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HSBC

Thailand's regional role challenged

The Hongkong and Shanghai Banking Corporation (HSBC) said the Japanese firms' "Thai+1" strategy is here to stay as Thailand remains Japan's number one foreign direct investment (FDI) destination in Asean - but the growing attraction of regional competitors, especially Indonesia, means that the Kingdom's role is currently being challenged.

Japanese annual outward FDI flow to the world was US$120 billion last year and $5.2 billion has found its way to Thailand in the same period. Around $4.2 billion went to Indonesia while Vietnam, Philippines and Malaysia have all received less than $2 billion in 2014.

"Thailand still serves as a manufacturing hub for Japanese firms but, because cost is going up, they are increasingly looking into using labour from Cambodia, Laos, Vietnam and Myanmar (CLMV) and they are being integrated into the Thai-Japanese supply chain in Thailand," said Izumi Davalier, HSBC's Japan and Asia-Pacific economist.

"Recently, the Thailand plus one scheme has changed into using Thailand as its own production base and also building independent supply chains in some of the bigger Asean markets," she added.

Davalier explained that instead of producing cars and electronics in Thailand, Japanese firms are also using CLMV countries to produce these products where they are being managed by mostly Thai managers before exploiting the supply chain in larger markets in Indonesia and India.

"Consumption in Indonesia is rising partly because the government is promoting eco-friendly cars and Japanese auto makers have opened a lot of manufacturing factories in Indonesia in the past two years to take advantage of this growing consumer market," she said.

"Because labour costs are going up in Thailand it no longer makes business sense to continue manufacturing activities in Thailand for the sake of lower value added supply; it makes more sense to focus on higher value added activities and that is where Japanese investors are focusing on," she added.

Davalier said Indonesia is catching up to Thailand and that has posed both an opportunity and a challenge to the country because it means that the Kingdom's role as a regional hub will make it stronger than before as Japanese firms invest equally in Thailand, Indonesia and India from now on.

"Thailand is going to continue to be the heart of Japanese manufacturing but there are challenges and the way forward for Thailand from the Japanese perspective is that Thailand continues with what it does best. Reforms will raise growth so that domestically Thailand becomes a very attractive market as well," she concluded.

Meanwhile, Davalier said she does not see why Japan should not join the Asian Infrastructure Investment Bank (AIIB) that is being spearheaded by China to tap into Asean's growing need for investment in infrastructures.

"I think Japan is being cautious in terms of joining the AIIB and its stance right now is to wait and see since there are concerns, especially in terms of governance but in time Japan will join the AIIB and, in the short-term, Japan's involvement in the investment on infrastructures will continue to be the combination of government to government and also support for corporates," she said.

"In my personal opinion, I do not think it would hurt Japan to join the AIIB. Why not? It does not have to be either AIIB or ADB (Asian Development Bank). It does not have to be that black and white. There are so much infrastructure needs in Asia that the more multinational institutions that we get, the better for the region," she added.

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