OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

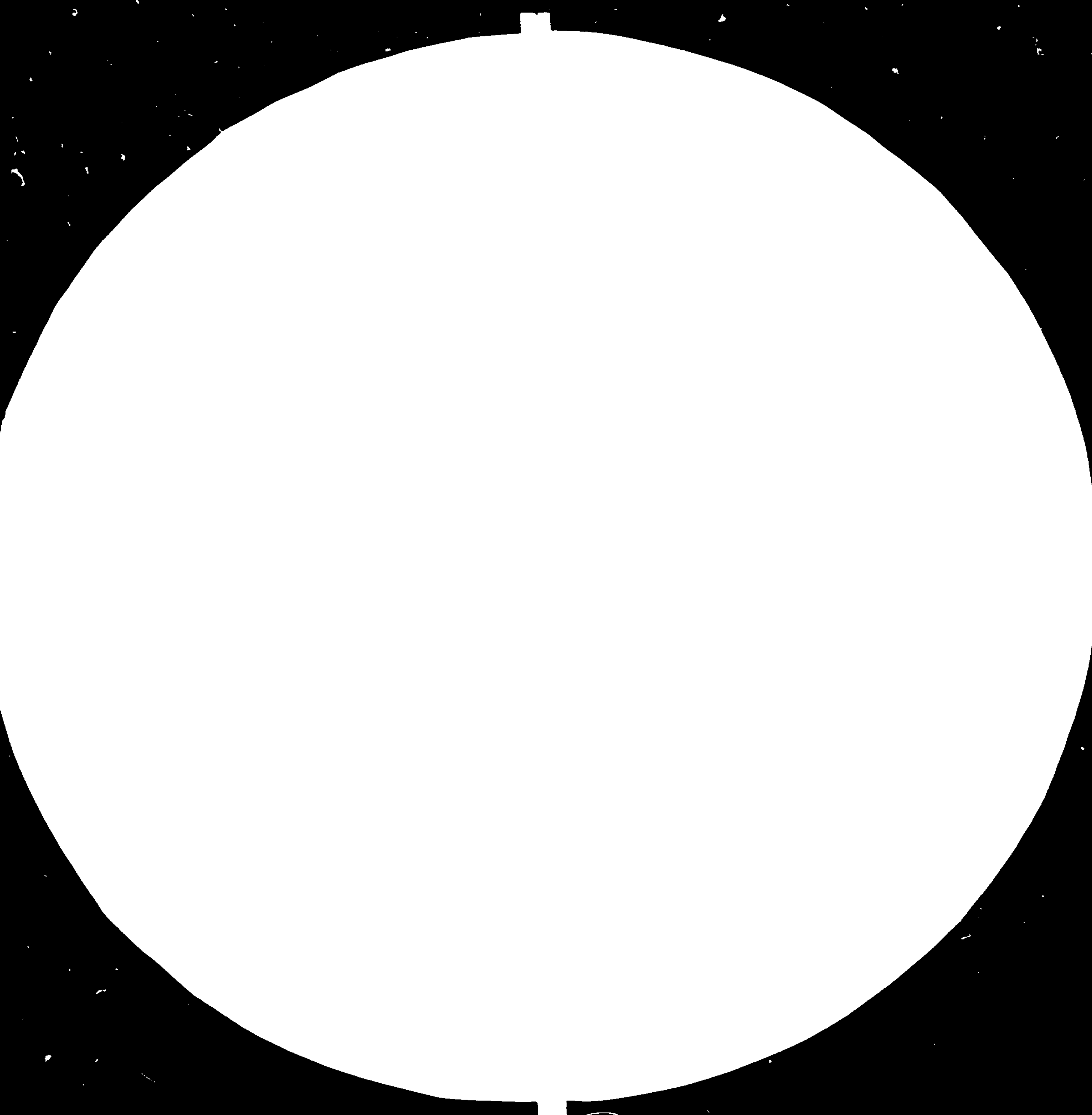
FAIR USE POLICY

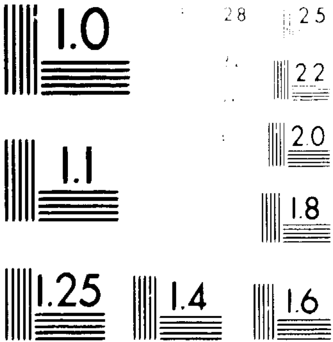
CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org





MICROCOPY RESOLUTION TEST CHART

13145

UNDP/UNIDO _ NESDB PROJECT

ON

INDUSTRIAL RESTRUCTURING

IN

THAILAND

Seminar on Industrial Restructuring in Thailand.

Pattaya and Bangkok, Thailand

22-25 October 1983

Background Note
by
David Wall
International Economics Research Centre
University of Sussex

INTRODUCTION

The Thai economy has been undergoing a continuous process of restructuring for over a hundred years. The Bowring Treaty of 1855 opened up the country to the forces of comparative advantage and commenced the process of adjustments which brought the benefits of international specialisation. Thailand was transformed from a subsistence type agricultural economy to one specialised in export orientated production of rice, rubber, tea and tin - products in which the country had a comparative cost advantage. The earlier industrial base, involving protected production of cotton textiles and refined sugar was more-or-less eliminated by competition from imports.

The second major impetus to economic restructuring came with the shift from an absolute to a constitutional monarchy, following a military coup in 1932. Economic nationalism became the basis of government policy: the Chinese were suppressed, selected foreign firms were nationalised, and a variety of state-owned firms were established. By the early 1950s the Government was involved in several - protected - industries: rice milling; sugar refining; textiles; ore smelting; rubber products; paper; cement; and tobacco.

A third major phase of restructuring can be said to have commenced in 1957-58, following the recommendation of a World Bank mission that the public sector should concentrate on the development of infrastructure and encourage private enterprise to develop industry. In common with many other developing countries in this period, Thailand underwent a more pronounced rate of economic change than had previously been experienced.

The two decades from 1960 saw the Thai undergoing major structural changes. Although agriculture continued to be the most important source of income for most Thais the contribution of this sector to total GDP fell from 40.5% to 24.9%. The fall in

*. The assistance of Atchaka Sibunruang and Nancy Wall in the preparation of this note is gratefully acknowledged.

the share of agriculture is mostly attributable to the fact that the manufacturing sector grew at an average annual growth rate of 10.5% throughout this period, increasing the share of the sector in GDP from 11.8% to 20.7%.

The manufacturing sector itself underwent a process of structural change from 1960 to 1980, as can be seen from the following table.

TABLE 1

Sectoral Source of GDP.

	1960	1980
Food processing	34.6%	14.2%
Beverages & Tobacco	23.6%	9.7%
Textiles & wearing apparel	13.2%	23.8%
Chemical & chemical products	6.8%	8.3%
Transport equipment	5.4%	7.9%
Wood & cork products	6.8%	1.4%
Petroleum refining	0.0%	5.1%
Rubber & rubber products	0.6%	2.7%
Non-metallic mineral products	2.9%	5.6%
Basic metal industries, metal products, and machinery	1.4%	4.0%
Electrical machinery & supplies	0.6%	2.0%

The impressive shift towards the industrial sector in terms of income generation has not been matched by a concomitant shift in employment. Total employment in the manufacturing sector only rose from 470,000 in 1960 to 1,475,000 in 1978, representing an increase in labour absorbtion by the sector from 3.4% to 6.8%. The drift of population to the Central Province, especially Bangkok, was however pronounced as most of the industrial units and their servicing activities were established there; of the 26,468 factories registered in 1979 18,698 were located in the Central Province, and 11,496 of those were in Bangkok itself.

The structural change in the Thai economy is reflected in the composition of its exports. This is indicated in Table 2.

TABLE 2

Composition of Exports, 1960 & 1980.

	1960	1980
Food	45.4%	44.6%
Beverages & Tobacco	0.3%	1.0%
Crude Materials	50.0%	14.3%
Manufactured Goods	1.1%	22.1%
Machinery	__	5.7%
Misc.Manufactured Goods	0.2%	6.4%
Others	3.0%	12.3%

The major categories of manufactured exports (in 1979) were: processed foodstuffs 24.9%, rubber and plastic goods 18.5%, textiles and clothing 16.8%, basic metals 14.2%, and electrical machinery and appliances (mainly integrated circuits) 4.7%.

Another indication of the way in which the structural transformation of the Thai economy has been trade related is provided by two studies by Dr. Narongchai Akrasanee (1975 and 1980). These studies analyse the trends in manufacturing output in terms of three sources of growth: increases in domestic demand; an import substitution effect; and an export demand effect. The studies show that over the period 1960-66, 88.9% of the growth in the output of manufactures can be attributed to growth in domestic demand and 24.7% to the growth of exports, while import substitution developments had a negative impact of -13.6%. In the period 1966-72 the contribution of import substituting industries increased and they accounted for 29.4% of the growth, with the contribution of exports falling to 6.6% and the growth in domestic demand to 64.1%. By the period 1972-78 the contribution of import substitution industries had declined again, to -6.3%, and and those of the growth in domestic demand and exports to 87.2% and 19.1% respectively.

This long process of continual and accelerating structural change in the Thai economy needs to be borne in mind when considering the present calls for industrial restructuring in the context of the Fifth National Economic and Social Development Plan (1982_1986) and the Structural Adjustment Loan programme of the World Bank. Structural change is nothing new in Thailand. What is new - for the first time in over a hundred years - is the strong emphasis on a more open orientation of the economy in order to take better advantage of the benefits of international specialisation and to move away from the inefficiencies of excessive import substitution.

PLANS AND POLICIES.

The basic goal of the Fifth Development Plan (FDP) has been described (1) as:

> "To increase the proportion of manufacturing value added contributed by manufactured exports from 15 per cent to 25 per cent in five years (by 1986). Production for exports is expected to grow by 20 per cent per year and production for domestic sales by about 6 per cent per year;".

The means by which this goal is to be achieved are limited by the constraints imposed by two other objectives, those specifying the need

> "To increase the proportion of manufacturing value added in areas outside Bangkok Metropolis and the four nearby provinces; and
>
> To increase the proportion of value added by small-scale industries."

The attainment of these goals calls for the introduction of policy reforms designed to bring about the rationalization of the structure of protection for domestic production and of the pattern of investment incentives. Policy measures also need to be introduced in order to improve and strengthen the incentives provided to exporters of manufactured goods. Further measures are required to ensure that small-scale firms, and firms outside the central region expand relatively rapidly.

The novel quality of the goals of the current restructuring programmes can be better appreciated when they are compared to those of the preceding Development Plans. The First Plan (1961_66) reflected the tenor of the World Bank mission mentioned above. It called for the introduction of policy measures designed to stimulate private investment into developing import substitution industries behind raised tariff barriers and controls restricting the development of new competitors. The role of the Government was seen as ensuring the introduction of the necessary policy measures, and the provision of the necessary transport facilities and other infrastructure. By the time the Second Plan was introduced, some of the problems associated with import substitution policies were becoming obvious. The Plan reflected this by calling on the Government to devise policy measures to encourage more labour intensive industries, and also industries based on the exploitation of domestic raw materials. At the same time the Second Plan called for the encouragement of inward foreign investment, preferably through joint ventures, and recommended increased support for small and cottage industries.

The Second Plan was outrun by events. The late 1960s saw Thailand moving into balance of payments deficits after many years of surplus. A policy response was already under way by the time the Third Plan was introduced. The import substitution programme had led to extensive imports of machinery and raw materials at the same time as receipts for the US military presence and from foreign investment had begun to decline.The export promotion policy introduced in the late 1960s was consolidated and strengthened in the Third Plan (1972-76). This Plan emphasised the need to encourage the establishment of export orientated manufacturing industries.It also introduced the constraint of ensuring that industry be developed in rural areas. The Fourth Plan simply reiterated the objectives of the Third Plan, although giving them a different quantitative specification to reflect changing circumstances.

The significance of the Fifth Plan's call for increased flows of manufactured exports lies in the *increased emphasis* it places on this objective.This is indicated by the ambitious quantitative targets it sets and by its call for the restructuring of *existing* industry in addition to the usual call for export orientated incentives for newindustry.

POLICY CONSTRAINTS

Objectives set in national development plans are always to some extent simply a matter of wishful thinking; many factors constrain a government's ability to achieve those objectives. Changes in the external environment and unexpected resource limitations are obvious constraints - indeed their frequency leads to their often being used as scapegoats for other more binding but less obvious (and/or less excusable) constraints. Two frequently binding constraints (not always obvious to the outsider) on a government's ability to make the sort of major policy reform required by, for example, Thailand's Fifth Development Plan are what can be called the "vested interest" constraint and the "institutional" constraint. The latter contains within it some elements of the former and they frequently operate concurrently, reinforcing each other.

The introduction of any policy creates groups which have a vested interest in maintaining the policy in force. In the present context the establishment of the import substitution policies (as outlined by Dr. Juanjai Ajananat (2)) has for example created a group of industrialists whose profits, and frequently survival, depend on the maintainance of those policies in force. Often the profits and survival of entrepreneurs engaged in import substitution depend on the continual strengthening of protectionist measures as competition from foreign competitors develops or increases. Such firms can be expected to use what influence they have on politicians, senior officials and the media in order to build up a lobby against the introduction of policies which would threaten their interests. This influence is frequently considerable, given their profits and access to scarce resources which they can "share" with those they seek to influence. Their pleas can be seductive as the employment, income and apparent foreign exchange savings they generate appear to have substance as compared to the abstract promises of those advocating reforms.

The pleas for maintained or enhanced protection do not always need to be sweetened by a share of the benefits from such protection in order to ensure that they do not fall on deaf ears.Politicians and senior government officials with interests in protected industries are not unknown. Moreover, the staff of the institutions required to implement protectionist policies can themselves constitute a significant impediment to reform _ this is the basis of the institutional constraint on policy mentioned above. Leaving aside the issue of "dash", it is not always easy for leopards to change their spots: the skills and mentality required of officials responsible for implementing a successful export drive are quite different from those required by people whose experience has been in maintaining domestic market orientated protection policies. Officials wishing to prevent the introduction of new policies or to frustrate the effectiveness of any which have been introduced, whose intentions are contrary to their perceptions of their interests, are in a good position to achieve their ends. Apart from their benefiting from proximity to political decision makers, they are also in a good position to form alliances (formal or informal) with influential businessmen whose interests are also actually or potentially compromised. And if they fail to prevent the introduction of policies they regard as inimical to their interests they have a whole battery of bureaucratic devices which can be used to impede the effective implementation of those policies.

The two papers on export promotion aspects of the current industrial restructuring programme of Thailand (those by Dr. Juanjai Ajanant and the present author(3)) both identify areas of potential conflict of interests of the sorts which have just been mentioned. Both papers indicate the sorts of policy reform which will be necessary to move the Thai economy from a basically inward to a basically outward orientation. Both papers also identify some of the actual and potential constraints which are currently slowing down, or which can be expected to slow down, the process of liberalisation. Indeed, some of the recent liberalisation moves are illusory as they have concentrated on redundant tariffs while leaving the controls which provide the effective protection untouched.

One export development strategy which has been advocated is that based on the enhancement of value-added in exports of domestic raw materials which are currently exported in unprocessed or only simple processed forms. Such a strategy appears to offer a way of reducing the vested interest constraint as it holds out to those currently engaged in the production of the unprocessed or semi-processed commodities the prospect of enhanced profits from higher value added production. This strategy also appears to offer a solution to the "market research problem" in that awareness of the trade pattern in an intermediate goods offers a good basis for identifying markets, and the agents operating in those markets, for the more highly processed versions of those goods. While recent research (for example by UNIDO (4) and the present author (5)) has shown that the location of production of an intermediate good is not always the economically most efficient location for downstream production, the strategy does provide a good basis for analysis of the prospects of increasing net foreign exchange availability via export growth. The Fifth Development Plan recognises possibilities in the earlier processing stages:

> "The export industry is to expand by at least 15 per cent per annum and efforts should be made to increase this to 25 per cent by promoting primary processing industries, such as those for processed foods, jewelry, ornamental items, furniture, leather and rubber products, and wood products."

The Plan also states that

> "The Government will promote and encourage the utilization of local minerals by creating related industries which will increase the value added of mineral outputs and economic benefits instead of exporting them in the form of metals."

although the same logic could be applied to non-metallic minerals.

MINERAL PROCESSING AND ASEAN/AUSTRALIAN ECONOMIC COOPERATION.

Thailand is the co-chairman country of the Study on International Trade in Minerals, Energy, and Mineral Products (TMEMP) being conducted under the auspices of the Joint ASEAN/AUSTRALIAN Economic Cooperation Research Project. Dr. Praipol Koomsup of Thammasat University is Director of this sub-project and author of the country study on Thailand (6).

The TMEMP has three phases. The first, now nearing completion, has consisted of a fact-finding stage involving the compilation of data on the production and reserves of minerals and energy in the six ASEAN countries and Australia. Data was also assembled on the state of processing of the various minerals in these countries and on plans for future developments. The second stage of the project is commencing now and involves an account and analysis of the factors which influence the development of the processing industries: natural factors such as transport requirements; availability of energy in different locations and ore quality; policy factors such as treatment of foreign investors, all forms of commercial policy, and fiscal policy; and "stage of development" factors such as the availability and nature of physical and institutional infrastructure, and the availability of and access to embodied and disembodied technology. The third phase will, against the background of the first two phases, examine the prospects for mutually beneficial cooperation among the the ASEAN countries and between them and Australia in the minerals, mineral processing and energy sectors.

There is clearly scope for RESCOM to benefit from the activities of the ASEAN/Australian TMEMP Joint Research Project. The papers prepared for this seminar give an indication of the potential complementarities. The papers on the chemical and automotive industries are concerned - to different degrees - with the foreign exchange earning or saving prospects of downstream processing activities, as is that on food processing and textiles although in this case indirectly via canning and petrochemical based man-made fibres. The paper on technical assistance in the engineering industry highlights the difficulties which an expansion of processing activities, which are almost engineering dependent, would face given the present availability of skilled workers and support systems; this paper provides a well thought out plan for the restructuring of the institutional framework for training engineers and for the provision of supporting technical and standards services which would be required to support such an expansion on an internationally competetive basis. The sector studies also stress the need for Thailand to think in terms of the international context, which is precisely what the Thai participants in the Joint Project are doing.

The potential for cross-fertilisation between the UNDP/UNIDO - NESDB and TMEMP projects already exists, as both Dr. Narongchai Akrasanee and the present author are currently advisors to both projects. Hopefully these arrangements will continue so that the results of the TMEMP project can be fed into the work of RESCOM and a viable plan drawn up for the export orientated restructuring and development of the mineral processing sector.

REFERENCES.

1) "Aide-Memoire for the Seminar on Industrial Restructuring in Thailand." UNIDO, Vienna, 23 Sepember 1983.

2) "Export Promotion in Processed Foods and Textile Products" by Juanjai Ajanant, Ph.D., Report Number 1 in a series of policy papers on industrial restructuring in Thailand, prepared by IMC consultants for NSDB/UNDP-UNIDO. Bangkok, June 1983.

3) "Industrial Restructuring in Thailand - Some Observations on Export Policy Instruments and Institutions", by David Wall, Document Number UNIDO/IS/R.7, Vienna, 31 March 1983.

4) "Industrial Processing of Natural Resources", United Nations, Sales Document Number E.81.II.B.1, New York 1981.

5) "Industrial Processing of Natural Resources", by David Wall, World Bank Commodity Working Paper Number 4, Washington, D.C., June 1979.

6) "Minerals and Energy in Thailand: Production, Consumption and Trade, 1970-1980", by Praipol Koomsup, A draft report for the ASEAN/Australia Joint Research Project on Trade in Minerals, Energy, and Processed Mineral Products, Bangkok, February 1983.