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## **China's Economic Influence in Thailand: Perception or Reality?**

*By John Lee*

### EXECUTIVE SUMMARY

- There is evidence that China engages in 'economic statecraft' in using economic tools such as trade and investment to influence strategic and political decisions of decision-makers in strategic 'swing states' in Southeast Asia.
  - When it comes to Thailand, Beijing's actual or material capacity to use these economic tools to significantly alter decision-making in Bangkok is limited and frequently overstated. Although the economic relationship with China will grow in importance, the relatively open and diverse nature of the Thai economy offers the country significant trade and investment alternatives.
  - Even so, the perception of Thai reliance on China now and into the foreseeable future differs from reality. In overestimating the importance of the Chinese economy relative to other major economic players in Asia, Bangkok has an overriding fear of displeasing Beijing and damaging its political and relationship with China.
  - Such a mindset could lead to strains in its security relationship with its American treaty ally, and could inhibit Bangkok's capacity to play a more pro-active role in ASEAN and other multilateral institutions, especially when it comes to regional approaches to addressing awkward but important disagreements vis-à-vis China.
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## INTRODUCTION: CHINESE ECONOMIC STATECRAFT

As trade policies towards Japan and the Philippines over the past two years demonstrate, China is not above the use of overt economic *coercion* to achieve political objectives. Less dramatic, but more sustainable and effective—especially when it comes to countries like Thailand with which Beijing has a strong relationship and no outstanding disputes—is the use of economic tools such as trade, investment and aid to *seduce* or *persuade* other capitals to gradually adopt ever more China-friendly policies over time.

The nature and scale of Chinese commercial activity in Thailand and its possible political and strategic motivations is commonly believed to allow Beijing greater leverage and influence over Thailand's future strategic and political development trajectory. However, the capacity of Beijing to use economic and commercial means to *persuade* or *seduce* Thailand is often overstated, even by the Thais themselves. In reality, the relatively open and diverse nature of Thailand's economy offers the country considerable trade and investment alternatives in addition to the significant opportunities presented by China. Although Chinese economic activity in Thailand will continue to grow, the material capacity for Beijing to use economics or commerce to *coerce* Bangkok into making political or strategic decisions that Bangkok would not otherwise make is limited, and will remain so for the foreseeable future.

Indeed, perception can often deviate from reality. In overestimating the current and foreseeable economic importance of China to its economy, resulting in a growing and possibly overriding fear of displeasing Beijing and/or missing out on emerging economic opportunities, Bangkok could well find itself being viewed as an increasingly disappointing ally for Washington and as an absent and progressively irrelevant player within various ASEAN-led institutions. If that occurs, Bangkok's emerging mindset of seeking the benefits of China's economic rise without pro-actively and constructively addressing the strategic risks could lose Bangkok old and/or contemporary friends, and achieve the opposite of what its risk-minimisation strategy is designed to do. The following sections will focus on Chinese trade and investment in Thailand. Overseas Development Assistance (ODA)—more commonly referred to as aid—will not be considered simply because China is not a major aid donor to Thailand.

## SINO-THAI TRADE

It is widely recognised that Beijing readily uses trade in general, and Free Trade Agreements (FTAs) in particular, to achieve political and diplomatic goals in addition to economic gains. While the most obvious example is Chinese economic policy to-

wards Taiwan which is designed to win the hearts and minds of the latter's citizens,<sup>1</sup> the political motivations behind Chinese trade policy in the region are also clear. Indeed, Chinese proposals for FTAs and other trade agreements coincided with its era of 'smile diplomacy' and 'win-win' rhetoric from the late 1990s onwards. As many commentators have noted, China's offer of an FTA with ASEAN must be understood within the context of Chinese and Japanese competition for political leadership in East Asia, alongside the desire to assure neighbours that its ascension to the WTO would not cause them economic hardship.<sup>2</sup>

### *Volume of Sino-Thai Trade*

Trade volumes between China and Thailand grew rapidly after China joined the WTO in 2001, showing an average growth rate of 26.7% per annum from 2000-2011 (even allowing for a decline in 2009 due to the global financial crisis). Thai exports to China grew from around US\$4 billion in 2000, to US\$18 billion in 2006, to almost US\$27 billion in 2012.<sup>3</sup> Chinese imports into Thailand grew from around US\$2 billion in 2000, to over US\$21 billion in 2006, to almost \$37 billion in 2012.<sup>4</sup>

It is also important to note that while trade with China is growing rapidly, Japan remains Thailand's top trading partner with bilateral trade reaching US\$73.06 billion in 2012, compared to US\$63.86 billion with China and US\$35.69 billion with the US.<sup>5</sup> Even so, the rapidity of growth in bilateral trade naturally begs the question as to the extent to which China is able to exercise any significant political or strategic leverage over Thailand. This is a complex question that goes beyond looking at raw trade numbers. Of critical importance is the structure and nature of trade between the two countries.

### *Structure of Sino-Thai Trade*

Even though Thai agricultural products to China have enjoyed strong growth over the past fifteen years, they are far less important to Thailand's overall terms of trade than in the past. In 1995, agricultural products constituted about 40% of all Thai

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1 See John Lee, "Why Taiwan will fail," *Wall Street Journal*, March 31, 2011 <<http://online.wsj.com/article/SB10001424052748703806304576234143900899156.html>> accessed June 18, 2013.

2 See John Ravenhill, "The 'new East Asian regionalism': A political domino effect," *Review of International Political Economy* 17:2, 2010, pp. 178-208; K. G. Kai, "Chinese Changing Occasional on the Development of an East Asian Free Trade Area," *Review of International Affairs* 3, 2004, pp. 584-99; D. J. Zha, "The Politics of China-ASEAN Economic Relations: Assessing the Move towards a Free Trade Area," *Asian Occasional* 26, 2002, pp. 53-82.

3 *China Customs Statistics*; *Thai Ministry of Commerce Statistics*.

4 As above.

5 *Thai Ministry of Commerce Statistics*.

exports to China, but dropped to around 21% in 2012. Instead, the category of 'manufacture products' is now dominant, constituting over 68% of all Thai exports to China. Machinery equipment and parts, electronic equipment and parts, chemicals and polymers make up around two-thirds of this category.

Curiously, a large share of Chinese imports into Thailand falls into the same categories. Over US\$16 billion worth of Chinese imports fall into the same or similar category of manufacture products, constituting around 45% of Chinese imports into Thailand in 2012. In 2007, the same categories constituted around 42% of total Chinese imports in Thailand. The categories helping to boost China's terms of trade against Thailand are consumer goods such as whitegoods and household electrical goods including computers.

The significant overlapping of import and export manufacture categories is important because it indicates robust intra-industry (or processing) trade between firms from the two countries and/or competitive manufacturing structures. Indeed, this structure replicates trade (and competition) between China and many other Southeast Asian economies such as the Philippines, Malaysia and Vietnam.

Let's first consider the so-called processing trade: firms obtaining raw materials or parts from other countries, adding value to the product, and then exporting the semi-completed or completed product to another country. To explain this phenomenon, one needs to understand the role ASEAN+3 economies continue to play in export-manufacturing, with a large proportion of products destined for still dominant consumption markets in the US and EU. This is clear from figures which show that trade between China and Thailand suddenly contracted 7.24% with the onset of the global financial crisis that plunged the US and EU into recession in 2009, having grown at high double digit rates per annum for the previous decade. This trend was reflected in trade between China and ASEAN where trade contracted by 7.8% in that year.<sup>6</sup>

It is clear that export-manufacturers view the ASEAN+3 region as a vast production chain with little discrimination as to where they locate production processes beyond commercial motivations of (capital and labour) cost and reliability. Regarding the ASEAN+3 economies as a whole, the evidence is that over two-thirds of the value of exports from the region (once the parts and components are taken into account) eventually end up in the EU and US markets, rising from about half in 2006.<sup>7</sup>

This is important because such a trade structure gives Beijing far less capacity to use trade for political or strategic gain than is often assumed. If Beijing were to prevent Thai firms from exporting components to China for assembly, this would merely harm its own export-manufacturing sector (which employs around 10% of

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<sup>6</sup> Based on Thai Ministry of Commerce, Thai Customs, and China Customs figures.

<sup>7</sup> John Ravenhill, "The 'new East Asian regionalism': A political domino effect," at 182; Asian Development Bank, *Emerging Asian Regionalism: A Partnership for Shared Prosperity* (Manilla: ADB 2009).

the workforce or approximately 75 million people<sup>8</sup>) with deleterious consequences for local export-manufacturing employment, export-orientated FDI, and any resulting technology transfer that might occur. Thai firms would simply relocate part of the production process elsewhere. Indeed, given the complexity of intra-firm trade in the production process, it would be extremely difficult for Beijing to quarantine any fall-out to just Thai manufacturing firms as these firms are likely to be in partnership with other multi-national-corporations (MNCs) in the production process.

Instead of intra-firm or processing trade, Beijing could attempt to target Thai exports of commodities to its markets. This would cause a different set of problems. The southern provinces and regions such as Yunnan and Guangxi which purchase much of the Thai agricultural produce would suffer from any disruption.<sup>9</sup> Likewise, China is the largest consumer of natural rubber in the world, accounting for over one third of global rubber consumption in 2011. Over 80% of China's rubber is imported from Thailand, Malaysia and Indonesia which together with India and Vietnam account for around 85% of global production.<sup>10</sup> Once again, China could ill-afford any disruption in this commodity.

Moreover, although manufacturing MNCs are the great beneficiaries of regional production networks as this allows them to lower costs and raise efficiencies, wholly Thai-based manufacturers (mainly small and medium-size enterprises or SMEs) are the potential losers; while the loss of local manufacturing jobs is a concern for all Asian governments with still young populations.<sup>11</sup> In this context, there is strong evidence that Sino-Thai trade is becoming more competitive rather than complementary in the critical export-orientated sector.

This is obvious in analyses of the electrical and electronic (E&E) sectors which dominate export-orientated products from ASEAN and China.<sup>12</sup>

From 1992-2005, 'high technology' products now comprise over 30% of E&E exports, with a growth rate of 32% per annum over the period. The second fastest growing category is 'medium high technology' products, having grown at 22% over the same period. Both these sub-categories outpace 'medium-low technology' and

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8 "Foreign Direct Investment – The China Story," World Bank news, July 16, 2010 <<http://www.worldbank.org/en/news/feature/2010/07/16/foreign-direct-investment-china-story>> accessed July 3, 2013.

9 It takes more than 2 weeks for land-locked provinces like Yunnan to import agricultural products from Southeast Asia by sea, but only 2-3 days via the Kunming-Bangkok Highway. See "R3 Road helps increase Thai-fruit export to China," NNT Time, August 6, 2012 <<http://www.xsbnnews.com/html/2012-08/984.html>> accessed 21 June 2013.

10 *Global and Chinese Natural Rubber Industry Report, 2012* (San Francisco: Business Wire, 2012.)

11 On competition in manufacturing jobs between China and Southeast Asian economies such as Thailand, see *Business Trends 2013: Adapt, Evolve, Transform* (Westlake: Deloitte University Press 2013) <[http://cdn.dupress.com/wp-content/uploads/2013/03/2013-SO-Business-Trends\\_vFINAL.pdf](http://cdn.dupress.com/wp-content/uploads/2013/03/2013-SO-Business-Trends_vFINAL.pdf)> accessed July 3, 2013; Yukon, "China's economic rise: opportunity or threat for East Asia?", *East Asia Forum*, May 20, 2012 <<http://www.eastasiaforum.org/2012/05/20/chinas-economic-rise-opportunity-or-threat-for-east-asia/>> accessed July 3, 2013.

12 Mohamed Aslam, "The Impact of ASEAN-China Free Trade Area Agreement on ASEAN's Manufacturing Industry," *International Journal of China Studies* 3:1, 2012, pp. 43-78. Note that intra-firm trade in E&E took off in the region from 1996 onwards following the signing of the WTO's Information technology Agreement in 1996 by all major regional economies. Only Brunei, Myanmar, Cambodia and Laos remain non-signatories.

'low technology' sub-categories, giving a strong indication that Chinese exports are moving up the value chain of production.<sup>13</sup>

Even though it is difficult to know the extent to which Chinese based firms are genuinely adding value to products (as there is also evidence that China is importing more 'high tech' and 'medium high tech' parts and components for assembly before shipping the goods out again,<sup>14</sup>) the point is that such firms are becoming direct competitors of Thai-based firms that have traditionally done well in the 'high technology' and 'medium-high technology' sub-categories. These include parts and components from end-consumer products such as mobile phones, TVs, computers and computer accessories. A similar competitive situation exists between Chinese and Thai manufacturers in sectors that have traditionally been strong for Southeast Asian countries such as lower-end whitegoods, apparel, footwear, leather, metal products and furniture. Since competition for export-orientated job creation, markets and capital is intensifying rather than subsiding between Chinese and Thai manufacturers, the capacity of Beijing to offer or else retract largesse through levers from the trading relationship appears overstated.

## CHINESE INVESTMENT IN THAILAND

In July 2009, then Premier Wen Jiabao urged the audience of Chinese diplomats to "hasten the implementation of our 'going out' strategy and combine the utilisation of foreign exchange reserves with the 'going out' of our enterprises."<sup>15</sup> The fact that Chinese state-owned-enterprises (SOEs)—receiving coordination and support from state agencies such as the National Development and Reform Commission, Ministries of Finance and Commerce, and the State Administration of Foreign Exchange—accounted for around 90% of all cumulative overseas or foreign direct investments (FDI)<sup>16</sup> registered at the end of 2011<sup>17</sup> further increases suspicion that political and

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13 Ari Van Assche, Chang Hong and Veerle Sloodmaekers, "China's International Competitiveness: Reassessing the Evidence," LICOS Discussion Papers 20508, April 25, 2008, pg. 13 <<http://www.econ.kuleuven.be/licos/publications/dp/dp205.pdf>> accessed July 2, 2013.

14 The same authors above look at China's ordinary exports (exports solely produced in China) and find that the vast majority remain on the 'low-tech' and 'medium low-tech' levels, suggesting that Chinese manufacturing still add far less value to processed E&E products than is generally assumed.

15 "China to deploy foreign reserves," *Financial Times*, July 21, 2009. <<http://www.ft.com/intl/cms/s/0/b576ec86-761e-11de-9e59-00144feabdc0.html>> accessed June 22, 2013.

16 The IMF definition of FDI is used and is defined as a foreign entity's ownership of a domestic company's equity of 10% or above.

17 See Jack Perkowski, "Get Ready For More Chinese Overseas Investment," *Forbes*, March 10, 2012 <<http://www.forbes.com/sites/jackperkowski/2012/10/03/get-ready-for-more-china-overseas-investment/>> accessed June 21, 2013.

strategic motivations are behind some Chinese investment decisions in foreign markets.<sup>18</sup>

In assessing motivation and capability, the key is to look at the nature and scale of Chinese FDI in Thailand. Over the past few years, Thailand has become a less significant destination for Chinese FDI which reached its heyday in 2003-2004. According to Bank of Thailand (BoT) figures, outstanding (or still active) Chinese FDI into Thailand in 2011 was US\$1.23 billion. This compares with US\$46.86 billion from Japan, US\$24.11 billion from Singapore, US\$13.40 billion from the US, US\$9.30 billion from the Netherlands, US\$6.12 billion from the UK, US\$3.24 from France, US\$3.23 billion from Germany and US\$3.21 billion from Malaysia. Counting ASEAN and the EU as a whole entity, outstanding FDI in Thailand is US\$27.68 billion and US\$25.92 billion respectively (see Table 1 for a summary).

To put the relative insignificance of Chinese FDI in another way, outstanding investment from China constituted about 0.81% of all FDI into the country. Even though Chinese FDI figures tend to be slightly understated for a number of accounting and transparency reasons in addition to complaints about the accuracy of BoT figures, we can be reasonably sure that Chinese FDI as a proportion of all outstanding FDI into Thailand is not far above 1% of the total.<sup>19</sup>

**Table 1: Outstanding (or active) FDI in Thailand in US\$ billions.**

Country/Grouping	2011	2009	2006
ASEAN	27.68	18.80	13.21
EU	25.92	20.64	14.23
Japan	46.86	36.83	27.65
Singapore	24.11	16.08	11.75
US	13.40	10.48	9.13
Netherlands	9.30	7.40	4.82

<sup>18</sup> For a discussion of this issue, see Charles W. Freeman III and Wen Jin Yuan, "China's Investment in the United States – National Initiatives, Corporate Goals, and Public Opinion," CSIS Freeman Briefing Report, November 2011 <[http://csis.org/files/publication/111107\\_Freeman\\_Briefing\\_China\\_Investment\\_in\\_US.pdf](http://csis.org/files/publication/111107_Freeman_Briefing_China_Investment_in_US.pdf)> accessed June 23, 2013.

<sup>19</sup> Note that some studies have higher levels of Chinese FDI into Thailand. For example, see Shen Hongfang, "The Economic Relations between China and Thailand under the Context of CAFTA: An Assessment," *Chinese Studies* 2:1, 2013, pp. 52-60. BoT figures have been used because these figures only include known capital that was actually brought into Thailand, not figures based on Memoranda of Understanding or regulatory approvals where actual capital utilisation in Thailand is not known.

France	3.23	1.87	1.73
Germany	3.23	2.69	2.48
Malaysia	3.21	2.40	1.27
China	1.23	0.55	0.37
<b>Total</b>	<b>150.52</b>	<b>110.07</b>	<b>80.54</b>

Source: Bank of Thailand (Last updated, October 1, 2012.)

The nature of Chinese FDI into Thailand also suggests that an increasing majority of it is destined for the intra-firm or processing trade sectors. From 2000-2010, 57% of FDI into Thailand went into the manufacturing industry, with finance the next largest at 11%. In 2012, the proportion of FDI that went to the Thai manufacturing was around 61.5%, rising from 55% in 2011.<sup>20</sup>

Within the Thai manufacturing sector, the four key sub-sectors attracting FDI were E&E, chemicals, rubber and plastic products and motor vehicles parts and components (in descending order). Chinese FDI activity in Thailand does not deviate significantly from these trends. This suggests that Chinese firms (along with most East Asian and ASEAN counterparts) mainly view Thailand as just one option out of several in Southeast Asia (along with the Philippines, Indonesia, Vietnam and Cambodia) with respect to the regional export-orientated manufacturing supply chain.<sup>21</sup> There is little evidence that strategic or political motivations are behind the amount of Chinese FDI into Thailand.

Unlike Cambodia, Thai sectors open to FDI are not sectors deemed 'strategic' or 'important' by the Chinese Communist Party as well as in their 12<sup>th</sup> Five Year Plan (2011-2015).<sup>22</sup> When 'strategic' and 'important' sectors for the CCP are not in play—as is the case of SOEs in Thailand—central officials tend to allow provincial authorities to take the lead. The point is that it is rare for Beijing to exercise or impose significant oversight over what Chinese central and provincial SOEs do in Thailand.

<sup>20</sup> Bank of Thailand figures.

<sup>21</sup> Of these Southeast Asian countries, Thailand has the highest average monthly wages in the manufacturing sector, although Thailand's advantage is strengthened by its relatively well-trained and reliable manufacturing workforce, solid institutions and developed capital markets. See Yifan Hu, "ASEAN: A Hot Destination for Outbound Investment," *PIIE China Economic Watch*, June 5, 2013 <<http://www.piie.com/blogs/china/?p=2677>> accessed June 23, 2013.

<sup>22</sup> 'Strategic' sectors encompass new forms of energy, next-generation information-technology (e.g., cloud computing), bio-technology, advanced equipment manufacturing, aerospace, new materials and advanced vehicles. Traditionally 'important' sectors include finance, high-end services sectors, fossil fuels, mining and minerals, traditionally IT, and aviation and heavy industries.



## CONCLUSION

*Reality* based on objective numbers is one thing. *Perception* based on the inevitability of China's rise to a position of economic and possibly strategic dominance in Asia is another. Although China is nowhere near as dominant an economic partner (and strategic player in Asia) as is commonly made out, the persistent underlying assumption in conversations with Thai elites encompassing government and bureaucratic officials, business leaders, think-tankers and academics is that China, and not the US or Japan, will be the more important economic player in the future. This perception gives China the capacity to both *intimidate* and *seduce* Thai decision-makers.

In economic matters, the fear and lure of China is apparent in Thailand's impending decision on its four high-speed train lines from Bangkok to Chiang Mai, Nong Khai, Rayong and Padang on the Malaysia border as part of the government's US\$65 billion plan to improve the country's transport infrastructure up to 2019. At least five countries—China, France, Japan, South Korea and Spain—have expressed an interest in bidding for the contracts. Conversations with Thai officials and academics confirm that the future economic and political consequences of *not* awarding the contract to Chinese bidders are being closely considered. No such concern was detected if bidders from the other countries were to fail.

Indeed, the same observation can be made about Thailand's ambivalence towards participating in negotiations for the Trans-Pacific Partnership (TPP) which many in Beijing view as an attempt by America to economically 'contain' China.<sup>23</sup> After expressing interest in joining the TPP in the lead-up to American President Barack Obama's visit in November 2012,<sup>24</sup> Bangkok appeared to backtrack on its position several months later when pressed by Chinese officials to state Thailand's position<sup>25</sup> – ambiguity which is likely to increase U.S. frustration.<sup>26</sup>

To be sure, Thailand's drift towards China is immensely aided by the lack in recent history of enmity between the two countries, the absence of major territorial disputes, and the powerful presence and role of ethnic-Chinese Thai political, business and social elites who largely see China's rise as an opportunity and much less a threat. The approximately 20% of Thais who have an ethnic-Chinese background have been well-integrated into all levels of Thai society for hundreds of years. Some 17 of the 28 Thai prime ministers since 1884 are of partial or full ethnic-Chinese background.

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23 For example, see "US using rules to contain China," *People's Daily*, February 2, 2012 <[http://www.china.org.cn/opinion/2012-02/02/content\\_24530216.htm](http://www.china.org.cn/opinion/2012-02/02/content_24530216.htm)> accessed June 24, 2013.

24 "China to join TPP talks," *Bangkok Post*, November 13, 2012 <<http://www.bangkokpost.com/news/local/320886/thailand-to-join-tpp-talks>> accessed June 24, 2013.

25 "Thailand denies being involved in US-led TPP talk," *Xinhua*, April 26, 2013 <[http://www.globaltimes.cn/content/777785.shtml#\\_UctU7\\_lmhcY](http://www.globaltimes.cn/content/777785.shtml#_UctU7_lmhcY)> accessed June 24, 2013.

26 Petchanet Pratuangkrai, "US wants Thai decision," *The Nation*, April 13, 2013 <<http://www.nationmultimedia.com/business/US-wants-Thai-decision-30179907.html>> accessed July 3, 2013.

The lure of China is confirmed by the fact that there are more Confucius Institutes and classrooms in Thailand than anywhere else in Asia. There are more Thais studying in Chinese universities than from any other ASEAN country, with only the U.S., Japan and South Korea sending more students than Thailand to China. There are more Chinese students in Thai universities than students from any other country.<sup>27</sup> Despite its greater economic importance, Japan and even the U.S. do not generate the same level of appeal and excitement for many Thais.

Thailand's historical and contemporary record of deft diplomacy vis-à-vis great powers is admirable and impressive. But the country may be positioning itself too early for a China-dominated Asia—and taking an unbalanced view of China's importance to its future—when the material evidence points to a far more diverse and complex strategic and economic reality. Doing so could jeopardise the future of its treaty alliance with the U.S., strain relations with still dominant economic partners such as Japan, and inhibit Thailand's capacity to play a more constructive and pro-active role within ASEAN vis-à-vis the growing strategic difficulties associated with China's rise – for little additional economic or strategic gain.

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27 Zhao Xin-Cheng, "Sino-Thai Educational Exchanges and Cooperation in the case of Confucius Institutes," Paper presented to first Thai-Chinese Strategic Research Seminar, Bangkok, August 24-26, 2012 <[http://www.nrct.go.th/th/Portals/0/data/%E0%B8%A0%E0%B8%95/2555/10/1stThai-Chinese\\_doc/Chinese-Presenters/ZHAOXI~1.PDF](http://www.nrct.go.th/th/Portals/0/data/%E0%B8%A0%E0%B8%95/2555/10/1stThai-Chinese_doc/Chinese-Presenters/ZHAOXI~1.PDF)> accessed June 23, 2013.

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