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Original Article

Contemporary Thailand–Japan Economic Relations: What Falling Japanese Investment Reveals About Thailand’s Deep, Global Competition, State in the Context of Shifting Regional Orders

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Abstract

This article centres on the nature of the Thai state amid a shifting global economic environment, examining it through the lens of foreign direct investment and specifically Japan’s declining foreign direct into the kingdom since 2015. It posits that the Thai state is neither a liberal democracy nor a liberal capitalist model and is instead akin to a deep and global competition-oriented state. Through this modality, the article examines recent drops in foreign investment, especially from Japan, and goes on to seek to explain said drops in foreign direct investment through a policy framework extracted from such a theoretical insight of the nature of the Thai state. The article concludes that falling foreign investment can be linked to the reception by Japan of recent policy imperatives and outputs in Thailand that operate on the level of a deep state–globality nexus.

Key words: Japan FDI, Thailand economy, Thai state, deep state, Thai military, competition state, Mekong region

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1. Introduction

Clad in a high-power business suit rather than a general’s military fatigues, on 28 September 2016 at the Bangkok Post’s ‘Moving Thailand Forward’ event, Thailand’s freshly installed junta head Prayut Chan-o-cha declared that by 2036, Thailand would become a developed country (Fernquest 2016). Freed from the constraints of both democratic politics and a monarchical system in confusion, the military has taken the reigns of the Thai state and is attempting to dramatically alter Thailand’s economic base.

While constitutional changes have grabbed the liberal Western mind’s predilection for democracy, what has received less attention have been changes made to law B.E. 2520. This is Thailand’s Investment Promotion Act (1977), and the military have been *refining* it (as opposed to making a fourth amendment) in order to launch their new Seven-Year Investment Promotion Strategy (2015–2021). The strategy is a bold one. It is an attempt to effect a structural change in the Thai economy and is certainly having an impact. Foreign investment into Thailand for the past half-decade has been dropping dramatically. The author has written elsewhere about these changes in the immediate 2016 quarter (Hartley 2016), and the picture is even clearer with the hindsight of 2017, leading to questions beginning to develop around not only the efficacy of the

change in economic approach but also the impact on, and role of, Thailand's biggest investor—Japan.

Between 1985 and 2016, Japanese investment in Thailand cumulatively totalled 2.9 trillion baht (US\$85 billion; 2017 rates), more than double the next biggest investor—the USA—which stands at 631 billion baht (\$18 billion). Cumulative investment from all investors into Thailand for this period was 6.8 trillion baht, meaning that investment from just Japan represented 43 per cent of all foreign investment into the kingdom.

Moreover, this interest in Thailand has been shockproof, remaining a consistent annual average of 42 per cent of total FDI with a peak of 69 per cent in 1989. From frequent military coups to region-level natural disasters, Japanese investors are dug into Thailand in more ways than one. This is why the Japan–Thailand relationship is so strong and why it is so significant for the wider region given Thailand's importance to Southeast Asia. When some in the region comment in a geopolitical way that 'Thailand belongs to Japan', it is not hard to understand why they believe so.

However, 2016 (and, as of the latest February data, early 2017 also) has been a bad year for foreign direct investment into Thailand. Total foreign investment in 2016 has dropped to levels last seen after the Asian financial crisis. Record highs in 2013 of 513 billion baht (\$15.1 billion) have halved to 252 billion baht (\$7.4 billion) in 2016. This is largely due to a pulling back of investment by Japan. In 2013, Japanese investment totalled 310 billion baht (\$9.1 billion) compared with 86 billion baht (\$2.5 billion) in 2016. Because the ratio of Japan's investment into Thailand comprises such a large percentage of the total, when Japan moves, everything moves, and Thailand's total foreign direct investment (FDI) correlates almost precisely to decisions by Japanese investors.

Moreover, there are even bigger issues lurking under the surface here. Recent changes to Thailand's foreign investment regime—changes which are either causing this drop of investment or are because of it—raise questions about the nature of the Thai state

and its role in Thailand's economy. The fact that the military is not only heavily reforming Thailand's constitution but is also attempting a wholesale redrafting of many key elements of Thailand's economic policy agenda raises questions around the future structural-level stability of the Thai economy.

2. The Deep and Global Competition State of Thailand

Before tackling the empirical in the form of foreign investment, let us pause to establish the conceptual assumptions moving forward. FDI represents a crucial link between global free markets and a globally oriented state. As such, in the attempt to understand these shifting foreign investment trends and particularly Japan's role in them, it is important to consider the nature of the Thai state within a shifting world order context. To understand the role played by FDI in linking Thailand, through Japan, to shifting regional and global trends. The working theoretical assumption here is that Thailand possesses a 'deep state' and that this deep state is also inclined towards also being a 'global competition state'.

2.1. Theorising the Deep State of Thailand

Benedict Anderson in 1978 bemoaned the paradox that while Thailand has remained one of the most open countries in Southeast Asia, the level of scholarly English language engagement and serious attempts to understand the Thai state have been lacking (Anderson 2014). His 'four scandalous hypotheses' laid the foundation for some degree of theorising and rose-tinted spectacle removing of the Thai state. Andrew MacGregor Marshall has since attempted to update Anderson's original four hypotheses with his own for the modern day, neatly highlighting the degree of continuity between Thai elites and the degree to which the ideology of royalism is the real driving force of the Thai state (MacGregor Marshall 2013).

Duncan McCargo has made one of the most rigorous definitions of the royalist Thai

state, characterising it with his 'network monarchy thesis':

Network monarchy is a form of semi-monarchical rule: the Thai King and his allies have forged a modern form of monarchy as a para-political institution. [...] At heart, network governance of this kind relied on placing the right people (mainly, the right men) in the right jobs. (McCargo 2005, p. 501)

Eugénie Mériéau has recently attempted to directly counter McCargo's conceptualisation as too narrowly focused on the royal family and that what in fact exists can be characterised as a 'deep state'. That is,

[A] powerful and essentially anti-democratic alliance composed of the broader security forces, including the military, police and the judiciary, who are involved in regular aspects of administration in the visible state, but which also maintain a shadow set of activities that has considerable veto power over the regular state (Mériéau 2016, pp. 446–447)

The advantage of Mériéau's characterisation over McCargo's is that Mériéau's allows for international comparability, while McCargo's relies on appreciating the idiosyncrasies of Thailand and its royal family. The notion of a deep state can be used to understand many contemporary states and thus allows us to place Thailand within a broader global context rather than as a solitary unique case. For example, the 19th-century Propaganda Due *aka* 'P2' in Italy was characterised as a 'state within a state' complex of political, intelligence, police and other elite figures, and in the 1980s, a series of scandals and murders revealed the extent of the grip P2 had over all aspects of Italy's political and economic life. Often correlated with semi-democratic and middle to lower middle-income developed countries, the notion of the deep state has not only been applied to Thailand but also Turkey, Egypt, and more.

However, Giles Ji Ungpakorn criticises both McCargo and Mériéau as representing the 'dominant academic views of Thailand':

[Seeing] the major confrontation among the elites as being between the old semi-feudal order and

the new rising capitalists. It is a mechanical and banal application of the 1789 French Revolution to Thailand in the 21st century. [It] ignores the fact that the ruling class networks which support the monarchy also include the major bankers and industrialists, including Taksin. They also ignore the capitalist nature of the king's vast investments. They therefore believe the Yellow Shirt accusation that Taksin and TRT are crypto-republicans. (Ungpakorn (2016))

Ungpakorn instead argues that the Thai state is not unique among modern nation states in that all nation states "[...] exist in order to facilitate the dominance of the capitalist ruling class over the majority of the population who are working people" (*ibid*, Ungpakorn). For Ungpakorn, it is important to see Thailand within the context of global capitalism rather than as any kind of rarefied example, and so to that, we here must turn.

2.2. *The Global Competition State of Thailand*

What the previous useful but static understandings of the Thai state cannot do is answer the question 'why now'? That is, why the Thai state behaves in certain ways at certain times, and for our purposes, why the current military junta is choosing to make sweeping political and economic reforms. To answer this, it is necessary to appreciate a different facet of the Thai state, and an aspect through which it becomes clearer what importance Japan plays to Thailand's politico-economic changes: the Thai deep state within a global context.

Immanuel Wallerstein's description of a semi-periphery country helps us to understand Thailand. A semi-periphery country dilutes the features of the periphery—leading to authoritarian and/or unstable government, and mid-manufacturing economy, with the features of the core—potentially democratic institutions but weak, often desiring to transmit its own hegemony to those below itself and the core (Wallerstein 1974). As a middle-income country heavily dependent on foreign investment, and proximally peripheral to regional powers such as Japan and China, it is possible through Wallerstein's framework to understand the

structural underpinnings of Thailand's tortuous relationship with liberalism and democracy.

If we maintain a structural mindset, Robert Cox's contemplations on the relationship between global world orders, the state, and its elites, in the context of the current world order, exhibit an attractive utility here (Cox 1987). 'World order' is defined in terms of the world politico-economy, and states must exist in relation to that and not towards nationally oriented policies; inter-dependence, minimal state controls, minimising state policies to fiscal and monetary management are all examples of the global competition state in action. Growth comes from the world economy, rather than the state and its national capacity. Tripartism grows as state officials align with global corporate leaders. Corporatist government-business-labour relations develop so as to handle the dwarfing power of the world order. The state must adjust its gaze upwards rather than downwards and attempt to balance dependency on foreign capital and markets with its desire to increase its bargaining power with foreign capital. The result is globally oriented upwards facing national state corporatist institutions of large-scale foreign state owned enterprise collaborations (what can easily be captured by the deep state), contrasted with downward facing small-scale national and local businesses with only a secondary importance to the state.

This tension between the globality/nation vs. state/sub-national nexus allows an appreciation of what Philip Cerny has dubbed the paradox of the 'competition state' (Cerny 1997). That is, states that are governed by elites who regard it as their purpose to ready their nation state for global integration and competition, but conversely during the process, reduce their abilities to deal with the problematic consequences of doing so.

The Thai state must be seen in this context. It is not enough to take the Thai state and its elites in isolation and argue for 'rising authoritarianism' or an 'authoritarian turn' (Baker 2016). The authoritarianism has always been there and is a necessary prerequisite of being a competition state with high development ambitions. It is the significance of global events

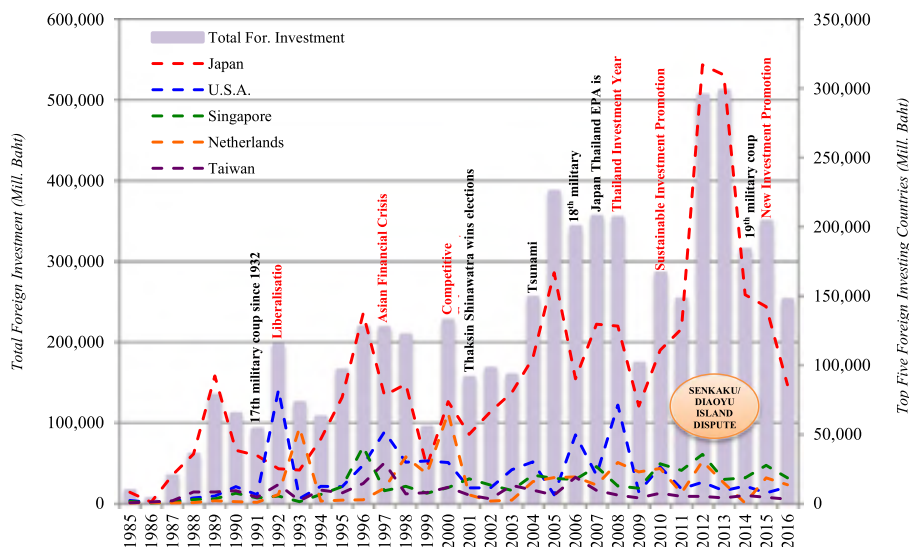
and/or changes in Thailand's national economic plans that attempt to react to these events which causes the most serious movement on the part of the Thai state and Thai elites. These global-level shifts, and the importance of Japan as mediator of these shifts—utilising its economic largess of which FDI is a major part, will be examined in the following section.

3. Foreign Investment In Thailand

3.1. Recent Declines in Investment

Figure 1 in the succeeding texts reveals that foreign investment into Thailand has been on a sharp downward trend since 2013. Japanese investment is down to levels last seen after the 2008/2009 financial crisis. This will not be of immediate concern to Thai authorities, as it would have been expected. As will be explained in the following section, changes to the Investment Promotion Law meant that many advantages to seeking Board of Investment (BoI) promotion were to be removed from January 1st 2015. Many of these changes would have been known long beforehand. The large spikes in the years of 2012–2015 would have been companies trying to enter as quickly as they can before the new direction of travel was engaged. The slump being seen in 2016 is a consequence of that change in Thailand's BoI investment promotion rules, with 2015 realities now appearing in government tallies in 2016 and 2017. However, the military in Thailand may have been hoping that their reforms would cause a hit, but a short-term hit. This is yet to actualise.

Turning from an annual view to a monthly view, Figure 2 in the succeeding texts illustrates the extent of the issue. The monthly differences between 2013 (before the investment changes began to be promoted) and 2016 (when the result of the changes began to appear in tallies) reveal an average monthly drop of 53 per cent in investment—81 per cent for the month of May. There is a certain degree of the business cycle effect in this. Japan's investment has fluctuated and increased during the summer quarter, then declined again. Other investors have been less tolerant, and Thailand's

Figure 1 Total and Top 5 Bilateral Investing Country's Foreign Direct Investment into Thailand, 1985–2016.

Data up to and including 2015 are annual data. Data in 2016 are 'foreign investment': monthly accumulated statistics (foreign investment from major countries) (promotion certificates issued). The differing investment framework changes by the Board of Investment are indicated in red, while significant political events are indicated in black. Figures are in baht as that is the original value taken by the Board of Investment. *Source:* author. Data source: Board of Investment (BoI), Thailand.

other top investors—the USA, Singapore, the Netherlands and Taiwan—have all remained cautious throughout the entirety of the year.

3.2. Interpreting the Data: Global or Domestic Factors?

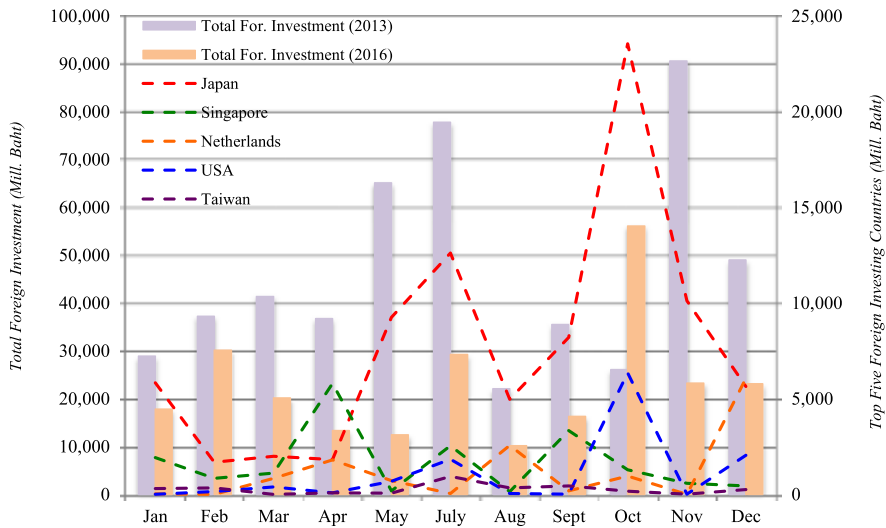
If we return to Figure 1 and a summary observation of the decade-long longitudinal trends, FDI into Thailand tracks more closely with global or region-level events (geopolitical or economic) and national economic plans—which in Thailand's case are globally oriented first, nationally oriented second—than with local to Thailand political/democratic events. Moreover, the closeness of this correlation, and concomitantly the degree of foreign investment, depends on the closeness of Thailand's national plans with those global economic shifts. That is, if the global economy is pushing one way and Thailand's national plans are not able to recognise and match, then investment will falter. In this calculation, local political or economic needs are secondary, if considered at all. This is why the military routinely assumes power—because they regard

themselves as better stewards of the national–global connection than politicians, who may alter the calculation to also include the Thai people rather than global elites.

With this assumption in place, a number of important micro-observations can be made that revolve around the question of what kind of factors affect or do not affect investment into Thailand. That is, which factors can have no effect, versus which can produce any effect, positive or negative?

On the hypothesis of *no change*, the following features emerge from the data. First, FDI does not seem affected by either democratic protests or military coups. In the year after the 17th military coup in 1991, investment doubled. In the protest period leading up to the end of Thaksin's period in office and the 18th coup, investment remained at a steady high. Second, FDI is on the whole unaffected by natural disaster, for example, the 2004 tsunami. Indeed, after the tsunami, investment doubled and remained at a record high for 4 years. Third, FDI is unaffected by changes of political leadership, whether from political parties or the military. Between the

Figure 2 A Comparison of 2013 and 2016 Monthly Foreign Direct Investment into Thailand, Total and Top 5 Bilateral Investing Countries.



The Board of Investment (BoI) has mislabelled/omitted the month of June from their released data. The monthly data by country are for 2016 only. The data selected here is 'certificate issued', the final stage of the BoI process after 'application' and 'approved'. The BoI only lists cumulative monthly foreign direct investment data and not data for individual months. These figures have been arrived by subtracting each cumulative month from the previous. *Source:* author. Data source: Board of Investment (BoI), Thailand.

17th military coup in 1991 and the 18th in 2006, Thailand had 11 prime ministers in those 15 years, all of varying backgrounds—military and party political. Foreign investment fluctuated throughout the period without any reference to changes in the political leadership. In the case of Japan, the 2007 Japan–Thailand Economic Partnership Agreement (JTEPA) seems to have had little impact. Demonstrative of the fact that free trade arrangements and/or economic partnership agreements are often more political than they are economic, the signing of the JTEPA registered little immediate change in investment. Indeed, there was a rapid drop in investment in 2009; however, that is more likely to have been the result of the 2008 new BoI promotion framework rather than the 2007 JTEPA.

On the hypotheses of what causes change in foreign investment, *negative change* appears to result from global or regional-level economic events, for example, the 1997 Asian financial crisis or the 2008/2009 financial crisis. The Asian financial crisis caused a halving of

investment (but which later quickly returned). Similarly, the 2008 crisis halved foreign investment.

On the other hand, *positive change*, that is, increases in foreign investment, seems to emerge from the following. Investment is affected, positively by the onset of a new BoI economic plan. Many will rush in before any changes take effect, thereby creating the peaks and troughs effect evident in Figure 1. FDI can be doubly affected if the right plan is put into place at the right time to catch a global shift. For example, the BoI's 2010 sustainable investment promotion package came at just the right time to catch Japanese companies migrating from China after the Senkaku dispute escalated. This finding, that investment in Thailand is strongly affected by the structural economic vision of the Thai state's interpretation of the needs of global markets and global actors, is an important one. It reflects the lingering significance of needing to understand the actions of the Thai state vis-a-vis the Thai economy, and in turn, the Thai state vis-a-vis the global order.

Armed with these propositional assumptions, (1) the importance of global/regional shifts to the Thai elite and (2) the importance of being able to effect domestic changes that can catch these changes, we are now in a position to begin postulating as to why changes are being wrought in Thailand, what impact Japan may be having and how the notion of the deep and global competition state is relevant here.

4. Thailand's Policy Frameworks and Foreign Direct Investment: Imperatives and Responses

Now let us apply the afore-outlined theory of Thailand's deep and global competition state, to these empirical events, and test whether there is a relationship. If there is, then it is possible to reasonably draw Japan's influence into the explanation of why the junta are attempting to reform Thailand as they are. This analysis requires two steps: first, to apply the notion of the deep, global competition state to the inputs upon Thai elite policy makers, inputs that must be conceived in terms of (a) domestic but structural and globally connected bottom-up factors and (b) globally emergent factors reaching top down upon Thailand, and second to apply the notion of the deep, global competition state to interpretation of the output behaviours by the Thai elite in order to better connect Thailand's domestic circumstances with those global-level emergent forces.

It is thus proposed here, and laid out in the succeeding texts in Figure 3, that applying the previous theoretical assumptions to the empirical problem of falling Japanese investment results in the policy framework and attendant factors portrayed in figure 3 below.

4.1. Domestic Policy Imperatives

4.1.1. Sustained Political Crisis: the Writhing of Thailand's Deep State

Since 2006, Thailand has experienced near constant socio-political protest and violence with yellow shirt, red shirt and paramilitary black shirt, contestations that have turned

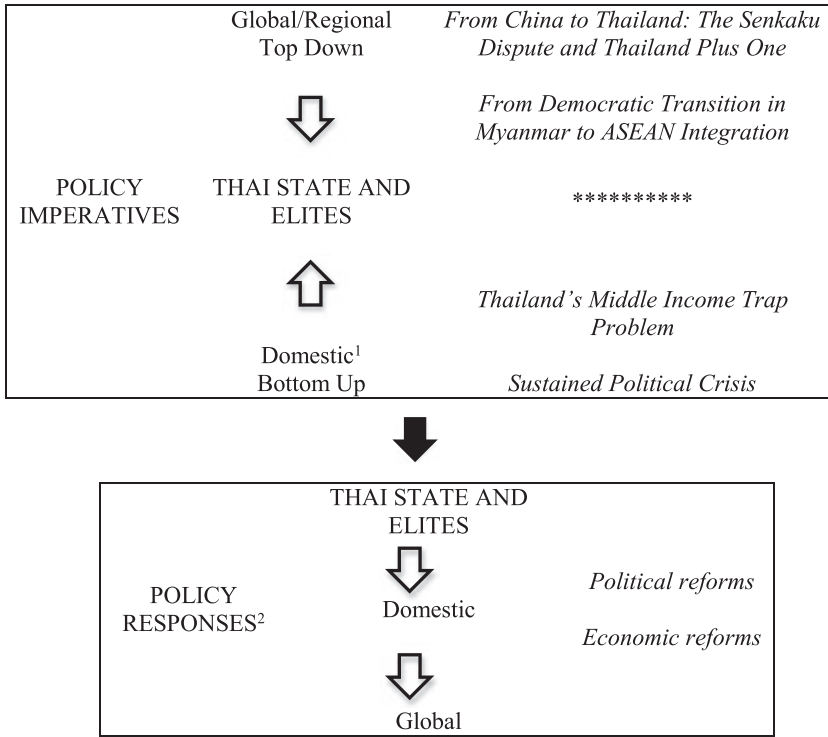
Bangkok into a battleground multiple times. This has done little to dent foreign investment; global investors such as those from Japan are not concerned about democracy as they have state-to-state ties that mitigate such concerns.¹

What has worried them, and has been a long-time foreseeable due its extended nature, is what has been referred to by Japanese in Thailand as 'Rama X Day'. This clever homonymic nomenclature conveys at once a disaster film style title, but in actuality refers to the installation of the subsequent tenth Rama monarch after the ninth Bhumibol Adulyadej passed away. King Bhumibol's decade-long period of ill health ended with his death in October 2016, and he was replaced by his far from respected, both domestically and internationally, son Maha Vajiralongkorn Bodindradebayavarangkun. Foreign investors are not worried about protests and government-level changes, but *these* forms of state-level changes are indeed very concerned about, as both public and private Japanese economic actors conveyed to the author during 2015 and 2016.

The king's death represents more than a change of individuals. It means a reconfiguration of Thailand's deep state as the hydra-headed network monarchy's various monarchical factions, figure-headed by various monarchical figures, all pivot towards different masters. In addition, it means that the factions of Thailand's deep state that were privileged to be figure-headed by Bhumibol, and whom Japanese elites have had long-time relationships with given Bhumibol's standing as formerly the world's longest reigning monarch, are now going to lose their superior positions given many of their efforts to block the transition to the unpopular Maha Vajiralongkorn Bodindradebayavarangkun. Japanese elites will need to attach to the newly ascendant factions or otherwise find alternatives to Thailand altogether. The declines in Japanese FDI seem to suggest that they may be more concerned

1. Author interviews with Thai and Japanese business elites, 2015 and 2016.

Figure 3 Mapping the Policy Imperatives upon, and the Policy Responses of, the Thai State and Its Elites in Relation to Foreign Direct Investment and Economic Policy.



¹The deep, global competition state is only interested in structural issues that affect its state–global connection. It is little interested in relational issues concerning its ties to its people involving democratic legitimacy, consent or popular oversight.

²The deep, global state reconfigures the prior outlined global > state < domestic relations, into state > domestic > global, as the state assumes its primary role in leading the reconfiguration of the domestic to slot into the global.

about Thailand’s post-Rama X Day fallout than many had imagined.

4.1.2. *Thailand’s Middle-Income Trap Problem*

Not only on the political but also along the economic dimension, Thailand has some serious structural issues to deal with, issues that Japan is always willing to help with. Ever since WWII, Japan has regarded Thailand as a possible model to others in the region as to the efficacy of following a Japan-oriented worldview. In the imperial years, Japanese planners regarded Thailand as the best potential model for the Greater Co-Prosperity Sphere (Reynolds 1994). In the post-WWII world, it was Japan’s economic model that became the new guiding force.

First, Thailand in 1955 renounced its war claims settlement, which was followed by loans in 1968 and 1972. These went to support construction infrastructure projects and commercial objects favouring Japanese companies. The latter of these loans, a particularly large one, coincided with Thailand’s change of economic approach from import substitution industrialisation to export-oriented industrialisation with the third 5-year plan (1972–1976), prompting a Thai central banker at the time to believe that in accepting that aid package, Thailand had sold itself to Japan for the next two or three decades (Mendl 2001).

Second, once the Japanese presence was established, Japan upgraded Thailand again. Four official development assistance (ODA) programs were envisioned for the ASEAN-4

at the end of the 1970s that would improve their productive capacities, including energy and infrastructure development, and attract FDI to those locales. The Thailand project was the strategic Eastern Seaboard Development Program, one of the largest infrastructure projects in Thailand up to that date (Kitano 2014). Designed under Thailand's fourth and fifth 5-year plans—with the fourth's concern with moving from labour intensive to manufacturing enterprises and the fifth's to exploit the 1973 gas discoveries in the Bay of Thailand—the Eastern Seaboard Development Program was a grand plan in socio-technical engineering (Fumiharu 2013). It would lead to the creation of a deep water port in Bangkok, the Laem Chabang and Ma Ta Phut ports, road connectivity to and from, and industrial parks with port and city connective infrastructure.

The result as seen in the succeeding texts in Table 1 was to, in the space of two decades, convert Thailand from an agricultural economy into an industrial mid-tier manufacturing-based economy (with services being high due to Thailand's famous tourism sector, and later banking).

With the transition made, from the 1990s as illustrated in the succeeding texts in Figure 4, the structural base of Thailand's economy became very heavily dependent on those sectors preferred, and thus invested in, by Japan's interests; that is, its automobile and electronic sectors. 'Metal products and machinery' for Japan's off-shored automobile industry in Bangkok, to a lesser extent 'electronic and electronic products' for Japan's off-shored technology companies and to an even lesser extent 'chemicals and paper' for those Japanese industries that are interested in exporting raw products but also those in

supportive supply chain roles for the aforementioned automobile and electronic companies. In other words, it has to a great extent been investment from Japan, coupled with the necessary domestic policy shifts from Thai elites, that has represented the global domestic nexus link that has terraformed Thailand for good or ill into its current economic state.

However, those were the glory years of Japan–Thailand economic engagement. Since just before the turn of the millennia, Japan's structural support towards Thailand has been more akin to being handcuffed to a sick patient. After the 1997 Asian financial crisis, it was massive financial assistance to Thailand that helped bring the kingdom back on track. And in more recent years, crises again stalk Thailand that Japan is very minded to deal with. This is Thailand's apparent middle-income trap.

The middle-income trap refers to the phenomenon whereby growth that is gained from labour-intensive export-oriented economic activity (meaning free trade and investment, a stable economic environment, legal provisions to protect these foreign assets and the creation of physical infrastructure) begins to slacken as labour patterns and wages rise, leading to private sector withdrawals from low profitability labour-intensive sectors. On a graph, these different sectors are represented by an elongated 'S-curve' shape. Japanese planners and their Thai counterparts believe that Thailand is currently in this situation.

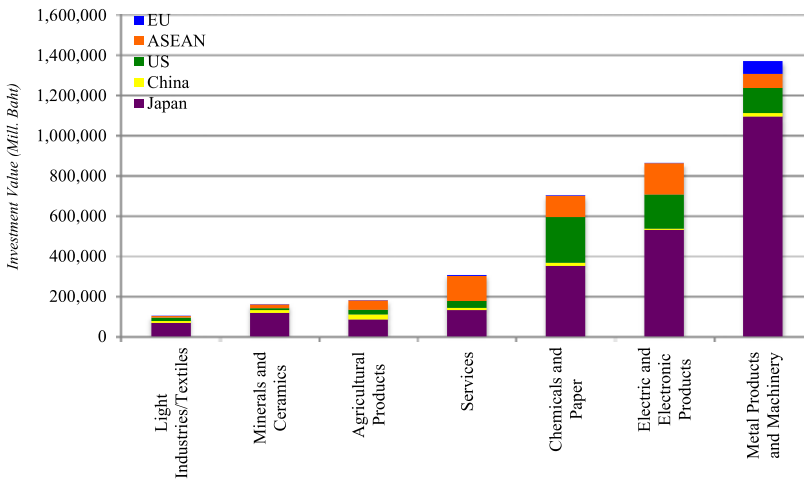
Thailand's middle-income trap problem is also being compounded by another issue—demographics. Thailand is soon to face similar demographic headwinds to those Japan is currently dealing with. The kingdom is one of the fastest aging populations in East Asia but is surrounded by youthful populations in the Mekong region, with the UN estimating that Thailand's working age population will peak in 2017 (Japan peaked in 1995).

Escaping the middle-income trap means big investors such as Japan building upon the existing bedrock and investing in higher tier activities such as high-technology, research and development, etc. The issue

Table 1 Share of Thai GDP by Sector, 1970–1989

	1970	1980	1985	1988	1989
Agriculture	25.9	23.2	16.7	16.6	15.2
Industry	25.3	30.8	34.0	35.8	37.8
Manufacturing	15.9	21.3	22.1	24.8	25.4
Services	48.8	45.9	49.2	47.5	47.0

Source: adapted from Yoshida (1992, p. 222).

Figure 4 Total Foreign Direct Investment into Thailand by Sector, 1997–2014.

Data source: Board of Investment, Thailand.

however is that successive Thai governments have failed to change policy in such a way as to make that shift upwards possible, most keenly in the area of upgrading the skills of the country's human capital (Warr 2014). This inability for Thailand to adequately slot into the ever-increasing stages of development that global capitalism requires, driven significantly by Japan's economic power, is likely causing a dissonance between the domestic and the global, leading to falling investment from Japan. Coupled with increasing ASEAN integration and Myanmar's recent transitioning, there are now many more options for investors than just Thailand.

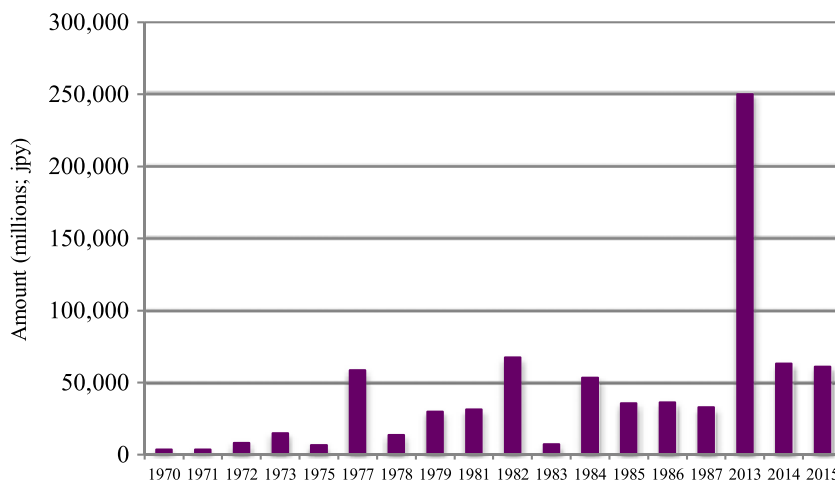
4.2. Global Policy Imperatives

4.2.1. From Democratic Transition in Myanmar to Economic Integration in the Mekong

Myanmar has since 2010/2011 become crucially important regionally to Japan, due to its domestic transition-coupled opportunities for linking with ASEAN and Thailand Plus One integration efforts. At various points during the 2010–2015 period, Japan extended the ODA carrot to Myanmar. In September 2011, Japan pledged 800 million yen (\$10

million) in grant aid, and in March 2012, Tokyo pledged another 1.6 billion yen (\$2 million) followed a few weeks later by an additional 1.65 billion yen (\$2.1 million) in grant aid. This is not to mention the dual stream ODA arriving through Japan–Mekong cooperation channels. Single payments are one thing, but these sensitive political steps could be put in jeopardy if structural economic fundamentals were not corrected, and Myanmar had one large economic fundamental—non-repayable debt.

Such debts represent a block to Myanmar's desires to further regionally integrate and a problem for Japan to upgrade its provisions from grant aid to loan aid. \$15 billion of debt had not been repaid by the Myanmar juntas, resulting in bodies such as the World Bank and IMF refusing new lines of credit since the country's transition. Japan took the lead and in March 2011 convened major donors to address the issue. Japan generously agreed to (1) forgo its own owed amounts in a huge debt relief program and (2) provide additional loan capital—the first in 25 years—so that Myanmar could deal with its other debt obligations. This materialised in 2013 (largely loan aid, see below, Figure 5) in which total ODA to Myanmar jumped from \$93 million in 2012 to \$5.3 billion in 2013. To put that in

Figure 5 Japan's Yearly Loan Aid to Myanmar (1970–2015).

Uneven years are due to no loans being approved for that year. All data available are presented here. Data source: JICA loan database.

context, that single year's ODA commitment is just a little under the \$5.7 billion of combined ODA provided to all of Myanmar's neighbours—Thailand, Cambodia and Laos—for the *entire* period of 1995–2014.

This matters because there is a wide array of economic benefits for Japan in Myanmar that will affect Thailand and likely draw some forms of investment away from the kingdom. When considered in isolation, Myanmar's famously bountiful natural resources, but even more important for Japan, are the temptation of Myanmar's large and relatively well-educated population. Not only are there potentially productive factory workers but also a large consumption market in ways that neighbouring Cambodia and Laos are not. When considered regionally, Myanmar allows for greater production and trade integration through Japan's two large projects—Thilawa SEZ just south of Yangon and the enormous Dawei SEZ further south and located parallel west from Bangkok (a Thai project but with large Japanese involvement). These SEZs also slot neatly into the Thailand Plus One framework, providing Mekong wide production chain management. Furthermore, the potential for inter-regional connectivity represented conceptually by the Greater Mekong Subregion

(GMS) East-West Corridor (Japan's top priority out of the many GMS corridors) means that Myanmar represents the final piece of the Mekong puzzle that would (1) allow not only inter-regional connectivity between Southeast and South Asia but also (2) potentially allow for the bypassing of the Malacca Strait.

4.2.2. From China to Thailand: the Senkaku Dispute and Thailand Plus One

From around 2011 to 2012, Japanese investment into China has been slowing down or declining, while for the same period, investment in ASEAN has been increasing. In 2011, Japanese investment into China stood at \$12.6 billion but in 2015 had shrunk to \$8.9 billion; meanwhile, investment into ASEAN in 2011 was \$15.7 billion and had risen to \$20.2 billion by 2015 (JETRO 2016). From 2012 to 2015, ASEAN had accumulated \$20 billion of Japan's foreign investment, while China had accumulated two-thirds less at \$8.9 billion (*ibid*, JETRO). There are clearly various economic factors that explain this, for example, natural economic changes in China resulting from the countries' growth such as rising wages, increasing domestic capacity, etc. However, there are also geopolitical issues

surrounding China's more assertive behaviour towards the Senkaku Islands from around 2012.

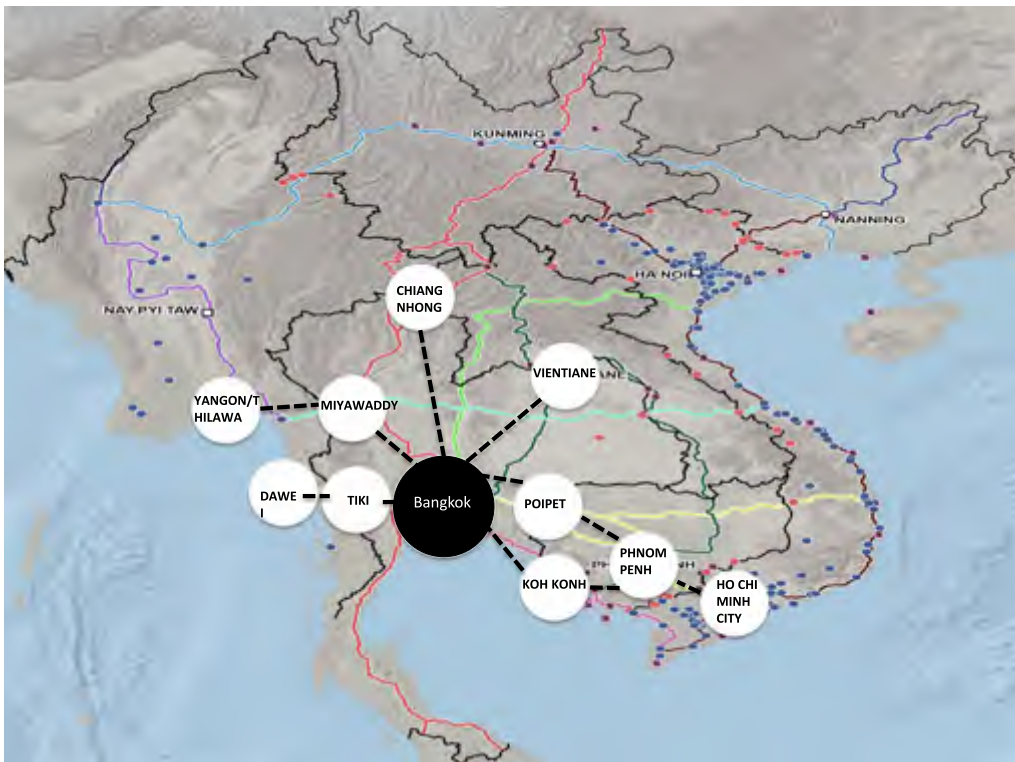
This assertive behaviour represents not only a regional issue for many East Asian states but is also a direct bilateral confrontation with Japan. It is little surprise that Japanese companies in China began to vote with their feet. To illustrate, we can return to Figure 1. Year 2012 onwards saw a sharp spike in FDI as the Senkaku Island dispute heated up. This is a potential boon for Thailand due to the long-time envisioned—by Japanese planners—Thailand Plus One (*aka* T+1) hub and spoke production chain (refer in the succeeding texts, Figure 6).

Thailand Plus One involves the reallocation and reorientation of supply chains currently located in Bangkok and its environs, horizontally, Mekong-wide. This means tier 1, tier 2 and tier 3 suppliers moving reconfiguration. At present, all three strata of production are in

Thailand and joined together through what Japanese business nicknames 'the milk round' (with tier 1s in or near Bangkok, tier 2s and tier 3s outside Bangkok and likely to be in or near border towns). With Thailand Plus One, tier 3s and perhaps some tier 2s will be moved into neighbouring Mekong countries. The extension of the milk round across multiple Mekong borders means that registered investment in Thailand proper may be 'lost' as the data is registered in the surrounding countries, despite it being Bangkok oriented and Bangkok linked.

Thailand Plus One is a Mekong-wide hub and spoke system that strengthens Thailand. The kingdom represents the lead goose of the proverbial flying geese 'V' for Japan and is why the previous point of Thailand's 'middle-income trap' is such a concern to Japan's economic planners. Japan needs Thailand to move up the value chain and create demand

Figure 6 Thailand Plus One.



Source: author

for higher tier goods and services, in order for a division of labour and capital within the framework of T+1 that can then stratify the Mekong economies. If Thailand does not 'level up' vis-a-vis its neighbours, there may develop two poles in the Mekong region with Thailand competing with Vietnam. Political geography matters for Thailand here, given its centrally located position, as Nobuhiro Aizawa notes about the Mekong region: "the stake is who gets to get the hub status in the economic integration period" (quoted in Parameswaran 2015).

This helps explain the falling FDI, as surrounding Mekong neighbours of Thailand's become the repositories of a strengthening sub-regional production hub centred on Bangkok. Understanding this regional/global shift, the deep globalist state in Thailand is trying to reorient policy with the new economic headwinds.

4.3. Political and Economic Policy Responses: the Redirection of the Thailand

4.3.1. The Military's First Solution: Political Reform

Recent constitutional and institutional changes by the post-2014 military junta—the National Council for Peace and Order (NCPO)—have been rapidly accepted in Thailand and equally rapidly criticised. The NCPO began quickly attempting to draft a new constitution through the Constitution Drafting Committee (CDC), perhaps Thailand's 20th in its modern history. Confusingly, it was then rejected by the National Reform Council (NRC), a body established by the military itself, leaving the CDC and NRC defunct and the military still in charge. The decision as to whether to agree a new constitution had to be performed by the 'five rivers' (five new institutional bodies): (1) CDC; (2) National Reform Steering Assembly; (3) The Cabinet; (4) the National Legislative Assembly; and (5) the NCPO. The process of creating a new constitution involved the NCPO requesting that the NRC forms a Constituent Committee, which then drafted and recommended a constitution for approval by the five rivers, followed by a

referendum on 7 August 2016 whereby public debate about the constitution was banned and most had not even seen a copy of its 279 articles.

The completed document was pre-loaded with 10 requirements from the military in section 35,² with the goal of these reforms being the somewhat vaguely defined 'National Strategy'. This represents a 20-year project for Thailand's wholesale reorientation and restructuring. What this goal requires is a new executive state institution, what in a previous draft was called a National Strategic Reform and Reconciliation Committee and what in newer drafts has become the National Strategy Committee. The Nation reports from sources close to the development of this National Strategy Committee body as it being able to 'X-ray' all future government policies (Wongruang & Chanwanpen 2016). Call it what you will—developmentalist dictatorship, military capitalism, good old-fashioned Marxian oriental despotism or what Thak Chaloentiarana calls 'despotic paternalism' (Chaloentiarana 2007); Thailand's military and Deep State is attempting much more than constitutional reform.

The Thai military seizing power is, in and of itself, not unique. Coup d'états are a feature of Thailand's post-WWII political settlement, and occur on average at 4- to 5-year intervals. This time however, and the death of King Bhumibol must be remembered here, the Thai junta may be doing something different. The greater sweeping and long-term changes being attempted must be viewed in terms of the afore-outlined regional/global shifts. Thailand's deep state is worried about missing extra-Thailand-based changes and, not wishing to miss the boat, the Thai military is attempting to reorient the country's politico-economic direction without the nuisance business of requiring democratic consent. However, by stepping out of the shadows so obviously, the Thai military has broken the first rule of the deep state—deep

2. Lawdrafterblogspot [online] Translation of the Constitution of the Kingdom of Thailand (Interim), B.E. 2557 (2014) (unofficial translation). Available at <http://tinyurl.com/hszwc2q> (accessed 26 November 2016)

means quiet and invisible. Investors are likely flustered by these recent differences in the Thai military's behaviour.

4.3.2. *The Military's Second Solution: Economic Reform*

The military junta's directly economic solution is a multi-pronged, institutional and policy orientation shift, involving various branches of the Thai state. It is vaguely referred to as 'Thailand 4.0' by the government, the 'next growth phase' by the Ministry of Finance and the '20-Year Strategy' aka the '6-6-4 plan' by the Ministry of Commerce. These various descriptors roughly summarise into the following fourfold policy package, as outlined at the Technology Promotion Association August 2016 conference presented at by both Thai and Japanese ministerial, business and academic speakers:

1. Wider, extra-Bangkok and intra-Mekong region, connectivity centring on rail development
2. The development of 10 new 'S-curve industries': five short-medium term and five long term
 - a. Five short-medium term S-curve industries: next-generation automotive, smart electronics, health and medical tourism, agriculture and bio-tech, food for the future
 - b. Five long-term S-curve industries: robotics, aviation and logistics, biofuels and biochemicals, digital, medical hub
3. Regionalise advanced manufacturing away from Bangkok, involving two notions:
 - a. Clusters and super-clusters of value chain industries—with central hubs being in the northern, central and southern regions of Thailand—whereby small and medium size enterprises invest more rather than just the large corporate investors
 - b. Develop regional technical institutes (a Japanese suggestion, called the *kosetsushi* system), that would decentralise innovation bottlenecks that

result from a focus on Bangkok universities and research institutes only

4. Focus on the overall policy of 'New Visions for the Future', which is fourfold:
 - a. Move from production to a service economy
 - b. Shift from supply-driven to demand-driven growth
 - c. Move from original equipment manufacture to innovation-driven enterprises
 - d. Shift the purpose of government from being 'trade regulator' to 'trade facilitator'

In terms of the current investment strategy specifically, the military's globalist and new politico-economic investment vision features six goals designed to be exactly what global economic powers like Japan would like to see now develop in Thailand, including high-tech sectors in green energy or the environment, and greater connectivity both within ASEAN and globally (Board of Investment Thailand 2014).

To achieve these, Thailand's Investment Promotion Act has been 'reinterpreted' (tellingly, not amended, as it has been twice before),³ into the Seven-Year Investment Promotion Strategy (2015–2021). Rather than offer broad-based incentives, the new approach is an attempt to level up the economy into specifically selected sectors that are high-tech, high value-added, and high creativity. These have been divided and then sub-divided into two groupings of A (A1–A4) and B (B1–B2), with A1 representing the top of the pyramid and B2 being the bottom. From January 1st 2015, out of the seven categories of incentives that Thailand's BoI organises business activity into, around 80 activities within these categories will end—making up close to half of all in incentivised activities (Jayasinghe 2014).

Out of the 10 A1* promoted activities (8 are in services and 2 are in electronics), companies

3. The original law (B.E. 2520) in 1977 was amended by Investment Promotion Act No. 2 (B.E. 2534) (1991) and amended again by Investment Promotion Act No. 3 (B.E. 2544) (2001). Refer to Board of Investment (Thailand) [online] *Investment Promotion Act B.E. 2520*. Available at <http://tinyurl.com/jd5nh7j> (accessed 18.11.2016)

involved in the following activities will receive maximum BoI incentives: (1) biotechnology; (2) energy service companies; (3) research and development; (4) scientific labs; (5) calibration services; (6) engineering design; (7) technological estates and zones; (8) vocational training centres; (9) electronic design; and (10) manufacture of embedded software (*ibid*, Jayasinghe).⁴ These changes are being combined with a populist goal for Thailand to be 'creative', and the junta are vigorously if awkwardly promoting it domestically and internationally. Various vacuous public relations-esque phrases have been invented to promote the new agenda—'Thainess' in 2015⁵ and 'Creative Thailand 2016' in 2016.⁶

The junta state of Thailand does not seem worried by the recent drop in foreign investment, and is committed to the previous solution and the problem that it is aimed at resolving. Nor is Thailand's BoI worried by these figures, the analysis of the problem, nor the solutions. In conversation with senior officials at the BoI, they stated:⁷

Thailand has become highly developed over 20 years. Now we want to attract advanced technology industries. We give incentives for the ones who can invest with businesses who have things we need. But it is time to change our policy. If we give incentives then the country is losing something it could get. So we are now thinking we should be more selective about what we give away.

4. It should be remembered that companies do not necessarily need these incentive-based BoI relations and that anyone is free to invest and start production in Thailand. However, for these kinds of sectors that are high investment and potentially high risk, neglecting BoI promotion would be a high-wire strategy.

5. Royal Thai Government [online] Opening Keynote Speech By General Prayuth Chan-ocha, Prime Minister of Thailand At the 47th Wharton Global Forum. *Asia in a Borderless World*, 13 March 2015. Shangri-la Hotel, Bangkok. Available at <http://tinyurl.com/jm4a4vd> (accessed 18 November 2016)

6. Tourism Authority of Thailand [online] Media release: 'Creative Thailand 2016' ready to be launched, 13 October 2016. Available at <http://tinyurl.com/hwgo8mg> (accessed 18 November 2016)

7. Interview with senior officials at Thailand's Board of Investment, Bangkok, August 2016.

5. Conclusion

Thailand is in a very precarious economic position. Major domestic structures need reforming so as better capture regional/global shifts in priorities. The catch twenty-two is that it is Japan that is heavily driving them, but it is also Japan that is necessary to be able to catch them. If an alignment cannot be made between Thailand's domestic situation and regional/global circumstances, the link between them—FDI—may continue to fall. It has not only been demonstrated here that conceptualising FDI into Thailand in this way has the potential to generate explanations for the changing trends in foreign investment from Japan into the kingdom but also that key features of the Thai state and its role in the economy of Thailand have become more nascent. That is, not only do existing academic notions of a deep state apply cogently to Thailand, these notions must also be complemented with a globalist explanation of state behaviour. This aids in understanding not only what the Thai state is but also to understand at what times it is more or less likely to spur to action (or inaction). Japan's relationship with Thailand is not particularly attuned to liberal whims and democratic reason. Japan itself has its own tenuous post-WWII relationship with liberal democracy. These similarities are indeed the grease upon the rails of Japan's highly prized and close economic relationship with Thailand, and both countries share common historical modern developmental features that are well understood by Thai and Japanese power brokers in Thailand today. Nevertheless, changes in Thailand in recent years have been more dramatic than usual and, coupled with wider regional changes, mean the relationship will be tested. It is not predicted that the significance of the Japan–Thailand relationship will diminish anytime soon. However, interests from Japan in Myanmar and the other Mekong countries may rise to create a multi-polar option box for Japan's economic actors. If that happens, then Thailand's currently powerful but possibly future diminished position in the Mekong and within ASEAN may need to become a question for further study.

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