



# THAILAND'S LOGISTICS SERVICES: PREPARING FOR THE ASEAN ECONOMIC COMMUNITY

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Leschaco is one of the most storied and long-standing international logistics providers in the world. Founded in Germany in 1879, the company has expanded to 42 offices and more than 1,800 employees in more than 20 countries. Since its establishment in Thailand in 1999, Leschaco Thailand's operations have steadily increased and currently comprise a team of more than 500 staff.

The foundation for the success of the company have been absolute attention to customers paired with high flexibility as well as Leschaco's focus on niche businesses, such as customs clearance and specialised warehousing. This article presents Leschaco's standpoint on the topic from the perception of a logistics service provider.

"AEC 2015" can be overheard in many discussions nowadays. Everybody wants to be prepared, but unfortunately very few details are known by most of the people concerned.

Is the ASEAN Economic Community (AEC) hype or reality? What is AEC exactly? It is a strategic agreement promoting a single market and production base as well as competition in the region's economies.

Of course, this is not a totally new idea. Still, many comparisons of AEC with other communities or unions (e.g., the European Union), are flawed not only because of ASEAN's specific history and the diversity of the AEC member economies, but also because of the lack of a central parliament executing implementation of the AEC. Among all the different theories and explanations of AEC, one fact is certain – it will come. Whether it will be in 2015, or at least partly, is another question. Therefore AEC is, or rather will be, a reality.

Leschaco Thailand, which was previously a Customs Gold Card Broker, has already taken one important step towards AEC by

becoming one of Thailand's first certified Authorised Economic Operators (AEO). The AEO certificate replaces the former Gold Card. AEO is one milestone in the implementation of AEC in Thailand. Operators commit to integrity of personnel and data as well as secured access to the premises. With more than 200 staff and 10 certified customs specialists, Leschaco's Customs Clearance Department is a well-respected institution in the market.

Leschaco's customers profit from the AEO certification through Green Line channels both for imports and for exports, which expedites the clearance procedure. Additionally, for cross-border transportation, Leschaco's customers do not have to provide a bank guarantee for the import duty of the cargo. Leschaco's AEO certification is its own guarantee to Thai customs authorities that Leschaco will handle the products appropriately and in full compliance with

the regulations. Hence, these examples demonstrate that even though AEC is still a vague term, there are concrete advantages attached to it.

Thailand has a distinctive geographic advantage as the centre of ASEAN. With the implementation of the AEC it will therefore have not only a key responsibility but also an opportunity as a hub and transit country, similar to Germany in the European Union. Thailand's logistics hub concept has been discussed for years, and Government of Thailand and the private sector have been very active in promoting Thailand as the logistics hub of ASEAN. Thus AEC can be Thailand's chance to finally and fully realise this hub ambition. In that regard, many operators are attentively following the revival of the rail infrastructure projects.

Likewise, the potential exists for becoming a road freight hub, based on statistics that indicate road transportation will form approximately 80 per cent or more of all logistics activities. These and many other circumstances could give Thailand and its logistics sector a strong competitive edge.

Leschaco Thailand recognised the huge potential of Thailand quite early on and established a Freezone Warehouse in 2009. The Freezone model was another incentive to promote Thailand as a logistics hub. Since 2009, Leschaco Thailand has expanded its warehousing footprint to 25,000 m<sup>2</sup> of Freezone and Non-Freezone. At the same time, Leschaco is able to store general cargo with hazardous goods at one and the same location. This is a unique advantage that gives Leschaco's customers full flexibility.

However, several obstacles remain that hinder Thailand from achieving its full potential. For example, companies are faced with some unclear and partly contradictory statutes of different departments. In addition, foreign entrepreneurs who are looking at Thailand as their potential distribution hub,

and who are not yet established in Thailand, are always surprised to find that one needs a locally registered company to act as importer or exporter of record, even in a Freezone. Finally, land transportation across inner ASEAN borders is often difficult and expensive due to the fact that cargo, in most cases, has to be trans-loaded from one vehicle to another. That is the reason why there are expectations and hopes that the AEC will help to harmonise standards and thus create more attractive conditions for the market.

The growth of investment will also depend on the implementation of the AEC. Service companies such as Leschaco have been prohibited from holding 50 per cent or more of foreign shares in businesses in Thailand. There are only a few exceptions under several Acts (e.g., the Foreign Business Act and the Investment Promotion Act). Nevertheless, one of the key factors in successful AEC implementation will be the measure of the free flow of services and goods that will be directly affected by the present limitation on foreign equity participation, such as foreign land ownership restrictions and licensing.

Under the AEC, it is planned to allow 70 per cent equity participation for the logistics service sector, which will be a major factor in consideration of foreign investment. Correspondingly, the AEC blueprint states that as logistics is one of the priority services the target is to substantially reduce or remove all services restrictions and duties on products. That is, of course, another important point for any potential foreign investor. Hence, theoretically the AEC looks promising; however, only time will tell whether and when steps will be actually taken to overcome the present rather traditional mindset.

In summary, the AEC is an interesting and desirable concept for many operators in the logistics sector. Distinctive positive changes

have already been made, e.g., the implementation of the AEO scheme with its resulting benefits for importers and exporters. On the other hand, there are a few non-tariff barriers that need to be looked at, such as conflicting regulations, importer and exporter of record ruling, and cross-border land transport modalities. However, the planned changes to various aspects of legislation in the AEC blueprint will increase the confidence of foreign investors. With the implementation of the AEC Leschaco sees a major opportunity for the region, and especially Thailand. Leschaco will therefore follow up all developments in order to further position itself strategically, and to offer all Leschaco customers the greatest possible advantages.

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