

# Opportunities, Challenges and Countermeasures for Chinese Enterprises Investing in Thailand in Post-Epidemic Era

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## ABSTRACT

At the beginning of 2020, the fast-moving and wide-ranging COVID-19 hit the world economy hard, and also had a huge impact on the investment of Chinese enterprises in Thailand, posing a serious challenge. In the next few years, its negative impact on the investment of Chinese-funded enterprises in Thailand will continue to exist within a certain period and scope. How can Chinese-funded enterprises make scientific decisions to avoid the risks of investing in Thailand in the post-epidemic era, how to take advantage of policy advantages for new opportunities, and how to invest healthily and steadily have become the new research topics.

**Keywords:** COVID-19, Foreign Investment, Thailand

## 1. INTRODUCTION

There is a lasting friendship between China and Thailand, and China has become Thailand's largest economic and trade partner and surpassed Japan being Thailand's largest source of foreign investment as well Since 2019. The outbreak of COVID-19 has affected the economies of China and Thailand to varying degrees. As the pandemic eases, the economic development of the whole world has entered the post-epidemic era and has begun to gradually recover as well. Meanwhile, in order to avoid the impact of the Sino-US trade war, some Chinese-funded enterprises have turned their investment to Thailand, which has a relatively good investment environment and economic foundation among countries in Southeast Asia. At present, many well-known Chinese-funded enterprises have invested and built factories in Thailand, forming a crisscrossed and interwoven industrial network that is increasing the collaboration between regional industrial chains and supply chains. <sup>[1]</sup> Chinese-funded enterprises therefore should carefully analyze and study the opportunities and challenges faced by investing in Thailand so as to maximize their investment profits in this favorable situation.

## 2. CHALLENGES FACED BY CHINESE-FUNDED ENTERPRISES IN THAILAND

### 2.1 Political risk

The implementation of Thailand's new constitution in 2017 has squeezed the power and living space of political parties to the limit, and the game between the political group represented by the political party and the military group in Thailand has also begun. Demonstrations against military politics took place in Thailand in 2020. Thailand's social stability and economic recovery have thereby been seriously affected by the double negative impact of political turmoil and the pandemic. In addition, the contradictions between various religious sects and ethnic groups in Thailand escalated the challenges to Thailand's social stability and economic recovery. Therefore, Chinese-funded enterprises investing in Thailand should fully consider the political risk that potentially existed in Thailand.

### 2.2 Other risks

Thailand's financial market was opened to the outside comparatively earlier and its appropriate legislative system is relatively complete as well. Besides, most Chinese-funded enterprises investing in Thailand have established harmonious and good cooperative relations

with local governments and citizens. So, there will not be any major business risks on the whole as long as they comply with the local regulations while conducting their business. However, in the post-epidemic period, the rapid increase in the number of Chinese-funded enterprises investing in Thailand is likely to make Thai news media and NGOs gradually pay more attention to Chinese companies, negatively affecting the image of China if some fake news appears in the newspaper.

### ***2.3 Highly competitive market in Thailand***

Thailand has a relatively competitive international market, and its enterprises have strong financing strength with a large amount of foreign capital coming from Japan, the European Union, South Korea, Singapore, Taiwan, China, etc. The manufacturing market has basically been occupied by Japanese companies, constituting a serious impact on the entry of Chinese capital to Thailand from the perspective of market structure, capital capacity, production technology, and foreign direct investment. In terms of industry, the proportion of Japanese companies is still larger than that of Chinese-funded enterprises. Besides, Chinese-funded enterprises have relatively low self-recognition compared with their Japanese counterparts. The market competition in China's auto industry is still very fierce.

### ***2.4 Lack of effective communication and guidance between local government and enterprises***

Many foreign-funded enterprises tend to be short-sighted, excessively pursuing short-term economic interest without paying attention to coordinating relations with local enterprises, and employing fewer or no local employees, which makes it impossible to promote local economic and social development. Besides, there is a lack of an effective communication and coordination mechanism between local government and people and foreign enterprises, easily leading to conflicts. On the other hand, although foreign-funded enterprises bring benefits to Thailand, they also have a certain impact and potential threat to local enterprises. It is therefore natural that local enterprises or people would inevitably become dissatisfied with foreign-funded enterprises so as to crowd them out sometimes.

### ***2.5 Shortage of internationalized and compound management talents***

The lack of compound management talents with international vision and professional knowledge has always been one of the factors restricting the rapid development of Chinese-funded enterprises in Thailand. At present, the training programs for Thai language talents in most domestic colleges and universities are still primitive. Only a few colleges and universities have just

initiated the cultivation of internationalized and compound professional talents that meet the needs of modern enterprises. On the other hand, the cultivation of compound talents proficient in Chinese in Thailand started comparatively late and has not yet formed a scale. In conclusion, the lag in the cultivation of 'language + professional' compound talents in China and Thailand still poses challenges for Chinese-funded enterprises to invest in Thailand.

## **3. OPPORTUNITIES FOR CHINESE-FUNDED ENTERPRISES IN THAILAND**

As China has achieved success against the pandemic, a formal comprehensive strategic partnership between China and Thailand was established to jointly strengthen economic cooperation through docking Hainan Free Trade Port Policy and the Belt and Road Initiative launched by China, and the Thailand 4.0 Strategy, and the EEC launched by Thailand. It will strengthen the vitality and connection of the world economy, help to revive the economy in the post-epidemic era, comprehensively maintain the global multilateral trading system, and improve the global industrial chain and supply chain. Thus, it is likely to bring new opportunities for Chinese enterprises to invest in Thailand as well.

### ***3.1 Five advanced technologies supporting Thailand's future economic development***

Macro-economically, key technologies in the following fields will support Thailand's economic development in the next few years, which are clean technology-related clean energy and environmentally friendly material solutions, distributed infrastructure-related cloud computing, investment, and development of 5G technology, penetration of IoTs into all areas of life, and a new generation of robotics technology.

### ***3.2 Thailand 4.0 Strategy and EEC***

The Thailand 4.0 Economic Development Strategy and the EEC proposed by the Thai government have been practiced for several years, and it has been proved that the high technology and high-value-added market management is the key to transforming the economic system, serving as an important force to promote and apply the achievements in science and technology to industrial innovation and economic growth. Besides, the preferential investment policies will be oriented toward 'technology, personnel, infrastructure, small and medium-sized enterprises, and target products development', ensuring that the ten target products will become the new power engine of the national economy [2]. China is currently the second-largest economy in the world, leading the world in new industries such as the digital economy, mobile payment, and the Internet of Things. Thailand's economy is now developing rapidly,

but the above-mentioned industries are still in their infancy. In the post-epidemic era, Chinese companies should take advantage of good domestic market prospects and large international market share. If small and medium-sized domestic enterprises can enter Thailand's market by actively exploring the construction of high-tech industries such as AI and digital economy, which will improve the local digital economy development and industrial technology, they are likely to get the most generous financial rewards, providing many opportunities for Chinese companies dedicated to emerging technology and new economic fields. In addition, there is also great potential for investment in renewable energy such as solar energy, biomass energy, and wind power generation. Thailand's unique geographical location close to the equator has proved its superiority in developing and utilizing pollution-free, green renewable energy resources, especially solar energy.

### ***3.3 Opening of the China-Laos railway accelerating the progress of the China-Thailand high-speed railway project***

The railway connecting China and Laos is fully completed, and the China-Thailand high-speed railway is being actively promoted. The Thai government is systematically making various arrangements regarding how to seize this historic opportunity by taking advantage of the business opportunities created by the China-Laos railway. These include improving the single-track and double-track railway system in Thailand, enhancing the efficiency of the electronic customs clearance system, building the Thailand-Laos cross-border bridge, and perfecting the construction of land ports and infrastructure such as cold chain logistics. Chinese investors therefore can make huge profits in commodity circulation among China, Laos, Thailand, and even ASEAN, construction of land transport ports, tourism, real estate development, and manufacturing of local specialty commodities in Thailand.

At the end of last year, the China-Laos Railway was completed, bringing huge business opportunities and benefits to Thailand's economic development. Firstly, the transportation cost has been greatly reduced. According to the 2020 Annual Bulletin of the World Bank, the international transportation from Lianchabang port to Kunming, if it passes through the China-Laos railway, saves each ton of freight by 30% to 50% compared with road transportation. [3] Besides, it also greatly saves time. Secondly, Thailand can use the China-Laos railway to sell its products to China, Europe, and the United States, saving more time than the original shipping route. Lastly, it helps enhance the attractiveness of the EEC and attract investment from China and other countries in the rearrangement of the global supply chain.

The China-Thailand railway is an important part of

the projects implemented in the countries along the Belt and Road Initiative, opening the era of high-speed railways in Thailand as well. In addition to exporting high-speed rail technology and equipment, relevant Chinese-funded enterprises can gain market shares with leading technology and reasonable cost performance, ushering in huge business opportunities and playing a vital role in on-site construction and later technical maintenance.

### ***3.4 Alternative energy automobile industry opening up new paths for Chinese-funded enterprises in Thailand***

The Thai government is now dedicated to developing the electric vehicle industry, with a long-term goal. It is planned that the zero-emission electric vehicles produced in Thailand will reach 30%-50% by 2030, and finally achieve 100% by 2035, becoming the pure electric vehicle manufacturing center in Southeast Asia. At present, SAIC Motor Corporation (Thailand) is accelerating the deployment of charging piles by signing construction site programs with Thailand's WHA Industrial Park Company and Bang Klei Petrochemical Group. Specifically, it plans to build 50 supercharging piles within this year alone. Together with WHA, an emphasis is put on the establishment of five super recharge piles this year in the Eastern Economic Corridor (EEC) and Saraburi to provide 24-hour recharge services. In addition, the cooperation with Bang Klei Petrochemical will focus on building 50 new super recharge piles this year within its existing sites. Another car company, Great Wall Motors, also deployed its flagship pure electric vehicle H6 in Thailand, becoming the first pure electric SUV model to enter the Thai market. The PRO version of this model is priced at less than 1.2 million baht (about 230,000 yuan), while the flagship version is just over 1.2 million baht, which is the lowest price among all current pure electric vehicles of the same category. [4]

The above-mentioned examples indicate that Chinese companies should seize the opportunity brought by this great transformation and development of Thailand's automobile industry in a timely manner, and try their best to occupy the commanding heights of investment in the electric vehicle market in Thailand and even ASEAN.

### ***3.5. Increasing policy support from the Thai government***

EEC has provided more preferential policies in order to attract more foreign investment and strengthen its competitive advantage against Vietnamese enterprises. In the first five months of 2020 after the COVID-19 outbreak, EEC's investment promotion policies were altered to better adapt to changes in the international investment environment. At the most recent meeting held

by the EEC policy committee, the Thai government approved five new target industries as the most important investment projects in the future, namely medicine, aerospace, intelligent robotics and automation, digital economy, and biochemistry. At present, the existing industries within the EEC generally cover vehicles and parts, petrochemical and biological products, tourism, agriculture and processing, electrical and electronic industries, etc. After adding the above-mentioned five emerging industry clusters, the investment attraction of China's Eastern Economic Corridor is likely to be greatly enhanced in the future, making it more in line with China's future investment trend.

The Thai government is now striving to make Thailand a regional business center by formulating appropriate investment promotion policies for the establishment of international headquarters and trade centers in the post-epidemic era. Preferential policies for Chinese-funded enterprises in Thailand mainly include the following four aspects: 1. Attracting more overseas technical experts and senior managers to work in Thailand; 2. Foreign investment companies are entitled to obtain land ownership; 3. Imported goods for research and training machines are exempted from tax; 4. Imported manufacturing products are exempted from tax.

The main agency responsible for promoting foreign investment in Thailand is called the Board of Investment (BOI). Different preferential policies and additional investment incentives for foreign investment are given depending on the status of the industry and the area of the project and the difference in price respectively, according to its latest seven-year foreign investment promotion strategy (2015-2021). The overall goal is to promote sustainable economic and social development in Thailand, improve economic strength, and channel investment to innovative, high value-added, green technology-related industries.

BOI proposes two forms of preferential policies to investors: one is related to preferential tax rights, which mainly include exemption or reduction of corporate income tax and machine import tax, and exemption of import and export tariffs on raw materials; another is related to non-tax preferential rights, which mainly include allowing enterprises to introduce foreign technology, obtain permanent land rights and remit foreign currency, foreign investors to hold shares alone, etc. Non-tax preferential rights are given to all BOI-licensed investment projects, while tax preferential rights vary depending on different circumstances such as the industry and location of the investment project. Generally speaking, projects that belong to the industries actively supported by the Thai government, within the scope of investment particularly encouraged by the government, or plan to produce export-oriented goods tend to receive more preferential rights. In addition, the BOI has also relaxed the limit on the proportion of shares held by

foreign-owned enterprises. For example, it allows foreign-funded enterprises to own 100% ownership of manufacturing and some service enterprises, without setting localization and export requirements and foreign exchange restrictions.

## **4. COUNTERMEASURES**

The new policy initiated by the Thailand government to stimulate its economy has brought new opportunities for Chinese enterprises to invest and develop in Thailand. However, the complex political, ethnic, linguistic, and cultural environment in Thailand, the international investment environment, and the scarcity of trans-cultural management talents pose serious challenges for Chinese enterprises as well. If the above challenges are properly handled, Chinese enterprises in Thailand will develop smoothly.

### ***4.1 Policy supports from the Chinese government***

The Chinese government should actively guide enterprises investing in Thailand, keep close pace with Thai industries to provide all-round support, and conduct a comprehensive risk assessment of the countries along the route in terms of politics, economy, and investment environment during the implementation of the Belt and Road Initiative, so as to provide an objective and real reference for domestic enterprises.

### ***4.2 Grasping investment opportunities***

Chinese-funded enterprises can turn the crisis into an opportunity if Thailand's investment policy is seriously analyzed and the local investment environment is scientifically judged, making their actions comply with the needs of the local economic development. Moreover, enterprises must abide by local laws and regulations to maximize investment benefits.

### ***4.3 Developing together with Thai enterprises***

Chinese-funded enterprises should respect the local religious culture, carry out multi-faceted cooperation with local enterprises, keep an intimate relationship with local enterprises to shorten the psychological distance with the local people, and provide more jobs for the local people so that they can help develop the local economy and improve the local people's living standards.

### ***4.4 Cultivating interdisciplinary talents with an international vision***

Enterprises should cooperate with domestic colleges and universities to jointly formulate a talent training plan to cultivate professional management talents with compound knowledge and international vision. At

present, both the Thai major offered in China and the Chinese major offered in Thailand just focus on cultivating students' ability in language, while neglecting to cultivate students with appropriate professional knowledge, which has seriously restricted colleges' ability to provide suitable talents for the market. It is therefore urgent that enterprises should sign talent training agreements with colleges and universities to implement a new teaching model in which schools and enterprises jointly train talents by carrying out in-depth integration of production, education, and research. Only in this way can compound talents with a broad vision that meets the requirements of enterprises be cultivated.

#### ***4.5 Certain social responsibilities undertaken by enterprises***

One of the keys for enterprises to control and prevent risks is to grasp the dynamic information with regard to the host country's response policies and control measures to the pandemic, so as to assess related impacts in a timely manner. Chinese-funded enterprises should also actively undertake certain social responsibilities in responding to the pandemic in Thailand.<sup>[2]</sup> In addition, enterprises must also pay close attention to the issues related to resources, environment, labor, safety, and social governance brought about by conducting business there, so as to avoid local residents' resentment and resistance to Chinese-funded enterprises. Besides, it is necessary to enhance the awareness of safe production and efficient management, especially for Chinese-funded enterprises engaged in high-risk industries such as construction, mining, and dangerous chemicals, which must take safety precautions to avoid accidents. Only in this way can Chinese-funded enterprises build a good image in the local community, enhance their brand influences, and better integrate with the local economic development and people's life.

#### ***4.6 Getting familiar with Thailand's culture and customs***

As is well known, each country has its own unique culture, customs, and history, and so is Thailand. Chinese-funded enterprises, therefore, should learn to respect, understand, and appreciate the host country's culture and customs, and not do anything that violates local customs and taboos. Only in this way can Chinese-funded enterprises gain a firm foothold in the host country and not be rejected or boycotted by the local people. Therefore, Chinese-funded enterprises must have a good understanding of Thailand's political, economic, social, and cultural environment before they decide to enter its market so that they can better integrate into the local cultural environment and make the overseas development smoother.

#### ***4.7 Actively seeking legal means to resolve investment disputes***

Investment disputes are inevitable for Chinese-funded enterprises investing overseas. When an investment dispute arises, legal means must be sought to resolve it. First of all, Chinese-funded enterprises must have proper legal awareness and use legal actions to protect their legitimate interests, for example, by seeking bilateral or regional investment dispute resolution mechanisms. In Thailand, if there is an investment dispute with the local government, Chinese-funded enterprises must know how to use the negotiation, mediation, litigation, etc. in the China-ASEAN Free Trade Area Dispute Settlement Mechanism Agreement to handle it. If there is a dispute with a corporation or a natural person in Thailand, it can be handled in accordance with the dispute resolution in the contract between the two parties. However, if the parties concerned do not specify a dispute mediation mechanism in the agreement, assistance from local judicial organs must be sought, or civil litigation is taken to resolve the dispute.

### **5. CONCLUSION**

In the post-epidemic era, there are both opportunities and challenges for Chinese-funded enterprises investing in Thailand. Chinese-funded enterprises therefore should objectively analyze the investment environment in Thailand and reasonably weigh the advantages and disadvantages of investment so as to avoid as many investment risks as possible and bring about more profits and economic value for themselves and Thailand.

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