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PROMOTION OF SMALL AND MEDIUM SCALE INDUSTRIAL DEVELOPMENT IN THE SONGKHLA LAKE BASIN SOUTH THAILAND

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INDUSTRIAL MANAGEMENT CO., LTD.

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I. INTRODUCTION

1.01 At present, almost 90 per cent of national industrial output is generated in the Central Region, Bangkok Metropolitan in particular, because of its well established infrastructure, large market size, availability of educated manpower, good urban services, and accessibility to both other regions and abroad. The industrial concentration in the Central Region will be accelerated if Eastern Seaboard Development comes in its full operation. Although the disadvantages of agglomeration will appear sooner or later in the form of rise in land prices, wages, transportation cost and pollution abatement cost, individual industrialists cannot go out of the metropolitan area because investment environment is extremely inferior in the non-metropolitan regions, with underdeveloped areas for industrial use, low skilled manpower, inconvenient transportation, poor urban services on top of a limited market size. Industrial development in the non-metropolitan regions could not be achieved without government support.

1.02 The South Thailand has long been an interesting region as a candidate for regionalization of industrial growth. The justifications for this region are basically the availability of natural resources and materials for industrial use like rubber, fishery, minerals and the advantage of its location as trade entrepot. In recent years, there were at least three major studies on industrial development in the South Thailand. In

1974/75, the Hunting team /1 proposed that the Thai Government should establish industrial estate and export processing zone in Songkhla or Phuket. Ten years later, the JICA team /2 had extensively surveyed the Upper South area and made strong recommendation that industrial estate in Surat Thani and export processing zone be established in Phuket. Accordingly, the John Taylor and Sons Consortium /3 conducted an economic-cum-environmental study on the development of Songkhla Lake Basin and concluded that the Southern Region industrial estate in Songkhla-Haadyai and export processing zone at Songkhla Deep-sea Port be established. Despite their development linkages, the three growth poles of Surat Thani, Phuket and Songkhla are inevitably competitive to each other, taking into consideration limited government budget and development efforts.

1.03 The Sixth National Economic and Social Development Plan (1986-1990) states clearly that the main objectives of regionalization are to open the regional economy to world competition, to disperse industrial development to the Southern region in close relation with the development of other areas, and to increase efficiency in natural resource exploitation and in

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/1 Hunting Technical Services Ltd., South Thailand Regional Planning Study: Physical Planning, Final Report, London, 1974.

/2 Japan International Cooperation Agency, The Sub-regional Development Study of the Upper Southern Part of Thailand Industry, Volume 4, March 1985.

/3 John Taylor and Sons Consortium, Songkhla Lake Basin Planning Study, Final Report, October 1985.

environmental management as well. In this regard, top priority has been given to the development of Songkhla/Haadyai as the principal economic and administrative centre of the South. Transportation and communication systems will be set up to establish the interlink between the Eastern Coastal area (Surat Thani) and the Western Coastal area (Phuket).

1.04 The objectives of this study are to explore the industrial development experience in Songkhla Lake Basin area and to formulate policy guidelines and measures for the promotion of small and medium industries in the region with a special emphasis on the cooperation between the government and private sectors. The Songkhla Lake Basin (SLB) refers to the whole area of Songkhla Province and Phatthalung Province and Hua Sai District and Cha-uat District in Nakhon Si Thammarat Province. For most studies on SMIs development including the present one, the size of industrial firm is based on the number of workers employed, i.e., those establishments employing 10-49 and 50-200 workers are classified as small and medium industries, respectively.

1.05 Apart from the three major Southern region development studies and other documents, this paper is mainly based on the findings of two economic surveys carried out by IMC staff in 1984 /1 and 1985. /2 In addition, plant visits and interviews have

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/1 Industrial Management Co.,Ltd., Policy and Programme for the Promotion of Small-scale and Regional Industries, Vol.5 of Industrial Restructuring Study prepared for the NESDB, Sep. 1985.

/2 Industrial Management Co.,Ltd., Policy and Programme for Investment Promotion of Decentralization and Agro-industries, Vol.3 of Planning for Investment Promotion prepared for OBOI, Nov. 1985.

been conducted in Songkhla-Haadyai during 15-19 August 1986. The sample firms include two frozen seafood companies, two rubber product firms, one foundry, one parawood furniture factory, and one bottled water firm . Discussions with IFCT staff at Haadyai Branch Office, government officials at the Southern Region Development Centre, Provincial Industry Office, the Southern Industrial Promotion Centre and at the Southern Industrial Economic Development Centre are also highly appreciated. The main thrust of this survey aims at examining the existing situation of industrial development in SLB, identifying pertinent problems and prospects, and drawing some implications on the future of public-private cooperation.

1.06 This paper is divided into five parts. Following the introductory chapter, Part II examines the economic and industrial development in SLB which encompass the salient features of the Basin economy, the industrial structure and performance, and current development projects of direct relevance to industrial growth. Part III analyses promotional activities for SMIs development carried out by various government agencies and identifies the inherent strengths and weaknesses affecting business improvement at the local provincial level. Part IV presents the review and assessment of impact of the promotional activities relating to five selected enterprises on the basis of detailed interviews with the respective enterpreneurs and persons involved in the promotional works. Finally, Part V presents policy guidelines and measures necessary for promoting industrial investment in SLB.

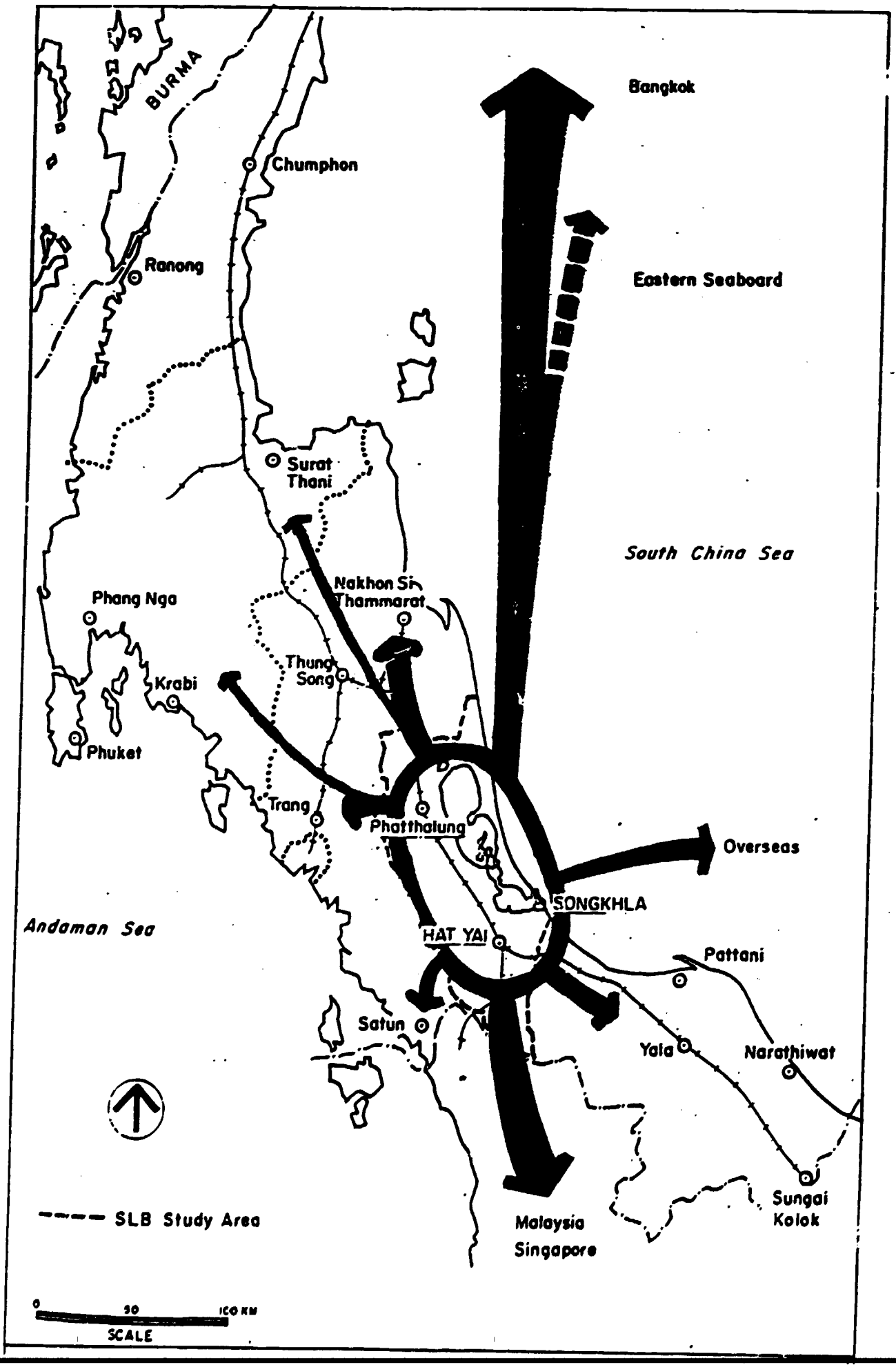
II. THE ECONOMIC AND INDUSTRIAL DEVELOPMENT IN SONGKHLA LAKE BASIN

The Basin Economy and Linkages

2.01 In terms of spatial layout, Songkhla Lake Basin covers the whole area of Songkhla Province, Phatthalung Province, and Amphoe Cha-uat and Amphoe Hua Sai in Nakhon Si Thammarat Province. Since the statistical figure at the district level is quite limited, the following discussion will focus on Songkhla and Phatthalung or otherwise indicated. On the whole, Songkhla Lake Basin is a sub-region on the Eastern side of the Southern Peninsular covering 8,020 sq.km., of which the Songkhla Lake itself covers 1,082 sq.km. The SLB Study area also covers Amphoe Cha-uat and Hua Sai in Nakhon Si Thammarat (a further 1 099 sq.km.) bringing the total area to 9,119 sq.km.

2.02 The Study area is linked to surrounding provinces by a good road network and the Southern railway branches at Haadyai to enter Malaysia at Padang Besar to the West and Sungai Golok to the East. (See Figure 1) The Basin is a predominantly agricultural part of Thailand. The Basin is more than self-sufficient in rice production, particularly Phatthalung which supplies rice mainly to the four border provinces of Narathiwat, Pattani, Satun, and Yala. Other natural resources are also available; they are rubber, fisheries, forestries, and livestocks.

Figure 1: SLB LINKAGES



2.03 The growth path of the Basin is on the increasing trend. Available statistics for Songkhla and Pattalung show that Gross Sub-regional Product of the Basin grew at 5.3 and 6.7 per cent in real terms during 1975-80 and 1980-85 period, respectively. The Basin share in Southern Gross Regional Product was 23.3 per cent in 1985. Comparing to its share in Southern population of 22 per cent, the Basin contributed slightly above-average share in Gross Regional Product. Per capita GSP in 1985 was 5,743 Baht or about 106 per cent of per capita GRP and 78 per cent of the country average.

2.04 A closer look at the Basin economy reveals that the leading sectors are agriculture (33.2 per cent in 1985) and, to a much lesser extent, wholesale and retail trade, services, and transportation and communication. The agricultural growth was fuelled by the contribution of fisheries and rubber. It should be noted that the relative contribution of manufacturing and mining industries was quite limited; their shares in GSP were only 4.1 and 0.8 per cent in 1985, respectively. At the same time, the strong growth performance was markedly seen in electricity and water supply, banking services, commerce, transportation and communication, and construction.

2.05 According to the 1980 Census, the SLB population was 1.20 million, of which 650,000 were in Songkhla, 410,000 in Phatthalung and 140,000 in Amphoe Cha-uat and Hua Sai, Nakhon Si Thammarat. In the period 1970-80 the Basin's population grew at 2.8 per cent per annum, faster than Thailand's 2.68 per cent per

annum. About 220,000 people lived in urban areas in 1980 (17 per cent). The most recent statistics reveal that at the end of June 1985 the number of population are 0.969 and 0.425 million in Songkhla and Phatthalung, respectively, or about 22 per cent of the total population in the South.

2.06 The Basin labour force, defined as the economically active population aged over 10 years, was 612,000 in 1980, representing 70 per cent of the Basin's population of working age and 51 per cent of the Basin population. The labour force grew at 2.9 per cent per annum during the 1970's, marginally higher than the nation's population growth. The 1970's saw a slight shift in the proportion of the Basin's labour force engaged in agriculture, forestry, and fisheries, down from 84 per cent in 1970 to 77 per cent in 1980. All other sectors experienced growth in their shares of the labour force.

2.07 As mentioned above, the Basin economy is heavily oriented towards the primary sector especially the agriculture. Moreover, the manufacturing sector plays a very marginal role in economic development. Simultaneously, the economic structure of SLB is different from that of the Southern Region in three major ways:

(i) very prominent fishery sector;

(ii) much less significant forestry and mining sectors;

(iii) more developed services sector.

2.08 The main centres in the Basin are Haadyai and Songkhla, followed by Phatthalung and other towns. Both Haadyai and Songkhla are growing vigorously and emerging as a regional growth centre providing commercial and administrative services to the Lower South. In this regard, there is a strong interdependence between Songkhla Lake Basin and its vicinity. Six main forms of linkages can be observed:

(i) The food-processing plants in Songkhla attract a wide variety of raw materials especially high-valued fishes and shrimps, from Trang, Satun, Nakhon Si Thammarat, Surat Thani, and Pattani;

(ii) The Basin becomes the major distributor of rice to neighbouring provinces and Malaysia;

(iii) There are service linkages, especially commerce and distribution, between Haadyai/Songkhla and smaller urban centres;

(iv) Construction materials are brought into the Basin, for example, cement from Nakhon Si Thammarat;

(v) Labour migration to work in Haadyai/Songkhla is active; and

(vi) Border trade with Malaysia through Haadyai/Songkhla is extensive.

2.09 On the other hand, there are also disadvantages for economic development in SLB. The shortage of such infrastructure as telecommunication, transportation, and supply of electricity

in quality has long been one of the major impediments to further growth. Among other things, the inconvenience of communication with major markets abroad has adversely affected export potential of the region. In addition, the depletion of traditional materials like logs and fishery is present. Without well-defined resource management system, the possibility to raise production levels for such materials is rather limited. The problem is exacerbated by the facts that SLB is far away from the major markets in Bangkok and abroad and that investors seeking the scale of economy rarely base their activities in the local market in view of demerits associated with small market size.

Industrial Structure of SLB

2.10 The manufacturing value added (MVA) of SLB increased from 245.9 million baht in 1975 to 345.6 million baht in 1985. In the meantime, its growth rate was 6.5 per cent per annum during the 1975-80 period and then dropped sharply to only 0.5 per cent per annum during the 1980-85 period. This resulted in a declining share of manufacturing sector in the Basin economy from 5.3 per cent in 1975 to 4.1 per cent in 1985. Unfortunately, the disaggregate data of MVA are not available.

2.11 While the 1980 Census recorded some 22,000 persons engaged in the manufacturing sector in Songkhla and Phatthalung (compared with an estimated 24,400 for the whole Basin), the two provincial industry offices identified 14,126 persons employed in manufacturing establishments in 1985. The balance represents the informal manufacturing sector, home industries and establishments

employing 1-4 persons. Manufacturing employment in Songkhla and Phatthalung is almost entirely in resource-based industries.

2.12 The Ministry of Industry recorded that in 1985 there were 1,048 manufacturing establishments with total investment of 1,228.6 million baht in Songkhla and 686 establishments with total investment of 116.9 million baht in Phatthalung. By and large, these industries are small-scale firms. Among 1,125 establishments in Songkhla, only 22 of them can be classified as medium-sized firms and the other 12 as large ones. As expected, about one half of the plants is rice mill. For the rest, major types of industries encompass food-processing (seafood in particular), rubber products, non-metallic products, and transport equipment and repair.

2.13 As for Phatthalung Province, the industrial structure is dominated by rice mills, 614 out of totally 686 establishments. Other types of industries are wood products (furniture and boxes), food processing (noodle and ice-making), non-metallic (kilns and bricks), and repair shops. One startling fact arising from our review is that despite its extensive rubber plantation area of 400,000 rais, there is no rubber processing plant in Phatthalung. Instead, rubber is delivered to Trang, Nakhon Si Thammarat, and Songkhla for further processing. Most industries are small firms and none of them can be classified as large firm.

2.14 With regard to the fishery sector, the role of marine fisheries has been declining to a certain extent. Supply sources have been deteriorated in recent years due primarily to

heavy exploitation of marine resources. The situation is aggravated by the introduction of 200-mile economic zone. Simultaneously, there are vast opportunities in developing hatchery farming particularly giant fresh water prawn and seabass. For processing industries, export potential for various kinds of frozen and canned seafoods seem to be very strong in the foreseeable future. Serious improvement in the whole array of production processes from the port, the cold storage to the processing plants will help ameliorate and strengthen the industry's competitive edge in the world market.

2.15 Almost all of the rubber has been transported out of the area in the form of smoked sheet and block without being processed in more sophisticated products. Most of the rubber processing industries including rubber tire factories are located in the Bangkok Metropolitan. However, only a small portion of rubber is for industrial use in Thailand. Taken into account the on-going replantation programme increasing supply of rubber poses serious queries over the potential utilization of this abundant resource. The Southern Industrial Economic Development Centre identified rubber band, tire and tube, shoe and concentrated latex as candidate projects for investment promotion.

2.16 As regards wood industries, local resources have been used for such products as construction material, fuel or materials for charcoal, wood boxes, wooden cases, and matches. The production of furniture is heavily oriented towards the export markets. The intermediate industry, saw mill, however, faced with chronic supply of materials. Without the improvement

of resource management, rubber wood seems to be the only promising source of material.

Current Development Projects

2.17 It has been generally noted that most of investors are not satisfied with the industrial environment, and have been suffered from insufficient and unreliable utility services such as fresh water, electricity, telecommunication, and urban amenities. Indeed, government supports are needed in two areas: one in investment for improvement of infrastructure and the other in institutional and organizational arrangement for industrial promotion. The former will be discussed below while the latter will be elaborated in the next part. Several development projects have been undertaken in the Fifth Plan period, some of them continuing into the Sixth Plan period. They include the Songkhla Deep-sea Port, the Tinsulanond Bridge, the Southern Region Industrial Estate, the Songkhla/Haadyai Principal City Development Project, and the Haadyai International Airport Development Project.

2.18 The deep-sea port at Khao Daeng will provide modern port facilities for loading cargoes onto and from 9,000-20,000 deadweight tons vessels. There will be two berthes for conventional freighters and one berth for container freighters. The port is scheduled to be completed in 1987. The development of an industrial zone in the Haadyai Deep-sea Port will also be culminated as a programme of the Sixth Plan.

2.19 The Industrial Estate Authority of Thailand has determined an area on Kanjanavanich Road between Songkhla and Haadyai to be the site for the Southern Region Industrial Estate. In April 1987, the private sector was invited to propose joint investment project of not less than 500 rais. However, there was no proposal which met the requirement and conditions set by the IEAT. Seemingly, the public agency had to go alone in seeking the appropriate area. In addition, the IEAT has reserved an old mine area at Tambon Tha Chalung, Haadyai, located on the National Highway No. 4 (Petchdasem Highway), 12 kms. from Haadyai. This area is approximately 2,700 rais, out of which 400 rais were a reservoir. The project is still under consideration no definite schedule has been set so far.

2.20 The construction of the Tinsulanond Bridge is aimed to improve traffic congestion at the twin ports between the Khao Daeng coast and Amphoe Muang Songkhla coast and concomitantly to facilitate the development of the Songkhla Deep-sea Port and the Southern Region Industrial Estate. The bridge will expedite the transportation and communication between the Upper and Lower South. Its length is 2.8 kilometers with total investment cost of 402.5 million baht. The construction has already been completed in August 1986.

2.21 According to the Fifth Plan, Songkhla-Haadyai will be developed as the Southern region growth center. Songkhla will be developed as a main seaport town for exports, whereas Haadyai will be developed as a centre for transportation, commerce and services. This calls for a massive improvement and an expansion

of basic urban infrastructural facilities with the gross budget of 911.6 million baht. The programme for Songkhla municipal area consists of the drainage and flood prevention system, Tha Sa-an Slum resettlement project, and the garbage disposal at fish ports. As for Haadyai municipal area, the development programme comprises the drainage and flood prevention system, project for improving Sri Puvanat Road, Rattana-utit Road and Radyindee Road, and the construction of an overhead bridge across the railway. Most of the projects will be completed in 1987.

2.22 The Haadyai International Airport Development Project is undertaken in order to serve an increasing demand for air transportation especially for tourism. The passenger terminal has already been expanded to cope with 800 visitors at any given time. The Department of Civil Aviation will expand and improve the runway and other facilities necessary for the landing of wide-body planes such as the Boeing 747s.

III. PROMOTIONAL ACTIVITIES FOR SMIs DEVELOPMENT

3.01 This part deals with delivery of services to small and medium scale industries in Songkhla Lake Basin. The emphasis is on assessing current activities and organizational linkages of various central and regional agencies concerned. The government offices and private institutions which are based in Songkhla and Phatthalung include:

- Southern Region Development Centre, NESDB
- Southern Industrial Promotion Centre, Department of Industrial Promotion
- Southern Industrial Economic Development Centre
- Provincial Industry Offices at Songkhla and Phatthalung
- Institute of Skill Development, Songkhla
- Prince Songkhla University
- Rubber Research Institute, Songkhla
- National Institute of Coastal Aquaculture, Songkhla
- IFCT Southern Branch Office, Haadyai
- Provincial Chamber of Commerce
- Southern Office of Association of Thai Industries

Planning

3.02 Development planning is carried out at many levels and by various agencies. At the top is the National Economic and Social Development Board (NESDB) which is responsible for the planning in the overall national perspective. Special attention should be placed on the culmination of SLB development in the

Sixth Plan. Major programmes for SLR include urban development and land use planning, industrial development, and natural resources and environment management. As for industrial development programme, the Plan refers to the Southern Region Industrial Estate, industrial zone at deep-sea port and study on agro-processing in Phatthalung.

3.03 At the ministerial or sectoral level, industrial planning is handled by the Industrial Economic and Planning Division, Ministry of Industry and one of its regional centre located in Songkhla. The planning capacity of the Southern Industrial Economic Development Centre as well as other centres is severely limited by staff and budgetary constraints. In the Sixth Plan, the Southern Centre has proposed to conduct industrial plans for the region as a whole for the specific development area including SLB, and for certain provinces with industrial potential. Industrial planning for small enterprises is also carried out by the Planning Division of the MOI's Department of Industrial Promotion (DIP) in collaboration with other units within and outside the MOI. These plans are intended to be operational and are carried out under the guidelines of the National Plan. At the local level, Provincial Industry Offices are required to formulate annual industrial development plan with the aim to set supporting activities for local entrepreneurs. In FY 1987, Industrial Promotion and Development Section will be set up as a part of Provincial Industry Office in Songkhla as well as in Surat Thani and Nakorn Si Thammarat.

Ideas and Opportunities

3.04 There are at least three organizations that are active in providing information and data on investment and market opportunities. They are the Southern Industrial Economic Development Centre (SIEDC), the Southern Industrial Promotion Centre (SIPC) and the Office of the Board of Investment. For the most part, activities of the SIEDC are concentrated on the monitoring of industrial economic situation in the South and the studies on some potential products which are widely distributed to interested persons. The SIEDC will prepare investment opportunity studies on rubber processing products in FY 1987, on ceramic products in FY 1988, and on tin, wulfram, and fluorite products in FY 1989-90. The SIPC has also carried out some industry studies especially those on metal and machinery products. The OBOI has recently put more attention to promote regional investment. In April 1987, an investment opportunity study executed by OBOI was discussed in the regional seminar held in Haadyai.

3.05 It is noteworthy that a drastic change in the role of Provincial Industry Office from regulatory to promotional function should offer an effective mechanism in information dissemination. It has been stipulated that there will be an industrial information service centre established in the Provincial Industry Office, Industrial Directory and specific information for investment decision will be distributed, and advisory services will be provided on issues related to rules and

regulations, industrial siting, machinery and instalment, source of raw material, funding, and marketing.

Resources

3.06 The Basin is a resource-oriented economy. Obviously, rubber and fishery play a vital role in industrial economic development. Apart from the continuing rubber replantation programme undertaken by the Ministry of Agriculture and Cooperatives, the Songkhla Rubber Research Centre is responsible for R&D in rubber plantation and processing in SLB area. On fishery, the increasing importance of aquaculture as an alternative source of raw materials becomes evident in the light of the depletion of marine resources. The National Institute of Coastal Aquaculture, Songkhla of the Department of Fisheries takes initiatives in R&D and dissemination of hatchery technology. The Department of Fisheries has just recently promoted the contract farming system by introducing large firms to make contractual arrangement with small farmers. In fact, this is a part of major programme to boost hatchery and aquaculture in the East and the South. The potential area for aquaculture in Songkhla Province is estimated at 1,500 rais, compared to the existing one of 382 rais.

Technology Diffusion

3.07 The role of the Southern Industrial Promotion Centre deserves special attention insofar as industrial services and support are concerned. The centre, established in 1982, serves as the representative of DIP in the South. It relies heavily on

Bangkok-based divisions in technical information, research and technical staff for training. Its own staff are not likely to be able to conduct their own research, nor to organize their own training activities, but will coordinate with the Bangkok officers to render services to meet local needs. Conventionally, the centre in collaboration with the Industrial Service Division has organized such basic courses as fiber-glass making, chromium plating, and boiler control. In 1985, five technical courses were conducted with total participants of 322. In addition, technical information service is offered upon request. However, there are only a few cases of consultancy services. Nevertheless, under resource constraint, we could say that the performance of the Centre is very good and their staff are very well accepted by the entrepreneurs.

3.08 The other sources of technology information for SMIs are Prince Songkhla University. We have learned that many industrialists always search for some specific know-how from the faculties. At the same time, some faculty members work as consultants for private industries. Moreover, the University not only conducts R&D activities in specific fields relevant to industrial development in the South but also collaborates with other institutions to extend knowledge to the public. For example, in March 1987, the Prince Songkhla University in cooperation with Technology Transfer Centre of Ministry of Science, Technology and Energy organized a technical workshop on rubber and rubber-related technologies. Lastly, the Southern Association of Thai Industries has also attempted to help their

members by contacting various technical sources in Bangkok and by arranging plant visit to the interesting industries elsewhere.

Management Training

3.09 This activity is engaged by the Management Development and Productivity Division within DIP. It is concentrated on town areas where potential entrepreneurs are identified and provided orientation for enterprise development. The wide range of activity includes personal consultation, training and demonstration. In organizing each training course, close cooperation with the Southern Industrial Promotion Centre is the norm. In 1985, three courses on modern management technique, filing, and accounting were organized with the total participants of 140. During our visit to Songkhla, we have got the impression that the entrepreneurship development programme conducted by the Industrial Development Centre within the Management Development and Productivity Division and the Southern Industrial Promotion Centre has generated a seemingly effective and profound result. Young businessmen are more and more opted to seek for new way of doing business and, above all, new opportunity. Many of them have attended the courses whereby modern management techniques were sorted, technology and marketing information was searched, and business experiences were exchanged. Nevertheless, the supply of such services was quite limited. By the end of 1986 only 11 courses of such programme were organized in various provinces. And each course consists of 25-30 participants. We have the feeling that, at least in the case of Songkhla Province, these

young participants have formed the new core group in the business circle, and if properly organized, should pave the way to create joint public-private effort in the foreseeable future.

3.10 As regards private institutions, the Institute of Management Education for Thailand Foundation (IMET) in cooperation with the National Institute of Development Administration has played an important role in strengthening the secretariat staff of Provincial Chambers of Commerce since 1984. Modern management courses are also organized for entrepreneurs in regional areas. In addition, the consultancy services are provided upon request. Each consulting team will consist of IMET coordinator, an university lecturer, and an experienced businessman. The IMET received financial assistance from the Centre for Inter-private Enterprise and from the donation of those participated in training courses. The Institute has a plan to launch a young business and civic leader programme which, by nature, is similar to the entrepreneurship development programme conducted by Ministry of Industry.

Skill Improvement

3.11 An employment-oriented training is provided by Institute of Skill Development at Songkhla. A wide array of courses are offered ranging from plumber, welder, machine operator, boiler controller, to designer, surveyor, and draftman. In FY 1985, the Institute trained 1,386 persons. Among the successful programmes are the training courses in mechanical and electrical skill, and wood and metal working. These courses last from 4 to 14 months.

Although these training courses are viewed as more practical and employment oriented, they are not well known among SMIs entrepreneurs.

Credit

3.12 The Industrial Finance Cooperation of Thailand (IFCT) has provided medium and long term project loans to industries. Since 1984, part of the new lending has been directed specifically at small scale projects. IFCT also places more emphasis on regional projects. The minimum and maximum loan for small projects is 0.5 and 5 million baht, respectively. During 1984-86, IFCT has financed 13 projects in Songkhla Province with the total loan amount of 33.3 million baht. The average loan size is between 2-3 million baht per project. Those projects include smoked rubber, concentrated latex, brick, cement product, plastic product, refined palm oil, and so on. As for Phatthalung, IFCT has so far extended loan to only one project on parawood processing. In addition, the industrial credit guarantee scheme will guarantee working capital and overdrafts for businesses with fixed assets of less than 10 million baht. The operation has just started in 1985. And only a chicken farm received this assistance.

Promotional Privileges

3.13 The Office of the Board of Investment is responsible for granting promotional privileges to the approved farms. The privileges include exemption or reduction of import duty, income tax holidays and other special benefits. Such privileges have so

far benefitted only the medium and large scale industries, but consideration is being made to expand them to small scale industries as well. By the end of 1986, there were 10 promoted manufacturing firms in operation in Songkhla Province. They were agro-processing firms and one wire plant. So far, there is no promoted firm in Phatthalung Province.

IV. CASE STUDIES

4.01 This part reviews the performance of five selected enterprises on the basis of detailed interviews. The contents of each case study cover the current situation of SMIs development, pertinent problems and prospect of the firms, related government assistance programmes and implications on the future of public-private cooperation. At the outset, some general observations should be taken into consideration. The competence of the entrepreneurs is very highly commendable. They are quite curious and aggressive. They have shown strong interest in searching for new business opportunities. Our impression was that financial factor is not the major constraint limiting industrial growth and investment at the moment. On the part of entrepreneurs, tremendous effort has been devoted to finding and developing new market and, to a much lesser extent, the technology. Unfortunately, the dissemination of information is far from adequate. This is probably one of the major programmes for future public-private cooperation.

Case Study I: Rubber Processing Plant

4.02 The company has involved in rubber business for more than 20 years. The number of workers employed was about 80-100. Its main products are smoked rubber, crepe, and rubber bands for export. Rubber band product has been very successful during the last few years; 90 per cent of which are exported to the USA. Previously, the company conducted a market study and found that

the market for rubber gloves, bands, and foam was very large and promising especially in the US. Despite harsh competition, the company can compete effectively with Malaysian exports and quality of the product is the key to success. In the light of rapidly growing market, the company plans to increase its capacity in the next two years.

4.03 The owner expressed the view that while the current production capacity of Thailand was much below the world market requirement, many local firms produced low quality products serving for only domestic market. With some quality improvement, those firms could easily enter overseas market. The other problem is the lack of modern and sophisticated technology for manufacture of such products as gloves, condoms, and sporting equipment. In this respect, we learned that the owner of this company together with his friends in the rubber business was going to visit Japan to establish marketing channel and find some source of technical know-how for producing gloves.

4.04 On government assistance issue, the owner had known various kinds of industrial services and programme. He mentioned technical assistance provided by the Southern Industrial Promotion Centre, training and seminars organized by many agencies including Department of Industrial Promotion, Prince Songkhla University, and Institute of Management Education for Thailand Foundation, and labour training by Department of Labour. He occasionally attended the training courses and seminars. However, the statement was made clearly that the owner can handle

his business operation and, even on the technical aspect, he prefers to learn by trial and error himself, for example, his attempt in adapting the imported Japanese machine.

4.05 When asking what the government agencies should do, the following recommendations were made:

(i) promote rubber processing industries as a target industry of the South;

(ii) impose stringent quality requirement in order to maintain market discipline and prevent cut-throat pricing;

(iii) disseminate information on new market and/or introduce foreign partners/investors in the prospective business.

Case Study II: Rubber Processing Plant

4.06 This limited partnership firm has been established for 30 years. There were 30 workers engaging in the production of smoked rubber sheet. Just in 1986 the factory started the production of concentrated latex for export since the market potential was good and the prices were very attractive. The expansion of the firm was financed in part by the Industrial Finance Corporation of Thailand. The export markets of smoked rubber sheet were Malaysia, Singapore and Japan, while those of concentrated latex were Republic of Korea, Taiwan, and the USSR. Owing to the differences in both market destination and product application, the increase in concentrated latex production did not have adverse effect on the market and, then, prices of smoked

rubber sheet. He mentioned that investment cost in centrifugal machines was high. His plant employed 6 centrifugal machines worth about 10 million baht.

4.07 The owner was worried about the increasing number of concentrated latex producers. At present, there are about 20 firms in operation, several of them are large BOI promoted firms. It was expected there might be growing competition not only in the sales of concentrated latex but also in the procurement of natural rubber. In his view, the downstream rubber processing industries should be developed to cater to the increasing supply of concentrated latex. However, this was not without difficulty because the reliability and quality of such products like rubber gloves and medical equipment are important factors in penetrating export markets. Therefore, joint venture arrangement with a renowned foreign company should be regarded as a prerequisite for promoting certain types of rubber processing industries.

4.08 The owner took notice of various government assistance programmes, training courses and seminars. He argued that due to his long experience in the business, such training or seminars was not essential for him. Anyway, he has shown interest in joint technical seminars on specific rubber technologies organized by the Rubber Research Institute and the Prince Songkhla University.

4.09 In conclusion , some recommendations were made below:

(i) the OBOI should closely monitor the granting of promotional privileges to concentrated latex producer;

(ii) stringent quality control should be imposed on the export of concentrated latex;

(iii) promotion of downstream rubber processing industries should be strongly encouraged.

Case Study III: Wood Processing Plant

4.10 The firm was established two years ago in the form of Thai-Japanese joint venture. The main product is laminated board made from para wood. The production volume is wholly exported to Japan. This firm is a subsidiary of a parawood furniture factory in Trang Province. At the initial run, the production capacity was only 100 cu.m. per month with two shifts of production employing 45-50 workers each. Interesting enough, the market prospect for the laminated boards is very bright. The Japanese furniture plants previously imported raw materials from Taiwan. As a result of the export ban on wood material from Taiwan, Japanese producers have to shift to the Thai source. This company plans to expand its production capacity to 600 cu.m. per month.

4.11 The quality of para wood poses a serious problem, the defect pieces are to be carried to the furniture factory in Trang Province. The seasonality nature of wood cutting has also affected the availability of raw material. The company did not

receive promotion status from the OBOI. Notwithstanding the high cost of imported Japanese machinery and chemicals, the company had to pay high tariffs on such imported raw materials as glue, abrasive sheets and laminating chemicals. Moreover, the inconvenience in visa and work permit procedure for Japanese experts occured from time to time. Finally, the supply of technicians is relatively scarce.

4.12 The manager of the company convincingly argued that the technical assistance on laminating technology is available only at King Mongkut's Institute of Technology, Bangkok and its application cannot meet commercial standard. The Japanese partner is responsible for marketing and drying and laminating technologies. It was learned taht some sorts of technical assistance have been requested from the Japan International Cooperation Agency. It was proposed that the government should monitor investment in this industry to ensure supply of raw material and administer fair competition. In addition, a mission should be sent to observe and study the promotion of rubber and related products in Malaysia.

Case Study IV: Canned Seafood Plant

4.13 The wholly Thai-owned factory has been established since 1979. The number of workers employed was about 150-200. The total investment cost was 25 million baht. The main products were shrimp (70 per cent) clam (20 per cent) and squid and fish (10 per cent). Its production was entirely oriented towards overseas market especially Canada (60 per cent) and the USA (20 per cent).

The majority of its products was distributed through a representative company in Bangkok, and only 10 per cent of the volume was put into direct sales account.

4.14 Despite the strong export potential, the factory was hard hit by the depletion of marine resources. In effect, the rate of capacity utilization was at 45-50 per cent. With regard to the chronic shortage of raw materials, the manager of the firm has considered alternative source of marine resources such as oyster and snail. Furthermore, it was noted that frozen seafood factories were direct competitors for scarce marine resources, and the competition between the two groups of industry became more intense.

4.15 On government promotion programme, the export-oriented industry like this one seemed to be run on its own initiative. It does not require marketing development or information from the government sector. In the early phase of its operation, some financial support from IFCT was considered supplementary. Subsequently, when exports gained the momentum, its financial position was healthy and hence there was no need for financial assistance. It was very interesting to note that in this case the management did not apply for promotional privileges. They argued that after having studied the application procedure, they felt the system was complicated and prohibitively high administrative cost would incur.

4.16 In order to sustain its business, the following government assistances are needed.

(i) monitor and control the expansion of frozen seafood industries;

(ii) urgently promote hatchery and aquaculture by virtue of contract farming in order to ensure sufficient supply of raw materials;

(iii) take initiatives in R&D to develop hatchery of new varieties of marine and fresh water resources;

(iv) arrange and put into effect the export quota system for the right proportion between canned and frozen seafood.

Case Study V: Bone Meal Mill/Bottled Water Plant

4.17 Our last case study is associated with a very small firm. The owner is a young entrepreneur with secondary school education. At the time we met him, his bone meal mill ran operation for only 2-3 days a month, due primarily to the drastic drop in sales orders. In fact, the mill employed only 10 workers. His business dropped for the three consecutive years. This young entrepreneur then turned to a new business, a bottled water plant. The reasons were simple: there was some room for consumer market, investment cost is trivial, and the technique employed was well-known.

4.18 In contrast to the previous case studies, the young owner obtained various government assistances particularly from the Southern Industrial Promotion Centre. He attended the entrepreneurship development programme conducted by the

Department of Industrial Promotion and still kept in touch with other participants. He always made requests on specific information of products, markets, and technologies. In this respect, we have learned that his requests were conveyed to central agencies in Bangkok. He understood that the local industrial promotion officers were active, but the time required before he got messages seemed to be long. Since his time is available during the business downturn, he prepared to gain knowledge and ideas from every forum of workshops and seminars. But his objective was made clear, that is, to find business opportunity.

V. PROPOSED POLICIES AND PROGRAMMES FOR SMIs DEVELOPMENT

The Problems Restated

5.01 Our impression from the field survey was that there is ample room for further investment and industrial growth in the Songkhla Lake Basin. In essence, the local investors have shown strong interest in expediting the development process of their localities. However, there exist some obstacles and difficulties inhibiting industrial expansion in general and SMIs development in particular. The following points deserve special attention.

(i) The basic infrastructure is a very, if not the most, important problem. The insufficient facilities like telephone and suitable land for factory, and the high charge on electricity and water supplies are the classic cases in point.

(ii) The government assistance and support to SMIs is still limited.

(iii) The function of government agencies has so far been mainly concerned with regulation and control on industries.

(iv) The insecurity problem and red tape inherent in the bureaucratic system cast a major doubt on the investment atmosphere.

(v) The entrepreneurs lack technical information and ideas on new products/projects, marketing, and technology.

(vi) The formal relationship among SMIs at large is trivial in nature and, in effect, the joint public-private sectors cooperation is in its early stage of development.

Potential Industries in SLB

5.02 The growth potential for industries in SLB is very bright, particularly the development of rubber processing and fisheries industries. The potential for rubber processing industry prevails in the production of concentrated latex, air-dried sheets (ADS), bands, gloves and shoes. It should be noted that the new investment in rubber gloves and shoes is to be in the joint venture arrangement due to the importance of brand name in overseas market, and that potential investment for rubber shoes prevails in the production of floor part for exporting to the assembly plant in Bangkok. The manufacturing of furniture and parts thereof is also of increasing importance. Phatthalung Province in particular is a prospective site for air-dried sheet and furniture factories. Insofar as the fisheries industry is concerned, the local as well as foreign markets are very large and growing rapidly. The problem in on the supply side owing to the depletion of marine resources. Special attention therefore has been placed on aquaculture especially shrimp and sea bass.

5.03 Apart from those resource-based industries mentioned above, future industrial development can be sorted out in the light of the well-established deep-sea port and other transportation network. The first group is related to light

industries in SLB as subcontractees to heavy or large firms either in the regions, Bangkok Metropolitan or even overseas. Those industries include inter alia fish oil extraction, plastic products, light machinery and equipment, metal stamping, and agricultural pumps. The second group is service-related activities, especially silos and warehouses, and packaging industries for exporting goods. Though the latter are relatively new activities, its profound effect on the industrialization process in SLB should be kept in mind. The last group is construction material industries. The derived demand is expected to increase in the light of the growing Basin economy and the improvement in transportation facilities as well. Hence, such construction materials as bricks and wall and floor tiles show some growth prospects for local and export markets.

The Strategy

5.04 We are of the opinion that two approaches to SMIs development in SLB should be adopted. In the first instance, systematic efforts should be made to reduce the disadvantage of industrial operation in SLB vis a vis Bangkok Metropolitan and nearby provinces. It is therefore necessary to improve and upgrade basic infrastructure facilities, to simplify rules and regulations affecting industrial establishments and expansion, and to guarantee safety and peaceful environment. In the second place, ways and means to carry out promotional activities in support of SMIs development should be developed. In the foreseeable future, such development efforts will be undertaken mainly by various government agencies. At the same time, the

integration of SMIs in forms of club or association should be encouraged and strengthened. Under such curcumstance, the joint government private efforts could be realized and effective.

Proposed Programmes for SMIs Development

5.05 The SLB will continue to grow at a rapid pace with or without government intervention, but at the risk of some wrong direction. To reiterate, therefore, development actions are recommended to:

(i) stimulate effective and efficient SMIs development;

(ii) keep infrastructure abreast of industrial requirement;

(iii) encourage natural resource development;

(iv) monitor and control pollution and arrest the degradation of environmental conditions.

Accordingly, this study proposed four major programmes for promoting SMIs in SLB (Figure 2). They are:

(i) Industrial Facilities Programme,

(ii) Industrial Support Programme;

(iii) Natural Resource Utilization Programme;

(iv) Environment Protection Programme.

5.06 Industrial Facilities Programme. It is of the utmost importance to provide basic infrastructure and utilities required for industrial operation. As stated earlier, many development

projects have been undertaken and some of which complete in recent years. Nevertheless, there remain ways and means to expedite the development process in SLB.

(i) Land use plan. There is an urgent need to prepare the land use plan as a guideline for industrial expansion in the core area of SLB.

(ii) Establishment of an industrial zone. The area around the Songkhla Deep-sea Port is proposed to become a major industrial zone under strict environmental control system.

(iii) Investment promotion zone. The whole area of SLB should be taken into the investment promotion zone. In this regard, special privileges will be granted by the OBOI to encourage the investment in targetted industries.

(iv) Promotion of silo and warehouse for agricultural and manufactured goods for export.

(v) Construction of a reservoir at Sadao Canal, Songkhla in order to serve the increasing industrial demand.

(vi) Establishment of one-stop service centre. The setup of this centre at Songkhla should be considered in order to help facilitate necessary steps and procedure involving industrial registration, expansion and the like.

5.07 Industrial Support Programme. A large number of government agencies and private institutions have undertaken

promotional activities in support of SMIs development. Those activities are of course useful, but their impact is limited due primarily to scarce resource in terms of staff and budget, and, most of all, the apparent redundancy and confusion among the agencies concerned. The recommendations here will focus on institutional arrangement and approach to SMIs development rather than the implementation of projects/activities. They include:

(i) Subsectoral industry approach. Resources of various agencies should be oriented towards the development of targetted industries, of which rubber processing and fisheries industries should be accorded top priority.

(ii) Industrial coordination. In view of SMIs development in SLB, the Southern Industrial Economic Development Centre should be responsible for the coordination of industrial planning and promotion programme.

(iii) Establishment of information network. In this regard, a link between Provincial Industry Office, the Southern Industrial Promotion Centre, the Southern Industrial Economic Development Centre and the OBOI should be systematically arranged in order to disseminate relevant data and information to entrepreneurs.

(iv) Strengthening of private institutions. The current programme of the Joint Public-Private Sector Consultative Committee in strengthening

private institutions in regional areas should be envisaged. More attention, however, should be devoted to the industries circle. In this regard, we feel that the participants of the entrepreneurship development programme organized by the Department of Industrial Promotion are actually the core group fo young entrepreneurs. These people are therefore to organize and initiate development activities of direct relevence to SMIs development.

(v) Linkages. Programmes and projects should be designed to promote the subcontracting system, the contract farming system, and other modes of joint investment and cooperation.

5.08 Natural Resource Utilization Programme. The natural resources including arable land for cultivation, animal lives both inland and offshore, water and forestry form the fundamental basis for further development in SLB. The careful usage of those natural resources should be stipulated to ensure that there will be enough supply of raw materials for the industries. This can be achieved by virtue of:

(i) Improvement in yield and productivity by intensification of rubber plantation, development of palm oil and aquaculture and diversification of alternative crops and livestocks.

(ii) Promotion of agro-industrial linkages in terms of contract farming. In the case of aquaculture, the government agencies should support small farmers in engaging with large processing firms.

(iii) Integrated plan for resource use and resource protection in order to maximize the overall benefit.

5.09 Environment Protection Programme. The Songkhla Lake has received very high pollutant loads from the urbanized area of Songkhla/Haadyai and the nearshore waste water. Also the existing harbour is adversely affected by high levels of pollution. The situation is aggravated by the unorganized expansion of industrial establishments. The following components should be taken into account.

(i) Strong reinforcement of environment protection at the new fish port and deep-sea port.

(ii) Construction of a salinity barrier to prevent saltwater intrusion and provide water for irrigation.

(iii) Strict control on polluted industries especially chemical industries.

(iv) Reservation of areas that are easily risked pollution. Special attention should be placed on Songkhla/Haadyai principal city.

(v) Establishment of Centre for data and information concerning environment protection at Prince Songkhla University.

Figure 2: PROPOSED PROGRAMMES FOR SMIs DEVELOPMENT IN SLB

Policies/Measures	Agencies
Industrial Facilities Programme	
- Land use plan	IEAT, Urban Planning Office
- Industrial zone	IEAT, NESDB
- Investment promotion zone	BOI
- Promotion of silo and warehouse	BOI, IEAT, private sector
- A reservoir at Sadao	Irrigation Dept.
- One-stop service centre	Provincial Industry Office (PIO)
Industrial Support Programme	
- Subsectoral industry approach	Southern Industrial Economic Development Centre
- Industrial Coordination	
- Information network	PIO, DIP, Private sector
- Strengthening of private institutions	NESDB, Association of Thai Industries and Chammber of Commerce
- Linkages (subcontracting and contract farming)	DIP, MOAC
Natural Resource Utilization Programme	
- Improvement in yield and productivity of major resources	MOAC, Prince Songkhla University
- Promotion of agro-industrial linkage	Fishery Dept., IFCT, Southern Industrial Promotion Centre
- Integrated Plan for resource use and protection	NESDB, Prince Songkhla University

Figure 2 (cont.)

Policies/Measures	Agencies
Environment Protection Programme	
- Environment control at new fish port and deep sea port	National Environment Board (NEB)
- Construction of a salinity barrier	
- Strict control on polluted industries	PIO, NEB
- Establishment of Centre for environment data and information	Prince Songkhla University