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Economic Liberalization and Inclusive Growth  
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# Economic Liberalization and Inclusive Growth

## The Case of Thailand and ASEAN Integration

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### 1. Introduction

Economic liberalization, including the opening of the economy for trade, foreign investment, and labour movement, has been central to the process of globalization around the world. The impact of economic globalization on the prospect of creating equality together with growth, i.e. inclusive growth, has been a subject of wide debates. Despite having contributed to the economic growth of many regions in the world, including Southeast Asia, the impact of liberalization on reducing inequality is yet to be clearly observed.

This chapter uses the case of ASEAN economic integration and Thailand to engage with the debates on the relationship between economic liberalization and inclusive growth. It looks specifically at how the integration occurring through ASEAN Economic Community (AEC) over the past few decades has affected the prospect of growth and the promotion of equality in the Thai economy. The examination of three main aspects of this relationship. Firstly, it looks into how the liberalization of trade in the case of ASEAN affects different sectors of the Thai economy. Secondly, the chapter explores the impacts of ASEAN's liberalization of foreign direct investment (FDI), looking at both the case of freeing up outward and inward investment from and to Thailand. And finally, the chapter investigates how the ASEAN promotion of free movement of migrant labour will affect aspects of inclusive growth, most notably the wages of different groups of Thai labour.

The chapter consists of 6 sections including this introduction. The next section, section two, outlines the main aspect of ASEAN economic integration and the challenges it creates for Thailand. Section three to five explores the three aspects mentioned earlier of the relationships between ASEAN economic integration and inclusive growth in Thailand. The final section, section six provides a discussion and the conclusion.

### 2. ASEAN Economic Integration and Thailand

The Association of Southeast Asian Nations (ASEAN) was established in 1967, with 5 founding members including Indonesia, Malaysia, Philippines, Singapore and Thailand. In its initial stages, the main objective of ASEAN was to promote peace and security in Southeast Asia. It was not until the end of the

Cold War that more emphasis was placed on economic goals. This was demonstrated by the initiation of the ASEAN Free Trade Area (AFTA) in 1992 with six members, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In 1999, other four members from Indochina sub region participated in AFTA.

Even after the initiation of AFTA, the social, political, and economic cooperation was not yet implemented to all members. It was in 2003 that ASEAN member States officially expressed their intention to build the ASEAN Community to create a comprehensive economic, social and peace cooperation across all countries by 2020. The Declaration in 2003 classifies the cooperation of the ASEAN Community into three pillars: the ASEAN Political and Security Community (APSC), the ASEAN Economic Community (AEC) and the ASEAN Socio-Cultural Community or ASCC).<sup>1</sup>

Under pressure to compete with large emerging economies such as China and India, the main aim of the AEC is to consolidate ASEAN members' markets into a single market. This is in order to increase production efficiency, raise the competitiveness, and attracting foreign capital by eliminating tariffs and integrating member economies. AEC targets ASEAN to become a production base, allowing freer movement of skilled labor, goods and services, and investment. In order to accelerate the economic integration process the AEC set many targets, most of them to be achieved within few years, e.g., canceling the tax barrier of most products produced within member, integrating 11 major production branches in a fast-track manner, finding a mutual agreement on harmonization of standards and technical regulations (Hew and Soesastro, 2003).

It's worth noticing though, that when compared to the extensive economic integration that took place in the European Union (EU), the Asian economic integration is still not as comprehensive. The difference lies especially in the aspect of labor mobility and the use of single currency. In AEC, the liberalization of labor movement is limited to skilled jobs and each member country is still allowed to use their currency

**Table 1: Comparison of EU Economic integration with ASEAN Economic Community**

Type of Integration	EU	ASEAN
<b>1. Merchandise trade</b>		
1.1 Internal tax rate	- Reduced to 0%	- Reduced to 0%
1.2 External tax rate	- Every member state imposes the same tax rate for Non-member countries	- Each member state applies their tax rates for Non-member countries
<b>2. Service trade</b>	- Equity participation up to 100%	- Equity participation up to 70%

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<sup>1</sup>At the 12th ASEAN Leadership Summit in Cebu, Philippines in 2007, The goal of becoming an ASEAN Community in all 3 pillars has been moved to 2015.

<b>3. Labor mobility</b>	- Free labor mobility	- limited labor mobility (Only skilled workers in certain professions)
<b>4. Other integration</b>	- Single currency	- National currency
	- European Central Bank (ECB) with authority over member countries (supra-national authorities)	- Intergovernmental agencies do not have jurisdiction over member nations.

Dennis and Yusof (2003)

#### *ASEAN Economic Integration and Thailand's Economic Challenges*

Thailand is considered big economies in the region ranking the second in terms of GDP and the fourth in term of population (CIA, 2018). Through the ASEAN economic integration, Thailand is facing the following major challenges.

Firstly, ASEAN integration offers a great opportunity for Thailand's export. After the World War II, Thailand's international trade depends largely on US and Japan. Since 1980s, Asian neighbors have gradually replaced the old partners. Today ASEAN becomes the important export destination for Thai products. The current trade value is more than seven times compared at the beginning of AFTA. Trade in both final products and intermediate products has sharply increased, thanks to the lower transport cost and lower tariffs in the region.

Secondly, the ASEAN integration is going to transform Thailand's status as the destination of FDI. Most ASEAN countries have proposed themselves as production hubs of manufacturing products. Foreign investors, mostly from EU US and East Asian countries, came to ASEAN seeking opportunity from low labor costs and trade network in the region. From 1995 to 2017, ASEAN FDI inflow, although decelerated in recent years, has increased more than quadruple from 30 billion USD to 137 billion USD. In 2013, ASEAN-5 FDI inflow cached up with China for the first time. The concern is that, by collectively trying to attract more FDI to the region, the ASEAN members might also compete aggressively with each other to offer benefits such as "tax holiday" in order to gain a larger share of investment in the region. This could lead all members, including Thailand, to the situation called the "race to the bottom". It should be also noted that, since the Asian financial crisis in 1997, intra-ASEAN FDI share has steadily increased to reach one-fifth of total the investment in 2017.

From 1980s-2000s, the annual average inward investment had grown spectacularly. However, the country has faced decreasing trend both in value and share in recent years. Foreign investors bring 8 billion USD of fund in 2017 declining from 14.7 billion USD in 2010 that makes its share of ASEAN FDI plummets from 13.6% to 5.9%. Unlike its counterparts, Thailand receives much of FDI from Japan. From 2012 to 2017, Japanese firms invests cumulatively 26.3 billion USD almost haft of the country FDI. Also, Thailand is main destination in the region accounting for 28% of all Japan investment in ASEAN. The Board of Investment

(BOI) offered various tax incentive where sometimes criticized as misdirection. Tax policy is not the only factor. With the advantage of infrastructure and relatively high skilled labor.

Finally, recent increase in border openness with neighbors provides opportunity for the inflow of labour to Thailand. The labors from neighboring countries can contribute to numerous businesses by keeping low wage in construction and trade business. More opened border also induces migrants to relocate to border cities such as Mae Sod, Sa Doa, or Mukdaharn. Having a large flow of migrant to these bordered areas can significantly boost the development of these cities, making them a new regional development hub for Thailand.

### **3. ASEAN integration and Thailand's Production**

This section will discuss the background of economic growth and inequality in Thailand. It includes the couple of years before and decades after the ASEAN economic cooperation. After that, the manufacturing, services, and agricultural sectors will be analyzed separately. This provides insight for the integration as its contribution for economic growth as well as income convergence does not spread to sectors equally.

In the early period of regional economic integration, members focus on reducing tariff barrier between countries. The AFTA addresses strongest impact through tariff cuts. The import duties between members had continuously reduced. In 1993, the first year after AFTA, the average tariff rate in ASEAN-6, namely Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, was as high as 13%. However, under the Common Effective Preferential Tariff (CEPT) program, the rates had effectively reduced. In 2003, AFTA's tariff reduction target were completed, which more than 90 per cent of tariff lines of the original six members were subject to 0-5 per cent tariff. For the new member countries, a CEPT scheme is expected to be reach before 2015 (Kohpaiboon, 2009). In theory, an increase in trade value in the region can be expected. This explains why Thailand has been increasingly dependent on ASEAN market, which its share of total imports and exports has grown from 17% in 1998 to 23% in 2018.

According to the World Bank, income inequality in Thailand is moderate compared with other countries in ASEAN. The inequality level, measured by Gini coefficient, exhibits the upward trend before the advent of ASEAN economic integration. During the rapid growth, the Gini index rose from 0.487 in 1988 to 0.536, the all-time high level, in 1992. However, amid the period of slower growth, the Gini has gradually declined to 0.445 in 2016. It's likely that, since the beginning of the ASEAN integration, inequality in Thailand has been reduced. However, there's a sign of reversal trend in recent years. The income inequality as well as poverty rate increase in 2018.

It's likely that Thailand's dynamic of income inequality is likely to fit Kuznets hypothesis. Paweenawat and Mcnown (2014) finds that the relationship between per capita income and inequality is consistent with the Kuznets hypothesis. The theory argues that inequality evolves in the form of an inverted

U-shape. It increases in the early period of industrialization then gradually declines as more workers join the high productive sector. Kuznets explains through the migration of labor from low-productive agriculture sector in the rural to the high-productive industrial sector in the city. However, we cannot claim that regional liberalization leads to the income convergence in Thailand. Generally, trade openness stimulates economic growth but it does not ensure the benefit will be equally spread. The structure of economy as well as policies at the time also shape the dynamic of inequality.

From this point, the effect of trade liberalization will be discussed under the framework of Kuznets hypothesis. Industrial, service and agricultural sectors are analyzed to argue that, due to its absence in the early stage of industrialization, the ASEAN integration generally gives positive impact for income inequality. Regional trade boosted productivity and production in manufacturing sector. Then, when consumers in the region have higher income, the service sector play significant role. The agriculture receives little benefit. Additionally, agricultural policies make inequality more vulnerable.

Before initiating trade openness with ASEAN countries, Thailand had started to shifted from agricultural to more industrial nation. The Export-led growth policy was adopted in mid-1980s after operated in Import-substitute scheme since 1950s.<sup>2</sup> After implementing multinational firms' capital and promoting foreign investment, the industrial sector was growing continuously. In term of income disparity, the export-orient scheme plays significant role by increasing manufacturing jobs. The GINI index had increased to the all-time high level in 1992, the same year participating the trade bloc. In this early industrialization, there's dispersion between manufacturing income and agricultural income. According to the Kuznets hypothesis, it is likely that Thailand was at the top of Kuznets curve when participating AFTA.

When Thailand was joining the AFTA in 1992, industrial output is responsible for 38% of GDP and it was the workplace of 16% of all workers. This means Thailand's industrial sector had developed to a certain extent. It's explain why the sector was growing rapidly in the early stage of AFTA. Also, handful of labor already in relatively high-wage manufacturing sector means that less agricultural labors are available. The manufacturing sector can further expand only by raise higher wages. It also brings the agricultural wages up as well. This explains why income inequality has decreased after decades of integration. On the contrary, when the manufacturing sector cannot grow any further, it will bring down wage income. And This will have negative effect on inequality.

In the early stage of liberalization, the manufacturing sector expanded strongly. It is led by computers and electronics parts acquiring more than one-fourth of Thailand export to ASEAN. The reason is, while EU provides formal trade framework, ASEAN integration begins with no formal one that make trade in components is easier. Unlike the network trade in other parts of the world that focus on machinery and

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<sup>2</sup> The emergence of Export-led growth policy coincided with several events, e.g., Japanese companies seeking new production sites after appreciation of Yen due to the Plaza Accord in 1985, lower long-distant transportation cost in 1980s. These factors promote investment as well as production and trade in new-advanced manufacturing sector.

transport equipment, the one in ASEAN countries is concentrated in electronics parts. Several reasons, e.g., policy aiming to protect local industry, high costs of transportation explain why trade in automotive and transport products relatively low in East Asia. Thus, network trade in the region is dominated by the electronics parts and components (Athukorala, 2014). This lefts countries to specialize what they have comparative advantage. When cheaper intermediate inputs shifted across ASEAN borders, the region's manufacturing sector is increasingly competitive and experiences rapid expansion. In Thailand, manufacturing sector is not only true driver of growth, but also bring down inequality by narrowing the gap between wage and other types of income. Soaring manufacturing wage had further push up the share of wages to national income from 30% in 1992 to 35% at the end of century.

When the AFTA's mission of tariff reduction reach its goal in 2003, It steps out from the formation stage to the stage of utilization. Kohpaiboon (2010) finds that, due to several constraints, the exemption of tariffs is significantly underutilized by Thai exporters and AFTA is unlikely to further play a significant role in promoting intra-regional trade. Therefore, in the second decade of integration, the manufacturing connection between Thailand and ASEAN had gradually changed. The importance of network trade in electronics devices is faded. Export categories have shifted from intermediate inputs to final products. Motor vehicles and parts, refine fuels and jewelry comprise about one-fourth of export in 2018.<sup>3</sup>

Such change has implication for income inequality. Since 2000s, the export categories have shifted from intermediate inputs to final products. As industrial output is higher with constant share of workers, it implies that the productivity has increased. Definitely, manufacturing wage is growing well and lead wages in other sector to increase as well. However, since 2014, the sector has witnessed a slowdown. The wage in industrial sector has been stagnant. It seems that the same pattern emerges in other wages as well. Also, the output and employment barely increases. After reaching the peak of 40% in 2010, output share has gradually reduced to 35% in 2018. It happens even more labors add to the sector, 20.6% to 23.5% during the same period, suggesting that the sector generally becomes less productive. This indicates that the sector might not lead the growth of wages and bring income convergence any further.

Since late 2000s, Thailand is not the exceptional case because industrial sectors of the other large economies in ASEAN as well as in East Asia and Pacific are also less important. When industrial sector is less

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<sup>3</sup> The automotive sector emerged as the champion of Thai products outpacing the electronics categories in term of export to ASEAN market in 2015. Thailand is the world eleventh biggest motor vehicle production with 2.2 million motor vehicles and 2.1 million motorcycles produced. Thailand's automotive industry is far larger than any other ASEAN acquiring for haft of motor vehicles and 56% of motorcycles produced in ASEAN, thanks for several reasons, i.e., well-designed policy, the strength of prolonged-integrated cluster, the multinational carmakers' regional manufacturing center. Haft of total output is produced for export purpose and ASEAN market is increasingly important, thanks for negotiations to lift many non-tariff barriers in 2000s. Thus, the proportion of vehicles and parts export to ASEAN increased from only 3% in 1998 to 14% in 2018.

important, what contributes to lower GINI index is the production in service sector. Today, ASEAN is not just a region of production base, which provides advantage of low-paid labors. Income per capita in the region keep growing spectacularly. Young people in ASEAN have better education and more of them moved to the city. Increasing middle class is looking for higher quality services. It is an opportunity for businesses hoping to penetrate this growing market.

As consumers in ASEAN spend more on services, the opportunity opens for Thailand. Tracking back in the history, Thai labor prefers to works in service sector. Since industrialization progresses, majority of workers, however, have continuously moved to work in service business. The employment share has shifted from 20% in late 1980s to 45% in 2018.

Thailand is among the top destinations for tourists around the world. The business related with Tourism is highly important accounting for one-fifth of country' GDP in 2018. Since 2010, the army of Chinese tourists have flooded to the country. Also, the number of tourists from ASEAN neighbors has steadily increased to nearly 10 million in 2018. Restaurants and hotels in many cites are full of tourists. Increasing tourists help to boot tourism income and pushes the number of service worker to 45% of labor force. And because output grows faster, labor productivity increases. Since service business is the most important source of wage accounting two-third of total compensation of employees, tourism boom poses significant improve to wage income.

As service is the largest sector and provides close linkage to the industrial sector, its impact to the inequality should not be underestimated. In the past, it left crucial mark by leading higher short-term income inequality in late 1990s. Years after implementing Export-led growth policy and AFTA, manufacturing expanding rapidly requires assistance from services. Ikemoto and Uahara (2000) claims that construction and finance are new industries driving inequality. These sectors generally paid better than those in the Manufacturing. Skilled labors moved and their incomes re-diverge form their unskilled counterparts. As engineers and financial experts receive high salary, inequality rises again.

In 2018, ASEAN is the second largest market for Thai agricultural exports with a value of 4.7 billion dollars, 20% of total agricultural export value. The number grows by more than 667% from 1992, before ASEAN began to reduce agricultural tariffs. However, most members still reserve some barriers for agricultural products to protect their farmers. Even intra-ASEAN agricultural tariffs under the CEPT Scheme for is proved to be successful in more than 90 percent of agriculture lists, average tariff rate is higher than other categories (Pasadilla, 2007). Agriculture products are relatively less concentration on the zero percent tariff in the CEPT, except Singapore and Brunei. Furthermore, even some of both tariffs and non-tariff barriers gradually achieve common standard on crop and livestock products, agricultural trade is far from potential. Thus, the current benefit from integration in agricultural trade is likely limited.

In early AFTA and export-orient policy (1991-2005), Thailand had well reduced agricultural labors. Manufacturing activities had been souring and significant agricultural labors had left low productive sector to other sectors. Under Kuznets' framework, this brings more equal wages. Nevertheless, during 2006-2013,

such trend is faded. Agricultural sector holds constant employment share of 40% approximately. This is unique because, in the same period, countries in East Asia and Pacific had reduced the agricultural labor share from 39% to 30%. Other countries in ASEAN applying lower tariffs, e.g., Malaysia continuously withdraw labors from agricultural activities. The policies that aim to limit the degree of liberalization are responsible for this event and they pose the risks toward inequality in the long run.

Retaining such high level of labor in agriculture may be the result of policies. Thai government, though the importance of agricultural output has been persistency declined, actively implemented policies to protect its farmers. Tariff rates for agriculture products, towards countries in ASEAN and outside the group, are highest among ASEAN-6 countries. Also, 35% of Non-tariff Measures (NTMs) is used for technical barriers purpose. Not surprisingly, animal products, vegetable products, and food stuff are highly protected (Intaravitak, 2016). Furthermore, the crop subsidy programs also play crucial role. This implies that competitors have turned to utilize free trade, while Thailand still attach to agricultural subsidies. Such protective policies, therefore, manipulate the country's agricultural production. In short-term, there's achieve good result, the agricultural trade surplus with ASEAN partners exceeds 7 billion dollars. The benefit spreads to not only who settles into planting crop, but also new farmers who joins the party.<sup>4</sup>

For a while, the country had reaped benefit with considerable employment in agricultural sector. During late 2000s to early 2010s, prices surge of many agricultural commodities in the world market e.g. rice, sugar and rubber, had raised farmers' income. However, the risks remain.

When the prices of core agriculture commodities have collapsed since mid-2010s, farm income has substantially decreased. As the prices shows no sign of improvement in years ahead, the income of poor farmers are stagnant. According to the World bank (2020), lower farm income is much responsible for the increased in poverty in 2016 and 2018. This is not usual event, as poverty rate has not been experienced in any ASEAN countries since 2000. Unsurprisingly, this happen together with the reversal of Gini index in 2017, as income in the lower ends of distribution declined.

After reduction in world agriculture prices and huge subsidy program were abolished in 2014, the country agricultural employment was back to decreasing trend. Still, the sector currently employs 30% of labor force, the highest among big ASEAN economies. Either growth, or inequality could be at risks with such level. Several options are possible. The policymakers might follow counterparts by implementing more liberalization policies for agricultural products. However, the problem might be derived from the country's inability to create high-paid jobs in industrial and service sectors.

Lack of skilled labor is the structural problem of education. Generally, the agricultural jobs paid lower than those in other sectors but many workers do not leave due to lacking competent skills. Therefore, it's the big challenge whether Thailand can raise wage income by supplying labors with higher skills. Though

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<sup>4</sup> During 2009-2010, Abhisit Vejjajiva government initiated price subsidy for rice targeting 10,000 Baht per ton which later replaced by Yingluck Shinawatra government's Rice Pledging Scheme Policy in 2011-2014 guaranteeing 15,000 Baht per ton, 50% higher than world price.

the government try to tackle this issue by providing universal basic education, the education achievement is relatively low, even when compared to other less developing countries. Thai students has done poorly in PISA which tests skills of math, science and reading ranking far behind Taiwan, China and Vietnam. Lathapipat (2016) finds that, even free of tuition cost, more youth is missing in tertiary level. He points to the influence of family income that strongly represent costs of higher education.

Amid the concern of the aging society as well as the middle income trap, either public and private sector hope that investing in the next generation is the answer. However, only a handful of student accesses to education with good quality. Furthermore, the inequality of opportunity is the core problem. The opportunity for education between children in rural and big cities is so unequal in Thailand (World Bank, 2020). Students from remote area are likely to end up with working in the farm or low-paid jobs in service businesses. This is the main source of growth stagnant and the re-emerging of income inequality in recent years.

In the coming decade, challenge as well as opportunities are waiting ahead. There's strong economic growth in the five countries of the Mekong region namely Cambodia, Laos, Myanmar, and Vietnam: CLMV (so called continental ASEAN). Even trade with these partners is still not significant compared to the trade to major ASEAN nations, but the rates of growth is spectacular in recent years. Since late 1990s, Thailand's export to continental ASEAN have grown more than fourteen times, much higher than the growth of export to overall ASEAN.

They have been also increasingly connected, where Thailand is at the center. In 2000s, several infrastructure projects significantly reduce land transport cost. Southern Economic Corridor emerges to link countries in Greater Mekong region. East-West Economic Corridor in 2006 improves road nearly 1.5 thousand kilometers from the west end at port city of Mawlamyine in Myanmar to Da Nang city as the east end.

As the growth is getting strong and transportation cost is lower, richer consumers in the region access to Thai products, both manufacturing and agricultural, with cheaper prices. Thus, regional trade is expected to further accelerate in the years ahead. Such opportunity will provide strong impact to Thai economy that domestic demand, due to reaching deep stage of aging society soon, is expected to stagnant. For service sector, the impact should not be underestimated.

Lower transportation cost means easier to travel. Thailand has proven that its tourism sector is highly competitive. Number of tourists from overall ASEAN is already significant but the one from CLMV is still room for growth. However, there's still challenge ahead. Regulations, especially on platforms in "Digital Economy", are still obstacle for the inclusive growth. Several online digital platforms, e.g., Airbnb, Grab, is not fully liberalized. For instance, more than 4 rooms providing for daily rental is classified as a hotel business. Unless the owner registered, it's considered illegal. The ride-sharing application like Grab is still illegal by using a personal car for business. These regulations limit the inclusive growth that provides equitable opportunities for everyone. The liberalization policy in service businesses should be open for debate to bring the country to more equal society.

#### 4. ASEAN “Free and Open Investment Regime” and Thailand’s FDIs

The Asian Financial Crisis of 1997 was recognized as a crisis of investment liberalization for the ASEAN countries, and ASEAN has shown the increasing awareness of excessive capital mobilities in the aftermath of the crisis. In section 16 of *ASEAN Comprehensive Investment Agreement* whose main objective is “to create free and open investment regime,” it is written “a member state may adopt or maintain restrictions on payments or transfers related to investments” in cases of “serious balance-of-payments and external financial difficulty.” However, FDIs, though literally being a part of “investments,” are barely perceived as a cause of “serious balance-of-payments and external financial difficulty”. Perhaps, because one of the reasons triggering the crisis in 1997 was sudden outflows of capitals, most economists considered that FDIs were the safest type of foreign investments due to their natural difficulty for relocation. Therefore, FDIs are exempt from most of the “restrictions.” Moreover, since FDIs usually come to the region with advanced knowledge and technologies, they are widely deemed as a main engine for economic development. Thus, FDIs, regardless of their origins, are always welcomed by all of the ASEAN countries. The stream of economic liberalization in the 2000s encouraged FDIs throughout the world to flow into Southeast Asia. In 2002, an annual amount of FDIs flowing into the region was 15.77 billion USD, and, despite a short stumble in 2008 and 2009 due to the global economic recession, the number increased over 8 times to 136.90 billion USD in 2017. This rising trend is actually in the opposite of that before 2002. In fact, the annual amount of FDIs flowing into Southeast Asia in 1995 was 28.23 billion USD, which was even greater than that in 2002.

The overall surge of FDI inflows in Southeast Asia was partly due to the increasing importance of new destinations in the region. After joining ASEAN in the late 1990s, the four new ASEAN Member States – Cambodia, Laos, Myanmar, Vietnam – also known as the CLMV countries, were increasingly engaged in the world market. In 1995, the sum of FDI inflows in the CLMV countries was only 2.34 billion USD which was accounted for only 8.28 percent of total amount of FDIs flowing into Southeast Asia. From 1995 to 2006, the share of FDI inflows in the CLMV countries out of those in all ASEAN countries was quite stable as they stayed in a single-digit range, but after 2007 it was most of the time above 10 percent. That is, FDIs in CLMV countries have played a larger role especially since the late 2000s. Indeed, amid the global economic recession, share of FDI inflows in the CLMV countries out of those in all ASEAN countries was at its peak - 23.53 and 20.08 percent respectively. This is a result of the fact that while other ASEAN countries encountered a drop of FDI inflows, the CLMV did not.

Of course, intra-regional FDIs must have played an increasingly significant role in the rising flow of FDIs in Southeast Asia. In 2005, the annual amount of intra-regional FDIs was only 4.21 billion USD, which was accounted for 9.89 percent of total FDI inflows in the region. However, from 2008 until present, the share has never been below 15 percent. Indeed, in 2016 and 2017, Intra-ASEAN FDIs, comparing to those from other individual countries, were the largest sources of FDIs in the region, as they were amounted to 25.89 and 26.97 billion dollars respectively. Even though it is still questionable whether this rising trend of

intra-regional flows of FDIs is a consequence of ASEAN investment scheme or that of each country's characteristics such as domestic market size, infrastructure quality, and labor productivity, the number is good enough to represent the progress of ASEAN investment integration.

Thailand, as one of the ASEAN members, has contributed prominently to the changing landscape of ASEAN FDIs. That is, she has exported more of her capitals to other ASEAN countries, while she has also received more FDIs from other ASEAN countries and the world. This development yield opening opportunities for Thai businesses and it has likely enhanced economic growth for the country. However, the concern of this chapter is whether or not this growth is inclusive. The following discussion explores the benefits and costs that Thailand has faced as the rising stream of investment liberalization affected its status as the FDI-exporting and FDI-receiving country.

### *Thailand as an FDI-Exporting Country and a Prospect of Inclusive Growth*

In 2005, the annual amount of Thai direct investments in all ASEAN countries was only 0.07 billion USD, while that in the CLMV countries were 0.22 billion USD. That is, more of capitals were pulled back to Thailand than were shipped out to the non-CLMV countries. However, a while after seeking business opportunities in neighboring countries became a trend, the numbers in 2018 were much different. The amount of Thai direct investments in all ASEAN countries was 6.69 billion USD, which is greater than that to any other destination around the world, while that in the CLMV countries was 2.01 billion USD. These numbers are compatible with Cheewatrakoolpong and Boonprakaikawe (2015) who suggested that the CLMV countries “a high potential to become Thailand's outward FDI recipients” due to their big domestic markets, and their open trade and FDI policies.

Those in Thailand who benefited the most from an opening opportunity to invest in the neighboring countries were likely the Thai firms. In 2013, there were 142 listed companies in the stock exchange of Thailand invested abroad (Stock Exchange of Thailand, 2018), and the number rose to 231 in 2018 (Stock Exchange of Thailand, 2019). Over 80 percent of all listed companies undertaking outward FDIs sent their capitals to other ASEAN countries in 2017 and 2018. At the end of 2018, 68 firms sent their capitals to Myanmar, 65 to Vietnam, 57 to Laos and Cambodia – the CLMV countries were the top fifth destinations among other ASEAN countries. These FDIs from Thailand went to various industries in ASEAN countries, in which resource industry, in term of values, was the highest, following by Property and Construction, and Services. From 2016 to 2018, the average growth rate of per annum foreign revenue was over 15 percent, which is greater than 9 percent from domestic investment. Moreover, as returns from abroad could in turn fuel domestic investments, it is found that the outward FDIs have not crowded out domestic investment in Thailand ((Stock Exchange of Thailand, 2019). Therefore, they do not seem to play a part in the stagnant economic growth of Thailand in recent years, and the growing unemployment problem should not be concerned of as their results. From the positive business prospects, overseas investment promotion is usually stated as one of the government's industrial policies.

However, when it comes to implication on inequality and inclusive growth, the picture may differ. The higher growth rate of revenue from abroad implies better business opportunities to those who have options to ship their capitals outwards. However, although these options are not restricted to only big firms and it could be observed that some Thai SMEs looked outwards to seek for these opportunities, by nature, not all entrepreneurs have such opportunities. At the same time, it could also be observed that some business owners have closed down some of his labor-intensive units in their Thai plant and move them to their new plants in the neighboring countries. The main reason behind this action was that they look to avoid higher wages in Thailand. In a macro picture, even though some of these owners would replace the relocated labor-intensive units with more capital-intensive ones to avoid leaving his plant unutilized, their actions could lessen the wage-raising pressure in the Thai labor market. This does not seem to help soothing the problem of income inequality in the country.

#### *Thailand as an FDI-Receiving Country and a Prospect of Inclusive Growth*

What about the impact of FDI inflows for Thailand? It is well known that Thailand has experienced significant inflows of FDIs since the late 1960s, as the Japanese textile manufacturers sought to find a new market (Doner 2009, p. 187). Through time, FDIs have played an increasingly important role in both quantity and quality in the Thai economic development. For quantity, FDIs, by definition, are a part of GDP. In 1975, the amount of FDIs in Thailand was 0.09 billion USD which was accounted for 0.58 percent of GDP, while, in 2018, the amount was 13.25 billion USD which was 2.62 percent of GDP. The ratio of FDIs out of GDP peaked at 6.43 percent in 1998, a year after the Asian crisis, which implies that FDIs played a big part during the recovery of the Thai economy. Hitherto, it has been broadly believed that FDIs have had positive contributions to the Thai economy in several aspects such as enhancing technology spillovers, increasing employments, improving labor productivities, solving problems of saving shortages, etc. For example, the Japanese FDIs have led Thailand to the front line of automotive manufacturing networks, or knowledge and technologies from the American FDIs allowed Thailand to be a top exporter of hard-disk drive. Meanwhile, in recent years, ASEAN FDIs have played an important role in expanding the so-called “Digital Economy” in the region (ASEAN Secretariat 2018). Such enterprise as the Singaporean GRAB not only provided options for logistics and transportations for customers in urban areas of Thailand, but it also opened up some working opportunities for ordinary people.

However, the long history of FDIs in Thailand shows that economic development is not always inclusive. Velde and Morrissey (2004) found that FDIs had positive impacts on wages of both skilled and low-skilled workers. However, the former gained more than the latter, leading to the overall rise in wage inequality. Still, there are contrasting perspective to this topic. Tomohara and Yokota (2011) found that FDIs from Japan and Taiwan increased demands for unskilled workers, and can help alleviate wage inequality. In the similar fashion, Farhan, Azman-Saini, and Law (2014) presented that FDIs yield “inequality-reducing

effect” in the case of Thailand. Meanwhile, Figini and Gorg (2006)<sup>5</sup> found that increasing stock of FDIs in a developing country, Thailand included, usually associate with high wage inequality, but the problem seem to be alleviated with increasing FDI inflows.

It is no difference for the “Digital Economy” that was boosted through ASEAN investment integration. The expansion of “platform economy”, such as transportation services mediated by mobile applications, enables many to earn some extra income by sharing their available resources. Thus, the “sharing” aspect of the Digital Economy have a potential to bring some positive prospects for inequality alleviation. Still, it cannot be forgot that the share-holders of firms operating on digital platforms can gain the most, making money without paying any wage or providing welfare to those who works on their platform. The implication on inequality can also arise from the fact that platform economy only enables those with some resources, such as those already owning a private car, to become service providers. Hence, the opportunities from them are likely to be inaccessible for those in the poorest sections.

Despite the controversy on whether inward FDIs could worsen or alleviate a problem of inequality and really bring in inclusive growth, the Thai government tried even harder to attract FDIs. Two months after the military coup in 2014, the Board of Investment (BOI) of Thailand was transferred from the ministry of industry to the Prime Minister’s Office. This allow the junta government to have a closer maneuver over the BOI, and some modifications of investment promotions were done to attract FDIs with, hopefully, more advanced technologies. Of course, FDIs from fellow ASEAN countries are one of the targets, and this attempt was successful as there was a rising trend for ASEAN FDIs flowing into Thailand. The main reason for this action from the government was that it badly needed high GDP growth to justify the coup, and it saw FDIs as the most handy tool. In 2019, amidst of concerns over the trade war between China and the USA and economic stagnation, the Thai government again pushes the BOI and the FDI-promoting campaign called “Thailand Plus” was enacted to more aggressively attract FDIs. The goal is obviously to boost the economy, but nothing guarantees that the problem of inequality and inclusive growth are in a better shape.

## 5. Labour Movement and ASEAN Integration

The last channel linking ASEAN economic integration to the prospects of Thailand's inclusive growth is labour migration. This section begins by discussing the nature of labour migration that has occurred between Thailand and other ASEAN countries, and how such migration will be affected by the creation of ASEAN Economic Community (AEC). The section then proceed to examine how the labour migration will affect aspects such as prospect of economic growth and the distribution of wages in Thailand.

### *Migration and ASEAN Integration*

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<sup>5</sup> <http://ftp.iza.org/dp2336.pdf>

Even before the advancement of ASEAN Economic Community (AEC), ASEAN already has seen a large number of intra-regional migrations. The number of intra-ASEAN migrants has increased from 1.5 million in 1990 to 6.5 million in 2013 (Asia Pacific Migration Network, 2015). Migration within ASEAN is highly concentrated. Out of the ten member countries, only three countries -Malaysia, Singapore, and Thailand- account for 80 percent of the total immigration stock in ASEAN. As for intra-ASEAN immigration, Malaysia and Singapore together ranked the highest as the recipients of immigrants from ASEAN, and together they also account for 80 percent of intra-ASEAN immigration (ILO and ADB, 2014). It is worth noting that the number of intra-ASEAN immigration is likely to be significantly underestimated due to the high incidence of illegal immigration in Thailand, causing Thailand to be missing from the aforementioned list of countries with highest amount of intra-ASEAN immigration.

It is highly probable that the already high incidence of intra-ASEAN migration had some influenced over AEC's stance on migration. Although fostering freedom of movement were part of the AEC blueprint, this aspect initially received limited emphasis. The original ASEAN vision 2020, drafted in 1997, prioritized the promotion of "free flow of goods, services, investment and capitals", but not migration. The aspect of migration gained more mentioning with the revision of the vision in 1998. Nevertheless, the increased emphasis on promoting migration put the focus only on "flow of skilled labour and professionals in the regions". In addition to facilitating the intra-ASEAN travelling of citizens in member countries, the AEC put explicit clauses to eliminate barriers that prevent movement of professional in certain high-skilled occupations (ILO and ADB, 2014).

The focus on high-skilled occupations does not mean that the low-skill labour, who made up most of the existing migrants, were neglected. However, the AEC's treatment of this group was not much about promoting free movement; it was about promoting the protection of human rights, preventing human trafficking, and eliminating unsafe migration. This is likely because a large numbers of the existing migrants, particularly those who situate in countries like Thailand, have been at risk of facing these problems (UNESCO, 2015). Furthermore, the lack of focus on promoting more movement of the low-skill labour reflect the sentiment of leading economic nations in ASEAN, such as Singapore, Malaysia and Thailand, that they have already received too many unskilled workers from the lesser developed countries in the same region.

#### *Implication on Thailand's Inclusive Growth*

To analyze the implications of AEC promotion of labour migration on Thailand's inclusive growth, the migration of skilled and unskilled labour needs to be looked at separately. This is not only because they received different treatment from AEC, but also because their implications on the economy can be different.

As of 2015, the AEC promotion of movement in high-skilled labour accrued only to labour in 8 occupations, including medical doctors, dentists, nurses, architects, surveyors, accountants, engineers, and tour-guides. Not only the number of occupations that can move are limited, the AEC enables each member countries to insert further conditions that can restrict the movement. These conditions can include, for example, the requirement of labour in certain occupations to also obtain domestic occupational license. As a result, many studies predict that despite having the clause to support free movement of high-skilled labour, the AEC is unlikely to create a substantive change to the movement in high-skill labour within ASEAN. A study by Subhasri et al. (2011) suggests that the AEC is going to create impact only on movements of occupations such as engineers and architects, while movement in other professionals will still be restrained through restrictions imposed domestically. In Thailand, while there were concerns that the AEC may provoke professionals in medical fields such as doctors and nurse to emigrate, causing strain in the public health system, such a fear is unlikely to be actualized due to local licensing restrictions in other countries. In this sense, we can conclude that there is unlikely to be a significant impact on the Thai economy from the AEC promotion of movement in high-skill labour.

How about the migration of low-skill labour? The consideration of the effect from the AEC support of movement of low-skill labour is complex. As stated, the movement of low-skill labour within ASEAN, particularly for Thailand, is already highly extensive. Furthermore, the AEC focuses on protecting the existing migrants, rather than increasing the flow. Nevertheless, even in this case that the AEC provide some supports to the existing flow, it can have the effect in sustaining the large number of intra-regional migration, and this is already enough to create important impacts on the economy of member countries. Hence, the following analysis will consider the effects from the existing flow of low-skill labour into Thailand as the basis in examining the implication that AEC will have on the Thai economy through promoting migration.

The United Nations recorded that in 2013 Thailand received more than 3.72 million migrant workers in total (UN 2013). However, the record from Thailand's Ministry of Labour shows that only 1.45 million are recorded as legal workers, while the rest are undocumented migrants (MOL, 2015). Most of Thailand's migrants comes from neighboring countries, including Myanmar, Laos and Cambodia (ILO and ADB, 2014). Approximately 25 percent of the migrant workers work in agriculture, 15 percent in fisheries, 40 percent work in industry, and the remaining 20 percent work in services sector (Martin, 2007). The large number of migrants in Thailand can be explained by the fact that Thailand is centrally located in the Indochinese Peninsula, surrounded by many countries with much lower GDP per per capita. Thus, the disparity in the economic development drove workers to cross the borders to search for better economic opportunities.

How has the past intra-regional migration been affecting Thai economy, and how will the effect be in the future. There are two main aspects of the effect to be considered; the effect on growth and the effect on distribution of wages.

In terms of the effect on growth, the influx of low-skill migrants have been contributing to Thailand's export-led driven growth. Thailand has relied on low-cost production to support the growth, and the migrant workers have been used as a key factor to help keep the cost down. It is in this respect that the inflow of low-skill migrants has contributed to the growth of Thai economy. The estimation in 2007 indicates that they have contributed around 1.25 percent to Thailand's GDP (Martin, 2007). A study by ILO (2017) found that migrant workers are relatively young and active in fast growing occupations in Thailand, indicating that the inflow of migrant workers were have been responding to the excess demand for workers in certain sectors within the Thai economy.

Looking toward the future, migrant workers are also going to have another critical role in sustaining Thailand economic growth; they are going to be critical in sustaining Thailand through the challenge of aging population (ILO, 2017). Thailand is at the present facing a rapid process of population aging, with the proportion of people over 60 expected to rise from 15.8 percent in 2017 to 26.9 percent in 2030. At the same time the proportion of working age population will shrink from 66.5 to 59.1 percent (UN, 2015). This demographic trend, which will see Thailand own working age population declined by approximately 5 million people; causing Thai economy to lose a key supportive factor of its growth. In this sense, the incoming of migrant workers can be recognized as a means to counter this trend, helping to substitute for the decline in Thailand's own labour force.

The movement of low-skill labour can also affect the Thai economy through altering employment and wages of native workers. Such an effect have important implication on the distribution of income, and thereby affecting the inequality level in Thailand.

The study by ILO (2017) suggests that, in line with many prior studies, migrant workers have no impact on the employment rates of Thai labour. In the case of the impact on the distribution of wages, importing labour may drag down wages of certain group of domestic workers. In the case of Thailand, where the migrant labour are low-skill labour, the negative impact on wages might be felt by the workers on the lower end of Thailand's wages (Sri-udomkajorn, 2017). This can worsen Thailand's inequality as a result. Yet, for all these to occur, one condition needs to be met, the migrant workers need to be able to perform as a close substitution to Thai labour. A study by Sri-udomkajorn (2017) indicates that the overall degree of substitution between Thailand's domestic workers and foreign workers are in fact low. Moreover, the relationship between them are more of a complementary nature, with migrant workers doing the jobs that Thai domestic workers are not seeking.

The impact of migrant labour on employment and wages of Thai labour affirms that widely-held perception migrant workers have been working in jobs that Thailand workers do not seek any more, in formally branded the 3D jobs (Dirty, Dangerous, and Demeaning). Still, a number of studies observed that

the impact on wages, created by the import of migrant workers in Thailand, are still felt to some extent by workers with primary or lower level of education (TDRI 2004; and Lathapipat, 2014). To this end, while there is no evidence to suggest that the free-movement of migrant workers will create substantive negative impact on wages of Thailand's skill labour, the impact is likely to be on the Thailand domestic low-skill workers. This indicates the picture of diverging distribution of wages in Thailand that can be caused by the sustained flow of low-skill migrants into the country.

## 6. Discussion and Conclusion

Lately, inclusive growth has been a frequently discussed topic for ASEAN. *ASEAN Economic Community Blueprint 2025* proposes that “the characteristics and elements” of the future ASEAN are composed of five headings – “a highly integrated and cohesive economy,” “a competitive, innovative, and dynamic ASEAN,” “enhanced connectivity and sectoral cooperation,” “a resilient, inclusive, people-oriented, and people-centered ASEAN, and “a global ASEAN”, and, under all of the headings, “inclusive” is stated for several times. In this context, inclusiveness is both a required means to reach these characteristics, and an expected end to which these characteristics aim to achieve. As a mean, for example, “a more inclusive and consultative process” is suggested in order to get entrepreneurs involved in local business councils with expectations that their voices would be louder in ASEAN activities. Whereas, the ultimate goal which is an end of these characteristics is that economic benefits should not be on a few hands of people and corporations, and a wide range of people from several sectors should together benefit from the promising prosperity. Because it is required that “ASEAN member states shall translate milestones and targets of the AEC blueprint 2025 into national milestones and targets,” Thailand, as a member state of ASEAN, has to move toward these characteristics and having inclusive growth.

This good prospect, unfortunately, turns despondent when it comes to how they are to be implemented in a national level. This chapter presents three aspects of ASEAN integration– goods and services mobility, capital mobility, and labor mobility – and then discuss the possibility that they could enhance inclusive growth in Thailand.

The attempt to merge the whole region into a single market means wider-open opportunities for Thai businesses to benefit from the market expansion. However, the impacts of the larger intra-regional trades on inequality are different by sector. Although the growing manufacturing sector, due to the rapid rise of wages and employment opportunities, contributed greatly to a narrower income gap in the 1990s, the shift of export demands from intermediate to final products, which was partly a result of ASEAN integration, in the 2010s caused a slowdown of wage growth and the manufacturing sector seemed to lose its leading ability in inequality alleviation. Meanwhile, the agricultural sector, due to its relatively lower productivity, has never performed well enough to alleviate the problem of income inequality. The government distorts the agricultural production through trade barriers and subsidy programs. Moreover, at

present, larger trade opportunities for agricultural products even imply that the agricultural sector is more vulnerable to external shocks. Therefore, the burden is placed on the shoulder of the service sector, and it seems promising. Since 2010s, the service sector seems to be most capable in bringing inclusive growth to the country. A lot of tourists from Southeast Asia as well as those from all over the world not only come and spend their money in Bangkok. Nowadays, the so-called “Muang Rong” (the less-visited cities) have become more popular destinations for foreigners. This is an opportunity for those who live outside of Bangkok to earn some benefits from a boom in tourism. Such campaign as “Amazing Thailand Go Local” implies the government’s attempt to put a spearhead on tourism and other services in order to reach the goal of inclusive growth.

In the meantime, “free and open investment regime” has been an agenda for ASEAN, and, as a result, intra-regional FDI flows have increased greatly since the 2000s. This regional mobility of capitals contributed significantly to not only the larger inflows from other ASEAN countries to Thailand but also the increasing outflows of Thai direct investments to neighboring countries especially to the promising CLMV countries. However, there is no guarantee that this new era of capital mobility could bring in inclusive growth. Wider-open opportunities for FDI exports might allow both large business enterprises and SMEs to seek profits from the neighboring countries, but it is important to realize that a majority of people in Thailand is not business owners. Instead, they are workers and farmers who by nature gain no direct benefits from a better accessibility to invest abroad. Whereas, the larger amount of FDI inflows implies an increasing number of job opportunities for people in Thailand. However, the long history of FDIs has never shown that they could bring the wage gap between the high-skilled and low-skilled workers closer. This concern definitely holds in the new era of ASEAN investment integration, and the impact of “free and open investment regime” of ASEAN on inclusive growth of Thailand is still controversial.

Story is a bit different for labor movement, as ASEAN agenda on labor mobility does not tend to have a significant impact on the Thai economy. This is because ASEAN promotes mobility of high-skilled labor, but Thailand as well as other ASEAN countries might not be much impacted due to the restrictions in a national level. Meanwhile, Thailand has long been a recipient of low-skilled labor, but ASEAN labor mobility does not touch upon this group of workers. However, because the existing low-skilled labor immigration played a significant role in pushing down wages and welfares of low-waged workers, the insignificance then implies that the wage gap between high-skilled and low-skilled will be even wider. ASEAN labor integration does not seem to bring inclusive growth for Thailand.

In September 2019, hundreds of motorcycle taxi drivers got together in front of the Ministry of Transport to protest against the government and the Singaporean Grab. Their request was that the government should not pursue the law that legalizes private motorcycles to provide an online ride-hailing service. While they argued that the law would cause some safety concerns for riders due to lacks of sufficient driving experiences of some drivers and it would mainly benefit multinational enterprises, it is understandable that these were only a supplementary reason. The main reason of their protest was simply that, if private motorcycles are allowed, they would earn less income. Ordinary people would think that, in the era of disruptive technologies, these motorcycle taxi drivers might need to be

responsible for their own destinies. That is, they need to either improve their service qualities and keep their jobs or equip themselves with new skills and find new jobs. However, these motorcycle taxi drivers are not unordinary, and they know that they need to be responsible for their lives. Their real sentiments for the protests are perhaps that, while the government promised to bring in inclusive growth to the country, they feel that they are left behind.

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