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Import substitution

Thailand is the country that is planning to develop a manufacturing sector for improving the overall economy of the country. Most of the third world countries or developing countries like Thailand will relate to improving the manufacturing sector by importing substitute industrial (ISI). Import substitute industry is to reduce the expenditure on import goods as much as possible. It will contribute local people to produce the product by themselves. Thailand adopted import substitution in 1960, and hope that the manufacturing sector will be improved. Moreover, it also can protect the local business by reducing the competitors' advantages because our product is not as good as foreigner products.

Import substitution industrial causes infant industries which the government needs to subsidize those businesses or government needs to give them more privilege for reducing the cost of production. This is because they are not ready to face real competition in the real world. However, the government should not support those businesses all the time. It will cause those businesses to not develop their product because they think that the government will support them anyway. One of the policies that Thailand did is import tariffs which government collect the tax on every goods by 15-30 percent. In addition, the government collects tax on the consumption product industry more than other sectors. In 1970, the government increased the rate of tariff to be 30-55 percent in finished goods, and decreased the rate of tariff in intermediate goods such as raw materials of electronic devices. The tariff rate of construction industry, textile industry, and non metal industry 25.5 percent, 24.6 percent and 18.2 percent, respectively, manipulated by the ministry of finance. There is also an import surcharge for controlling the price and importing the goods. Second policy, it forces the manufacturing sector to use only raw materials from our country only to help local people. Car industry is the industry that the government supports.
The last policy, the government supports investing in venture capital such as the agricultural sector, energy industry, chemical industry, medical industry, and tourism industry.

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From the import substitute industry (ISI), textile industry, film industry, ceramic rubber industry, and car assembly industry are getting positive effects from import substitute industry.
However, the agriculture industry gets the negative effect from import substitution as the cost of fertilizer and chemical increase from before a lot. It still has another positive effect. It helps the local people to fight with foreigner firms as the price of foreigner goods increases dramatically due to tax or tariff. If the government wants to protect infant industries more than this, it will cause those businesses to not develop their goods, and local people need to use those products as the price of foreigner goods are more expensive than the local ones. The welfare of the country will decrease by helping more in infant industries.

In conclusion, import substitution industrial (ISI) is the policy that main objective is to improve the manufacturing sector and the overall economy in the country. Thailand used to use this policy in the past, but they found out that it gave negative effect more than positive effect because they protect infant industries more than what it supposed to be. After the government found out the result, they changed the policy to be export promotion.

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