THAILAND’S LOGISTIC OPPORTUNITIES
IN THE CROSS-BORDER TRADES
AND AEC DEVELOPMENT

JANUARY 2014

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Recently, much light has been shed on Thailand’s strength to become the logistic hub for ASEAN. Given the geographic advantage and manufacturers’ willingness to smooth connectivity, Thailand is naturally picked as the logistic centre of the ASEAN Economic Community (AEC), the world’s fastest-growing economic region.

Our paper provides a snapshot of the current logistics market in Thailand, and points out the opportunities and challenges faced by this industry during the AEC integration and economic development.

By examining in details the trends and growth of Thailand’s cross-border trades with each of its neighbouring countries, this paper demonstrates what are the key drivers and root strategies for both international and local logistic and transportation businesses, in order to gain a solid foothold in the future competition led by the liberation of goods flow under AEC.
THAILAND, A NATURAL TRANSPORT HUB FOR ASEAN
Thailand is located at the strategic crossroads of mainland South East Asian region, in which it shares common land border with four neighboring countries with a total length of 5,582 kilometers. In total, there are 30 provinces in Thailand physically connected with the neighboring countries. The physical linkages with individual countries are as follows:

**Myanmar: 10 provinces** of northern, central and southern regions of Thailand link with Myanmar, with a longest total length of 2,400 kilometers:
- **Northern region**: Chiang Rai, Chiang Mai, Mae Hong Son and Tak
- **Western region**: Kanchanaburi, Ratchaburi, Phetchaburi and Prachuap Khiri Khan
- **Southern region**: Chumphon and Ranong

**Lao PDR: 11 provinces** of northern and northeastern regions of Thailand connect with Lao PDR, with a total length of 1,810 kilometers:
- **Northern region**: Chiang Rai, Phayao, Nan, Uttaradit and Phitsanulok
- **Northeastern region**: Loei, Nong Khai, Nakhon Phanom, Mukdahan, Amnat Charoen and Ubon Ratchathani

**Cambodia: 7 provinces** of northeastern and eastern regions of Thailand share common border with Cambodia, with a total length of 725 kilometers:
- **Northeastern region**: Ubon Ratchathani, Si Sa Ket, Buri Ram and Surin
- **Eastern region**: Sakaeo, Chantaburi and Trat

**Malaysia: 4 provinces** of southern regions of Thailand share common border with Malaysia, with a total length of 647 kilometers, namely Satun, Songkhla, Yala and Narathiwat.
THAILAND SNAPSHOT: POSITIVE ECONOMIC OUTLOOK

In 2011 Thailand’s GDP was 351,338 million US$, making Thailand the 4th richest nation by GDP per capita in South East Asia, after Singapore, Brunei and Malaysia.

Manufacturing export accounts for 81% of total Thailand export in 2011 and valued at 186,268 million US$. The most exported products are computer products & parts, auto parts & accessories, etc.
NORTHERN: 5%
Agriculture/food, Wood/Furniture, Textile, Ceramics, etc.

NORTHEASTERN: 5%
Rice, Livestock, Cassava, Sugarcane, etc.

CENTRAL: 15%
Food, Auto Parts, Electronics, Paper & Printing, Cements, etc.

WESTERN: 2%
Agriculture/food, Sugarcane, Auto parts, etc.

BANGKOK & VICINITY 47%
Food and Beverage, Textile and Garment, Furniture, etc.

EASTERN: 22%
Petrochemical, Iron/steel, Auto Parts/Accessories, etc.

SOUTHERN: 4%
Rubber, Palm, Food, Ship Building and Repair, etc.
THAILAND TRANSPORT SECTOR AT A GLANCE
Exports contributed to 77% of Thailand’s GDP in 2011, and the transport sector underpins this notable export performance. The export-dependent nature of Thailand’s economy, with recent structural changes toward a higher share of value-added manufactured goods and level of global trading, requires a strong and integrated transport and trade facilitation system.
THAILAND INFRASTRUCTURE INVESTMENT PLAN (2012-2020)

- Land Transport 65%
- Energy 22%
- Air & Marine 6%
- Utility 5%
- Telecom 5%

46,662 MN USD

is Thai government’s budget for investment on land transport infrastructure development alone.

7.1%

Thailand’s transport sector contributed 7.1% to the country’s national income in 2010.
In terms of physical development, the road network dominates with an estimated total length of 202,000 km, presented as below:

<table>
<thead>
<tr>
<th>Road infrastructure</th>
<th>Thailand 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total road length</td>
<td>202,000 kilometers</td>
</tr>
<tr>
<td>Length of paved road</td>
<td>108,158 kilometers</td>
</tr>
<tr>
<td>Total length of highways</td>
<td>51,500 kilometers</td>
</tr>
<tr>
<td>Total length of controlled-access expressway</td>
<td>450 kilometers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Road economic performance</th>
<th>Thailand 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total import cargo by road</td>
<td>12,690 thousand ton</td>
</tr>
<tr>
<td>Total export cargo by road</td>
<td>10,779 thousand ton</td>
</tr>
</tbody>
</table>

Source: Thailand Development Research Institute, Ministry of Transport

The road network is the most developed among all modes of transport, with about 98% of roads, including village access roads, being paved.
THAILAND LOGISTIC COMPETENCY RANKS 3RD IN SOUTH EAST ASIA

26.4 BN US$

The market value of Thailand’s logistics Industry was approximately 800 billion baht (USD 26.4 billion) in 2010.
OVERVIEW OF THAILAND LOGISTIC INDUSTRY

The logistics sector is a huge industry in Thailand, and the NESDB* estimated that it had a potential to generate about 300 billion baht added value to the economy each year.

According to the 2012 Logistic Performance Index conducted by World Bank, Thailand ranks 38 in logistic competency among all 155 countries. Although Thailand still remains quite at distance from Singapore (1) and slightly behind Malaysia (29), Thailand demonstrates its competitiveness in the region compared to other developing countries. Singapore is the centre of air transport in the region, has a world-class sea port, and overtaking the city-state seems out of reach for Thailand. But overtaking Malaysia seems possible and to reach that objective, the Thai government is working on improving its trade systems such as the customs. An e-logistics system is currently being introduced, to cut logistics cost, reduce paperwork and the time spent on import and export.

THAILAND’S LOGISTIC COMPETENCY IN SEA REGION
(RANKED BY LOGISTIC PERFORMANCE INDEX 2012)

Remark: The number in parentheses is the rank of country’s logistics competency out of 155 countries
Source: Logistic Digest Magazine, World Bank, SCB EIC
Note: NESDB refers to Office of the National Economic and Social Development Board
Although Thailand’s share of logistics cost to GDP is relatively high when compared with Singapore (8%) and Malaysia (13%), it is on a declining trend, from 18% to about 15% over the past 6 years.

For Thailand’s overall logistics cost, the share of transportation cost is the largest, followed by the inventory carrying cost.

Domestically, Thailand still relies heavily on land transport, with an 83% share, despite the increase in oil price impacting transportation costs. Fuel subsidies are likely to be maintained over the near future as the government tried to contain inflationary pressures from soaring global oil prices in 2012.

**THAILAND IS LOWERING ITS LOGISTICS COST YEAR AFTER YEAR**

**THAILAND’S SHARE OF LOGISTIC COST TO GDP IS DECLINING**

<table>
<thead>
<tr>
<th>Year</th>
<th>Transport cost to GDP</th>
<th>Logistic administration cost to GDP</th>
<th>Inventory carrying cost to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>8.2</td>
<td>1.6</td>
<td>17.8</td>
</tr>
<tr>
<td>2007</td>
<td>7.7</td>
<td>1.6</td>
<td>17.1</td>
</tr>
<tr>
<td>2008</td>
<td>8.2</td>
<td>1.6</td>
<td>17.1</td>
</tr>
<tr>
<td>2009</td>
<td>7.1</td>
<td>1.4</td>
<td>15.1</td>
</tr>
<tr>
<td>2010</td>
<td>7.2</td>
<td>1.3</td>
<td>15.2</td>
</tr>
<tr>
<td>2011</td>
<td>7.2</td>
<td>1.3</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: NESDB, UNDP, Economist, SCB EIC
AEC ENFORCEMENT, FACILITATING GOODS TRANSPORT ACROSS BORDERS
“One of the important questions that need to be answered is “what can we realistically expect from the AEC”? The AEC blueprint crystallizes the answer to the question in its goal of a single market and production base by 2015, by achieving five main pillars, namely free trade in goods, free trade in services, free flow of skilled labour, free flow of investment and a freer flow of capital, while continuing to reach out to the rest of the world – the so-called “open regionalism.”

- Dr. Prasarn Trairatvorakul,
Governor of the Bank of Thailand
at ASEAN Economic Community 2015: Opportunities or Threats?
ASEAN Economic Community (AEC) is an agreement between all ASEAN countries to collaborate on, first and foremost, trade facilitation. In this regard, Thailand’s logistics industry will especially experience positive impact.

Aims to promote trade in the following industries:

2010
- Healthcare
- Information Technology
- Telecommunication,
- Tourism
- Air freight

2013
- Logistics

2015
- Services (by 2015)

ASEAN Framework Agreement on:
- Multimodal Transport
- Facilitation of Goods in Transit
- Interstate Transport
- Greater Mekong Subregion (GMS)
- Cross Border Transportation Agreement (CBTA)

Direct Implications on Logistics Industry:
- International logistics VAT at 0%
- Road Network Development
- Promote Transportation Between Thailand, Indochina, Malaysia and China
AEC 2015: ALL ASEAN COUNTRIES WILL BENEFIT FROM SEVERAL REGULATORY CHANGES AND NETWORK IMPROVEMENTS

AEC will have significant impact on trade between the 10 nations*. From Thailand’s perspective, AEC will boost substantially the Kingdom’s trade with 4 bordering countries (Malaysia, Myanmar, Laos and Cambodia) as well as countries (e.g. China, Vietnam, etc.) in regional economic scope.

*The AEC includes the 10 ASEAN countries: Singapore, Philippines, Malaysia, Thailand, Indonesia, Vietnam, Laos, Cambodia, Brunei, and Myanmar.

CUSTOMS PROCEDURES

Simplification & harmonization of customs process, coupled with standardizing procedures will help the shift towards ASEAN that functions more similarly to a single, uniform market for goods & services.

ROAD NETWORK

Government of AEC members are executing road construction projects to create a complete network that links all ASEAN countries seamlessly.

FREE TRADE AGREEMENT

Reduction of tariffs among members allowing many ASEAN industries (incl. automotive) to achieve economies of scale & optimize their manufacturing locations.

LEGAL ASPECTS

Unlike the European Union, AEC has no single regulator, law or regulation. It is, however, to be governed by multiple trade & investment agreements among members.
AEC’S FIRST PILLAR: FREE FLOW OF GOODS

MERCHANDISE TRADE AMONG ASEAN MEMBERS, 2002 – 2011

Steady growth of export and import among ASEAN countries during the past 10 years

For trade of goods, CLMV* will provide more opportunities for the export market in the next period due to the reduction of tariffs.

<table>
<thead>
<tr>
<th>Free flow of goods</th>
<th>2011</th>
<th>2012 - 2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tariff reduction</td>
<td>2ASEAN-6:IL = 0%, SL, HSL: =0-5%</td>
<td>CLMV:IL = 0%</td>
<td>Laos, Myanmar:SL = 0-5%</td>
<td>Cambodia:SL = 0-5%</td>
</tr>
<tr>
<td></td>
<td>CLMV:IL = 0-5%</td>
<td>Vietnam:SL = 0-5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>reduction</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ASEAN Secretariat Remark: CLMV* = Cambodia, Laos, Myanmar, Vietnam, IL = Inclusion List (list of goods to be liberalized) whose tariffs will be reduced to 0%, SL = Sensitive List, whose tariff will be reduced to 0-5%, HSL, Highly Sensitive List, whose tariffs will be reduced to the agreed rate prior to the negotiation.

There will be more opportunities for trade of goods with Myanmar and Cambodia as over 90 percent of their inclusion list has to be brought down to 0%. For Laos and Vietnam, over half of their inclusion list is already 0%, while only 7% of Myanmar and Cambodia’s inclusion list is 0%.

CLMV have been given some flexibility in meeting the AEC deadline, thus their process will take longer than for ASEAN-6. However, Thai export has already benefited from the gradual tariff reduction of CLMV in non-alcohol drinks and soft drinks, motorcycles, tires, soap, liquid soap, and cleaning products.

The current average tariff rate of CLMV trade with Thailand 2.6%
SHARE OF TRADE VALUE BETWEEN THAILAND AND ASEAN, AND DECREASED TARIFF UNDER THE AEC

Thai logistics operators should take this opportunity to expand their business to the neighbouring countries to support other expanding Thai businesses.

Currently many Thai corporations have already set up a logistics business in the neighbouring countries. Siam Cement Group (SCG), for example, has logistics and transport businesses in Laos and Cambodia. Loxley, a listed Thai conglomerate, has a logistics investment plan with a multinational corporation to co-invest in the neighbouring countries such as Myanmar.
AEC’S LIBERATION ON LOGISTIC SECTOR WILL BENEFIT ASEAN INVESTORS

Even though until now, the rule stipulates that a minimum of 51 percent local ownership needs to be fulfilled against a maximum of 49 percent foreign ownership in a global logistic company in Thailand, it is expected that there will be more logistic companies owned by foreigners operating in Thailand in the year to come as this sector is becoming more attractive.

In 2012, this sector sees changes with AEC allowing ASEAN investors to hold up to 70% share ownership in logistic business.

Source: ASEAN Economic Community Blueprint, SCB EIC
ECONOMIC CORRIDORS & ROAD INFRASTRUCTURE BETWEEN THAILAND AND ITS NEIGHBORS
THAI GOVERNMENT’S POLICY: 3 ECONOMIC RINGS & 5 TRADE GATEWAYS

The Thai government has adopted the policy of “three economic rings and five trade gateways” in its plan to make the most of Thailand’s strategic position within Southeast Asia and its well-developed infrastructure and logistics networks.

These gateways enhance Thailand’s connectivity in the ASEAN region, benefiting local production by being at the crossroads of ASEAN trade. In order to boost Thailand’s role as a regional logistics hub, the Thai government has been developing the capabilities and capacities of the country’s logistic service providers through financial support and manpower’s training. It has also encouraged the logistics service providers to build networks that jointly meet requirements across a broad range, in the objective of developing more extensive network with logistic business partners from other ASEAN and Asian countries.

Other actions taken by the Thai government to increase efficiency of Thai logistic operation include development of e-logistics, paperless customs procedures across the Greater Mekong Subregion borders, and a One Stop Export Service Center, where 15 export-related organizations are located at one place to reduce the time required to obtain export documentation.
THAILAND MAJOR CROSS-BORDER TRADE POINTS & CURRENT ROAD INFRASTRUCTURE

Chiang Khong (Thailand) – Huay Xai (Laos) friendship bridge: Estimated to be completed late 2013; 85 km road rehabilitation in Thailand and 228 km road infrastructure in Laos nearly finished.

Mae Sai (Thailand) – Dali Luoyang (Myanmar) route: 2-lane 256km road, fair condition.

Chiang Rai inner-Thailand border routes: 110 km road expansion to Chiang Kong completed; 60 km road extension to Mae Sai, expansion to 4-lane and construction of 8 km bypass completed.

Mae Sot (Thailand) – Myawady (Myanmar) – Thaton route: A total length of 189 km, among which 40 km uphill portion in Myanmar is completed with Thai’s financial assistance.

Kanchanaburi (Thailand) - Dawei (Myanmar) route: A total length of 459 km 4-lane paved road in good condition.

Sadao Thailand – Malaysia border route: Fairly good condition.

Nong Khai (Thailand) – Vientiane (Laos) route: 1st friendship bridge, 25 km 4-lane paved road in good condition.

Nakhon Phanom (Thailand) – Thakek (Laos), Vung Au Port & Hanoi (Vietnam) route: 3rd friendship bridge opened in 2011, 270 km 2-lane paved road in good condition till Thakek, then 400 km till Vung Ang Port.

Mukdahan (Thailand) – Savannakhet (Laos) – Hanoi (Vietnam) route: 2nd friendship bridge, roads near Thailand border under expansion from 2 lanes to 4, 250 km 2-lane paved road in good condition till Savannakhet, then 660 km till Hanoi.

Ubon Ratchathani (Thailand) – Pakse (Laos) – Danang (Vietnam) route: 4-lane 90 km paved good condition road till Thai border, 349 km mostly good condition road (with 4km in bad condition) till Pakse, then 383 km till Danang.

Sa Kaeo (Thailand) – Phnom Penh & Ho Chi Minh City (Vietnam) route: 421 km 2-lane mostly good condition paved road till Phnom Penh, then 241 km till Ho Chi Minh City.

Mae Sai (Thailand) – Dali Luoyang (Myanmar) – Thaton route: A total length of 189 km, among which 40 km uphill portion in Myanmar is completed with Thai’s financial assistance.

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THAILAND CROSS-BORDER ROAD INFRASTRUCTURE

23 DESIGNATED ROUTES
A total of 38,400 km

ASEAN HIGHWAY NETWORK PROJECT
( DEVELOPMENT PLAN TILL 2020)

<table>
<thead>
<tr>
<th>Number of road linkages</th>
<th>Cambodia</th>
<th>Lao PDR</th>
<th>Malaysia</th>
<th>Myanmar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>
THAILAND’S CROSS-BORDER ROUTES IN GREATER MEKONG SUB-REGION (GMS)
“With more developed countries like Malaysia and Singapore, the trade routes are more or less established. It is with those CLMV countries that we will see more changes coming along with the AEC...

Till now, I have to say that there is still a serious problem of disconnection in the road networks among CLMV countries. The infrastructures are not tied up to high international standards yet. ”

- VP, Transport and Distribution, APAC, SSEA, Leading Global Logistics Provider
  DHL Supply Chain
R9 is the most convenient route to link Thailand – Laos – Vietnam, given the CBTA among the three countries and improved infrastructure.

% represents routes which are the most frequently used by logistics companies in their itinerary across GMS
Source: Centre for Logistic Excellence (LOGEX)
THAILAND CROSS BORDER ROUTE: EAST – WEST ECONOMIC CORRIDOR – R9

This route provides gateway for trade involving Thailand – Laos – Vietnam. Connecting Thailand to Vietnam (Da Nang) via Laos by land in 2 days (510 km), compared to by ship in 15 days. It is the high potential route used by logistic company to transport products, especially petroleum products from Thailand to Laos and Vietnam.

### Thailand
- **Total Distance**
  - Mukdahan – Svannakhet (Short Distance)
- **Portion 1**
  - Bangkok – Muang, Chiang Rai, Highway no. 1 (710 km)
- **Portion 2**
  - Muang – Chiang Kong, Highway no. 1152 (120 km)
- **Institute**
  - Lan Thong Inland Clearance Depot

### Laos
- **Total Distance**
  - Svannakhet – Lao Bao, Highway no. 9 (250 km)
- **District**
  - Savan Seno – Pin – Lao Bao
- **Institute**
  - SENO Industry Office

### Vietnam
- **Total Distance**
  - Lao Bao – Da Nang (260 km)
- **Portion 1**
  - Lao Bao – Dong Ha Highway no. 9 (80 km)
- **Portion 2**
  - Dong Ha – Da Nang, Highway no. 1, 1A (180 km)
- **Institute**
  - Da Nang Port

### Main Products
- Petroleum products
- Machinery

### Main Logistic operators
- Sumisho Global Logistics, Nava Nakorn Distribution Centre (Thailand to Laos), Dragon Logistics (Laos to Vietnam), etc.

### Strength of R9
- Short time transport from Thailand to Guangzhou, only 4 days
- The only route for Thailand – Laos – Vietnam with full facilities
- The destination point in Vietnam is port terminal, easy to distribute products to other parts of the world
This route connects Thailand, Laos and China (Kunming) by land in 2 days (2000 km). Several Thai companies are active in the production and transportation of high value products on the Thai-Laos-China route. Mostly heavy commercial vehicle (HCV) trucks are used for this long-haul transportation.

<table>
<thead>
<tr>
<th><strong>Thailand</strong></th>
<th><strong>Laos</strong></th>
<th><strong>China</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Distance</strong></td>
<td>Bangkok – Chiang Kong (830 km)</td>
<td>Houayxay – Bokeo (250 km)</td>
</tr>
<tr>
<td><strong>Portion 1</strong></td>
<td>Bangkok – Muang, Chiang Rai, Highway no. 1 (710 km)</td>
<td>Houayxay – Luang Nam Ta (170 km)</td>
</tr>
<tr>
<td><strong>Portion 2</strong></td>
<td>Muang – Chiang Kong, Highway no. 1152 (120 km)</td>
<td>Luang Nam Ta – Bo Han (80 km)</td>
</tr>
<tr>
<td><strong>Institute</strong></td>
<td>Chiang Kong Customs House</td>
<td>Luang Nam Ta District</td>
</tr>
</tbody>
</table>

**Main Products**
- Lignite
- Fiber
- Agriculture industrial products
- Rubber

**Main Logistic operators**
SCC Lao Trading Re-Export and Service Co., Ltd (Thailand – Laos – China)

**Strength of R9**
Only linkage between Thailand and China by land
THAILAND CROSS BORDER ROUTE: SOUTHERN ECONOMIC CORRIDOR - R1

R1 is the shortest route from Thailand to HCMC in Vietnam via Cambodia (1,030 km). Only 40 vehicles (30 trucks & 10 buses) from Thailand yearly are permitted as a fixed quota to enter into Cambodia. The majority still needs to unload their cargo in Poi Pet soon after the border, or only liberal for transportation at bordering provinces (at the sphere of 10 km around). More commitment to liberation on two-way border trade in future is still under negotiation between the governments, and concrete results are yet to be witnessed.

**Thailand**

<table>
<thead>
<tr>
<th>Total Distance</th>
<th>Portion 1</th>
<th>Portion 2</th>
<th>Portion 3</th>
<th>Institute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangkok – Sa Kaeo (250 km)</td>
<td>Bangkok – Chachoengsao, Highway no.304 (150 km)</td>
<td>Chachoengsao – Sa Kaeo, Highway no.304, 359 (90 km)</td>
<td>Sa Kaeo – THA / CAM Border (10 km)</td>
<td>Aranya Prathet Customs House</td>
</tr>
</tbody>
</table>

**Cambodia**

<table>
<thead>
<tr>
<th>Total Distance</th>
<th>Portion 1</th>
<th>Portion 2</th>
<th>Portion 3</th>
<th>Institute</th>
</tr>
</thead>
<tbody>
<tr>
<td>THA / CAM Border – CAM / VIE Border (560 km)</td>
<td>Within Banteay Meanchey, Highway no.6 (50 km)</td>
<td>Banteay Meanchey – Phnom Penh, Highway no.6 (340 km)</td>
<td>Phnom Penh – CAM / VIE Border (170 km)</td>
<td>Srishophon Chamber of Commerce</td>
</tr>
</tbody>
</table>

**Vietnam**

<table>
<thead>
<tr>
<th>Total Distance</th>
<th>Portion 1</th>
<th>Portion 2</th>
<th>Institute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moc Bai – Vuong Tao (220 km)</td>
<td>Moc Bai – Ho Chi Minh City, Highway no. 22 (80 km)</td>
<td>Ho Chi Minh City – Vuong Tao, Highway no. 1A, 51 (140 km)</td>
<td>Moc Bai Customs House Ministry of Land Transport</td>
</tr>
</tbody>
</table>

**Main Products**
- Construction materials
- Consumer products

**Main Logistic operators**
There are 5 -6 main import companies in Cambodia; all of them are located in Phnom Penh and have their own fleet.

**Strength of R9**
- Shortest route from Bangkok to Ho Chi Minh city (1040 km)
- Pass economic zones in Thailand, Cambodia and Vietnam
GROWTH OF THAILAND CROSS-BORDER TRADE
Thailand’s border trade with neighbouring countries is targeted to increase potentially this year, even ahead of the formation of AEC in 2015. The university of Thai Chamber of Commerce (UTCC) estimates that Thailand’s total border trade value in 2013 will record over 1 trillion baht, a jump from 770 billion baht in 2010.
In 2012, the country’s border trade with Malaysia accounted for 57 percent of the total border trade. However, Malaysia, which is one of the four neighbouring countries with commercial relations with Thailand, is not expected to increase substantially its trade activities with the kingdom, due to the relative maturity in both trade product type and volume, and also partially hampered by the ongoing unrest in the deep South.

Thailand’s border trade with the other three is then ranked as: Myanmar 20 percent, Laos 14 percent, and Cambodia 9 percent respectively in 2012. Meanwhile, the trade value with those three countries is forecasted to reach unprecedented level in the next few years, a growth rate of nearly 30 percent. Border towns especially in the North, Northeast and East are projected to experience robust growth in cross-border trade in the coming years.
High value of cross border trade between Thailand and its neighbors shows real potential for long haul truck usage.
BORDER TRADE IMPORT TO THAILAND (IN VALUE TERM, BILLION BAHT)

RANKED BY PRODUCT CATEGORY (IN PERCENTAGE BREAKDOWN OF TOTAL BORDER IMPORT VALUE)

No.1 Natural gas (30%)
No.2 Electrical machines & parts (10%)
No.3 Computer & parts (9%)
No.4 Copper products (5%)
No.5 Recorders (data, sound, video) (4%)
No.6 Machinery & parts (3%)
No.7 Circuit breaker (3%)
No.8 Magnetic components (2%)
No.9 Electric circuits (2%)
No.10 Vegetable & products (1%)
THAILAND – MALAYSIA BORDER TRADE AND LOGISTIC OPPORTUNITY
For 2011/2012, import from Malaysia has increased by 17 percent and reached 212,903 million baht (7,426 million USD); however, export to Malaysia has fallen down by a significant 19 percent to 303,019 million baht (10,569 million USD).

AEC’s regional development, according to logistic industry experts, is not going to substantially change the border trade landscape between Thailand and Malaysia. The freight value of merchandise trade between the two countries will remain more or less stable in the near future, with rubber products, computer & parts, etc. as the main trade products, demonstrating a slight growth trend in accordance with the nations’ economic outlook.

**TOP 2 CHECKPOINTS (TH-MY) BY VALUE**

**THAILAND – MALAYSIA BORDER TRADE VALUE**

**FORECAST ON NUMBER OF IN & OUT TRUCK AT SADO CHECK POINT**

*Source: The Department of Foreign Trade, Ministry of Commerce Thailand*

*Source: Thammasat University*
Cross border trade between Thailand and Malaysia accounts for a high percentage of bilateral trade volume between the two countries, despite of the social unrest problem in Thailand southern border provinces. Hence, the governments of both countries have taken actions recently, in goal of boosting the cross-border trade:

Thailand and Malaysia have agreed to build 2 cross-border bridges in Tak Bai and Sungai Kolok districts, linking the violence-plagued Thailand’s Narathiwat province with Malaysia. The construction is expected to begin in 2014.

In addition, Thailand and Malaysia have agreed to open a border checkpoint in Sadao district of Songkhla province and another border checkpoint will be opened at Ban Prakob across from a special economic development zone being developed by Malaysia as well.

MAIN PRODUCTS FROM THAILAND TO MALAYSIA BY LAND (2012 EXPORT VALUE BREAKDOWN)

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber</td>
<td>46%</td>
</tr>
<tr>
<td>Other rubber products</td>
<td>9%</td>
</tr>
<tr>
<td>Computer &amp; parts</td>
<td>6%</td>
</tr>
<tr>
<td>Processed wood</td>
<td>4%</td>
</tr>
<tr>
<td>Auto &amp; parts</td>
<td>2%</td>
</tr>
<tr>
<td>Rubber gloves</td>
<td>2%</td>
</tr>
<tr>
<td>Motor, generatator</td>
<td>2%</td>
</tr>
<tr>
<td>Electric circuits</td>
<td>2%</td>
</tr>
<tr>
<td>Iron products</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>25%</td>
</tr>
</tbody>
</table>

~ 48% of cross-border products from Thailand to Malaysia takes place via Sadao

Source: The Department of Foreign Trade, Ministry of Commerce Thailand

MAIN PRODUCTS FROM MALAYSIA TO THAILAND BY LAND (2012 IMPORT VALUE BREAKDOWN)

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic machines &amp; parts</td>
<td>16%</td>
</tr>
<tr>
<td>Computer parts</td>
<td>15%</td>
</tr>
<tr>
<td>Recorders (data, sound, video)</td>
<td>7%</td>
</tr>
<tr>
<td>Circuit breaker</td>
<td>5%</td>
</tr>
<tr>
<td>Machinery &amp; parts</td>
<td>5%</td>
</tr>
<tr>
<td>Magnetic parts for computers</td>
<td>4%</td>
</tr>
<tr>
<td>Medical device</td>
<td>4%</td>
</tr>
<tr>
<td>Electric circuits</td>
<td>4%</td>
</tr>
<tr>
<td>Telephone, TV</td>
<td>3%</td>
</tr>
<tr>
<td>Plastic resin</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>35%</td>
</tr>
</tbody>
</table>

~ 78% of cross-border products from Malaysia to Thailand takes place via Sadao
THAILAND — MYANMAR BORDER TRADE AND LOGISTIC OPPORTUNITY
Myanmar is Thailand’s second-largest cross-border trading partner, after Malaysia. For 2011/2012, import from Myanmar has increased by 6 percent and reached 110,496 million baht (3,854 million USD); export to Myanmar grew even faster by 15 percent to 69,976 million baht (2,441 million USD).

Cross-border trading, which accounts for 85% of Myanmar-Thailand total bilateral trade, increased by an average of 25% over the past few years. The two countries intend to nearly triple their bilateral trade by 2015.

This checkpoint in the northern province of Chiang Rai is projected to grow 15 percent following more relaxed import regulations in Myanmar, which will cause Burmese people to consume more new goods. In 2012, the value of trade at this point was already close to 1 billion baht (35 million USD) a month. About 90 percent are exports, mostly fuel, construction materials and consumer goods.
Myanmar is the only country that gains a huge trade surplus with Thailand. A number of products are substantially imported from Thailand, but because of the increasing demand for natural gas, the total import value is much higher than export value.

The major export products between Thailand and Myanmar are diesel, gasoline, and beverages, and import products are mainly composed of natural gas and fishery.

Specifically, border trade at Kanchanaburi province (on the way to Dawei Port under plan) shows that the imports are milk, supplementary food, snacks, and other food products, while the major import products are beef cattle and raw materials for shoe manufacturing.

### MAIN PRODUCTS FROM THAILAND TO MYANMAR BY LAND (2012 EXPORT VALUE BREAKDOWN)

- Diesel: 10%
- Benzin (Gasoline): 7%
- Non-alcohol beverage: 7%
- Cloth & thread: 6%
- Palm oil: 4%
- Instant noodle & other processed food: 3%
- Iron products: 3%
- Cosmetics & personal care products: 3%
- Computer & parts: 2%
- Others: 52%

~ 54% of cross-border products from Thailand to Myanmar takes place via Mae Sot.

Source: The Department of Foreign Trade, Ministry of Commerce Thailand

### MAIN PRODUCTS FROM MYANMAR TO THAILAND BY LAND (2012 IMPORT VALUE BREAKDOWN)

- Marine products: 32%
- Wood products: 14%
- Poultry & meat: 12%
- Mineral products: 8%
- Machinery & parts: 5%
- Plywood & veneer: 3%
- Natural gas: 3%
- Fishery & frozen food: 1%
- Fruits & products: 1%
- Forestry products: 0%
- Others: 19%

~ 97% of cross-border products from Myanmar to Thailand takes place via Sangkhlaburi.
THAILAND – LAOS BORDER TRADE AND LOGISTIC OPPORTUNITY
For 2011/2012, import from Laos has increased by nearly 12 percent and reached 22,957 million baht (801 million USD); nevertheless, export to Laos has demonstrated a considerable upsurge by 34 percent to 109,059 million baht (3,804 million USD).

Thailand enjoyed a trade surplus of 86,102 million baht (3,000 million USD) thanks to its exports to its landlocked neighbor Laos. Especially after the opening of the second Thai-Laos Friendship Bridge in 2007, the export value from Thailand to Laos continues to grow significantly higher whereas the import value has not changed much.

Laos is the most important in term of cross-border traffic. It is the first country among CLM, to allow Thailand registered trucks to enter its territories. Under the Cross-Border Transport Agreement (CBTA) supported by ADB, Thailand, Laos and Vietnam have each been assigned a quota of 400 registered trucks. Thailand’s quota has been allocated to 12 transport and logistics companies.

The highest trade value was at Nong Khai, followed by Mukdahan and Ubon Ratchathani, respectively. The sufficient infrastructure of Nong Khai makes it convenient to access Vientiane and Than Nalang, the in-land Latien logistic node, which in turn promotes efficient cross-border freight transportation.

Border trade value at Ubon Ratchathani diminished for years to become 3rd in 2010 since the import of cooper has been shifted to Mukdahan.

The border trade value of Nakhon Phanom was 4th in the list, but the newly opened 3rd Thai-Lao Friendship Bridge in Nov 2011 is expected to contribute to the future expansion of the border trade at Nakhon Phanom.
The top exported goods from Thailand to Laos PDR with the highest export values were diesel and automobile & parts, followed by gasoline. The imports are ranked highest in value in copper products, followed by wood products and thirdly vegetable & products.

The major export products of Nong Khai are gasoline, vehicles / auto parts, and construction machines, while the major import products are processed wood and left-driving cars and parts.

The major export products of Mukdahan are hard disk drives and other computer parts, gasoline, consumer products, and vehicle auto parts, while the major import products are machines, apparel, electronics parts, agro-products and most importantly, copper.

~ 56% of cross-border trade from Thailand to Laos takes place via Nong Khai
Source: The Department of Foreign Trade, Ministry of Commerce Thailand

~ 73% of cross-border trade from Laos to Thailand takes place via Mukdahan

MAIN PRODUCTS FROM THAILAND TO LAOS BY LAND
(2012 EXPORT VALUE BREAKDOWN)

| Product               | %
|-----------------------|---
| Diesel                | 16%
| Auto & parts          | 11%
| Benzin (gasoline)     | 5%
| Construction materials| 4%
| Iron                  | 4%
| Iron products         | 3%
| Processed oil         | 3%
| Processed meat        | 2%
| Poultry               | 2%
| Livestock             | 1%
| Others                | 49%

MAIN PRODUCTS FROM LAOS TO THAILAND BY LAND
(2012 IMPORT VALUE BREAKDOWN)

| Product              | %
|----------------------|---
| Copper products      | 70%
| Processed wood       | 7%
| Vegetable & products | 4%
| Grains               | 3%
| Agro-products        | 1%
| Fruit & products     | 1%
| Insulated cable wires| 1%
| Industrial machinery | 1%
| Other wood products  | 0%
| Buses & trucks       | 11%
| Others               | 11%
THAILAND — CAMBODIA BORDER TRADE AND LOGISTIC OPPORTUNITY
For 2011/2012, import from Cambodia has increased by a huge 46 percent and reached 7,168 million baht (250 million USD); while export to Cambodia has also risen by a significant 27 percent to 74,922 million baht (2,613 million USD).

In general, export value from Thailand to Cambodia is much higher than import from Cambodia to Thailand, since the export is driven high in value by products such as machinery and auto-parts, especially at Aranya Prathet and Khlong Yai checkpoints; While, imports are mainly composed of low-value products such as vegetable.

The growth on these two countries’ border trade value is projected to average at least a growth rate of 30 percent over the following years, driven by AEC’s regionalization and economic movements.

The recent GMS Cross-Border Transportation Agreement (CBTA) between Thailand and Cambodia on the exchange of traffic rights allows 30 tucks yearly from each country to perform the cross-border transportation, at Aranya Prathet-Poipet border-crossing point.

Cross border trade was the highest in value at Aranya Prathet checkpoint of Sa Kaeo province and the 2nd highest at Khlong Yai checkpoint of Trad province.

Thailand-Cambodia trade value at Ubon Ratchathani province is relatively low since there is only one checkpoint at Chong Aanma, where the road infrastructure is not in good condition. Hence, freight transportation via this border checkpoint is quite inconvenient and only a small amount of consumer products for local use is traded here.
The major export products from Thailand to Cambodia are sugar, machinery, motorcycles and vehicle tires, while the major import products from Cambodia to Thailand are vegetable products, scraped iron, aluminium.

### MAIN PRODUCTS FROM THAILAND TO CAMBODIA BY LAND
(2012 EXPORT VALUE BREAKDOWN)

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal combustion piston engines</td>
<td>5%</td>
</tr>
<tr>
<td>Sugar</td>
<td>5%</td>
</tr>
<tr>
<td>Motorcycles &amp; parts</td>
<td>4%</td>
</tr>
<tr>
<td>Vehicle tires</td>
<td>4%</td>
</tr>
<tr>
<td>Non-alcohol beverage</td>
<td>4%</td>
</tr>
<tr>
<td>Machinery &amp; parts</td>
<td>3%</td>
</tr>
<tr>
<td>Auto &amp; parts</td>
<td>3%</td>
</tr>
<tr>
<td>Other vehicle parts</td>
<td>3%</td>
</tr>
<tr>
<td>Alcohol beverage</td>
<td>3%</td>
</tr>
<tr>
<td>Cloth &amp; thread</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>63%</td>
</tr>
</tbody>
</table>

~ 60% of cross-border trade from Thailand to Cambodia takes place via Aranya Prathet

Source: The Department of Foreign Trade, Ministry of Commerce Thailand

### MAIN PRODUCTS FROM CAMBODIA TO THAILAND BY LAND
(2012 IMPORT VALUE BREAKDOWN)

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetable &amp; products</td>
<td>39%</td>
</tr>
<tr>
<td>Iron</td>
<td>11%</td>
</tr>
<tr>
<td>Aluminium &amp; products</td>
<td>7%</td>
</tr>
<tr>
<td>Copper products</td>
<td>6%</td>
</tr>
<tr>
<td>Insulated cable wires</td>
<td>4%</td>
</tr>
<tr>
<td>Elec. motors &amp; generators</td>
<td>4%</td>
</tr>
<tr>
<td>Printed circuit</td>
<td>3%</td>
</tr>
<tr>
<td>Signal transmitters, receivers &amp; installers</td>
<td>3%</td>
</tr>
<tr>
<td>Paper products</td>
<td>3%</td>
</tr>
<tr>
<td>Clothes</td>
<td>18%</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
</tbody>
</table>

~ 44% of cross-border trade from Cambodia to Thailand takes place via Aranya Prathet
CASE STUDY I
DAWEI – LAEM CHABANG LINKAGE: CONNECTIVITY & LOGISTIC ADVANTAGE
DAWEI-LAEM CHABANG LINKAGE PROJECT:
NEW MYANMAR-THAILAND ROAD NETWORK

- The road network is a part of the Dawei Deep-Sea Port Development project cooperated between Myanmar and Thailand
- The road network contains two parts
  1. **Myanmar part**: the government of Myanmar completed the route between Dawei to Thai-Myanmar border in 2012
  2. **Thailand part**: Thai government aims to complete all 3 phases by 2020

**Routes**

1. Dawei Deep-Sea Port and Industrial Estate – Thai-Myanmar’s border
2. Thai-Myanmar’s border – Kanchanaburi – Western Ring – Southern Ring – Laem Chabang

**Main Cities**

1. Dawei Deep Seaport
2. Phu Nam Ron Checkpoint
3. Kanchanaburi Interchange
4. Nakorn Pathom
5. Bangkok
6. Laem Chabang

“The Development of Dawei Deep-Sea port, industrial estate, and the road link would help support Thailand’s plan to become a logistic hub in this region, with Kanchanaburi province as the core.”

- Deputy Prime Minister and Finance Minister of Thailand
DAWEI- LAEM CHABANG LINKAGE PROJECT: INVESTMENT

**Developer**
Dawei Development Co., Ltd. registered by Italian Thai Development PCL (ITD)

**Agreement**
G-to-G MOU between ITD and Myanmar Port Authority

**Investment cost**
USD 10.74 million (THB 325 million)

**Duration**
Phase 1: 2011 – 2015
Phase 2: 2014 – 2018
Phase 3: 2016 – 2020

**Roads**
325 km, 4 lanes in Myanmar, 4-to-6 lanes in Thailand

**Railways**
259 km, Double-track

**Other utilities**
Oil and gas pipelines, Transmission lines

“Total project investment is estimated at THB 325 billion, in which THB 249 billion (~77&%) will be spent in Myanmar.”

- Deputy Secretary of Thailand National Economic and Social Development Board
DAWEI-LAEM CHABANG LINKAGE PROJECT: LOGISTIC ADVANTAGES

Effective link for ASEAN connectivity
• The linkage would power up investment opportunities along GMS Southern Economic Corridor, and also boost a strong relationship among ASEAN members.

New short cut route of the region
• The linkage will shorten sea freight and voyage distance for countries in ASEAN.
• For example, distance from Vietnam to India is reduced from 4,200 km to 3,500 km on average (~17% decrease).

Distribution and production center
• Since Dawei is connected to ASEAN highway system, ASEAN member countries could use the port as a potential trading hub distributing goods and products from and to the Indian Ocean, the Middle East Europe and Africa.
• In particular, Thailand would attract foreign investors to establish factory, warehouse, or distribution center because its location is geographically at the center of GMS, which significantly can cut transportation costs.

‘Although Dawei Port Project has not yet clarified on its financing, cargo port capacity and shipment units, future opening of this port will for sure create a lot of road movements, while saving some considerable amount of transportation cost compared to before…”

- VP, Transport and Distribution, APAC, SSEA, Leading Global Logistics provider
  DHL Supply Chain

Planned deep sea port and giant industrial estate
CASE STUDY II
WILL ROAD TRANSPORT REMAIN THE PREFERRED MODE OF TRANSPORT BETWEEN THAILAND AND SEA COUNTRIES?

“No matter how oil prices increases in the near future, road transportation will remain the dominant mode of transport, for both domestic and cross-border transit transport. Even if we speak conservatively, the proportion of transport done by land will remain at least above 80%.

Rail infrastructure in current Thailand is no where to compare with road infrastructures.”

- Professor, Department of Logistic & Transport
Thammasat University
THAILAND CROSS-BORDER TRANSPORTATION MODES

Road has been the major transportation mode for the past years, not only for domestic transportation but also for cross-border transportation.

It is expected that this trend will continue in the next years due to continuing investments on roads. As a results, demands for trucks and other commercial vehicles will continue to grow.

More and more logistic companies opt for road transportation for south China – Thailand route, and Thailand – Malaysia route, instead of transportation by sea or by air.

For instance, on the Nanning-Singapore (via Thailand, Malaysia) road, more electronics products are transported nowadays by land rather than by air, which though takes 3 days more to transit but saves a considerable 30% of transportation cost.
COMPARISON OF ASEAN LAND & RAIL TRANSPORTATION PLAN: WHICH ONE WILL HAVE A STRONGER IMPACT ON THAILAND?

ASEAN Strategic Transport Plan (2011-2015) is a subsidiary plan of the "Master plan of ASEAN Connectivity". It details ASEAN transport cooperation designed by ASEAN Economic Community (AEC) in order to strengthen intra-ASEAN transport networks and serve as vital links to international routes.

ASEAN Highway and Cross-border linkages
Thailand road will achieve:
- Class I standards ie. 3.5 meter width with Asphalt/ Cement concrete
- Longest road length: 4,477 Km
- Highest Cross-border links: 13 routes
Construction required: Nationwide

ASEAN Railway Plan

Singapore-Kunming Railway Link (SKRL)
Thailand railway will achieve:
- Total Cross-border links: 5 links
Construction planned: only 153 Km line with Myanmar
Thailand’s Own Strategic Transport Plan: Road Development vs. Rail Development

To support economic growth with neighboring countries, road will still be the key single transportation mode for cross-border trade:

1. North-South Economic Corridor
2. East-West Economic Corridor
3. Northeastern Economic Corridor
4. Central Economic Corridor
5. Southern Coastal Corridor

To improve Railway systems i.e. Dual Track Railway and construct the missing link with Myanmar.

Thailand Strategic Transport Plan (2011-2020) is a transport plan developed by the Thailand Ministry of Transportation. A key goal for cross-border transport is to set Thailand as hub of trans-regional connectivity.

Thailand will benefit from development plans of both ASEAN community with the objective of strengthening the road network in the region, and the Thai Transport plan to boost road network within the country.
“The cross-border transportation market can be either a pocket market with low margin or a premium market. That depends on what products you transport, where you transport to and how you manage your business.”

- 1st tier Multinational Logistic Company
CROSS-BORDER TRANSPORTATION OPPORTUNITIES: PRIORITY COUNTRIES & COMPETITIVE LANDSCAPE

Although Malaysia is the biggest market for cross-border, it is the slowest growing one as well. Laos, Myanmar and Cambodia, therefore have more potential as the ASEAN Economic Community (AEC) is approaching in the near future.

**LAOS**
- Long distance travel, largest number of trips per day, and largest number of logistics operators (fleet owners)

**CAMBODIA**
- As the door to Vietnam with the shortest routes from Thailand to Ho Chi Minh city

**MYANMAR**
- High opportunity for petroleum products and palm oil end-users

<table>
<thead>
<tr>
<th>Country</th>
<th>Level of Competition</th>
<th>Yearly Quota</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lao PDR</td>
<td></td>
<td>400 trucks</td>
<td>Cross-border transport between the two countries is highly competitive among domestic players (732 licensed truck operators in 2010).</td>
</tr>
<tr>
<td>Myanmar</td>
<td></td>
<td>-</td>
<td>Truck transportation is only liberal at border provinces.</td>
</tr>
<tr>
<td>Cambodia</td>
<td></td>
<td>30 trucks</td>
<td>Few truck players are permitted and take the share of the 40 trucks daily quota.</td>
</tr>
</tbody>
</table>

Source: Thai Development Research Institute, GMS Cross-border Transport Agreement, Department of Land Transport
“The cross-border transportation market can be either a pocket market with low margin or a premium market. That depends on what products you transport, where you transport to and how you manage your business.”

- 1st tier Multinational Logistic Company

**CROSS-BORDER TRANSPORTATION OPPORTUNITIES: PRODUCT TYPE & TRUCK USAGE**

High value of cross border trade between Thailand and its neighbors shows real potential for long haul truck usage.

<table>
<thead>
<tr>
<th>Main Cross Border Products</th>
<th>Malaysia</th>
<th>Myanmar</th>
<th>Laos</th>
<th>Cambodia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export</strong></td>
<td>Rubber</td>
<td>Diesel</td>
<td>Diesel and Gasoline</td>
<td>Sugar</td>
</tr>
<tr>
<td></td>
<td>Computer</td>
<td>Car parts</td>
<td>Car parts</td>
<td>Machinery</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beverage</td>
<td></td>
<td>Tire Rubber</td>
</tr>
<tr>
<td><strong>Import</strong></td>
<td>Computer parts</td>
<td>Natural gas</td>
<td>Copper</td>
<td>Vegetables</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fishery</td>
<td>Wood</td>
<td>Iron</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Vegetable</td>
<td>Aluminum</td>
</tr>
</tbody>
</table>

Palm oil and petroleum products are the main cross-border products between Thailand and Myanmar. Both require long-haul movement.

Fuel oil and copper, are the main export/import products between Thailand and Laos. Transportation of these products require long haulage using powerful HCV trucks. Logistics companies operating on this route would be an interesting target for HCV OEMs.
THAILAND - LAOS
CROSS-BORDER: TRUCK OPERATORS & LOGISTIC COMPANIES

A total of 732 truck operators in Thailand were active on the Thai-Laos route in 2011 and 80% of the Thai-Laos cross border transportation was handled by logistics companies in 2011.

- **High growth of cross-border operators**: The increasing number of truck operators (CAGR 35%) compared to the growth of cross-border trade value (CAGR 16.5%) shows an increasing competition in cross-border business in the past 5 years.
- **North-east concentrate the largest number of truck operators**: the number of truck operators in the North-east remains the largest growing at CAGR 50%.
- **Expansion of local cross-border business**: low growth of the number of operators based in Bangkok shows that new truck operators on the Thailand-Laos route are mainly located in other regions.

### NUMBER OF TRUCK OPERATORS 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Operators 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>48</td>
</tr>
<tr>
<td>West</td>
<td>39</td>
</tr>
<tr>
<td>Central</td>
<td>112</td>
</tr>
<tr>
<td>Bangkok</td>
<td>213</td>
</tr>
<tr>
<td>East</td>
<td>57</td>
</tr>
<tr>
<td>North East</td>
<td>259</td>
</tr>
<tr>
<td>South</td>
<td>4</td>
</tr>
</tbody>
</table>

### TOTAL NUMBER OF TRUCK OPERATORS 2011

- **732***

*Total aggregated no. of licensed truck operators

### Cross-border trucks owned by manufacturers and outsourced to logistic companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-border trucks owned by manufacturers</th>
<th>Cross-border trucks outsourced to logistic companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11.3%</td>
<td>88.7%</td>
</tr>
<tr>
<td>2008</td>
<td>9.6%</td>
<td>90.4%</td>
</tr>
<tr>
<td>2009</td>
<td>21.6%</td>
<td>78.4%</td>
</tr>
<tr>
<td>2010</td>
<td>20.8%</td>
<td>79.2%</td>
</tr>
<tr>
<td>2011</td>
<td>19.8%</td>
<td>80.2%</td>
</tr>
</tbody>
</table>

*Source: Department of Land Transport, Solidiance estimates
CONSEQUENCE OF AEC IMPLEMENTATION ON COMMERCIAL VEHICLES

NEW REGISTERED HCV TRUCKS* IN THAILAND

- HCV type trucks refer to those with kerb weight over 7 tons.

The world financial crisis in 2008 - 2009 caused a sharp decline in the number of new registered trucks (~20% drop), later since 2010 the number bounced back.

DRIVERS

- After AEC implementation, Thailand will strengthen its position as a key transportation hub for GMS
- Higher cross-border import and export values year on year with an average CAGR of approximately 17%

TRENDS

- A demand for long-haul, heavier cargo-carrying vehicles will be continuously increasing
- Tougher competition between Japanese, Western and Chinese truck makers to lower operating costs and increase dealership networks on major routes

> will benefit transportation companies
LOGISTIC COMPANIES IN THAILAND: OVERVIEW OF MULTINATIONAL LOGISTICS FIRMS
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Market position</th>
<th>Specialization</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 1 DHL</td>
<td>Automotive, hi-tech, health science, industrial, SPL, consumer, retail</td>
<td></td>
</tr>
<tr>
<td>No. 2 LINFOX</td>
<td>Retail, consumer, industrial</td>
<td></td>
</tr>
<tr>
<td>No. 3 SCHENKER</td>
<td>Project logistic (oil, heavy industry, construction materials)</td>
<td></td>
</tr>
<tr>
<td>No. 4 ETERNITY</td>
<td>Consumer retail products</td>
<td></td>
</tr>
</tbody>
</table>

Other logistic companies which have their own truck fleet, managing both a strong domestic and cross-border transportation network include:

- **TNT Logistic**: specialized in premium express delivery for hi-tech customer base, and active in Thailand – Singapore, Thailand – South China land route.
- **CEVA Logistic**: specialized in automotive, technology and consumer retail sectors
- **Others**: Yusen Logistic, Kerry Logistic, Nippon Express

In order to survive in the market, their strategies may be aligned to:
- Be the outsourced business units of a global logistic company
- Consolidate among themselves to form a larger network
- Or be driven out of market or acquired due to fiercer competition after AEC

**WHAT WILL HAPPEN TO THE NUMEROUS SMALL FLEET LOCAL LOGISTICS FIRMS (<50 TRUCKS) IN THAILAND, WITH THE COMING OF AEC?**
LOGISTIC COMPANIES IN THAILAND: TRENDS

A growing trend in the logistics sector is the number of industrial companies outsourcing their transportation and fleet to 3PL:

- **Multinational logistics companies** are outsourcing their fleet to large local logistics companies such as Mon Transport, Bangplee Yai Transport, etc which have much larger fleets (>800 trucks)
- **Petrochemical companies** such as PTT also outsource their fleet (100%) to specialized logistics firms like SC Group
- **Mining industry** is also increasingly outsourcing its transportation to specialized logistics firms such Chang Pinit Engineering
- **Construction material manufacturers** outsource the vast majority of their truck transportation to 3PL, only few contractors own trucks. Small to medium sized logistic companies dominate this market, while foreign big players focus only on container-size material transportation.
- **Automotive & electronic assembly industry** has tendency of outsourcing 100% to 3PL. Even tier 1 OEM car companies like Toyota use 3PL to transport their vehicles. The market is controlled mainly by premium or global logistic companies.
- **Large foreign retailers** such as Lotus use services from global logistic companies, though those global logistic players usually outsource to large local logistic companies (large fleet owner) to transport the products.
- **F&B sector**: The producers of frozen food usually have their own truck fleet because of the complexity of truck type (temperature controlled) and high risk linked with perishable products. Traders who collect agriculture products from farmers also own the trucks. However, large factories of other food types (dry, packaged) use mostly 3PL.
- Large companies outsourcing their fleet usually work with multiple providers to diversify the risks

FACTORS INFLUENCING OUTSOURCE DECISION

1. Limit capital investment required to buy trucks
2. Mitigate risk of owning own fleet with potential losses during idle time
3. Focus on core competencies, lower logistics cost such as maintenance, operating cost
4. Better driver management
In terms of business operations, local logistic companies need to improve efficiency, for example:

- Keep full truck load services for both headhaul and backhaul, in order to reduce transportation cost
- Enhance efficiency of the supply chain management, for instance, by adopting the ‘Just in Time (JIT)’ technique, to reduce the inventory carrying cost

Source: Ministry of Transport, Board of Investment, SCB EIC
HCV TRUCK INDUSTRY IN THAILAND: DRIVERS, CHALLENGES AND KEY TRENDS
DRIVERS

- Increasing share of cross-border transport by land
- Outsourcing of logistic operations likely to peak in the next 3-4 years (already at 75-85%)
- Increasing usage of HCVs in logistic operations, despite distance traveled not necessarily being long-haul
- Heavy industries (e.g. petrochem, construction, mining, etc.) outsourcing logistics operations
- Increasing transportation cost pushing operators to rationalize operating costs → move to higher loading capacity trucks selectively

Current share of HCVs usage to all trucks in logistic operations is at 60% and is forecasted to be raised to two thirds by 2016.

CHALLENGES

- Increasing competitive intensity among OEMs
  - Sinotruk’s successful market entry; other Chinese makers will also step in (Shacman, DongFeng)
  - Growth plans of European OEMs
- Continued high market fragmentation, which implies a slow adoption to improved technology, heavy duty trucks

HCV THAILAND MARKET TRENDS IN LONG TERM

- Maturing of local logistics companies in terms of product & services needs
- Growth of cross border transportation between Thailand & its neighbors, as a result of AEC integration
- Longer distance and up-time traveled per trip, which implies the increase in needs in long-haul transportation
THAILAND is geographically advantageous, with potential for being the transport hub of the region. Thailand has connecting borders with Myanmar, Laos, Cambodia, and Malaysia, with numerous highway networks to Vietnam, Singapore, China, and India. As a result, land transport in the region mostly has to go through Thailand. At present, there are 12 ASEAN highway networks crossing Thailand, with the total distance of 6,693 kilometres approximately.

There are also major transport development projects along the Greater Mekong Sub-region, i.e., East-West Economic Corridor-connecting Vietnam, Laos, Thailand, and Myanmar; North-South Economic corridor-connecting Thailand, Myanmar/Laos, and China; and Southern Economic Corridor-connecting Thailand, Cambodia, and Vietnam. The Southern Economic Corridor has a connecting route further to Dawei Deep Sea Port in Myanmar that will be able to distribute products to the Middle East and Europe when complete.

The AEC will increase the demand for logistics services in Thailand since goods and services will be more freely transferred, especially for border trade and transit trade, which are expected to expand substantially.

Under the AEC, the restrictions on labor, raw material, market, and regulation will be reduced considerably or totally eliminated. The reduction in tariffs has so far increased border trade and transit trade, expanding by 6% and 6%, respectively, during 2008-11.

Expansion of production base and overall investment into other ASEAN countries is likely to increase in order to maintain advantage in terms of cost, raw material, and labor. Business operators which rely heavily on labor, such as clothing and shoes manufacturers are expected to set up new factories in countries with cheaper labor cost, such as Myanmar, Laos, and Cambodia.

When the AEC comes into force in the next 3 years, the transfer of raw materials, goods, and labor will increase significantly, which will give rise to the demand for logistics services in order to manage goods and services throughout the supply chain.
CONCLUSION

Owing to Thailand’s centralized geographic position, AEC is undoubtedly changing the competitive landscape of the transportation, logistic and trade industries in Thailand. A strong growth momentum is particularly expected on all trades via Thailand linking with CLMV countries.

Road transportation plays a vital part in Thailand transportation, and its dominance against all other modes of transport will not be diminished. Though there is a challenge to increase the regional road connectivity in certain CLMV countries, an increasing number of companies opt for land transportation rather than sea or air, as it is viewed as a balanced choice of cost and time.

The transportation market in Thailand remains highly fragmented but all logistics firms are trying to leverage on transportation market growth, each according to their capabilities and competencies.

Trends such as increasing needs of outsourcing logistics services to 3PL to maximize cost efficiency, increasing usage of HCV truck and long-haul transportation, are already starting to happen. It is of vital importance to companies in the transportation industry to understand not only Thailand’s market dynamics but also the trends of ASEAN region as a whole, as transportation business in the Kingdom cannot be seen only through the prism of domestic borders but at the regional scale.

All the elements in this paper point out how Thailand, the center of attention with the new chapter of AEC, can make it a reality to become the logistic and transportation hub for the region.
ABOUT US

WHAT WE DO
We help multinational clients understand the Asian market landscape by profiling industries and competition, sizing the markets, segmenting customers, analyzing distribution channels, determining the best locations, preparing investment feasibility studies, identifying suppliers, reviewing potential joint ventures or acquisitions, and delivering market entry and growth strategy in Asia.

WHAT WE ARE FOCUSING ON
Our expertise in the automotive and transportation industries is based on dozens of projects in commercial vehicles, automotive (OEM & parts) and logistics we have executed across Asia-Pacific. Our Asian market entry and growth strategy services provide the required insights and the necessary roadmap to capture a profitable market share in the region.

ADDITIONAL DETAILS
Solidiance has offices in China, India, Indonesia, Malaysia, Myanmar, Singapore, Thailand, and Vietnam. We are fast expanding and always on the lookout for exceptional people.
Solidiance is a dedicated B2B marketing and growth strategy and consultancy firm focused on the Asia Pacific Region.
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