

Under the CAFTA development: China-Thailand Two ways FDI analysis

By Romchat Jantranugul(张英若)
From UIBE, China
Phd.candidate

Contents

- ▶ CAFTA regional cooperation & new growth
- ▶ China-Thai Trade effect & development
- ▶ Under Trade development China FDI to Thailand(Empirical analysis)
- ▶ Thailand FDI to China new trend
- ▶ Suggestion and Conclusion

CAFTA regional cooperation & new growth

- ▶ 2014 China-ASEAN bilateral trade reach 480.394 Billion US.
- ▶ China has been ASEAN's largest trade partner since 2009, while ASEAN has been China's third-largest trade partner during the past three years. ASEAN countries hope the two-way trade with China will increase to \$500 billion by 2015 and \$1 trillion by 2020, and that two-way investment will reach \$150 billion by 2020.
- ▶ From Golden Partnership to Diamond Cooperation, Should see a fundamental boost in bilateral economic exchanges.
- ▶ CAEXPO also upgraded the features for welcoming the China-ASEAN Diamond Cooperation.
- ▶ To help reduce regional poverty in ASEAN, China intends to provide aid worth 3 billion yuan (\$480 million) to the less developed members of ASEAN in 2015 and another 100 million yuan is being given to reduce rural poverty in East Asia.
- ▶ Moreover, China would offer over \$20 billion in loans to support Southeast Asian interconnectivity. This includes a preferential loan of \$10 billion for ASEAN and a \$10 billion loan, set up by the China Development Bank, for regional infrastructure development.

China-Thai Trade effect & development

- ▶ China and Thailand under the framework of CAFTA's cooperation, bilateral trade by 2014 70.728 billion US dollars, down 0.8%, the trade between China and Thailand accounted for 15.1% .
- ▶ China and ASEAN bilateral trade volume. Thailand is China's fourth largest trading partner in ASEAN. Among them, China imported \$37.9 from Thailand, an increase of 1.5%; exports to Thailand \$32.79 increase of 0.2%.
- ▶ The product structure of the two countries in the import and export trade is also continuously optimized, showing the advantages of “complementary” , mutually beneficial win-win situation.
- ▶ In the development of CAFTA Sino Thai bilateral trade continues to diversify, trade deflection balance, complementary strengths of the merchandise trade more obvious.
- ▶ I found that China-Thailand bilateral trade development effectively stimulate FDI.

Under Trade development China FDI to Thailand

- ▶ Trade effect on investment has 2 ways, as a promoting effect, the substitution effect. Promoting effect refers to the growth of trade and investment has "complementary relationship", with each other to promote, and substitution effect is refers to with reduction of barriers to trade, the trade volume between the two countries increased, so the choice of trade investment in alternative energy, investment and trade will has the opposite effect.
- ▶ the Treaty of free trade area, the rapid development of bilateral trade and investment, such as the two-way investment between China and ASEAN, is the development level of the two-way investment. The development level of the two-way investment is lagging behind in the trade of China and Thailand.
- ▶ The author's hypothesis of the model analysis is as follows;
- ▶ Hypothesis 1: Sino Thai bilateral trade volume of China to invest in Thailand has promotion effect, in the continuous growth of bilateral trade, China in recent years to invest in Thailand increased rapidly.
- ▶ Hypothesis 2: Thailand's per capita GDP for China to invest in Thailand has positive correlation, the per capita GDP of Thailand can reflect the level of the Thai economy, if it is market oriented enterprises in China, the host country's per capita GDP level factors are necessary to account for the conditions.
- ▶ Hypothesis 3: Positive relation between China GDP and China's OFDI. In the development of Chinese economy, the growth of foreign investment and export, which is very important to the contribution of GDP in China. China's huge foreign currency, the continuous development of the economy makes China's foreign investment and cooperation, some Chinese enterprises to invest in ASEAN. Of course, including Thailand.

China FDI to Thailand empirical analysis

Panel data Fixed effect model;

$$CNoofproject_{it} = \alpha_{it} + InBitrade_{it} + lnTHGDPcap_{it} + lnCNGDP_{it} + \mu \quad (1)$$

Poisson model;

$$CNoofproject_t = \alpha_t + InBitrade_t + lnTHGDPcap_t + lnCNGDP_t + \mu \quad (2)$$

Data Explanation

Variable	Explanatory Variable	Source
CNoofproject(Y)	China approved project to investment in Thailand	Thailand board of investment (BOI)
InBitrade(X)	China-Thailand total amount of bilateral Trade	China Statistical Yearbook
lnTHGDPcap(X)	Thailand GDP per capita	World bank
lnCNGDP(X)	China GDP per capita	World bank

China FDI to Thailand empirical analysis

Variable	CN of project (Panel FE)	CN of project (Poisson)
InBitrade	0.844*** (-0.203)	0.520** (-0.239)
InTHCap	0.971 (-0.918)	0.319 (-0.346)
InCNGDP	0.309* (-0.502)	0.112* (-0.37)
Constant	-0.226** (-11.3)	-7.159* (-5.708)
Observation	189	189
R-squared	0.303	0.187

Empirical result evidence

- ▶ From the regression results of the two methods are very similar.
- ▶ The development of bilateral total trade volume has a significant positive correlation with the direct investment of China to Thailand. The significant level of fixed effects regression of the panel was 1%, and the level of Poisson distribution regression was 5%.
- ▶ The total trade volume of bilateral trade development in China had a promotion effect on the investment of Thailand. The growth of GDP per capita in Thailand has no obvious effect on China's investment in Thailand.
- ▶ The scale and growth of China's total GDP has a significant positive correlation with the investment of China to Thailand, and the results of the two regression methods are significant at the level of 10%.
- ▶ Bu Weiji (2009) on the Sino Thai Trade and investment and development studies. His research found China and Thailand investment and trade existing a complementary relationship, bilateral trade and investment grow steadily.
- ▶ The development of the volume of trade of China and Thailand to China to invest in Thailand has stimulative effect, also the size of China's economy GDP development promoted the Chinese enterprises "going out", so with the growth of China's GDP, China's investment in Thailand will also increase.

Thailand FDI to China new trend

- ▶ Thailand's foreign direct investment, mainly in private enterprises as the leading.
- ▶ The motivation of private enterprises and foreign investment are different, usually investment in small and medium-sized private enterprises in the neighboring ASEAN countries, larger and more powerful enterprises in addition to outside the domestic investment in ASEAN members, will expand investment and business to outside the region, further countries to cast, open up new markets and seize the opportunity.
- ▶ According to the report of the Bank of Thailand in foreign direct investment, 2007 to 2013 in the fourth quarter, Thailand's foreign direct investment accumulated to the Cayman Islands, Myanmar and Hong Kong.
- ▶ The report found that Thai in for the majority of the investment in these countries will return on investment and investment Reinvested earning especially Thailand enterprises investment in Myanmar for a long time, tends to the investment income to continue to invest.
- ▶ In terms of equity investment and direct lending, new investment projects in Thailand in the Cayman Islands, Singapore and Hong Kong most most investment behavior is to these countries as a transit country, the purpose is to invest in a third country, such as Thailand, some enterprises to invest in mainland China is not directly to Chinese investment in the mainland, but the first in Hong Kong registered a new company after the identity of Hong Kong enterprises to invest in mainland China.
- ▶ Recently Thailand dominant OFDI to China is “Service sector”, This sector OFDI still new trend of Thailand enterprise to going out FDI.

Suggestion and Conclusion

- ▶ The use of CAFTA and other regional economic cooperation framework to further deepen the development of cooperation with the extension of bilateral investment and trade.
- ▶ Two sides jointly establish a bilateral investment cooperation agency to promote and strengthen the business matching Sino-Thai activities.
- ▶ Making full use of the Chinese government's investment funds to support the extension of China's outward investment has a very important role, the convenience of bank financing conditions can significantly promote Chinese OFDI role.
- ▶ Taking advantage of "maritime Silk Road" Cooperation Fund, in order to expand cooperation between ASEAN and China investment projects.
- ▶ In the Chinese framework, Sino Thai cooperation will benefit and common development.
- ▶ In short, China and Thailand in the framework of the CAFTA to get the rapid development, two-way trade growth for China to Thailand FDI have a greater role, and its not in the "trade alternative investment" state.
- ▶ Thailand's role in the FDI of CAFTA is not obviously, Thailand's investment in China is mainly valued the market". The China Thailand bilateral trade and investment cooperation is still in the development of the road, the two sides work in all aspects of the promotion of sustainable development.
- ▶ 21 century Maritime Silk Road, China - ASEAN diamond 10 years of deepening cooperation, GMS sub regional infrastructure interconnection cooperation, the Thai high-speed rail project cooperation will be the next few years is the highlight of the cooperation, the two sides will in cooperation in the framework of the treaty and expand cooperation and established the direction, bilateral investment will thus be sustainable development.