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Thailand: regional prospective and Italian trade-economic relations

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Introduction

The aim of this thesis is to understand the regional aspects, the Thai economy and the economic and trade relations between Italy and Thailand. By doing this it will be understood the role of Thailand in the ASEAN, the most important Southeast Asian regional organization. At the same time it will be considered the Italian role as a commercial and economic partner of Thailand.

The project is divided in four main parts: the first two chapters are dedicated to the Regional context while the third and fourth studies the economy of Thailand and the Italian trade-economic relations. The first chapter focus on analyzing the history and geography of Southeast Asia. Before getting deeply into the geographical connotation it was essential understand what the term South East Asian means. So the paragraph 1.1.1 presents the developing of the term in its different variations through time. The main hydrography and orography characteristics of the area are essential to understand the economic and social aspects described in the following chapters. The major features of the mountains and geological framework of Southeast Asia must be divided specifically for the continental and insular areas. The continental part is defined by the river's complex formed by the main three rivers *Mekong*, *Irrawady* and *Chao Praya*. Each of them is a key resource for the economy and society of the countries in which they flow. The insular part main features are the high presence of volcanos and tectonic activity. The events caused by the volcanos explosions and the earthquakes have been destructive in some cases, such as the Krakatoa eruption or the Indonesia Tsunami in 2004. Even though it is necessary to say that they are quite rare. The chapter then focused on the history of Southeast Asia from the ancient times to the 20th century. The different populations that occupied the territories had made the region unique in terms of ethnic, social and cultural composition. In particular the colonialism, that can only be considered finished in the last century, impacted greatly in Southeast Asia. The only country that did not experienced a colonization process was Thailand which had maintained its independence and was able to build relations with the colonizers. The last century was marked by the Second World War and the Post Colonization Wars, described in the paragraph 1.2.5. All these aspects led to the necessity to have a more cohesive regional organization. The solution was the creation of ASEAN in 1967.

The impact on the area of the ASEAN is described in the second Chapter. This part opens with the path that the countries have taken to create this organization which started operating significantly only after the end of the Vietnamese war. Then the major political challenges and the instruments to face them will be described in the paragraph 2.2. In particular, it will carried out a description of the security and education cooperation.

Before moving to the economic and financial ASEAN cooperation it has been considered essential to analyze the economies of the countries members. The largest economy in the ASEAN is Indonesia due to market size while Singapore is the most developed and the one with the highest GDP per capita. A particular focus will be given to Vietnam's economy since it is booming in the last years and represents a value competitor to Thailand. The overview on the regional commerce appears in constant growth and the countries are heavily integrated. The paragraph 2.4.1 presents also a study of the trade barriers and NTMs decided by each ASEAN countries, these are necessary to understand if the regional economic cooperation is effective or not. The Asian Financial Crisis started in Thailand and then spread in its neighborhood country and had importantly effects on the economy of the region. The main lesson from this difficult moment were that ASEAN did not provide a stable financial cooperation framework but at the same time it showed that the Southeast Asian economies were greatly integrated. The paragraph 2.4.2 is dedicated to the explanation of what has been done for this aspect by ASEAN with the Chiang Mai Initiative.

The third chapter describes the main features of Thailand economy. The first paragraph shows the macroeconomic trends of the recent history of Thailand, focusing particularly in the *Thaksimonics* which can be seen as the alternative to the EEAM model and the IMF solutions.

Three are the pillars of the Thai economic system: agriculture, industry in particular automotive and tourism. Thailand is still a top agriculture producers in the world with some excellence products and the government have always tried to sustain the sector even during the industrialization process. The Thai industry boom was led by international FDIs that exploited the inexpensive labor cost and it specialized mostly in the automotive and heavy industry sectors. Lastly, tourism is an economic motor for Thailand counting for about 20% of the total GDP. The last years have seen a constant positive trend in the international arrivals, development of tourism infrastructure and consequently the economic output of the sector.

The last chapter focus on the trade-economic relations between Thailand and Italy. The chapter introduce the Italian organizational framework to the internationalization support. Firstly, It will be analyzed both the main actors and initiatives made by the Italian government. Secondly, it will be studied the economic and trade relations between the two countries. In addition, it will be given a focus on the role of the Thai-Italian Chamber of Commerce. In fact, it was during my internship in the Thai-Italian Chamber of Commerce in Bangkok that I understood the economic potential of Thailand and Southeast Asian. This led to a particular personal interest in developing the Southeast Asian studies and the creation of this project.

Chapter 1. Geography and History of South East Asia

1.1 Geography of South East Asia

1.1.1 The term “South-East Asia”

If it is true that the “first principle of Southeast Asian studies is the very artificiality of the concept of Southeast Asia”¹ we must focus on the term South East Asia itself, and understand how it has developed, before analyzing the geographical connotations of the region.

In the colonial era the area was already known by Europeans by the term “East India”, identifying a large region from India to Australia, or from the Indian as *Suvarnadvipa* as “land of gold” and from the Chinese and the Japanese who refer to this area as *Nanyang*² (南洋), which literally means the “Southern Ocean”. Most of these expressions come from seafaring people “who use them and focused on seas with their adjacent lands rather than on lands with their adjacent seas”.³

In the seventeenth century Europeans, with the first Portuguese and Spanish expeditions, started the colonization process of the area. It was, then, with the creation of the European Trading Companies the “East India” that Southeast Asia start becoming a well identified geographic region. Probably the most prominent were the British East Indies Company⁴ and the VOC (*Vereenigde Oostindische Compagnie*)⁵. The first one was mainly active in the Indian Ocean but also had businesses and colonial presence in Malaysia and Singapore, while the second one was mainly active in Indonesia. Another term used to define the region was “Indochina”, referred by the geographers primarily to classify the mainland region since it was in between India and China. Over time this name was used to pinpoint the French Indochina namely Cambodia, Laos and Vietnam.

¹ Pepinsky Tom, “How did Southeast Asia become a social fact?”, New Mandala (15 February 2016) Article available at: <http://www.newmandala.org/how-did-southeast-asia-become-a-social-fact/>.

² *Nanyang* (南洋) is also a prefecture-level city in the *Henan* province with over ten million of habitants. However, historically, the large Chinese migrant population in the area also referred to the South East Asia as *Nanyang* to diversified from the *Xiyang*(西洋), which refers to the West Seas and the *Dongyang* (东洋) which refers to Japan.

³ Fifield, Russell H. "Southeast Asia as a Regional Concept." *Southeast Asian Journal of Social Science* 11, no. 2 (1983): 1-14. <http://www.jstor.org/stable/24490794>.

⁴ The *British East India Company* was born the 31 December 1600 when the queen Elizabeth I allowed with a special royal permit the monopoly of the Indian Ocean to the company. It was surely the most important and big commercial company operating in the Indian and South East Asia area between the sixteenth and seventeenth centuries until the Union with Scotland Act 1706.

⁵ The VOC was established in the 1602 in the Netherlands and it was mainly operating in most of the continents. In South East Asia had a strong presence in the Indonesia’s islands.

The maritime part of the region was also called Insulindia meaning the Indian Ocean, the islands between Indochina and Australia or the Malay Archipelago, deriving from the European idea of Malay race⁶. It is essential to stress that most of these terms denote some racial connotation behind them and they were mostly used and developed during the colonial era. For example, “East India” was used to diversify from the “West India”, according to the Europeans and “thereby authenticating the centrality of Europe and its power to arbitrarily classify and homogenize entire populations from the non-Western world.”⁷

We first encounter the term “Southeast Asia” in the 1839 in the book named “*Travels in South-Eastern Asia, embracing Hindustan, Malaya, Siam, and China*” written by the Baptist missionary from Boston Howard Malcolm (1799-1879). The book is a diary of his mission and described analytically both the geographical and social aspects of the area. Incredibly, it contains a map of the region which covers most of the area that we consider as South East Asia nowadays: the only missing part was Indonesia and most of the island part. Anyway the missionary did not explain or give a definition of the term in the book, probably considering the name self-evident and self-explanatory. From another point of view, the scholarly usage of the name grew more popularity with a series of texts in the *Journal of The Indian Archipelago and Eastern Asia* written by the anthropologist J. R. Logan⁸. Another pioneer of the South Eastern Asia Studies has been the ethnologist Robert von Heine-Geldern (1885-1968), who in the 1923 published an important chapter titled “*Südostasien*” in G. Buschan's *Illustrierte Völkerkunde*.⁹

Few years later the “Institute of Pacific Relations”¹⁰ (also known as IPR) was founded with the first conference in Honolulu, precisely in the summer of 1925 and it has had an important role in consolidating the concept of South East Asia with a series of studies and analyses of various economic, geographical and social problems of the area. Specifically, we can mention the work

⁶ Malay was one of the five theoretical races proposed by the scientist Johann Friederich Blumenbach (1752-1840). The race was also known as the “Brown Race”. It was only a conceptual theory and it does not find any anthropological or ethnic connection whatsoever.

⁷ “East Indies.” International Encyclopedia of the Social Sciences. *Encyclopedia.com*. (October 2, 2018). <http://www.encyclopedia.com/social-sciences/applied-and-social-sciences-magazines/east-indies>

⁸ Logan, “The Present Condition of the Indian Archipelago” *The Journal of the Indian Archipelago and Eastern Asia*, 1st ser., 1 (1847): 3.

⁹ “*Südostasien*,” in G. Buschan (ed.), *Illustrierte Völkerkunde*, (Stuttgart: Strecker und Schröder, 1923), II, i, pp. 689–968.

¹⁰ The IPR played a significant role in the Asian studies before and in between the two World Wars printing a great number of books and funding a lot of researches for the Pacific and Asian studies. It was founded, under the influence of the most important USA’s universities, with the principle of Wilsonianism in order to promote the liberal and democratic ideas around the Pacific Area. However, during the Cold War due to the communist ideas of some of the staffers and the rising of other international institutions it loses its status. It was legally persecuted by the USA government with the accusation of being a means of the Soviet officials and the American Communist party and then dissolved in 1960.

of professor William L. Holland (1907-2008): in the 1941 and 1942 he started publishing a series of analysis with the name “South-East Asia”.

It is also necessary to quote the book published in 1943, “*The Future of South-East Asia: An Indian View*” from the historian, novelist and then diplomat K.M. Pannikar (1918-2010). In the book the author promote the idea that a free and stable government in India will allow the security in the South East Asia. He decided to not use the term “Farther India”¹¹ when referring to South East Asia in the title, understanding the ascending nationalism in the area. This was due to the Indian expansionistic view in that period and Panikkar was cautious to not allow to pass an idea of hypothetic colonialism from India. By doing that he also made a great contribution of the understanding and the ideal realization of the term itself.

South East Asia became a well-defined expression during the Second World War (1939-1945). In addition it also gains more perception in the military and political aspects. One of the key moment for the area was the establishment of the South East Asia Command (SEAC) by the Allies. The Prime Minister Winston S. Churchill and the USA president Franklin D. Roosevelt in the August 1943 during the First Quebec Conference understood the urgency of the formation of this command. It was a considerable footstep for the political, geographical and military recognition of the area. The area that was covered operationally during the War included most of the South East Asia except the Philippines, northern Indochina¹² and part of Indonesia.

The Admiral Lord Louis Mountbatten (1900-1979), the supreme Allied Commander of the SEAC after the dissolution of the ABDACOM¹³ (American, British, Dutch, Australian Command), admitted that they face the problem of giving a name to the area but the choice of South East Asia Command was “natural”.

Later in the second part of the nineteenth century, the first Indochinese war (1946-1954) but especially the second one, also known as the Vietnam War (1955-1975) became crucial for South East Asia. The Vietnam War was the first war ever televised and it had a huge impact globally, letting the area and the term itself reach a world-wide audience.

¹¹ *Farther India* or *Ultraindia* are other obsolete terms used in the colonial era to refer to Indochina and the Malay States, excluding the Philippines and East Timor.

¹² At first French Indochina was totally under the control of the Chinese. The scenario changed after the Potsdam Conference (1945) in which the USA Chief of State recommend to include also Indochina under the sixteenth parallel in the SEAC, a request that then the Generalissimo Chiang Kai-shek, commander of the Chinese army, approved.

¹³ The ABDACOM, also known as ABDA command was a military command formed in the January 1942 by the Allies with the function of co-ordinate the ground, naval and aviation forces dislocated in defence of the “Malaysian Barrier” against the Japanese Forces. It had a brief life since it was dissolved in June 1942 due to the over-powering military success of the Japanese.

It will later be discussed the impact of the ASEAN's creation for the regionalism integration in the economic, social and political point of view but it can be affirmed that at that time of its establishment the term South East Asia was already recognize and well known.

Even if some authors the use of the term nowadays may change but the United Nation, through its statistical division the UNSD (United Nation Statistical Division) divide the Asian continent through the in division as: North Asia, Central Asia, Western Asia, East Asia and South East Asia.¹⁴



Figure 1. Political Map of the South East Asia. We can see the 12 states forming the region. Sources: map created via mapchart.net.

The United Nation division is constructed mostly by usefulness and it does not imply a political or regional connection and it is used “primarily for use in publications and databases”¹⁵. The

¹⁴ “Standard Country And Area Codes Classification (M49)”, United Nations Statistics Division, 8 October 2018, Online version: <https://unstats.un.org/unsd/methodology/m49/>

¹⁵ Ibid.

countries included in the area are: Myanmar, Thailand, Laos, Cambodia, Vietnam, Malaysia, Singapore, Indonesia, Philippines, Brunei and Timor-Leste.

South East Asia is situated between the Indian subcontinent and the south of China and is formed by two main part: the mainland South East Asia, also referred as we mentioned as Indochina and the Maritime South East Asia, also known as Malay Archipelago.

The first area includes: Thailand, Myanmar, Laos, Cambodia, Vietnam and part of Malaysia. The second one contains Singapore, Indonesia, Philippines, Brunei and East-Timor. The continental and the insular parts are divided by a peninsula, called the Malay Peninsula, which extend for more than 1000 km from the gulf of Thailand and, even if structurally is part of the mainland, it has a lot of ecological and cultural analogies with the near islands: it can be thought as a bridge between the two parts.

This definition has been the subject of boundaries dispute, especially for some territories which could have been included and other not. For example in the SEAC controlled territories there were also states that they now are not considered in on our definition of South East Asia for example: Christmas Island (Australia), Sri Lanka¹⁶, Laccadive, Andaman, Nicobar Islands and Maldives.

After the Second World War one of the most argued idea was that it was not correct use the merely political identification of the region, where national borders lead as main reference for outline the term itself.¹⁷ For example, Helmut Loofs include in his definition of Southeast Asia also parts of eastern India and Southern China – Andamans, Nicobars, Assam, Yunnan, Hainan and Formosa- based on ethnological thesis.¹⁸

The emerging of the nationalism on one hand and the creation of regional international organizations which not included these areas mentioned above are now letting Loofs' thesis loses its efficacy and confirming that it was the triumph of the political criteria as creator of the term. In the dissertation it will be considered the area of the South East Asia as the group of the states represent in the figure 2, which correspond with the ASEAN member's countries as well (East Timor is not an official member but an "observer state").

¹⁶ The Headquarter of SEAC was placed in Ceylon (Sri Lanka).

¹⁷ Emmerson, D. (1984). "Southeast Asia": What's in a Name?" *Journal of Southeast Asian Studies*, 15(1), 1-21. doi:10.1017/S0022463400012182

¹⁸ Loofs H. (1964), "*Südostasiens Fundamente*", Safari-Verl., Berlin.

Country	Capital	Area (km ²)	Government	Population	GDP Nominal (US\$)	Currency
Myanmar	Naypyidaw (Administrative)/ Yangon (Commercial)	676 578	Unitary Parliamentary constitutional Republic	53 582 855	69322 billion	Kyat (MMK)
Thailand	Bangkok	513 120	Unitary Parliamentary constitutional monarchy, under a military junta	68 863 514	490 billion	Baht (THB)
Laos	Vientiane	237 955	Unitary Marxist- Leninist one- party socialist republic	6 758 353	18337 billion	Kip (LAK)
Cambodia	Phnom Penh	181 035	De jure: Unitary Dominant-party parliamentary elective constitutional monarchy; De Facto: Authoritarian Dictatorship	16 245 729	24 360 billion	Riel (KHR)
Vietnam	Hanoi	331 212	Unitary Marxist- Leninist one- party socialist republic	94 569 072	240 779 billion	dong (VND)
Malaysia	Putrajaya (Administrative),Kuala Lumpur	330 803	Federal Parliamentary Elective Constitutional Monarchy	32 049 700	364 919 billion	Ringgit (MYR)
Singapore	Singapore (City-state)	722.5	Unitary dominant-party parliamentary republic	5 638 700	5 638 700 billion	Singapore Dollar (SGD)
Brunei	Bandar Seri Begawan	5765	Unitary Islamic Absolute Monarchy	417 200	13 002 billion	Brunei Dollar (BND)
Philippines	Manila	300 000	Unitary Presidential Constitutional Republic	100 981 431	960.7 billion	Peso (PHP)
Indonesia	Jakarta	1 904 569	Unitary Parliamentary Republic	261 115 456	1 075 trillion	Indonesia Rupiah (IDR)

Figure 2. The list of the ten ASEAN members state and the main countries in the Southeast Asia. The list presents the Capital, Area, Government, Population, GDP nominal in US\$ and the national currency. Source: own elaboration via CIA Fact Book, IMF, World Bank and Official Governments websites.

1.1.2 Mountains and Geological Framework

In this paragraph it is going to analyzed the orography of the region. Understanding the physiography is important since not only “has given rise to a very distinctive set of landforms but also has influenced migrations and settlements, economic practices, and social and political patterns of this region”.¹⁹

It has been estimated that the Surface Area of the earth is divided in Land area, about 148,300,000 km², or about 30% of total surface area; water area, about 361,800,000 km², or about 70% of total surface area.²⁰ Of this land area, 40 million km² or 27 percent are 1000 m. above the sea level, 24 million km² at 1000-2000 meters, 10 million km² at 2000-3000 meters and six million km² are above 3000 meters.²¹ Eurasia is the continent with more percentage of land covered by mountains in the order of 54% of the total land (figure 3).

Mountain Type (Elevation Range)	Africa	Australia	Eurasia	North America	South America	World
High Mountains (900m+)	4	1	23	16	11	13
Low Mountains (300-900m)	13	12	21	10	11	14
Hill (0-300m)	11	12	10	18	5	8
Total	28	25	54	44	27	35

Figure 3. The table shows the percentage of continent’s land covered by mountains. Source: Simplified from Trewartha, G. T., Robinson, A. H. and E.H. Hammond (1961) “Fundamentals of Physical Geography”, pp. 37. New York: MacGraw Hill.

South East Asia land surface has been assembled by a combination of plate tectonics, Pleistocene history, Holocene geomorphic process and modification of the landscape by human’s action. Three main tectonic plates are converging in the area: The Eurasia, Indian-Australian and the Pacific Plates. This articulation has given also the singular aligned sequence of the mountain’s major ribs. Due to this, some authors (Hutchinson, 1989) described Southeast Asia as one of the most interesting geological laboratory in the world for the plate’s research. The area has been exposed to different phenomena during the different geological eras, such as deviating, drifting, folding, lifting up and volcanic movements; the result of that is the large part of the region is mountainous and there is a lack of compactness.

¹⁹ Gupta A. (2005), “*The Physical Geography of the Southeast Asia*”, p. 38, Oxford University Press, New York.

²⁰ Coble, Charles R; Murray, Elaine G; Rice, Dole R. *Earth Science*. Englewood Cliffs, NJ: Prentice-Hall, 1987: 102.

²¹ Louis, H (1975), “*Neugefasstes Hohendiagramm der Erde*”. In Bayer. Akad. Wiss. pp. 205-226. Munchen:Math-Naturwiese Klasse.

We can see different structural form of the continental interior, the peninsular and the insular-maritime regions in term of landscape and mountain range (Figure 4). Nonetheless on these areas the topographic relief of the mountains is certainly linked.²²

The highlands of Myanmar, Thailand, Northern Vietnam and Laos are within the mainland zone which is the most upland one. Starting from the west, Myanmar is a country which is covered with almost 50% by the Himalayan Range and it has its main heartland (*Irrawady*) surrounded by mountains on three sides. It can be identified one large rib in the western part, this range consist, from North to South, of the *Petkai*, *Chin* and *Arakan* and Naga mountains.

In the northern part we find the *Kumon*, *Kachin*, *Namkiu* ranges and the *Hengduan*, the last one is also the highest mountains in all Southeast Asia, including the *Hkakabo Raz* (5881 m) highlighted in the Figure 4. On the east side of the valley there are the *Shan Plateau*, mostly this range is formed by ancient

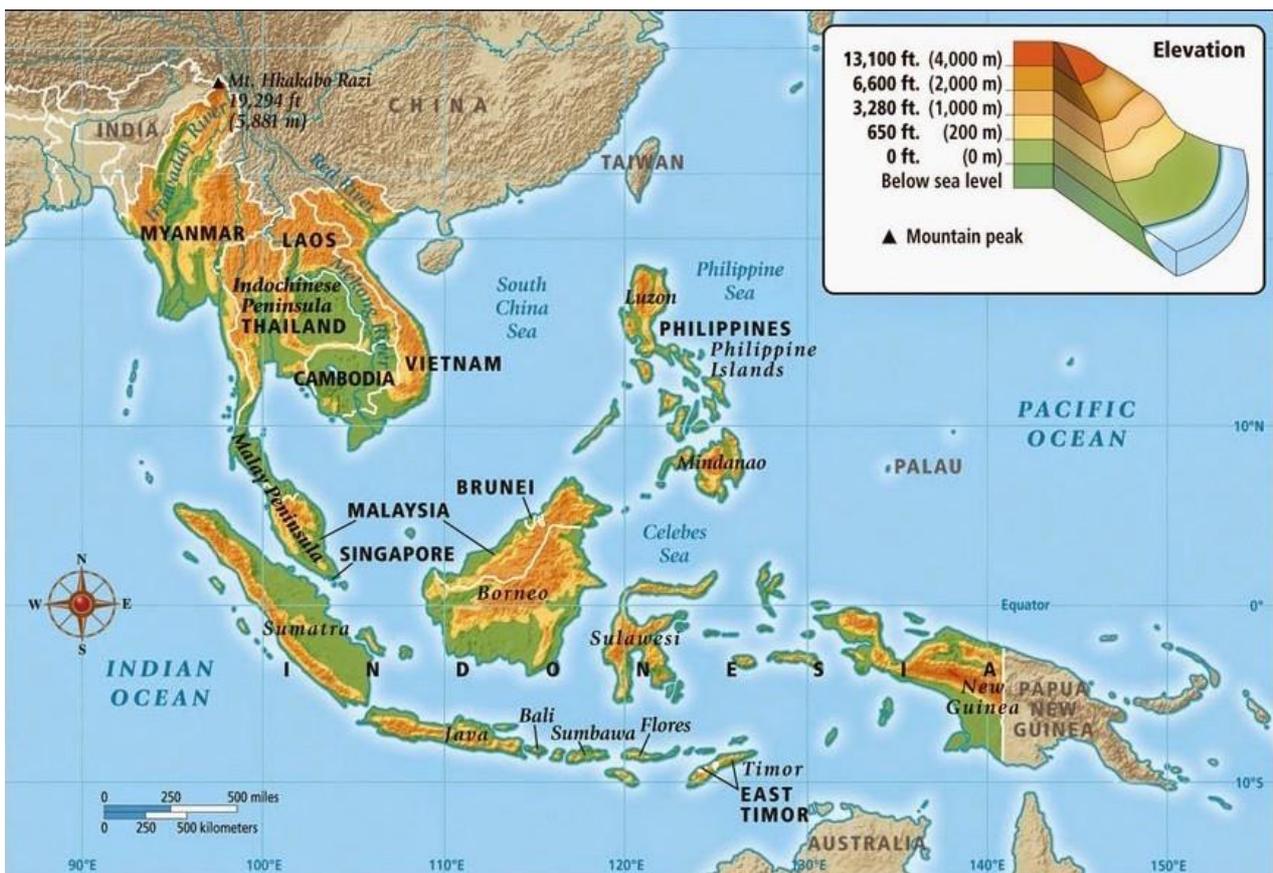


Figure 4. Physical Map of Southeast Asia. Source: World Maps Collection 2018.

²² ICIMOD (1999), “*Mountains of Asia: A Regional Inventory*” International Centre for Integrated Mountain Development, Kathmandu, Nepal.

massifs from the Mesozoic age²³ which gives them richness in minerals. This chain measures 400 km north-south and 120 km east-west with an average height of 1000 meters. The extensions of this range trespass also in the north of Thailand and Laos. As part of the Shan Hills, it can be mentioned the *Doi Inthanon* (2576 m) which is the highest peak of the Thailand.

Bilaktaung is another large range which extends from Eastern Myanmar, through northwest of Thailand to the Kra's Isthmus. It is mainly formed by granite's block along with sandstone and limestone and it can see high peaks, above 2000 meters. In the north part, near the Thai Chinese border, where the highest peak is the *Myinmoletkat* (2072 m) and then lowering in the south part where the height reaches on average the 1000 meters. This relief is part of the peninsular geographic division of the region and includes also the Malaysian *Banjaran Titiwangsa* and the Cameron Highlands in which there is the highest peak of Malaysia the *Gunung Tahan* (2187 m), these are mainly formed by granitoid lined with shale and quartzite.

The last major system of the mainland that can be observed is the eastward *Annamese Cordillera* also known in French as *La Chaîne Annamitique* in Laos and Vietnam, extending from *Tonkin* to the *Mekong* roughly for 1100 km. The highest point is the *Ngoc Linh* (2598m) which is situated in the central section but both the northern and southern parts top 2400 m of elevation. This range is a potential resource for Laos since its river nets could make up a large hydroelectric power source, which has barely been exploited.²⁴

The Insular zone is formed by archipelagos that fringe the continent among the Indian and Pacific Oceans. The geographic positioning of the lands is given by the curving and arcs structures of the region. In the islands prevail mainly the rocky mountains and many of them have volcanic cones. The crustal fluctuations have made earthquakes and volcanic activity relatively frequent within the south and eastern edges.

The insular part is divided in three different geographic groups: Indonesia, the Philippines and Borneo. Indonesia is spread between five big islands Sumatra: Java, Kalimantan, Sulawesi and Irian Jaya and two main archipelagos: Nusa Tenggara and the Maluku Islands and others 60 small-scaled archipelagos. It is situated in the so called "Pacific Ring Fire"²⁵, where it has been estimated that there are 147 volcanoes and 76 of them are active. Indonesia is considered the

²³ Mesozoic age is between the Paleozoic and Cenozoic eras. It started around 251 million year ago and it ended 65 millions of years ago.

²⁴ Department of Environment, Laos (2000), "*First National Communication on Climate Change submitted to the UN Framework Convention on Climate Change*".

²⁵ The Ring of Fire is a basin in the Pacific Ocean where lot of volcanic eruptions and earthquakes happen. It has a horseshoe shape and it extends for more than 40000 km around South and North America, East Asia and Oceania. In this area there are 452 volcanoes, 75% of the active or dormant volcanoes in the world.

country with the most active volcanoes in the world²⁶. The island of Sumatra has mountains ranging between 3000 and 3800 meters, the highest peak called *Kerinci* (3805 m) is in the *Padang* highlights. Java is a slender island dominated by the volcanic cones, 17 of them still active. Of these, 14 are above 3000 meter and the highest is the *Gunung Slamet* (3428 m).

The Philippines are also in an active zone in term of volcanism, all the islands have rocky ridges and appear like uppermost part of submarine mountains.

Range (Subsidiary)	Prominent Peak	Height of the Prominent Peak (M)	Location
Kachin	Hikababao Raz	5881	Myanmar
Bomeo (Crocker, Iran, Kalimantan)	Gunung Kinabal	4094	Malaysia
Sumatra	G. Kerinci	3800	Indonesia
Lambok	G. Rinjani	3726	Indonesia
Sulawesi	Bulu Rantekombola	3455	Indonesia
Java	G. Slamet	3428	Indonesia
Ailao Shan	Fam Si Pan	3143	Vietnam
Moluccas	G. Binaiya	3019	Indonesia
Mindanao	Mt. Apo	2954	Philippines
Cordillera Central	Mt. Pulog	2929	Philippines
Xiang Khoang Plateau	Phou Bea	2820	Laos
Shan Hills	Shan Hills	2603	Myanmar
Truong San	Ngoc Linh	2598	Vietnam
Thailand, North	Doi Inthonon	2595	Thailand
Timor	G. Mutis	2427	Indonesia
Banjaran Titwangsa	Gunung Tahan	2187	Malaysia
Bilaktaung Range (Dawna)	Myinmolektat	2072	Myanmar
Zambales	High Peak	2037	Philippines
Sierra Madre	Mingan	1901	Philippines
Chuor Phnum Kravanh	Phnam Aoral	1771	Cambodia
Pegu Yorna	Popa Hill	1519	Myanmar

Figure 5. The table shows the main mountains of the region ordered by the height in meters of the prominent peak. Source: ICIMOD (1999), “Mountains of Asia: A Regional Inventory” International Centre for Integrated Mountain Development, Kathmandu, Nepal.

²⁶ Haryono Eko (2018), “*The Characteristics of Volcanic Eruption in Indonesia*”, Chapter 5 of “The Characteristics of Volcanic Eruption in Indonesia in Volcanoes - Geological and Geophysical Setting, Theoretical Aspects and Numerical Modeling, Applications to Industry and Their Impact on the Human Health”, InTech Open.

The largest island is *Luzon*, it has three main mountain ranges with the highest peak of 2929 meters, called Mount *Pulug*. In this island is also present the perfectly shape *Mayon* Volcano, in the Albay province. Another notable peak is Mount *Apo* (2954 m), located in Davao del Sur in the Mindanao Island.

The Borneo is the third island in the world for surface and it is divided between Malaysia, Brunei in the northern part and Indonesia in the southern zone. The island itself is part of an antique rock that has lifted by the tectonic activity and formed a mountainous land. There are different chains: the Crocker Range in Sabah (Malaysian Province) in the north which has the highest peak of the island the *Gunung Kinabalu* (4094 m), the *Pengunungan Iran* in the central block and the *Bukit Batubrok*, which it bifurcates in others three ranges (*Muller Range*, *Kapus Hulu*, *Meratus Range*).

There are then the extreme islands in the Southeast Asia, Maluku and New Guinea which lie in the Sahul Shelf an Australian extension so structurally is not part of the region. Since the area is dense of volcanos (figure 6) due to the subduction of the Indo-Australian, Eurasian and the Philippines-Sea Plates, the explosions can be troublesome for the economy and the transportation. According to a recent research study there are 744 volcanoes that are active or potentially active but it is difficult calculate the probability of the capacity of the eruptions.²⁷ Of these 744 volcanoes about 70 have erupted in the last 100 years but and some of them were well documented and important. The way to classify an eruption is through the VEI (Volcanic Explosivity Index) which is an index that take in consideration a combination of quantitative and qualitative data of the explosion. The parameters which are taken in consideration are, for example, the volume of the pyroclastic material thrown in the area, the height of the eruptive column, the duration of the eruption and the fragmentation of the magma. In this way a scale from 0 to 8 is obtained, where 8 is the most powerful eruption. Few of the worst history's eruption have taken place in Southeast Asia. The worst one is considered to be the Toba's explosion in Sumatra's Island which scholars theorized that happened between 70 000 – 75 000 years ago and it is considered to be the greater eruptive event in the last 25 million years, leaving the human species to few thousands of individuals and changing significantly the world ecosystem.²⁸ The *Rinjani* or *Samalas* explosions in *Lombok* Island in Indonesia was another impressive eruptive phenomenon that happened in 1257 and with an estimated VEI of 7. A recent research carried by the geographer Franck Lavigne

²⁷ Whelley et al. (2015), "The Frequency of explosive eruptions in Southeast Asia", *Bull Vulcanol* (2015) 77:1, DOI: 10.1007/s00445-014-0893-8.

²⁸ Stanley H. Ambrose, *Late Pleistocene human population bottlenecks, volcanic winter, and differentiation of modern humans*, in *Journal of Human Evolution*, vol. 34, n° 6, 1998, pp. 623–651, DOI:10.1006/jhev.1998.0219.

and his team discovers the scientific evidences of the explosion through the radiocarbon data.²⁹ This explosion even if happened in the equatorial area had global impact: the climate changes for two years after the explosion according to European historic documents and climate model. Some European medieval chronicles and Indonesian writings³⁰ described the summer of 1258 as one of the coldest followed by a hot winter, which can be explained by the sulfur eruption of the Samalas. The most violent explosion of the 19th centuries was the *Tambora* in April 1815. Volcanologists estimate that more than 150 cubic kilometers of rocks, ashes and other materials were thrown in the air, the explosions caused countless damages and 60 000 estimated deaths. After this eruption the planet had a series of years with no summers and cold winters (the 1816 was, then, remembered as the “year without summer”) and it has been thought that the explosion also influenced one of the most important events of modern history, the Waterloo Battle due to the severe rain and the harsh climate³¹. Probably the most famous eruption is the Krakatoa, happened in 1883. The explosion is classified with a VEI of 6, the air waves travel seven times around the earth and the Rakata island was almost completely destroyed (2/3 of the island’s surface disappeared).

The *tsunami* generated by the explosion of the Krakatoa killed 36 000 people and destroyed numerous villages in Sumatra and Java and multiple ships were destroyed by the waves. The most recent important eruption was the Pinatubo Volcano in the Philippines eruption in 1991

The first important explosion occurred on the 3rd of June followed by a greater one on the 7th of June creating a 7 km high ash column. The PHIVOLCS (Philippine Institute of Volcanology and Seismology) and the US geological Survey worked together after these explosions created an evacuation plan for the most people who live near the interested area. The deaths were 722 and more than 200 000 people remain homeless and in terms of climate effects the sulfur dioxide reaches the 40 km of altitude and the global temperature decrease of 0.8° approximately.

²⁹ Franck Lavigne et al., “Source of the great A.D. 1257 mystery eruption unveiled, Samalas volcano, Rinjani Volcanic Complex, Indonesia”, *Proceedings of the National Academy of Sciences* Oct 2013, 110 (42) 16742-16747; DOI: 10.1073/pnas.1307520110.

³⁰ These texts were written in dried and smoked palm-leaves in Ancient Javanese. This practice dates back in the 5th Century in Southeast Asia and spread elsewhere.

³¹ Giovanni Marizza, “*Come i vulcani influenzano la geopolitica*”, May 2010, *L’Occidentale*. Retrieved from: <https://www.loccidentale.it/articoli/90220/come-i-vulcani-influenzano-la-geopolitica>

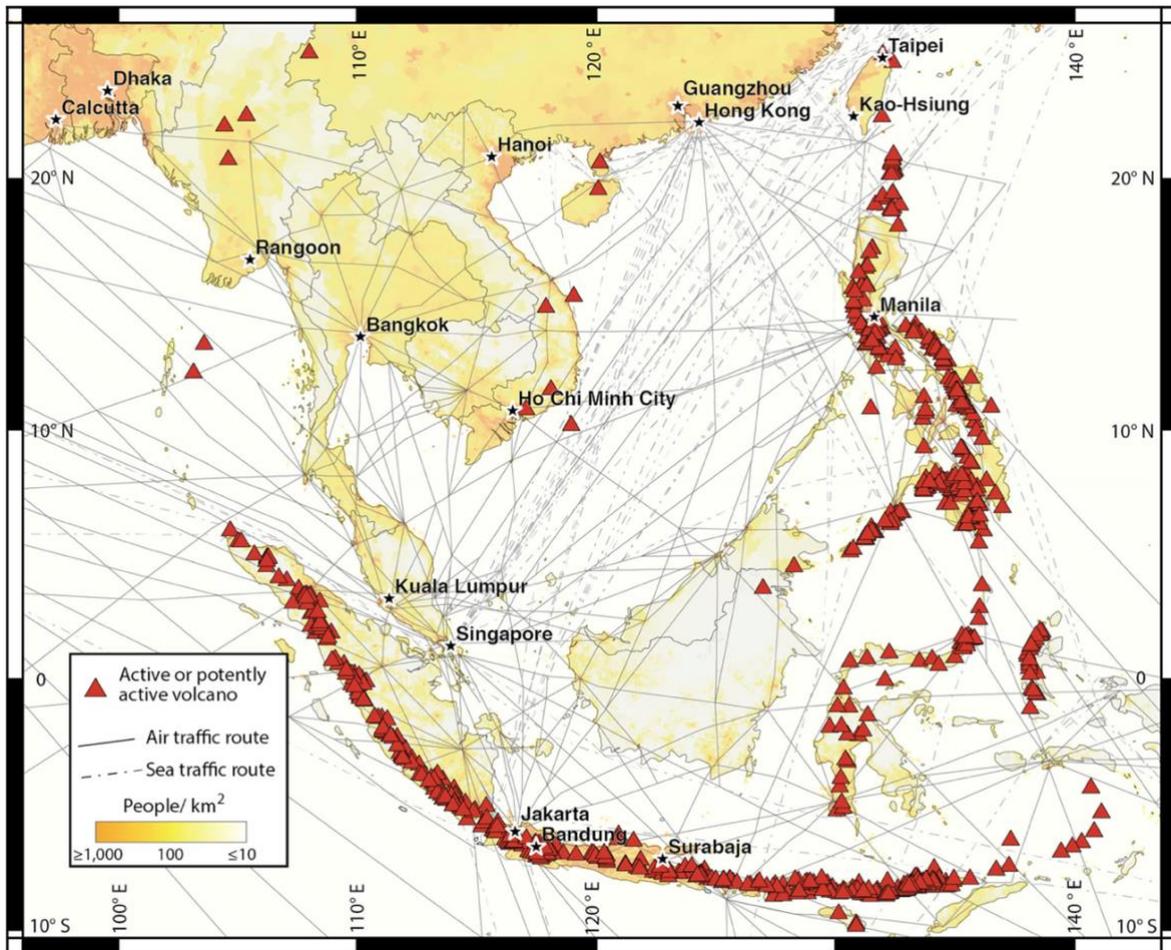


Figure 6. Map of the active or potentially active volcanos in the region. Source: Whelley et al., “The Frequency of explosive eruptions in Southeast Asia”, *Bull Vulcanol* (2015) 77:1, DOI: 10.1007/s00445-014-0893-8.

The area is also subject to frequent earthquake. A 9.1 magnitude earthquake strike the Indonesian Island of Sumatra in 2004 causing an enormous tsunami disaster and large number of victims. The earthquake started off the coast of Sumatra’s island causing thousands of victims (270 000 estimated) and it affected the coastal region of Indonesia, Sri Lanka, India, Thailand, Myanmar, Bangladesh, Maldives and also the coasts of Somalia and Kenya (4500 km far from the epicenter of the quake). From the tectonic point of view, the earthquake was triggered in the area where the Indian Plate (part of the vast Indo-Australian plate) moves towards north-east the Burma plate with an average speed of 6 cm per year. This plate is consequently pushed towards west from the Sonda’s plate and both are part of the Euro Asiatic plate. The area involved in the earthquake was really large, it has been assessed that almost 1200 km of the Indo-Australian plate wedged in the Burma plate, causing the vertical rise of the ocean floor and creating the ideal condition to generate rouge waves.

Even though these phenomena’s can be a valuable downside for the foreign investors since they have an enormous destruction power we must say that they are quite rare. For example it has been calculated that in the Southeast Asia the probabilities of VEI 3 or VEI 4 eruptions in a decade are

nearly 1.0; VEI 5 ~ 0.6 ; VEI 6 ~ 0.15; VEI 7 ~ 0.012 ; VEI 8 ~0.001.³² Moreover, the governments are now incrementing the evacuation plans and the operational solutions to avoid dramatic number of deaths.

1.1.4. Hydrography: Rivers and Lakes in Southeast Asia

Southeast Asia is a region where the presence of water is dominant and it has been an important aspect that changed the society and the economy. In this paragraph it is going to be studied the main geographical and hydrography features.

Five main rivers structures can be recognized, which are: Irrawaddy, Salween, Chao Praya, Mekong and Red rivers. Three of the main conglomerate (Mekong, Salween and Irrawaddy) originate in Tibet's plateau and they have a peculiar path: they develop in small rivers restricted in cramped basins and not, like the other big rivers, in many small branches flowing in one vast catchment field.

The Irrawaddy progresses through Myanmar and giving the heart area of the country. It drains in the western side of the country, sloping the country western mountain chain and the Shan Range. It is the longest river of the country (2170 m), in the valley it receives the stream of the *Nmai* and *Mali* rivers which increase significantly the flow rate, reaching almost the 6000 m³/s. Before the outlet in the Irrawaddy lake it receives the important flow of the *Chindwin* and then it streams with high flow in the Burma's main valley. The river gives also an important impulse to the economy since it is navigable until its wide delta (190 km from west to east) in the Andaman Sea. The Salween origins in central oriental Tibet where it is called *Gyalmo Ngulchu*, quite near the outfall of Mekong. The catchment area covers a surface of 320.000 km², this space is subdivides between China, Burma and Thailand.

In the first part it flows towards west and then after a long curve it continues to east through the historical Tibetan region of *Kham*³³. In all this initial part the river is not navigable and it runs in narrow and deep gorges. These canyons are deep even 3000 meters and are surrounded by peak that reach the 6000 meters. It slowly bends to south-east, enter then in the Yunnan province in China where it is called *Nu Jiang*³⁴ (怒江), approaching the Mekong and Yangtze (Chang Jiang

³² Whelley et al., "The Frequency of explosive eruptions in Southeast Asia", Bull Vulcanol (2015) 77:1, DOI: 10.1007/s00445-014-0893-8.

³³ Kham is a historic region situated in the South East part of the country. It was never able to obtain an autonomous central administration like other two Tibetan provinces *U-Tsang* and *Amdo*.

³⁴ Literally the "Angry River".

in Chinese). In this area the three rivers encounter in the protected area called “Three Parallel Rivers”³⁵ that has a surface of 1.698.400 hectare.

After a sharp curve to west it separates from the other two rivers and it enters in Myanmar’s territory, following the Shan Range. In Myanmar it is called the *Thanlwin* and it pursues a tortuous path, flanking the *Dawna* mountains. It then marks the Thailand border with Myanmar for 120 km, the area is known for its outstanding landscapes rich of caves, waterfalls and suggestive rocks. The river finishes its flow in the gorges around 200 km from the sea when it receives the intake of the *Moen* river. The river flow increases and at 90 km the river became navigable also by large boats, in this area it crosses the more populated part of the country. It flows in the Martaban Gulf with a bifurcation form receiving the water from two tributaries the *Gyaning* and *Atarantra*.

The Salween has not been exploited by hydropower structure yet even though political power had expressed the interest for the river as a major source of energy. Serious actions have been taken to try to build large dams³⁶, in order to foster the irrigation systems but few steps have been takes so fare due to the Myanmar civil war and the opposition from China.³⁷

The Mekong is the longest and most important river of Indochina. It is the seventh longest river in the word and the twelfth for water flow. The length is estimated to be 4880 km and the basin has an extent of 810.000 km².

³⁵ UNESCO World Heritage Centre 1992-2018. "*Three Parallel Rivers of Yunnan Protected Areas*". *World Heritage List*. Retrived from: <http://whc.unesco.org/en/list/1083>

³⁶ The Thai and Myanmar government projected two big dams for irrigation scopes but the project for the Hagty dam was blocked because of a military offensive of the Myanmar government against the rebels in 2006.

³⁷ The attempts of constructing big dykes have been heavily criticized. The 1st April 2004 the Chinese prime minister stopped the project for the construction of 13 dams in the Salween path in the Yunnan province which should have supply hydroelectric energy to the country.



Figure 7. Course of the Salween from China to Myanmar. Source: created via Google Maps.

The headwaters are difficult to find because they are placed in an arduous area to reach and it gathers different tributaries of the Tibet basin. Peter Winn and Tamotsu Nakamura tried to solve what they called “one of the last great geographical mysteries of the world”³⁸. The explorer Michel Peissel (1937-2011) identified the main water source in the *Rupsa* pass at the coordinate of 93° 52.929 E, 33° 16.534 N and at an elevation of 4975 meters.³⁹ Another source is given by the China Science Exploration Association which place the headwater in *Lasogongma* at 33°42’31”N 94°41’44”E near the city of *Ganasongdou* at an height of 5224 m. This difficulty in identifying the headwater leads to an uncertainty regarding the actual length of the river which is placed between 4350 and 4909 kilometers. The headwaters are placed in the *Sanjiangyuan* (in Chinese literally “three rivers”), along with the Yellow River and the *Yangtze*. It then approaches the Yunnan province along with the Mekong in “three rivers” reserve and like the Salween its path is in between narrow gorges, for this reason the river is called in Chinese the *Lancang Jiang*,

³⁸ Winn Peter and Nakamura Tamotsu, “Final Destination of the source the Mekon River. One of the last great geographical mysteries of the world solved”, *The Japanese Alpine News*, Vol. 2, April 2002. Available at: <http://www.jac.or.jp/english/jan/vol2/vol2.html>

³⁹ Peissel M. (1997), “*The Last Barbarians: Discovery of the Source of the Mekong in Tibet*”, Henry Holt & Company, New York.

the “turbulent river”. After it leaves the mountain areas it passes through a hilly zone, indeed when it comes out from China it has an altitude of 500 m above sea-level.

The river progresses toward south forming for 200 km the natural border between Myanmar and Laos, inside a deep hilly jungle and with difficulty accessible and almost inhabited. At the end of this course near the Thai city of *Chiang Saen* it receives the water of the *Ruak* river, this region is called the “golden triangle”⁴⁰. It also, following its way south, delimits the border between Laos and Thailand, in Thai language is called the *Menam Khong*. This area is sparsely populated and the river is difficult to navigate because of the strong currents and the emerged rocks.

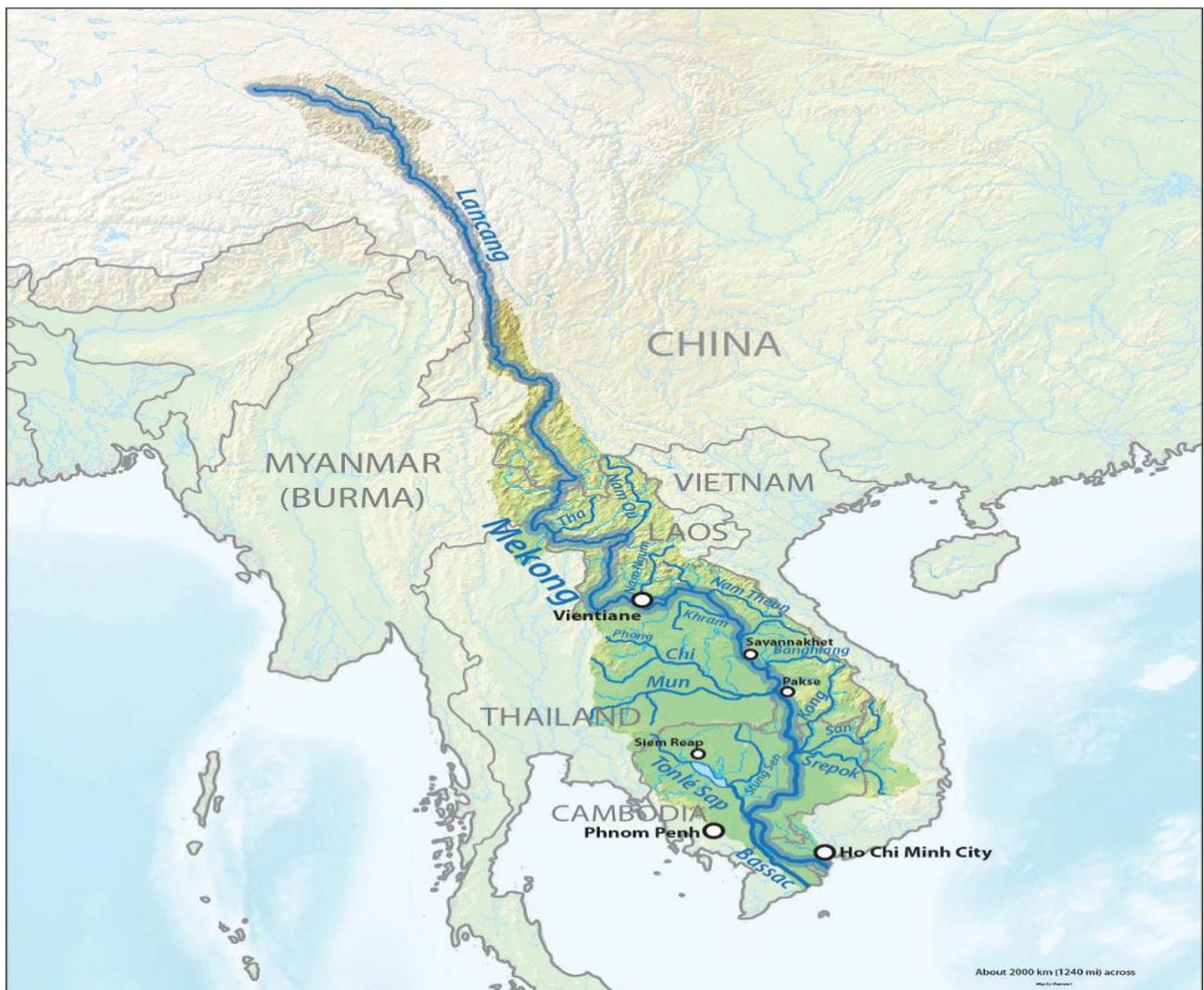


Figure 8. Course of the Mekong River and its main tributaries. Source FoxTravels: <http://foxtravels.net/p/1001>

Before the city of *Luang Prabang* in Laos the river makes a U curve and then it continues southwest. After the city the river flow increases significantly and it becomes easier to navigate,

⁴⁰ The golden triangle is a region between Laos, Myanmar and Thailand famous for the production of opium. The name came from the trade system of the opium which was usually bought with golden bars.

representing one of the main transport route of Laos. Before Laos' capital Vientiane, the river bends towards east and then it continues following the Thai-Laos confine. In this confine there are placed few bridges: the first one was finished in 1994, called the "Thai-Lao Friendship Bridge"⁴¹. Before the Cambodian's border the river extends sensibly, forming the region of *Si Phan Don*, literally the "Four Thousands Islands", characterized by the presence of numerous islands in the dry season whereas they are submerged by the Mekong flow in the rain season.

In Cambodia the river is called *Tonle Thom* (big river) and in this area there are present lot of waterfalls. Before the capital of Laos, Phnom Penh, there is the confluence with the *Tonle Sap* the main Cambodian tributary. After the capital the river divides between the *Bassac* and the real Mekong, both of them flowing in the Mekong's delta in Vietnam near Ho-Chi-Minh city.

The Mekong has serious problems of pollution and is classified among the most polluted river in the world.⁴² There are high levels of heavy metals and arsenic caused by the presence of more than 210 industrial site in its flow. In Vietnam arsenic has contaminated also the drinking water supplied from Mekong, where 16 million people can be effected by this phenomenon. The greatest risk of exposure to Arsenic is occurred by the populations who live closer to the river, yet Arsenic levels in groundwater above 1 ppb (parts per billion) were found in areas over 20 km away from the Mekong River.⁴³

In the last decades it has begun the process of exploiting the river by creating hydro electrical stations, particularly in the Chinese area. This can help significantly the economy of countries in the Southeast Asia since still lot of people live without electricity sources because is too expensive. On the other hand, of course the creation of these stations will have a negative effect on the environment, particularly for the agricultural and fishing economics.

The Chao Phraya is the main river of the Thailand, it is formed in the northern part of the country from the junction between the *Ping* (658 km) and the *Nakhon Sawan* (372 km). It passes through Bangkok before flowing in the Gulf of Thailand. The catchment area formed by these three rivers and their tributaries constitutes the western part of the country and it has a surface of 157.924 km², almost 35% of the country.

⁴¹ The bridge was totally financed by Australia; the total cost of the bridge was around 30 million dollars. The work starts in the 1991 after the agreement between Laos and Thailand.

⁴² Amarendra Bhushan Dhiraj, "Top 20 Most Polluting River in the World: China's Yangtze and India's Ganges Tops", CEOMagazine, June 9, 2017. Link: <https://ceoworld.biz/2017/06/09/top-20-most-polluting-rivers-in-the-world-chinas-yangtze-and-indias-ganges-tops/>

⁴³ R.B. Merola et al., "Arsenic exposure to drinking water in the Mekong Delta", Science of the Total Environment 511 (2015) 544-552.

It leaves the mountainous area in the *Chainat* province where it bifurcates in a minor river (*Tha Chin*) who flows alongside the Chao Phraya, forming a single delta near the sea.

In the 1957 the first dyke of Thailand was built on the Chao Phraya which supply an extensive network of canals used for the irrigation of the numerous rice paddies and for the drainage of the soil. This water management system has created one of the greatest rice granaries in the Asian Monsoon area. But recently the rice cultivation has reached its limit due to the lack of water resource itself and new plans are being made in order to develop the irrigation facilities.⁴⁴

This land was largely covered by rain forests and swamps. The area it was largely recovered by promoting, on one hand, the agriculture and the urbanization but on the other these processes caused the disappearance of numerous flora and fauna's species such as the Indochinese tiger and the Giava's Rhino. The river is one of the main transport network of the country and it is crossed by different bridges, the majority in the Bangkok area.

The main rivers of the Insular part can be found in Indonesia and in the Philippines. The number of rivers in the islands of Southeast Asia is quite high even though the majority of them are short. The longest rivers can be found in Kalimantan, Java and Sumatra. The *Kapuas* is the longest river of the country with 1143 km in the *Kilimantan*'s Island and it also estimated as one of the longest insular river of the world. The headwaters of the river are placed in the Kapuas Hulu mountains, in the Malaysian territory and then it flows to west till the South Chinese Sea. It drains the large area of the lake *Sentarum* in a protected reserve. It is navigable for the majority of its path where it is mostly transported the wood coming from inside the island.

Other important rivers in Kalimantan are the *Barito*, *Mahakham* and *Rajang* but most of the southern part of the island is crossed by a large number of rivers. In the south Sumatra island there the *Musi* (240 km), the longest river of the island, the *Kampar* and the *Batanghari*.

In Java the longest river is the Solo river which extend for 600 km. It rises from central Java, in the *Lawu* volcano and then it flows north. Other major rivers are: *Cimanuk*, *Brantas* and *Citarum*.

In the Philippines the main river is the Cagayan river or Rio Grande de Cagayan. This river has the headwaters in the Caraballo Mountains and flows for almost 500 km till the Philippines Seas. The river suffers serious flooding caused by the elevated rainfall and retention of the surface. The valleys near the river are quite fertile and rice, citrus, coconut and tobacco have been cultivated. Other major rivers in the Philippines are: *Mindanao* (380 km), *Agusan* (349), *Pulangi* (321 km) and the *Pampanga* (260 km).

⁴⁴ Yuyama Y. et al., "Strategy to improve Water Management in the Area of Chao Praya Delta", Rural and Environmental Engineering, No. 44 (2003.8) pp. 42-59.

It will be now analyzed the main lakes of the country, divided by country. Starting from the west in Myanmar there are different lakes, the majority mountain lakes. It can be found the *Rhi* Lake, near the Indian border, a heart-shaped lake surrounded by mountains and the *Inle* Lake, the second largest lake in situated in the Shan mountains at 920 m.a.s.l. The largest lake of Myanmar and one of the largest in Southeast Asia is the Indawgyi Lake, located near Mohnyin Town. The lake is 24 km north to south and 13 km east to west with a surface of 260 km² and it is placed at 166 m above sea level.

In Thailand the largest natural lake is the Songkhla Lake in the Malay Peninsula which covers an area of 1040 km². It is a lagoon complex and is formed by three different parts: the southern parts which opens to the gulf of Thailand, the central part the *Thale Luang* (782 km²) and further north the *Thale Noi*. Geologists say that it was formed probably by the connection by silting of existing islands. Other lakes in Thailand are: *Bueng Boraphet*, *Cheow Lan Lake*, *Nong Han Kumphawapi*, *Hong Han Lake* and *Phayo Lake*. In Laos one of the most important lake is the Nong Fa Lake, also known as Nongphatom Lake, literally the blue rivers. It is situated in southern part of Laos in the *Dong Ampham* National Biodiversity Conservation Area at an altitude of 1154 m.a.s.l. The maximum depth is estimated approximately of 78 meters.

In Cambodia is present the most important lake of the Southeast Asia the *Tonle Sap*. This lake is located in the middle of Cambodia and it occupies a large basin delimited by the Dangrek mountains in the north and the Cardamom's mountains in the southern part. It was formed by the collision of the Sub Continental Indian plate and the Asian plate making a depression for the water. It is supplied by numerous tributaries rivers and in the rain season, caused by the monsoon, it is part of the Mekong's system. The surface of the lake moves from 2500-3000 km² in the dry season to the 10000-20000 km² in the rain season and the profundity passes from 2-3 meters to 14 meters' maximum. It is a regular basin of the Mekong river preventing disastrous flooding in the rain season. In the regional coast of the lake it is intensely carried out the agriculture, especially for rice, favored by the fertile soil and by the periodical floods of the lake. Fishery is another important resource exploited from the lake due to its rich biodiversity and the prosperous annual deposit of sediments. These activities supply food for more than 3 million people contributing for the 75% of the total fishing and 60% of the protein intake of the population of Cambodia.

In Vietnam can be found the *Ba Ba Lake*, the biggest natural lake of the country located in the Northeast part of the region. It is surrounded by limestone rocks and is supplied by three rivers: *Năng*, *Tả Han*, and *Nam Cường*. Other important lakes are present in the Hanoi city, such as

Hoàn Kiếm Lake, the West Lake and the *Trúc Bạch* Lake. In Malaysia it is important to quote the largest man-made lake of South East Asia the *Tasik Kenyir* in *Hulu Terengganu*, which cover an area of 260 km² and 340 small islands are placed inside the lake itself.

Moving to the Insular Lakes more than 500 lakes are spread across Indonesia. The largest one is Lake Toba in the Sumatra's island which cover an area more of 1300 km² placed in an old volcanic crater. It is also estimated that is one of the deepest and highest lake in the world, the maximum profundity is 450 meters and it is placed at an altitude of 900 m.a.s.l.. Other lakes in Sumatra are *Maninjau* and *Singkrak*. The central part of Sulawesi island is rich of profound lakes like the *Towuti*, the *Matana* and the *Poso*. The already quoted Mahakam River in its basin contains a lagoon complex with 6 lakes and an important biodiversity in term of flora and fauna. Numerous lakes are also present in the Philippines and most of them are from volcanic or tectonic origins. Small lakes occupy the space left from the craters of non-active or extinct volcanos. Among these the most important for size or economic relevance are the Laguna de Bay in Luzon, *Taal* Lake and Lake *Lanao* in *Mindanao*.

At the end of this paragraph these points can be stressed:

- Southeast Asia's main rivers follow structural depressions and they have the characteristic to alternate between rocks and alluvial canals.
- There is an important difference from the dry and the wet season and floods are common during the wet season. This seasonality has a huge impact on the river's basin.
- Most of the Southeast Asia lakes have volcanic origins and the largest are placed in the continental part, even though the tectonic activities have created a large number of lakes even in the insular part.
- The rivers have been used and largely as economic resources. For this reason, the original basins of the river have been altered by numerous engineer structure like dams, canals and reservoirs.

1.1.5. Climate: the monsoon region

In this paragraph it is going to be analyzed the climate of the region with a focus on one of the main phenomenon which affect the area: the monsoons. In the second part it will be, then, considered the flora and fauna of the area.

In order to understand the climate of the region we use the Köppen climate classification model created by the geographer and climatologist Wladimir Köppen (1846-1940). This classification was firstly introduced in the 1918 and then modified till it reached the final edition in the 1936. The system is largely empiric: each of the climate type is being defined by fixed values of temperature and precipitation, calculated from the annual or monthly average. In this division the causes of the climates in terms of pressure, bands of winds and air masses are not taken in consideration. It is possible to categorize a certain area in one of the climate sub-groups using the local temperature and rainfall data with an observation long enough to give the possibility to have significant averages. The main benefit of using this system is that the covered area of each climate type can be identified for big region in the world. There are 5 main groups identified by the capital letter: A, B, C, D and E. Only The first three groups have temperature and rainfall sufficient to allows the forest and wooded vegetation to grow. The main climate divisions are:

- **A: Tropical Climate**, the average annual temperature is more than 18° C and there are important rainfalls.
- **B: Dry Climate**, the average rainfall is less than the aridity level and it can be divided by subgroups of hot or cold desert climate and hot or cold semi-arid climate.
- **C: Temperate Climate**, the coldest month is between 0° C and 18° C and at least one month above 10° C.
- **D: Continental Climate**, this type of climate has one month averaging below 0° C and at least one month above 10° C.
- **E: Polar and Alpine Climate**, every month of the year have a temperature below 10° C.

Critiques have been made to this classification mostly for the group C, considered the definition to broad. The American geographer Glenn Trewartha (1896-1984) revised the Köppen's system creating a middle latitude climate zone. This modification was made in order to be more similar to the vegetation zoning and the climate's genetic.

The main types of climate of South East Asia are in the A Tropical Climate and C Temperate Climate groups as we can see from the figure 9. The tropical climate is typical of the torrid areas of the world in between the Tropic of the Cancer (23° 26' North of the Equator) and the Tropic of Capricorn (23° 26' South of the Equator). The latitudinal bands includes Central and South America, Africa, Indian Peninsula, Africa, Australia, Oceania and South East Asia in both the peninsular and insular parts. In this type of climate, typical tropical forest, savannahs and a rich biodiversity have developed. Köppen distinguished three sub-types of climate of the region based on the pluviometric regime⁴⁵, which are: Equatorial Climate (Af), Monsoon Climate (Am) and Tropical Savannah Climate (Aw).

Southeast Asia map of Köppen climate classification

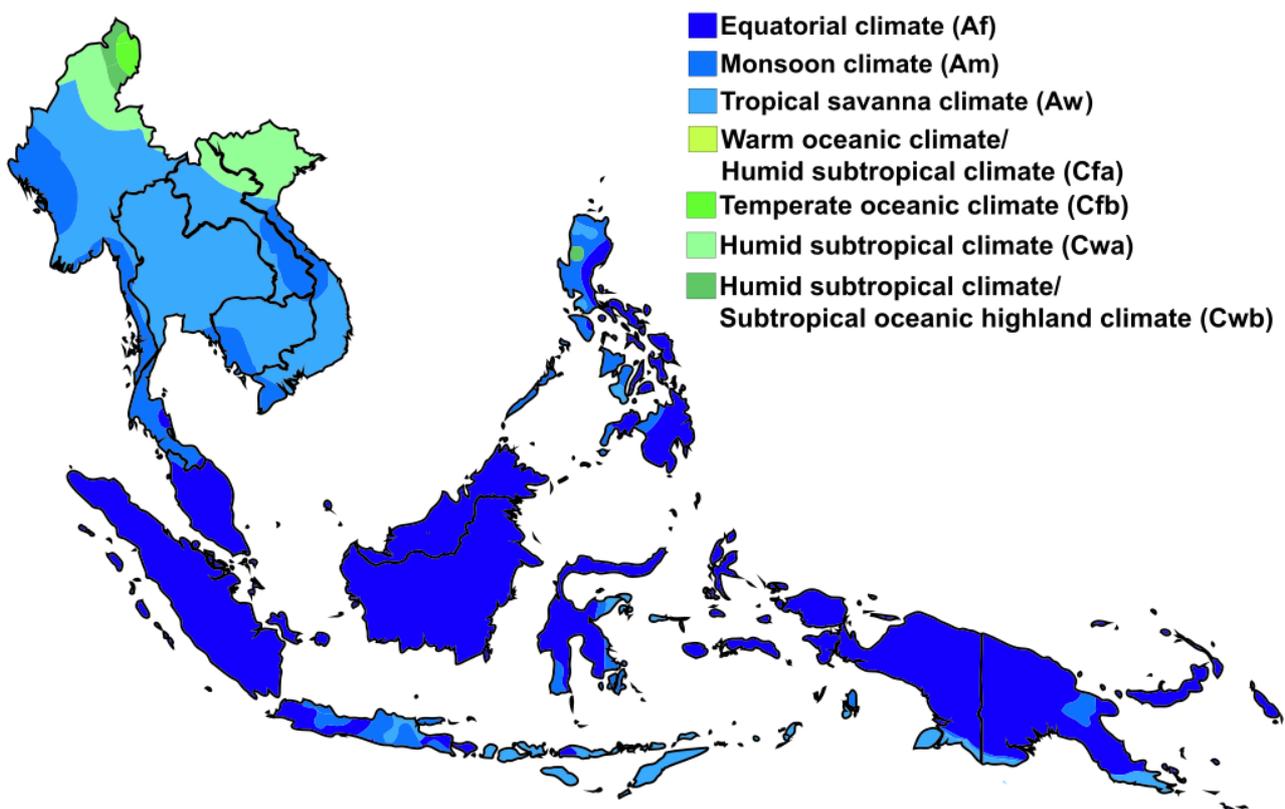


Figure 9. Köppen climate's classification of the South East Asia. Source: Peel, M. C., Finlayson, B. L., and McMahon, T. A.: Updated world map of the Köppen-Geiger climate classification, *Hydrol. Earth Syst. Sci.*, 11, 1633-1644, <https://doi.org/10.5194/hess-11-1633-2007>, 2007.

⁴⁵ The pluviometric regime is the development of the precipitation, in liquid or solid form, that has affected a certain area or region in a fixed period of time (monthly, annually)

The Equatorial Climate (Af) is the common in the region interesting almost the totality of the insular and peninsular part of the region. It is characterized by average annual temperature between 27-28 °C within 100 m.a.s.l. and in some cases with an important temperature variation (12-14 Celsius degrees) between day and night. But rarely there is an important thermal difference between different period of the year. The daily minimum temperatures go hardly down 20 °C and the rainfalls are abundant, around 3500 mm yearly with short showers proximately of one hour repeated during the day. The difference between the monsoon climate and the savannah's one is that the first one misses the dry season. The humidity is usually very high in comparison to the temperature.

In this type of climate, it grows a particular type of forest: the tropical rainforest. The necessary condition for this plants is that the power of the solar light and the thermals are relatively stable so the climate be the same every day. Moreover, the rainfalls occur because of the high humidity and the transpiration and evaporation of the plants creating Cumulonimbus clouds⁴⁶.

The tropical monsoon climate (Am) in Asia is common in the Indian Subcontinent, Southern part of China and in the South East Asia. Typically, the temperatures are above 18 °C in every month of the year and it has a wet and dry season as the Savannah's climate. The difference between these two types of climate is that the tropical monsoon usually sees more precipitation respect the savannah's or at least have less noticeable dry seasons.

It is clear that this type of climate is intensely related to the monsoon current thus is needed to focus on this particular type of weather event. The monsoons can be defined as "large-scale seasonal reversals of the wind regime"⁴⁷, the origins of the word is Arabic "*mausim*", meaning literally seasonality. It is thought that the monsoons are tracked back to the great zonal structure of the atmospheric circulation such has the Hadley cell⁴⁸ and the Ferrel cell⁴⁹.

There are two main monsoon systems the northeast monsoon (winter monsoon) active from November to March and the southwest monsoon (summer monsoon) which happens from May to September. The changeover month is October where the southwest wind change direction to northeast. The winter monsoon is usually dry in the Southeast Asia and it does not cause

⁴⁶ Cumulonimbus is a type of cloud which it generates in uncertain atmospheric condition at an altitude between 2000 – 16 000 km with a vertical development.

⁴⁷ Serreze, M. C. (2010), Understanding Recent Climate Change. Conservation Biology, 24: 10-17. doi:[10.1111/j.1523-1739.2009.01408.x](https://doi.org/10.1111/j.1523-1739.2009.01408.x)

⁴⁸ Hadley's cell is a convection current which involve the tropical atmosphere creating a rise of hot air near the equator. After rising to an altitude of 10-15 km it moves to the tropics where it goes down to the surface, again toward the tropics. It is usually related to the trade winds, the tropical rainfalls, subtropical desert and jet streams.

⁴⁹ The Ferrel's cell is a convection cell of atmospheric circulation with a global scale which covers the mid-latitudes and it is characterised by the "westerlies" or western winds.

significant effects but on the other hand the summer monsoon has a great impact on the area, being also an important resource for the water's region. The alternation of monsoons regulates agricultural time and the crop yields (figure 10). Another important effect of the monsoon is the flooding and they have been related to the summer monsoons. One of the most used definition of flood is the "rain water large enough to submerge the land surface". This event involves lakes, rivers, oceans and seas which spreads on the low-land areas. The countries where the floods happen the most are Philippines, Thailand, Vietnam, Cambodia and Indonesia.

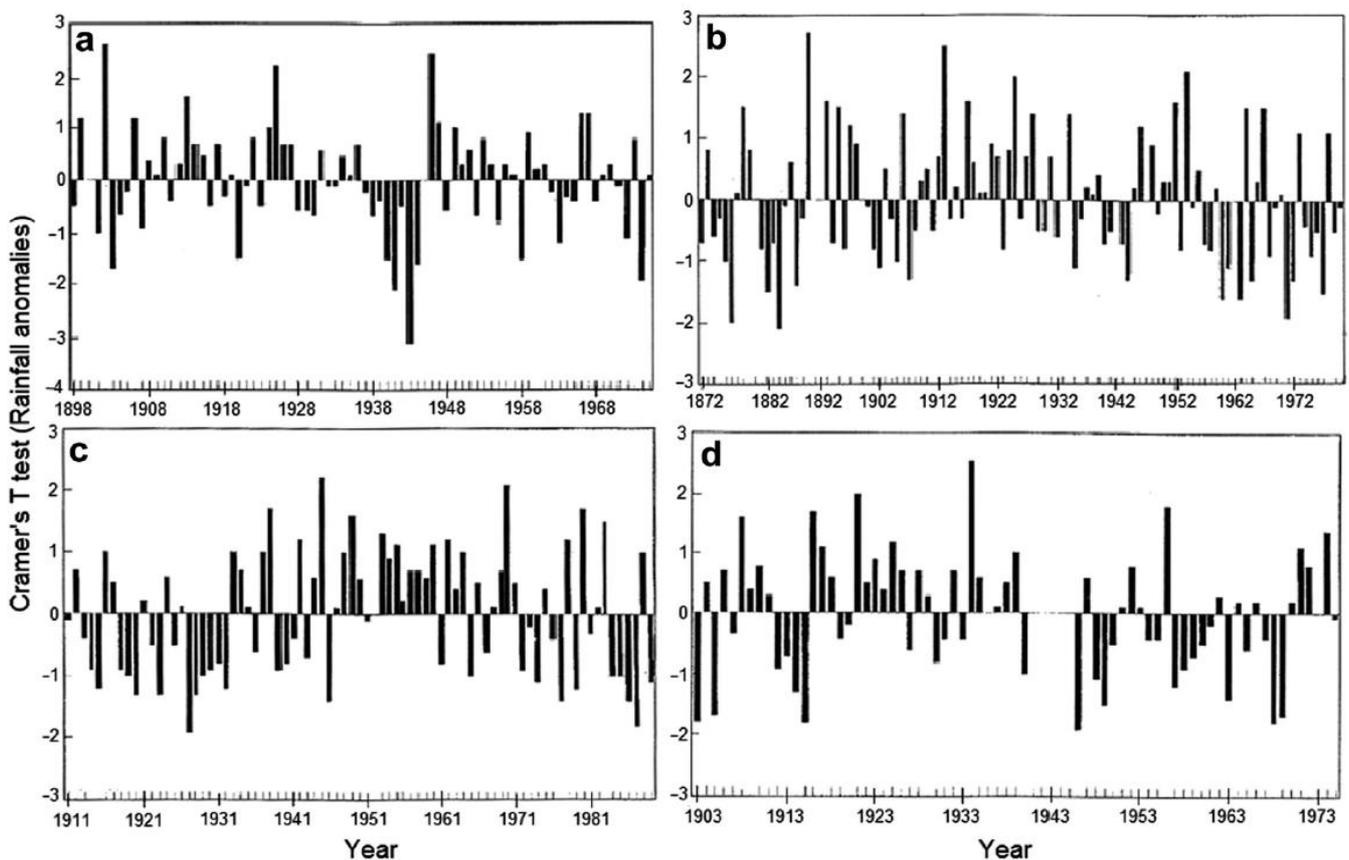


Figure 10. Standardized yearly monsoon precipitation in (a) Malaysia, (b) Singapore, (c) Thailand and (d) Philippines. Source: Kripalni and Kulkarni, 1997

Flooding has been an important resource for the agriculture-based society of the Southeast Asian but it has briskly intensified since 1970s, mostly due to the global warming change. This response of the flooding is showing that the precipitation monsoon patterns is changing, causing lot of damages to the territory. For example, in the Philippines in August 2012 a violent monsoon rainfall took 140 lives⁵⁰ and more that 500 000 people had been evacuated. Also in Malaysia experienced violent monsoon precipitations the most intense were the Tropical Storm Greg in

⁵⁰ "Death toll from Philippines floods rises", CNN Staff, 12 August 2012, CNN.

1996, which caused 238 deaths and thousands of millions of dollar of damages⁵¹, and the more recent floods in *Jahor* State in 2008.

Then, according to the NASA-earth Observation of 2011 Thailand is considered one of the ten worst countries afflicted by the monsoons. It is clear that this climate issues have a huge geographic impact which then reverses in the economic and society of these country and understand and predict their trends could be essential to preserve the life of million people, preserve the ecology and cultivations of the region⁵².

Moving to the other types of climate even though they interest few areas of the South East Asia there are also present: Warm Oceanic Climate (Cfa), Temperate Oceanic Climate (Cfb), Humid Subtropical Climate (Cwa), Humid Subtropical Climate/Subtropical Oceanic Highland Climate (Cwb). The Oceanic climate is a type of climate which is usually present in the coasts of the mid-latitude continents and in the southern-western part of Australia and like in the Southeast Asian case the tropical high grounds. In these types of climates is common a mild temperature variation between day and night and precipitation spread throughout all year. We must say that in this region this type of climate is mainly present in some part of Indochina, precisely in the northern part of Myanmar, Laos and Vietnam. In these parts the temperature is lower than the peninsular zone, it can have cold but not freezing winter and hot summer.

The physiography, ideography, the precipitation form and the seasonal essence have highly influenced the flora of the area. The tropical climate and the great diversity of the territories gave the possibility to a large assortment of vegetal structures, which make this area one of the richest in term of vegetative environment in the world. Even though lot of the flora has been mutated by human activities still large parts of the region remain unharmed. The greenery can be split in two groups: the tropical evergreen forests of the equatorial lands and the open type monsoon forests. The first one is outlined by the presence of multiple types of vegetations with lot of trees and plants. Half this type of forest is represented by components of the *Dipterocarpaceae*⁵³ family: the trees are very high (usually can also exceed 80 m), the leaves are alternate, simple, leathery and evergreen. The flowers of the trees of this family are complete, regular and usually perfumed;

⁵¹ Mohd Abdullah, "Nightmare of Tropical Storm Greg recalled, as houses swept away", December 18, 2017. New Straits Times. Retrieved from: <https://www.nst.com.my/news/nation/2017/12/315812/nightmare-tropical-storm-greg-recalled-houses-swept-away>

⁵² Loo, Y.Y., et al., Effect of climate change on seasonal monsoon in Asia and its impact on the variability of monsoon rainfall in Southeast Asia, *Geoscience Frontiers* (2014), <http://dx.doi.org/10.1016/j.gsf.2014.02>

⁵³ From the Greek words: *di* (two), *pteron* (wing) and *karpos* (fruit). The reference is to the fruit's resemblance of having wings.

the fruit it is dry (capsule or nut) and contains only one seed. Deciduous forest can be found in the Eastern part of Indonesia and in some mainland's areas where the precipitation are lower. This kind of vegetation have also an economic value such as the teak, this kind of tree has a strong stem and it is usually high around 40 meters. It is cultivated in the Indian peninsula, Myanmar and Thailand and it is used for artefacts which require a strong water-resistance. It is one of the best cut of woods in term of durability, ductility and composition.

Coastal and highland plant communities represent also another important type of vegetation. There are more than 30 breeds of mangrove, which are specific from the Indochina region and classified as "Indochina Mangroves" [IM1202] by the WWF⁵⁴. The species distribution varies depending on the salinity of the water since they are coastal plants. The extension of the mangroves in the Indochina coasts was larger in the past particularly in nearby Pattaya in Thailand in *Veal Rinh* and *Kampong Som* in Cambodia but most of them were converted into agricultural lands. In Vietnam these type of Mangroves has been damaged by the use of defoliant and napalm during the Vietnam War but in the delta of the Mekong important forests of mangrove resist.

The forests of Southeast Asia have been modified by human being mostly for obtain more space for agriculture and for the harvesting industry, indeed important logging industries are present in Thailand, Indonesia, Malaysia and Myanmar. In addition to this, the illegal harvesting is damaging the forest ecosystem, scientists estimated that from 2000 to 2014 Southeast Asia lost 293 000 km² (11% of the total forests present in 1999) involving both the highland and lowland forests.⁵⁵ This "modern-day plague"⁵⁶ of the region has difficulty being take on since the countries of the ASEAN manage their forest in a dissimilar way. But international organizations have taken in consideration the deforestation problem. The ASEAN Agreement on the Conservation of Nature and Natural Resources⁵⁷ was written in 1985 but it was never formally implemented and carried out because was surpassed by the Convention on Biological Diversity. The aim of this Convention in is to reach at least 17 % of protected inland by 2020. In addition, the members

⁵⁴WWF, "Indochina Mangroves". Gland, Switzerland. Official Website: <https://www.worldwildlife.org/ecoregions/im1402>

⁵⁵ Sue Plaminteri, "Southeast Asia deforestation more extensive than thought, study finds", Mongabay, 18 July 2018, Retrived from: <https://news.mongabay.com/wildtech/2018/07/southeast-asian-deforestation-more-extensive-than-thought-study-finds/>

⁵⁶ Pamela Victor, "Deforestation – a modern-day plague in Southeast Asia", The ASEAN post, 23 September 2017. Retrieved from: <https://theaseanpost.com/article/deforestation-modern-day-plague-southeast-asia>

⁵⁷ <https://environment.asean.org/agreement-on-the-conservation-of-nature-and-natural-resources/>

have banded to the SDG (Sustainable Development Goals and Cambodia, Indonesia, Philippines and Vietnam are already REDD+⁵⁸.

Moving now the fauna Southeast Asia is in between of the two different world's fauna categories: Oriental (or Indian) and the Australian zoogeographic regions. As for the fauna a significant diversification of wildlife identifies the region: the species of the insular part are way different from the archipelagos' ones. Moreover, the tropical precipitation and the fauna diversity have created particular and singular ecological alcove.

The mammals group is the most representative of the distinction between the two zoogeographic categories. While in Australia marsupials and monotremes (egg-laying mammals) are the main animal mammals, in Southeast Asia are more present placental mammals and hybrid species (like bandicoot). Most of the mammals are small like Monkeys and Shrews which are common even in urban spaces while big mammals have been driven in remote or protected areas. It can be encountered pigs, civets, bears, gibbons, elephants and tigers in the mainland and also in the insular part. Also rare species can be found: the Malayan tapir, Sumatran Javan Rhino, Orangutan, Anoa (dwarf Buffalo), palm civet and the babirusa (wild swine).

⁵⁸ "Reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries"

1.2 A Short History of Southeast Asia

In this paragraph is going to be framed a short history of the main events happened in the region. The paragraph will be divided in different history period focusing the most on the last centuries, since they give us the main causes of what is happening now-a-days in the region.

1.2.1 Ancient Times: Palaeolithic, Neolithic, Early Agriculture Societies and Bronze Age

The first presence of humans in the Southeast Asia dates back to 50 000 years ago as recent fossil evidence found in the Laos mountains.⁵⁹ The dropping of the Ocean's level during the Pleistocene era⁶⁰ gave the possibility to the first human migrations to cross the sea trough passages and reach the Insular Southeast Asia. Modern human activities' proofs have been discovered in Malaysia, dating back to 40 000 years ago and remains have been found in in Java, Timor and the Philippines islands'. Here a community of hunter-gathers population established, exploiting the natural resources and hunting.⁶¹ Important was the Ho Binh culture discovered by the French archaeologist Madeleine Colani in 1927, which take the name from the northern Vietnamese province Hoa Binh where the excavations where made. The First Congress of Prehistorians of the Far East (1932) defined the Hobinhian as "culture composed of implements that are general flaked with somewhat varied types of primitive workmanship"⁶². The artefacts produced were not sophisticated and there were related to the different local environments and resources. The presence of this craft-ship culture was also documented in Malaysia, Sumatra Thailand, Laos and Cambodia. The *Austro-Malanesians*, *Aboriginal*, *Negritos* and *Hill Tribes* from the Homo Sapiens species who migrates in the area and established in rocks cavern in Vietnam, Thailand and the Philippines about 30 000 years ago. After this, the area was interested by the Neolithic immigration movements and precisely from the *Mon* and *Khmer* ethnic groups both are considered part of the Austroasiatic migration. They settled almost 5000 BP (before period) in the river's plain in the continental part of Southeast Asia, mainly in the *Chao Praya* and *Irrawaddy* basins. Regarding the insular part, the Austronesian groups migrated through boats to

⁵⁹ "Oldest bones from modern humans in Asia discovered", LiveScience, August 20, 2012. Retrieved from: <https://www.cbsnews.com/news/oldest-bones-from-modern-humans-in-asia-discovered/>

⁶⁰ Pleistocene era is the first of the two eras by which is divided the "Quaternary Period" and is classified between 2.5 millions years ago and 11 700 years ago. The other quaternary era is the present one: Holocene.

⁶¹ Higham, Charles (2013) "Hunter-Gatherers in Southeast Asia: From Prehistory to the Present," Human Biology: Vol. 85: Iss. 1, Article 2. Available at: [hp://digitalcommons.wayne.edu/humbiol/vol85/iss1/2](http://digitalcommons.wayne.edu/humbiol/vol85/iss1/2)

⁶² Matthews J.M. (1966) "A Review of The 'Hoabinhian' in Indo-China", Asia Perspectives, IX. Retrieved from: <https://core.ac.uk/download/pdf/5105029.pdf>

the islands of Indonesia and Philippines about 4000 years ago and in this process they drove the hunter-gather local population in the central zones of the islands.

The period of the Agrarian societies developed around 500 years ago, it was based on the yielding and the nurture of crops and farmlands. The debate around the creation of these types of societies has been discussed thoroughly by historians. The main reasons seem to be the climate change and the accretion of food surplus, plus in this particular region was also developed a limited but significant littoral commerce of natural products. The transition between the hunter-gather society to an agricultural one was a slow process and doubts about what happened to the first one still remain. The archaeologist Charles Higham proposed a so called “Two Layer Hypothesis” where on one hand the hunter-gatherers aggregated with the Neolithic people and lost their identity and culture. On the other it also seems possible that the hunter-gatherers retired and isolate in inner environment and survived till today. Unfortunately, these two points are difficult to demonstrate without knowing the genetics route of these population but the first hypothesis seems the more reasonable⁶³. Returning to the agricultural society, in this area the main cultivation was the wet-rice due to the optimal climate which produced consistently an excess of crop. This was then used by the nobility to create a labour force in order to build up canals, fortification and bastions. Another relevant aspect of this social organization was that agriculture gave the possibility to sustain a greater density of people around fertile areas, rather than the small groups of the hunter-gather society. It was in this period that the first city-states started growing in the Malayan-Indonesian territory: Pyu cities in the Irrawaddy valley, Van Lang in the Red River delta and Funan⁶⁴ in the lower part of Mekong. Pyu was the name of a group of city-states in the Irrawaddy river’s basin existed from the 2nd and 11th centuries BCE, this period is also known as “Pyu millennium”. Their economy was mainly based on agriculture and the trade with China and India. Remarkably, they were the first society to introduce in Southeast Asia a form of currency with silver coins⁶⁵. Van Lang and Funan were the early realms of the current Vietnam, the first covering the northern part and the second the southern part near Mekong’s delta. They developed an important and organised population which sustain a Bronze Age type of economy with

⁶³ Hunter-gatherers tribal are still present in small groups in South East Asia. The most well-preserved one is probably the Jarawas in the Andaman Islands, counting approximately 400 people.

⁶⁴ Funan is the denomination that Chinese Chronicles give from the III century AD and which correspond to the wide area of Mekong delta and Malaysian peninsula.

⁶⁵ Incredibly, the usage of coins in Burma disappeared after Pyu realm’s fall. Indeed, coins reappears only in 19th century.

manufacture of bronze and copper. In fact, in the Ban Chiang site in northern Thailand⁶⁶ and also in Vietnam in the Phung Nguyen area metal products have been found and they date back to 2000 BCE. Other significant bronze discoveries were the ones from the *Dongson* Culture in Vietnam, these products like axes, metal shafts, decoration items and the iconic Dongson drum which weighted over 70 kg⁶⁷, were particularly elaborated and required a operose metalworking technique⁶⁸. Undoubtedly, this processes were influenced by India and China⁶⁹ but also the hierarchical and centralised societies with a considerable amount of residents had an important role. Along with the bronze production another type of manufacture activity was carried in the area: the pottery culture. Two main early society had a key role in this: *Sa Huynh* and *Buni* cultures. The first one developed in the coastal part of Vietnam and numerous pottery craftworks have been discovered in the area: terracotta jars of different dimensions and used also for burial purposes, decorated pots and dishes, glass objects. The second one was present in West Java, Jakarta and Bento around 400 BCE and 100 BCE and they are known for their geometrical elaborated decorations and incisions in the pottery works.

1.2.2 Early Historical Era

During the Iron Age (from around 500 B.C.) the area became an important commercial hub between India and East Asia, the maritime commerce and the expansion of the land contribute to the spread of Hindu cultural values in the region, creating also the solid ground for an economic growth. We can refer to these territories of the Southeast Asia under the influence of the Hindu with Georange Coedes's term "Indianised States", in which he refers to the Indian expansion as "the expansion of an organized culture that was founded upon the Indian conception of royalty, characterized by Hinduist or Buddhist cults, he mythology of the *Purānas*, and the observance of the *Dharmasāstras*, and expressed itself in the Sanskrit language"⁷⁰. The aspects incorporated were the writing, architecture, religion and society organization. The first Hindu reigns

⁶⁶ Hamilton, Elizabeth, "Bronze from Ban Chiang, Thailand: A View from the Laboratory" *Expedition Magazine* 43.2 (2001): n. pag. *Expedition Magazine*. Penn Museum, 2001 Web. 21 Nov 2018 <<http://www.penn.museum/sites/expedition/?p=6383>>

⁶⁷ Hirst, K. Kris. "Dong Son Drums - Symbols of a Maritime Bronze Age Society in Asia." ThoughtCo, Jun. 22, 2018, thoughtco.com/dong-son-drums-bronze-age-169896.

⁶⁸ CHINH, H., & VAN TIEN, B. (1980). The Dongson Culture and Cultural Centers in the Metal Age in Vietnam. *Asian Perspectives*, 23(1), 55-65. Retrieved from <http://www.jstor.org/stable/42929154>

⁶⁹ Sergey LAPTEFF, "Relationships between Jōmon Culture and the Cultures of the Yangtze, South China, and Continental Southeast Asian Areas", *Japan Review*, 2006, 18:249-286. Retrived from: <http://shinku.nichibun.ac.jp/jpub/pdf/jr/JN1807.pdf>

⁷⁰ G. Coedes (1975), "The Indianized States of Southeast Asia", pp. 15-16, Australian National University Press, Canberra. Available at: <https://openresearch-repository.anu.edu.au/bitstream/1885/115019/2/b11055005.pdf>

established in Sumatra and Java and later in Funan. The impact in the area required a centralized and highly efficient form of government and elite rulers understood the advantage of the Hindu rituals and idolization. It was used the concept of “*devaraja*”, a particular type of cult spread out in the Khmer kingdom in which the ruler represents a divine manifestation of the Hinduist god Shiva. The trade route from China to India started in Champa and then through the Mekong Delta and then continue to the Isthmus of Kra. This path led to the development in Funan area later of the *Chenla* reign, the Malayan reign of *Lankasuka* in the east coast and the Kedah in the west coast. Other relevant coastal kingdoms which used Indian devotional and social beliefs such as the *Kutai Reing* in Kalimantan, *Turamanagara* and Kalingga in Java.

Important was also the Chinese influence and relations with their dynasties. The first contacts were made with the Shang dynasty (1600 BC – 1046 BC) when, in absence of currency, cowry was used as commodity exchange. During the Zhou dynasty (1046 BC – 256 BC) the trade route saw an important commerce of ivory, horn of rhinoceros, shells of tortoise and birds’ plumage. The period of dominance by the Han dynasty (200 BC – 200 AD) brought to the empire significant facts: Confucianism became official religion and agriculture and trade thrived, *Chang’an*, the capital, population was estimated around 3 millions, the biggest metropolis of its time. The Han’s idea was to create a vast empire where China was supposed to be the central point, the “*Zhongguo*” or middle reign, circled by uncivilized population. It was during this time that they developed the system of the tributes where the independent or semi-independent states must pay a formal offer to China in order to have peace and regulated trade with the empire itself. Along with the spread Hinduism, Buddhism found its way in the region. If we have said that the local elites prefer the “*Devaraja*”, the moral and cultural values more near to the human topic shared by the Buddhism, breached the common population. The Emperor Ashoka (204 BC – 232 BC) of the *Maurya* Indian Empire converted into Buddhism and sustained formally its spreading in the neighboring countries sending missionaries. In their teaching monks transmitted written and oral beliefs, art and decoration and a deeply understating on the existential individual issues. In the period between 5th and 13th centuries Buddhism prospered and in the 8th century the *Srivijaya* dominion became one of the most powerful maritime along with the *Shailendra* kingdoms, both of them followed the Buddhist ideas. It is important to state that the Buddhist professed was the Mahayana which replaced the original Theravada Buddhism⁷¹. The *Srivijaya*

⁷¹ Theravada is the more conservative between the two major Buddhist traditions. It developed from the Hinayana Buddhism and it is still practised in Sri Lanka, Myanmar, Thailand, Laos and Cambodia.

one dominated the Malayan provinces, the reasons of the success of this kingdom were the freedom that they give to the tributaries states, the formal recognition received from the Chinese empire and friendly relationship that they maintained with the neighborhoods. The *Shailendra* empire developed in Indonesia in the Java's island, between the 8th and the 13th century they experienced a great cultural and artistic development. For example, the massive *stupa* of *Borubudur* built in this period is still conserved as important UNESCO site and recognized as the largest Buddhist temple in the world. The rise of this kingdom happened because: they had an efficient irrigation control in the paddies of central Java, they understood how to use Buddhism as a power tool and how to organize the maritime trade. The other really important royal dynasty which formed under the Buddhist belief was the Khmer kingdom. It was a powerful reign placed in what we call today Cambodia but in some periods its influence reach also Thailand, Laos and Vietnam. The center of its power was the alluvial plain of the *Tonle Sap* river, where they left their biggest heritage: *Angkor*, capital of this ancient kingdom. The archeologist site is one of the most important and large in Asia and shows the splendor and prosperity of the Khmer. The begin of the Angkorian era it is fixed conventionally in the 802 AD, when Jayavarman II was proclaimed "*cakravartin*"⁷² or universal monarch, symbolizing the independence of its dominance. Consequently, the end of the Khmer empire is placed in 1431 AD, year of a Thai invasion, which led to the decline of their power and the depopulation of the area. This event started the "dark ages of Cambodia"⁷³ since we know very little of this period even though archeological researches are now starting to assemble data and evidences in order to rebuild the history of the centuries of Cambodia between 15th and 18th centuries. Thanks to the low reliefs of the Chinese diplomatic Zhou Daguan (1266 – 1346) it can be understood the culture and the society of the Khmer since they describe the everyday life and also the elite's life of the palace. They were a an agriculture community based on the rise production, the rice paddies were irrigated through a complex hydraulic system of canals, *baray* (artificial water basin) and massive tanks of water. Other agriculture products were: sugar palms, wine of palms, coconuts and vary tropical fruits and vegetables. They developed also the fishery activities in the *Tonle Sap* lake which provide still now a days the protein for the population of Cambodia. As we said the main religions were the Hinduism at the beginning and later the Buddhism, *Vishnu* and *Shiva* were the most venerated divinities and they were honored in the numerous temples.

⁷² *Chavrakarti* is an old Sacrist term used to refer to "the ideal universal ruler".

⁷³ Lesly Lotha, "The little-known history of Cambodia's `dark age`", Southeast Asia Globe, 18 July 2018, Cambodia. Available at: <http://sea-globe.com/the-little-known-history-of-cambodias-dark-age/>

1.2.3 Medieval History: early kingdoms and religion influences.

When it is referred to the middle ages it is usually taken in consideration the time span in between the 5th and 15th centuries from the fall of Western Roman Empire to the great geographic discoveries. It is, surely, a term which come from European origins and the events and improvements (or decline depending on the point of view) that happened in Europe have little or no connection whatsoever in the Southeast Asia, we just use it to indicate the ten centuries between 500 AD and 1500 AD. In this paragraph it is going to be described the main kingdoms that subsequent in different areas of the region during these centuries.

It has already been quoted the *Srivijaya* kingdom in the last paragraph referring to the Buddhism and it was during these centuries that flourished. Formed around the 7th century, it had a great importance in Sumatra's island and the Malaysian peninsula. The origins of the sovereigns of *Srivijaya* are still a point of debate but the most relevant hypothesis is that they were originally ruling over the Funan area but they were forced from the *Chenla*⁷⁴ to move towards Sumatra's Island. They sought refuge first in the *Pan-pan*, a vassal of China, and later they conquered few cities in the Malaysian peninsula. We said that the reason of their successes were mainly given by the good relationships that they maintain with the neighbourhoods and the exploitation of their strategic position in the Spice Route⁷⁵. They controlled the most important passages that link India and China: the Strait of Malacca and the Sunda's strait⁷⁶. It can be said that it was the first Thalassocracy in Southeast Asia also described "as a mix of political formations: a "trade-based city-state empire" comparable to fifteenth-to-seventeenth century Venice (...), with the expanse of "empire" based on trade"⁷⁷. The reign maintains also good relations with the Javanese kingdom of *Sailendra*⁷⁸, based on commercial exchanges and weddings between the two royal houses. The golden era of the *Srivijaya* ended in the 1025 AD with the invasion of Sumatra and the Malaysian

⁷⁴ Chenla is the term which the Chinese diplomat Zhou Daguan used to identify the region corresponding on the Cambodia-Vietnam-Laos area. Historians debate if the region existed or it was just a chronists misconception.

⁷⁵ The commerce of spices from Middle East towards China and viceversa was mainly made between two roads: the "silk road" in the mainland and the maritime spice routes.

⁷⁶ Sunda is the strait that divides the Sumatra's and Java's islands. The name Sunda derives from a kingdom which controlled the Western part of Java.

⁷⁷ Dellios, R., & Ferguson, R.J. (2015). Thinking through *Srivijaya*: Polycentric networks in traditional Southeast Asia. Paper presented at the *2nd Global South International Studies Conference - Voices from Outside: Re-shaping International Relations Theory and Practice in an Era of Global Transformation (GSCIS)*. 8-10 January, 2015. Singapore.

⁷⁸ *Sailendra* was an important Indianized dynasty who ruled java during the 8th Century and who is remembered for giving a cultural renaissance of the region.

peninsula from the Tamil dynasty of *Chola*⁷⁹ population and consequently it started their decline. They lost control over the maritime roads and the Isthmus of Kra which passed over to the Khmer, allied of the *Chola*. In addition, the *Singhasari*⁸⁰ invaded Sumatra's islands in the 13th century and in the same period emerged the *Sukhothai* kingdom that occupied large portion of the Malaysian peninsula, finishing the period of one of the most powerful kingdom that Southeast Asia have seen.

Java's island was split between two main dominances: in the west and in the east. *Tarumanagara* dynasties were the first to rule under east Java and after their fall, *Sunda* kingdom took over. The life span of this kingdom is estimated in almost 1000 years but since their history was handed down from *Pantun* oral tradition it is difficult to account a precise genealogy. On the opposite, the eastern part of Java was dominated by a multitude of different realms, all of them were based on agriculture. Some of them were: The *Sailendras*, *Mataram*, *Kediri*, *Singhasari* and the *Majaphit*. The Kediri realm was Hinduist-based and it was dominating East Java from 1042 and 1222. Even though almost no archaeological evidence of this reign were found, some history of this kingdom remained through their proficient classical literature. After them, a short period between 1222 and 1292 has seen the *Singhasari* kingdom took over, founded by the prince Ken Arok (1182-1247), who had almost a mythological connotations. The main historic source of *Majaphit* came from two books: The *Paraton* (Books of Kings) written in Kawi language and the *Nagarakertagama* written in ancient Javanese in the 1365. The date of the foundation of this kingdom has been set in the 1293 with the coronation of Kertarajasa Jayawardhana, the realm of this king was quite turbulent since it had to face few rebellions. In the 1350 with the king Hayam Wuruk the realm reached its maximum territorial expansion which included the Malaysian peninsula, the Borneo, Sulawesi, Maluku islands and New Guinea. They, then, engaged into a civil war for the accession to the throne between the 1405 and 1406. This had serious financial and economic repercussions that did not give the possibility to the hold the rise of the Islam sultanates. The sultanate of Demak, guided by *Jin Bun*, invaded their territory and conquered the capital in 1478, forcing the king to seek repair to Bali island. The fall of the *Majapahit* kingdom is still an uncertain historic topic. The historian D.G.E. Hall says that it is almost impossible that they fall in 1478 since Portuguese sources report that in 1486 the area was ruled still by an Hinduist king, *Ranavijaya*. The last king it was supposed to be *Pateudra* which was still ruling

⁷⁹ Chola was one of the dynasty who ruled the longest in the region. Earliest references have been found in 3rd Century BCE and it ruled until the 13th century CE.

⁸⁰ A Hindu-Buddhist kingdom which ruled in east Java from 1222-1292.

in the 1516⁸¹ and evidences of their kingdom in the 1521 and 1528 have been found⁸², so it is reasonable to assume that the end must be place around 1530. In any case the rise of the Muslim kingdoms and the spread of Islam in the region is, certainty, an important historic moment for the Southeast Asia. Probably, Arab merchants from the Southern coast of the Arabic Peninsula were the first navigators of the Indian Ocean. They were already the intermediaries between the Europeans and the Indian/Malaysian merchants few centuries before the advent of Islam. They started controlling the route already in the V and VII centuries, competing with the Romans and the Persians and they had the total control over the east routes from the IX century till the arrival of the Europeans colonizers. The reasons why they had to seek adventure outside their homeland were the drought of the soil and the failure of innovating agriculture techniques. Their presence in China port of *Khanfu* (Canton) was well established in 300 AD with commercial and accounting offices and they dominate the commerce in South China seas by the IX century. They started introducing Islam in the Malaysian and Indonesian peninsula, settling in the Kedah city of the Srivijaya empire which was ruling that region. Regarding the other islands, from Chinese sources, we know that a trading ships with an Arab captain reached the Sulu archipelagos (Philippines) and the Borneo in the 977 and then setting other local settlements in East Java in the 1082. The introduction of Islam in Southeast Asia was a complex phenomenon and it was influenced by a variety of different ethnics Muslims groups: Middle Easterners, Arabs and Persians. Through the prestige given by their economic status and wedding with locals, Arabs started spreading Islam. We have already said that the people were keen on accepting the cultural and religious elements from foreign merchants since they satisfy their personal needs and expectations. Some main precepts of the equality of the *Ummah* (Islam community) with a very introspective and personal prayer routine was more understood than the Hinduism fatalism. At the same time Islam brings the idea of subservience and orderliness which help guarantee the social architecture of then new proselytes. The type of Islam who took place in Southeast Asia is what we call today “Cultural Islam” opposed to the “Political Islam” of the Middle East and African countries. Islam doctrine was shaped by the Hinduism, Buddhist and some ancient Animist⁸³ ceremonials and practices. The difference with the African and Middle East Islam is, also, in how it had spread in these two regions, while the first took place with the military

⁸¹ Hall, D. G. E. (1965). "Problems of Indonesian Historiography". *Pacific Affairs*. **38** (3/4): 353. doi:10.2307/2754037.

⁸² Geroge Coedes, *The Indianized States of the Southeast Asia*, University of Hawaii Press, 1968, pag. 200.

⁸³ Animism in anthropology is the religion or cultural beliefs in which divine or supernatural qualities are given to objects, places or materials.

invasions the second one followed the path of the commercial routes. The first local leader who decided to convert to Islam in this Area was *Malik Al-Salih*, who originally was from Persia, of the *Samudra-Pasei* principality (north of Sumatra) in the 13th century. The same event happened in 1400 when Malacca Sultanate was founded by a local king who came from Palembang converted to Islam and then married a princess of Java island expanding the religion across all the Malaysian peninsula and Java's island. The Sultanate of Malacca was the first political entity who ruled over Malaysia for almost one century till the Portuguese invasion in the 1511. It is also important to quote the missionary activity of the *Awliya'* or *Wali Sanga* (nine Saints) who lived in between the 14th and 15th centuries. The Islam spread mostly in the peninsular and insular part of Southeast Asia and this is confirmed by the fact that, today, two countries where the majority of the people are Muslims are Malaysia and Indonesia.

For the sake of completeness, The *Dvaravati* was an early empire which dominated from the I century to the XIV century, it was organized as a complex of city-states in the Nakhon Pathom, the actual central Thailand. The Khmer empire born from the ashes of the *Dvaravati* empire and dominated Southeast Asia's mainland from the 9th century to the 15th century. Later the Thai tribal conquered the Chayo Praya river basin and founded the Sukhothai Kingdom in the 13th century and the Ayutthaya Kingdom in the 14th century. The *Mataram* was a sultanate and the last independent kingdom before the colonization of the Netherlands in Indonesia and the Philippines.

During the 14th century the Ming dynasty in China conquered Yunnan province but lost control over the silk road due to the Mongol Invasion, guided by Kublai Khan, so the *Yongle* emperor moved his attention to the Indian Ocean, trying to restore the old tributaries' system. The Ming's naval expeditions were the most extraordinary activities carried by this dynasty which travelled across the Indian Ocean and the Southeast Asia guided by *Zheng He*. He was a Muslim eunuch with Hui descent, not related to the elitist Confucian social structure, who between the 1405 and 1433 carried out seven naval travels for the *Yongle* reign. The assignment gave to Zheng in 1403 was a triumph for the commercial lobbies which were trying to stimulate the traditional form of the mercantilism. The interests of these groups were connected to the religious lobbies, both were offensive for the neo-Confucian sensibility of the erudite elites, which were against the commerce and the exploration. The first expedition of 1405 consisted of 62 junks and 28 000 men, which, probably, made it the biggest fleet of its time. The *Zheng He's* ship transport more than 500 soldiers but also batches of goods, mostly silk and porcelain to export while they were importing luxury goods such spices and tropical woods. The economic reason of these huge expeditions

was surely relevant so lot of ships had private chambers for the merchants but the political reason was the principal motif. Ming's dynasty wanted to acquire new tributaries' states and enshrined its power after a century of barbarian dominance. The fleets supported local's royal elites in the Southeast Asia and it confronted the pirates. In the second half of the 14th century the support to this expansionist political moves lost their influence in the Peking court resulting in a discontinuity of the expeditions and at the end of the century the construction of new ships was blocked. These activities were not sufficient to impose the commercial and political supremacy of the Chinese empire in the Southeast Asia, leaving the area exposed to the arrive of the first European colonizers.

1.2.4 Early Modern Era: European Colonisation

The large Asian spaces controlled by the Moghul Empire in India and the Qing dynasty in China in the second half of the 17th century were still characterised by a relevant dynamism and prosperity. In the second half of the 17th century and in the first half of the 18th the political intervention of the western powers, particularly Great Britain, brought the direct or indirect subjugation of the great Asian empires with deep consequences for their economy and social structures. The Indian manufacturing apparatus was sacrificed by the Great Britain's industrial interests and roughly dismantled, China was forced by the Western injections to open their economy to external imports (mostly opium) with disastrous social and financial consequences. This is what happened also in Southeast Asia. The first Europeans who travelled in the Southeast Asia were the Venetian merchant Marco Polo⁸⁴ in his returning travel after he served *Kublai Khan* in the 13th century and *Niccolò De Conti* in the 15th century, who followed in his trade routes almost the same travels of the *Zheng He* fleet. Only later in the 16th century the Portuguese seeking for new commercial opportunities started travelling regularly in the region, usually followed by Christian missionary. So the Portuguese were the earliest European's powers⁸⁵ to create a profitable trade course in the Southeast Asia, conquering the Sultanate of Malacca in 1511⁸⁶. At the end of the century the Netherlands and Spain started interesting in the area, surpassing the Portugal. In fact, in the span time between 1565 and 1600 the "Spaniards, with a force never numbering more than 600 soldiers, conquer and pacify a native population estimated to have exceeded one half million people"⁸⁷. The first stable Spanish settlements were founded in 1565 when a expedition guided by the *Conquistador* Miguel Lopez de Lagazpi (1510-1572) arrived in Cebu from the *Nova Spagna* (Mexico). Six years later, after the defeat of the Rajah Solayman, De Lagazpi founded a capital in Manila, which became the military, economic and religious center of the Spanish colony government as a province of the *Nova Spagna*⁸⁸. The Dutch operated in the first time through the VOC (*Verneenigde Geoctroyerde Oostindische Compagnie*), in 1619 they took the city of *Sunda Kelapa*, which became Batavia

⁸⁴ Jack-Hinton, Colin. "Marco Polo in South-East Asia: A Preliminary Essay in Reconstruction." *Journal of Southeast Asian History* 5, no. 2 (1964): 43-103. <http://www.jstor.org/stable/20067504>.

⁸⁵ Nawani, S. (2013). THE PORTUGUESE IN ARCHIPELAGO SOUTHEAST ASIA (1511-1666). *Proceedings of the Indian History Congress*, 74, 703-708. Retrieved from <http://www.jstor.org/stable/44158873>

⁸⁶ BOXER, C. (1969). PORTUGUESE AND SPANISH PROJECTS FOR THE CONQUEST OF SOUTHEAST ASIA, 1580—1600. *Journal of Asian History*, 3(2), 118-136. Retrieved from <http://www.jstor.org/stable/41929968>

⁸⁷Nicholas D. Pisano, "The Spanish Pacification of the Philippines, 1565-1600", U. S. Army Command and General Staff College, 5 June 1992, Ft. Leavenworth, KS 66027-6900

⁸⁸Dolan, Ronald E. (1993), "Philippines: a country study", Washington, D.C.: Federal Research Division, Library of Congress. Online reading: https://archive.org/details/philippinescount00dola_0/page/4

(actual Jakarta) and the center of the Dutch control over their trading and expansions to the neighboring areas. The Dutch started a feud with the Portuguese for the control of the Malacca and in 1641 they succeeded, with the help of the Johor Sultanate, in taking the *Fortezza del Malca*, the impregnable fortress that the Portuguese had built to manage their spices commerce.

In 1775 the Chinese, ruled by the Qing dynasty, founded the *Lanfang* Republic in Western Borneo as part of their Tributaries' federation, attracted by the commercial opportunities. This can be considered the first form of Republic in the region and one of the earliest republic in the world until the 1884 when the Dutch took the control with a puppet regime and later in 1912 they officially declared their occupation.

United Kingdom, similarly to the Dutch, was present in the area through the "Honorable East India Company" guided by Josiah Child (1630-1699). At the beginning they were the European power with less influence and presence in the area, and they were almost expelled when they clashed with Siam in 1688 due to a trade war. Almost a century later they started getting interested in the Gulf of Bengali after the Peace of Paris in 1763. The treaty was aimed to put an end to the American Revolutionary War which lasted for 8 years and the Anglo-French war (1778 – 1783). The second one was a maritime war for the supremacy of Indian ocean when Britain strived and it was clear that new ports needed to be found in order to compete with the French. The captain Francis Light (1740 – 1794), Royal Navy midshipman, leased Penang island (Malaysia) from the Sultan Abdullah Shah, and renaming the capital of the Island, George Town. This can be considered the first step of the British expansion and colonization in Southeast Asia, aiming mostly at Malay Provinces. During the Napoleonic Wars (1803 – 1815) and the Seven Years' war (1756 – 1763), Dutch's territories were under British possession. Recognizing the importance of the Malacca straits, the British with Thomas Stamford Raffles⁸⁹ (1781 – 1826) which founded the city of Singapore in 1819 and thus entering in conflict with the Dutch. This antagonism lessened in 1824 with an Anglo-Dutch agreement in which the Dutch retired their opposition to the British occupation of Singapore.⁹⁰ Burma was also a dominion of the British after the first Anglo-Burmese War (1824 – 1826). In fact, in the January 1824, the Burmese guided by the King Bagyidaw engaged the first clashes with the British in the Assam region, which was near the

⁸⁹ In his long stay in Asia, he also developed a genuine interest in the local Flora and Fauna and back in England he founded the Zoological Society of London in 1826.

⁹⁰ The treaty considered other part of the Southeast Asia and India and it imposed the two powers to not open new trade offices in Malaysia and Java's island.

Indian colony. The war last two years and it saw the defeat of the Burmese who loses the control over the areas of Arakan, Assam, Manipur and Tenasserim⁹¹.

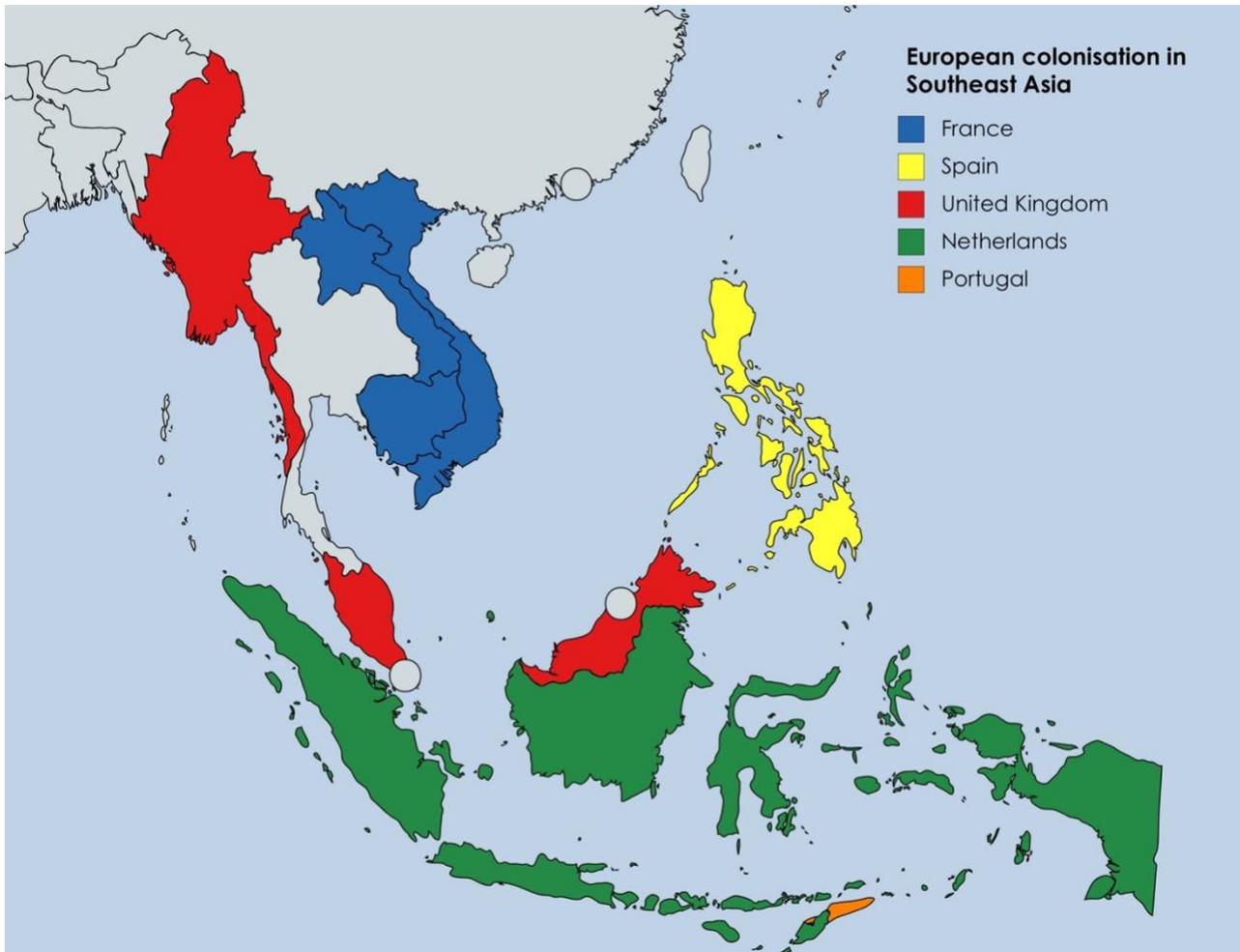


Figure 11. Map of the European colonies in Southeast Asia. Source: Own Elaboration.

In the second part of 18th century the European colonization phenomenon increased notably in the period which historians have called “New Imperialism” and almost all the territories in Southeast Asia had a direct or indirect European subjugation as we can see from the figure 11. The control shifted from the British East India and the VOC to the national governments. The only country that was refrained from the direct experience of external rulers was Thailand. The *Monthon* reform in Thailand in 1893 was a political-administrative subdivision by provinces which intent was to create a centralized state with provinces administrated by a commissioner appointed by the king *Chulalongkorn* also known as Rama V. This was a part of an extent reform intended to promote the modernization of the country and the attempt to preserve the country from the French and the English. Apart from this exception by the beginning of the First World

⁹¹ G. A. Henty, *On The Irrawaddy: A Story of the First Burmese War*, Project Gutenberg EBook, 2013 [2007].

War in 1914 the situation was quite clear (figure 11): British had conquered Burma, large part of the Malaysian peninsula, North Borneo, the Dutch controlled the “Dutch East Indies” covering Indonesia and the Portuguese still had the eastern part of Timor. The French took control over the “French Indochina” composed by three different states: Cambodia, Vietnam and Laos in different period of time. Cambodia was added in the 1863 when the Cambodian King, Ang Doung, being crushed in between the Siam and Vietnam, decided to ask the French protection. The new King Norodom succeeded in maintaining a sufficient independence till 1884 when a new treaty allowed the French to administrate the country and do a series of radical reforms in order to open the commerce with the Western powers. The first French military actions in Vietnam dates back at 1858 with the pretext on protect Catholic missionaries and in the 1872, after they attacked the *Conchinchina*⁹², they started invading the country. The Chinese claimed the *suzeraineté* on Vietnam from long time and they tried to stop the French invasion. In the 1884 the Sino-French War took place and ended the year after with the French victory and the consequent total control over Vietnam. The new colony was named “Indochina Union” in the 1887 including Cambodia, *Conchinchina*, *Annam* and *Tonchino*. The following years the French focused on occupying the Laotian territories controlled by the Siamese and they emerged victorious after the Franco-Siamese War in 1893.

Without any doubt the colonial era had a huge impact on the Southeast Asia with positive and negative effects on the administrative structures, the economy and the society. The colonies in this area can be divided in two groups: the liberal colonial governments (British and Americans) and the repressive colonial governments (Spanish, Dutch and French). The first introduced a “new model of administration based on the concept of neutral politics and hierarchal loyalty”⁹³. Malaysia, Singapore and Burma followed the British government’s model while the Philippines followed the American’s model, in any case, administrative-wise, the two Anglo-Saxon models brought “rule of law, civil liberties and balances”⁹⁴. The Dutch and the French ruled through a `bureaucratic` model and following the Dutch idea of “*rust en orde*” (“tranquility and order”) in which the high-ranked military detained the power; thus, they established an efficient military and police service system even though it was intended to have social control over the population

⁹² Cochinchina is a region in the southern part of Vietnam. It was never an administrative unit until the French arrival.

⁹³ Essays, UK. (November 2013). “Political Impact of Colonial Powers Upon Southeast Asia History Essay.” Retrieved from <https://www.ukessays.com/essays/history/political-impact-of-colonial-powers-upon-southeast-asia-history-essay.php?vref=1>

⁹⁴ Ibid.

and prevent rebellions. Colonialism has also changed the society ideas in the region, bringing western culture and education, human rights and religion. Europeans implemented a modern western style of education so that people of the Southeast Asia could study ideas of politics, economy, sciences. The most quoted example of this were the Philippines, where the American supported the spreading of education also in the low-middle class also through industrial and craft schools. But it has been stated that new governments, supported by the colonies, “did not provide Western-style learning to most Asians, primarily because it was an enormous, difficult and expensive and also because the policymakers worried about the social and political consequences of the emerging of an educated class”⁹⁵. Another significant aspect was the growing of the population during the colonial time mostly because of the massif immigration (from China and India mostly) that was needed to satisfy the high demand labor force in the agricultural and new industrial sectors. This industrialization process brought, mostly, by the Europeans had positive and negative effects but it has surely transformed the economy of the countries. In Burma they developed the principal infrastructures like roads, bridges and ports and in Vietnam the rice agriculture was developed greatly so the country became one of the world biggest exporter of rice. Important was also the exploitation in the area of rubber and other raw materials (woods, oil) and the building of crucial ports in Singapore, Vietnam and Hanoi. The downsides were the really poor work conditions with low pay and exploitation of children labor and the degradation of the territories in order to extract the raw materials. In conclusion it can be said that “infrastructure, international trade, and education certainly are good things, and were sometimes introduced by colonial powers, but colonialism was merely the vehicle. The West also, for instance, introduced democracy but democracy is not inherently Western.”⁹⁶

Already at the end of the century discontents towards the Europeans colonizers started emerging. The main country who rebelled was Philippines against the Spanish, first with the Cavite Mutiny then with the Philippine Revolution (1896 – 1898) and after the war between Spain and United States the Filipino revolutionaries declared the independence. In 1898 with the treaty of Paris Spain loses the Philippines colony which passed over to the America and refused to recognize the new-born republic and the Philippine-American war started and was won by the United States. Subsequently, during the first decades of the 20th century a small but studious westernized group

⁹⁵ William H. Frederick (July, 2018), “History of Southeast Asia”, Enciclopedia Britannica, Retrived from: <https://www.britannica.com/topic/history-of-Southeast-Asia/Patterns-of-a-colonial-age>

⁹⁶ David Volodzko (February 2015), “*Was Colonialism Good for Asia?*”, The Diplomat, Article available at: <https://thediplomat.com/2015/02/was-colonialism-good-for-asia/>

of intellectual started growing. For example, in Java and Luzon there were *Raden Adjeng Karinti* and the *Philipino* nationalist Josè Rizal. The problem of these first patriots were the persuasion of the wider population, this happened for two main reasons: communication issues and the opposition of the Colonial governments' who controlled the military forces. Nevertheless, the hatred against the colonizer was increasing also in the masses of people because of the tight bureaucratic control and the extortion of low-paid and extreme condition of workers; feelings that would explode later in the 20th century.

1.2.5 20th-Century

In this paragraph it will be briefly covered the history of the 20th century of Southeast Asia which focused around two main points: the Second World War events and the Post-War decolonisation.

The theatre of the Southeast Asia of the Second World War during the Pacific War interested the territories of Burma, parts of India, Indochina, Malaysia, Singapore, Sri Lanka, Madagascar and Thailand. The clashes saw opposed the Japanese army, who signed the tripartite pact with Italy and Germany, against United States, United Kingdom, the Netherlands and Australia. Also China guided by the nationalist government of *Chian Kai-shek* supported the Allies with men forces, armed by the Americans. The war front opened after the 8th December 1941 when the Japanese forces attacked the Hawaiian military base at Pearl Harbor and they started attacking the colonial possessions in the region. The allies suffered many defeats during the first months of war. The first important overthrow happened the 10th December 1941 when the *HMS Repulse* and the *HMS Prince of Wales* were sunk off in Kuantan gulf off the coast of Malaysia after they left Singapore's port, this diminished significantly the Allies' military power in the area⁹⁷. Thailand (Siam) was under the influence of Japan from long time, precisely from when the Japanese mediated the conflict between French and Thailand itself⁹⁸ (1940 -1941). So when the Japanese' troops invaded the country they barely had any resistance and the 21th December 1941 Thailand allied with Japan, obtaining few more territories at the expense of the Malaysia. The 8th December Japan started attacking Hong-Kong, probably the most important English colony, and they conquered

⁹⁷ "Operations in the Far East, from 1th October 1940 to 27th December 1941", *London Gazette*. 38183 (20 January 1948): 535. 22 January 1948. Available at: <http://www.ibiblio.org/hyperwar/UN/UK/LondonGazette/38183.pdf>

⁹⁸ The Franco-Thai war was fought between the French Indochina and the Kingdom of Thailand. The Thai took advantage of the German occupation of France in 1940 and try to conquer territories in the French Indochina. After few battles the Japanese, who have huge interests in the area mediated a cease-fire the 9th May 1941.

the city the 25th December⁹⁹. The English colonies were extremely important for the Japanese and they were included in their plan of expansion. The 25th army guided by Tomoyuki Yamashita disembarked the 9th December at *Kota Bharu* and *Patani*, the English generals were surprised of this choice since the Japanese were entering in an arduous territory with only 30 000 men (against the 90 000 men of the Allies) and they thought not well-prepared and well-armed. On the opposite, the Japanese had a light arsenal and light tanks which allowed them to move in the Malaysian territory. Due to their preparation the Japanese had no problems to penetrate inside the territory, beating the Indian troops who were defending the airports. They progressed victory after victory until they reached Singapore and the conquered the city defeating the Indo-Anglo-Australian units the 15th February 1942¹⁰⁰. The English power suffered an incredible defeat: The Asian empire was lost and the Japanese showed impressive military and strategic skills. The Japanese then moved their attention to Burma, an attack that required the majority of their supplies were moved in the navigable rivers of the country but thus exposing them also to the English's counter-attacks. For this reason, the Japanese empire dispatched their army composed by 3 aircraft carrier, 3 cruisers, 6 destroyers in order to cover the landing of the troops in Rangoon, in Sumatra Island. The British responded sending the admiral Somerville at the command of a very old fleets composed by 3 aircrafts, 5 battleships, 15 destroyers and 8 cruisers. After the Japanese had known about the English fleet, they focused even more on the Indian Ocean sending the cruisers, commanded by the admirals *Nabutake Kondo* and *Nagumo*. The 5th of April 1942 the Japanese 200 airplanes took off from the aircrafts and bombed Colombo, in Ceylon's island, sinking two English cruisers with suicide attacks.¹⁰¹ From this event Somerville understood that the Japanese were only interested in annihilating completely the English fleet and he took the decision to disperse the fleet in Indian and African ports. The Japanese continue attacking Ceylon destroying *Hermes* cruisers in north east Ceylon. By the 15th of May the Japanese had conquered vast areas rich of veins of oil, minerals and other raw materials which they were absolutely indispensable for their military industry.

The Japanese then attempted to break in India and China: historians considered this the beginning of their fall in the region. They got caught in a war of attrition with the Allies and in the 1942

⁹⁹ Macri, David (2011) "The Fall of Hong Kong: The Condon Report," *Canadian Military History*: Vol. 20 : Iss. 2 , Article 8.

¹⁰¹ Kindell, Don. "Report of Proceeding of Eastern Fleet from 29th March to 13th April 1942", Office of the British Naval Commander-In-Chief, Eastern Fleet 18th April 1942, No. 4 S/4682. Retrieved from: <http://www.naval-history.net/xDKWD-EF1942-Introduction.htm>

they start losing ambitions with the fall of Midway.¹⁰² In the first half of the 1943 the Japanese military potential was gravely diminished in the Indian Ocean and contemporarily in Burma, at the Indian borders, they continued receiving significant series of defeats, losing men and military means. In the 1944 Japanese started the retreat from Burma, pressed by the Anglo-Indo-Chino troops who in the April of the same year conquered back Singapore. The Japanese forces were almost destroyed but even after the surrender of 2 September 1945 few and occasional fights happened in the region, the operation in the Southeast Asia concluded officially the 9th September 1945.

The war changed deeply the strategic and politics assets in Southeast Asia and after the war the Europeans found a very different situation to confront. The first country to declare the independence from the Dutch was Indonesia in the August 1945, Philippines acquired their independence from the United States in 1946 and Burma gained sovereignty in 1948. The most violent process of decolonisation happened in the Indochina territory. During the second World War Vietnam was invaded by the Japanese and at the end of the war the only internal politic power which were able to contrast the occupation was the one guided by the nationalist-communist *Ho Chi Minh*, who proclaimed the independence in the 1946. The French after this act declared war and the clashes started against the rebels. The north-Vietnamese with the help of the Chinese prepared a large army in the Tonchino area and the French with the help of the Americans who feared a communist spread in the region if *Ho Chi Minh* would have won¹⁰³. The French army fall in this “war of the people” conducted mostly through guerrilla actions and they were defeated. The Geneva peace conference declared the end of the war in the 1954 establishing the truce and the new asset of the entire region: North Vietnam (with Hanoi Capital), South of Vietnam (with capital Saigon), Laos and Cambodia were recognised as independent states so the French dominion had officially finished. In the Cold war period of time the main focus’ point for the Western powers was to avoid the threat of communism in the region. The Britain suppressed the communist insurrection in the “Malayan Emergency”¹⁰⁴ from 1948 to 1960 and then accepted the independence of Malaya and later Singapore, Sabah and Sarawak in 1957. We must quote also one of the bloodiest events during the Cold War happened in Indonesia: the genocide of the members of the PKI (Party of Indonesia) from the general Suharto’s army, the approximate figure

¹⁰² Roskill, Stephen (1956). “War at Sea 1939-1945, Volume II, The Period of Balance”, United Kingdom Military Series. London: HMSO. Text Available at: <http://www.ibiblio.org/hyperwar/UN/UK/UK-RN-II/index.html>

¹⁰³ The help consisted mostly in financial flow of about 350 millions dollars.

¹⁰⁴ Malayan Emergency was a war fought in aguerrilla form for the Independence of Malaysia. The Commonwealth forces fought against the Malayan National Liberation Army (MNLA) and the Malayan Communist Party (MCP).

estimated 500 000 deaths¹⁰⁵. The agreement of 1954 did not leave Vietnamese satisfied and in the 1955 north. Vietnam attacked South Vietnam leading to the “Vietnam War” (1955 – 1975) one of the most important event of the 20th century. The war saw the defeat of the United States and the communist victory. Two others war were then fought in the area: The Cambodia-Vietnamese war of 1975-1989 and the Sino-Vietnamese war of 1979. In 1975 the Portuguese lost control over the east Timor but they were incorporated in the new Indonesian state, only in 2002 the United Nations granted the independence to East Timor. Britain finished their protectorate in Brunei in 1984, this marked the end of the European control in the area.

¹⁰⁵ Robert Cribb (2001) Genocide in Indonesia, 1965-1966, *Journal of Genocide Research*, 3:2, 219-239, DOI: [10.1080/713677655](https://doi.org/10.1080/713677655)

Chapter 2. The ASEAN market

In this chapter it is going to analyzed the ASEAN market, the economy of its members' state, the economic impact of the organization, the international relations and the challenges for the future.

2.1 Introducing the ASEAN

The Association of Southeast Asia Nations (ASEAN) is a regional political, economic and cultural organization which interests the countries of Southeast Asia which main aims are¹⁰⁶:

- Quicken economic, social and cultural growth among its members with equality and cooperation.
- Increase the security of the region with the recognition of the law and the principles of justice, following the path persecuted by the United Nations
- Build up an effective and active plan for partnerships in different sectors: economic, cultural, technical, administrative and scientific activities.
- Implement programs of training and researches to support the educational, professional and technical fields and also promote Southeast Asian Studies.
- Mutual effort to improve the effectiveness of the Agricultural and Industrial and therefore develop their trade with particular focus on the international commodity commerce and the develop of transportation and communications capacities.
- Preserve and expand the collaboration with the others international organizations with the same ideas and goals of the ASEAN.

These objectives are quite broad and retrace the pattern of other regional organization such the European Union or the NAFTA. The main focuses are: security, economy development and international relations which are key elements for the strategic-global assets.

The context in which the organization born was the one of the Cold War, the Southeast Asia played a relevant role hosting the “Bandung Conference” which took place in 1955 and defining those “non-aligned” countries¹⁰⁷. In this period the states of the region were completely different rather than similar for historic, economic, geographic, social and language reasons and an attempt

106Adapted from: “ASEAN Declaration (Bangkok Declaration)” of 8 August 1967, Available at: <https://asean.org/asean/about-asean/>

107 The Afro-Asiatic conference of Bandung took place in Indonesia in 1955 convened by an initiative of India, Pakistan, Myanmar, Ceylon, PRC and Indonesia plus 29 of the “South of the World”. The main aim was to create a cohesion build on the common problems of the poverty and backwardness of these country with the idea of being neutral in the cold war.

to create a system of cooperation in the area was needed. Nevertheless, the first attempts of regional organizations were not so successful. The first international organization which proposed to have regional impact was the SEATO¹⁰⁸ (South East Asia Treaty Organization) signed in Manila in the 1954 and started to work formally in 1955, with headquarters in Bangkok. The SEATO was part of the so-called “Truman Doctrine” which aim was to create a system of defense against the communist spread. One of the main tools of the doctrine was the creation of political organization and this was recalled by President Nixon in a conversation with the SEATO Secretary General, Sunthorn Hongladarom: “We must put up a warning flag that the U. S. is supporting SEATO and the SEATO umbrella is helpful to protect the area. (...) But Southeast Asia would have suffered irreparable damage if we hadn't stood fast”¹⁰⁹.

Despite the title of the organization only three states of the Southeast Asia participated in it: Thailand, Philippines and South Vietnam. Thailand and Philippines joined because of the increasing communist threat, the first was scared about the creation of the “Thai Autonomous Region” in Yunnan and the second mostly because it was very close to the United States.¹¹⁰ The other members were the one of the “American sphere of influence”: Australia, France, New Zealand, Pakistan, United Kingdom and United States. The idea behind this was to recreate a sort of NATO (North Atlantic Treaty Organization) for the region but it was military irrelevant since the majority of its member did not contribute to the alliance. So it was not able to get involve in the first Indochina war and then in the Vietnam War: the organization was used more as a political justification rather than an effective instrument to create peace in the area. This was the idea of Sir James Cable which in his book “The Geneva Conference of 1954 on Indochina” defined the SEATO as a “fig leaf for nakedness of American policy” and a “zoo of paper tigers”.¹¹¹

We can say that SEATO had also some cultural and economic successes like the creation of the “Committee of Information, Culture, Education and Labor Activities”, the “SEATO Graduate School of Engineering” and they give funds to the creation of the “Cholera Research Laboratory” in Bangkok and Dhaka. During the first years of the 70s members started to withdrawn and the organization officially dissolved in 1977. There were, then, other two forerunners of the ASEAN: the MALPHILINDO and the ASA.

¹⁰⁸ Also called “*Manila Pact*” from the city where was signed.

¹⁰⁹ Memorandum of Conversation in the Oval Office, 21th September 1973, Ford Library Museum. Available at: <https://www.fordlibrarymuseum.gov/library/document/0314/1552611.pdf>

¹¹⁰ Office of Historians, “Milestones:1953-1960. Southeast Asia Treaty Organization (SEATO, 1954)”. Available at: <https://web.archive.org/web/20121007113024/http://history.state.gov/milestones/1953-1960/SEATO>

¹¹¹ J. Cable (1986), “The Geneva Conference of 1954 on Indochina”, Palgrave Macmillan UK, DOI: 10.1057/9780230599253

The first one was a proposal for an association of the country which were affiliated in the “Malay race”, the idea originally came to the Filipino nationalist Josè Rizal in 1963 in opposition to the artificial borders placed by the colonialists. Even though the most relevant goals were also to create a SEA’s regional cooperation for improvement of the area the MALPHILINDO was mostly aiming to solve the territorial disputes between Indonesia, Malaysia and the Philippines left by the decolonization problems. The confederation did not have any political power and it ended a month after its constitution mostly because each states were more interested in developing their own internal political stability rather than a regional one (most of the SEA’s states had just gained independence during this era).

The ASA was founded in 1961 from the idea of the president of Malaya, Tanky Abdul Rahman and consist of a group of three countries: Federation of Malaya, the Philippines and Thailand. The principal aims were the regional partnership and the defense from both the communist threat and the form of a “New Imperialism”¹¹². The anti-Communist vein of the organization was mostly implicit since it was proclaimed as a “non-political institution” with development objectives like mutual assistance in different fields (economic, social and cultural). ASA established a quite efficient and flexible bureaucratic structure: The Standing Committee composed by the ministers and the ambassadors supervised the projects with frequent meetings. The “North-Borneo dispute”¹¹³ (1963 – 1966) between the Philippines and Malaya was the first diplomatic case that the organization had to confront: the Philippines claimed the Sabah and Sarawak which had been included in the Malaysia after the British withdraw¹¹⁴. The ASA helped in creating communication channels between the foreign minister of the two countries but the results were quite poor, the situation of Borneo is still debated¹¹⁵. The ASA built up the foundation for the subsequent ASEAN creation but the total results were quite poor: a symptom that the new-born countries were still not ready to focus on a regional project.

¹¹² Pollard, Vincent K. "ASA and ASEAN, 1961-1967: Southeast Asian Regionalism." *Asian Survey* 10, no. 3 (1970): 244-55. doi:10.2307/2642577.

¹¹³ Christopher Tuck (2004) Borneo 1963-66: Counter-insurgency Operations and War Termination, *Small Wars & Insurgencies*, 15:3, 89-111, DOI: [10.1080/0959231042000275588](https://doi.org/10.1080/0959231042000275588)

¹¹⁴ Nations Unies, “Agreement relating to Malaysia (with annexes, including the Constitutions of the States of Sabah, Sarawak and Singapore, the Malaysia Immigration Bill and the Agreement between the Governments of the Federation of Malaya and Singapore on common market and financial arrangements).” 28 August 1963, London. Available at: <https://treaties.un.org/doc/publication/unts/volume%20750/volume-750-i-10760-english.pdf>

¹¹⁵ In 2002 a territorial dispute emerged for the islands Ligitan and Sipadan (Sabah) between Indonesia and Malaysia and got in the International Court of Justice (ICJ) and also the Philippines intervene claiming the territories, which were then ruled in the favor of Malaysia.

The conference of Bangkok in 1967 was an important milestone in the development of the regionalism in the area which generate the “Declaration of Bangkok”, written the 8th of August 1967, leading to the creation of the Association of Southeast Asia Nations (Figure 12). The ministers who were present at the meeting who signed the Declaration were: Adam Malik (Republic of Indonesia), Tun Adbul Razak Bin Hussein (Malaysia), Narciso Ramos (Republic of Philippines) Thanat Khoman (Thailand) and S. Rajatman (Singapore).¹¹⁶ Thus, the ASEAN was founded by 5 countries from Southeast Asia: Thailand, Philippines, Indonesia, Singapore and Malaysia.

During the 70s ASEAN changed the strategic dynamics in the zone achieving a great union, especially during the Vietnam War and the Vietnam-Cambodia conflict in 1979. The first ASEAN Summit happened in 1976 and it was held in Bali, hosted by the President Suharto: the main outcomes of this meeting were the Industrial plan collaboration as they state in the Economic section of the Concord: ”Member states shall cooperate to establish large scale ASEAN industrial plants particularly to meet regional requirements of essential commodities ”¹¹⁷. The Treaty of Amity and Cooperation was also another achievement of the first summit with the main purpose of creating continuous peach and harmony within its members¹¹⁸. The Vietnam war ended the Western implicit control on the area and the ASEAN was able to start having more independent power. In the 90s emerged as a dominant institutions regarding the economy and security affairs¹¹⁹. The ASEAN acquired new members in 1984 when Brunei became the sixth member and in 1995 when Vietnam joined the association. Laos and Myanmar affiliated with the organization in 1997 and Cambodia, after resolving its internal political problems, entered in 1999. The expansion of the ASEAN interested also the country who were not in the Southeast Asia region, indeed the prime Malaysian prime Minister Dr. Mohanthir bin Mohamad in 1990 proposed the “East Asia Economic Caucus” (EAEC), a regional free trade zone (FTA) that includes Japan, Korean and China. This organization was made in a non-Western idea in order to confront the APEC (Asia-Pacific Economic Cooperation) that saw United States in the head of operation. In any case the EAEC never started due to the opposition of Japan and US. Another

¹¹⁶ Official text can be find: <http://www.mfa.go.th/asean/contents/files/other-20130527-162937-870593.pdf>

¹¹⁷ ASEAN, “1976 Declaration of ASEAN Concord”, Bali, Indonesia, 24th February 1976, Text available: <http://www.icnl.org/research/library/files/Transnational/1976Declaration.pdf>

¹¹⁸ ASEAN, “Treaty of Amity and Cooperation in Southeast Asia Indonesia, 24 February 1976”, Article 1, Bali, Indonesia, 24th February 1976. Available at: <https://asean.org/treaty-amity-cooperation-southeast-asia-indonesia-24-february-1976/>

¹¹⁹ Moon Chung-in Moon, “ASEAN”, Encyclopædia Britannica, November 15, 2018. Link: <https://www.britannica.com/topic/ASEAN>

important step was the CEPT, Common Effective Preferential Tariff, which definition was “it is an agreed effective tariff, preferential to ASEAN, to be applied to goods originating from ASEAN Member States and effected all the “manufactured products – including capital goods, processed agricultural products (...). Agricultural products shall be excluded from the CEPT scheme”¹²⁰. The CEPT was the precursor tool for the AFTA (ASEAN Free Trade Area), a commercial agreement which was created in 1992 in Singapore (Figure 10). Even though the EAEC failed the idea of a broader organization in the Asia context remained and in 1997 was constituted the ASEAN Plus Three in which were present also China, Japan and South Korea.¹²¹ The 1997 was a crucial year since other two initiative took place: the Chiang Main Initiative and the Nuclear Free Zone Treaty. The first, also known as CMI, occurred in response of the Asian Financial Crisis happened in 1997-1998, which led lot of countries in the area to great bailout and they were forced to ask funds to the IMF (International Monetary Fund). The CMI idea was to create an organization capable of giving financial stability and a “lender of last resort” for the country member as it will discussed later. The Southeast Asia Nuclear-Weapon-Free Zone Treaty was opened for signature in 1995 and finally ratified in 1997¹²². It imposed to countries’ member the prohibition to “(a) develop, manufacture or otherwise acquire, possess or have control over nuclear weapons; (b) station or transport nuclear weapons by any means or (c) test or use nuclear weapons”¹²³.

The “ASEAN Charter” represent another important step in defining the structure of the organization. It was drafted in between the 11th and 12th ASEAN Summit in 2005 and 2007 and formally accepted in the 13th summit in November 2007 that happened in Cebu in the Philippines (Figure 10).The main points emphasize by the Charter are¹²⁴:

- Priority to the regional integration in the economy and social aspects.
- Adhere to the basis of the Territory Cohesion, Sovereignty, non-conflict and National Identification

¹²⁰ ASEAN, “*Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area*”, 28th January 1992, Singapore. Official Text: [Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area](#)

¹²¹ASEAN, “*Overview of ASEAN Plus Three Cooperation*”, ASEAN Secretariat Information Paper, July 2018, Link: <https://asean.org/wp-content/uploads/2016/01/Overview-of-APT-Cooperation-Jul-2018.pdf>

¹²² It became truly effective in 2001 after the Philippines signed the treaty.

¹²³ ASEAN, “*Treaty on the Southeast Asia Nuclear Weapon-Free Zone*”, Article 1, 15th December 1995, Bangkok. Official Text: https://asean.org/?static_post=treaty-on-the-southeast-asia-nuclear-weapon-free-zone

¹²⁴ ASEAN, “*The ASEAN Charter*”, Jakarta: ASEAN Secretariat, January 2008. Full text available: <https://web.archive.org/web/20150923185415/http://www.asean.org/images/2012/publications/ASEAN-Charter.pdf>

- Build up social security, peace and nonviolent agreements of controversies with dialogue and discussion.
- Respect of the international law: human rights, civil justice and international commerce.
- Friendly relation with the UN.
- Assignment of the Secretary-General and the Permanent Representatives along with the promise of increasing the ASEAN summits.

One of the purpose of the ASEAN Charter is moving closer to the form of the European Union organization.

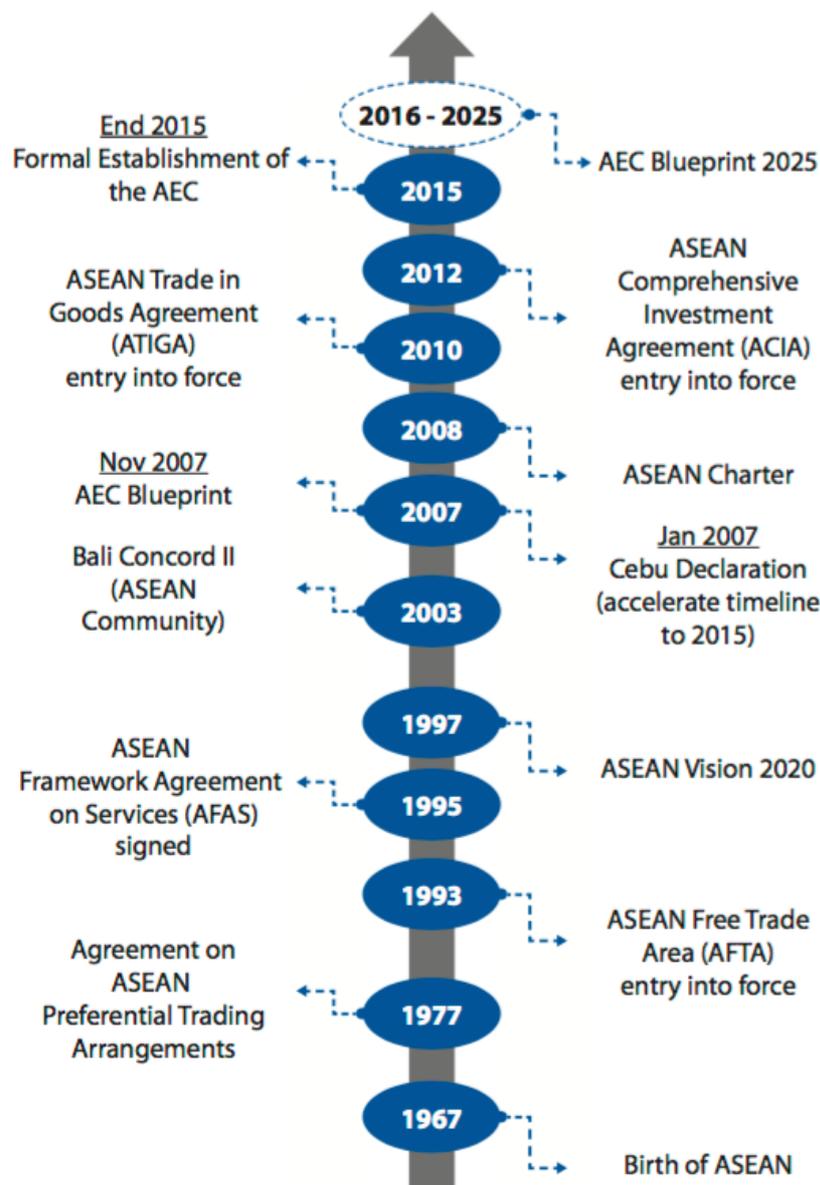


Figure 12. ASEAN Milestones from the foundation to recent years. Source: “A Blueprint for Growth. ASEAN Economic Community 2015: Progress and Key Achievements”. Pag. 4, The ASEAN Secretariat, November 2015, Jakarta.

The “Kuala Lumpur Declaration” of 1971 gave the first organizational blueprint for the organization structure of ASEAN. But it was still a weak structure since they adopted the ASA

framework: the committee form was unclear and imbricated. For example, the role and responsibilities of the Ambassadors and the Foreign Ministers were overlapping and then it was solved by the ASEAN Conference in Bali of 1976 giving the organization a more effective architecture. The Bali also organized five significant committees¹²⁵:

- ASEAN Head of States for collaboration programs.
- ASEAN Foreign Ministers meeting (one per year)
- ASEAN Economic Ministers Meeting (two per year)
- ASEAN other Ministers
- ASEAN Secretariats

We can see visually the organization chart from the figure 11. The Secretary General head the ASEAN Secretariat and Its staff assists all institutional parts, including national governments, ASEAN bodies, ASEAN Dialogue Partners, and other international organizations.¹²⁶ Precisely the Secretary-General provides consultation and guidance in the term of coordinating the application of the regional programs. The Secretariat is supported by the Executive Support Division and Internal Audit & Evaluation Division along with the Strategic Planning & Coordination Division and the ASEAN Connectivity Division.

Four different Departments supervised the major interested area for the organization: Political & Security Community Department, Economic Community Department, Socio-Cultural Department and Community & Corporate Affairs Department.

¹²⁵ Keling M.F. et al., "The development of ASEAN from Historical Approach", p.173, Asian Social Science, Vol. 7, No. 7; July 2011. Doi:10.5539/ass.v7n7p169

¹²⁶ Elder, Mark, and Ikuho Miyazawa. 2015. A Survey of ASEAN's Organizational Structure and Decision Making Process for Regional Environmental Cooperation and Recommendations for Potential External Assistance. IGES Policy Report No. 2014-03 (March). Hayama, Japan: Institute for Global Environmental Strategies.

2.2 Political and Social Cooperation

In this paragraph it is going to be analyzed which type of activities and tools have been carried out in order to develop the Political and Social Collaboration in the area along with some important principles that the ASEAN declared.

The ASEAN Regional Forum (ARF) is a “Asia Pacific multilateral Forum for official consultations on peace and security issues”¹²⁷. The idea for the creation of this Forum originally came from Australia during the ASEAN Ministerial Meeting (AMM) in 1990 and then highlighted in the ASEAN summit of 1992 through the declaration of Singapore. The first was organized later in 1994 and held in Bangkok and saw the participation of the 10 ASEAN Members and their “dialogue partners”: Australia, Canada, China, EU, India, Japan, South Korea, Russia, New Zealand, US, Mongolia and Papua New Guinea (joined in 1999) and North Korea (admitted in 2000). The major aims for this forum were to create an in-depth dialog within its members in the matter of politics, strengthening the Asia Pacific security and stability. The ARF is quite uncommon among the international organization’s type since it features an essential institutionalization, decision making by consensus and the use of “first track” and “second-track” diplomacy.¹²⁸ The “first track” is identified in the meetings between the official leaders of the countries while the “second track” can be considered the suggestions and gathering of academics, private institutions and other executives not in their official duty. One example of this “second track” is the Council for Security Cooperation in the Asia Pacific which provides “an informal mechanism for scholars, officials and others in their private capacities to discuss political and security issues and challenges facing the region.”¹²⁹ The use of this type of diplomacy is the aspect that differentiate the ARF from the other organizations since usually the “second track” diplomacy is considered exterior and irrelevant. The Forum take place annually in July, supported by the ARFSOM (ARF Senior Officials Meeting) and the Secretary is changed annually.

We already quoted the “Declaration of ASEAN Concord” which give us a main principle of the organization the pacific and collective resolution of disputes. Moreover, during the same conference that instituted the ASEAN was signed the TAC (Southeast Asian Treaty of Amity and

¹²⁷ Moon, Chung-in, “ASEAN Regional Forum”, Encyclopædia Britannica, Septmeber 19, 2018. Link: <https://www.britannica.com/topic/ASEAN-Regional-Forum>

¹²⁸ Ibid.

¹²⁹ CSCAP, Official website: <http://www.cscap.org/>

Cooperation) which remain the unique tool to overcome possible conflicts and controversy. In these cases, a council with the Ministers of the interested parties is formed and then through “solution diplomacy” and “preventive diplomacy” mechanisms it operates as a peace-keeper organization.¹³⁰ Another important but more specific political and security area of interest is the straits of Malacca. The four states that operate in the area, Indonesia, Malaysia, Singapore and Thailand have agreed in giving a political solution for the significant problems of this crucial part of the world that are: border conflicts and invasion, sovereignty, illicit migration and fishing plus piracy incursions and attacks. The form of cooperation has been decided to be a coordinated patrol, called Melaka Straits Singapore Coordinated Patrol (MSSCP) established in 2004. The work of this organization is carried out through “regular meetings to enhance coordination and review the conduct of operations, and also engage in intelligence exchange and real-time information-sharing on suspicious contacts or incidents, cueing effective operational responses to maritime threats.”¹³¹ The operational aspects are carried by the three countries’ joint naval and military forces and it has proved the power to act independently and preserving one of the most important maritime passage global trade, even after the USA offered their help¹³². The MSSCP can be considered a “combination of an all-channel network and hub network. (...) Over the years the network has evolved from an all-channel network, to more of a hub design in response to its growing size and complexity”¹³³. In 2005 they launched the “Eyes-in-the-Sky” air Patrols, this initiative was made in order to support with air surveillance the maritime units.¹³⁴ The MPA (Maritime Patrol Aircraft) from each state will be accompanied by a Combined Mission Patrol Team guided by the Commander from the host country. In 2006 the Intelligence Exchange Group

¹³⁰ Solution and Preventive Diplomacy are actions made to prevent conflicts between parties or to solve already existing disputes from escalating into conflicts. They can be thought as form of peace-keeping activities.

¹³¹ MINDEF Singapore, “Fact Sheet: The Malacca Straits Patrol”. Link: <https://www.mindef.gov.sg/web/portal/mindef/news-and-events/latest-releases/article-detail/2016/april/2016apr21-news-releases-00134/>

¹³² Szu-Ting Kao, “The Future Relations of the U.S. and Singapore in the Strategic Development of the Straits of Malacca and Singapore”, Global Ethics Network, 29th April 2015, Link: <http://www.globalethicsnetwork.org/profiles/blogs/the-future-relations-of-the-u-s-and-singapore-in-the-strategic>

¹³³ Anderson, Megan (2016), “The Malacca Straits Patrol: A Maritime Security Network Analysis”, DOI: 10.13140/RG.2.1.2201.5764, Available at: [The Malacca Strait Patrol A Maritime Security Network Analysis/references](http://www.globalethicsnetwork.org/profiles/blogs/the-future-relations-of-the-u-s-and-singapore-in-the-strategic)

¹³⁴ Salim Osman, “Eyes in the sky’ patrols over strait to start next week”, World Security Network, 11 September 2005, Link: <http://www.worldsecuritynetwork.com/Terrorism/Osman-Salim/Eyes-in-the-sky-patrols-over-strait-to-start-next-week>

(IEG) along with the Information Systems (MPS-IS) were created in order to give an information-sharing platform and enhance mutual situation awareness and facilitates responses collaboration. It is going to be analyzed two of the most important documents for ASEAN political, security and social prospective: The Political-Security Community Blueprint and the Socio-Cultural Community Blueprint. Both of them were approved during the 14th ASEAN Summit held in Thailand in 2009. The first document is focusing on build a solid political-security condition in the SEA's region and continuing the plan to reach the ASEAN Political-Security Community by

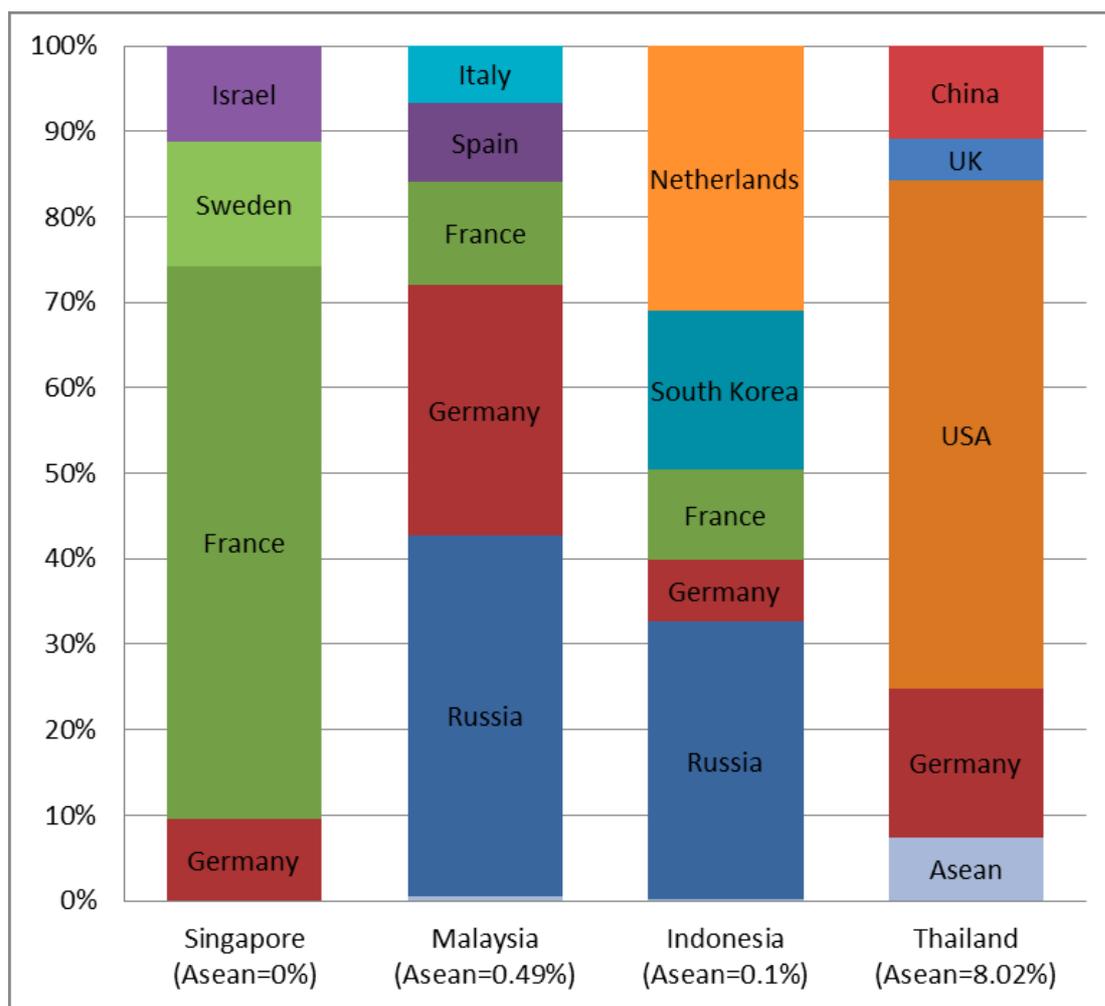


Figure 13. Shares of Imported military products by countries for Singapore, Malaysia, Indonesia and Thailand for the period 2000-2010. Source: SIPRI 2011 Arms Transfers Database.

2016. This document is the extension of the APSC¹³⁵ and the Vientiane Action Program¹³⁶ The principle key characteristics of the APSC is to create a “rules-based, people-oriented, people-centered community bound by fundamental principles, shared values and norms, in which our

¹³⁵ASEAN, “Vientiane Action Program”, full text available: <https://www.google.com/search?client=safari&rls=en&q=Vientiane+Action+Program&ie=UTF-8&oe=UTF-8>

¹³⁶Mathew Davies, ‘Explaining the Vientiane Action Programme: ASEAN and the Institutionalization of Human Rights’, *Pacific Review*, 26(4) 2013: 385-406.

peoples enjoy human rights, fundamental freedoms and social justice, embrace the values of tolerance and moderation, and share a strong sense of togetherness, common identity and destiny”¹³⁷.

The ADIC (ASEAN Defense Industry Collaboration) was introduced to the discussion the 4th ASEAN Defense Ministers’ Meeting (ADMM) in Hanoi in 2010. The idea behind this was to reduce the import of armament from outside the region: most of the member of ASEAN are importers of these products. The reduction should, approximately, interest half of the imports so from US\$ 25 billion to US\$ 15 billion and enhance the military industry in the area. These are coming mostly from Europeans Countries (Italy, Germany and France), Russia, USA, China and South Korea (Figure 13). In 2013 the military expenses were US\$ 35 billion dollars in ASEAN (without Brunei and Myanmar), increased by the 147% from 2004 (US\$ 14.4 billion) and this escalation is mostly caused by economic advances, substitution of old machineries and the projects of boosting the defense industry. Nevertheless, the situation within the ASEAN countries in terms of military industry before the ADIC was quite disparate: Thailand, Singapore, Malaysia and Indonesia had a solid military industry but different levels of capacity. The other countries Philippines, Laos, Vietnam, Myanmar and Cambodia still have to reach determinate level of both capacity and stability of industry.

The ADIC was officially approved at the 5th ADMM on the 19th May 2011 in Jakarta, along with the develop of “maritime security, humanitarian assistance and disaster relief, peacekeeping operations, counter terrorism, and military medicine.”¹³⁸ The main idea is to let the technology and the industry of security grow in the region always following to the principles of voluntary participation of the states. The program rotates around the idea of increasing the possibility for the member states to set up efficient programs to instructs workers in the industry, allocation of resource for defense apparatus and maintenance of them. In addition, it tries to develop the intra-ASEAN trade for this relevant sector, with the participation to sectorial fairs and exhibitions. Another mechanism for the defense cooperation is the creation of the ASEANPOL an organization which the objectives of "ensure the effective implementation of all resolutions adopted at the ASEANAPOL Conferences and Endeavour to increase regional cooperation efforts against transnational crime” and the function of “facilitate and coordinate joint operations and activities involving criminal investigations, the building and maintenance of the

¹³⁷ASEAN, “ASEAN Political-Security Community”, Jakarta, May 2017. Link: <https://asean.org/wp-content/uploads/2012/05/7b.-May-2017-Factsheet-on-APSC.pdf>

¹³⁸ ASEAN Defense Ministers Meeting, Strengthening Defense Cooperation of ASEAN and the Global Community to Face New Challenge [Press Release], February 22, 2011.

ASEANAPOL database, training, capacity building, the development of scientific investigative tools, technical support and forensic science”.¹³⁹ In 2013 took also place the ASEAN Convention on Counter-Terrorism (ACCT) with the aim of “provide for the framework for regional cooperation to counter, prevent and suppress terrorism in all its forms and manifestations and to deepen cooperation among law enforcement agencies and relevant authorities of the Parties in countering terrorism.”¹⁴⁰.

Following the ASEAN Concord II of 2003 the organization shall establish three main pillars: political and security, economic and socio-cultural community.¹⁴¹ The Social-Cultural Community Blueprint is considered as the “third pillar” which aim is to “contribute to realizing an ASEAN Community that is people-oriented and socially responsible with a view to achieving enduring solidarity and unity among the nations and peoples of ASEAN by forging a common identity and building a caring and sharing society which is inclusive and harmonious where the well-being, livelihood, and welfare of the peoples are enhanced”¹⁴².

The ASSC focus on the human element of the regional collaboration and gave a duty to develop ASEAN quality of life. The ASCC, following the essence of the ASEAN vision 2020, provides a planned and practical schemes to bring the values of the organization to the people and showing its effectiveness. The ASCC is a ministerial council of Senior Officials that organizes and control the performance of the groups who work in over 20 fields. These organizations receive support from external think-tank, non-governmental and private institutions, scholars and experts. The ASCC played a key role in defining the idea of community’s values and collective identity and in order to boost this aspect in 2011 was launched the ASCC Communication Plan. This plan is aiming to “enhance public awareness and shape their perceptions, and generate greater participation of the public in building the ASCC by 2015” and “explains the impact and benefits in terms of what the ASCC will do to realize an ASEAN Community”¹⁴³.

It is also necessary to quote the ASEAN Charter 2007 and the Bali Concord III since both of them highlight norms and principles of the community.

¹³⁹ ASEANAPOL, “Objective of ASEANAPOL”, Official Website: <http://www.aseanapol.org/about-aseanapol/objectives-and-functions>

¹⁴⁰ ASEAN, “ASEAN Convention on Counter Terrorism”, 2013, Jakarta. Official Text available: <https://asean.org/storage/2012/05/ACCT.pdf>

¹⁴¹ ASEAN (2009), “ASEAN Socio-Cultural Community Blueprint”, Introduction, Jakarta, Official Text: <https://asean.org/wp-content/uploads/archive/5187-19.pdf>

¹⁴² Ibid, II. Characteristics and Elements, Point 4.

¹⁴³ ASEAN Secretariat Official Release, June 12th 2012.

The ASEAN Charter, for example, referring to the civil rules and principles that should be the basis of the community in the Article 2¹⁴⁴, give us some important insights:

- Direct collaboration to achieve “collective responsibility, regional peace, security and prosperity” through the “renunciation of aggression” and instead privilege the use of “peaceful settlement of disputes” (Paragraph *a, b, c*).
- Enhance the cooperation to give a civil state in the sense of “adherence to the rule of law, good governance, the principles of democracy and constitutional government” and at the same time the “respect for fundamental freedoms, the promotion and protection of human rights and the promotion of social justice” (Paragraphs *h, i*).
- The commitment to the “United Nations Charter and international law, including international humanitarian law” with the respect “for the different cultures, languages and religions” but remaining fixed the “centrality of ASEAN in external political, economic, social and cultural relations while remaining actively engaged, outward-looking, inclusive and non-discriminatory” (Paragraphs *h, j, l* and *m*).

The Bali Concord III focused on the “ASEAN community in a Global Community of Nations” and it was signed during the 19th ASEAN Summit in 2011. This document try to define in a better way its international role and the collaboration with the other main regional and worldwide organizations, thus it “reflects ASEAN’s commitment to take an increasing role in addressing global challenges by enhancing collaboration to adopt common position on issues of mutual interest in regional and international fora”¹⁴⁵.

Moreover, it adds key obligations for the community such as:

- Speak more often with a unique voice on foreign matters and international councils.
- Increase ASEAN effectiveness in respond in global problems.
- Give more power to the ASEAN Secretariat.

Nevertheless, the situation in which the ASCC, the ASEAN Charter and the Bali Concord operate is quite difficult since the gap is significant between ASEAN members in terms of “human development”. In order to understand the social situation, we use the macroeconomic indicator known as the Human Development Index (HDI). This was firstly introduced by the Pakistan

¹⁴⁴ ASEAN Charter 2007, Article 2.

¹⁴⁵ ASEAN, “Bali Declaration on ASEAN Community in a Global Community of Nations”, ASEAN Secretariat, 17 November 2011, Full Text available at: https://www.asean.org/storage/images/2013/other_documents/POA%20of%20Bali%20Concord%20III%20_final_.pdf

economist Mahbub ul Haq and later by the Indian economist Amartya Sen. It has been used by the UN from 1993 along with the GDP to evaluate the “quality of the life” of a country. The GDP alone give a basic economy idea, most likely based on the economic growth of the states. With the HDI it has been also added the concept of “human capital” through the addition to the GDP per capita of two other basic index: the life expectations and the level of instruction. The Index outcome is within 0 and 1, where 0 is very low standards life and 1 is really high standards of life. The figure 14 sum up the values of the HDI with the three basic index from which it is calculated for the ASEAN countries.

Country	HDI (Human Development Index)	Life Expectancy at birth (Years)	Means Of Schooling (Years)	World Rank Position
Singapore	0.932	83.2	11.5	9
Brunei Darussalam	0.853	77.4	9.1	39
Malaysia	0.802	75.5	10.2	57
Thailand	0.755	75.5	14.7	83
ASEAN	0.701			
Philippines	0.699	69.2	9.3	113
Indonesia	0.694	69.4	8	116
Vietnam	0.694	76.5	8.2	116
Laos	0.601	67	5.2	139
Cambodia	0.582	69.3	4.8	146
Myanmar	0.578	66.7	4.9	148

Figure 14. HDI (Human Development Index), Life Expectancy at birth, Means of Schooling and the World Rank position for HDI. Source: United Nations Development Program. Values for each world’s country can be find at: <http://hdr.undp.org/en/2018-update>

As we can see from the data the countries Singapore, Brunei, Malaysia and Thailand have a quite high HDI, above the ASEAN average, instead the Philippines, Indonesia, Vietnam, Laos, Cambodia and Myanmar had a low level HDI. This is a symptom of the difference in economy and institutions behind the life of the citizen such as schools and sanitary system.

The six founders’ members are largely investing in public education in the primary and secondary levels, so for children until approximately 16 years old students, while the tertiary education has been left to the private institutions. This led to scarce infrastructures for public universities along with low salaries for teachers, scholars and researchers, focusing mostly on local students and not supporting international students or projects. Higher Education has been focused mostly on

teaching and giving service rather than academic researches and it is feeble in terms of innovation and technology. It has been recognized by scholars that Government's investments in education had impact both in the short and long term for the economy and an educated and skilled workforce is key for the economic development. This represent a challenge in a region where the average length of education is barely eight years and informal employment is high. Investing in institutions, strengthening university-industry links and promoting cross-border institutional partnerships can create greater opportunities.¹⁴⁶ In order to develop the cooperation in the education field ASEAN have decided to let education be one of the key elements of the community, creating a ASEAN education consciousness and constructing ASEAN human capitals in the higher education through the creation of the ASEAN University Network (AUN). This organization born in November 1995 with the sign of 11 Member Universities with the aspiration of developing: Southeast Asia studies, ASEAN Master degrees and PhD, regional research programs and mobility programs among its members. The 11th ASEAN Summit in 2005 an annually gathering of the education ministers of the member's states was proposed and then it was officially formed the ASED (ASEAN Education Ministers Meeting), carried out by the SOM-ED, the ASEAN Senior Officials on Education. The organization, collaborates with the AUN in order to oversees cooperation in the educational matters. Other education projects also see the participation the other key actor in the Asia area, for example the SEED-Net (Southeast Asia Engineering Education Development Network) is made in collaboration with Japan and is focusing in engineering. The SOM-ED+3 sees also the participation of China, Japan and the Republic of Korea and it was established in 2010.

¹⁴⁶ Bindu N Lohani, "How to build the knowledge economy in the ASEAN", The Nation, 11 May 2013, Article available: <http://www.nationmultimedia.com/opinion/How-to-build-Aseans-knowledge-economy-30205771.html>

2.3 Member countries economy

In this paragraph it is going to be discussed the economy of the area, focusing on the economy of each member's state of ASEAN apart from Thailand which will be discussed more deeply in the third chapter. For each country it will be also introduce a spotlight on the Italian investments and presence in the country.

2.3.1 Myanmar

Myanmar is the second country in the ASEAN for territorial extension and it counts a population of 53 582 855 (2017 Census); the country has registered a positive growth of GDP during last years, with figures around the 8% in 2014, it slowed during the 2015 when it was 7% and in 2016 it was 5.9% due to the internal conflicts (figure 15). The situation now is developing well and the GDP growth in 2017 was 6.8% and the Asian Development Bank estimates that the growth will remain stable around 6.6% in 2018 and for 2019 is forecast at 6.2%.¹⁴⁷ The economy is driven by the production of raw materials, hydrocarbons, agricultural products. In 2014 Myanmar joined the “Extractive Industries Transparency Initiative” (EITI), a global standard for the good governance for the good governance of the oil, gas and mineral resource. Governmental sources estimate the oil potential extraction is about 4.6 billions of barrels and 3 trillions m³ and it has been assessed that the coal reserves are about 489 millions of tons. The majority of hydrocarbons are exported in Thailand and China and only a small portion is destined to the internal market (33% of oil and 41% for gas). Families are the principle consumer of energy (42%), then the productive plants (36%) and the commercial services (21%). Myanmar has 104 exploratory blocks, 53 onshore (16 active) and 51 offshore (19 active). The last bidding in 2013 for 30 new oil and gas fields was quite successful¹⁴⁸ and saw also in the winner list ENI, the main Italian oil & gas company, but no more bidding has been made. Even though a new one will be called in 2019 according to Myanmar's minister of Energy.¹⁴⁹ The diffusion of the electric energy is limited (3.4% of national territory) where Yangon, Mandalay and Nay Pyi Taw are the most well

¹⁴⁷ADB, “Asia Development Bank Outlook 2018” (ADO), pag 268, 2018. Full text available: <https://www.adb.org/sites/default/files/publication/411666/ado2018.pdf>

¹⁴⁸ Aung Hla Tun, “UPDATE 2-Myanmar invites bids for 30 offshore oil, gas blocks”. Reuters, 11 April 2013. Link: <https://www.reuters.com/article/myanmar-energy/update-2-myanmar-invites-bids-for-30-offshore-oil-gas-blocks-idUSL3N0CY33Y20130411?feedType=RSS&feedName=rbssEnergyNews>

¹⁴⁹ Chan Mya Htwe, “Bidding for new oil and gas fields to commence next year”, MyanmarTimes, 31 August 2018. Link: <http://Elevatedstash.com>

covered cities. The electricity supply in the rural areas is quite poor: in the countryside even the well-being neighborhood receive only 6 hours per day and the poor ones 1 hour per day.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP Variation (%)	11.99	10.26	10.55	9.63	5.59	7.33	8.43	7.99	6.99	5.87	6.37
GDP Per Capita (US\$)	410.45	643.95	741.08	987.74	1186.42	1175.56	1171.46	1260.42	1138.99	1195.52	1298.88
Unemployment Rate (%)	0.83	0.80	0.79	0.79	0.78	0.78	0.78	0.77	0.77	0.78	0.79
Inflation (%)	35.02	26.80	1.47	7.72	5.02	1.47	5.48	5.05	9.49	6.96	4.57
Imports (% of GDP)	0.08	0.07	0.06	0.07	0.10	10.89	18.95	22.17	26.56	21.97	22
Exports (% of GDP)	0.14	0.12	0.10	0.11	0.10	11.50	19.64	20.09	20.80	17.09	19
Account Balance (% of GDP)	6.84	3.91	2.67	3.18	-2.60	-2.10	-0.64	-3.25	-4.75	-2.79	-5.69
National Debt (% of GDP)		53	55	50	46	41	33	30	35	35.74	34

Figure 15. Main Economic Indicators for Myanmar, for the period 2007-2017. Source: Own Elaboration via World Bank data (<https://data.worldbank.org/country/myanmar>).

The renewable energy sector is also expanding greatly: the hydroelectric sector grows from the 23% in 1998 to 72% in 2012 according to the World Bank. In 2015 renewable energy counts still for the 2% but the government's aim is to reach the 15%-20% by 2020. It has also been calculated that Myanmar has the greatest potential for photovoltaic sources with 25 962 MWp since 60% of its territory is suitable to build photovoltaic plants in the Mekong's basin' countries. Even with this important potential and the international attentions, little has been done from the governmental institutions in term incentives for foreign companies in the last Foreign Investment Law in 2012 with the result that not lot of projects have started. The Investment Law (MIL) adopted in 2017 is still unclear for the energy sector but it gives better tools for the external investors¹⁵⁰.

¹⁵⁰PwC Myanmar, "Myanmar Investment Law Updates", 2016, Link: <http://download.pwc.com/mm/gobig/pdf/mm-investment-law-update.pdf>.

Moving to the raw materials Myanmar is one of the first teak producers in the world (35 % of the total wood production) and is also rich in minerals like copper and nickel. Myanmar is placed among the top teak's global exporters in terms of quantity and quality, it produces 283 000 m³ annually of teak and 1.98 millions m³ of hard wood. Myanmar has one of the largest planted teak area in the world, about 390 000 ha (the estimated total area is around 4.35 million ha) but “uncontrolled and illegal export from Myanmar had led to increased deforestation and forest degradation”.¹⁵¹ Most of the woods is being shipped to China, India and the regional market, which then get re-shipped again to the Western countries. Historically, Myanmar inherited a sustainable and scientific forest conservation management¹⁵² but deforestation have increasingly became one of the worst problem of the country, which has been considered the third worst country for deforestation rate, according to the UN.¹⁵³ In the last decade Myanmar has lost 1.2% of its forest annually and from the 1990 to 2010 the country lost about 20% of its forest. For these reasons, in the 2014 the government decided to restrain in the deforestation process blocking the export of non-processed wood¹⁵⁴ (specially for teak) and with the “Environment Conservation Law” in 2012 the government committed to increasing the forest reserves of 30% and 10% of the protected ones¹⁵⁵.

The agricultural sector remains a key sector for Myanmar's economy, representing 26,3% of the GDP and employing 61% of the work-force and one of the motor of the economic transformation that it is happening in the country. Myanmar, with 0,2 ha of land per person, has a large agricultural capacity since it has 10 times the percentage of arable lands compared to the other Asian countries. The principal cultivations are: rice (15% of GDP), legumes (particularly corn), natural gum and sesame seeds. Fishing is another significant economy activity and it counts for 8% of the GDP but it lacks in the export since only 10% of the total production is festinated to the foreign markets.

¹⁵¹ FAO. 2015. Global teak trade in the aftermath of Myanmar's log export ban by Kollert, W. & Walotek, P.J. Planted Forests and Trees Working Paper FP/49/E. Rome, Italy (available at <http://www.fao.org/forestry/plantedforests/67508@170537/en/>)

¹⁵² Bryant, R. (1994). From Laissez-Faire to Scientific Forestry: Forest Management in Early Colonial Burma, 1826-85. *Forest & Conservation History*, 38(4), 160-170. doi:10.2307/3983602

¹⁵³ Aye Sapay Phyu, “Myanmar third-worst for deforestation rate, says UN”, The Myanmar Times, 11 September 2015. Link: <https://www.mmtimes.com/national-news/16436-myanmar-third-worst-for-deforestation-rate-says-un.html>

¹⁵⁴ Adam McGeehan, “It's official, No More Teak Out of Myanmar”, Escape Artist, 2014, Link: <http://www.escapeartist.com/blog/its-official-no-more-teak-out-of-myanmar/>

¹⁵⁵ The Pyidaungsu Hluttaw , “The Environemtnal Conservation Law”, Official Malaysian Governmental Paper, 30th March 2012. Official Text: http://www.burmalibrary.org/docs15/2012-environmental_conservation_law-PH_law-09-2012-en.pdf

In terms of construction and infrastructure Myanmar is still paying for 50 years of isolation from the international context. the market of construction has been increasing constantly in last years with a downfall in 2016 since this is an attractive sector for the foreign investors also due to the strategic position of Myanmar in between China and Southeast Asia. We must also highlight the presence of three Special Economic Zones (SEZs) decided by the government: the port of *Thilawa* (20 km south-east from Yangon), Dawei's port and the Kyaukpyu port, in these areas law included few incentives for the foreign companies like five year tax holiday, 50 percent income tax relief for exporting overseas or 30 year land lease¹⁵⁶. China and Japan have already started relevant projects of construction in these area, for example the “Industrial Park Development” in *Thilawa* a project from the joint-venture company MJTD (Myanmar Japan Thilawa Development Ltd)¹⁵⁷. In the Kyaukpyu area are also present Chinese companies since it has been finished an important pipeline which link the region to the Yunnan province. This is part of the “Belt and Road Initiative” promoted by the Chinese Government even though recently the Chinese projects are slowing down due to the debt fears over China.¹⁵⁸

The monopoly of the state company MPT in the telecommunication sector is finished in 2013 with the assignment of new licenses to the Norwegian Telenor, the Qatar company Ooredoo and the Vietnamese *Viettel*. Telenor only after few years have recently 15 millions of consumer and it is next to MPT which remain the largest company with 20 millions of users. The license last for 15 years with a possible renovation of 10 years and the licensee had committed to give a region cover of about 75% of the total national territories after 5 years of their activities. This market is increasing rapidly due to the internal demand of the young Myanmar population who are willing to have an internet connection. In 2016 tourism has seen a sharp slowdown, decreasing of 38% and with a quote of 2.7 million people. The government has fixed the aiming quote to 7.5 million tourists to reach by 2020. The new terminal building of Yangon airport will host new commercial activities and will be ready to receive a traffic of more than 20 million people.

¹⁵⁶ Colin Baffa, “Special Economic Zones in Myanmar”, ASEAN Briefing, 28th June 2013. Link: <https://www.aseanbriefing.com/news/2013/06/28/special-economic-zones-in-myanmar.html>

¹⁵⁷ Ayako Obara, “Myanmar promoting development of Thilawa special economic zone”, Nikkei Asian Review, 25th June 2014. Link: <https://asia.nikkei.com/Economy/Myanmar-promoting-development-of-Thilawa-special-economic-zone>

¹⁵⁸ Reuters, “Myanmar scales back Chinese-backed port project over debt fears”, The Guardian, 2nd August 2018. Link: <https://www.theguardian.com/world/2018/aug/02/myanmar-scales-back-chinese-backed-port-project-over-debt-fears>

Italian investments in Myanmar have been traditionally limited, since the economy it is mostly based on the agricultural and tourism activities. The absence of Italian companies has been also the consequences of the EU sanctions suspended, then, for one year in 2012¹⁵⁹ and then officially eliminated in 2013. This fact has helped the development of the economic-commercial cooperation with Italy. Of course the data of the inter-exchange are not significant in quantities terms but it is increasing continuously, in 2016 it has reached its maximum. In 2016 Italian exports were 92.3 millions euro and the Myanmar imports were 95 millions: for the first time after 2011 the trade balance was negative. From 2012 the big Italian groups like ENEL, Unicredit and Finmeccanica Helicopters started explorative missions and ENI won the governmental oil & gas bidding in 2013. The good relationship between the two countries have been sealed with the visit of the ex-Foreign Minister Paolo Gentiloni in Myanmar (6-8 April 2016) when he encountered the neo-elected president U Htin Kyawm, Gentiloni was the first governmental person from Western countries to visit the new government. The Minister was followed by an entrepreneurial delegation composed by *Danieli*, *Pirelli*, *IDS*, *Tenaris* and *SACE*. The principle sectors of the Italian investments in the country are: oil & gas, tourism, agriculture (machinery like tractors), manufacture (*Danieli* for steel and *Italcementi* for cements) and agri-food products. In conclusion Myanmar has enormous potential for growth and development: abundance of natural resource (raw materials, hydrocarbons), the strategic geographic position, a young population and the low cost of work are factors who foreign investors look closely.

2.3.2. Laos

Laos has one of the fastest growing economies in the world due to the decentralized government control and the introduction and facilitating the introduction of a liberal market. The growth of the GDP is around 8% per year but Laos still remain one of the poorest country in the Southeast Asia. The Laotian monarchy was driven away in 1975 and the communist government Pathet Lao was established: they started a Soviet-Style command Economy. They cancelled the private sector companies and they replace them with state-companies and cooperatives, they centralized the price systems, the investment, the production and they created internal and external barrier for the commerce. This led to the international isolation and the loss of foreign investments, in particular the American of which Laos had become depended during the Indochina Wars. From

¹⁵⁹ Council Of The European Union, “Burma/Myanmar: EU sanctions suspended”, Official Press, 14 May 2012, Brussels. Text available at: https://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/130188.pdf

1986 the country undertook an important economic reforms, the “*New Economic Mechanism*” (NEM), changing its economic systems to the centralized and planned one to a market-based one. The results of these policies were mixed in term of production since agriculture and industrial production fell but the country commenced “a major reorientation of development strategy which takes as its immediate model not the socialist orthodoxy of Vietnam but the consumer capitalism of Thailand”.¹⁶⁰

In addition, in 1993 the government decided to make an effort in the using of the natural resources by promoting the foreign investors, the production of fast-moving consuming goods and improving the agricultural sector (trying to reach an extra production in order to export). Unfortunately during the Asian financial crisis in 1997 almost annulled the progresses obtained in the previous five years since. The crisis had negative consequences: the increase level of inflation and the depreciation of the national currency. In the first years of 2000 a discrete flow of investments interested the country also helped by the fact that foreign investors can control totally their projects after a governmental license (most of the ASEAN country do not give this possibility) and the economy had a steady progression.

Currently still the 80% of Laos population is employed in the agricultural and fishing sector, with the main products being rice, wheat, sweet potatoes, coffee and tobacco. The agriculture is greatly influenced by seasonality and poor mechanized. Laos has also reserve of tin, lead, zinc, iron, coal and wood but still not used at their maximum potential. The industry and tourism employ 20% of the population and they had a sharp rise in the last years. The major economic partners are: Thailand, Vietnam, France, Germany, UK and Singapore and significant exports are products of wood, clothes and coffee. No relevant Italian industries are present in the country.

2.3.3 Cambodia

The Cambodia’s economy have had a growth rate of 8% on average during the first decade of the 21th century according to the World Bank. This was mainly due to the expansion of different sectors like: clothing, tourism, construction and agriculture as the CIA World Factbook explains.¹⁶¹ Nevertheless, the economy suffered a recession after the global crisis in 2007-2008, with a relevant contraction of the GDP caused by the fall of key sectors of the country’s economy. In fact, exports and tourism decreased sharply causing a shrink of the already limited industry’s

¹⁶⁰ Stuart-Fox Martin, “Laos in 1988, In pursuit of New Direction”, p. 82, in Asian Survey, Vol. XXIX, No. 1, January 1989. Text available: <https://espace.library.uq.edu.au/data>

¹⁶¹ *The World Factbook* 2016-17. Cambodia. Washington, DC: Central Intelligence Agency, 2016.

production. The consequent decline of the foreign investments had a negative impact the construction sector too.¹⁶² The World Bank estimates that the total GDP of Cambodia is 22.128 billion \$US, GDP PPP (Per Purchasing Power) is about 64 billion \$US and the GDP per capita is 1384.42 \$US.

The principal products of the agricultural sector are: rice, gum, corn, vegetables, cashews, tapioca and silk. The principal industries are textile, clothing, rice milling process, woods, gum products and minerals and construction. The clothing industry, in particular employs over 320 000 people but after the expire of the “Multi Fibre Arrangement” (MFA)¹⁶³ in 2005 it had to compete with the low prices from China, India, Vietnam and Bangladesh. The tourism is another important resource for Cambodian economy with 2 million tourists registered in 2007 and 2008 but it has a downfall after the global crisis, leading to a contraction of the 15%.

In terms of Natural Resources and Raw Materials in 2005 have been discovered oil fields in Cambodia territorial water but the commercial extraction is still stalled¹⁶⁴. According to the prevision of UN, Harvard University and The World Bank, with these resources Cambodia could became one of the protagonist in regional and international context, thus, improving its geo-strategic importance. The WB, also, calculates that total energy reserves are 2 billion of oil barrels and 283 billions of m³ and they could have a return of investment of about US\$ 2 billion per year. The main company investing in these fields is now KrisEnergy, a Singaporean company, after the renounce of the American Chevron in 2014. KrisEnergy is aiming to produce 8000 barrels a day by 2020 in the *Apsara* oil fields¹⁶⁵ but the company is still currently looking for international partners.¹⁶⁶ In addition to this the government has introduced the possibility of developing the mineral industry, mostly in the north of the country where are present important quantities of bauxite, gold, iron and precious gems. This industry is incurring in a difficult development process mostly due to corruption and lack of regulation. Describing the mining industry in Cambodia Amora and Senkong says “is rife with corruption, is a major cause of environmental

¹⁶² Ibid.

¹⁶³ The MFA was an international accord that imposed quotes on the quantity of textiles products that a developing countries could have exported to a developed country. It was valid from 1974 to 2007.

¹⁶⁴ OpenDevelopment , “Oil And Gas Resources”, OpenDevelopment. 6 January 2016. Link: <https://opendevelopmentcambodia.net/topics/oil-and-gas-resources/>

¹⁶⁵ Apsara is the name of the oil field in Block A of the Khmer Basin in the Gulf of Thailand, offshore Cambodia. It is owned by 95% by KrisEnergy and 4% from the Royal Government of Cambodia.

¹⁶⁶ Paul Millar, “Whatever happened to... Cambodia’s oil prospects?”, Southeast Asia Globe, 21th September 2017. Link: <http://sea-globe.com/cambodia-oil/>

destruction, and that it is seldom, if ever, done in a way that local communities or the state sees any benefits”¹⁶⁷.

The major exported products are: rice, fish, woods, clothing, footwear, gum, tobacco and spices. The main countries where Cambodia exports are USA, Germany, UK, Singapore, Japan and Vietnam. On the other side the imports of Cambodia are mainly oil products, cigarettes, gold, building materials, machinery and pharmaceutical products and the country which export are Thailand, Singapore, China, Hong Kong, Vietnam, Taiwan and USA.

As we said tourism is a driving force for the economy and it is boosting in the last years, in 2007 and 2008 there were about 2 million tourists that visited Cambodia. In 2007 the 55.61% of the tourists have visited the province *Siem Reap* in which is present the ancient city of *Angkor* most of them interesting in the ancient culture of the region and where the modernization has still not had an impact¹⁶⁸, the remaining tourists have visited the capital *Phnom Penh* or other location. The tourist boom attracted a lot of foreign speculators who had abandoned the western market, paralyzed by the crisis, and invested in Cambodia, helped by the governmental incentives. The impact, both direct and indirect, of Travel and Tourism to the country's GDP was KHR 29 129.2 billions (\$US 206.7 million), accounting for the 32.4 % of the GDP and employing 1 191 000 jobs (13.6% of the total employment).¹⁶⁹

2.3.4. Vietnam

Vietnam has the economy with one of the best potentials in the Southeast Asia context. Vietnam has reached the global goals in terms of macroeconomic stability, international integration and reduction of poverty (13%), Millennium Development Goals and high rate of growth. The reforms launched in the 1980s and the adhesion to the WTO¹⁷⁰ in 2007 have started a path of

¹⁶⁷ Yesenia Amaro et Sengkong Bun, “Cambodia Mining Industry”, New Naratif, 25 June 2018. Link: <https://newnaratif.com/journalism/cambodias-mining-industry/>

¹⁶⁸ Chheang Chheang, “Angkor Heritage Tourism and Tourist Perceptions” in *TOURISMOS: AN INTERNATIONAL MULTIDISCIPLINARY JOURNAL OF TOURISM* Volume 6, Number 2, Autumn 2011, pp. 213-240. Link:

https://www.researchgate.net/publication/266329139_Angkor_heritage_tourism_and_tourist_perceptions

¹⁶⁹ World Travel & Tourism Council (2018), “Economic Impact 2018 Cambodia”, in *Travel & Tourism Economic Impact 2018*, p. 2, London. Text can be found: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/cambodia2018.pdf>

¹⁷⁰ Do Hoai Nam, “Opportunities and Challenges for Vietnam in WTO Accession”, World Bank, WTO Forum, 2007. Text Available: http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/vietnamaccession_nam.pdf

liberalization and opening to a market-based economy which bring a sustained growth for the first decade of the 21st century, when the growth average rate has been of 7%.

The internal market counts around 94 million people and the growth of the GDP is steadily increasing in the last years with +6.2% in 2016, +6.8% in 2017, and the ADB estimates the growth to remain stable at +6.8% in 2018 and 2019. This expansion is led by a boost of the private consume caused by the consistent afflux of FDIs, the regular increase of the minimum salary and the increment of the tourism and service's sector. The national budget deficit has decreased and reached the 3.49% of GDP, the minimum level of the last 4 years, thanks to a development of fiscal sector and reduction of current expenditure while in the last years the national debt has been stable under the 65% of GDP imposed by law. The workforce is estimated at 48 million people resulting in a low unemployment rate of 2.05 in 2017 and the strengthen of the aggregate demand and the oil prices have determined an increase of the inflation which is +3.52% in 2017 (figure 16).

Vietnam is considered the “manufacture hub” of the Southeast Asia, with a great potential of becoming a “Global Manufacturing Hub”¹⁷¹ and this can be seen in the FDI grows that has interested the country in the last year. The country have a low cost of work, well-organized industrial parks, an efficient systems of incentives and taxation for private companies, the participation of a tangled network of FTA (Free Trade Area) and the possibility of exporting with reduced tariffs for an important number of countries, particularly in the Asian region.

The productive structure of the country and its location in the international value-chain is reflected by its commercial partner: China is the leading exporter to Vietnam, followed by Korea, ASEAN countries and Japan, which all of them are also the major investors in the country. The Vietnamese export's flow to these countries is growing but the balance account with is still negative, while it is counterbalanced by the trade surplus from the exports to USA and EU. Vietnam has signed the FTAs with EU, Korea, Eurasian Economic Union¹⁷², the TPP and as ASEAN member is part of FTAs with China, Japan, India, Australia, New Zealand.

¹⁷¹ Financial Tribune, “Vietnam Likely to Become Global Manufacturing Hub”, Financial Tribune, 26 October 2015. Link: <https://financialtribune.com/articles/world-economy/28838/vietnam-likely-to-become-global-manufacturing-hub>

¹⁷² The EAEU or Eurasian Economic Union is a regional economic union which comprehend: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP Variation (%)	7.13	5.66	5.40	6.42	6.24	5.25	5.42	5.98	6.68	6.21	6.81
GDP Per Capita (US\$)	901.32	1143.27	1210.69	1310.37	1515.48	1722.68	1871.33	2012.05	2065.17	2170.65	2343.12
Unemployment Rate (%)	2.60	2.38	2.61	2.64	2.02	1.77	1.95	1.87	2.12	2.10	2.05
Inflation (%)	8.30	23.12	7.05	8.86	18.68	9.09	6.59	4.71	0.88	3.24	3.52
Imports (% of GDP)	84.09	83.98	72.10	80.22	83.52	76.53	81.47	83.13	88.99	91.06	98.75
Exports (% of GDP)	70.52	70.34	62.61	72.00	79.39	80.03	83.63	86.40	89.78	93.62	101.56
Account Balance (% of GDP)	-8.98	-10.92	-6.23	-3.69	0.17	6.05	4.52	5.03	0.47	4.01	2.74
National Debt (% of GDP)	42.10	39.40	45.20	48.10	45.80	47.90	51.80	55.10	57.30	60.70	61.50
Fiscal Deficit (% of GDP)	-1	+0.6	-4.2	-2.1	-0.5	-3.4	-5	-4.4	-4.6	-4.2	-3.5

Figure 16. Main Vietnam's Macroeconomics Indicators for the period 2007-2017. Source: Own Elaboration via World Bank Data (<https://www.worldbank.org/en/country/vietnam>)

The leading sectors for Vietnam's economy are the labor-intensive ones: agricultures, textile products, electronics and woods production.

The textile and garment sector represents the tradition core business of the intensive-labor and export-oriented Vietnamese economy: it registers 6000 active companies and 2.5 million people employed, counting for the 10% of GDP as well as the one with most incentives and benefits coming from the free-trade accords. The most important agreements are the EU-Vietnam FTA¹⁷³

¹⁷³European Commission-Vietnam Government, "EU-Vietnam Trade and Investment Agreements", Brussels. Authentic text: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>

and the TPP (Trans-Pacific Partnership) and they established a series of despondencies for customs barriers, 12% for the European Countries) and between 16-30% for the TPP countries¹⁷⁴. In order to capitalize the opportunities of access new markets and even more in the Asian Markets the country needs to invest in the requalification of the entire chain (particularly the phase of tincture, weaving, finishing) and to increase the added value, currently only limited to the “cut-make-trim” which only consist in a three basic step process which does not require high-skill workers or advanced machinery. Consistent FDI's have already being transferred to Vietnam from Asian countries which are not included in the TPP, both on the side on the final products and intermediate yam (China, Taiwan), since they are obliged to respect the strict rules “Yarn Forward”: the yarn used to make the fabric must originate in a country members of the TPP.¹⁷⁵ The retire of the United States from the agreement have had a significant resizing in the impact of the TPP for Hanoi because of the impossibility of gaining access and benefit in the expansion in the USA market¹⁷⁶. Regarding the EU-Vietnam FTA the original rules provide a “bilateral cumulation”, meaning the UE producers can supply the fabric for the Vietnamese clothing destined to the export in the agreement’s market.

174 Countries which signed the TPP are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. United States originally signed the agreement but it withdraw in 2017, officially preferring to “deal directly with individual countries on a one-on-one basis in negotiating future trade deals” (Donald J. Trump, 2017).

175 Sheng Lu, “Why does the US Textile Industry Want Yan-forward Rule of Origin (RoO) in TPP?”, FASH455 Global Apparel & Textile Trade and Sourcing, 24th July 2014. Link: <https://shenglufashion.com/2014/07/24/why-does-the-us-textile-industry-want-yan-forward-rule-of-origin-roo-in-tpp/>

176 Marek Wasinski & Damian Wnukowski, “Consequences of the US Withdrawal from the Trans-Pacific Partnership”, PISM (The Polish Institute of International Affairs), Strategic File, No. 3 (87). Link: https://www.pism.pl/files/?id_plik=23335

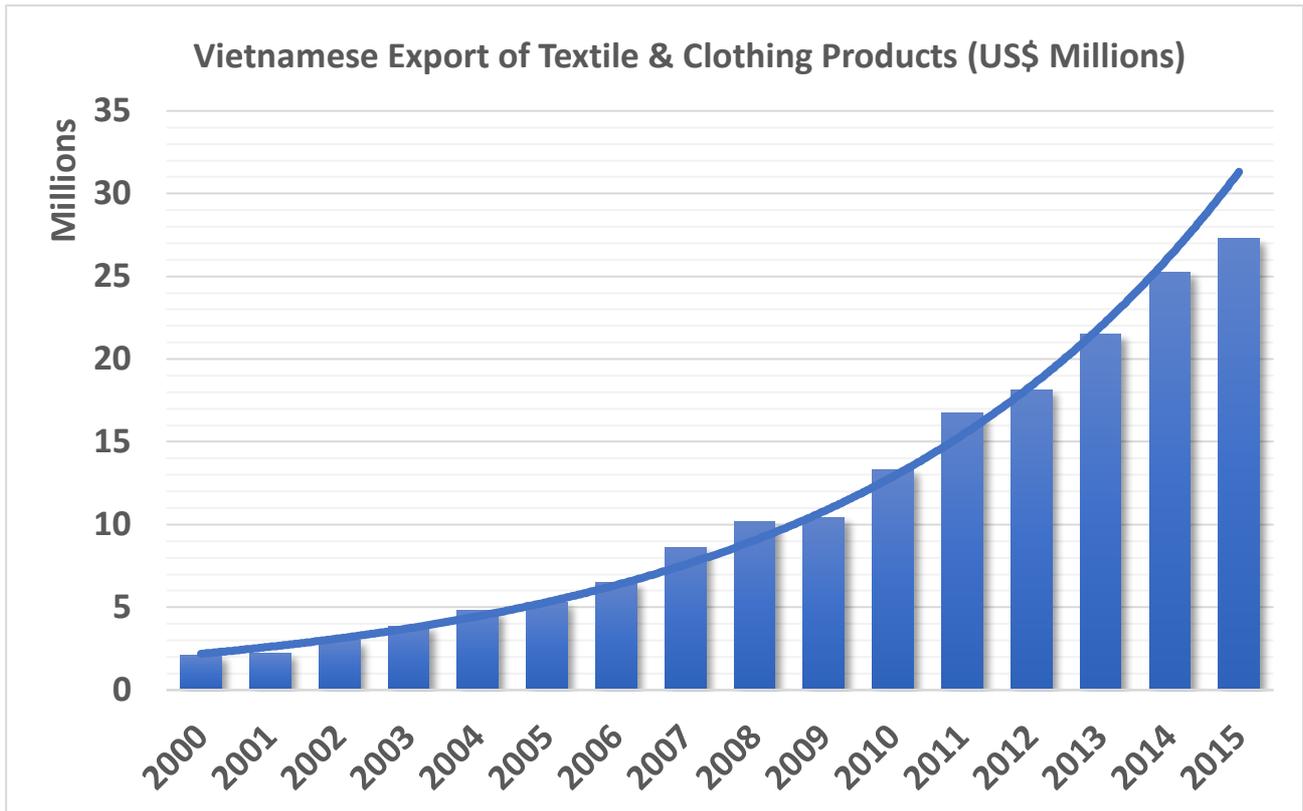


Figure 17. The exports of Textile & Clothing Products in US\$ Millions for Vietnam for the period 2000-2015. Source: WITS World Integrated Trade Solution, World Bank.

The two other related production sector of the textile sector, the clothing and fashion and the footwears, are relevant as well for the country's economy. An increasing number of local manufacturers are particularly interested in qualifying them with their co-presence, hence of international market, even if not well-known. The footwear system counts for 812 active companies which employs more than 600 000 people making Vietnam the fourth country producer in the global market (after China, India and Brazil) and the second exporter in USA, Japan and UE (after China) as we can see from the figure 18. The principal industrial district are located in the city of *Ha-Noi*, *Hai Phong* and *Ho Chi Minh City*. Even in this sector the presence and the constant need of FDI is confirmed by the profile of the companies: 70% are joint ventures or have a total foreign capital, the foreign partners intervene in the transformation process with the contractors which supply the material, the design and the market for products. Particularly significant is the dependence of Vietnam from the imports of leather with an annually expense of 300 millions US\$.

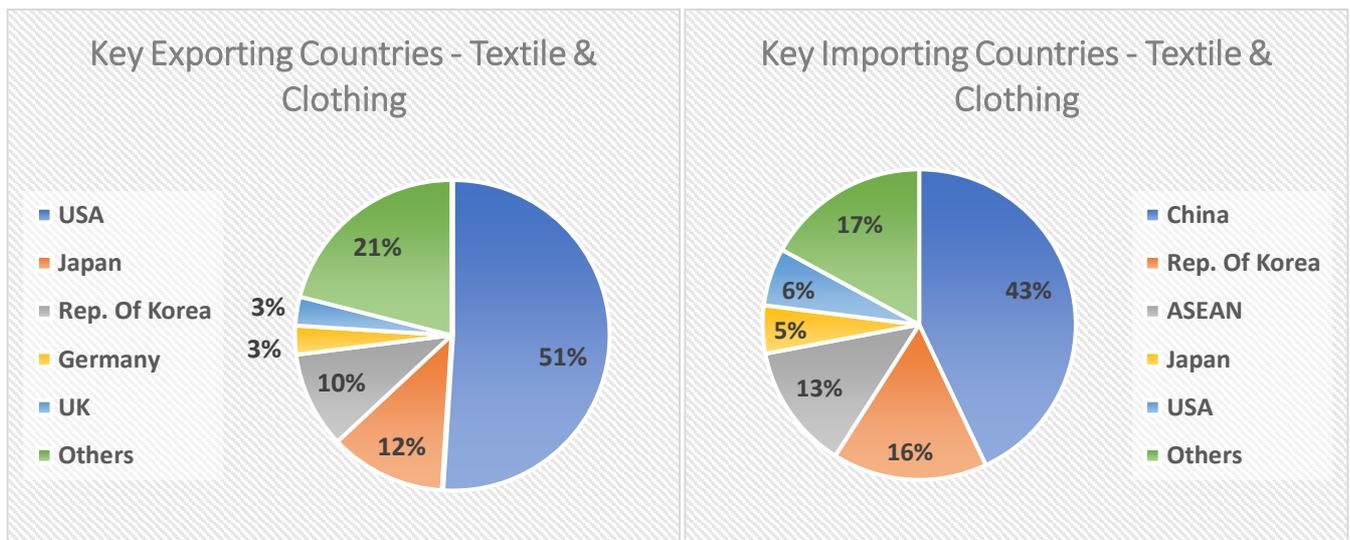


Figure 18. The Key Exporting and Importing Countries of Vietnam for the Textile and Clothing Sector. Source: WITS, World Bank.

In July 2017 has been inaugurated in the province of *Binh Duong* the first Italian-Vietnamese Technological Formation center supported by the Ministry of Economic Development. It is dedicated to the footwear sector with the presence of the Italian Trade & Investment Agency (ICE), ASSOMAC, LEFASO, PISIE and the Ho Chi Minh City College for the Industry and Commerce. It is equipped with Italian machinery and this center will host students and technician in order to refine their professional competences and opening a new bridge between the Italian and Vietnamese companies and schools.¹⁷⁷

Agriculture is still an important part of the GDP of the country, even if it is decreasing it counts for the 15.34% of the GDP (Statista, 2018). The principal products, commonly to the other ASEAN continental countries is the rice, cultivated mostly in the *Cocincina* area. Other productions include: sugar cane, sweet potatoes, manioc, soy and corn; the principal others plantations are: coffee, tea and rubber along with the breeding of pigs, cattle and poultry. Fishing is carried out in the southern part of the country because of the large littorals and numerous waterways and it last years the sector have started increasing its weight in the Vietnamese economy. The principal products are shellfish, shrimps and clams. The agricultural sector has developed following the trend of the expansion of the middle-class of the country which is becoming also more interested in the quality of the products. Nevertheless, the country still has an industrial food sector underdeveloped with critical issues regarding the pollutions, salt-water

¹⁷⁷ Gianluca Di Donfrancesco, “*L’esempio di Binh Duong: sociale e sviluppo sostenibile*”, *ilSole24Ore*, 24th November 2016. Link: <https://www.ilsole24ore.com/art/mondo>

intrusion and the excessive use of chemical fertilization. The strategic importance of this sector led the national authorities to build a development and modernization plan which includes the *Investment Law* of 2014¹⁷⁸ and the credit package for hi-tech farming allocated in December 2017.¹⁷⁹ A special focus will be reserved to the security, quality, branding, organization model of the districts, the innovation of technology and machineries and the process of the cold chain. The country is covered for the 20% by forest but due to the inefficient transport's network the forestry is not completely developed. It is still obtained fine wood like ebony in the northern part of the country while in the south is really spread the cultivation of bamboo. Vietnam is the largest exporter of woods products in the ASEAN, second largest in Asia and fifth in the world¹⁸⁰. The industry still presents imbalances: primarily the quality of the raw-materials, the semi-finished and the accessories is quite low then there is a limitation in the technique procedures and in design ability.

Infrastructure is one of the most important aspect for a developing countries like Vietnam both for sustaining the growth rhythm and the commercial opportunities given by the trade agreements signed. Vietnamese authorities define periodically a plan for the strategic public works to realize with the contributors of foreign investors. The main focus points of this program are: modernization and extension of road and train network, the enlargement of the ports and airports facilities, the extension of the metropolitan system in Hanoi and Ho Chi Minh City, the electric power grids and the waste treatment management. The expenses estimated showed that Vietnam requires for the public works between \$US 16.7 billion to \$US 25 billion annually¹⁸¹ for the period 2016-2020. Nonetheless, the public investment can cover only half of this figure. For this matter, the decree *N.15/2015/ND-CP*, prepared by the Vietnamese institutions in consultation with the ADB and the WB entered into force in the 15th February 2015 and it represents a concrete attempt to propose a concrete solution to attract international investors. The decree updates the legal framework of the PPP (Public Private Partnership) introducing 7 feasible new types of

¹⁷⁸ Vietnam National Assembly, "Law of Investment", Social Republic of Vietnam, 26th November 2014. The text in English can be find here: <http://vbpl.vn/TW/Pages/>

¹⁷⁹ Dezan Shira & Associates, "The Need for High-Tech Farming in Vietnam", Vietnam Briefing, 4th June 2018. Link: <https://www.vietnam-briefing.com/news/need-high-tech-farming-vietnam.html/>

¹⁸⁰ VOV, "Vietnam's Forestry, wood exports to top US\$ billion", The Voice of Vietnam, 31th January 2018. Link: <https://english.vov.vn/economy/vietnams>

¹⁸¹ ESCAP (2017), "Infrastructure Financing Strategies for Sustainable Development in Vietnam", p. 2, National Study, The study was developed under a United Nations Development Account project entitled "Financing strategies for inclusive, equitable and sustainable development in Asia and the Pacific". Link: https://www.unescap.org/sites/default/files/20170915_National_Study_-_Infrastructure_Financing

projects and increasing the range of execution.¹⁸² Even if it is true that this law adds interesting incentives still questions remains on the role of the World Bank and the Asian Development Bank for the procurement of the financial resources for the urban, infrastructure and transports development.

The role of the state in the economy is essential and the choices that the governments do year after year are even more important. The economic selections that the Vietnamese state have made in these last years, move towards the need of consolidate stability and prevent eventual risks or crisis internal and external, trying to harmonize the economic growth with the reduction of the poverty and balance the relation city-countryside. Results in term of public finance and debt sustainability have been made: the budget deficit was around 5% in 2014 and now has been reduced to 3.5% (Figure 16). The reduction of the fiscal expenses are going along with a restructuring plan of the central administration in order to avoid the overlap of competences, the office numbers and the costs. Still structural reforms are necessary for the SOEs (State Owned Enterprise), the credit and bank sector, the transparency of the procedures and the stabilization of the competitiveness. As it has been mentioned Vietnam's economy is still related to the intensive-labor industry and the low job cost market who needs an optimization of the incoming FDI. This is necessary to expand the private sector and the transfer of know-how and knowledge, investment in R&D and more internal competitiveness. For these reasons a privatization of part of the inefficient SOEs could have a positive effect on the economy and the Government has decided to gear up this process trying to liquidate 185 companies by 2018.¹⁸³ The objective is quite difficult to achieve because is facing strong resistances from the interested parts involved. The renovation of the bank and financial sector is also proceeding with the cross-ownership and the cumulation of managerial position. The State Bank of Vietnam is elaborating a series of norm in order to reduce the burdens on the commercial bank and credit institutions. The system is undermined by the "Non-Performing Loans"¹⁸⁴, estimated to be 7.9% of the total loans. The National Assembly intends to remove some important legal obstacles for their absorption. The

¹⁸² Official Governmental Text can be read here: https://www.mzv.cz/public/c6/bd/29/1810623_1462208_Decree_on_PPP_No_15_2015_English.pdf

¹⁸³ Erin Cook, "Vietnam Gears up to Divest State-Owned Enterprises in 2018", The Diplomat, 21th December 2017. Link: <https://thediplomat.com/2017/12/vietnam-gears-up-to-divest-state-owned-enterprises-in-2018/>

¹⁸⁴ A special type of loans on which the borrower is not making interest payments or repaying any principal. Depending on the various regulations can become a bad debts.

government had started a program of administrative simplification for bureaucratic burden on the companies, streamlining the practices and digitalization of the procedure.

It will now be presented a focus on the relations with Italy. In 1973 Italy was one of the first Western countries to establish diplomatic relations with Vietnam and since then the bilateral diplomacy in these 45 years have seen a constant intensification with numerous visits on the governmental and institutions level¹⁸⁵. The Italian President of The Republic, Sergio Mattarella has recently been in Vietnam in November 2015 and the Vietnamese president Tran Dai Quang have visited Italy in 2016, representing the good relations between the countries. In these occasions has been strengthen the trade-economic exchange with appropriate plans, the most recent one is been signed in 2017-2018 and it is the sign of a well-established partnership.¹⁸⁶ The economic growth of the country is also going along with the internal demand: the population is increasing constantly and the GDP per capita is growing too. One consequences of this is that the middle class is expanding meaning that also the demand for quality products is increasing, the “Made in Italy” is benefiting from this phenomenon and still has a lot of potential.

The Italian-Vietnamese interchange has grown between 2006 and 2016, in 2016 has incremented of 6.83% on yearly average, surpassing the 4 billions Euro. Italian exports to the country has been stable in the last three years being 1100 mln. € in 2015, 1046 mln. € in 2016 and 1173 mln. € in 2017 (Figure 5). Nevertheless, the trade balance is negative for Italy, in fact Vietnam have exported in Italy a total of 2661 mln. € in 2015, 2971.6 mln. € in 2016 and 2538.48 mln. € in 2017 (figure 19).

Italian investments have tripled from 2008 and 2013 reaching 388.28 mln. US\$ in 2018 for a total of 89 projects, focused mostly on the manufacture sector. The principal Italian companies in the country have incremented the initial investment, demonstrating the potential of the country as regional economy hub. More than 50 Italian companies are present in the country: 33 with FDI/Joint Ventures and 18 representative offices operating in different sectors: manufacture and applications, oil & gas, infrastructure, renewable energy and environmental protection.

¹⁸⁵ Presidenza della Repubblica, “Messaggio Del Presidente Mattarella e del Presidente del Vietnam in Occasione del 45° anniversario delle relazioni diplomatiche Italia-Vietnam”, Official Message, 23th March 2018, Rome. Official text available: <http://www.quirinale.it/elementi/3026>

¹⁸⁶ My Ding Hua, “Italia-Vietnam: un partenariato di successo”, Il Caffè Geopolitico, 22th November 2018. Link: <https://www.ilcaffegeopolitico.org/97217/italia-vietnam-un-partenariato-di-successo>

Italian Exports Towards Vietnam	2015	2016	2017	First Half 2018
Total	1100 Mln €	1046 mln. €	1173 mln €	839.07 mln. €
Products (Mln. €)	2015	2016	2017	
Agricultural, Fishing and Forestry	5.8	4.4	3.87	
Alimentary	75.6	65.34	64.36	
Textiles Products	59	75.59	86.08	
Clothings	13	16.9	16.49	
Leather (No Clothings)	173	182.48	200.76	
Chemicals Products	74.3	69.84	72.9	
Pharmaceutials Products	36.3	40.13	49.66	
Metal Products (Excluded Machinery)	52.1	19.87	20.19	
Metallurgic Products	32.8	14.94	15.4	
Computers and Electronic Products	36.8	37.23	35.37	
Domesti appliaces	45.2	53.75	72.11	
Machinery and Equipment	396.4	340.54	384.19	
Imports from Vietnam to Italy	2015	2016	2017	First Half 2018
Total	2661 mln. €	2971.6 mln. €	2538.48 mln. €	1571.2 mln. €
Products (Mln. €)	2015	2016	2017	
Agricultural, Fishing and Forestry	273	278.72	300.41	
Alimentary	123.2	132.92	157.64	
Textiles Products	36	33.32	35.46	
Clothings	197	192.01	220.99	
Leather (No Clothings)	414.4	415.82	371.04	
Chemicals Products	21.5	19.61	22.36	
Rubber and Plastic Articles	44.9	38.77	47.3	
Metal Products (Excluded Machinery)	36.3	41.84	40.7	
Metallurgic Products	64.1	41.45	60.49	
Computers and Electronic Products	1133	1407.97	843.53	
Domestic appliances	61.6	69	79.54	
Forniture	32.9	33.67	34.69	

Figure 19. The Trade Account between Italy and Vietnam: the major imports and exports are reported for the years 2015, 2016 and 2017. Source: Italian Trade Agency and ISTAT.

ASSOMAC and ACIMIT¹⁸⁷ have an excellent trend in the exports of their products thanks to the collaboration with their counterparts LEFASO and VINATEX: confirming the interest for the development plan for the clusters and training activities of the Vietnamese SMEs.

2.3.5. Malaysia

Malaysia has one of the most open and dynamic economy in Southeast Asia thanks to the relevant exports and the consolidate flux of FDIs particularly from Japan, Singapore, China and Korea, which accounts for the 70%, while the rest are coming from US and UE. The Financial Sector is particularly developed and the objective of the government is to become an economy with high-level incomes by 2020 and become one of the 10 most competitive economies in the world. Nevertheless, the expansive trend of Malaysian economy have slowed down in 2015 the GDP growth decreased from 6.01% of 2014 to 5.03% of 2015 and 4.22% in 2016, this was caused by both exogenous and endogenous reasons. Among them we can quote: the decrease in demand by China, Malaysian main partner; the sharp falls of the prices of the raw materials like oil and palm oil; the volatility of the financial markets; a fiscal austerity policy, which restrict the private consumption and lead to a cut of the investment and the state aids; the depreciation the Ringgit. The government is aiming to achieve a balanced budget by 2020 and in order to do that is continuing the austerity policies and the reduction of the fiscal deficit. The debt has decreased from the 54.5% of 2015 to 50.9%, the inflation have grown from 2.1% to 3.87% while the imports and exports have remained stable in these last years (Figure 20). The country is, already, one of the global leader in the Islamic finance which in 2014 have grown by 12%. The 65.5% of the “*Sukuk*” (Arabic financial certificates) in the world were issued by Malaysia. The liberalization process carried out by the government allows to the foreigners to detain the 100% of the propriety of companies which operates in the service sectors: telecommunication, postal carriers, school, university and institute of formation, hospitals and work consulting. From the 1st April 2015 has entered into force the “*Goods and Services Tax – GST*” with the tax of 6% and the progressive reductions on the alimentary products and fuels.¹⁸⁸

¹⁸⁷ ASSOMAC is the Italian National association of the constructors of technologies for footwears, leather goods and tannery. ACIMIT is the Association of Italian Textile Machinery Manufacturers.

¹⁸⁸ The complete text in pdf can be find: http://gst.customs.gov.my/en/rg/Pages/rg_bill.aspx

2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

GDP Variation (%)	6.30	4.83	-1.51	7.42	5.29	5.47	4.69	6.01	5.03	4.22	5.90
GDP Per Capita (US\$)	7269.17	8513.63	7326.74	9071.36	10405.12	10779.51	10882.29	11183.73	9648.55	9508.24	9944.90
Unemployment Rate (%)	3.23	3.34	3.69	3.25	3.09	3.02	3.11	2.87	3.10	3.44	3.41
Inflation (%)	2.03	5.44	0.58	1.71	3.17	1.66	2.11	3.14	2.10	2.09	3.87
Imports (% of GDP)	86.30	77.17	71.14	71.01	69.68	68.54	67.09	64.52	62.95	60.98	64.45
Exports (% of GDP)	106.17	99.50	91.42	86.93	85.26	79.30	75.63	73.79	70.60	67.67	71.47
Account Balance (% of GDP)	15.38	16.86	15.72	10.06	10.90	5.19	3.47	4.39	3.06	2.41	3.00
National Debt (% of GDP)	40.08	41.24	52.81	53.51	54.26	53.30	54.70	52.70	54.50	52.70	50.90

Figure 20. The main macroeconomic indicators of Malaysia for the period 2007-2017. Source: Own Elaboration via IMF-World Bank.

The health sector in Malaysia is developing sharply and it has been estimated that can reach about RM80 billion by 2020¹⁸⁹ with an average growth of more than 20% per year. In 2014, fifteen new projects have been approved with a total investment of 500 million ringgit (around 100 million euros) and the majority of them with foreign investments.

The priority of the government is to promote the biopharmaceuticals with high added value, facilitating the growth with important international reality and the develop of the local know-how. The percentage of the foreign people that use the Malaysia healthcare system is also increasing: in 2014 have been registered more than 500 000 tourists (mostly from Indonesia, Japan and China) who used the hospital-medical services in the country. A rapid expansion have interested also the cosmetic, orthopedic, oncology and in vitro fertilization treatments. The

¹⁸⁹ Zainul Emir, "Malaysia's healthcare industry to grow to RM80b by 2020 — Frost & Sullivan", The Edge Markets, 1st March 2018. Link: <http://www.theedgemarkets.com/article/malaysias-healthcare-industry-grow-rm80b-2020—frost-sullivan>

positive performance have been obtained through the massive external and internal investments authorized to build new research laboratories and production plants. The pharmaceuticals industry is flanked with the medical devices one for the diagnosis, prevention, surgical equipment and orthopedic. This type of sector is boosting in Malaysia, it has attracted RM23.6 billions FDI coming mostly from USA, Europe and Japan. According to the *Malaysian Investment Development Authority* the medical devices industry is moving from basic rubber products to ones with more added-value.¹⁹⁰ The country represent 80% of the catheters global market and over 60% of the plastic gloves, included the medical gloves. Malaysia has the ambition to become a reference point of the Asian continent for the medical treatments due to its excellent sanitary infrastructures and the multi-linguistic and multi-ethnic community (Chinese, Malay and Indian). Taken in consideration all these matters for the future development of this sector is crucial that “the debate should focus more on technical efficiency and allocative efficiency in managing available or future health care resources, while at the same time balancing efficiency goal and equity concerns”.¹⁹¹

The fabrication of machineries and equipment’s have seen a great technological development in the last years. The Malaysian government has started a policy of development for the production of machinery with high added value in order to allow a constant progress of the industrialization level and combat the high competitiveness of the neighborhood Asian countries. The third “*Industrial Master Plan*”¹⁹² has fixed the goal of let Malaysia become the regional “hub” for the production and maintenance of high-technology machinery and equipment.

The priority sectors are: special machinery for the industry, facilities for the generation of electricity and machines for the metal, wood and plastic processing. The MSC Malaysia (*Multimedia Super Corridor*) is a status that allow at the companies working on the multimedia technological sector to receive numerous fiscal incentives, currently, there are 3241 societies that have obtained the MSC status which generate RM 42.1 billions and create 167 044 jobs [Malaysia Digital Economy Corporation, 2018]. This initiative has been thought to develop the Information Communication Technology and to bring internet connection to densely populated area of the

¹⁹⁰ MIDA, Medical Devices, Industry Brief. Link: <https://www.mida.gov.my/home/medical-devices/posts/>

¹⁹¹ Muhamad Hanafiah. “Three Decades of Health Financing Study: Did Malaysia Learn Anything” International Journal of Public Health and Clinical Sciences Vol. 1:No. 1 September/October 2014. Link: https://www.researchgate.net/publication/267464535_Three_Decades_of_Health_Financing_Study_Did_Malaysia_a_Learn_Anything

¹⁹² Official text in English language: <http://www.miti.gov.my/index.php/pages/view/contentaa6a.html>

country, like the Port Klang and the capital Kuala Lumpur. The project has seen its realization in 10 years (2008-2018) and it has connected more than 34 000 companies.

Malaysia has been considered the first country in the Southeast Asia and 5th globally in the “Arcadis Global Infrastructure Investment Index”¹⁹³, after Singapore. According to this study infrastructure is the spine of the country and it is a catalyst for the long-term development of the country. With an average growth of the population of 1.4% is clear that infrastructure are a key element to take in consideration. An efficient network of services, in a stable macroeconomic environment, with a growing internal market and an efficient bank system plus a skilled labor with competitive prices are all aspects that attract international investors in Malaysia. The “*Asia Business Outlook Survey 2018*” says that 24.3% of the companies will increase the level of their investment in the country: China remains the country where companies still want to invest more while the first country in the Southeast Asia is Vietnam.¹⁹⁴ From the survey it emerges that the main regional Hubs of the region continue being Hong Kong and Singapore but the property costs and the cost of talent are slowing operations in these two cities-states, a phenomenon that could bring benefits to Kuala Lumpur. Nevertheless, this transition process is slowing down because of the poor political and regulatory environment of Malaysia.

The MIDA (Malaysian Investment Development Authority) have estimated that in the 2013 the total investment in the country reached 197.1 billions RM, dropping by 7.4% respect the previous year. This figure is related to the 5466 projects which have increased by 5.8% from 2016.¹⁹⁵ These projects have been focused mostly in Energy Resources, Intelligence, Technology and Education. The 40% of the FDI are directed to the *Jojoba* state, near the border with Singapore, 20% Sarawak and 10% Penang. The principal investors are: USA, Republic of Korea, Singapore, Japan and China. The *10th Plan for Economic* development have identified the National Key Economic Area for the growing of the country and it remains stable the importance of the oil & gas sector, both with the extraction process and the production one (the petrochemical industry).¹⁹⁶ The

¹⁹³ARCADIS, “Third Global Infrastructure Index 2016: Bridging the investment gap”, p. 7. Amsterdam. Link: <https://www.arcadis.com/media>

¹⁹⁴ The Economist (2018), “Asia Business Outlook Survey 2018”, The Economist Corporate Network, <https://www.corporatenetwork.com/media/2062/asia-business-outlook-survey-2018.pdf>

¹⁹⁵MIDA, “Annual Media Conference 2018”, Presentation available: http://www.mida.gov.my/home/administrator/system_files/modules/photo/uploads/20180306165441_Presentation Slides - Malaysia Investment Performance Report 2017.pdf

¹⁹⁶ The Economic Planning Unit, “Tenth Malaysia Plan 2011-2015”, The Economic Planning Unit Prime Minister’s Department Putrajaya, 2010, Kuala Lumpur. Text: http://www.pmo.gov.my/dokumenattached/RMK/RMK10_E.pdf

sector has contributed a RM68.3 billion or 13.1% of the GDP¹⁹⁷ and now is stable around the same percentage, with the objective to sustain its growth large investments in infrastructure have been made, in particular from USA (33 % of the total FDI), Germany (22.8%) and Japan (14%). The state-owned company *Petronas* is the major investor but the recent drop of the oil prices have forced the company to review few projects in the country (also due to companies' operations in other foreign countries)¹⁹⁸. The internal market have seen an important phase of growth in the last years in the auto vehicles compart: between 2007 and 2012 the sales of cars have increased by the 30%. The vehicles sold come from the principal foreign brands, principally German (Volkswagen BMW and Audi) and French (Peugeot and Renault) but also the local production is growing. *Perodua* and *Proton* are the main domestic corporations active in Malaysia and they have followed this positive trends: from 2007, when they were produced 443 000 cars, it has passed to make 580 000 vehicles in 2014 (30% more). The difference between the two leading companies is quite large though: according to MAA statistics, *Perodua* maintained its top spot in 2016 at 207 110 units, followed by Honda at 91 830 units. For the first time, Proton dropped to third at 72 290 units.”¹⁹⁹ Honda is one of the top foreign brands sold and produced in Malaysia mostly: in 2016 they reached the production of 600 000 units and 100 000 cars sold.²⁰⁰ In the biotechnological sector have been identified as new motor for the economy with the aim to enhance the life's quality, creating new welfare both in the urban areas and the rural ones. The government's target by the 2020 is to let the biotechnological sector contribute for the 5% to the GDP (currently is around 1.5%). Regarding this matter the research of new international partners will be a key point and it has been launched the “Bionexus Network”. The aim of this activity is to establish a link of companies operating in the sector and to grant the access to research centers, infrastructure and scientific know-how. The firms which obtain the status of “Bionexus” can have several fiscal incentives, for example the total exemption to the income tax for a 10 years period and the fiscal exemption for the investment for 5 years. According to the data provided by the state-owned company Biotech Corp, currently in Malaysia the number of the BioNexus companies is 228 as of 2013 with a total investment of RM2.9 billions; the objective is to achieve

¹⁹⁷ Ibid, p. 123.

¹⁹⁸ Aziz Adam, “Petronas sees modest pickup in upstream activity in Malaysia”, The Edge Markets, 30th August 2018. Link: <http://www.theedgemarkets.com/article/petronas-sees-modest-pickup-upstream-activity-malaysia>

¹⁹⁹ Eugene Mahalingam, “Proton-Perodua rivalry to boost auto sector in 2018”, The Star Online, 25 December 2017. Link: <https://www.thestar.com.my/business/business-news/2017/12/25/protonperodua-rivalry-to-boost-auto-sector-in-2018/>

²⁰⁰ Lim Anthony, “Honda Malaysia hits 600 000-unit production”, milestone” Paultan.org, Link: <https://paultan.org/2017/03/30/honda-malaysia-hits-600000-unit-production-milestone/>

50 more companies in the period 2016-2020, with a total investment of RM 100 billion.²⁰¹ Through the Biotech Venture Capital Fund the foreign companies can receive assistance in particular for the registration of patents and the trademark protection. The American company GEVO INC. will realize the first plant for the production of Isobutane biomass with an estimated cost of RM 1.7 billion, the facility will be located in Kerteh and it will employ 200 people.²⁰² The Malaysian company Duopharma Bhd., in a joint venture with the South-Korean PanGen Biotech, will invest US\$ 700 millions in a laboratory for the production of EPO (*Erythropoietin*)^{203;204}; while the American Electrocore LLC. will realize a center of research and development for the asthma therapy. In this biotechnology sector we can also include the biodiesel, produced by the processing of palm oil (5% palm oil added to diesel). The incredible development of the Malaysian palm oil plantations let the country become the second world producer after Indonesia. The initial enthusiasm for this type of bio-fuel has been weakening by the market uncertainty and the expectation of the upside of the commodity. The import of palm oil fuel is still possible in UE, currently one of the main Malaysian partners in this sector, but it has been planned to reduce it and finally let it phase out²⁰⁵. This can have serious negative repercussions on the sector.

Malaysia has not remained insensitive to the renewable energy spread, which has become one of the priorities for numerous countries in the world, even if the country has large hydrocarbon reserves. The Government has launched the “Sarawak Corridor of Renewable Energy” (SCORE) in 2008: the SCORE covers an area of 10 709 km² in the central region of Sarawak and the major development area is the *Samalaju* Industrial Park (SIP) which covers 8 000 hectares.²⁰⁶ The main aim of acquiring knowledge is going into the direction of not only developing the renewable energy sector but also promoting the energy efficiency with an enhanced reduction of greenhouse gas

²⁰¹ MOSTI & Biotech Corp (2013), “Ready to Inspire: Key Performance Highlights 2013”, Official Text: <http://www.bioeconomycorporation.my/wp-content/uploads/2016/09/BTP-Annual-Report-2013.pdf>

²⁰² <https://themalaysianreserve.com/2017/03/31/gevo-to-build-rm1-7b-bioisobutanol-plant-in-kerteh/>

²⁰³ The Erythropoietin is a glycoprotein cytokine produced by the kidney, it is used in treating anemia, chronic kidney disease and inflammatory bowel disease.

²⁰⁴ Chin Joseph, “CCM DBio, PanGen set to launch biosimilars for kidney dialysis”, The Star Online, 15th February 2017. Link: <https://www.thestar.com.my/business/business-news/2017/02/15/ccmdbio-pangen-set-to-launch-biosimilars-for-kidney-dialysis/>

²⁰⁵ Keeting Dave, “Palm oil to be phased out in EU by 2030”, Euroactiv, 14 June 2018. Link: <https://www.euractiv.com/section/future-of-mobility/news/palm-oil-to-be-phased-out-in-eu-by-2030/>

²⁰⁶ MIDA, “Sarawak Corridor of Renewable Energy”, Seminar on Investment Opportunities In the Resource Based Industries, 18 April 2016. Link: http://www.mida.gov.my/home/administrator/system_files/modules/photo/uploads/20160427115024_4.%20STATE%20PLANNING%20UNIT.pdf

emissions, the aim is to reduce by 40% by 2020. Regarding the connection with the EU for this matter has been created a series of preparatory initiative for the knowledge transfer in the renewable energy area, the application of the “*Clean Development Mechanism*”²⁰⁷ in the Kyoto Protocol, the waste eco-treatment and the construction of green buildings. In addition, UE financed a project to promote the production of biomass supporting the local SMEs, with a fund of 1.8 million euros for the 4-year period (2010-2014).²⁰⁸

The above-mentioned waste management is an urging issues in Malaysia which, has been neglected in the last years, especially in the capital *Kuala Lumpur*²⁰⁹. Along with this the government is moving towards an improvement for the quality standards of water: intending to save 30% of the water waste. Currently, the consume of water is 300 liters per person daily almost the double of the 165 liters required by UN and it is constantly increasing so the State will be forced to invest in a new water furniture, sewerage systems and water treatments.²¹⁰

Important and numerous (more than 100) Italian companies have selected Malaysia for their direct or indirect investments and as hub for their operation in the Southeast Asia. The main investments from 1999 to 2014 have been made interested the production of rubber and derivatives, machinery and chemicals products along with the transport and textiles sector. Important is to stress the significant role of *Finmeccanica*, which has been active for more than 25 years with its Regional Office in Malaysia and it has concluded several contracts in the military sectors for the provision of training aircraft, helicopters, military radar and system of command and control. The *Finmeccanica* group has also established its presence in the transport sector with the negotiation of the air traffic control system *Selex Sistemi* for the local area.²¹¹ It has also been important the agreement for the supply of *ATR 72* (a short-haul regional airliner) from the Franco-Italian

²⁰⁷ The Clean Development Mechanism is a flexible system extracted from the Kyoto Protocol (art. 12) which allows to the companies of the industrialized countries, even under production constraints, to realize projects aimed to reduction of the greenhouse gas emissions in the developing countries. The aim of the mechanism is dual: it allows the developing countries to have cleaner technologies and guide them into a sustainable development and on the other side break down the emissions where it is more cost-efficient.

²⁰⁸Paolicchi Sandro, “Sustainable Production of the biomass industries in Malaysia: Optimisin Economic potential and Moving towards higher value chain”, EU-Malaysia Biomass Stakeholders Forum, 27th April 2010, Kuala Lumpur. Memorandum: <http://biomass-sp.net/downloads/3465hdaoq92i97w938/2704%20Sandro%20Paolicchi.pdf>

²⁰⁹ Samsudin, Mohd & Mat Don, Mashitah. (2013). Municipal Solid Waste Management in Malaysia: Current Practices, Challenges and Prospects. *Jurnal Teknologi*. 62. 95-101. 10.11113/jt.v62.1293.

²¹⁰ Chung Esther, “This is How Much Water Malaysians Waster Every Day”, SAYS, 22th March 2018. Link: <https://says.com/my/lifestyle/world-water-day-malaysians-waste-water>

²¹¹ Finmeccanica, “*Salex ES partecipa a DSA 2014*”, Press Release, 14th April 2014, Kuala Lumpur. Link: <https://www.leonardocompany.com/en/-/dsa-malaysia>

company ATR (50% Finmeccanica, 50% EADS) to Malaysia Airlines.²¹² In the rail sector the *Ansaldo STS* with a joint venture with a local company has got the a commission for a new project with a value \$US 63 million related to the supply of signaling, telecommunication, electrification for a new railroad of 198 km, which link *Gemas* and *Johor Bahru*.²¹³

2.3.6 Singapore

Singapore has a developed market economy and with Hong-Kong, South Korea and Taiwan was considered one the “four Asian tigers” in during the 90s.²¹⁴ The economy is strongly dependent to the exports, particularly for the manufacture sector or goods producing industries, which counts for the 25.791% in 2017 and it comprehend electronics, oil refining, chemicals, mechanical engineering and bio medic sciences [Department of Statistics Singapore, 2017]. Singapore has also one of the busiest shipping lane in the world and it is considered one of the best global logistic hub.²¹⁵ In addition, Singapore’s economy is classified within the most free and competitive in the world. The recession in the early 2000s had the great consequences of the fall of the technological sectors and the GDP of the country shrunk to 2.2%. The ERC (Economic Review Committee) was established in December 2001 and it recommended policies of innovation in order to revitalize the economy. As a result of this and the governmental policies the economy of Singapore grew at a rate of 8.3% in 2004, 6.4% in 2005 and 7.9% in 2006.

The economy of Singapore is now getting through a phase of slowdown. The rate growing of the GDP is increasing in 2017 by the 3.62%, more than the 2.40 in 2016 but quite distant from the 6.35% in 2011 (figure 21). The main cause of this is the slowdown of the Chinese economy and the subsequent volatility for the financial markets: Singapore has an important historic, cultural and economic relations with China. The Southeast Asia country is the first commercial partner of China (the total interchange counts for 80 billions euros) and the first in term of FDI. The fall in prices of the raw materials and the increased competitiveness of the neighborhood countries, with have a low-cost workforce, are also causes of the slight decrease of the manufacture production,

²¹² Taylor Ellis, “Malaysia Airlines confirms ATR order”, FlightGlobal, 20th February 2013. Link: <https://www.flightglobal.com/news/articles/malaysia-airlines-confirms-atr-order-382505/>

²¹³ Railway Technology, “Ansaldo STS secures railway signaling project Malaysia”, 11th October 2018. Link: <https://www.railway-technology.com/news/ansaldo-sts-secures-railway-signalling-project-malaysia/>

²¹⁴ Gaw Kathryn, “The Story Behind the Four Asian Tigers”, iDeals, 8th June 2016. Link: <https://www.idealsvdr.com/blog/the-four-asian-tigers/>

²¹⁵ Yin Yin Lam, “Three Factors that have made Singapore a global logistics hub”, The World Bank, Transport For Development Blog, 26th Jan 2017. Link: <http://blogs.worldbank.org/transport/three-factors-have-made-singapore-global-logistics-hub>

which still remain a key sector for the city-state economy though. The inflation rate, instead, has suffered the stagnant situation of the economy: in 2015 was even negative -0.5% and the same figure has been confirmed in 2016. To solve this issue the MAS (Monetary Authority of Singapore) have decided to stop the depreciation of the dollar and maintain a stable value with the other references currency.²¹⁶

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP Variation (%)	9.11	1.79	-0.60	15.24	6.35	4.08	5.11	3.88	2.24	2.40	3.62
GDP Per Capita (US\$)	3922 3.58	3972 1.05	3857 7.56	4656 9.68	5323 7.56	5471 5.69	5638 9.18	5695 7.08	5494 0.86	5524 3.13	5771 4.30
Unemployment Rate (%)	3.90	3.96	4.38	3.17	2.96	2.88	2.79	2.80	1.69	1.80	2.02
Inflation (%)	2.10	6.52	0.60	2.80	5.25	4.53	2.38	1.01	-0.50	-0.50	
Imports (% of GDP)	183. 98	210. 41	168. 76	173. 70	176. 45	173. 63	171. 61	167. 98	151. 66	142. 06	149. 08
Exports (% of GDP)	214. 76	231. 19	192. 17	199. 75	203. 24	197. 06	194. 08	191. 27	177. 39	168. 19	173. 35
Account Balance (% of GDP)	15.3 8	16.8 6	15.7 2	10.0 6	10.9 0	5.19	3.47	4.39	3.06	2.41	3.00
National Debt (% of GDP)	94.2	95.3 0	99.7 0	97.0 0	101. 00	105. 70	102. 20	97.9 0	103. 20	111. 50	110. 60

Figure 21. The table shows the main economic indicators for Singapore for the period 2007-2017. Source: Own elaboration via World Bank-IMF data.

The government has also decided to invest more and more resources in the assistance program for the unemployment people, older people and in general the weakest share of the population. In addition to this is also working on redirecting the economy toward sectors with higher value added: the objective is to push the companies to invest in the technologic innovation and internationalization, being the domestic market quite saturated. Fiscal Incentives have been made

²¹⁶ Yeo Gwyneth, "Two reasons why SGD depreciation is still off the table", The Edge Singapore, 6th October 2016, Singapore. Link: <https://www.theedgesingapore.com/article/two-reasons-why-sgd-depreciation-still-table>

to support the SMEs for the creation of district that can become a pole of attraction for the technological development. In order to coordinate and plan these efforts a technical committee have been established for the future of the economy, chaired by the Minister of Finance, with the aim of identify suitable instruments to boost the economy of the City-State and maintain the status of spearhead of technological excellence.

Traditionally, the economic policies of the Singaporean government has been interventionist, the government is directly involved in the economic management not only in the micro and macro aspects but also with the participation quote in several companies. The dependence of the international commerce has let the global recession of 2007 had greater impact in Singapore's economy respect to the other Asian countries. From 2011 it has been started a plan to reform the structure of the incomes, to reduce the inequality and increase the productivity. The middle-long term objectives are from one side change the development model, reducing the dependence to the foreign workforce and re-charactering upwards the competences to all levels of the labor chain. On the other side trying to enhance the productivity to 30% more in the next decade, allowing to overcame the level of the most-advanced economies in the world.

Moving to the principal sectors of the country, Singapore is a popular international travel destination which is sustained by a flourish tourism industry. The arrivals are estimated to be 17 423 million people in 2017 with an increase of 6.2% from the previous year [Singapore Tourism Board, 2017]. The governments also legalized the gambling activities and numerous casinos can be found in Marina Bay area²¹⁷. Singapore, like Malaysia, is also famous for its medical tourism. The International Healthcare Research Centre classified Singapore first in Asia and fifth in the world for this type of tourism. Annually more than 557 000 foreigners come to the country to receive medical treatments in the local healthcare institutions but the trend seems decreasing: the causes can be find in the development of the medical structures to the neighborhood countries, Thailand and Malaysia, where the costs are sensibly less.

Singapore must have an efficient system of transport, since it is a small island and highly populated, thus the number of private cars is limited on the roads, an obliged measures that authorities must take in order reduce the pollution and traffic congestion. To have the possibility to buy a car is necessary to pay more than the market value and it is also required a particular and expensive certificate that allows to circulate for a decade. The state has, for these reasons, developed an efficient metropolitan networks, inaugurated in 1987, which is constituted by 5

²¹⁷ Where is also present the third largest casino in the world: the Marina Bay Sands.

lines for a total length of 170 km. Six cab companies are also present which manage a total of 28.000 vehicles and it is a popular means of transport due to the low taxi fares in comparison to other developed countries. Singapore has a road network which cover 3356 km with 161 freeways. The *Singapore Area Licensing Scheme*, introduced in 1975, has been the first system based on specific tariffs to reduce traffic congestion in the world²¹⁸. The system was updated in 1998 and renamed *Electronic Road Pricing*, it includes a system of electronic payment of the toll based on an automatic detection of the vehicles and a video-surveillance system.²¹⁹ It has been signed an agreement between Malaysia and Singapore for the construction of a high-speed train to link Kuala Lumpur and the city-state, the railroad should be active by 2031 (delayed from the original activation plan which had been fixed in 2016).²²⁰

Singapore is a hub for the aviation in the Southeast Asia: there 8 airports in the city which link together more than 300 cities and 70 countries. In addition to this in the last two decades the Aero spatial industry have grown 10% per year: the local market is one of the major hub for the revision and maintenance of the aircrafts. The societies can benefit from the investment scheme called “*Investment Allowance*” for the maintaining and substitution of component parts, started in 2004 with a view to encouraging the investment in the aviation producing components sector. Moreover, the Singaporean government launched the “*Aircraft Leasing Scheme*” which reduces the taxes to the income deriving from leasing activities and it grants fiscal reduction for payments and loans to buy aircrafts or components for them.²²¹

For the Warehousing an interesting possibilities for the foreign investors are the Free Trade Zones located in the Singapore’s port and in the airport of *Changi* where the import duties are exempt. In these areas is possible to stock the goods and the re-export them in the area or to third parties without paying customs tariffs or the GST (Goods and Service Tax). These taxes must be paid if the goods are sold in Singapore but not in the case that they only stay in the city and then move to other countries.

²¹⁸ World Bank. 2016. *Relieving Traffic Congestion - The Singapore Area Licensing Scheme, 1975 (English)*. World Bank Group Archives exhibit series; no. 053. Washington.

²¹⁹ Menon Gopinath et Guttikunda Sarath (2010), “Electronic Road Pricing: experience & Lessons from Singapore”, SIM-air Working Paper Series: 33-2010. Available at: <http://www.environmentportal.in/files/ERP-Singapore-Lessons.pdf>

²²⁰ Jaipragas Bhavan, “Not cancelled: Malaysia-Singapore High-Speed Rail Delayed in Mahathir U-Turn”, SouthChina Morning Post, 5th September 2018. Link: <https://www.scmp.com/week-asia/geopolitics/article/2162841/malaysia-singapore-high-speed-rail-delayed-mahathir-u-turn>

²²¹ Yong Sue, “New legislative changes make Hong Kong and Singapore more competitive in the aircraft leasing business”, TMF Group, 1st June 2017. Link: <https://www.tmf-group.com/en/news-insights/articles/2017/june/hong-kong-singapore-aircraft-leasing-legislation/>

In the sector of energy Singapore have a modest petroleum industry, which counts for the 5% of the GDP. It is based mostly on the refining process which take place in *Jurong* Island and it is operated largely by the state-owned company SNOC (Singapore National Oil Corporation). In the renewable energy sector Singapore is also at forefront in terms of management of clean energies and waste water. For the environmental matters, Singapore has been set up as a sustainable model for the energy efficiency and carbons emissions.

Moving to the food industry, Singapore is a high income economy with the consequence of a demand of upmarket products. The city-state is strongly dependent to the international market since it imports the majority of its foods needs and as a touristic and logistic hub it as an excellent distribution and commercialization network. Furthermore, Singapore is chosen by several companies of the food sector as the place of their headquarters: apart from the redistributive function (more than 50% of the import is then re-exported), the local market offers the ideal requirements for the administrative, financial and trademark protection. The retail sales make use of excellent distributional channels like hypermarkets, supermarkets and “gourmet & specialties shops”, located in residential areas where the middle class is getting used to the “western tastes”. High quality, food security and authenticity of the products have become essential components for this market. Always due to its high incomes Singapore is an interesting market for products of couture, luxury and jewelry. The estimated revenue in cosmetic, skin products and “make-up” market is about US\$ 1 130 million per year and it is expected to grow annually by 2.1% (2018-2023). Singapore is considered to be the optimal place in Asia for the develop of the innovation in the area of new aromas, essences and perfumes to commercialize, then in all Southeast Asia.

In conclusion it will be given an overview of the interchange with Italy. ISTAT estimates that the commercial interchange between Italy and Singapore has been 2 217 billions euro in 2015. The Italian exports have been 1.96 billions euros while the imports are 252 millions euros: the account balance is largely positive for Italy. Italian exports include, traditionally, machinery for industrial process, means of transport, electrical products, chemicals, processed metals and alimentary. In occasion of the visit of the Secretary of State Benedetto Della Vedova (18-20 March 2015), *Confindustria* and *ICE* organized a mission with 19 Italian companies operating in the Environmental Technologies.²²² In addition to business meetings and visit Sites of Interest the

²²² ICE, “*Si è concluso a Singapore il seminario Italian Innovation Days*”, Official Press, 24th November 2016, Singapore. Link: <https://www.ice.it/it/sala-stampa/agenzia-ice-si-e-concluso-singapore-il-seminario-italian-innovation-days>

Italian companies visited the Clean Tech Park of Singapore²²³, industrial park totally dedicated to the renewable energy. Furthermore, the intensification of political relationship was confirmed by the visit of the President of Singapore *Tony Tan Keng Yam* in Italy at the end of May 2016, stating that the programs drawn up concomitantly with *ICE* in order to attract investments will contribute to have a major impact for the bilateral commercial relations.

2.3.7 Indonesia

The macroeconomics data of 2017 confirmed a positive trend despite the decrease in the exports of raw materials, the fall of oil price and a slight decline of the internal consumes, considered the driving force of the Indonesia's economy. The figure of IMF and the World Bank estimates that the GDP has grown by 5.03% in 2016 and it stabilized at 5.07% in 2017 (figure 22), the analysts forecast a constant growth of the GDP above 5% for the next 5 years. This favorable economic situation is characterized by few aspects: low prices, the Inflation rate stood at 3.81% (figure 22), the stability of the local currency, which despite the global economy uncertainty has remained less volatile respect compared to the other area's currencies. The crucial issues to solve remain the adjustments of the infrastructure to the development capacity of the country and the enlargement of the limited fiscal base (the income taxes are 10.3% of the GDP) and the urgent need of reduce the poverty rate.²²⁴ President Joko Widodo, after his election in 2014 has shown a great decision-making in term of solve the abovementioned problems. The resources released by his government have funded several major infrastructural projects (port and maritime services, railroads, roads network and power plants), finalized to relaunch the internal domestic consumption and give new impetus at the production activities, stimulate the competitiveness and attract foreign capital. The reforms concern different sectors: streamlining of the bureaucratic

²²³ The CleanTech Park is an eco-business park in Singapore opened in 2010 and covers 50 hectare. It operates a test-bedding site for the adoption of green technology solutions, its completion is expected to be in 2030.

²²⁴ The government commitment to this cause has been awarded with a constant reduction of the poverty rate, which is 10.2% in 2017. The plan of the government is to strive the rate below 10%. The Jakarta Post, "Indonesia to strive for poverty rate below 10 percent", 4th January 2018. Link: <https://www.thejakartapost.com/news/2018/01/04/govt-to-strive-for-poverty-rate-below-10-percent.html>

procedures²²⁵, renovation of the bank systems²²⁶, reduction of the prices for industrial energy²²⁷ and fiscal incentives for the workers and enterprises. In 2016 have been approved other 6 packages of measures and also a new law for foreign investments, including an opening for the acquisition of propriety till almost the 100% of the total capital.²²⁸ The maximal quotes are now three: 49%, 57% and 95%, depending on the sector, with procedures with are faster and an improvement in the investment environment.²²⁹ In the 2017 the total commercial trade of the country has been 299 billions \$US : composed by \$US 164 billions of exports and US\$ 135.7 billions of imports [OEC, [2018](#)]. The goods more exported from Indonesia are: mineral products and hydrocarbons, alimentary and chemicals products while the imports are petroleum derivates, machineries and equipment's. The foreign direct investments in 2017 grew by 8.5 percent from the previous year reaching \$US 32.34 billions, interesting the main sectors: machinery and electronics, chemical pharmaceutical, printing and paper, minerals and transport.²³⁰

The economic growth along with the political stability of the Country contribute to strengthen the confidence of the international markets in the continuation of the harmonic middle-long term development, thanks also to the maintaining of a prudent fiscal and monetary policies. Indonesia is heading in the direction of solid macroeconomics fundamentals, progressive decline of the capital cost and progress of the agenda's reforms.

The bank system, after the crisis of the 1998, has experimented a pluriannual process of consolidation and restructuration and is currently solid and capitalized. The oversight of the bank system is undertaken by the Bank Indonesia (BI) which is doing an expansive anti-crisis monetary policy also aimed to stabilized the *Rupiah* from 2008: the current interest base rate is 6.5% [Bank of Indonesia, 2018].

²²⁵ Chen Qingzhen, "Indonesia Ramps up battler against bureaucracy", Global Risk Insights, 14th May 2016. Link: <https://globalriskinsights.com/2016/05/indonesia-battle-against-bureaucracy/>.

²²⁶ World Bank, "Indonesia Receives US\$500 million from World Bank in Support of Financial Sector Reform Policies", Press release No: 2015/003/EAP, 1st July 2014. Link: <http://www.worldbank.org/en/news/press-release/2014/07/01/indonesia-receives-500-million-world-bank-support-financial-sector-reform-policies>

²²⁷ Nguyen Andy, "President Jokowi's Economic and Energy Reforms: A year in Review", he National bureau of Asian Research, 23th October 2015, Washington. Link: <https://www.nbr.org/publication/president-jokowis-economic-and-energy-reforms-a-year-in-review/>

²²⁹ Some sectors are still prohibited to foreign investments, in particular: lumbering contractors; taxi/bus transport and small-scale water transport services; print media, TV, radio, film and cinema, including distribution and exhibition; small-scale retail trade.

²³⁰ Normala Adinda, "Indonesia Attracts More Foreign Direct Investments in 2017", Jakarta Globe, 31th January 2018, Jakarta. Link: <https://jakartaglobe.id/business/indonesia-attracts-foreign-direct-investments-2017/>

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP Variation (%)	6.35	6.01	4.63	6.22	6.17	6.03	5.56	5.01	4.88	5.03	5.07
GDP Per Capita (US\$)	1855.09	2160.53	2254.45	3113.48	3634.28	3687.95	3620.66	3491.60	3334.55	3570.28	3846.86
Unemployment Rate (%)	8.06	7.21	6.11	5.61	5.15	4.47	4.34	4.05	4.51	4.12	4.18
Inflation (%)	6.41	10.23	4.39	5.13	5.36	4.28	6.41	6.39	6.36	3.53	3.81
Imports (% of GDP)	25.39	28.75	21.35	22.40	23.85	24.99	24.71	24.41	20.78	18.32	19.17
Exports (% of GDP)	29.44	29.81	24.16	24.30	26.33	24.59	23.92	23.67	21.16	19.12	20.37
Account Balance (% of GDP)	2.43	0.02	1.97	0.68	0.19	-2.66	-3.19	-3.09	-2.04	-1.82	-1.70
National Debt (% of GDP)		30.25	26.48	24.52	23.10	22.96	24.80	24.70	26.90	27.90	28.70

Figure 22. The table shows the main macroeconomic values for Indonesia. Source: Own Elaboration via World Bank Data.

Regarding the economics strategic reforms for the economic growth the government has followed the “Public Private Partnership Path”: the plan for the infrastructures is based on the creation of “economic corridors” at specialized economic vocation and has been identified Six of them:

- *Sumatra*: Mineral and Agriculture
- *Java*: manufacturers and service
- *Kalimantan*: Mineral sector
- *Sulawesi*: Agricultural Sector
- *Bali-Nusa-Tenggara*: Tourism and Alimentary Production
- *Papua-Maleku*: Natural Resources

The Jokowi administration is giving particularly focus on the Indonesia’s maritime dimension and it started a policy of strengthening of port facilities²³¹, maritime commerce and fishery to let

²³¹ Shekhar Vibhasnus and Liow Chinyong Josph, “Indonesia as a Maritime Power: Jokowi’s Vision, Strategies and Obstacles Ahead”, Brookings, 4th November 2014. Link: <https://www.brookings.edu/articles/indonesia-as-a-maritime-power-jokowis-vision-strategies-and-obstacles-ahead/>

this sector become a pillar in the Indonesian growth. In the provided initiatives there are: the enhancing of coastal control, the enlargement of the existence ports in order to develop the logistic and the interconnection between the more than 17 000 islands that form the country.²³²

Moving now to the core sectors of the country, agriculture still have a large impact in the area counting for the 14.43% of the national GDP. The major cultivable land are in Java and almost 30% of the arable land is now used for agriculture employing 40 million people, 33% of the total population in 2014.²³³ The main agricultural products are: rice, tapioca, peanuts, rubber, cocoa, coffee and palm oil. As for Malaysia palm oil is a key goods for the Indonesia economy, the country results as the first world producer and sustaining 61% (36 million tons) of the world's supply.²³⁴

Another main area of the Indonesia economy is the Oil and Mining, the country was a member of OPEC until 2008 and rejoined in 2016, now is an net importer of petroleum. The crude oil output has decline from 1999 when it was 1.5 million barrels per day to 2005 when it was 1.07 million barrels per day, this decrease can be explained by the consumption of the oil field and the lack of investment in the extracting equipment. At the same of this decline the internal consumption have been increased about 5% per year leading to an progressive expense for the import of oil. Indonesia have imported 800 000 bpd in 2016 but Wood Mckenzie estimated that Indonesia's oil production will decline even in 2019, imposing the country to import 1.2 million bpd in 2019 for a current cost of \$US 40 billion.²³⁵ International companies can enter in the oil market through production-sharing and procurements contracts, this is strictly necessary to fund the investments in the sector in the production, exploration and research costs. Indonesia have one of the largest quantity of minerals in the world, the industry have focused around the production of: tin, copper, nickel, bauxite, gold and coal. The sector was open to foreign investment in 1993 by the *Department of Mines and Energy*, the consequence of that was the BP, Rio Tinto Group and Indonesian coal producers. As of 2017 the country is the third largest global

²³² World Bank, "Improving Maritime Logistics to boost Indonesia's Competitiveness and Reduce Poverty", Press Release No: 2018/195/EAP. Link: <https://www.worldbank.org/en/news/press-release/2018/06/28/improving-maritime-logistics-to-boost-indonesias-competitiveness-and-reduce-poverty>

²³³ ADB, "Summary of Indonesia's Agriculture, Natural Resources and Enviromental Sector Assessment", ADB Papers on Indonesia, No. 08, October 2015. Text Available: <https://www.adb.org/sites/default/files/publication/177036/ino-paper-08-2015.pdf>

²³⁴ Saleh Shofia et al., "Intensification by Smallholder Farmers Is Key to Achieving Indonesia's Palm Oil Targets", World Resources Institute, 17th April 2018. Link: <https://www.wri.org/blog/2018/04/intensification-smallholder-farmers-key-achieving-indonesia-s-palm-oil-targets>

²³⁵ Amindoni Ayomi, "Indonesia's oil imports may swell to US\$40b in 2019: Analyst", The Jakarta Post, 26th May 2016. Link: <https://www.thejakartapost.com/news/2016/05/26/indonesias-oil-imports-may-swell-to-us40b-in-2019-analyst.html>

producer with a total production of 461 million ton [Indonesia-Investments, 2018]. The trend for the 2018 seems in decline for the combination of slower Indonesian coal exports, increased coal demand from China and growing imports from India, South Korea and Japan. The DMO (Domestic Market Obligation)²³⁶ cap the prices at \$70/mt FOB for domestic purchases by state-owned companies so coal enterprises will allocate at least 25% of their production for the domestic market.²³⁷ In Indonesia is present the largest gold mine of the world and second for copper: the Grasberg Mine, located in the island of Papua near *Puncak Jaya*. The Widodo's government is continuing to a resource nationalization process at the expenses of some international companies like Chevron,, Freeport McMoRan and Total.²³⁸

Indonesia is also a big automotive producers, in 2017 Indonesia exported 431 187 motorcycles [Indonesia-Investments, 2018]. The market is led by Yamaha with a share of 57.76% followed by Honda that have the 27.5 %. The car's sales in 2016 have been 1.06 million [World Bank, 2018] increasing from the previous year when it was 1.02 million units, the market is dominated by the five automotive brands which control more than the 90% of the car sales in the country.

Italy and Indonesia have diplomatic relations from 1949. In these decades the political relation have never had problematics but are always being fruitful and prepositive in the multilateral context. In the last years Jakarta have increased its international profile, becoming the only country in Southeast Asia member of the G20²³⁹ and distinguished a partner of fundamental importance in the fight to terrorism and in the promotion of inter-religion dialogue.²⁴⁰ The visit of the Italian Foreign Ministry Giulio Terzi in 2012 after 20 years of political appointments was necessary to reinforce the relations and confirming the increasing Italian interest in the country, both in the political profile and the investments one²⁴¹. In the economic front in the 2013 a mission

²³⁶ The DMO is regulated by Mineral Resource Ministry Regulation No. 19/2018 and No. 1395 K/30/MEM/2018

²³⁷ Lovell Jeremy, "Indonesia leaves coal DMO, domestic price cap unchanged", S&P Global, 31th July 2018. Link: <https://www.spglobal.com/platts/en/market-insights/latest-news/coal/073118-indonesia-leaves-coal-dmo-domestic-price-cap-unchanged>

²³⁸ Suzuki Jun, "Indonesia Mine Nationalization shakes top copper producer", Nikkei Asian Review, 18th July 2018. Link: <https://asia.nikkei.com/Business/Markets/Commodities/Indonesia-mine-nationalization-shakes-top-copper-producer>

²³⁹ The other member of G20 2018 are: Argentina, Australia, Brazil, Canada, China, Germany, France, India, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States.

²⁴⁰ Salim, Zamroni. (2010). Indonesia in the G20: Benefits And Challenges Amidst National Interests and Priorities. Text available: https://www.researchgate.net/publication/233885641_Indonesia_in_the_G20_Benefits_And_Challenges_Amidst_National_Interests_and_Priorities

²⁴¹ Hariyadi Mathias, "Jakarta and Rome promoting interfaith dialogue to counter extremism", AsiaNews, 24th April 2012. Link: <http://www.asianews.it/news-en/Jakarta-and-Rome-promoting-interfaith-dialogue-to-counter-extremism-24579.html>

took place with the participation of more than 100 actors from various sectors energy environmental, infrastructure, components, agroindustry and machinery. The total interchange in 2016 has been \$US 2.96 billion with a surplus for Indonesia of \$US 185 billion, Italy is the third European economic partner of the country after Germany (5.7 billion) and the Netherlands (3.98 billion). The commercial trade is based mostly on the imports of raw materials (palm oil) and minerals (carbon) from Indonesia to Italy while the Italian exports is mainly based on capital goods and equipment. If we compare the interchange with other ASEAN countries and the dimension of the market there is still a large potential for growth, especially in the strong sectors of Italian exports: the industrial machinery. Indonesia participated in the EXPO Milan 2015 with a pavilion, the year concluded with the visit of the Head of State Sergio Mattarella, the first Italian Republic President who have ever visit Indonesia.²⁴² At the margin of G20 in Hangzhou, in September 2016 the Chairman of the Board Matteo Renzi met the president Widodo and the Indonesian Foreign Ministry Retna Marsudi, in the meeting have been highlighted the Italian support to the Indonesia role in the Southeast Asia and the hope of intensify the economic cooperation.

2.3.8 Philippines

The Philippines market and economy are in constant growth and fully integrated in the Asian context but with significant lower costs than China and other ASEAN countries. The Philippines are different from the other countries of the region for languages, religion and mentality. It is a strongly catholic country linked to USA which is easy to reach for the western powers due to the spread of English speaking-people (English is the second official languages of the country, taught in all schools). The 61% of the population is between 15 and 64 years with a percentage of alphabetization estimated around 96% and a great university tradition. The country is considered within the first 5 in the world for total level of mineral resources, which has been estimated around \$US1.4 trillion. Second for gold deposit, third for copper, Philippines have hidden in the underground 152 billions of oil's barrel and 105 m³ of natural gas.

The Philippines islands differ from the other Asian countries also for the high level of consumes which cover 70% of the GDP. The reasons for these can be charged to the large range of the middle class, formed mostly by young people and a culture which is way more hedonistic in comparison with the thrifty one of the other neighborhood countries. In addition, this

²⁴² Presidenza della Repubblica Italiana, "Il presidente Sergio Mattarella in occasione del primo dialogo bilaterale tra Indonesia e Italia", 9th November 2015. Rome. Official Press English: <https://www.quirinale.it/elementi/1375>

phenomenon can be accounted for the foreign remittances send by the 10 million Philippines emigrated in various part of the world which traduce in consistent acquisitions in their original country. Philippines also offer an advantageous base of operation for the companies which wants to operate in the Far East, granting the access to all the area due to its dense network of FTAs signed in the ASEAN market context. The Philippines GDP have registered a growth of the 6.7% in 2017. Production commerce and real estate have been the development's motors. Industry has developed with the most pace in 2017 at 7.3% followed by the services which grown by 6.8%, while the agriculture, still an important sector for the country, has grown of 2.4%.

The last administration had three principal objectives. The first one was the improvement of public finances but it was abandoned due to the necessity of a fiscal deficit to enhance the public services. The target is a 2% deficit of the GDP in the short term. The second was trying to strengthen the investments: a mandatory step to sustain the economic boom. For the ambitious projects of private-public partnership the progress have been quite limited and the program launched in 2011 is not given results yet and the works are quite blocked. The Foreign Direct Investment in Philippines are strongly back off from their total potential and the progress can be made in managing the "business environment". The third challenge is dealing with the creation of job places. It is aimed to reduce the high unemployment rate which is around 7%, with the launches of government policies in specific sectors but the main idea is to leaving the major investment and funding decision to the private sector. Considering that most of the financing of the deficit depends on the bond market, an important achievement was to reach the "investment grade" which allows to the Central Bank to maintain the interest rate at a low levels, thus contributing at the maintaining of the high level of private consumes.

2.3.9 Brunei

The economy of Brunei is essentially based on oil which is extracted since 1929. This permit to the country to achieve a considerable wealth. The government has been able to not ask any taxes to the population and offer a free scholastic and sanitary system. For the low tax imposition and in particular for the absence of laws, restrictive and controlling measures Brunei has been considered one of the fiscal paradise. The OCSE inserted Brunei in the grey list of the fiscal paradises. Also Italian fiscal system recognized Brunei as one of the fiscal paradise with the Ministerial Decree 04/05/1999.

Anyway from 2010 Brunei singed 12 agreements with the rules decided by the OCSE and it can be considered out of the Black List.

2.4 ASEAN Economic Cooperation

2.4.1 Overview of Regional Economy

Ten Southeast Asian countries decided to put into action the ASEAN Economic Community (AEC) by 2015 but some intermediary economy members have some added time to pursue the commitment of achieve the free movement of commodities and goods, services, FDIs, labor and capitals. The area counts 622 million people with countries with rapidly growing economies. The AEC can be considered as one of the most aspiring and challenging project in terms of economic regional integration of this kind (in concomitance with European Union) and the only one in a developing economies context. Nonetheless, its realization requires an incredible effort to get through the technical and political barriers: both the leaders and, mostly, the people must be convinced of the project. In this paragraph we will take in consideration some measures and the benefits that the AEC will probably bring: removal of import-exports duties, commerce assistance and enhancing the investment environment.

Unfortunately, after the AEC accord the global economy turned down into a profound and long recession and impacted in a region that still have the burdens of the financial crisis of the end of the century (1997-1998). Nevertheless, the area managed to get through the recession in a somehow positive way helped by the solid macroeconomic fundamentals: low debt ratios, commercial surplus and reserves in foreign currencies and on the top of that the FDIs flow continued pouring into these countries, providing positive effects.

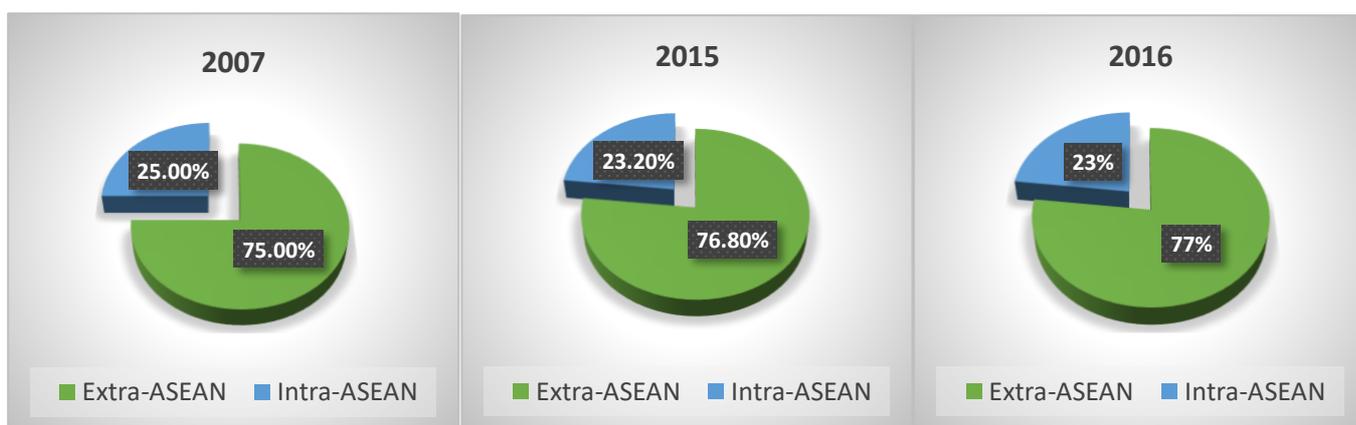


Figure 23. The charts describe the Extra-ASEAN and Intra-ASEAN trade percentage in 2007, 2015 and 2016. Source: ASEAN Stats.

It will be now analyzed the recent situation of the ASEAN market in term of: composition of trade (both intra and extra ASEAN), the evaluation of the tariffs and what effects the different

scenarios could bring to the economy of the region. In the first years of the 21st century the area open progressively to the international commerce. The area's total trade in goods reached \$US 2 236 billion in 2016 [ASEAN Secretariat, 2017], the commerce between ASEAN countries in the last ten years did not grow as expected though. The intra-ASEAN trade has remained below the 30% and actually decreased from 2007 when it was 25% to 23% in 2016 (figure 23).

2016

HS Code	Name	Exports	Imports
85	Electrical machinery and equipment	25.60%	23.40%
8401	Nuclear reactors, boilers, machinery and mechanical appliances	11.40%	13.10%
2709	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	9.50%	12.10%
7116	Natural/cultured pearls, precious/semi -precious stones precious metals, metals clad with precious metal, and articles thereof; imitation jewelry	3.70%	3.20%
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	3.70%	3.90%
3926	Plastic and articles thereof	3.20%	4.00%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus;	3.10%	2.80%
1516	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	2.80%	3.00%
4001	Rubber and articles thereof	2.50%	
29	Organic Chemicals	2.30%	1.90%
	Other	32.20%	30.30%

Figure 24. The top 10 exported and imported products in the ASEAN region. Source: ASEAN secretariat via elaboration of IMF statistics. Chartbook available: <https://www.aseanstats.org/category/asean-economic-chartbook/>

The intra-ASEAN trade account for \$US 516 billion dollars, the Extra-ASEAN trade values \$US 1 720 billion and the trade goods account for 87.4% of the total cumulative GDP of the area, the

intra ASEAN quota for the GDP remains stable at 20.2% [ASEAN Secretariat, 2017]. The composition of the trade has changed in the last decades: the region exports and imports moved from the natural resources to an electronics and more advanced production. This is reflected in the transition of the companies' value chain in these countries in order to exploit the lower cost labor-intensive industry. For example the electrical machinery and equipment counts for more than the 25.6%, nuclear materials and machinery for the 11.40%, counting as the first two categories of products exported from the area (Figure 24).

The success of the manufactures sector mirrors the integration in the global chain which it is strictly dependent to the transaction of commodities and capitals. Still important are also the natural hydrocarbons in the share of both exports and Imports, in fact the area exports quote for mineral fuels, oils and derivates is 9.5% while the imports of the same is 12.10% (Figure 24).

In the list of the ten main products exported and imported are present key assets of the country members like: auto vehicles, natural minerals and rubber and plastics.

The trade in service remains a small part of the ASEAN's trade, counting roughly for one fourth of the total amount. Nonetheless, services are key in a developing economies since they help the transition for a more industrialized ones, easing in the interchange of goods and mostly FDIs. ASEAN services market has increased reasonably between 2007-2016 (figure 24), reaching \$US 327 billion in (exports and imports) and accounting for 13% of the GDP in 2016 [ASEAN Secretariat, 2017]. The ADB analyzed that the process of the ASEAN development seems acting in the accordance with the Kuznets's curves: the agriculture sector contribute progressively less in the GDP and contemporarily it is witnessed a spike of the manufactures, increasing the weight of the services. This process is also associated with Inequalities as studied by Barro.²⁴³ The services have become strongly important in the ASEAN market counting for \$US 644 billions and being 12.8% exported against 12.4% imported, resulting a +0.4%, letting ASEAN be a net exporter of services in 2016 (Figure 25). The main services exported are a combination of travel (35.6%), transportation (20.6%) and other business service (23.1%), counting for more than the 80% of the total, the rest is mainly due to telecommunications, information and financial services. The imports follow the same path as the exports, the 85% of the imports comes from transport, travel and other business services [IMF Balance of Payments Manual, 2017].

²⁴³ Barro J. Robert, "Inequality and Growth Revisited", Asian Development Bank, Working Paper Series on Region Economic Integration No.11, January 2008. Available: <https://www.adb.org/sites/default/files/publication/28468/wp11-inequality-growth-revisited.pdf>



Figure 25. Growth of the ASEAN trade in services in 2007-2016. Retrieved from: ASEAN Chartbook 2017.

The FDI inward flows in the region decreased by 18.6% from \$US 121 billion in 2015 to \$US 98 billion in 2016. The extra-ASEAN is \$US 73 380 million and the intra-ASEAN inward FDI flow is estimated at \$US 24 662 million. Singapore is where most of the FDIs go (\$US 53 912 million), followed by Vietnam (\$US 12 000 million) Malaysia (\$US 11 329 million), then Philippines (\$US 7 933 million) and Thailand (\$US 2 533 million). The less developed economies of Laos, Myanmar and Cambodia are the countries which receive less FDIs, if we sum the amount of them in these three countries (\$US 6 345 million) we obtain one tenth of the total Singapore's FDI inflows: this gap is a major problem in an area that should be undertaking an integration path. These FDIs mostly come in the form of equity capital, debt instruments and reinvested earnings and are directed majorly to Financial and insurance activities (34.3%), Wholesale and retail trade (19.2%), Real Estate activities (8.8%) and Manufacturing (8.1%).

The geographical path of ASEAN commerce has been summarized by the figure 26. In 2016, China maintains the first position as main ASEAN trade partner with \$US 368 025 billion, increasing from 2015 by 3.5%. The Electrical Equipment, televisions and sound recorders are the category most traded with China (30%), then Mineral fuels and oils (10.9%) and Nuclear reactors, boilers and machinery and mechanical appliances (8.8%). Almost the majority of total trade goods is represented by China, EU, Japan and USA representing 45.4% (Figure 26). The growing importance of international trade is highlighted by these figures, a "ASEAN

stronghold” will be ineffective in dealing with the global economy challenges, increasing the tariffs and subsequently the cost of import so weakening its role as key international player.

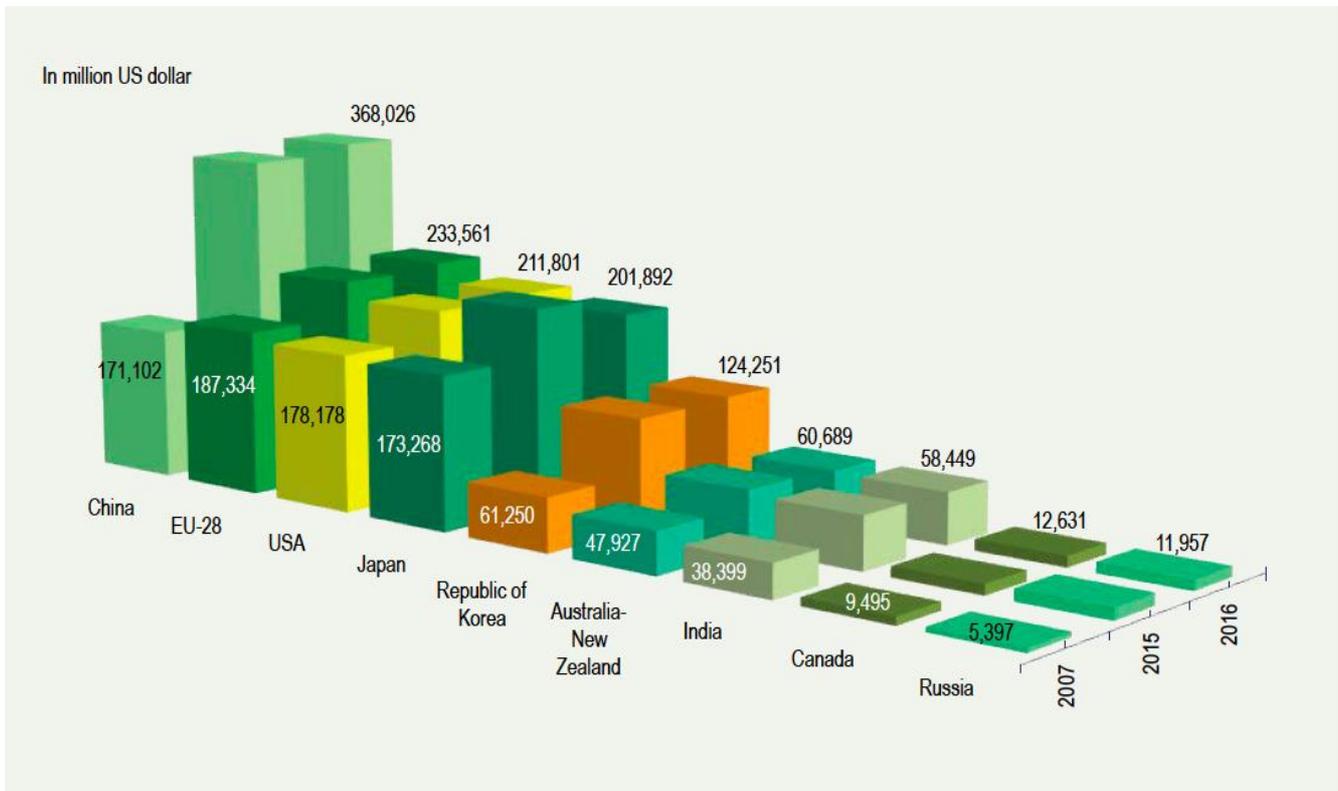


Figure 26. Main ASEAN trade partners, China is the major one followed by EU, USA and Japan. Retrieved from: ASEAN Chartbook 2017.

Regarding the commercial policies the path of ASEAN is commonly related to the East Asian one, which focused mostly on the “outward-oriented” and investment approach. The economic policies of most of the countries have been directed to gain macroeconomic security, liberalization and enhancing the infrastructure like ports, roads and railways and investing in human capital improvement. The act of international trade is made by selling or buying goods in other countries, the rules that these appoint in term of trade barriers are essential in the decision of importing or exporting particular commodities or services. The trade barriers are introduced mainly to protect the domestic industry from the international trade, focusing on the internal production. Nevertheless, trade barriers obstruct the global business and also the process of regional integration, but can be necessary to boost the economy reducing imports. There are different of types of trade barriers, which we can divide in four groups:

- **Tariffs.** These are the most used type of barriers, it gathers the revenue from the imported commodities and can be used for different reasons:
 - Internal Employment Protection, the comer countries with lower work cost can produce cheaper goods that will then imported in external countries where they

will cost less. Consumer will buy imported the more inexpensive products made with lower salaries. In this way they are damaging the internal market in term of employment barriers are made to counterbalance this phenomenon.

- Infant Industry²⁴⁴. The argument is focused on those types of nascent economies which do not have economies of scale as their competitors, thus they must protect themselves. This is particularly important for those economies who are transiting from an agriculture based industry to a more manufacturers one. The cases still debating for these type of protection in the region is Myanmar²⁴⁵ and also Vietnam has been in the center of this issue in the first years of the 20th century.²⁴⁶
 - Unfair Trade. The foreign producer can undertake unfair trade activities selling at lower prices in a foreign market. Practices of this type are for example: dumping²⁴⁷ (pricing policy).
 - National Security
- **Non tariffs Barriers (NTBs).** These are non-fiscal regulations of the foreign trade with the aim of limit the circulation of goods, they are different from the tariffs which are mostly made to reduce imports. They can be quantitative restrictions or rules applied in a way that is impossible, difficult or particularly expensive for the foreigner producers. Examples can be: embargoes, subsidies local goods, local content requirement, licenses, technical barriers, standards. In this last case the restriction depends on obstacles of various nature (technical, legislative or others) which do not allow the free entry of goods in the country.
 - **Imports Quotas.** These are quantity's limit on imported goods and services. The goals are lower down the imports, increase internal production and improve the exports. The quantity of imports is constrained, thus the import price will increase. Quotas can have different forms: absolute quota (bilateral or global), Tariff rate quota (TRQ) and Tariff Preference Levels.

²⁴⁴ The infant industry argument was firstly introduced by Alexander Hamilton in Report of manufacturers. The original text can be find here: <https://founders.archives.gov/documents/Hamilton/01-10-02-0001-0007>

²⁴⁵ Kyaw Thida Aye, "Tackling the infant industry debate" Myanmar Times, 25th August 2014. Link: <https://www.mmtimes.com/business/11458-tackling-the-infant-industry-debate.html>

²⁴⁶ Ohno Kenichi (2001), "Free Trade Versus Infant Industry Promotion: The possibility of temporary protection for Latecomer Countries", National Graduate Institute for Policy Studies". Available: http://www.grips.ac.jp/vietnam/KOarchives/doc/EP03_VNinfant.pdf

²⁴⁷ Dumping is the practice of selling a good or a service of the same type in a foreign market at a lower selling or production price with the aim of conquering a new market.

- **Voluntary Export Restraints (VER).** These are non-imposed agreements between exporting and importing countries in which the exporters cap the quantity of a specific exports to refrain the constraints made by the importing countries. One of the most important example of this was the exports limitation of Japanese cars in USA, The east Asian Country after the American pressure decided to use VER measure to balance the situation.²⁴⁸

The figure 27 shown the average MFN (Most Favored Nation) tariffs applied by the ASEAN countries. The system is based on the WTO (World Trade Organization) classification and on the Most Favored Nation. In the International Law, the MFN is a procedure by which the countries are supposed to link some goods/commodities from another nation under customs regulation and duties that are not less favorable from the ones already established. This imply two aspects: the first is that two nations approved a mutual tariffs reduction to contrast the economic protectionism and the second is that if a third nation entertains commercial relations with the two ones that already have an agreement, it will have the some established conditions.

²⁴⁸ Dinopoulos, E., & Kreinin, M. (1988). Effects of the U.S.-Japan Auto VER on European Prices and on U.S. Welfare. *The Review of Economics and Statistics*, 70(3), 484-491. doi:10.2307/1926787

	Brunei	Cambodia	Indonesia	Lao	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Animal Products	0.0	26.6	7.1	11.0	3.2	9.8	20.5	0.0	29.0	14.3
Dairy Products	0.0	13.9	5.5	5.0	3.7	3.4	3.7	0.0	27.3	10.3
Fruit, Vegetables, Plants	0.0	12	5.7	13.5	2.9	12.9	9.6	0.0	35.4	20.3
Coffee, Tea	0.6	26.7	13.2	24.2	5.6	16.9	15.7	0.0	26.6	25.2
Cereals & Preparations	0.1	11.9	7.5	8.0	5.5	8.6	10.3	0.0	18.4	17.6
Oilseeds, fats & oils	0.0	7.9	4.5	9.7	1.9	3.1	5.4	0.0	16.2	8.5
Sugars and Confectionery	0.0	7	7.2	10.6	2.4	6.6	18.9	0.0	22.6	17.8
Beverages & Tobacco	0.0	29.9	45.9	10.6	81.6	23.0	8.2	1.6	44.5	42.7
Cotton	0.0	0	4.0	3.0	0.0	3.8	2.6	0.0	0.0	6.0
Other Agricultural Products	0.0	11.1	4.1	10.4	0.6	3.9	3.6	0.0	7.5	6.6
Fish & fish products	0.0	21.7	6.3	12.4	0.7	8.8	8.7	0.0	9.1	15.6
Mineral & metals	0.0	7.4	7.1	5.8	7.1	4.3	4.6	0.0	4.9	8.2
Petroleum	0.4	10.5	0.2	5.2	0.6	1.8	1.0	0.0	5.6	11.8
Chemicals	0.1	6.9	5.3	6.6	2.5	3.6	3.8	0.0	2.6	3.1
Wood, Paper	1.9	9.8	5.0	13.6	9.7	7.7	6.6	0.0	5.8	10.4
Textiles	0.5	5.3	11.5	8.8	8.8	9.0	9.1	0.0	8.4	9.6
Clothing	0.0	15	23.9	10.0	0.2	16.7	14.8	0.0	29.6	19.8
Leather, Footwear etc	0.7	12.4	9.9	11.2	10.3	5.9	6.6	0.0	11.3	12.7
Non-Electrical Machinery	0.0	13.3	5.4	6.1	3.2	3.3	2.2	0.0	3.0	3.3
Electrical Machinery	0.0	17.1	6.0	6.8	4.1	5.6	3.9	0.0	7.0	7.8
Transport Equipment	0.0	15.7	13.5	9.9	12.0	5.5	8.8	0.0	22.8	17.8
Manufactures	0.6	14.3	7.5	10.2	4.5	6.4	4.8	0.0	7.8	9.7

Figure 27.. The table shows the Average MFN tariffs applied in the ASEAN countries in 2018. Source: World Tariff Profiles 2018, WTO. Available at: https://www.wto.org/english/res_e/publications_e/world_tariff_profiles18_e.html

Analyzing the table we can highlight some of the main aspects of the region's tariff regulation: agricultural, beverages and tobacco are highly protected (exceptions are: chemicals, transport and clothing). The tariffs are quite equal to the countries regarding the commodity categories, this inhibits modestly the distortion effect. Higher the income lower the commercial barriers, Singapore is almost a free trade country and the richest country in the area per GDP per capita (Brunei can be considered similar to Singapore); intermediate economies (Indonesia, Malaysia, Thailand and Philippines) have relatively low tariffs; low-wage countries (Cambodia, Laos and Vietnam) have higher tariffs. Myanmar can be considered an exception, since it is a low-income country but with really low tariffs.²⁴⁹

The ERIA (Economic Research Institute for ASEAN and East Asia) along with the UNCTAD and the WTO elaborates a detailed database for the NTBs measures. The current situation for this type of commercial measures situation of the ASEAN can be found in table 28 and table 29. If we compare the trend of the Tariffs and the NTMs it can be said that in the region the first have declined while the second ones have increased in the period 2000-2015. This can be explained by the idea that the countries have undertaken regional projects of integration by lowering the tariffs but counterbalancing the diminishing protection with the NTBs tools²⁵⁰, this can be seen more as a political-economy explanation. Alternatively, this aspect can be seen as the effect of a modernizing economy: consumers want more variety of products but at the same time they also demand product's safety. Trade liberalization (decreasing tariffs) increases the number of imports, subsequently the availability of products increases, with the incomes rising as part of the development process economy consumers will seek more control over the imported products, this can be defined such as an income-effect related idea. The table 28 shows can be illustrative of this result, the most used NTMs measures applied are the SPS (Sanitary and Phytosanitary Measures) and the TBT (Technical barriers to trade), counting for almost 76.07% of the total measures applied and thus reflecting the need of targeting the incoming product's quality so confirming our second idea.

²⁴⁹ Naing Zin Zin Daw, "Trade Policy Reform in Myanmar", UN ESCAPE paper.

²⁵⁰ Deardorff, A. and R. Stern (1997), "Measurement of Non-Tariff Barriers", *OECD Economics Department Working Papers*, No. 179, OECD Publishing, Paris, <https://doi.org/10.1787/568705648470>.

Code	NTM by Type	Number of NTMs	Percent
A	Sanitary and phytosanitary measures (SPS)	1938	33.03%
B	Technical barriers to trade (TBT)	2525	43.04%
C	Pre-shipment inspection	150	2.56%
D	Contingent trade-protective measures	112	1.91%
E	Quantity Control Measures	157	2.68%
F	Price Control Measures	194	3.31%
G1	Advance Payment Requirement	11	0.19%
G4	Regulations Concerning Terms of payment for imports	1	0.02%
G9	Finance Measures	2	0.03%
H1	State Trading Enterprises, for importing	10	0.17%
H9	Measures affecting competitions	6	0.10%
J1	Geographical restriction	1	0.02%
J2	Restriction on resellers	1	0.02%
P	Export-related measures	759	12.94%

Table 28. The table shows the NTMs by type in the ASEAN. The code of the NTMs is related to the WTO classification. Source: own elaboration via: UNCTAD – Eria – WTO data.

Nonetheless, the trend described above has seen different paths in the region's countries during the period 2000-2015. Singapore, for example, rises the NTMs as a form of protection but it has no tariffs to protect to eliminate completely the imports: as a mostly service economy it has not to protect domestic manufacture jobs or internal production, the main aim of tariffs but the high-income of the consumer requires a elevate control over the products. Indonesia, Malaysia and the Philippines decrease tariffs but the NTMs remained stable and Thailand, Cambodia and Vietnam also decrease tariffs but more rapidly since they started at a higher levels but also proceeded in rising the NTMs. The NTMs are mostly compelled by TBT and SPS in Brunei, Philippines, Thailand, Singapore and Vietnam while in the other countries, Cambodia, Indonesia, Lao and Myanmar the NTMs are driven by export-related or other measures (figure 29). The most regulated products are animal products, alimentary and chemicals which are also the most delicate in term of public hygiene and health. In addition protected are also the sectors where the regulation is more misleading and unclear or the ones which are relevant strategic for the political-economic aspects of the country. The machineries or electrical equipment can be inserted in the

first scenario and in the second the one can be included the automotive or textile sector, which both provide a large number of middle-income jobs.²⁵¹

NTMs by Type and Country in ASEAN

Country	Total (number)	SPS (%)	TBT (%)	Export-related Measures (%)	Others (%)
Brunei Daressalam	516	31.20%	55.81%	8.91%	4.07%
Cambodia	243	14.81%	49.79%	28.81%	6.58%
Indonesia	630	19.84%	50.48%	11.75%	17.94%
Lao PDR	291	13.06%	28.18%	28.18%	30.58%
Malaysia	711	36.57%	46.55%	6.75%	10.13%
Myanmar	177	42.37%	23.16%	19.77%	14.69%
Philippines	855	27.25%	42.11%	13.57%	17.08%
Singapore	514	24.71%	58.37%	9.53%	7.39%
Thailand	1603	47.54%	35.06%	7.99%	9.42%
Vietnam	334	36.23%	36.53%	17.07%	10.18%

Figure 29. The table shows the total number of NTMs by country, specifying the percentage of SPS, TBT, exported-related measures and others. Source: own elaboration via Eria-UNCTAD-WTO.

The NTMs are mostly issued by the Ministry of Health, Ministry of Agriculture and ministry of Trade of the ASEAN countries. While tariffs are promulgated for the majority from the government, NTMs jurisdiction is divided in different governmental agencies: the absence of a main actor managing NTMs can cause problem in term of their reduction or elimination²⁵².

²⁵¹Chang Jae-Hee et Al. (2016), “ASEAN in Transformation. Automotive and Auto Parts: Shifting Gears”, International Labour Organization, Bureau for Employers’ Activities, Working Labour Office. Available: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_565488.pdf

²⁵² Erlinda M. et al, “Review of Intra-ASEAN Nontariff Measures on Trade in Goods”, Philippine Institute for Development Studies, discussion paper series no. 2017-18, April 2017. Available: <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1718.pdf>

2.4.2 The AEC Project

The ASEAN as a free trade area born in 1992, the project included a progressive reduction of tariffs and barriers to intra-ASEAN commerce to complete in different steps. We have seen that the countries are going through deeply reforms for their commercial policies, a process in line with the increase of the income per-capita. Nonetheless, the last paragraph shown that different types of commercial impediment remain in form of tariffs or NTMs, which are slowing the regional commerce and economic process. For this matter, the ASEAN countries signed the “ASEAN Economic Blueprint 2025” recognizing “regional economic integration is a dynamic, ongoing process as economies as well as domestic and external environments are constantly evolving”²⁵³. The document is divided in different parts covering the measuring, the policies and the instruments (agreements, accords) that have already been made for several macro-areas, thus we will analyze these segments. The first part is dedicated at the trade in goods integration, summarized by the figure 29. The ATIGA was signed in February 2009, replacing the CEPT-AFTA accord of 1992, with the main objective of establishing an integrated market and production base with free flows of goods.²⁵⁴ The accord provides a scheme for preferential tariffs within the countries’ member, which can be applied only on the goods either wholly produced or originated by at least 40% of the RVC²⁵⁵ (Regional Value Content) inside the ASEAN area. The simplification of the ROOs (Rules of Origin) is another element of the Economic Blueprint, these are criteria used to determine the country source of a goods [WTO, 2018]. For this issue in 2013 during the Bali Ministerial Conference, the ASEAN signed the Trade Facilitation Agreement (TFA) proposed by the WTO, with a double aim: firstly facilitate the implementation of the TFA in the ASEAN agreements architecture and secondly move closer to the “global best practice”. The synergy between the private and public sector is needed in the context, recognizing this the ASEAN established the ATF-JCC (ASEAN Trade Facilitation-Joint Consultative Committee) a forum where both private and public parts can confront to boost the trade facilitation in goods.

²⁵³ ASEAN, “ASEAN Economic Blueprint 2025”. Available: <https://asean.org/storage/2012/05/Towards-AEC-2025-Monitoring-ASEAN-Economic-Integration.pdf>

²⁵⁴ ASEAN, “ASEAN Trade in Goods Agreement”, ASEAN Secretariat. Official Text: http://fta.miti.gov.my/miti-fta/resources/2.ASEAN_Trade_in_Goods_Agreement_.pdf

²⁵⁵ The RVC can be calculated with the direct formula:

$$RVC = \frac{ASEAN\ Material\ Cost + Direct\ Labor\ Cost + Direct\ Overhead\ Cost + Other\ Cost + Profit}{FOB\ Price} * 100\%$$

Or indirect methods:

$$RVC = \frac{FOB\ Price - Non\ Originating\ Materials, Parts\ or\ Produce}{FOB\ Price} * 100\%$$

Regarding the service the Southeast Asian organization provided two texts: the AFAS (ASEAN Framework Agreement on Services)²⁵⁶ signed in 1995 and the ATISA (ASEAN Integrations in Services Agreement) concluded during the 17th AECCM²⁵⁷ in 2018. The ATISA strengthens the AFAS system by reducing “beyond-the-border” barriers and trying to create a solid and stable environment for trade of services, this must pass through the diminution of the discriminatory regulatory barriers and enhance the transparency in the sector. This is necessary for the attraction of more and new FDIs, to become more participant to the Global Value Chain and the Human Resource Development (HRD). The ACIA (ASEAN Comprehensive Investment Agreement) ²⁵⁸ was signed in 2009 and it is the last accord thought to create an integrated investment environment, it has followed the ASEAN Investment Guarantee Agreement (1987) and the ASEAN Investment Area (1998). The ACIA is focusing on 5 pillars: incorporating, liberalization, protection, facilitation and promotion for 5 main sectors: manufacturing, agriculture, fishery, forestry and mining-quarrying. To coordinate this process the ASEAN recognized to enhance the activities of the Committee on Investment, specially the Peer Review Mechanism trough the PCF (Peer Consultation Framework). The system is based on the OECD peer review approach, a policy tool for a regional co-operation and joint learning which is based on an examination of one state’s performance by other member states.²⁵⁹ The Blueprint 2025 also gives space to the Financial Integration. This can be strengthen in the ASEAN specially providing greater market access and flexibility for Qualified ASEAN Banks (QABs) through the ASEAN Banking Integration Framework (ABIF). The QABs status is given to a bank upon certain criteria, once obtained the QAB gives a preferential treatment in the ASEAN market.²⁶⁰ The insurance sectors is covered by the ASEAN Insurance Council (AIC), it comprises 13 members of insurance associations of the countries’ members and it focuses on risk diversification and underwriting capacity. In addition, the ACMF (ASEAN Capital Market Forum) in 2009 proposed implementing plans to harmonize the standard, to have mutual recognition and liberalization of

²⁵⁶ AFAS Official Text: http://investasean.asean.org/files/upload/Doc_08_-_AFAS.pdf

²⁵⁷ ASEAN, “Conclusion of The ASEAN trade in services Agreement”, Annex B, 29th August 2018. Link: https://www.gov.sg/~sgpcmedia/media_releases/mti/press_release/P-20181112-1/attachment/Annex_B_Factsheet_on_Conclusion_of_ATISA.pdf

²⁵⁸ ACIA, “ASEAN Comprehensive Investment Agreement”, http://investasean.asean.org/files/upload/Doc_05_-_ACIA.pdf

²⁵⁹ OECD (2010), “Southeast Asian Economic Outlook 2010”, OECD Publishing, Paris, <https://doi.org/10.1787/9789264096004-en>.

²⁶⁰ Ward Oliver, “An Integrated banking framework of the future: Can ASEAN avoid Europe’s Mistake?”, ASEAN Today, 25th July 2017. Link: <https://www.aseantoday.com/2017/07/an-integrated-banking-framework-of-the-future-can-asean-avoid-europes-mistakes/>

the legal work area. One instrument that is particularly important are the MSMEs loans (Micro and Small and Medium Enterprises). These are a type of loans given to micro enterprise to start or improve micro-business, the Blueprint 2025 stresses the importance of these which are considered vital to create an efficient investment ecosystems. The part A concluded with the objectives related to the labor integration within the country members

ASEAN Economic Blueprint 2025

Core Elements	Actions
A. A Highly Integrated and Cohesive Economy	
1. Trade in Goods	<ul style="list-style-type: none"> • Strengthen the ATIGA (2001); • Simplify the Implementation of ROOs; • Accelerate the Implementation of TFA measures; • Reducing or finding alternative ways to NTMs; • Harmonization of standards and regulations
2. Trade in Services	<ul style="list-style-type: none"> • Enhance ASEAN countries competitiveness in service; • Continue the work carried out by the AFAS and the ATISA; • Develop mechanism to attract more FDI; • implementing more GVC activities; • Technical Cooperation in services in the HRD sector
3. Investment Environment	<ul style="list-style-type: none"> • Improvement of the ACIA; progressive liberalization of the restrictions in various sectors; • intensify the investment protection; • guarantee transparency of investment laws and regularizing; • boost the activities of the CCI
4. Financial Integration, Inclusion and Stability	<ul style="list-style-type: none"> • Facilitating intra-ASEAN trade, insurance and capital markets; • Greater market access for QAB trough the ABIF; • Facilitate investments in the region via the ACMI; • Boost finance ecosystems through MSMEs
5. Labor	<ul style="list-style-type: none"> • Facilitate the movement of skilled labor; • Implementation of the AQRF; • support the MNP.
6. Enhancing Participation in Global Value Chains	<ul style="list-style-type: none"> • Deep regional integration with better economies of scale and collective efficacy

Figure 30. The figure summarize the part A of the ASEAN Economic Blueprint 2025. Source: Own Elaboration via ASEAN Economic Blueprint 2025.

with the implementation of the ASEAN Qualifications Reference Framework (AQRF). This reference allows comparisons of the education titles and qualification among the member institutions for skilled-worker and the Movement of Natural Persons (MNP). These arrangements aim to facilitate the movement of person and business visitors.

The part B of the Economic Blueprint 2025 is dedicated to the construction of a “competitive, innovative and dynamic ASEAN”. Firstly, it is essential to ensure an effective competition policy through the strengthening of competition-related agencies, regional cooperation arrangements on competition and alignment of the various FTAs. Nevertheless, the organization along with the pursuing of a more competitive region put also the consumer protection as a key point, to achieve via an integrated legislation and efficient monitoring practices. Intellectual Property rights are also important issues of cooperation as stated in the point B.3. (Figure 31), the ASEAN recognize the necessity for the next 10 years to support the economic development of the IP sector, offices and infrastructure. The ASEAN has been implementing the PCT (Patent Cooperation Treaty), Madrid Protocol, Hague Agreement, STLT (Singapore Treaty on the Law on Trademarks) and all the WIPO treaties. Importance is given also to the IP ecosystems that has been represented by the aim of the creation of an ASEAN offices’ network which deal with IP, patents, trademark, design and innovation technologies. The idea is to support innovation and research with a strengthening of entrepreneurship, business incubators and R&D network and improving physical and institutional connectivity another goal of the Blueprint. Taxation cooperation, good governance and regulatory practices all key points in the economic integration process, in particular the programmed with knowledge partners such as the OECD or the ERIA in order to build up particular programs for each different development stage of the ASEAN countries. The last two points are dedicated to the Sustainable Economic Development and the importance given to the Global Megatrends and trade-related issues. The first one focus on the protection of the environment and the natural resources, promoting green development process. It is also important to mention the electricity trade’s agreements like the APG (ASEAN Power Grid) and the cooperation for the usage of the LNG (Liquefied Natural Gas) under the TAGP (Trans-ASEAN Gas Pipeline). The TAGP is an ambitious project started in 2002 that aims to interconnect the already existing gas pipeline under the supervision of the ASCOPE (ASEAN Council on Petroleum).

B. Competitive, Innovative and Dynamic ASEAN

1. Effective Competition Policy	<ul style="list-style-type: none"> • Operational and Effective Laws on Competition; • Enforce the capacities of the competition-related agencies; • support a "competition-aware" idea; • establish Regional Cooperation Arrangements;
2. Consumer Protection	<ul style="list-style-type: none"> • Create a common ASEAN consumer protection framework; • create a higher consumer confidence and cross-border commercial transactions
3. Strengthening Intellectual Property Rights Cooperation	<ul style="list-style-type: none"> • Enhance the IP protection with the support of IP offices and infrastructure; • complete the implementation of the PCT, Madrid Protocol Hague Agreement, STLT and WIPO's treaty.
4. Productivity-Driven Growth, Innovation, R&D and Technology Commercialization	<ul style="list-style-type: none"> • Give more relevance to the role of technology adaptation and diffusion; • promotion of strategic partnership in universities and research institutions.
5. Taxation Cooperation	<ul style="list-style-type: none"> • Improvement of network of bilateral tax agreements and tax structures; • implementation of exchange of information; • discussion of base erosion and profit shifting.
6. Good Governance	<ul style="list-style-type: none"> • Enhancing public governance through transparency and collaboration with the private sector
7. Effective, Efficient and Good Regulatory Practice	<ul style="list-style-type: none"> • Ensure that regulations are pro-competitive and non-discriminatory; • GRP consultations and forums; collaborate with knowledge partners (OECD, ERIA)
8. Sustainable Economic Development	<ul style="list-style-type: none"> • Create supportive policies for the usage of renewable energies; • Multilateral Electricity Trade under the APG, LNG and TAGP; • development new technologies and management systems
9. Global Megatrends and Emerging Trade-Related Issues	<ul style="list-style-type: none"> • To sustain the regional economic dynamism and the quality of life it is needed to create appropriate strategies for global mega-trends and emerging trade-related issues

Figure 31. The table summarize the part B of the ASEAN Economic Blueprint 2025. Source: Own Elaboration.

The last point is targeting the interest that organization share for the Global Megatrends, that can be defined as a “variety of large-scale, high impact and often interdependent changes”²⁶¹ and the emerging trade-related problems.

The part C is dedicated to the sectoral cooperation and connectivity for specific and key sectors. The Blueprint highlights 9 major sectors that need a further development in regional coordination:

- **Transport.** The fragmentation of the region require a deep connectivity in air, maritime and land transport. The strategic measures include for the land transport the integration of the infrastructures (road and railway) or the creation of new corridors and the further implementation of the CBTP (Cross-Border Transport Passengers), for the air transport enhance the ASAM (ASEAN Single Aviation Market). Regarding the maritime movement the organization decided to establish the ASSM a ASEAN Single Shipping Market with the aims of ensuring safety with the implementation of the IMO (International Maritime Organization), security and economic cooperation. In term of logistic and infrastructure the ASEAN created an important agreement’s framework including: the AFAFGIT (ASEAN Framework Agreement on the Facilitation of Goods in Transit), AFAFIST (ASEAN Framework Agreement in the Facilitation) and the AFAMT (ASEAN Framework Agreement on Multimodal Transport).
- **Information and Communication Technology.** The support of the ICT sector is undoubtedly a key element for the ASEAN and it passes through the technological developments like Smart City, Big Data and ICT Infrastructure.
- **E-Commerce.** The E-Commerce can be defined “The transaction of buying or purchasing of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders” [OECD Guide to Measuring the Information Society, [2011](#)]. It is certain that this form of purchasing have increased in the last years, the ASEAN recognizing the importance included in the AEC vision 2025 included few key actions such as: harmonization of the consumer rights (personal data and privacy protection) or efficient schemes for e-identification.
- **Energy.** The APAEC will be implemented in two phases: the first one between 2016-2020 and the second during 2021-2025. We already quoted the APG and TAGP and these go along with the promotion of CCT (Clean Coal Technologies). The members states agree

²⁶¹EEA, “Global Megatrends and Planetary Boundaries”, Link: <https://www.eea.europa.eu/themes/sustainability-transitions/global-megatrends/global-megatrends-and-planetary-boundaries>

to reduce energy intensity by 30% by 2025 and to increase the percentage of Renewable Energies by 2020.

- Food, Agriculture and Forestry. The cooperation in the FAF sector is aiming to different purposes: firstly increase the crop production and trade, maintaining a sustainable and equitable production and promote the organic agricultural products.
- Tourism. The ASEAN countries receive millions of tourists every year, the organization focused on creating a campaign to promote a “Single-entity destination” instead of country-based tourism. The tourism industry should be expanded through the increase in standards for facilities and destinations.
- Healthcare. The Healthcare system in the ASEAN is working well in some countries (Malaysia, Thailand and Singapore) but it needs improvement in term of cooperation. The ASEAN is working towards a progressive opening to the private healthcare market, increasing the PPP investments, harmonization of the healthcare products and services and develop a regulatory framework for medicines and food supplements.
- Minerals. The AEC vision 2025 sees also the implementation in two phases of the AMCAP Action plan 2016-2025. The scheme is promote the exchange of information in the Mineral sector, the environmental and social aspects and the R&D for the mineral resources.
- Science and Technology. The ASEAN is also focusing on the STI (Science, Technology and Innovation) sector with the APASTI (ASEAN Plan of Action on Science, Technology and Innovation), a specific plan of measures thought for this sector. The main objectives are: strengthen the STI infrastructures, research centres and facilitates, develop more mobility plan for scientists, create a support action for women in the science sector and innovative systems to manage STI companies and spin-offs created.

Finally, The part D and E are dedicated to the idea of creating a “resilient, Inclusive, People-Oriented and People centered and global ASEAN”. The process should see the strengthen of the MSMEs in the development process, helped by the partnership with MNCs (Multinational Companies) and the promotion of entrepreneurship and human capital. The private sector plays a significant role in the AEC vision 2025 and a more systematic cooperation with the public sector will definitely benefit the project. The effort regarding this matter produced the creation of the ASEAN-BAC, nine ASEAN+1 business councils and 66 business entities interacting in different sectors. There are then two points that must be mentioned since they also cover great problematics

and difficult processes inside the organization: the development gap between members countries and the economic international relations. The first one includes a narrowing process of the gaps that are quite important in the region, a relevant initiatives are the numerous projects coordinated with the sub-regional entities such as the BIMP-EAGA²⁶², the Thailand Growth Triangle (IMT-GT) and the Greater Mekong Sub region. The second one is the ambition of progress in increasing the number of FTAs and CEPs with the main regional partners such as: China²⁶³, Japan, Republic of Korea, India, Australia, India. Furthermore the ASEAN recognize essential to collaborate with the main economic global actors (USA, EU) and the international organizations who are helping the integration process (WTO, UN and OECD). At the end, the document also provides a brief explanation of the implementation mechanism with a monitoring system of the decided measures. In conclusion we will focus on few thoughts about the regional process and why it can be considered a beneficial one. The ASEAN Economic integration process can be seen as the most rational among the different regional organizations one for these main reasons:

- Even though the countries members participating in the AEC projects are not confining by land, they are still geographically close, thus like the NAFTA and EU the South Asia Countries recognize the importance and benefits of a cooperation in the economic and security fields. Nevertheless, differently from the UE and NAFTA, these countries did not have a long history of intra-regional commerce being colonies of the European states, thus acting just as their preferential trading partners. As we have seen the ASEAN intra-trade commerce have grown significantly in the last 20 years but the finalization of the AEC will definitely give an important boost to the regional project.
- ASEAN consists of economies of scale quite small, with large differences in the GDP per capita and still in a developing stage. The creation of a compact and united trading block can create efficient development program and help the governments to interact with the important key economic global actors such as USA, Japan and EU and will give more power in the negotiation like the Doha Rounds or the WTO forums.
- A greater cooperation in terms of regional commerce will attract more investments. Being these economies limited, a unified market will be more interesting for the international investors for example since more product will be sold inside the ASEAN market instead

²⁶²We can say that East ASEAN Growth Area is the sub regional economic cooperation initiative of the insular part of the region, indeed it comprehends: Brunei, Indonesia, Malaysia, The Philippines and Timor Leste.

²⁶³ For the city-state of Hong Kong the ASEAN provided a particular FTAs concluded in 2017, the AHKFTA (ASEAN-Hong Kong Free Trade Agreement).

of being exported. The competition with China in attracting more FDI has let the integration process being even more important.

Inside the AEC the role of Singapore has been dubious from the beginning. The city-state has the highest GDP per capita in the region and geographically is in the middle of the Southeast Asian. In its participation to the ASEAN Singapore has decided, in different situations, to sign agreements for the construction of FTAs with the external trading partners. In 2000 Singapore signed a FTA with New Zealand, after this critics emerged and it has been stated that this political behaviors could have had a negative impact in the area. On the others side Singapore was dissatisfied with the slow progression in the reduction of the tariffs firstly in the APEC and then in the AFTA. The recent success in reduction of the tariffs shown that the process is still on-going and necessities time: Singapore could not think that undeveloped and agriculture-based economies, particularly in the Indochina Region, opened completely to the international trade without protecting their local production. For this matter is important to make some distinctions. Firstly, countries can use some workarounds like the exclusion of some sectors from liberalization, invoking for example the infant industry theory like Malaysia have done for the national automotive sector, causing the reaction of Thailand which threatened to nationalize the palm oil production.²⁶⁴ Nevertheless, the countries members can decide to put some sectors in an inclusion list, a temporary exclusion list, a sensitive list and a general exception list.²⁶⁵ The infant industry theory has been used in different cases, for example in Korea and Japan²⁶⁶, and It has proven to be successful even though it clashes with the diktat of the WTO and the IMF. In other words there is trade-off between a quick and total liberalization of the trade and the orthodox strategies that can help the economic development and the Asian model of industrialization.²⁶⁷ The process of the ASEAN with its economic view can be considered really close to the various regional block like the NAFTA, the MERCOSUR (*Mercato Comun del Sur*) and the ANZCERTA (Australia-New Zealand) but still far from the European Model of regional integration: the lack

²⁶⁴ Fujita M. (1997), "Industrial Policies and Trade Liberalization -The Automotive Industry in Thailand and Malaysia-", APEC Study Center, Institute of Developing Economies. Available: http://www.ide.go.jp/library/English/Publish/Download/Apec/pdf/1997_06.pdf

²⁶⁵ AFTA Official Text, Chapter

²⁶⁶ Chang Ha-Joon (2001), "Infant Industry Promotion in Historical Perspective -A rope to hang oneself or a Ladder to Climb With?", A paper prepared for the conference "Development Theory at the Thershold of the Twenty-first Century", 28-29 August 2001, ECLAC, Santiago, Chile. Available: <https://pdfs.semanticscholar.org/45cd/5234d05362469374e26b698f6316b3785810.pdf>

²⁶⁷ Michèle Schmiegelow, « The Asian Newly Industrialized Economies: A Universal Model of Action », *Civilisations* [En ligne], 40-1 | 1991, mis en ligne le 07 juillet 2009, consulté le 01 janvier 2019. URL : <http://journals.openedition.org/civilisations/1682> ; DOI : 10.4000/civilisations.1682

of a central decision-making power, the absence of an organization monetary institution and the different historical regionalization process make the ASEAN an hybrid and in-development institution.

2.4.3 Financial Cooperation: Lessons from the Asian Crisis (1997-1998) and the Chiang Mai Initiative

This paragraph will focus on the financial integration of the ASEAN and it will be divided in two main parts, the first one will focus on the explanation of the causes and the effects of the Asian Crisis (1997-1998). The second one will be dedicated to the main instruments the countries of the region decided to use to try prevent these critical situation: the Chiang Mai Initiative and the Asian Monetary Fund (AMF).

The Asian Financial Crisis interested the countries of Southeast Asia at the end of the XX century, between 1997 and 1998. It was caused by a speculative financial operation which caused a depreciation of the currencies and the uncoupling from the US dollar, the crisis was mainly due to the heavy indebtment of the private sectors (banks and companies) which create a sudden capitals outflow of the foreign investors and credit institutions. The crisis manifested in different aspects: speculative attack of the local currencies (depreciation), the fall of the stock and the property market, leading to a subsequent fall of banks, companies and financial institutions. The critical situation was caused by the financial sector but it then reflects to the economies and the society of the countries (rise of unemployment and inflation rate), the impact on the account balance was not that important as expected and on the economic growth. This can be explained by the fact that the deficit was restrained by the slowdown of the imports due to the recession and moreover the economic growth was supported by the reduction of the value of the currency and the price of exportations along with the low cost of oil. The inversion of the capital flows between 1996 and 1997 accounted for US\$ 105 billion, more than 10% of the GDP of the Asian countries interested. The financial flows in the economies of the East Asia and the Pacific region had increased from US\$ 26 billions in 1990 to US\$ 100 billions of 1997: most of these funds were FDIs and bank loans. Most of the part of this liquidity appeared in excess in relation to the necessity of the economics systems, nourishing a speculative phenomenon, particularly in the housing sector. Before this episode the economies of the region have experienced a decades of economic expansion granted by the facility of lending, causing a great dilatation of the private credit (named mostly in dollars). This was mainly due to a financial sector strongly deregulated and fragile, with credit institutions pushing towards internal and external investments, sure of a

governmental intervention in case of solvency problems. At the same time the private enterprises appeared excessively in debt and exposed to volatile risks of the short-term investments, subjected to the variation of the international rates.

The triggering factor was the pegging of the national currencies to the dollar, which from 1995 have gone through a reevaluation of the change. The relative weakness of the dollar granted the competitiveness of the goods from Malaysia and Thailand and the exports did not decline dramatically. The currency crisis were determined both to the short-term nature of the foreign investments and the conversion of the national activities and portfolios in an foreign currency.

With these premises, the beginning date of the crisis can be considered the 2nd July 1997 and it started originally from Thailand. The Thai Baht had a fixed exchange rate with the US dollar from the 80s at 25 baht per dollar, that day it devalues by about 15-20% (28.80 baht per dollar) of its nominal value (Figure 32). Thailand economy grew at an impressive rate of 9% between 1985 and 1996 and

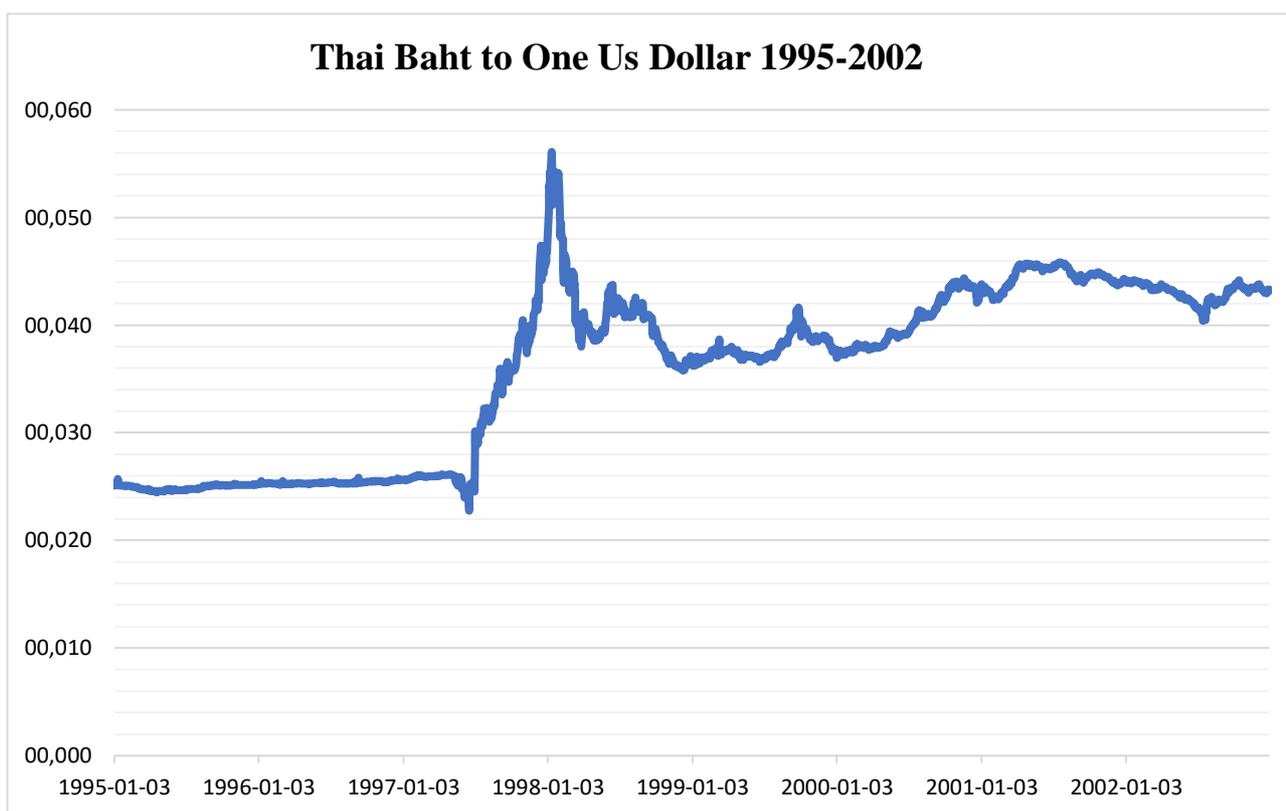


Figure 32. Monthly Time series of the Thai Baht to One Us Dollar for the period 1995-2002. Sources: Own Elaboration. Data retrieved from [Federal Reserve Bank](#)

contemporary it opens its market to liberalization, pushed by the IMF and the Federal Reserve. This attracted numerous transitions of the American hedge fund who invested more than US\$ 400 millions in the country. The first speculative attacks started in May 1997 but did not convince the government to depreciate immediately the Baht, the reluctance and insecurity of the Thai

authorities can be consider an aggravation factor of the crisis. After two months the baht was released from the international currencies (dollar, deutsche mark and yen) and let it fluctuate in the national market.

Attempts were made to defend the currency, firstly with the currency reserves then with uncontrolled devaluations and rise of interest rate but without any positive consequences. The capital flight, pushed by the concerns of new devaluation, nourished the vicious circle of the financial crisis and put in even worse situation the banks and the companies. The FMI intervened with two measures in the august 11th and 20th 1997 lending to the Thai government more than 20 billions US dollars to restore the national deficit and re-establish the confidence of the exchange market.²⁶⁸ The FMI, along with the funds, presented to the Thai institutions a plan of “structural adjustment”: a cut of the current expenditure and the deficit, measures of liberalization and privatization, rising of interest rates and a reform of the legislation on bank a credit institutions. These actions brought few doubts since it appeared as an attempt to give an important value to the western bank which contracted loans with Thai companies. Paradoxically, the funds of the IMF increase even more the speculative actions and the capital flights from the Thai economy: at the end of October the devaluation of the baht reached almost 60% from 1996. In addition, the structural reforms proposed by the IMF raised concerns on the neutrality of the IMF, accused to diminish the national monetary sovereignty and the liberalization of the capital market for the benefit of the western investors.

The other two countries were the crisis had a great impact have been Indonesia and South Korea. The first one had a better situation in comparison of Thailand: a low inflation rate, a surplus of the trade balance and a reserve of foreign currencies of UD\$ 17.2 billions. In the July 1997 agreed to increase the trading band of the Rupia from 8% to 12%²⁶⁹ but the speculative attacks in the August of the same year forced the government to re-introduce the flexibility of the exchange rate, causing the devaluation of the rupiah. Even though the crisis started in the summer 1997 the real effects on the account balances of the private companies began in November, these firms were highly indebted with US dollar and the unstainable costs caused by the devaluation of the rupiah forced them to buy more dollars to repay their creditors. The growth of the inflation rate and subsequently the price of alimentary goods caused riots in all country, concluded with more

²⁶⁸ Official Press: <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr9737>

²⁶⁹ Tambunan Tulus T.H., “The Indonesian Experience with Two Big Economic Crises”, *Modern Economy*, 2010, 1, 156-167. doi:10.4236/me.2010.13018 Published Online November 2010 (<http://www.SciRP.org/journal/me>)

than 500 deaths just in Jakarta in May 1998.²⁷⁰ The Indonesian's GDP declined importantly from a positive average of 7.1% during 1990 and 1996 to a negative 7.6% in 1998, with a peak of a contraction of 13% in the same year [World Bank Data, 2018]. In addition, the high unemployment rate and the high cost of living also brought out the simmering inter-ethnic fights (particularly against the Chinese community) and settled down with the past economic development.²⁷¹

For the case of South Korea, the country had managed after the war (1950-1953) to increase by eight times its GDP per capita in three decades. The reduction of literacy and the strong investments to reduce the technological gap with the main global economic granted to South Korea to become a stable member of the OECD.²⁷² Nevertheless, the crisis in this country started commonly to the other ones in the region due to the high indebtedness rate of the private companies to the foreign currencies: at the beginning of 1997 two of the biggest South Korean conglomerates, the Hanbo Steel and Sammi Steel, went bankrupt and the financial situation of the countries aggravated. The western banks decided to not renew their loans to the Korean banks, limiting the vital flows of capital and penalizing the economy. The Korean Stock Market lost 4% of its value the 7th November 1997 and 7% the day after. Nevertheless, years after South Korean economy recovers brilliantly and it still remains one of the most flourish economies in the global context. We can understand different lessons from this crisis, coming from the mistakes of both the national governments and the IMF. The IMF misinterpretation and errors in its intervention can be summarized as follows:

- Restricted volume of the packages, Thailand received \$17.2 billions, clearly not enough to stem the crisis.
- The rigid fiscal policy undermine the aggregate demands, the inflexible monetary policy and excessive structural conditions led to important social problems.
- Free floating of the currencies that led to depreciations.
- Banking sector negligence (16 banks in Indonesia were closed without guarantees for bank deposit) and a fragmenting and misleading financial regulation.

²⁷⁰ Winarta Frans, "The mystery of the May 1998 tragedy", The Jakarta Post, 13th May 2014. Link: <https://www.thejakartapost.com/news/2014/05/13/the-mystery-may-1998-tragedy.html>

²⁷¹ Bertrand, J. (2008). Ethnic Conflicts in Indonesia: National Models, Critical Junctures, and the Timing of Violence. *Journal of East Asian Studies*, 8(3), 425-449. Retrieved from <http://www.jstor.org/stable/23418633>

²⁷² Carrol Peter, "Korea's accession to the OECD: A history", Tasmanian School of Business and Economics, University of Tasmania, OECD Observer. Link: http://oecdobserver.org/news/fullstory.php/aid/5658/Korea_92s_accession_to_the_OECD:_A_history.html

Clearly the IMF did not give the best solution for these economics problems but the most important lesson that can be learnt from this is that is better prevent a problem than solve one: more importance should have given to the macroeconomic and finance monitoring. After the crisis emerged the necessity of a well-planned system of regional financial framework to prevent this type of situation, which can be beneficial in three ways. Firstly, the dependence on the IMF was not the best option, secondly the regional supportive structure would have prevented the crisis or helped manage it better. Lastly, the crisis showed another factor typical of regional economies and the global world: the contagion effect coming from a single country on the others nations also hidden a strong financial interdependence, thus a cooperation in that sector would be more than logical.

With this prospective, the governors of the ASEAN+3 (including also China, Japan and Korea) met in 1999 and decided to launch two measures: the ERP (Economic Review and Policy Dialogue) and the Chiang Mai Initiative (CMI). Both of them started in May 2000 and since then the ASEAN+3 through the ASEAN Financial Ministers Meetings started a development of the regional financial integration as can be seen from the figure 33.

The ERP was established as a peer review and policy dialogue mechanism with the main objective of preventing financial crises through the disclosure of anomalies and exposures, thus promoting macroeconomic stability and security. The main process is aiming to facilitate information sharing, swap of financial, monetary and fiscal concerns. The ERP mechanism includes: evaluation of global, regional and national economic situation, auditing of the area capital flows and currency markets, examine and determine the risks of financial sector, enhance the banking and financial environment and give to the region more importance in the reforms needed to the international financial system. Nonetheless, the improvement have been carried out mostly at national level: most of the ASEAN+3 countries have established cautionary organizations. At the early stage the absence of a supporting and monitoring mechanism was not that fruitful but more recently Group of Experts (GOE) and Technical Working Groups and Financial Monitoring (ETWG) in order to solve this problem. Without a centralized control organism would be difficult for the new creditors to recognize potential risks, therefore in 2005 the ERP was integrated in the Chiang Mai Initiative, trying to intensify the effectiveness of the organization. Moreover, the AMRO (ASEAN Macroeconomic Research Office), a new monitoring entity, was created in 2011 with the essential aim of “conducting macroeconomic surveillance, supporting the implementation of the Chiang Mai Initiative Multilateralization

(CMIM), and providing technical assistance to members.”²⁷³ Later in 2012 bank executives started affiliating with the ASEAN+3 and also contributing in the ERPD and CMI processes. Other forums are also present in the region aiming at the discussion on the policies and the information exchange. Some of them are the EMEAP (Executives’ Meeting of Asia-Pacific Central Banks), SEACEN (Southeast Asian Central Banks) and the SEANZA (New Zealand and Australia).

The Chiang Mai Initiative is a landmark liquidity support facility with the two main aims: help potential and actual BOP (Balance of Payment) short term liquidity, supplement international arrangements and reduce the risk of regional contagion effect. The initiative started with a system of connected bilateral swap arrangements (BSAs), which are short-term reciprocal lines of credit between countries for the ASEAN+3 countries and also for selected ASEAN countries with the ASA (ASEAN Swap Arrangement). The total value of these currencies swaps is increasing over time, it started with less than \$1 billion in 2000 and currently the governors agreed to reach the 240 billion in the next years.²⁷⁴ The idea is to give an addition to the international financial arrangements that work closely with the IMF. One of the most important features is that the country most affected by the crisis, which has short-term liquidity problems, could demand and obtain a 10% of the BSA swap arrangements. In addition, the BSAs necessitate a partnership with the country to perform the bilateral agreements if the country is facing a crisis situation: this was made as a security mechanism to not let speculative private attacks but let monetary authorities provide liquidity. Another important step was the multilateralization of the CMI (which became CMIM): firstly using a collective decision making procedure for the swap activation in 2006 and then approving a self-managed reserve pooling arrangement governed, carried out by a contractual accord.

²⁷³ AMRO Official Website: <https://amro-asia.org/about-amro/who-we-are/#overview>

²⁷⁴ Tetsushi Kajimoto, “Japan boosts currency swap deals with some ASEAN nations”, Reuters, 13th December 2013. Link: <https://www.reuters.com/article/us-japan-economy-swaps/japan-boosts-currency-swap-deals-with-some-asean-nations-idUSBRE9BC03V20131213>

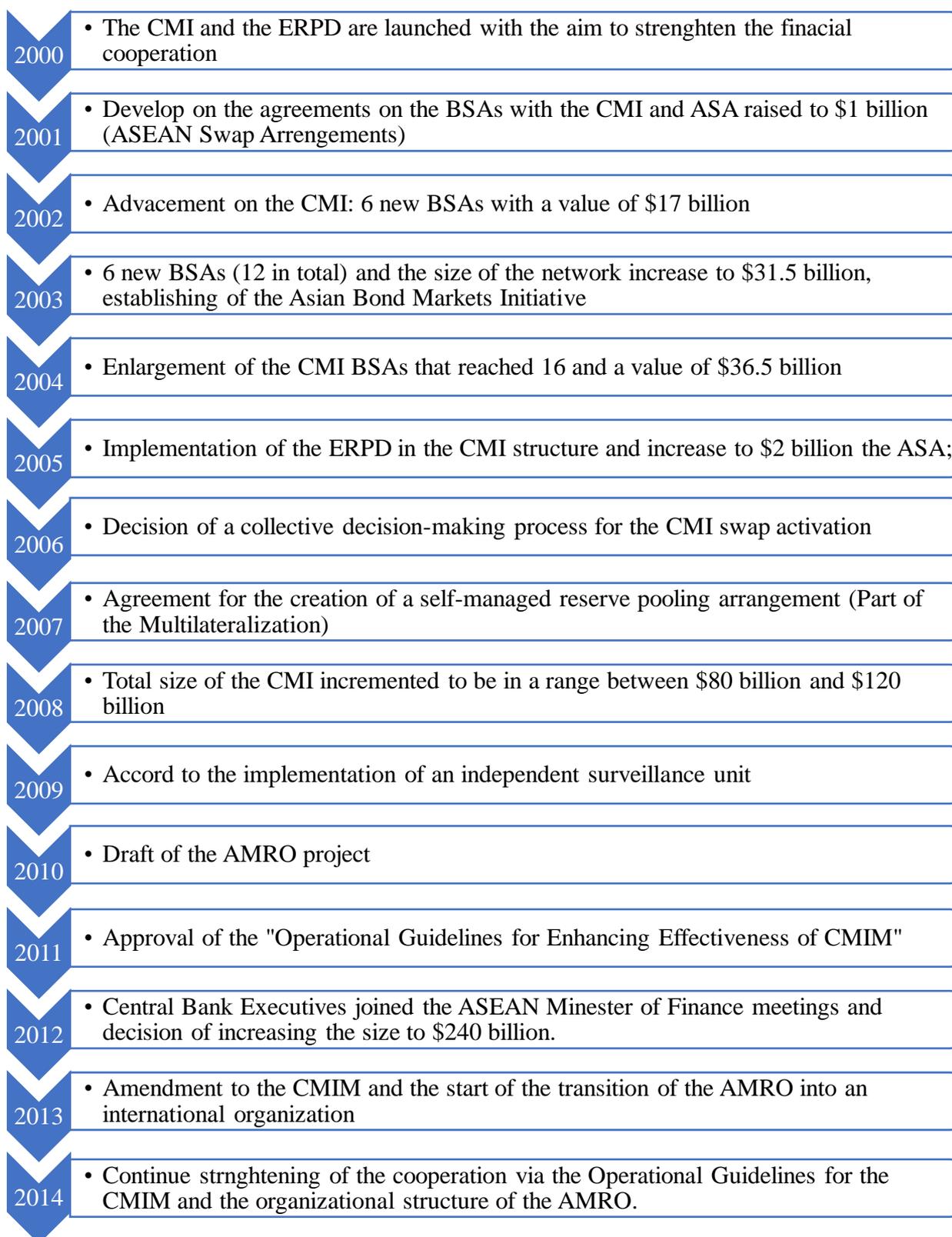


Figure 33. The main steps of the financial integration for the ASEAN. Source: Modified from ADBI Working Paper No. 527, p.10.

Chapter 3. Thailand Economy

3.1 Macroeconomic Trends

Situated in the mainland and peninsular area of the Southeast Asia, Thailand covers an area of 513 120 km² which makes it the third biggest country in the region. It confines in the east with Myanmar, in the north and north-west with Laos, in the west/south-west with Cambodia and in the South with Malaysia. The natural borders include the Andaman Sea in the east, the Gulf of Thailand in the South and the *Krah* Isthmus which divides the country from Malaysia. Thailand is divided in 5 big regions (North, center, north-east, south and east) and 76 provinces plus Bangkok special administrative area, each of the sub-division have provincial authorities (figure 34). The population is 68 million as of the most recent estimates and it grows by a low rate of 0.3% per year. The biggest city is Bangkok counting in the metropolitan area²⁷⁵ around 15 million people, it has served as the capital of the kingdom from 1782. Bangkok is also considered the most important economic and logistic hub for the country and one of the most vibrant cities in Southeast Asia. Other important cities outside the capital region are: Chiang Mai, Udon Thani and Nakhon Ratchasima. From the Ethnic point of view, 91.5% of the population is Thai, 2.3% Khmer, 2.1% Khmer and 1.5% Bamar [World Atlas, [2018](#)], even though significant ethnic intermixing with other groups (mostly Chinese) has been common for years. The most important and observed religion of the country is Theravada Buddhism, almost 93.6% of the population is considered Buddhist, other religions are Islam (4.6%) and Christianity (0.9%).

Thailand once known as Siam opened its commerce to foreign partners in the pre industrial era²⁷⁶: the kingdom did not have lot of natural resources but they build important trades with Persian, Indian and Chinese due to its numerous littoral ports and cities. The Ayutthaya period in the 14th century, under the influence of Chinese commerce, was one of the most flourishing for the country. The European colonization did not touch directly Thailand but European merchants had been active in the country in the 18th and 19th centuries, testified by the treaties signed some

²⁷⁵ The Metropolitan area of Bangkok comprehends: *Samut Sakhon, Nakhon Pathom, Nonthaburi, Pathum Thani* and *Samut Prakan*.

²⁷⁶ Pre-Industrial Era is the generic term that refers to the social and political organization that occurred before the Industrial Revolution happened during 1750-1850.

western countries: The Bowring Treaty with Britain in 1855 and the Harris Treaty with USA in 1833, both



Figure 34. Political Map of Thailand with the 76 provinces division.

of them giving advantages to the countries' traders. The market developed slowly in the 18th centuries: the cause was, most likely, the slavery system of the kingdom with most of the people being under the order of king's officials. The system was abolished in 1905 by king Rama V²⁷⁷. In the first half of the 20th century Thai economy became gradually globalized with the export of agricultural products, mostly rice, with the Chinese being the major entrepreneurs ethnic group, which then integrated in the Siam nation.²⁷⁸ The Great Depression period (1929-1939) impacted greatly in Thailand deteriorating the economic situation and it can be considered one of the triggering aspect for the Siamese Revolution in 1932, which changed the political asset of the country from an absolute monarchy to a constitutional monarchy. During the Second World War Thailand was allied of the Japanese and after the war it was obliged to supply 1.5 million tons of rice to the Western Countries²⁷⁹, this was an important burden to the economic development of the country. The wartime prime minister Phibulsongkran returned to his office in 1948 and in order to maintain his power he pursued an anti-communist propaganda, looking for the help and assistance from the USA, which supported economically Thailand in different periods. In addition, he started a nationalization process by creating state-owned companies in relevant sector, for this reason the type of economy established in Thailand period between 1932 and 1960 has been called "Bureaucratic Capitalism".²⁸⁰ Other reforms made by Phibulsongkran interest the fiscal system, moving from a multiple-exchanging-rate policy to a fixed one (which was maintained until 1984). After the fall of Phibul regime in 1957 the general Thanarat took the power, changing the economic path of the country by enhancing the infrastructure and started privatizing the state-owned companies, always with the support of the US.²⁸¹ This period was also relevant for the creation of important economic national organizations such as the Thailand Board of Investment (BOI) established in 1966 and the National Economic and Social Development Board Office (NESDB) in 1972. These measures helped the country boost its economy during the 1960s with an estimated growth of GDP being 4.64% for the period 1962-1972.

²⁷⁷ Feeny, D. (1989). The Decline of Property Rights in Man in Thailand, 1800-1913. *The Journal of Economic History*, 49(2), 285-296. Retrieved from <http://www.jstor.org/stable/2124063>

²⁷⁸ Walwipha Burusratanaphand, "Chinese Identity in Thailand", *Southeast Asian Journal of Social Science*, Vol. 23, No. 1, The Ethnic Chinese of Thailand (1995), pp. 43-56.

²⁷⁹ Siamwalla, Ammar, (1975), A History of Rice Policies in Thailand (p. 234), *Food Research Institute Studies*, 14, issue 3, number 135510, <https://EconPapers.repec.org/RePEc:ags:frisst:135510>

²⁸⁰ Sungsidh Piriyanangsan. & Chulalongkonmahawitthayalai. Sathaban Wichai Sangkhom. (1983). *Thai bureaucratic capitalism 1932-1960*. Bangkok, Thailand : Chulalongkorn University Social Research Institute

²⁸¹ Karl D. Jackson and Wiwat Mungkandi (1986), *United States-Thailand Relations*. Berkeley: Institute of East Asian Studies.

Nevertheless, the kingdom went through an economic recession period from 1972 to 1984 mainly due to: the contraction of the US help, budget shortfall, increase of the oil prices and the rise of inflation. These aspects must be added to the dramatic situation in Indochina with the Vietnamese War. Thailand was the only semi-democratic and western-related bulwark in the continental Southeast Asia, surrounded by three communist countries (Laos, Cambodia and Vietnam). The most important actions against the economic difficulties were the depreciation of the Thai Baht which happened two times, one in 1981 when it went down by 9% (from THB20.775/US\$ to THB23/US\$) and then in 1984 where it went from THB23/US\$ to THB27/US\$. In the 1985 the Plaza Accord signed between Japan, US, UK, France and West Germany depreciate the dollar to the yen and the Deutsche Mark: this had a cascade effect on Thailand too since the baht was devaluated even more, making Thai export and the FDI's more competitive. The economic boom was registered between 1987-1996 when the GDP growth was on average 15% (the peak year was in 1988 with a GDP growth of 13.28%) and the economy modified from an import-substitution type to an export oriented industrialization²⁸².

Moving to the period 1990-2006 we analyzed the main causes of the Asian Financial Crisis in the paragraph 2.4.3 occurred between 1997-1998. The causes were mainly due to economic problems that Thailand experienced for several years, such as the current account deficit (averaging -5.4% for the ten years previous of the 1997) and the deficiency of capital. This led to an increasing amount of foreign debt, mostly short-term loans in the real-estate sector which created an economic bubble. These aspects added to the foreign speculation in the spot market, produced the causes that then spread in the region and impacted in the macro-economic and society of Thailand. The economy fall during these years, with a negative GDP growth of 2.75% in 1997 and 7.63% in 1998 and the GDP at current prices dropped from \$US 183 035 billion in 1996 to \$US 113 675 in 1998 (figure 35). The crisis also impacted in the politics, indeed the Chavalit Yongchaiyudh abandoned the Prime Minister Position in November 1997, substituted by the opposition leader Chuan Leekpai which led the country from 1997 to 2001. In this period the economic policies were built on the IMF neoliberalism ideas: tight fiscal policies with interest rates very high and cut on the government expenses. These measures had an initial positive effects on the GDP growth rate that in 1999 was positive, for the first time after the beginning of the crisis. Nevertheless, the IMF policies were also highly criticized, the main opposition idea was

²⁸² Pasuk Phongpaichit, "The Thai Economy in the Mid-1990s", *Southeast Asian Affairs* (1996), pp. 369-381, Published by: ISEAS - Yusof Ishak Institute, <https://www.jstor.org/stable/27912162>

that the crisis was provoked mainly by the private sector, thus cutting the national expenditure was not really necessary²⁸³. In 2001, in reaction also to these measures, was appointed as Prime Minister Thaksin Shinawatra, leader of the Thai Rak Thai Party. The economic policy that established was called the *Thaksinomics* and can be considered a response to dual other major ideas: the Washington Consensus carried out by the IMF and the East Asia Economic Model²⁸⁴. The idea by which the state withdrawing from the economy activities and intervene less than possible started to demising in the 90s with the growth of the Chinese Economy. The Chinese miracle growth was not achieved only from the trade liberalization, tight fiscal measures or massive privatization instead it was also due to the intervention of the state in the economic activities as a regulator and as a main actor. In addition, the Financial crisis gave the lesson that government should become active in the promotion of the financial regulations and the domestic competition. On the other hand the EAEM was based on two main aspects: high investment rates coming in large scale from FDI's and an exploitation of the labor-intensive industry exports. The role of multinational companies was key in this matter for both of the issues. The EAEM was successful in the terms of increasing the GDP per capita in most of the Asia and Pacific countries but it has also the negative effect leading to a price wars and to a deterioration of the trade conditions. Considered these ideas we can say that Thaksinomics was arguable but it has some solid economic ideas. It was founded on some EAEM basic elements such as the focus on the manufacturing pushed by FDI's, known as First Track, and the importance given to the internal market by concentrating on local companies skills and expertise (Second Track). The First Track's objective was to create a high-income job and attract more FDI's while the second one focused on not clashing against China directly. Most of the Asian economies were highly dependent on exports, way more than the other developed countries: the idea of the prime minister was to develop a stable domestic market, thus not being defenseless against external shocks.

²⁸³Hutson, Elaine & Kearney, Colm. (1999). The Asian financial crisis and the role of the IMF: A survey. University College Dublin, Open Access publications from University College Dublin. 4. 10.1080/13547869908724690.

²⁸⁴Looney, Robert. (2003). Thaksinomics: A New Asian Paradigm?. The Journal of Social, Political, and Economic Studies. 29.

	GDP Per capita (\$US)	GPD at constant prices Growth Rate (% Change)	GDP at Current Prices (US\$ billion)	Exports of goods and services (annual % growth)	Imports of goods and services (annual % growth)	Current account balance (% of GDP)	Inflation (%)	Thailand / U.S. Foreign Exchange Rate (Annual Average)
1990	2502.71	11.17	85 343	13.39	23.69	-8.53	5.86	25.60
1991	2684.85	8.56	98 234	15.14	12.94	-7.71	5.71	25.54
1992	2872.80	8.08	111 452	13.81	8.97	-5.66	4.14	25.41
1993	3081.75	8.25	128 889	12.98	13.23	-4.93	3.31	25.33
1994	3297.87	8.00	146 683	13.10	17.48	-5.49	5.05	25.16
1995	3530.29	8.12	169 278	15.37	22.97	-8.02	5.82	24.92
1996	3688.93	5.65	183 035	-4.48	-3.25	-8.03	5.81	25.35
1997	3545.39	-2.75	150 180	9.05	-8.69	-2.01	5.63	31.07
1998	3235.73	-7.63	113 675	10.79	-19.56	12.53	7.99	41.26
1999	3345.16	4.57	126 668	8.64	11.40	9.81	0.28	37.88
2000	3458.05	4.46	126 392	15.83	25.96	7.37	1.59	40.20
2001	3544.21	3.44	120 296	-0.02	1.47	4.24	1.63	44.53
2002	3731.03	6.15	134 300	5.89	6.22	3.47	0.70	43.01
2003	3969.42	7.19	152 280	9.13	11.10	3.13	1.80	41.55
2004	4190.03	6.29	172 895	14.63	20.30	1.60	2.76	40.27
2005	4337.26	4.19	189 318	7.76	16.19	-4.04	4.54	40.25
2006	4525.16	4.97	221 758	10.79	2.94	1.04	4.64	37.87

Figure 35. The table shows selected macroeconomics indicators for the period 1990-2006. Source: World Bank Data.

To achieve this a constant usage of governmental expenses has been used stimulate internal demand and diversification the national industry, moving away from the Asian development model's ones. This policy should not seem a retreat from globalization but more as the political and economic response to the instability provoked by the crisis. Figures say that this process was quite successful in its first period, Thai economy grew steadily between 2001 and 2006 with peaks during 2003 when the growth of the GDP was 7.19%. Thailand's economy followed a common development path in term of component of the total GDP: during the 1990s the services grew constantly while the agricultural (along with forestry and fishing) decreased. In 1990 the trade in services were 14.91% of GDP while in 2000 was 23.20%, the agricultural sector decreased from 12.50% of the GDP in 1990 to 23.20% in 2000 (figure 36).

Nonetheless, the second part of Thaksin's mandate was not that successful: the 26th December 2004 the Indian Ocean's tsunami occurred. Along with the human's tragedy this reflected on the

Thai GDP growth that shrunk by 2% in 2005 (4.19% GDP annual growth). In addition, its government went through a political turmoil, a group of protesters called Yellow Shirts emerged in 2005 and violent protests obliged Thaksin to call for general election in 2006.²⁸⁵ Thaksin's party won but the elections were declared not valid by the Constitutional Court, in this confused moment a *coup* was organized by the general Sonthi Boonyaratgin while Thaksin was in New York for a speech at the UN Assembly²⁸⁶. After the crisis and the political problems the economy of the country had a negative period, the country was governed by a military junta from October 2006, with Sarayud Chulanont former Supreme Commander of the Armed Force appointed as Prime Minister. Thailand's GDP growth in 2006 was 4.97% (Figure 34), accelerating slightly from the previous year. The Agriculture sector grew by 30.3% from 2005 thanks to the favorable climate conditions and the increase of agricultural prices [Monetary Policy Group, [2007](#)]. The Manufacture Production Index²⁸⁷ grew by 7.4%, slowing from the previous growth rate of 9.1% in 2005, mostly due to a higher cost of production and more competitive context. Services continued growing in 2006, counting for 25.81% of the GDP (figure 36).

²⁸⁵ Apivat Hanvongse, "How to understand Thailand's conflict", New Mandala, 16th December 2013. Link: <https://www.newmandala.org/how-to-understand-thailands-conflict/>

²⁸⁶ Ukrist Pathmanand (2008) A different *coup d'état*?, Journal of Contemporary Asia, 38:1, 124-142, DOI: [10.1080/00472330701651994](https://doi.org/10.1080/00472330701651994)

²⁸⁷ The MPI is an index calculated by the BOT and it serves as indicator of the production volume and roughly indicates the trend of the industrial and manufacture sector.

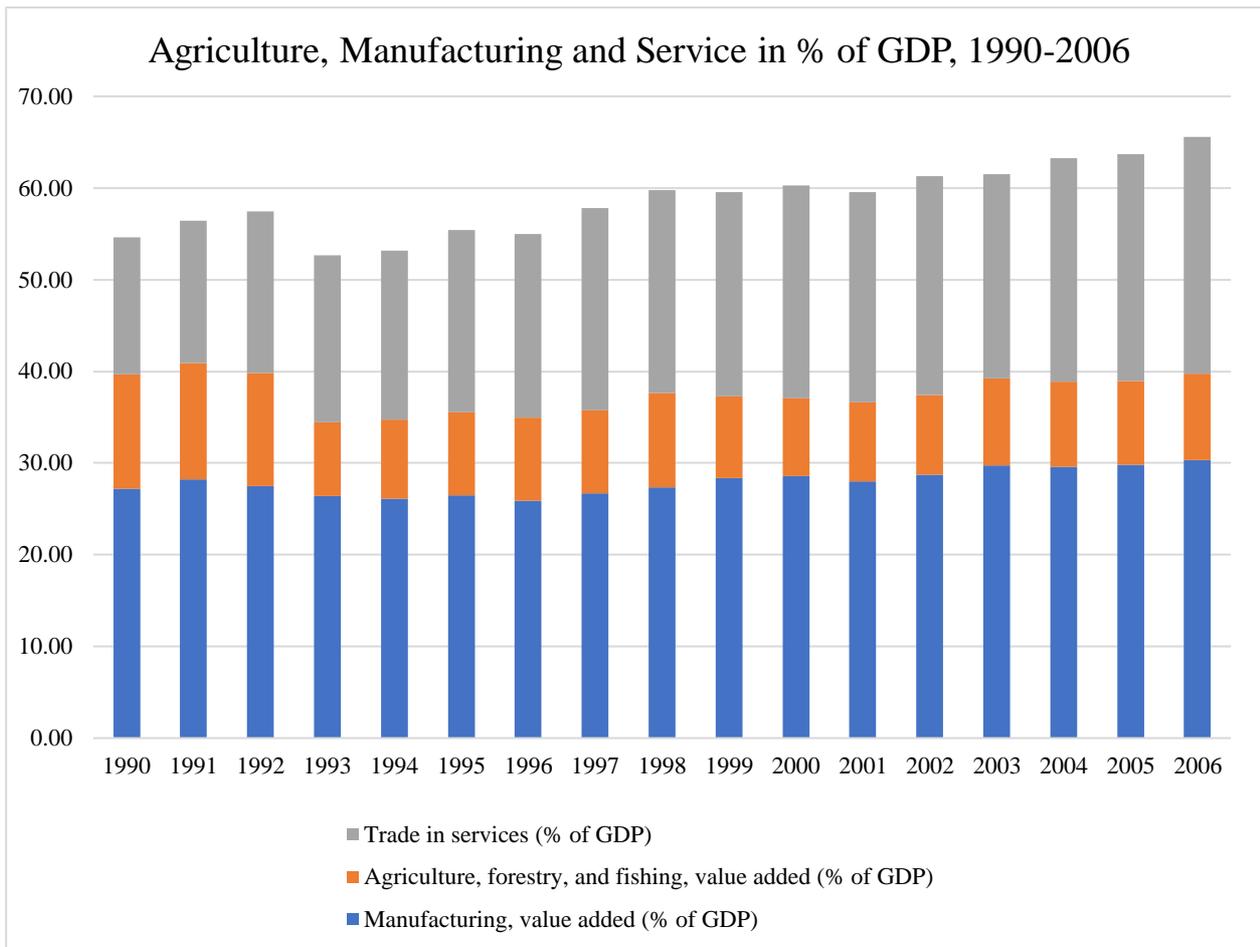


Figure 36. The graphic shows the percentage of the Trade in Service, Agricultural, forestry and fishing, Manufacturing as component of the GDP. Source: Own Elaboration via World Bank Data.

In 2007 the GDP growth was 5.44%, the agriculture slowed due to a deceleration of the production from the previous year, the MPI increased by 8.2% and the services increase, mostly due to the increase number of tourists, that reached 14.5 million in 2007 [BOT, 2007]. Private consumption increases by 1.4%, reflected also by the decreasing of the Private Consumption Index. Trade balance was in surplus by \$US 12 billion, due to a high value in exports, increasing by 8.89% from 2006. Inflation remained low to 2.24, the governmental budget expenses for the fiscal year 2007 was 1.7% of the GDP. The economic situation was quite satisfactory in 2007 and at the end of the year on 23th December the military junta proclaimed the general election, the results was the victory of the pro-Thaksin People’s Power Party (PAD), led by Samak Sundaravej. Unfortunately during this mandate the political situation aggravated. The US financial and economic crisis had a global resonance and impacted in the country in 2008 when the GDP growth was only 1.73%. The global economic downturn effected also the manufacturing production, export demand, private consumption and investments which, especially in the last quarter, declined sharply. In August 2008 the Yellow Shirts sieged the Thailand National

Government House, occupying the offices and asking for the prime minister resignation. On 9th September 2008 the Constitutional Court decided to remove Samak Sundaravej from the prime minister position and his brother-in-law, Somchai Wongsawat was appointed as prime minister.²⁸⁸ The protesters also occupied the main roads and the two main airports of Bangkok (Suvarnabhumi and Don Mueang) where temporary offices of the Government were formed in November²⁸⁹, actions that caused the reactions of the International Leaders asking for the security of the main infrastructures of the country. The emergency state led to the decision of the Constitutional Court to dissolve the PAD, this decision was controversial and "inevitably, the court was accused of double standards and therefore of being unfit to arbitrate political disputes".²⁹⁰ At the end of 2008 a coalition government led by the Democrat Party was established under the lead of Abhisit Vejjajiva and he pursued his mandate for three years until 2011, despite important pressures from the opposition (Red Shirts political coalition) and the various economic issues. In the first year of his government the GDP experienced a negative growth of -0.69% for the first time after 1998, this important shrink was mainly caused by external factors in particular the decline of exports (-12.14% from 2009) and the global economic malaise, aggravated the internal unstable political situation. The economy gained its momentum again in 2010, despite the violent protests in April and May with more than 90 deaths and thousands of injured²⁹¹, the economy growth registered in the second quarter was 9.2%, caused by an important increase of the exports led by the high demand of the Thai-manufactured cars. The government carried out measures in order to reestablish the Nation international image of a safe and prosperous place for investments and business, launching among the various projects the identification of a selected group of export partners known as "Thailand's Best Friends". Unfortunately, the year after two major natural disasters happened: a magnitude-9 earthquake provoked a Tsunami that impacted violently in Japan²⁹², one of the major economic partners of Thailand. In addition, massive float happened in Thailand during the fall of 2011 causing 800 deaths and 160 000 people displaced,

²⁸⁸ Malesky Edmund et Krislert Samphantharak, "Understanding Thailand's Ongoing Political Crisis", Democratic Asia and the West Paper Series 2011. Available: <https://sites.duke.edu/malesky/files/2014/07/Understanding-Thailand-Crisis.pdf>

²⁸⁹ Angela Balakrishnan, "Thai Protesters storm Bangkok airport as fighting escalates", The Guardian, 25 November 2018. Link: <https://www.theguardian.com/world/2008/nov/25/thailand>

²⁹⁰ Dressel, Bjoern & Tonsakulrungruang, Khemthong. (2018). Coloured Judgements? The Work of the Thai Constitutional Court, 1998–2016. *Journal of Contemporary Asia*. 1-23. 10.1080/00472336.2018.1479879.

²⁹¹ Buncombe Andrew, "Troops killed six unarmed people in temple during Thai Red Shirt protests, court rules", Independent, 6th August 2013. Link: <https://www.independent.co.uk/news/world/asia/troops-killed-six-unarmed-people-in-temple-during-thai-red-shirt-protests-court-rules-8747943.html>

²⁹² Oskin Becky, "Japan Earthquake & Tsunami of 2011: Facts and Information", Live Science, 13th September 2017. Link: <https://www.livescience.com/39110-japan-2011-earthquake-tsunami-facts.html>

the economic impact reflected mostly on the tourism and on the cars' production²⁹³. The total cost of the damages was estimated from the World Bank to be US\$ 45.7 billion [World Bank, 2011]. The general election in August 2011 saw the victory of the Pheu Thai Party (Pro-Thaksin coalition) of Yingluck Shinawatra (Thaksin's sister) that implemented some populist choices in order to maintain the votes from the rural zones. The government focused on subsidizing rice prices and provided handouts to car buyers but it lacked in investing significantly in its future accordingly to some analysts [Pasek, 2013]. The Yingluck's rice pledging scheme promised to the rice farmers a higher price than the market values in order to increase their income, for each ton of rice they received \$500 and then sold to governmental agencies. The system could have been seen as monopolistic but more than this it can be seen as a market intervention, indeed no ban was given to the private who wants to offer more of the market value decided by the government for the rice farmers. It was, undoubtedly, an attempt to crowd out the private

	GDP Per capita (\$US)	GDP at constant prices Growth Rate (% Change)	GDP at Current Prices (US\$ billion)	Exports of goods and services (annual % growth)	Imports of goods and services (annual % growth)	Current account balance (% of GDP)	Inflation	Thailand / U.S. Foreign Exchange Rate (Annual Average)
2007	4744.33	5.44	262 942	8.89	4.20	5.93	2.24	32.20
2008	4800.81	1.73	291 383	6.26	11.40	0.32	5.47	32.96
2009	4743.69	-0.69	281 710	-12.14	-20.77	7.88	-0.85	34.31
2010	5075.30	7.51	341 105	14.22	22.96	3.37	3.25	31.69
2011	5093.58	0.84	370 818	9.51	12.40	2.54	3.81	30.46
2012	5437.23	7.24	397 558	4.91	5.63	-0.43	3.01	31.05
2013	5558.84	2.69	420 333	2.69	1.68	-1.16	2.18	30.69
2014	5591.11	0.98	407 339	0.16	-5.30	3.74	1.90	32.46
2015	5739.76	3.02	401 399	0.66	0.00	8.00	-0.90	34.24
2016	5910.45	3.28	411 755	2.07	-1.36	11.72	0.19	35.26
2017	6593.29	3.90	455 220	9.7	14,4	10.57	0.67	33.91
2018*	6882.83	4.2	474 339	5.5	5.8	9.1	0.7	32.30

Figure 37. The table shows the main macroeconomics indicators for the period 2007-2018. The data for 2018 are forecasts of the MOF. Source: World Bank Data, Thai Minister of Finance, FRED.

²⁹³ Phongsathorn Patrick, "Environment and Migration: the 2011 floods in Thailand", The State of Environmental Migration 2011. Available: <http://labos.ulg.ac.be/hugo/wp-content/uploads/sites/38/2017/11/The-State-of-Environmental-Migration-2011-13-23.pdf>

speculation.²⁹⁴ The growth of the GDP was 0.84% in 2011 as a result of these aspects, exports growth was 9.51% from the previous year and the imports 12.40%. In 2012 Thailand Economy rebounded from both the floods and the Eurozone slowdown, the GDP grew by 7.24% bolstered by the private and public investments (figure 37).

In fact, the government launched two important measures: a plan for the floods rehabilitation (Water Management Projects²⁹⁵) and an action to stimulate the consumes, which helped to create an healthy internal demand and reduce the exposure to external risks [Oxford Business Group, 2013]. Inflation has remained around 3% for the period between 2010-2012, imports decreased in their growth to 5.63% due to production disruption and a shortage in demand from EU, China and ASEAN. In 2013 the Thai economy slowed down from 2012, the GDP expansion was 2.69 mainly due to a decrease of private consumption. In addition, during the second half of the year the most developed economies improved increasing also the foreign demands, but Thailand could not satisfy the high-technological products' demand in the global scale. The explanation to this can be found in the technological limitation of Thailand's export-oriented firms along with the lack in raw materials extraction and in concomitance the domestic-oriented company were slowed by the contraction of private consumptions. The stimulation action plans required a budget deficit equivalent to 300 billion baht, almost 2.5% of the GDP, but the impact on this was not similar to the measures of the previous year [BOT, 2013].

In November 2013 anti-government riots organized by the People's Democratic Reform Committee (PDRC) created a unstable political situation. The protests continued in the first part of the 2014 with the occupation of governmental offices and demonstrations in Bangkok.²⁹⁶ The factors behind these protests can be multiple: the royal succession, the conflicts between different parts of the country such as north-south or rural-urban and the military pressure on politics along with inequalities and agriculture problems. The results of the crisis were the removal of Yingluck Shinawatra as Prime minister and the *coup d'état* of the Royal Thai Army that established the

²⁹⁴ Permani Risti and Vanzetti David (2014), "Rice Mountain. Assessment of Thai rice pledging program", Contributed paper prepared for presentation at the 58th AARES Annual Conference, Port Macquarie, New South Wales, 4-7 February 2014. Available: <https://ageconsearch.umn.edu/bitstream/165881/2/Vanzetti%20CP.pdf>

²⁹⁵ Koontanakulvong, Sucharit. (2017). "Strategy on Water Management in Thailand", Presented at the Conference on Disaster Data Dissemination and Prevention System among ASEAN" By Electronic Government Agency (Public Organization), June 22-23, 2017, Bangkok, Thailand. 10.13140/RG.2.2.27262.23363.

²⁹⁶ Olarn Kocha, Mohsin Salma, Mullen Jehtro, "Pockets of violence amid Thai anti-government protests in Bangkok", CNN, 16th January 2014. Link: <http://edition.cnn.com/2014/01/14/world/asia/thailand-protests/index.html>

military junta in order to solve the critical situation.²⁹⁷ This difficult situation impacted, as expected, negatively on the economy, on 23th December 2013 the Baht fell on the weakest level in three year due to the political difficulties. The economic expansion in the first half of 2014 was zero since the confidence of the investors, businesses and tourists were weakened but in the second half the economy started regaining its moment due to the high investments in telecommunications and retail sectors. Nevertheless, the economic stability was controlled, inflation remained at 1.90 and decreased from the 2013, due mostly to the subtle decline of the domestic oil prices and the financial position stood strong. The annual GDP growth was 0.98%, the exports growth was almost zero (0.16%) and the imports decreased by 5.30% from 2013, figures that reflect the difficult economic and political moment.

The situation after the *coup* saw Thailand's economy slowly recovering but still remains "fragile" [Channel NewsAsia, [2016](#)], in 2015 GDP growth was 3.02% driven by stronger export demand and governmental spending. The manufacturing production remained quite low but it started ramping again during the last quarter of the year, the agricultural production registered a negative growth due to the low-price of the commodities and the El-Nino warm phase that created a significant drought period that effected the rice farming.²⁹⁸ The governmental following the idea of stimulating and assisting the economy by announcing in November important measures: the reduction of the corporate tax to 20% and the real estate trader tax cut to 0.01% for six month [Oxford Business School, [2016](#)].

Moreover, more investments in the transport infrastructure have been planned in order to develop the nation's road and rail network. In 2016 Thai economy faced several issues: continuation of the drought, restrained exports, internal instability and global financial market high volatility. Despite these factors, Thai economy registered a growth of 3.28%, sustained by the increase of a key sector of tourism and private consumption. The las one, in particular, was supported by promotional campaign thought by the government along with a constant growth of the public expenditure for infrastructure plans. The value of exports stabilized after 3 years of decline, especially in the second half of the year. This was due for three reasons: increment in the demand of the exports demand for electronic parts, the movement of production from China to Thailand due the US and EU policies imposed to certain products (such as solar panel and tires) and lastly the increase of oil and oil-based products' prices [BOT, [2017](#)].

²⁹⁷ Fuller Thomas, "Thai Prime Minister Ordered Removed from Office", The New York Times, 7th May 2014. Link: <https://www.nytimes.com/2014/05/08/world/asia/court-orders-thai-leader-removed-from-office.html>

²⁹⁸ Chandran Nyshka, "Thailand's economy isn't a land of Smiles", CNBC, 26th July 2015. Link: <https://www.cnbc.com/2015/07/26/thailands-economy-in-trouble.html>

Total exports annual percentages change

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Percentage of the total Exports (Percent)	10.99%	12.58 %	13.95 %	12.39 %	13.35 %	12.49 %	11.90 %	12.64 %	12.64 %	12.51 %	12.49 %
Food	0.24%	0.28%	0.34%	0.35%	0.40%	0.48%	0.56%	0.63%	0.71%	0.75%	0.73%
Beverages and tobacco	5.44%	5.29%	4.27%	5.76%	7.63%	5.57%	5.34%	4.50%	4.27%	4.33%	5.49%
Crude materials	4.44%	6.43%	5.10%	4.98%	5.77%	6.51%	6.24%	5.26%	3.93%	2.89%	3.48%
Mineral fuel and lubricant	0.24%	0.36%	0.17%	0.17%	0.32%	0.26%	0.32%	0.22%	0.14%	0.13%	0.23%
Animal and vegetable oils and fats	7.91%	7.82%	8.18%	8.77%	10.27 %	10.11 %	10.68 %	10.88 %	9.69%	9.19%	9.37%
Chemicals	12.76%	12.56 %	12.91 %	12.32 %	12.30 %	12.52 %	12.92 %	12.61 %	12.57 %	12.28 %	12.31 %
Manufactured goods	45.67%	42.27 %	40.54 %	42.60 %	38.36 %	40.41 %	41.65 %	42.90 %	44.76 %	45.11 %	44.65 %
Machinery	10.51%	10.46 %	10.79 %	9.31%	8.93%	8.57%	8.79%	9.01%	9.40%	9.19%	8.67%
Miscellaneous manufactured goods	1.68%	1.95%	3.75%	3.34%	2.67%	2.94%	1.47%	1.24%	1.80%	3.42%	2.46%
Miscellaneous transactions and commodities	0.11%	0.01%	0.00%	0.00%	0.00%	0.14%	0.12%	0.11%	0.11%	0.19%	0.13%

Total Imports Annual Percentages Change

Food	3.50%	3.83%	4.42%	3.87%	3.85%	4.17%	4.34%	4.61%	5.25%	5.63%	5.27%
Beverages and tobacco	0.22%	0.21%	0.23%	0.20%	0.20%	0.20%	0.22%	0.25%	0.26%	0.28%	0.25%
Crude materials	3.29%	3.69%	3.06%	3.08%	3.24%	2.88%	2.43%	2.72%	2.73%	2.80%	2.94%
Mineral fuel and lubricant	18.47 %	20.77 %	18.63 %	17.54 %	19.11 %	19.21 %	21.02 %	21.11 %	14.90 %	12.35 %	13.60 %
Animal and vegetable oils and fats	0.08%	0.12%	0.09%	0.10%	0.16%	0.13%	0.10%	0.13%	0.13%	0.14%	0.12%
Chemicals	11.00 %	11.02 %	10.72 %	10.93 %	10.37 %	9.63%	9.45%	10.33 %	10.71 %	11.03 %	10.89 %
Manufactured goods	18.63 %	18.86 %	16.57 %	18.11 %	17.14 %	16.68 %	15.91 %	16.55 %	17.12 %	17.61 %	17.60 %
Machinery	36.22 %	31.79 %	36.45 %	35.13 %	32.64 %	35.95 %	34.51 %	34.90 %	37.79 %	39.03 %	36.81 %
Miscellaneous manufactured goods	6.62%	6.32%	7.01%	6.68%	6.10%	6.20%	6.02%	6.50%	7.51%	8.02%	7.55%
Miscellaneous transactions and commodities	0.80%	0.00%	0.01%	0.01%	0.00%	0.01%	0.01%	0.01%	0.01%	0.00%	0.00%
Gold	1.17%	3.40%	2.82%	4.34%	7.19%	4.95%	5.99%	2.90%	3.58%	3.10%	4.98%

Figure 38. The tables show the Total Exports and Imports Annual Change for the period 2007-2017. Source: Bank of Thailand.

The balance of payments counted a small deficit in the financial account due to the lack of Outward Foreign direct Investment. The Thai OFDIs are generally referring to: investments in the energy sectors, assets in equity and debt deposits and FIF securities. On the opposite the IFDIs has continued pouring into the country in the sector of production of electronical devices and real estate sectors. The Thai baht/US dollar exchange rate were in line with the expectations and the regional and global trends, the NEER (Nominal Effective Exchange Rate) appreciated in some occasions due mostly to the positive outcome of the economy. The monetary policies were aimed to keep the financial environmental stable, the interest rate stayed low at 1.5% and the commercial banks cut their lending rate by 25 points and the bond market financing cost by 56 basis points. In 2017 Thai Economy continued growing by 3.90%, the NESDB (National Economic and Social Development Board) imputed this expansion to the rise in exports, consumption and private investments along with the rehabilitation of the agriculture and manufacture sector. In particular, the agricultural exports rose sharply by 20.5% in the first quarter and 28.4% in the sector and the manufacture increased by 5.9% [Oxford Business Group, [2018](#)]. The mega-projects regarding the development of infrastructure, the household purchasing power started boosting the economy growth and the rise of the commodity prices help the exporter's income. In conclusion the 2018 figures estimates that Thai economy expanded by 4.2% driven by the growth in exports and tourism sectors [MOF, [2018](#)]. The introduction of the Thailand 4.0 project which will be discuss further could be beneficial and start giving its macroeconomic results in the next years.

(Annual percentage change, unless specified otherwise)

2009 2010 2011 2012 2013 2014 2015 2016

Demand (Expenditure)								
Private consumption expenditure	-1.1	4.8	1.3	6.7	0.3	0.3	2.2	3.1
General government consumption expenditure	7.5	6	1.1	7.5	4.9	2.8	3	1.6
Gross Fixed Capital Formation	-9.2	9.4	3.3	13.2	-2	-2.8	4.4	2.8
- Private	-13.1	13.8	7.2	14.4	-2.8	-1.9	-2.2	0.4
- Public	2.7	-2.2	-8.7	8.9	1.3	-6.1	29.3	9.9
Exports of goods and services	-12.5	14.7	9.5	3.1	4.2	0	0.7	2.1
Imports of goods and services	-21.5	21.5	13.7	6.2	2.3	-4.8	0	-1.4
Supply (production)								
Agriculture	1.3	-2.2	4.1	3.8	1.4	-1.1	-5.7	0.6
Manufacturing	-6.1	13.9	-4.3	6.9	0.1	-3.8	1.5	1.4
Construction	0.4	6.8	-5.1	7.8	1	2.2	17	8.3
Services and others	0	5	3.3	6.6	5.4	1.89	4.6	4.4
Domestic stability								
Headline Consumer Price Index	-0.9	3.3	3.81	3.02	2.18	1.89	-0.9	0.19
Core Consumer Price Index (excluding raw food and energy)	0.3	1	2.36	2.09	1	1.59	1.05	0.74
Unemployment (percent)	1.5	1	0.7	0.7	0.7	0.8	0.9	1
Public debt (end of period, billion baht)	3967	4181	4298	4.961	5.45	5624	6005	5922
Share of GDP (end of period, percent) External Stability (billion U.S. dollars)	43.8	42.4	40.8	43.7	45.7	45.8	44.4	42-2

(Annual percentage change, unless specified otherwise)	2009	2010	2011	2012	2013	2014	2015	2016
External Stability (Billion US dollars)								
Trade balance	19.4	14	4.8	6	6.7	24.6	26.8	35.8
Current account balance	21.9	14.8	1.4	-1.5	-2.5	14.2	32.1	46.4
Capital account balance	-2.8	15.9	0	0.2	0.3	0.1	0	0
Financial Account Balance	24.1	31.3	-6.9	13.7	0.3	-15.4	-17.1	24.8
Balance of payments	138.4	172.1	-6.1	5.3	-5	-1.2	5.9	12.8
Gross international reserves (end of period)	75.3	96.9	175.1	181.6	167.3	157.1	156.5	171.9
External debt (end of period)	105	106	104.6	130.7	141.9	140.8	131.4	131.5
International reserves to short-term debt (ratio)	28.8	34	3.7	3.1	2.7	2.7	3	3.2
External debt to GDP (percent)	39.3	46.7	33.8	38	38.7	37.5	32.1	32.5
External debt to export value (percent)	44	48.2	47	51.5	51.9	50.3	46.7	47.1
Short-term debt to external debt (percent)	44	43.2	45.2	44.5	43.6	40.6	40	40.3
Monetary statistics (end of period) (billion baht)								
Monetary Base	1103	1243.3	1365.5	1498	1581	1667	1710	1816.4
Annual percentage change	6.1	12.7	9.8	9.7	5.6	5.4	2.6	6.2
Narrow money	1175	1302.4	1414.3	1598	1661	1681	1778	1864.2
Annual percentage change	12.8	20.9	8,6	13	3.9	1.2	5.7	4.8
Broad money	10167	11776.4	13560	14967	16062	16808	17552	18289.4
Annual percentage change	6.8	10.9	15.1	10.4	7.3	4.6	4.4	4.2
Financial institutions' deposits including bills of exchange 3/	10435	11565.7	13195	14657	15764	16402	17269	17931.5
Annual percentage change	6.6	10.8	14.1	11.1	7.6	4	5.3	3.8

Financial institutions' private credits	8833	9947	11587	13359	14689	15351	16154	16721.5
Annual percentage change	3.1	12.6	16.5	15.3	10	4.5	5.5	3.5
Interest rates (end of period) (percent per annum)								
- Repurchase rate, one-day	1.42	1.48	3.25	2.75	2.25	2	1.5	1.5
Overnight interbank rates (mode)	1.34	1.36	3.15	2.65	2.15	1.9	1.4	1.4
- Time deposit rate, one year 4/	0.65-1	1.40-1.70	2.87	2.46	2.23	1.73	1.4	1.38
- Prime rate (MLR) 4/	5.85 - 6.25	6.12-6.50	7.25	7	6.84	6.75	6.51	6.26

Figure 39. The Table shows the demand and supply trends, domestic and external stability indexes and Monetary Statistics (with the main interest rates) in Million Baht. Source: Own Elaboration via BOT annual Economic Outlook.

In term of Labor Market Thailand has registered in its economic development process a really low unemployment rate. The last official census in Thailand has been made in 2010 and considering that the annual population change is one of the lowest in the Southeast Asia, we can analyze the situation through the labor market profile made by the ILO (International Labor Organization) in 2010²⁹⁹. The really low level of population growth that can be compared with the most developed countries, could represent a problem for a nation that still is facing developing economies processes.³⁰⁰ The labor force participation rate is the share of population between 15 and 64 years able to work. In Thailand 54 million people are in the working age and 39 million are in the labor force (figure 40). The employment-population ratio has averaged 72.1% between 2001-2010, one of the highest in the area, second only to China. The inactivity rate have been around 27% with a slight difference between the inactive women (35%) and men (19%). The main relevant reasons for the inactive population are: household works and studies, the remaining are too young or old to work. The unemployment rate is slightly higher for male rather than the women, even though during the recession in 2009 the female unemployment rate increased coinciding with the male one. In 2010 the agriculture and fishery sector employed more than 40% of the Thailand's labor force with 15.7 million people, manufacturing activities employed 5.2 million and 17.7 million in the services. The percentage of people working in services increased in the 2001-2010 period while the manufacturing has remained stable. The other two relevant issues in Thailand labor market are: working poverty and the child labor. The "working poor" can be defined as those people who are working under the poverty line, which the World Bank set to US1.25 or \$2.00 per day, depending on the cost of living of the country. For this matter of view Thailand has reached an excellent low level of "working poor" which was 5.2% in 1992 and has declined to 0.4% in 2004 (more recent data are not available but is reasonable to assume that is either stayed at the same level or decreased further). The percentage of working child (5-14 years) have been estimated to be around 13.0% [UNESCO, 2014] and the most common sectors where this phenomenon happened are the agricultural ones, in particular in the processing shrimp and seafood³⁰¹, fishing, planting and harvesting and production of rubber. The minimum

²⁹⁹ ILO (2013), "Thailand – A labour market profile", ILO Regional Office for Asia and the Pacific Bangkok. Available: https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_205099.pdf

³⁰⁰ Dombrowski Katja, "Modernity Has Arrived", Development and Cooperation, 3rd October 2013. Link: <https://www.dandc.eu/en/article/population-growth-thailand-close-zero-and-average-age-across-nation-rising>

³⁰¹ The Asia Foundation and ILO (2015), "Migrant and Child Labor in Thailand's Shrimp and other Seafood Supply Chains", Labor Conditions and the Decision to Study or Work, Bangkok, Thailand. Available: <https://asiafoundation.org/resources/pdfs/MigrantChildLaborinThailandsShrimpandOtherSeafoodSupplyChains.pdf>

age for work is fixed at 15 by The Labor Protection Act (Chapter 4, section 44). In 2013 the government strengthened the legislation framework for the worst forms of child labor by enacting of the Anti-Transactional Organizes Crime Act and by ratifying the UN Convention against Transnational Organized Crime. The governments said that the Act will give more law enforcement to the agencies that they will be able to carry out their investigation more efficiently. Moreover, a recent study carried out but the QLF and the WB showed that more than 12 million jobs could be lost in the next 20 years due to automatization.³⁰²

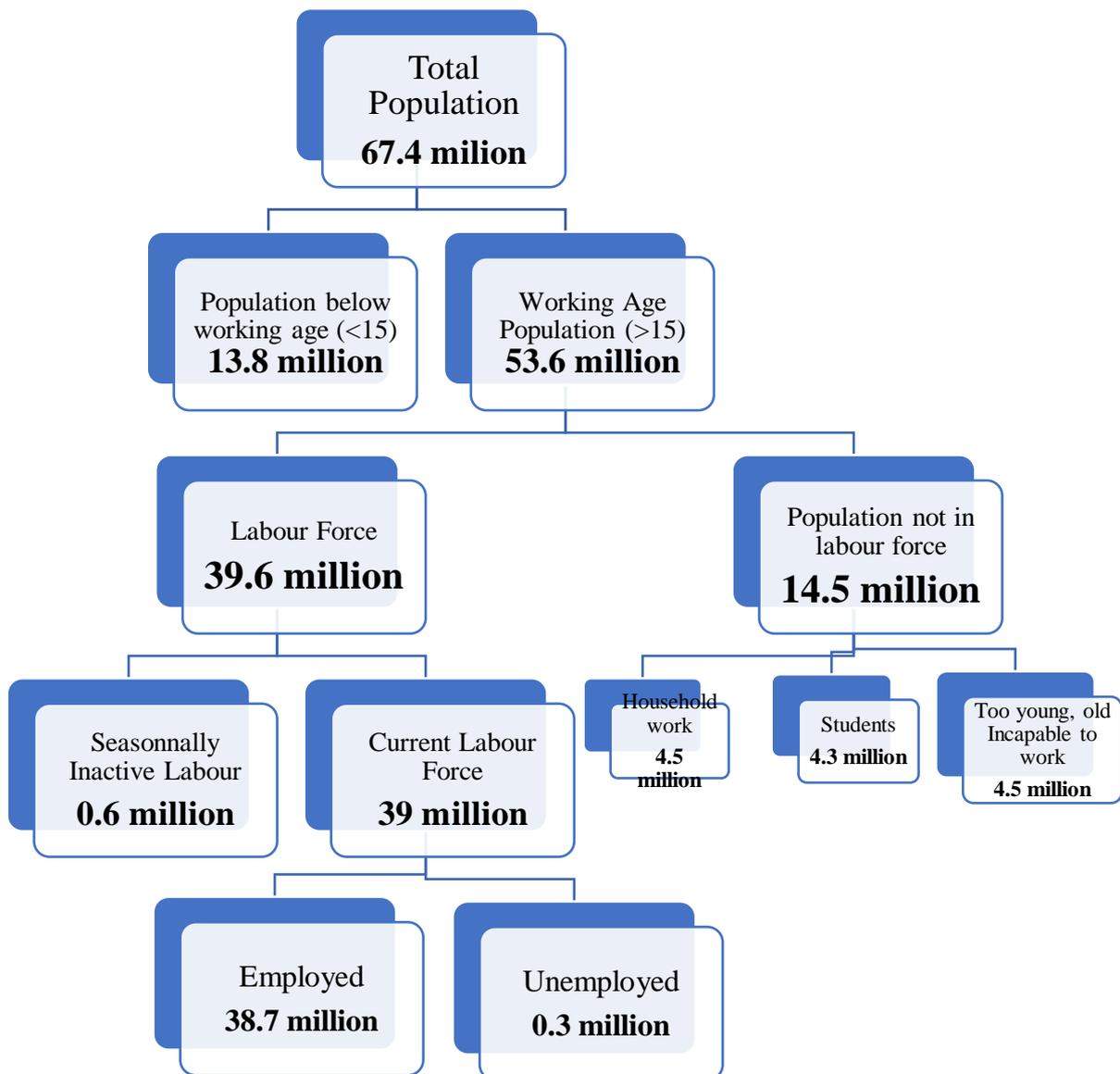


Figure 40. The figure shows the division in the major macro-category of the job market. Source: elaborated from “Thailand A Labour Market profile”, p14, ILO (2013).

³⁰² Mala Dumrongkiat, “Technology Imperils 12 million Jobs”, Bangkok Post, 13th July 2016. Link: <https://www.bangkokpost.com/tech/local-news/1034329/technology-imperils-12-million-jobs>

3.2 Industries, Manufacture and Production

3.2.1 Agricultural Sector

The agriculture in Thailand is a particularly competitive, differentiate and specialized activity with great success exports in the international level. The sector still remain crucial for the economic engine, continue capitalizing the important farming tradition and the advantageous climate. The agricultural sector account for 8.2% [CIA World Factbook, [2018](#)] and estimated to be at a value of \$US 31.6 billion (BT1.19trn) [NESDB, 2017]. Indeed, the country is one of the major exporter in the global context, mostly of rice but also fish and derivatives, tapioca, rubber, crop, sugar and palm oil. In addition increasing are the exports quantity of alimentary products that are submitted to industrial processes such as: canned tuna, frozen pineapple and shrimps (in particular the *Panaeus Mondodon* also known as the Asia Tiger Shrimp). Another Thai typical product, less known, is the Black Ivory coffee, a special variety produced in the northern part of the country after the Arabica coffee beans are consumed by Elephants and then collected from their waste. It is currently classified among the most expensive coffee in the world pricing around \$US1000 per kilo.³⁰³

The history of Thai agriculture have been reconstructed thanks to important historical, scientific and social analysis, proving the original and unique approach of the country towards the modern methods applied in the agriculture. After the Neolithic revolution the people living in the region have evolved from a hunter-gather society to an agricultural one. The particular attitude towards the agriculture can be traced to the arrival of the Tai people in the area, from the I century AD the cultivation of glutinous rice allowed to create rigorous administrative structures based on a pragmatic society. The recent development of the agriculture sector has produced a drastic decline of the unemployment rate from the 60% in 1960 to the recent figures of 1% as we mentioned. In the same period the alimentary prices, the absolute poverty, the children malnutrition have reduced significantly. These have been possible thanks to strong state intervention in the sector in order to assure the investments in the sector, the creation and the credit access and the private successful initiatives.

³⁰³ Majendie Adam, “World’s Priciest Coffee Is Hand-Picked From Elephant Dung”, Bloomberg, 27th January 2017. Link: <https://www.bloomberg.com/news/photo-essays/2017-01-27/world-s-priciest-coffee-is-hand-picked-from-elephant-dung>

The first important expansion happened in 1960-1970 due to the concession to the unemployed people of farming lands, between 1962 and 1983 the agriculture sector grew at a rate of 4.1% and employed more than 70% of the active population. The government understood that the development of the sector would be essential to sustain the industrialization of the country. In one hand maintaining the exports highly taxed to keep low the domestic prices and on the other hand increasing the availability for investments in the other economic areas. The industrialization process subtracted, inevitably, manpower to the agriculture: the workers were attracted to the higher income and the better workplace offered by the new manufacturing industries. The State granted legislative concession forcing the Banks to give the adequate credit to the agriculture with the intermediation of the Bank for Agriculture and Agricultural Cooperatives (BAAC)³⁰⁴. Thailand also invested highly in the irrigation system and the development of the rural roads: with this planification the agriculture continued growing between 1983 and 2007 at a rate of 2.2%, despite half of the manpower available in the 80s. While the agriculture reduced its contribution to the GDP, both in the economic and the labor sides, the industrialization and the “Americanization” process from the 60s contributed to the occupation and the self-sufficiency of the country along with the support to the rural societies and the cultural custody. Globalization also continued change the agriculture systems which became more and more dependent to the alimentary industry, forcing the small farmers to a drastic reduction of the human values and traditional environment³⁰⁵.

The sector of the agriculture industry, both private and national has expanded from the 1960s pushing the subsistence farming and subsequently the farmers at the margin of the economic process. Nevertheless, the integrated intensive production system have continued offering professional capacity, both financial and social, in this way the subsistence farming is still considered important. Thai agriculture has relevant and unique characteristics like the irrigation technologies and the water management. Despite the future growing margin it is still unlikely that Thailand will register a sudden industrialization, thus for the next future the country will remain one of the leading agriculture sector both in social, environmental and economic factors.

³⁰⁴ Fitchett Delbert (1999), “Bank For Agriculture and Agricultural Cooperatives (BAAC), Thailand (Case Study)”, Consultative Group to Assist the Poorest (CGAP). Eschborn.

³⁰⁵ Jasper Gross and David Burch, “From Agricultural Modernization to Agri-Food Globalization: The Waning of National Development in Thailand”, *Third World Quarterly*, Vol. 22, No. 6, *The Post-Cold War Predicament*, (Dec., 2001), pp. 969-986, Taylor & Francis, Ltd. Available: <http://www.jstor.org/stable/3993457>

The land usage in Thailand shows that in 2016 the agriculture area covers 22 110 thousand hectares, which have been increased from the 13 460 hectares in 1967 at an average annual rate of 1.03% [FAO, 2017]. The agriculture production index calculated by the BOT shows an positive trend from 2005 to 2012, and a modest decline after 2012 caused by the floods and drought effects (Figure 40). The crop taken in consideration by the Bank of Thailand are: rice, second rice, maize, sugar cane, garlic, shallot, onion, soybean, mungbean, groundnut, cassava, pineapple, longan and lychee [BOT, 2018].

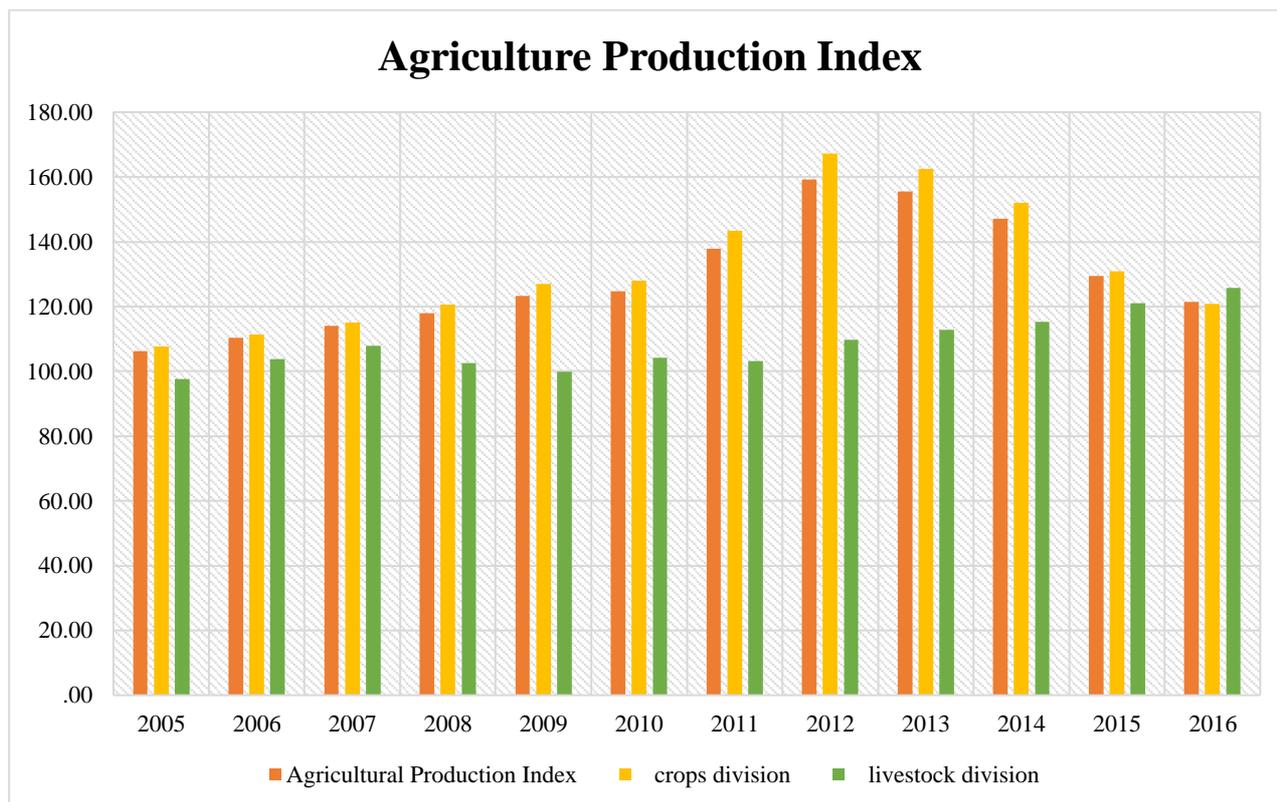


Figure 41. The graphic shows The Agricultural Production Index with the division between crops and livestock calculated by the BOT for the period 2005-2016. Source: Own Elaboration via BOT data.

The agriculture price index follows the path of the production index but with a minor decrease specially in the Crops division (figure 42). This was mostly due to the politics of the government in support of the crops' prices as we will analyzed further for the rice sector. The medium price for a kilogram of rice in 2011 was about 16 baht (US\$ 0.50) but the worldwide demand declined sharply in the last years. In 2016 a kilogram of rice worth 5 baht per kilo, one third less than 2011, a decrease that obliged the government to introduce a subsidy to the farmer of about 38 billion baht.

Another important measure to counterbalance the price decline could be the diversification of the rice's quality, focusing on the organic rice which represent a valuable and lucrative alternative.³⁰⁶

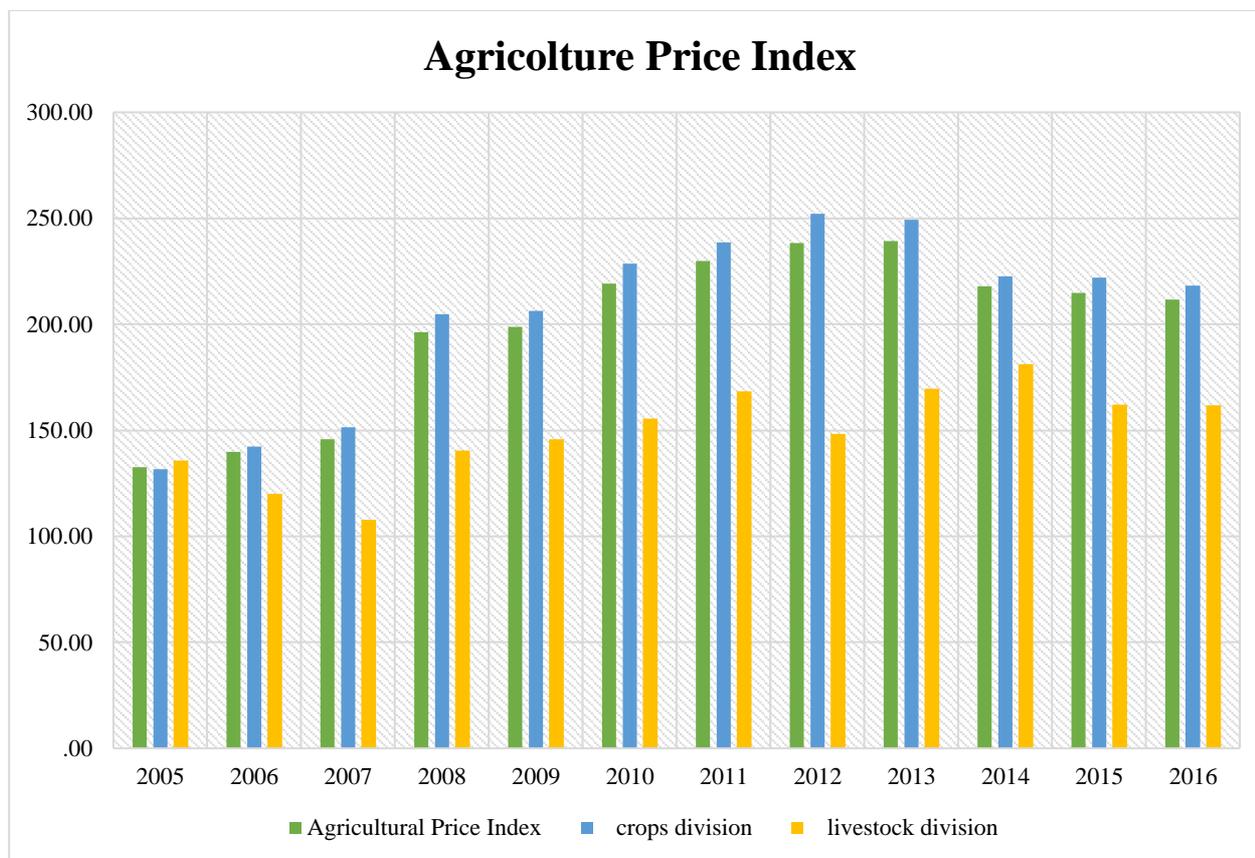


Figure 42. The graphic shows the Agriculture price Index calculated by BOT both in the crops and livestock divisions. Source: Own Elaboration via BOT data.

As above-mentioned the rice sector in Thailand is still is a large part of the country's economy in term of revenues and jobs. The value for the rice commerce is 174.5 billion baht (\$US 5.5 billion), the rice farming is 12% of the total crops' production and it employs around 16 million people. The country is the second rice exporters in the world after India (figure 43), with \$US 5.2 billion of rice exported which it corresponds to 11.63 million tons, the highest of all time [WTEEx, 2018]. The exports is based on the large part to commodity-grade the rest is Jasmin rice and the other more special varieties have little impact. Thailand is also the 5th country for land use for rice cultivation which covers half of the total farming land, the governmental plan is to expand this rice farms by adding 500 thousands more hectares to the 9.2 million already existing. The annual production is estimated to be around 25 tons of paddy rice, decreasing from the 27 million yield in 2017. The Jasmin rice is the most produced strain, which has a lower crop yield confronted

³⁰⁶ Manpati Tipakson, "Improving farmers' livelihoods and the environment", Mekong Commons, 3th March 2018. Link: <http://www.mekongcommons.org/organic-rice-northeast-thailand-improving-farmers-livelihoods-environment/>

with the other strains. Until the 1960 the rice production was made by the farmers in limited areas with modest quantity and the main production hub was represented by the *Chao Praya Delta*.

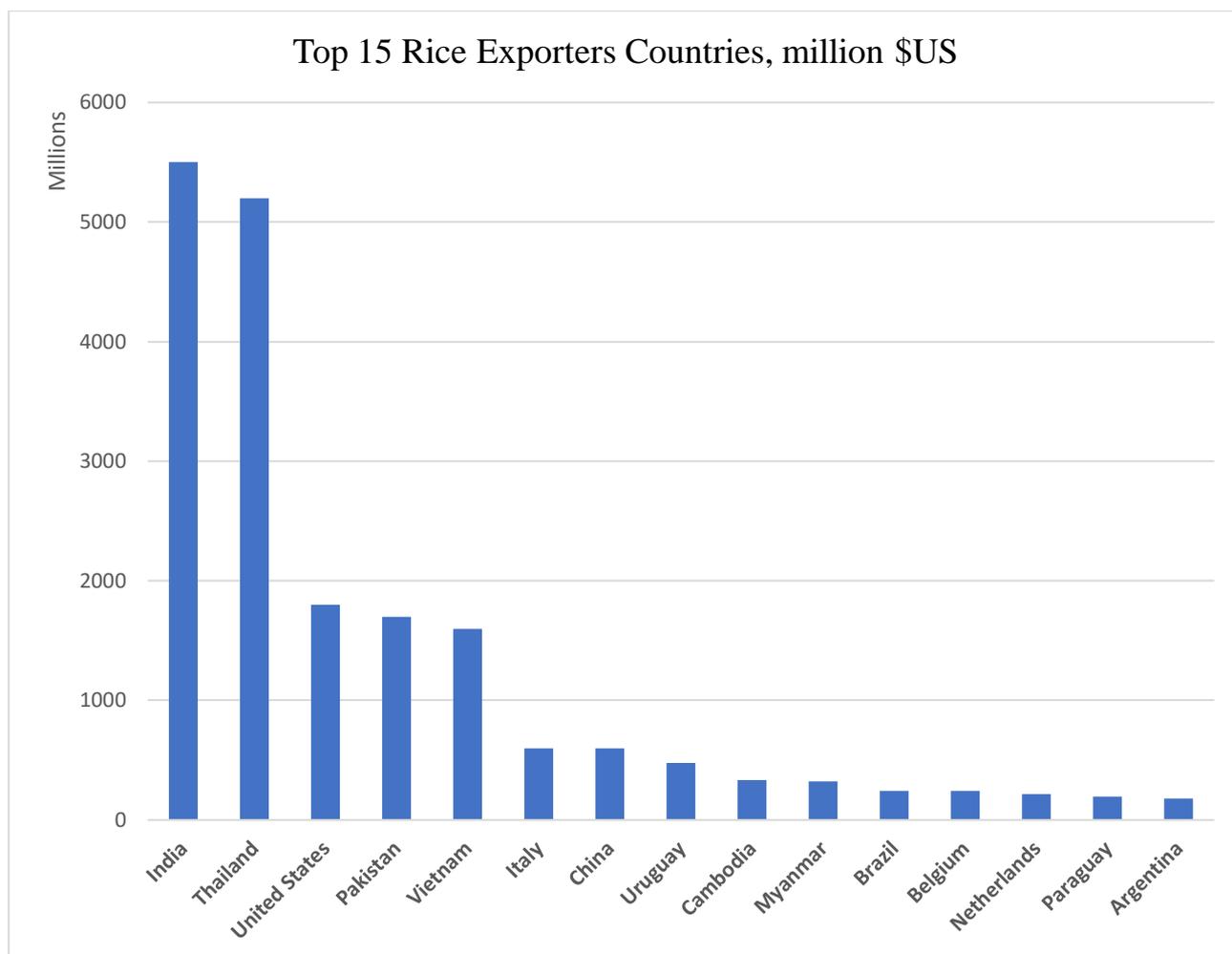


Figure 43. The graphic shows the top 15 rice exporters in the world. These 15 countries cover the 92% of the total rice exports. Source: WTX.

The rice sector emerged in this period as a leading part of the country's economy for different reasons: the accessible farming land, the government measures addressed to the protection of the farmers (from the landlords' acquired rights) and the reclamation of the land. The peasants most of the time owned their own farming land: this gave a independence from the urban seller and the industry relatively self-sufficient, we must say that most of the production was meant for subsistence of the farmers and was not re-sell. By the understanding the potential of the sector Thailand started protecting the farmers less and decided to have a more production-oriented idea of the rice sector, aiming to create a surplus to exports. The increasing of the rice prices in the

mid-70s along with the high rural debt accumulated were among the causes to the farmer's protest in 1974 which led to the deaths of 21 Farmers Federation of Thailand.³⁰⁷

The production mostly developed in the northeastern part of the country after the roads systems was developed to connect these areas to the coasts. The small towns that produced rice also changed from a subsistence works to a wage labor and the exchange labor practiced in the early 50s and 60s disappeared. The animals were replaced with tractors and a significant improvement of the irrigation techniques reached most of the country. The IRR (International Rice Research Institute) started collaborating with Thailand from 1960 and it contributed to the development of the studies for better strains, fertilizers and modern cultivation techniques. In the period between 1950 to 1970 has been estimated that the rice production per unit of land expanded by 50%.

An important aspect of the rice is the governmental policies that have been carried out in the years, because some of them still reflects to the now-a-day economy of the country. In the 60s the government fixed a monopoly on the exports price which incremented the tax revenue and kept the internal price lower: a type of measure that were called "rice premium"³⁰⁸ used until 1985. After this, the rice industry moved towards a more commercial, modern and profit-oriented business. The investment plan of the government proved to be successful and with the contribution of the World Bank dams, canals and ditches were built enhancing the rice infrastructure system un the Chao Phraya Delta.³⁰⁹ The government moved also towards the mechanical research sector in order support the mechanization farming process: they boosted the local production of tractors, pumps for irrigation and rice threshers.

In recent years, approximately from 2010, the governmental approach changed: they went towards a diversification of the agriculture production not supporting rice but other crops. In particular was given a contribution, for farmers who converted their fields into other cultivations. For example, numerous farmers switched to sugarcane production, even though sugarcane is not a staple aliment and it requires more fertilizers and chemical agents to grow. The downside of this policies were multiple and small farmers' situation deteriorated, in particular they were unable to detained their land due to the higher costs, the United Nation estimates that the farmers' owned-land decreased from 44% in 2004 to 15% in 2011.

³⁰⁷RICKS, Jacob (2018). Politics and the price of rice in Thailand: Public choice, institutional change and rural subsidies. *Journal of Contemporary Asia*, 48(3), 395-418. Available at: https://ink.library.smu.edu.sg/soas_research/2408

³⁰⁸Boonsawat, Suchada, "The effects of rice premium policy on Thailand's rice economy" (1989). Student Work. 1189. <https://digitalcommons.unomaha.edu/studentwork/1189>

³⁰⁹ Yuyama Yoshito et al., "Strategy to Improve Water Management in the Chao Phraya Delta, Rural and Environmental Engineering, No. 44 (2003.8), pp- 24-59. Available: https://www.jstage.jst.go.jp/article/jierp1996/2003/44/2003_44_42/_pdf

The situation worsening with the requirement of the tax payment of the government, pushing the peasants to indebted even more during the drought years (2008-2011), increasing the households debts [BOT, 2017]. Considered all these problems, Yingluck's government decided to provide a plan in order to purchase the rice at a higher value of the price market. The government decided to purchase the unprocessed rice for 15 000 baht (US\$ 469) per tons and the Jasmin rice at 20 000 baht (US\$ 625) per tons, while the market price was standing around the half of these prices. The idea behind this was to let the global rice price to increase sharply and then re-sell it for profit, but the plan did not work successfully. The Indian Rice's Exports ban started in 2008³¹⁰ in order to curb the inflation and was then removed in 2011, pouring Indian rice into the international markets. Subsequently Vietnam decreases the price and the global rice's prices declined sharply: Thailand fall from the leading exporter position to being the third country after India and Vietnam. In addition, the rice stocked could not being sold to cover the purchasing price. The program, costed around US\$20 billion, left the country with millions tons of rice unsold, the farmers unpaid and the government was accused of corruption. The NAAC (National Anti-Corruption Commission) accused Yingluck as partially guilty³¹¹ and a national committee fined the ex-Prime Minister 35.7 billion baht.³¹² The Prime Minister Prayut in 2016 promised to reform the rice production and sustain the farmers, with a smarter policy with a 20 years' time strategy. The idea is to promote the creation of large farms to reach 5 thousands in all country and converting 80 000 hectares to other production. Nevertheless, the industry is facing few challenges for the next future: the international market's increasing competition, the escalation of the cost of production, in particular labor cost and the ecological environment deterioration. The creation of a rice cartel with the other ASEAN, Vietnam, Myanmar, Laos and Cambodia, countries have been proposed by different parts in the last years. Nonetheless, Thailand's idea of a rice cartel working similarly to the OPEC was refused in 2008 due to the lack of coordination and collaboration with these countries. Thailand is currently working with ASEAN for the creation of a more developed system for the rice sector.

³¹⁰ Isaac John, "India bans all rice exports", Khaleej Times, 2nd April 2008. Link: <https://www.khaleejtimes.com/article/20080402/ARTICLE/304029917/1002>

³¹¹ McKirdy Euan, "Former Thai PM Yingluck sentenced to five years over rice scheme", CNN, 27th September. Link: <https://edition.cnn.com/2017/09/27/asia/thailand-yingluck-shinawatra-verdict/index.html>

³¹² Zhi Xin Tan, "Curse of the Shinawatras: Yingluck faces wipeout with billion dollar fine", ASEAN Today, 5th October 2016. Link: <https://www.aseantoday.com/2016/10/33000/>

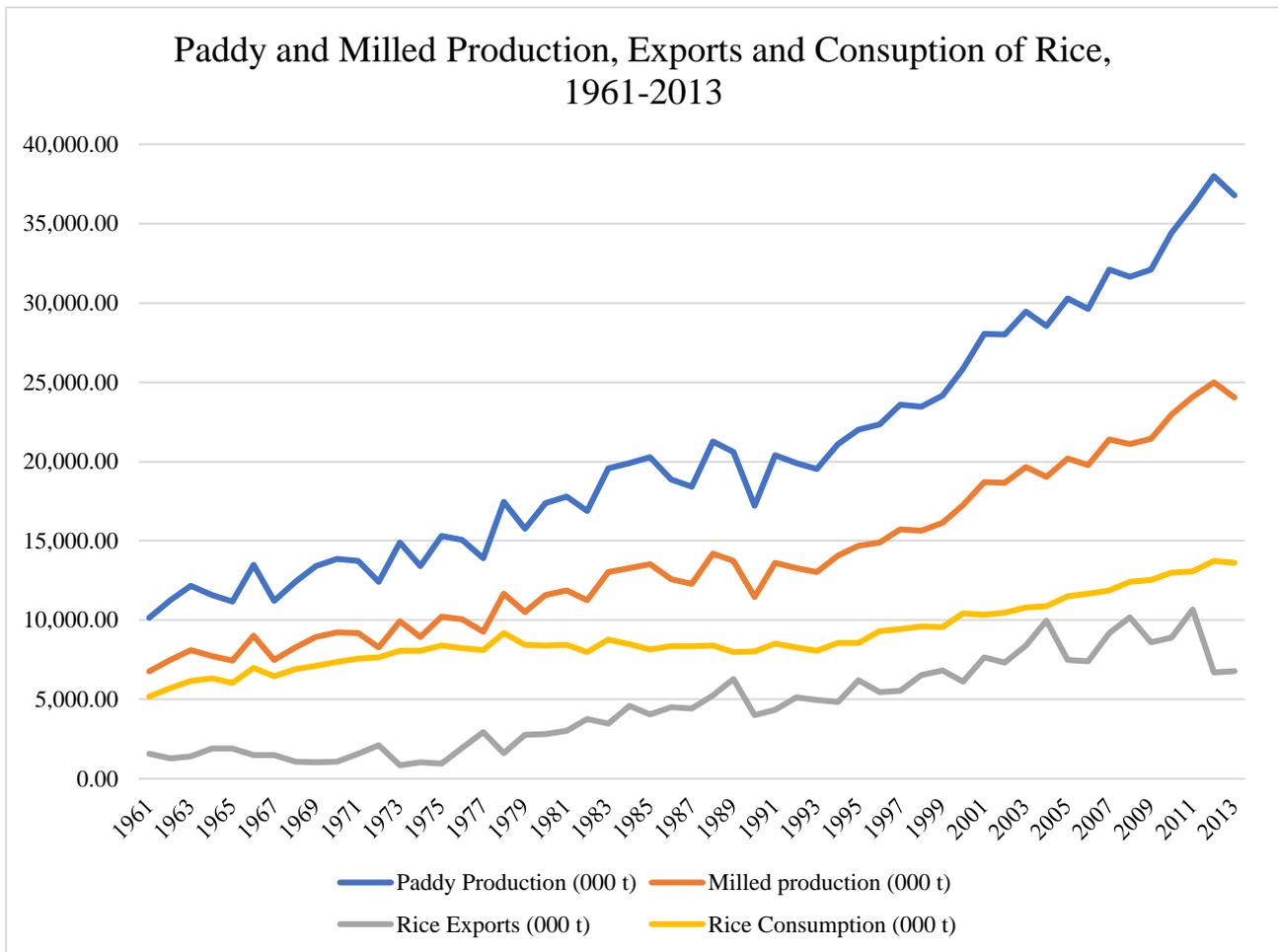


Figure 44. The graphic shows the Paddy and Milled Production, Exports and Consumption of Rice for the period 1961-2013. Source: [Ricepedia](#) (Thailand).

It will be now analyzed the other major crops produced in Thailand which include coconuts, Coffee, Edible Insects, Palm Oil, Rice, Soybeans, Sugar, Tapioca and Fruits and Vegetables such as Durian, Tomatoes.

Coconuts farming land in Thailand covers an area of 160 thousands hectares and it produces about 860 000 tons per year. The coconuts demand in the country is estimate at 1.1 million tons per year, importantly lower than the total production, an aspect that led Thailand allows the imports to counterbalance the shortfall. The country imports almost 400 000 tons of coconuts, mostly from the other ASEAN Countries firstly Indonesia, then Vietnam and Myanmar. The high imports are causing also an oversupply for this industry with 40 million coconuts left in stock and the farmers left highly indebted, just in the *Prachuap Khir Kan* the debt is estimated at 200 million baht [Asia Times, 2018]. In addition the decline of the prices for the retail coconuts which impose the farmers to live under the average national yearly income, for these reasons Thailand is considering a ban on the coconut imports or a tighter control on the importers [Far Eastern Agriculture, 2018]. Coffee production started quite late in comparison to other country, the first

plantations were made by King Rama IX in the 1970s that decided to promote the grow of coffee in substitution of opium. The most strains produced are the Arabica in the northern part, in the border region called the “golden Triangle” and the Robusta in the south [Revolv, [2018](#)]. According to the FAO in 2014 Thailand produces 60 million tons in a harvested area of 51 000 hectares, it exports US\$ 5168 thousands of green coffee, US\$ 1081 thousands of roasted coffee and it yields 980 kilograms per hectare placing the country in the 18th place in the world ranks³¹³. The Country is also the third global producer of crude palm oil despite accounting only for the 3% of the total world’s production. In 2015 Thailand placed 2 074 982 tons of palm oil in the market and almost the totality is used to satisfy the domestic market: 929 000 for consumption and 854 for bio-diesel production [Reporting ASEAN, [2018](#)]. The country is the second exporters of sugar after Brazil, with a production of 105.96 million tons in 2015 and a yielding per rai³¹⁴ equal to 10.06 tons [The Nation, [2018](#)]. We already mentioned the governmental plan to convert the rice ponds into sugarcane farming land which started in 2010, firstly giving a subsidy of 2000 baht for each fields converted. The government recently approves a pricing policy for the Commercial Can Sugar (CCS) that fixed the price at 880 baht per ton [Sugar Asia, [2018](#)]. The Cassava or Tapioca is another top products of Thailand which is the leading world exporter covering 50% of the market. The farming land for this vegetable was about 1.4 million hectares, most of them situated in the northeastern part of the country. The total production was 33 million tons of starch in 2015 ant the exports count for 11 million tons. Thailand is also famous as the world’s number one producer of Durians, with a production of 700 thousand tons exported mainly in China. Non-food crops are mainly Rubber and Sericulture. Thailand is the world’s largest producer and exporters of rubber, the total production is over 4.5 million tons from 3.5 million hectares cultivated. The country exported US\$ 4.4 billion (3.6 billion tons) of rubber in 2016 mostly imported by China, Malaysia, Japan and USA. The industry faced few challenges in the last years, after the drought in 2015-2016 the industry faced an important oversupply. The 2011’s harvest was the higher in the recent period and decided to expand the rubber’s crops land. Immediately after this China’s demand for rubber declined by 10%, considered the fact that China’s is the country that imports most rubber in the world. The price for natural rubber declined sharply almost by the 80%, on the top of that the majority of the plantation were hit by important floods and rainfalls. The rubber’s sector is key to Thailand due to the fact that the output is cultivated mostly by small-scale peasants who then see the products to the large number of

³¹³ FAO, “FAO Statically Pocketbook Coffee 2015”, Available: <http://www.fao.org/3/a-i4985e.pdf>

³¹⁴ Rai is the Thailand unit area equal to 1600 square meters (0.16 hectares).

multinational working on the tires and rubber gloves [Oxford Business Group, [2017](#)]. By 2018 the problems of the industry still remain if compared to the peak reached in 2011: despite the increase by 8% that pushes the output to 4.8 million tons of rubber in the first quarter of 2018 [JakartaGlobe, [2018](#)] the price fell during the first part of the year to almost 40 baht (US\$ 1.25) from the 63 baht (US\$ 1.98) in 2011, which it corresponds in a significant reduction for the incomes of rubber's farmer³¹⁵. Another famous products is the Thai silk which has been manufactured from two different silkworms: the *Samia Ricini* and the *Bombyx Mori*. The sector is supported by the researches and the work of Center for Excellence in Silk at Kasetsart University and the Queen Sirikit Department of Sericulture which estimates that in the country the total output of mulberry silk is 287 771 kg cultivated by 71 630 farmers in 39 570 rai [Bangkok Post, [2018](#)].

Regarding the seafood and fishing sector, Thailand is among the top producers of fish and the world's leading exporter of shrimp. The total production volume in 2015 is estimated to be 2 597 100 MT, divided in: 58% of marine capture, 20% Mariculture, 15% Freshwater aquaculture and 8% from Inland captures [SEAFDEC, [2017](#)]. In 2015 the total export of the sector was US\$ 59 047 million and the imports was 2578.6 million, the imports is mostly used as raw materials in the fishery value chain. The sector is struggling with worker exploitation, forced labor and migrants trafficking that many reports, journal and analysts have deeply analyzed [Human Rights Watch, [2018](#)]. In order to face this issue the military junta and the NCPO (National Council for Peace and Order) has established monitoring and controlling agencies which should intervene with inspections on the fishing operations. Unfortunately, in the country is still missing a legislation against the abuse in the fishing industry and the workers are not protected appropriately, the government should improve the laws framework, work more closely with the non-governmental agencies and collaborate with the other countries to avoid the illegal traffic of migrants that reverse in this industry.

In conclusion we must focus on some important challenges for the agriculture sector's future in Thailand. Due to the important global climate changes and the rise in temperature, Thailand suffered several problems in order to sustain the different agriculture production. According to the Department of Disaster and Prevention and Mitigation (DDPM) after 2011 floods Thai agriculture suffered important loss: more than 4 million rice plantation was highly damaged, more than 100 000 fish breeding ponds were destructed and 110 500 heads of cattle lost. The impact

³¹⁵ Check: https://www.boi.go.th/upload/content/Rubber_5a3b80bcc4882.pdf

was so important that Thailand lost its primacy in this sector. It has been estimated that the global temperature will continue increasing with a range of 1.2-2 degree Celsius also in Thailand. In the central part of the country have been forecasted a decline of the rains while they will increase in the north and northeast part of the country, with an average of 1400 mm in the next years. The Thai farmers have been informed of this issue, for example in the northern part the rainfall could damage the roots of the cassava plants, in the central areas the decline of the rains could impact on the production of the sugar cane and the rice. The climate change could lead to a reduction of the livestock quality, modifying the immune system of the herds subsequently their survival rate. On the other side the climate change can be seen as an opportunity, for a country that have showed the capacity to adapt and change its techniques over the time. Along with the sign of the Paris Agreement 2015, Thailand proposed the Intended Nationally Determined Contribution plan (INDC): the objective is to reduce by 20% the greenhouse gas emissions by 2030³¹⁶. The NESDB along with the Office of Natural Resources and Environment Policy and Planning (ONEP) have put into action activities for the climate change. Thailand also decided to follow the “Sufficiency Economy Philosophy” proposed by King Rama IX to achieve the Seventeen United Nations Sustainable Development Goals.³¹⁷ Other important policies are the Power Development Plan (2015-2036), The Smart Grid Development Master Plan (2015-2036), Alternative Energy Development Plan (2015-2036), Environmentally Sustainable System Plan (2013-2030) and the Waste Management Roadmap.³¹⁸

Another important aspect is the mechanization of the agriculture labor. The lack of workers along with the need to reduce the production cost are making mechanization a process inevitable for the development of the sector. The farmers in Thailand have used historically simple tools thought for the animals and the natural resources. The first milestone for the mechanization process in Thailand can be traced in 1891 with the first imports of motorized tractors and rotary hoes. After one century the situation has drastically changed, it has been estimated that the

³¹⁶ ONEP (Office of Natural Resources and Environmental Policy and Planning), “Thailand’s Intended Nationally Determined Contribution”, 1st October 2015. Bangkok. Official Document: https://www.ctc-n.org/sites/www.ctc-n.org/files/UNFCCC_docs/thailand_indc.pdf

³¹⁷ Mongsaward Prasopchoke, “The Philosophy of the sufficiency Economy: A Contribution to the Theory of Development”, Asia-Pacific Development Journal, Vol. 17, No. 1, June 2010. Available: <https://www.unescap.org/sites/default/files/apdj-17-1-5-Mongsawad.pdf>

³¹⁸ For further information: Thailand Smart Grid Development [2013], AEDP [2015]. The Waste Management Road Map has been developed in different steps: Road Map on Waste and Hazardous Waste Management (2014), National Solid Waste Management Master Plan (2016), Project “Thailand Zero Waste” (2016), Plan “Clean Province” (2017).

number of tractors are now on average 50 tractors per 1 thousands hectares cultivated. At the moment most the agriculture machineries are either own by the farmers, mostly small agricultural tools (power tillers, water pumps or sprayers), or hired from a third part when we consider bigger machines like tractors.

It has been estimated that only 6% of the agricultural machineries are owned by Thai farmers. Thailand, currently, is able to produce most of these tools internally but the quality of these machines in term of international standards, durability and performance cannot be compared with other international manufacturers in this sector, such as EU or Japan.³¹⁹

It is reasonable to think that the demand for agricultural mechanization will increase in the next years, this phenomenon will certainly improve the output of the sector, on the other hand it will leave millions of farmers unemployed, a challenge that the governmental institutions must start to face. This particular issue has been considered in mega-project Thailand 4.0 with the “Smart Farmers” concept.

³¹⁹ Soni Peeyush, “Agriculture Mechanization in Thailand: Current Status and Future Outlook”, Agriculture Mechanization in Asia Africa and Latin America, January 2016. Available: https://www.researchgate.net/publication/305166783_Agricultural_mechanization_in_Thailand_Current_status_and_future_outlook

3.2.2 Electrical, Automotive and Energy Sectors

The Electrical and Electronics industry in Thailand has been a major driver of the manufacturing sector and can be considered one of the main hub in the region. In 2017 the export value is US\$ 60.2 billion, counting for 25% of the total exports value, mostly directed to US, China and Japan [BOI, 2017]. Thailand is the biggest manufacture hub for electrical appliances in the ASEAN, the area of expertise is focusing on the cold chain with Refrigerators and Air Conditioning systems being the top exported products (figure 45) accounting for a total value of \$US 6000 million in 2017. Important are the investments of relevant multinational companies like: Bosch, Siemens, Electrolux, LG and Samsung.

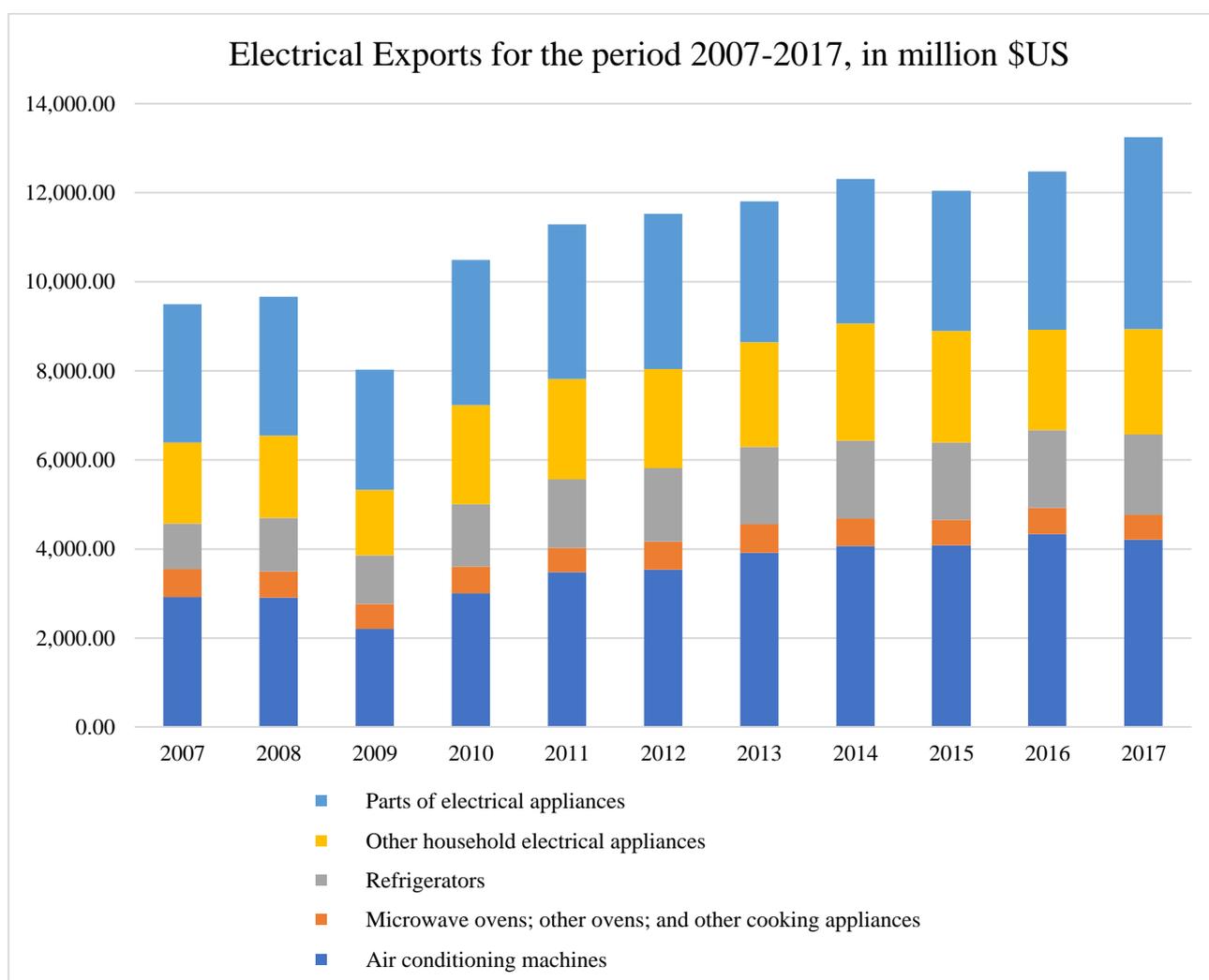


Figure 45. The graphic shows Electrical exports in million \$US for the period 2007-2017, divided in their major sub-division. Source: Own elaboration via BOT data.

The electronics sector in Thailand worth around US\$ 71 billion and the exports estimated to be 37 billion [BOT, 2018]. The country is the second top manufacturer and exporter in the world after China and the most significant products are data storage devices such as Hard Disk Devices and Integrated Circuit (figure 45). Thailand also cut the gap in the technologies related to the Radio-Frequency Identification (RFID) and the Automotive Hi-Tech Parts, understanding the path that is going to the “smart cars”, which go along with the growing of the local E&E production. The government is supporting the competitiveness of the sector with the development of efficient infrastructure and legislation. The aspects that have affected the expansion of the sector include: the skilled workforce which is being estimated to employ 600 000 people [BOI, 2017], the collaboration between private-public association such the Electrical and Electronic Institute (EEI), the National Electronics and Computer Technology center (NECTEC) and the presence of electronics cluster. The economic clusters are important for different factors: the creation of a business-friendly environment that enhance the flow of information in order to boost the innovation process and the reduction of the costs given by a streamlined supply chain management.

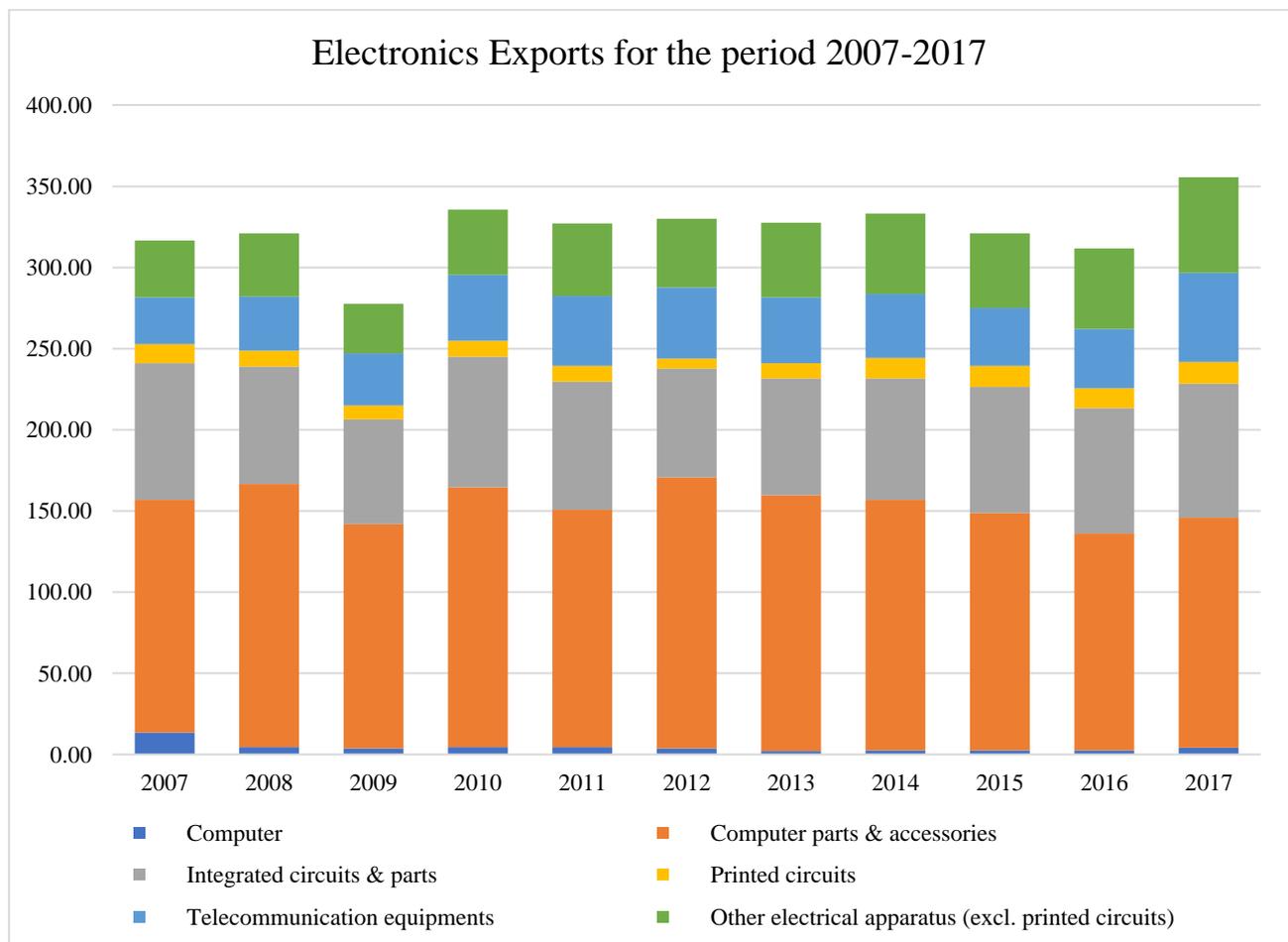


Figure 46. The graphic shows Electronics Exports for the period 2007-2017 with the major divisions. Source: Own Elaboration via BOT data.

Nevertheless, the sector is under the constant threat of the labor costs reduction: as Thailand labor’s cost is increasing companies are moving to other cheaper countries like Vietnam, like LG electronics did in 2015. The other important risk is the robotic mechanization that could impact, as might happen in the agriculture sector, also in the manufacture of electronics and electrical products since the workers only do “repetitive and non-cognitive skills”.³²⁰

Automotive

Thailand is the largest automotive producer of the Southeast Asia and has been considered the “Detroit of the Asia”³²¹. In 2018 the industry has produced 1 998 339 units, which has been allocated 928 158 to the domestic market and 1 045 233 to the export (Figure 47). The local production is still small if compared to the manufacture made by the foreign investors, either by license or by their own development. The objective of Thailand is to produce over 3.5 million vehicles units by 2020 and enhance its position of top car manufactures in the world, currently is the 12th country in the world for auto vehicles produced [Asian Briefing, 2018].

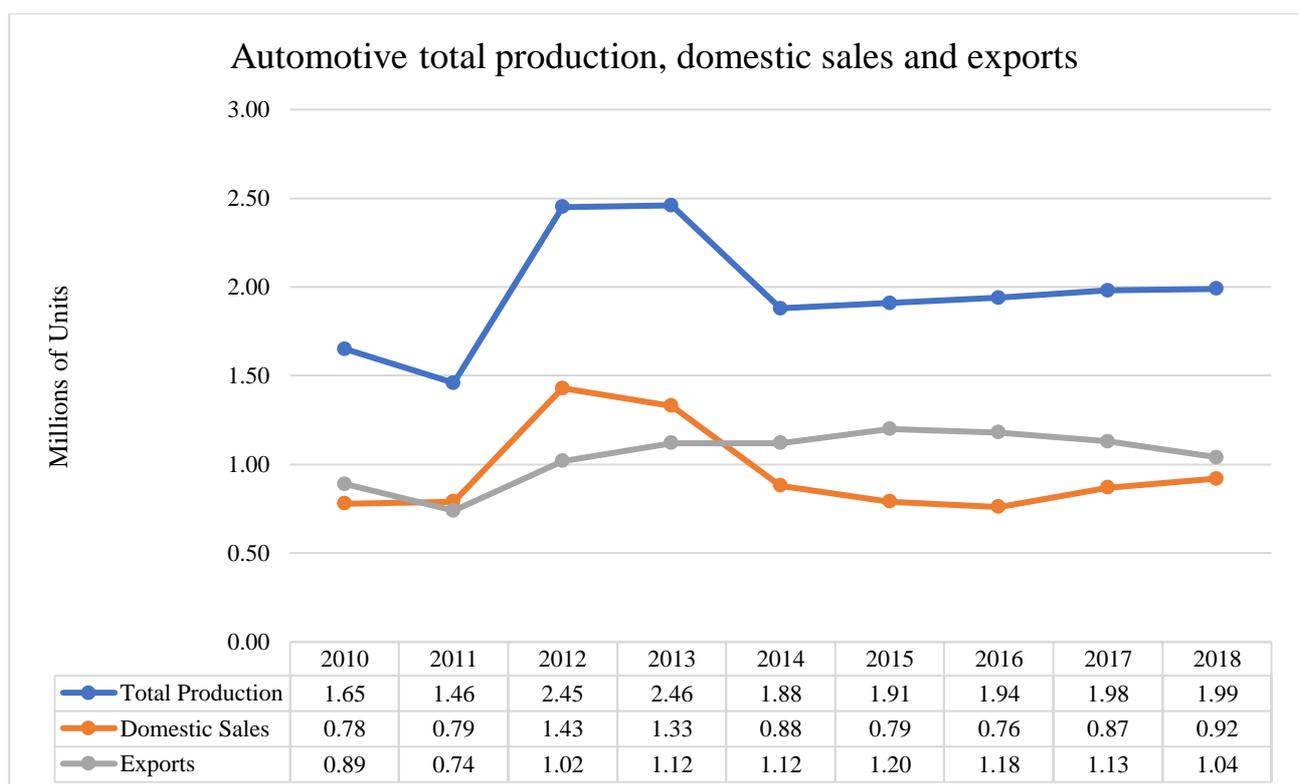


Figure 47. The graphic shows the car production units divided in the Domestic Sales and the Exports in the period 2010-2018. Source: [Markilnes, 2018](#).

³²⁰ Kettan Bentaouet, “Non-Cognitive skills: what are they and why should we care?”, World Bank Blog, 8th May 2017. Link: <http://blogs.worldbank.org/education/non-cognitive-skills-what-are-they-and-why-should-we-care>

³²¹ Vistam Talib, “How Thailand became the Detroit of Asia”, CNN Business, 10th July 2018. Link: <https://money.cnn.com/2018/07/10/news/world/thailand-auto-industry/index.html>.

The first activities of the Thai automotive industry can be traced in the 1960s when the country decided to develop the domestic industry and replace the high imports of machines. The first firm was built through a joint venture between the Thai Motor Industry and the British Ford, resulting in the “Anglo-Thai Industry”³²². The first foreign producers started penetrating the market rapidly: Fiat created a collaboration with Karnasuta General Assembly began assembly operation in the country and then followed by a joint venture between Siam Motors and Nissan [BOI, 2007]. The local production escalated but the trade deficit still remained negative, to solve this issue the government decided to create “Automotive Industry Development Committee” in 1969³²³. The efforts were not enough to have a positive trade deficit: most of the Thai industries produced only parts or focused on assembly activities which amplify the production of numerous models and vehicles varieties, crimping the effect of the economies of scale. This led the government to impose tariffs to the imported completely built vehicles and strong regulation on the parts manufactured. The market became more efficient in the beginning of 1980s when Ford, Fiat and General Motors left the market and the Plaza Accord in 1985 led to the depreciation of the baht, creating the perfect environment for the flow of Japanese investments in the sector. In the first part of 1990s the market constraints began lessen resulting in a decrease in prices, South Korea imports started overflowing the market, the Japanese responded by producing specific economical cars for Thailand³²⁴. Unfortunately, the Asian crisis impacted gravely on the sector too: in 1998 the sales for antivehicle was one quarter respect of the one in 1996. After this crash the automotive sector recovered thanks to the various FTAs signed with important partners like China and India, the identification and development of automotive clusters areas located in Rayong, Chachoengsao and Chonburi.³²⁵

An important aspect of this market is the elevated presence of pick-up trucks, which covers half of the market, making Thailand the second largest market for sale after US but the first one per-capita basis.³²⁶ The motivations of the diffusion of this type of vehicle can be interpreted with the governmental friendly policies and the multi-use aspects, the drawbacks is that most of the types

³²² The company still exists and it is now specialized in the production of tractors, cane harvesters and drivetrain. [Bloomberg, 2018]

³²³ Natsuda Kaoru and Thoburn John, “Industrial Policy and the Development of the Automotive Industry in Thailand”, RCAPS Working Paper No. 11-5, November 2011. Available: http://en.apu.ac.jp/rcaps/uploads/fckeditor/publications/workingPapers/RCAPS_WP11-5.pdf

³²⁴ Some particular models were: *Honda City* and *Toyota Soluna*.

³²⁵ Ghazali Noor Azian et al. “Thailand Automotive Cluster”, Institute for Strategy and Competitiveness, May 6th 2011. Available: https://www.isc.hbs.edu/resources/courses/moc-course-at-harvard/Documents/pdf/student-projects/Thailand_Automotive_2011.pdf

³²⁶ Finlay Steve, “Pickup Trucks Reign in Thailand”, WordsAuto, July 6th 2012. Link: <https://www.wardsauto.com/industry/pickup-trucks-reign-thailand>

of trucks use diesel fuels, worsening the already dramatic air pollution situation. Regarding the pollution's issue the government started a program of tax incentives for eco-cars in 2007, in particular a preferential excise tax of 17% (the excise for normal cars was 30%) was introduced for small and energy efficient cars. The plan proved to be successful for different reasons: it attracted different multinational investments and it increased the industrial competitiveness [UNESCAP, 2011]. In 2015 the market share of Eco Car (<100 g/km CO2 Emission) was 14% and the BOI estimated that by 2036 Thailand will increase the production not only of Eco Vehicles but also of EV cars to 1.2 million. In terms of market composition, in 2018 the situation is dominated by the Japanese which hold more than the 85% of market share despite the presence of US brands such as Ford, Chevrolet (figure 48).

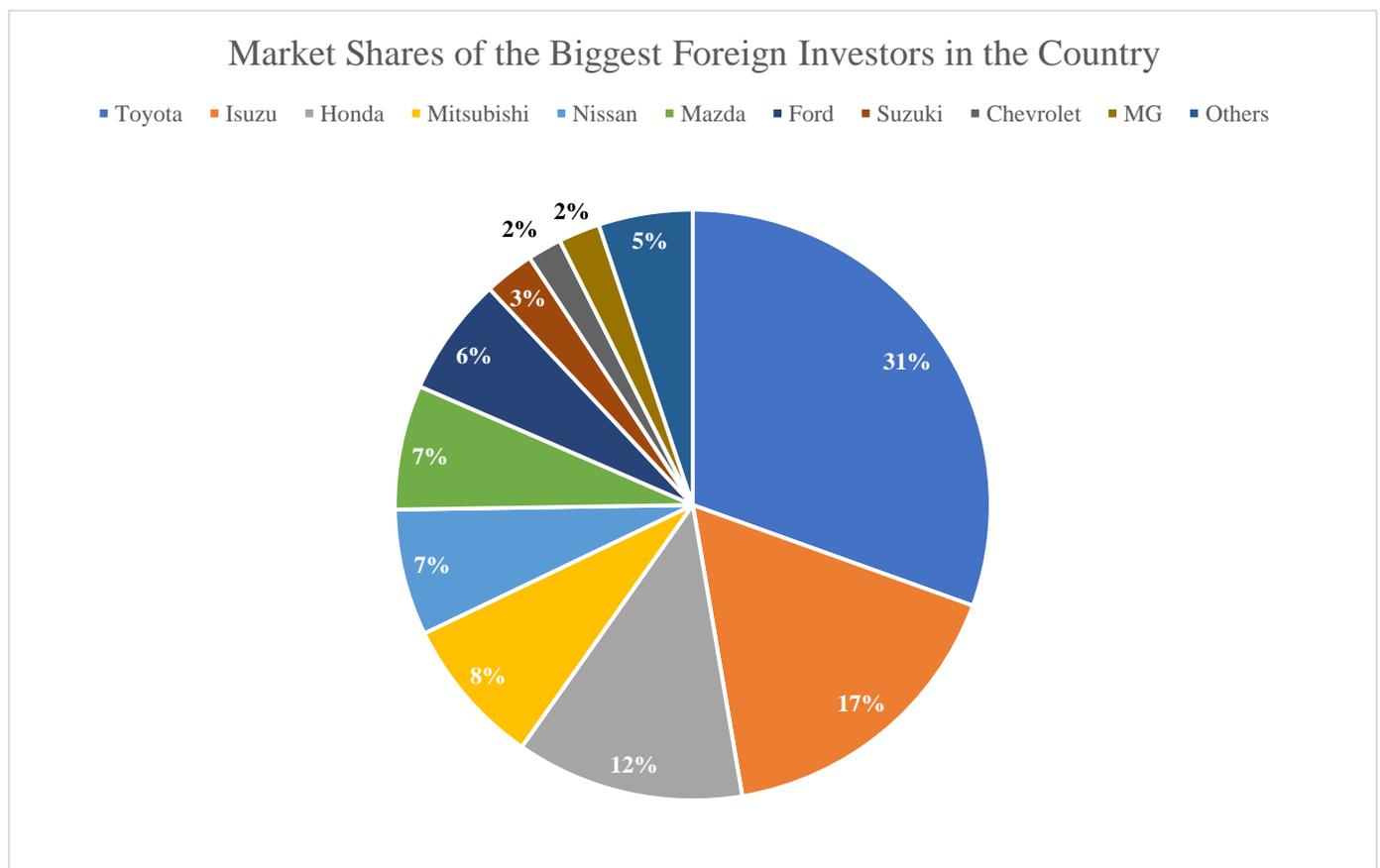


Figure 48. The graphic shows the market share of the top 10 sales brands in Thailand. Source: [Markilnes, 2018](#)

Another important part of the sector is the big motor bike production, the total output is estimated to be more than 400 000 units in 2016 with an annual average increase of 27.68% from 2010 [BOI, 2017]. The top 3 producers are BMW, Ducati and Triumph in 2016.

Oil & Gas

Thailand is a producer of oil and natural gas but the demand for fuels have been increasing in the last years, thus the country is forced to import an important share of hydrocarbons. Oil and its derivatives are, also, the main reference sources for energy consumption accounting for the 40%, followed by the natural gas (28%) while the remaining is given by the coal (12%) and renewable energies (6%). The country has numerous reserves of hydrocarbons and biomass which have been used both for the private and industrial sector. The majority of the crude oil is being imported, roughly 78%, the remaining 22% is produced domestically, serving a total internal use of 860 KBD per day. The remaining sources of energy (Natural Gas, Coal, Renewable Energy) saw a domestic production of 63% and an import of 37%. The political crisis, the hydrological problems and the indecision over the Petroleum Act blocked partially the governmental incentives for the research and extraction of new natural sources.³²⁷ In addition, the price of oil is decreasing from 2014 leading, subsequently, to a cut from private companies and institutions to the research activities in the country. Being one of the most delicate sector in term of legislation it is important to quote the Petroleum Act made in 1971 and the recent amendments made recently. The 17th June 2017 the government decided to modify the original law, the major news was the introduction of the PSAs (Production Sharing Agreements) and the contracts for services as alternative for government commission, which until 2017 they were the only tools to extract oil and gas. The oil extracted by the private companies will be under a form of licensee contract since the property over the natural resource will still be owned by the state.

Currently Thailand has at its disposal around 400 billions barrels of crude oil as we can notice from the figure 49. The national company Petroleum Authority of Thailand (PTT) in its division of Exploration and Production and Chevron operates in the largest oil fields present for the most part in the Gulf of Thailand. The production is estimated at 500 thousand barrels per day but the consume of oil is about 1.3 million barrels daily, more than the double produced. Most of the imported oil comes from middle-east (62%) and the rest from the Asian countries. Nevertheless, due to the increasing efficiency and technologies in the refining oil industry Thailand can satisfy internally the demand of refined oil and with eight refineries plants it has been confirmed as the second largest for capacity after Singapore.³²⁸

³²⁷ Praiwan Yuthana, "Petroleum Exploration Bids to Reopen", Bangkok Post, 27th May 2016. Link: <https://www.bangkokpost.com/business/news/990785/petroleum-exploration-bids-to-reopen>

³²⁸ Krungsri Research (2018), "Refinery Industry Outlook 2018-2020". Available: https://www.krungsri.com/bank/getmedia/ab98f86c-6415-4f61-97c7-12126ba58c65/IO_Refinery_2018_EN.aspx

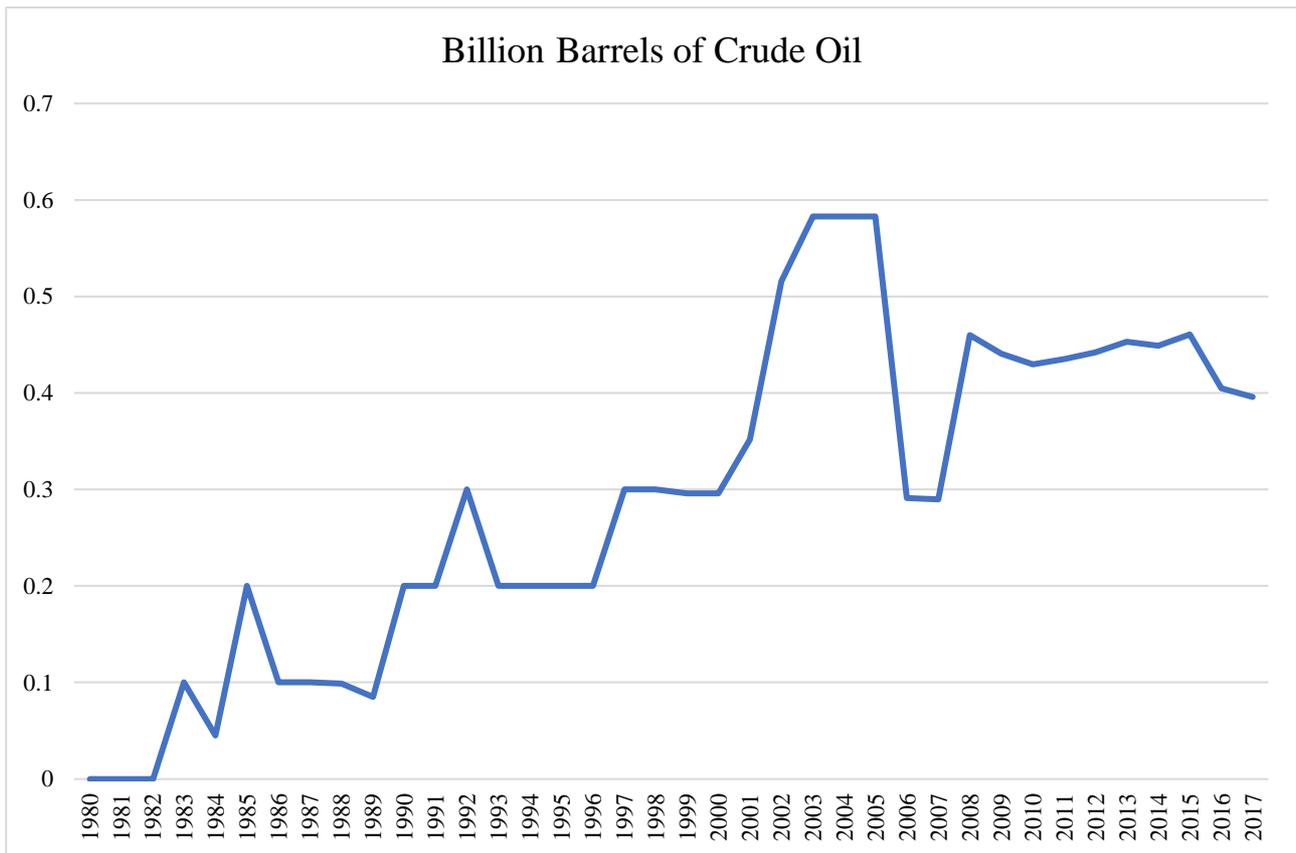


Figure 49. The graphic shows the Crude Oil Proved Reserves for Thailand in the period 1980-2017. Source: Own Elaboration via The Titi Tudorancea Bulletin, [2017](#).

After the peak of 2006 the reserves of Natural Gas in Thailand are now decreasing, in 2016 the total reserves are estimated to be 7.3 trillion m³ (figure 50). Similarly to the oil the two major companies Chevron and PTT operate in the Gulf of Thailand for the extraction, resulting in the biggest natural gas producer of the country. The market sees also present the Japanese company *Mitsui*, the French Total and Shell. Apart from the private investments, Thailand is currently developing a governmental partnership with Malaysia for the extraction in the Malay Basin, a maritime area significantly rich of hydrocarbons sources. The country consumes more natural gas than the one it produces from 1999, year in which the country launched the first pipeline dedicated at the import from Myanmar [Oil&Gas Journal, [1998](#)] The consumes are predominantly dedicated to the production of electrical energy. Thailand started importing Liquid Natural Gas (LNG) in 2011 with the opening of the first regasification center in Rayong, the most important hub for the country's pipelines.

The import of LNG is estimated to be around 460 billion m³ in 2016, coming mostly from Qatar and Myanmar. The market opened to the foreign investments in the 1950 but throughout all these years the role of the government has been crucial. Most of the principal actors in the sector gather in the PTIT, Petroleum Institute of Thailand, the main objectives of this association is try to

accelerate the opening of the oil fields' bidding and to extend the length of the concessions. At the same time the private companies are trying to enhance the delicate reputation of the sector granting more transparency. For example the Ophir Energy (Salamander), BG or Chevron publish cyclically the figures of the tax payment and the investments. The challenges for the near future are linked to find new investments for the research and extraction of new fields: a recent bidding for the most important offshore gas fields saw two offers from Chevron and Thai PTTEP [Offshore Energy Today, 2018]. The access to the other sources is also blocked the territorial disputes with Cambodia³²⁹, factor that has affected greatly the investment in those areas and the government should clarify the situation as soon as possible.

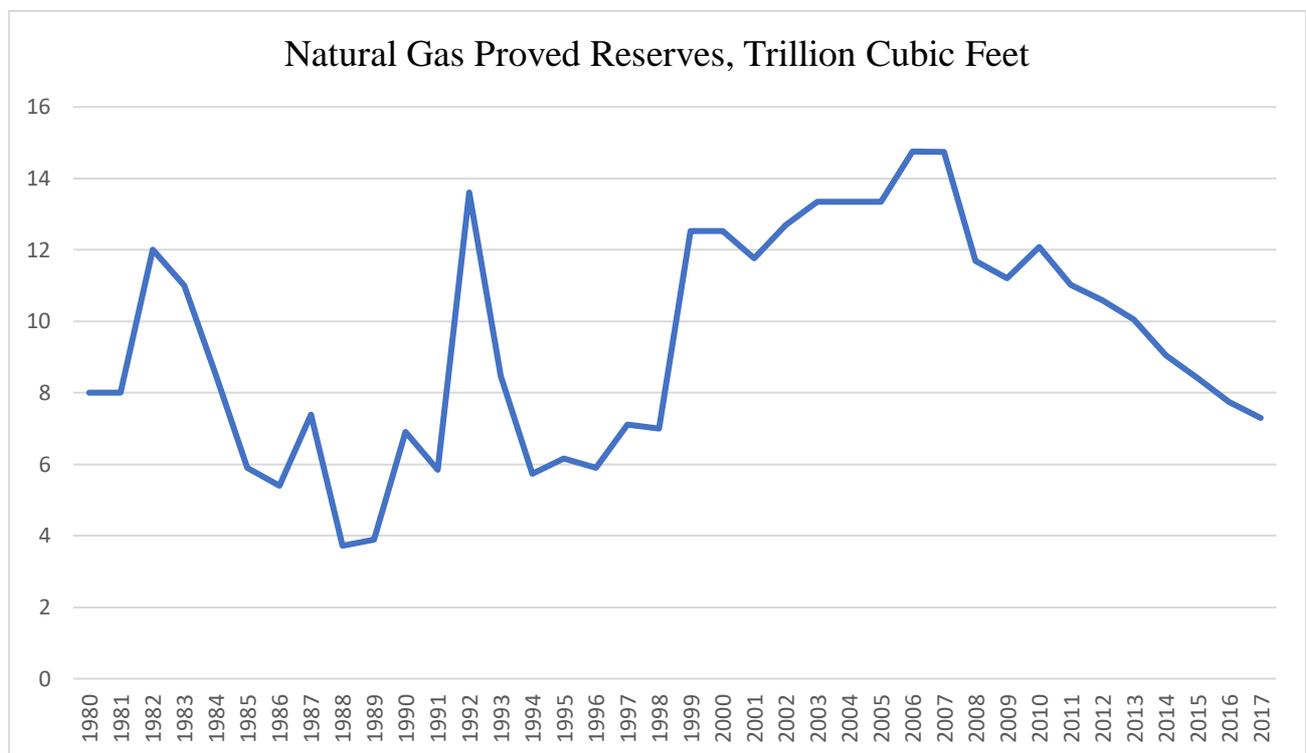


Figure 50. The graphic shows the Natural Gas Proved Reserves in Trillion Cubic Feet for the period 1980-2017. Source: Own Elaboration via The Titi Tudorancea Bulletin, 2017.

Renewable Energy

The latest sources estimate made in 2014 that in Thailand the total installed capacity from renewable energy sources is 11,958.00 megawatts. The solar capacity accounts for 1,298.51 Megawatts, the wind capacity for 223 MW, the solar power 100 MW, the Hydropower counts for 7,042 MW and the Biomass Power for 4,593 MW. The Ministry of Energy has fixed the target

³²⁹ International Crisis Group, Waging Peace: ASEAN and the Thai-Cambodian Border Conflict, Asia Report N°215, 6 December 2011; footnotes omitted; numbering of the paragraphs added by us; report available on <http://www.crisisgroup.org>

of 20% as the share of renewable energy to the total installed capacity to reach by 2036. In particular, is essential the development of the wind and solar capacity which should reach respectively 3000 MW and 6000 MW. The goals seems achievable and already in the end of 2017 the wind capacity has increased to 600 MW.

The challenges for the future must see a further increase of the solar capacity due to the important abundance of that natural sources. The problems related to solar energy is the intermittency which could be challenge with an efficient energy diversification and in march 2016 the government approved the legislation that allows to install solar panels also in commercial and home building³³⁰, an important step for the development of the sector. The idea of a more green Thailand is highlighted also in the Thailand's Power Development Plan 2015-2036³³¹ in which great importance has been given to the creation of new electrical gas-powered generating station and the "clean coal" power station. The hydro-energy has also been a focus point since it accounts for almost 7% of the total power output but it still highly dependent to the imports, the plan is to let it rises to 20% by the 2036 with more plans and projects³³². The hydro-power energy has a significant potential and a low cost in a country where the rainfalls are abundant, but it also has repercussion in terms of "water environment".

³³⁰ Praitwan Yuthana, "Private Solar Power Buying Gets Go-Ahead", Bangkok Post, 7th June 2018. Link: <https://www.bangkokpost.com/news/environment/1480257/private-solar-power-buying-gets-go-ahead>

³³¹ EGAT, "Thailand Power Development Plan 2015-2036", June 30 2015, Bangkok. Available: https://www.egat.co.th/en/images/about-egat/PDP2015_Eng.pdf

³³² Kraitud Nikom, "Status of Hydropower Development on the GMS", EGAT. Available: <http://www.mrcmekong.org/assets/Uploads/1.-Hydropower-plan-Thailand.pdf>

3.3 Services

When we discuss the services sector in Thailand we must analyze firstly the tourist sector since it is one of the main motor of the economy. The sector contributes directly to the GDP from a range of 9% to 17.7%, depending on the estimate, and if we consider the indirect travel and tourism receipts the total share jumps to 21.2% in 2017 [World Travel & Tourism Council, 2018]. The total Travel & Tourism total contribution was THB 3,339.8 billion directly employing 2,336,500 people. The tourism began its major development during the 1960s along with the economic boom and the creation of essential infrastructures, then it was enhanced by the presence of the US soldiers who were based in Thailand for rest and recuperation missions. During the 70s and 80s the world economy boomed: the transports became more fast and accessible the income in the developed countries increased, giving more possibilities for travel and touristic activities. The number of arrivals between January to November have been around 34 million, a figure similar to the one of 2017 when the visitors were 35,381,210, making it the 10th country visited in the world. The trend has been steadily positive in the last years as we can see in figure 51. The only slowdown moment was during the political instability that the country had in 2014-2015 were the arrivals declined modestly.

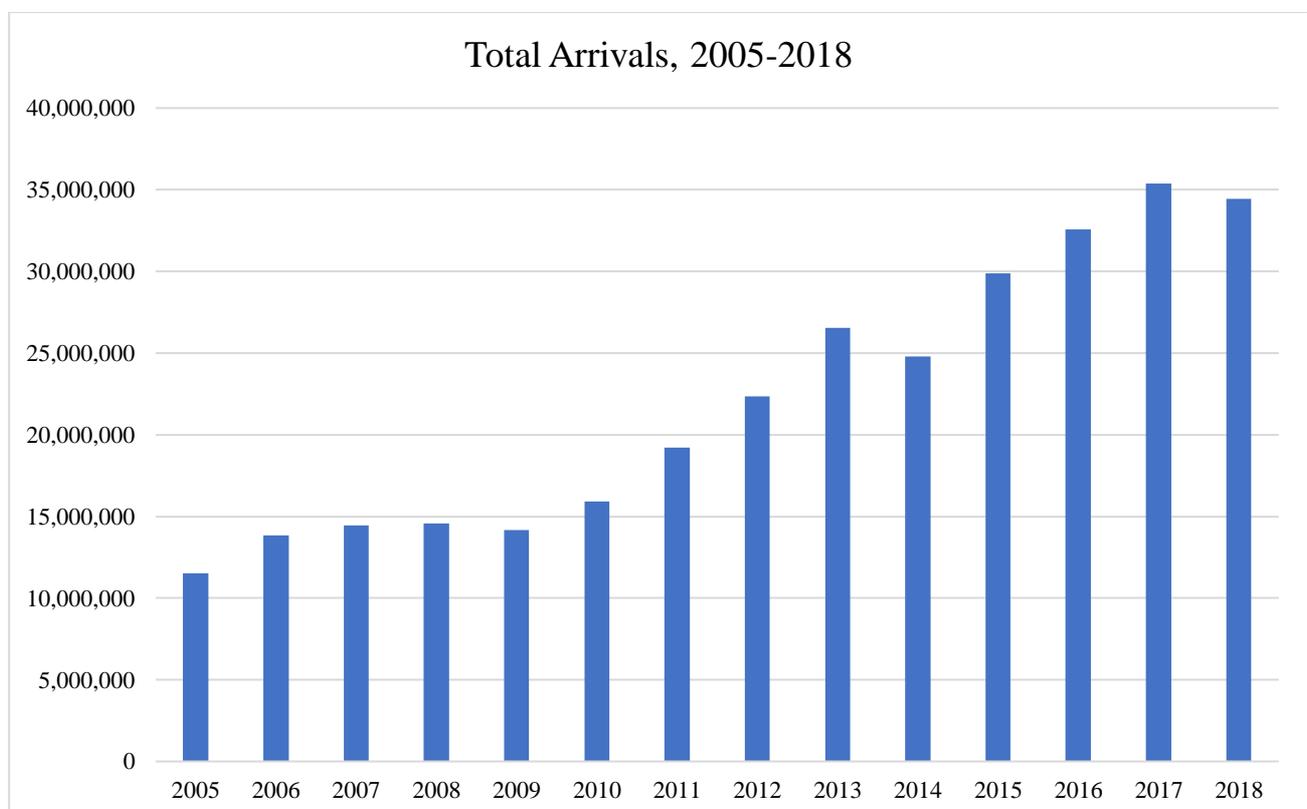


Figure 51. The graphics shows the number of people who visited Thailand year per year from 2005- November 2018. Source: Tourism Authority of Thailand.

The turmoil created by the riots blocked the airports and Bangkok for several months, the military junta that took the power in absence of the political government established the martial law, considered unacceptable from the western democracies. Considered these issues, in 2014 the arrivals were about 24 million, decreased by about 6% from the previous year. Thailand is also an appealing country for tourism because its flexible visa measures which allow to 57 passports a visa-free entry and to 21 a visa-on-arrival. The plan is to enhance this numbers trying to sign new agreements with other countries. The figure 52 shows the top 13 nationalities by arrivals in 2018, the most important share is represented by the ASEAN. From the Southeast Asia countries the one with the most visitors in Thailand in 2018 is Malaysia with 3.5 million tourists, followed by Laos with 1.5 million tourists and then Vietnam with 950 thousands. China is also an important partner in term of tourists with more than 9 million visitors per year. According to recent studies, the average Chinese tourist stay in the country for week and spend between US\$ 1000-1300, considered more than the average tourist in Thailand.

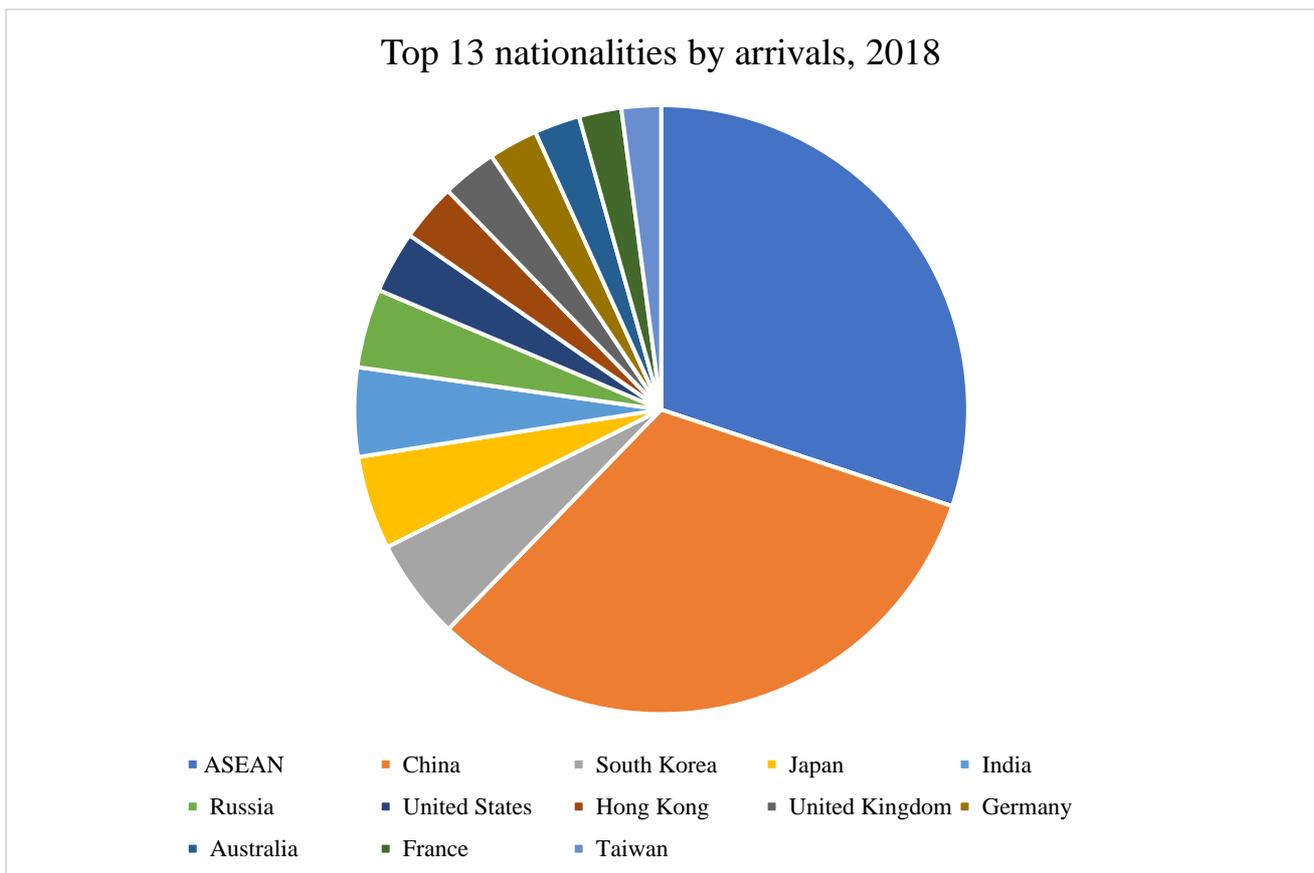


Figure 52. The figure shows the top 13 nationalities by arrivals in Thailand in 2018. Source: TAT.

Other nationalities which chose Thailand as their tourism destination are: South Korea, Japan, India and among the western countries United States, United Kingdom and Germany (figure 52). There are different types of tourism that are common in Thailand:

- **Cultural.** Due to the important historical sites and cultural activities like the Thai dances and theatre spectacles, this type of tourism is increasing specially among elderly people.
- **Medical.** Thailand was one of the first country in Asia to achieve the Joint Commission International³³³ authentication and currently it has 53 hospitals accredited. The country can offer a large number of western-educated, English speaker and prepared doctors and medical staff, these aspects along with the lower cost of the competitors have increased the medical tourists in the country. The country earned US\$ 1.8 billion in 2015 from the medical tourism and involved 928 700 people [Oxford Business Group, 2017]. In addition the government is accelerating the visa liberalization policies, in 2017 a 10-year visas measure has been approved for the people over 50 years looking to get medical and regular treatments in Thailand.³³⁴
- **Gastronomical.** The cousins of the country is one of the most popular globally and the TAT estimate that the gastronomical revenues in the country are 750 billion baht in 2018.
- **Elephant.** A relevant part of the tourists coming in Thailand enjoy the activities that involve Elephants. The most iconic animals of the country went through a tragic depopulation: in the early 1900s more than 100 000 elephants were estimated to be present in the country while now no more than 1500 living in the wild³³⁵. Nevertheless, elephants tourism can be a form of protection since elephants have a place to work and can be taken care.

The TAT (Tourism Authority of Thailand) coordinate most of the promotional initiatives for the sector. We can quote among the others the campaign “Discover Thainess” and the support slogan “Amazing Thailand”.³³⁶

³³³ The Joint Commission International is the global division of the US Joint Commission, which give medical and health-care global accreditations.

³³⁴ Royal Thai Embassy Canada, “Non Immigrant Visa, O-X 10 Years Long Stay”. Link: <http://www.thaiembassy.ca/en/visiting-thailand/visas/types-visas-periods-stay-fees/visa-ox-10yrs-long-stay>

³³⁵Project Ocean Vision, “Thailand’s Elephants”. Available: http://www.projectoceanvision.com/articles/thai_elephants/thai_elephants.pdf

³³⁶ TAT (2015), “2015 Discover Thainess Campaign”. Link: <http://www.tatpr.org/webdatas/files/Fact Sheet 2015 Discover Thainess Final%281%29.pdf>

3.4 Future challenges: Thailand 4.0, SEZs and Eastern Economic Corridor

Thailand 4.0

Thailand 4.0 can be described as an economic plan that focus on innovation, inventiveness, modern technologies and high level services, used to enhance the social and economic situation of the country. The model is a natural prosecution of the Thailand S-curve³³⁷ path which can be summarize by the figure 53. Thailand 1.0 was the first step in the country's development process based on agriculture mechanization and the OTOP (Cottage Industry Development), the second phase, Thailand 2.0, was focused on the light industry which exploit the intensive and low-cost sectors such as the textiles and taking advantages of the natural resources use. Thailand 3.0 was, instead, targeting the heavy industry mostly the E&E and automotive sectors with the focus on the incoming FDIs and a production made for the export.

The last step which the government and institutions planned for Thailand want to focus on the transition to a more cognitive and knowledge type of labor, particularly in the most important sectors. It is clear that the link with the national education system is essential in order to complete this transformation. The course of this plan can be accomplished with the use of science and technology to expand the country's economy with a particular attention given to the agriculture, industry and community health. Important, according to the institutions, is also to follow the world trends as digital and robotic transformation and try to surmount the "middle-income trap". In order to describe the program the Royal Thai Embassy in USA give this four points as step to achieve the finalization of the Thailand 4.0 agenda³³⁸:

- **Economic Benefit.** The plan should expands the R&D national expense to 4% of the total GDP within 5 years with a boost in the average income per capita by three times.
- **Social Wellness.** The aims is to lower the social disparity and on the other hand increase the social inclusivity: the welfare system will enhance giving more availability for agriculture households.
- **Increase "Human Values".** Thailand 4.0 will increase the HDI from 0.722 to 0.8, ranking the country within the 50 most human developed countries by 10 years.

³³⁷ The Innovation S curve concept defines the technology life cycle of a products, industry or a project. It is composed by four major phases: Ferment, Take-Off, Maturity and Discontinuity.

³³⁸ Royal Thai Embassy in Washington, "Thailand 4.0". Link: <https://thaiembdc.org/thailand-4-0-2/>

- **Sustainable growth.** It is a national and global challenge to achieve this plan with the lowest possible environmental impact, pushing the renewable energy sources and reducing the coal and hydrocarbons usage. The importance is also given to the security and the livability of the cities.

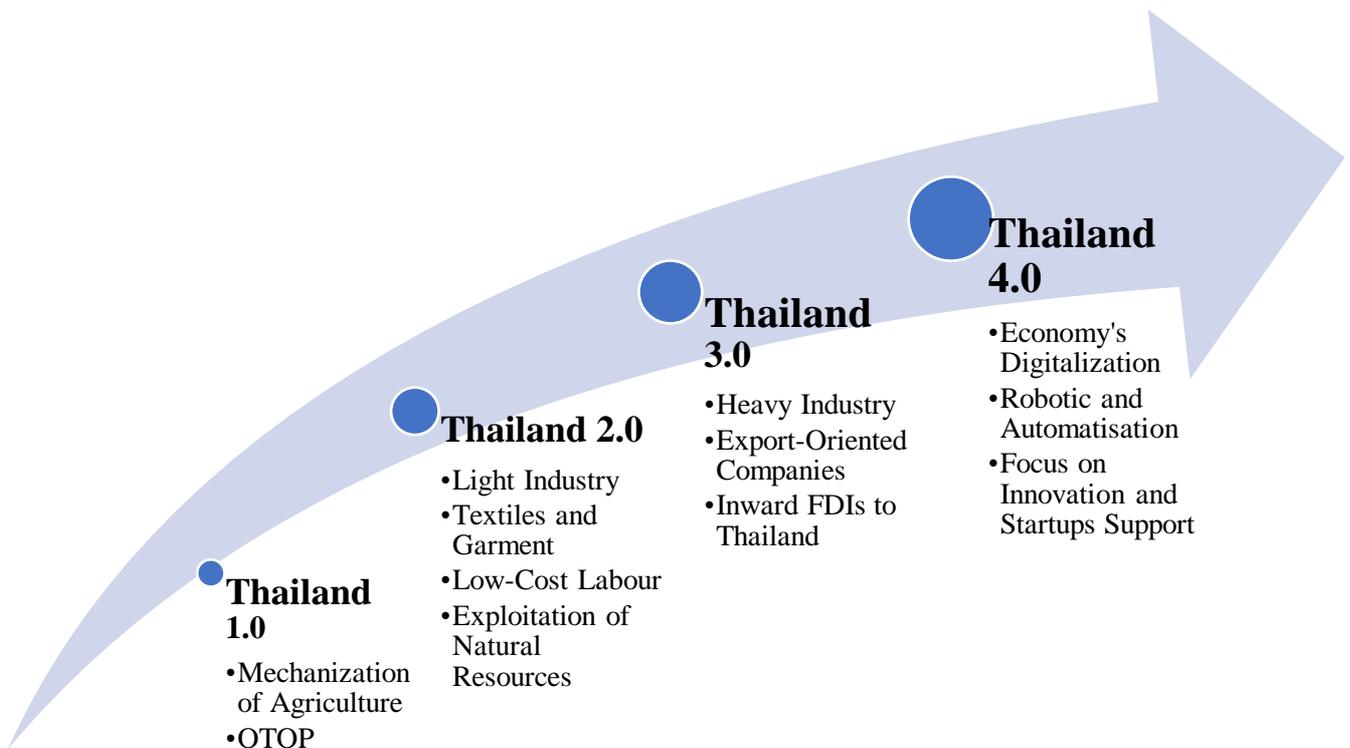


Figure 53. The Innovation Phases of Thailand Economy, which all of them have been through phases of ferment, Take-Off, Maturity and Discontinuity. Source: Own Elaboration.

To achieve these points the government has put on the top of its agenda the development of the economic clusters for the Thai SMEs and network for new or already existing start-ups. In 2012 there were 2.7 million SMEs which contribute for 37% of the GDP and give jobs to more than 10 million people.³³⁹ The plan of the Office of Small and Medium-Sized Enterprises Promotion (OSMEP) is to expand this figure to 3 million people by 2018, foreseeing the importance of them for the country and trying to do this by allocating \$US 37 million. Moreover the ICT sector is one of the driver for this transformation and the skilled students of information and technologies subject are one of the main resources. Currently 20% more investments in ICT could boost up to 1% the GDP of the country along with its competitiveness, innovation and productivity. Unfortunately, the current situation of the country sees a lack of high-skilled workers which could be affected greatly by the disruptive technologies. Currently Thailand has 9.5 doctoral researchers

³³⁹ Christianity Grace, “Asia: Thailand to increase SMEs by over 3 million in 2018”, RFI Group, 8th January 2018. Link: <https://www.rfigroup.com/rfi-group/news/asia-thailand-increase-smes-over-3-million-2018>

every 10 000 people but the project is to increase up to 80 per 10 000 people. The national institutions in order to do this released a budget plan of US\$ 1 billion to support PhD programs specializing in industrial development.³⁴⁰

Another important aspect is the support of the Thai Start-Ups which has been considered satisfactory in the last years after the launch of Thailand 4.0. Nevertheless, the investments coming from Venture Capitalists and Angels is really low and the funds come mostly from big companies investing more in specific technologies rather than the startup core business. In addition, the collaboration with the education system is still pretty poor, rare are the collaboration between universities and start up projects [Start-Up Thailand, [2018](#)]. The gap in this matter with other South Asian countries is still pretty important, Singapore and Malaysia have numerous “unicorns start-ups”, those early-stage companies valued more than US\$ 1 billion. Moreover, Thai start-ups most of the time only adapt the foreign idea without considering the local contexts and problems. In March 2017 a conference called “Thailand’s Startups: Learning from Unicorns” was held in Bangkok [Bangkok Post, [2017](#)], in which were described 3 plans to support startups³⁴¹:

- Increase the “Angel Funds” and the Angel Network, especially people investing in startups will benefit from a tax exemption for 6 years.
- The government will collaborate with universities and will create more centers to support the cooperation level.
- Connect the start-ups with the regional and global innovation hubs, liberalizing visa for the start-up entrepreneurs, facilitating the knowledge transfer and developing the innovation business ecosystem.

The concept of Industry 4.0 can be thought as the fourth industrial revolution since it describes the transformation that companies and institutions are going through in the last decade, guided by the digitalization processes, connectivity and computerization. In addition, the IoT (Interne of Things) is a network of devices involving new technologies such AI (Artificial Intelligence), innovative and more responsive software that allows to interact and exchange data. All those new ideas can be implemented in the Thai economy with great results since as we have seen the

³⁴⁰ EU Business Avenues in Southeast Asia, “Information % Communication Technologies Thailand Market Study”, April 2018. Available: <https://www.eu-gateway.eu/sites/default/files/collections/document/file/eu-gateway-information-communication-thailand.pdf>

³⁴¹ Sattaburuth Aekarach, “Govt eyes support for startups”, Bangkok Post, 23th March 2017. Link: <https://www.bangkokpost.com/news/general/1219377>

manufacturing industry is still a relevant segment of the national economy and could benefit in term of efficiency and productivity. In Thailand, for example, the mobile penetration is 52.3%, the highest in the ASEAN after Singapore and it can be considered one of the regional leader for internet users. CAT Telecom launched the first national IoT network in 2017, firstly implemented in Bangkok and in the Phuket Province.³⁴² Thailand 4.0 can be also seen as a possibility to develop the agriculture sector, particularly advancing the technologies of the Small Farmers. The government focus on giving the possibilities to the farmers to introduce more technology-based cultivation, leaving the traditional farming techniques. Moreover, the ambition is to transform more and more farmers into “Smart Farmers”, who take advantage of innovative plants and seeds and then use platforms and networks to sell their products at a more competitive price. Examples of the support to the sector relating to the Thailand 4.0 project are for example the Agri-Map which allows “allows national, regional, local policy makers and Thai farmers to access to the comprehensive, integrated and updated agricultural information. It helps them plan crop activities and crop replacement based on targeting lands that have more potential for more profitable agricultural alternatives.” [Apan, [2017](#)] Another example is the *Food Innopolis Project* located in the Thailand Science Park which is dedicated to the research, development and innovation for food industry. The Minister Of Finance also decided to support the project with a fund of THB 10 billion (USD 283.8 million), recognizing the objective of Thailand to become a “global good innovation hub”. [BOI, [2017](#)]

An important private-public partnership has been established in the E-Commerce area with the Alibaba’s subsidiary Lazada Group, being the market leader in ASEAN in term of E-Commerce services. The Chinese company declared its availability to participate in the development of Thailand 4.0 with the establishment of a Smart Digital Hub and the training and equipping of Thai SMEs with E-Commerce Skills.³⁴³ In addition the collaboration touches the training of “digital talents” giving the possibilities to the students to participate to multiple exchanges and specialization programs, the creation of a “official Thai Rice Flagship Store” on *Tmall*, a B2C consumer online retail that allows to sell brand to consumers in China and the cooperation with TAT to the Smart and Digital Tourism.

³⁴² Boonnon Jirapan, “CAT Telecom moves business focus to IoT digital services”, The Nation, December 18th 2017. Link: <http://www.nationmultimedia.com/detail/Corporate/30334156>

³⁴³ MoU between Alibaba Group and Government of Thailand. Available: https://www.alibabagroup.com/en/news/press_pdf/p180419.pdf

SEZs: actual situation and development, EECs mega-project

The strategic geographic position of Thailand surrounded by developing countries like Cambodia, Laos and Myanmar offer the possibilities for a greater border commerce and the region economic boom. The statistics from the Foreign Trade Department have showed that in 2017 trade and goods crossing the borders accounted for 971.42 billion baht, increasing by 9.68% from 2016 [BOI, [2017](#)]. The trend is supposed to increase by 10% to 14% in the next years and this aspect can benefit from the presence of 10 special economic zones (SEZs) in the border areas of the country [ASEAN Briefing, [2017](#)]. The progression of the creation of the SEZs is articulated in two phases: the first one will implement the SEZs in the Tak, Sa Kaeo, Trat, Mikdahan and Songkhla areas (Blue points in figure 54) and then the second phases will involve the provinces of Narathiwat, Chiang Rai, Nong Khai, Nakhon Phanom and Kanchanburi (Red points in figure 54). The introduction of these measures started in 2015 in order to promote the international investments in the borders areas. Indeed SEZs located in the proximity of the confines can have multiple benefit such as the lower cost, workers from the closer country and the closeness of the natural resources plus the logistic and infrastructures point of view that can integrate the expanding ASEAN market. The investment in 2015 was about 280 million baht and it was increased drastically in 2016 with a fund of more than 8 billion. The majority of the industries that the projects are targeting are the one with intensive usage of labor like textiles, agricultural products, plastic, rubber and metal industries. The government provide specific benefit in these areas for the investors, in term of both tax and non-tax. Indeed, the incentives, for examples are:

- Exemption from corporate taxation for 8 years and 50% tax holiday for additional 5 years.
- Double deduction for transportation and utilities costs.
- The exemption from import duties on specific materials like raw materials and machinery.
- Authorization to benefit from the low-skilled labor from another country and external employment.

The confidence of the investors is also growing thanks to the infrastructure plan from roads to airports and other national services that gives access to an area of 600 million possible consumers. The institutions have also decide to enhance the public-private partnership by giving the possibilities to private enterprises to rent land areas in the SEZs.

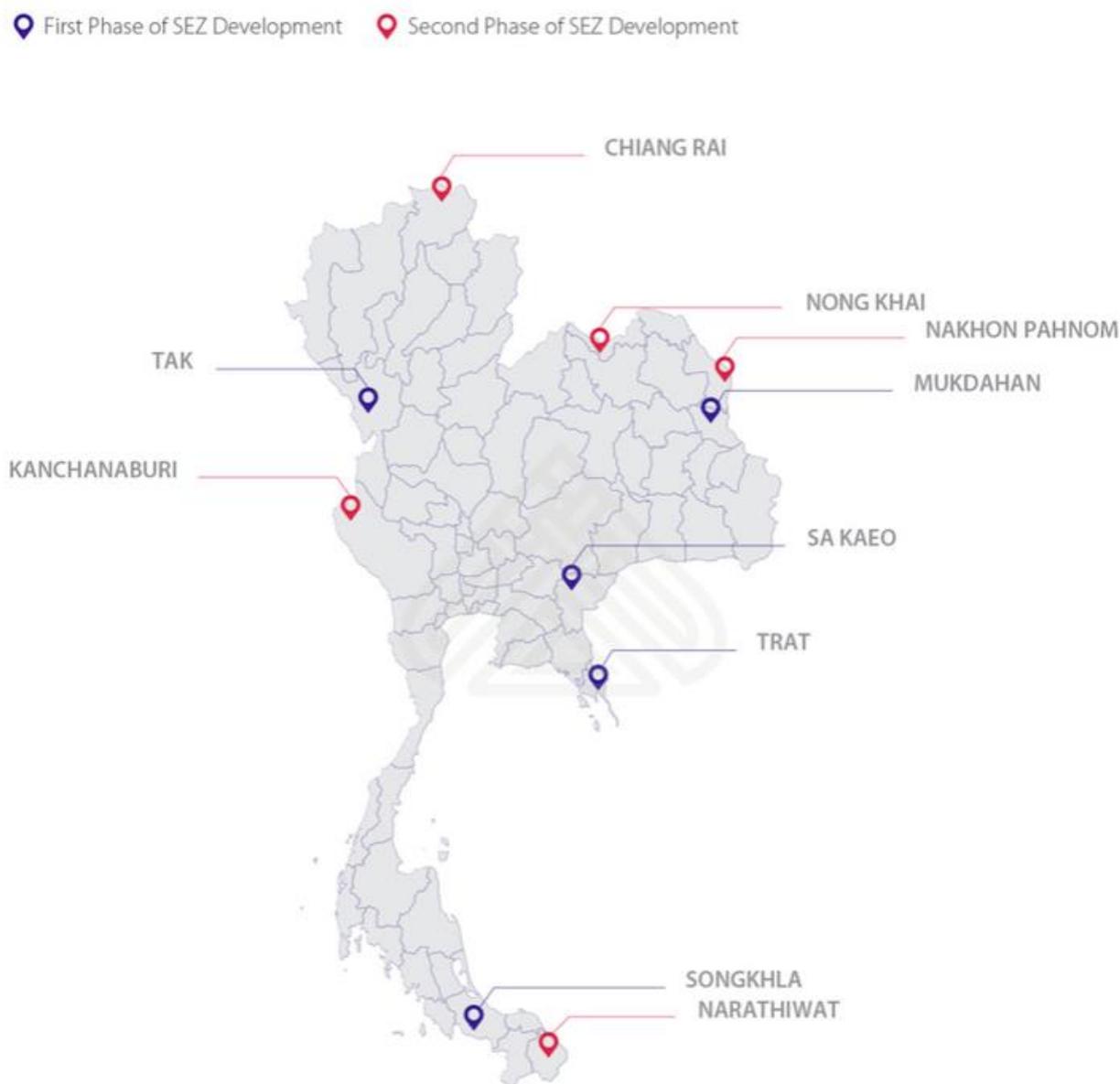


Figure 54. Thailand SEZs location, the government has decided to proceed in two phases starting with 5 SEZs (Blue) and then following with the second phase (Red). Source: Asian Briefing, retrieved from: Asean Briefing, 2018.

A recent innovation in the investment attraction framework was the approval of the Eastern Economic Corridor (EEC), the Thai government provide a new including hundreds of regulations to enhance the incentives to foreign investment.³⁴⁴ The area interested is the Eastern Seaboard, approximately 13 000 km² (figure 55) which include the three provinces in the eastern coast of Thailand: Chachoengsao, Chonburi and Rayong. This provinces have been historically important for the Thai Heavy Industry, that have commonly represented Thailand 3.0 and now the government aim's is to traduce it in Thailand 4.0.

³⁴⁴ Vasundhara Rastogi (2018), "Thailand's Eastern Economic Corridor – Opportunities For Investment", ASEAN Briefing. Link: <https://www.aseanbriefing.com/news/2018/03/09/thailand-eastern-economic-corridor-eecc.html>

The measures involve an important support to the business in this areas by giving incentives as:

- Leasing of the land for 50 years, renewable to 49 years one time.
- Special projects approved from BOI can see the land ownership of a foreigners investors
- Creation of the One Stop Service Center to help with bureaucratic service such as documents for imports or licensee.
- Easing the visa and work permit procedures.

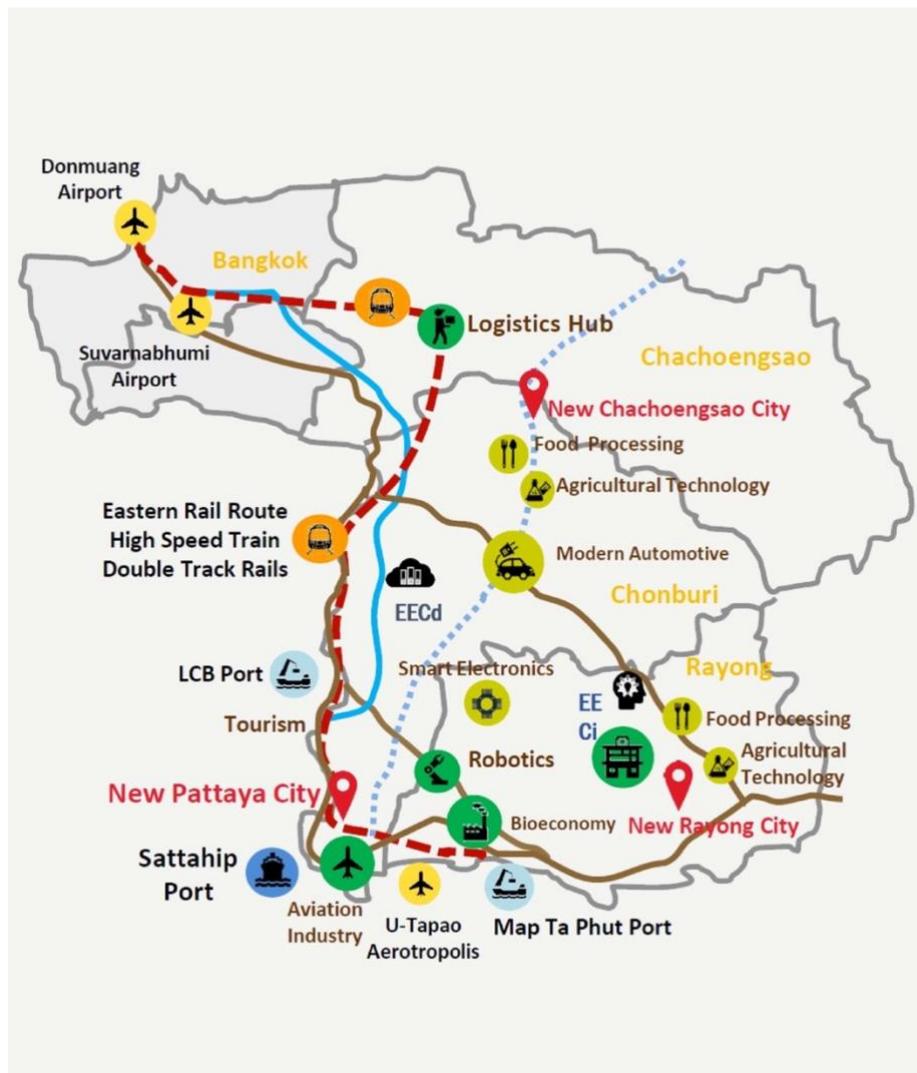


Figure 55. The map shows the EEC project in term of logistics and infrastructure. Retrieved from: [United States Royal Thai Embassy](#), 2018.

The government decided also to launch 5 relevant infrastructure plan to bolster the EEC, an high-speed railroad, the development of the Laem's and Thaput deep-sea ports, the expansion of the U-Tapao airport and a PPP between Airbus and Thai Airways. In addition the EEC includes the project of the China's One Belt One Road (OBOR) an high speed train that will connect Bangkok to Vientiane in Laos and hen Kunming in China.

Chapter 4. Thai-Italian Economic Relations

This chapter will be dedicated on the economic relation between Thailand and Italy, answering two main questions who are the main Public actors, activities and initiatives carried by Italy. Secondly, it will be analyzed the trade-economic relations between the two countries. A particular focus will be given to the role of the Thai-Italian Chamber of Commerce, supported by the personal and professional experience that I carried out during my internship period.

4.1 Italian Framework to Internationalization Support

4.1.1 The Importance of Exports and SMEs for Italy

In the last 20 years the at each percentage point of the GDP global growth corresponds to a two percentage points of the world commerce. This ratio shows the impact of the global trade in the economic development and for each countries the economic interchange on the national value added. The globalization process, meaning a more interdependence and integration of different economic systems, can make the prosperity of a country that is able to promote its cultural, knowledges and capabilities assets in this context.

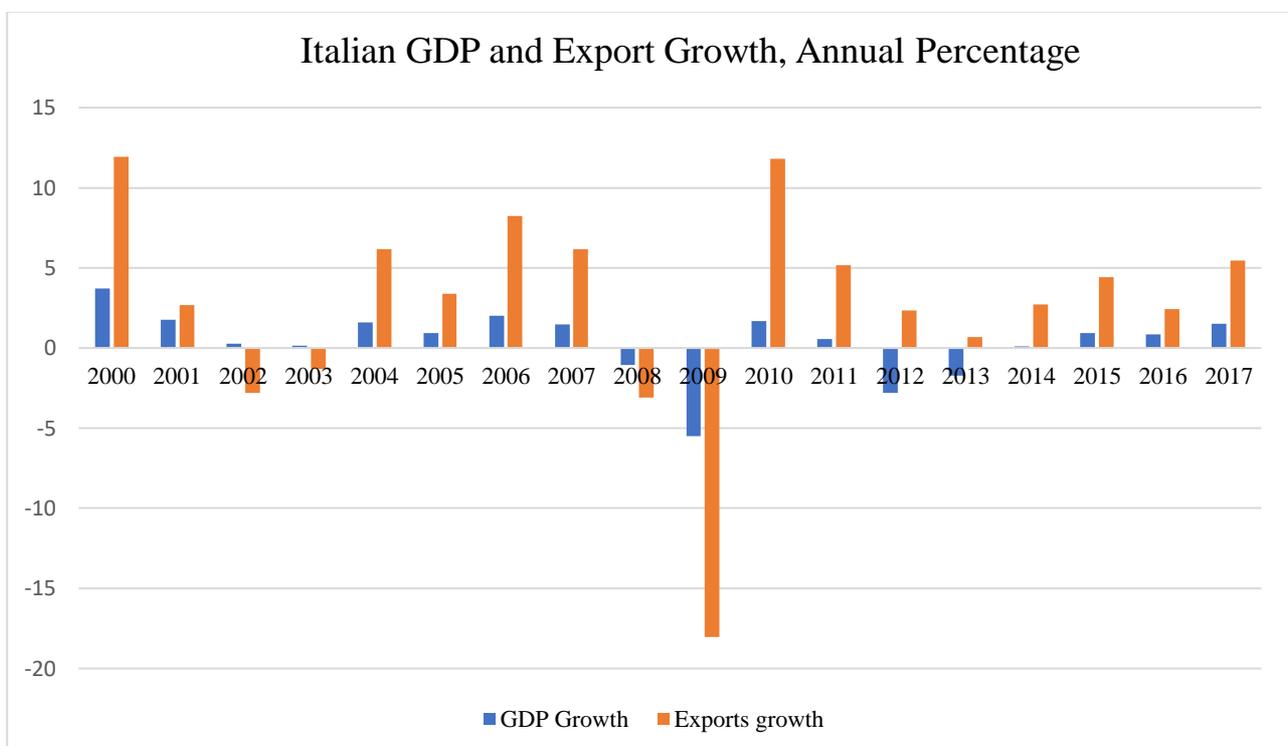


Figure 56. The graphic shows the relations between the GDP growth and the exports in the period 2000-2017. Source: ISTAT, World Bank Data.

For Italy the relation between GDP real growth and exports of services and goods is really interdependent: the correlation between these two aspects can be seen in the figure 56.

Particularly at the end of 2008 and 2009 the global world commerce crisis conditioned the economic development while it has modestly recovered in the period 2010-2017.

This relation is specifically due to the share that the exports cover in the Italian economic system, traditionally voted to the manufacture and international commerce. The contribute to the total GDP has fluctuated between 25-30% between 2001-2017, with the lowest point touched in 2009 (figure 57).

In the European context Italy is the country with the highest number of SMEs: it has been estimated that are more than 4.4 million and represent 99.4% of the Italian production system. The SMEs also represent the 99.5% of the Italian companies that export abroad, contributing with more than the 66% to the total sales outside the national territory and give jobs to 3.1 millions of people. The role of Italy in the global commerce in the last years has changed significantly, both for domestic political decisions and for the mutation of the international economic and political framework. Italian SMEs have adapted to these aspects focusing on the quality of the products rather than quantity or lowering the prices.

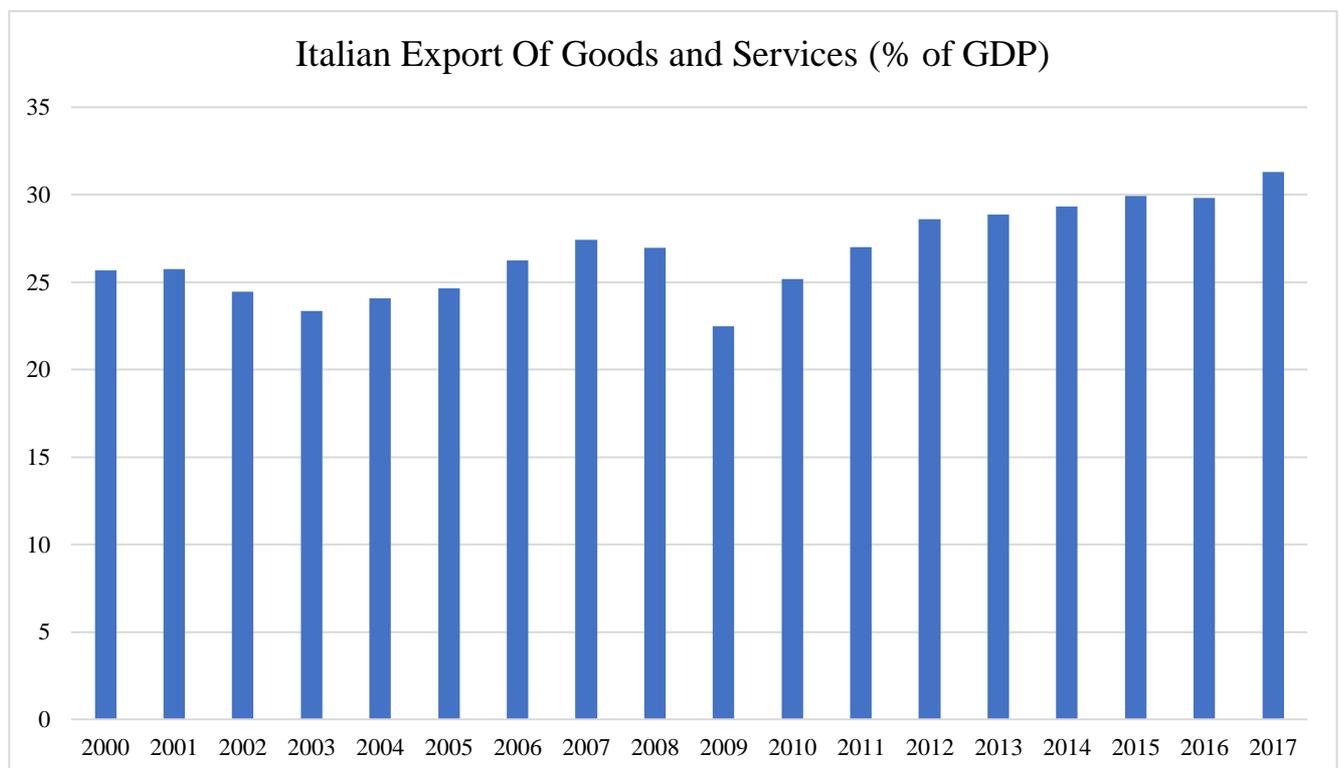


Figure 57. The graphic shows the percentage of the exports of goods and services of the total Italian GDP composition. Source: Own Elaboration via World Bank Data.

They are currently facing the new globalization challenges and pursuing a repositioning in the world economic scenario, which thanks to the experienced gained and the entrepreneurial

capacities can be beneficial for the still slow economic development. These aspects regard a variety of changes in the area of human values, management skills in confronting new businesses and the processes of high technological content.

The main aim of the international promotion thought by the MISE (*Ministero dello Sviluppo Economico*) on the foreign market is to increase the grade of internationalization of our productive system with a particular focus on the SMEs, crucial entities as abovementioned. The SMEs are not only the addressee of the politics but also the main actors: they are in charge of the economic decisions and the public strategy should identify and facilitate the operative choices in order to create virtuous circle within financial resources and activities of the Institutions. The financial resources are, most of the time, limited in comparison to the objectives, this impose to all subjects to facilitate the internationalization by doing system, avoiding the duplication of the tasks and create positive synergies. Understating this need of coordination, the MISE operates in close relations with the various Italian subjects like Regions, ICE, professional associations, Foreign Italian Chambers of Commerce, *Unioncamere*, CRUI and others. These aspects will be analyzed closely in the next paragraph. Regarding this matter the MISE publishes regularly giving the generic and strategic indications for the promotional activities directed to public entities which operates in the internationalization context. Specially in this crisis period, in which the global economies is recovering difficultly, not only is necessary to enhance the support tools but also to accelerate the promotion activities. This must be finalized in strengthening the Italian presence in the developed markets and penetrate in the developing and new ones. The export is the main motor of the Italian economic development and enhancing the productive system in the global markets can be seen as the only way to grow: the horizon of the Italian companies must be global.

4.1.2 Italian Promotion Institutions

In this paragraph it is going to be analyzed the Italian main public actors, such as companies, entities and institutions which support the internationalization process.

ICE

The *Istituto Nazionale per il Commercio Estero* (ICE) or in English Italian Trade Agency (ITA) has the objective of develop, ease and promote the economic and trade relations with particular focus on the SMEs, their consortium and groups. It is under the vigilance surveillance of the MISE, it is based in Rome and it has a network of 17 Offices in Italy and 116 Offices in 88 countries around the world [ICE, 2018].

To the companies that want to internationalize, the ICE offers different services to support the entities in the various steps, in particular:

- **Knowing the Foreign Markets**, the institution offers different types of reports and analysis of external markets both in term of economic and operational aspects.
- **Introduction to foreign partners**, Italian companies can insert presentation and images of their products in the [Italtrade](#) portal and been seen by potential foreign partners. The portal has the Iso 9001:2000 certificate and it has been created in order to spread the Made in Italy in the world and create a sort of constant virtual fair.
- **Penetrate and Establish in the foreign markets**, once identified the markets in which the operator has decided to enter it can benefit from the specific consultancy for the penetration and the permanence in the selected country or area. The consultancies vary from the specific investments contracts, the assistance in international procurement procedures and customs, fiscal and legal assistance.
- **Develop International Relations**, in order to intensify the Italian presence in the foreign market, the ICE offers different solutions such as the possibility of using the ICE offices abroad for the research of employees, buildings and land, action in the distribution channels and assistance in the relationships with clients, recovery of the IVA and adjustment to the local normative.
- **Protect the intellectual property**, there are different desks for the *Made in Italy* counterfeiting activities present from 2008 in Seoul, Moscow, New York, New Delhi, Beijing, Hong Kong, Sau Paulo, Ho Chi Minh, Istanbul and Dubai.

- **Services for promotion**, to promote Italian products and services in the external markets companies can participate in the annual program of promotion elaborated by the institute.

Regions

In the recent period the local subjects have considerably increased their actions dedicated to international context. The majority of Regions have shown a significant activism in the foreign policy which can be seen through: the institutional missions, the signing of accords and protocols with other States or Regions and meeting with foreign international delegation and the organization of international events.

The foreign mission have constituted a central regional strategy in the internationalization field: according to a scheme that has seen the presence of representatives of institutions, entrepreneurs and the social and cultural system encounter political authorities and companies in the country partners. The main aim is the develop the mutual interests in different fields such as transfer of knowledge and *know-how*, vocational training, sustain to the economic local activities and cultural exchanges.

Using their budget resources region have funded various projects aiming to assist the progress of the entry of the SMEs in particular in China, India, Russia, USA and Southeast Asia sustained the entry phases with the participation at international fairs and multi-sectorial workshops.

SPRINT

The *Sportelli Regionali per l'internazionalizzazione delle imprese* or SPRINT are regional structures without legal personality established in the ICE's offices, Chamber of Commerce or Regional offices. They support the SMEs with the presence of ICE employees, *Simest SpA*, *Sace SpA* and Chamber of Commerce:

- Assistance on the entry ways and the utilization of promotion, financial and insurances tools available.
- Legal, fiscal and administrative cooperation for international trade
- Support and guidance in the selection of the foreign markets and the choice of strategic partners for investments.

The SPRINTs are also an instruments of coordination for the foreign trade policies both in the inter-regional subjects and in the relations the central administration. The SPRINT has a headquarters in the chief town, the regional Region's or ICE's offices. To these central offices they had been added other local branches located in the Chambers of Commerce, which establish

a provincial network of the SPRINT. Currently, they have been established in most of the regions apart from Valle D'Aosta and the autonomous provinces of Bolzano [MISE, 2013]. The MISE funded the SPRINT in the context of the Program of Agreement³⁴⁵, in particular the Operational Plan, signed with ICE and each region to support further each territorial SPRINT with seminars, conferences and informative material and to the training of personnel that operates in the offices.

SIMEST

The SIMEST SpA is a private law society in which the majority shareholding is public that promote internationalization of Italian companies, mostly SMEs, through a varieties of financial instruments dedicated to the enhancement of the productive system's added value.

The activities developed by the Simest can be divided in two categories: services of Investments (shareholding, venture capital's fund and capital strength) and financial facilitation such as finds for the entry in the foreign market, feasibility study, technical assistance and access to the export's credits. The company mission is enhanced by the consultancy service, the mentorship in the internationalization projects and process of findings the best market opportunities.

SACE

Servizi Assicurativi del Commercio Estero or Sace is a public limited company, where the public capital is held completely by the MISE. The mission of the institute is to provide an important support to the internationalization through a wide variety of services from the traditional insurance cover of the export's commercial and political risks to the release of funding's and securities' guarantees. The action of SACE SpA is oriented mostly towards the hedging of the mid-long term credits and this is completely by SACE BT which is completely dedicated to operations with repayment terms within the 24 months for all those OCSE countries not part of EU. In concomitance with the traditional products SACE also is able to give a series of tools thoughts for the SMEs favorizing the credit access and specific consultancy services for the most difficult markets to access. Recently SACE and SIMEST were combined into an single entity: SACE-Simest.

³⁴⁵ MISE, "Accordi di programma con Regioni per il sostegno a progetti di ricerca e sviluppo". Website: <https://www.mise.gov.it/index.php/it/incentivi/impresa/fondo-per-la-crescita-sostenibile/progetti-di-ricerca-e-sviluppo-accordi-di-programma>

FINEST

The FINEST SpA is a public limited company participated by Friuli Spa a society held by the Region of Friuli Venezia Giulia, Veneto, autonomous region of Trento, SIMEST and some local banks. It promotes the economic cooperation with the countries of Central-West and Balcanic region of Europe, Russia, North-Asia, Baltic and Caucasia Territories, giving financial tools for the internationalization process in these areas. FINEST operates with the companies the North-East part of Italy taking parts in the social capital of society of foreign law and funding projects where it participates as partner. The company also offers to the firms' partners the possibilities to benefit from technical, administrative and organizational assistance also in relation to the possible entry in international funding program of joint-ventures (EU and UNIDO). As the law 19/91 states that the companies that can have access to FINEST's services are the one in the region of Friuli Venezia Giulia, Trentino-Alto Adige and Veneto or resident in one of the EU's countries as long as they are held by companies resident in the *Triveneto*.³⁴⁶

³⁴⁶ *Triveneto* is the name of the area including the regions of Veneto, Friuli-Venezia Giulia and Trentino Alto-Adige.

4.1.3 Promotion Activities

The ICE Annual Promotional Program

The ICE, under the main directives coming from the MISE, elaborates an annual programs of the national promotional activities, predisposing the necessary initiatives and curing the implementation of them. The program must be approved by the MISE itself. The Italian operators can take part in the activities of the promotional plan adhering to the single fairs, published in the official ICE's website or official press releases. The articulation of the program, the number of projects and their qualification are decided on the basis of the resource available present on the annual National Financial Law. For the 2018 it has been allocated a fund od 20 million euros plus the contribution of the private partners accounting for 7 808 800 euros for the realization of 33 main projects, 158 initiatives in 33 foreign countries in 18 production's sector.³⁴⁷

The initiatives provided for the programs are the participation to the most important international exhibitions, mission of foreign operators coming to Italy, organization of sectorial business meetings abroad for Italian operators, the communication sectorial campaigns and assistances desks for training. Regarding the geographic aspect the Ordinary Plan 2018 focus on the Asian markets, mostly Japan and China, for which have been designated almost a third of the total resources available, targeting the consolidation of the Italian presence in these areas.

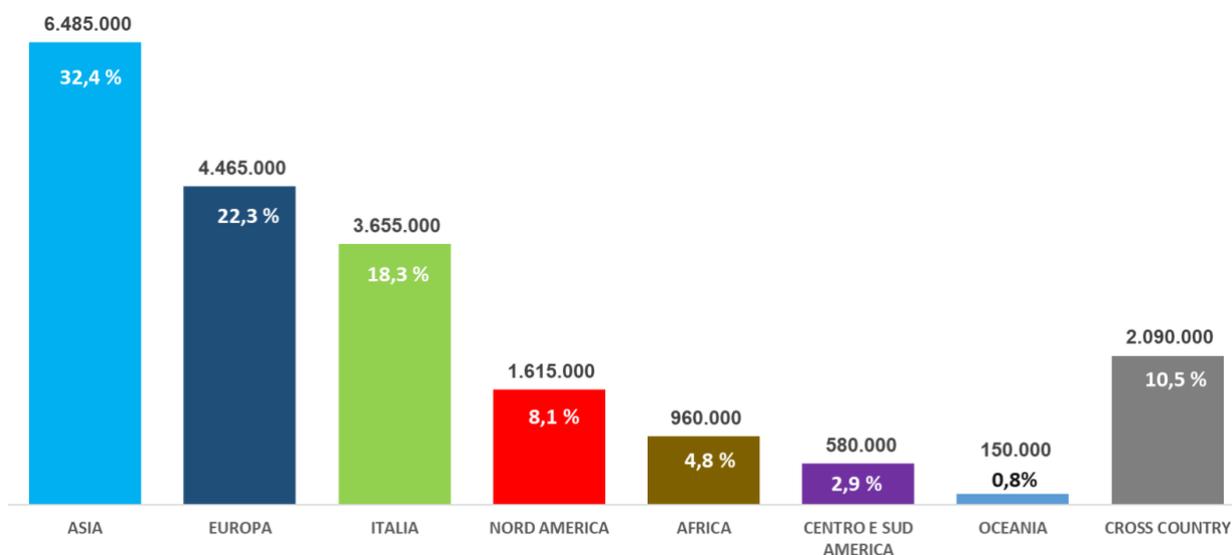


Figure 58. The graphic shows the fund provided for specific areas in euro. Source: *Piano Ordinario Sintesi 2018*.

³⁴⁷ ICE, "Piano Ordinario Sintesi 2018". Available: <https://www.ice.it/it/promozione-del-made-italy/piano-ordinario-di-attivita-promozionale-2018>

In 2018 regarding the sectorial cover of the intervenes the program we can see the majority of the resources going to the Industrial Technology, Energy and Environment comparts, counting for the 34%) which comprehend mechanic, transports, Aerospatiale, electronics, chemicals, infrastructure, biotechnologies, nanotechnologies and advanced technologies. These are followed by the Fashion System, comprehensive of Textiles & Garment, Footwear and Leather Goods, Jewelry and Fashion Accessories accounting for the 24.8% and then the Agrobusiness for which has been designated 20% of the total available budget. Completing the promotion there are also inter-sectorial activities mainly for the enhancement of the Made in Italy and the pluri-sectors manifestation, important occasions in the developing countries or the one with a recent opening, such as *Facim* of Maputo and *Salon Promote* in Yaoundè. The transversal actions are also developed by the Industrial Collaboration with actions in Africa and Middle-East, Europe, North America and the forming activities like training of Young Export Manager to insert in SMEs with a recent or new internationalization through the collaboration with Universities and Business Schools. In continuity with the previous years has been thought a program for attracting the Incoming Foreign Direct Investments and it has been articulated in action of communication and networking, Road Shows and Seminars to promote the investment opportunities in Italy. It also encourages meeting with international operators in the financial and industrial sectors. The types of promotion activities, 62.4% of the budget has been designated for the participation in fairs and exhibitions which is still considered the best promotion way for companies and the organization of Technology, Seminars and Tasting days, the mission of foreign operators in Italy, training courses operative group to make survey regarding specific issues and entrepreneurial missions. The participation of companies in programmed manifestation, estimating both the remunerated and the free participations, is considered to be 3910 units with the involvement of 4102 international operators and the organization of 6500 b2b meetings.

Partnership Policies

Create a system on the promotional plan is not only important but it is mandatory. The decentralization process that took place in Italy started in the 1990s multiplied the actors involved in the internationalization process of the SMEs, let the integration process be a need to avoid overlapping jobs and functions. The guidance lines for the promotional recognize in the Partnership with Public Entities in different levels and the one with the Entrepreneurial World, the essential element for the Italian Exports. The reduction of the financial resources impose to all these actors -Govern, Regions and Association- the obligation to create an efficient system to

exploit the efforts. To enhance the Public Intervene is necessary to push more the idea of the “System-Italy”, creating synergies and surpassing some already existing mechanism. The instruments necessary to this is the creations of different accords, that we are going to analyze, are:

- ***Accordi Quadro di Programma (ADP)***. The Italian presence in the foreign markets is an aspect that sees more and more the regions as main actors. The policies of territorial development launched by the single regions cover an increasing number of projects for the internationalization and the promotion of regional production abroad. The MISE have signed numerous “Accords of Program” with the Regions which provide sharing and co-funding of promotional projects, realized in the collaboration of ICE, to the geographic areas and sectors outlined in the MISE program. The ADP started in 1996 and represented a valid tools of international development and then after the first ones have expired in 2006 the MISE proposed a new form of collaboration, that can be tracked to a more wide conception of the internationalization idea. This is summarized in the “*Accordo Quadro in Materia di Internazionalizzazione*”, signed by all regions. In comparison with the first ADP signed the second one extends the collaboration to themes of major interest and try to develop a better governance. At the same time an action of streamlining the bureaucratic procedures with the aims of make the process more efficient and agile. The promotion programs drawn up by the MISE, ICE and the Regions create an Annual Agreements with are fund 50% by each of the parts with the eventual participation of private companies. Other inter-regionals programs are also welcomed with the minimum participation of 3 regions in combination with the municipalities.
- ***Accordi Quadro di Settore***. The partnership relations with the MISE and the Association Of Production Sectors have been established from 1999, which have been important for the synergic approach to the foreign market, thanks to the deeply knowledge of this Association of their sectors. Over 200 million euros have been used to these Accords with the Sector Association for the period 1999-2013, by ensuring the continuation of the program in the foreign markets of the represented sectors with a traditional promotion activities (training, exhibitions and workshops). Considering the experience of the last decade the relationship with the Associations have been developed towards a new phase with a collaboration more focused on the internationalization of the SMEs and potentially oriented to the promotion of the value chain in the priorities market, proposing a multi-

sectors approach. In addition, the new Sector Accords surpass the usual focus on the exports and try to emphasize a modern managerial idea, founded by the logic of the Clusters and a lean production chain. The focus on the regional Clusters is essential to reduce the costs, spread the advantages between the companies, promoting the competitive placement of them in the international level and mostly in the distribution channels abroad.

- ***Accordo per l'internazionalizzazione del sistema fieristico.*** The Sector Accord between the MISE, regions and Autonomous Provinces, Exposition Associations of Exhibitions, Committee for the Industrial Exhibitions and the Tertiary Exhibitions Committee it has the objective to maximize the synergy between the public action, both national and regional, along with the private intervene in the internationalization aspects of the Fair's Sector. In particular the agreement focus on the realization of private-public joint projects and articulate in different types of actions:
 - Give more visibility to the Italian Exhibitions Expertise and the productive sector of goods and services in the most important countries
 - Expand the international attractiveness of the Italian Exhibition's activities, valorising the territories.
 - Stimulate the partnership between the Italian exhibition's actors, aiming to the joint presence in the international markets, the aggregation of the Fair's subjects to specific promotional projects.

The initiatives than need to be implemented are selected with an annual program defined by the MISE with the Coordination for the Exhibitions' Association. The beneficiaries of the Agreement can be the Association signing the Agreement itself, their private or public associates, the center for the organization of the fairs and the Regions. The projects selected will benefit of a public fund equal to the 50% of the total costs, the ideas must be of these types:

- Promotional Actions to stimulate the participation of foreign exhibitors and visitors in the Italian fairs.
- Activities of Exhibitions collaboration with foreign subjects in priority markets.
- Promotional activities of the Italian Value Chains.

- Promotional Intervenes in the foreign fairs.

The operative modes and the timing are described in an annual document published by the MISE. In addition, this aspect have been strengthened through the recent renewed collaboration between the ICE and the AEFI³⁴⁸. The AEFI is the *Associazione Esposizioni e Fiere Italiane* which represents 35 associates partner which annually organize and host more than a 1000 events in a total Expositive surface of 4.2 million square meters. From 2013 this agreement have been planned more than 250 initiatives with a specific focus on the Asian country: China, Korea and Japan along with Iran, USA and Russia.

- ***Accordo Quadro con la CRUI.*** Particular focus have been also interest the collaboration with universities represented by the CRUI, *Conferenza dei Rettori delle Università Italiane*. The objectives of the collaboration between the MISE and the CRUI is aiming to valorise the Universities, which can be seen as a place to acquire, develop and create new innovative internalization ideas, supporting the competitiveness of the Italian companies.
- ***Special Program for the Made In Italy.*** The traditional promotional program goes along with a special support to the Made in Italy, supervised by the MISE and put into action by the ICE in collaboration with other entities predisposed (Regions, Association, Exhibition's system and Chambers of Commerce). The projects funded by this plan in the overall picture of the promotional activities represent a strategy to enhance the Italy-System, intended as an economic and cultural synthesis of the country which include creativity, skills and specializations of the companies. With this mindset the projects are all thought to have an “integrated” action, involving multiple sectors and thinking of the Made in Italy as a lifestyle more than a simple trademark on the products. The special programs are based on the geo-economic priorities, selecting the markets that in the mid-long term offer a dynamic and growing trends. Differently to the Ordinary Promotional Plan abovementioned, which involved economic returns on the short term and the participation in the companies' costs, the special plan develops in a strategic and systemic overview with results forecast in the long-term period and an exclusive public intervene. The projects foresee a system of initiatives focused on the excellence sector of the Made

³⁴⁸ ICE, “Rinnovato Accordo ICE-AEFI”, Sala Stampa, 23th April 2018, Link: <https://www.ice.it/it/sala-stampa/rinnovato-accordo-ice-ae-fi>

in Italy and in all these divisions in which Italy has a significant competitive capacity and interesting prospects. In addition, the extraordinary plan allowed the prevision and realization of promotional actions in innovative sectors with high technologic content, such as biotechnologies, renewable energy, environmental technologies, design and planning, restoration and urban recovery.

As action of promotion of the “Italian Lifestyle” the MISE uses the specific fund thought for the Made in Italy, also to launch actions of education and training that one hand to protect the Italian products from the imitation and on the other being able to communicate efficiently the authenticity and quality. The communication aspects is really relevant for the MISE, it has been studied and adapted specifically for each market.

Examples of this Special Plan is the “Made in Italy” promotion in China, the first country which benefited from this initiative. In 2004 a fund of 12 million euros was destined for the promotion of Italian excellence, culture, beauty, style along with the mechanical, automotive and high-technological sector.

Mission

The System Missions were established from the need to develop an integrated promotion of the Italian Companies in the foreign markets. This was made through the collaboration and the involvement of multiple public and private actors: MISE, Minister of Foreign Affairs, ICE, ABI (*Associazione Bancaria Italiana*) and *Confindustria*. The missions represent a new way of cooperation, aimed at strengthen the “Italy-System” abroad thanks to the participation of most of the public institutions which deal with the internationalization process. The choice of the countries where launch the missions is made in the Control Centre of the Minister of Foreign Affairs. The selection is made via a preventive analysis of the geographical area in which realize the intervenes, linked to the markets dynamics, future prospective and the growth potential. After this phase the main economic-trade sectors of interesting are defined, considering the bilateral opportunities of collaboration and the respective trends. In these last years the mission acquired a specific format: the Institutional Forum, in which participate the main authorities or the Economic Forum dedicated to specific promotional analysis. Furthermore, BtoB meetings between companies are organized to develop specific targeted collaborations. For examples in 2018 different missions have been organized: the “India Italy Technology Summit”, New Delhi in India (29-30 October), participation to the “China International Import Expo” in Shanghai (5-

10 November), Entrepreneurial Missions in Albania (18-20 February) and the Georgia-Azerbaijan Entrepreneurial Mission (16-19 July) [ICE, [2018](#)].

The System Missions are part of a more wide framework and different types can be identified:

- **Political-Entrepreneurial Missions.** These are organized and led by Political and Administrative Authorities of the MISE and they aim to develop economic collaboration with the most important countries.
- **Missions in Italy with foreign operators or road shows in Italian cities.** The activities focus on the road shows of promotional projects.
- **Scouting Missions.** These are thought to open new markets and verify the investment conditions.
- **Inspection Missions.** Part of the supervisory action carried out by the MISE and its operative branch, ICE.
- **Customer Satisfaction Missions.** These are intended to test the satisfaction of the Italian companies which have participated in some specific promotional events. The aim is to enhance the service of the internationalization institution offered to the companies.

In some Political-Institutional Missions the Memoranda of Understanding are signed, these outline the details of the collaboration, strengthening the institutional framework. They can also be seen as bridgeheads to operate in geographic areas where Italian companies are barely present and the potential growth of the SMEs is high. They can also have the form of Addendum of an already existing Memorandums, like happened in China. In this country a first Memorandum of Understanding was signed in 2005 and then in 2008 an Addendum for the Textile Sector was added. The first memorandum has the purpose of promoting specific collaboration between Italian and Chinese SMEs. Later the General Direction for the Policies of Internalization and Promotion decided to sign with the Chinese counterparts the addendum for the textiles sector, involving the ICE and the Association Categories. The activities receive a co-funding from the ministers of both countries. Regarding this aspect the Addendum innovates the existing cooperation formulas and requires an active commitment of the two Countries Administrations.

4.2 Thailand-Italy Economic and Trade Relations

4.2.1 Overview ASEAN-Italy Trade Relations

In the period 2006-2017 Italian Exports of Italian products to the ASEAN markets have grown at an annual rate of 3.6% on average. The total value of exports in 2017 of the exports was 8.9 US\$ billions, strongly recovering after the global recession in 2009 where the total exports were 5.9 US\$ billions. The forecasted data for the 2018 seem positive and confirming a growing trend. Even considered this expansion the weight of the exports to ASEAN of the total Italian Exports is still limited to 1.7%; a figure that put this market at the 15th place of all market outlets. These numbers appear significantly modest if we take in consideration the size of the market with more than 630 million people and the growing trends that has been described in the previous chapters. The imports in ASEAN have steadily grown by 7.8% annually in the last decade, reducing the weight of the Italian contribution to the total ASEAN imports (1% in 2006 to 0.63% in 2015). This report the Italian inability to exploit the growing market. Within the ASEAN countries the major growth has been reported by Vietnam which absorbed over the 16% of the Italian goods (US\$ 1.2 billion in 2017) remaining the fourth market in the area. Nevertheless, confronting these results with the other European countries exporting to Vietnam, it is clear that Italy is growing at a slower pace. In the Exports to Vietnam context, Italy is third after Germany (US\$ billion 2.3 billion) and France (US\$ 1.5 billion). The Italian market share is also espouses to the development of United Kingdom and Spain, albeit different figures, respectively US\$ 0.4 billion and US\$ 0.5 billions, they are growing at an annual rate of 17% and 15%. Singapore and Thailand remain the principal markets in the ASEAN for Italian goods with a value of US\$ 2.3 billion for the first one and US\$ 1.58 billion for the second in 2017. Singapore is the first market for goods exported in the ASEAN, considered also the main logistic hub for the other Asian countries. In 2015 Italy is the fifth exporter in Singapore after Germany (US\$ 6.6 billion), United Kingdom (US\$ 5.8 billion), France (US\$ 5.7 billion) and the Netherlands (US\$ 2.3 billion). All these countries register a constant growth respectively of 1.7%, 4.6%, 3.5% and 4.4%. In the next years also Belgium which currently follows Italy for the exports to Singapore with a value of US\$ 1.2 billion and it can be an important contender with an annual growth rate of 9%. Thailand is the second ASEAN market for Italy, disputed with Germany, France and United Kingdom. All these three countries have consolidated their leadership in the Southeast Asian country in the last decade. In particular, France surpassed Italy with an annual growth rate of 6% and became the third

European exporter country. Indonesia and Malaysia are respectively the 3th and 5th markets for the Italian exports absorbing US\$ 1.4 billion and US\$ 1.26 billion in 2017. Overall, these 5 countries attract 90% of the total Italian Exports in the ASEAN. Philippines have emerged in these last years as one of the emerging markets for the Italian exports with a total value absorbed of US\$ 746 million in 2017, growing at an annual rate of 8.5% between 2006 and 2015. The other ASEAN countries, Myanmar, Cambodia, Brunei and Laos receive less than 2% of the Italian exports, having a marginal role in the output markets.

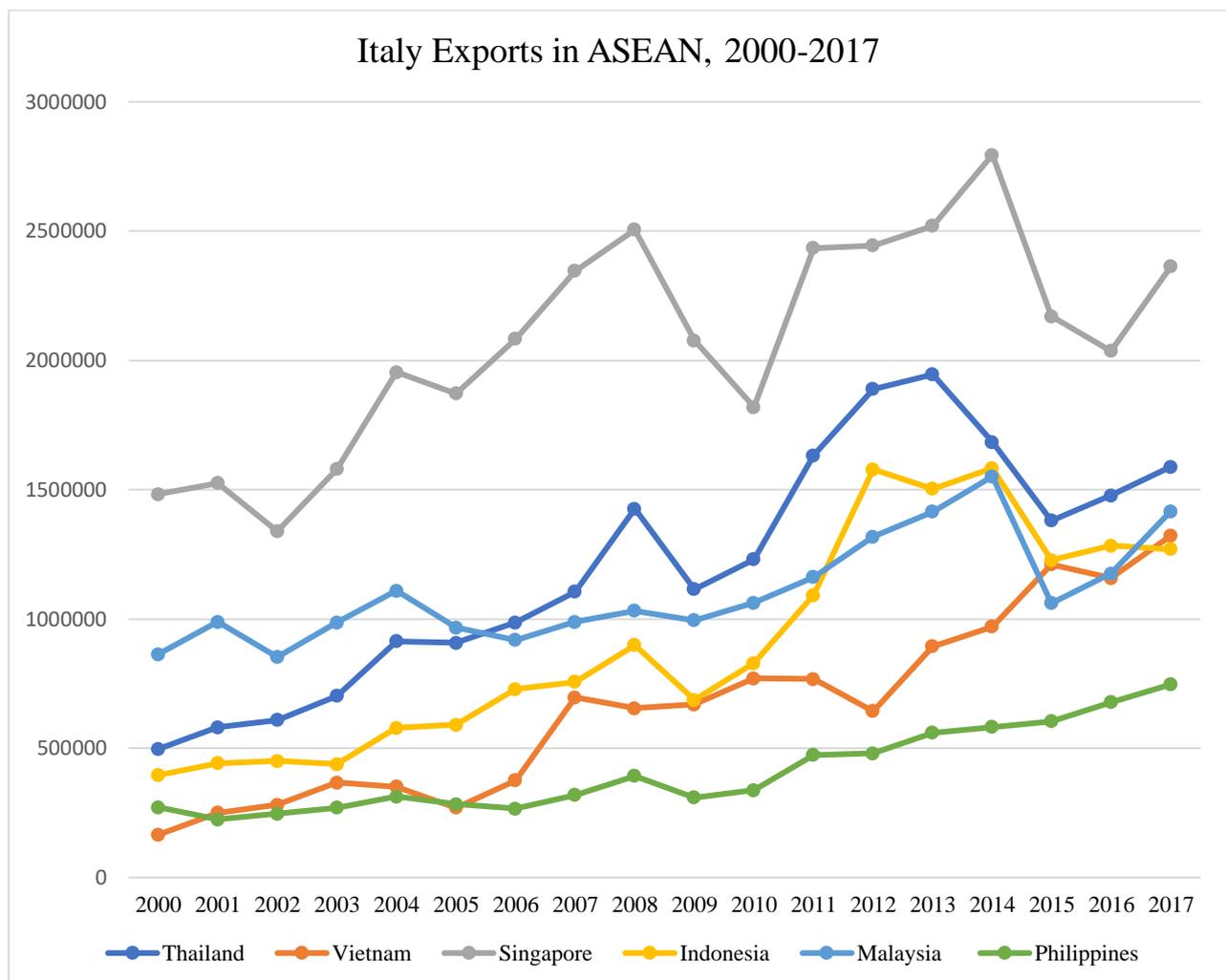


Figure 59. The Graphic shows the total value of exported goods in the main ASEAN countries for the period 2000-2017. Source: Own elaboration via WITS data, 2018.

Regarding the imports from ASEAN to Italy, the Southeast Asian organization contributes only for 2% of the total value in 2017, with a contribution of US\$ 9 billion. These figures put Italy in the 14th position as trade partners, preceded by Austria and Turkey. During these last years the imports have fluctuated significantly in comparison to the exports, mainly due to the trends of the Italian Internal demand. Italy has showed signs of contraction in absorbing goods acquired

from external country, with an annual reduction of 0.46%. More relevant has been the decrease of European Imports estimated at 0.8% in the last decade. On the opposite, the imports from ASEAN have increased with an annual growth of 3.65%. Within the ASEAN countries Vietnam is the one that exported more goods to Italy, with a value of US\$ 2.8 billion in 2017 and an annual average growth of 16%. It is the first supply market in ASEAN for Italy with an important increase from the 2000 position where it was behind Indonesia, Malaysia and Thailand. Indonesia is now the second Italian supply market with a value imported of US\$ 2.1 billion, growing annually by 2.5%. The expansion of the imports of these two countries has effected the position of Thailand, Malaysia, Philippines and Singapore. Italy imports good from Thailand with a value of US\$ 1.7 billion. Similarly to the exports these six countries represent the 95% of the total imports, making the other countries (Laos, Cambodia, Brunei) significantly less important. Even though it is necessary to mention the growth of Cambodia of more than 50% in the last years, arriving at an import's value of US\$ 366 million in 2017.

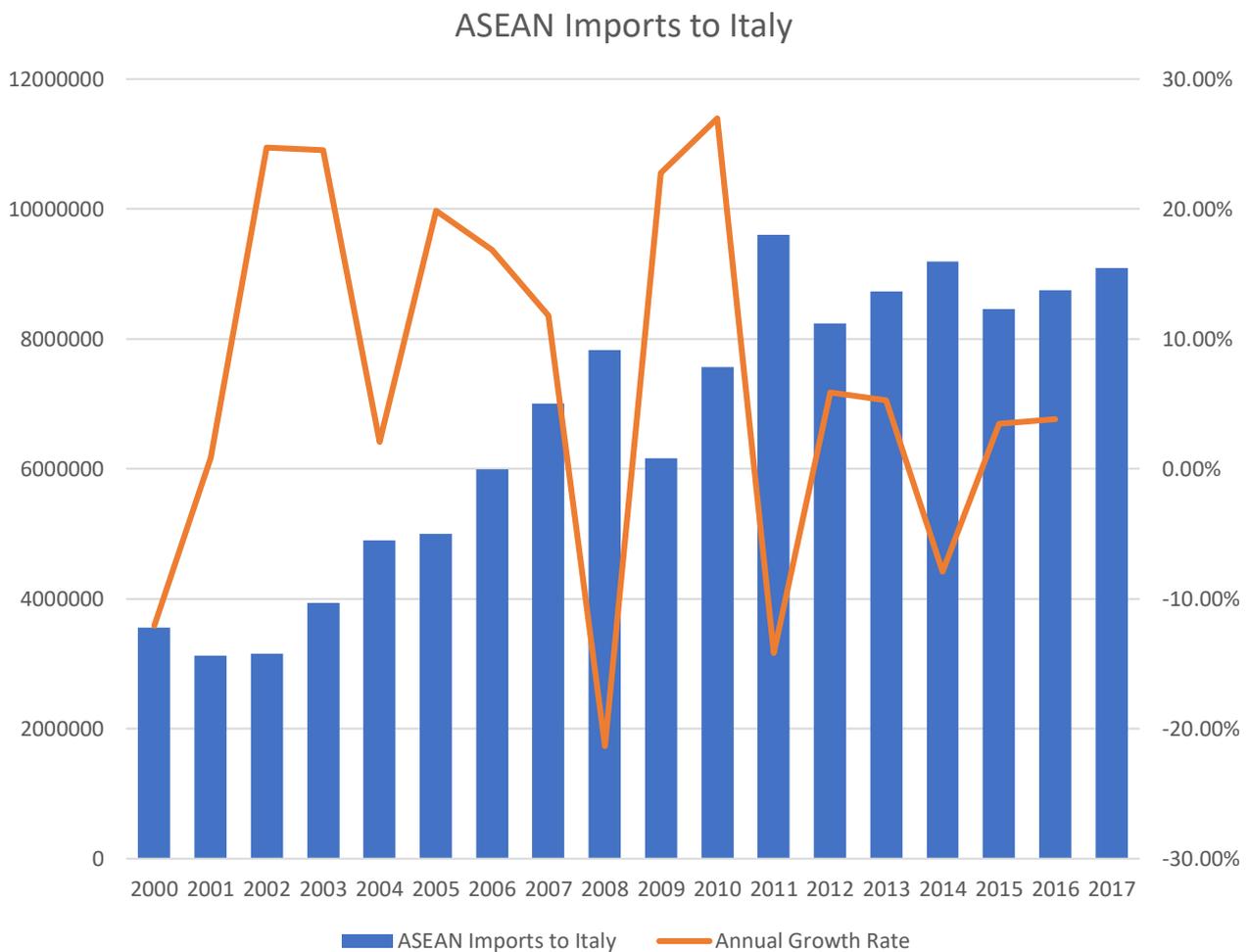


Figure 60. The figure shows the ASEAN imports to Italy and their annual change for the period 2000-2017. Source: WITS integrated solution, 2018.

The figures highlights a negative trade balance for Italy in the last decade with value that approach the zero in the years of the contraction Italian economy (2009, 2012 and 2013), confirming the thesis of a low capacity of exploiting these countries rapid growth.

Similarly to what it has been registered for the commercial trade, the Italian investments in the country appear modest. In 2017 the FDI flows value was 53 million, increasing from the negative value of -20 million in 2016 (figure 61). From 2010 Italian investments have fluctuated with a trend that reflects the European Dynamics, characterized by negative values in 2012 and a subsequent recover. The intra-ASEAN flows has been constantly positive after 2011, representing also the first group of investors in the area, followed by Japan which have a 14.46% share (figure 62). The European countries that are still in the top 10 of the main investors are Denmark, Ireland, Luxemburg and the Netherlands. In 2015 Italy has been the 18th country in term of investments after Belgium, France, Germany, Luxembour and Finland. Nevertheless, the Italian attractiveness for the Southeast Asian investors can be seen in the recent acquisition, In 2008 Selenia, an Italian top producers of lubricant oil for cars, was acquired by the Malaysian Petronas for 1 billion euros³⁴⁹. Petronas then invested 60 million euros for a new research and development center in *Villastellone* near Turin. In may 2011 Central Retail, a Thai collosum in the retail sales sector, acquired *La Rinascente* for 290 million euros³⁵⁰. Both of these acquisitions selected Italy as the country from where expand their business in Europe, in two very different sector as the lubricant oils and the luxury goods. In the finance sector we can also find examples of acquisition, such as the recent acquisition of Allfunds Bank from Intesa Sanpaolo and Santander to the Singaporean Sovereign Fund GIC for 1.8 billion euros.¹ Altogether, Italian companies with ASEAN capital were 41 in 2008 and increased to 66 in 2014, representing 0.6% to the total foreign-owned companies, which 43 Singaporean, 8 Indonesian, 8 Malaysian, 5 Thai and 2 from Philippines.

In conclusion it is possible to say that Italy is not exploiting completely to the great opportunities offered by the ASEAN expansions, neither from a commercial nor investments point of view. Nevertheless, considered the great potential of this market and the initiatives that they have been discussed in the previous chapters Italy could play in the future a more relevant role.

³⁴⁹ Vivian Wai-yin Kwok, "Petronas Takes FL Selenia Off KKR's Hands", Forbes, 21th September 2007. Link: <https://www.forbes.com/2007/09/21/petronas-selenia-krk-markets-equity->

³⁵⁰ "La Rinascente to go global, Thai Central Retail says". Reuters, 30th May 2011. Link: <https://www.reuters.com/article/rinascente-central/update-1-la-rinascente-to-go-global-thai-central-retail-says-idUSL3E7GU0BJ20110530>

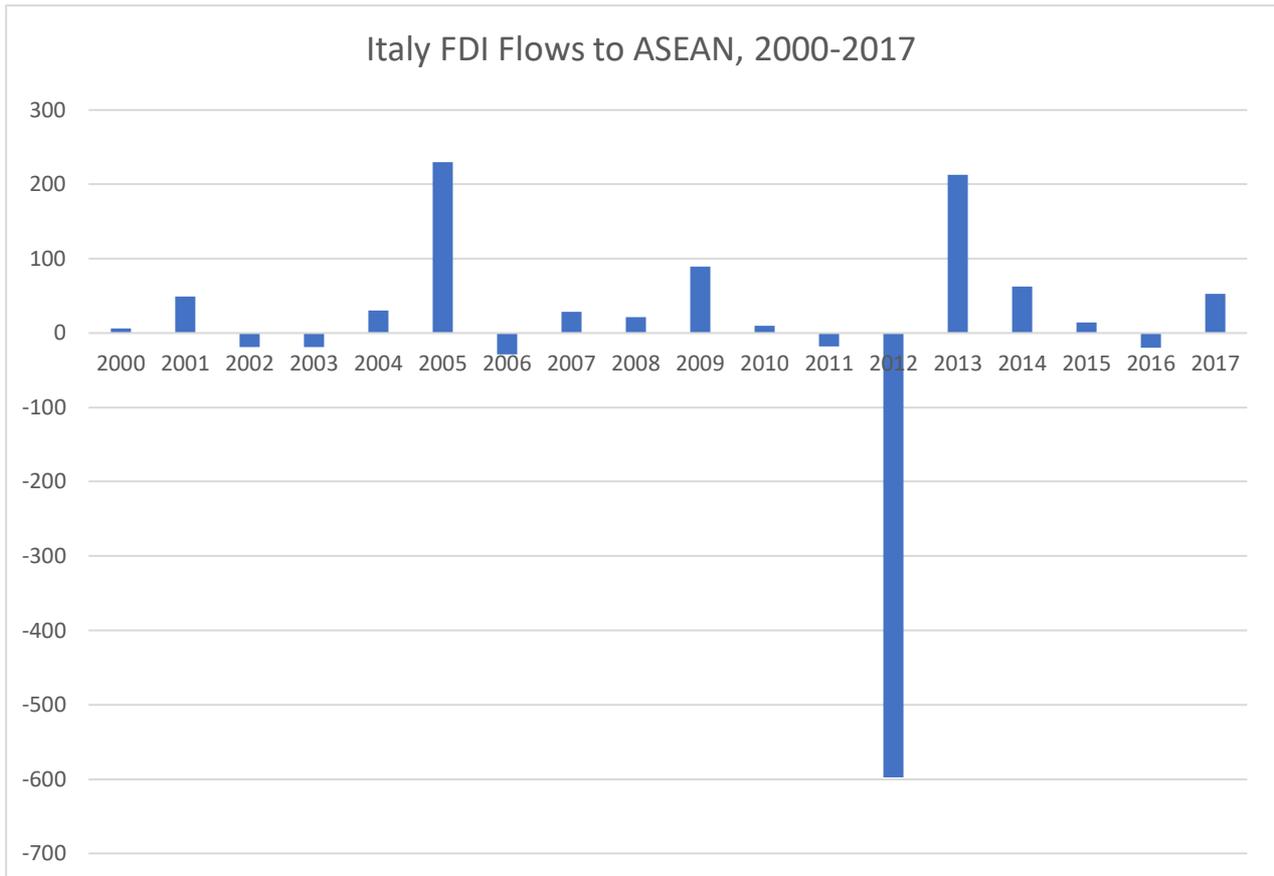


Figure 61. The graphic shows the Italian FDI flows to ASEAN for the period 2000-2017 in million dollars. Source: UNCTAD Investment Report 2017.

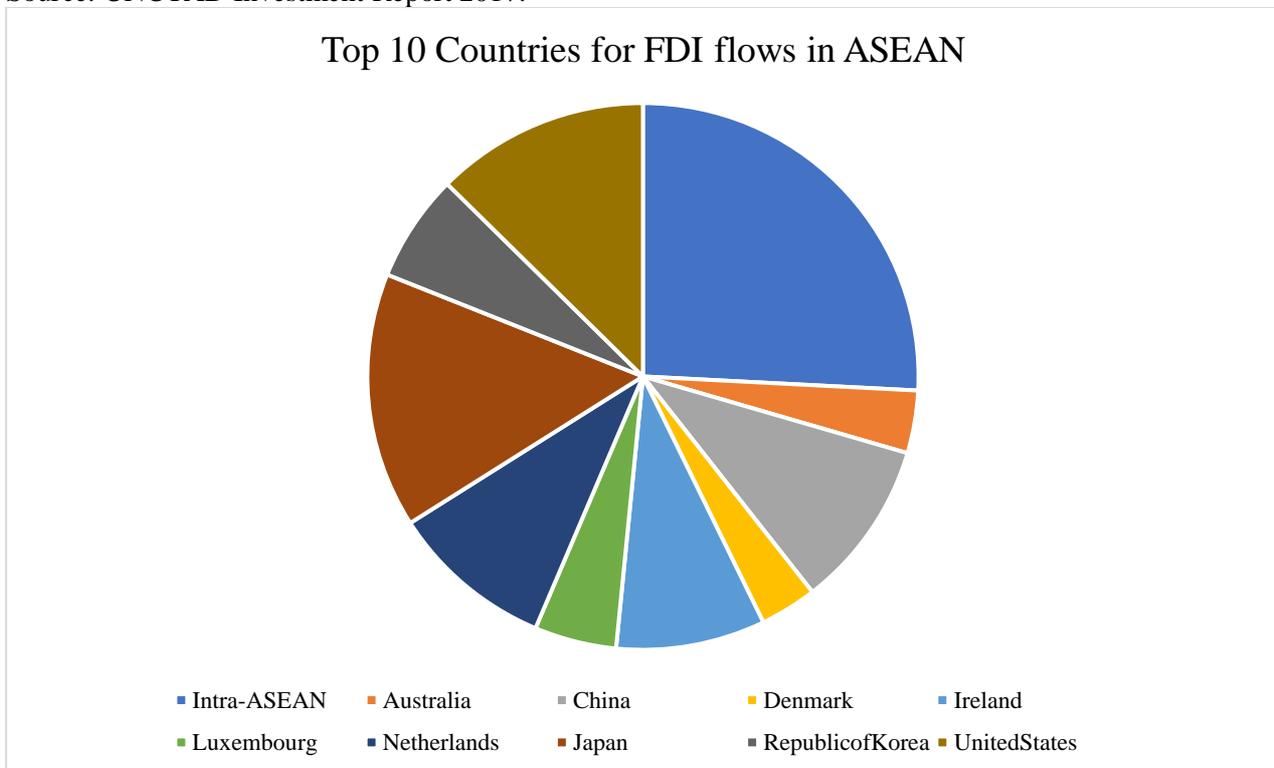


Figure 62. The graphic shows the top 10 countries for FDI flows and their shares. Source: UNCTAD Investment Report 2017.

The public actors and initiatives that has been presented in the previous paragraph must focus promptly on the opportunities offered by the ASEAN in different sectors. Compared to the other European countries Italy has still a wide gap to catch up but with an efficient public-private collaboration in specific sectors characterizing the “Italy-System” that could be possible.

4.2.2 Outlook of Italy and Thailand economic relations

Italy and Thailand have celebrated the 150th anniversary of bilateral relations. The mutual visits of the foreign ministers have revived the relations after the tough stance of European Union on the Thailand military *coup d’etat* in 2014. As it has been understood Thailand covers an important geographic, infrastructure and cultural hub for the development of the ASEAN market, at the moment second only to Singapore. The world bank also place Thailand at the 26th place in the ranking of doing business as it will be discussed later. The stop of the EU to the creation of a FTA favors the other Asian partnerships, so Japan and China have taken the greatest advantages. The total commercial interchange between Italy and Thailand has been US\$ 3.71 billions in 2017, growing by a 8% from 2016. Italy is only at the 26th place for both exports and imports that have a total value, respectively of 1.4 billion euros and 1.5 billion euros (figure 62). In both cases Italy remains behind Germany, France and United Kingdom.

Italy mostly exports machineries (480.48 million euros), chemicals products (113.31 million euros) and consumer goods, which are rapidly increasing thanks to the expansion of the urban middle class, mostly in Bangkok. Among them wine and Agro-alimentary products are exported (70 million euros), despite the important import tariffs, along with furniture, design and fashions goods. Particularly interesting are the sectors with high technology value added such as infrastructure, transport, renewable energy, biotechnology, packaging, automotive and Alimentary and Agriculture Transformation industry. In absolute terms the Italian penetration in the market is relevant but still it has not exploit the total potential of a market with 70 million consumers. Some of the major Italian companies have production facilities in the country such as *Ducati* and *Danieli*, both located in Rayong. Other Italian multinationals are present with representative offices such as *Leonardo* or *Luxottica*. In addition to these big companies a network of SMEs integrated the Italian presence in the country, mostly in Bangkok and in the touristic districts. Among these an example of success is *Faber*, a company from Friuli Venezia Giulia, that establishes a production center in Rayong that supply components for car gas installations for BMW, Ford and General Motors. It is also growing the market of luxury cars with the most famous Italian brands like *Ferrari*, *Lamborghini* and *Maserati*. In perspective

interesting are the projects of water management and the development plans of the rails, port and airports networks of Myanmar, the Chinese “Belt and Road” initiatives and the energy demand of Laos. Thailand government, as it has been mentioned in the paragraph 3.4 launched the EEC initiatives which could bring an expansions of the provinces of Chachoengsao, Chonburi and Rayong. Ideally, the modern and efficient infrastructures thoughts for this corridor should connect in the North-South Axis China and in the East-West axis Laos, Vietnam, Cambodia and Myanmar. This project try to enhance both regional integration and innovation ideas and businesses. All these aspects confirm Thailand as a crucial country for the development of the region and it can be considered as an essential market for those private companies or public institutions that want to invest in Southeast Asia. In addition, Bangkok is a vibrant and growing metropolis which has seen in the last years governmental plan to develop both the underground and over ground public transport system.

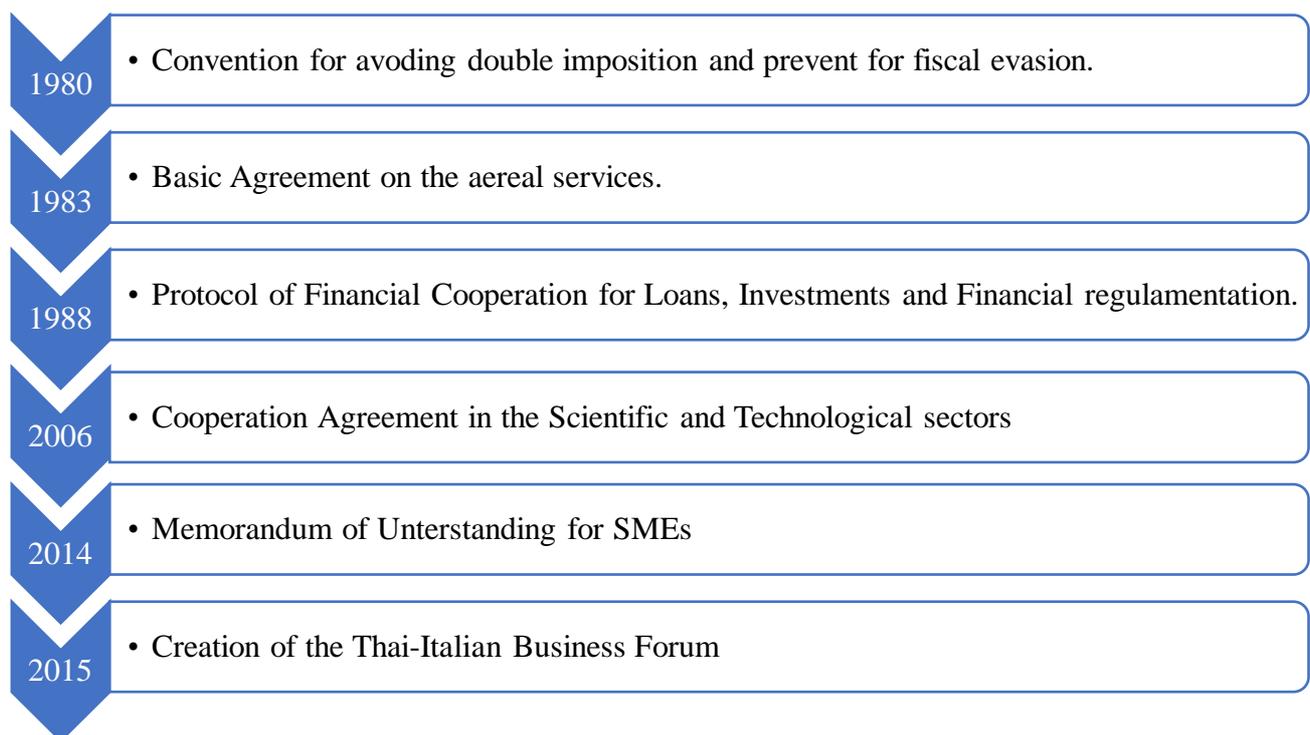


Figure 63. The timelines shows the main bilateral accords between Italy and Thailand. Source: own elaboration.

Europe it is not the tradition market for Thai investors and Italy is not an exception in this context. In the past Thai investments in Italy have been related to restaurants and wellness centers. Nevertheless, in 2011 the FDIs from Thailand to Italy spike with the acquisition by Central Retail of *La Rinascente*, with a total investment of over 675 million dollars.

Italian Exports To Thailand	2015	2016	2017	Jan-Oct. 2018
Total	1249.36 Mln €	1334.77 mln. €	1415.68 Mln. €	1118.08 mln. €
Products (Mln. €)	2015	2016	2017	
Agricultural, Fishing and Forestry	2.72	1.92	1.44	
Alimentary	64.88	63.92	70.25	
Textiles Products	9.78	12.11	13.9	
Clothing	17.21	16.14	16.79	
Leather (No clothing)	58.28	49.74	60.71	
Chemicals Products	131.54	104.92	113.31	
Pharmaceuticals Products	347.86	50.86	60.47	
Metal Products (Excluded Machinery)	41.31	42.91	41.49	
Metallurgic Products	47.83	45.87	74.56	
Computers and Electronic Products	45.67	87.73	91.62	
Domestic appliances	62.45	64.28	56.37	
Machinery and Equipment	448.98	497.33	480.48	
Imports from Thailand to Italy	2015	2016	2017	Jan-Oct 2018
Total	1218.24 mln. €	1411.17 mln. €	1554.02 mln. €	1327.61 mln. €
Products (Mln. €)	2015	2016	2017	
Agricultural, Fishing and Forestry	71.58	64.8	77.94	
Alimentary	248.13	270.63	276.22	
Textiles Products	46.89	45.66	46.42	
clothing	36.76	33.47	37.8	
Leather (No clothing)	44.17	42.14	39.84	
Chemicals Products	48.47	55.04	60.12	
Rubber and Plastic Articles	81.5	86.3	110.45	
Metal Products (Excluded Machinery)	32.37	44.22	51.71	
Metallurgic Products	30.5	33.66	39.5	
Computers and Electronic Products	82.73	94.33	88.57	
Domestic appliances	49.4	59.38	66.88	
Other Manufacture Products	102.89	87.3	105.57	

Figure 64. The table shows the main imports and exports between Italy and Thailand. Source: ICE via ISTAT data.

It has been deeply understood the role of the Tourism in the Thai economy in the paragraph 3.3.1 and it is an aspect that is common both to Italy and Thailand.

Italian tourists arrivals in Thailand have registered a modest slowdown after the economic crisis in 2007, resulting in a decrease in 2008. Nevertheless, the trend from 2010 has been steadily positive and the number of Italian tourists in Thailand touches the record figure of 280 thousands in 2018 (figure 65). The country is investing a lot in the touristic sector and western people are looking for exotic places and a break from the Occidental lifestyle. In addition, the tourism sector represents a high-value market that has been not effected significantly by the external or internal crisis of the countries, even with the riots and protests during the Thai Political Crisis.

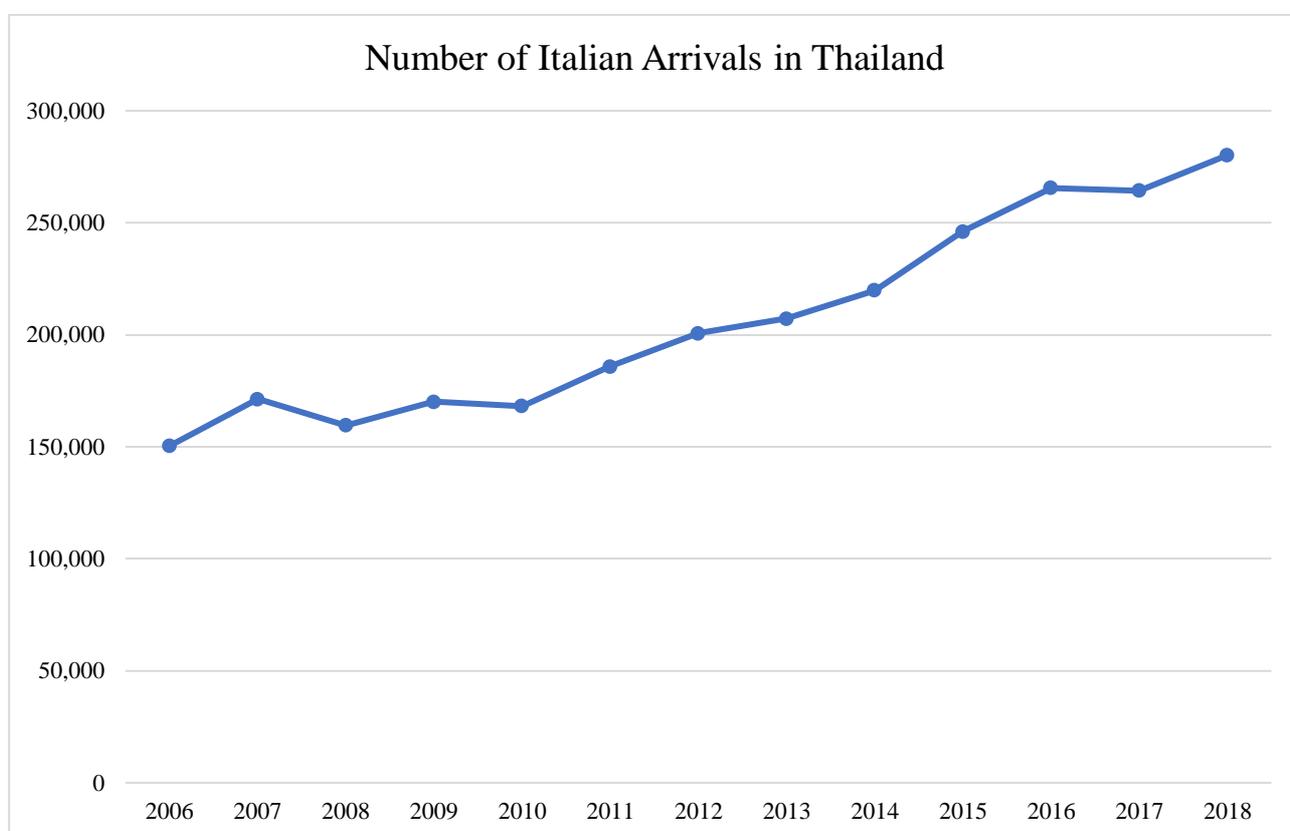


Figure 65. The graphic shows the number of Italian Arrivals in Thailand for the period 2006-2018. Source: Thai Minister Of Tourism.

The outbound tourism from Thailand is constantly growing. Thai people that have travelled abroad have been estimated to be 7.74 million people in 2016. The major destinations of Thai tourists is Japan (500 thousands) which also offers facilitation in term of visa release, and the ASEAN countries. In particular, Laos, Singapore and Malaysia, all of these accessible via ground and with low-cost airline companies. The Thai tourism towards Italy registered a steadily growth in the last years even though in 2017 the number of visa given to Thai citizen (32 thousands in

total) have decreased from the previous year. These data must be integrated with Thai citizens coming from the Schengen area with visa released by the other EU countries. The positive trend can be explained as the logical consequences of the economic growth of Thailand. The GDP per capita is increasing specially in the big cities like Bangkok, Phuket and Chiang Mai in which concentrate the upper-middle class, fascinated by the western culture. For this reason, Italy raises a sense of interesting and admiration on Thai people, particularly in the educated and well-being class. The long-standing relations between the two countries and the presence of the numerous artists that decorated Bangkok in the beginning of 1990s at the King Rama V court create a positive perception of Italy.

As it has been said the Thai touristic presence in Italy comes from the upper-middle class with a expenses capacity for cover the cost of travel and the period of staying. The Thai tourists rarely organize their trip autonomously: in most of the cases they address a tour operator and associate their travel with other European countries. A most recent and growing phenomenon is represented by the travels organized by the big Thai companies for their employees, which selected Italy more and more as a priority destination. The typical Italian tour touches the capital and other important cities such as Florence, Venice and Milan. Less visited are the cities in the south of Italy. Once finished the cultural visits the Thai tourists focus on shopping of fashion and alimentary products. The average knowledge of Italian products is high and most of the time the travel is aimed to buy Italian products. In this context the Italian Embassy in Bangkok supports actively the promotion of Italy as touristic destination. Apart from the rapid and efficient release of the visa, the Embassy have organized an annual program integrated to the “Italian Festival in Thailand” which in 2018 includes 69 events. The embassy got the revision of the decision of Thai Airways to cancel the direct flight Rome-Bangkok and it also succeeded in getting other two direct routes to Milan. Two other Italian airlines (Neos and Air Italy) activated direct flights in 2018.

The collaboration between Italy and Thailand has been enhanced with the creation of the Thai-Italian Business Forum in 2015. The first meeting took place in 2015 in Milan from the Impulse of the Italian Embassy in Bangkok and the Thai Chamber of Commerce. The forum was co-hosted by *Italcementi* for the Italian part and Central Group from Thai part.³⁵¹ It represents a form of public-private collaboration to enhance the relations of the country that it has been described

³⁵¹ Ministero degli Affari Esteri e della Cooperazione Internazionale, “Italia-Thailandia: A Milano va in scena il primo Business Forum dedicato alla collaborazione economica commerciale tra i due paesi”. 23th October 2015. Link: https://www.esteri.it/mae/it/sala_stampa/archivionotizie/approfondimenti/italia-thailandia-a-milano-va-in.html

in the previous paragraph. The first meeting saw an important adhesion from the Thai delegation in Italy with a group of companies representing a total annual volume of turnover of US\$ 120 billion and from a plurality of sectors. Important was also the presence of the Italian delegation composed by the top management of *August, Westland Cavagna Group, CMC Ravenna, CNH Industrial, Danieli, Ducati, Faber Industrie, Ferrero, Generali, Pirelli* and *Vittoria Industries*. The forum has different aims:³⁵²

- Enhance friendships and support educational, economic, trade and industrial relations between Thailand and Italy;
- Promote Business Partnership and collaboration between the private sectors of the two countries;
- Decide policies priorities and maintain good relations between countries through seminars, meetings, workshops and road shows.

The forum has been scheduled to have a meeting per year chaired by two representatives of Italian and Thai business sectors. Then it is composed by the meeting with up to 20 participants and the Board Members. The 2nd meeting of the Thai-Italian Business Forum took place in Koh Samet in 2016 and it has seen the participation of two new members of the board: *Innove Rubber* and *Merchant Partner Securities*. The Italian presence confirmed the strong interesting of companies from the Food&Beverage and Banking Sectors.³⁵³ The 3rd meetings took place in Milan hosted by the ISPI (*Isituto per gli Studi di Politica Internazionale*) a prestigious international think-tank. This meeting saw the participation for the first time of ENI, Snam, Conserve and Sireg along with the founders member. During their stay the Thai delegation had the possibilities to celebrate the anniversary of the 100 years of *La Rinascente*, the symbol of the Thai-Italian economic relations. In addition, the delegation have been able to visit the assembly line of the helicopter's division of *Lenoardo* an Italian excellence in the global market of Aerospace, Defense and Security. Moreover, they are also being hosted in *Pirelli* facility, highlighting the fact that civil transports and tourism are two relevant sectors in the bilateral cooperation.

The fourth meeting took place in Phuket in March 2018 and it was preceded by the visit of the Italian Foreign Minister Angelino Alfano in Bangkok in February 2018 and the subsequent visit

³⁵² MoU Italian-Thai Business Forum. Available: https://www.ispionline.it/DOC/Italian-thai_memorandum.pdf

³⁵³ Ministero degli Affari Esteri e della Cooperazione Internazionale, "Italia-Thailandia – Nuovo Incontro del Business Forum". 26th May 2016. Link: https://www.esteri.it/mae/it/sala_stampa/archivionotizie/approfondimenti/italia-thailandia-nuovo-incontro.html

of the Thai Foreign Minister Don Pramudwinai on the 2nd March 2018. Italy was the first country to open the relations with Thailand after the change on the European stance. In addition to the networking activities, different themes have been discussed such as the incentives on the EEC, the re-activation of the negotiation for the UE-Thailand FTA and Thailand 4.0 project.

Even considered this effort, it has been said that Italian companies still find hard to have a significant presence in Thailand. The reasons for that can be multiple but to understand them that we must analyze few relevant indicators such as the Global Competitiveness Index and the Economic Freedom, the Doing Business Index and then the Most Problematic Issues in doing business in Thailand. The Global Competitiveness Report is published annually by the World Economic Forum, a non-profit organization founded by Klaus Schwab. The Report classifies the nations based on the Global Competitive Index (GCI), developed by Xavier Sala-i-Martin and Elsa V: Artadi. This index can be thought as the synthesis of the theoretical framework of the Growth Development Index by Jaffrey Sachs and the Business Competitiveness Index by Michael Porter. The index has values within 0-7. The index is calculated by considering 110 variables, which 2/3 come from an Executive Opinion Survey and 1/3 from Public Sources (such as the United Nations reports). The variables are summed in the 12 pillars that can be seen in the figure for the case of Thailand. The GCI divides the countries by three main drivers: factor-driven, efficiency driven and innovation-driven. Thailand GCI was 4.72 in 2017 and it ranks at the 32th place out of 137 nations (figure 66), showing a positive trend in the last years. The macroeconomic environment (ranking at the 9th place for macroeconomic stability), the medical care and primary education, the market dimensions appear to be the most important factor contributing to the value-added in the GCI of Thailand. Still improvements need to be done in the innovation and bureaucracy institutions variables which have lower values in comparisons with the developed countries. Comparing these results with the other ASEAN countries Thailand has the 2nd highest GCI value after Singapore which is at the third global place with a value of 5.71. The GCIs of Indonesia and Vietnam are respectively 4.68 and 4.36. The index seems confirm the important position of Thailand the regional context. Particularly, Vietnam is increasing its GCI steadily in the last years surpassing in 2017 Philippines. Competitiveness of Vietnam is driven by the size of the market but still an important gap must to be catch-up in the higher education and basic requirement factors.

	2015		2016		2017	
	Val (0 - 7)	Pos. 140 nations	Val (0 - 7)	Pos. 138 nations	Val (0 - 7)	Pos. 137 nations
Global Competitiveness Index	4,6	32	4,6	34	4,72	32
Sub Index						
Basic Requirements	4,9	42	4,9	44	5,1	41
Institutions	3,7	82	3,7	84	3,8	78
Infrastructure	4,6	44	4,4	49	4,7	43
Macroeconomic Enviroment	5,7	27	6,1	13	6,2	9
Medical Care and Primary Institutions	5,8	67	5,5	86	5,5	90
Stimulus Efficiency Factors	4,6	38	4,6	37	4,6	35
High Institutions and Professional Training	4,6	56	4,5	62	4,6	57
Efficiency of the Goods Market	4,7	30	4,7	37	4,7	33
Efficiency of the Labor Market	4,2	67	4,2	71	4,3	65
Efficiency of the Financial Market	4,4	39	4,4	39	4,4	40
Technologies Diffusion	4,2	58	4,3	63	4,5	61
Market Dimension	5,2	18	5,2	18	5,2	18
Innovation Factors	3,9	48	3,8	47	3,9	47
Development of the productive network	4,4	35	4,3	43	4,4	42
Innovation	3,4	57	3,4	54	3,5	50

Figure 66. The table shows the Global Competitiveness Index for Thailand as calculated from the World Economic Forum. Available: [The Global Competitiveness Report 2017-2018](#).

It is interesting to say that Italy has a GCI value of 4.54, lower than the Thailand one. This can represent a particular aspect since the overall condition in Italy are better than Thailand but in the global context the Southeast Asian country seems to be more competitive.

Moving now to a more operative context the Doing Business Index is an index developed by Simeon Djankov from the World Bank. The index considered different technical and practical issues that investors should consider if they want to penetrate into Thailand market. The data used to compose the index are gathered through surveys of more than 12 500 contributors in 190 countries.

	2017-2018		2018-2019	
	Val	Pos. 189 nations	Val	Pos. 190 nations
Ranking Position		46		27
Starting a business		78		39
Procedures - Numbers	5		5	
Time - Days	25-5		4.5	
Cost- % GDP per capita	6.6		3.1	
Construction Permits (Ranking Position)		42		67
Procedures - Number	17		19	
Time - days	103		118	
Cost - % GDP Per Capita	0.1		0.7	
Electricity Access (Ranking Position)		37		6
Procedures – Numbers	5		3	
Time – days	37		30	
Cost - % GDP per capita	42.5		40.4	
Property Registration (Ranking Position)		68		66
Procedures – Numbers	4		5	
Time - days	6		9	
Cost - % Property Value	7.4		7.2	
Credit Access (Ranking Position)		82		44
Index of Competeness Credit Information (0 min - 8 max)	3		7	
Index of the Legal Rights (0 min - 12 max)	7		7	
Investors Protection (Ranking Position)		27		15
Disclosure Index (0 min - 10 max)	10		10	
Index of Management Responsibilities (0 min - 10 max)	7		7	
Index of the Power of Shareholder in Legal Actions (0 min - 10 max)	7		8	
Taxes (Ranking Position)		109		59
Number of Annual Payment	21.6		21	
Time – Annual Hours dedicated to Payments	266		229	
Profit Taxation (% Profit)	21.6		29.5	
Trade Abroad Procedures(Ranking Position)		56		59
Customs Procedures - time (hours)	51		50	
Customs Procedures- cost (USD)	223		223	
Preparation of exports document - time (hours)	11		11	
Preparazione of exports document - cost (USD)	97		97	
Imports Procedures – Time (Hours)	50		50	
Imports Procedures - cost (USD)	233		233	
Imports Procedures- time (hours)	4		4	

Imports document Preparation - Cost (USD)	43		43	
Contracts Respect (Ranking Position)		51		35
Controversy Resoluition- Days	440		420	
Cost - % of compensation (33,3%)	19,5		16,9	
Quality Index of Judicial Procedures (0-18) (33,3%)	7,5		8,5	
Insolvency Solution (Ranking Position)		23		24
Time - Years	1,5		1,5	
Cost - % del debtor propriety value	18		18	
Recovery Rate	67,7		69,8	

Figure 67. The table shows the Ease of Doing Business Rank with the main selected variables. Source: [World Bank Doing Business 2019](#)

The rank of Thailand spikes in 2018 when it passes from 46th in 2017 place to 27th place (figure 67). Doing business in Thailand is facilitate by different major drivers: the access to electricity, investors protection and insolvency solution. On the other side still difficulties can be encountered in the construction permits, taxes and trade abroad procedures. Thailand is the third ASEAN the Ease of Doing Business Ranking after Singapore (2nd Global Place) and Malaysia (15th Global Place). Vietnam is at 69th place, Indonesia at 73th place and Philippines at 124th place.

Similarly to the previous index Italy has a lower Doing Business Index (51th place) than Thailand. Lastly, in the Global Competitiveness Report are also considered the most problematic issues that investors encounter when investing in the country. The factors are selected on the answers of the entrepreneurs interviewed for the composition of the Report in which they have to indicated the 5 most relevant problematic issues.

The figure 68 summarize these issues for Thailand. As can be seen the most troublesome aspects is the Inefficiency of the National Institutions framework, the corruption and the instability of the government.

It has been understood that the political instability which led to the military *coup d'etat* in 2014 effected greatly the economy and it is certainty an important downside for the investors. In addition, the corruption both in the public and private institutions can effect negatively the investments. The return of the democracy with the election in 2019 could enhance the political situation of the country and strengthen the position of Thailand in the global and regional context.

	2015 / 2016	2016 / 2017	2017 / 2018
Access to funding	3,8	4,7	4,8
Tax Rates	3,3	3,3	3,9
Inefficiencies of National Bureaucracy	12,3	11,9	12,1
Poor Medical Conditions	0,3	1,7	0,4
Corruption	12,5	11,3	10,1
Crime	1	0,4	0,7
Poor Work Ethic of the Local Labor Force	4,5	4,1	4,1
Non-educated workforce	7	8,5	9,7
Low Level of Infrastructures	7,6	7,9	5,4
Inflation	1,1	2,1	2,1
Political Instability	12	9,9	12
Instability of the govern/Coups d'etat	18,1	16,7	13,6
Strict Labor Regulations	1,8	0,9	3,4
Fiscal Legislation	5	4,3	5,4
Foreign Exchange Regulations	1,2	2,3	2,1
Inefficient Innovation Capacity	7,6	9,9	10,5

Figure 68. The table shows the variable taken in consideration by foreign entrepreneurs active in Thailand. Source: extracted from [The Global Competitiveness Report 2017-2018](#).

4.2.3 The Role of the Thai-Italian Chamber of Commerce

In conclusion I would like to focus on the Thai-Italian Chamber of Commerce in which I personally work during an internship in Bangkok.

The Italian Chambers of Commerce Abroad are association of Italian and local entrepreneurs and professionals, officially recognize by the Italian State with the law n. 518 of 1st July 1970. They operate to support the internationalization of Italian companies and promote the Made in Italy. They are born as an assembly point for the Italian business community abroad and then they have consolidated their presence becoming a recognized and capillary network. They are an integrated part of the business community in the country in which they work: 88% of the 18 000 associated companies is represented by local companies which recognized Italy as a country partner for their business or investment operations.

The activities of the Chambers of Commerce is characterized by:

- A strong comprehensions and analysis of the international markets, due to their presence in the foreign market and the link with the local institutions and communities.
- A particular predisposition with the direct relations with the companies since they are association of entrepreneurs at the service of other entrepreneurs.
- A significant propensity to work under efficient and efficacy parameters, which are a necessary requirement to offer competitive service in the market.

The important work in the Made in Italy promotion of the Italian companies brought the Chambers of Commerce Abroad become a relevant subject in the Italian system of internationalization promotion, along with ICE, as determined by the law n. 56 of 2005 which indicated them as the third subjects of the foreign promotion.

The Thai-Italian Chamber of commerce was founded in 1978 and recognized by the Italian Government only in 1982. At the beginning it was a merely environment where people could share their interests and then it incorporates more functions in order to support the bilateral relationships.

After the recognition by the Italian government, thus becoming an institutions of private firms and local entrepreneurs, it started to be supported by *Assocamerestero* (Association of the Italian Chambers of Commerce Abroad) and the JFCCT (Joint Foreign Chambers Thailand). During the 80s the TICC grew importantly through the collaboration with *Unioncamere* and ICE. These two steps were significant to gain the assistance of the Italian Embassy and give more participation

from the Italian's side. During these years the Chamber organizes and participate to important events such as the King's Rama V 60th year Celebration Birthday Celebration. For this event the Chamber raised funds to sponsor lunches and water tanks for three schools in Nakhon Ratchasima. The economic boom of Thailand helped also the development of the TICC. For example, TICC organizes an event with Famous Italian Fashion Brands such as Prada, Valentino and Benetton in 1997 which gathered an incredible number of people. In addition, the Chamber implemented a financial reporting activities, necessary to get funded (up to 50%) by the Italian government for the projects that aim to enhance the Italian image in Thailand. TICC managed to support few mission in Italy as when they follow the Thai Minister of Commerce, Somsak Thepsuthin to Italy. Moreover, they accompanied a delegation of Italian firms to Vietnam in 1992, a country that still was reluctant to foreign investors during that period. During the 2000s the TICC expands even more with few key collaborations with "*Artigiano Fiera Milano*" and "*Fiera Vicenza*", which have been quite successful in particular in promoting Italian SMEs. Currently TICC has more than 160 members and it occupies a relevant supporting role for both Italian companies active in the country or the ones potentially interested to penetrate in Thailand. The mission of TICC is to develop the economic and commercial relations between the two countries with:

- **Services.**

- Business matching such as research and selection of partners, distributor and supplier in Thailand.
- Organization of Italian Pavilion in selected fair and exhibitions with the aim of giving visibility to the Italian Excellences.
- Organization of sectorial or multi-sectorial delegations to promote commercial interchanges within the Chambers' members.
- Planning promotional events on specific requests
- Training and formation activities, seminars and workshops dedicated to technical issues for a limited number of people.
- Offices services such as translation and interpretation or contact with Thai institutions.

- **Companies Assistance.**

- Preferred way with the Italian Embassy for business visa or meetings.
- Support on the execution of legal documents, visa releases and constitution of companies in Thai territory.

- Services of networking with the local institutions and authorities to facilitate the relations of them with the Chamber's members.
- **Events.** The chamber organise different type of activities to maintain constant relationship with its members and support the entry of new companies.
 - **Get Together.** These are informal networking events which allows to strengthen the relation with their associates and new entrepreneurs. They took place usually in prestigious Italian restaurants or hotels in which it is offered Italian wine and foods.
 - **Breakfast Talk and Business Luncheon.** These meetings are dedicated more to topical issues with sectors experts. In the past have been organized events with legal partners or consultancy companies.
 - **Seminars.** TICC organize periodically different seminars with Italian and Thai institutions. These events allow to get informed on news or particular aspects related to the Thai or Italian economy.
 - **Young Professionals Event.**
 - **Events in collaboration with Italian Institutions.** The support of the TICC is given to the other Italian organizations present in the territory. It can be mentioned the cooperation on the Italian Film Festival 2011 and the international program *Ospitalità Italiana*. This last project has been thought by the government as a quality control of the Italian restaurants abroad. The inspections have been carried out by the Chamber of Commerce Abroad.
- **Publications.**
 - **Informa** is the TICC bimestrial magazine, it contains topic of the Italian interests in Thailand but also the main news and issues of the Thai economy. It then get distributes to the members, restaurants, hotel and the Italian Embassy.
 - **Websites and E-Newsletter.**
 - **Business Directory.** This is the annual publication that include an introduction of the activities of the Chamber of Commerce, its organisation and a detailed profile of each members.

During the period of staying in the TICC I personally have the possibility to work in different operational areas. The main tasks were taking care of the members active in Thailand, creating contents for promotion and market analysis and organizing events. In addition I had the

possibilities to review the financial report of the TICC, thus helping in the collaboration with *Assocamerestero* to receive the government fund.

With this experience I realized how the “*Sistema Italia*” works in a foreign country: understating the main positive and negative aspects.

The positive factors in the promotion of Italian in Thailand is that there is a growing interesting in the Thai market. More and more people are visiting Thailand and are interested in the business opportunities offered by the country in its main sector such as agriculture, automotive and tourism. The Italian organizations in the country have a well-known status and they are highly recognized as important from Thai people.

For the negative sides it is important to say Italy must catch up an historical gap in the presence in Southeast Asia, other European countries (United Kingdom, France or Germany) have established economically in this area long before Italy. The lack of Italian presence in Thailand that it has been observed in the previous paragraph can have another motivation. Specifically it can be found in the structure of the Italian companies and the products that they export. For the first point I am referring to that dense network of Italian SMEs, which most of them are not able to approach a distant and completely different market. This can be due to a mere evaluation of the cost which are inevitably higher or due to lack of a specialized management that know how to penetrate and work in Thailand.

On the operational side the relevant problematics that I had the chance to observe in the Italian institutional organization abroad are the fragmentation of promotional tasks. This can have an explanation with the target that different institutions want to achieve, a lack of knowledge from the institutions based Italy of the resources needed and the lack of big Italian companies in the main promotion activities even if they are present in Thailand. For example, I must say that the government fund that the TICC receive was not sufficient to create major projects and a boost in the Italian Image promotion. In addition to this, Italian Big Companies are not active as I expected in the collaboration with the Chamber of Commerce and they prefer to work with the Official Public Institutions (Embassy or ICE) rather than with the TICC or just relate on their network and channels. The participation in the other countries Chambers of Commerce seem to be more effective in numbers, especially if we consider economies similar to the Italian ones. Nevertheless, the main aim of all these organization should promote the “*Sistema Italia*” and work for the same objective. In the future a more cohesive organization of the promotion could definitely enhance the Italian presence in Thailand.

Conclusions

The aim of the thesis was to analyze the regional context in which Thailand operates and give a prospective on the economy of the country and the trade-economic relations with Italy.

The first chapter is dedicated to the geography and history of the region. The unique geographical characteristics of Southeast Asia demonstrate to be important to understand the main social, cultural and economic aspects. It has been understood the main differences and geographical fragmentation of the region between the insular and continental part. The hydrography represents a singular resource and it have outlined the pattern of the continental part while the tectonic activity have created singular forms in the insular zones. The other main geographical features are represented by the presence of active volcanos and earthquake phenomena. Even though they represent a serious threat for their destructive power it is also been shown that they are quite rare. The equatorial and monsoon climate in the region demonstrated to be double sided: it creates a perfect environment for some agriculture crops but at the same time can effect negatively the society and production, especially in the big urban areas, when massive rainfalls hit the region. For all these problematics each governments are planning solutions and preventive projects which should minimize the effects on the economy and population.

The historical approach in the second part of the first chapter demonstrates that the region has seen various domination, always divided by the direct or indirect control of some external powers. If in the medieval history the Chinese Empire exercised a form of indirect control in the recent history colonialism effected directly Southeast Asia. The European colonizers understood the economic values of this region and from the fifteenth century dominate the region until last century. It can be said that the complete autonomy of the region has been obtained only after the end of the Vietnamese War. Related to these problematics the leaders of these countries felt the urgency to create an identifying political and economic organization in the second part of the 20th century. In this context the ASEAN was created in 1967.

The path necessary to the ASEAN to become the most important regional organization in Southeast Asia with a global importance has been long and difficult. Thanks to the recent economic growth of the countries members and the impulse from the other economies of the East Asia, particularly China, the ASEAN can be now considered a leading institution in the geopolitical context. The descriptions of the economies of the members states outlined a clear situation. The biggest market and subsequently largest economy is Indonesia, Singapore has the most developed economy but do to the limited size cannot effect greatly the policy of the region.

The last years have seen the rapid expansion of the Vietnamese economy, making it a valuable contender for the economic predominance of Thailand in the continental part of the area. Still it has been denoted some improvements in the regional cooperation that need to be made in the future. The study of the Trade Barriers and NTMs in the second chapter have showed that these measures are more related to the development stage of each singular country rather than a single decision from the ASEAN. The economic gaps between the countries are still important and it is not possible to think that Cambodia, Laos and Myanmar could adopt the same economic policies of Singapore. The regional integration should focus also on thinking special measures for reducing the gaps along with the liberalization of trade. The tools and concepts proposed in the ASEAN Economic Blueprint 2025 seem aiming at the creation of an Economic Community in the near future. This could definitely enhance even more the dynamicity of a market that counts around 640 million people. The more difficult part of this cooperation mechanism has been the financial system. The Asian Financial Crisis in 1997-1998 taught two important lessons: the Southeast Asian market are highly integrated and the financial controlling institutions were not able to provide an efficient preventive mechanism. The first point can be understood by the dynamics of the crisis which had its starting point in Thailand but then spread rapidly in Indonesia. The second point was that there were not regional mechanism that help in control or support the country with financial problems. The Chiang Mai Initiative and the creation of an Asian Monetary Fund which see as participants also China, South Korea and Japan, could increase the financial stability in the region. The process is still moving slowly and it encounters the opposition of the IMF, since the idea of a regional monetary fund with China as one of the main actors, could definitely counterbalance the centrality of USA in the global financial matters. The third chapter was dedicated to the analysis of Thai economy. Thailand economy has seen in these last year positive and negative trends: the economic boom in the 90s led the country to receive a surprisingly amount of FDI's which then were drastically reduced after the Asian Financial Crisis. Thailand recovers in the first years after the crisis brilliantly thanks to the economic idea proposed by Shinawatra Thaksin. His main economic policies were based on an Keynesian approach with strong support through government expenditure for the development of infrastructure, rural and small enterprises and agriculture sector. Unfortunately, the political turmoil cancelled some positive effects of these policies, critics arose after he left the position of prime minister was obliged to leave the country. The subsequent political chaos that led to the *coup d'état* in 2014 had a drastic negative effect on the economy and Thai image deteriorates in the international context.

Thailand still remains the second biggest economy in the ASEAN, second only to Indonesia. Agriculture is still an economic motor with excellence in production considered the market that can serve most of the ASEAN+3 members. In particular, The ASEAN+3 can count 2 billion people, which are the main importers of ASEAN agriculture products. Considered the struggle on agriculture production of Japan, China and Korea this could have a huge impact on Thai agriculture sectors. In addition the innovation brought by Thailand 4.0 “Smart Farmers Project” and the historic protection of the government for this sector, could be beneficial for Thai agriculture industry. The electrical & electronics, automotive and energy could be considered the top Thai industrial sectors. Even though in term of numbers Thailand cannot be compared with the top countries automotive producers but improvement have been made in offering the international investors a business friendly environment for car production. The natural resources abundance in the gulf of Thailand have not being exploited yet. The indecisions of the government around the Oil & Gas bidding auction in the last years did not provide the sufficient funds for the researches and development of the offshore fields. Nevertheless, in the future context a more efficient regulation and the EEC project that would link the pipelines directly from Thailand to China would bring more space to this sector, an aspect that can be considered essential for the country. Tourism counts approximately for the 20% of the total GDP and it has not being effected either by external or internal crisis. The program of the government for the sector have proved to be successful and the arrivals are constantly increasing.

The last chapter introduce the Italian promotion framework with its main actors and initiatives. This was necessary to understand the public promotion structure in order to explain the relations between Italy and Thailand. The first important issue that must be considered is that Southeast Asia has not been a privileged market for Italy, for both historic and economic reasons. Nonetheless, in the last 20 years numerous Italian companies and entrepreneurs has settled in the country having successful experiences. Cases like *Ducati*, *Cavagna*, *Leonardo* represents excellence of Italian production that chose Thailand as their privileged production market.

The main difficulties in approaching the Thai market can be divided in two categories: external and internal to the Italian System. For the external ones can be identified with the Thailand problems so political instability, difficult to innovation and lack of sectorial diversification. The internal problems of the Italian System is the structure of the companies who guide the internationalization process. The SMEs represent almost the totalities of the Italian firms and most of them are wither to small or cannot afford an efficient promotion system abroad. In particular if we consider markets that are distant in geographical, cultural and economic aspects

such as Thailand. The cause of this is the lack of specialized management and the inevitably higher cost of the internationalization process. I must say that these problems are counterbalanced by a secure economic environment and abundance of opportunities but It can be also understandable that Italian entrepreneurs and Italian managers look for the most secure and efficient solution when considering internationalization projects. In this prospect the boost of the industrial district could definitely be beneficial for the Italian System. In addition, the Italian presence could be enhanced by specific promotion plan and the cohesive collaboration of both private and public institutions already present in the country. It is certain that the starting point must be forming people who knows these markets and understand how to operates in them. In conclusion I must say that the role of Thailand in the near future should be brighter once the political problems will be sort out. The country is facing important challenges but it has the potential to become a crucial actor both in the regional and global context.

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