

# Regional Development – The Engine for Thailand’s Future Growth

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Scene of regional development: Saraburi Industrial Zone

Multiple factors are contributing to pull industrial investment outside of the traditional areas in and around Bangkok and the Eastern Seaboard, fulfilling the government’s long desired objective of regional development. The ASEAN Economic Community (AEC), national minimum wage equalization, urbanization and increasing standards of living, will spur development of not only northeastern Thailand, but also the south and border areas with Myanmar.

## RELOCATION INCENTIVES AND LOCATIONS

We believe Thailand can continue to be one of the most attractive locations for foreign direct investment (FDI) in Southeast Asia, but where and why will be different than in the past. As traditional areas of investment, provinces to the near north of Bangkok and the Eastern Seaboard face issues of rapidly rising wages due to labor supply constraints, shortages of land in industrial estates and the on-going threat of unpredictable natural disasters, GDP growth in these areas will

increasingly be driven by consumption and urbanization rather than industrial investment. These constraints have started to drive industrial investment into locations further afield from Bangkok, places like Chachoengsao, Prachinburi and, further up-country, Korat and Khon Kaen.

Mr. Somnuk Samsonboonsuk, Director of Hi-Tech Industrial Estate, said that “new investors will likely not come to invest in the previously flooded zone in the next three to five years. Some manufacturers have been looking to diversify their operation elsewhere such as eastern seaboard, Prachinburi and Korat.”

While Prachinburi and Korat have some existing industrial estates, developers such as Hi-Tech and Hemaraj are eyeing these areas for diversification and expansion. Hi-Tech has developed a new estate in Prachinburi province and plans to begin to transfer land title to investors in December 2012. Hemaraj, which bought and re-launched the Saraburi Industrial Zone under the Hemaraj banner in early 2010, is experiencing strong demand.

After the 2011 floods the majority of affected companies were not interested in moving out of Thailand. Instead, they took the opportunity to rebuild where they were, invest in satellite operations elsewhere in Thailand or relocate their operations within Thailand to less flood-prone areas. This has been particularly true of high end electronics manufacturers that have further invested in and around Korat.

U.S.-based Seagate Technology is one example of a company following a Thailand-based diversification strategy. Earlier this year, Seagate pledged to invest U.S.\$200 million in Thailand in 2012. Mr. Mosley, Seagate’s Executive Vice-President for Operations, was quoted in the *Bangkok Post* as saying that the floods provide Seagate an opportunity to make their supply chain more competitive.

Two Japanese companies that invested in Korat include Casio, which moved its operations after the floods, and Cannon, which expanded its existing operations into Korat and is making a new investment in Prachinburi.



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**KHON KAEN PROVINCE**

However, even as investors move into areas nearest to Bangkok – such as Korat and Prachinburi – they are experiencing wage pressures and labor supply issues. In Korat the surging demand for labor has caused a rapid increase in wages, thus forcing lower-valued added manufacturers to look at relocating to more provincial locations.

One province with particularly bright prospects is Khon Kaen. Khon Kaen University is undertaking a feasibility study to set-up a new green industrial estate in Khon Kaen province.

Investors from Singapore, Japan and Taiwan are paying close attention to Khon Kaen, believing that it could serve as the geographic center of Southeast Asia once the AEC is in full swing. The north-south and east-west highway routes linking the countries of the Greater Mekong Sub-region meet in this city, increasing the likelihood that Khon Kaen will become an important logistics and even manufacturing hub.

**HUMAN CAPITAL SPURING REGIONAL TRANSFORMATION**

The transformation of these areas into Thailand’s new industrial and logistics hubs will not happen overnight. The seeds for this transformation were planted over the last decade as universities and technical colleges have developed and expanded and began turning out future technical and management graduates.

Based on 2010 population data from the National Statistical Office of Thailand, seven of the top ten most populous provinces in Thailand – Nakhon Ratchasima, Ubon Ratchatani, Khon Kaen, Buriram, Udon Thani, Sisaket, Surin – are located in the northeast. More important than these raw population numbers, however, are the number of indigenous technical, supervisory and managerial graduates turned out by the numerous universities that have been developed in these tier-two cities over the last decade in search of not just jobs, but careers close to home.

Between Nakhon Ratchasima, Ubon Ratchatani, Udon Thani and Khon Kaen, local universities have



*Working plan for the Myanmar’s Dawei Development Project*

been producing nearly 20,000 new graduates annually. About 15% of these graduates are in sciences and engineering. Although the absolute numbers of annual science and engineering students cannot be compared to Bangkok, the numbers of alumni that have graduated over the last several decades, coupled with expected new graduates, represent a talent pool of former residents who can be tapped by investors to return to their home regions.

In addition to new graduates there are a large number of skilled and technical staffs in Bangkok and the Eastern Seaboard that would consider moving back home to the provinces for the right jobs and careers.

Furthermore, when the new national minimum wage goes into full effect for all provinces on 1 January 2013 it will help to limit some of the disparity in income that has historically encouraged entry level and low skilled labor to migrate to Bangkok seeking higher wages. Workers will have less incentive to migrate to the popular hubs in search of higher wages if they are able to secure equally well-paying jobs near home.

The Thai government is cognizant of the economic shift currently underway and is considering plans of how to encourage productivity improvements in the agricultural sector to cope with the expected accelerated shift of labor

from farm to factories. As more of the population shifts from rural areas to regional Tier-2 cities regional incomes and standards of living will increase, a long sought after goal for policy makers. Combine these two factors with urbanization and a captivating picture forms. Consumers will play a major role in the development of poorer regions and will attract industrial and other investment into non-traditional areas.

**URBANIZATION OF TIER-2 CITIES**

Some of the provincial cities that are seeing rapid growth include Korat, Khon Kaen, Ubon Ratchathani and Udon Thani in the northeast and Songkhla and Surat Thani in the south. This urbanization and local economic growth is being verified by a promising trend of the development of retail outlets in these cities. The country manager of one of the leading global third party logistics companies in Thailand expects that one of the most promising growth areas for their business is in the management of regional warehouse and distribution centers to serve Big Box retailers like Makro, Tesco and Big C as they expand countrywide.

Siam Makro recently opened new branches in Udon Thani and Nakhon Ratchasima provinces. These same provincial cities are seeing rapid expansion of quick service restaurants. Andrew Holman, Vice President and

General Manager of International Franchising for the Pizza Company said, “We are seeing some of our fastest growth in provincial urban centers, including Khon Kaen and Udorn Thani in the northeast.”

Kasikorn Bank (KBank) and other local investors are fully aware of this trend and they are not waiting to be left sitting on the sidelines. KBank has noted that more real estate activity is already moving out of Bangkok and household incomes in the provinces are on the rise. Urbanization is driving the development of cities often overlooked as future industrial locations that Thai and foreign manufacturers should consider. KBank expects investments in real estate, modern retail trade, healthcare, as well as automobile sales to further drive urbanization in Khon Kaen, Surat Thani, Udorn Thani, Ubon Ratchatani and others. KBank expects a significant increase in the loan proportion of loans allocated to provincial markets in the next three years. Their aim is to increase their market share in the provinces to 25-30 percent within three years from the current 10 percent.

### IMPACT OF THE AEC

The advent of the AEC in 2015, the opening of Myanmar to greater foreign investment and trade and completion of the East-West Corridor highways connecting Vietnam, Laos, Thailand and Myanmar means that goods, services and labor will be able to travel more freely. This presents new opportunities not only for consumers, but investors as well. According to the *Bangkok Post*, the Thai government plans to invest Baht 50 billion to build links—both highway and rail—with Myanmar through western Thailand. One such example is a highway that will connect Dawei in Myanmar with Laem Chabang deep-sea port on Thailand’s Eastern Seaboard, according to Bol secretary-general Dr. Atchaka Sribunruang. Far-sighted

companies are following the lead of these developments, which will lower the transportation costs that have limited regional development to-date. Intel Capital (IC) is also exploring investment opportunities in Thailand as the AEC nears its induction. IC is the investment arm of Intel Corporation. The company considers Thailand to play a critical role in the technology sector in the region.

### CHALLENGES TO REGIONALIZATION

Challenges to further regional industrial expansion vary by industry. The availability of key suppliers and vendors will influence the pace of regionalization for companies in the electronics (E&E) and auto parts sectors. The importance of industrial clusters cannot be overlooked. When a company is near to its suppliers it eliminates logistical hurdles, reduces transportation costs and allows it to run a just-in-time operation, reducing in-process inventory and carrying costs. Companies in the E&E and automotive clusters share similar requirements and have less incentive to move away from its supplier clusters. For example, unless Honda decided to relocate its operations from Rojana industrial park, its nearby suppliers are less likely to move as well.

While industrial clusters are a key to competitiveness for many industries, even clusters move over time. We are seeing Tier-1 companies take the first tentative steps to relocate to areas many of their peers once considered “too far” from Bangkok; and their suppliers will certainly follow. An electronics cluster is rapidly developing in Prachinburi. Toshiba announced plans to relocate its chip manufacturing facilities from north of Bangkok to Prachinburi province. Canon is also constructing new facilities in the province in the 304 Industrial Park. 304 Industrial Park welcomed the relocation of 10 factories so far this year. Joining Canon were Nicco Machine Co Ltd,

Northland Co Ltd, Sanwa Metal Co Ltd, and Thai Kyowa GMB Co Ltd.

Even though this year is forecasted to be relatively dry, flooding will continue to remain an inevitable challenge in the Chaophraya basin as the area experiences floods several times a decade, forcing manufacturers to look farther afield for their investment locations in Thailand.

According to Dr. Seree Supratid, a lecturer and expert on disaster management at Rangsit University, Bangkok and its northern and eastern areas are highly unlikely to see a repeat of 2011 this year, but that due to improper land use and development in river basins, mismanagement of locks and dams, and unpredictable and erratic weather patterns it is only a matter of time before the next flood will occur.

### MAINTAINING COMPETITIVENESS

Thailand is at the beginning of a transformation from a Bangkok and Eastern Seaboard-centric concentration of industrial investment to more dispersed regional urbanization and industrial development. This new regionalization of economic development should be a welcome change, empowering economically a larger segment of the population allowing Thailand to remain an attractive investment destination for foreign investors looking to access its highly skilled labor force, take advantage of the Board of Investment’s (BoI) region-leading investment incentives and its central location in the AEC.

Advantageous BoI incentives, access to skilled and educated labor and proximity to some of the new road networks established to link neighboring countries under AEC scheme, which will lower transportation costs, make Thailand’s regionalization almost inevitable. ■

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