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Investment Promotion Policy in Potential Border Zone

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Abstract

Recently, border zone is regarded as a potential advantage area to foster cross-border based economic activities. The Association of Southeast Asia Nations (ASEAN) makes an attempt to push forward its own border areas to become the gateway to neighboring countries and third countries through the presence of special economic zone, industrial estate, and regional economic hub. This is one of ASEAN’s strategies to accomplish to be ASEAN Economic Community in 2015. This paper presents a preliminary result from the first phase of a research project that explores the emergence of domestic and foreign investment in the Northern border zone of Thailand. It focuses on case studies conducted in “Chiang Khong” border area of Chiang Rai province in Thailand, and examines the design of investment promotion policies in this potential border zone. Using in-depth semi-structured interview method, the preliminary findings reveal that borderization is as a starting point to open up border and cross-border economic activities, whereas border city identity, the influence of emerging border city and the role of mutually inclusive growth between border cities are as a driver to bring them together. Hence, economic and investment promotion policies should be initiated from the onset of the context of border zone in order to trigger the actual border circumstances. In addition, comprehensive and integrated economic promotion policies with regional and national policies could be provided in the best available manner.

Keywords: Border zone; Investment promotion policy; Borderization; Mutually inclusive growth; ASEAN

1. Introduction

Borderization is the process of border integration in order to generate border interdependence of economic and social activities. It indeed happened following the emergence of globalization and regionalization, which

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leads to the transformation of border cities. In other words, the globalization and regionalization mechanism, especially economic integration are as a catalyst to move forward the presence of borderization. Together, the Association of Southeast Asian Nations and the Regional Comprehensive Economic Partnership are regarded as key regionalization mechanism to drive connectivity in the Southeast Asian countries. Border city of Thailand is an excellent example of the change brought by borderization in a Southeast Asian border city over the last decade. In the past, border economic interdependence in Thailand generally occurred in many border provinces in the context of border trade, border investment and border transportation. However, the globalization-and-regionalization era in 1990’s onwards, the economic interdependence across border in Thailand and other Southeast Asian countries has obviously extended from border economic activities to cross-border economic activities. This transformation was rendered by regional economic integration i.e. Greater Mekong Subregion Economic Cooperation (GMS) initiated in 1992 with Asian Development Bank (ADB) support, Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) established in 2003, and ASEAN-China Free Trade Area and investment agreement launched in 2009. And it has brought the huge rise in cross-border trade and investment activities to border cities, especially Chiang Khong border city in Chiang Rai province, Thailand.

Chiang Rai is located at the northernmost province of Thailand that there are three main borders linking Thailand with neighboring countries: Chiang Khong-Huaysai border, Chiang Saen border, and Mae Sai-Tachilek border. Chiang Khong-Huaysai border has the friendship bridge crossing Mekong River and road transport (R3A), linking Thailand with Lao PDR, Southern China and Vietnam. Mae Sai-Tachilek border has the friendship bridge crossing Maesai River and road transport (R3B), linking Thailand with Myanmar, Southern China and India. The road transport development R3A and R3B are known as the North-South Economic Corridor development under the GMS Economic Cooperation Program. However, economic geography of Chiang Khong and Mae Sai border are a little bit different with Chiang Saen border that water transportation plays a vital role in connecting Thailand with Lao PDR and Southern China. Hence, these borders are known as the gateway to foster border and cross-border economic activities across countries on the one hand, and to bring together the connectivity for this region on the other hand.

It is commonly believed that border economic zone development takes into account trade and investment flows to Thailand. In addition, it brings an increase in regional economic growth and development, a well-being improvement, and an income inequality reduction in Thailand and neighboring countries. Chiang Rai is one of the fastest-growing provinces in Thailand with the 6 percent compound annual growth rate in gross provincial products (GPP) during the period 2008-2013. That is because Chiang Rai was growing at the 27.14 percent compound annual growth rate in border trade and the 21.89 percent compound annual growth rate in investment (Provincial Commercial Operation Center, 2014). As for this matter, it is interesting to follow whether the influential borderization from the implementation of regional economic integration, enforcement of national investment policies, and soft and hard infrastructure development will give rise to a sustainable growth in potential border zones, especially Chiang Khong border city in the northern Thailand. This paper is initiated to provide a more in-depth, comprehensive overview of the investment promotion policies for potential border zone of Thailand. It focuses on a case study conducted in “Chiang Khong” border area of Chiang Rai province in Thailand. Information is collected through in-depth semi-structured interview with public and private sector and investors, and is evaluated by descriptive analysis. The objectives of the study are to detail the current state of investment environment, determine the signs for changes in foreign and domestic investment, and present recommendations to modify the investment promotion policies for border zone.

The remainder of the paper is organized as follows. Section 2 describes the literature reviews and discusses the data collection and research methods in Section 3. Preliminary results are exhibited in Section 4. Final section presents the major conclusion.
2. Literature Review

In this section, it starts with an overview of economic potential on targeted economic corridor and follows by the investment climate issues and the global value chain in investment for development.

The study of Takao (2005, 2007, 2008, 2009) indicated that Chiang Rai province of Thailand had high economic potential and performance according to the establishment of North-South economic corridor namely Road R3A and R3B under Greater Mekong Subregion economic cooperation and “Chiang Rai” development strategy of special border economic zone. In the economic potential perspective, the route R3A begins in Chiang Khong, Chiang Rai province, Thailand, connects Bo Kaew, Luang Nam Ta, and Bo Then in Lao PDR, Bo Han and Jing Hong in Xishuangbanna and ends in Kunming in China’s Yunnan Region, whereas the route R3B begins in Mae Sai, Chiang Rai province in Thailand, connects Tachilek and Kengtung in Myanmar, Jing Hong in Xishuangbanna, and ends in Kunming in China’s Yunnan Region. Moreover, Thailand Research Fund (2010) compared the economic potential of North-South economic corridor with the others in Thailand by using a weighted average of various economic indicators. She found that “Bangkok-Chiang Rai-Bangkok” Route had high economic potential as well as “Bangkok-Hanoi” Route, and it had higher economic potential than “Bangkok-Hippong” Route.

Thailand Research Fund (2007) exhibited that factors attracting foreign investors to Thailand after the establishment of ASEAN Investment Area were political stability, healthy city, and investment liberalized policies. Major threats for foreign direct investment to Thailand were the uncertainty of law enforcement, unclear legal regulations, and the strictness of foreign investment act and employment condition. Similarly, Urata and Ando (2010) investigated the foreign direct investment climate of the Southeast Asian economies from the implementation of investment liberalized policy under ASEAN Economic Community. Based on Golub (2003), UNCTAD (2010) and Kalinova et al. (2010), the assessment of FDI restriction was performed in six areas: foreign ownership or market access, national treatment, screening and approval procedure, board of directors and management composition, movement of investors, and performance requirements. Their results showed that FDI policy in Singapore, Philippines and Cambodia were highly liberalized than Myanmar, Malaysia and Lao PDR. They also recommended that ASEAN member countries should accelerate the implementation of ASEAN Comprehensive Investment Agreement (ACIA), especially in terms of investment liberalization, investment protection, investment promotion, and investment facilitation. Apart from FDI liberalization and facilitation, Dunning (1973, 1981) suggested major factors influencing investment decision for domestic and foreign investors: (1) location advantage, (2) advantage in politics, policy and agreement, and (3) cultural and social advantage. In fact, location advantage included market-seeking advantage, resource-seeking advantage, efficiency-seeking advantage and asset-seeking advantage.

Recently, the “ease of doing business” mechanism conducted by World Bank was generally employed to evaluate an investment decision. World Bank (2013) stated that “A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.” In 2013, Thailand was ranked at 18th in ease of doing business from 183 countries. Doing Business reform in term of paying taxes made it easier to do business in Thailand, whereas procedure in starting a business made it more difficult to do business in Thailand. Moreover, UNCTAD (2013) developed a global value chain (GVC) framework in trade and investment for development. Under this framework, she identified key elements to improve global value chain: embedding GVCs in development strategy, enabling participation in GVCs, building domestic productive capacity, providing a strong environmental, social and governance framework, and synergizing trade and investment policies and institutions.

In sum, in this study, the concepts of investment liberalization, investment facilitation, ease of doing business, and global value chain in investment for development are employed as a basic knowledge to analyze the appropriate investment policies.
3. Research Methodology

The paper aims at examining the investment promotion policies in Chiang Khong border city. To meet the objectives of this study, data are collected using qualitative research method. The research is conducted in Chiang Khong border city, Chiang Rai province, Thailand in data collection activities from March to April 2014. This study uses in-depth semi-structured interview to gather data from public and private sector and investors, and descriptive analysis to depict the current investment environment, signs for changes in foreign and domestic investment, and the appropriate investment promotion policies for border zone. The in-depth semi-structured interview is conducted with (1) four key informants in Logistics provider services located at Chiang Khong, and (2) five key informants in various public and private sector who are at the very least involved in economic and investment promotion in Chiang Khong: Coordination Committee of Ten Northern Provincial Chambers of Commerce, Chiang Rai Chamber of Commerce, Chiang Khong Chamber of Commerce, City Council Member, and “Rak Chiang Khong” group (Non-governmental Organizations: NGOs). Key informant interviews generate depth of information regarding their own knowledge and opinions about the study. These interviews are undertaken to describe the Chiang Khong’s current investment circumstances including the regulatory regime governing investment and to examine the signs of changes in investment and finally the investment promotion policies to maximize gains and minimize losses resulting from its expected changes are articulated.

This research employs descriptive analysis to exhibit the Chiang Khong’s current investment climate in accordance with the signs of changes in investment. For a more comprehensive explanation, literature review is added for analyzing the economic and social context of Chiang Khong in order to trigger the appropriate investment promotion policies in border zone.

4. Empirical Results

4.1 Chiang Khong’s investment Climate

The investment climate in Chiang Khong border city, Chiang Rai province, Thailand is described by using the information obtained from an interview conducted on Logistics provider firms. It starts with investment circumstances attracting investors, and then the assessments of investment climates i.e. investment liberalization and facilitation, and ease of doing business are discussed.

| Factors attracting investors: | Average Score (from 5) | Level of the Assessment |
|-------------------------------|------------------------|-------------------------|
| 1. Policy and agreement framework for investment | 3.06 | ** |
| 2. Economic factors | | |
| 2.1 Market seeking | 4.07 | *** |
| 2.2 Resource seeking | 3.13 | ** |
| 2.3 Efficiency seeking | 3.47 | ** |
| 2.4 Strategic asset seeking | 4.06 | *** |
| 3. Business facilitations | 2.93 | ** |

Source: Based on interviewing Logistics provider services located at Chiang Khong, Chiang Rai province
Table 1 presents the level of the assessment of the factors attracting logistics investors to Chiang Khong. The influential factors on investment decision are divided into three main factors: policy and agreement for investment, economic factors, and business facilitation. High scores indicate very important factor attracting logistics investors to Chiang Khong. The findings indicate that market-seeking and strategic-asset-seeking factors are highly influenced to investment decision. Border market size, border market growth, and local, regional and global market access bring about the investment expansion in Chiang Khong on the one hand. Border infrastructure and communication development encourage logistics investors to Chiang Khong on the other hand. In addition, policy and agreement for investment are also important to attract investors to border area, whereas business facilitation is less important how it affects.

Table 2: Investment liberalization and facilitation and doing business in Chiang Khong, Chiang Rai province, Thailand

| Average Score (from 5) | Level of the Assessment |
|------------------------|-------------------------|
| **1. Investment liberalization:** |                          |
| 1.1 Restriction on foreign entry | 1.50 | * |
| 1.2 Performance requirements | 2.21 | * |
| 1.3 Restrictions on overseas remittances and controls on foreign currency transactions | 2.33 | ** |
| 1.4 Restrictions on the movement of people and employment requirements | 1.88 | * |
| **2. Investment facilitation:** |                          |
| 2.1 Lack of transparency in policies and regulations concerning investment | 2.89 | ** |
| 2.2 Complicated and/or delayed procedures with respect to investment-related regulations | 3.25 | ** |
| 2.3 Insufficient protection of intellectual property rights | 2.33 | ** |
| 2.4 Labor regulations and related practices excessively favorable to workers | 2.75 | ** |
| 2.5 Underdeveloped infrastructure, shortages human resources, and insufficient investment incentives | 3.17 | ** |
| 2.6 Restricted competition and price control | 2.83 | ** |
| **3. Ease of doing business:** |                          |
| 3.1 Starting a business | 2.81 | ** |
| 3.2 Dealing with construction permits | 3.50 | ** |
| 3.3 Getting electricity | 2.00 | * |
| 3.4 Registering property | 1.50 | * |
| 3.5 Getting credit | 3.00 | ** |
| 3.6 Protecting investors | 2.50 | ** |
| 3.7 Paying taxes | 3.50 | ** |
| 3.8 Trading across borders | 2.58 | ** |
| 3.9 Enforcing contracts | 3.17 | ** |

Source: Based on interviewing Logistics provider services located at Chiang Khong, Chiang Rai province
Table 2 presents the level of the assessments of investment liberalization, investment facilitation and ease of doing business in Chiang Khong. High scores indicate low liberal and high restrictive investment in Chiang Khong. The results show that Chiang Khong has the high level of investment liberalization except for the oversea remittance. However, it still lacks the effective investment facilitation which can make a substantial contribution to support an investment promotion. Moreover, investors have to face the hard of doing business especially tax payment and construction permit.

4.2 Signs for Changes in Investment

This section exhibits the signs for changes in Chiang Khong border city, Chiang Rai province, Thailand. From in-depth semi-structured interview, there are four signs for significant changes in Chiang Khong: the presence of borderization, the emergence of potential border city, the borderland identity, and the concept of mutually inclusive growth, as detailed below.

4.2.1 Borderization

Borderization is a border-related process pushed by economic and social factors, political and policy changes, technological and communication changes, environmental changes, and cultural changes. It involves not only a geography extension through a range of the phenomena, but also a significant intensification of cross-border inter-connectedness. Cross-border economic activities such as movement of goods and services, resources, labors and people, and capital across border are one of the catalysts of borderization. Hence, borderization, considered in the structural sense, brings about a major transformation in the emerging “new border order”. It is believed that it is important to economic development across border. In Chiang Khong paradigm, it points out that border development process is a hybrid one that incorporates borderization into the regional-and-global changes i.e. aseanization and globalization. Therefore, according to the becoming ASEAN Economic Community in 2015, Chiang Khong must be in readiness to handle a huge borderization. It unavoidably coincides with the surge of cross-border trade in goods and services, investment, and labors.

4.2.2 Emerging border city

Chiang Khong is regarded as the emerging border city that had a compound growth during the last decade. Particularly, growth in manufacturing and logistics sector was plummeting after the establishment of North-South economic corridor and Friendship Bridge. Moreover, it found that there were a higher employment rate, a higher border trade and cross-border trade, and a greater domestic and foreign investment expansion in Chiang Khong border city. As for this reason, it is believed that Chiang Khong emerging border city becomes an economic potential border city, both trade and investment. In addition, it is as a significant
gateway into other countries in the same region such as Southern China in the North, Vietnam in the east and India in the West. Indeed, Chiang Khong is being challenged from all around - national, regional and global changes in economic, social, political, environmental and cultural contexts. This brings awareness to what and how it is happening in Chiang Khong border city in the midst of the era of borderization.

4.2.3 Chiang Khong identity

“Chiang Khong” economic and social development strategy namely “one city two patterns” occurred to achieve a balanced and sustainable coexistence between “traditional and conservative” society and “modern and dynamic” society. The key paradigm is that of “Acknowledging yourself by comprehending the past, perceiving the present, and linking to the future sustainably” (Chiang Khong Development Study project, 2013). Hence, there was the agglomeration of people in Chiang Khong in order to design its own economic and social development strategy. In fact, this strategy was incorporated into the strategic planning of “Chiang Khong” special economic zone. Beyond the driving participation in “Chiang Khong” development, “one city two patterns” strategy will become the Chiang Khong identity eventually that implies the border city adaptation.

4.2.4 Mutually inclusive growth

Mutually inclusive growth is a concept that advances sustainable and equitable development for border economic zones between countries. Certainly, the process of economic growth with common benefits in terms of production, employment, trade and investment could be incurred by implementing common border policies, common special economic zone and/or common border economic integration. It leads to the fair and equitable border development which is a driving force to build a sustainable economic growth in common border zones. This is a challenging game for the future Chiang Khong border city. The emergence of the mutually inclusive growth between Chiang Khong, Thailand and Huay Xai, Lao PDR is whether possible, depending on the Public-Private-People’s Participation to address the common benefits in emerging border cities.

4.3 Investment Promotion Policies

This section describes investment promotion strategies and policies in border zones. The preliminary results of the signs for changes in border investment (see in section 4.2) and the concept of global value chains for development (UNCTAD, 2013) are employed as a basic knowledge to introduce the appropriate investment promotion policies in border zones. Figure 2 exhibits the economic development framework for border value chain in investment for development. There are four levels of recommended investment policies in border zones. The first two investment policies are related to the national strategic process, whereas the last two investment policies are related to international strategic process.

4.3.1 Local economic and investment policies

The emergence of hard and soft infrastructure development projects as well as the presence of Chiang Khong identity brings about an expansion in economic activities into Chiang Khong. The local economic and investment promotion policies must be initiated by the partnership between local public and private sector. Importantly, it should be combined between the traditional and conservative” strategic policy and “modern and dynamic” strategic policy. A fast and efficient investment promotion process and regulatory decision should be provided no matter what any policies are implemented.
4.3.2 National economic and investment policies

Recently, there are a large number of investment promotion mechanisms and institutions enforced in Thailand at the national level, regional level and provincial level. However, in their implementation through the emerging border city, it is not fully understood. In order to fill this gap, the national and local public and private sector must partner to design the appropriate investment promotion strategies and policies for emerging border zone.

![Figure 2: Economic development framework for border value chain, adapted from UNCATD (2013)](image)

4.3.3 Regional economic and investment Agreement

In Chiang Khong aspect, regional investment agreements such as ASEAN Comprehensive Investment Agreement and ASEAN-China investment agreement have scarcely utilized. That is because the processes of investment liberalization and facilitation are mainly promoted at the country level. There is no special investment promotion and incentive for border zone. Therefore, the investment strategies under such regional investment agreements and borderization should concern the measures of the implementation in different areas, central, rural, urban or border etc.

4.3.4 Common economic and investment policies

Regarding the mutually inclusive growth between borders, the joint program to build capacity for border value chain should be performed. Moreover, local governments in border zones who have the responsibility to promote and facilitate the border economic zone must take action on perpetually establishing common border economic policies. These policies and regulations should be designed to mobilize common cross-border and border economic activities in order to foster the mutually inclusive growth.
5. Conclusion

The preliminary findings from this study have important policy implication. In particular, the signs for changes in border investment “borderization, emerging border city, borderland identity, and mutually inclusive growth” are aimed at attracting domestic and foreign investors to Chiang Khong border city, Chiang Rai province, Thailand. Therefore, investment policies at the local-and-national level, and border-and-international level for border value chain development should be tailored. These are beneficial to foster mutually inclusive growth in border zone of Thailand.

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