

Global and Regional Economic Change: Implications for Northern Thailand

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This article is based on a background report for a TDRI/Chiang Mai University investment plan study being undertaken for Chiang Rai province. The purpose of the background report is to place Chiang Rai's plans in a global and regional context.

The article is divided into two main sections. The first places Chiang Rai province in the context of the rapid growth of Thailand and other countries in this region. It emphasizes the importance of international trade and investment in this process and discusses the nature of recent developments in international and regional trading arrangements. The second major section focuses on the economic changes occurring in the "golden quadrangle," which connects Northern Thailand with Lao, Burma and Southern China, and the implications for Northern Thailand. It examines some of the reasons for these changes, and looks at the effects of economic liberalization in Southern China and improvements in transportation infrastructure within this region. It then examines some of the resulting opportunities for and threats to Northern Thailand, and concludes by looking at some particular policy issues.

A general conclusion is that the pace of the economic changes that will occur in Northern Thailand as a result of these developments is easily overestimated. One should not be excessively optimistic about the net benefits for Northern Thailand.

THAILAND IN THE CONTEXT OF GLOBAL ECONOMIC CHANGE

Recent decades have witnessed unprecedented global economic change. The countries of East and Southeast Asia have been at the forefront, and Thailand has been one of the leaders of this group. The changes involve a number of features which are common, to a lesser or greater extent, to all of these economies: 1) very rapid economic growth, 2) major shifts in economic structure—in most cases from agriculture to industry, and a continuing change in the structure of industry itself, 3) high rates of technical change, based largely on imports and adaptation of foreign technologies, 4) high levels of foreign and domestic investment, and 5) rapidly growing international trade, led by increasingly competitive exports of manufactured goods and imports of necessary capital and intermediate inputs.

The rapidly growing economies of East and Southeast Asia¹ have expanded over the past several decades at rates considerably greater than the advanced western industrial countries, and far in excess of most other parts of the developing world. As recently summarized by the World Bank:

"Since 1960, [these economies] have grown more than twice as fast as the rest of East Asia, roughly three times as fast as Latin America and South Asia, and five times faster than Sub-Saharan Africa. They also significantly outperformed the industrial economies and the oil-rich Middle East-North Africa region" (World Bank, 1993, p.2).

Thailand has been one of the leaders, even within this highly competitive group of economies.

The growth of this region of the world has occurred in several stages.² The first of these countries to experience rapid industrial growth was Japan, followed by Hong Kong, Korea, Singapore and Taiwan. While the experiences of the latter four economies differed considerably, they all followed Japan's achievement of rapid industrialization and extremely competitive export performance. This strong export performance began with specialization in relatively simple, labor-intensive technologies (textiles, footwear, assembly of consumer electronics, etc.). The success of this process, however, brought with it a need for further changes. Labor shortages arising from increasing demands in the growing industrial and urban service sectors, increasing accumulations of capital, and general human resource development which increased the skills of the labor force, caused these countries to lose their competitive advantage in simple labor-intensive products and, at the same time, to become more competitive in more capital and skill-intensive activities. The major changes were induced most immediately by the appreciation of the Japanese yen in the 1980s. While the currencies of the "tigers" tended to follow the yen up against the dollar and other major currencies, most of the Southeast Asian currencies stayed more closely aligned with the dollar.

An important corollary of these changes in the four "tigers," therefore, was a shift in production of some of the simple, labor-intensive activities to other countries whose economic environment made them receptive to the investments and technologies that would permit them to climb the industrial ladder at the heels of these tigers. The countries best placed to take advantage of these opportunities turned out to be Malaysia, Thailand, Indonesia and, more recently, China. In addition to the standard prerequisites of sound macroeconomic management and a relatively healthy and well-educated labor force, Thailand's success depended on: 1) the growing surplus of labor being made available as a result of declining opportunities for opening up of new agricultural land, and 2) economic policies which were open to foreign investors and which were becoming more open to international competition (by lowering barriers against imports), and increasingly supportive of exports (by providing incentives and various forms of compensatory policies to at least partially offset the penalties imposed on exporters by policy-induced import barriers).

Export incentives in Thailand have been of a number of types, and have included special income tax concessions in the form of tax holidays and provision of financial credits for financing of exports. In the absence of offsetting measures, one of the greatest barriers to manufactured products' export growth is high costs of capital and intermediate goods inputs due to tariff and non-tariff restrictions on imports. Import protection impedes exports both directly, by raising the cost of tradable inputs, and indirectly by causing the equilibrium exchange rate to be higher than it otherwise would be, hence making it more difficult for domestic producers to be competitive in world markets. The general liberalization of imports that Thailand has implemented over the past decade has tackled this problem directly. Indirect measures have included the setting up of export processing zones, which are exempt from normal import restrictions and taxes, and the implementation of duty exemption and rebate schemes for exporters. Thailand has relied less than some other countries in this region (especially Malaysia) on export processing zones, and has concentrated instead on the second type of measure, which, in effect, makes any qualifying export producer's factory the equivalent of an export processing zone. This is a much more flexible form of relief for exporters.

Export-driven growth has also depended on general openness and growth of world trade. It is especially and obviously important for an exporting country to have access to foreign markets. This can sometimes be important as well with respect to availability of critical raw materials and/or intermediate and capital inputs. A country's export industries can be adversely affected if an important supplier of raw materials erects barriers to their export (often to protect their own downstream processing industries) and hence deprives downstream exporters in other countries of access to the raw materials. Similarly, improvements in communication and transportation links with a hitherto remote and isolated foreign supplier of raw materials can make new sources of these materials available to countries affected by the improved transport links.

Thailand's access to export markets has relied to varying degrees on three features of world trade. The first has been the general growth of these markets over recent decades. The overall growth slowdown that has occurred in developed countries in recent years, fortunately, has had little impact on Thailand's export growth. Apparently Thailand's increasing competitiveness has offset any harmful effects of the world

market slump. It is unclear, however, how long Thailand would be able to sustain its export growth if this slump continues. And it is also unclear how long Thailand will be able to maintain its position in the face of rising competition from the next wave of industrializing countries, especially countries like Vietnam and, of course, China.

The second important feature of world trade has been the success of the multilateral GATT trading system, which sets out "rules of the game" for all member countries, and is intended to maintain open, non-discriminatory world trade. Other than certain types of permitted regional trading arrangements, to which we turn in a moment below, the principal forms of discrimination that are allowed under the GATT are for the benefit of developing countries. First, the Generalized System of Preferences (GSP) permits advanced countries to provide preferential tariff reductions to developing countries. Thailand has derived some benefits from GSP. Second, developing countries have been subject to far less pressure than advanced countries to reduce barriers to imports into their own countries.

The multilateral GATT system has been subjected to increasing pressures recently. The long delays in obtaining agreement on the Uruguay Round of GATT negotiations were one indication of this. The main difficulties here were on broadening the coverage of GATT to include trade in services, protection of intellectual property, and especially freer trade in agriculture. Although developing countries have a relatively large stake in the latter issue, the real battle was between the U.S. on one hand and the European Union (especially France) and Japan on the other. Increasing use of unilateral trade actions to solve trade and even broader diplomatic disputes has been another source of friction in the multilateral trading system. The use, or the threat, of anti-dumping and countervailing duties, primarily by advanced countries, against imports from both advanced and developing countries has been seen as a threat to an open multilateral system.

The third important feature of world trade in recent years has been the emergence of a number of different forms of regional trading arrangements. These usually involve the general or selective reduction and/or removal of formal trade barriers (tariffs, non-tariff barriers, etc.) among member countries, while maintaining (common or separate) trade barriers against imports from non-member countries. They also generally include investment-related measures and attempts to reduce discrepancies among member countries in economic regulation and taxation. Whenever a group of countries forms such a regional trade grouping, a concern of non-members is that there will be trade diversion, whereby a non-member country's exports to the bloc will be displaced by products from member countries. On the other hand, higher growth rates and/or changing economic structures within the bloc might increase demand for exports of some non-members. From Thailand's perspective, the two most important regional blocs in the rest of the world are the European Union (EU) and the North American Free Trade Arrangement (NAFTA), which recently expanded the Canada-U.S. Free Trade Area to include Mexico.

For a number of reasons, some of which are responses to threats from the formation of other regional trade blocs in the rest of the world, Thailand has become engaged in trade blocs of different types in this region. By far the most important formal arrangement is the ASEAN Free Trade Agreement (AFTA), under which the ASEAN countries have agreed to a scheduled reduction in tariffs on trade among themselves. As existing tariff levels of most ASEAN countries are still relatively high, the benefits of these preferential reductions could be significant. However, these benefits are likely to be reduced by: 1) tendencies of member countries to seek exclusions from tariff reductions whenever domestic industries are seen to be threatened, and 2) the considerable similarities in economic structures of many of the member countries, and the focus of their export activities on markets of non-ASEAN countries.

The second type of regional trading arrangement with which Thailand has become involved has been more informal and often more market driven. These arrangements have generally emerged as a response to particular needs among the countries concerned, or even their sub-regions, and often involve only a selected number of economic sectors or activities. In the case of Thailand, the growth triangle involving Sumatra, North Malaysia and Southern Thailand, and the "golden quadrangle," including Burma, Southern China, Northern Thailand and parts of Indochina, are the two most important examples. However, there also have been specific sectoral measures involving trade and investment allocations in the automotive

sector among a number of regional economies, for example. The purpose of these arrangements has been to reduce or eliminate particular trade and investment barriers that seem to stand in the way of some obvious potential mutual gains from trade.

THE "GOLDEN QUADRANGLE" AND IMPLICATIONS FOR NORTHERN THAILAND

In light of the rapidly changing global context, the countries involved in the "golden quadrangle" area bordering and/or close to Northern Thailand can be thought of either as a threat or an opportunity to Thailand. These countries have many resources which, if available to Thailand, could be used to great advantage. The mineral, forest and agricultural resources of all of the nearby countries are rich and diversified. In view of Thailand's rapidly diminishing resources, especially when measured on a per capita basis, this seems like a very attractive source of supply. There is also a potentially very large labor force in these countries, whose wages are considerably lower than in Thailand. For Thai investors able to capitalize on this labor force availability, this might represent an opportunity to remain competitive in simple labor-intensive activities, in which rising domestic wages and emerging labor shortages are beginning to cause problems.

Finally, the sheer magnitude of the populations in these countries, especially in Southern China, combined with their rapid rates of income growth, creates the potential attraction of a large and expanding market for Thai products. Yunnan province alone has a population of close to 40 million persons, and Sichuan province, its neighbor to the north, has a population of about 110 million. For a number of reasons, including especially the rapid liberalization of economic activity in China, these provinces have been growing at rates far in excess of Thailand in recent years. From 1985 to 1991, for instance, Yunnan was the third most rapidly growing province in all of China, with an average annual income growth rate exceeding that of Guangdong province.³

The flip sides of all these apparent opportunities, however, are a number of potential threats to the Thai economy. Because of declining domestic availability of raw materials, resource-based industries in Thailand might find it increasingly difficult to compete with similar industries in the other resource-rich countries of the golden quadrangle. And labor-intensive industries in Thailand are likely to face increasing problems competing with similar industries that develop in the poorer economies bordering Northern Thailand.

The opportunities and threats discussed here are becoming more immediate with the rapid easing of trade and communication among the countries of the golden quadrangle. The two most important sources of improved communication at the present time are: 1) the liberalization of the Chinese economy and its opening up to private enterprise and international trade, and 2) the rapid upgrading of transportation linkages within the region. There are some similar indications of liberalization and opening up of the economies of Laos and Burma. While also significant, these changes are more tentative and certainly not on the same scale of importance as the changes taking place in China.

China Looks Increasingly Outward

The liberalization of the Chinese economy has led in recent years to economic growth and structural transformation that is outpacing the performance even of the World Bank's eight "miracle" economies of East Asia. A great deal of the world's attention in observing this phenomenon has been focussed on the coastal regions of China. As indicated earlier, however, the southern province of Yunnan has also been sharing in this growth. Yunnan has great natural wealth, which it has been exploiting by extracting minerals, expanding agricultural activity and developing its vast potential for nature-based tourism.

In the case of agriculture, for instance, the autonomous prefecture of Xisuangbanna in the southern part of Yunnan province has over 1.8 million mu (120,000 hectares) planted in rubber, of which almost 350,000 mu (approximately 24,000 hectares) is in private plantations which were planted over the past decade. Xisuangbanna alone accounts for about one-third of total Chinese rubber production. Tobacco is an even more important crop for Yunnan, and accounts for about 60 percent of provincial government revenues. Many other cash crops are produced throughout the climatically varied province. Research being carried

out in scientific institutes in the province is generating new bio-chemical products with potential commercial value, based on the abundant biological resources of the province.

Because of its climate and natural beauty and diversity, Yunnan has been a favorite destination for Chinese tourists. But with liberalization and opening up of the region to foreign travel, it is now becoming an international tourist destination. Estimates vary, and are hard to verify. But claims about the annual numbers of tourists visiting Yunnan often exceed 3 million. Xisuangbanna alone is estimated by some to receive over one million tourists per year. Government officials in that prefecture estimate that tourism accounts for about 20 percent of the total income of Xisuangbanna. Most of the tourist traffic to date seems to comprise (relatively low spending) Chinese tourists and a relatively small number of low budget foreigners. The infrastructure for higher budget foreign tourists is still rather meagre, especially in Xisuangbanna and other areas outside of Kunming, although there is some evidence of increased activity in this area. At least one three or four star hotel complex is now under construction in Jinghong, the capital of Xisuangbanna prefecture, and a group of Thai investors is in the process of forming a joint venture to manage the only other "up-market" tourist hotel there. Kunming has a number of first class hotels, and a recently completed major convention center.⁴

The combination of natural resource availability and a large, generally well-trained labor force, also makes Yunnan a natural location for many types of industrial investments. Kunming factories produce considerable amounts of steel and steel products, cement and machinery. Many of these products are shipped to other parts of China, and are exported through coastal ports to other parts of the world. The same is true of textile products. "High tech" industrial parks are now being set up in Kunming for the assembly and manufacture of electronic products. Some machinery and textiles are already being exported from this region to Thailand, despite rather poor transportation infrastructure.

Although data are hard to find, it is apparent that there is considerable domestic and foreign investment in Yunnan. Sources of investment include provincial state enterprises and foreign investors, especially from Hong Kong, Singapore and Taiwan, but also from Thailand and other countries. With the opening of the economy to the influence of market forces, entrepreneurial activity is evident throughout the regional economy. And macro and microeconomic reforms continue to occur. At the beginning of this year, the two-currency system for foreign exchange dealings was reformed, with "foreign exchange certificates" abolished and unified with the domestic currency, or renminbi. The renminbi can now be exchanged for foreign currency at a unified rate, with few restrictions on the identity of the purchaser or the purpose for which the funds are intended. The net effects of this reform were to: 1) liberalize access to foreign exchange,⁵ and 2) cause a sharp devaluation of the renminbi relative to foreign currencies. Both of these effects will serve to make Chinese producers, and domestic and foreign investors even more outward looking than they have been in the recent past.

Improvements in Communication and Transportation

Among the other significant changes occurring in Southern China and the bordering countries in the golden quadrangle are improvements in transportation links. One of the main reasons for the isolation of Yunnan province, and especially its southern regions, within China and within the region of the golden quadrangle, has been the absence of a well developed transportation infrastructure. The whole area comprises largely of very rugged mountainous terrain, punctuated by rivers whose flows are seasonably variable and whose courses are also very rugged in places. Kunming is connected by rail to the rest of China, although journeys are long, and there is often congestion and hence delays and uncertainties in freight service. There are at the moment no rail links to the areas south of Kunming, although there are plans to soon complete an extension of the railway to Simao.

Air links between Kunming and the rest of China seem to be quite good, and this is a major vehicle for tourist and "convention" traffic. Air transport, however, is not very relevant for many of the staple industrial and agricultural goods produced in the region. Jinghong also has a good airport, but there are still very few flights, most of which seem to go to Kunming. Thai International now operates a daily flight between Kunming and Chiang Mai and/or Bangkok. There is some talk of developing direct flights between

Xisuangbanna and Northern Thailand, but no firm plans have yet developed.⁶

Besides air, it is also possible for goods and passengers to travel between the southern part of Yunnan by boat, along the Mekong River. The river is navigable from Simao to Chiang Rai, passing through Lao en route. During the wet season (about seven months long) boats of up to 150 tons can pass along this route; but during the dry season, the carrying capacity is reduced considerably. There is not much regular service on this route, partly for navigation reasons, and partly because of bureaucratic obstacles in regularizing the service through Lao territory. A consortium of Thai investors, however, is in the final stages of introducing regular passenger service, on a fleet of six boats, between Xisuangbanna and Chiang Rai. Agreements apparently have been reached with high level Lao officials regarding terms of passage of these boats through Lao.

The most impressive transportation infrastructure development at the moment involves the improvement of road links within the golden quadrangle region, and especially the establishment of high quality, all season highways linking Yunnan with Thailand, through Burma and Lao. At the moment there are eight different possible road links of this sort—six through Burma and two through Lao. The province of Yunnan has already made substantial investments in improving these road networks within China. Several of the roads from Jinghong to the Burmese and Lao borders are already fully-paved two-lane highways. According to one government official in Yunnan, there are plans to upgrade at least one of these roads to four lanes by the end of the century.

There are several apparent problems with the road links, however. First, even the roads that are already completed are relatively narrow; and because of the geography of the region, they are winding, tortuous routes, with many steep grades. They are very far from the sorts of highways one would think of as being adequate to carry large volumes of bulky and weighty primary and industrial products. Second, the crucial links with Thailand through Burma and Lao are not yet nearly as well developed as those in China. There appears to be considerable confusion, if not mismanagement, in the development of these parts of the network. One hears stories of a number of stalled and/or aborted ventures to build such highways, at least some of them involving Thai investors.

The second major problem with road links is the bureaucratic obstacles involved in passing across borders and through local "fiefdoms" in Lao and Burma. Motor vehicles and their passengers and contents are subject to numerous checks and tolls as they pass through these areas. In some cases, these are administered by official subregional and central government agencies and, in others, by unofficial alternative governments. The locations, frequencies and charges and other demands imposed at these "toll booths" are variable and uncertain, which adds even more to their costs. These kinds of bureaucratic obstacles apply to greater or lesser extent to other forms of traffic as well. As already mentioned, boat traffic through Lao is subject to high and somewhat unpredictable charges. And occasionally boats are delayed for periods of up to 24 hours at check points in Lao. This significantly diminishes the attractiveness of this route for passenger traffic (for all but the true "adventure travellers").

Visa and other types of immigration requirements form another important obstacle to movement of people, especially tourists and, to a much greater extent, workers. Thailand and, increasingly, China are relatively open to tourist traffic. Burma and Lao are becoming more open to tourism, more so to citizens of the immediate region than to travellers from further afield. But many obstacles remain in these two countries. China remains very restrictive with respect to granting permission to its own citizens to travel abroad. The recent freeing up of the foreign exchange market should help to remove one obstacle. But long delays and relatively high costs involved in obtaining passports for foreign travel continue to seriously impede outgoing tourism from that country. Interestingly, relatively onerous financial guarantees required by Thailand of visitors from China serve as another barrier to such traffic.

Cross border traffic in workers is very strictly regulated, at least officially.⁷ Despite (or partly because of) these restrictions, there is a thriving black market in, for instance, Burmese labor in Northern Thailand. Wide inter-country wage differentials and growing labor shortages in Thailand as a result of rapid industrial growth, and resulting pressures on the competitiveness of the country's traditional industrial and

processing sectors, make access to labor from neighboring countries especially attractive. This can be accomplished, in principle, either by moving factories to the regions/countries where the "cheap labor" is located, or by moving the labor to the higher wage countries. In general, capital tends to be more internationally mobile than labor. However, regulatory and other costs associated with investing in some regions might make it more attractive for investors to press for relaxation of restrictions on labor movements. Divestiture requirements and/or restrictions on property leasing by foreign investors are often a barrier to capital flows.

Preliminary Assessment of Some Options and Opportunities

The changes that are occurring in the economies of the golden quadrangle are enormous. Economic liberalization is releasing and mobilizing large amounts of capital and entrepreneurial resources. Improvements in transportation infrastructure are making possible many new forms of economic integration. If pressures from business and other interested parties can be mobilized to continue the process of deregulation, especially of trade, investment and transportation, this integration will be further encouraged.

General Observations

All of the changes under discussion here have a primary effect of lowering the costs of engaging in economic activities that have links across the region. The extent to which these changes in incentives will actually lead to increased integration is very difficult to predict. And the precise forms of any of these changes are even more unpredictable. However, one thing that is clear is that it is very easy to overestimate both the amount of regional economic restructuring that will occur, and the speed with which it will happen as a result of these changes in incentives. This is true for a number of reasons.

First, adjustment takes time. It generally requires significant new investments and reorientation of patterns of economic activity. As a simple example, consider the case of tourism development in Xisuangbanna. This prefecture currently has a very well developed infrastructure for local and low budget foreign tourism. A huge network of small hotels and guest houses provides accommodation for up to a million such tourists per year. Local and chartered buses are the main form of transport for these tourists. They eat in small restaurants and food stalls.

Suppose now, that the changed economic environment were to lead to a significant increase in demand by more "up-market" foreign tourists. What would be the effect on the numbers and the mix of tourists? The biggest constraint on a rapid expansion in up-market tourist traffic is the complete inadequacy of the local hotel, restaurant and transportation infrastructure. As mentioned earlier, there is only one "up-market" hotel in Jinghong, whose condition is less than that of a poor two- star provincial hotel in Thailand. One other higher quality hotel is under construction. The arrival of 100 Thai tourists in Jinghong is a major event in the prefecture. These tourists, who take only 20 percent of the capacity of the main hotel in town, still use up a significant share of the capacity of local restaurants.

How quickly can existing capacity be expanded and upgraded? A Thai investor has been engaged in negotiations for over a year to take over a major share in the ownership of the existing hotel in Jinghong, and an agreement has not yet been reached. Despite all of the talk of increased flows of up-market tourists, there are few signs of other new investments. This is not to say that such investments will not be forthcoming. It is only to point out that it will take some time for Jinghong, a tourist "mecca" in China, to transform itself from something like Chiang Mai of 30 years ago to a "modern" high volume up-market tourist destination of the sort that Chiang Mai is today. Similarly, even a significant freeing up of restrictions in China and Thailand which currently impede the flow of Chinese tourists to Thailand will not lead to a large inflow of high spending Chinese tourists to Northern Thailand. In this case, the constraint is less in the form of infrastructural inadequacies than in the still relatively low average incomes of the vast majority of Chinese tourists. This will also take some time to change.

The same will be true of significant changes in exports or imports of primary, semi-processed or industrial

products between Thailand and the other countries of the golden quadrangle. Some activities, of course, will be capable of adapting and adjusting much more quickly than others. The relative speeds of adjustment of different sectors will depend on many factors, including the amounts and types of investments required to take advantage of new economic opportunities, and the size of the changes in incentives resulting from increased economic integration.

The latter consideration leads us to the second reason for caution in making predictions about the pace of economic change in the near future. While there have been and will continue to be major changes in economic incentives resulting from liberalization of rules and regulations, and improvements in transport and communications infrastructure, some barriers will inevitably remain. Therefore, while reductions in transport costs might tend to increase the attractiveness of trade in some commodities between, say, Southern China and Thailand, Thai or Chinese import tariffs or other non-tariff restrictions, many of which are quite significant in both countries, might still be sufficient to block or seriously reduce the volume of trade that actually occurs. Even worse, some governments might attempt to capture some of the potential rents from trade possibilities opened up by improved transportation by increasing tolls and other charges for transshipment of goods through their territory. To the extent that such tolls reflect the actual costs of transport improvements or of maintaining new facilities, of course, they are legitimate economic charges. *Not* charging for the use of new facilities would actually represent a distortional subsidy of trade in such circumstances.

Finally, from the narrower viewpoint of the prospects for Northern Thailand and Chiang Rai province in particular, one other important qualification must be borne in mind. From Chiang Rai's perspective, the regions of Thailand constitute a highly open economy, with free trade in goods, few, if any, restrictions on or impediments to investment flows and, of course quite free mobility of labor. Transport links between Northern Thailand and the rest of the Kingdom are very well developed, especially when compared to those between Northern Thailand and the other countries/regions in the golden quadrangle. This means that it will be very difficult, except through policies that are contrary to the larger interests of Chiang Rai itself and/or Thailand in general, for Chiang Rai to establish any sort of monopoly within Thailand over benefits deriving from greater economic integration in the golden quadrangle.

For instance, in the event of an expansion of investment opportunities in Burma, Lao or Southern China as a result of such integration, these opportunities will be available to all investors in Thailand, and not just those in Northern Thailand. Similarly, increased availability of raw materials and agricultural products from any of these countries as a result of improved transportation will not be the preserve of users in Chiang Rai, even if it does happen to be the entry point of these goods into Thailand. Users of these raw materials throughout all of Thailand will be able to compete for them in the domestic market. And, in the event of the freeing up of visa and other travel restrictions on outbound tourists from China to Thailand, any new tourists would be free to travel to any part of Thailand, and would not necessarily confine themselves to Chiang Rai or even Chiang Mai. Many of them might well bypass Chiang Rai entirely. The general message is that, whether Chiang Rai will get any particular benefits from these new opportunities will depend on whether it has or can create any special competitive advantages over other areas in Thailand. Several natural or policy-induced advantages for Northern Thailand are sometimes discussed in this context.

Specific Possibilities/Options

Northern Thailand clearly has some locational advantage over points further south in Thailand with respect to raw materials that might be shipped by river or by new highway links from other countries in the golden quadrangle. There are, however, two obvious caveats to this. If improved transport makes it cheaper for Northern Thailand to procure raw materials from, say, Southern China, the same transport improvements will also make it less costly to ship *processed* raw materials from China. Therefore, unless Northern Thailand has a clear cost or quality advantage over Southern China in the processing of agricultural and other primary products, the improvements in transportation might result principally in increased exports of processed goods to Thailand.⁸

In light of this consideration, it seems likely that new raw material-based exports from Southern China as a

result of improvements in transport links will be in at least partially-processed form. Such processed goods might compete with and displace the products of currently existing processing industries in Northern Thailand. This is likely to be true of instant noodles and a wide range of agricultural products. Furthermore, given that raw material imports into Thailand do increase, if the ultimate market for the finished product is beyond Northern Thailand (in Bangkok, say, or even in export markets), it is not obvious that Chiang Rai will be the most cost-effective location to do the final processing. Having voiced these qualifications, however, it does seem possible that Chiang Rai will benefit from increased raw material processing activities, at least in some sectors, as a result of greater integration with the golden quadrangle. As always, of course, Thai consumers should almost certainly benefit from increased availability of products from the golden quadrangle. Based on pure locational considerations, consumers in Northern Thailand should be the biggest beneficiaries.

Northern Thailand should also have some locational advantage with respect to increased tourism. This can work in two ways. First, and maybe less obvious, is the fact that improved boat and road links will make Southern China, Lao and Burma more accessible from Northern Thailand. Chiang Rai and Chiang Mai might, therefore, benefit from increased travel by tourists wanting to put together Northern Thailand and some or all of these other destinations in a single package.

Second, and more obvious, is the possibility that transport improvements could lead to increased tourism to Thailand from Southern China. Low income, low budget Chinese tourists are much more likely to be able to afford land-based (and possibly river-based) transport from China through Lao or Burma, rather than air travel. Furthermore, natural cultural affinities between many people in Southern China and those in Northern Thailand also make Chiang Rai and Chiang Mai a natural destination for these tourists.

As mentioned before, however, very demanding financial guarantees required by Thai authorities, and difficulties faced by Chinese tourists in obtaining visas are both significant barriers that will probably remain even after transport improvements are in place. A possible solution to these problems, which would actually increase the locational advantage of Northern Thailand relative to the rest of the Kingdom, would be an agreement between the governments of the countries in the golden quadrangle to institute a special system of border passes for Chinese tourists, which would give them access to certain areas in the three neighboring countries, with less onerous visa and other financial restrictions. As most of the Chinese tourists who would take advantage of this are, however, likely to be, and will remain for some time, relatively low budget travellers, the total amount of increased tourist earnings will be far less than would result from an equal increase in numbers of tourists from other countries.

A number of possibilities are also being discussed for the creation of special economic zones somewhere along the borders of Thailand with Burma and/or Lao. Specific locations are mentioned in all three of these countries. The extent of infrastructural investment and of special economic privileges for companies operating in the zones also vary.

One proposal is for a special zone in Chiang Rai which would include, in addition to standard tax facilities for export processing zones and full infrastructural provisions, special facilities for the legal hiring of low wage Burmese workers. One would have to question the general wisdom of such a proposal. First, in the absence of cost-recovery pricing on infrastructure, the zone would provide a net subsidy to producers located here. Second, with all of the tax concessions being mentioned, the net fiscal benefits to Thailand would almost certainly be negative. And third, the other potential benefit of such a zone—the one which usually justifies such zones, increased employment and wage benefits to Thai workers—would be minimal at best in this case, since the majority of the workers would be Burmese. To the extent that activities within the zone displaced production outside of the zone which would have employed a higher proportion of Thai workers, the employment benefits would also be negative.

Without more information, it is difficult to judge the specific merits of this or other proposals for various kinds of economic zones within the golden quadrangle. However, two general observations are that it is preferable to: 1) wherever possible, adjust general tax and tariff levels facing all producers, rather than making ad hoc adjustments and exceptions, and 2) where general taxes and tariffs cannot be changed

further, but it is desired to make exceptions for particular groups of producers—for example, exporters—it is better to make these exceptions available to all exporters meeting program requirements, regardless of their location. Requiring that exporters set up production facilities in special processing zones to obtain export tax privileges can be quite costly and economically wasteful.

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