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Comparative Analysis of Regulatory Environments in Thailand and the Philippines in terms of influencing foreign direct investment: A Governance Perspective

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Abstract

This research employs the World Bank's Worldwide Governance Indicator to assess the impact of political institutions on the regulatory environments in Thailand and the Philippines. The study explores six key governance dimensions, including voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption control. Comparative analysis reveals distinctive governance profiles, notably positioning Thailand as a more attractive destination for Foreign Direct Investment (FDI) than the Philippines.

Key words: Regulatory environment, foreign direct investment, governance dimensions, Thailand, Philippines

1.Introduction

Background

The global economic landscape has witnessed an increasing interdependence of nations, fostering international investments and collaborations. This study delves into the regulatory frameworks governing two Southeast Asian nations, Thailand and the Philippines, with a specific focus on their impact on attracting Foreign Direct Investment.

Objectives of the Study

Examine the nuances of governance dimensions in Thailand and the Philippines.

Analyze the relationship between governance indicators and FDI inflows.

Explore the regulatory environments in the mining sectors of both countries.

Significance of the Study

Understanding how governance influences regulatory climates is crucial for policymakers, investors, and scholars. This research contributes to the ongoing discourse on regulatory improvements and their implications on economic development.

2.Literature review

The study is anchored in the comprehensive framework provided by the World Bank's Worldwide Governance Indicator, a tool developed by Kaufmann, Kraay, and Mastruzzi. This framework, established in 1996, evaluates governance along six critical dimensions: voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

These governance dimensions, informed by contributions from think tanks, non-governmental groups, and international organizations, serve as a robust foundation for assessing the efficacy of political institutions. Higher values in these indicators signify superior governance ratings, offering a nuanced understanding of a country's governance landscape.The relevance of these dimensions in the context of Foreign Direct Investment (FDI) is well-documented. Governance, as measured by these indicators, is considered a crucial factor influencing investor perceptions and decisions. Voice and accountability, for instance, reflect the extent of citizen freedom and government selection, elements vital for a transparent and participatory political environment.Political stability and lack of violence gauge the risk associated with potential disruptions to the government, an aspect that directly impacts investor confidence. Government effectiveness, on the other hand, is indicative of the legitimacy and determination of a government, critical for effective policy design and implementation. (Kaufmann, David, Aart Kraay, and Massimo Mastruzzi, 2010).

Regulatory quality, a central focus of this study, assesses a government's ability to establish transparent and supportive legal frameworks, essential for encouraging private sector development. The rule of law examines the adherence of actors to legal norms, crucial in areas such as contract enforcement, property rights, and overall regulatory compliance.

The final dimension, control of corruption, delves into the extent to which public authority is exploited for personal gain. This dimension underscores the importance of a corruption-free environment, a key consideration for investors seeking stable and ethical business landscapes.

The literature review also incorporates insights from the ASEAN Investment Report (2007), revealing the collaborative efforts within the ASEAN community to boost FDI inflows. Despite a decline in governance indicators in both Thailand and the Philippines since 2005, intra-ASEAN investments increased significantly, showcasing the collective commitment of member states to attract FDI.

The governance dimensions outlined by the Worldwide Governance Indicator not only provide a comprehensive evaluation of the political system but also offer insights into the investment environment. The study posits that, while the political system's impact on FDI might be relatively minor, the investment environment, encapsulated in government effectiveness, regulatory quality, rule of law, and corruption control, plays a pivotal role in shaping investor decisions.

This literature review sets the stage for the subsequent analysis of the regulatory environments for mining in the Philippines and Thailand. It establishes the theoretical underpinnings and justifies the selection of governance dimensions as key variables in the study, laying the groundwork for a nuanced understanding of the intricate relationship between governance, regulatory frameworks, and FDI.

Methodology

Data Source

The World Bank's Worldwide Governance Indicator, developed by Kaufmann, Kraay, and Mastruzzi in 2010, serves as the primary data source for assessing governance dimensions.

Governance Dimensions

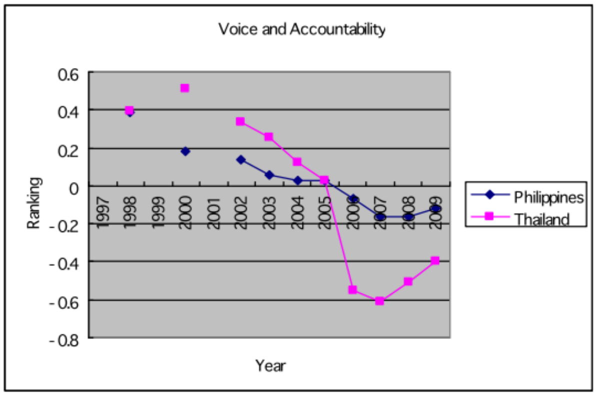
Six key dimensions are explored: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption control. The study conducts a comparative analysis of governance parameters between the Philippines and Thailand. It notes the superior grades for most governance parameters in Thailand compared to the Philippines, with the exception of voice and accountability. While the methodology is implied rather than explicitly stated, the study's strength lies in its use of a well-established governance indicator to assess and compare key dimensions. The comparative approach allows for a nuanced understanding of the governance landscape and its implications on FDI, particularly in the context of the mining sector in the Philippines and Thailand.

Comparative Analysis

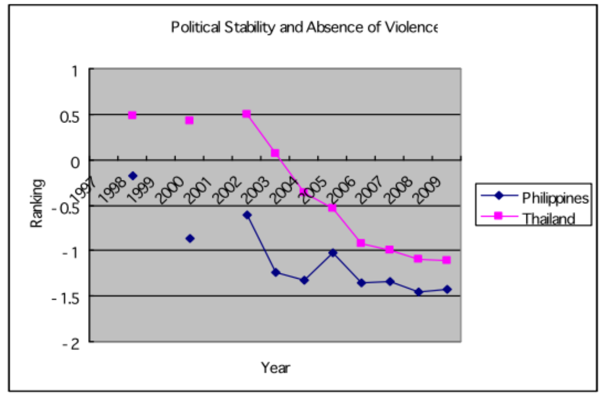
Governance Scores

Graph 1 illustrates governance scores for both countries. While Thailand consistently outperforms the Philippines, particularly in voice and accountability, the study delves into the nuanced reasons behind these variations.

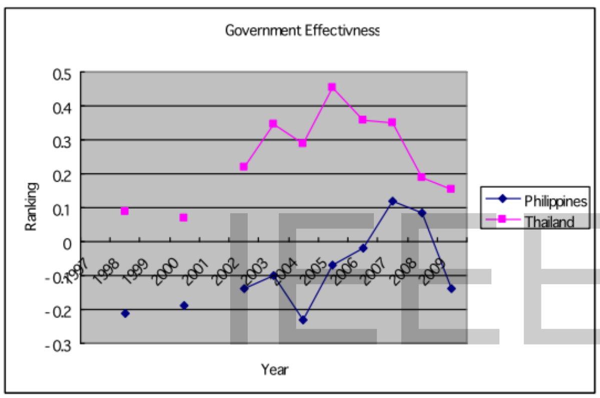
1. Voice and Accountability



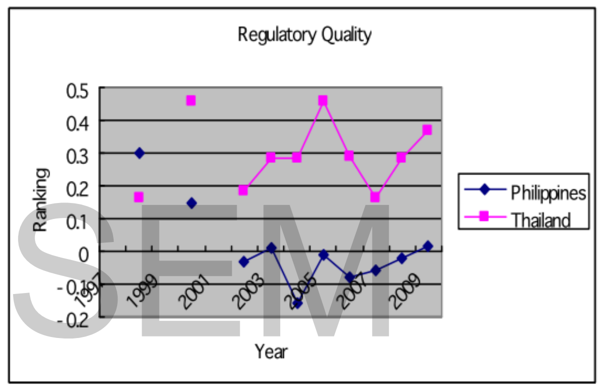
2. Political Stability and Absence of Violence



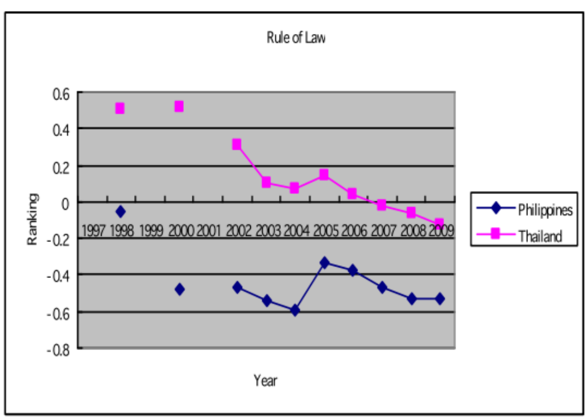
3. Government Effectiveness



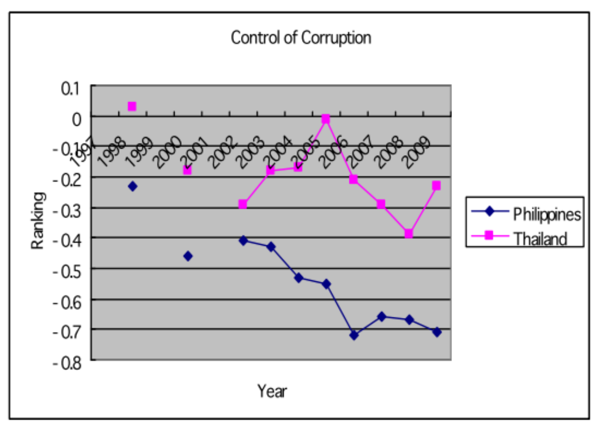
4. Regulatory Quality



5. Rule of Law



6. Control of Corruption



Graph 1 : Governance Indicators.

Source: Kaufmann, David, Aart Kraay, and Massimo Mastruzzi, (2010). "The Worldwide Governance Indicators." Washington, D.C.: World Bank.

Voice and Accountability

Thailand's superior score in this dimension indicates a higher degree of citizen freedom of speech and government selection. The study examines specific policies and practices contributing to this outcome. The reduction in voice and accountability, political stability and absence of violence, rule of law, and corruption control since 2005 has had a similar effect on both countries, greatly increasing FDI inflows. When looking at the rationale behind the decline in these measures but an increase in FDI inflows, it is important to note that intra-ASEAN investments increased by 66 percent over the same year, demonstrating that ASEAN member states are working together to increase FDI inflows. ASEAN member states will encourage other member nations regardless of their investment climate in order to increase FDI inflows within ASEAN. Thus, despite a fall in governance in Thailand and the Philippines, the boost in intra-ASEAN FDI explains the increase in FDI inflows (ASEAN Investment Report, 2007).

Political Stability

Political stability is a key factor attracting foreign investment. Thailand's historical stability is contrasted with the Philippines, where political upheavals have impacted investor confidence.

Government Effectiveness

Government legitimacy and determination significantly impact regulatory environments. A detailed analysis of policies and initiatives in both countries sheds light on their effectiveness.

Regulatory Quality

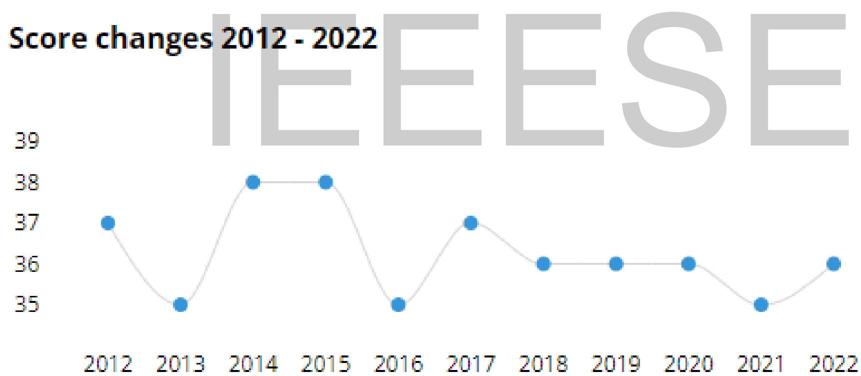
Thailand's adeptness in putting laws and procedures in place for private sector development is explored. The Philippines' challenges in eradicating bureaucratic red tape are scrutinized. In comparison to the Philippines, Thailand's mining regulatory framework is more proactive in luring foreign investors while ensuring that regulations are responsible and transparent. While the Philippines is mostly focused on mining gold, copper, nickel, and other minerals, Thailand is primarily focused on the oil and gas business in the Gulf of Thailand (Cruz, Ismael, 1999).

Rule of Law

Examining the adherence to contract enforcement, property rights, and regulations in both nations provides insights into the rule of law's impact on regulatory clarity. The regulatory environment in the Philippines needs improvement, particularly at the municipal level not only residents of the community, but international and domestic investors are also subject to regulatory uncertainties at the municipal level. The central government must implement policies, specifically the FPIC procedure, for community members who have the right to express themselves. Furthermore, in order to avoid contradictory agreements, the province government must work closely with the central government (“The Impact of Investment Liberalization and the Mining Act of 1995 on Indigenous Peoples, Upland Communities and the Rural Poor, and on the Environment: A Summary Report”).

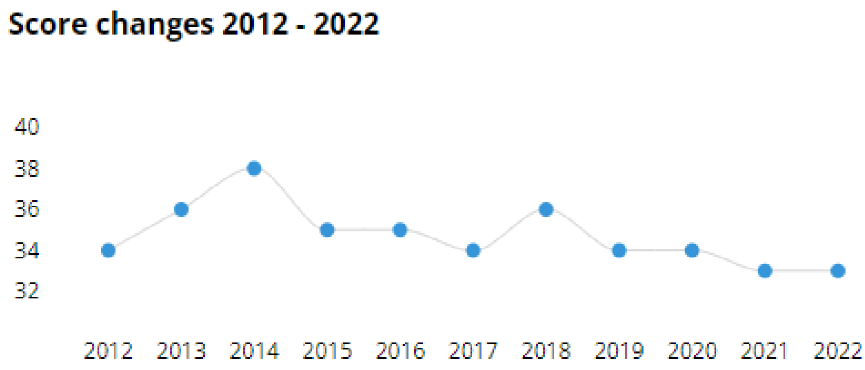
Corruption Control

Corruption control measures and their effectiveness are crucial for fostering a transparent and trustworthy regulatory environment. A comparative study reveals divergent trajectories in Thailand and the Philippines. Despite the fact that, Thailand is ranked less corrupted country than Philippines, we see more fluctuations in Thailand than Phillipines, which increases uncertainty for investors. (Chart 1)



Graph 2.Change in corruption control index in Thailand.

Source; www.transparency.org



Graph 3.Change in corruption control index in Phillippenes

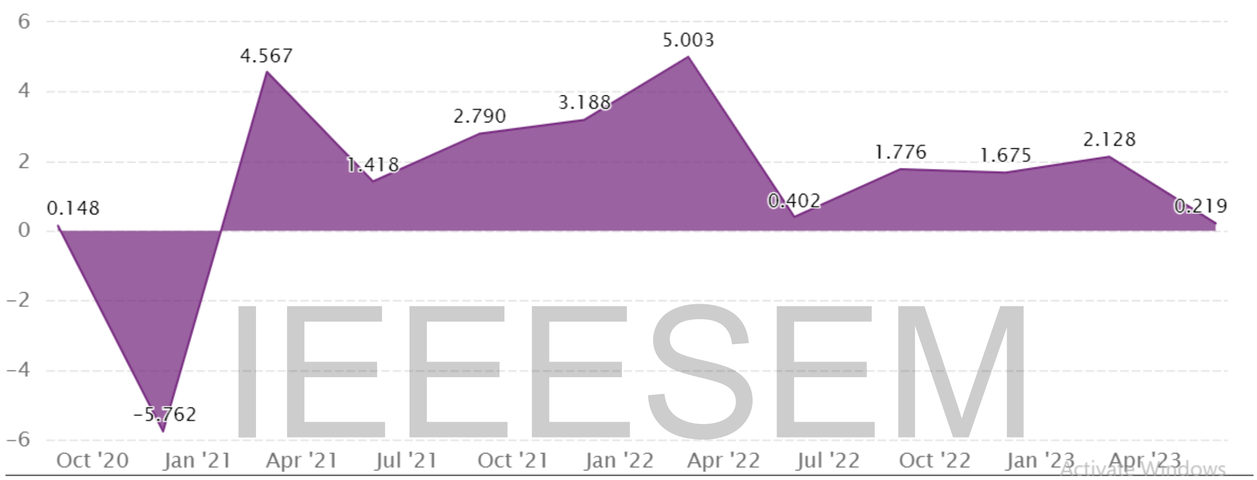


Chart 1 FDI inflow to Thailand from 2020 to 2023

Source; https://www.ceicdata.com/en/indicator/thailand/foreign-direct-investment--of-nominal-gdp

Results

An intriguing finding emerges as FDI inflows increase despite a decline in governance indicators since 2005. Intra-ASEAN investments play a pivotal role, indicating collaborative efforts among ASEAN member states.

ASEAN Collaboration

The increase in intra-ASEAN FDI signifies a collective effort to enhance investment inflows. The study explores the dynamics of collaboration among member states.

Implications for Governance

While governance indicators have declined, the study investigates how collaborative initiatives offset these challenges, offering valuable insights for policymakers.

Regulatory Environment: Mining Sector

Philippines

Despite aspirations for fair and transparent standards, challenges persist in eradicating bureaucratic red tape and corruption. Local opposition, especially from indigenous communities, contributes to regulatory uncertainties.

Constitutional Framework

A historical analysis of constitutional provisions related to mining in the Philippines sheds light on the complexities of resource extraction.

Mining Act of 1995

The evolution and impact of the Mining Act of 1995 on the privatization of the Philippine mining industry are examined, considering its implications on attracting foreign investment.

Indigenous Communities' Concerns

The study delves into the challenges posed by mining activities to indigenous communities, emphasizing the need for Free and Prior Informed Consent (FPIC).

Thailand

Thailand's mining regulatory framework showcases a proactive approach, luring foreign investors with responsible and transparent regulations. Focus on oil and gas in the Gulf of Thailand minimizes conflicts with local communities.

Evolution of Regulatory Framework

A historical overview of Thailand's regulatory evolution in the mining sector reveals the proactive measures taken to attract foreign investment.

Oil and Gas Focus

Thailand's strategic focus on oil and gas in the Gulf of Thailand is analyzed, exploring how this specialization contributes to a more streamlined and business-friendly regulatory environment.

Lessons for Regulatory Improvement

Drawing insights from the comparative analysis, the study advocates for regulatory improvements, especially at the municipal level in the Philippines. Collaborative efforts between provincial and central governments are essential.

Municipal Level Reforms

Detailed recommendations for municipal-level regulatory improvements are provided, emphasizing the need for community engagement and streamlined procedures.

Provincial-Central Government Collaboration

Examining successful collaboration models, the study outlines strategies for effective coordination between provincial and central governments to minimize regulatory uncertainties.

Conclusion.

The study highlights the critical role of governance in shaping regulatory environments. While Thailand's proactive approach attracts foreign investment, the Philippines grapples with challenges that necessitate comprehensive regulatory reforms. The examination of six governance dimensions revealed a consistent trend where Thailand outperformed the Philippines, except in voice and accountability. The nuanced exploration of these dimensions brought to light the multifaceted nature of governance, indicating that while Thailand excels in areas such as political stability, government effectiveness, regulatory quality, rule of law, and corruption control, the Philippines faces challenges that hinder its attractiveness to foreign investors. A paradoxical finding emerged as both countries experienced a decline in governance indicators since 2005, coinciding with a substantial increase in FDI inflows. The collaborative efforts within the ASEAN community played a crucial role in offsetting the adverse effects of declining governance. This underscores the interconnectedness of nations within the region and the impact of regional initiatives on individual member states.

Implications for Policy

The study emphasizes the imperative for both Thailand and the Philippines to fortify their governance structures. While Thailand's robust governance contributes to its attractiveness for investors, the Philippines must address challenges in voice and accountability, political stability, and corruption control. Policymakers should consider targeted interventions to enhance these specific dimensions, fostering an environment conducive to sustainable economic growth.

The success of intra-ASEAN investments highlights the significance of collaborative initiatives in attracting FDI. Policymakers should explore avenues for increased regional cooperation, sharing best practices, and addressing common challenges. The study advocates for the continuation and strengthening of collaborative efforts among ASEAN member states to create a more favorable investment climate.

Key policy recommendations emerge from the study, focusing on strengthening governance structures and fostering collaboration to enhance regulatory clarity.

Future Research Directions

While this study provides a snapshot of the relationship between governance and regulatory environments, future research should delve deeper into the dynamic nature of this relationship. Longitudinal studies tracking governance changes and their direct impact on regulatory frameworks would contribute to a more nuanced understanding.

The influence of cultural and social factors on governance and regulatory environments remains an underexplored area.

Future research could investigate how cultural nuances and social dynamics shape the effectiveness of governance structures and influence regulatory practices in Southeast Asian

countries.

In conclusion, this research underscores the need for targeted reforms in governance structures, collaborative regional initiatives, and sustained efforts to enhance regulatory clarity. As Southeast Asian nations continue to navigate the complexities of a globalized economy, proactive and adaptive policy measures are essential to foster resilient and investor-friendly regulatory environments. The findings of this study provide a foundation for policymakers, researchers, and stakeholders to contribute to the ongoing dialogue on regulatory improvements and economic development in the region.

The road ahead requires a holistic approach, combining effective governance, regional collaboration, and adaptive policymaking. As we reflect on the findings presented in this study, we recognize the potential for positive change, and it is our hope that these insights will inform and inspire future endeavors aimed at shaping regulatory environments that propel Southeast Asian nations towards sustained prosperity.

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