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2 MACROECONOMICS ANALYSIS

2.1 Macro Overview

Jolie Femme is one kind of SMEs which product made from silk and sell product by himself in the north of Thailand. The more profit normally bases on the tourism which is the main contribution of this business and also with positive business situation. Jolie Femme located in Chiang Mai is the important point. It takes advantage from tourism directly. Most of customers basically buy products at the showroom which stay only Chiang Mai. In this part, situation analysis and general economics will be analyzed For instance Tourism (Tsunami, Bird flu outbreak, Greater Mekong Sub-region (GMS) Economic Cooperation. World /Thailand / Northern of Thailand Economics, oil price shock, government policy (FTA with China, OTOP, BOI),

2.2 World Economic

The world economic in 2005 is turning to down trend. We can see from large economic leaders, the United States (USA) shows lower of GDP in 2005 then stable in 2006 from forecasting. Japan probably fall in GDP continuously in 2006 due to chronic economics problem. Although oil price is increasing tendency, world GDP still keep at 3.1% from forecasting in year 2006.

World trade volume at this year expands only 6.4% from year 2004 but should raise up to 7% in next year because of higher trade volume of China, Japan and EU.

The inflation of G-7 countries in year 2005 slightly increases to 2.2% from 1.7% in year 2004 and will continuously increase about 2% in year 2006. G-7 countries are the importance partner of Thailand. We can imply that price of Thai exports will be increased. In the other hand prices of import products of these countries is also rise up.

In summary, the world economic is not so bad in this year and next year. Thus we can estimate that the Tourism of Thailand may be not impact from increasing of oil price. The silk product business probably still gets advantage from Tourism.

	Actual 2003	Actual 2004	Estimate 2005	Forecast 2006
GDP Growth (%)				
World	2.5	3.8	3.1	3.1
World (PPP Weights)	3.9	5.0	4.4	4.3
USA	2.7	4.2	3.5	3.5
Japan	1.4	2.6	2.3	1.8
Euro Area	0.7	1.7	1.1	1.4
CPI Inflation G-7				
	1.5	1.7	2.2	2.0
World Trade (Volume)				
	5.8	10.3	6.4	7.0
Oil Price (\$/ bbl)				
	28.9	37.7	53.6	56.0

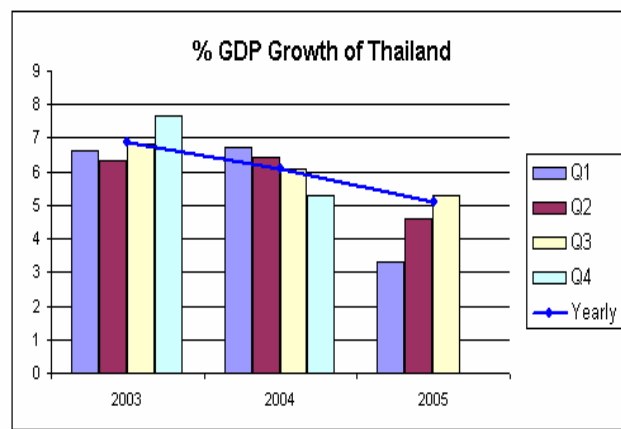
Source: World Bank DEC Prospects Group update Oct 25, 2005

Figure 2- 1: World GDP

2.3 Thailand Economics

2.3.1 Growth rate

GDP growth of Thailand at first Quarter in 2005 decreased to 3.3%, because of temporary supply shocks from Tsunami, drought, petrochemical plants closure and hike of oil price. However it is increasing tendency each quarter by booth up export and increasing of domestic income. From forecasting GDP growth (%) will reach at 5.1% which decreased about 1% from year 2004.



Source: NESDB, FPRI

Remark: 2005 yearly forecast by FPRI

Figure 2-2: Growth Rate

2.3.2 Inflation and Unemployment Rate

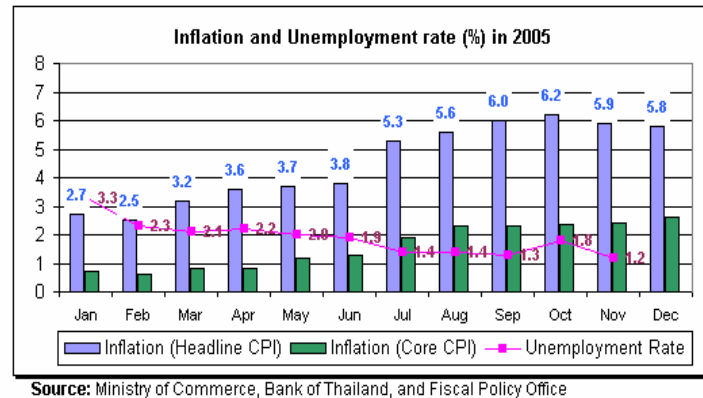


Figure 2-3: Inflation and Unemployment rate in 2005

Core and headline inflation increased to 6.0% and 2.3% respectively in the third quarter due to high oil prices. However inflation was a bit decreased in the fourth quarter. For unemployment rate was decreasing to 1.3% of the total work force in September. But it was suddenly jumped up to 1.8% in October then rapidly decreased to 1.2% in November.

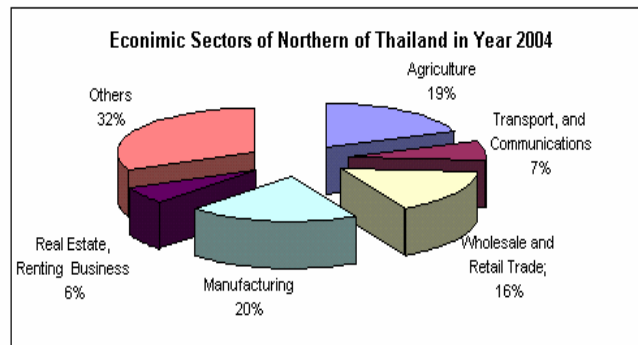
In conclusion the economic of Thailand is getting better in year 2005 from increasing of GDP and decreasing of unemployment rate. However the inflation is rising up, it means the price of products must be increased also. In contrast Thailand use floating money system which should set inflation targeting, not bases on the number of GDP growth rate.

2.4 Northern Thailand Economic

2.4.1 Overview

The northern region of Thailand consists of 17 provinces. Most of geography is mountains and forest. Agricultural area is about 20% of region. The main province which population over one million are Chiang Mai, Chiang Rai and Nakhon Sawan.

2.4.2 Economic Sectors

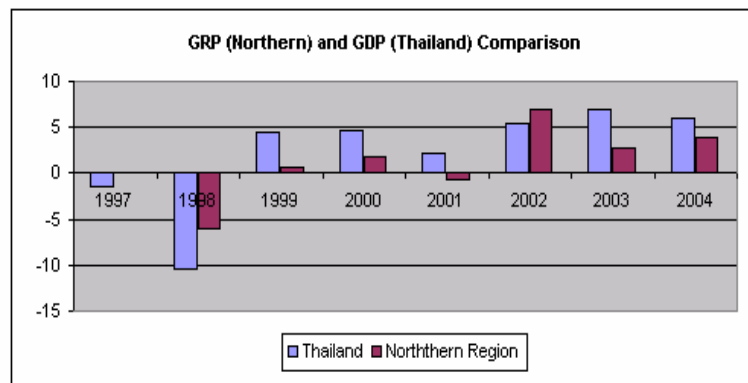


Source: NESDB (National Economics and Social Development Board)

Figure 2-4: Economic Sectors of Northern Region in 2004

The major sectors were others 32%, Manufacturing 20%, Agriculture 19% in year 2004, however the higher percentage of manufacturing cause form Industry Park.

2.4.3 Gross Regional Product (GRP)

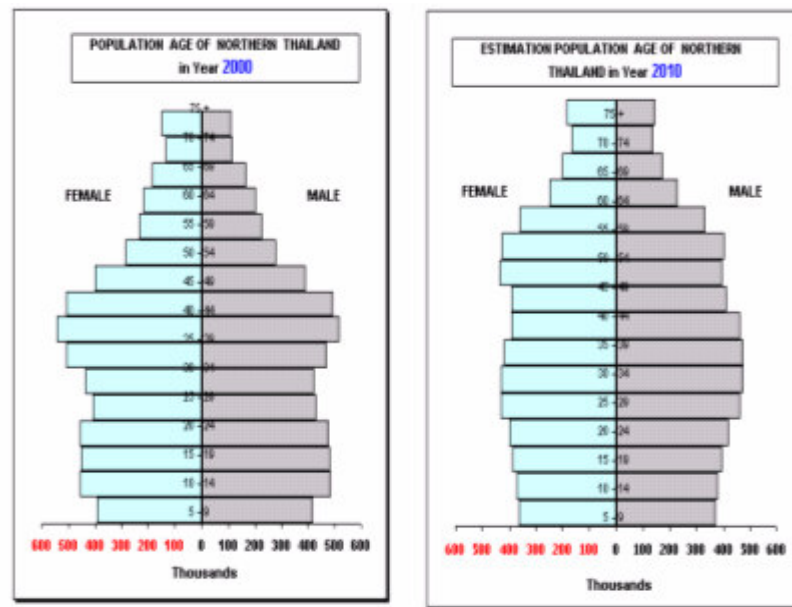


Source: NESDB (National Economics and Social Development Board)

Figure 2-5: GRP of Northern Region

Gross Regional Product (GRP) is the indicator representing the value of all final goods and services produced within the region by using domestic factors of production within a given period. The GRP of the northern region was rather same tendency of Thailand's GDP except in year 2001 which dropped to minus value and in year 2003 which decreased.

2.4.4 Labor Condition

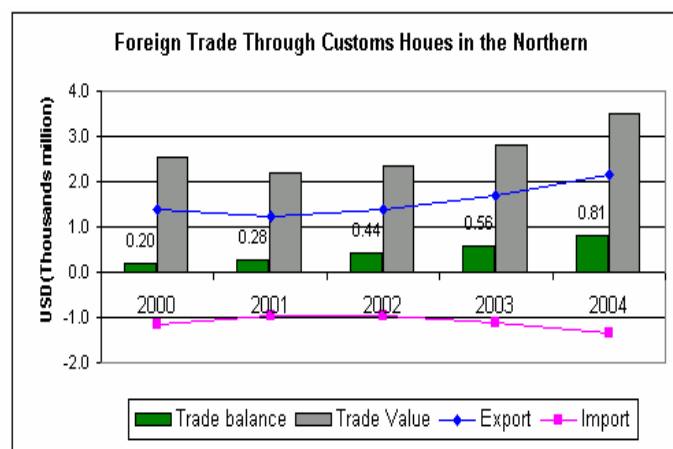


Source: NESDB (National Economics and Social Development Board)

Figure 2-6: Pyramid population of Northern Region

Form forecasting in Year 2010, labor force availability will be decreased due to the ratio of work force range will be dropped, the decrepit people will be over target from pyramid model. This is the problem in the future which should be realized same as the education standard of people, basically still lower than other regions. Further more the high migration of labors to the central region (Bangkok) and foreign countries. However the substitute of migration by labors from the northeastern region or neighboring countries which lower cost.

2.4.5 Foreign Trade



Source : Customs Houses in the Northern Region

Figure 2-7: Foreign Trade Balance in Northern Region

The trade value of northern region was increasing tendency which export more than import value. Thus the trade balance was still positive and rose up every year. In recently year 2004 the trade balance was positive about 0.81 thousands million US dollar.

2.4.6 Advantages and Disadvantages of Chiang Mai

The main business of northern region is based on agricultural and tourism and the Jolie Femme business must rely on tourism as major. There are three significant advantages of northern region. Firstly the centre of transportation system which convenient to contact with other countries such as Myanmar, China, Laos, Cambodia. The tourists may use Chiang Mai as the gateway to other countries. The number of tourism visiting the north of Thailand should be increased. Further more, the high performance of region and water supply for agricultural particularly in the bottom of northern region. Moreover, there are many places for tourists for instance ancient remains, sightseeing, Lanna culture. And also there are project during construction, for instance aviation hub of the northern region, night safari, ICT city for supporting tourism. Moreover the diversification of business in northern. It may help people to survive if something wrong for one business. They can switch to other.

Nevertheless there are also disadvantages in northern region. First one is the cluster of industry which stay at the central of northern only like (Chiang Mai, Lamphun). It will effect to tourism that generate pollution, traffic jam. The second is the lower education level of population work forces. Most of them graduated only primary school. It means that work forces have low quality and difficult to develop performance except unique occupation such as handicraft. The third one is demolition of resources like forest, water supply, sightseeing. It will effect to tourism directly. They will change to travel at other regions or countries. The last one is the population age distribution problem which the higher age range is increasing. The work forces ratio of population will be decreased.

As everything stands now, Jolie Femme made the right decision to doing business in the northern region especially in Chiang Mai which attractive the tourists. And also can hire the labor forces easily with lower cost. Most of them still have low education level but they have skill of weave cloths from silk. Moreover the silk - worm supply can afford simply from more agricultural region.

2.5 Tourism

2.5.1 Overview

Tourism is the major source of currency which contribute to Thailand Economics and also the most importance income of Jolie Femme. Although Thailand has many negative situations such as Tsunami, Bird Flu attack, the violence in the southern area which impact to tourism of Thailand. We will focus on the effect of tourism in Chiang Mai province which Jolie Femme established.

Year	Foreign Tourist of Thailand				
	Tourist		Avarage	Revenue	
	Number	Change	Length of Stay	Million	Change
	(Million)	(%)	(Days)	(Baht)	(%)
1997	7.22	0.41	8.33	220,754	0.63
1998	7.76	7.53	8.4	242,177	9.7
1999	8.58	10.5	7.96	253,018	4.48
2000	9.51	10.82	7.77	285,272	12.75
2001	10.06	5.82	7.93	299,047	4.83
2002	10.80	7.33	7.98	323,484	8.17
2003	10.00	-7.36	8.19	309,269	-4.39
2004	11.65	16.46	8.13	384,360	24.28

Source: Tourism Authority of Thailand

Figure 2-8: The record foreign tourist of Thailand

The number of foreign tourist who visit to Thailand was about 10 million per year since year 2001. The growth change rate was not stable especially in year 2003 which minus 7.36 percent. However it was increased 2004 about 16.46 percent with number of tourist 11.65 million. Thailand received money from foreign tourists more than 300 billion Bath per year since year 2002. Basically foreign tourists stayed in Thailand average about 8 days.

Year	Tourist of Chaing Mai							
	Number Tourist			Avarage Stay		Revenue		
	Thai	Foreign	Total	Thai	Foreign	Thai	Foreign	Total
	(Million)	(Million)	(Million)	(Days)	(Days)	(M Baht)	(M Baht)	(M Baht)
2001	1.68	1.49	3.18	4.01	4.29	17,043	20,687	37,729
2002	1.64	1.56	3.20	3.94	4.21	16,038	21,007	37,045
2003	1.71	1.43	3.15	4.06	4.11	18,509	19,322	37,832
2004	1.88	1.75	3.62	3.96	3.86	20,445	24,126	44,571

Source: Tourism Authority of Thailand

Figure 2-9: The record tourist of Chiang Mai

In Chiang Mai, the tourist ratio was half of domestic and other foreigner. At least 3 million tourists spend money about 37 billion baht per year in 2001-2003. The revenue was increased to 44.5 billion Baht in year 2004 with the number of 4 million tourists. The average length stay was about 4 days.

The ratio number foreign tourist revenue in Chiang Mai was about 6.5% of all provinces. The average foreign tourist number with visiting Chiang Mai was about 14.6% and length staying was about 4 days. This province is so attractive foreigner point of view to spending money in Thailand.

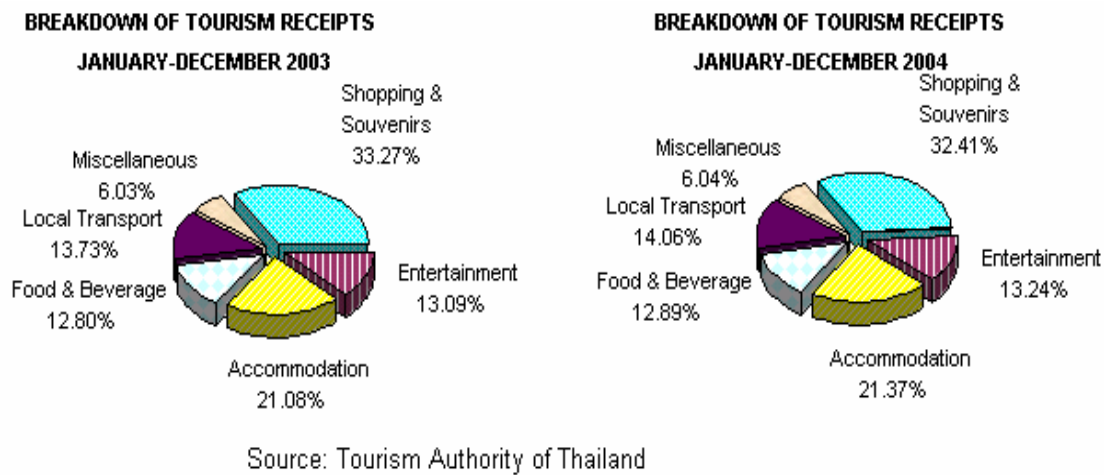


Figure 2-10: Breakdown average expenditure of tourists in Chiang Mai

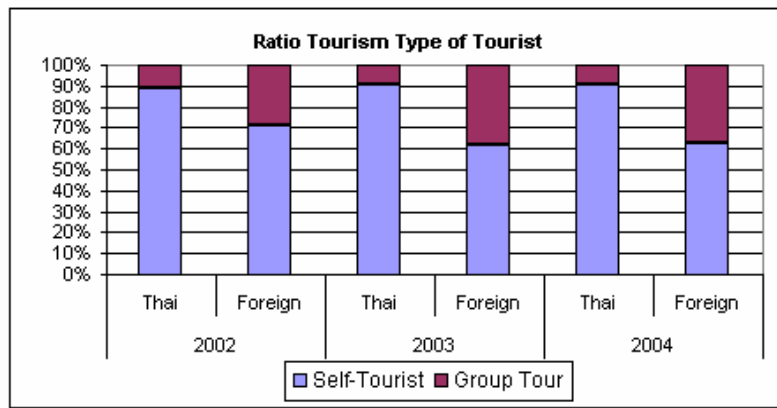
Tourism Receipt in Chiang Mai

Expenditure (Million Baht)	Average Expenditure	
	2004	2003
Shopping & Souvenirs	14,445	12,587
Entertainment	5,902	4,951
Accommodation	9,523	7,974
Food & Beverage	5,745	4,844
Local Transport	6,265	5,194
Miscellaneous	2,692	2,281
TOTAL	44,571	37,832

Source: Tourism Authority of Thailand

Figure 2-11: Amount expenditure of tourists in Chiang Mai

Ratio revenue form tourists break down to six categories in year 2003 and 2004, the highest was Shopping & Souvenirs about 32%, Accommodation 21%, Local Transport 14%, Entertainment 13%, Food & Beverage 13%, Miscellaneous 6% respectively.



Source: Tourism Authority of Thailand

Figure 2-12: Ratio tourism type of tourists in Chiang Mai

The primary income of Jolie Femme is tourist expenditure which categorized in Shopping & Souvenir. Therefore the highest spending of tourist implies the chance of this firm to earn money. However we cannot separate into deep detail of the Shopping & Souvenirs expenditure, how many percent pay for Silk.

The another factor is tourist type because of the chance of visit Jolie Femme form group tour is more than self-tourists if firm can make a deal with group tour business. The ratio of tourist during with select service package from group tour was about 40 percent in case of foreigner, only 10 percent for Thai tourists in year 2002-2004.

2.5.2 Greater Mekong Sub-region (GMS) Economic Cooperation

GMS is the cooperation project of six countries which Mekong River passes by, Yunnan(China), Lao, Vietnam, Myanmar and Thailand. The aim of this project is to promote economic and social development by strengthening economic linkages. There are nine priority sectors, Transportation, Energy, Telecommunication, Tourism, Environment, Human Resource Development, Trade Facilitation, Investment and Agriculture respectively.

In summary, the economics of Thailand will get more advantages from this project. Thailand will be the gateway of GMS and causes the tourists number increasing. In a meantime, Jolie Femme might be impacted by the effect of the tourism gateway due to this simplified transportation. The tourists may use Thailand only as the transit way to its other neighbor countries. In addition, the diminishing length of stay in Chiang Mai could also decrease sales volume of Jolie Femme.

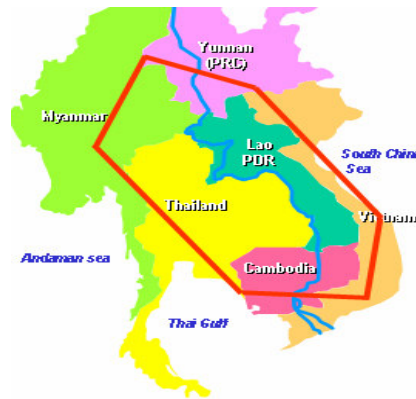


Figure 2-13: GMS geography

2.5.3 Tsunami

This is the severe natural disaster on December 26 2004. Thailand suffered the world's most powerful earthquake with magnitude 9 Richter in the sea off the Sumatra island causing 10-meter high Tsunami, affecting Thailand, Sri Lanka, India, Malaysia and the Maldives. The spread of epidemics is a high risk, because of the losses of power, drinking water and the insufficient of health facilities.

The tsunami's overall effect on Thailand's economy is likely to be minimal. The fishing industry will be affected, Logistics is a non-issue because almost all Thailand's exports are shipped from its east coast ports or air freighted. Even if tourism, about 12 million visitors in 2004 accounting for 6 percent of the economy, may not suffer as much as expectation.

In overall, many tourists are switching to the Gulf of Thailand's Samui and Chang islands, or looking for the northern provinces. Hotels on Samui and in Bangkok and Chiang Mai were booked. Airline seats or train tickets were hard to come by on northern services. Jolie Femme will get advantage from switching target of tourists from the Andaman Sea to Chiang Mai in year 2005.

2.6 Oil price shock situation

According the crude oil price was increasing since the beginning of year 2004, and continuously sharply rose up to the highest level in September 2005. Then went down trend in October due to weak preliminary US gasoline demand figures and warmer in the northern hemisphere and also speculators retained their net long gasoline future position. However the benchmark in the next year will still more than 50 \$/bbl. It is uncertain situation. We cannot get expectation for long term.

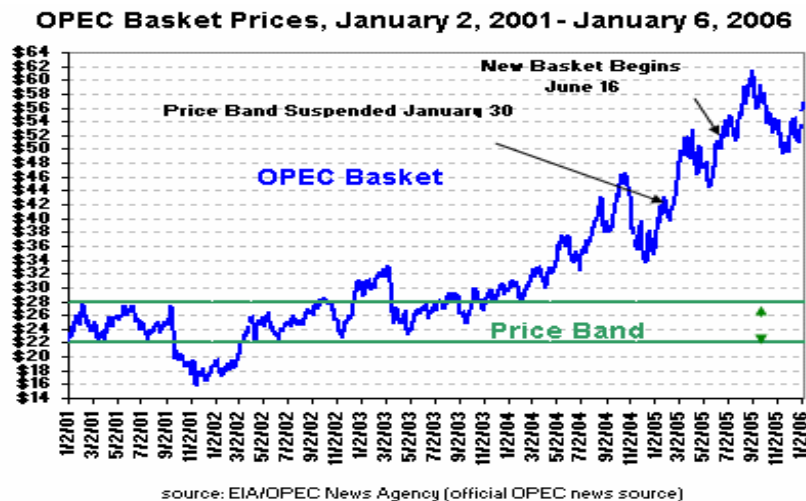


Figure 2-14: OPEC Basket

In Thailand condition, the government had intervened the retail oil prices by paying the money to compensate to actual prices. Thus the oil prices in Thailand was lower than other countries. The government tried to make good feeling of population which take a profit on political reason. However it was stopped in July 2005 for the diesel engine which most impact to the price of goods.

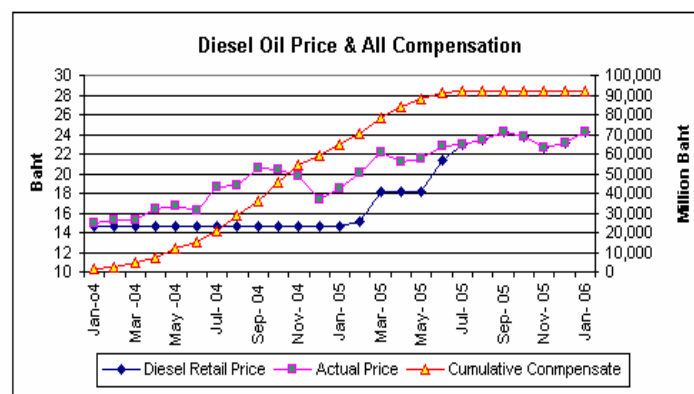


Figure 2-15: Diesel Oil Price

In summary Jolie Femme may less suffer from oil price shock situation. Because of oil prices hike impact only transportation cost. We take assumption that weight is rigid and government intervened the retail oil price especially diesel. Moreover the source raw material is not so far from production site except importing silk with the higher prices from increasing of transportation cost. However it might take advantage from this situation by adding the price of products to make more profit margin more than it should be. It is possible due to silk products are the premium goods. The customers may don't care about it.

2.7 Government policy

In this part, we analyze some policies which has impact to Jolie Femme from government issuing, there are FTA with China, OTOP, BOT. They might have advantages or disadvantages on this firm. Particularly the free trade agreement with China whose source is an important supplier.

2.7.1 FTA (Free Trade Agreement) with China

According ASEAN agreed with China to set FTA from 10th AESN Summit at Lao, ASESN signed commitment to establish the ASEAN-China Free Trade Area (ACFTA) to open FTA area enforcing for Early Harvest at first since Oct 1, 2003. And will be completed tariff reduction to zero percent all products within year 2010 for first six to Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand. For remaining four countries can defer to five years later. However each countries must improve competency of sensitivity goods which can be postpone to year 2018. Thailand's sensitivity goods for instance Coffee, Tea, Palm Oil, *Raw silk (not thrown)*.

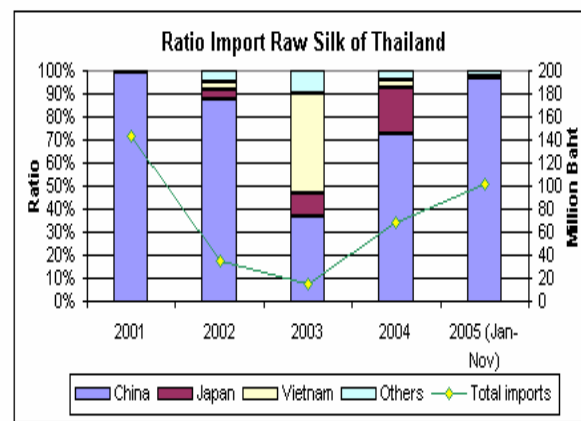
HS Code 01-08

Trade (Million Baht)	2004 (Jan-Dec)	2005 (Jan-Oct)
Imports	13,784.49	14,708.60
Exports	6,126.31	5,330.85
Trade Balance	7,658.18	9,377.75
Total Trade	19,910.81	20,039.45

Source: The Customs Department

Figure 2-16: Trade value Thailand VS China

After FTA with China 2 years, the monitoring result of trade balance showed that Thailand had more export than import harvest products code 01-08 from China. Form expectation in year 2010, the total trade will be about 50,000 million US.



Source: The Customs Department

Figure 2-17: Ratio Import Raw Silk of Thailand

However the balance trade value of Thailand was negative value for long time particularly in year 2001 about 144 million Baht. Because of tariff reduction from 30% to 20% started from this year. And in year 2005 (Jan-Nov), Thailand had negative trade balance about 109 million Baht. China was the major supplier of Raw Silk for Thailand more than 90% in year 2005, Japan and Vietnam were ship out as minority.

HS Code 5002 Raw Silk (not thrown)

Year	Exports	Imports	Trade Balance	Total Trade
2001	0.33	143.93	-143.60	144.25
2002	0.25	35.43	-35.18	35.68
2003	1.23	14.89	-13.66	16.12
2004	0.23	68.68	-68.45	68.91
2005	7.71	101.46	-93.75	109.17

Source: The Customs Department

Figure 2-18: Raw Silk Trade value

Nevertheless the few number of Raw Silk was exported to Japan as majority nearly 100%. The number of export Raw Silk was sharply increased to 7.7 million Baht in year 2005. In the year 2018, the tariff rate will be decreased to zero percent follow ACFTA commitment.

The loss in trade balance of Raw-silk will be increased more than current. We cannot protect the benefit of Thai silk anymore as sensitivity good. Thus the government should improve the competency ability of Thai Silk agriculture as high priority.

In conclusion, Jolie Femme cannot get advantage for importing silk material from FTA with China until year 2018 which tax will be reduced to zero percent. Because of Raw Silk is the sensitivity good and the tendency of trade balance was so bad. It must be protected for Thai's agriculture. However China is not the competitor of Jolie Femme due to sell products in the different market. It may not has impact to this firm. (See in Marketing part).

2.7.2 OTOP (One Tambon One Product)

The One Tambon One Product project was created since year 2002 in Thailand and derived from a brainchild which initiated in Japan (Oita town). The expectation to earn more revenue from communities by supporting sustainable three basis concepts, Local Yet Global, Self-Reliance-Creativity, and Human Resource Development. The purpose to convince people living in communities to use their skills in manufacturing products. Likewise the government and the private sectors would render supporting on developing the products and exploring the markets in order to create strength, jobs, and income. The committee of OTOP will select outstanding products to make brand names of goods in the future.

Northern Region	Before OTOP (Baht/Year)	After OTOP (Baht/Year)	Different (Baht/Year)
1.Income	206,074	235,988	29,914
2.Saving	42,481	44,920	2,439
3.Total Expense	163,593	191,068	27,475
3.1 Consume Expense	97,599	110,429	12,830
3.2 Investments	58,377	72,762	14,385
3.3 Raw materials	30,418	43,197	12,779
3.4 Wages	18,731	24,535	5,804
3.5 Others	9,227	5,030	-4,197
3.6 Paying Loans	7,617	7,878	261

Source: National Economic & Social Development Board

Figure 2-19: Survey comparison effect of OTOP

The effect after implemented OTOP in the northern region is better than previous time from surveying. The higher income is about 30,000 Baht per year and also higher saving about 2,400 Baht per year. The liabilities are not so increasing from more paying loans only 261 Baht per year. They might have better living standard.

Overall, this project maybe effect to Jolie Femme because of the price of OTOP is lower than his products. OTOP products made by Thai-silk will be the importance competitor in the future if the government truly support development skills and including design which the most significant factor to be the outstanding d products. However it might discredit Thai-Silk products due to lake of skill or poor design in the beginning phase.

2.7.3 BOI (Board of Investment)

The main objectives of BOI are supporting and support investments to influence the foreign and domestic investors. Particularly offering, tax reduction package by zoning in order to disperse money and growth to country area. There are five priority projects with more exemptions of regardless of location.

- Agriculture and agricultural products
- Direct involvement in technological and human resource development
- Public utilities and infrastructure
- Environmental protection and conservation
- Targeted industries

Reduction Tax/Duty	Import machinery(100%)	Raw material of export product (100%)	Tax Income (Exemption)	
			Inside industry	Outside industry
Zone1	50%	1 year	3 years	None
Zone2	50%	1 year	5 years	3 years
Zone3	100%	5 years	8 years	8 years

Source: BOI

Figure 2-20: Privilege of BOI by zone

Chiang Mai is located in the zone 3 which has more privilege than other zones. The firm will get exemption for instance, import duty on machinery, exemption of import raw or essential materials used in the manufacturing of export products for 5 years, exemption of corporate income tax for 8 years provided that a project with capital investment of 10 million baht or more (excluding cost of land and working capital) must be obtained ISO 9000 or similar international standard certification within 2 years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year. From recording of BOI, the highest investment form BOI promotion is agriculture about 2,160 million Bath (23 projects)

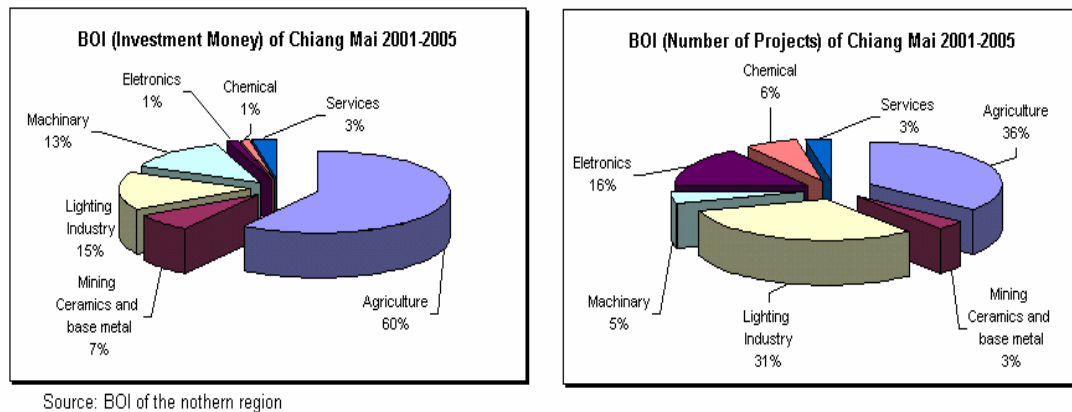


Figure 2-21: Ratio BOI by category of Chiang Mai in year 2001-2005

In summary, BOI provide many advantages especially in Chiang Mai which located at Zone 3, However Jolie Femme does not apply candidate to BOI. In deed Jolie Femme cannot take any benefit from exemption duty machinery and raw material (Raw-Silk). Because normally produce products by handmade, does not need to import high cost machine, and mostly sell products in domestic respectively. At least earns profit from exemption corporate tax income 7 years even if no certificate from international standard.

2.8 SWOT Analysis

Strength

- Chiang Mai is the favorite places of tourists and will be the center aviation of GMS in the future.
- Low labor cost.
- Strong expenditures about 30% from tourists pay for souvenir and shopping.

Weakness

- GMS will reduce the length stay of tourists.
- Labor quantity is decreasing.
- Lack of designer.

Opportunity

- Support Thai farmers to produce raw silk to reduce material cost.
- Deal with tour company to bring tourists visit the shop.

Threat

- The higher transportation cost from hike of oil price.
- Silk products from OTOP will be the important competitor in the future with lower price

2.9 Conclusion and Recommendation

In conclusion, Thailand economic was slow down in year 2005 but should be speed up in the next year. The root cause were tsunami, drought, unrest in the south and significant rising of oil prices cause push inflation. They impact to the customer and investor confidence this year. Same as the world economic. The tourism situation of Chiang Mai is getting better, even if tsunami disaster in the end of year 2004, Some of tourists changed target from the southern of Thailand to Chiang Mai. The revenue form tourism would increase in this year. However Chang Mai will get impact from GMS, the length of stay may be decreased. The revenue might be increased also. The hike of oil price will continue through year 2005. The diesel oil price is the main factor of price of community goods due to it was a cost of transportation. However the government of Thai bare burden to keep price stable. Nevertheless it had less effectiveness which terminated in July 2005. For the government policies, FTA with China increased the positive trade balance of harvest products in the past two years. But it has no any change for raw silk because it is identified as high sensitivity goods. OTOP will help the people in the northern region by increasing of savings which improve the living standard for them. The BOI might help the development of agriculture sector and add attractiveness of international investment especially Chiang Mai which located in the Zone 3.

We would like to recommend Jolie Femme in macro economics point of view for main three significant three points.

First of all, Joie Femme need to carefully attend to the tourism situation because it is the most important factor to survive in this business and can make the rough forecasting form expenditure of tourist which about 30% for souvenirs and shopping. For example may change the some critical thing to the opportunities like a tsunami with tourists may move Chiang Mai. He probably deal with the tour companies to ask them visit at Jolie Femme because the foreign tourists use service from group tour about 40%. It might help them to increase more benefit. In the future GMS might decrease the sale of Jolie Femme. He should looking for the solution in term of marketing strategy.

Secondly, the oil price shock might less impact to him. Only transportation will increase in the short term. However the operational cost will increase in the long run like wage, material cost. Jolie Femme should get rid of unnecessary costs to prevent problem in the future if they cannot set the higher price from current.

Finally, Jolie Femme should adjust follow the government policy. For example BOI, if can receive promotion, he can take advantage from cooperate tax privilege. Silk products from OTOP goods will be the important competitor in the future if they can improve the skill, thus Jolie Femme should join with them such as hiring them to make his products, allow products of them to sell in Jolie Femme shop. The ACFTA has no impact because the tax of raw silk will keep as high sensitivity, the material cost will not decrease, thus Jolie Femme should support development and business of the silk farmers to improve the quality, help them to survive. Then will lead to reduction in the raw material cost of Jolie Femme.