THAI MANUFACTURING AT THE CROSSROADS

Peera CHAROENPORN

Abstract

This paper illustrates the weaknesses of Thailand’s manufacturing sector and industrial policies, industrial policies under Thaksin and following governments, and Yingluck’s vision 2020. This paper demonstrates some challenges encountered by Thai manufacturing encounters such as ASEAN Economic Community, the coming of Chinese, fierce global competition and the influences of TNCs, the shortage of skilled labor and physical infrastructure, natural disaster (the flood), industrial structure changes, and sound macroeconomic management. This paper underlines the need for Thailand to promote sustained, productivity-driven growth by enhancing investment in physical infrastructure and human capital, strengthening national innovation system, and other productivity-enhancing policies to overcome the middle-income trap. This paper highlights the need for institutional reforms, capacity building of implementing administration, and political stability.

Key words: Thai manufacturing, Middle-income trap, Industrial policy

I. INTRODUCTION

With a well-developed infrastructure, a free-enterprise economy, pro-investment policies, and strong export industries, Thailand has consistently ranked as one of the fastest growing Southeast Asian economies. This growth performance is principally the result of high levels of domestic and foreign investment that enabled Thailand to build a diversified, export oriented industrial economy and absorb technologies from more advanced countries. Thailand enjoyed solid growth as it recovered from the Asian financial crisis of 1997–98. In July 2011, the World Bank upgraded Thailand to the rank of upper-middle-income economy.

Thai exports which mostly machinery and electronic components, agricultural commodities, and jewelry continue to drive the economy. Thailand has diversified impressively as reflected in the decline of primary products in total exports, the expanding range of agricultural products, the growth of mid- and high-technology products, especially electronics and automotive exports.

However, success in expanding medium- and high-technology exports record is married by
limited local inputs, high trade dependency and, in some cases, denationalization. The high trade
deficits characteristics of mid- and high-tech industries and the general lack of indigenous sup-
pliers in industries, growth has been largely driven by factor accumulation, especially capital
investment, often by foreign producers, not productivity improvements based on local technologic-
cal capacities. These weaknesses are more broadly reflected in the comparative rankings in pro-
ductivity and technology competencies as well as other indicators of infrastructure capacity and
human capital. Doner (2009) analyzed that Thailand’s growth success owed largely to her success
in “sectoral diversification” rather than any transformative “upgrading” as experienced in the East
Asia Newly Industrial Economies (NIEs).

Moreover, Thailand has shown some symptoms of the middle-income trap which are growth
slowdown and insufficient investment, low knowledge accumulation and innovation, and political
and social instability (Tawonkraiwong et al., 2011). Thailand reaches middle-income levels the
growth rate often declines and graduation from middle-income to higher-income levels stalls. The
frontier for further expansion of labor-intensive export-oriented development soon moves to other,
lower-wage countries. There is the growing literature on the dangers Thailand finding itself stuck
in middle-income traps between low wage producers and highly-skilled innovators (see example
momentum early and stagnated at a comfortable level of per capita income. Thailand failed to
make the needed transition from resource-based to productivity (or innovation)-driven growth
when the time was ripe.

Competitiveness of a country requires continuous upgrading and, sometimes, major trans-
formation. Thailand is now at the crossroads. It can no longer pursue a strategy based on low-
cost advantages, but its capability achievements are still too low to become an advanced economy.
After highlight the weaknesses of Thailand’s industrial policy and national innovation system, this
paper illustrates how Thailand should develop new capabilities to survive and prosper in the
globalized and fiercely competitive world. How can the Thai government promote sustained,
productivity-driven growth that will pave Thailand’s way out of the Middle-income Trap?

This study will demonstrate the brief history of Thai industrialization, followed by Thaksin and
latecomer governments’ industrial policies, the return of Thaksinomic (Yingluck’s vision 2020),
Thailand at the crossroads, and concluding remarks.

II. THE BRIEF HISTORY OF THAILAND INDUSTRIALIZATION

Thailand has continuously changed its industrial policies from investment promotion of import
substitution to a combination of export promotion with industrial upgrading, introduction of econo-
mic liberalization, and construction of master plans for industrial sector (Suehiro, 2010). Industrial
policy changed from the protection of local infant industries in domestic markets to enhancement
of the industrial sector under the pressure of economic globalization.
However, for the past 50 years, Thai manufacturing had developed under the circumstances of passive and slow technological learning of firms, ineffective and incoherent government policies, isolated education and training institutes, technologically unsupportive and risk-averse financial institutions, incompetent and politicized trade/industry associations, and an unfavorable institutional context (Intarakumnerd et al, 2002). Industrial policy in Thailand was limited to the so-called ‘functional’ intervention such as promoting infrastructure building, general education, and export push in general. There were virtually no selective policy measures, such as special credit allocation and special tariff protection, targeting particular industries or clusters (see Doner, 1992). With the exception of automotive industry, there was no reciprocal performance-based criteria (such as export and local value added and technological upgrading targets) set for providing state incentives like in Korea or Japan (see Johnson, 1982; Amsden, 1989; Chang, 1994; Lall, 1996).

Investment policy, especially the promotion of foreign direct investment (FDI), aimed primarily at generating inward capital flow and employment. The intention to attract FDI and promote export overshadowed the need to develop local initiatives and indigenous technological capabilities. There was virtually no government intervention in technology transactions between private enterprises in Thailand and transnational corporations (TNCs). TNCs were free to enter into any kind of contractual arrangements for acquiring technology. Most of contracts in Thailand have restrictive clauses imposed by TNCs. These restrictive clauses place certain constraints on the operations of technology recipients such as preventing some activities or limit the range of activities which can be undertaken by the recipients. Restrictive conditions on export markets, provisions specifying tied purchases of machinery and raw materials, and conditions affecting technology transmission were found generally (ESCAP/UNCTC, 1983). There was no explicit and proactive link between promoting FDI and upgrading of local technological capability like that in Thailand. As a result, linkages between multinational corporations and local firms were also weak. Unlike NIEs, the governmental promotion FDI, without strengthening absorptive capabilities of Thai suppliers, left a profound impact on the weak technology and suppliers’ network of industries (Vongpivat, 2003).

Thai government’s policy measures and resource allocations designed to strengthen the technological learning, technological capabilities and innovative activities ‘within firms’ themselves were rather minimal and ineffective (Arnold et al, 2000: ix). Industrial policy of Thailand did not pay enough attention to the development of indigenous technological capability as an integral factor in the process of industrialization (Sripaipan, Vanichseni, and Mukdapitak, 1999: 37). Without selective industrial policies and purposeful measures to increase indigenous technological capabilities of local firms, it would have not been successful in technological catching up and upgrading.

Several studies of Thai firms conducted since the 1980s state that most firms have grown without deepening their technological capabilities in the long run, and their technological learning has been very slow and passive (see Chantramonklasri, 1985; Thailand Development Research
Institute, 1989; Dahlman and Brimble, 1990; Tiralap, 1990; Mukdapitak, 1994; Lall, 1998, Arnold et al, 2000) Only a small minority of large subsidiaries of TNCs, large domestic firms and some small and medium enterprise or SMEs have capability in R&D, while the majority is still struggling with increasing their design and engineering capability. For SMEs, the key issue is more concerned with building up more basic operational capabilities, together with craft and technician capabilities for efficient acquisition, assimilation and incremental upgrading of fairly standard technology.

However, there is a positive trend toward the technological development of firms in Thailand. Lately, higher competition in the global market and the economic crisis in 1997 have lead to changing behavior of Thai firms to focusing on relatively more knowledge-intensive intermediate technologies across all the sectors (Arnold et al, 2000). Thai subsidiaries were forced to implement structural reforms to enhance their international competitiveness. This gave them the opportunity to change their positions within their parent companies’ global strategy. The crisis served as an impetus for them to invest in human resources development, and to increase production and quality capabilities.

Although FDI inflows to Thailand remain strong and export still growing, Thailand is facing serious challenges regionally from China and other Asian neighbors, and domestically by the inability of the state to formulate better supporting policies. Moreover, under globalization especially after 1997 crisis, low costs can coexist with high quality and prompt delivery. Suppliers have to engage in a balancing act between maximizing quality and minimizing costs. Some traditional industries for instance textile industry in Thailand is now unable to compete in the world markets through costs, and the industry absolutely needs to move up the value chain and engage in more innovative, technical, and quality production. Thailand needs long-term policies to promote research and enhance workers’ capabilities defining a strategy articulating efficient and quality education and labor.

Unlike East Asian NIEs, which experienced increases in real wage and losses of comparative advantage in simple, labor intensive activities, Thailand has not made investments heavily in public education and other forms of human resource development at a similar stage of growth. Thailand has a relatively small formal working class, and a large informal labor force. Thailand has roughly two thirds of the workforce operates in the informal sector. Informality in Thailand has been further encouraged by access to large numbers of migrant. This fragmentation of the workforce has depressed wages, reduced business incentives for investing in skill upgrading, and contributed to varying but troublesome levels of income inequality and overall insecurity. The organizational weakness of Thailand’s working class limits demands for wage increases and thus pressure to improve productivity (Doner, 2009). This kind of social structure generates significant political tensions. But it provides neither strong coalitional pressures for upgrading-related reforms nor the organized partners with whom to negotiate the terms of such reforms.

Moreover, TNCs can dispense with the resource-consuming efforts to promote skill-based
domestic suppliers. Foreign firms develop training programs in-house and on-the-job rather than to contribute to industry-wide or public provision of such training services. Many firms respond by adopting a hybrid approach firms simultaneously employ a more skilled, formal workforce and a lower skilled, more informal workforce at the same site. This combination of factors often results in what Doner (2009) called “a low-skill equilibrium trap” in which workers are reluctant to invest in training and education because of a shortage of available positions, but businesses are reluctant to upgrade by investing in more skill-based activities, because of a shortage of skilled personnel. Even where there is private sector demand for broader skills, the supply response is often weakened by Thailand's bureaucratic and political fragmentation.

Thailand has not done well at upgrading—at moving into higher value added products, at high levels of efficiency, with local inputs. Indeed, Thailand conforms to what has been labeled as “technology-less industrialization” (Doner, 2009). This unevenness reflects not only lack of sound industrial policies but also lack of institutional capacities. These capacities are in turn a function of different kinds and levels of constraints and opportunities facing political leaders even Thaksin.

III. THAKSINOMICS AND INDUSTRIAL POLICIES

“Thaksinomics” or the economics of Thailand’s prime minister Thaksin Shinawatra has been labeled by The media and academics in Thailand and Southeast Asia. During his periods (17th February 2001–19th September 2006 or 5 years and 214 days), he offers a set of policies especially the dual-track policy which is the main thrust of this new policy menu. His government tried to enhance international competitiveness of the nation by strengthening the “external” side of the Thai economy, namely, export, foreign direct investment and tourism. At the same time, he attempted to increase the capabilities of domestic and grass-root economies.

Thaksin has concern that Thailand is in the middle-income trap and knows that Thailand should design and implement and industrial and technological development policies, based on long-term vision and a continuity of policy implementation. Thaksin demonstrates visionary industrial technology policies developed around strategic industries and technology; stronger focus on international competitiveness, and policies more relevant to industry.

The high priority of the competitiveness issue on the government’s agenda was illustrated by the establishment of the National Competitiveness Committee chaired by the prime minister. Building innovative capabilities of the Thai nation was highly regarded as a very important factor in increasing and sustaining its international competitiveness. Measures to stimulate innovations

---

1 Thanesratanapornpun (2004) defined Thaksinomics as a “political brand name” invented by Thaksin’s supporters. Thaksinomics is valued as traditional Keynesian fiscal stimulus policies rebranded rather than being a revolutionary economic doctrine.
and to strengthen the national innovation system and industrial clusters are explicitly highlighted.

His strategies for enhancing Thailand’s competitiveness include: upgrading the business environment; active cluster development; transforming company strategy to a more focus on value-added creation; leading a cross-national strategy through regional (Asian) cooperation; redefining cooperation between public sector, business sector, universities, and local research institutes at a cluster level, and decentralizing more economic policies to the regional level.

Unlike the predecessor governments that paid most attention to macroeconomic stability, his government focused more on enhancing meso- and micro-level foundations for international competitiveness. It was the first time that the Thai government had formulated serious selective policies addressing specific sectors and clusters (Intarakumnerd et al, 2002). The government identified five strategic sectors on which Thailand should concentrate its efforts which are automotive, food, tourism, fashion, and software.

To develop indigenous technological capability and human resources, his government guided the Board of Investment (BOI) to initiate a special investment package promoting skills, technology and innovation (STI). There was also major shift in the focus of investment policy measures from giving incentives for individual projects, which might not be related to each other, to using incentives to strengthen clusters as a whole.

During his administration, Thailand’s national innovation system is in transition from one with a long-standing character of weak, fragmented, and slow-learning, to one the will be stronger, coherent, with more active learning (Intarakumnerd et al., 2002). He set up the National Innovation Agency (NIA) to promote innovation for competitiveness. Thaksin government tried to build S&T infrastructure in provinces outside Bangkok by initiating a plan to set up regional science parks and incubators. These regional science parks and incubators were established on university campuses to act as intermediaries between local universities and local entrepreneurs and promoters of new knowledge-intensive companies. The Thaksin government also induced changes in the roles and behaviors of other actors in the Thai national innovation system. It pressured universities to conduct more research and become more relevant to industry. It initiated policies that encouraged Thai firms to move faster in developing their own technological and innovative capabilities. It worked closer with private-sector linkage organizations. It tried to stimulate entrepreneurship in the Thai society.

In addition, to achieve growth that is more sustained and inclusive, his government focus on SMEs, which normally have lower capital intensity, for two key reasons. First, these industries play an important role in supplying intermediate inputs in domestic production chains. Strength of domestic support industries means less dependence on imported inputs, which implies more domestic sustainability. Second, these industries contribute significantly to employment in rural areas. Supporting these industries can make Thailand’s growth more inclusive and prevent income disparity among population to widen even further.

However, there are some critics about Thaksinomics. For instance, unlike his claim on dual
track policy, Thailand’s economy was actually driven by rising export demand, while domestic consumer demand has grown only modestly. During 2002–2007, the Thaksin government rushed to sign FTA with China, New Zealand, Australia, India and United Arab Emirates. In fact, the dual-track policy and clusters implementation did not prevent local firms from being driven into labor-intensive or natural resources-based industries, while foreign firms increased their domination. Under globalization and Thaksin’s policies, Thailand is more losing its autonomy in policy making and depends crucially on the corporate strategy of foreign firms (Suehiro, 2010).

On education, Thaksin want to transform Thailand into knowledge based economy by solving education problem. Three areas of education reform related to industrial upgrading which are vocational education, skill development and tertiary education have been intended to reform. Nonetheless, the lack of continuity in leadership (5 ministers of education with 4 years) led to delays and some inconsistencies in formulation and implementation of his human resource reforms. Importantly, Thaksin focused more on distributive politics to the poor and his supporters rather than productive development policy. Thaksin was neither particular interested in embedding the foreign assemblers in the export-oriented sectors (e.g. automobiles and electronics industries) more in the Thai business context, nor in supporting the local Thai suppliers to these industries. In contrast his focus was more on the idea of developing new innovative entrepreneurship combining available new technology with existing local knowledge (called “local wisdom”) and coming up with new national products to serve the domestic, regional and in some cases international markets.

Why Thaksin who have a very clear vision of industrial upgrading and have a very strong political support failed to upgrading technology and productivity. His government failed to set in motion an effective and long-lasting learning process in the country’s national innovation system and its pursuit of successful industrial and technological catching up. Instead, the long-term industrial upgrading policies were largely compromised by the idiosyncratic nature of the policy-making process. This led to policies being captured by particularistic interests, policy unpredictability, and ad-hoc decision making in favoring unsound pet projects.

Doner (2009) point out the reason that Thailand cannot successfully upgrading technology is the fact that Thailand has not enough pressure, which he called “systemic vulnerability”—the simultaneous interplay of popular pressures for welfare improvement, external security threats, and scarce resource endowments— to force the Thai elites and government for increasing the capacity of the state and elevates itself into a state of development. After 1997 economic crisis, Thai exports have risen significantly. Therefore, the pressure on Thai government to upgrading technology is small.

Other two factors underlying his failure are the deficiencies of Thaksin’s policies and implementation of those policies themselves and the resistance to changes by other actors in the national innovation system (see Intarakumnerd, 2011). Similar to other developing countries, the most serious problems in designing and executing industrial strategies and action plans are the lack of
involvement of the business community and the lack of inter-ministerial coordination, which
together render approved policies ineffective and even un-implementable (Ohno, 2009). In any
developing country, policy implementation is a big challenge due to shortages of budget, human
resources and proper mechanisms. Another problem is the decline of quality and morale among
government officials, prompting an exodus of talented people to other sectors.

Very few policies are actually implemented as stipulated in Thailand because of delays in
preparing “implementation details”; the non-provision of necessary budget, personnel or equip-
ment; the lack of support from the business community; and the lack of ability or interest among
responsible ministries to solve these problems. Another procedural problem is the absence of
inter-ministerial coordination on policy substance as well as implementation details, which in turn
comes from the lack of mechanism to force different ministries to work together.

Thaksin tried to fix these problems by having a strong top leader with a good economic
mindset who directs various ministries and becomes the hub of policy making himself, however he
failed. Later, as challenged metropolitan interests and royal cycles, although Thaksin won the
election in 2006, his 2\textsuperscript{nd} term government was overthrow by military in 19 September 2006.

Industrial Policy after Thaksin’s Era

After military coup in September 2006, set up by the Council for National Security Declaration,
General Surayud Chulanont became prime minister during 1\textsuperscript{st} October 2006–29\textsuperscript{th} January 2008 (or
1 year, 120 days) under the Constitution of the Kingdom of Thailand (2007). Policies related to
manufacturing sector are more or less similar to Thaksin period. In addition, under this govern-
ment, the intellectual infrastructure master plan (2008–2012) and Enhancing industrial perform-
ance and productivity master plan (2008–2012) were launched. However, there were few projects
under these master plan have been implemented due to temporary status of the government and
very short period of time.

Thailand again has new election in 2007. Samak Sundaravej from Thaksin’s People’s Power
Party became the prime minister during 29\textsuperscript{th} January 2008–8\textsuperscript{th} September 2008 (or 233 days).
Later, Somchai Wongsawat from the same party became the prime minister during 18\textsuperscript{th}
September 2008–2\textsuperscript{nd} December 2008 (or 75 days). Most policies related to manufacturing sector are the same
as previous Thaksin’s policies. However, due to political unrest and very short period of time,
there were few projects under these policies have been implemented.

Later, supported by the military and People’s Alliance for Democracy (PAD or the yellow
shirt), Abhisit Vejjajiva from Democrat Party became prime minister during 17\textsuperscript{th} December
2008–3\textsuperscript{rd} July 2011 (or 2 years and 223 days). To encounter the Hamburger crisis, Abhisit’s
government introduced his 1\textsuperscript{st} economic stimulus package in January 2009. The package shall be
used to support social security, free education programs, create jobs and provide low-interest loans
to farmers. The government also extend a package of economic stimulus measures implemented
by the previous government by another 6 months. These measures include lower water and
electricity charges, free rides on some of Bangkok’s public buses and free third-class train rides nationwide. The subsidies on retail petrol prices have been removed however, since crude oil prices have fallen. Later, he launched his 2nd economic stimulus package ($42 billion) which was implemented over 3 fiscal years 2010-2012. This program, named Thai Khem Kaeng, or Strong Thailand, covers public investment mainly in infrastructure such as transportation, water, and energy, as well as extra funding for health, education, and tourism.

However, there are some critics on his Thai Khem Kaeng program. Unlike Thaksinomics’s set of policies, the program was lack of transparency in terms of prioritizing specific projects. It has too many projects aimed to be purely redistributive in nature without any meaningful anticipation of leading to economic growth overall and lack of an overall vision for the future direction of the economy. Moreover, it also lack of co-ordination between different aspects of economic policy, leading to the under-development the different elements of government action (Walsh, 2010).

Abhisit’s government introduced “creative economy” which is defined as the production and distribution of goods and services that uses creativity and intellectual capital as primary inputs. Thailand’s creative economy is classified into four groups including heritage or cultural Heritage, art, media, and functional creation. The creative economy is seen in the draft of the 11th National Development Plan and in the 2nd stimulus package. The objective is to establish Thailand as the creative industrial hub of the Association of Southeast Asian Nations (ASEAN), and to increase the share of GDP contributed by creativity from 12 percent to 20 percent by the end of 2012.

In addition, under the new constitution of 2007, environment issue has become another important (and compulsory) area of concern for Thailand. Every (big) investment project which might have some impact on the environment has to report Health Impact Assessment (HIA) and Environmental Impact Assessment (EIA) to the authority. As a result, in September 2010, a Central Administrative Court injunction suspended 76 industrial projects (mainly in Petrochemical products and heavy industries) at Map Ta Phut, Thailand’s largest industrial estate in Rayong province, due to environmental concerns. Under his administration, the Supreme Administrative Court decision upholding an injunction against 65 projects at the Map Ta Phut Industrial Estate was resolved.

It is worth to mention that under Thailand’s new constitution (1997 and 2007) and pressure from globalization and liberalization, the following government’s policies related to manufacturing sector are more or less influenced by the Thaksin’s vision of industrial policies.

IV. YINGLUCK’S VISION 2020 AND THE RETURN OF THAKSINOMICS

A rise in the minimum wage, increased rice prices for farmers and free tablet computers for primary school students are some of the promises that helped propel former premier Thaksin Shinawatra’s Puea Thai Party to victory (July 2011). Yingluck Shinawatra is set to follow in her brother footsteps marking a return to her brother’s expansionary policies targeting the rural poor
and continue the dual-track policy which target on the construction of national competitiveness.

Yingluck’s 2020 vision for the elimination of poverty consist of reducing the corporate income tax from 30 to 23 percent and then 20 percent by 2013; raising the minimum wage to 300 baht per day and minimum wage for university graduates to 15,000 baht per month; and re-introduce a rice mortgage policy that effectively sets an intervention price between 40 and 60 percent above current market prices. In addition, the vision 2020 explicitly aim to raise productivity, move the country “up the value chain”, transform the country to the “knowledge-based economy”, and rise to the “developed” country status by 2020. The Vision 2020 will finish 20 targets within the next 9 years.

Yingluck’s administration proposed restructuring the entire tax system in order to enhance Thailand’s competitiveness and ensure social justice. Emphasizing income distribution for sustainable economic growth, the government plan to create a long-term base of tax revenue and increase the efficiency of collecting national income from taxes and non-tariff activities.

Thailand will change its basic legal and tax environment commencing April 2012 to boost the economy. The reduction of corporate income tax (CIT) rate may affect firms’ behavior on how to shift profit to Thailand. Firm have to consider how to adjust the transfer pricing policy and intergroup structuring? How to efficiently use supply chain management tools to transfer the profits between the legal entities? How to use other ways and means? How to optimize your benefits to utilize the changes in tax laws? How to re-invent the business model?

The new government is pushing hard for the THB 300 daily minimum wage nationwide and promised to raise the minimum monthly wage of civil servants with Bachelor’s degree from THB 10,000 to THB 15,000 as of January 2012. The government also hopes to encourage private-sector companies to raise the starting monthly salary of newly graduated employees to THB 15,000. Currently, the average daily minimum wage across the whole country is 176 baht. A hike to 300 baht represents a sudden rise of 70 percent. Given that the number of laborers who are paid daily minimum wage accounts for only 3.4 percent of the total labor force (1.3 million of 38.5 million), one may be inclined to dismiss the impact. However, what indeed matters is the extent to which an increase in the minimal wage would affect the country’s overall wage structure. The effect will likely be more pronounced for SMEs whose share of labor cost is relatively higher. These firms may unavoidably need to cut workers, leading to higher unemployment.

Moreover, FDI may slow down because of an increase in production cost. This will be a

---

3 Key targets include for example GDP to reach Bt 24 trillion, enabling every Thai to live above the poverty line; entry-level graduate salary of Bt 30,000 and daily minimum wage of Bt 1,000; good public healthcare, world-class education; number of business proprietors to double; high-speed train and rail transport services completed nationwide, cutting logistics costs by 25 per cent; energy consumption restructured to cut down on fossil-fuel use, and use of green sources increased by 25 percent; Thailand becoming a flight hub, the healthcare hub, the energy and financial hub for Southeast Asia; become the world food hub; and value created for Thai products instead of contractual manufacturing or selling commodities.
concern in the context of the opening the AEC in 2015, as the country becomes less attractive compared to others in the region for investors, while regional labor may flow into Thailand based on higher wages. It is worth to mention that although Thailand’s constitution and the country’s commitments under international labor laws guarantee equal standards for all workers, including registered and unregistered migrant, current practice is that the minimum wage is not granted to most foreign workers. Wages for migrant workers e.g. from Myanmar, Laos, and Cambodia typically fall far below those set by law. These changes in minimum wage may affect firms’ behavior on how to optimize of employment agreements on the management and the blue collar workers level (and migrant worker) and how to use split-contracts and other personal tax planning tools.

The new government plan to revise “Investment Promotion Policy” (2012-2016) by focusing on “sustainable investment,” promoting investment and outward FDI of Thai corporations. It will accelerate the establishment of special economic development zones, with an emphasis on border provinces to boost trade and investment with neighboring. New industrial zones will be developed, including the land bridge between the Andaman Sea and the Gulf of Thailand. The Government will promote the opening of more Thai restaurants overseas and the developing of Thailand into the “Kitchen of the World”. Thailand will give priority to promote the agriculture industry, non-food industry in culture, green industries such as bio-plastics industry, and basic metal industry and develop mineral resource potential.

During her administration term (2011-2014), it is the period of the 11th National Development Plan (2012-2016). Followed the 11th national develop plan, Thailand’s National Industrial Development Master Plan (2012-2031) drafted by the Ministry of Industry will pursued three principle policies: (1) internationalized industrial structure and clusters to capture global opportunities; (2) upgrade and create sustainable entrepreneur; and (3) enhance competitive industry platform emphasizing on self reliance for local producers, building sustainable economic growth, and promoting production in response to the market’s needs and tastes.

The plan focuses on the strengthening of an industrial administration in the clusters by designating the clusters to specialized groups, promoting diversified foreign investments in order to connect investments to domestic production sources. The government has emphasized attracting investment in six sectors that have been determined to be keys to the country’s developmental objectives. These six target industries include: agriculture and agro-industry, alternative energy, automotive, electronics and ICT, fashion, and value-added services including entertainment, healthcare and tourism. The Ministry of Industry promote Thai industrial clusters to be recognized in world market by enhancing Thai industrial cluster’s good image, engaging with industrial alliances for technology transfer and world resource sharing. It also focuses on developing Thai industry to be “creative and sustainable” by enhancing industrial cluster and networks to foreign markets; strengthening Thai producers’ potential and sustainability; and enhancing industrial structure to support industrial administration. Yingluck’s industrial policies, then, follow these master plans.
Her Vision 2020 clearly shows that the new government will likely have an outward oriented policy emphasis Thailand’s leading role in the international arena. It reinvigorates Thailand’s desire to be a regional hub for many activities, such as aviation, finance, health services and food production. This policy vision is arguably identical to Thaksin’s foreign policy during his premiership. He promoted Thailand’s role in the region through the creation of a dual strategy based on both regional forums and a web of bilateral trade agreements. For example, the Yingluck’s government is very active on the cooperation between Thailand and Myanmar on “the Dawei deep-sea port project”.

Although Yingluck’s new Thailand roadmap has incorporated two economic components: capital-intensive mega-projects and redistributive initiatives, each designed to attract new sources of political support, her populism policies, however, fail to address the sources of the middle-income trap. It may cause waste public revenue, feed corruption, and divert attention from dealing with the sources of long-term improvements in human productivity and diverts attention from them.

Her policies did not contain anything about reforming Thailand’s outdated systems of primary and secondary education, the major obstacle to long-term economic progress in Thailand; or anything about raising the long-term productivity of Thailand’s masses of unskilled and semi-skilled workers; or anything about reforming the country’s regressive and inadequate tax system; or anything about reducing corruption. Her economic populism, therefore, wastes public revenue, feeds corruption, ignores the sources of long-term improvements in human productivity (Warr, 2011).

V. THAILAND AT THE CROSSROADS

Recently, there are some changes which more or less have some influences on Thai Manufacturing sector such as as ASEAN Economic Community, the coming of Chinese, fierce global competition and the influences of TNCs, the shortage of skilled labor and physical infrastructure,
natural disaster (the flood), industrial structure changes, and sound macroeconomic management. Thai manufacturing needs to improve its productivity and competitiveness if it is to avoid being stuck in a middle-income trap. This part will demonstrate some challenges and underlines the need for Thailand to promote sustained, productivity-driven growth by enhancing investment in physical infrastructure and human capital, strengthening national innovation system, and other productivity-enhancing policies to overcome the middle-income trap. The details of each challenge are shown as follows.

A) ASEAN Economic Community (AEC) and Thai Manufacturing sector

Thailand enjoys a strategic location and serves as a gateway into the heart of growing Asia. Thailand’s location offers convenient trade with China, India and ASEAN and easy access into the Greater Mekong sub-region, where newly emerging markets offer great business potential. Moreover, The formation of the ASEAN Economic Community (AEC) in 2015 is an important milestone in the process of ASEAN integration. It will create a single market and production base by accelerating current liberalization process of goods, services and investment and complement it with greater flows of skilled labor and capital. A stronger regional integration will enhance efficiencies through greater specialization in production, greater economies of scope and scale. The AEC will have the world’s third largest population earning the sixth largest income with the fifth largest exports.

A single market and production base in AEC will foster the concentration of production to new bases with potential in terms of raw materials and markets. Therefore, the AEC will bring forth greater opportunities for advantageous and strong Thai businesses such as the hospitality, automotive and auto-parts manufacturing, and food processing sectors. These industries will benefit from Thailand being a big production base due to infrastructure, knowledge, and labor capacity. There is also increasing consumption in ASEAN, especially in Indonesia and Lao PDR, where food consumption is increasing as a result of the growing number of middle and high income populations. Demand for durable goods, including cars, will also increase in parallel.

The challenge for Thailand is to tap on the gains of integration while staying prepared for changes. Thai businesses need to start by leveraging and rolling out their core competencies or strengths. However, there is another negative impact which is a shortage of professional workers due to greater labor mobility in ASEAN. Under AEC, skilled professionals have more ability to move within the region. Most Thai businesses remain indifferent to the growing challenges of

---

5 There are 12 priority sectors under AEC including agro based products; air travel; automotives; e-ASEAN; electronics; fisheries; healthcare; rubber based products; textiles and apparels; tourism; wood based products; and logistics. Under AEC there will be the higher percentage of ownership by ASEAN investors in services sectors. Services businesses in Thailand will be affected by the elevation of permitted maximum shares held by ASEAN nationals, including legal consultancy, retail food, packaging services, and hospitality services.
labor mobility within ASEAN once regional economic integration is completed in 2015. While freer labor movement will benefit industries in the region, Thai manufacturing need to be mindful of a possible flight of Thai skilled workers as well as scientists and engineers to earn more well-paid incomes elsewhere especially Singapore and Malaysia. This could cause brain drainage in Thailand.

The opportunity for Thailand to grow with ASEAN (and ASEAN plus) will depend on Thailand’s efforts and ability to upgrade its technological absorption capacity to maintain and attract more sophisticated FDI by promoting research and development activities, building stock of human capital, establishing institutional framework conducive to technological development. Without a strong determination and serious efforts by the Thai policymakers to tackle obstacles for Thai businesses in moving up the value chain, it will be hard for Thailand to be out of the trap.

B) The Coming of Chinese and the Opportunities of Thailand

China’s rapid economic growth provides opportunities for Thailand both for agricultural and industrial products. Moreover, Chinese foreign investment in Thailand is growing. The motives behind their investment in Thailand are to find market and resources in Thailand. China’s investment trend in Thailand will be influenced by future Chinese economic relations with ASEAN. Thailand could be chosen as a manufacturing and export base of Chinese products to the ASEAN region. Thailand has great potential in geo-economic aspects as investment base facilitating the distribution of Chinese merchandise to ASEAN and world market. From 1975 to 2002, the amount of Chinese investment in Thailand was the largest in ASEAN countries. The value of Chinese investments in Thailand now ranks fifth. Chinese investments are mainly earmarked for manufacturing and processing industries whereas the proportion being invested in high-technology remains insignificant. This indicates that Chinese investors are focusing primarily on stable supplies of natural resources, and are seeking raw materials and intermediate products to supply their manufacturing sector.

Thai manufacturing can have benefited from the rising of the Chinese economy through various trade channels. Thailand may have benefited from ASEAN’s rising by taking part in China’s production network, especially in middle-stream electronics production. However, going forward Thailand is facing the risk of being left behind as China is rapidly moving up the value-added ladder while playing a lesser role as world assembler. On the contrary, being partnership with the Chinese may be the first step for Thais to enter China market and to acquire technology know-how as well as to utilize Chinese oversea networking. Thai companies and government should set an eye on Chinese companies to form joint ventures and business partnership order to increase international presence.

C) Integrating to Global Production Network

Thailand’s liberalization of industrial investment in the early 1990s made it possible for foreign
firms to enter Thailand more freely especially after 1997 crisis. Foreign firms are no longer good partners for local firms in domestic protected market but have become strong competitors in liberalized markets. They have been increasing in size from the mid 1990s and particularly after 1997 crisis (Suehiro, 2010). Foreign firms are increasing their dominant status more and this is particularly so in electronics, automobiles, petrochemicals, steel, and telecommunications. Local firms are being driven into labor-intensive or natural resource-based industries. Foreign firm are now developing their production and marketing activities in only accordance with their region-wide corporate strategies, rather than with the government industrial policies of their host countries. This implies that Thailand is losing its autonomy in policy making and must depend crucially on the corporate strategies of foreign firms. As the result of economic globalization and liberalization, Thailand is now experiencing a pattern of predominantly foreign company-led industrialization (Lauridsen, 2004).

It is necessary for Thai business and policy maker to understand changes in TNC’s strategies and global production system. Global networks offer access to complementary resources for countries with limited capital and indigenous technology. However, with spreading production network around the world, Thailand has fewer opportunities to develop complete national production structures (from upstream to downstream industries). It means a reduction in opportunities for domestic value creation through linkages while compelling firms to battle for rents in specific but shifting export niches. Technological development today requires an ability to master new kinds of information and to coordinate even more numerous partners, and requires greater institutional capacities. Thai manufacturers must become more effective learners and better collaborators with TNCs’s network.

D) Thailand’s Flood Crisis and its Consequences

Thailand had a severe flooding during the July 2011 until mid-January 2012. Sixty-five of Thailand’s 77 provinces were declared flood disaster zones, a total of 815 deaths and 13.6 million people affected, over 20,000 square kilometers of farmland was damaged. The World Bank has estimated US$ 45.7 billons in economic damages and losses due to flooding, as of 1 December 2011. Most of this was to the manufacturing industry, as seven major industrial estates were inundated by as much 3 meters (10 feet) during the floods. The flooding damages to industrial estates and global supply shortages. Disruptions to manufacturing supply chains affected regional automobile production and caused a global shortage of hard disk drives, which is expected to last throughout 2012. Another problem is losing skilled labors when many factories have to temporarily shut down during the flood and recovery period.

Thailand has became a major production and export hub especially for Japanese investors since local support industries expanded, other manufacturers followed, creating a critical mass in the country of hard disk plants, semiconductor factories and food-processing operations that turned. Both the Japan earthquake and the Thailand flood disaster are reviving a debate over
whether some companies are pushing lean supply chains too far in a search for short-term efficiency at the cost of long-term security. Manufacturing supply chains sometimes are too narrow to withstand an unexpected disruption. The reliance on Thailand factories underscores a potential weak link in many companies’ strategies to trim costs and shore up profitability. Some companies that had descended on Thailand during those years are already moving to rethink and diversify their supply chains.

Although many companies so far had not made any plans to relocate, Thailand-based manufacturers will likely stick with the country because that’s where they are heavily invested. In the long term, nothing changes because they need the capacity” that Thailand provides. However, any future plans to expand production in Thailand would be considered only after taking into account whether the government has a concrete plan to prevent flooding in the future and whether industrial estates invest in flood protection. Therefore, it is possible for some factories, particularly those that are labor-intensive and can relocate their operations easily, to move out of Thailand. The two main factors that would lead them to relocate are high wages and uncertainty over government measures to prevent future floods. Although the workforce in the neighboring countries has lower skill levels when compared with Thai labor, electronics companies can train them to do the jobs.

Although climate change will make natural disaster become common incident in Thailand, Thai government should rebuild confidence, to ensure this disaster doesn’t happen again, regain trust and restore the country’s prosperity and stability. Thailand needs large investment in infrastructure in the coming years. In the past decade since the 1997 financial crisis, the public sector (and the private sector) in Thailand has been “under-invested in”, with public investment totaling merely 5–6 percent of GDP compared to, prior to the 1997 financial crisis, more than 10 per cent of GDP. New infrastructure needed for water management should take priority in the coming years.

E) Enhancing Human Capital

Thailand faced the problems of rising labor costs and a shortage of labor forces (skilled and unskilled) and aging society in the future as a consequence of sustained declines in fertility and mortality during the last three decades of the 20th century. Moreover, under the new government’s policy of increasing the daily minimum wage to 300 Baht nationwide. The minimal wage would affect the country’s overall wage structure. Thailand might have a mismatch between increases in real wages and increases in labor productivity. Therefore, it is important to find an appropriate minimum wage in line with labor productivity and higher cost of living. The challenge is to balance the advantages of raising the minimum wage with their potential economic costs.

---

6 Thai government set up two committees the Strategic Formulation Committee for Reconstruction and Future Development (SCRF) and the Strategic Formulation Committee for Water Resources Management (SCWRM) to set direction for the rehabilitation and development of the country and to prevent flooding in the long run.
Thailand needs to improve the skills of the labor force (and labor productivity) to move to higher-paid work while maintaining competitiveness.

However, increasing labor productivity has been constrained by low educational quality. Thailand education system has both quantitative and qualitative problems due to several reasons such as social inequality, a shortage of skilled teachers, the lack of the promotion of creativity and critical thinking in teaching especially in the scientific areas, and the absence of a long-term education policy and continuous and well executed education reform. Thailand fails to provide a supply of qualified scientists, engineers and other types of human resources for industrial upgrading.

Massive public investment and reform of the education curriculum is needed to redress these problems, requiring the raising of sufficient tax revenue to finance it and combating the backward and self-serving practices of the ministry of Education and the teachers’ unions. These reforms aimed at lifting the long-term productivity of Thailand’s masses of unskilled and semi-skilled workers.

Labor’s capacity to exert pressure and support for indigenous upgrading is weak, as is that of domestic business, while foreign producers can avoid contributing to indigenous capacities. Moreover, many firms have adopted hybrid systems of simultaneously employing permanent and temporary workers. Its deleterious impact on the quality of democracy, organizationally and politically weak labor may constitute an obstacle to the technology- and innovation-based upgrading so important for sustained growth. This condition creates a “low-skill equilibrium trap” in which workers are reluctant to invest in training and education because of a shortage of available positions, but businesses are reluctant to upgrade. Even where there is private sector demand for broader skills, the supply response is often weakened by bureaucratic and political fragmentation.

In addition, since the world is facing a food and energy crisis, prices of agricultural products have continued to increase and affected food security. This sector is likely to enjoy higher growth as is evident in a number of workers returning to the farm sector. The manufacturing and service sectors will have an impact from a shortage of manpower. Thailand then has undersupply of human capital.

Increasing the supply of human capital is central to overcoming the middle-income trap. The emphasis here is on the need for progress in skills and knowledge, areas in which Thailand has continued to decline relative to competitors and related in the creation of technologically competent indigenous final producers and suppliers. It raises labor productivity directly and raises the return to physical capital, encouraging greater investment in physical capital as well. Thailand should push harder towards advancing the economy. The challenge is even greater given that Thailand is now facing rising wage pressure due both to labor scarcity and political agenda. Improving labor productivity to achieve faster rate of growth than wage increase is thus even more pressing.
F) Enhancing New Physical Investment

Since 2000 the corresponding growth rate has been 4.1 percent. The immediate problem was a contraction of private investment, which declined as a proportion of GDP from an average of 30 percent to 18 percent over the same two periods. The effect of lower investment was twofold: it reduced aggregate demand, lowering income in the short run; and it reduced the rate of capital formation, lowering long-run growth prospects (Tawonkraiwong et al., 2011).

A decline in this investment ratio occurred in all of the crisis-affected Asian economies, including Indonesia, Malaysia, the Philippines and South Korea. The decline in Thailand was one of the largest. The contraction of investment occurred primarily among Thai-owned, rather than foreign-owned, firms. After the crisis Thai firms became less confident about their prospects and hence less inclined to invest. An expectation of this kind is self-fulfilling. It reduces investment, which does indeed ensure that growth will be lower.

Government should enhance physical capital investment (an infrastructure) building infrastructure that is not easily affordable by private sector such as invested in flood damage recovery, restoration of industrial sites, and general infrastructure investment, such as flood-proofing for industrial sites, irrigation, damming and drainage, etc. New infrastructure should be related with more advance technological activities such product design, product testing. In addition, Thailand’s industrial upgrading also require drastic soft infrastructure measures – including but not limited to educational reforms, legal improvements especially with regard to property rights and regulatory burdens for businesses, as well as improvements on government’s efficiency and good governance.

G) Enhancing National Innovation System and Industrial Cluster

Thailand’s national innovation system is weak and fragmented. Actors such as government agencies, private firms, universities, research organizations, and so on are not so efficient in performing their supposed roles. This could be constraining firm productivity: research, problem solving and technology development capacity at universities needs strengthening so as to stimulate links with the business sector. Therefore, an explicit and effective upgrading policy formulation and implementation are needed. More strategic policies that try to strengthen firm-level and industry (and cluster) level foundations of competitiveness were initiated recently. Nonetheless the implementation of these policies have been compromised and fallen by the wayside because of the lack of genuine political will and the vested interests of various political groups, including politicians who initiated those policies. The mindsets and understanding of policymakers in the middle and low levels can prohibit fruitful implementation of well crafted policies agreed at the higher levels (Intarakumnedr and Lecler, 2010 pp 7).

To utilize the existing production network in Thailand, the government should promote hubs of industries with high knowledge spillovers, namely industries that employ advanced technology in their production. These specialized hubs provide environments conducive for innovation and
serve as breeding ground for high-tech startup firms. This policy direction can help support high-potential firms to "move up the value chain", resulting in higher valued added creation for the domestic economy. Given the benefits of clustering, the government should identify high-potential areas and upgrade these areas to become new industrial hubs - for similar or related industries, so that they can reap localized benefits such as availability of specific inputs and labor.

H) Sound Macroeconomic Management

In the past, Thailand could achieve economic stability, industrial growth, and export expansion due mainly to the sound management of macroeconomics and the active response of private firms to changing environment. Sound management of macroeconomics has been underpinned by good cooperation among government agencies such as the Ministry of Finance and the Bank of Thailand. However, such cooperation was damaged under the Thaksin's administration (Suehiro, 2010) as well as Yingluk's administration. Besides increasing inflation expectation from raising the minimum wage, Thailand's fiscal risk has emerged due to rising public debt recently regarding huge investment in infrastructure to prevent the future flood. It is necessary to find new sources of income generation e.g. from potential services and creative economy as there are more constraints on the income earned from the manufacturing and the agricultural sectors due to limited industrial locations and arable land, changing climate situation, and environmental regulations. Thailand may reform of the country's regressive and inadequate tax system such as abolishment of certain BOI tax promotions, broadening of the basis of tax assessment, increase of value added tax or VAT (from 7 to 10 percent), increase of the excise tax, and reform of governance systems aimed at reducing corruption.

In addition, although small Thailand's domestic demand would not be able to replace export market in the medium and long term (Poonpatpibul et al, 2009), Thailand should strengthen domestic demand which is crucial for the economy as it would need to perform the important role as a buffer against negative foreign demand shocks and there is the need to expand domestic demand especially investment to help ensure economic recovery as well as achieve sustainable long term growth.

As mentioned above, the further development of Thai industrial sector presupposes economic stability at the macroeconomic level. Therefore, Thailand is facing not only the improvement of national competitiveness at microeconomic level but also sound economic management at the macroeconomic level.

G) Some Challenges for Private Sector

The coming of Chinese, ASEAN regional economic integration, an increasing in wage and salary as well as a scarcity of skilled labors and natural resources, and the natural disaster will usher in a new Thailand production structure. The success of Thailand in meeting the challenges of structural change hinges on the flexibility of the market economy in reallocating resources
optimally and the adaptability of Thai firms in enduring the pain of transition. Certainly, there will be firms in non-competitive sectors that appear particularly vulnerable. In the tradable sector, the most resilient sectors in terms of shock-absorbing buffers are electronics and vehicles, followed by those in the heavy and light manufacturing sectors. The food and beverage sector shows the greatest within-sector variation in terms of the difference between resilient vs. vulnerable firms. Vulnerable sectors include transport, storage and communications sector, wood products and furniture, leather products as well as hotels and restaurants (Ariyapruchya et al., 2011).

Under today’s globalization, low costs can coexist with high quality and prompt delivery. To maintain or advance their position in global networks, Suppliers in Thailand have to engage in a balancing act between maximizing quality and minimizing costs/prices. Firms should continuously enhance product value-added, seek out opportunities in new markets (e.g. Sub-Saharan Africa and the Middle East), prepare for not only local but also regional competitors (e.g. ASEAN, China), and manage financial risk more carefully. Policymakers may facilitate resource allocation by fostering competition through, for example, streamlining licensing to facilitate entry and exit, liberalizing price controls to allow the market mechanism to function, and encouraging foreign participation. Public policy can support job retraining and streamline licensing to facilitate firm entry and exit.

Besides upgrading technology, quality, and design capabilities, another solution for Thai conglomerates is to relocation to resources and labor abundant countries especially with ASEAN. For example, there are a number of export-oriented Thai producers setting up factories nearly Thailand’s borders to access low-wage foreign workers in order to maintain their competitiveness. Thai manufacturers should actively invest outside Thailand whether for market-seeking, resource-seeking, technology-seeking, or efficiency seeking. Thai private sector needs to improve its internationalized skills and better understand in-depth information of the host country, especially in terms of regulations, cultures and business opportunities. Thai investors should be well-equipped with risk management capabilities in order that they can insure their returns from investments. All stakeholders need to adjust their mindset into more outward investments oriented. Both public and private sectors should be better-coordinated to support each other more efficiently.

However, over the past decades, Thailand’s under-investment in foreign assets has been evidently existed (Sodsrichai et al., 2011). Regarding low level outward investment, Thailand has lower international risk sharing and has more volatile consumption patterns. To strengthen Thailand’s resiliency to unexpected economic shocks and maintain country’s economic welfare through better consumption smoothing, Thailand must become a more outward-investment-oriented country.

Thai government, therefore, should create and encourages Thai-owned brands to go abroad especially within AEC. Thai government needs to stipulate a concrete national road-map supportive to outward investments. This helps increase investors’ confidence in a continuation of governmental policies. The public sector should play a vital role in implementing various policies to
support outward investments, namely more relaxation of capital outflow measures, encouraging tax policies and providing easier access to financial facilities.

VI. CONCLUDING REMARKS

Industrial upgrading and the formation of productivity enhancing in Thailand is being hampered by a number of constraints such as the technical, language and soft skills of the factory labor force; the quality and volume of science and engineering skills; the physical infrastructure in and around the industrial estates; and the ICT infrastructure. Moreover, the emergence of China and AEC presents to us both challenges in terms of competition and opportunities to collaborate and rise with them. With the global economic landscape continuously evolving, the Thai government must invest to improve Thailand’s long-term competitiveness, rather than recent short-sighted focus on stimulus and subsidy measures that cannot offer any permanent cure for the economy.

The success of industrial upgrading will strongly depend on the ability of Thailand to catch up with the rivals by upgrading its education system, and linking industry and research institutions to innovate without forgetting to upgrade the capabilities of Thai SMEs. Well-developed and adequate infrastructure is another key necessary condition for success. By induce private sector’s investment and enhancing labor productivity, public infrastructure investment can lead to sustained, productivity-driven growth that will pave Thailand’s way out of the middle-income Trap.

Thailand has reached the point where further progress towards higher income can be secured only if internal value creation is enhanced. This calls for proper industrial policies, rather than laissez-faire, to guide and complement private sector dynamism and avoid the middle-income trap.

However, the industrial upgrading is in many ways more difficult than those involved in identifying and promoting new sectors. Industrial upgrading needs different and have more difficult challenges than those required for industrialization. It involves an ongoing process of “mutual discovery” and “strategic collaboration” on the part of government and private actors. It requires significant institutional capacities in areas such as monitoring and consultation (Doner, 2009). Using Japan experiences, Suehiro (2010) suggest that adequate policy targets and effective policy implementation need some institutional factors, which include: planning by able technocrats equipped with accurate industrial knowledge; constant information exchange between the government and private sector through meetings of industrial councils; a well-arranged monitoring system for firms promoted without political intervention; and well-organized business associations which represent members’ interests and national interest rather than the particular interests of individual firms.

Such capacities cannot simply be wished into being; nor do they develop as the natural response to changing market conditions. They emerge instead out of the rough and tumble of politics. That is, they require the presence of political pressures on leaders and opportunities for leaders to act. The scope and sequencing of reforms must be chosen carefully. The challenges
that now confront Thailand including economic problems not only some of which result from the
difficulties of financing the promises on which Pheu Thai party was elected, but also the deeper
issues of competitiveness arising from the country’s outdated educational system and its ageing
population.

The new government can learn from two previous major Thailand’s industrial promotion
policies after the crisis, “the Industrial Restructuring Plan” or IRP (1997-2000)—based on
Japanese experience and assistance, which emphasizes the promotion of supporting industries and
SMEs in priority industries—and “the the National Competitive Plan” or NCP (2001-2006)—relying on Porter’s work which refers to American management textbooks and is based on the
cluster approach. These two master plans produced rather poor policy outcomes due to the lack of
institutional framework and capacities to support the cooperation.

The new government can also learn from the Thaksin’s lesson. Thaksin’s poor outcomes on
competitiveness upgrading are due to the fact that Thailand has no institutional framework and
capacity to support cooperation between the government and private sector. Thailand lacks
industrial knowledge and experience among technocrats, and lacks well-organized business asso-
ciations which lead firms inclined to look after their own interest rather than national interests.
Intarakumnerd (2011) also point out that despite sound policies, stakeholder engagement and
support in policy and program formulation to ensure subsequent smooth implementation is impor-
tant and cannot be under-estimated. The significance of administrative capacity to ensure effec-
tive translation of policies and program cannot be ignored. Good policies need capable administra-
tion to implement them. Policy formulation should go hand in hand with capacity building of
implementing administration.

In addition, under economic liberalization, some policy instruments—such as direct subsidies,
protective import duties, fiscal finance, and favorable industrial credit—were taken of the hands of
economic technocrats. The government is now expected to play the role not of a conductor but of
a coordinator in national projects. Under the present political landscape (populist policy), the
scope of authority of economic technocrats in decision making on economic planning and (sector-
al) industrial policies is narrowed.

Thailand, therefore, should focused not only on “getting the prices right (laissez-faire) but also
it needs to “getting the institutions right” with strong political support. Thailand administration
has been known as a slow-moving, inefficient and corrupt bureaucracy. Institutional capacity for
handling industrial policies in Thailand is underdevelopment (Suehiro, 2010). Therefore, a range
of new public management and good governance mechanisms should overhaul. The new govern-
ment should put stronger effort into the administrative reform process and fix a political meddling
with the administration.

To implement policies enhancing technological upgrading requires strong political support as it
relate to inter-ministries and public-private-university collaboration. Such coalitions can facilitate
compensation for difficult economic adjustments and provide security for risky investments.
Nonetheless, the capacity of Thai government to promote such reforms is not forthcoming due to the country's fragmented politics. Numerous parties and factions are able to block the provision of public goods such as education reform, technical training, R&D promotion, and standards. The willingness of Thai leaders to expend political capital in undertaking reforms is limited because pressures on them to do so are both moderate and more fragmented.

Although Thailand currently has a relative calm, Thailand’s political crisis does not seem to be nearing an end. Political difficulties are however likely to continue in Thailand. This may create uncertainty in the public sector’s plans for large-scale infrastructure investment, human resource development, institutional reforms, and some other productivity-enhancing policies. Although the instability has not yet affected Thailand’s economy as much as one would expect, but any further escalation of unrest and violence will sooner or later spill over into the economy. We hope that Thailand can restore peace and political stability for the long-term prosperity.

REFERENCES


