

Chapter I

INTRODUCTION

1.1 Background

International trade plays a crucial role in driving the global economy and shaping international relations in the era of globalisation. Countries do not merely exchange goods and services across borders—they also serve as channels for transferring knowledge and technology, allocating resources efficiently, expanding consumer choices, and generating shared prosperity at the global level (Krugman, Obstfeld, & Melitz, 2018; WTO, 2022).

Governments often design trade agreements to reflect and reinforce mutual trust, turning trade relations into indicators of diplomatic cooperation and economic alignment (Rodrik, 2011). These dynamics contribute significantly to economic development and the improvement of living standards worldwide (World Bank, 2023). The deepening economic partnership between Thailand and China exemplifies this trend, where increased bilateral trade, infrastructure investments, and regional integration through the ASEAN–China Free Trade Area (ACFTA) have strengthened the economic resilience of both countries (ADB, 2022; UNCTAD, 2023).

Trade liberalization policies, although often discussed in terms of their impact on producers and consumers, should be regarded as macroeconomic instruments that affect the overall trade environment. In the context of Thailand—

China economic relations, these policies have been implemented through institutional mechanisms such as ACFTA, which reduced tariffs and non-tariff barriers, and the Belt and Road Initiative (BRI), which enhanced infrastructure connectivity and reduced logistics costs. These frameworks have contributed to a continuous increase in bilateral trade flows, both in value and diversity, thereby deepening economic integration between the two countries (World Bank, 2023).

The rapid growth of trade following liberalization demonstrates the effectiveness of such policies in promoting bilateral economic integration rather than merely symbolizing cooperative intent (Breslin, 2013; WTO, 2022). This case illustrates that macroeconomic policy tools, when supported by concrete institutional agreements, can generate measurable outcomes in national trade performance and expand economic opportunities for households and businesses.

Moreover, international trade encompasses investment, which serves as a key indicator of mutual confidence and opportunities for shared economic growth. Thailand was among the first countries to initiate investment in China in 1979, following China's post-1978 economic reforms, and has maintained and expanded such investment despite macroeconomic shocks like the 1997 Asian financial crisis (ADB, 2022; Breslin, 2013).

This sustained engagement can be attributed to China's institutional stability, the existence of bilateral agreements protecting investors, and enduring comparative advantages such as competitive production costs, large market size, and infrastructure development (Krugman, Obstfeld, & Melitz, 2018; World Bank, 2023). Official Chinese data confirm that Thailand currently has thousands of

registered investment projects in China, with a combined value of several billion US dollars (UNCTAD, 2023).

Similarly, Chinese investment in Thailand has increased steadily, reflecting reciprocal capital flows that enhance production capacity, technology transfer, and employment opportunities in both countries. This bilateral investment pattern highlights the resilience of economic ties and the importance of trade liberalization frameworks—such as ACFTA and BRI—in sustaining investor confidence over the long term (ADB, 2022; WTO, 2022).

Historically, symbolic trade contacts between Thailand and China date back to the Sukhothai Kingdom and the Western Han Dynasty. However, modern economic integration is a product of post-20th-century reforms and institutional agreements, including the rules of the World Trade Organization (WTO) and regional free trade arrangements (Breslin, 2013; WTO, 2022). Distinguishing between historical periods prevents confusion between pre-modern exchanges and today's structured global trade system.

Beyond goods and investment, cooperation in the service sector—particularly tourism—has become a critical component of bilateral economic integration. Inbound tourism from China to Thailand functions as a non-tangible export, generating significant foreign exchange earnings and contributing positively to Thailand's current account balance (Krugman et al., 2018; World Bank, 2023). It also strengthens bilateral soft power by promoting cultural exchange and mutual understanding. For example, in 2015, approximately 7.9 million

Chinese tourists visited Thailand, demonstrating the economic significance of the sector and its role in deepening socio-economic linkages (ADB, 2022).

The pattern of tourism demand can be explained by consumer behavior and informational asymmetries. These factors interact with structural trade mechanisms such as cross-border e-commerce platforms, integrated logistics networks, and tariff concessions on travel-related services under ACFTA (UNCTAD, 2023; World Bank, 2023). This analytical perspective enhances the value of tourism statistics and situates tourism within the broader framework of international trade and economic diplomacy.

The overall trade relationship between Thailand and China has deep historical roots dating back to the Western Han Dynasty, with bilateral trade continuing from the Sukhothai Kingdom to the present. Under the leadership of President Xi Jinping, China has pursued free trade policies and reformed its trade system to enhance economic potential, which helped alleviate poverty accumulated over decades. During this period, Thailand remained one of the largest exporters to China, with 2020 export data showing approximately 37 billion USD in Thai exports to China, highlighting growing demand for Thai products in categories such as processed fruits, cosmetics, health products, food and beverages, fashion, and consumer goods (AJ-e-commerce, 2023). The selection of these products reflects consumer preferences, price, quality, and distribution access.

By 2023, China had become Thailand's largest export market, accounting for 18% of total Thai exports (UNCTAD, 2023). Merchandise exports continue to be a vital source of foreign exchange and GDP growth. Export performance is

influenced by factors such as the competitiveness of Thai entrepreneurs, supply chain efficiency, and sector-specific resource advantages.

Imports of capital goods and intermediate inputs from China—such as advanced machinery, electronics, and raw materials—are equally important, enhancing domestic production capacity, improving productivity, and enabling firms to upgrade products for export. This process strengthens Thailand's global market competitiveness by increasing value-added output and enabling participation in higher segments of global value chains (World Bank, 2023).

Thailand's strong position in agricultural exports to China, including tropical fruits, rice, and processed foods, represents a comparative advantage, further supported by macroeconomic enablers such as RCEP, ACFTA, and improvements in trade-related infrastructure and logistics (ADB, 2022; WTO, 2022).

Capitalizing on these advantages requires coordinated policies, agro-industrial innovation, and adaptation to evolving Chinese consumer preferences, such as demand for organic products, premium branding, and food safety. Proactive strategies in these areas will help sustain Thailand's export growth and reinforce the resilience of bilateral trade relations in a highly competitive global market.

Therefore, Thailand can leverage opportunities from international trade to support long-term structural economic transformation, upgrading its status from a developing to a developed country through technology transfer, expansion into

higher value-added exports, and industrial upgrading that enhances productivity and economic diversification (World Bank, 2023).

Understanding and managing international trade, particularly in dynamic bilateral relationships like Thailand–China, requires attention to both economic policies and broader trade frameworks. A comprehensive approach is essential to promote sustainable and inclusive economic growth (UNCTAD, 2023; ADB, 2022).

1.2 Research Questions

1. Which macroeconomic factors have a significant long-run impact on the Thailand–China trade value, particularly regarding Thailand’s GDP (GDPTH), China’s GDP (GDPCH), inflation rate (INFL), and exchange rate (EXR)?
2. How do changes in these macroeconomic variables affect the long-run trends of export and import trade value between Thailand and China?
3. What are the key opportunities and challenges for Thai entrepreneurs in leveraging trade privileges and understanding macroeconomic factors such as Thailand’s GDP (GDPTH), China’s GDP (GDPCH), inflation rate (INFL), and exchange rate (EXR) to sustainably expand the Thailand–China trade value in the long run?

1.3 Research Objectives

1. To identify the macroeconomic factors that exert a significant long-run influence on the Thailand–China trade value, with particular emphasis on

Thailand's GDP (GDPTH), China's GDP (GDPCH), inflation rate (INFL), and exchange rate (EXR).

2. To examine how changes in these macroeconomic variables affect the long-run trends of exports and imports between Thailand and China during 1995–2024.
3. To analyze the opportunities and challenges for Thai entrepreneurs in leveraging trade privileges under ACFTA and RCEP, considering the impact of macroeconomic factors on trade performance in the long run.
4. To provide strategic recommendations for the sustainable expansion of Thailand–China trade value by integrating long-run macroeconomic insights into business planning and policy development.

1.4 Expected Benefits

1. **Enhancing Trade Decision-Making through Macroeconomic Insights:** This study offers a long-run perspective on how key macroeconomic variables—including Thailand's GDP (GDPTH), China's GDP (GDPCH), inflation rate (INFL), and exchange rate (EXR)—influence Thailand–China trade value. Policymakers and trade practitioners can utilize these insights, together with authoritative data sources and advanced analytical tools, to improve forecasting accuracy and formulate evidence-based strategies for sustainable trade planning.
2. **Optimizing Trade Agreement Utilization in Response to Macroeconomic Conditions:** By understanding the long-run effects of macroeconomic factors on trade flows, Thai firms can maximize benefits from ACFTA and

RCEP. Insights into GDP growth, inflation, and exchange rate fluctuations allow strategic exploitation of tariff reductions and expanded market access, particularly for high-demand agricultural products (e.g., durian, mangosteen, longan) and industrial goods (e.g., machinery, automotive components, electrical equipment) to China and other RCEP member countries.

3. **Identifying Opportunities for Market Diversification and Digital Trade:** Analysis of macroeconomic drivers enables the identification of emerging market opportunities, including online marketing and e-commerce channels. Thai entrepreneurs can leverage these insights to expand digital trade operations efficiently while adapting to long-run economic trends, without requiring substantial infrastructure investment.
4. **Strengthening Thailand's Production Sectors through Macroeconomic Awareness:** Awareness of long-run macroeconomic trends, such as China's GDP growth and exchange rate fluctuations, helps inform production planning for both agricultural and industrial sectors. This ensures Thailand can meet rising demand and maintain a comparative advantage in key export industries.
5. **Stimulating Domestic and Foreign Investment:** Understanding the long-run macroeconomic determinants of trade supports targeted investment strategies, attracting foreign investors—particularly from China—into high-potential sectors such as automotive components, electrical equipment, and agricultural products.

6. Advancing Knowledge of International Trade Agreements in a Macroeconomic Context: Investigating ACFTA and RCEP from a long-run macroeconomic perspective enables entrepreneurs and policymakers to refine trade strategies, strengthen Thailand's negotiating position, and promote sustainable economic growth, global competitiveness, and strategic planning for Thailand-China trade relations.

