MOI-VDF Joint Mission
On
Industrial Policy Formulation of Thailand

by

Vietnam Development Forum

March 2005

The Ministry of Industry (MOI) of Vietnam and the Vietnam Development Forum (VDF) organized a joint one-week mission to Thailand in order to study its industrial policy for possible lessons for Vietnam. The main objectives of the mission included the following:

- To collect key Thai documents and understand their contents and structures;
- To study how industrial strategies are designed and implemented, and how relevant government bodies and private firms cooperate;
- To study how the execution of industrial policy is monitored and adjusted.

This report contains the mission's main findings and the minutes of all meetings and visits. VDF takes full responsibility for the content of this report.

Mission location: Bangkok, Thailand

Mission period: February 28 to March 4, 2005

Mission members: Ten members as follows

MOI:
Mr. Le Van Duoc (Head, Department of Planning)
Mr. Hoang Trong Hieu (Department of Planning)
Mrs. Nguyen Thi Doan Hanh (Department of International Relations)
Mr. Hoang Bac (Department of Mechanics, Chemicals and Metallurgy)

VDF:
Prof. Kenichi Ohno (Project co-leader)
Mr. Mai The Cuong (Researcher)
Mr. Ngo Duc Anh (Researcher)
Mr. Pham Truong Hoang (Researcher)
Ms. Duong Kim Hong (Researcher)
Mr. Vu Huy Thong (Lecturer, National Economics University)

The entire mission participated in all meetings except TAI and Denso for which the mission was split.

Part I

Main Findings on Thai Industrial Policy Formulation

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 policies.

In Thailand, the National Economic and Social Development Board (NESDB) drafts the five-year plan[1]. The ninth five-year plan (2002-2006) is currently in place. 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 PR and image-building but whether 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, but we did not have sufficient information to confirm this point.

Liberalization and local capability

[1] 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, etc. with the ultimate aim of bolstering indigenous industries.

But the Thaksin government is seriously committed to international integration[2], 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 the 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 adds 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 WTO, WB and IMF. 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 healthily 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, since it is the result of

[2] 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 the current open policies enough? It remains unclear[3].

<u>Targeted industries and policy formulation</u>

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:

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

While the criteria for industrial targeting (*value-added* and *niche*) 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 separated 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 presented (see below). Then, at the level of

[3] 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).

annual 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, business, 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 with a prespecified 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 business 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 the managing 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 (the automotive master plan 2002-2006 has not been revised). 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.

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 community[4]. The drafting process took about one year. It has several characteristics that are different from the automobile master plan of Vietnam[5].

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 5 pages long.

The Thai master plan has the structure similar to what Ohno recommended in his MOI seminar in February 2004[6]. 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 are likely to be achieved within 2005, one year ahead of the schedule):

To produce one million cars per year (more than 500 billion baht)
To export 40% of cars produced
To produce two million motorcycles (more than 100 billion baht)
To export 20% of 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 or *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, JV or foreign firms) produce and export cars to achieve these objectives. There is no national car project or designation of individual producers. As far as objectives are concerned, there is no more detail. As mentioned before, Thailand lets the market decide the winning firms and products.

---

[4] 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.
[5] *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.
[6] Kenichi Ohno, "Designing a Comprehensive and Realistic Industrial Strategy," VDF Discussion Paper No.1, June 2004.

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 are listed below. While our mission had little time to analyze the Thai automotive master plan in detail, it will be worthwhile to compare the two master plans more carefully to distill possible lessons for Vietnam.

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 auto and motorcycle)	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 these researchers, localization requirements used in the past were not effective in improving Thai capability due to loopholes in regulation and juggling by producers. This 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 locally. They felt that the Vietnamese target to raise the localization ratio from the current 20% to 60% by 2010 was "very ambitious."

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 taken over from another organization. The main purpose of this center is to conduct mandatory tests of products and parts (both local and imports) and 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. While product tests follow international standards, EEI tests are not yet widely accepted abroad. EEI also faces tough competition from private (mostly foreign) laboratories who 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 expert[7] 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.

[7] Dr. Byeong Won Park, senior researcher, Korea Institute of Science and Technology Evaluation and Planning (KISTP). VDF is currently contacting Dr. Park for a possibility of cooperation.

EEI is not sure why electronics is not included in the government's targeted industries (MOI version; BOI version includes electronics and ITC).

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, rural areas are generally preferred with zone 1 (Bangkok), zone 2 (near Bangkok) and zone 3 (all other areas) offering 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, etc. 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 (powerpoint file available). 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 is already abolished. It thinks that measures to accelerate technology transfer are "tricky" since overregulation irritates investors and causes them to leave the country.

Part II

Meeting Records

1. JETRO Bangkok

Venue: JETRO Bangkok Office, 16th floor, Nantawan Building, 161 Radamri Road, Putamwan, Bangkok
Time: 9am, February 18, 2005
JETRO participants:

Mr. Atsuo Kuroda, President of JETRO Bangkok
Mr. Kunihiko Shinoda, Representative of JODC
Mr. Takashi Nakano, Managing Director of JETRO Hochiminh City

Presentations:

- Toward the strengthening economic ties between Thailand and Japan, JETRO Bangkok
- West-East Corridor Comprehensive Industrial Development Program (2004-2006), METI

Received:

- "The rise of China: How should Japan respond?" (A. Kuroda, Japan Echo April 2002, photocopy)
- "Asian comeback: to earn, think Thailand and Vietnam not China" (*Nikkei Business*, Apr. 19, 2004, photocopy), English and Japanese
- "White Paper on International Economy and Trade 2004, key points" (METI, June 2004, photocopy)

Highlights:
The car industry is booming because foreign producers favorably reassessed Thailand's possibility after the Asian crisis and trade liberalization. Their strategy shifted from import-substitution to global export.

With a long history of FDI absorption and industrialization, Thailand has created a relatively thick layer of supporting industries, especially for auto parts suppliers. However, Thailand now faces the challenge of emerging China which has advantages over Thailand in production cost, market potential, etc. To cope with this, Thailand is focusing on high-value and *niche* industries such as automobile and auto parts, food processing, tourism, fashion, and high value-added services.

Human resource is a problem for developing Thai industries in the coming years. Thailand still lacks high-skilled labor forces. Local capability in basic industries such as steel, molding, die and casting is still at a low competitive level.

For further development, Thailand should promote human resources, encourage hard infrastructure such as logistics and electric supply network especially over national boundaries, improve soft infrastructure such as tax implementation, custom procedures and intellectual property protection.

Tariffs are still high for completed cars. Services are still protected.

2. Electrical and Electronics Institute (EEI)

Venue: EEI, 6th floor, Department of Industrial Works Building, 57 Prasumen Road Banglumphu Pranakorn, Bangkok
Time: 2pm, February 28, 2005
EEI participants:

Mr. Charuek Hengrasmee, President
Mr. Somboon Hotrakool, Director of Administration
Mr. Chirapat Popuang, Director of Information and Technical Service Department

Presentation:

- Electronics and electrical Industry in Thailand

Received:

- EEI brochure and company directory
- Some data on electronics and electrical industry (photocopy)

About EEI:
The Electrical and Electronics Institution, a non-profit agency under MOI, was established in July 1998 to promote product testing, technological and product development, R&D, and training. The functions of EEI include the following:

- Encourage and support an increase in value-added and enhance local procurement of parts and products
- Develop and maintain local electrical and electronics products standards which comply with international standards
- Continually encourage the export of electrical and electronic products
- Perform a centralized function in the collection, analysis, research and development of electrical and electronics data related to production, market, international trade agreement, etc.

Highlights:

The electrical and electronics industry has been developing in Thailand for more than 40 years beginning with the import substitution strategy of the 1970s. It is one of the most important sectors of Thailand in terms of export contribution, with the average annual growth of more than 20% in the past twenty years. In 2004, the export value was $33.07 billion, an increase of 20.6% over 2003 (34% of total export and 18.9% of GDP).

Electrical and electronic imports from China and Korea are increasing, and Thai industries' market share is decreasing. Thai SMEs are facing tougher competition and unemployment is feared. The industry needs to be reformed in the areas of (i) telecommunication products; (ii) computer hardware; (iii) electronics components; (iv) electrical appliances; and (v) software products.

The industry lacks skilled workforce in both quantity and quality. It also lacks linkage among upstream (wafer production, material for PCB production, etc), midstream (parts and components such as IC, PCB, and capacitor) and downstream (electrical appliances and electronics products such as air conditioner, television and computer). The industry is weak in technology, R&D activities and marketing. In addition, the industry is now facing a threat from very cheap Chinese electrical and electronics products.

Main tasks of EEI are as follows:

- Policy support for electrical and electronics industry (analyze the situation of Thai electrical and electronics industry; recommend policy measures; coordinate and solve problems between the government and the private sector).
- Implement technical standards, factory quality inspection and testing center operation (a testing laboratory, testing service, technical standards consultation service). All electronics products sold in Thailand, whether domestic or imports, must pass quality tests.
- Research related to industrial promotion (conduct and coordinate projects by local or overseas researchers, etc).
- Industrial clustering service which supports production linkage and part procurement.
- Information and technical services center which collects, distributes and analyzes national and international information.
- Special projects such as supporting industrial clusters, "technology foresight study," a study on environmental impacts, and recommendation of measures to cope with the EU WEEE and RoHS directives.

3. Department of Industrial Promotion (DIP), Ministry of Industry

Venue: DIP, Rama 06, Rajthavee, Bangkok
Time: 9am, March 1, 2005
DIP participants:

Mr. Prapat Vanapitaksa, Deputy Director General
Mr. Saneh Niyomthai, Director, Bureau of Supporting Industries Development
Ms. Chudatip Ritruechai, Industrial Technical Officer

Presentation:

- Investment opportunities in Thailand

Highlights:
MOI's internal structure was explained. DIP promotes SMEs and community-based industries. DIP identifies main constraints, opportunities and concerns for the SME sector and supports the government, non-government organizations and the private sector in their efforts to promote SMEs. It has technical training centers as a tool for nationwide

SME promotion. It also supports the formation of a service provider network. DIP endeavors to be a guide for both old and new entrepreneurs in turning ideas to practical applications.

In automobile, spare parts are targeted. At present, Thailand exports little and imports an increasingly large amount of parts. To correct this situation, the five-year plan contains a mold-making strategy.

In electronics, most Thai firms perform passive subcontracting. The government hopes to improve their capability to conduct R&D and create genuinely Thai products. The government assists with export and marketing, supply chain, supply-demand matching, "train-factory" system (large foreign firms teach small local firms), networking and clustering, foreign tours, tax preferences, etc.

DIP has the following ways to realize these goals.

- Work with private firms to figure out what kind of industrial support is needed.
- Through participating in government committees, take part in the joint policy making process. The implementation of master plans is evaluated frequently and measures are proposed continually.
- Provide SME training programs with the aid of the German Technology Institute as well as Japanese companies; establish testing centers and centers for R&D and technology transfer to SME.

DIP's list of targeted industries includes (i) agriculture (rice, rubber...); (ii) automotive industry; (iii) fashion (garment, textile, jewelry…); (iv) healthcare, spa, etc.; and (v) tourism.

4. National Economic and Social Development Board (NESDB)

Venue: NESDP, 962 Krung Kasem, Bankok
Time: 2pm, March 1, 2005
NESDP Participants

Mr. Thanin Pa Em, Director, Competitiveness Department

Presentation:

- Thailand Competitiveness

Received:

- Ninth National Economic and Social Development Plan 2002-2006 (hardcopy)
- Eighth National Economic and Social Development Plan 1997-2001 (hardcopy)

Highlights

Mr. Thanin delivered his presentation on the competitiveness of Thailand. Industry positioning and mapping were also explained. Discussion focused on competitiveness analysis as well as industrial policy to sustain the competitiveness of Thai industries in the context of globalization.

- NESDP uses the McKinsey competitive GE methodology to build the Thai Competitiveness Matrix (TCM). NESDP then identifies the relative position of each industry. Using TCM, the main constraints, opportunities and concerns for each industry or sector are identified and ways to formulate and implement policy are figured out.
- Thai industries can be classified into six groups: new wave, opportunity, star, trouble, question, and falling star. The criteria for classification are current size and growth.
- By using TCM, the government can pinpoint each sub-sector or industry. Then, in-depth sector analysis can follow.

5. Thammasat University

Venue: Faculty of Economics, Thammasat University, Prachan Rd, Bangkok
Time: 9am, March 3, 2005
Thammasat participants:
Prof. Somsak Tambunlerchai
Prof. Thamavit Terdudomtham
Dr. Kriengkrai Techakanont
Received:

- "Historical development of supporting industries: a perspective from Thailand" (Kriengkrai Techakanont and Thamavit Terdudomtham, Obirin University, March 2004, photocopy)

Highlights:
The Vietnamese delegation asked about the implementation of localization policy in the past as well as the experience of Thailand in developing supporting industries through policy measures.

- In the past, the Thai government implemented an aggressive localization policy based on the point system. Each part had weighted points and certain levels of total points (out of 100) were targeted for passenger cars and trucks. Producers were required to reach these levels or faced much higher (CBU) import tariffs on parts. Although weights were often negotiated between companies and the government, it can be said that this policy promoted supporting industries especially in metal, rubber, and plastic parts. Relocation of Japanese firms to Thailand was further stimulated by the yen appreciation after the Plaza Agreement of 1985.
- If localization is pushed too hard and too ambitiously, it would create distortion and inefficiency. For example, firms would add an unneeded minor work on an imported engine to make it a "local" product. Or they will bring foreign parts makers quickly instead of fostering local partners over time. In Thailand, negotiation and bargaining between producers and the government resulted in reasonable localization targets, so all producers met localization requirements without exception.

- Thailand removed localization requirement in 2000 and shifted to a more liberal policy framework because of WTO. The Thai government helped local parts makers to reduce cost and acquire technology. It revised the import tariff structure on raw materials to lower their production cost.
- Unlike Malaysia, Thailand has no national car strategy. As a result, all investors are treated equally. This has been a very important factor in attracting assemblers and parts makers to set up operations in Thailand.
- However, local capability and technology are still at low levels. Dependency on foreign technology and management remains high even after 40 years of industrial development. The government did not succeed in upgrading the quality of Thai supporting industries. For this, improving local capability and inducing foreign firms productively to procure locally must be combined. The Thai government failed in this. The government is supporting SMEs and human resource development, but they are not very effective. It should do much better in these areas.
- The automotive master plan is only a guideline with broad directions. Actual implementation is an ongoing and cooperative process among all producers and government bodies concerned.

6. Office of Industrial Economics (OIE), Ministry of Industry

Venue: OIE, Rama VI, Ratchathevee, Bangkok
Time: 2pm, March 2, 2005
OIE participants:
Mr. Nat Chulkaratana, Director, Dept. of Engineering Industries
Ms. Chutaporn Lambasara, Director General (at the outset only)
Presentation:
- Automotive Industry

Received:
- OIE brochure

Highlights:
- Thailand is one of the largest automotive countries in Asia. Thailand focuses on automotive rather than electronics and electrical industry. To become a Detroit of Asia is our goal. But this does not mean we will be like Japan or Korea, which is too difficult. Compared with automobiles, we do not think electronics has comparative advantage against China in the future.
- Thailand is promoting high value-added products through advanced technology, strengthening R&D and encouraging product design and innovation. Another goal is import substitution; we import too many things that can be produced locally, for example, farm machines. We are also strengthening supporting industries, particularly SMEs. The main promotion tool is tax and tariff policy. The Thai government does not care the nationalities of companies operating in Thailand any more. In the past, we did. MOI will soon become the Ministry of Industry and

Entrepreneurs. (The mission asked if free trade initiatives and import substitution strategy conflicted, but Mr. Nat did not think so.)

- In the last four years under the Thaksin government, federal committees on steel, auto, electronics, etc. were set up. As a result, policy formulation and private sector participation have greatly improved. We now have a very active top-down government whose decision making is faster than private decisions. The prime minister orders ministries to study which products should be strengthened. Value-chain and supply-chain analyses are used for this purpose.
- Every two weeks, the private sector (by industry) meets the prime minister. If there is a complaint, Mr. Thaksin orders relevant ministries to look into the matter and correct the situation. Thailand is being run like a private company. The government is streamlining the administration by reducing personnel and raising the salary by 30%. Under these circumstances, NESDB and the five-year plan may no longer be needed.
- Corruption in Thailand is very limited. Political lobbyists naturally exist, but otherwise policy making today is relatively clean and open.
- (The mission wondered if top-down liberalization policy with broad supporting measures was enough to strengthen the Thai industrial base further. After some discussion, no consensus was reached.)

7. Board of Investment (BOI)

Venue: BOI, 555 Vibhavadi Rangsit Road, Chatuchak, Bangkok
Time: 9am, March 3, 2005
BOI participants:
Mr. Thamrong Mahajchariyawong, Deputy Secretary General
Mr. Sakchai Luangsathikul, Senior Investment Promotion Office
Mr. Secksan Ruawohann, Director Investment Promotion Division 3
Presentation:
- Investment opportunities in Thailand

Received:
- Powerpoint file of above presentation
- "Thailand of investment. Double your expectations" (BOI information package)

About BOI:
BOI is a centralized organization to implement the Thai government's drive to attract FDI and provide incentives to stimulate investment. Previously, BOI was under the Office of Government and chaired by the prime minister. With the recent administrative reform, it was placed under MOI.

Highlights:
At first, slides containing economic data, Thailand's attraction, BOI's functions, FDI procedure, government policies, incentive lists, international cost comparison, etc. were shown. The presentation was clear, concise and up-to-date. Discussion followed.

- BOI's list of targeted industries is as follows: (i) agro-products; (ii) fashion; (iii) automotive; (iv) electronics and ICT; (v) long-stay tourism; (vi) energy and renewable energy (this was added last year). Each ministry and agency has slightly different targeted industries because of their policy interest and responsibility. But most targeted industries overlap.
- BOI promotes projects that: (i) strengthen industrial and technological capability; (ii) make use of domestic resources; (iii) develop basic and supporting industries; (iv) contribute to rural regions outside Bangkok; (v) develop infrastructure; and (vi) protects environment.
- The Thaksin government gives top-down orders. Its policy is to deregulate industries and give them freedom to respond to market forces, and to provide a framework to facilitate sustainable growth. We have a liberal and transparent FDI regime where all activities are open to foreign firms without ownership or localization restrictions, except when there is an environmental concern. We are taking more initiatives to further liberalize the FDI regime. We welcome all firms, not just big ones. Our incentive scheme, preferred projects and approval procedure are explained clearly in the brochure and website. The investment application form can be downloaded from the website.
- Regarding the policy making of the current government, policy is formulated in the following steps. First, the government states broad strategies to the parliament. Then it prepares Vision 2010/2020 followed by the four-year strategy. Then each ministry prepares annual action plans. The four-year strategy (which includes concrete fiscal arrangement) is different from the five-year plan (which remains indicative and concerned with social aspects). The five-year plan is still needed for social concern and ensuring consistency among policies. We now have better inter-ministerial coordination. Previously, each ministry worked by itself and did not talk with others. They still do not talk to each other but Mr. Thaksin's visions integrate them at the top. But at the operational level, we are still learning. We need to sort out which concrete policy belongs to which ministry.
- Our FDI target is 270 billion baht in 2005, but we may exceed this and achieve 300 billion baht. Before, we targeted "net applications" (submitted less returned documents) but we now focus on "actual certificates." The latter requires more documents and reflects investors' seriousness more accurately. Our maximum approval time is 60 working days for small projects (less than 500 million baht) and 90 working days for larger projects. We are actually faster than this, and trying to shorten the maximum periods further.
- Our FDI policy is changing every five years but always for better. We have centralized general incentives and promotion. We do not have case-by-case treatment. Unlike Vietnam, all FDI applications are processed by BOI. Local governments have no authority to approve them regardless of investment size. They are not permitted to offer additional incentives. If local governments are given free hand in offering incentives, there will be too much competition and too generous packages. But if provincial leaders have good visions, they can use national promotion measures to attract FDI.
- Technical transfer measures are tricky because investors become angry if you regulate them too much. We implement only broad measures to encourage

technical absorption. Localization is no longer forced. Technical barriers were also abolished. We just open up and let the market decide.

- The greatest attractiveness of Thailand is its welcoming attitude toward FDI. "Red carpet treatment" should always be maintained in the future.

8. Thailand Development Research Institute (TDRI)

Venue: TDRI, 565 Ramkhamhaeng 39, Wangthonglang, Bangkok
Time: 2pm, March 3, 2005
TDRI participant:
Somkiat Tangkitvanich, PhD, Research Director
Received:
- TDRI brochure and publication list

Highlights:

- It is obvious that the Thaksin government has clear visions for industrial policy, but visions and implementation are two different matters. This is the most interventionist government in the history of Thailand. They are trying to promote certain industries by creating industry-specific institutes. It is unclear whether they are effective. Subsidized institutes are often inefficient and may crowd out private activities. The current government is a PR (public relation) government, with very good publicity and popular support, but action is more difficult than PR.
- Sometimes, policies tend to favor some special interest groups. Corruption is serious and intensifying under the current government. As a result, the government sometimes launches conflicting programs. But it is not effective to promote a large number of industries with limited resources.
- Tariff reform is slow, but this has been true for a long time. The service sector is still highly protected. Telecommunication and banking remain closed to foreign investors.
- I do not know about new government committees for individual industries, but if they are promoting private-public dialogue, it is a good thing.

9. Thailand Automotive Institute (TAI)

Venue: TAI Bangkok office, Bureau of Supporting Industries, Soi Trimit, Kluay-Nam-Tai, Rama IV Road, Klongtoey, Bangkok
Time: 9am, March 4, 2005
TAI Participant: Mr. Vallop Tiasiri, President
Received:
- Master plan for Thai automotive industry 2002-2006 (Thai original hardcopy)
- Master plan executive summary (English and Thai hardcopy)

About TAI:

TAI was established in 1999 as an autonomous non-profit organization. It has 70 staffs of which 30 are engineers. It is financed by both the government and the private sector in order to develop the automotive industry (automobiles, motorcycles and their parts) and strengthen the competitiveness of Thai products. TAI cooperates with researchers from ten universities in Thailand, MOI, Ministry of Commerce, MOF, Ministry of Science and Technology. TAI provides research and information services and manages a website for automotive part makers which is updated by producers (www.aseanautoparts.info). This is an APEC supported website.

Highlights:

- TAI has three main activities: (i) policy study and advice; (ii) supporting the clustering of auto parts; and (iii) export promotion. "Cluster" is not just networking but working together. We are trying to change the mindset of local producers and induce them to cooperate. Cluster members can be local, JV or 100% foreign. Toyota and Denso are asked to help SMEs.
- Our training center is open for any firm (but we teach in Thai). Thai workers are good at skills but without knowledge. We have trained 40,000 workers from 525 firms. But we need to upgrade the evaluation system after the training. Thai workers are afraid of competence exams. We also operate testing centers. Testing equipment is too expensive for individual SMEs so we offer this service for all.
- The automotive master plan is drafted by TAI (hardcopy received). The current one (2002-2006) has the following chapters: (i) global situation; (ii) Thai situation; (iii) SWOT analysis; (iv) strategy and targets for the next five years; (v) action plans. The targets for 2006 (1 million cars, 40% exported; 2 million motorcycles, 20% exported; parts export of 200 billion baht; 60% localization) are likely to be achieved within this year. Our forecast for 2005 is 1.1 million cars (420,000 exported) and 3 million motorcycles (800,000 exported), and parts export of 220 billion baht. The contents of action plans are decided by producers. TAI only coordinates and summarizes them.
- It normally takes about one year to complete a master plan. It is truly a joint product between private firms and MOI, with TAI assistance. The drafting is done by TAI. The master plan is submitted to MOI who is its official author. MOI then sends it to the government and eventually to the prime minister. Besides this official channel, TAI also sends the draft to the private sector and lets it directly present to the prime minister. The prime minister will hear the same master plan from both sides, but the presentation by the private sector is more convincing. In Thailand, there is no official approval of the master plan. It is implemented as a consensus of all parties. The important thing is that this plan be included in the national five-year plan which secures its funding. We are now trying to draft a new master plan. The methodology will be the same but we will have new targets.
- The agreed master plan contains broad numerical targets as listed above. As long as these targets and ideas behind them are valid, there is no need to revise them. Indeed, the current master plan has not been revised. In implementation, remaining questions are "details" (concrete projects) and "how much (budgeting) which are decided and adjusted continuously. Technical assistance through ODA or foreign firms is often mobilized. Here too, private-government communication

is very close. There is no need for confrontation. I meet with producers at least twice a month formally. I have more informal meetings as well. We are a small institute but we participate actively in many steering committees.

- Private companies will not transfer technology until it is profitable and the receiving side of technology is ready. We have no nationality preference. Any investor from any country is warmly welcome. While foreign companies are strong here, Thailand is not dominated by them. The government makes a fair and balanced compromise between the national goals and foreign companies' demands.

10. DENSO

Venue: Head Office of Denso Thailand Company, Samrong Plant 369 Modo 3 Teparack Rd, T. Teparak, A. Muang, Samutprakarn
Time: 9:30am, March 4, 2005
Denso participants:
Mr. Montree Musitmanee, General Manager of Engineering Section
Mr. Thavorn Chalassathien, Director, Administration & Denso Training Academy
Others
Presentation:
- Investment opportunities in Thailand

Received:
- Denso information package

About Denso:
Denso Thailand was established in 1972 with a capital of 200 million baht. It has 3,163 workforce of which 28 are Japanese. It produces cooling system, electrical products, starter, radiator, magnet, wiper motor, alternator, spark plug for automobiles and motorcycles. Its main customers are Toyota (50%), Isuzu, Honda, Mitsubishi and Hino. It also exchanges parts among other Denso factories in Asia.

Highlights:
The Vietnamese side asked about investment environment, the role of government in formulating policy, capability of Thai supporting industries and the strategy of Denso in the future if a new government changes industrial policy.

- Denso highly appreciates the investment environment of Thailand with thick supporting industries and appropriate policy and incentives. In fact, few foreign companies complain about Thai industrial policy and investment environment. Most investors are hoping to have long-term commitment in Thailand, especially in the automotive industry, because of predictable industrial policy and a strong network of supporting industries. While industrial policy is revised and adjusted frequently, the private sector is happy because it can get involved in drafting, implementing and revising industrial policy. The Thai government is now focusing on improving human resources by establishing technical training centers.

- Denso’s high quality is the reason why major customers come to purchase our parts. Since our reputation is well established, we have only a small budget for marketing and public relation. Denso believes that the Thai government will not change its policy of promoting the automobile industry. Therefore, Denso keeps investing in Thailand in the coming years.
- Denso uses the “keiretsu” system in doing business in Thailand. We work only with long-term Japanese partners. Human resources in Thailand are quite weak. There is a shortage of highly skilled workers and technicians but the situation is improving gradually.

11. Thai Summit Group (TSG)

Venue : Head Office of Thai Summit Auto parts Industry, Ltd., 4/3 Moo 1, Bangna-Trad Hwy, Kms 16 Bangchalong, Bangblee District 3, Samuthprakarn
Time: 2:30pm, March 4, 2005
TSG participants:

Mr. Cheevit Limsiri, Chief Engineer, R&D Unit
Mr. Panikai Aroonchitt, Laision & Projects Manager, Executive Vice President’s Office
Mr.Chatkaew Hart Rawung, Manager, Automotive Parts Department

Received:

- TSG information package

About TSG:
Established in 1977, this Thai parts company group now has five overseas plants in India, Indonesia and Malaysia and one branch office in Yokohama. The workforce is approximately 13,000 and its main products are automobile and motorcycle parts and electrical parts for home appliances and agricultural machine. Its main customers include Toyota, Mazda, Honda, Yamaha, Samsung and Tiger. It recently established an R&D department with 41 employees to undertake parts design. The group has four training rooms for its employees. The group also has 22 JV units with Japanese companies.

Highlights:
There was a factory tour at first. TSG factories here had a large number of stamping, welding, metal-working and other machines, most of which were made in China. A large structure housed a motorcycle parts factory and an auto parts factory with a warehouse in between. Most products were metal and plastic. There was also a showroom.

- TSG is one of the three biggest local suppliers of auto and motorcycle parts in Thailand. TSG follows TSCIC principle (Teamwork, Social responsibility, Continuous improvement, Initiatives and leadership, Commitment).
- TSG established R&D department three years ago and is internalizing parts design capability. It has designed a golf cart. Currently, TSG is trying to design a three-wheeled car for the Asian market. Technical training programs supported by Japanese experts are organized frequently. TSG also sends staff to Japan to absorb technology and skill from Japanese companies but it is still a difficult task.

- TSG is quite confident with its competitiveness against other domestic companies. Their main competitors are foreign and FDI firms. Raw materials are mostly imported from Japan since Thai raw materials are low quality.
- To improve the ability of managers, a job rotation program for all prospective managers is implemented.
- There is no complaint about tax and tariff policy of the Thaksin government. In addition, TSG joins the Thai Chamber of Commerce to raise a voice on government industrial policy.