tour (Nanxun) in 1992. There were more companies from Thailand that invested in China such as the Cement Thai group, Saha Union Group, M-Thai Group, etc. There were also more joint-ventures among the Thai enterprises to invest in China during this phase. Major Thai investments in China were agro-industries, textile and garments, electrical appliances and electronics, food and beverage, hotels, banking, motorcycles and autoparts, restaurants, and power generations, among others.4). 1997 – the present time. The financial crisis that started in Thailand in mid-1997 caused severe problems to Thai businesses which were investing both locally and overseas. As a result, Thai investors in China had to slow down or even withdraw their investment from China in order to rescue the business headquarters in their own motherland.

According to the figures compiled by China’s Ministry of Foreign Trade and Economic Cooperation (MOFTEC), there were 3,129 Thai investment projects in China in the years between 1978 to 2002. The contractual value of Thailand’s investment in China reached US\$ 5.6 billion while the realized value was US\$ 2.3 billion. Thailand ranked number 18 among the foreign direct investors in China in 2002. In March 2006, there were 3,713 Thai investment projects in China with an accumulated actual investment value of US\$ 2.9 billion.

7. THAI INVESTORS IN CHINA

Although there are thousands of projects invested in China by the Thai investors, most of them are of small and medium scales. There have only been a few big investors from Thailand in China, namely, the CP Group, Saha-union Group, Kasetrungrueng Co., Ltd., Cement Thai Group, Katingdaeng (Red Gore) Group, Bangkok Bank Co., Ltd., Thai Farmer Bank (Kasikorn Bank), Krungthai Bank, M-Thai Group, Mitphol Group, and Central Group.

There are several kinds of Thai investment projects, ranging from agribusinesses and agro industries, hydroelectrical and coal power generations, brewery, cosmetics, motorcycles and autoparts, commercial banking, retail-trade, hotel and restaurants, sports activities, (i.e., the golf courses), real estate and trading, among others.

Based on interviews with Thai investors in China, there were certain problems that Thai investors also had to face and overcome in their decision to invest in China. The major ones can be classified as export problems.

Some Thai exporters had the following problems:

Importing country problems

(1) High import tax rates

In the early 1990s, export tariff rates of electrical appliances in China were in the range of 20-30 percent, thereupon obstructing exports from Thailand to China.

(2) Import Licenses. Acquiring import licenses in China was rather difficult and time-consuming.

Exporting country problems.

(1) The Thai export boom to China took place during the speculative bubble economic boom in Thailand (in the late 1980s and early 1990s) when Thai investors enjoyed more benefits from the local Thai economic boom and therefore did not pay much attention to exporting their products to China.

At the same time, the Thai investors also cited the advantages in investing in China which were mostly in terms of cost advantages.

1. Labor cost

(1.1) Wage rate. Wage rate in the inner provinces of China is about half of the comparable wage rate in Thailand. Reserved labor pools are huge in the inner provinces of China. Thus, the labor wage rate in China is relatively stable in relation to its competitors'. (Interviews with Thai investors in China)

(1.2) Turnover rate of labor. Turnover rate of labor in China is much lower than in Thailand where job- hopping problems are rather phenomenal.

2. Cheaper inputs. Some raw materials and parts are much cheaper in China than in Thailand because of various reasons such as:

(2.1) Bigger volume of raw materials and parts production in China thereby leading to a lowering of prices

(2.2) Subsidy by the Chinese government, either directly or indirectly, of production in China, causing the lowering of average cost.

(2.3) Attractive local market in China because of its huge size. Hence, some Thai local investors in Thailand such as in the areas of

processed foods, consumer products, etc, decided to relocate or expand their businesses to China, especially in the area of perishable products, due to the hugeness of the market.

(2.4) Possibility of exports. Because of the lower average cost of production in China, together with the strong market base, Thai investors were attracted to China. Moreover, they were also attracted by the possibility of being able to export with a more comparative advantage in terms of cost management.

8. MAJOR CONSTRAINTS OF THAI INVESTMENT IN CHINA

After interviewing several Thai investors in China, the limitations faced by Thai investors in China may be summarized as follows:

1) Thailand is short of qualified executives with good language skill as compared with its investment competitors in China such as those from Taiwan, Singapore, Malaysia, and Hong Kong, among others. As a result, Thai companies investing in China have to hire executives from other countries, particularly those from Thailand's investment competing countries, at higher salaries, thereupon adding to their investment cost in China. Hiring foreign executives also sometimes cause more unloyalty problems.

2) Business Network Barriers

Thai investors in China also face business network barriers as they could not get access to the Chinese business circles which are complicated and subject to personal connections such as the "Guanxi" system. The more successful foreign investors in China have to spend longer time and more efforts to build up business connections. Some of them have to spend more than 10-20 years to build up business networks in China.

3) Volume of Operations. Business volume in China should be large and able to operate with low profit margin per unit of production. Thus, Thai investors with smaller scales cannot efficiently perform in China. Moreover, the Chinese market is also very highly price competitive, which is disadvantageous for smaller producers.

4) Thai investors lack the kinds of investment projects needed in China such as the high-technologically based products. There is also less opportunity to export the products back to Thailand as the Thai market is relatively small.

5) Gaps in Business Culture between Thailand and China. There are big gaps in the business cultures of the two countries such as:

5.1) Trading practices of the two countries are different.

5.2) Styles of marketing management of the two countries are also not similar.

5.3) The financial credit and business credit systems in China are still not reliable.

Hence, business operations have to be more cash- oriented thereby limiting the operational volume.

In view of the abovementioned problems, some Thai investors had to withdraw their investments from China. One such example is the case of the Cement Thai Group.

9. MAJOR THAI INVESTOR IN CHINA

The CP Group is one of the largest single foreign investors in China. It was, in fact, the first foreign multinational company to invest in agribusiness ventures in China.

Currently, the CP Group has a significant presence in 29 of China's 31 provinces and autonomous regions in various lines of business, including livestock and agriculture, animal feed, corn, vegetable seeds, broiler chickens, ducks, pig breeders, day-old commercial chicks, chicken meat and further processed meat products, soybean

extraction, livestock and feed-mill equipment, biotechnology such as L-Lysine, CTC (Chlortetra Cycline) and DCP (di-calcium phosphate), and vegetable oil.

Agribusiness is the core of the CP Group business, with 100 out of the 173 CP Group companies in China engaged in it.

In addition to agribusiness, investments in a number of key industrial projects have also been made to support the CP Group's core business (CP Group's Business Profiles). These include:

(1) Automotive and industrial Production

Operations in motorcycle and automotive parts manufacturing have been the important component in building the CP Group's China business, focusing on supplying the needs of the local market and exporting a smaller percentage of its products to other countries.

(2) Petrochemicals

The company was formed in 1990 as a joint venture with Shanghai Beston Petrochemicals Co. Its major products are leather and sheet plastics, non-toxic PVC roller blinds and plastic fencing, rainwear for outdoor work and leisure.

(3) Other manufacturing ventures

These include pharmaceuticals and herbal remedies, cosmetics, sports shoes and beer brewery.

(4) Retail Distribution

(a) In the mid- 1990s, the company's initial venture was the supply of a wide range of products to wholesale and registered retail customers in China. There were 3 Makro centers in Guangzhou and two in Shan Tou. However, those Makro outlets

were wholly taken over by the CP Group and integrated to the Lotus Supercenter business group about a couple of years ago.

(b) Lotus Supercenter. First opened in 1997 in Shanghai, there are now more than 70 outlets in both Shanghai and outside Shanghai in China. The CP Group plans to open more outlets of Lotus Supercenter within the next few years.

(c) Super Brand Mall. It is one of the largest downtown and commercial retail centers in China. The Complex was opened in Shanghai in October 2002, covering more than 240,000 square meters in Pudong district.

(5) Entertainment. The CP Group set up the Shanghai Chia Tai TV Productions Ltd. (SHCTV) in Shanghai. It is the first Shanghai full-scale TV and radio production company, capable of presenting live television and recorded shows.

According to Mr. Thanin Chiaravanont, the Chairman and CEO of the CP Group, the future investment plans of the CP Group in China will focus in the :

(1) Expansion of processed-food products to be sold within China's fast growing domestic market.

(2) Retail Trade business. The CP Group has a plan to extend its discount stores, the Lotus Supercenter, and other kinds of retail outlets (convenience stores, etc.) throughout China.

(3) Logistics business. The CP Group also focuses on the investment in logistics business to support its various business investments in China as well as to service other companies.

(4) Biotechnology. The CP Group will concentrate more in the field of bio-technological investment in China in as much as the demand for this industry has

been very strong and has shown impressive upward trends. Major investment activities in this field will be in seed production, Chinese herbs and Chinese medicines.

(5) Real Estate Business. The CP Group, since the early 2000s, has been focusing more in real estate investments in China.

10. CHINA'S OUTWARD DIRECT FOREIGN INVESTMENT (ODI)

China is increasingly becoming a source of foreign direct investment (FDI). Average annual outward FDI flows from China have increased from US\$400 million in the 1980s to US\$2.3 billion in the 1990s (UNCTAD, FDI/TNC database). There are about 7,000 approved outward investment projects from China covering trade, tourism, manufacturing, transportation, construction, resources exploration, and many others in about 160 countries around the globe.

During the period 1979-2002, Asia received 58.69 percent of China's total ODI, followed by North America (13.60%), Africa (8.76%), Latin America (7.05%), Europe (6.01%) and Oceania (5.89%).

In terms of the geographical distribution of China's accumulated ODI in non-trading activities during 1979-2001, the US in North America received the highest China's ODI, with a cumulative ODI in non-trading activities amounting to US\$559 million.

Among Asian countries, Thailand ranked second to Australia in receiving China's ODI. From 1979-2002, the cumulative value of China's ODI in Australia and Thailand amounted to US\$ 431 million and US\$214.7 million, respectively.

There are several factors contributing to the expansion of China's outward FDI, to with:

1) **The Chinese government's policy.** The Chinese government has been encouraging Chinese businesses to invest abroad for several reasons such as:

1.1) To rebalance the rapid increases of foreign reserves of both the private and governmental sectors in China. Too much foreign reserves may cause some adverse effects to the economy such as putting more pressure to the local-currency value of the RMB.

1.2) To secure the supply of resources to meet the quick investment demands in China, particularly the energy resources, the major basic commodities such as iron and steel, other metallic and non-metallic raw materials, and petro-chemical based intermediate goods, etc.

As its per capita natural resource endowment is rather poor, China needs to guarantee a stable supply of resources such as oil, iron ore and other metallic raw materials and basic commodities to sustain its rapid economic growth. Chinese enterprises have set up joint ventures or wholly Chinese-owned companies in several countries, including Australia, Russia, Brazil, Papua New Guinea, Canada and Indonesia to secure the aforementioned natural resource supplies (J. Wong and S. Chan, 2003, No. 154, p.13). In addition to investing in energy-related projects in many countries, Chinese MNC's have also invested aggressively in North America, Latin America and the South Pacific area in the development of forestry, mines and ocean fishery, rubber, and pulp and paper industries, among others.

The major Chinese companies investing overseas in natural resource production include China Petroleum & Chemical Corporation, Petro China Co. Ltd., Baosteel, and China National Offshore Oil Co. Ltd.

1.3) To transfer the mature technologies in which Chinese firms have a comparative advantage such as textile and garments, electrical appliances, electronic-based products, etc.

In order to encourage Chinese firms to expand their foreign investments, the Chinese government has been implementing several policies, including a relaxed approval system for outward FDI. The Chinese Government has also signed bilateral investment treaties with more than 100 countries and double taxation treaties with about 70 countries as of the end of 2002 to facilitate Chinese firms' foreign investment.

Moreover, China's Export-import Bank also provides some financial support to motivate Chinese firms to invest abroad.

2) **Growing Competition at Home.** Owing to the continuous fast growing economy and the continuing generation of investments in China, Chinese firms have to compete more at home which thereupon leads to a situation of lower profit margins. This then encourages Chinese firms to adopt investment diversification strategies by moving and relocating some parts of their production abroad.

3) **Support of Chinese Export Products in Importing Countries.** The more China expands its export bases and relies on exports to secure a high economic growth rate at home, the more it has to expand its investment abroad, particularly in the Chinese products' importing countries in order to strengthen its marketing management to maintain its competitiveness. For example, the Chinese exporting firms have to provide better after-sale services in order to keep and expand their customers.

4) **Accession to Advanced Foreign Technology.** In order to maintain long-term competitiveness, research and development (R&D) becomes an important pre-requisite factor. Investment in developed countries with advanced technological

bases is also an important operational strategy, leading more Chinese firms to set up their investment outlets abroad.

5) **Improvements in Marketing Efficiency.** One of the major aspirations for Chinese firms in going and investing abroad is to build or obtain international brand names in order to strengthen their marketing efficiency.

6) **Avoidances of Limited Trade Quotas for Export.** As Chinese exports may reach the upper limits of export quotas set by the developed countries, Chinese firms have to relocate parts of their production abroad, particularly in the less developed countries with excess export-quotas.

After its WTO accession in 2001 and with huge and increasing capital accumulation in both government and the private sectors, China has been moving its ODI much more aggressively to more diversified destinations, i.e., Latin America, Africa, Middle East, Central Asia, Southeast Asia and Australia-New Zealand.

11. CHINA'S OUTWARD DIRECT INVESTMENT IN THAILAND

The Thai and Chinese governments signed the Agreement on Promotion and Protection of Mutual Investment in March 1985 when President Li Xiannian of China paid a state-visit to Thailand. The following year (October 1986), they also signed the double-taxation agreement. Since then, Chinese direct investments in Thailand has started and grown.

Before 1985, most of the Chinese investment in Thailand was in the form of trading, not production.

In 1987-2004, there were 214 investment projects proposed by Chinese companies to be granted Thailand's Board of Investment (BOI) Promotional Schemes. Out of these

214 projects proposed, 139 projects or 64.95 percent were approved and granted the promotional privileges by the BOI, with a total investment value of 28,635.5 million baht (Table 6). Most of these projects, though, are joint venture businesses with the Thai partners.

Table 6 : China's FDI in Thailand, 1987-2004

Year	No. of Proposed Projects	No. of Projects approved	Million Baht
1987	2	-	-
1988	22	12	1027.2
1989	21	14	782.4
1990	13	12	3,409.60
1991	4	3	774.3
1992	5	1	50.0
1993	19	13	1,732.30
1994	11	6	2,241.40
1995	2	5	196.3
1996	6	4	889.4
1997	2	1	45.0
1998	11	2	69.4
1999	16	7	560.1
2000	9	9	1,891.60
2001	17	12	8,690.40
2002	16	7	379.2
2003	18	11	1,464.60
2004	20	20	4,432.50
Total	214	139	28,635.70

Source : Board of Investment, Thailand, 2005

The most popular Chinese investment in Thailand during 1987 – 2004 was in the field of agriculture-related businesses, with 49 projects or 35.25 percent of the total

number of projects. Besides agriculture, chemical products and paper, textile and garments, and metal and machinery were also popular among the Chinese investors in Thailand with 26, 17 and 17 projects, respectively, in these areas (Table 7).

However, in terms of investment value, as seen also in Table 7, chemical products and paper got the biggest chunk of Chinese investments in Thailand at 4,802.70 million baht, or 23.56 percent of the total Chinese investment in Thailand during 1987 - 2004, followed by textile and garment (19.96%) and agriculture (16.91%).

Table 7: Classification of China's FDI in Thailand, 1987-2004 (in value)

Sector	Amount of Projects	%	Value (Million Baht)	%
Agriculture	49	35.25	3,872.90	16.91
Mining and Ceramic	11	7.91	2,944.30	10.44
Textile and Garment	17	12.23	5,516.70	19.96
Metal and Machinery	17	12.23	2,433.60	11.94
Electric and Electronics	14	10.07	1,803.80	6.3
Chemical products and Paper	26	18.71	4,802.70	23.56
Services	5	3.60	2,829.20	10.9
Total	139	100	24,203.20	100

Source : Board of Investment, Thailand, 2005

However, based on the cross-checking field surveys conducted by this study, the Chinese companies that are still in operation in Thailand are less than half of the abovementioned numbers because a number of them have already closed up or have been taken over by their Thai counterparts.

12. SUB-PERIODIZATION OF CHINA'S DIRECT INVESTMENT IN THAILAND

1) Year 1987 – 1991

During this sub-period, there were 62 projects proposed to be granted BOI's promotion. Out of this, 41 projects (66.13 %) were approved by the BOI, with a total investment value of 5,993.5 million baht (Table 8).

Table 8 : China's FDI in Thailand 1987-1991

Year	Proposed Projects	Projects Approved	Value : (Million Baht)
1987	2	-	-
1988	22	12	1,027.20
1989	21	14	782.4
1990	13	12	3,409.60
1991	4	3	774.3
Total	62	41	5,993.50

Source : Board of Investment, Thailand, 2004

In this sub-period, agriculture was the most popular investment area, with more than half (22 projects) of the total approved projects (41 projects) invested there. Other approved projects during this sub-period included textiles and garments, and metal and machinery, among others (Table 9).

Table 9: Classifications of China's FDI Projects in Thailand, 1987-1991

Sectors	1987	1988	1989	1990	1991	Total
Agriculture	-	12	8	2	-	22
Mining and Ceramic	-	-	-	-	1	1
Textile and Garments	-	-	3	2	-	5
Metal and Machinery	-	-	2	2	1	5
Electric and Electronics	-	-	1	2	-	3
Chemical Products and Paper	-	-	-	2	1	3
Services	-	-	-	2	-	2
Total	-	12	14	12	3	41

Source : Board of Investment, Thailand, 2004

In terms of value of investment, the service sector contributed the highest investment value at 2,787.1 million baht (46.50% of total Chinese investment during this sub-period), followed by agriculture (1,626.4 million baht or 27.14% of the total). Please refer to Table 10.

Table 10: Value of China's FDI in Thailand, Classified by Sector, 1987-1991

(Value : Million Baht)

Sectors	1987	1988	1989	1990	1991	Total
Agriculture	-	1,027	389.2	210.0	-	1,626.2
Mining and Ceramic	-	-	-	-	50.0	50.0
Textile and Garments	-	-	190.3	60.0	-	250.3
Metal and Machinery	-	-	123.0	144.1	224.3	491.4
Electric and Electronics	-	-	80.0	85.0	-	165.0
Chemical Products and Paper	-	-	-	123.4	500.0	623.4
Services	-	-	-	2,787.1	-	2,787.1
Total	-	1,027	782.5	3,409.6	774.3	5,993.4

Source : Board of Investment, Thailand, 2004

2) Year 1992 - 1997

There were 43 projects proposed by the Chinese investors to the BOI in this sub-period, for which 29 projects were approved at 5,109.4 million baht of investment value (see Table 11).

Table 11: China's FDI Projects in Thailand 1992-1997

Year	Proposed Projects	Projects Approved	Value : (Million Baht)
1992	5	1	50.0
1993	19	13	1,732.3
1994	11	6	2,241.4
1995	2	5	196.3
1996	6	4	889.4
1997	2	1	45
Total	45	30	5,154.4

Source : Board of Investment, Thailand, 2004.

After Deng Xiaoping's southern tour (Nanxun) to Guangdong province and Shenzhen in early 1992, Chinese investment in Thailand has considerably increased. The proposed investment projects approved by the BOI were 19 projects in 1993 and 11 projects in 1994 with a value of 3,973.80 million baht or about 77.77 percent of the total Chinese investment in Thailand during this sub-period.

The most popular investment projects in this sub-period as seen in Table 12 were chemical products and paper (9 projects), followed by agriculture (8 projects) and mining and ceramic (7 projects).

Table 12: China's FDI in Thailand, Classified by Sectors 1992-1997

Sectors	1992	1993	1994	1995	1996	1997	Total
Agriculture	-	6	1	1	-	-	8
Mining and Ceramic	-	3	4	-	-	-	7
Textile and Garments	-	1	-	-	-	-	1
Metal and Machinery	1	1	-	1	1	-	4
Electric and Electronics	-	-	-	-	1	-	1
Chemical Products and Paper	-	2	1	3	2	1	9
Services	-	-	-	-	-	-	-
Total	1	13	6	5	4	1	30

Source : Board of Investment, Thailand, 2004

Meanwhile, in terms of value, the biggest investment during this sub-period was in the field of mining and ceramics as it contributed 2,882.3 million baht (55.92% of total Chinese investment in this sub-period) while investment in chemical products and paper got only 558.4 million baht in spite of the fact that it had the biggest number of projects (Table 13).

Table 13: Value of China's FDI in Thailand, Classified by Sector 1992-1997

(Value : Million Baht)

Sectors	1992	1993	1994	1995	1996	1997	Total
Agriculture	-	879.3	22.1	22.0	-	-	923.4
Mining and Ceramic	-	678.0	2204.3	-	-	-	2,882.3
Textile and Garments	-	5.0	-	-	-	-	5.0
Metal and Machinery	50.0	45	-	8.0	100.0	-	203.0
Electric and Electronics	-	-	-	-	584.3	-	584.3
Chemical Products and Paper	-	125.0	15.0	168.3	205.1	45.0	558.4
Services	-	-	-	-	-	-	-
Total	50.0	1732.3	2241.4	198.3	889.4	45.0	5,156.4

Source : Board of Investment, Thailand, 2004

In terms of year, 1994 got the highest value of investment from China, with 2,882.3 million baht or 55.92 percent of the total Chinese investment in Thailand in this sub-period.

It is to be noted that 1994 was the year when Deputy Prime Minister Ju Rongji started the economic restructuring and reform in China to cool down the economy which had been facing a speculative bubble boom.

3) Year 1998-2004

This sub- period was the post- Asian financial crisis period. Although a major part of the East Asian countries had been hard-hit by the economic turmoil, China was negligibly affected by the crisis. Thus, Chinese outward investment still continued.

During this sub-period, there were 107 Chinese investment projects proposed to the BOI and 68 projects were approved with a total value of 17,487.8 million baht, which was much higher than the previous two sub-periods (Table 14).

Table 14 : China's FDI Projects in Thailand 1998-2004

Year	Proposed Projects	Projects Approved	Value : (Million Baht)
1998	11	2	69.4
1999	16	7	560.1
2000	9	9	1,891.6
2001	17	12	8,690.4
2002	16	7	379.2
2003	18	11	1464.6
2004	20	20	4432.5
Total	107	68	17,487.8

Source : Board of Investment, Thailand, 2005

After the economic recovery from the crisis in 1997, China increased its direct investment in Thailand, particularly in the consecutive years of 2000 and 2001. The value of Chinese investment in these years was 1,891.6 million baht and 8,690.4 million baht, respectively.

In the year 2001, the first year of the Thai Rak Thai Party governing Thailand, Chinese direct investment in Thailand was highest (8,690.40 million baht) as the Worldbest Group from Shanghai invested in a big textile and garment project in Rayong Province in Eastern Thailand.

In terms of the number of projects, agriculture had the biggest number (19 projects) followed by electric & electronics (10), and textile & garments and chemical products & paper (11 projects each) as shown in Table 15.

Table 15: Number of China's FDI Projects in Thailand, Classified by Sector 1998-2004

Sectors	1998	1999	2000	2001	2002	2003	2004	Total
Agriculture	1	1	3	3	2	2	9	21
Mining and Ceramic	-	1	-	-	-	-	2	3
Textile and Garments	-	1.0	2	4	1	1	2	11
Metal and Machinery	-	-	2	1	22	-	3	28
Electric and Electronics	-	1	-	2	2	5	-	10
Chemical Products and Paper	1	3.0	2.0	2	-	1	5	14
Services	-	-	-	-	-	2	1	3
Total	2	7	9	12	27	11	22	90

Source : Board of Investment, Thailand, 2004

Table 16: Value of China's FDI in Thailand, Classified by Sector 1998-2004

(Value : Million Baht)

Sectors	1998	1999	2000	2001	2002	2003	2004	Total
Agriculture	30	2.0	174.6	255.5	113.2	750.0	970.1	2,295.4
Mining and Ceramic	-	12.0	-	-	-	-	31.9	43.9
Textile and Garments	-	10.0	22.3	5,101.6	110.5	17.0	155.0	5,416.4
Metal and Machinery	-	-	1,544.7	155.0	39.5	-	1,042.3	2,781.5
Electric and Electronics	-	374	-	173.9	116	390.6	-	1,054.5
Chemical Products and Paper	39.4	162.1	150.0	3,004.4	-	265.0	,942.0	5,562.9
Services	-	-	-	-	-	42.0	291.2	333.2
Total	69.4	560.1	1,891.6	8,690.4	379.2	1,464.6	4,432.5	17,487.8

Source : Board of Investment, Thailand, 2005

However, in terms of value, textile & garments had the biggest amount with 5,416.4 million baht (40.30% of the total investment in this sub-period) as can be gleaned in Table 16.

13. RECENT TRENDS OF CHINA'S ODI IN THAILAND, 2005 – 2008 (JAN-JUNE)

From 2005 to mid- 2008, there were about 70 projects invested by China in Thailand with an accumulated value of investment of 22,851.40 million baht (Table 17). The registered capital was valued at 4,438.20 million baht, with most of the projects being joint ventures.

Table 17: China's Investment in Thailand, 2005-2008

	2005	2006	2007	2008 (Jan-Jun)	Total
1) No. of Project	15	16	26	23	80
2) Value of Investment	2,285.60	2,455.70	15,855.90	2,254.20	22,851.40
3) Registered Capital	730.40	497.60	2,992.00	218.20	4,438.20
4) Ratio of China's shares	286.50	276.10	1,294.00	178.40	2,035.00
5) Ratio of Thai's shares	414.80	130.20	1,562.00	37.20	2,144.20

Source : Board of Investment, Ministry of Industry, Thailand

Popular Chinese investment projects in Thailand during this period are agriculture and agro industries, particularly the bio-fuel or alternative energy production. In 2007, about 70 percent of Chinese investments in Thailand were in the field of bio-fuel projects, followed by mineral and ceramics, and metal products and machinery (Table 18).

Table 18 : Types of Chinese Investment in Thailand, 2005-2008**(in value)**

Value : Million Baht

	2005		2006		2007		2008 (Jan-Jun)	
	No.	Value	No.	Value	No.	Value	No.	Value
1) Agriculture Products	3	262.8	2	860.0	5	11,086.4	-	-
2) Mining and Ceramics	1	252	2	153.5	3	1,558.5	1	262.2
3) Light Industries / Textiles	3	710.9	1	108.5	2	109.9	1	49.5
4) Metal Product and Machinery	1	400.0	6	349.4	7	1,205.7	5	294.4
5) Electric and Electronics Product	2	112.6	1	35.3	4	944.9	2	183.7
6) Chemical and Paper	5	547.3	4	949.0	3	78.5	2	180.9
7) Services	-	-	-	-	2	472.0	2	1283.5
Total	15	2,285.6	16	2,455.7	26	15,855.9	13	2254.2

Source : Board of Investment, Ministry of Industry, Thailand

14. EXAMPLES OF CHINA'S BIG INVESTMENT PROJECTS IN THAILAND

1) Textiles and Garments (The Worldbest Group)

The Worldbest Group is the biggest investor in the garments and textile industry in China. It started to invest in Thailand in 2001 with a total investment of about US\$ 120 million.

Currently, the Worldbest Group has 4 factories in Rayong Province, Eastern Thailand. Two factories named Worldbest Industry (Thailand) Co., and Worldbest Textiles (Thailand) Co., Ltd. are for textile raw material production, particularly thread and yarn. Worldbest Household Textiles (Thailand) Co., the third factory, is for producing the final textile products, i.e., the bedroom products and garments, under the "SELLEV" brand. The fourth and last factory, the Worldbest Biochemical (Thailand)

Co., is producing citric acid for industrial uses under the “DICA” brand. The following are the details of the Worldbest Group’s investment:

1.1) Upstream Industrial Investment comprises of the following (From interviews)

(1) Production of natural synthetic by using capital-intensive technology for better standard and quality control.

(2) Production of Citric Acid

1.2) Downstream Industrial Investment Projects are :

(1) Production of printing cloths

(2) Production of finishing textile products

1.3) Market Destinations

(1) To local market

(2) Exports (mostly to the US and European Union)

1.4) Advantages of Investment in Thailand are as follows :

(1) Encouragement and promotion from the Chinese government under the outward FDI policy pursued by the government.

(2) Use of the Thai excess export quotas in view of the limitation in China’s own export quotas.

(3) Increase of geographical production diversification in order to reduce risks.

2) Electrical Appliances

Haier Group

2.1) Haier Production Strategies

(1) Joint Venture with Local Thai Partners, the Di-star Company

- (2) Encouragement of production localization with possible use of some parts and components imported from China for more efficient cost management.
- (3) Internationalized brand building to increase brand loyalty.
- (4) Division of production among countries with investments from Haier to create complementarities among them in both production and marketing.
- (5) Reduction of tax burdens as the imports of finished products will be subject to higher import tariffs rate.

2.2) *Major marketing strategies of Haier consist of :*

- (1) Local Market. Market differentiation strategies are exercised by Haier in order to increase its marketing efficiency.
 - (a) Marketing Channels :
 - Use of modern trade channels such as:
 - Discount stores
 - Specialty Stores
 - Setting up of Haier's own agents and dealers in the rural areas
 - (b) Company's brandname promotion to increase brand loyalty.
- (2) Exports. The major export destinations are :
 - (a) Developed countries which have less cost effectiveness in producing the same kinds of products.
 - (b) Developing countries to conform with the company's division of production strategy (Source: The data here were obtained from interviews).

Haier bought Sanyo's refrigerator production unit in Thailand in December 2006

and changed its name to “Haier Electric (Thailand)”. It holds 90 percent of the total shares and spent about US\$20 million (680 million baht) in investing in this project. Haier plans to use Thailand as its production base for manufacturing refrigerators, washing machines and other electrical appliances for both the domestic market and exports. It also plans to expand its production in Thailand by recruiting more laborers, setting up more distribution outlets and getting more dealers. Currently, its major distribution channels are the modern trade retail outlets such as the discount stores.

One of the most important marketing strategies of Haier is the “single pricing” policy in all parts of Thailand.

TCL Corporation

TCL is a giant electronics company in China established in 1981. In China, TCL owns two major white goods factories in Qingdao, in East China’s Shandong Province and in South China’s Guangdong Province, where it also runs a factory in the City of Huzhou. TCL’s major products are TV sets, I-T devices, mobile phones, batteries and electrical goods. In 2005, TCL produced 22 million TV sets distributed throughout the world.

Currently, it is a diversified international enterprise whose business covers such areas as multimedia electronics, telecommunications, digital electronics, electrical accessories and parts. In 2004, TCL Corporation had more than 4,000 professional technicians and 44,000 employees all over the world. There are approximately more than 100 million users of TCL’s products in over 100 countries. In 1999, TCL International Holdings Limited became a listed company in Hong Kong and in 2004, TCL Corporation became a listed company in the Shenzhen Stock Market. TCL took

over Thomson, the French audio – visual gear company in 2004. It also acquired German Schneider and Govideo, the US-based manufacturer in 2003.

TCL also has sales and marketing offices throughout Southeast Asia, including Viet Nam, Indonesia, Singapore, Malaysia and the Philippines. It set up shop in Bangkok, Thailand in November 2004 (China Business Weekly, January 5-9, 2006) In production management, TCL's factory in Thailand's Pathum Thani Province, -- the TCL – Thomson Electronics, -- produces audio-visual equipment. Its Thai operations currently employ 200 office workers, and more than 1,000 employees. The factory makes complete built-in units (CBUs) for TV sets and has started assembly lines for air conditioners, washing machines and refrigerators.

For marketing management, TCL sees Thailand as a global export base since Thailand is strategically placed in Asia with an ideal geographical and logistics hub. TCL can also benefit from Thailand's free trade agreements (FTAs) with several countries. Thus, TCL will continue to expand and build factories in Thailand.

Within Thailand itself, TCL had hoped to become one of the top three companies in the Thai audio-visual market by 2006. Data for 2006 show that Samsung led the Thai television market with a 20 percent market share, followed by Sony (18%), LG (17%), Panasonic (15%) and TCL (8%). The total Thai television market is about 2 million sets a year. TCL plans to expand its market share in Thailand to 12-15 percent in the near future, aiming to double its 2005 sales worth 1 billion baht. .

There are several marketing tactics to be used by TCL to expand its market share in Thailand.

First, TCL will focus on strengthening its Thai dealership networks aiming at increasing the efficiency of retail distribution channels. TCL currently has over 300

dealers across Thailand and about 70 percent of them are in the rural areas. It also aims to prepare a huge marketing campaign to promote its brand awareness. In 2005, TCL invested about 50-60 million baht for its marketing campaign. About 70 percent of that went into brand awareness programs or into building relationships with dealers. The company increased its marketing campaign budget to 100 million baht in 2006.

Huawei Technology Corp.

Huawei is a major manufacturer of wireless phone and networking equipment in China. It was set up in 1988 by Ren Zhengfei, a former People's Liberation Army officer and a current Communist Party member. At present, Huawei has offices in 41 countries and is competing with the major giant players in this field like Northern Telecom, Alcatel, Lucent, and Cisco Systems.

In the first half of 2005, Huawei's sales jumped to more than US\$4 billion, 85 percent higher than the same period a year before. More than half of its orders come from markets outside China (Newsweek, January 16, 2006, pp. 31 – 35).

Huawei's headquarters is located in the outskirts of Shenzhen's Special Economic Zone near Hong Kong, with 16,000 people working there.

In order to raise management efficiency, Huawei has spent more than US\$ 500 million hiring foreign firms like Price Waterhouse Coopers and Hay Group to modernize the company's business practices, in particular, its accounting system and pay packages, and to provide leadership training to its corporate executives to make Huawei a Chinese company with a western management style.

To fasttrack Huawei's growth, the Chinese government has assisted it in several ways through subsidies, R&D funding, tax breaks and export credits.

In 2004, Huawei got a US\$ 10 billion credit line from the state-owned Development Bank of China and US\$ 600 million from the Export-Import Bank of China to promote its global expansion. Huawei's marketing strategies are low pricing and maximization of sales approach with government export assistance.

Huawei Technology (Thailand) Co. Ltd., meanwhile, set up a company in Thailand in June 2001 with 100 million baht as registered capital in which 99.99 percent of the shares are owned by Huawei Technology Investment.

After setting up a company in Thailand, Huawei won the project for the cellular-network construction of the Communications Authority of Thailand (CAT) at a very low price bid. Huawei offered bid price was only about 7.2 billion baht, 46.4 percent lower than the tentative medium price of 13.4 billion baht set by the CAT.

In January 2006, Huawei Technology Co. Ltd. finished installing 812 base stations of the Code Division Multiple Access (CDMA) 2000 1-X broadband cellular network in Thailand's 51 provinces. It planned to finish building an additional 800 base stations for CAT in the same provinces by the end of the year 2006 (The Nation, January 12, 2006).

Besides the abovementioned project, Huawei, by joining with some other companies in Thailand, has won several bidding projects as follows:

a) Huawei, joined with Loxley Wireless Co. Ltd., won the communications network of CAT with a project value of 441 million baht, 71 percent lower than the targeted medium price of 1,546 million baht set by the CAT.

b) Huawei, in cooperation with Tricom Co., Ltd., set up the company named Huawei Tricom, to expand the network of Datacom to service other companies.

c) Huawei won the projects to provide the Datacom network to several companies and institutions such as the Capital O.K.Co., the Siam Commercial Bank, The Thai Metropolitan Bank, Ministry of Tourism and Sports, Ministry of Public Health, and several universities.

Most of the major Chinese investors in Thailand are state- owned enterprises or state-shared enterprises.

15. CHINA'S INVESTMENT PROBLEM IN THAILAND

There are several problems faced by Chinese investors in Thailand. These include the following:

1) **Cost management.** Chinese investors in Thailand have been facing :

1.1) Labor Problems

- (1) Wage rates in Thailand are higher than in China (about 30-50% higher).
- (2) Labor turnover problems are higher in Thailand than in China owing to several factors like cultural factors, differences in labor employment system and differences in Thai and Chinese labor laws and regulations.

The much higher labor turnover rates in Thailand lead to limitations in incentives for investment in labor-skills development.

1.2) Raw materials and components. Prices of raw materials and components in Thailand are generally much higher than those in China due to several factors:

- (1) Volume of operation in Thailand is much smaller than that in China resulting in a higher unit cost of production.

(2) There are smaller numbers of supporting industries in Thailand. Thus, there are fewer choices for raw material and part suppliers in Thailand for the Chinese firms, thereby reducing cost effectiveness.

2) **Marketing Management.** Chinese investors in Thailand have the following marketing problems :

2.1) *Competitive price reduction in domestic market and exports.* This has led to decline profit margins of investment in Thailand.

It is noted that while the downstream industries are strongly competing among each other, causing the declining product prices, the upstream industries which supply energy and basic commodities (iron and steels, other metallic and non-metallic raw material goods, etc) to the downstream industries are facing steep increases in the input prices.

3) **Business Connection Problems.** Bigger Chinese investors, particularly those of SOE's backgrounds, lack the connections with local partners in Thailand. Gaps in connection and relationship not only cause the less efficient business management but also induce a higher-degree of malpractices and non-merit in doing business (data obtained from interviews).

16. THAI GOVERNMENT POLICIES IN THAI-CHINA'S TRADE AND INVESTMENT COOPERATION

Recently, the Thai Government has set up new policies to strengthen Thailand-China's economic cooperation. These would include the following:

1) Trade

The major policy recently implemented is the "Thailand-China Free Trade

Agreements (FTA)".The "early harvest" of Thailand-China's FTA has been initiated from the October 1, 2003 agreement with the following conditions:

1.1) Products. There are about 116 fruit and vegetable products being covered in the early-harvest FTAs.

1.2) Tariffs. The aforementioned early harvest items are subject to tariff-free or zero tariff rate.

2) Investment

In order to encourage Chinese investment in Thailand, the Board of Investment of Thailand (BOI) has been pursuing the following policies:

2.1) Establishment of BOI-office in Shanghai,-China (in 2003)

2.2) Setting up of the special unit to promote China's investment in Thailand.

In 2003, the BOI set up the "Chinese desk" under the command of the deputy prime minister of Thailand (Dr. Somkid Jatusripitak) in order to promote investment activities and accelerate the investment process between Thailand and China.

The BOI Chinese Desk aims to provide overall information on investment policies, government regulation and investment procedures as well as professional consultancy for potential investors in order to facilitate business communication and negotiation.

The scope of services of the BOI Chinese Desk includes:

- (1) Providing business information and investment opportunities both in Thailand and China.
- (2) Providing investment consulting service for both Thai and Chinese investors.

- (3) Arranging business tours for the investors from the two countries and communicating with local business communities in order to create business opportunities
- (4) Facilitating business communications and negotiations.

17. THE MEETING OF THAILAND-CHINA JOINT COMMITTEE ON ECONOMIC COOPERATION (JC)

The Joint Committee on Economic Cooperation of China and Thailand, set up in 1985 when President Li Xiannian made a state visit to Thailand, organized a new meeting in Chiangmai, Thailand on September 21-22, 2005. The Chinese delegation was led by H.E. Wu Yi, the deputy prime minister of China, while that of Thailand was chaired by Dr. Somkid Jutusriphitak, the deputy prime minister.

The major issues of the new meeting of the Thailand-China Joint Committee on Economic Cooperation (JC) were trade and investment.

Besides the government officials of both countries, there was also a big number of businessmen who attended the meeting named “Sino-Thai Economic and Investment Partnership Seminar” as organized under this JC Meeting.

The major purpose of the “Sino-Thai Economic and Investment Partnership” was to encourage the two countries’ business matching. The meeting was separated into 7 business groups as follows.

1) Group 1 (Energy, Mining and Electrics)

Chinese Companies

- (1) Sinohydro Corp.
- (2) China National Offshore Oil Corp. (CNOOC)

- (3) China Chemical Geology & Mining Bureau
- (4) China Nonferrous metal Mining Co.
- (5) Telhow SCI – Tech Co.

Thai Companies

- (1) Petroleum Thailand (PTT) Group
- (2) Sukhothai Petroleum Co.,
- (3) Ban Pu Group
- (4) Thai Copper Co.
- (5) Ammata Group
- (6) EGATT
- (7) Saha – Union Group
- (8) Thai Oil Refinery Group

2) Group 2 (Money and Banking, Construction, Communications Technology)

Chinese Companies

- (1) Citic Group
- (2) China Northern Locomotive and Rolling Stock
- (3) China Yunnan Co.,
- (4) Huawei Technology Corp.

Thai Companies

- (1) Banking Association of Thailand
- (2) Bangkok Bank Co., Ltd.
- (3) Bank Thai
- (4) Siam City Bank
- (5) Merchant Partners Securities

- (6) Railways Authority of Thailand
- (7) Property Concrete Co., Ltd.
- (8) T.O.T.
- (9) Communications Authority of Thailand (CAT)
- (10) Shin Corp
- (11) Samart Corp
- (12) BTS
- (13) Stock Market of Thailand
- (14) Sino-Thai Group
- (15) Siam Cement Group

3) Group 3 (Real Estate, Industrial Estate)

Chinese Companies

- (1) Chinese Resource Holding
- (2) China National Technical Import & Export

Thai Companies

- (1) Industrial Estate Authority of Thailand
- (2) Winclose Industrial Park
- (3) Rojana Industrial Park
- (4) Hemaraj Industrial Park
- (5) Chaiman – Pangpli Parkland
- (6) 304 Industrial Park

4) Group 4 (Electronics, Automobile, Iron & Steel)

Chinese Companies

- (1) Haier Group

- (2) China Machine-Building International Corp.
- (3) Shanghai Automotive Industry Corp.
- (4) Capital Steel Corp. (Shougang Group)

Thai Companies

- (1) Siam Steel Corp.
- (2) Sahaviriya Steel Industry
- (3) G – Steel
- (4) Automobile Institute
- (5) Automobile Parts Association
- (6) Summit Group
- (7) Yontrakij Group
- (8) Tiger Motor
- (9) Siam Nissan (Chiangmai)
- (10) Thairoong Union Car
- (11) Fasco Motor Corp
- (12) Haier (Thailand)
- (13) Di-Star
- (14) Kulthorn Kerby
- (15) Thai Maxwell
- (16) Thai Standley
- (17) Easter Folimer Co.

5) Group 5 (Foods)

Chinese Company

- (1) China National Cereals, Oil and Foodstuffs Corp.

Thai Companies

- (1) Foods Processing Industry Co.
- (2) Rice Trader Association
- (3) Sahaphatanaphibul Group
- (4) President Foods
- (5) Chareon Phokaphand (C.P) Group
- (6) Thai Union Frozen Food
- (7) Huaychuan Rice Trading
- (8) Thaihua Rubber
- (9) Advance Agro Corp
- (10) Arawan Rubber
- (11) Oriental Rubber
- (12) Nguan Soon

6) Group 6 (Surveyor)

Chinese Company

- (1) Nuctech Company

Thai Company

No identified company

7) Group 7 (Tourism)

Chinese Company

- (1) China Inter Trade Travel Service

Thai

- (1) Tourism Authority of Thailand

Besides the abovementioned companies, there were also many other Chinese

companies coming with H.E Wu Yi's delegation to find business opportunities in Thailand, particularly for business matching with the Thai counterparts.

The Chinese companies can be classified into several groups as follows.

(a) Automobile Group

- Shanghai Automotive Industry Corp (SAIC)
- China Northern Locomotive and Rolling Stock Industry Corp. (CNR)
- Cherry Automobile Co. Ltd.
- Wansiang Group
- Yuda Group
- Li Pan Group
- Xongchen Group
- Shanghai Xonfa Electrics Group

(b) Electric and Electronics Group

- Lenovo Group
- Huawei Technology Group
- China National Electric Equipment Corporation (CNEER)
- Haier Group
- TCL Group
- Hicent Group
- Hengdian Group
- Changhong Group
- Chin Group
- Delixi Group
- Shigo Group

- ZTE Corp.
- Dezi Corp.
- (c) Trading Group
- China National Cereal Oil and Foodstuffs Corp (COFCO)
- China National Agricultural Means of Production Group Corp.
- Sinochem
- China Grain and Oil Group Corp
- China's Exim Bank
- (d) Other Investment Group
- China National Offshore Oil Corp (CNOOC)
- Capital Steel Group
- Alluminum Corporation China Ltd.
- China Yunnan Corporation
- CWUGC Group (China Worldbest)
- Xingdao group
- New Hope Group
- Uliangyi Group Ltd.

From the business matching done between the Chinese and Thai companies enumerated above, there were several Memorandum of Understanding (MOU) signed by the two sides, to with:

(1) Cooperation in logistics development from Kunming, Yunnan Province to Thailand by Thailand's Trans Asia Logistics Co. and China's Kunming Daxian Transportation Co.

Setting of sales agents and automobile services between Shanghai Automotive

Industry Corp. (SAIC) and Yontrakij Group (Thailand), together with the Thai ECI Group Ltd.

Cooperation in importing the motorcycle parts to be assembled in Thailand by Jingmen Zhongyu Motor Group and Yasuda Ltd.

Cooperation in petroleum oil and natural gas by China's CNOOC and Thailand's PTT.

Establishment of automobile factory in Thailand by the SAIC and C.P and Yontrakij Group.

Cooperation in petroleum oil pipe transportation from Satul to Songkhla Province by Sukhothai Petroleum Co. and China's CITIC Group.

Moreover, H.E Wu Yi and Dr. Somkid Jutusriphitak, the deputy prime ministers of the two countries, also signed the "Roadmap for Sino-Thai Strategic Economic Partnership" after finishing the meeting of the Sino-Thai Joint Committee on Economic Cooperation in Chiangmai on September 21-22. 2005.

In order to attract more Chinese investment in Thailand, the Board of Investment (BOI) appointed in 2005 the Haier Chairman, Mr. Zhang Ruimin, and the Huawei CEO, Mr Ren Zhengfei, as Thailand's honorary advisors.

Haier is the major white goods manufacturer of China which has invested in many countries around the globe, including Thailand. In Thailand, Haier has joined the local electrical and electronic product manufacturer, Distar, to produce white goods for both the domestic market in Thailand and Thailand's neighboring countries.

18. THAILAND – CHINA ECONOMIC, SCIENTIFIC AND TECHNICAL COOPERATION

Since 1975, when Thailand and China had begun their diplomatic relationship, there have been many cooperation agreements signed by both countries. The examples are as follows.

- 1) The Scientific and Technical Cooperation (signed in March 1978)
- 2) The Agreement on Sea Transportation (signed in 1979)
- 3) The Agreement on Air Transportation (signed in 1980)
- 4) The Agreement on the Promotion and Protection of Investment
(signed in 1985)
- 5) The Agreement on Avoidance of Double Taxation and Prevention
of Evading Tax Payment (signed in 1986)
- 6) The Memorandum of Understanding on Trade, Economic and
Technological Cooperation (signed in 1997)
- 7) The Agreement on China and Thai Bilateral Currency Swap (signed
in 2000)
- 8) Joint Statement on Program of Cooperation for the twenty-first
Century (signed in 1999)

Under this latter Cooperation Program, Thailand and China will cooperate in various ways, i.e., in macroeconomic policy such as financial cooperation, reduction of market dumping problem, cooperation in the promotion of mutual investment and agricultural development, promotion of the industrial zones, mutual assistance of SMEs, human resource development, joint research and development, the Greater Mekong

Sub-regional Economic Cooperation, and cooperation in the development of tourism.

Recently, China has assisted Thailand under the mutual cooperation of the two countries in several ways. Some of the examples are as follows.

1) The Promotion of Economic Linkages of Thailand and Southern China

1.1) Study visit on High-tech Park and Special Economic Zone at Guangdong Provincial Development of Science and Technology. There were nine Thai government officials from the Ministries of Finance, Industries, Commerce, Board of Investment, National Economic and Social Development Board (NESDB) and the Maefaluang University invited by China to visit the above mentioned area on June 20-26, 2004.

1.2) Agro-tourism and Cultural Tourism Development and Marketing of China at the Science and Technology Department of Guangxi Zhuang Autonomous Region. There were five officials from the Tourism Authority of Thailand and Kasetsart University invited by China under this program on June 11-17, 2004.

1.3) Study Visit for Market Survey and Trade Opportunity in Southern and Western China at Yunnan Provincial Department of Science and Technology. There were six officials from the Ministries of Agriculture and Cooperatives, Commerce and the private sector visiting China under this program on August 22 – 28, 2004.

1.4) Study Visit on Automotive Industries at Guangdong Provincial Department of Science and Technology by 6 Thai government officials from the Ministry of Industries, NESDB and the Automobile Institute on June 6-12, 2004.

2) The Cooperation Program of Biotechnology

2.1) Study Visit on Utilization of Effective Microorganism (Probiotic for

Animal Culture) at Yuannan Provincial Department of Science and Technology by 4 Thai government officials from the concerning organizations on June 15-22, 2004.

2.2) *Study Visit on Drugs and Health Foods Development from Medicine Plants and Animal Tissue* at the Chinese Academy of Medical Sciences by 6 Thai government officials on June, 13-19, 2004.

2.3) *Study Visit on Waste Management and Integrated Utilization of Biomass and organic Waste as a Renewable Energy Source* at the Chinese Academy of Agricultural Sciences by 6 Thai government officials on June 20-27, 2004.

2.4) *Study Visit Program on Thai—Chinese Academic Cooperation on Sericulture Biotechnology and its Applications* at the Guangdong Provincial Department of Science and Technology by 9 Thai government officials on June 20-27, 2004.

2.5) *Study Visit on Bio-control Fungi and Genetic Engineering* at the Heilongjiang Provincial Science and Technology Department by 4 Thai-university professors from May 23 – June 1, 2004.

2.6) *Study Visit on Strengthening Research Capacity and Human Resource Development in Biotechnology, Genomics, Post-genomics and Bioinformatics* at the Hunan Provincial Science and Technology Department by 8 Thai government officials on July 4-10, 2004.

3) Cooperation on Alternative Medicine

3.1) *Study Visit on Traditional Chinese Medicine Curriculum at Nanjing University of Traditional Chinese Medicine* by 6 Thai medical doctors and medical personnel on May 16-22, 2004.

3.2) *Study Visit on Advanced Acupuncture Curriculum at Shanghai Municipal Science and Technology Commission* by 6 Thai medical doctors on April 11-17, 2004.

3.3) *Study Visit on Herbal Development at Nanjing University of Traditional Chinese Medicine* by 6 Thai Scientists on March 14-20, 2004.

4) Cooperation in Agricultural Development

4.1) *Study Visit on Technology of Rice and Cotton Varieties Improvement at Sichuan Provincial Department of Science and Technology* by 6 Thai government officials on May 17-26, 2004.

4.2) *Study Visit on Industry and Trade of Restructured Tropical Fruits Products at the Science and Technology Department of Guangxi Zhuang Autonomous Region* by 6 Thai government officials and university lecturers from June 27 – July 4, 2004.

4.3) *Study Visit on Agricultural Commodity and Food Standards at the State General Administration for Quality Supervision, Inspection and Quarantine* by 5 Thai government officials from the Ministry of Agriculture and Cooperatives on April 18-25, 2004.

4.4) *Study Visit on Development of Plant Protection in China at the Chinese Academy of Agricultural Sciences* by 5 Thai government officials from the Ministry of Agriculture and Cooperatives and university lecturers on May 23-29, 2004.

4.5) *Research Cooperation on Cotton Breeding for Pest Resistance and Good Fiber Quality* between the Thai Upland Crops Institute Department of Agriculture and Cooperatives and Sichuan Academy of Agriculture Sciences in 2004-2006 (3 years).

4.6) *Research Cooperation on the Fish Diseases Prevention and Agricultural Technique* between the Thai Fishery Department, Ministry of Agriculture and Cooperatives and Hainan University, Aquacultural Institute of Hainan Province, PRC .

4.7) *Studies on Paragonimus Populations : Morphology, Molecular Biology, Enzymology and Epidemiology Aspects* between Thailand's Mahidol University and China's Zhejiang Academy of Medical Science in 2004-2005 (2 years).

4.8) *Research Cooperation on Cucumber New Variety Development and Extension* between Thailand's Almathor seeds Co. Ltd. and China's Tianjin Kernel Cucumber Research Institute in 2004-2006 (3 years).

4.9) *Cooperation in Evaluation of Genetic Resources in Mekong Region and Marker-assisted selection for Legume Genotypes with High Yield, Good Quality and Resistance to Diseases and Insect Pests* between Thailand's Kasetsart University and China's Yunnan Agricultural University in 2004-2006 (3 years).

4.10) *Cooperation Project on the Improvement of the Production of Bioactive Compounds in Insect Pathogenic Fungi* between Thailand's National Genomic and Biotechnology Center and China's Anhui Agricultural University in 2004-2005 (2 years).

4.11) *Project Cooperation on Embryo Production and Transfer in Cattle and Swamp Buffalo using Biotechnologies* between Thailand's Mahidol University and China's Guangxi University in 2004-2005 (2 years).

5) The Development of Strategic Framework for Sino-Thai Technical and Economic Cooperation, which involves the cooperation between Thailand's NESDB and China's National Research Center for Science and Technology for Development (1 year).

6) Cooperation in Educational Development

6.1 *Study Visit on Teaching and Research Development in Computer*

Software at Shandong Provincial Department of Science and Technology by 6 Thai professors on June 6-3, 2004.

6.2 *Study Visit on Shipbuilding, Shandong Provincial Department of Science and Technology* by 8 members of the Board of Vocational Studies of Thailand on June 20-26, 2004.

6.3 *Promotion of Chinese Language Learning.* The Chinese government, under the agreement signed by the Thai Minister of Education and the Chinese Deputy Minister of Education on January 11, 2006, will support Thai students to learn the Chinese language during the years 2006-2010 through :

6.3.1) Provision of the copyright of the Chinese language learning text named “Happy Chinese” in Thai version to be used in the schools in Thailand.

6.3.2) Promotion of “electronic learning” of the Chinese language among the Thai universities.

6.3.3) Training of 1,000 Thai teachers teaching the Chinese language. These Thai teachers will go to China for 2 months under the Chinese government’s sponsorship.

6.3.4) Provision of 100 scholarships per year by the Chinese government for the Thai Chinese language teachers to further their studies in China.

6.3.5) Sending by the Chinese Ministry of Education of 500 Chinese language teachers (per year) to Thailand. The Thai Ministry of Education will support half of the total expense under this program.

6.3.6) Sending of experts by the Chinese Ministry of Education to help Thailand develop an intensive program for Chinese language learning.

Recent data indicate that there are about 573 schools, colleges and universities

teaching the Chinese language in Thailand.

In its 10th Five-Year Plan (2006-2010), the Thai Ministry of Education set up a budget of 824.50 million baht to develop and promote Chinese language learning in Thailand.

7) Cooperation of the Thai – China Red Cross Society

In 2005, the Chinese government, via China's Red Cross, donated US\$ 3.5 million to the Thai Red Cross to assist the victims caused by the Tsunami disaster on December 26, 2004.

19. UPDATES ON THE ECONOMIC, SCIENTIFIC AND TECHNICAL COOPERATION BETWEEN THAILAND AND CHINA (2007 – 2008)

Recently (2007-2008), there have been several MOUs for cooperation signed by Thailand and China. These include:

1) Bridge Construction across the Mekong River Connecting Chiang Khong (in Chiang Rai Province) with Huay Xai, Lao PDR. The MOU was signed by Thailand, Lao, PDR and China in 2007. The proposed bridge construction is a part of the R3A highway connecting Yunnan Province via Lao, PDR with the upper Northern Thailand in Chiang Rai.

2) Integrated Medical Treatment. The Ministry of Public Health of the two countries, Thailand and China, have signed the MOU on the cooperation in integrated medical treatment program combining the eastern and western medical treatments. The Thai Ministry of Public Health has the policy to promote integrated medical treatment in every public hospital in Thailand.

According to this MOU, the Thai Ministry of Public Health has requested China's

counterpart to support Thailand in acupuncture training. There are about 900 Thai medical doctors who have already finished from the training programs in China such as from Shanghai's Chinese Medical Treatment Institute and Chendu Hospital in Sichuan Province.

3) Medical Herb Research Project. The Thailand Research Fund (TRF) has been cooperating with the China Natural Science Foundation to operate joint-research in medical herbs to be used in medical treatment. The National Natural Science Foundation of China has donated 1 million RMB to be spent in the research project.

4) Tourism Cooperation. The Ministries of Thailand and China have signed the strategic action plan for the years 2007-2011 to expand the tourism opportunity of the two countries. They have set up the targeted two-way tourists for the two countries to be 4 million people in the year 2010.

5) Cultural Cooperation. The Ministries in charge of cultural promotion of the two countries have signed the action plan to promote the cultural cooperation of Thailand and China. According to the signed action plan, in 2008-2010, there will be cooperation between the two countries in several fields, i.e. personal exchanges in all fields of arts and culture including cinema, religion affairs, youth activities, theatrical performances, etc. Moreover, both countries will build cultural centers in their respective countries.

6) Chinese Language Teacher Training. In 2008, the Ministries of Education of the two countries signed MOUs for five projects as follows;

6.1) China's Ministry of Education will organize the language training programs for about 290 Chinese-language teachers of all levels of education

in Thailand.

6.2) The Chinese government will send volunteer teachers in Chinese language to Thailand to resolve the teacher shortage problem. There will be about 860 teachers to be sent to Thailand under this program.

6.3) The establishment of Confucius Institutes. There are 12 Confucius Institutes and one Confucius Class Room that have been set up in Thai universities and high schools in Thailand under the support of the Chinese government (during 2007-2008). The major activities of the Confucius Institutes are the promotion of Chinese language teaching and Chinese culture.

The establishment of Confucius Institutes in Thailand was initiated by the Office of Chinese Language Council International (Hanban). The “Hanban” had initiated to establish the Confucius Institute (C I) in Thailand since 2006. The mission of the C I is to support and promote the development of Chinese Language education to teach Chinese courses of various types in various areas for all types of persons; to train teachers teaching Chinese in primary schools, secondary schools, high schools and higher education institutions; to administer the Chinese proficiency test, Youth Chinese Test, Business Chinese Test and tests to certify their ability to teach Chinese as a foreign language; to hold conferences and seminars related to Chinese Language and culture; to promote and develop Chinese Language teaching materials; to provide consulting services for individuals wishing to study in China; to establish the Chinese Book Center to meet the increasing demand of Chinese textbooks, Chinese books, and teaching and learning media for the students at all levels.

The Thai counterpart of the Office of Chinese Language Council International (Hanban) is the Commission on Higher Education (CHE), Ministry of Education.

During the past 5 years, the Office of Chinese Language Council International (Hanban) had sent 2,270 volunteer Chinese teachers to teach in Thailand. In 2008 alone, the number of volunteer Chinese teachers to Thailand reached about 870 persons, and those who came to teach in Thai higher education institutions were nearly 150 persons.

Moreover, the Chinese Embassy in Thailand sought 15 government scholarships in 2008 for both the Commission on Higher Education and for other Thai lecturers in higher education institutions to further the Masteral or Doctoral degree studies in China.

On June 8-13, 2008, the working group led by the Deputy Secretary General of the Commission on Higher Education of Thailand paid a study visit to four key universities in China: Zhejiang University, Nanjing University, Fudan University and East China Normal University.

The objective of the study visit was to seek cooperation from these four universities on the exchange of information for the development of the Chinese language standard curriculum, for teaching methodology and learning media of Chinese language in Thailand.

6.4) Heart to Heart Partnership Program. The Chinese government has set up this program to promote the Olympic Spirits and better understanding and friendship between the Chinese Youth and the Thai Youth. The example of the cooperation under this program is the one between the Pakgred School of Thailand (in Nontaburi) and the Beijing No. 2 Railway Middle School.

6.5) The Chinese Teacher Development Program. In 2008, the Chinese government set up a quota to receive 130 students from Thailand to further

their studies in China for about one year under the support of the Chinese government.

7) The Cooperation of Sciences and Technology. The Ministries of Science and Technology of Thailand and China signed in 2008 the strategic action plans to cooperate in four fields, namely:

7.1) Cooperation in Biotechnology. Both countries will cooperate in research for the cure of the Bird Flu/Influenza, among others.

7.2) Cooperation in Electronics Development. Both countries will cooperate in the fields of Lazer Techniques, Fiber optics, etc.

7.3) Cooperation in Chemical Technology. There will be several fields under the cooperation of the two countries such as thermo gel in medicine, the utilization of nanotechnology in food processing, and cosmetics production by using medical herbs.

7.4) Cooperation in Aerospace Investigation. The Ministry of Science and Technology of Thailand will cooperate with the Chinese Academy of Science and Wuhan University in aerospace projects, particularly the joining of Thai scientists under the Man Mission of Aerospace Investigation Program.

In addition to the above bilateral cooperation programs, Thailand and China also cooperate in other regional cooperation programs, i.e., ASEAN-China Annual Consultation, ASEAN-China FTA, ASEAN Plus One (China), ASEAN Plus Three (China, Japan and Republic of Korea), ARF, ASEM, etc.

20. THAILAND AND YUNNAN PROVINCE ECONOMIC COOPERATION TRANSPORTATION DEVELOPMENT OF YUNNAN PROVINCE AND THE SOUTH-WESTERN CHINA

The North-South Economic Corridors are important strategic policies of China to develop alternative ocean gateways for its land-locked south-western provinces.

The Yunnan Province of China is equivalent to a middle sized country given its size of population (more than 45 million), land area (394,000 square kilometers or km) and total borderline of 4,060 km connecting several neighboring countries. Although Thailand and Yunnan Province do not share the same border, the distance from the Southern Yunnan Province to upper Northern Thailand is only about 250 km.

The North-South economic corridors consist of three sections: the Kunming-Hanoi Haiphong Economic corridor, the Kunming-Bangkok Economic Corridor, and the Kunming-Yangon Economic Corridor. These economic corridors are also important to other GMS countries like Lao PDR, Myanmar, Vietnam and Thailand. The economic corridors, highlighted by the transportation development, will generate other economic dynamisms, i.e., trade, investment, services (tourism, logistics), and encourage rising urbanization along the economic corridor's influenced areas.

The reason for the Chinese government to pay more attention to the development of the South-West provinces, i.e., Yunnan, is that such areas are densely populated but do not have any access to the sea.

Currently, there are two alternative in-land transportation routes connecting South-West of China to Southeast Asia: the route via Yuili to Myanmar and India, and the route to Laos and, hence, to Thailand.

The route via Myanmar is often faced with insecurity owing to unrests caused by the

uprising of minority groups in the region. Hence, China pays much more attention to the route via Laos, the R3A, down to Thailand.

The plan of constructing the North-South Economic Corridor known as Kunming-Bangkok Highway was initiated in 1994 but was seriously hampered by the 1997 Asian Financial crisis. However, after the 8th GMS Ministerial Meeting hosted by the Asian Development Bank (ADB) in 1999 (September 30 to October 2, 1999), the GMS leaders agreed to make concerted efforts to reinforce economic cooperation of the GMS countries, particularly to focus on transportation infrastructural development of the GMS areas, i.e., the East-West transport corridor and the North-South corridor connecting Kunming of Yunnan province to the South via Lao PDR and Thailand and then connecting to other further Southern countries, namely, Malaysia and Singapore.

The ADB has played a very crucial role in supporting the development of transportation routes connecting South-West China, Myanmar, Laos, Vietnam, Cambodia and Thailand since the GMS was established in 1992.

Route 9 linking Thailand, Laos and Vietnam has been completed. A stretch of Route 3 (R3A) from the southern China border village of Boten to the Lao Border town of Huay Xai, opposite the northern Thai border town of Chiang Khong in Chiang Rai province, was officially opened on March 31, 2008.

The journey from Boten to Huay Xai on the old-dirt road took as long as two days. With the new road, the trip of a bit more than 200 km, takes only 5-6 hours.

Thailand is planning and cooperating with China to construct a new bridge linking Chiang Khong with Huay Xai. Once completed, the bridge will connect Kunming with Bangkok via a 1,855-kilometre highway, and then link it to the road networks in Malaysia and Singapore.

In economic terms, the new route 3 (R3A) will be beneficial in several ways:

(a) It will encourage market expansion across the borders, considering the development of better logistics system.

Up to the recent days, the major mode for transporting goods in the region has been via the Mekong River, i.e., shipping the fruits and vegetables from China along the river into Thailand, where exports from Thailand are then shipped to Hong Kong and Guangdong in China, from where they are re-transported to Kunming and other cities of Yunnan Province.

With the new road, cost and time incurred on logistics will be reduced.

(b) The transportation development will boost investments in the influenced areas noting that Chinese investors have already started acquiring land in Laos for commercial, real estate and agricultural projects.

Investors from other countries are also giving more attention to the area, which was initially considered as marginal area with less business opportunity, but which is now more accessible.

(c) The transportation link will create more opportunities in the service sectors, i.e., tourism, among others.

However, the economic opportunities created by transportation development will not be equally distributed to all the parties involved. Thailand and China, for instance, would enjoy more benefits as compared to Laos where the negative impacts on cultural and socio-economic fronts will also have to be faced.

Another problem that will have to be dealt with by the concerned governments is international crime such as human and drug trafficking, which will become easier in view of this new roadway. The establishment of casinos which already exist at the

Chinese-Lao border would require more efforts in crime suppression. Even before the completion of this route (R3A), China has already overtaken other neighboring countries, i.e., Thailand and Vietnam, as being the biggest investor in Laos.

China has been involved in hydro power, mining and other resource-related projects. In Laos, agricultural production, particularly rubber plantations, is also of high interest by the Chinese investors to meet China's rising demand for rubber, an important raw material being used in automobile and other industries.

Other non-resource- based activities invested by Chinese investors in Laos are in the entertainment complex, i.e. casinos and hotels, like the ones in Boten, Luang Namtha province.

Plans for the "Boten Border Trade Area" initially materialized in October 2002 when the Lao government issued a decree to construct a zone for the promotion of investment, trade to create jobs (Bangkok Post, April 13, 2008).

However, this first agreement has been cancelled and changed marginally into a concession agreement with Chinese investors.

Said plans cover 12 projects, namely:

(a) Four basic infrastructure plans on warehouses, a telecommunications and the Royal Jinlun hotel casino complex have already been completed.

(b) Eight other plans about golf course, a five-star resort, and several cultural centers are ongoing.

So far, major Thai investments in Laos have been in contract farming invested by the Thai giant agri-business group, international logistics, garment manufacturing and hydropower generation.

During the past three years, 2005-2007, the value of Thai-Lao trade has been increasing from about 40 billion baht in 2005 to 61.5 billion baht in 2007 (Table 19).

Table 19 : Trade Figures for Thailand-Laos, 2005-2007

	Value in Million Baht		
	2005	2006	2007
Total Trade Value	40,090.56	58,473.18	61,503.82
Total Export from Thailand to Laos	30,965.45	38,720.47	45,208.06
Total Import into Thailand from Laos	9,125.13	19,752.71	16,295.76
Trade Balance for Thailand	21,840.33	18,967.77	28,912.311

Source: Department of Export Promotion, Ministry of Commerce

Major products exported from Thailand to Laos include refined fuels, iron and steel and their products, plastic products, motor cars and automobile parts, woven fabric, machinery, chemical products, beauty products and beverages.

Main products exported from Laos to Thailand are metal ores and scraps, fuels, wood, vegetables, coal, fruits, and others.

21. THAILAND AND YUNNAN PROVINCE TRANSPORTATION COOPERATION

Under China's Look South Policy, Yunnan province in the South-West is designed to be the hub of logistics land bridge to the ASEAN members.

One of the core Chinese central government organizations in charge of this policy is the National Institute of Logistics and Transportation of the PRC.

According to this policy, Yunnan province is using Kunming City as a center connecting to both China's other provinces and the neighboring countries. This is seen

in the following:

- (1) Kunming-Bangkok Connection by using R3A highways
- (2) Connection of Yunnan to other China's provinces and areas, i.e., coggin in the east and Guangdong province in the south, etc.
- (3) Kunming –Yangon via R3B roadway
- (4) Kunming-Hanoi and Haiphong via Kunming-Mengzi-Hekhou in Yunnan province connecting with Lao cai-Hanoi-Haiphong's new highway under construction by using ADB loans.

Altogether, the distance from Kunming City to Bangkok is about 1,855 km which can be broken into:

- Bangkok-Chiang Rai 830 KM
- Chiang Rai-Chiang Khong 110 KM
- Chiang Khong-Huay Xai Border Crossing
- Huay Xai-Boten 228 KM
- Bohan-Jing Hong 330 KM
- Jing Hong-Kunming 538 KM

The total time spent to travel from Kunming City to Bangkok is about 20-30 hours.

Aside from the R3A land route, there is also the water-way transportation connecting Yunnan province with northern Thailand and other areas via Lao PDR and Myanmar through the use of these water ports:

- River Ports in China (Yunnan province): Simao, Jing Hong, Menghan, Guanlei.
- River Ports in Lao PDR: Ban Xai, Siengkok, Mouangmum, Ban Khouane, Huay Xai, Luang Prabang.

- Thailand: Chiang Saen, Chiang Khong
- Myanmar: Wang Seng , Wang Pong.

The distance by water way from Simao in Yunnan province to Chiang Saen is about 470 km while that from Jing Hong to Chieng Saen is 380 km. The time spent to travel by boats from Jing Hong Port to Chiang Saen Port is about 14 hours.

The transportation costs by ship via Mae Khong River from Chiang Saen to Jing Hong (with the capacity of 120-150 tons) is about 120,000 baht during the rainy season and 216,000 baht during the dry season. On average, the transportation cost per tonnage of goods is about 1,260 baht.

22. THAILAND AND YUNNAN PROVINCE ECONOMIC COOPERATION

Owing to several factors, particularly the ASEAN-China FTA, the Early Harvest Scheme signed by the Chinese and Thai governments in October 2003, the GMS agreements and the transportation development connecting more efficiently the two areas, the economic cooperation of Thailand and Yunnan province has been increasing impressively during the past few years.

On foreign trade, the total trade value of Thailand and Yunnan increased from US\$130.69 million in 2006 to US\$220.2 million in 2007 or a growth rate of about 68.5 percent (Table 20).

Table 20 : Foreign Trade, Thailand and Yunnan, 2005-2007

Unit : Million US\$

Year	Thailand's Import from Yunnan	Thailand's Export to Yunnan	Total Trade Value	Trade Balance
2005	129.52	21.50	151.02	-108.02
2006	109.19	21.50	130.69	-87.69
2007	156.8	63.41	220.21	-93.39

Source : Department of Commerce, Yunnan Province, PRC,

However, Thailand has had trade-deficit problems with the Yunnan province, the figure of which has risen from US\$87.69 million in 2006 to US\$ 93.39 million in 2007.

Thailand's major import items from Yunnan province in 2007 were unwrought silver (30.39% of total imports), diammonium hydrogenorthophosphate (18.40%) and phosphoric acid, metaphosphoric and purophosphoric acid (10.22%) (Table 21)

Table 21: Thailand's Major Imports from Yunnan 2005-2007

Unit : Million US\$

Description of Goods	2005	2006	2007	% of Total
1) Unwrought silver	75.48	41.82	47.65	30.39
2) Diammonium hydrogenorthophosphate	4.82	3.58	28.85	18.40
3) Phosphoric acid, Metaphosphoric and Pyrophosphoric acid	14.84	13.08	16.03	10.22
4) Sodium triphosphate	2.96	3.73	6.59	4.20
5) Milk and cream	-	-	6.21	3.96
6) Ammonium dehydroge northophosphate	0.08	1.33	5.28	3.37
7) Cauliflower, fresh and Chilled	-	-	2.78	1.77
8) Apples, fresh	1.40	2.71	2.35	1.50
Sub Total				73.81

Source : Department of Commerce, Yunnan Province, PRC

Thailand's major export items to Yunnan province in 2007, as shown in Table 22, were unwrought tin, not alloyed (41.41% of total exports), dried longans and longan pulps (24.65%), and copper mattes and cement copper (17.02%).

Table 22 : Thailand's Major Exports to Yunnan, 2005-2007

Unit : Million US\$

Description of Goods	2005	2006	2007	% of Total
1) Unwrought Tin, not alloyed	-	-	26.36	41.41
2) Longans and Longan Pulps, dried	6.98	9.73	15.63	24.65
3) Copper mattes, Cement Copper (precipitated copped)	-	-	10.79	17.02
4) Diamonds, Unworked or simply sawn	7.05	-	2.57	4.05
5) Raw cane sugar	-	-	2.50	3.94
6) Other Chemicals	-	-	1.09	1.72
7) Smoked sheets	0.66	1.14	0.83	1.31
8) Vulcanized rubber Thread and cord	0.87	1.10	0.53	0.84
Sub Total				94.94

Source : Department of Commerce, Yunnan Province, PRC

In 2007, Yunnan's total exports to Thailand reached US\$ 157 million, an increase of 43.60 percent from 2006.

In the same year, Yunnan's total imports from Thailand amounted to US\$ 63.41 million, an increase of about 195 percent from 2006.

Until the end of 2007, there were about 140 investment projects from Thailand in Yunnan province. The value of contractual investment and actual investment were US\$146.20 million and US\$77.4 million, respectively. Major Thai investment projects in Yunnan are in agriculture, industry, energy, housing construction and processed foods, among others.

Yunnan's investment figures in Thailand are rather difficult to compute. The number of investment projects of Yunnan province in Thailand from January to December 2007 was tentatively estimated at 7. The contractual investment value was US\$139 million while the actual investment value was not available.

Although trade between Thailand and Yunnan has been increasing, there are still several challenges facing the two areas as follows;

(a) Yunnan province is still protecting its agricultural sector by exercising both tariffs and non-tariff barriers, discouraging the exports of agricultural produces from Thailand.

(b) The economic structure of Thailand and Yunnan province is rather similar, thereupon turning their economic activities into competitive rather than cooperative endeavors.

(c) Inefficient transportation system between the two areas is also discouraging trade transaction.

(d) Both areas are also facing language barriers.

(e) Unclear laws and regulations owing to frequent changes and implementation problems also obstruct trade transactions between the two areas.

(f) Lack of reliable trading partners are other obstacles that constrain trade opportunities in the two areas.

(g) Trading opportunity of Thailand and Yunnan province also faces the problem of shortage of skilled personnel and labor.

(h) Intellectual property rights violation is also problematic in boosting trade transactions in the two areas.

(i) Use of personal relationship (called "Guanxi" in Chinese term)

to do businesses is prevalent in the Yunnan province, causing difficulty in systematizing trade transactions in the two areas.

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