

**5TH INTERNATIONAL CONFERENCE ON  
THAI STUDIES - SOAS, LONDON, 1993**

**ไทยศึกษา**

**WHO BENEFITS FROM 'DEVELOPMENT' IN THAILAND?**

**The expansion of the manufacturing sector : an economic New Deal and a social revolution.**

**Who benefits from industrial development in Thailand?**

**Jean-Christophe SIMON**

**Economist, French Scientific Research Institute for Development in Cooperation (ORSTOM).**

**CUSRI-ORSTOM Project, Social Research Institute, Chulalongkorn University, 10330 Bangkok.**

Please do not cite without  
the permission of the author

Fonds Documentaire IRD

Cote : Bx 25442 Ex :

Fonds Documentaire IRD



010025442

**The expansion of the manufacturing sector : an economic New Deal and a social revolution.**

**Who benefits from industrial development in Thailand?**

Jean-Christophe SIMON

Economist, French Scientific Research Institute for Development in Cooperation (ORSTOM).  
CUSRI-ORSTOM Project, Social Research Institute, Chulalongkorn University, 10330 Bangkok.

Paper presented to the Fifth International Conference on Thai Studies, School of Oriental and African Studies, London 5-9 July 1993.

The pattern of development of a sector of modern manufacturing enterprises has changed dramatically over the past decades in Thailand; From a relatively narrow base, the manufacturing sector has evolved to the present structure that is both larger and much diversified in terms of activities and sectors, and its actors have grown in number, acquiring new social attitudes and mastering new economic and social strategies.

Just one decade ago many were discussing the weaknesses of industrial development (Tambunlertchai, 1983) and by the end of the 80s others could easily assume that this industrialisation process was systematically leading to "dependent development" i.e in favour of transnational capital, footloose industries, parasitic local elites (Bell, 1989). But we would like to suggest that these ideas be revisited - to take into account current socio-economic transformations and make a critical assessment of benefits derived from industrial development, particularly at three planes: actors, sectors, and position in the world-economy. We consider indeed that the benefits of industrialisation are not to be judged or measured only in terms of national or per capita wealth, or in terms of global income distribution (which would lead to endless debates about statistics, their distortions, their relevance and coverage to describe equity in development). For these reasons I have chosen to limit the statistical material, to refer to elements that can have relevance to several fields of Social Sciences, and to focus the presentation on aspects that illustrate the far-reaching and numerous effects of industrial development on Thailand, its people, its economic activities.

While attempting to bridge the gap between the macro, or global level, and analysis at micro or actors level we would like to show that rapid industrialisation has brought new

economic dynamisms ( development of industrial enterprise, generation of new manufacturing activities, new modes of production...), new social opportunities ( training and careers patterns, wage based permanent employment...) and at the same time both economic challenges (maintaining international competitiveness, maturation of industries...) and social issues ( new norms for basic needs, urban wage level, rural housing income....). Therefore the purpose of this paper will be twofold:

1/ It will present some constructive aspects of industrialisation - at national and actors'levels, both in terms of sectoral economic transformation and social change.

2/ It will comment on the industrial development pattern in relation to regional as well as "World Economy" integration - discussing the idea of dependency and the international standing of the country.

The paper will draw examples from sectoral studies focussing on industrial/manufacturing activities in Thailand. Our data are derived from surveys and interviews collected over the past 6 years with entrepreneurs/factory managers, in most of the sector constituting the industrial mix of the country - ranging from textile/garments to metal products, jewelry, food processing, chemicals... We will also refer to research work done under the Cusri-Orstom Project, dealing with issues related to the so-called "rapid industrialisation" of Thailand.

## **1.-- The Process of Industrialisation: a late and quick NIC ?**

1.1 If we take a global view at the industrialisation process of Thailand we certainly realize the depth and magnitude of change that have taken place over the past two decades. I would like to give here a comment on two points: first present a few elements about the time frame of the current process of industrialisation, then characterize the pattern of development , labelled "late industrialisation" (Amsden, 1989).

### **1.2 A steady process of industrial development.**

In Thailand the process of industrial development took a long time to gain impetus: it would then be wrong to speak of a quick industrial miracle. Firstly, the base of industry, although weak, was already established in the early 70's. At that time manufacturing sector contribution to overall growth of the Gross Domestic Product was already double the contribution of the agricultural sector ( the latter could account for a 16% contribution to growth over the years 1971-75 and the former 31.8% - interestingly manufacturing contributes for 31% on the period 1986-90 and agriculture only 5.6%).

It must be recalled that the expansion of the manufacturing sector was sustained over more than three decades: it took place in a context of global regular quantitative growth of the domestic product, a middle path of growth, whereby the rate of GDP growth was never inferior to 4% p.a since 1965 which is certainly remarkable compared to the average for developing countries (around 2% for 20 countries of the same category). Thailand never experienced negative growth like other Asian NICs such as Korea in 1980 or Singapore in 1985, and only recently suffered from the "double digit growth fever" that used to be the characteristic of some East Asian economies.

The impressive growth rates of manufacturing value added in the early seventies ( 10.2 % per annum for 1971-75) are comparable to those of the late eighties ( 14.7 % p.a over 1986-90). They reveal that it took about two decades to strengthen capital accumulation and achieve a substantial level of manufacturing activities: during the late seventies agricultural and manufacturing activities had a similar weight in the gross domestic product ( around 20%), and finally the latter asserted its first place in 1979. The manufacturing sector's share is now around 25% which is substantial but not overwhelming, enough though to justify the "NIC label" fashion in the economic press.

In this respect it must be realised that there is no industrial development without historical and structural dimensions. On the one hand industrial development has well recognised destabilising and restructuring effects - as shown through past and recent experiences in Europe. There is never such thing as a balanced and harmonious development process through the windfall of industrial progress. Industries in Thailand, as in other developing economies, grow and prosper by drawing on local or imported resource, they can destroy small networks of artisans, or impose transformation of agricultural structures, they could also collapse and leave regions and their populations on wrecks. On the other hand industries generate a dynamism that is the base of the so-called advanced societies. They establish new patterns of production, they offer opportunities for actors, they contribute to the standing of a country in the world economy.

Industrialisation is neither neutral nor balanced: international relations are characterised by power struggles just as economic and social debates are, at national level, influenced by class and strategic group conflicts. Industries thrive through both protection and cut-throat competition, and are not constituted of abstract, equal economic agents, but put into motion by agents that have "assymetry" of powers and capacities - which also means they can have non economic rationales in their behaviours. I believe the same could be said about family or tribal

structures by anthropologists ( say about Northern hilltribes) or individual in selected economic group ( e.g studies of farmers strategies in Central Plain, or Northeast).

### 13 Late industrialisation in the World Economy.

One of the key elements brought forward by A. Amsden (1989) in her study of industrialisation in Korea is that the latecomers among the industrialized nations have benefited from both existing state-of-the art technologies to expand their manufacturing sector and compete with more advanced nations ( e.g in the automobile industry) and from a holy alliance of business sector and bureaucracy aiming at selecting the appropriate strategies to assert the national position among the economic powers in the World Economy.

In the early eighties there was much talking in Thailand about catching-up or leap-frogging, as a strategy for rapid development in the steps of East-Asian Nics. We can now better understand the irrelevance of the "imitation strategy" for Thailand as the country developed along its own path throughout the recent boom since the mid-eighties: neither the multi-sectoral light manufacturing industrial development, nor the regional capital influx, or the role of the service economy can be said to fit the East asian industrialisation pattern.

Whether Thailand is at the stage to be counted among the major Asian economic powers is still open to discussion, but the fact that the country regards itself as "dynamic society, open economy" tells a lot about the changing ideology of the State and the new confidence of business strategies. It also simply reflects the statistics that describe the opening of the economy: the ratio (exports+imports/GDP) was 30% in 1970, 48% in 1980 and 69% in 1990 (Customs statistics and NESDB).

The consequences ( or could we say the benefits ?) of industrial development seen at national level are threefold:

- a well accepted connection to the world economy (foreign investment and trade are no longer seen as foreign dimensions and threats to the country).
- the capacity to play a role in world trade trade system, and the necessity to contribute to the debate on freer/fairer trade for developing countries.
- a new international and regional standing.

This new position in World Economy does also bring new challenges. The stronger integration into the world capitalist system, with its poles of power and inequalities, as described by Braudel (1985) carries opportunities and risks: the economy has to renew its

competitiveness (Porter, 1990) and the people as economic actors must maintain the capacity to play a full scale role...

In the case of Thailand, we have indeed ample food for thought about industrialisation: although we can still discuss a great deal about the reality of the NIC status, we can no longer question the existence of the industrial/manufacturing component of the country.

## **2. Diversification of sectors and multiplication of productive networks; an Economic New Deal ?**

2.1 We would like to present here several aspects of sectoral development in the manufacturing activities; What matters is that we have now an industrial fabric that is significantly diversified ( it was not true in 1980), sectors and companies that are maturing, plant of all sizes, locally or foreign owned, in about 15 key industrial sectors, several of which are internationally competitive. We will present some newly revealed characteristics, and also some little known features about current industrial dynamics in Thailand, through cases drawn from selected manufacturing activities.

The manufacturing enterprises are indeed taking roots in a fertile soil: their number has doubled over the last fifteen years, their activity now range from production of most consumer products, and a growing amount of intermediary and equipment goods. This is not to say that issues such as sectoral weaknesses, institutional bias towards large firms, or limited inter-sectoral linkages and low technological progress are not of topical importance (TDRi, 1992). But what should be pointed out is that several issues of the early 80s are no longer limitations for the future expansion of industrial activities, namely the diversification of export markets, the multiplication of small companies, the strengthening of private sector initiative, and even the acceleration of plants construction outside the Bangkok metropolis ( e.g in the garment and jewelry sectors all the plants we surveyed in 1990-92 in Khon Kaen, Chiang Mai, Ayuthaya and Chachoengsao provinces were less than five years old). There is definitely a New Deal for industries in Thailand.

The persisting rural-urban divide (in fact Bangkok conurbation vs. other regions) is certainly to last until the next century but the past five years have shown that distant provinces can attract manufacturing plants, and that peripheral development will be strengthened by increased relationships with neighbouring countries ( along the banks of the Mekong, Malaysian or Cambodian borders). An interesting feature in that context is the persistence of linkages between traditional and modern forms of production through subcontracting: many cases of provincial industries working for larger manufacturing or trading companies have been identified

(Surveys show this concerns formal and informal activities for production of garment and handicraft). We are still certainly far from a Japanese or Taiwanese model of rural industrialisation (obviously the social and geographic justification are not present in Thailand) but the recognised fact is that many rural areas are now encroached upon by industrial plants that contribute to further increase the off-farm income component of rural people (CUSRI, 1993, TDRI 1992).

2.2 The textile and garment industry is an obvious case of rapid sectoral development: it is well known that it developed first as an import substitution industry and then increased its export since the mid-70s, when garment exports became larger than other textile categories (such as fabric, yarns). The textile industry was well established by the end of the 79's: it represented 18% of manufacturing value added, equally divided between upstream and downstream activities. The diversification of products and the multiplication of business resulted in a comprehensive industrial structure that was large, nationally controlled and operated in most cases. Garments only emerged as one of the ten major exports products in 1973, a mere 3% in value together with other textile products, in 1984 this group of products reached the 10% mark, and they represent now 18% of exports (1991).

One very remarkable feature is that textile, to thrive as an industry has to walk on both legs and rely on internal and external markets; In Thailand it cannot be said to be typically export-oriented as the upstream companies(cotton and artificial fibre spinning) target most of their production to the local weaving mills (25% only of these two categories of product is directly exported), that in turn supply a garment sector that exports officially between 50-65% of its production.

A significant proportion of companies, both small and large, base their strategy on this dualism of markets by selling to the local and international buyers. The local market also acts as a screen for invisible exports to neighbouring countries, and it present increasing possibilities to sell both higher grade. Thailand is now well connected to foreign markets, either through buying agents from regional hubs such as Hong-Kong or through the local trading companies that play a key role for the industry. The garment exporting companies have shown remarkable abilities to deal with the restrictive import practices, either by perverting the control procedures, or by diverting exports to non-quota markets.

Small and large companies have demonstrated their mastery of two major skills: one is the flexibility to adapt their production to a wider range of customers to conquer new markets

(children clothes for Europe, the Middle east and Japan differ widely!) the second is the awareness of potential benefits to be gained from diversification and qualitative improvements. In that respect the garment sector symbolizes is an other example of the adaptative nature of economic structures in Thailand; This can be a genuine comparative advantage when competing with rigid oligopolistic industrial structures or slow and non-innovative companies from other countries in the region.

Textile is frequently described as a low investment/footlose and also high turnover/low qualifications of manpower industry; This is certainly true in global terms, but we have identified new behaviour of industrialists that show a maturation of this sector:

- Some of the surveyed companies show a concern for stable employee structure in order to guarantee quality of output and therefore adapt their wage and training accordingly.
- There is a growing tendency to invest in higher technologies (shuttleless looms imports have soared over the past three years, laser control cutting equipmentsales are brisk too).

It can by no means be guaranteed that textile will remain a booming sector in Thailand - cases of European textile industry remind us of the fierce competition and shifting comparative advantages. But it should be said that the export orientation of the textile industry has shown both the ability to mobilize capital and manpower, and also to establish an internationally competitive regional position, with Bangkok as a major hub of Southeast Asia, and a capacity to manage industrial activities in neighbouring countries.

2.3 Several other manufacturing branches in Thailand, such as food processing, jewelry / gem cutting and other less well known activities such as artworks foundry, and micro-electrical goods present similar characteristics: Surveys show the rapid technology acquisition, the ability to comply with set standards, the capacity to upgrade the activity.

These elements are the base of the industrial manufacturing dynamics of Thailand which presents an interesting combination of flexibility and diversity, both inward-looking and export oriented capability, local and foreign entrepreneurs intervention, large mix of products, diversity of industries and skills.

The obvious benefit is to rank the country among those that constitute the world networks of manufacturing protection, and to establish Thailand as one of the emerging industrial powers of southeast Asia. In the present context of instability, economic uncertainty and fierce competition the position in a prosperous zone, the ability to generate business on a regional basis, and to adapt to versatile, complex and even unfair world markets are certainly key assets to be derived by any country from its industrial experience.



### 3. Industry and Economic actors: A social revolution ?

31 From what we have presented above it appears clearly that a large variety of economic actors /producers are being integrated in a complex matrix and are indeed actively participating in the industrialization process. There is an obvious question that comes to the mind of all of us: do most local actors derive some benefits from it? ( Incidentally one of the sessions of the last TDRI conference in December 92 was titled " Manufacturing growth: A blessing for all ?").

Considering in retrospect the economic downturn of the mid eighties puts into perspective the present situation; at that time, in 1984-85, the labour absorption of the economy was low, the government was forced, under its "adjustment programme" to limit the recruitment of civil servants. It was said that most graduates from universities would not find jobs, that brain drain would accelerate, that exile to the middle east would be the only outlet for rural "excessive" manpower...What we can see in retrospect is an economic boom that has offered work opportunities to the immense majority of the population; some farmers are still farming others are working part time on construction sites, in urban areas, their daughters and sons in factories (not to mention the infamous hospitality services), or shops and offices that did not exist only five years ago. Even fresh universities and college graduates seem to consider they can afford to be choicy about their jobs - incidentally very few still consider now civil service as the most desirable career.

We can thus identify a wider range of new actors that are concerned by the acceleration of manufacturing development: from farmers supplying fresh produces to food industries, to self employed subcontractors and (mostly female) labourers of the garment producing sector, to newly employed blue collars in the light engineering, auto parts or tyre factories, and also a new generation of entrepreneurs that have started a business in the boom period and that are committed to the success of their family-based venture....

#### 32 Industrial employment, experience and skill acquisition.

In textiles as in food processing sector the labor intensity and the low qualification admittedly do not offer much scope for qualitative improvement; but this is nothing original in terms of history of industrialisation: these basic industries have always been the starting level for mobilisation of manpower and integration of workers in the labour force.

The case of workers in gem cutting and jewelry production sector shows both the expansion of a traditionnal form of crafts, and also the establishment of a new group of highly qualified workers: In some of the modern factories designing and manufacturing jewelry for

exports, young people are acquiring skills that are similar to those mastered by fellow craftsmen in Europe - and even, according to a factory director, they are quicker to learn than trainees of a parent company in France. It can be remembered that the combination of skilled manpower and local innovative entrepreneurs was the key of regional industrial development in the case of watch making in Switzerland or high precision metal working in the French Alps.

It is indeed true that many industries have a marked footlose character, but it should be emphasized that those which rely on trained, skilled manpower can much less afford to relocate within a short span of time; in that respect activities like jewelry or Integrated Circuit and precision electronics are a good asset for Thailand because of the newly acquired skills of the industrial manpower.

An additional feature about industrial manpower in Thailand is the new aspiration for genuine qualification for both blue collars and white collars. Industrial skills and technologies are something to be learned, experienced and mastered: for many thais this is indeed a new approach to knowledge as the education system still places a large emphasis on repetitive learning, diplomas as an end not a pathway, and passive absorption of knowledge. Our interviews with managers of foreign companies also showed a contrast with previous observations about instability and lack of flexibility of manpower and analyses of workers attitudes as described by C.Thientai (1988) for example in the case of Japanese companies.

Other evidence of this new attitude towards industrial technology training can be found in the recent burgeoning of private technical education and on-the-job training. It is even not uncommon to find large factories (in garment manufacturing as well as computer maintenance) that accept trainees from vocational schools and technical colleges, therefore contributing to bridge the gap between the world of school and the world of industry.

33: Local entrepreneurial abilities have been widely discussed in the past years (Prasatsert, 1985, Mc Vey, 1991). We will just mention here several aspects that show a recent transformation in the entrepreneurs' behaviour, a change that could be related to the specificity of enterprise generation in the manufacturing sector recently;

- Local entrepreneurs, as industrial capitalists have obviously to limit their short term speculative ambitions; returns in manufacturing activities cannot match those drawn from land speculation. This may be the root of a new professionalism of factory owners that started their business under favourable conditions in the 80s. The new sino-thai generation seems able to put the same dedication and energy in industry as their father or grandfathers put in trade a few decades ago.

- Alliances with foreign entrepreneurs or international companies cover a wide spectrum: they range from the very large joint-ventures of the Eastern Seaboard industrial estates, to the grassroots companies of garment and food processing. They all benefited from the economic boom which can explain the low rate of failures and the willingness to pool resources. We may also think that anxieties about foreign control on the economy are a feature of the past.

Naturally many issues remain to be investigated: How to weigh the relative influence on entrepreneurs of the challenge of world market and imitation strategies determined by peer group ? Can speculative business lead to innovative strategies ? Are the links of subcontracting based on purely economic rationale or do social structures of Thai society determine specific forms of industrial organisation ?

## **CONCLUSION**

We will make conclusive remarks about two aspects of industrialisation in Thailand;:

### **- The Age of Industries as a social challenge.**

Within the course of industrialisation social positions and connections are being restructured such as those between government-business, traditional-new economic elites, white collar employees-family managers. This will inevitably call for redistribution of power. Many people in Thailand have benefited from economic growth, and have easily adapted to new opportunities and challenges related to industrialisation. When one investigates the actors situation in the factories, one comes out with a picture that may have far reaching consequences for the future; About two millions people are acquiring wage earners habits, consumption patterns, new skills, but also new social roles and expectations through their work in industry. It is dubious that many of them would trade their job for agricultural work or self-employment. Modernisation of values and material growth have created high expectations from a large majority of the population: in that respect there is a growing social challenge as people feel they have a right to prosperity, which would, during economic downturn time, be converted into a higher demand for equity.

There can hardly be equity in modern societies without modern institutions and social regulations: it seems obvious that in Thailand material progress has outpaced institutional improvements. If the Economic New Deal has brought substantial benefits to a majority of the population, genuine development requires more safety and institutions that guarantee that economic actors retain some satisfactory social status even under unfavourable circumstances, and that social conflicts find outlets and do not end in antagonistic stalemate. The recent

economic boom has not produced a well regulated NIC overnight - if there is actually an economic New Deal for peoples of Thailand, there is still a new social transformation to be achieved within the next decade.

**- Industrialisation and International Relations in the regional economy;**

Thailand has rediscovered its neighbours as economic partners after a long period of isolationism. This is a by-product of the economic transformation and the rapid industrialisation: the country has asserted its position in the region, thanks to its newly found prosperity leading to political and diplomatic self-confidence; we should not underestimate the implications of the new trend - well embodied in the famous expression " from zone of war to zone of peace ". Thailand is acting as regional advisor for development, giving expertise on investment promotion and industrial estate establishment, and funding technical cooperation programmes in Viet Nam, Laos, Burma, not to mention Cambodia. This is a remarkable change compared to just one decade ago.

But the zone of peace could lead to a zone of haggling. Taking into account strong national identities, perception of national interest and potential conflicts ( e.g on natural resources) new regional competitions and tensions may well emerge. Economic actors are quick to jump over borders with goods and funds, but governments are slow to design the framework that will guarantee longstanding economic openness and cooperation.

Key-words: development, modernization, industrialisation, world economy, manufacturing sector, industrial relations, entrepreneurs, economic elites.

**Selected Bibliography.**

Akrasanee, Narongchai, 1980, Comparative Advantage of Textile and Cement Industries in Thailand, Industrial Finance Corporation, Bangkok.

Amsden, Alice H., 1989, Asia's Next Giant. South Korea and Late Industrialisation, Oxford University Press.

Bell, Peter F., 1990, Essays on the Political economy of Thailand. A critical assessment of Export Oriented Growth, Faculty of Economics, Chulalongkorn University.

Braudel, F, 1985, La Dynamique du Capitalisme, Arthaud.

Charoenlert, Voravidh, 1990, Thailand in the Process of becoming a NIC. Myth or Reality ? Working Paper, Faculty of Economics, Chulalongkorn University.

Chiasakul, Samart, et alii, 1989, Thailand's Economic Development in the 1980's. Institute of Developing Economies, Tokyo.

Chulalongkorn University Social Research Institute, 1993, CUSRI-ORSTOM Seminar on entrepreneurship and Socio-Economic Transformation in Thailand and South-east Asia, 2-4 february, Bangkok, proceedings to be published.

Hewison, Kevin, 1989,

- Power and Politics in Thailand: Essays in Political Economy, Journal of Contemporary Asia Publ, Manila.

- Bankers and Bureaucrats, Yale University Southeast Asia Monographs, no 34, New Haven, Conn. U.S.A.

Lall, Sanjaya, 1990, Building Industrial Competitiveness in Developing Countries, OECD, Paris.

Mahon, James.E, 1992, Was Latin America too Rich to Prosper?, Journal of Development Studies, January.

National Economic and Social Development Board, various years, National Income of Thailand ( tables of G.D.P/G.N.P at constant prices).

National Economic and Social Development Board, 1984, with UNIDO, Restructuring of Thai Industries.

Oman, Charles, 1989, New Forms of Investment in Developing Countries, OECD, Paris.

Porter, Michael E., 1990, The Competitive Advantage of Nations, Mc Millan, London.

Supachalasai, Suphat, 1990, Export Growth of Thai Clothing and Textile, The World Economy, vol 13, no 1.

Simon, Jean-Christophe,

- 1989, et Chaponniere, J-R, Les difficultes de la Thaïlande pour devenir un Nouveau Pays Industriel, Revue Tiers-Monde vol XIX, Paris;

- 1993, entrepreneurship, Markets and Industrializing Effects, The case of Textile Industry. Cusri-Orstom Seminar, Chulalongkorn University, 2-4 February.

Tambunlertchai, Somsak, 1983, Manufactured Exports Promotion, The Case of Thailand, Institute for Developing Economies, Tokyo.

Thailand Development Research Institute, 1992, Papers presented at the Year-End conference, Thailand's Economic Structure: Towards Balanced Development. Bangkok.

- Santikam Kaosa-ard, Mingsam, Manufacturing Growth: A blessing for All? Synthesis Report, Vol 1; pp 2-1/2-63.

- Boadway, Robin, et alii, Required Returns on Investment by Small and Large Firms in Thailand.

- Brummit, William.E, et alii, Exports, Structural Change and Thailand's Rapid Growth.

Wade, Robert, 1990, Governing the Market. Economic Theory and the Role of Government in East Asian Industrialisation. Princeton University Press.

Yeats, Alexander J., 1989, Developing Countries' Exports of Manufactures. The Developing Economies XXVII-2, pp109-145, Tokyo.