Paemika Khongthon
ID: 6204640616

Research Topic:
How Thailand promotes industrialization and its economic policy reforms (e.g. innovation policy, government policy)

Objectives:
The aim of this research paper (final essay) is to provide clear identification of the key issues leading to industrialization, how the government responds to the ongoing challenges, as well as the role of public and private sectors during the period of industrialization.

During the period of industrialization, from the year 1957 to 1985, Thailand has been unique in its lack of ability to implement effective coherent policy. The reason that greatly contributes to the main failure of the country is the Thai Sakdina (feudal) autocracy. Hence, it is understandable to the suggestion seen through the economic development of Thailand in the last four decades, in which the country was entirely controlled by the ruling elite. Hence, the government support for indigenous elites, especially for the agricultural sector in rural areas was mostly ignored, along with the fact that Thailand has been unable to stimulate long-term business outlooks among indigenous private elites. Therefore, according to Gerschenkron, Thailand lacks the actions to substitute for missing entrepreneurship, which leads to the failure to participate in modern economic growth, instead, the Thai economy becomes relatively backward. These frameworks all draw attention to the need for 'market reform', which requires the need to focus on domestic-led growth industrialization and started to bring in innovation and effective policies for industrialization. Despite Thailand having been focusing on an export-led industrialization strategy, fundamental challenges still exist, such as the lack of skilled labor, a continual rise in inequality and poverty, along with low total factor productivity.

How and why did industrialization happen?

Regarding the journey to industrialization, Thailand has made impressive progress regarding economic development and social status since 1782, in comparison to other Southeast Asian countries. The action took place by the king and the governments were the crucial events leading Thailand to overcome several sets of challenges in each specific period of time. Since 1932, there are many changes to the Thai economy, which positively affect households, businesses, and society as a whole. Although Thailand was one of the countries that were fully affected by World War II during the period of Field Marshal Plaek Phibunsongkhram, who was in an alliance with Japan. However, Thailand did a great job in terms of restoring the economy due to the government's objective to revolutionize the economy. Thus, I would like to discuss the development of the Thai industry, which has gone through five phases, starting from the year 1782 to the year 1985.

<u>Phase 1</u>: Integration into the world economy, so-called "International trade and the Thai economy before 1850"

During the first phase of development, King Mongkut and the state government were responsible for taking action to engage in international trade by starting to develop policies for trading and taxes, as well as attracting foreign private investment inflows. For example, the system of trade during the first four reigns of the Chakri dynasty was written by King Mongkut (translated and published as "The Siam Repository, I (April 1869),67-68". Moreover, the government aimed to attract Chinese immigrants as passengers into the country by building junks and exporting products to China. Furthermore, European countries such as England and Portugal were engaged in trade with Thailand. Altogether with the fact that arriving foreign countries were in charge of tariffs, most of the revenues earned were from profits of trading during the first and second reigns (1782-1824).

Phase 2: Rising of capitalist groups (1855-1932)

The second phase refers to the rising of the capitalist group. The main event ents occurred was the "The Bowing Treaty" signed between Thailand and the United Kingdom, forming the new structure of foreign trade in Thailand after 1855. This second phase of development was also widely known as the rising of Chinese Immigration, starting from 3,000 immigrants per year in the early 1820s to 68,000 immigrants per year during 1892-1917. The key factors of a rapid rise in Chinese immigrants were a rise in demand for labor in Thai export-oriented factors, along with a prolonged shortage in the water supply that occurred in the Southern part of China. Most of the Chinese immigrants engaged in working in small factories, rice fields, and rice mills. Moreover, the initiation of Chinese Tax Farmers occurred in the Ayudhaya period, with the support from both King Rama III and IV. Nonetheless, regarding the Hi-Class Bureaucrats and their investment, the "Sakdina" system was established, in which landowners are allowed to express their social status. The social orders clearly separated the nobles and the masses, hence, the "Sakdina" system perfectly assigned two different roles in the society, determining the worth and social class of each individual.

Phase 3: Economic nationalism (1932-1947)

After the year 1932 was the era of Field Marshall Pleak Pibunsongkram ("Gen. Phibun"), who served as the third Prime Minister of Thailand. In fact, WWII began shortly after Gen.Phibun started to serve as the Prime Minister of Thailand. The effects of WWII on the Thai economy and society as a whole have been severe for many years. For example, due to the slowdown in economic activity, the Thai economy went into recession. Moreover, the amount of the country's spending was bigger than its income, contributed to a higher cost of living and consumer goods became more expensive. However, since Gen.Phibun started his role as the Prime Minister of Thailand, his goal was to mainly focus on revolutionizing society and the economy. One of his main actions to accomplish the goal as well as the cultural transformation was the establishment of the "Rattaniyom" regime, which was composed of twelve edicts, each mandate aiming for Thais to adore and be proud of the nation. Additionally, Gen.Phibun also brought out the development of Thai industry such as the domination of the rice industry, monopolizing the wholesale and retail chain, and the establishment of the state-owned enterprises to dominate the production of goods, including cotton, paper, sugar, textile, tobacco, rubber, and leather.

In addition, the period of 1941 was the period when Japan started to invade Thailand. In my opinion, the invasion of Japan positively affects Thailand economically in terms of Foreign Direct Investment (FDI) such as an investment in the banking industry, infrastructure development, and trade facilitation, which appreciably leads to a reduction in poverty and unemployment rate as many job opportunities were created. Hence, the FDI greatly generates domestic demand, comprised of the consumption and investment demand of the country, and later contributed to the long-term economic growth of Thailand. However, Gen. Phibun established the policy of economic nationalism, which referred to the interventions of the government or the states over other market mechanisms, aiming to achieve economic objectives politically, or in terms of the economic stability of the country, which is completely different from the system of free trade, where there is no restriction in terms of imports and exports. Therefore, the imports and exports were strictly controlled and only a small number of manufacturing firms were government-owned, thus, leading to poor economic results, which disappointed Sarit and other middle classes.

However, the alliance between Japan and Thailand, which greatly promoted the revolution collapsed in the year 1944 when Pridi's group successfully eliminate Prime Minister Phibun from political power. The anti-Japanese movement in Thailand has been set up.

Moreover, the government gains complete control of the rice trade, aiming to stabilize the economy. However, the measure ended up in rice hoarding and illegal export. During 1935-1946, the expected death of King Rama VII causes the political rivals of the Pridi group and dissatisfied war veterans to attack the Pridi-sponsored government. In November 1947, this military group carried out a coup d'etat or the stroke of the state.

<u>Phase 4</u>: Bureaucrat capitalist development (1947-1957)

The bureaucrat capitalist development during the year 1947-1957 occurred due to the rising of Field Marshal Phin Choonhavan, who was the military leader and deputy Prime Minister of Thailand. Gen. Phin engaged as a leader in the 1947 coups against the government. To be more specific, Gen. Phibun and Phin were able to gain power politically and economically due to the joint activity between the two groups. Unfortunately, state enterprises were shown to be underdeveloped due to a significant drop in competition. The governments took their action by implementing the "Syndicate System" with the purpose to gather leading Chinese capitalists in each industry into a single association before controlling their activity through the organization. Another purpose of applying a Syndicate System was to appoint a sole agency for local distribution of major manufactured products before monopolizing their market.

<u>Phase 5</u>: Industrialization (1957-1985)

The year 1957-1985 was the period of "The Sarit Regime and Industrialization", including the military dictatorship, economic growth, and the reemergence of the monarchy. The main goals of Gen. Sarit were to transform the traditional political system inherited from the 1932 Revolution and seek modernization and economic progress. Sarit remained in his power for only 5 years, which is from 1958 until he died in 1963. Fortunately, he established economic policies, including the investment incentive policies, which turned out to be in favor of both domestic and foreign private investment. The main ideas were the exemption of import suits, tax holidays, the freedom to remit profits out of the country, foreign firms' land ownership, and labor right. Moreover, there is a restructuring of import duties, shifting from the government's revenue to protect the infant industries. Also, the role of state enterprises in the economy that was being redirected, by mainly focusing on providing the infrastructure and utility services, led to a better quality of life. Gen. Sarit's strong commitment to economic development, together with a drastic rise in both domestic and international foreign investment, contributed to massive growth in gross national product. Also, the infrastructure developments were one of the major contributions and transformation of the civilization in culture, and the society as a whole. Furthermore, the World Bank sent its first economic research team in September 1957 to survey economic problems in Thailand. After one year of research, the world bank suggested the introduction of a long-term economic plan, improvement, and expansion of the infrastructure, and the establishment of incentives. Furthermore, the World Bank also suggested that the existing ineffective state enterprises were cited as one of the formidable obstacles to industrial growth, and the basic idea of the World Bank was based on the US's strategy of "economic development" as a countermeasure against communist threats.

In my opinion, the development process of Thailand shown by the 5 stages perfectly contradicts the elucidation purposed by Professor Hla Myint. Professor Myint believes in the Neoclassical Approach, that when the government of the state has complete control over business intervention, there will be no free movement of goods, services, capital, and people, which can be considered as ignoring the free trade and/or the advantage of open international trade and investment. Therefore, there was a contradiction between the proposal of Professor Myint and the concept of Gen. Phibun's government during economic nationalism (Phase 3).

Since the Rattaniyom regime was introduced, the governments mainly intervene in business operations, leading to the structure of state-owned enterprises. In addition, Professor Myint also made an explication in which the encouragement for trading will greatly support the state to improve and use resources more efficiently and productively due to the fact that the key to experiencing rapid growth economically does not rely upon the capacity to save and invest, instead, it comes from the capacity to use the investable resources more productively. Fortunately, the development of Thailand in the later periods was aimed to become more modernized with the help of FDI.

The effect of "decoupling" was also one of the crucial factors that brought about impressive progress in the development of the Thai economy. The impact of decoupling can be seen during the period of Gen. Sarit. According to his strong commitment to economic growth, Gen.Sarit adopted the investment incentive policy, which greatly attract both domestic and foreign private investment. Therefore, there would be more capitalists in the country who seek investment in trade and industry for their profit. Moreover, most businesses will try to monopolize the market to obtain the stability of prices, larger economies of scale, and the ability to improve their goods and services, such as funding for further research and development. Moreover, the fact that Thailand has lower wages, and production cost compared to other countries indicates a further attraction to foreign direct investment (FDI), which positively affect the economy and society as a whole. Due to the fact that FDI helps reduce the unemployment rate, thus, leading to a reduction in poverty. Additionally, FDI leads to specialization. This is because as more job opportunities are created, people have choices to choose, from and are therefore able to engage in a job they are experts in. Thus, FDI contributes to long-term economic growth, a better quality of life, and other long-term beneficial impacts on the country's development. Furthermore, as trade restrictions were loosened compared to the period of Gen. Phibun, hence, generates more imports and exports, which indicates the exchange between resources, including goods and services, knowledge, as well as skilled labor.

The crucial factor that contributes to a rapid rise in literate populations with minimal resources in a short period of time?

According to UNESCO Thailand, the adult literacy rate of the country was 93.77% in 2018, increasing at an annual rate of 1.10% since 1980. The most crucial factor leading to a rapid rise in literacy rate while using minimal resources is to apply the domestic-led growth industrialization with the aim of a balanced growth strategy. Theoretically, domestic-led growth has proved that a rise in total output in the long run resulted from an increase in aggregate demand. However, the theory shows an adverse assumption to neo-classical theory, in which supply is the factor that illustrates growth in the long run. In addition, domestic-led growth industrialization brought about changes in agricultural sectors. According to the statistic from the World Bank Organization, growth in agriculture is two to four times more effective in raising incomes among the poorest compared to other sectors. Due to the fact that the agricultural sector acts as an important player contributing to an increase in productivity, and is one of the key drivers of employment and income found in the rural areas, especially Thailand. in Hence, focusing on domestic-led growth at the first point to bring in positive changes, specifically in agricultural sectors before changing the focus point into the export-oriented strategy to enhance the process of industrialization is becoming the dominant paradigm in raising the state's capability to build up a bigger literate population in a short period of time, with few natural resources being used.

The impact of industrialization in transforming the society

- How well does the industrialization process illuminate the belief regarding the linkage between the public-private sector to promote equality?

The development of Thai industry greatly elucidates the widespread belief, in public and private relationships should reduce inequality. As the majority of the inequality in Thailand is undervalued. First of all, it is essential for all public policies that are considered to be vital to consider their distributional strands. For example, the Eastern Economic Corridor (EEC) is intended to stimulate economic growth. However, the government hardly ever discusses its social and distributional collisions. Even policies aimed at reducing inequality must be effectively implemented. This is because promoting equality greatly leads to collaboration, which is essential for market reform and sustainable development.

Promoting equality necessitates radical transformation. Extreme poverty and hunger must be eliminated, and a bigger portion of investment in various sectors, especially health, education, social protection, and decent jobs must be made, particularly for young people, migrants, and other related communities. It is critical to entitle and encourage inclusive social and economic prosperity of the countries. If discriminatory laws, policies, and practices can be eradicated, then equal opportunity and promote lessened equality in income distribution can be ensured.

The development of the Thai industry perfectly illustrates how inequality, especially inequality in income distribution negatively impacts the economy. The Thai Sakdina (feudalism) and the narrow coalition structure are considered to act like a monster that causes inequality, hence, leading Thailand to its failure in terms of market reform and growth of the country as a whole. Moreover, policy implementation in favor of the vested interest group turned out to be ineffective. For example, tax policy was not designed and implemented to promote social justice and human rights, as well as Thailand, did not apply similar trade and pricing policies to trick down benefits from peasants and the poor. Another example is how vote-buying remained apparent indicating how Thailand was focusing more on maximizing the benefits instead of equality. This raises the poverty rate and leaves small firms and peasants to remain poor, thus, the country lost its opportunity to bargain, and the country became unable to cope with fundamental problems. Nonetheless, even if Thailand heavily relied on the export-oriented manufacturing sector, the market does not undoubtedly promote equality.

In my opinion, the way how education and labor training programs did not receive enough promotion and support leads to an increasing rate of poverty growth. According to the research, those with a college degree have higher salaries and wealth accumulation than those who did not. Therefore, a lack of promoting education and labor training programs contributes to a wider gap between the rich and the poor, as well as a less effective workforce. In addition, other crucial factors that trickled the economic growth of Thailand include corruption, rent-seeking, and how the Thai government failed to maximize the benefit of FDI, including technology transfer and delivering the value creation from foreign firms to local businesses and labor, hence, further slowdown the economic growth, reduction in labor productivity, as well as domestic investment.

It can be seen that the development of Thai industries reflects an idea of how the narrow coalition structure represented by the Thai Sakdina (feudalism) drives down the economic growth and growth of the country as a whole. On the other hand, the broad coalition refers to how the small or the middle-sized firm were included in the process of decision-making with the big firms. In other words, the broad coalition reflects the inclusiveness between the various size of firms in the economic system. With a broad coalition structure, all actors will be involved in the policy-making process, promoting collaboration and inclusion, as well as accountability and transparency. Furthermore, a decline in resource endowments leads to the opportunity in which the ruling elites will provide public goods as side payments to coalition members. All these factors are crucial in driving a successful market reform like the East Asian NIEs.

- Why is industrialization likely to prevent poverty extermination?

Since growth in the agricultural sector is widely known for contributing to growth among peasants in rural areas. However, with inefficient industrialization policies, agricultural wage-earner and unskilled laborers are likely to remain poor or become poorer. In the case of Thailand, the main concern goes to smaller firms and peasants due to a high fixed cost of entry, which they might not be able to handle. Hence, the benefit of export goes to the vested interest groups as most of them are exporters, industrials, and bankers. As a result, benefits to small firms and farmers trickled as they became less powerful, by such means, they are unable to bargain with bureaucrats and the vested-interest groups. Furthermore, high land prices have led to ineffective or pointless spending and social waste, while tax incentives provided by the BOI have encouraged widespread rent-seeking, which is one of the negative impacts on the economy, and reflects the need for effective industrialization policy.

Development of innovation policy

Nowadays, the role of innovation policy becomes a major concern in terms of raising the performance of the economy and the clarification that may arise both socially and economically. This is because of the global challenges, including threats to global trade and the slowdown in productivity, causing developing and emerging economy to rephrase their existing growth strategies. The presence of economic dynamism effectively promotes social inclusion and shared prosperity in society. In addition, the importance of innovation policies started to be widespread and commonly recognized, especially the way innovation policy greatly promotes competition, job creation, and the environment. In fact, the role of innovation is to transform research findings into new and advanced services and products in order to be competitive in the global marketplace and improve people's quality of life. The emergence of "Industry 4.0" perfectly boost the urgency in terms of the application of new technology, along with modernization, such as Artificial Intelligence and blockchain to transform the production process, raising opportunities for e-commerce and reaching new customers, along with other-related benefits. For example, in accordance with the global emergence of cryptocurrencies, Central Banks around the world are preparing their own digital currency, which so-called "Central Bank Digital Currency" or CBDC. The benefits of CBDC include promoting financial inclusion, free flow of capital, and financial stability, as well as moving onto the digital economy. However, the emergence of cryptocurrency results in a disruption of the commercial bank. In the same way, an increasing trend of automation, customization, and service inputs in manufacturing greatly disrupts the low-skilled labor, which they are widespread in developing countries.

In order for the firms to be able to reach the speed of these rapidly changing trends and environment, as well as adjust themselves to Industry 4.0, a new business model is needed to enhance the formation and the quality of products and processes, along with utilizing advanced technology. Hence, it can be seen that the emergence of Industry 4.0 act as both an opportunity and a threat. However, the most important concern is that developing countries are found to underinvest in innovation activities. According to the Schumpeter Theory of Innovation, technological transformation is divided into three stages in a free market, which consists of the invention (conceiving a new concept or method), innovation (planning the economic conditions for putting an invention into practice), and diffusion (whereby people observing the new discovery adopt or imitate it). The focus point is on the adoption and exploitation of the economy and the social system. The government here becomes the main player in a rapid environment. With the capabilities of government agencies and institutions, effective innovation policies can be implemented, driving the country and its citizen to react and adjust to the speed of new emerging technologies.

Tools for effective innovation policy

The tools required for the effective innovation policy are divided into two parts, which consists of supply-side policies and demand-side policies, which are illustrated below:

Supply-side policies:

- R&D subsidies to firm innovation (including tax credit)
- Support for university education and research
- Support for public research institutes
- Policies for training and skills
- Policies to support collaboration and networking
- Investment for research infrastructure.

It can be seen that the tools to enhance the supply side policies has various benefits, including how the support from the government greatly encourages enterprises to do more R&D than they would have done otherwise, thus, enhancing the possibility and opportunities for discoveries. Many complicated problems are addressed through innovation policy, which necessitates thorough diagnoses and cautious planning. Thus, to avoid failure, policies must be applied with caution. Moreover, since specialization got promoted in response to the support in training and skills, then high-skilled labors are formulated, as well as an increase in labor productivity. Furthermore, collaboration and networking support effectively increase efficiency, and new ideas can be easily fostered and passed on.

Demand side policies:

- Subsidies for customers
- Market regulation
- Standards
- Pre-commercial procurement
- Public procurement for innovation

In terms of demand-side policies, it aims to shape aggregate demand in the economy. It refers to a set of public policies aimed at increasing demand for innovations, improving the environment for their adoption, and/or improving demand articulation to promote innovation and diffusion. Because of the scale effect, process innovation becomes more profitable as demand rises. As a result, it becomes more profitable for quality improvements. This equates to an increase in product development. Therefore, as demand rises, so does the profitability of both forms of innovation.

In terms of the development of innovation policies, government intervention is very important to the reformation of the economy. In other words, there exists a strong positive relationship between government policy and industrial innovation. If the governments cannot design and implement effective policies, the country would be left behind, contributing to a failure of market reform and trickling economic growth.

In conclusion, during the process of industrialization, labor productivity and the literacy rate has been quite low. Although Thailand applied the investment-based strategy by attracting

FDI inflows into the country. This does not, though, cause a rapid rise in labor productivity and become more modernized. This is because the Saldana system still has a big influence on the Thai economy. Thus, inequality, rent-seeking, and corruption rate remain high, showing the implication that changes brought about by industrialization have resulted in a slowdown in economic activity due to the wider gap between the rich and the poor, as well as being able to attract less foreign demand and immigrants. Most importantly, government action to support citizens in their daily jobs is the most important focus, instead of centered on encouraging the replacement of humans with technologies.

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