

Factors Affecting Inland Cross-Border Trade between Thailand and Malaysia

Bhuk Kiranantawat

College of Logistics and Supply Chain, Suan Sunandha Rajabhat University, Thailand
Email: bhuk.ki@ssru.ac.th

Martusorn Khaengkhan

College of Logistics and Supply Chain, Suan Sunandha Rajabhat University, Thailand
Corresponding author: Email: martusorn.kh@ssru.ac.th

Noor Zahirah Mohd Sidek

Universiti Teknologi MARA, Malaysia
Corresponding author: Email: nzahirah@kedah.uitm.edu.my

Chattrarat Hotrawaisaya

College of Logistics and Supply Chain, Suan Sunandha Rajabhat University, Thailand
Corresponding author: Email: chattrarat.ho@ssru.ac.th

Suwat Nualkaw

College of Logistics and Supply Chain, Suan Sunandha Rajabhat University, Thailand
Corresponding author: E-mail: suwat.nu@ssru.ac.th

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Abstract:

The research was conducted to explore the factors that affect inland cross-border trade between Thailand and Malaysia. Various factors focusing on politics, economic, social, technology & logistics were investigated. Purposive sampling was employed and 55 participants were selected from 4 major Thailand-Malaysia entry points to answer the questionnaire. 5-point Likert scale rating was utilized to evaluate the factors. Data was analyzed using quantitative methods. 4 main factors were assessed which were politics & regulations, technology & logistics, economics, and social trend. It was found that politics & regulations, and technology & logistics have high impact on affect inland cross-border trade between Thailand and Malaysia.

Keywords: *Inland cross border trade, Thailand, Malaysia*

Introduction

With rapid globalization and forming of ASEAN (Association of South East Asia Nations), it stimulates international trade and drives growth in world's economy, especially in South East Asia region

(Jernsittiparsert, Saengchai, Boonrattanakittibhumi, & Chankoson, 2019; Chetthamrongchai, Jernsittiparsert, & Saengchai, 2020). This is due to the region's vast resources in human & raw material, potential for investment and economic growth and consolidated

bargaining power as a region to become a strong player in global trade. ASEAN consists of 10 member countries with more than 500 million people. ASEAN countries manufacture more than 3 % of the world's products and contribute 6.7 % of the world's trade. This gives rise to ASEAN's standing and significance in global trade, coupled with its dynamic economic development. As a result, it creates increasing bilateral trade and agreement with other regions and big global trade players. ASEAN signed FTA framework with China in 2002 and EU has been negotiating preferential agreements at the level of FTA with Singapore, Malaysia, Thailand and Viet Nam since 2013 (Vahalik, 2014). In addition, China's initiative of 'One Belt One Road' (OBOR) allows China and ASEAN to cooperate to improve land transport connectivity which will result in increased trade among China and ASEAN countries (Foo et al., 2019). The sustained positive growth of the world economy is accompanied by accelerated growth in global trade where countries tend to have higher rates of growth in trade as a share of national output. A host of studies have shown how trade liberalization policies have promoted firm-level productivity and economic growth (Frankel & Romer, 1999; Alcala & Cicone, 2004). Since the forming of ASEAN, Thailand's border trade with its neighbouring countries has highly contributed its economic growth and competitiveness (The Government Public Relations Department, 2017). According to The Twelve National Economic and Social Development Plan (2017 - 2021) of Thailand (ONESC, 2016), trade promotion and ASEAN connectivity is one of the major goals that needs to be achieved to stimulate economic growth. Thailand shares its border with Myanmar, Laos, Cambodia and Malaysia. In 2018, Thailand's border trade with the four countries was worth approximately USD 45 million with Malaysia being the biggest trade partner with border trade value worth roughly USD 16.2 million. This accounts for 36 % of total cross-

border trade value in 2018 (Department of Foreign Trade, 2020). Malaysia has been one of the most important trading partners and export markets for Thailand. Malaysia is the 6th largest export market of Thailand with 4.6 % of export value (Ministry of Commerce of Thailand, 2020). From January to June 2019, the total cross-border trade value between Thailand and Malaysia was approximately USD 9.05 billion (Department of Foreign Trade of Thailand, 2020). Inland cross-border trade flow through the northern Malaysia-Thailand border is estimated to be over 20 percent of the total Malaysia-Thailand trade. With growing trade over time, both Malaysia and Thailand have ensured continuous improvements in implementable policies especially on logistics, customs and immigration. Both Thailand and Malaysia have worked cooperatively to drive economic development and create border connectivity. In 2018, General Prayut Chan-ocha, Thailand's Prime Minister, proposed that both countries intensified their economic cooperation by becoming "Strategic Economic Partners".

This research was conducted to collect crucial data to comprehend what major factors help facilitate and promote inland cross-border trade between Thailand and Malaysia. This research aimed to explore primary factors which impact inland cross-border trade between Thailand and Malaysia. After the major factors were identified, they were assessed and given a statistical score to show which factor plays a large role in inland cross-border trade between Thailand and Malaysia. A conceptual framework was created according to relevant theories regarding inland cross-border trade. Statistical data was analyzed and results were used to propose appropriate guidelines to promote and improve inland cross-border trade between Thailand and Malaysia.

Literature Review

From relevant research and academic articles, various factors that drive cross-border trade are largely linked to macroeconomic factors. PESTLE framework is used and applied in this research to help identify the factors. PESTLE is largely used in international business to provide an overall picture of a business or an industry. PESTLE is an acronym of Political, Economic, Social, Technological, Legal and Environmental. Political factors involve government intervention in the economy such as trade policies and taxation. Economic factors relate to an economy's performance such as inflation and disposable income. Social factors are associated with culture and demographics which can be buying behavior and goods preference. Technological factors pertain to technological innovations which can affect a certain industry. Legal factors link to laws and regulations which can impact a specific industry. Environmental factors include issues that can affect the environment (The University of Sydney, 2020).

Political and economic factors can influence cross-border trade. Sharma and Pal (2018) claimed that exchange rate volatility significantly affects India's trade with its trading counterparts. This shows economic factors such as exchange rate can impact cross-border trade. Political factors can also affect cross-border trade. According to the research of Krainara and Routray (2015), factors that drive cross-border trade between Thailand, Malaysia and neighboring countries are regional infrastructure linkage, bilateral and regional trade agreement and regional trade facilitation initiatives. Thailand signed bilateral trade agreement with Malaysia in 2000 in order to foster good economic relations and promote trade. Furthermore, ASEAN Free Trade Area (AFTA) has effectively reduced tariff between Thailand and Malaysia to 0 % since 2000. Thus, trade facilitation initiatives have allowed Thailand to transport perishable goods between Thailand, Singapore and

Malaysia since 1979, driving trade in agricultural products between Thailand and Malaysia. This results in total export of cross-border trade between Thailand and Malaysia increasing tremendously (30% from 2008 to 2012). Moreover, Dhammasajjaka and Chaisri (2015) stated that major factors that influence inland cross-border trade behavior between Thailand and Malaysia in Songkla are transportation, city zoning, organization of trade area in the border entry point, implementing bilateral policies affecting inland cross-border trade and forming an economic zone in the border area in Songkla which is the border entry point with largest trade value. Furthermore, bilateral cooperation also plays an important role in encouraging cross-border trade. Pibulsil (2016) mentioned that in order to develop a good relationship between Thailand and Malaysia which will help bilateral trade, trust must be created between the two parties and open discussion and information sharing need to be encouraged. Competent personnel and sufficient funds must also be allocated to be used in activities promoting trade collaboration between the two countries.

Apart from political and economic factors, technology and logistics are also critical in driving cross-border trade. Elms and Low (2013) suggested that improvement in cross-border operations by 10 percent could lead to increase in GDP of the Asia Pacific Economic Cooperation (APEC) by at least USD 21 billion annually. A more recent study by Elliot and Bonsignori (2019) suggest moving half-way towards best practices could increase trade by 2.2 percent. Moreover, harmonized custom clearance system could be a main factor in improving inland cross-border trade. Wilson (2009) found that a 10 percent reduction in the number of signatories and supporting documents required for border processes induced increases in imports by approximately 10 per cent whilst a 10 percent reduction in the number of hours goods are held for clearance purposes lead to an

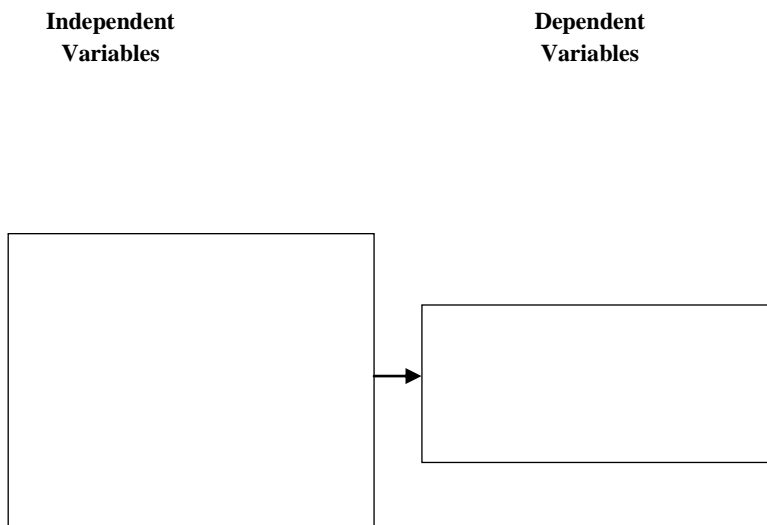
increase in imports by at least 6 percent. In addition, the study of Wilson (2016) on cross-border trade showed that information friction has large impact on reducing cross-border trade. This implies that that information technology should be incorporated in cross-border trade which can facilitate cross-border trade. In addition, Li (2020) suggested that transportation distance, transportation expenses and infrastructure quality are factors that help improve cross-border logistics which will in turn promote international trade.

In terms of social factors, Malaysian's preference of Thai products is high; especially consumer products such as food, drinks and household's products as they are halal certified and have clear label specifying ingredients and source of product. Moreover, Thai clothes are largely preferred by the Malaysian due to

intricacy, variety, modern design, and durability (Chasuk & Tavonprasith, 2015). In terms of legal factors, according to Uttama (2014), economic and investment promotion policies can help open up border and increase cross-border economic activities which will stimulate cross-border trade. In addition, Sun and Li (2018) claimed that implementation of China-ASEAN Free Trade Area and having common border with Thailand pushes growth in agricultural product trade and boost trade margin in agricultural exports. It can be implied that having legal trade framework can improve cross-border trade.

From the theory of PESTLE and the literature review, factors were selected and the factors were Politics and Regulations, Technology and Logistics, Economics and Social Trend.

Figure 1. Conceptual Framework



Population & Sample, Data Collection and Data Analysis

Population used in the research was border officers and small business owners working in 8 Thailand-Malaysia entry points which are Sadao, Padang Besar,

Ban Prakob, Su-ngai Kolok, Tak Bai, Buketa, Betong and Wang Prachan. Purposive sampling was performed in 4 entry points (Sadao, Su-ngai Kolok, Betong and Wang Prachan) which have high trade value. The sample was 55 people. 58 % of the sample

was male with undergrad degree. 36 % aged below 30 and 29 % has monthly income of baht 25,001- 40,000. The research instrument used was questionnaire. A 5-point Likert scale rating was utilized to assess the factors (Likert, 1967). Statistical analysis was

conducted, and statistical methods used in the analysis were percentage, mean and standard deviation.

Research Results

Analysis of Factors Affecting Cross-Border Trade between Thailand and Malaysia

Table 2. Statistical Analysis of Factors Affecting Cross-Border Trade between Thailand and Malaysia

Factor	Mean	SD	Significance
1. Politics & Regulations			
Bilateral Policies	4.39	0.81	High
Bilateral Cooperation	3.48	0.94	Moderate
Taxation	3.66	0.90	High
Total	3.99	0.54	High
2. Technology & Logistics			
Transportation	3.81	0.56	High
Custom clearance system	3.60	0.53	High
Logistics Infrastructure	3.85	0.54	High
Total	3.75	0.35	High
3. Economics			
Exchange Rate	3.45	0.83	Moderate
4. Social Trend			
Consumer's Preference	3.21	0.91	Moderate

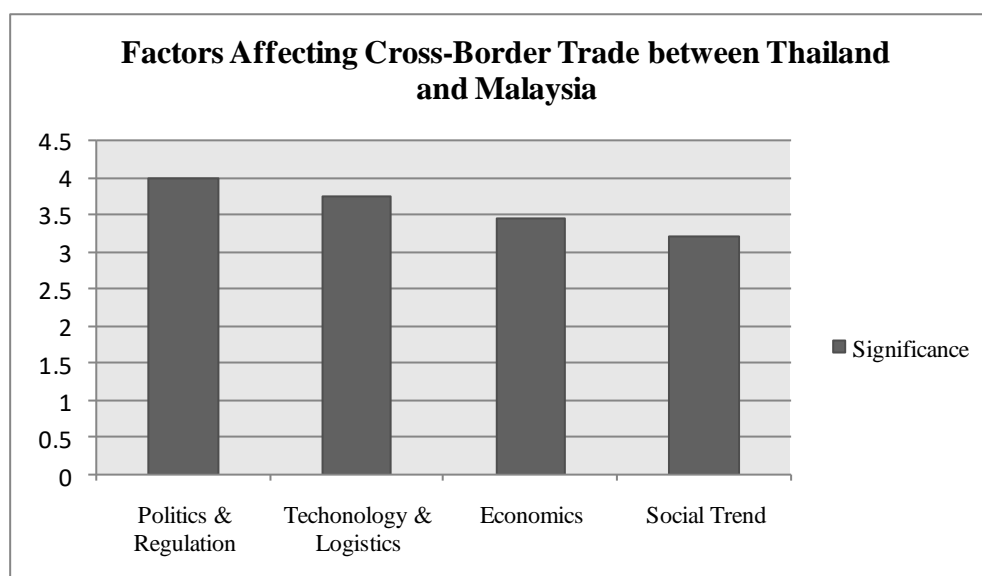
From the table above, the main factor of politics & regulations consists of the sub-factors which are

bilateral policies; bilateral cooperation and taxation have the mean of 4.39, 3.48 and 3.66 with the standard

deviation of 0.81, 0.94 and 0.90, respectively. The main factor of technology & logistics includes the sub-factors which are transportation; custom system and logistics infrastructure have the mean of 3.81, 3.60 and 3.85 with the standard deviation of 0.56, 0.53 and 0.54, respectively. The main factor of economics with the sub-factor which is exchange rate has the

mean of 3.45 and the standard deviate of 0.83. The main factor of social trends includes the sub-factor which is consumer's preference has the mean of 3.21 and the standard deviation of 0.91. The graph below illustrates the result and the difference of each factor.

Discussion and Conclusion



The result shows that the factors which affect cross-border trade between Thailand and Malaysia most are the following: 1. Bilateral policies which is trade policies aiming to encourage cross-border trade between Thailand and Malaysia.; 2. Transportation which is modes of transport allowing for efficient, fast and safe transport of goods for cross-border trade between Thailand and Malaysia; 3. Logistics infrastructure which is connectivity of road and facilities which support fast and efficient transport and delivery of goods for cross-border trade between Thailand and Malaysia. The factor which affects cross-border trade between Thailand and Malaysia the least is social trend which is consumer's preference.

From the results, it can be further gathered that politics and regulations play an important role in cross-border trade between Thailand and Malaysia, especially bilateral policies. To stimulate cross-border trade between Thailand and Malaysia, emphasis needs to be place on bilateral policies and cooperation between Thailand and Malaysia. Both governments need to foster a strong economic and trade tie and create policies that will mutually benefit both countries.

Technology and logistics is another key factor that affects cross-border trade between Thailand and Malaysia, especially transport and logistics infrastructure. As 70 % of trade between Thailand and Malaysia is done via road transport, it's essential that more roads and bridges are built to ensure connectivity between the two countries. According to

Lee and Shen (2020), having border connectivity and efficient logistics infrastructure help increase cross-border trade and decrease logistics friction. Moreover, technology is important in facilitating cross-border trade, mainly in custom clearance system. Due to different tariff and custom clearance systems in different countries, bottle necks and delays in cross-border trade can occur. According to Wakamatsu and Iwakami (2005), complexity in custom clearance procedures and different custom clearance systems and practices can cause adverse effect in production and trade of goods.

Proposed guidelines to facilitate inland cross-border trade between Thailand and Malaysia emphasize on improvement of technology & logistics and creating bilateral policies on border trade. Improvements on logistics infrastructure, especially in roads and bridges need to be implemented as it will help reduce transport costs and time which will promote cross-border trade. This is consistent with the study of Gani (2017) which shows that improvements in logistics infrastructure can drive trade. Moreover, harmonized custom clearance system needs to be created to reduce delays in cross-border trade which will stimulate cross-border trade. Research from Tyagi (2017) supports that harmonization of road transport regulations and customs procedure leads to economic success of North American Free Trade Association which can be applied to encourage trade in ASEAN. Furthermore, bilateral trade policies and legal regional trade framework must be created to further promote cross-border trade. Implementation of regional economic integration and national trade and border economic zone development policies can drive growth in border (Uttama, 2014).

From this research, the primary findings reveal that technology & logistics and politics and regulations are keys to develop cross-border trade and promote growth for neighboring countries. Therefore, more investment in technology and logistics infrastructure

must be made to improve the existing infrastructure and upgrade technology system. Moreover, bilateral and regional economic cooperation and integrated policies must be developed to ensure sustainable trade growth. As this research explored factors which affect cross-border trade between Thailand and Malaysia only, literature gaps on factors affecting regional cross-border trade in need to be filled. Also, technology & logistics impact cross-border trade, this factor should be delved into further to explore the extent of impact the factor has on cross-border trade. Moreover, as policies & regulations is the factor that affects cross-border between Thailand and Malaysia the most, further studies should be done to investigate the effects of bilateral policies on cross-border trade.

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