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## EXPORT INDUSTRIES DEVELOPMENT AND FREE ZONES PLANS

### Promotion of Exports of Manufactures and Semi-Manufactures

In the past, Thailand with a predominantly agrarian economy, confined her exports almost exclusively to agricultural produces. Only since 1960, a variety of manufactured and semi-manufactured goods increased from US\$5.8 million in 1960 to US\$97 million in 1968. In terms of the percentage share of the total exports, the manufactured goods made an impressive advance from less than 2 to 14 per cent during the same period. The following Table shows the values of exports of manufactured goods and of total exports of Thailand during the past decade (1960-1968).

Some of the principal manufactured goods exported are sugar, gunny bags, portland cement, sheet glass, textile fabric of silk, cotton and man-made fibres, twines and ropes of hemp and plastics, leather and wooden articles.

Share of exports of manufactures in the total exports during 1960-68

<u>Years</u>	<u>Exports of Manufactures (Baht)</u>	<u>Total Exports (Baht)</u>	<u>Share of Exports of Manufactures (%)</u>
1960	116,482,696	8,614,311,182	1.36
1961	156,847,513	9,996,983,324	1.56
1962	178,645,927	9,529,170,588	1.87
1963	208,587,734	9,676,301,161	2.17
1964	209,289,851	12,339,217,879	1.74
1965	635,300,272	12,940,811,974	4.92
1966	1,579,596,701	14,399,917,139	11.90
1967	2,115,583,236	14,166,178,009	14.90
1968	1,935,043,770	13,679,093,503	14.10
1969	2,185,738,201	14,722,089,711	14.81

Source: Department of Customs

### Specific Export Industries

As a result of the rapid growth in the manufacturing sector during the past decade, Thailand has become self-sufficient in several types of manufactured goods, especially those from light industries. In some industries now there are even surplus; for example, production of both sugar and gunny bags far exceed current domestic requirements. Searching for export markets for surplus of such manufactures has become a necessity.

Recently, exports of manufactured and semi-manufactured goods have been strongly urged as a means of correcting Thailand's ever increasing trade imbalance. It should be noted here that the unfavourable balance of trade has been caused by a combination of factors such as the rapid growth of our imports, the slow growth of our exports especially in manufactured goods, the decline in world price of our traditional export commodities and the growing competition in the world industrial markets. The acceleration of the pace of industrial development in Thailand has created an unprecedented increase in imports of machinery and equipment and raw materials and component parts. In a way, therefore, the present trend in trade imbalance must be accepted as a price to be paid for the country's rapid industrialization.

Because of the two factors mentioned above our industrial development strategy is now changing from that of promoting mostly import-substitution industries which has been the case since the 1950's to giving promotional priorities to export-oriented industries, especially those using local raw materials.

In a recent study by UNCTAD, it was found that developing countries tend to have a larger share of the market of the developed countries, (1) when the product exported is a processed form of a commodity for which the developing country has special natural advantage, (2) when the product requires only a small proportion of highly qualified labour and (3) when the product can be made economically on a small or medium scale. Keeping in mind the above findings, Thailand in her Third Plan (1972-76), will give special attention to all potential export industries which process indigenous raw materials with technology designed to take advantage of low cost labour. Tentative lists of export-oriented industries to be promoted in the future will include food processing, cotton textiles, ready-made garments, block rubber, vegetable oils, animal feeds, watch cases and parts and glass products.

### Measures to be taken to Promote Export Industries

The promotion of industrial exports is considered as one of the policy priorities of the Third Plan. Aside from the provision of infra-structural facilities such as new port facilities to provide efficient handlings of exported commodities and manufactured goods, the Government is considering measures for increasing and quick refund of import duties collected on imported raw materials and component parts. Under the existing regulation a refund of 7/8 of the imported duties collected on raw materials used in the manufacture of the exported products are allowed by the Government. In addition, promotional privileges will in future be given to manufacturing enterprise whose production is used for manufacturing exported goods.

The Government is also giving serious consideration to ways and means of assisting and stimulating exports through the collection and dissemination of foreign market information, foreign market survey, export publicity and exhibitions abroad and assistance in design and packaging. At present, the Ministries of Industry and Economic Affairs with the cooperation of the Thai Industries Association are planning to establish an Industrial Trade Centre which will collect all necessary information about Thai industrial products and make them readily available to prospective buyers and future investors in our industries. This Centre will arrange exhibitions and displays for the promotion of Thai products. Market research service to identify new opportunities for Thai products both at home and abroad will be undertaken by the Centre. It will also help to improve the quality image of Thai products by such means as quality marketing so as to ensure conformity to accepted international standards.

### Strategy for Accelerated Industrial Development during the Second United Nations Development Decade

From experience gained during the First Plan, it is evident that the serious obstacle to rapid industrialization in Thailand is the small size of the domestic market due partly to the generally low purchasing power of the people. This difficulty hampers the establishment of large industries. Although a large number of private industries have been established since the beginning of the past decade, they are mostly small and medium scale industries contributing insignificantly to the growth of the country's economy.

Despite years of industrial development, some locally manufactured goods still have unreasonably high costs. Without a substantially large market, the advantages of the economy of scale cannot be made use of. Some protective measures by the Government are still required by several of our industries.

Other obstacles to rapid industrialization are scarcity of local investment funds for large industries, and shortage of management personnel and, for some industries, skilled labour. These difficulties have been partly overcome by the inflow of capital, experts and technicians and management personnel from abroad, particularly during the First Plan.

With regard to the small size of the market, it is necessary to increase the purchasing power of the masses before substantial industrialization can take place. Purchasing power in the rural areas can be generated if the growth of agricultural production in the areas is stabilized. Therefore the development of the industrial sector must be planned to give adequate support to the agricultural sector. In other words, the manufacturing enterprises must utilize local agricultural produces as their raw materials as much as possible. Development along this line would help to increase farmers' income and would make farm products less dependent on overseas market with widely fluctuating prices. For this purpose, the industrial promotion policy for the Second Plan has placed special emphasis on industries which utilize local raw materials, and industries to be located in rural areas.

#### Industrialization Strategy

Regarding industrialization strategy, the development of import substituting industries was the main strategy adopted during the First Plan. The main purpose for adopting such a strategy was to save foreign currencies and to increase quickly our industrial production capacity.

The import substitution strategy has noticeably brought about a structural change in the country's import composition. The share of manufactured goods in the total import has declined from 34% in 1960 to 25% in 1968, although the total import has increased substantially from 9,622 million baht in 1960 to 24,103 million baht in 1968. The value of imported machinery on the other hand,

has increased substantially from 2,390 million baht in 1960 to 8,821 million baht in 1968. Thailand is now self-sufficient in many industrial products particularly in textile, sugar, and matches. In the cement, glass, petroleum refining and some industrial chemical industries the output appears to more than meet the local demand and serious attempts are being made to find foreign markets for the surplus products.

In the Third Plan (1972-96), import substitution strategy will still be retained but the emphasis will be shifted to the promotion of exports industries. The policy objectives to be pursued during the Third Plan period will be as follows:-

1. Expansion of Industrial Estates.

To solve the problems of the soaring Industrial land costs, the scarcity of transportation and public utilities and the industrial waste disposal problem, the advisability of industrial sites in Thailand was carefully examined and the Industrial Estate Project was implemented by the Ministry of Industry (1967-1971). An area of about 706 rais at Bangshun, Minburi, Bangkok was selected as the area for the finest industrial estate of the country under the supervision of the department of Industrial Works. A Master plan was created and 75% of the land was developed. 33 out of 64 applications have been accepted as dry and clean industries, 3 of them have been established and operating, 2 factories are under construction and 4 have already signed lease contracts, at the present time. The rest of 24 applications are anticipated to move in within 1972 which will occupy an area of 169 rais. The total industrial area is expected to lease out at the end of 1973 and in 1975 all rental areas will be fully occupied. There is still about 25 per cent more room today for the establishment of new factories.

To care for those industries with a high degree of industrial waste, consideration and planning is now underway for a second Estate of approximately 2,000 rais to handle approximately 50 factories on a coastal area. A Third Plan is currently being worked on for development under the Third Plan and that is the "Centre for Specific Industries" which would fulfill the needs of very small industries in a central location at minimal cost.

In order to accelerate the process of industrial development, a proposed project of "Industrial Estates Authority of Thailand" (INDESTAT) is being created. INDESTAT will be an organization responsible for promoting the development of industrial estates throughout the country in all forms according to functional and geographic requirements for the existing estate and new estates (1972-76) as follows:-

1. Khlong Dan
2. Patthya or Sattahip (free port)
3. Prapadang
4. Lamphun - Chiang Mai - Lam Pang Area

2. Along with industrial estates, new port facilities will be constructed to provide efficient handling of imported raw materials as well as exported raw materials and manufactured products.

3. Creation of a Free Trade Zone within the new sea port being at present planned. This will permit a simple treatment of imports and exports within the zone and will reduce the difficulties in the tax refund programme.

4. Tax incentives: The objective of the Government in this respect is to make export of manufactured goods sufficiently profitable so that rapid expansion of such exports will be generated. A new export-promotion tax system is now under consideration. Refunds of business taxes on export products and of import duties collected on imported raw materials and component parts used in their manufacture are being planned. New promotional privileges for export industries are contemplated. In the Third Plan, industries which possess export potential based on advantages derived from available domestic raw materials and low cost labour or from the existence of nearby markets will be identified. In addition, an effective marketing organization for the export industries will be created to relieve them from the difficult task of finding markets.