

CHAPTER 1

OVERVIEW

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1.1 Export-led Growth

Many economic institutions have predicted the continuing high rate of growth in the coming middle term period. The expected driving force is foreign investment, construction and export. In 1994, the export value exceeded 1,000 billion bahts. From the Table 1.1, we can see that the trade balance has the tendency to ameliorate from 1991, owing to export growth.

Table 1.1 Growth Rate of Trade

(%)

	88	89	90	91	92	93	94
Export	33.9	27.7	14.4	23.5	13.2	13.0	16.1
Import	46.1	29.8	29.0	15.4	5.5	12.0	15.0
Balance as % of GDP			-11.7	-9.8	-7.2	-7.0	-6.8

Source: NESDB

Major export items are garments, computers, integrated circuits, frozen shrimps, plastic products, rubber, rice, shoes and parts.

The production value of integrated circuits increased 11.1 percent in 1992, 24.2 percent in 1993 and 38 percent in 11 months of 1994. The share of manufactured goods in total exports exceeds 80 percent since 1993.

From the figures of 1993, the main export items, their value and main market are as follows.

- Garments, 89,529 million Bahts
: USA(24.9%), Japan(8.5%)
- Computer & parts, 62,744 million bahts
: Singapore(47.0%), USA(27.3%)
- Precious stones & jewellery, 41,030 million bahts
: USA(26.9%), Japan(18.9%)
- Integrated circuits & Parts, 35,550 million bahts
: USA(30.7%), Singapore(29.9%)
- Electrical appliances, 62,634 million bahts
: USA(28.3%), Japan(18.1%)

Six sectors (garments, shoes, leather products, ornaments, plastics and rubber) who exports to the European Union will lose the benefit in 1998 when the new GSP programme will end.

Among electrical appliances, television exports the most, and then air-conditioner. Japanese manufacturers of electrical appliances and parts are expected to shift more of their facilities to Thailand.

United States is the biggest export market for Thailand. As far as the market is concerned, the new remarkable point is the expansion of trade

Table 1.2 Share of Export Market
(%)

	1991	1992	1993	1994
USA	21.3	22.4	21.5	21.3
ASEAN	11.8	12.7	16.0	17.9
Japan	18.1	17.5	17.0	17.5
EU	20.7	19.6	16.6	14.7
Others	28.1	27.8	29.0	28.6

Source : Business Economics Dept.,
Bangkok Post, December 29, 1994.

inside the region. Business Economics Department of Commerce Ministry estimates that Thailand's export to ASEAN markets(200 billion bahts) will expand by 33.2 percent in 1994, the highest growth in the Thai sales to any region. USA, the biggest market(255 billion bahts), is estimated to have 17.2 percent growth, Japan, 22.3 percent. Table 2 shows the growing share of intra-regional trade.

1.2 Strengthening of Competitiveness

The industrial structure of Thailand is going to be transformed into that of Nies countries. The industrialization in this country started with resource based industries such as agri- business and import-substitution then into export-oriented industrialization with the inflow of foreign capital. Agri-business has accumulated the knowhow of technology and market access and now they are expanding their production base to the neighbouring countries who could be the source of materials.

As far as the traditional import substituting sectors such as textiles, electronics and automobiles are concerned, they have so far enjoyed the protection measures. For example, Thai government has imposed 60 percent import tax on garments and textiles. But the emergence of new comers with lower cost of labour and after the wave of foreign capital inflow which engages in manufacturing for export, the new production management and technology is adopted. Thus, there has appeared dual structure of industries.

Under the boom of export-oriented policy and the pressure of emerging of new exporters, Thai government and industrial circles are forced to level up their competitiveness. ASEAN Free Trade Area (AFTA) plan which is strongly advocated by ex-Prime Minister is one of the motives for such efforts.

Continuing high growth has created the domestic market also with the expanding purchasing power of consumers. This is also an important factor which affects the change of industrial policy.

In 1992, the tariff for automobiles was reduced and this has evoked the demand of middle class people. Market condition has changed because of Yen appreciation and the share of Japanese cars in the market now slightly decreased but still maintained 90 percent in 1994. Despite of fiercer competition, Japanese car makers are planning to expand their facilities in

Thailand, aiming at turning Thailand into a base for exports. The advantage of this country is that the supporting industries are growing in the long experience as well as the new investment of Japanese parts makers.

1.3 The Start of Basic Industries

Because of the small scale of local market and the insufficient finance capability, Thailand has been reluctant to launch the capital-intensive industries. It was not before the year 1990 that the National Petrochemical Plc (NPC, joint venture of government enterprise and private companies such as Siam Cement) has started the production of ethylene and propylene in the Mab Ta Pud industrial estate which was provided by government project for upstream industries sponsored by Japanese government assistance. The second olefins plant(also at Mab Ta Pud by Thai Olefins Co.) will soon begin commercial production.

For iron and steel industry, private sector (Sahaviriya Group) has got the approval in 1989 from Board of Investment to 'start the project with the privilege of being monopoly for certain periods. This project will start the operation of cold- rolled steel mill in 1997.

When these projects started, government has admitted the protective measures. When the AFTA Plan has started, these sectors are excluded with the fear of weak competitiveness. But, in order to adapt to the growing local market and the request from the downstream sectors to reduce the material cost for them, Thai government is obliged to introduce the policy of liberalization or deregulation.

The government decided to liberalize the steel industry November 1994. The decision brought to an end of ten years of protection the government had accorded Sahaviriya Steel Industries Plc, Thailand first hot-rolled and cold-rolled steel maker, in 1989. Although the government was allowed to build more new cold rolled steel mills, domestic sales would not be allowed until after 1998, expiry year for the protection of Sahaviriya's steel complex in Prachuab Kiri Khan.

1.4 The Challenge to the Global Competition

World trade agreements have posed new challenges for Thai industrial circles. In line with the AFTA agreement, each country is required to cut tariffs for fast track reductions. ASEAN members have agreed to speed up tariff cuts last September. From the beginning of 1995, Thailand cuts tariffs on 8,013 items, of which 3,403 are listed under fast track, while some 4,610 are in the normal track. For fast track cuts, tariffs on the products now above 20 percent, are to be between zero and 5 percent by January 1, 2000. Goods under the fast track consists of cement, fertilizer, leather goods, paper pulp, textiles, gems and ornaments, electrical appliances, wooden furniture, vegetable oil, chemical products, pharmaceutical products, plastics, rubber goods, ceramics, glass and copper cathode. One problem for the increase of imports under this system is the needs of certificate of origine which is issued only for goods which have at least a 40 percent local content.

Table 1.3 Proposed Tax Reduction Schedule of Fast Track
(%)

	1994	1995	1996	1997	1998	1999	2000
Over 50%	30	25	25	20	15	10	5
26% -50%		25	25	20	15	10	5
21% -25%		20	20	15	10	5	5
16% -20%		15	15	10	5	5	5
11% -15%		10	10	5	5	5	5
6% -10%		5	5	5	5	5	5

Source: Bangkok Post, February 4, 1995.

Thailand reserves 183 items in the exclusion list, which consists mainly of auto parts, electrical appliances and agricultural goods. Last September, the ASEAN Economic Ministers Meeting agreed to cut the number of goods under the exclusion list at the rate of 20 percent a year. The criterion for maintaining goods under the exclusion list is the product's market size. If the market size is small, the products can be delisted from the exclusion list and measures on non-tariff barriers will be considered. By 1997, all imports to Thailand except agricultural goods will have a maximum tariff rate of 30 percent.

The time schedule of liberalization among Asia Pacific Economic Cooperation (APEC) group is not agreed between US and ASEAN members. For most of the ASEAN countries, it is more urgent to seek the new business chance and overcome the weakness of their industrial structure.

The cooperation among ASEAN members is being done in many ways. The factor which affects the competitiveness of their economy is the move of multinational enterprises of automobiles or electronics. They are planning the optimal allocation of production base to seek for the advantage. Sometimes their regional strategy causes the conflict with national development policy. For example, each country has a project of ethylene plant with high tariff barriers which will cause the fierce competition.

1.5 The Needs for Grade-up of Human Power and Technology

The expansion of modern sectors needs much of qualified manpower for science and technology. This matter has been worried throughout rapid growth and government has initiated some measures to increase the students of engineering faculties and promote the private sector to engage in the training activity.

Associate Professor Chatri Sripaipan(Chulalongkorn University) suggests that the government should find ways to enhance the medium and small sized manufacturers to upgrade their production to engineering and design level. According to him, the country's expense for R&D is only 0.2 percent of the GDP, while Malaysia's is 0.8 percent and Western countries' are 2-4 percent. For the development of human resources, Thailand invests only 3 percent, while Malaysia spends 6-8 percent of its GDP. Private sector plays a minimal role in the country's R&D. So far Thailand mainly import technology. Foreign investors render local manufacturers to absorb some aspects of production management technology and process technology. The next step is to acquire design technology, product-specific technology in order to compensate high labour costs.

Now, government is promoting to develop the supporting industries which is considered to be the weak point for Thai industrial sector. As Thai industries manufacture the higher value-added products, it needs more and

more high cost materials and modernized process. So, it is the time to develop their own producing facilities. But every manager who engages in those kind of business activities complains the lack of engineers.

According to the study by World Bank on the East Asian Miracle, neither Indonesia nor Thailand has made the systematic efforts to change industrial structure characteristic of Japan, Korea and Malaysia. Thailand's Board of Investment has attempted to promote various activities viewed as having the potential for technological learning, but it is difficult to discern any systematic effort to change industrial structure from the pattern of promotion of the BOI. Now the private sector has enough capability to make new big business such as communication. So, the role of government is to lift red tape and the need for infrastructure which government should have provide urgently is growing. In this sense, the industrial policy of Thailand is not the same way as Japan who has pushed the selected leading sectors at growing period.