

THAILAND'S ROAD TO ECONOMIC SUCCESS

MANUFACTURING AND EXPORTING ARE THE KEY



By STAPORN KAVITANON

The Thai government's industrialisation policies have not only shifted the emphasis toward export-manufacture; they have created huge investment opportunities for foreign capital.

From an initial focus on import-substituting industrialisation in the 1960s, the Thai government's policy emphasis moved towards the promotion of manufactured exports in the early 1970s. This was specifically designed to address the balance of payments imbalances that became a problem in the late 1960s. Export activities have continued to receive particular attention from Thai policy-makers and the export sector has been one of the main forces behind the growth of the economy in recent years.

In the early 1980s, the government recognised that the import substitution policies that had continued alongside the export drive had resulted in considerable inefficiencies in certain industries. Accordingly, since the fifth development plan, efforts have been made to restructure existing and new industries to become more efficient and competitive in both foreign and domestic markets. These initiatives have taken the form of tariff structure revisions and the reforming of laws and regulations to be more in tune with private-sector business.

Other major targets which have become increasingly important in the industrial policy area include: industrial decentralisation; small and medium-scale industrial activities; engineering industries; and agro-processing.

However, some features of industrial policy have remained constant through the past several decades and have contributed towards Thailand

becoming a favoured site for off-shore manufacturers. These include a government approach that is extremely favourable to the private sector in general, and foreign investors in particular, and the careful and prudent management of the economy, which has contributed to a macro-economic stability that is the envy of most developing countries.

The seventh development plan, which is now under preparation, will continue to emphasise the private sector as the engine of growth, with the government playing a supporting, not regulating, role. Specific emphasis will be placed on developing basic infrastructure, human resources, and science and technology infrastructure. Increasing attention will also be given to income distribution and the environment.

I can best sum up the present government's approach to economic policy making by citing a quote of the Prime Minister at the annual seminar of the Thammasat Economic Association: "In Thailand, the government has four principles in implementing economic policies. These are free trade, fair competition, freedom from government intervention, and reduction of unnecessary regulations."

Staporn Kavitanon is deputy secretary-general of the Thailand Board of Investment. This is an edited version of his address to the 12th Asian Securities Analysts Council (ASAC) conference in Bangkok in December.

The past 30 years have seen a dramatic transformation in Thailand's industrial structure. From a beginning rooted in primary commodity production and exports, the Thai economy has grown rapidly into a major regional force in a number of manufacturing activities.

In terms of overall GDP, the relative importance of agriculture and manufacturing have been completely reversed. Agriculture's share in GDP has fallen steadily from more than 40 per cent in 1960 to less than 17 per cent in 1989. Over the same period, the manufacturing sector has increased its share from less than 12 per cent to more than 23 per cent.

This structural transformation is even more dramatic when we look at the export sector. In the decade of the 1980s alone, the share of the manufacturing sector in exports has more than doubled from just over 30 per cent in 1980 to almost 70 per cent in 1989. Textiles have supplanted rice as Thailand's major export item and a number of manufactured products have entered Thailand's top 10 exports, including integrated circuits, canned fish and footwear.

The structural shift in Thailand's exports has been accompanied by an impressive diversification. When compared with her major competitors in East Asia, including all the newly industrialised countries, Thailand exhibits the most diversified export structure, both in terms of products and of markets. The strong and diversified export performance of the Thai economy significantly reduces Thailand's vulnerability to global recession.

It is also illustrative to examine the structural changes that have taken place within the manufacturing sector itself. Using a classification developed by the OECD, one observes a significant shift from resource-intensive activities such as food, beverages, and tobacco to labour-intensive activities such as textiles, garments, footwear, jewellery, toys, etc. Again, in the export sector the shifts have been even more dramatic.

However, the contributions of more sophisticated scale-intensive products (such as chemicals, iron and steel, paper products, transport equipment), differentiated products (such as engines, agricultural equipment, electrical machinery, other machinery), and science-based industries (such as specialised

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chemicals, office equipment, scientific and measuring equipment) have remained more-or-less constant over the period.

The implications of these structural changes within the manufacturing sector are somewhat mixed. On the one hand, they clearly illustrate the ability and flexibility of Thai entrepreneurs to move into areas in which they possess comparative advantage, principally labor-intensive products.

On the other hand, it is evident that the tremendous structural shifts have not been accompanied by any substantial deepening of the industrial base into differentiated or science-based activities. This is not to imply that such activities have not been taking place at all. However, Thailand's industrial structure has yet to follow in the footsteps of the NICs where the contribution of these technology-intensive sectors to overall manufacturing has grown rapidly.

As is the case with many structural imbalances, the weakness in supporting industries can be viewed both as a challenge and an opportunity.

As a challenge, it is becoming clear that Thailand's days as a cheap labour site are numbered. Analysts have been predicting for some time that the so-called "turning point" in the market for unskilled labour is approaching, increasingly rapidly in the light of the double-digit growth rates of recent years. This, combined with the emergence of alternative lower-cost labour locations such as Indonesia, the Philippines and China, implies that the Thai economy must shift into more sophisticated product areas in order to sustain rapid economic growth.

It is also a fact that the growth of world trade in these product areas has been much higher than the growth in labour-intensive and resource-intensive products. A coun-

try unable to take advantage of the increasing demand for more sophisticated products may well face stagnating trade in the 1990s.

As an opportunity, the increasing demand for basic engineering and supporting products and services creates numerous possibilities for profitable investment. The Board of Investment has been placing particular emphasis on these sectors and on developing the infrastructure to support them.

The last structural change that I shall examine here concerns the role of foreign investment. Although the Thai government has long recognised the critical role of foreign investment in bringing in new technologies, management, and access to markets, the past decade has seen a notable increase in foreign investment, especially in exporting activities.

The rapid growth of the electronics and other light industry sectors has been supported by foreign investors, initially from Japan but increasingly from the NICs, especially Taiwan and Hong Kong.

In the future, we plan to further open the economy to international trade and involvement. I am firmly convinced that constructive cooperation between Thai and foreign investors will continue to play a critical role, especially in the sectors requiring higher levels of technology.

BOI policies

In the past, the general approach of the Board of Investment has been to use incentives, primarily tax-based, to achieve the prevailing policy targets of the government. Accordingly, board policy has evolved over time to favour labour-intensive industries, export industries, regional industries and, most recently, supporting industries. Al-

though we have always provided support services to both Thai and foreign investors, it must be admitted that the bulk of our time is spent on monitoring tax incentives granted to firms receiving BOI promotion privileges.

In September 1990, the government lowered tariff rates on machinery from 20 per cent to 5 per cent and approved a plan to cut tariff rates on raw materials in the near future. Such moves, as well as changes in the overall economic environment, have reduced the importance of the BOI's tax-incentive package. The introduction of a value-added tax in the future may reduce it even further.

The BOI stands ready to revise its policies to reflect prevailing realities and policy goals. As the general measures mentioned above are introduced, the tax incentives of the BOI will be redesigned to serve specific objectives such as industrial decentralisation and the development of specific sectors. Programs will be initiated to improve the range of investment-related services provided by the BOI and to develop the in-house technical and research capability to achieve this.

The service-related measures to be taken include:

- the upgrading of the BOI offices in regional areas, in particular with regard to information provision;
- the development of a special BOI Unit for Industrial Linkage Development (BUILD) to promote local sub-contracting through the provision of information and technical assistance. Foreign firms in particular will be encouraged to assist local sub-contractors in improving product quality, reliability, and timeliness;
- the improvement of the "One Stop Service Centre" already in operation at the BOI;
- the establishment of a centre to provide investment related information and matchmaking services to both foreign and Thai investors seeking to identify joint venture partners or to establish an operation in Thailand;
- the establishment of a trouble-shooting centre to deal with problems faced by foreign investors after receiving promotional privileges to ensure that their projects proceed smoothly.

In addition, new activities will be

introduced to deal with emerging issues in the areas of technology transfer, environmental impact, and the investment of Thai firms abroad.

In sum, the BOI will be transformed from an incentive-granting and regulating agency to a service-providing one with significant technical expertise on investment-related issues.

Major investment opportunities

In analysing the industrialisation policies and structural change in the Thai economy, four major groups of "emerging industries" and the re-

sulting investment opportunities can be defined.

Supporting industries: As I mentioned earlier, the rapid growth of the Thai economy has been accompanied by a dramatic increase in manufacturing activities and a significant diversification of the structure of exports. However, this process has depended primarily on the exploitation of inexpensive labour. The deepening of the industrial structure and the development of technological capability that will enable Thailand to sustain growth in the medium term have only just begun.

The clear need to increase the sophistication of the manufacturing

AUSTRALIAN STOCKS ARE A 'GOOD BUY'

By PETER MacLAREN

The climate is right for the Australian sharemarket to move up, according to a view expressed at the recent Bangkok conference of the Asian Securities Analysts Council (ASAC).

Mr Stuart Cook, director of Baring Securities, highlighted the Australian market as one of the most attractive in the Asian region, despite a perceived currency risk for foreign investors and a predicted 3 per cent growth in real earnings per share for Australian companies in 1991—a much lower rate than in other countries in the region.

Nevertheless, he said, "now is a good time to have a serious look at the Australian stockmarket, especially at a time when local fund managers are not interested in their own market."

Mr Cook said Australian shares were "very cheap" because:

- the index is 41 per cent below the high of October 1987;
- average P/E ratios are modest at 9.5;
- inflationary pressures and interest rates are falling;
- the ratio of long bond redemption yield to dividend yield is back to the "historical" level.

"The market will move up as soon as people see light at the end of the

tunnel," Mr Cook said.

Nineteen countries were represented at the conference, which had the theme "Thailand: keeping the growth momentum alive". The record number of 378 participants included 12 delegates from Australia. The conference was addressed by 35 prominent speakers from both public and private sectors on the direction of the Thai economy and its likely growth throughout the 1990s.

The Thai economy is the fastest-growing among the ASEAN group, with large-scale development of its manufacturing base. It has averaged 11 per cent compound growth in recent years and, according to the Bank of Thailand's economic research department, should average 7-9 per cent a year in the next five years—although uncertain oil prices could affect this forecast.

The Securities Institute of Australia is one of nine full member organisations of ASAC whose role is to promote the interchange of security analysis and fund management expertise. The annual ASAC conference is hosted by member societies in rotation. The 13th conference will be held in Jakarta later this year.

Peter MacLaren FSIA attended the ASAC conference in Bangkok in December 1990.

sector opens up a wide range of investment opportunities in the engineering and supporting industries. These opportunities range from basic metal-working activities to the provision of testing and R&D services. As can be seen from the sectoral distribution of firms receiving BOI promotional privileges, foreign participation in these areas is being actively encouraged.

Infrastructure and construction: The second major trend concerns the much-discussed infrastructure constraints and manpower shortages being faced by the Thai economy. Such constraints are hardly surprising, given the extremely rapid growth of recent years. However, the government has recognised the problems and has undertaken numerous policy initiatives to address the bottlenecks and lay the foundations for sustainable growth in the medium term.

Given the magnitude of the required investments, increasing emphasis has been placed on involving private-sector financing in many of the infrastructure projects. The private sector has already been directly active in projects involving the development of numerous industrial estates and the co-generation of electricity.

In the future, much new infrastructure and manpower development investment will be carried out by private-sector consortia. This will include electricity generation, roads, a proposed extension of the expressway to the international airport, mass-transit schemes such as the "Skytrain" project, the CP Group/British Telecom telephone project, and port development and management.

Even before the Gulf crisis, a decline in the rate of economic growth had been expected. Increasing oil prices and declining export markets are likely to accelerate the decline by several percentage points. However, I feel that the pent-up demand

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for infrastructure, construction, and personal consumption will, in the medium run at least, provide a new "internal engine of growth" that will insulate the Thai economy from recession in the world economy and declining trade opportunities.

This all adds up to increasing investment opportunities in infrastructure and construction-related areas.

The Golden Pentagon: The third major trend that deserves mention involves recent progress towards the opening up of the three economies in Indochina and, to a lesser extent, Myanmar (Burma). Representing a market of more than 120 million people with substantial human and natural resources, the growth of these nations as they emerge from the near isolation of the past 15 years offers significant business possibilities.

At the risk of stretching the credibility of geometric analogies, the situation can be represented as a "Golden Pentagon". Both in terms of geographic location and availability of business and financial services and infrastructure, Thailand provides an ideal springboard for companies doing business in the neighbouring countries of Indochina and Myanmar.

I believe that the resources of Thailand and the Indochina countries are, to a large degree, complementary. Thailand, with its more advanced economic structure and more developed business sector, can play a role similar to that played in South-East Asia by the NICs in the past decade or so. I envisage that the "international division of labour"

that led to the transfer of labour-intensive activities from the advanced countries to the NICs, and then in turn from the NICs to the next tier of South-East Asian nations, will continue as business relations between Thailand and her neighbours flourish.

South-East Asia is already seen as one of the major growth poles in the world economy for the remainder of the twentieth century. When the newly emerging nations of the "Golden Pentagon" are added to this growth pole, the possibilities for growth and investment are even greater.

Agro-industry: The last area that I shall look at today concerns agriculture and biotechnology. Despite the rapid transformation of the industrial structure into manufacturing, we must remember that agriculture continues to play an important role in the Thai economy. The majority of the Thai population still earn their living in the agricultural sector, and many of the new export markets that Thai entrepreneurs have tapped in the past 20 years are related to agriculture in one way or another.

Although the role of agriculture per se is likely to continue to decline, the new trend that can be observed involves the use of technologies new to Thailand to enhance the quality and added value of agricultural products.

To cite a few examples: the transformation of tapioca slurry into modified starch to support the paper and chemical industries; the improvement of aquaculture technologies to increase yields and quality and to break into the most discerning markets; and the development of new chemicals to enable the increasing use of natural rubber.

It is generally accepted that Thailand's scientific base in the biotechnology area is relatively strong and many of the above-mentioned advances have contained a significant local content. Many opportunities exist to introduce new or mature technologies into Thai agro-industry. □

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