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Singapore | 4 March 2020

Thailand’s Eastern Economic Corridor: A Bold Strategic Move

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EXECUTIVE SUMMARY

- The Eastern Economic Corridor special development zone, or EEC, aims to turn Thailand’s major provinces to the immediate east of Bangkok into a hub of high-tech industries, innovation and logistics as well as a regional gateway for trade and investment.
- The EEC seeks to build on the success of, and to draw on the lessons learnt from, the Eastern Seaboard project, launched more than 30 years ago, which fuelled Thailand’s great leap forward in industrialization.
- The EEC lies at the heart of the Thailand 4.0 development strategy, aimed at restructuring and revitalizing the Thai economy. The EEC and Thailand 4.0 are key components of the 20-year National Strategy initiated by the government that came into power following the military intervention in May 2014.
- The EEC has the potential to drive economic integration across the Greater Mekong Subregion.
- The EEC has made progress in getting major infrastructure projects off the ground. There are challenges to address, particularly developing the needed human resources and uplifting the grassroots economy. Further, the changing dynamics of Thai politics mean that both the economics and politics of the ECC will have to be managed skillfully to ensure that the project enjoys a strong national consensus in its support.

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INTRODUCTION

The Thai Government is placing high hopes on its flagship project – the Eastern Economic Corridor special development zone, or EEC – as a game-changing engine of growth for the country’s economy. The ambition is to transform three major provinces – Chachoengsao, Chonburi and Rayong – situated to the immediate east of Bangkok and covering over 13,000 square kilometers, into a hub for high-tech industries and logistics as well as a regional gateway for trade and investment. The government hopes that the EEC will build upon the success of the Eastern Seaboard project, launched more than 30 years ago, which propelled Thailand’s great leap towards industrialization.

The EEC is at the heart of the “Thailand 4.0” strategy to restructure and revitalize the country’s economy, which has been caught for over a decade in the “middle-income trap”. The former project has made significant strides forward since its inception. However, the ambitions for and the scope of the initiative mean that there are bound to be challenges ahead.

This article offers the author’s perspective on the EEC by addressing the historical context, its conceptualization, its progress to date, and the way forward.¹

THE GOLDEN DECADE

Between the mid-1980s and the mid-1990s, Thailand was regarded as an emerging Asian tiger, following in the footsteps of South Korea, Hong Kong, Taiwan and Singapore. The Thai economy enjoyed rapid growth, averaging an annual rate of between 8 and 9 per cent and even achieving double-digit growth in some years.² It was a time of relative political stability, starting with the 1980-1988 administration of Prime Minister General Prem Tinsulanonda. A non-elected premier and a former Army commander-in-chief, Prem was credited with steering the country forward during an important transitional period in Thailand’s democratization. He demonstrated an ability to rein in the military, keep politicians at bay, and put the running of the economy in the hands of competent technocrats.

It was during this period that the Thai government launched the Eastern Seaboard development project involving the construction of two deep-sea ports on Thailand’s east coast – one at Laem Chabang in Chonburi province and the other at Map Ta Phut in Rayong province. Industrial estates were built around the two ports together with a petrochemical complex utilizing natural gas discovered in the Gulf of Thailand. While Thailand approached the World Bank for financing for the project, that institution felt that the project was too ambitious for the country at that time. Eventually, Japan, through the Japan International Cooperation Agency, came forward to offer technical assistance and overseas development assistance funding. Japan’s decision to support the project coincided with the Plaza Accord in 1985 whereby the value of the Japanese yen rose by 46 percent vis-a-vis the US dollar.³ As a result, Japanese companies were compelled to look for an offshore production platform. Many major Japanese manufacturers of automobiles and electronics chose to relocate their production to Thailand’s Eastern Seaboard. As Japanese investments soared, the Thai economy took off by leaps and bounds.

THE LOST DECADES

The Asian Financial Crisis, triggered by the collapse of financial institutions in Thailand and a run on the baht, devastated the Thai economy and reversed the years of progress. As time went on, the country's economic problems increasingly became structural and not cyclical, defying short-term remedies. Nevertheless, frequent changes of government meant policy making was in fact premised more on short-term effects and on goals that were aimed at winning votes and popularity.

Starting in 2006, Thailand became engulfed in political turmoil, massive street protests and finally a shut-down of Bangkok which led to military intervention on 22 May 2014. This political turbulence caused the Thai economy to stall even more. From 2006 up to the present, the economy grew at an average rate of around 3 per cent – well below Thailand's full potential.⁴

While Thailand's macroeconomic fundamentals remain quite favorable – inflation of about 1 per cent, a current account surplus of more than 3 billion US dollars or about 7.5 per cent of GDP, public debt at 41 per cent of GDP, and foreign reserves of over 200 billion US dollars⁵ – the Thai economy has clearly underperformed because of accumulating structural problems such as a decline in both agricultural and manufacturing productivity, the need to upgrade human resources, regulatory bottlenecks and poor infrastructure. Without a long-term strategy aimed at achieving economic reforms and restructuring, there was little possibility of Thailand finding its way out of the doldrums and putting its economy on a higher growth trajectory.

THAILAND 4.0: REDEFINING THAILAND'S GROWTH STRATEGY

Following the Thai military's intervened and took power in May 2014, the new government began rolling out plans to advance political and economic reforms. Most notable was the drafting of a 20-year National Strategy,⁶ which sets out a lofty vision of achieving security, prosperity and sustainability for the country. The rationale was that strategic goals and clear directions must be laid out for where Thailand should be heading. The strategy was enacted into law so that successive governments would not be able to stray from the path that it charted, without running the risk of legal accountability.

“Thailand 4.0” is intended to give long-term economic policies a sharper and more strategic focus. The major players behind this initiative were Deputy Prime Minister Somkid Jatusripitak and his team of trusted advisors, all of whom were technocrats turned politicians. Thailand 4.0 entails a major restructuring of the economy to lift it out of the middle-income trap and move it towards the status of a more advanced economy – one driven by innovation, technology and creativity.

THE ROLE OF THE EEC IN THAILAND 4.0

Thailand's EEC has been described as an area-based development initiative under the Thailand 4.0 economic model. It has been likened to a policy sandbox where new policies, initiatives and approaches are tried and tested. The three eastern provinces of

Chachoengsao, Chonburi and Rayong were chosen as the site for this initiative because of their proximity to Bangkok and the need to relieve congestion in the capital city. The area is already an important industrial base where the existing infrastructure of the Eastern Seaboard can be upgraded and expanded to attract a new wave of investments in high-tech industries, innovation and logistics. The government also foresees the EEC as a regional gateway for trade, investment and services, given its location at the nexus of major transport and economic corridors cutting across the Greater Mekong Subregion.

The EEC also drew on the lessons learnt from the Eastern Seaboard project. It was recalled that the Eastern Seaboard project was originally to be continued in subsequent phases. But after General Prem decided to step down in 1988, political parties were given a free hand to form governments. Technocrats no longer had the same say in setting the direction of economic policy, and the central role of the National Economic and Social Development Board in vetting all major projects was diminished. As a result, further plans envisaged for the Eastern Seaboard project were shelved.

This time around, it was decided from the very beginning that the EEC would be enshrined in law so that its fate would not be subject to the twists and turns of Thai politics. A policy committee reporting directly to the prime minister has been set up, together with a permanent office headed by a secretary-general and entrusted with authority to execute and monitor the implementation of the EEC. It is significant to note that the relevant legislation gives the Office of the Eastern Economic Corridor considerable discretionary power to coordinate, to oversee and, if necessary, to decide on matters that fall within the purview of the EEC.⁷

Ten targeted “S-Curve” industries⁸ were identified as the foci of the EEC. These industries have been put into two categories. The first includes five existing core industries which are to be upgraded: next-generation automobiles, smart electronics, medical tourism and spas, high-value food products and biotechnology. The second group are the five new S-Curve industries in which Thailand holds strong potential: aviation and logistics, robotics, biofuel and biochemicals, the digital sector, and comprehensive health care. Subsequently, two more S-Curve industries were added to the list, namely, education and defense, bringing the total to 12.⁹ Education was included because of the pressing need for skilled personnel to support the new industries.

A FAST-TRACKED PPP PROCESS FOR INFRASTRUCTURE DEVELOPMENT

The next step was to focus on building modern and efficient infrastructures, as was the case with the successful Eastern Seaboard Project. Priority was given to four large-scale projects. These included the construction of a new international airport at U-Tapao; a high-speed rail linking Don Muang, Suvarnabhumi and U-Tapao airports; and the expansion of the deep-sea ports at Laem Chabang and Map Ta Put. Another major project is the proposed joint venture between Airbus and Thai Airways to construct and operate a state-of-the-art maintenance, repair and overhaul centre at U-Tapao. The total investment in these and other infrastructure projects was to amount to an estimated 1.5 trillion baht or about 45 billion US dollars over a five-year period, from 2020 to 2025.¹⁰

The decision was taken to finance these projects by means of through public-private partnerships (PPP). In contrast to the situation at the time of the Eastern Seaboard project, the country's relatively sound current financial position and the pool of domestic capital available meant that much of the funding could be mobilized domestically rather than internationally. At the same time, however, the government was very much averse to taking on too heavy a financial burden to pay for the EEC itself, because of the need for fiscal discipline. Therefore, a PPP strategy was structured in such a way that much of the financing would fall on the shoulders of the private sector. The view was that the return on investment on most of the projects would be high enough to attract the interest of the sector.

To fast-track these projects, the government had to amend regulations to ensure that the entire process, from the preparation of the projects to the call for tenders, could be expedited to 8 months rather than the usual 40.¹¹ This was possible because the 2014-2019 military-installed government had the power to push through amendments that would have taken years to put into effect under normal procedures. Still, there were unanticipated delays. In the case of the high-speed rail, after the consortium led by Thailand's largest conglomerate, the Charoen Pokphand group (CP), won the bid, subsequent negotiations on the details of the contract took almost a year to finalize. This was due to protracted discussions on the timeline for handing over land along the route of the high-speed rail. As for the U-Tapao airport, the authorities are considering the technical aspects of the proposal submitted by the consortium led by Bangkok Airways and the BTS Group, which reportedly presented the highest bid. The Laem Chabang deep-sea port project awaits the court's decision on an appeal filed by a consortium that was disqualified during the bidding. Discussions between Airbus and Thai Airways on the maintenance, repair and overhaul centre have not yet been concluded. With investors keeping a close watch, the government is no doubt anxious to see all of these projects get off the ground as soon as possible, so that construction can begin. The latest revised schedule is that all the five major infrastructure projects will be completed in five years' time – by 2025.

The new U-Tapao airport, which served as a US airbase during the Second Indochina War, is meant to serve as Bangkok's third international airport; both Suvarnabhumi and Don Muang airports are already operating beyond full capacity. Once completed in 2025, U-Tapao is expected to handle up to 30 million passengers annually within five years. The airport is designed to be at the core of an aerotropolis or airport city, where aviation and aircraft industries such as maintenance, repair and overhaul centres, manufacturers of aircraft parts, logistics services and related businesses will be located. The proposed Airbus-Thai Airways maintenance, repair and overhaul centre will service A350 and A380 wide-body aircraft – not only those belonging to Thai Airways but also those of other airlines. Its opening is in anticipation of the dramatic rise in air travel and demand for aircraft in Asia. The high-speed train will connect the three airports, reducing travel time from U-Tapao to Bangkok to 45 minutes.

The more efficient modes of transport will create new communities and urban areas, relieving the dense population and heavy traffic of Bangkok. The expansion of the two deep-sea ports will enhance their capacity to connect Thailand and the emerging economies of neighboring countries with global markets. The overarching objective of these projects is to achieve "seamless connectivity", reducing the costs of logistics and doing business in the EEC. In addition to the five infrastructure projects, the government has set up an EEC innovation hub, and further plans are afoot for a digital park and medical hub for specialized

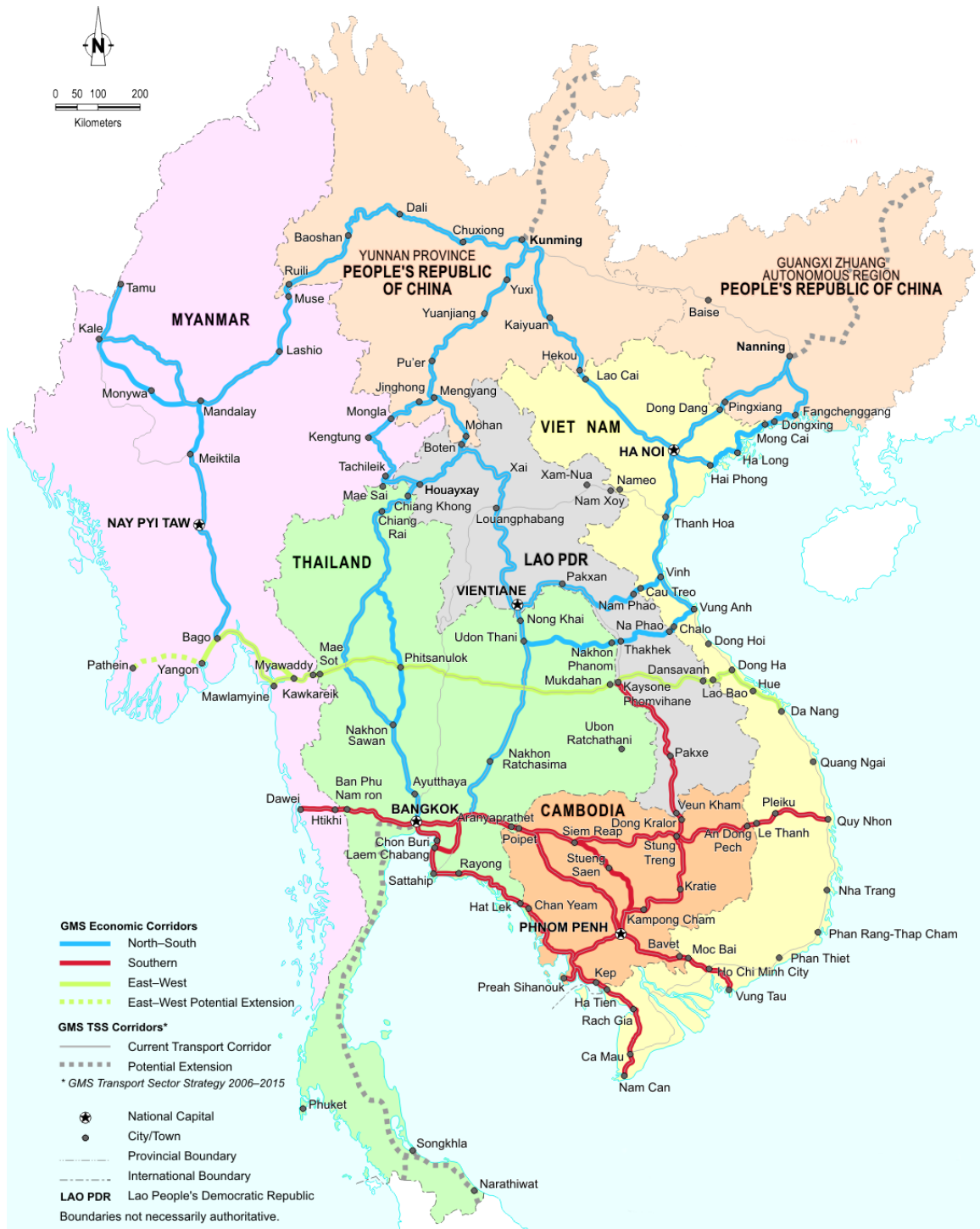
medicine. The latter will provide research and development support to the S-Curve industries.

THE EEC FROM A REGIONAL PERSPECTIVE

The Thai government has made no secret of its ambition to turn the EEC into a regional hub for trade, investment and logistics. One of the project's major advantages is its location at the crossroads of the growing web of regional connectivity linking Thailand with the emerging economies of the Mekong subregion and beyond, to China and India. This web includes the north-south and the east-west transport corridors as well as the planned Thailand-Myanmar-India highway. There is another tripartite project involving Thailand, Myanmar and Japan to construct a deep-sea port in Dawei, on the southeastern coast of Myanmar, about 150 kilometres from the Thai border. Although there have been delays, the plan envisages connecting Dawei with the Thai deep-sea port of Laem Chabang by road and rail, thereby connecting the Andaman Sea and the Indian Ocean with the Gulf of Thailand, the South China Sea and the Pacific Ocean. It is thus not surprising that Thailand has been actively engaged in driving economic cooperation among the countries of the Mekong subregion and also embracing China's Belt and Road Initiative, or BRI.

For their part, Japanese interests see the EEC as a platform for expanding the regional supply chain under the concept of the "Thailand plus one" model, whereby Japanese enterprises seek to relocate the more labour-intensive parts of production to neighbouring countries while keeping their main operations in Thailand. The Japanese government also considers Thailand a priority country for its Quality Infrastructure Initiatives, which Japan has presented as its response to the BRI.

In an unexpected turn of events, reflecting the thawing of relations between the two countries, China and Japan are now finding grounds for cooperation rather than competition in meeting the huge infrastructure needs in Asia. In October 2018, during Japanese Prime Minister Shinzo Abe's official visit to China, the two sides announced an agreement to cooperate on some 50 infrastructure projects in third countries. Among the projects to be implemented initially are two in the EEC.¹² The first is the high-speed rail project connecting the three airports, and the second is a smart-city project in one of the main private industrial estates in the EEC. The Japan Bank for International Cooperation and the China Development Bank have agreed to jointly finance the high-speed rail project. For CP, this joint financing scheme will help ensure the access to low-interest loans and the minimization of commercial risks associated with the project. In the Amata City Chonburi industrial estate, in the meantime, the municipal authorities of Yokohama and a Chinese construction company are working together on a smart city project.



Economic Corridors in the Greater Mekong Subregion

(Source: Greater Mekong Subregion Secretariat, 2019

[\[https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion,](https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion)
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INVESTMENTS: QUALITY BEFORE QUANTITY

Many high-level business delegations from Japan, China, the Republic of Korea, Hong Kong, France, the United Kingdom, the United States and Russia have visited to explore business opportunities in the EEC. These visits have raised expectations significantly.

Dr Kanit Sangsubhan, secretary general of the Office of the EEC, estimates that over the course of the next five years, the EEC should generate annual average investments of some 300 billion baht or approximately 9.6 billion US dollars, including investments in the infrastructure projects. At that level, it should add about 2 per cent to the country's GDP and raise GDP growth to about 5 percent annually and thus provide a significant boost to help lift Thailand out of the middle-income trap. According to the latest figures from Thailand's Board of Investment (BOI), investments in the EEC's S-Curve industries whose application for incentives the board has approved amounted to more than 125 billion baht or about 4 billion US dollars for the period between January and September 2019.¹³

Given these promising trends, the EEC plans to embark on an aggressive investment campaign and to map out a more targeted approach. Rather than going for quantity, the focus will be on quality investments. The intention is to seek out leading companies whose investments would really matter, in the areas of level of technology and global value-chains. In addition to the generous incentives provided by the BOI, the Office of the EEC has considerable leeway to negotiate with individual companies on a case-by-case basis to work out the conditions and terms of investments suitable to both sides within the purview of the EEC.

A case in point is the decision of the Chinese e-commerce giant Alibaba to set up a smart digital hub in the EEC to support the group's e-commerce business in the region. The government revised customs regulations to make it possible for customers in Thailand to buy and return products within a fourteen-day grace period without having to pay duties. Alibaba, on its part, pledged to train Thai farmers and retailers to do business in the digital world and to provide a platform for exporting Thai agricultural products to markets in China.¹⁴

HUMAN RESOURCES: THE MAJOR CHALLENGE

The educational system in Thailand has not kept abreast with the changing demands of the job market and advances in technology and science. For the EEC, this is a real and immediate problem as the demand for skilled workers in the project zone alone will exceed 400,000 over the next five years.¹⁵

Over the past two years, those in charge of the initiative have launched a number of innovative programmes to jumpstart the development of human resources. These efforts have involved forging alliances with universities, vocational schools, foreign institutions and the private sector. Tax breaks have also been offered to companies that invest in the development of human resources.

BRINGING ALONG THE GRASSROOTS ECONOMY AND LOCAL COMMUNITIES

In spite of the enormous success of the Eastern Seaboard project, there were admittedly shortcomings when it came to the social and environmental impact on local communities. At the national level, the issue of how to bring along the grassroots economy in the country's development process has long been a serious challenge. Every government in the recent past has had to deal with widening income disparities within the country and between regions.

In the case of the EEC, the question often raised is, will people at the grassroots level really benefit from mega projects and all the S-Curve industries? While there is a general consensus in support of a new engine of growth as espoused by the backers of the EEC, there are also very legitimate concerns among members of the public and opposition politicians about the participation of local communities and the problem of the growing economic disparities in which this growth will result. In this regard, one should be reminded that the EEC is a special "development" zone and not a special economic or industrial zone like those in many other countries in the region. For that reason, there needs to be greater engagement with the grassroots in setting the direction for the EEC and in a way that ensures that the benefits of growth and prosperity accrue to all. As Prime Minister General Prayut has repeatedly said, "no one must be left behind".¹⁶ To this end, the government has announced a multi-pronged plan to address the livelihood of local communities in the EEC. This includes initiatives to link the agricultural sector with new industries such as those working in the areas of bio-technology and bio-economy, to promote local tourism and to strengthen SMEs and startups so that they could move up in the regional and global value chains. New employment opportunities will draw more people, both Thais and foreigners, to work and live in the EEC. Plans for urban development have focused on creating new, smart and environmentally-sustainable cities.

CONCLUSION

In many respects, the EEC and Thailand 4.0 have come a long way from conceptualization to implementation. Plans are already being made by the government to have the EEC model replicated in the South and in other regions of the country. Looking ahead, Thailand is once again at an important crossroads, and the way forward will very much depend on whether Thailand's economic and political transitions converge or diverge.

In the final analysis, getting the Thai economy back in shape for the challenges of the fourth industrial revolution also requires, in no less measure, putting Thai politics back on track. With the elections last year, the dynamics of Thai politics have changed, entering uncharted territory. Partisan politics is unavoidable. It is not just the economics but also the politics that needs to be managed with skill and foresight to ensure that the EEC becomes a national agenda item around which there is a strong consensus.

¹ The author currently serves as Special Advisor to the EEC.

² The World Bank Group, "GDP growth (annual %) – Thailand, 1961-2018", 2019 (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=TH>, downloaded 13 February 2020).

- ³ International Monetary Fund, *World Economic Outlook April 2011: Tensions From The Two-Speed Recovery* (Washington: International Monetary Fund, 2011) (<https://www.imf.org/~media/Websites/IMF/imported-flagship-issues/external/pubs/ft/weo/2011/01/pdf/textpdf.ashx>, downloaded 13 February 2020), p. 53.
- ⁴ The World Bank Group, *op cit.*
- ⁵ Bank of Thailand, “Thailand’s Key Economic Chart Pack, February 2020” (https://www.bot.or.th/Thai/Statistics/Graph/Chart_Pack/Chart%20Pack.pdf, downloaded 13 February 2020), pp. 2,5,11.
- ⁶ National Economic and Social Development Board, Thailand, “National Strategy, 2018-2037 (Summary)”, 2018 (<https://www.moac.go.th/pyp-dwl-files-402791791893>, downloaded 13 February 2020).
- ⁷ “Eastern Special Development Zone Act B.E. 2561 (2018) [translation]”, Office of the Eastern Economic Corridor, 2018 (<https://www.eeco.or.th/sites/default/files/EEC%20Act%20English%20Ver%28unofficial%29.pdf>, downloaded 13 February 2020).
- ⁸ In the context of the EEC, S-Curve industries mean those with high growth potential based on innovation and advanced technology
- ⁹ Bangkok Post, “Human Resources Added to EEC S-Curve Target Industries”, *The Bangkok Post*, 9 November 2018 (<https://www.bangkokpost.com/thailand/general/1573082/human-resources-added-to-eeec-s-curve-target-industries>, downloaded 13 February 2020).
- ¹⁰ Kanit Sangsubhan, “Eastern Economic Corridor: An Update”, 22 June 2017 (https://www.set.or.th/thbigmove/files/Kanit_EEC.pdf, downloaded 13 February 2020).
- ¹¹ “Khon thai cha dai prayot chak EEC yangrai” (How will Thais benefit from the EEC? [Interview with Dr Kanit Sangsubhan]), *The Daily Standard*, 29 November 2019 (<https://www.youtube.com/watch?v=THqr1FXTnoM>, downloaded 13 February 2020).
- ¹² Ministry of Foreign Affairs, Japan, “Prime Minister Abe Visits China” [25-26 October 2018], n.d. (https://www.mofa.go.jp/a_o/c_m1/cn/page3e_000958.html, downloaded 13 February 2020).
- ¹³ “Khon thai cha dai prayot chak EEC yangrai”, *op cit.*
- ¹⁴ “Khon thai cha dai prayot chak EEC yangrai”, *op cit.*
- ¹⁵ Lamonphet Apisitniran, “How to Meet Changing Labour Demand”, *The Bangkok Post*, 21 January 2019 (<https://www.bangkokpost.com/business/1614914/how-to-meet-changing-labour-demand>, downloaded 13 February 2020).
- ¹⁶ “Statement by the Prime Minister of Thailand at the Opening Ceremony of the 35th ASEAN Summit and Related Summits Sunday”, 3 November 2019 (<https://www.asean2019.go.th/en/news/statement-by-the-prime-minister-of-the-kingdom-of-thailand-at-the-opening-ceremony-of-the-35th-asean-summit-and-related-summits/>, downloaded 15 February 2020).

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