

Chapter 3 Thailand

1. Top-down decision making

The entire working of the Thai government changed significantly four years ago when the Thaksin administration came into power and began to run the country in a new way. Previously, most Thai governments were weak and uncoordinated. But Mr. Thaksin's government is strong and decisive. He determines the general direction and orders ministries and related organizations to work out the details and implement actions. This top-down decision making is quick and affects the entire scope of policy making including industrial strategy formulation. The role of economic ministries now is to concretize predetermined policy orientation rather than build policies from bottom up. Since Mr. Thaksin was recently re-elected for the second term, this policy style is likely to continue for four more years. Further administrative reform is expected to accelerate the Thaksin policies¹.

In Thailand, the National Economic and Social Development Board (NESDB) drafts the five-year plan. The ninth five-year plan (2002-2006) is currently in place.² It sets an overall guideline with an emphasis on good governance, human resources, social protection, environment, macroeconomy, competitiveness, and science and technology. However, the strategic role of this plan appears to be diminishing as a result of the prime minister's strong governing style. Some even speculate that NESDB and the five-year plan will be abolished in the near future. But others note that they are still needed to balance economic and social needs and give overall consistency to policy formulation.

Many officials positively evaluate Mr. Thaksin's initiative. As in many other countries, Thai ministries did not talk to each other and their policies were often contradictory and ineffective in the past. At present, policies have become more integrated under Mr. Thaksin's visions. He wants to run a country as if it were a business enterprise. Some officials boast that their decision making is now faster than private sector decision making, and dialogue among concerned ministries, domestic and foreign firms and international partners has been activated. It is said that policy direction is now much more clear and transparent.

However, critical opinions also exist. Some say that Mr. Thaksin is very good at public relations and image-building but whether his visions can be actually implemented is an entirely different matter. Some argue that corruption is still rampant or even intensifying under Mr. Thaksin's government.

2. Liberalization and local capability

¹ This chapter reflects information at the time of our visit (Feb.-Mar. 2005). Although the political situation changed in 2006, we retain our original analysis since the political change does not invalidate policy lessons we draw from Thailand.

² Government of Thailand, *The Ninth National Economic and Social Development Plan (2002-2006)*, compiled by the National Economic and Social Development Board, Office of the Prime Minister.

Although the governing style of the current Thai government is centralized, it is very different from developmental states frequently observed in the history of East Asia. The governments of Park Chung Hee (Korea), Deng Xiao Ping (China), Lee Kuan Yew (Singapore), Chiang Kai Shek (Taiwan) and Dr. Mahatir (Malaysia) were more interventionist in the sense that they tried to enhance or supplement the market mechanism by a powerful state hand, fiscal and financial measures, public investment, protectionism, discriminatory preferences, and so on, with the ultimate aim of bolstering indigenous industries.

But the Thaksin government is seriously committed to international integration³, various FTA initiatives, and equal treatment for all enterprises including domestic and foreign, large and small. Local content requirement was abolished in 2000 when WTO commitments were fully executed. Thailand has no law requiring technical transfer. We heard more than once that the current government had no interest in the nationality of companies operating in Thailand, whether they are Japanese, Korean, European, American or Thai. This is in sharp contrast to most other developing countries, including Vietnam, which earnestly desire to strengthen indigenous industries. The Thai government is also uninterested in which products or companies will win competition. Its principle is “let the market decide.”

However, it is not entirely true that the Thai government is uninterested in local capability. On the contrary, the main pillars of current industrial strategy are human resource development (HRD) and supporting industry promotion with a particular emphasis on small and medium enterprise (SME) promotion. While this sounds somewhat at odds with the statement that Thailand has no interest in the nationality of its industries, it is not really so. Firms operating in Thailand and Thai-owned firms should be clearly distinguished. The government wants to strengthen the former which can include any nationalities. It hopes to support several targeted industries with high domestic value (see below), but support measures will remain broad, nondiscriminatory and available to firms of any size or nationality.

This is a new style of policy formulation which may be suited to the open character of Thai people as well as the requirements of globalization. It also goes well with the policy advice of international organizations like the World Bank, IMF and WTO. It is clear that heavy-handed interventionism of Japan and Korea in the past is no longer permissible in the current international environment. In this sense, Thailand's industrial policy combining top-down liberalization with general support measures may set a new standard for other countries to follow.

But some ambiguity remains. If Thai firms grow strongly along with foreign firms, all is well. But if local firms are eliminated and the industrial base continues to be dominated by foreign firms due to the lack of competitiveness or ineffective policy, will Thailand still be satisfied? The current government seems to be saying *yes*, if it is the result of

³ Within-ASEAN tariffs (CEPT) for manufactured products are already very low. However, some non-ASEAN tariffs and non-tariff barriers on services are still high.

global competition. But is it really politically and socially acceptable? All depends on the quality of human resources, entrepreneurship and policy measures on the Thai side. However, it is frequently pointed out by Japanese manufacturers that Thai workers and managers have fundamental weaknesses. Can it overcome this long-term problem and realize its visions? Are today's open policies enough? It remains unclear⁴.

3. Targeted industries and policy formulation

The current government of Thailand is fairly clear about how the country wants to position itself in an increasingly competitive world. It hopes to promote industries that have high domestic *value-added* (i.e., creating more jobs) and can find *niches* in the world economy (i.e., not competing directly with China and others). The following list more or less exhausts the targeted industries and their slogans:

- Automobiles and automobile parts (“Detroit of Asia”)
- Agro-industry (“Kitchen of the World”)
- Fashion, such as jewelry, leather goods and Thai silk (“Hub of Tropical Fashion”)
- High value-added services, such as healthcare, spa and long-stay tourism
- Electronics and ITC
- Energy and renewable energy (newly added)

While the criteria for industrial targeting (*value-added* and *niche-seeking*) are well specified, the listing of targeted industries is left to each ministry and agency to decide. As a result, the names of promoted industries and how they are grouped differ slightly from one government body to another depending on their scope of authority. For instance, “electronics and ITC” and “energy and renewable energy” are in the list of BOI but not in the list of MOI. Tourism is sometimes listed separately from high value-added services.

The policy style of Mr. Thaksin is to impose broad—and often ambiguous—visions rather than micromanage the contents of policy measures. After visions are set, relevant ministries and agencies are required to work out detailed targets and action plans. They must design, implement, monitor, revise and trouble-shoot them as necessary. For example, no one can clearly explain what the automotive slogan of becoming a “Detroit of Asia” means. But in the MOI's master plan of the automobile industry 2002-2006, several numerical policy objectives are stated (see below). Then, at the level of annual

⁴ Kenichi Ohno pointed out this “glass ceiling” problem in his VDF discussion paper, “Designing a Comprehensive and Realistic Industrial Strategy” (June 2004, pp.17-18) noting that no ASEAN countries have grown out of dependency on foreign technology and management, unlike Korea and Taiwan who can manufacture products by themselves. This issue was also raised in *Industrialization Strategy of Vietnam* (edited by K. Ohno and N. Kawabata, Yuhikaku, 2003, in Japanese), as follows: “Since the late 1980s, some countries have succeeded in significant industrial agglomeration including Thailand (automobile) and Malaysia (electronics)... But ASEAN has not really internalized industrial capability even after decades of FDI absorption... While manufacturing dominates economic activity, technology and management have not been localized. Since value-added tends to grow less rapidly than wages in these countries, industrialization cannot break through a certain level... To avoid this trap, a country must eventually graduate from simple processing and master skills, talents and systemic innovation. Can this be accomplished under free trade and eternal FDI-dependency?” (pp.65-66).

plans, concrete projects and budgetary allocation are determined. As new situations and problems arise, strategies are adjusted through ongoing consultation between the government and the private sector.

To facilitate coordination among government, businesses, and industrial experts, the Thaksin government created nine industry-specific non-profit institutes under MOI including steel, food, automobile, electronics, textile, etc. These institutes are required to play key roles in the design and implementation of Thai industrial strategies. After five years of establishment (which is about now), they are required to become financially independent from the government budget. However, whether that is really possible or even desirable is an open issue; to make enough money while contributing to the society and economy at large is a tough requirement. Other issues include whether these institutes can really play the expected role and whether their subsidized activities will not crowd out private research and consultancy. At any rate, it seems too early to evaluate their overall performance. In Vietnam, the option of creating central institutes with sufficient mandate and human and financial resources should be seriously considered. Vietnam also has many institutes and associations for each industry and under each ministry, with a pre-specified scope of research to support policy makers. Unlike Thailand, their main purpose does not include providing linkage between the private sector and the government. Their activities often remain ineffective because information and resources are scattered.

One of the most salient features of Thai industrial policy formulation is the depth of involvement of the private sector. Policy design, implementation and adjustment are conducted through a close and continuous cooperation between the government and the business community with the private sector taking the lead. This is in sharp contrast to Vietnam where information channels between government and businesses are severely limited. In Thailand, the work on a master plan begins with the government listening to the private sector. The content and targets of the master plan are proposed by the business community. At every stage of implementation, revision and problem-solving, the private sector has many opportunities to voice its opinions. For this reason, there is very little dispute among various stakeholders once the master plan is agreed. In fact, Thai master plans do not require any official approval (like the Prime Minister's approval in Vietnam) to become effective. The official author is MOI but the ideas are shared among all in the process of drafting.

Another important initiative by the Thai government is the establishment of industry-specific government committees for individual key industries. They now meet frequently (every 1.5 months, for instance) and are actively attended by relevant officials and general directors of major producers. In these committees, current situations are evaluated, new issues are identified, and special subcommittees are set up to draft required solutions. Since the master plan sets only broad objectives, and since each committee continuously adjusts the implementation of the master plan, there is no need to revise the master plan itself. For example, the automotive master plan 2002-2006 has not been revised during implementation.

Vietnam also has official meetings between the government and investors, but they tend to be very formal and infrequent. In Vietnam, the private sector is not asked to draft a master plan at all; they are only asked to comment on the policy which the government is implementing or has decided to implement.

4. Automotive master plan 2002-2006

Let us examine the content of the current automotive master plan of Thailand which was produced jointly by the government and the private business community⁵. The drafting process took about one year. It has several characteristics that are different from the automobile master plan of Vietnam⁶.

First of all, the Thai master plan is longer than Vietnam's. In the original language, the Thai version is over 300 pages, of which 60% is dedicated to tables for detailed implementation. The Vietnamese version is 63 pages long. Its executive summary version which was approved by the prime minister is 15 pages long.

The Thai master plan has the structure similar to what Ohno recommended in his MOI seminar in February 2004⁷. It starts with the analysis of the global and regional automobile industry and the assessment of current domestic capability of Thailand. Then it sets several broad numerical objectives to be achieved by 2006. Finally, the master plan contains a thick section delineating action plans to achieve these objectives.

The objectives set by the automotive master plan for 2006 are as follows (actually, these objectives were already achieved in 2005, one year ahead of the schedule):

- To produce one million cars per year (valued at more than 500 billion baht)
- To export 40% of the cars produced
- To produce two million motorcycles (valued at more than 100 billion baht)
- To export 20% of the motorcycles produced
- To export more than 200 billion baht of international quality parts
- To achieve localization of 60%

Here, two points should be stressed in comparison with Vietnam's automobile master plan.

First, the Thai government only specifies *total* production and *total* exports as objectives rather than the number of cars by each category (cars with 5 seats or less, cars with 6-9 seats, less-than-2-ton trucks, 2-7 ton trucks, etc). It does not also care who (local, joint venture, or foreign firms) produce and export cars to achieve these objectives. There is no

⁵ SOE privatization was completed in Thailand about a decade ago and all manufacturing firms are now private. The only remaining issue in SOE reform is when and how to privatize the power company.

⁶ *The Master Plan for Thai Automotive Industry 2002-2006, proposed to the Office of Industrial Economics, Ministry of Industry by Thailand Automotive Institute*, September 2002. On the Vietnamese side, the relevant document is the *Master Plan for Developing Vietnam's Automobile Industry*, October 2004.

⁷ Kenichi Ohno, "Designing a Comprehensive and Realistic Industrial Strategy," VDF Discussion Paper No.1, June 2004. Reprinted in VDF's *Improving Industrial Policy Formulation*, edited by Kenichi Ohno and Nguyen Van Thuong, and published by the Publishing House of Political Theory, 2005.

national car project or designation of individual producers. As far as objectives are concerned, there is no more detail than given above. As mentioned before, Thailand lets the market decide winning firms and products.

Second, by contrast, the Thai automotive master plan is very detailed in implementation. While the Vietnamese master plan also states supporting measures, it is only 3 pages long (Part II, chapter 4, pp.49-51). In the Thai master plan, a large number of tables are attached over 180 pages to specify strategies, action plans, output, key success indicators and responsible organizations.

The main differences between the Thai and Vietnamese automobile master plans are summarized below.

Table 3-1. A Comparison of Thai and Vietnamese Automobile Master Plans

	Thailand	Vietnam
Drafters	Joint product between MOI and private firms, coordinated and drafted by Thailand Automotive Institute	Institute for Industry Policy Research (MOI) with comments from relevant MOI departments
Period	2002-2006 (synchronized with the five-year plan)	From approval date to 2010 with a view to 2020
Approval	Not necessary	Prime Minister
Size	About 300 pages. English and Thai executive summaries are downloadable from website	63 pages; the executive summary approved by the prime minister is 15 pages
Drafting time	About one year	Drafting time is specified but completion depends on the approval process
Broad vision	To become a “Detroit of Asia”	Contribute to industrialization and modernization, cope with integration, use international technology, etc.
Targets	Output, export and localization targets for 2006 are given for the entire industry (both automobiles and motorcycles)	Output and investment goals are given for each vehicle category for 2010 and 2020; localization goals for 2010.
Implementation details	Matrices containing strategies, action plans, output, success indicators and responsible organizations over 180 pages	Seven policy measures are presented over 3 pages
Designation of producers or regions	Not specified	Four SOEs and two ministries are specified, preferred regions are also mentioned
Mechanisms for revision and updating	Automotive Committee, Thailand Automotive Institute, other informal channels	Drafting body is responsible

Automotive experts at Thammasat University confirmed that policy is now designed and implemented collectively and continuously between the government and private firms. Although private firms sometimes try to bargain with policy makers, severe confrontation does not happen in Thailand. According to the Thammasat University researchers, localization requirements used in the past were not effective in improving Thai capability due to loopholes in regulation and juggling by producers which only led to inefficiency. To bolster local capability, supporting local producers and inducing foreign firms to *productively* increase local procurement are crucial, but the Thai government did not succeed in creating these conditions. The Thai researchers noted that Vietnam's current automobile market (about 40,000 cars per year, as against over 1 million in Thailand) was too small to require producers to procure parts locally. They felt that the Vietnamese target to raise the localization ratio from the current 20% to 60% by 2010 was "very ambitious."

5. Electrical and electronics industry

The Electrical and Electronics Institute (EEI) was established in July 1998 in the wake of the Asian financial crisis. While Thai electronics exports are large (one-third of total exports), they remain unstable due to weak domestic foundations in technology and supply chain. Some electronics firms exit from Thailand and go to China. EEI is expected to assist the government and private companies to cope with this situation.

One of the major functions of EEI is the operation of a testing center for electrical and electronics products, which was taken over from another organization. The main purpose of this center is to conduct mandatory tests of products and parts, both local and imported, to protect Thai consumers. While EEI is expected to earn income from fees and charges and become independent from fiscal subsidies by now, equipment for officially required tests continues to be provided by the state. EEI received 100 million baht (about \$2.5 million) from the government in the last five years, which EEI considered was small relative to its required tasks. While product tests follow international standards, EEI tests are not yet widely accepted abroad. EEI also faces tough competition from private (mostly foreign) laboratories which certify products for export.

In policy areas, EEI is executing part of the Industrial Restructuring Plan (IRP) of the government, with an emphasis on SMEs, clustering and environmental protection. While Thailand already has an industrial base in plastic and metal processing, supporting industries with higher value remain very limited. A huge technology gap still exists between local and foreign firms. The "technology foresight study" was produced by EEI with a support from Japan (JODC). EEI has also learned scenario planning with American assistance and "technology road-mapping" (TRM) from a Korean expert⁸ under an APEC scheme. TRM first analyzes trends in *market*, *technology* and *product*. It then identifies the products to be produced domestically and those to be outsourced from abroad.

⁸ Dr. Byeong Won Park, senior researcher, Korea Institute of Science and Technology Evaluation and Planning (KISTEP).

EEI is not sure why electronics was not included in the MOI's targeted industries. However, the BOI's list of target industries does include electronics and ITC.

6. FDI policy

The Board of Investment (BOI) is the central agency for promoting FDI. For long it was directly under the Government Office but the recent administrative reform moved it under MOI. The policies and operations of BOI are not affected by this change, but coordination with other ministries has become a little more complicated. It should also be noted that, while FDI absorption was a top priority in the past, the current government also emphasizes promotion of domestic capability and SMEs.

In the last five decades, laws and policies for FDI attraction have constantly been revised to respond to changing development objectives and investor needs. Investment promotion laws have usually been revised every five years at the time of a new five-year plan. BOI hopes to revise the law within this fiscal year (by September 2005).

One of the differences between Thailand and Vietnam is that FDI incentives and approval are centralized in Thailand. Unlike Vietnam where local authorities can approve small FDI projects, all projects are reviewed and approved centrally at BOI. Incentives are also determined by BOI and local governments are not allowed to offer special privileges. However, FDI firms in rural areas are generally given more incentives by a zone system in which zone 1 (Bangkok), zone 2 (near Bangkok) and zone 3 (all other areas) offer increasingly generous incentive packages.

Another difference between Thai BOI and Vietnamese MPI is the strength of FDI marketing. Information on economic data, Thailand's main attractions and opportunities, promotion policies, investment incentives, international cost comparison, BOI services, approval procedure, and so on, are conveniently summarized in the brochure, website and slide presentation which are updated frequently. Investment application forms are downloadable from the BOI website which features six languages (English, German, French, Japanese, Chinese and Thai). The slide presentation to our mission was clear and effective. BOI believes that its welcoming attitude is the greatest attraction for foreign investors. Vietnam can learn much from BOI in the area of country and land marketing.

BOI follows the government policy of openness and nondiscrimination among all businesses. Localization requirement has already been abolished. It thinks that measures to require technology transfer are "tricky" since overregulation irritates investors and causes them to leave the country.