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Manufactured Exports and
Foreign Direct Investment :
A Case Study of the Textile
Industry in Thailand.

by

Somsak Tambunlertchai

Impei Yamazawa



คณะเศรษฐศาสตร์
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บทคัดย่อ

ปัญหาสำคัญประการหนึ่งสำหรับการพัฒนาอุตสาหกรรมคือ ทำอย่างไรอุตสาหกรรมจึงสามารถพัฒนาจากขั้นตอนของการทดแทนการนำเข้าไปสู่การส่งออก การส่งออกในสินค้าอุตสาหกรรมจะต้องประสบกับการแข่งขันกับสินค้าชนิดเดียวกันในตลาดโลก ทั้งทางด้านราคาและคุณภาพ ซึ่งโดยทั่วไปแล้วทำได้ยากกว่าการขยายภายในประเทศ ในที่นี้ เราจะทำการศึกษาในอุตสาหกรรมสิ่งทอของไทย เพื่อให้เข้าใจถึงกลไกการทดแทนการนำเข้า และการเปลี่ยนสภาพจากการทดแทนการนำเข้าไปสู่การส่งออกของสินค้าอุตสาหกรรม อุตสาหกรรมสิ่งทอนับว่าเป็นอุตสาหกรรมสำคัญของไทย ทั้งทางด้านสัดส่วนการผลิตและการจ้างงานในภาคอุตสาหกรรม และยังเป็นอุตสาหกรรมที่มีการทดแทนการนำเข้าและการขยายตัวในการส่งออกมากกว่าอุตสาหกรรมอื่น ๆ ด้วย ในการศึกษานี้ได้มีการเปรียบเทียบการพัฒนาอุตสาหกรรมสิ่งทอของไทยกับของประเทศญี่ปุ่น และมีการประเมินผลของมาตรการทางนโยบายของรัฐบาลไทยที่มีต่ออุตสาหกรรมสิ่งทอ และให้ข้อเสนอแนะต่าง ๆ ทางด้านนโยบายด้วย

อุตสาหกรรมสิ่งทอของไทยได้พัฒนาโดยเริ่มจากอุตสาหกรรมพื้นเมืองที่ผลิตเพื่อใช้ในประเทศด้วยเทคนิคดั้งเดิม ต่อมาการผลิตสิ่งทอในประเทศถูกกระทบกระเทือนจากสินค้าเข้าเป็นอย่างมาก รัฐบาลไทยได้เริ่มให้การคุ้มครองและสนับสนุนการผลิตสิ่งทอโดยส่งเสริมให้มีการตั้งกิจการทอผ้าขนาดใหญ่โดยมีการร่วมทุนจากต่างประเทศโดยให้สิทธิประโยชน์หลายอย่างตามกฎหมายส่งเสริมการลงทุน การผลิตเพื่อทดแทนการนำเข้าของผลิตภัณฑ์สิ่งทอเริ่มขึ้นอย่างจริงจังในราวปี ค.ศ. 1960 และอุตสาหกรรมสิ่งทอของไทยก็ได้ขยายตัวเป็นอย่างมากตั้งแต่นั้นมา โดยเริ่มจากผ้าฝ้ายก่อนและตามด้วยผ้าใยสังเคราะห์และเส้นผ้าสำเร็จรูปจนถึงในราว ค.ศ. 1970 การขยายตัวของอุตสาหกรรมสิ่งทอได้ชะลอตัวลง เพราะการเข้มตัวของตลาดภายในประเทศ กิจการผู้ผลิตสิ่งทอได้มีการพยายามระบายผลิตภัณฑ์ออกสู่ตลาดต่างประเทศ ในระยะแรก ๆ การส่งออกได้ประสบกับการขาดทุนแต่ในระยะต่อมาได้มีการพยายามปรับปรุงประสิทธิภาพการผลิต การจัดการและการตลาด จนผลิตภัณฑ์สิ่งทอของไทยสามารถจำหน่ายในตลาดโลกอย่างมีกำไรได้

เราได้ทำการสำรวจกิจการสิ่งทอที่สำคัญ ๆ ในประเทศไทย ซึ่งพบว่าการร่วมทุนจากต่างประเทศไม่เป็นปัจจัยสำคัญต่อความสามารถในการส่งออก และกิจการสิ่งทอที่คนไทยเป็นเจ้าของหลาย ๆ กิจการได้รับความสำเร็จเป็นอย่างมากในการส่งออก ความสามารถในการส่งออกขึ้นอยู่กับประเภทของสินค้าที่ผลิต ความพยายามในการปรับปรุงประสิทธิภาพการผลิตและการจัดการ และความพยายามในการหาตลาดต่างประเทศ เนื่องจากการขยายภายในประเทศโดยทั่วไปแล้วได้กำไรดีกว่าและไม่ต้องแข่งขันในด้านคุณภาพมากนัก ผู้ผลิตบางรายจึงเน้นการขยายภายในประเทศ และส่งออกไปต่างประเทศเมื่อการขยายภายในประเทศมีภาวะซบเซาและตลาดในประเทศไม่อาจดูดซับสินค้าที่ผลิตได้เต็มตามกำลังผลิตของโรงงานได้ แต่ปรากฏว่ากิจการที่เน้นการขยายในประเทศนี้มักจะมีความสามารถในการส่งออกต่ำ เมื่อเทียบกับกิจการที่เน้นการส่งออกและพยายามปรับปรุงคุณภาพของสินค้าและความสามารถในการแข่งขันทางด้านราคาในตลาดส่งออก เป็นที่น่าสนใจว่ากิจการที่เน้นการขยายในประเทศมักจะมีรูปแบบการจัดการแบบกิจการในครอบครัว แม้บางกิจการจะมีขนาดใหญ่มากก็ตาม ส่วนกิจการที่เน้นการส่งออกมักจะมีรูปแบบการจัดการสมัยใหม่และมีผู้จัดการที่ได้รับการศึกษาสูง และบุคคลเหล่านี้เชื่อว่าอุตสาหกรรมสิ่งทอของไทยจะขยายตัวต่อไปได้ก็ต่อเมื่อมีการขยายตัวในการส่งออกเท่านั้น

ในการสำรวจกิจการสิ่งทอยังได้รวบรวมข้อเสนอแนะทางด้านนโยบายซึ่งรวมทั้งข้อเสนอแนะในการจัดสรรโควตาต่อผู้ส่งออก การคืนเงินอากรในวีซูดิบที่ใช้ผลิตเพื่อการส่งออก การปรับปรุงโครงสร้างของภาษีและการปรับปรุงบริการและสิ่งอำนวยความสะดวกต่าง ๆ เพื่อการส่งออกด้วย

ในตอนสุดท้ายได้มีการเปรียบเทียบการพัฒนาอุตสาหกรรมสิ่งทอของไทยกับของญี่ปุ่น ญี่ปุ่นมีการพัฒนาอุตสาหกรรมสิ่งทอก่อนไทยมากและการพัฒนาในอุตสาหกรรมนี้ก็ได้เป็นไปตามวงจรการผลิตคือเริ่มจากการนำเข้า ต่อมามีการผลิตเพื่อทดแทนการนำเข้าและสามารถส่งออกไปขายในต่างประเทศในระยะต่อมา จนในที่สุดญี่ปุ่นก็กลายเป็นประเทศนำผลิตภัณฑ์สิ่งทอเข้าจากประเทศอื่น ๆ อย่างไรก็ตามในกรณีของญี่ปุ่นวิวัฒนาการของวงจรการผลิตได้เกิดขึ้นโดยพึ่งการลงทุนจากต่างประเทศน้อยมากและการทดแทนการนำเข้าและการส่งออกได้เกิดขึ้น

เนื่องจากการปรับปรุงประสิทธิภาพการผลิต ซึ่งทำให้มีการลดต้นทุนการผลิตและการปรับปรุง
คุณภาพของสินค้า ในกรณีของไทยมาตรการการส่งเสริมของรัฐบาลนับว่ามีส่วนสำคัญต่อการ
เริ่มต้นการทดแทนการนำเข้าและการส่งออก แม้ว่าปัจจัยสำคัญของการส่งออกอยู่ที่ความ
พยายามของภาคเอกชน และการให้การคุ้มครองในอัตราสูงแก่ผู้ผลิตสิ่งทออาจมีส่วนทำให้การ
ขยายตัวการส่งออกของอุตสาหกรรมนี้ช้ากว่าที่ควรจะเป็น

ABSTRACT

One of the crucial problem in industrial development for the LDCs nowadays is how an industry can be moved from the stage of import substitution to export expansion. The textile industry in Thailand is typical of its development with active participation of foreign direct investment and its lead of other industries in achieving import substitution, and the industry has now emerged to the stage of export expansion. This study investigates the factors which lead to successful import substitution and export expansion by studying the development process of the Thai textile industry. In addition, Japanese experience in developing the textile industry before the World War II is referred to frequently in order to identify the major characteristics of development of textile industry in contemporary developing countries. The study also contains appraisal of Thai government policies toward the textile industry and makes some recommendations on policy formulation and implementation.

The development of textile industry in Thailand has followed the stages described by the "catching-up product cycle" model. The industry started up as a household industry using traditional techniques. Later on, it was adversely affected by imports of superior-quality products. It was revived by protection of local products to substitute for imports. And eventually it has emerged as an export industry.

Import substitution of modern textile industry started from around 1960 when the government actively began to protect the industry. Import restrictions combined with various incentives given by the official investment promotion program induced foreign as well as Thai investors to start up domestic production in textiles. The foreign investment which mostly came from Japan reflected the desire of foreign manufacturers who had hitherto exported textiles to Thailand to protect their share of the market. Local entrepreneurs who were importers and distributors of textiles joined the Japanese to form joint ventures in the industry. This import substitution was achieved through trade restriction and foreign-investment participation. Domestic production of textile goods expanded tremendously during the 1960's but there seem to be no significant cost reduction in textile products throughout the period of import substitution.

Exportation of the Thai textile products started in the early 1970's. Several factors contributed to the emergence of export sales in textiles. These include the desire of the textile firms to vent their surplus into foreign markets, the subsidy given by the government on export sales, and, more importantly, the efforts made by individual firms in penetrating into export markets. Although the input situations in Thailand tend to favor the development of the textile industry, exporting firms incurred much loss in their export sales in the beginning. It is only after the

exportation has started for some time and exporting firms have made some improvement on their production and management that steady export expansion became possible.

Our firm-level survey on major textile producers in Thailand reveals that some business characteristics together with the behaviour of individual firms determine the export performance of the firm. Foreign ownership and management participation in general are not important for successful export expansion. There are also some locally-owned firms which perform well in their export business. The export performance of the firm is more influenced by the type of products manufactured and exported, the efforts made by the management to improve competitiveness through change in the system of production and management, and establishment of secured export marketing channels. Underlying the efforts made on export sales is the firm's determination to launch its products into international market. Since domestic sales are usually more profitable in the short run and quality requirement is not as strict as export sales, a number of firms tend to see export sales as a residual in order to vent their domestic surplus. These local market oriented firms tend to lose out in their export business. It is those firms which set high priority on their export sales that are gaining ground in their export shares. It is interesting to note that among their textile firms, those with family-style management often concentrate on domestic sales, while those firms with highly-educated entrepreneurs, and modern management

system tend to have a longer run view on the industry and emphasize the need for export expansion.

After the analysis on the characteristics and behavior of exporting firms, several comments are made on government policies toward the textile industries. These include the suggestions on quota distribution to exporter, tax refunds on raw materials, revision of tariff and tax structure, and improvements in governmental services and infrastructural facilities to textile exporters.

Compared to Thailand, Japan developed her textile industry in a much earlier period. The Japanese development experience of textiles from import to import substitution and then export expansion has also been seen in the process of Thai textile development. There are, however, a number of different elements in the two types of development. In the case of Japan, there was not much foreign participation in the process of development, while in Thailand's case, direct foreign investment played an important role both during the period of import substitution and export expansion of textile industry. Another difference in the process of development of textile industry between Thailand and Japan is that import substitution in Thailand was made possible through protection while in the Japanese case import substitution was achieved through cost reduction. Export expansion was a natural consequence of increased competitiveness of the Japanese textile products. In the case of

Thailand, exportation of textile products was initiated with the desire to dispose domestic surplus and helped by governmental incentive measures. Import substitution through protection in Thailand tended to constrain the potential for cost reduction. It is only after several improvements have been made by exporting firms that textile exports become profitable.

Acknowledgement

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MANUFACTURED EXPORTS AND FOREIGN DIRECT INVESTMENT:
A CASE STUDY OF THE TEXTILE INDUSTRY IN THAILAND

Somsak Tambunlertchai and Ippei Yamazawa

I. Introduction

Textile industry has often been introduced as the first modern industry in many developing countries. It is on one hand, because domestic technology for textile products can be relied upon and on the other, because technology can be absorbed and optimum scale of production can be achieved more easily than in other modern industries. This was the case in Japan during the late 19th century and so it is in Thailand today.

Modern textile industry in Thailand started in the late 1950s and developed rapidly during the 1960s. It appears to have almost finished import substitution by the early 1970s and has started export expansion since then. The pace of its export expansion, however, has not been smooth and the industry has been confronted with some difficulties which are common to textile and other modern industries of contemporary developing countries at their early stage of export expansion.

Japan has been related with the development of Thai textile industry in various respects, as the major export supplier of modern textile products, the main contributor of capital, technology and entrepreneurship to the development of the industry, and

one of the major import markets for textile exports from this country. The study of textile industry development in Thailand with special reference to the role played in it by the Japanese textile industry will contribute to clarifying a major aspect of Japanese-Thai economic relationship.

This study intends to investigate the process of development from the stage of import substitution to export expansion of the textile industry in Thailand. A number of developing countries today frustrated by the stagnation of import-substitution industrialization and chronic balance of payment deficits, are trying hard to promote their industrial exports. But promotion of industrial exports is usually much more difficult as compared to import-substitution. Successful exportation of industrial products depend on a number of factors including foreign demand and competitiveness of the products in terms of price and quality. Experiences of many developing countries tell us that only in a few cases where export-promotion industrialization scheme have been seen to be successful. One of the crucial problem in industrial development for the LDCs nowadays is thus how an industry can be moved from the stage of import-substitution to export-expansion. Textile industry in Thailand is typical of its development with active participation of foreign direct investment and its lead of other industries in achieving import-substitution and beginning the stage of export-expansion. In this study, we will investigate

the factors which lead to successful import-substitution and export-expansion by studying the development process of the Thai textile industry. Among the crucial questions we seek to answer are:

1. How government policy measures can affect the process of industrialization?

2. What is the role of foreign enterprises in the process of import substitution and the expansion of manufactured exports?

3. What particular characteristics and behaviour of individual firms in an industry will be helpful for successful export expansion of the industry?

This article is not the first attempt to study this problem. However, many previous studies were based on aggregate data of industrial development and were rather hasty in deriving such policy conclusions as inadequate export promotion measures by the Thai government and protection barriers against Thai exports to developed country markets. More investigation should be conducted regarding the behaviour of individual firms of the industry and their response to policy changes both in Thailand and abroad.

We will clarify the interaction among foreign firms, local firms and the Thai government in the process of import substitution and export expansion of textile products from which we

will derive a realistic explanation of the relationship between manufactured exports and direct foreign investment. We will first review the development process of the Thai textile industry in terms of aggregate data to present a hypothesis on the mechanism of import substitution and export expansion. Then we will proceed to substantiate our hypothesis by data and information regarding individual firm behaviour which were obtained from our interview survey of textile firms in Bangkok, both Japanese-Thai joint ventures and purely Thai-owned, conducted in the Summer of 1979.

Japanese experience in developing the textile industry before World War II will be referred to frequently in order to identify the major characteristics of textile industry development in contemporary developing countries.

II. Development of Thai Textile Industry

(1) The Structure of the Thai Textile Industry.

Textiles is an important industry in Thailand. In 1978, the value added generated in the textile industry (including textiles, wearing apparels and other made-up textile goods) accounted for 20.5 percent of total value-added in the manufacturing sector. Textiles is also a major source of manufacturing employment. In 1978, it is estimated that 258,367 workers were employed in the industry, of which 149,993 or 58 percent employed by the garment

manufacturers. The employment in the textile industry accounted for 21.7 percent of total employment in the manufacturing sector.

The textile industry actually encompass a wide range of activities, including fiber production, spinning, weaving, knitting, bleaching, dying, and finishing of textile fabrics, making of garments and other made-up textile goods. There are firms with different sizes producing different products at different stages. There are about 50-60 large scale firms, mostly equipped with spinning, weaving - and finishing facilities, and several hundreds small weaving firms. Most of the small weaving firms are family-run operations with the number of looms varying from 10 to 300. Garment manufacturers also compose of a few large firms with thousands of workers produced exclusively for export market, and a large number of small, family-run garment factories.

Most of major textile firms are vertically integrated. In addition, there are chain ownership in the industry as major shareholders in one textile company are also shareholders in other textile companies. Thus the Thai textile industry has been dominated by about 10 affiliated groups, among them are several major Japanese investing companies.

Exports of textile fabrics from Thailand are mostly from relatively large scaled firms since they are more equipped with

modernized machinery and producing higher quality products. They also have scale economy. Small weavers, on the other hand, concentrated more on domestic market by producing relatively lower quality fabrics. In addition to weaving of cotton and P/C fabrics, they produce such items as phasin, phakaoma, and phadam¹ for the local upcountry consumers.

Foreign investment has played an important role in the development of modern Thai textile industry. Since the active promotion of private investment in 1960, many foreign textile companies have come to invest in Thailand, mostly as joint ventures with Thai businessmen. Japan has been the most important foreign investing country. Most of the large integrated firms in the Thai textile industries at present are joint ventures with Japanese investment. In 1978, out of 102 firms in fiber production, spinning, weaving, bleaching and dyeing, making of garments and other textile products in the promotion list, 27 were with Japanese investment. The average Japanese shareholding of these joint ventures was 36 percent. Japanese shareholding accounted for around 20 percent of total equity capital of all promoted companies in textiles.

Although Japanese investors are holding less than 50 percent equity share in most of the joint ventures, management in quite a large portion of the jointly-owned business is controlled by the Japanese. Japan is also the major supplier of textile machinery to

Thailand and the major recipient of royalties and know-how fees of the Thai textile industry.² A number of Japanese - Thai joint ventures in the textile industry have investment participation from Japanese general trading companies. The Japanese GTCs thus have been playing an important role in Thai textile trade.

(2) Development Stages of the Thai Textile Industry.

The development of the textile industry has followed the stages described by the "catching-up product cycle" model.³ The industry started up as a household industry using traditional techniques. Later on, it was adversely affected by imports of superior quality products. It was revived by protection of local products to substitute for imports. And eventually it emerged as an export industry.

Until the middle of the 20th century, textile products in Thailand were still manufactured by small households in a traditional manner. Mechanized production of textile goods was introduced in 1936, when the government set up local spinning and weaving facilities using machinery imported from Germany to produce textiles for the military use. The first modern spinning mill in the private sector was set up in 1946, when a local entrepreneur bought some second hand machinery from Shanghai and also recruited experts from there to help manage the production. In 1950, another local business-

man set up the first mechanized weaving factory in the private sector. The machine was imported from Japan.⁴ By 1959 there were five pioneering local enterprises in the industry. The slow development of the large-scale textile industry in the decade following the Second World War was attributable to low import tariff on textiles, the relatively small domestic market, the small supply of fiber available locally, and the lack of capital, entrepreneurship, and trained labor.⁵ The migration of Chinese entrepreneurs after the fall of the Nationalist Chinese Government in 1949 is believed to bring in additional capital, entrepreneurs and technical know-how to the Thai textile industry.⁶

Rapid development of the textile industry started around 1960 when the Thai government launched an official investment promotion program which gave various incentives to private investment in industrial activities. The textile industry has been one of the major industry under official promotion since the very beginning. Like other industrial activities in the promotion list, textile firms under promotion were given a five years tax holiday and full exemption of import duties and business taxes on machinery and equipment and materials for factory construction. In addition, one-third of import duties and business taxes on raw materials and other intermediate products were exempted.⁷

Since the start of the official promotion program, over 100 firms engaged in fiber production, spinning, weaving of natural and synthetic fiber, bleaching, dyeing, printing of fabrics, and garment making have received promotional status. Most of these firms are large-sized textile firms and a substantial portion of them have foreign capital participation. The promotional status granting to new applicants in the textile industry has been suspended several times when the government considers that there is an excess capacity in the industry. At present, only textile fiber and printing of textile fabrics are included in the promotion list. Many textile firms, including most of the large-sized firms in spinning, weaving and other activities, however, are still enjoying the promotional privileges, since they obtained the promotional status previously and the promotional period has not been expired.

The period from 1960 to the present has seen a tremendous expansion of investment in the industry. The spinning, weaving and knitting capacities of textile firms have expanded at a spectacular rate (see Table 1). Production of synthetic textiles was started in 1964 when a leading Japanese fiber producer set up the first factory to produce synthetic fabrics. More factories producing synthetic yarn and fabrics were established after that. Production of synthetic fiber started in 1969 with the establishment

of a joint venture with the investment from two large Japanese textile manufacturers. Synthetic textiles have grown rapidly and in 1978 the production of synthetic fabrics exceeded that of cotton fabrics (Table 2)

The drive for exporting of textile products started in the late 1960's, when the growth of the industry slowed down due to saturation of domestic demand. Cotton fabric and clothing started to export at small amount in the late 1960's, and synthetic fabrics were exported shortly after that. There were also exports of cotton and synthetic yarn, but the amount of cotton yarn exports has never been significant while exports of synthetic yarn increased significantly during the 1970's. (Table 3)

The amount of textile exports increased significantly in 1972 and 1973, synthetic yarn, cotton and synthetic fabrics and clothing were all recorded high growth over the previous year. The year 1973, in particular, was seen to be a boom year for the Thai textile industry. Exports of cotton and synthetic fabrics, and garments all increased several times higher than those of the previous year. It was the first year Thailand recorded a surplus balance in the textile trade. A number of new plants were set up and additional capacities installed during late 1973 and early 1974.

Table 1

Number of Textile Machines Used in Thailand, 1961-1978

Year	Spinning Spindles	Weaving Looms	Knitting Machines
1961	92,516	6,936	-
1962	111,556	7,464	109
1963	111,556	8,577	209
1964	114,396	10,253	301
1965	224,756	11,790	1,115
1966	246,416	14,189	1,589
1967	274,276	16,806	2,502
1968	317,656	19,063	3,113
1969	330,856	23,004	4,498
1970	373,284	27,463	4,695
1971	558,958	52,332	5,222
1972	637,720	34,589	6,929
1973	773,404	39,503	9,373
1974	838,060	46,140	15,533
1975	1,013,512	48,836	21,700
1976	1,059,112	51,020	29,512
1977	1,082,336	52,168	30,417
1978	1,121,284	54,008	31,617

Source: Thai Textile Manufacturing Association.

Table 2
Textile Fabric Production in Thailand, 1960-1978

1,000 sq.yds.

Year	Cotton Fabrics		MMF Fabrics		Total
	Woven	Knitted	Woven	Knitted	
1966	250,787	19,356	42,824	1,543	314,510
1967	277,040	18,922	42,216	3,186	341,364
1968	322,236	18,781	37,336	7,224	385,577
1969	343,968	23,025	51,480	20,820	439,293
1970	365,454	20,024	77,424	33,020	495,922
1971	450,207	21,589	145,408	48,793	665,995
1972	481,311	32,617	208,464	82,000	804,392
1973	539,937	45,679	287,028	129,510	1,002,154
1974	529,383	52,358	277,992	152,870	1,012,603
1975	574,406	59,228	337,500	178,580	1,149,714
1976	699,682	66,337	437,520	210,720	1,414,259
1977	715,560	72,970	462,636	242,330	1,493,496
1978	758,136	77,345	628,488	259,290	1,721,259

Source: Thai Textile Manufacturing Association.

Table 3

Value of Export of Textiles Classified by Product, 1966-78

(million of baht)

Year	Yarn		Fabrics		Clothing	Total
	Cotton	Synthetic	Cotton	Synthetic		
1966	0.09	-	2.32	10.74	18.27	31.42
1967	0.09	-	7.27	7.07	14.04	28.47
1968	0.34	0.09	23.62	3.47	16.13	43.65
1969	0.50	0.52	24.85	1.90	12.29	40.06
1970	0.23	5.47	21.13	2.40	15.13	44.36
1971	2.11	21.35	159.81	3.57	64.15	250.99
1972	6.23	107.83	143.26	127.82	260.12	645.26
1973	39.08	121.64	410.71	619.04	677.17	1,867.64
1974	18.37	147.54	253.84	533.70	844.89	1,798.34
1975	-	124.34	350.07	455.11	1,038.58	1,968.10
1976	55.05	381.43	1,058.35	986.20	1,531.22	4,012.25
1977	160.62	458.40	982.20	1,190.02	1,693.31	4,484.55
1978	169.30	617.98	1,112.62	2,182.09	2,642.90	6,724.89

Source: Thai Textile Manufacturing Association.

Official promotion of textile exports started in 1972. The condition set by the official promotion to textile firms during that time was that not less than 65 percent of total production had to be exported. Garment producers, on the other hand, were obliged to export all of their products for obtaining the promotional status. Promoted textile firms received various incentives, including exemption of import duties and business taxes on machinery and equipment and an income tax holiday for 5 years. There were also exemption of import duties and business taxes on raw materials and some reduction on assessable income for payment of income tax based on increase in export sales. During 1972-73, there were 70 firms (including firms previously obtained promotional status but proposed to expand production for export) applying for promotional status in spinning, weaving, and making of garments for export, and additional capacities installed. Out of all applicants only 30 firms passed the screening process and were later granted the promotional privileges.

After the boom in 1973, however, the Thai textile industry with its increased installed capacities confronted with serious difficulties during 1974-75 period. There was a sharp decrease in export and domestic demand followed the oil price increase and resulting recession and inflation. The increased production costs due to shortage and price increases of raw materials, and rising wages together with the decrease in demand for textile goods affected the

textile industry to a great extent. Fiber producers, spinners and weavers all cut down their production. Several plants abandoned their expansion projects and most of the textile companies promoted by the Government in 1973 failed to complete their plants within the period specified by the BOI, and later 7 of them were permitted to withdraw their promotion certificates. The closing of border trade due to the changing political situations in Thailand's neighbouring countries in 1975 in addition cut down the amount of textile exports and aggravated the depressing situations in the industry.

The severe depression experienced by the textile industry continued until late-1975. During 1974-75, the governments provided several measures to help alleviate the adversed situations in the textile industry. In 1974, the government eased the ban on fiber exports and increased tax refund granted to exporters of garments. The Bank of Thailand offered further financial assistances to the textile firms by extending rediscounting facilities with preferential interest rates to the purchase of raw materials during October 1974 to June 1976. In 1975, additional measures were provided to aid the textile industry. These include the total lift of export control on cotton and man-made yarn, change in the rates of business tax on yarn and fabrics, allowing import of man-made fibers used in export produciton, and adjusting the ceiling for man-made fiber prices from time to time.

The governmental measures helped the textile producers both in production and marketing. The export market situations improved since the middle of 1975 and continued the expanding trend in the next several years. Spinning, weaving, and synthetic fiber factories which had been given promotional privileges during 1973-74 started to go into production from early 1976 and the overall production of the industry increased substantially. Existing major textile firms reached nearly full capacity utilization in 1978 and 1979.

Figures 1 show changes in import-demand (M/D) and export-output (X/S) ratios of woven fabrics of cotton and synthetic fiber. Woven fabrics can be considered representative of textile products in Thailand and the above ratios measure import substitution and export expansion respectively in the Thai textile industry. Rapid decline of M/D was observed first in cotton fabrics, followed by synthetic fabric four to five years later. It appears that import substitution was completed in both cotton and synthetic fabrics by early 1970s and it has been successfully followed by export expansion of both fabrics as depicted by the increase of X/S in Fig. 1. However, export expansion of both fabrics are characterized by booms (1973 and 1978) alternated by stagnation (1974-75 and late 1979).

Table 5-1 through 5-3 show the historical trend of Thai exports of cotton fabrics, synthetic fabrics and clothing by destination. Exports of clothing have shown remarkable growth recently. As a whole, cotton fabrics, and clothing are destined mostly to markets in the developed countries while synthetic fabrics are exported to the developing countries. The growth of exports to Western Europe and the Middle East are noteworthy in all three categories of the textile products. Clothing export to the United States increased rapidly but the export of the other two remained stagnant. Export to Japan boomed in 1973 but it has declined since then, except for the slow increase of cotton and synthetic fabrics in recent years.

However, Thai textile export still remains to be a minor supplier in the world market. In 1977 Thailand occupies only 1.4% of cotton fabric, 0.8% of synthetic fabric and 0.4% of clothing imports by developed countries combined (U.S., E.C. and Japan). Thai textile export has been marginal in the sense that its expansion started late to fill unsatisfied demand wherever it existed, while it quickly decreased whenever recession started. The immediate task that the Thai textile industry faces today is to secure stable export outlets in order to become one of the world's major suppliers.

Table 4

Import Substitution and Export Expansion in
Thai Textile Industry

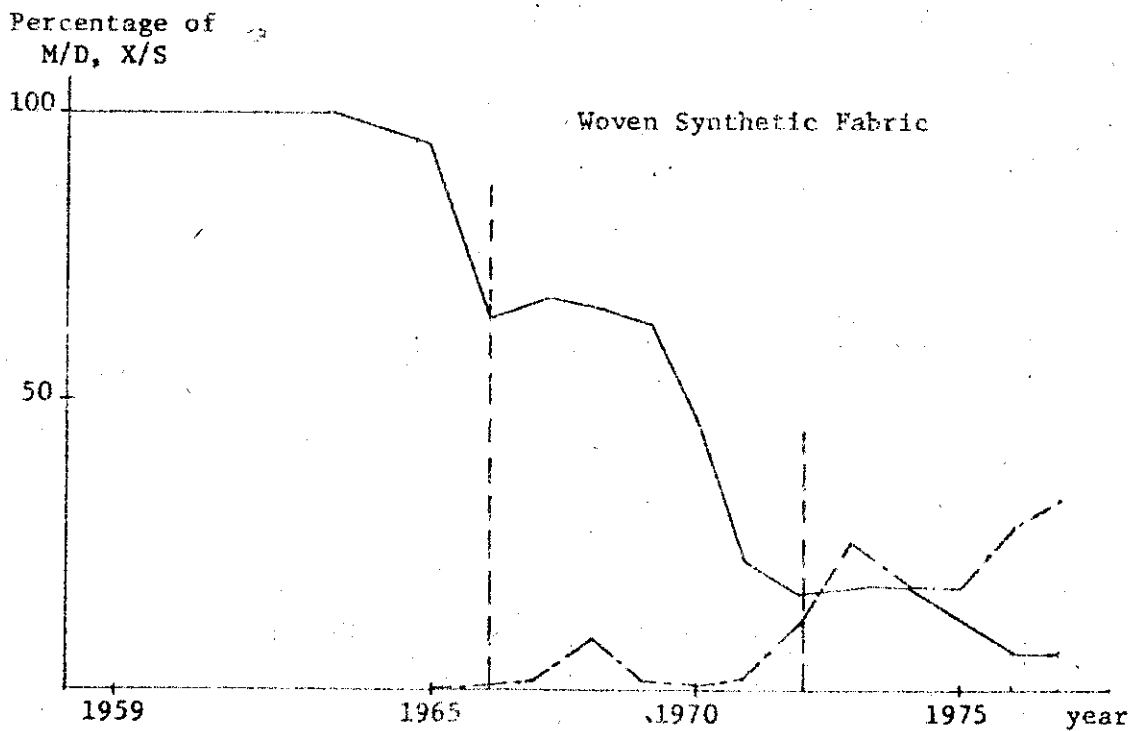
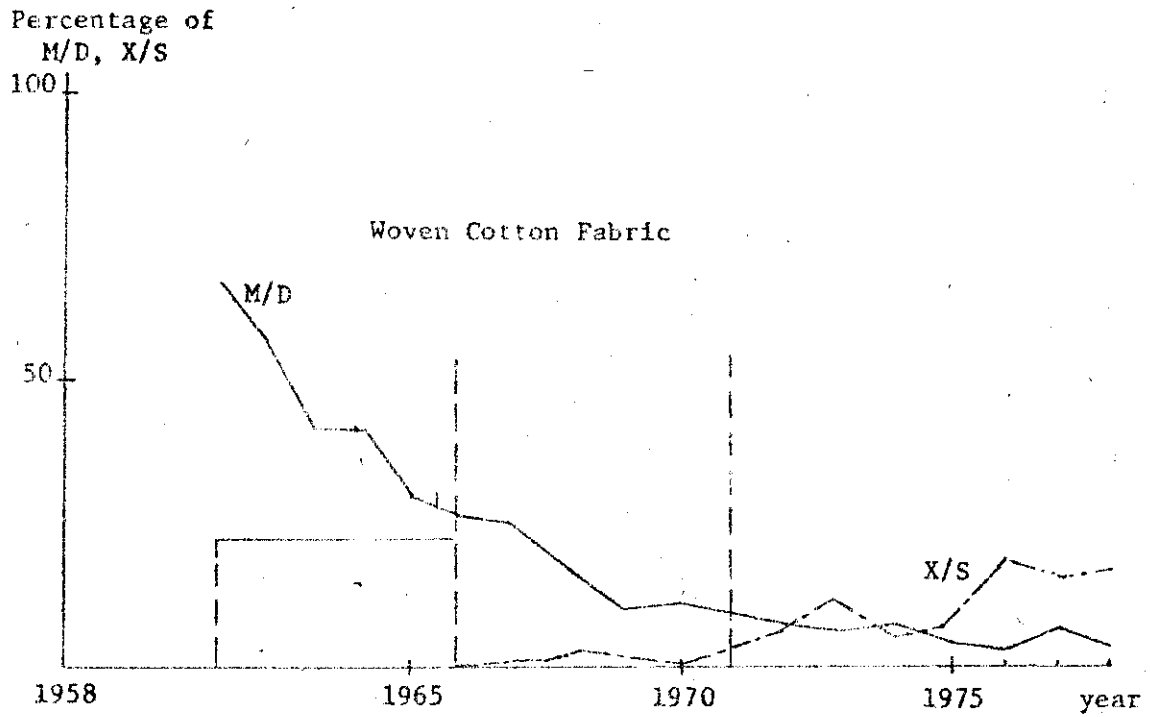
Year	Cotton fabric		Synthetic fabric	
	M/D	X/S	M/D	X/S
1961	67.2	0.7	-	-
1962	58.8	0.5	-	-
1963	48.6	0.1	100.0	0.0
1964	41.9	0.1	98.2	0.0
1965	31.6	0.0	95.9	1.3
1966	27.9	0.9	65.0	1.7
1967	26.3	0.7	68.4	2.2
1968	17.3	2.1	66.6	8.6
1969	12.6	2.4	63.6	2.8
1970	13.4	0.9	49.0	2.3
1971	10.0	3.5	22.9	2.8
1972	8.9	7.6	17.7	11.3
1973	8.2	12.2	19.0	26.2
1974	7.2	6.1	18.5	18.4
1975	4.6	8.3	12.0	18.3
1976	3.8	19.1	9.0	29.5
1977	3.2	16.8	11.7	34.5
1978	4.6	17.3	15.0	43.8

Notes: M: import, X: export, S: domestic production,
D: domestic consumption ($D = S + M - X$)

Source: Calculated by Supee Teravaninthorn from the data compiled
by Customs Department and TTMA. Knitted fabric is excluded
from Synthetic fabric.

Figure 1

Development of Thai Textile Industry



Notes: M/D: import-demand ratio.
X/S: export-output ratio.

Source: Table 4-

Table 5-1

Direction of Textile Exports from Thailand: Cotton Fabric

Unit: Million baht

	Cotton Fabric								
	1970	1971	1972	1973	1974	1975	1976	1977	1978
Japan	2.16	1.93	49.70	296.71	45.95	20.94	52.56	35.20	112.15
Europe	0.70	0.51	5.96	8.58	58.55	165.96	705.30	584.50	435.26
U.S.A.	0.28	37.01	54.56	37.86	41.14	39.83	110.85	159.70	153.84
Total Developed Country	3.14 (14.86)	39.45 (79.37)	110.22 (78.71)	343.15 (84.08)	145.64 (62.98)	226.73 (65.06)	868.71 (82.3)	779.50 (62.14)	701.65 (63.32)
ASEAN & Neighbour	11.11	4.11	11.06	17.68	18.96	57.47	94.26	53.30	79.26
Other Asian	1.09	4.89	10.32	13.59	16.07	58.21	34.59	36.50	175.32
Middle East	0.01	0.01	0.02	0.04	0.03	5.43	4.63	59.20	55.00
Total Developing Country	12.21 (57.81)	9.01 (18.12)	21.40 (15.28)	31.31 (7.67)	35.06 (15.16)	121.11 (34.75)	133.48 (12.65)	149.00 (11.97)	309.58 (27.96)
Rest of the World	5.77	1.24	8.40	33.62	50.53	0.61	52.89	315.80	96.58
Total	21.12	49.70	140.02	408.08	231.23	348.45	1,055.08	1,244.80	1,107.41

Note: Figures in parenthesis denote percentage of distribution

Source: Department of Customs, Foreign Trade Statistics of Thailand, 1970-1978

Table 5-2
Direction of Textile Exports from Thailand: Synthetic Fabric

Unit: Million baht

	Synthetic Fabric								
	1970	1971	1972	1973	1974	1975	1976	1977	1978
Japan	0.01	0.07	3.95	135.99	53.69	52.32	80.39	97.50	118.58
Europe	-	0.36	6.79	127.19	114.86	116.26	451.93	342.40	571.09
U.S.A.	-	n	5.20	3.06	5.60	6.21	14.84	32.30	88.16
Total Developed Country	0.01 (0.42)	0.44 (13.09)	15.94 (12.68)	266.24 (43.21)	174.15 (33.28)	174.79 (38.53)	547.16 (55.48)	472.20 (37.64)	777.83 (35.59)
ASEAN & Neighbour	2.32	2.69	69.06	153.42	102.13	78.99	151.74	168.90	502.85
Other Asian	-	n	37.60	113.42	164.24	95.45	155.23	239.80	303.99
Middle East	-	-	2.09	44.00	68.85	74.61	98.58	228.60	396.44
Total Developing Country	2.32 (99.57)	2.69 (80.05)	108.75 (86.55)	310.84 (50.45)	335.22 (64.07)	249.05 (54.90)	405.55 (41.12)	637.30 (50.80)	1,203.28 (55.05)
Rest of the World	-	0.23	0.95	39.00	22.82	29.73	33.48	145.00	204.60
Total	2.33	3.36	125.64	618.08	532.19	453.57	986.19	1,254.50	2,185.71

- Notes: 1. n = the amount is negligible.
2. - = no export toward that direction.

Source: Department of Customs, Foreign Trade Statistics of Thailand, 1970-1978

Table 5-3
Direction of Textile Exports from Thailand: Clothing

Unit: Million baht

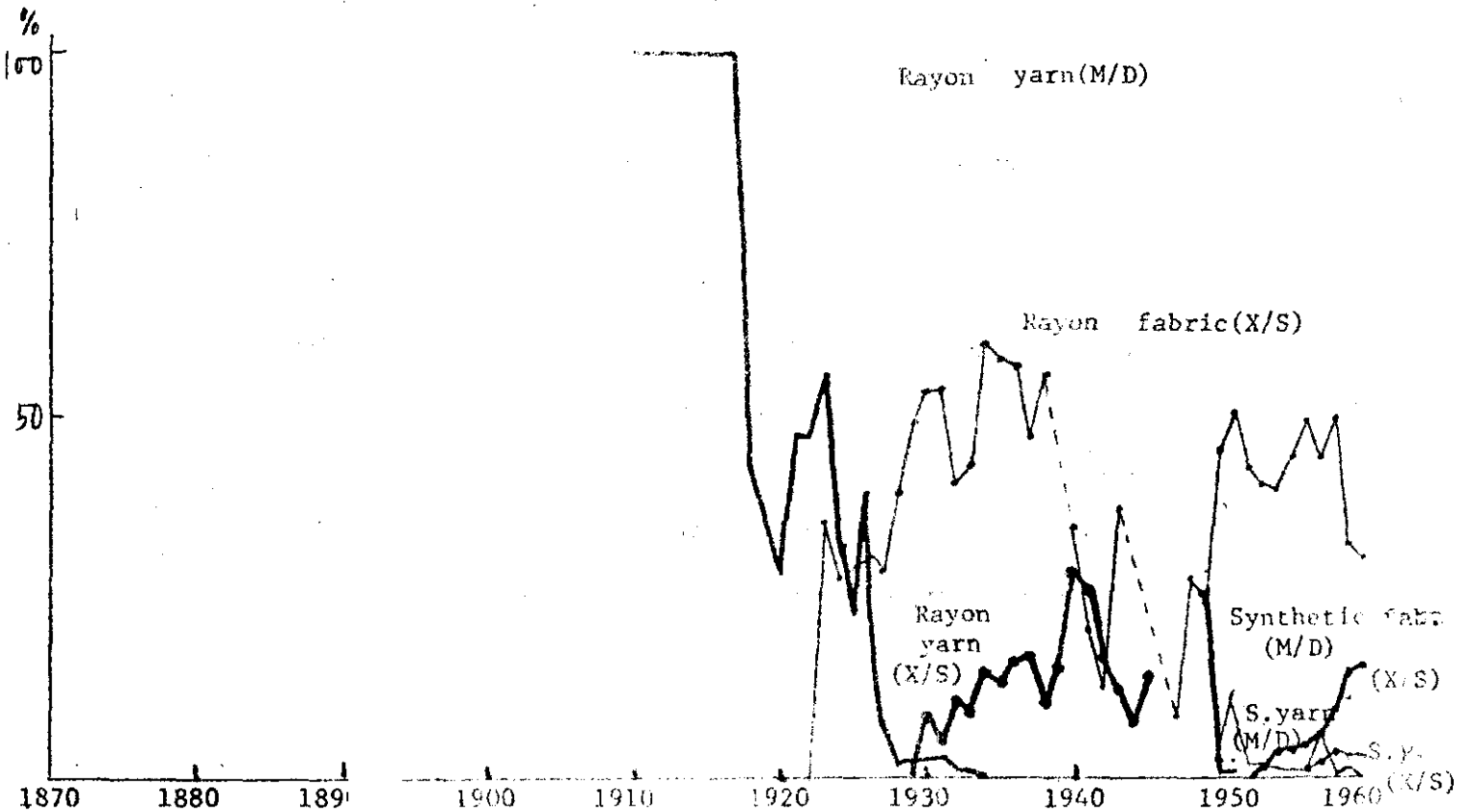
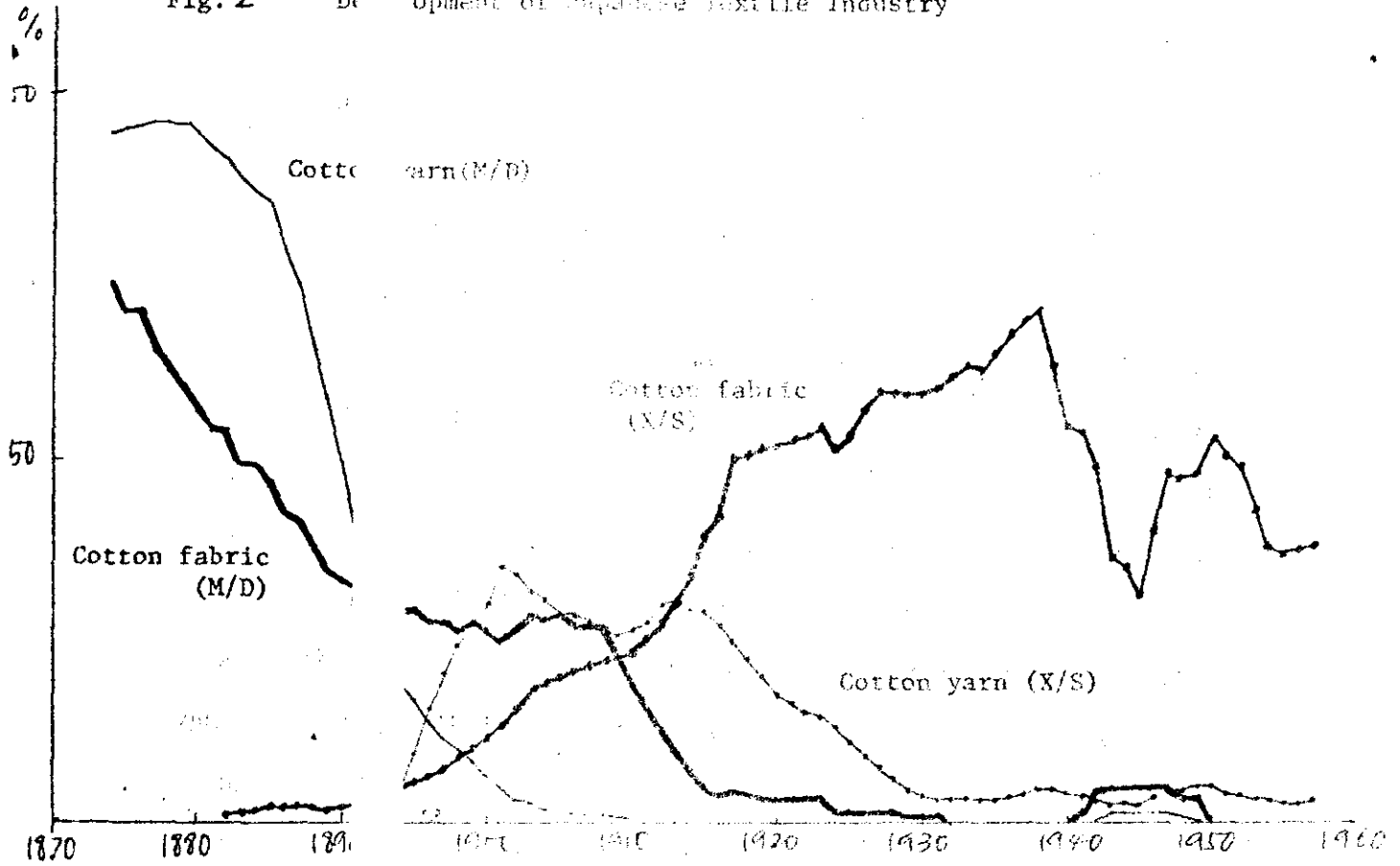
	Clothing								
	1970	1971	1972	1973	1974	1975	1976	1977	1978
Japan	0.13	0.66	2.77	17.76	83.98	78.02	48.48	23.40	23.83
Europe	0.90	1.35	10.38	40.24	185.12	194.86	610.48	743.00	796.32
U.S.A.	13.08	40.36	238.49	513.13	545.07	657.95	522.66	617.90	1,190.91
Total Developed Country	14.11 (88.24)	42.37 (63.54)	251.64 (94.13)	571.13 (83.28)	814.17 (93.21)	930.83 (87.79)	1,181.32 (74.43)	1,384.30 (83.64)	2,011.06 (70.21)
ASEAN & Neighbour	0.91	0.16	1.33	0.71	10.23	9.62	9.79	39.10	67.49
Other Asian	0.08	0.10	4.22	1.84	11.71	18.49	23.04	22.70	34.70
Middle East	0.01	-	-	-	2.01	13.95	63.15	145.50	360.68
Total Developing Country	1.00 (6.25)	0.26 (0.38)	5.55 (2.07)	2.55 (0.37)	23.95 (2.74)	42.06 (3.97)	95.98 (6.04)	207.30 (12.50)	462.87 (16.16)
Rest of the World	0.88	24.05	10.13	112.11	35.34	87.40	309.78	63.40	390.62
Total	15.99	66.68	267.32	685.79	873.46	1,060.29	1,587.08	1,655.00	2,864.55

Source: Department of Customs, Foreign Trade Statistic of Thailand, 1970-1978.

But by what mechanism was import substitution successfully followed by steady export expansion? Japan experiences it in cotton yarn and fabric between 1890 and 1910, in rayon during the 1920s, and in synthetic yarn and fabrics in the 1950s (see Fig. 2). Yarn is an input to fabric production and the interaction of development between yarn and fabric production is worth nothing. In regard to Japanese experience, yarn production required modern technology and sizable capacity investment while fabric production took advantage of the past development of weaving technology of silk fabrics and smaller scale of operation, so that import substitution of fabrics was quickly achieved by using imported yarn and indigenous technology. As a matter of fact no rayon fabric was imported before it started to be exported abroad. On the other hand, fabrics export tended to be preferred to yarn export because the former produced greater value-added.

Export of cotton fabrics expanded rapidly after 1900 when big spinning firms started weaving as vent for their yarn. Fabrics of rayon started to be exported even before import substitution of yarn was completed. Having found their comparative advantage in processing export, Japanese entrepreneurs preferred to import material as unprocessed as possible and to export them in processed form with greater value-added. It may be more relevant to link import substitution of yarn with export expansion of fabrics. Fig. 2 shows that

Fig. 2 Development of Japanese Textile Industry



the decline of M/D of cotton yarn was followed by the rise of X/S of cotton fabrics, the rapid decline of M/D of rayon yarn by the rise of X/S of rayon fabric, the X/S of both fabrics reaching more than 50% in later years. Export of synthetic fabric followed quickly the import substitution of both yarn and fabric of synthetic fiber in the 1950s and expanded greatly in the 1960s, although this is not shown in Fig. 2.

The Japanese experience of successful expansion of textile exports can provide profound implications as to the mechanism and future prospect for export expansion of textile products from Thailand.

III. Mechanism of Industry Development

(1) Mechanism of Import Substitution

Three hypotheses are conceivable to explain the rapid import substitution in the textile industry of Thailand.

(A) Cost reduction hypothesis:

Cost reduction was realized through learning effect and scale economy as domestic production increased. It resulted to a lower price for domestic products in comparison with that of imported textile products. Thus import substitution followed the natural course described in economic textbooks.

(B) Protection hypothesis:

The Thai government imposed tariffs and discouraged textile imports. Import restriction combined with various promotional measures gave strong incentive to start domestic production. It induced a massive inflow of foreign direct investment especially in synthetic textile industry. This has been usual pattern of the start of modern industry in many contemporary developing countries.

(C) Importer-producer hypothesis:

Major importers of textile products participated in domestic production by themselves. Import substitution merely reflected the strategy of importers of changing their supply from abroad to home so long as they were dominant enough at the home market. But why did they shift from foreign to home supply?

(1) Firstly, we may note their attempt to take advantage of new profit opportunities opened to them by the protective government policies. But if this were the only motive, it would hardly deserve special attention since it is merely another form of the protection hypothesis. Rather, it can be hypothesized that additional factors were working at their own right, such as (2) the band-wagon effect which led to the establishment of a joint venture in order to capture a larger share of the domestic market in Thailand and (3) other factors such as Japan's waning comparative advantage, in the long run, due to soaring wages at home.

Also, expanded domestic production could have occurred in response to protective policies without the involvement of importers. It could have been voluntarily initiated by Thai wholesale merchants and/or Japanese textile enterprises. Indian merchants have had very little involvement in local production as will be discussed later. Even under weaker protective barriers, import substitution could have been promoted if importer-initiated investment had been made under the stimuli of factors (2) and (3) stated above. In this context, (C) should be treated as a hypothesis independent from (B).

Which of the three hypotheses fits best into the reality of Thailand? By inquiring from Japanese and Thai entrepreneurs in the textile and trading business and from government officials, we got divergent answers. Each hypothesis will be discussed on the basis of available information as follows.

(2) Price Movement

With detailed price data unavailable in Thailand, it is difficult to substantiate the cost reduction hypothesis directly by comparing the price of import with that of competing domestic product. Table 6 shows a few series of price statistics from the 1960s. While unit import prices for cotton and synthetic fabrics are available from customs data, domestic wholesale price data are not available back to

the 1960s. Only the consumer price index of clothing is available and is substituted for domestic wholesale price of textile products. Since Thai consumers are used to buy fabrics and have their clothing made to order, the consumer price index reflects the change in wholesale price of woven fabrics fairly well, although no distinction can be made between cotton and synthetic fabric prices.

Both over-all and foodstuff consumer prices rose steadily through the 1960s and were accelerated in 1973-1976. Clothing price, on the contrary, remained at the same level until 1971 and rose after 1973 but by less than the other two sets of prices. Rapid development of Thai textile industry is characterized not only by import substitution but also by a rapid increase in domestic consumption of modern textile products. In 1976 domestic consumption became 3.26 times as large as in 1961.⁸ Notably consumption of synthetic fabrics expanded its share from 8.4% to 40.5% of total fabric consumption. Import prices of cotton and synthetic fabrics in columns (4) and (5) show to some extent the trend of their domestic prices. Both decreased before 1970 but (5) decreased more than (4), giving evidence of the relative price effect on the switch of consumption from cotton to synthetics, although both series show rapid increase after 1972. Similar decrease and increase are depicted for the price of imported raw cotton in the last column, which is closely related with the price of cotton textiles. The

Table 6
Price Indexes of Textiles and Related Products (1972=100)

	Consumer price indexes			Import price indexes		
	Over-all (1)	Foodstuff (2)	Clothing (3)	Cotton fabric (4)	Synthetic fabric (5)	Raw Cotton ¢ / kg (6)
1961	77.5	70.1	95.3	85.7	112.4	11.60
1962	79.4	72.5	97.1	80.5	121.5	12.74
1963	80.0	72.4	97.0	83.7	116.8	12.02
1964	81.7	75.5	101.2	80.4	121.6	12.10
1965	82.4	75.9	94.1	82.5	115.3	11.79
1966	85.5	80.9	94.6	83.2	109.1	12.20
1967	88.9	86.7	94.6	78.0	106.3	11.22
1968	90.8	89.6	94.9	74.8	108.0	9.67
1969	92.7	93.2	94.7	77.3	87.7	11.60
1970	93.4	93.4	96.8	128.1	115.1	11.88
1971	95.3	94.0	92.3	85.7	114.1	14.53
1972	100.0	100.0	100.0	100.0	100.0	14.98
1973	115.5	121.2	116.4	114.3	130.1	15.51
1974	143.6	156.8	138.4	179.2	194.1	23.50
1975	151.2	164.9	146.1	192.2	220.4	21.69
1976	157.6	172.2	150.7	202.1	237.1	26.21

Source: (1)-(3): Development of Commercial Economics, Ministry of Commerce

(4)-(6): unit price indexes calculated from Customs Statistics

decline in textile prices relative to other prices in the 1960s should be regarded as reflecting a global tendency and gives no empirical support to the cost reduction hypothesis in Thailand.

(3) The Effect of Protection

Table 7 shows step-wise increases in import duties on major textile products in Thailand. Nominal rates were enacted by the Thai government while effective rates were calculated by adjusting tariffs on output net of those on input and expressing them in terms of the rate of increase in value-added of domestic activity in producing goods competitive with the import concerned.

In 1962 the nominal rate on cotton fabrics was raised by 13%, adding 60% to its effective rate. On the other hand the 25% increase in 1968 was more than offset by the new tariff of the same rate on cotton yarn so that the effective rate of cotton fabric was reduced by 43%. On the other hand nominal tariffs on man-made fiber fabrics were raised by 3% in 1965 and by another 20% in 1968 which with nominal tariffs on man-made fiber yarn remaining unchanged, almost trippled their effective rates in the latter year. The time lag of increase in effective protection for synthetic fabric behind that for cotton fabric is consistent with the time lag in import substitution between the two types of fabrics depicted in Fig. 1.

Table 7. Tariffs on Textile Imports to Thailand

(%)

		1960-62	1962-65	1965-68	1968-71	1971-78	1978
Cotton Yarn	Nominal	-	-	-	25.0	25.0	25.0
	Effective	3.2	3.2	3.2	77.6	77.6	77.6
Polyester/Cotton Yarn	Nominal	20.0	20.0	20.0	20.0	20.0	20.0
	Effective	25.9	25.9	25.9	25.9	25.9	25.9
Polyester/Rayon Yarn	Nominal	20.0	20.0	20.0	20.0	20.0	20.0
	Effective	20.0	20.0	20.0	20.0	20.0	20.0
Cotton Fabric	Nominal	22.0	35.0	60.0	60.0	60.0	80.0
	Effective	53.7	114.3	70.7	70.7	70.7	390.9
P/C Fabric	Nominal	37.0	37.0	60.0	60.0	60.0	80.0
	Effective	80.1	80.1	265.8	265.8	265.8	1051.7
P/R Fabric	Nominal	37.0	37.0	60.0	60.0	60.0	80.0
	Effective	78.6	78.6	254.3	254.3	254.3	913.4
Outer Garment	Nominal	27.5	27.5	40.0	40.0	60.0	100.0
Under Garment:							
Cotton	Nominal	27.5	27.5	60.0	60.0	60.0	100.0
MMF	Nominal	37.0	37.0	60.0	60.0	60.0	100.0

Source: Compiled and calculated by Supee Teravaninthorn from Customs Tariff Decree, Department of Customs, Bangkok, 1960-1978. Effective protective rates are calculated according to Corden's formula.

Non-tariff promotional measures enacted at the same time as the tariff increase should also be taken into consideration. Under the Investment Promotion Act in 1961, the Thai government provided both Thai and foreign applicant firms with various privileges to start domestic production. The privileges include exemption from corporate income taxes for five years, free import of machinery and equipment, exemption from duties on raw material import for two years and so on.

It is worth noting that import duties (nominal tariffs) on both cotton and synthetic fabrics were raised up to as high as 80% in 1978 long after their import substitution appeared to have been completed, although their high effective rates seem to be overestimated because of redundant part of their nominal tariff protection.

(4) The Distribution Channel in Thailand

The start of domestic production did not automatically guarantee import substitution. With the small increase in nominal import duties and without significant decline in domestic price as mentioned earlier, cheap foreign textile products could have continued to be imported and the import-demand ratio could have remained high. Here the importer-producer hypothesis is needed to supplement the protection hypothesis. We have to investigate how supply was switched

from foreign to domestic sources within the distribution system of textile products in Thailand.

Fig. 2 briefly illustrates the distribution channel of textile products (mainly woven fabric) in Thailand before import substitution occurred. Japan was the major supply source of textile products to Thailand in the late 1950s, more than 80% of sales being handled by Japanese trading companies and the rest being handled mainly by Indian merchants. Imported products were sold to domestic wholesalers centered at Sampeng street (三聘街) in Bangkok. These wholesalers are called the second-group wholesalers (二盤商) in Sampeng, mostly Chinese-Thais, and they controlled the distribution of textile products within Thailand. Importers are called the first-group wholesalers (頭盤商) in Sampeng. The second group wholesalers sell to subordinate wholesalers, the third-group wholesalers, (三盤商) in Bangkok area and to country wholesalers in the rural area.

It was mainly second-group wholesalers who ventured into textile production in Thailand either by themselves or, in many cases, jointly with Japanese trading companies and Japanese textile mills, which were the original suppliers of textile products to Thailand. Local products are channelled directly to the second-group wholesalers or through Japanese trading companies to take advantage of their credit and risk hedge facilities. Minor importers,

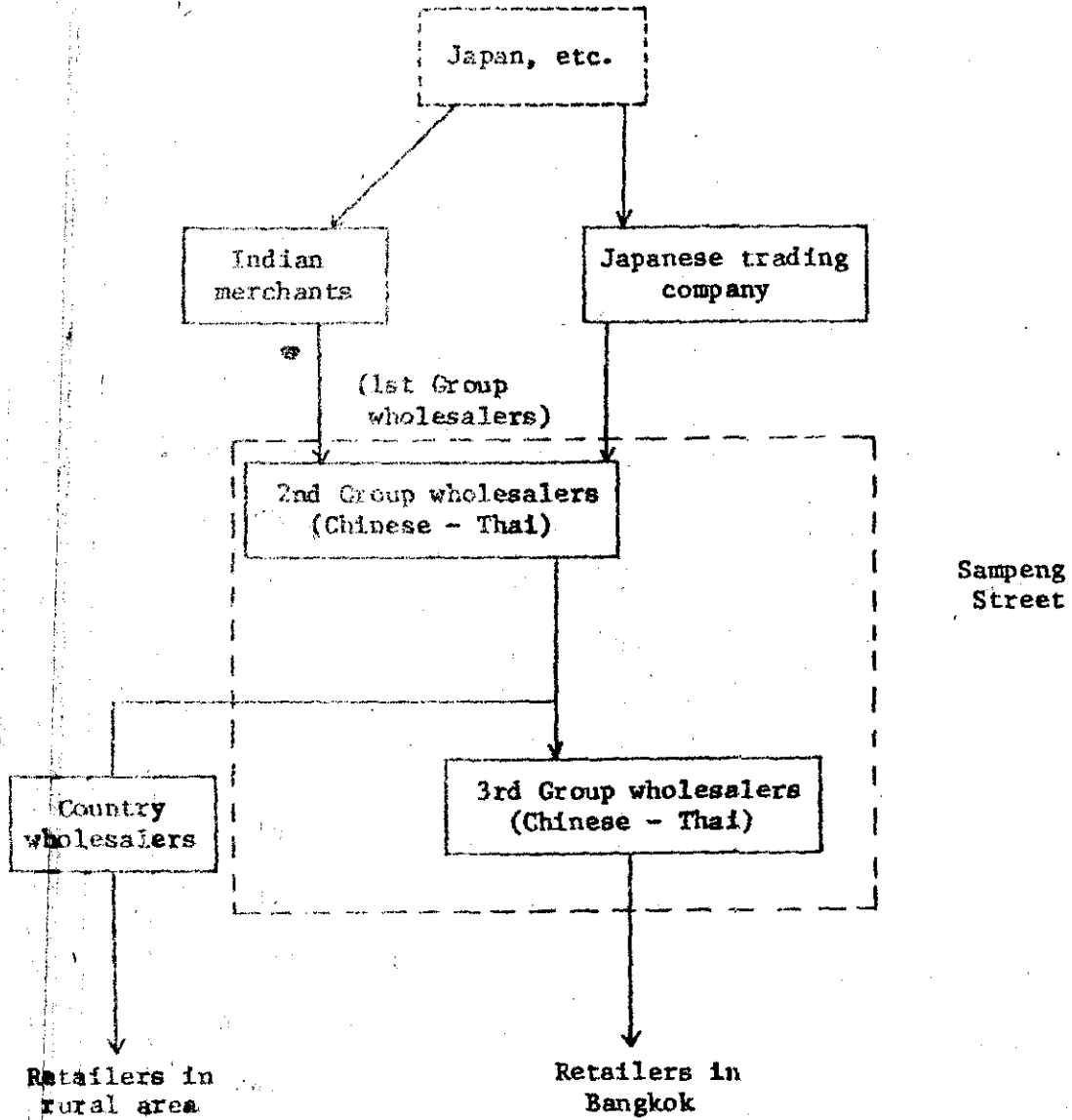
Indian merchants, on the other hand, seldom ventured into domestic production and rapidly lost their shares as the first-group wholesalers in Sampeng. In the absence of strong competitors, decrease in import resulted naturally from changes in major importer's policy of shifting from Japanese to local supply sources.

The importer-producer explanation applies fairly well to the rapid import substitution of rayon in Japan during the 1920s. The production of rayon started in France in 1891 as an inferior but cheap substitute for silk and it started to be imported to Japan in 1905. Domestic production started in 1916 by Tekoku Jinken Co., (the origin of Teijin, sponsored by Suzuki Co, the No. 3 trading company in Japan then) using its own technology. As the use of rayon for weaving material spread and domestic demand increased rapidly in the 1920, other big firms entered into the business: Asahi Kenshoku introducing German technology in 1922, Toyo Rayon (the origin of Toray) in 1926 and several big cotton spinning firms from 1927 and 1930.

Toyo Rayon was established by Mitsui and Co. which had been the sole agent in Japan of Courtauld's products of U.K. for years and handled 40% of sales of imported rayon in the domestic market. Mitsui started import-substituting production by introducing technology and equipment from Courtauld and taking advantage of its sales network established for imported products. Unlike cotton

Figure 3

Distribution System of Woven Fabrics in Thailand



spinners in the 1880s and 1890s rayon producers benefited from heavy tariff protection right from the start. Import duty on rayon was raised from 10 to 30% in 1911 and it was further raised to 57% in 1926. The latter gave Mitsui direct incentive to switch from foreign to home supply, but the contribution of the importer-producer himself to quick import substitution in the mid-1920s (see Fig. 2) should not be neglected.

(5) Apparent vs Real Import Substitution

The foregoing analyses suggest, though not conclusively that (B) (protection hypothesis) and (C) (importer-producer hypothesis) rather than (A) (cost-reduction hypothesis) have greatly contributed to import substitution in the Thai textile industry. This is also supported by the following consideration. If the import substitution were realized under (A), it would be irreversible. But if it were realized under (B) and (C), then it would be reversible, and once the conditions of (B) and (C) are removed, it would be possible for imports to rise again. The Thai import duties on textile goods are still very high, and many people predict that if it were to be repealed in the early 1970s, there would have been a massive inflow of textile goods from Korea, Hong Kong, Taiwan. This would imply that Thai import substitution was still incomplete in the early 1970s and that it only gives the impression of having been completed under the protection of high tariff rates.

Table 8. Domestic Prices vs. Export Prices

		(1)	(2)	(3)	
		1978	1978	1979	
		June 12-16	Dec. 11-15	June 11-15	
		(June 14)*	(Dec. 13)*	(June 13)*	
(1)	Cotton yarn	PD ^(a)	28.9	35-36	35
	40s (฿/lb)	PX1 ^(c)	27.5	34.5	28.0
		PX2 ^(d)	27.8	32.0	33.0
(2)	Cotton fabric	PD ^(b)	12.5	14.25	14.25
	broad cloth gray	PX1 ^(e)	9.2	12.4	10.6
	2210,50" (฿/yd)	PX2 ^(e)	8.2	11.6	10.4
(3)	P/C yarn	PD ^(a)	38.25	38-39	38-39
	45s (฿/lb)	PX1 ^(d)	27.6	35.4	33.4
		PX2 ^(d)	27.0	32.0	30.0
(4)	P/C fabric	PD ^(b)	11.55	14.2-15.0	14.5
	186 threads	PX1 ^(e)	9.4	12.3	10.8
	47" gray (฿/yd)	PX2 ^(e)	9.6	12.2	-

Footnotes

* denote the dates for export price quotation

Domestic price (PD) weekly average price at Sampeng market.

Export Price (PX) local market price for exports quoted in Korea (PX1) and Taiwan (PX2).

(a) - (e) attached to PD & PX specify the form of payment such as (a) cash, (b) at 60 days sight, (c) C & F, (d) fob, (e) at sight.

PX1 and PX2 are quoted in US dollar but converted to Baht (฿) at current exchange rates.

Source: PD: Mr. M. Kobayashi, Advisor to Textile Credit Center, Bangkok Bank.

PX: Japan Textile News Weekly.

This may sound paradoxical because it raises the question of how Thai domestic products could ever be exported if they were priced higher than the world's competitive imports. An explanation consistent with import substitution under protection is that Thailand has been able to export because its export price was set lower than the domestic price, and the difference was compensated for by various export incentives.

Domestic wholesale prices of major textile products are compared with their export prices in Table 8 at specific periods of time in recent years. Domestic prices are weekly average price at Sampeng market while export prices are those of Korea and Taiwan to the world market. Prices quoted by Korean and Taiwanese exporters were close to each other and they were 10 - 30% lower than sales prices at Sampeng for each product and at each period. The gap, however, was smaller for cotton yarn than for others at three periods reflecting the different degrees of competitiveness. Domestic prices were much higher than export prices for such products with comparative disadvantage as polyester/ rayon fabrics and filament fabrics. Both export and domestic prices fluctuated in response to the business cycle and the gap decreased for all products in December 1978 when the export prices were raised in tight market situation.

But the steady export expansion of Thai textile products cannot be wholly attributed to policy effects. Quite a few people

have also pointed out the improvement of textile production in Thailand in recent years. It would have resulted partly in the reduction of production cost which, however, is difficult to substantiate by published data. That is, Thai textile goods are gaining international competitiveness through steady business efforts for cost reduction and quality improvement. This explanation is consistent with the hypothesis (A) for import substitution. What is interesting is that these efforts were made while Thailand was still in the process of shifting from import substitution to exportation. These efforts have not only strengthened the competitiveness of Thai textile goods in the foreign markets, but have also strengthened competitiveness against potential imports in the domestic market, and as a consequence, it is possible that there would be no great upsurge in imports if the tariff were to be abolished at the present time. And yet only upon removal of the tariff will import substitution in its real sense be realized.

(6) Two Types of Industry Development

The foregoing argument and the distinction between two types of development are illustrated in Fig. 4. One is the import substitution under the import protection (Type II) and the other substitution process realized primarily through cost reduction (Type I). Fig. 4 illustrates schematically the IS and EE time paths in the upper panel and relates them with underlying changes

in relative cost in the lower panel. In the case of type I import substitution is almost accomplished by time T_2 when the shift to export is initiated. Cost reduction is realized through learning effect and scale economy as domestic production expands. The decline in relative cost enables substitution of foreign products with domestic ones firstly at the domestic market and then at foreign markets. IS follows EE smoothly as the relative cost declines from A to B and to C in the lower panel.

In the case of Type II, on the other hand, IS is accomplished under the tariff barrier without necessary significant cost reduction and export is supported either by shipping at a loss under pressure of a heavy pileup of domestic inventory or by a strong export promotion policy. The relative cost might then follow the path A - D - E. The process is characterized by continued high tariff protection and heavy export subsidy even after IS has been seemingly completed and EE started, a phenomenon which is observed in many Asian developing country industry. Import substitution is only apparent in the sense that there would be an upsurge in import if the tariff were to be abolished.

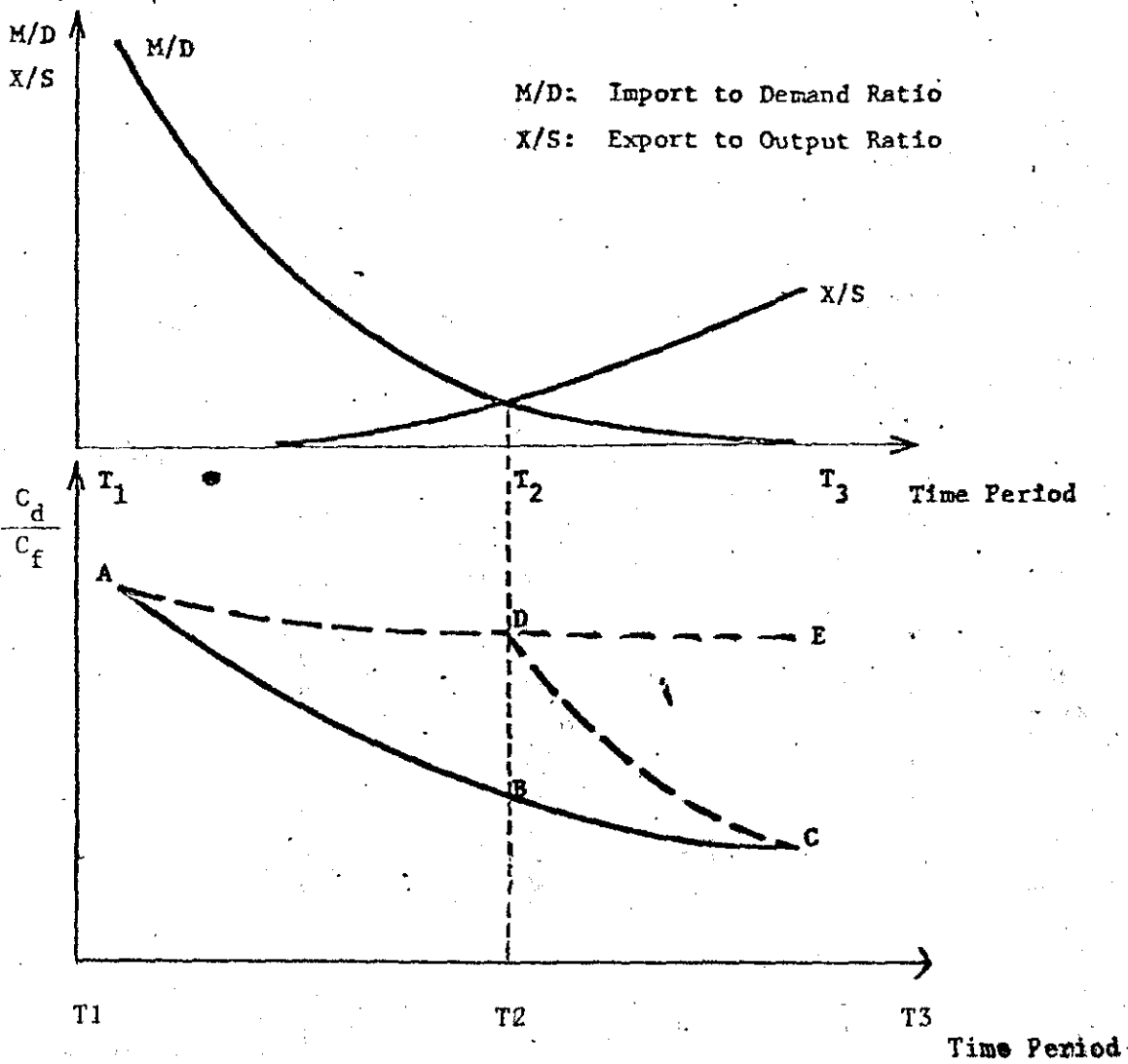
In Thailand tariffs on both cotton and synthetic fabrics were raised from 35 and 40% to 60% in 1968 and further raised up to 80% in 1978. Their effective rates are as high as 391% and 1052%

respectively. Export promotion scheme has been institute since 1971, although they are moderate in comparison with those in Korea and Indonesia.

The shift from domestic sale to export is never an easy nor smooth process. It requires individual firms to change their production and management techniques in order to meet standadized quality control and strict delivery time and to acquire marketing channels abroad. Initial exportation from contemporary developing countries often starts without having met these requirements, but merely gets as a vent of piled-up inventory during recessions at home. But exportation readily stops when domestic boom resumes and they can sell their products at higher prices at home. This export attitude leads to unstable export performance as domestic capacity expands and causes adjustment difficulty abroad.

Even if import substitution is completed under protection and export starts under heavy promotion, firms can nevertheless learn from their experience of export competition abroad and thus introduce required changes in production and management so as to follow the cost reduction path from D to C in Fig. 4. Here the cost reduction represents increased efficiency and competitiveness in every possible sense. Real IS and EE are achieved and maintained even in the absence of any import restriction and export subsidy.

Fig.4 Alternative Development Processes,
A Schematic-Diagram



The major explanation for the difference between Type I and Type II development is therefore that while in Type I import substitution has been achieved by gradual cost reduction which is made possible by improvement of production technology and economies of scale, etc.⁹ cost reduction in Type II development in the import substitution stage is not materialized. This is due to the fact that in Type II development, import substitution is achieved by heavy protection. Entrepreneurs in the industry, in having a sheltered market for the products manufactured, do not have much effort to reduce the cost of production and to improve the quality of the product. High protection also tends to induce too many entries in the industry, each with less than economical scale of production. Economies of scale thus cannot be realized. It is until exports have been expanded to some extent that substantial cost reduction could be realized. To launch the product into the export market while there is not much cost advantage will be possible only under subsidy or selling at a loss.

The development of cotton, rayon, and synthetic textile products in Japan broadly followed Type I. Neither tariffs nor other forms of protection were given to domestic producers of cotton yarn and fabrics before 1911 when the tariff treaty with U.K. was repealed. Japanese spinners and weavers competed with Indian yarn and British fabrics first at home and then at markets of the neighbouring Asia. Only with throughgoing rationalization and cost

reduction could import substitution and export expansion have been achieved.

On the other hand, the development of rayon production in the 1920s benefited from heavy tariff protection at the outset, but it had to realize a 50% cost reduction between 1925 and 1930 when its export started. Competition came from cheap Italian rayon yarn imported free of duty and processed by rayon weavers at bonded factories. Export incentive was seldom provided by the government of any countries before the 1930s.

Contrary to Japanese experience, the development of textile industry in contemporary developing countries follows the Type II as was best illustrated by the successful example of Korean textile exports. Thai textile industry has followed this type so far but it remains to be investigated whether it is following the path from D to C in Fig. 4, which is the main subject in the latter part of this paper.

Whether is the Thai textile industry, having passed the point D in the mid-1970s, following the path DC or DE is the major concern of our study. It is not easy to substantiate it quantitatively partly because of scanty published price data and partly because of non price factor included in the "cost" in Fig. 4. Instead, we interviewed about 25 major spinning and weaving firms,

both joint-ventures (mostly with Japanese) and purely Thai-owned firms, in Bangkok and investigated the relationship between export performance (X/S) of individual firms and their various characteristics relating to production, management, and marketing. All firms started for import substitution and did not export before 1971. Although over-all export-output ratio increased to more than 30% in 1978, the ratio differs greatly among firms. The crucial factor lies in the type of product, the improvement of production control system, and the establishment of secure export channels. What business characteristics have led some firms to introduce those changes resulting in a higher export ratio? Do the government's promotional measures really induce the firms to turn toward exports? They will be answered in Section V and VI below.

It is often contended that joint ventures with investment from multinational companies see readily the importance of these requirements and benefits from parent company's experience and world-wide sales networks. On the contrary, we found that almost all firms introduced quality control although less strictly than in Japan. Several firms, purely Thai as well as Japanese joint ventures, dared to introduce modern production and management systems and tried to increase their export steadily. The purely Thai firms are most handicapped by the lack of access to export channels. But they sell their products abroad through their sales agents

(including their own trading companies) as well as through the traditional route, that is, through Japanese trading companies. Many Thai firms are still oriented toward the domestic market where they can bid higher prices under protection. But the emergence of several export-oriented firms seems to imply that the Thai textile industry is moving not along DE but along DC path.

IV. Factors Affecting Export Growth

The foregoing analysis implies that import substitution under protection tend to restrain the potential for cost reduction of an industry. But there is no guarantee that heavy subsidization given to any export activity can lead to successful export expansion. Whether an industry can be a true export industry depends on the comparative cost advantage. Comparative advantage, in turn, is determined by various factors elaborated in international trade theory. These include the cost and availability of raw materials, labor cost and productivity, and technological level. Other factors like marketing channel, improvement of product quality, and scale economies are also important for export expansion, and these have recently been recognized by some economists as crucial factors for development of new export commodities.

Textiles has been a leading industry in many countries in Asia in the post-war period. It is often among the first group of

industry to be modernized, and as a result become an important import substitution industry. There are many reasons for the rapid development of textiles in a number of LDCs. There exist a relatively large domestic market for textile products; the technology of production is more standardized as compared to many other industries and hence is easier to be absorbed; certain types of raw materials like cotton and jute are locally available; more importantly, textiles is often more labor-intensive as compared to other modern industries which is suitable to the factor endowment in LDCs where there is abundant supply of low-cost labor. With these favorable conditions for the development of textile industry, it is not too difficult to move from supplying the domestic market to foreign market and thus become an export industry. However, penetrating into foreign market requires many things more than supplying the domestic market. Successful export expansion require strong competitiveness of the export commodity in international market. The availability of certain low-cost inputs is not sufficient to guarantee international competitiveness. The industry has to be efficiently operated and the quality of the product should be acceptable. The import substitution stage is usually the stage when industrial entrepreneurship must be developed and appropriate technology adapted. If the efficiency of production increase and the cost of production reduced as the industry grows, and the entrepreneurs in charge are capable of finding room in inter-

national market, the previously domestic oriented industry can then become a good export earner.

The development of modern textile industry in Thailand has also benefitted from the favorable conditions mentioned above. Cotton has been grown locally, although not in sufficient amount and need to be imported as the textile industry grows. Labor cost has been low as compared to other Asian countries with a sizeable textile industry like South Korea and Taiwan. The size of the domestic market has also been growing fast due to increased population and rising per capita income. More importantly, technology absorption has been quite successful in the textile industry, particularly in relatively simple textile products such as cotton and P/C. fabrics. Thailand is, however, still handicapped in producing a number of more sophisticated textile items due to technological limitation. The technology, for dyeing, for example, is still far lagged behind other major textile exporting countries, and Thailand has exported mainly grey textile fabrics up to the present time. Garment manufacturing, being the most labor-intensive sector of the textile industry, tend to enjoy lower labor cost although the level of workmanship still needs to be upgraded. The stage of production in textiles where Thailand seems to lack comparative advantage is the production of man-made fiber, which is very capital intensive and most of the raw materials need to be

imported.

The supply and demand situations in Thailand explain the rapid expansion of the textile industry in the domestic economy. But for export expansion, additional conditions are needed. The shift from import substitution to export expansion of the Thai textile industry has been made possible by several factors. These include the desire to dispose of domestic surplus of textile producers, the export incentives provided by the Thai government, market situations in developed countries, and the export endeavour by individual firms.

(1) The Drive for Exporting by Some Major Textile Firms.

Investment in the textile industry expanded at a spectacular rate during the 1960's. Domestic demand also grew at a high rate as domestic income increased. But by late 1960s, the growth of domestic production facilities caught up with the growth of domestic demand, resulting in surplus capacity. It was this pressure that exerted a direct impact on Thai textile entrepreneurs, both Japanese-Thai joint ventures and purely Thai firms, to turn their attention to export market. In the early 1970s, there were increasing surplus and more textile firms were pressed to sell their products abroad. By that time, many textile producers began to realize that the growth of the industry could be maintained only by

selling to foreign market. However, the beginning of export business was not an easy task for the previously domestic-market oriented firms. The exporting firms had to confront with finding new overseas marketing channels. There were also much complaints on the low quality of the products exported. A number of firms incurred loss in their export business. The Thai Textile Manufacturing Association (TTMA), which has almost all large textile firms as its members, decided to provide a 10 percent subsidy to its exporting members in mid-1970. In December 1970, a request was made by the TTMA to the government to grant tax exemption, export subsidy and other assistances to exporters of textile products. The government assistances came in 1972, and the TTMA dropped its own subsidy to its exporting members.

(2) Governmental Support to Textile Exports

The governmental promotion of textile exports was consistent with the new industrialization strategy of promoting manufactured export, started in the early 1970's. The investment promotion law was revised to give additional incentives to promoted firms engaged in exporting. A major incentive for exporting which also extended to non promoted firms were the rebate of import duties and business taxes on material inputs used in the production of export commodities. Before 1970, 7/8 of import duties and business taxes collected on import materials used in the production of export commodities could be refunded. But the procedures of obtaining the refunds were cumbersome

and time consuming. Since the end of 1972, the tax refunds have been made in full amount and the procedure for obtaining refunds was made simplified. There was also a small subsidy on electricity bill to manufacturing exporters.

Benefitted from these promotional measures, enterprises have been able to export at lower prices than domestic sales. However, similar measures are much more aggressively implemented in Korea and Indonesia, so that strong voices are calling for a reinforcement of these export promotion measures in Thailand. But, there is a strong likelihood that such efforts will only lead eventually to apparent exportation, as in the case of apparent import substitution under the tariff barrier. (See Appendix A for detailed information of export incentives provided by the government.)

(3) Market Composition of Textile Exports and Quota Distribution

As mentioned above, attempts for exporting textile products started in the late 1960's, and it is during the 1970's that textile exports expanded tremendously. Exports of cotton fabrics, synthetic fabrics, and clothing all started to export at substantial amount in 1972. In 1973, the export value trippled that of the previous year. After the serious set back in 1974 and 1975, the amount of exports of these products again expanded rapidly. Clothing has been the major

export earners which accounted for 30-50 percent of the total export value of textile goods since 1972. The value of exports of synthetic fabrics also increased rapidly in recent years, partly reflecting the rise in prices due to increased raw material costs.

Most of the textile products are exported to developed countries. The United States and EEC countries appeared to be the most significant customers for Thai textile exports. Two major customers in the EEC markets for textile fabrics are Germany and Italy. Germany and United Kingdom are main customers for various types of garments. Exports to other European countries such as Norway and Sweden also increased rapidly in recent years. The European market has been important for all major types of textile products which accounted for almost one-half of Thailand's export value in clothing, and over one-third of the export value in cotton and synthetic fabrics in recent years. The U.S. market, on the other hand, concentrated more on cotton fabric and various types of garments. The Japanese market, although relatively less significant compared with the United States and EEC countries, has shown high growth of demand for cotton and synthetic fabrics since 1976. The Middle East market also shows good potential in absorbing Thai textile products. (Table 5-1, 5-2, 5-3).

An important constraint of Thailand's textile exports in the near future is the quantitative restrictions by major importing countries

in Europe and America. In the first few years of exporting textile products in the early 1970s, Thailand seemed to benefit from the quota restrictions by developed importing countries to the textile exports from other major textile exporting countries such as Hong Kong, Taiwan and Korea. Since the textile exports from these countries were restricted by the quota agreements, some excess demands have been spillovered to Thai textile products. As textile exports expand rapidly, however, Thailand's textile industry will soon be subjected to the same constraints as experienced in other countries. (See Appendix B for detailed information of quota distribution system of Thailand.)

(4) Efforts Made for Export Sales

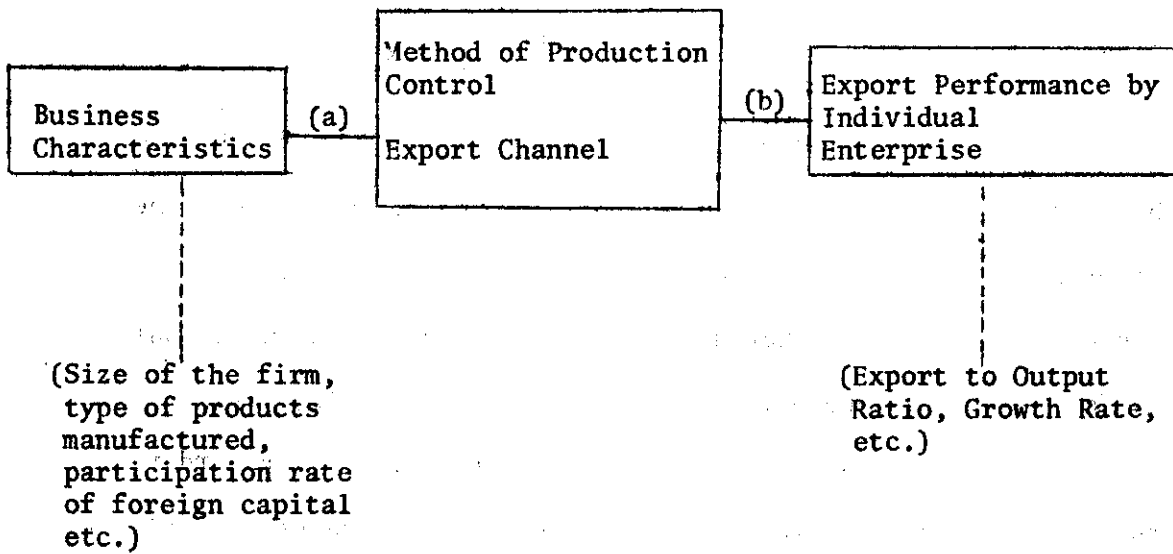
Export endeavors by individual enterprises are just as important as government measures. The export to output ratio grew to as much as 19% by 1977, but there are large discrepancies among enterprises. The crucial factor lies in the improvement of production control systems and the establishment of secure export channels. According to our observation, the Japanese enterprises are relatively advanced in these respects. This agrees with the frequently cited thesis (though never in a fully convincing way) that foreign enterprises contribute positively to export expansion. The degree of foreign capital participation, however, varies by enterprise and changes with time. And it is difficult to define what constitutes

the peculiar characteristics of foreign enterprises. Moreover, there are some purely Thai-owned enterprises that are also strongly export-oriented.

What business characteristics have led some enterprises to establish production control systems and export channels resulting in a higher export ratio? This must be investigated at the level of individual enterprises. Only after this has been clarified would it be possible to arrive at a conclusion about the contribution of foreign enterprises to export growth. Also, it would then be possible to know how the government's promotional measures influenced the enterprises to turn toward exports. This should also lead to the formulation of a more effective export policy. In order to exemplify these problems, an interview survey of individual enterprises is essential, and the following indicates a possible framework of analysis for such interviews:

Firstly, what sort of business characteristics can be associated with high export performance? Without too hastily suggesting specific correlations between the two, first it will be necessary to introduce some interconnecting terms of reference as shown in Fig. 5.

Fig. 5 Critical Factors Behind the Shift Toward Export;
An Analytical Framework



It is relatively easy to understand the relationship indicated as (b) in Fig. 5. Compared to domestic sales, export involves many requirements such as quality, packaging, delivery terms, and so on, and a strict production control system will be needed to satisfy these. For overseas markets, simple wrapping for the Sampeng street will not suffice. In addition, full-fledged efforts to establish export channels will be also required.

The next problem, (a) in Fig. 5, deals with the kind of business characteristics which will help realize the establishment of production control systems and secure export channels. We can not simply assume that such characteristics are peculiar only to foreign-owned enterprises. There are, for example, various degrees of participation by foreign enterprises. With regard to the equity share of joint ventures, most of the Japanese subsidiaries and affiliates have a 49% share or less. However the degree of control exercised by the Japanese enterprise will significantly vary depending on whether a nucleus Thai entrepreneur is included in the remaining 51% share or the balance is subscribed by many nominal investors. With regard to the personnel structure of management, the extent to which the Japanese mode of operation will prevail will vary depending on which of key positions such as president, administration manager, marketing manager and factory manager will be occupied by Japanese. The efforts made by various types of textile firms toward export sales will be analyzed in the next section.

V. Firm Behaviour toward Export Expansion

At present there are many export-oriented firms among the Japanese enterprises but it should be investigated how export-orientation is being spread among local Thai firms. The relationship (a) and (b) in Fig. 5 needs to be investigated fully on the basis of an interview survey in order to determine the future prospects of export growth of Thai textile products. This will throw light on a more general question concerning the expansion mechanism of manufactured exports from developing countries.

During August and September of 1979, we interviewed textile firms in Bangkok to inquire their attitude toward exportation.

The outline of the interview survey is as follows.

(a) Our hypothesis: The shift from domestic sale to export is never an easy, smooth process. It requires individual firms to change their production and management techniques and to acquire marketing channels abroad. Since not every textile firm can fulfill these requirements the wide difference among individual firms in fulfilling them will result to a difference in export performance. We shall look for an association between the degree of fulfillment of such requirements and characteristics of firms (especially in regard to control of firm management).

(b) Selection of sample firms: The hypothesis will be tested by the information obtained from our questionnaire survey of sample firms. Because of the qualitative nature of our questionnaire and of the difficulty in undertaking quantitative analysis, sample firms are selected so as to represent behaviour of major textile firms in Thailand. The names of our sample firms are listed in Appendix C and the overall characteristics of these firms will be described against the firm structure of textile industry in Thailand. Questionnaires were filled out by either of the co-authors during the interview.

(c) Contents of questionnaire: Answers to items concerning characteristics and behaviour of individual firms are summarized under assumed names, and they constitute the basic data of our analysis in this section. The questionnaire includes such general questions as evaluation both of current export incentive by Thai government and of quota restriction by some importing countries, future prospects of domestic and foreign market demand and of competitiveness of a variety of Thai textile products. Answers to those general questions are analyzed separately in Section VI.

The result of interview survey was summarized according to the formula shown in Appendix D. They are the basic information of the behaviour of individual firms toward exportation. Although limited in number, the sampled firms cover all major textile firms

(spinning, weaving and clothing) in Bangkok. The addition of a few small local weaving firms will make our sample representative of textile firms in Thailand. Fiber producers are excluded here except one which is also engaged in spinning and clothing production. The findings from our interview survey are summarized under five heading as follows.

(1) Inter-firm Difference in Export Performance

Export ratio of the Thai textile firms as a whole increased steadily, but there still remains a big difference in export output ratios among individual firms. Export-output ratios of 25 firms are classified by major products and by ownership in Table 9. Joint ventured firms are classified into "Japanese management" and "Thai management" not depending upon the share-holding but upon who controls the management. The management is controlled by Japanese in a company in which many minor Thai share holders have a more than 50% combined share. The capital letters A - Z indicate assumed names of the firms listed in Appendix C.

It is easily seen that high export-output ratios are not confined to joint venture firms. They are also classified by values of export-output ratios as follow.

	X/S	No. of firms
I.	0 - 10%	3
II.	20 - 30%	8
III.	40 - 75%	7
IV.	80 - 100%	7

If more small local weaving firms are included, they would mostly belong to Group I. But both Japanese and Thai firms are included in Groups II, III, and IV. This finding contradicts with conventional notion that transnational or joint venture firms contributed more to export expansion from developing countries. What then explain the difference in export performance among individual firms? They are summarized in (2) - (5) below.

(2) Divergent Export Performance by Product Category

Major textile product of a firm determines its export performance, which is consistent with the difference in comparative advantage of the production in Thailand between product categories. The export-output ratio is small for P/C and filament fabrics, while it is larger for clothing, cotton and P/C fabrics. The comparative advantage of Thai production of various products is determined by both demand (characteristics of demand for the product, size and other conditions of domestic and foreign markets) and supply (difficulty of technical transfer, the size of optimum scale operation)

conditions and the two are interacted with each other. For example, spinning and weaving cost is significantly affected by the scale of production and the scale is determined by the combined size of domestic and foreign demand for the Thai product, the latter of which, in turn, depends upon their level of technology and quality.

Demand and supply conditions differ between individual products. Cotton textiles are divided into two, cotton products for industry or specific use such as canvas and gauze on one hand and cotton textiles for wearing on the other. Both companies A and B produces the former category and use coarse yarn and benefit from easy technical transfer. Both are major suppliers of the products in Asia and enjoy strong competitiveness.

There is a big market in Thailand for cotton and P/C products for wearing purposes. Both cotton and P/C are produced in quite a few firms since common machinery and equipment are used for spinning and weaving cotton and P/C materials. They have already acquired high technology of producing grey fabrics. Grey fabrics are shipped for EC, US and Japan, whereas they are shipped for Middle East, neighbouring Asia and domestic market after dyed and finished. Only about a half of companies C, K have dyeing capacity including affiliated dyeing companies. This group enjoys scale economies from foreign and domestic sale and includes such largest firms as Company D (with 110 thousand spindles), G (100

Table 9.

Export-Output Ratios of Individual Firms
Classified by Products and Ownership

Major Products	Joint Ventured		Purely Thai-Owned
	Japanese Management	Thai Management	
Cotton		A(65)	B(95), Y(50)
Cotton & P/C	C(80)	E(50)	F(75), G(25)
	D(45)	I(0-50)	H(50-60), J(60) W(30), X(0)
P/C	K(80)		
P/R	L(30)		
	M(20)		
Filament	N(0-10)	Q(25)	
	P(30)		
Clothing		S(100)	V(20)
	R(100)	U(100)	Z(0)
		T(30)	
Total Number	8	7	10

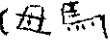
Source: Interview Survey of Textile Firms in Thailand,
conducted by I. Yamazawa and S. Tambunlertchai
in August-September, 1979.

Notes: A-Z are assumed names of individual textile firms
listed in Appendix Table 2. Figures in parenthesis
are export-output ratio (%).

thousand spindles), I (70 thousand spindles), and J (150 thousand spindles).

P/R suiting, inferior but cheap substitute to wool, has stable but limited demand at home as uniforms and other practical uses. They are shipped in piece dyed form. Technical transfer is more difficult and its international competitiveness is limited. Beside two Companies L and M both Companies I and J produce P/R fabrics.

Filament fabrics are for lady's suiting and other outer garments. They are yarn or piece dyed and differentiated by design and weaving technique. It requires high technical competence and the three joint ventured producers have only one local competitor. Domestic demand is limited in Thailand and a considerable proportion of domestic sale is estimated to be shipped for border trade. Only a small amount is exported to Singapore. Companies N, P, Q have only weaving (100 - 500 looms), dyeing and finishing facilities and purchase filament yarn from fiber producers in Thailand.

Garment exports from Thailand has a relatively short history. Domestic demand has grown rapidly recently and a wholesale market has developed at Bobey () Street in Bangkok. Export performance is remarkable in recent years. BOI admitted promotion only for 100% exporters in order to protect small local garment

cotton and P/C products are also produced by many small local firms, whose export-output ratios are very small. On the other hand, big firms with 50 - 80% export-output ratios supplied mainly to domestic market in the early 1970s. They shifted their sale gradually from home to foreign markets, beginning with dumping export of their excess supply at domestic market but gradually arranging production and management system toward steady export expansion as follow.

Compared to domestic sales, export involves many requirements such as quality, packaging, delivery terms, and so on, and a strict quality control system will be needed to satisfy these. High quality is demanded for exports to advanced countries. Textile finish is not homogeneous and is classified into A+, A, B, and C according to the number of frays and streaks. Normally, all products are inspected, and only A+ and A goods are directed to export markets, while B goods go to the domestic market and C goods are rejected. This means that while quality inspection is a pre-requisite for exports the distinction between A and B is unnecessary if production were only for domestic sales, for which no detailed quality check is required. All sampled firms, both joint-ventured and purely Thai-owned, introduced stricter quality control in order to maintain standardized quality of their products when they started steady export, although being still less strict in comparison with quality control conducted by their parent firms in Japan.

Accuracy of delivery terms will also be required. Closely integrated marketing and factory production control attuned to domestic and overseas markets will be indispensable. During the stage of shifting to exports, managerial control methodology will be in higher demand than pure production technology. Factory manager is important for this function and all joint ventured firms, not only of Thai management but also of Japanese management, appointed experienced Japanese for that position, which will be last to be replaced by Thais.

Thirdly, changes in product mix of production system were introduced by some export-oriented firms, especially firms producing cotton and P/C products. For example, the production of P/C fabric of 208 threads is expanded while the production of the same P/C of 186 threads is stopped, thereby reducing frequent adjustment of machinery required for the shift of production between product types and improving efficiency. Joint ventured companies C, D, K, Thai company J adopted this strategy. Company C also adopted such a strategic change in product mix that the production of dyed and finished fabrics was expanded for the shipment to developing country markets, thereby fully utilizing its dyeing and finishing facilities and raising value-added per square yard of their fabrics.

On the other hand, few producers of P/R and filament fabrics are enthusiastic about changing their system of management and product

mix beyond strengthening quality control and technical improvement. This is mainly because they are still oriented for domestic market and is only interested in export expansion up to, say, 30%, as an outlet of their product in case of recession at home. They are prudent for the expansion or renewal of production capacity in general.

Garment producers had their own export strategy from the beginning under 100% export obligation. Most major garment exporters have some form of contract with their overseas customers, garments are produced under customers' brand and have strict quality requirements. Usually the design, material, and workmanship are specified by the buyers. Once the buyers are satisfied with the quality and manufacturers keep prompt delivery schedule, the buyers tend to stay with the same manufacturers. Company T, although without 100% export obligation, adopted at the outset a strict quality control in order to sell under its parent company brand.

(4) Marketing Channels

Unlike shipment to Sampeng market, textile firms in Bangkok do not have direct contact with customers abroad. Reliable export channel is required for steady supply in response to changing customer's demand there. Foreign sales of Thai textile goods to ASEAN and other neighboring countries have been traditionally handled

by small-scale Chinese petty merchants while exports to the United States, Western Europe, and Japan have been handled by Japanese trading companies as in the case of imports. However, it would be a too simple description of marketing channel in reality if we ignore complicated relationship between textile firms and trading companies and recent changes in it.

Market channels of individual firms, both for domestic and export sale, in Table 9 are classified by products and by ownership in Table 10. Different market channels are easily depicted among firms of different ownership and between domestic and foreign markets. Joint ventured firms with Japanese management rely on Japanese trading companies, while both joint ventured firms with Thai management and purely Thai-owned firms sell directly to Sampeng market. It is because of the fact that Thai businessmen in textile industry, including Thai partners of joint ventured firms, originated from importer-wholesalers at Sampeng market. Even joint ventured firms with Japanese management sell directly to Sampeng through their Thai partners. The use of Japanese trading companies are sometimes confined to their function of credit and risk hedging after sales commitment is made directly between textile firms and Sampeng customers.

For export sales, on the other hand, marketing networks of Japanese trading companies are more relied upon. Since foreign

Table 10

Marketing Channels of Thai Textile Products (Mainly Fabrics)

	Domestic Market	Exports	Total
J.V. Japanese Management	J.TC (affiliated)	J.TC	7
	J.TC + Direct	J.TC + Direct	
	Direct (partner wholesaler)		
J.V. Thai Management	Direct	J.TC	4
	Direct + J.TC	J.TC + Direct	
Purely Thai Owned	Direct	J.TC + Direct	6
		T.TC + Direct	
		T.TC + J.TC + Direct	
		T.TC	
		Direct	

Source: Interview Survey of Textile Firms in Thailand by I. Yamazawa and S. Tambunlertchai, August-September, 1979.

Notes: Abbreviations
 J.TC: through Japanese Trading Company
 T.TC: through Thai Trading Company
 Direct: through its own sales section, including affiliated wholesalers.

trading companies are precluded from brokerage business ever since the implimentation of the Alien Business Law in 1972, these businesses are now usually handled by proxy trading companies incorporated in Thailand. However, the reliance on Japanese trading companies decreases and direct sales and the use of Thai trading companies increase as Thai management is strenghtened.

The following comments are worthwhile on the participation of Japanese trading companies in the export channel of Thai textile products.

Firstly, direct sales efforts have been intensified by both Thai and joint venture firms. Own salesmen are sent regularly for both developed and developing country markets and trading companies are frequently used as exporting agents after sales commitments are made.

Secondly, the relationship between textile firms and trading companies is not straight forward. Japanese joint venture firms often rely upon trading companies other than their partner ones. For even Japanese general trading companies are not almighty and their marketing competence differ between markets. One GTC almost dominates in an European country, while the other has developed a strong channel to a Middle East market. Textile firms cannot rely only on specific affiliated trading companies to obtain enough order for their products, but also on other trading companies for the sales at markets where

affiliated ones are not competent.

Thirdly, however, we can not ignore the long-established relationship between Japanese joint ventured firms and affiliated trading companies. Since a trading company does not sell the products of competing manufacturers at the same market, Thai textile firms were handicapped by the lack of access to foreign markets at the outset of exportation. Recently the BOI started to promote Thai GTCs for expanding exports of Thai firms' products to foreign markets in the distance. Nearly 20 companies applied for the promotion, of which only a few have so far been active in extending their export business but they are still at the starting stage of establishing marketing networks abroad. One of active Thai GTCs is affiliated with a big Thai textile producer-distributor group (with Company J as its nucleus) and it has difficulty in approaching to Thai textile firms outside its own group because of the latter's fear for the dominance by the former. It will take more time for both Thai textile firms and trading companies to develop their own exporting channels abroad.

Besides the promoted trading companies, there are numerous number of small trading companies in Thailand, run mostly by Thai-Chinese merchants. Most of these firms are engaged in import business but many of them are doing export trading as well. A few trading companies are also serving as buying agents of textile fabric and garments for overseas importers. They find suppliers and make

inspection on product quality and packaging for their clients. While most of the exports in textile fabrics have been handling by either Japanese or Thai GTCs, or directly by textile manufacturers, smaller trading companies are more involved in exporting of garments. Besides large scaled garment manufacturers which sell directly to their overseas customers, there are a large number of garment producers which also export their products through trading companies. Data for garment exports through trading companies are not available. But there is no doubt that the existence of small scaled trading companies, together with the efforts paid by small garment producers to sell their products abroad have their share of contribution to the rapid increase of garment exports from Thailand.

(5) Export-Orientation of Thai Entrepreneurs

As shown in the foregoing analysis, export performance of individual firms is basically affected by the degree of export orientation of individual entrepreneurs. The switch from domestic sales to export is not easy but it requires full-fledged efforts based on long run perspective of the industry. The following examples show the importance of entrepreneurs' behaviour toward steady export expansion.

(A) Since export price is usually quoted below domestic price, many textile firms in Bangkok are not very interested in

export sales except during severe recession at home. This is the case especially among Thai-owned firms with the family-style management. However, it is clear from long run perspective, greater export dependence is needed for avoiding recurrent excess supply and for further developing the industry, in Thailand. It is encouraging to Thai textile industry that this long run strategy has become recognized by Thai textile entrepreneurs.

(B) Export to Western Europe and North America are subject to quota constraint. Individual firms cannot export to these countries beyond quota allotted to each of them. The quota is allotted among individual firms based on their performance during the previous year. A firm's export can grow only within the increase of its own quota. It can increase its quota only through the increase of total quota of Thailand and through the increase in its own share in total Thai share, the latter of which is realized by application for redistribution of unfilled quota of others after it fulfilled its own quota. Under this quota system, an export-oriented firm is required to fulfill its own quota (a given amount of export to a particular country) even at a loss every year and to apply for the gradual increase of its quota. Japanese joint ventured firms have increased their quota in this way, while some Thai firms have not got used to this system are losing their quota through unstable export endeavour in response to business cycle.

Export performance of individual firms, of course, is constrained by Thai's comparative advantage of the product in which they specialize. Export expansion is almost imperative for cotton and P/C producers to achieve scale economies and to remain as comparative suppliers, while producers of P/R and filament fabrics cannot be more than exporting as outlet of recurrent excess supply at home. However, export orientation and needed endeavour of individual entrepreneurs are reflected significantly in divergent export performance of individual firms through all product categories.

The importance of export orientation of entrepreneurs in individual firm's export performance can be seen from the stories of some textile firms in Appendix E. These examples show different type of entrepreneurs with different export orientation. It is not hard to see from these stories that it is those entrepreneurs who are keen to introduce modern management practice and production control system who see the success in their export business. Among the Thai textile firms, those with family-style management and with entrepreneurs aiming at high profits in the short-run tend to emphasize more on domestic sales, since for local sales (and border trade) the products manufactured did not require high quality. The price obtained are also higher as compared to export sales. Small scaled firms, in addition, are handicapped by lack of marketing channel, and lack of experience on export-sales. The textile firms with modern management practice and with highly educated entrepreneurs,

on the other hand, tend to have a longer-run objective for expansion, and hence contemplate more heavily on exporting, and considerable efforts have been made to improve the export performance of the firm. It is these different efforts made to sell the products abroad that make differences on export performances among firm with comparable size and type of products.

One explanation for the difference in emphasis on export sales of individual firms may be due to the difference in the educational background and business experiences of the entrepreneurs. Entrepreneurs in Thai textile firms with family-style management are mostly the first generation, Chinese-Thais with little formal education. They usually started up with small scale business in trading or manufacturing.¹² With their ability, the firms grew quickly. These entrepreneurs usually have long-established relationship with local wholesalers in Sampeng and have wide experience in domestic sales. On the other hand, they are handicapped by lack of knowledge and experience in export sales. Their low educational backgrounds make them difficult to follow the changing international market situations and this may lead to the less emphasis on export sales.

On the contrary, it is the relatively younger entrepreneurs, mostly second generation Chinese-Thais who have a chance to receive higher formal education and have a comparative advantage in export

business. Compared with their parents, they receive higher education. Although only a few of them have been trained specifically in the field of textiles, but generally with their higher general educational background and foreign language ability, this younger generation are more internationally oriented than their ancestor.

On the contrary, first generation entrepreneurs, because of their accumulated business experience of their own ways, tend to be less inclined to adopt the modern management system which requires group-effort instead of centralized control by a single person.

It is fortunate that in Thailand, children of business family usually have a chance to receive a higher education and a modern style management system has been more widely adopted as time passes. We can thus expect that the emerging entrepreneurs in the Thai textile industry will be more capable in adjusting themselves in the quickly changing international market environments compared to their parents' generation.

However, the lack of knowledge on export market of the owner or entrepreneur may not be a serious hindrance to export sales if capable personnel can be recruited. In which case, the management style needs to be changed. Successful export sales require consistency in quality, punctuality in delivery, etc. All these require improved management system. It is thus in those companies which have relatively

modern management system with capable personnel where we find successful export sales.

(VI) Export Incentives, Quota Restrictions and Future Prospect of the Thai Textile Industry.

(1) Toward Real Export Expansion

We have seen so far that the orientation and endeavour of individual firms toward exportation have contributed to the export expansion of the industry as a whole. It is quite encouraging for Thai textile industry to see several export-oriented firms, both Japanese joint ventured and purely Thai-owned, have made efforts from long-run perspective and succeeded in steady export expansion. While Thai textile industry achieved import substitution under protection and promoted exportation under various incentive measures, it is now realizing export growth through cost reduction and quality improvement. It follows the path DC and will soon reach the point C in Fig. 4, where real import substitution will be completed in the sense that no upsurge of import would result if tariff barriers were removed.

We have seen that export incentives provided by the Thai government have helped the emergence of export expansion of the textile industry. On the other hand, quota restrictions by major importing countries may work as a constraint for further export growth of Thai

textile products, although at present this constraining factor has not been seriously felt. In the following, we will summarize the comments of individual textile firms on various incentive measures and the quota distribution, and the role of the government in promoting textile exports. Finally the future growth prospects for the Thai textile industry will be assessed based on statistical data and the information obtained from our survey.

(2) Appraisal of Export Incentive Measures

The official promotion program which provide exemption of import duties and business taxes on machinery and equipment help to reduce the cost of fixed capital at the time of establishment and expansion of the firm. The income tax holiday in addition serve to take care of the initial lag of investment and profits. Most of the large sized firms reported that the official investment promotion program influenced the decision to invest in the textile industry in the beginning. It is, however, not so much because of the incentive measures but the intention of the government to protect domestic industry that provoked business firms, both foreign and Thai, to make investment in the textile industry during the early 1960's. It was seen by the entrepreneurs that there existed a relatively large domestic market for textile products, and there was good prospect for expansion.

The export drive in the 1970's was also influenced by the government policy measures to promote manufactured exports. A number of textile firms installed additional capacities to produce for export markets and received official promotional privileges for their expansion. As we have pointed out earlier, however, the incentive measures by the government although serve to trigger off the desire of private firms to export their products, it is the endeavour and improvement made by individual firms that make steady export expansion possible. Heavy export incentives have often been recommended from macro-economic arguments for export expansion. But our interview surveys show different comments and requests to the government. These are summarized in the following.

1) The incentive measures provided for export activities most appreciated by individual firms are the tax refunds on raw materials and the loans on preferential interest rate (packing loans). Garment manufacturers, for example, can significantly reduced their material cost from the tax refund scheme. The packing loans enable exporting firms to save nearly one-half of their cost on interest during the lapse of time from receiving order and actual shipment. There has, however, been much complaint on the slow process of obtaining the tax refunds. It usually take several months to one year before an exporting firm can receive the refunds. This incurs substantial interest cost on import duties and taxes paid before obtaining the refunds.

2) Port facilities and other facilitating services for exportation are very poor at present and need much improvement. In addition, there have not been enough shipping service from Bangkok. It takes a long waiting time before shipment can be made to certain destinations.

3) Government officials dealing with foreign trade are not efficient. In particular, customs procedures are complicated and customs officers are mostly corrupt.

4) A few Thai firms commented on over protection of some stages of Thai textile protection, which will be discussed below.

The disadvantage common to all stages of Thai textile industry is high material cost. Spinning-weaving firms complain high fiber cost compared with international competitive prices. Clothing manufacturers point out that competitiveness of their garment export is eroded by high fabric prices. Fiber producers have been suffering from excess capacity and high cost. They are currently protected by 20 percent import tariff plus 30 percent import surcharge. But their products are also subject to price control by the government. Spinners and weavers are highly protected as is shown in Table 7, which is consistent with the leading role played by Thai Textile Manufacturing Association in Thailand. Domestic price of fabrics is raised under protection, and the high

price reduces export competitiveness of garment production using domestic fabrics. Since import duties are refunded on material input into the production of clothing for export, the protection on spinning and weaving tend to encourage the use of imported fabrics.

Another problem on the tax structure of textile products is the collection of business tax wherever there is a turnover. This system of business tax tends to benefit those textile producers which have every stage of production integrated in the same company. Small-scale weavers and garment producers which have to buy yarn and fabrics from larger textile firms are at a disadvantage for the higher cost on their input.

Garment exports have expanded most rapidly recently and it brings about greater value added than fabric export. However, under the present structure of protection the promotion of garment export tends to encourage the imported fabrics and to change Thailand to processing factory without any contribution to the development of other stages of textile industry. It is an important task for the Thai government to rearrange the structure of protection toward the full expansion of textile exports from Thailand.

(3) Impact of Export Quota Distribution

The quota distribution system based on past export performance (see Appendix B) is seen to have its merits as encouraging existing exporters to try to export the amount not less than the

amount exported in the previous year. And active exporters can obtain additional export quotas from the extra amount obtained from governmental negotiations, and the quotas returned by other firms. If they can export according to the quotas allocated, the amount of export quotas will be enlarged in the following year according to the actual export in this year, plus whatever addition they may get.

Since selling in the domestic market is usually more profitable, a few large textile firms tend to treat export market as a residual to dispose surpluses in the domestic market sales. Their export amount will be substantially reduced in the year when domestic demand is good. In this way, they lose a substantial amount of their export quotas in the following year. Unless they can export to markets without quota restrictions, export amount cannot be increased in the year of slack domestic demand. Most of the large textile exporters, however, are keen to capture additional export quotas, and a few of them have been very successful to in increasing their sales to the restricted markets.

The quota distribution system is seen by many small exporters as unfair treatment to exporters who do not have large export amount in the past year. It also discriminates against new exporters who have never exported anything to the restricted markets. A number of small and medium-scale garment producers complained about the inattention

of the government officers in charge of quota distribution to small exporters. Even though the new exporters could get some quota allocation whenever there are any unused quotas at the end of each allocation period, the amount is usually very small. And many of them are not informed when the returned quotas will be distributed. Their suggestion to the quota distribution scheme is, therefore, the specific allocation of certain amount of quotas to new exporters (possibly the extra amount of quota obtained by government negotiations each year and the returned quotas at the end of the allocation period), or putting new exporters on the priority in distributing the unused quotas.

(4) Recommendations for Improvement

In view of the above-mentioned government policy measures, several suggestions have been made by the firms under survey. They are summarized as follow:

1) The textile industry comprises of several stages of production. All stages are interrelated. The government should have an overall policy for textiles by aiming at fostering the long-run growth of the industry. Over protection on certain stages of textile production should be avoided since this will tend to retard the growth potential for the higher stage of fabrication.

2) A few textile firms, while appreciate the present incentive measures, suggest that more incentives should be given to textile

exporters. In particular, the setting up of financial institutions to provide long-term credits to exporters is recommended.

3) Co-ordination among governmental agencies dealing with export promotion should be strengthened. Private firms should be allowed to participate in export planning. Frequent consultation between government officers and private entrepreneurs is needed for the government to better understand the problems and needs of the private sector and the efficiency of export promotional measures can be improved as a result.

4) Procedures of applying incentive measures should be streamlined. In particular, tax refunds should be speeded up. The change of the tax rebate scheme to direct subsidy based on export value will be helpful. It also has an additional advantage of reducing the incentives for use of imported materials.

5) The government should provide infra-structure for export expansion such as improvement of port facilities, and help make increase of shipping service from Bangkok. The establishment of export processing zone will be helpful for promotion of textile exports, particularly garments.

6) The Export Service Center has been helpful in providing market information to exporters. But the scale of operation is much too small. Thai commercial attache in foreign countries should be more active in providing marketing information to exporters. Trade missions to importing countries should also include representatives

from the private sector.

7) Government agencies such as the Textile Division of the Ministry of Industry should stand ready to provide technical assistance to textile producers, particularly on the areas of product improvement and quality control to small scale textile and garment exporters. Attempts should also be paid to the development of material input supplies to the textile industry. For example, advices to domestic cotton growers regarding improved cultivation method, pest control, and market information will be helpful to increase the supply of cotton and reduce the material cost for cotton textiles.

8) The system for distribution of quota to restricted markets should be revised to allocate some quotas to new exporters. Government officials dealing with quota distribution should pay more attention to small exporters, and should be able to advice new exporters regarding procedures of applying for quotas. The government should try to negotiate for additional quota on those textile items Thai textile producers are able to supply.

(5) Future Prospect for the Thai Textile Industry

Even though domestic demand for textile products has grown fast during the past two decades, most textile entrepreneurs believe that growth of domestic demand will not be as high in the future.

There are actually two estimates, optimistic and pessimistic ones. The size of domestic market with 45 million population and firmly rooted demand from border countries are cited as reasons for the optimistic estimate, while slow growth of consumption per capita in recent years is indicated as evidence for the pessimistic estimate. Rising inflation and lack of real purchasing power of the Thai people are among the main constraints to the growth of domestic demand in the near future. Textile products are generally income elastic. The growth of domestic demand in the long-run depends much on the expansion of the economy and the growth of income of the consumers. Domestic demand will grow in the long-run. But since the rate of economic growth of the Thai economy is expected to slow down somewhat in the 1980's, domestic demand for textile products may not grow as fast as was experienced in the past decades.

If domestic demand is not expected to grow at a high rate the long-run growth of the Thai textile industry will have to depend on the foreign demand. Thailand has been successful in expanding her textile exports thus far. Whether this growth trend will continue depends on the international competitiveness of the Thai textile products which, in turn, depends on a number of factors both internal and external. As pointed out earlier, comparative advantage depends on the cost and availability of raw materials, labor cost and productivity, and the level of technology. While the Thai textile industry in general seems to have comparative advantage over the same industry

in many countries, international competitiveness differ between products. Producers of P/R and filament fabrics do not see good prospect for their technical competence and mainly oriented for domestic market and border trade. Production of cotton and P/C are regarded as competitive in the world market at present. Modern machinery and equipment, increasing but still low level of labor cost, and quality improvement in recent years tend to offset high material cost. Technical co-operation will be available from Japan sometime in order to absorb new technology and new materials. Garment producers believe that they are in an advantageous position as compared to their major rivals in Hong Kong, Taiwan, and South Korea because of the lower labor cost in Thailand, and the quota allocation from developed countries which tend to limit exports from these rival countries. Some garment producers, however, foresee the difficulty in expanding garment exports to restricted markets in the near future due to quota limitation.

A serious problem facing Thai textile producers in the near future is the soaring cost of raw materials. With the increase in the price of petroleum products, the cost of synthetic fiber increased tremendously in recent years. Thailand is handicapped by lack of petroleum resources and not having a petrochemical industry. The competitiveness of synthetic textiles will be reduced in the future, unless the technology and productivity of fiber production as well as

spinning-weaving of synthetic fabrics can be improved.

Quota restriction by importing countries represent another constraint to export growth of Thai textile products. As pointed out earlier, the quota system have so far favoured export from Thailand by constraining exports from Korea and other NICs and reserving a market share and favourable price for Thai products. On the contrary, it is pointed out that it is difficult for Thai firms to penetrate into Japanese market, because, although without quota restriction, complicated channels of domestic distribution barred imports to reach Japanese consumers. A number of Thai textile exporters, however, start to feel the constraint of quota restrictions on their export expansion and believe that the quota problem will become more serious in the future.

Quota restriction may not be a serious constraint to the Thai textile exports if textile exporters in Thailand are keen enough to look for new markets which are not subject to quota restriction, and also gradually diversify their production to those products not subject to quota. Middle East and ASEAN markets have shown good potential for absorbing Thai textile products in recent years. Exports to other Asian countries have also increased much. Singapore, Malaysia, Hong Kong, and Saudi Arabia were among the major importers of synthetic fabrics in the last two years. Cotton fabric exports to Hong Kong, Singapore, and Malaysia have also in-

creased much in recent years. As for garments, the number of importing countries of Thai garments have increased in recent years, and garment exports to the Middle East, ASEAN - and other Asian countries all show very high growth rates. It is thus a good sign to see that while the United States and EEC are still Thailand's major customers, the markets for the Thai textiles have been increasingly diversified.

Thailand is at present still a small exporter of textile products compared to other NICs. Whether the country could become one of the world's textile major exporters depend much on the efforts made by textile exporters as well as the Thai government to overcome various difficulties confronted in their textile export trade and strengthen the competitiveness of the Thai textile products. Our interview survey reveals a number of obstacles which tend to retard the export potential of Thai textile products. These include the lack of infrastructural facilities and the inefficiency of government officials dealing with textile exports. Raw materials imported have to be delayed because of delayed shipment and long time spent in customs clearance; new exporters cannot sell to restricted markets because no quota has been allocated to them; rebates on imported duties take a long time and thus incurring additional cost to exporters, and so on. These are all "institutional" obstacles hindering the country's export expansion. The removal of these obstacles is within the reach of the Thai government. Improvement in the part of the government can help to reduce the operating cost of the exporting

firms and hence help to improve the competitiveness of Thai textile products in the international market.

(VII) Import Substitution, Export Expansion and Product Cycle of Textile Development: Some Concluding Remarks.

The Thai textile industry has gone through the stage of import substitution and started to emerge into the period of export expansion. Import substitution of modern textile industry in Thailand started from around 1960 when the government actively began to protect the industry. Import restrictions combined with the official investment induced foreign as well as Thai investors to start up domestic production in textiles. The foreign investment which mostly came from Japan reflected the desire of the foreign manufacturers who had hitherto exported textiles to Thailand to protect their share of the market. Local entrepreneurs who are importers and distributors of textiles joined the Japanese to form joint ventures in the industry. Thus import substitution was achieved through trade restriction and foreign investment participation. Domestic production of textile goods expanded tremendously but there seem to be no significant cost reduction in textile products throughout the period of import substitution.

Export expansion of the Thai textile industry started in the early 1970s. Several factors contributed to emergence of export sales in textiles. The desire of textile firms to send their surplus

into foreign markets, the subsidy given by the government on export sales, and, more importantly, the efforts made by individual firms in penetrating into the international market. Although the input situations in Thailand tend to favor the expansion of the textile industry, exporting firms incurred much loss in their export sales in the beginning. It is only after exportation of textile goods has started for some time and exporting firms have made some improvement on their production and management that steady export expansion became possible.

Compared to Thailand, Japan has developed her textile industry in a much earlier period. The Japanese development experience of textiles from import to import substitution and then export expansion have also been seen in the process of Thai textile development.

The process of development of textile industry differs between Thailand and Japan in that import substitution in Thailand was made possible through protection while the Japanese case import substitution was achieved through cost reduction. Export expansion was a natural consequence of increased competitiveness of the Japanese textile products. In the case of Thailand, exportation of textile products was initiated with desire to dispose domestic surplus and incentive measures provided by the government. Import substitution through protection in Thailand thus tend to constrain the potential for cost reduction. It is only after several improvements have been made by exporting firms that textile exports become profitable.

Our firm-level survey on major textile producers in Thailand reveal that some business characteristics together with the behavior of individual firms determine the export performance of the firm. Foreign ownership and management participation are not necessarily indispensable for successful export expansion. There are also some locally owned firms which are performing very well in their export business. The export performance of the firm is more influenced by the type of products manufactured and exported, the efforts made by the management to improve competitiveness through a change in the system of production and management, and establishment of a secured export marketing channel. Underlying the efforts made on export sales is the firm's determination to launch its products into the international market. Since domestic sales are usually more profitable in the short run and quality requirement is not as strict as export sales, a number of firms tend to see export sales as a residual in order to vent their domestic surplus. These local market oriented firms tend to lose out in their export business. It is those firms which set high priority on their export sales that are gaining ground in their export shares. It is interesting to note that among Thai textile firms, those with family - style management often concentrate on domestic sales, while those firms with relatively highly educated entrepreneurs and modern management system tend to have a longer run view on the industry and emphasize the need for export expansion.

In the case of Japan, however, there was not much foreign participation in the process of industrial development, while in Thailand's case, direct foreign investment has played an important role both during the period of import substitution and export expansion. The involvement of foreign firms in the process of industrial development has been a common phenomenon in a number of developing economies in the postwar period. Participation of foreign firms help to quicken the pace of development in a number of industries, since there exists a wide technological gap between LDCs and advanced industrial countries, and the participation of foreign firms enable utilization of accumulated knowledge possessed by the foreigners. Excessive reliance on foreign investment, however, tend to create many side effects which are not desirable for the long-run economic progress of the host country. The Japanese experience on import of foreign technology while maintaining the control of business by indigenous entrepreneurs are often cited as a good example of "technology borrowing" for successful industrial development. Whether the Japanese experience can be duplicated in contemporary LDCs is doubtful. Transnational firms may prefer direct investment as compared to selling of know-how. Competition among LDCs in attracting foreign investment nowadays is much more severe. Technological gap is wider and communication between subsidiaries and the parent company of transnational firms is much easier. However, it is not impossible for people in LDCs to gradually learn the technology from foreign firms and erode the monopoly of the foreigners.

Technological absorption will be easier in technologically standardized industry like textiles. The activeness of local entrepreneurs in learning advanced technology is undoubtedly an important determinant of successful technological transfer.

The process of development of modern textile industry in Thailand since 1960 has been characterized by gradual increase of local producers' share of ownership and management. It is interesting to note that in the case of joint ventures in Thai textile industry, it is those firms with active local entrepreneurs who have tried hard to learn technology and reduced management control by their foreign partners which are successful in growth and export performance. It is undeniable that experiences and existing channels in export marketing of foreign participants in joint ventures can be very helpful for export expansion. But in the case of Thai textile industry, the dominance of Japanese GTCs on textile export trade will also gradually be reduced through active finding of overseas marketing channels of Thai textile manufacturers and trading firms.

Both the Japanese and the Thai experiences in the development of textile industry fit well with the "catching-up product cycle" model, although as we have respectfully pointed out, the underlying situations are somewhat different. Thailand is now a "catching-up" country in textile exports. But what implied in the

product cycle model is that the world is not stagnant but is changing quickly. England lost comparative advantage in textiles to Japan, and Japan and other developed countries and later the newly industrialized nations suffering from high wages and material costs have to give way to certain newcomers on textile trade, while the NICs are striving hard to move toward more sophisticated textile goods. Thailand is now enjoying competitiveness in certain low-quality textile items. But with wage rate and imported material costs rising quickly, the comparative advantage of these simple textile goods will soon disappear. In the future, other lower-cost country like China, Sri Lanka, and Indonesia will increase their share in the world textile trade. Competitiveness is, nevertheless, not solely determined by material and labor costs, but also on technology and productivity. In export trade, marketing channel is also an important factor for success. If Thai textile entrepreneurs could try to improve their productivity and gradually diversify their products to higher quality goods, and at the same time try to find new market outlets for the products, the period of high export growth will be prolonged. Successful export expansion requires quick adjustment to changing international market environments. In this regard, a careful study of demand and supply situations is called for.

As for the role of the government, we have seen that in the case of Thai textiles, incentive measures provided by the government are important stimulators both to import substitution and export

expansion. But heavy incentives alone are not enough for successful export expansion. As a matter of fact, when cost reduction is realized and export expansion gets underway, export subsidy is redundant and should gradually be reduced. On the other hand, there are a number of "disincentives" for exporting such as inadequate infrastructures, red tape on export procedures, and inefficiencies of government officials. The improvement in the part of government to reduce all these obstacles will surely help the process of export expansion.

Footnotes

1. "Phasin" is the fabric for locally-worn "Sarong," "Phakaoma" is the Thai-style towel - a type of cotton fabric, and "Phadam" is a type of cloth usually dyed in black color and worn by peasants.
2. Mingsan Santikarn, Technology Transfer: A Case Study, Ph.D. Thesis, Australian National University, 1977, Chapter 8.
3. The "catching up product cycle" model describes industrial development of developing countries in the stages of importation, import substitution, and export expansion and various other stages. See Kaname A. Kamatsu, "A Historical Pattern of Economic Growth in Developing Countries," The Developing Economies, Tokyo, March-August 1962, and Kiyoshi Kojima, "Reorganization of North-South Trades: Japan Economic Policy for the 1970's," Hitotsubashi Journal of Economics, February 1973. For a study on Thai textile industry based on this model, see Supee Teravaninthorn, Industry Development and Foreign Trade: A Case Study of Thai Textile Industry, M.A. Thesis, Faculty of Economics, Thammasat University, December, 1978.
4. Mingsan Santikarn, op.cit., p. 196. For a more detailed description of the development of Thai textile industry. See Mingsan Santikarn, op.cit., Chapter 7, Supee Teravaninthorn, op.cit., Chapter 2, and Bundit Silawatshananai, Systematic Analysis of the Textile Industry in Thailand, with Emphasis on Its Structure and Performance, 1961-1973, M.A. Thesis, Asian Institute of Technology, August 1974, Chapter 2. Description of situations of the textile industry before 1950 can be found in James C. Ingram, Economic Change in Thailand: 1850-1970, Oxford University Press, 1971, Chapter 6.
5. James C. Ingram, Ibid., p. 121.
6. Mingsan Santikarn, op.cit., p. 199.
7. The incentives given have been revised from time to time following the revision of the investment promotion law in 1962, 1968, 1972, and 1977.
8. In Thailand, textile products have sometimes been smuggled to neighbouring countries. The consumption figures thus include border trade, which according to some textile producers, could be as high as 20-23 percent of the domestic consumption during late 1960's and early 1970s. The amount of border trade has been significantly reduced since 1974.

9. As will be described later, different textile products tend to have different degrees of competitiveness or comparative cost advantage which is, in turn, determined by various factors underlying the comparative advantage.
10. For technology transfer in the Thai textile industry, see Mingsan Santikarn, *op.cit.*, and Hikoji Katano, Masaru Saito, and Eiji Ogawa, Technology Transfer in Joint Ventures in Thailand: A Case Study of Textile Industry, The Economic Co-operation Centre for the Asian and Pacific Region, Bangkok, Study No. 19, June 1976.
11. The terminology of family-style as against modern style management may be disputable. But in Thailand, where business ownership usually confined to family circle even in very big companies, the controlling power of the company is usually centralized and decision is made mainly by one or a few person. This is what we mean by family style management. On the other hand, in other business firms, there may be owned by only one family and some family members occupied important positions in the firms, but management duties are more clearly specified and there are more obvious division of labour. Usually several departments are set up to facilitate the management control. This is what we call the modern management style.
12. These people were migrated from China some 30-40 years ago. They were mostly from peasant family. However, some of these people soon became able entrepreneurs in business. But the anti-chinese sentiment of the Thai government during the decade following the second world war tended to discourage their participation in manufacturing and confined their business in commerce. It is the change in government policy during the late 1950s that these people became actively engaged in manufacturing activities.

Appendix A.

Present Export Incentives to Textile Products

At present, there are at least 3 ministries and 2 governmental agencies in charge of giving assistances to the textile industry. They are the Ministry of Industry (MOI), the Ministry of Finance (MOF), the Ministry of Commerce (MOC), the Board of Investment (BOI), and the Bank of Thailand (B.O.T.).

The Ministry of Industry, through its Textile Industry Division under the Department of Industrial Promotion, provided technical services, including technical consultancy, demonstrations of new design and better quality control. A Textile Policy Committee consisting representatives from various governmental and private agencies was set up to give advices to the Textile Industry Division and other governmental offices on their activities concerning the textile industry. The Ministry of Industry is also in charge of permission of establishment of new textile plants, and prohibition of new establishments and expansion of existing production capacity whenever the MOI considers there is a necessity. The Ministry of Finance, through its Department of Customs and Fiscal Policy Office, is in charge of giving a tariff protection to domestic textile producers, and giving refunds of duties and taxes on textile exports. The Ministry of Commerce helps in seeking new foreign markets and negotiating for more import quotas in established markets with quantitative restrictions. The Board of Investment gives promotional

privileges to textile firms, and the Bank of Thailand gives financial support in terms of providing rediscount facilities with preferential interest rates to textile exporters.

At present, the major incentives to textile exporters include the official investment promotion program, the tax refund system, and the financial assistance by the Bank of Thailand and other financial institutions to exporters. These incentives will be briefly summarized in the following:

a. Promotional Privileges from the BOI

The BOI gives various incentives to private investment under the investment promotion law. Most textile products are now not covered in the investment promotion list. But those textile firms promoted previously and of which period have not been expired are still enjoying the promotional privileges.

Manufacturing firms under promotion are exempted from import duties and business taxes on machinery and equipment used in the promoted activities, and exemption from corporate income taxes for a period ranging from 2 to 8 years. Promoted firms with export activities were in addition granted the following incentives.

1) exemption of both import duties and business taxes on imported raw materials used in the production for export. If the raw materials are procured in Thailand, the business taxes will be exempted.

Items which are re-exported are also exempted from import duties and business taxes.

- 2) exemption of export duties and business taxes on exports.
- 3) permission to deduct from assessable income for payment of corporate income tax an amount equal to 5% of the increased income derived from export sales over those of the previous year.

According to the conditions set by the BOI in 1973, textile firms eligible for official promotion were those with not less than 65 percent of the production exported. However, the special incentives given to promoted textile firms engaged in exporting are not so significant over the non promoted firms which are also given various forms of incentives for exporting. In Thailand, most manufactured exports including textile products are not subject to export duty and business taxes. The exemption of import duties and business taxes on raw materials has also been extended to non-promoted manufacturing firms. The only differences of governmental assistances to textile firms engaged in exporting between promoted and non-promoted firms are only the deduction of a small fraction of increased export income in calculation of income base for the payment of income tax. The difference in incentives are thus not quantitatively so significant. The most significant advantages for the textile firms under official promotion appear to be the regular promotional privileges of exemption of import duties and business taxes on capital goods and the income tax holiday (mostly for a period of 5 years).

b. Tax Rebates

For producers and exporters not under the BOI promotion, there are also exemptions from import duties, business taxes, and municipal taxes on imported materials. Since December 1972, all taxes on imported materials have been returned to exporters after the products are proved to be actually exported within one year. The refund can either be claimed at the Customs Department or from the Fiscal Policy Office. However, import duty rebates from the Customs Department are estimated according to import prices, while the tax refund through the Fiscal Policy Office is fixed at specified rate. For import duty and tax rebates, the exporters or producers once exported must show evidence of exportation and the actual utilization of imported inputs. Usually, the authority will set a production formula for each commodity for calculation of the amount of exemptions. But if actually less imported materials are used than the formula, only taxes on raw materials actually used are refunded. The tax refunds are also made for taxes paid on domestically produced inputs used for the production of exports. The refunds are paid in the form of tax coupons which could be used for paying taxes within 3 years. (This is generally referred to as tax credit).

Textile products appear to be the export group which have received the largest tax refunds both from the Customs Department

and from the Fiscal Policy Offices. In 1977, all textile products including thread and yarn, textile fabrics, clothing, and other textiles article obtained the tax refunds of 117.6 million baht from the Customs Department, which accounted for 71.7 percent of the total amount of refunds for all exported items. From the Fiscal Policy Office, the tax refunds of textile products for 1977 was 67.8 million baht which 61.7 percent of the total amount of refunds from the FPO. Thus the refunds obtained by textile products altogether accounted for 67.7 percent of the total refunds for all manufactured exports in 1977. The amount of tax refunds of textile products increased significantly from 1975 to 1977. We can thus say that the tax rebate scheme offers much incentives to textile exporters.

c. Discount Facilities

The Bank of Thailand provides rediscount facilities to commercial banks at the rate of 5% for promissory notes for which commercial banks charge their costumers 7 percent in discounting export commercial bills up to 90% of the export value. The credits given mostly short term (mostly not exceeding 3 months). This is sometimes referred to as packing loans. Excluding agricultural goods and some agro-based manufacturing activities, producers of textile products appear to be major beneficiaries of the rediscount

facilities among manufacturers. The Industrial Finance Corporation of Thailand (IFCT), a private institution providing loans to relatively large industrial enterprises, has also given high priority in granting loans to export industries, and textiles products received a significant percentage of loans from the IFCT during the 1970's.

d. Subsidy on Electricity Cost

Besides the 3 major incentives mentioned above, there are other incentives to exporters which are not quantitatively significant. One of these incentives is the subsidy on electricity bill. Producers of exports can claim for a reduction in the cost of electricity used in the production. The reduction rate is 3.33%. The electricity rebates are relatively more important for fibre producers. Since electricity costs are important as compared to fabric and garment producers. But exports of fibre are not significant in Thailand. Garment exporters have not benefitted much from this incentive measure, since electricity cost have been very small in their total cost.

Table A-1

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Tax Refunds through Customs Department to Export Manufacturers by Type of Products, 1975, 1977

(Thousand Baht)

Industries	1975				1977			
	Import Duties	Business Tax	Municipal Tax	Total	Import Duties	Business Tax	Municipal Tax	Total
<u>Processed Food (19.44%)</u>	33,148.76	3,220.56	322.06	36,691.38	3,748.60	386.78	38.68	4,174.01
Cereal products	27,919.85	2,157.44	215.75	30,293.04	11.15	0.85	0.08	12.08
Canned food	5,069.52	1,048.65	104.87	6,223.04	1,703.21	201.63	20.18	1,925.02
Other food products	159.39	14.47	1.44	175.30	797.59	65.49	6.54	869.62
Tapioca Products	-	-	-	-	1,236.65	118.76	18.88	1,867.29
<u>Beverage & Tobacco (0.04%)</u>	69.66	-	-	69.66	149.23	13.37	1.34	163.94
Tobacco leaves	69.66	-	-	69.66	149.23	13.37	1.34	163.94
<u>Construction Materials (0.01%)</u>	17.81	1.88	0.18	19.87	7,619.58	527.31	52.73	8,199.62
Cement	17.81	1.88	0.18	19.87	7,619.58	527.31	52.73	8,199.62
<u>Intermediate Products I(5.44%)</u>	8,437.47	1,666.21	166.62	10,270.30	17,709.54	3,613.08	361.08	21,683.91
Thread & Yarn	6,175.81	937.99	93.80	7,207.60	13,454.88	2,590.92	259.08	16,304.88
Plywood & laminates	670.1	141.61	14.16	825.87	764.00	161.84	16.19	942.03
Petroleum products	28.32	2.04	0.20	30.56	3,281.66	619.10	61.90	3,962.66
Glass & glass products	133.00	34.48	3.45	170.93	58.94	16.70	1.67	77.31
Iron & steel basic product	1,425.43	534.57	53.46	2,013.46	150.06	224.52	22.45	397.03
Non-ferrous metal	4.81	15.52	1.55	21.88	-	-	-	-
Chemical materials	-	-	-	-	-	-	-	-
<u>Intermediate Products II(19.10%)</u>	28,718.37	6,742.09	674.22	36,134.68	26,421.80	6,039.34	604.01	33,065.65
Textile fabrics	25,978.23	5,723.27	572.83	32,279.32	25,744.45	5,642.99	564.31	31,961.75
Paper & paper products	254.19	124.62	12.46	391.27	-	-	-	-
Rubber & rubber products	1,311.69	141.70	14.17	1,467.56	229.78	16.35	1.64	147.77
Metal products	1,172.01	743.93	74.40	1,990.34	447.57	380.50	38.06	866.13
Chemical products	2.25	3.57	0.36	6.18	-	-	-	-

Table A-1 continued

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Industries	1975				1977			
	Import Duties	Business Tax	Municipal Tax	Total	Import Duties	Business Tax	Municipal Tax	Total
<u>Consumer Non-durables(52.77%)</u>	83,711.93	16,189.67	1,618.95	101,502.55	75,878.52	12,884.70	1,288.47	90,051.69
Clothing	57,813.75	12,501.94	1,250.20	71,565.89	51,446.6	8,780.62	878.07	61,105.29
Textile articles	2,129.96	612.0	61.2	797.16	6,763.3	1,322.45	132.23	8,217.98
Plastic products	19,275.76	1,849.17	184.91	21,309.84	2,669.41	445.43	44.55	3,159.44
Leather products	743.93	188.76	18.87	951.56	533.07	71.07	7.11	611.25
Soaps & detergents	1.28	0.90	0.09	1.37	-	-	-	-
Optical goods	597.50	167.89	16.78	782.19	5.45	0.68	0.07	6.20
Miscellaneous mfgs.	3,155.75	869.01	86.9	4,111.66	6,111.38	990.29	99.03	7,200.70
Pharmaceuticals	-	-	-	-	8,349.31	1,274.11	127.41	9,750.83
<u>Consumer Durables & Machinery</u> (3.20%)	2,542.62	1,312.79	185.58	6,030.60	4,605.36	1,958.26	195.81	6,762.43
Households Electric Appliances	541.64	500.97	50.10	1,092.71	463.98	138.15	13.81	615.94
Calculators	333.36	141.18	14.12	488.66	-	-	-	-
Wood products	317.08	88.57	8.86	414.51	519.01	113.14	11.31	643.46
Watch & clock	1,350.54	582.07	58.21	1,990.82	3,386.58	1,624.09	162.41	5,173.08
Electrical Apparatus	-	-	-	-	223.67	77.08	7.70	21.50
Glass	-	-	-	-	15.12	5.80	0.58	21.50
Total	156,646.62	29,133.20	2,913.33	188,693.15	136,135.63	25,423.29	2,542.33	164,101.25

Source : Customs Department

Table A-2

Rates of tax refunds through
the Fiscal Policy Office for exports, 1977

Commodities	Unit	Full re- fund rate	Regular
<u>Processed Food</u>			
Condensed Milk	₱/case (48 cans)	11.31 12	2.11
Butter	₱/case (48 units)	12.83	0.66
Canning & preserving of fruit & vegetable	₱/case	1.96	1.96
Wheat flour	₱/ton	25.50	25.50
Wheat bran	₱/ton	7.70	7.70
Purified maize oil	₱/ton	1,379.42	31.20
Cereal product (Instant noodle)	₱/ton	1,219.0	95.60
<u>Beverage and Tobacco</u>			
Cigars	₱/case (100,000 units)	129.31	3.21
<u>Construction Materials</u>			
Mixed concrete	₱/ton	18.08	18.08
Reinforced concrete product	₱/ton	72.48	22.53
Gypsum board	₱/ton	152.04	6.08
Sanitary wares	₱/kg.	0.55	0.25
Structural clay product	₱/ton	298.9	51.35
Non-metallic mineral product	₱/ton	111.54	50.13
<u>Intermediate Product I</u>			
Coconut fibre	₱/ton	74.86	65.50
Synthetic resins plastic materials	₱/kg.	2.24	0.20
Glass sheet	₱/ton	200.47	87.27
Optical glass	₱/12 pairs	9.49	0.16
Glutamic acid	₱/ton	449.13	353.90
Monosodium glutamate	₱/ton	571.20	374.30
Sodium lauryl sulphate	₱/ton	3,442.84	200.10
Alkyl aryl sulphonate	₱/ton	354.21	33.66
Plywood	₱/ton	75.28	75.28
Thread and yarn			
- cotton	₱/kg.	0.39	0.39
- polyester	₱/kg.	1.0	0.39
- rayon	₱/kg.	5.66	0.39
- nylon	₱/kg.	1.23	2.50
Pig iron	₱/ton	147.47	126.70
Iron rods	₱/ton	170.81	56.73
Aluminum blanks	₱/ton	553.05	189.90
Aluminum rods and bars	₱/ton	356.45	122.50

Table A-2 continued

Commodities	Unit	Full re- ¹ fund rate	Regular ¹ Rate
<u>Intermediate Products II</u>			
Woven fabrics			
- cotton	₱/kg.	2.77	1.7
- polyester	₱/kg.	3.38	1.7
- rayon	₱/kg.	8.04	1.7
- nylon	₱/kg.	2.20	1.4
Gunny bags	₱/ton	70.46	23.76
Pulp, paper and paper product	₱/ton	203.87	72.12
Vulcanized rubber	₱/ton	415.15	240.17
Basic industrial chemicals	₱/ton	1,453.75	37.92
Rubber tires and tubes			
- promoted firm			
exemption from import duties	₱/kg.	0.09	0.09
reduction of import duties	₱/kg.	1.14	0.09
- non promoted firm	₱/kg.	1.67	0.09
Rubber tires and tubes			
- promoted firm (reduction)	₱/kg.	0.90	0.06
- non promoted firm	₱/kg.	1.32	0.06
Rubber tires and tubes	₱/kg.	0.62	0.05
Camel back and cement thereof			
- promoted firm			
exemption from import duties	₱/100 kg.	7.73	7.73
reduction of import duties	₱/100 kg.	34.04	7.73
- non promoted firm	₱/100 kg.	47.34	7.73
Vinyl floor tile			
- promoted firm (reduction)	₱/kg.	0.75	0.05
- non promoted firm	₱/kg.	1.12	0.05
Plastic sheet	₱/ton	1,894.35	108.21
Plastic product ³	₱/ton	5,997.77	266.0
Metal product			
- promoted firm (reduction)	₱/ton	482.35	65.67
- non promoted firm	₱/ton	695.35	65.67
Fab metal except machinery	₱/ton	522.78	128.43
<u>Consumer Non-durable</u>			
Garments	₱/kg.	9.74	-
Leather product	₱/12 pairs	6.54	0.06
Footwear	₱/100,000 pairs	449.9	17.32
Plastic button			
- promoted firm (reduction)	₱/100 kg.	498.20	52.41
- non promoted firm	₱/100 kg.	725.68	52.41
Plastic bottles	₱/100 bottles	41.99	5.41
Knitting mills (outerwear)	₱/12 pairs	3.14	0.69

Table A-2 continued

Commodities	Unit	Full re- ¹ fund rate	Regular ¹ Rate
<u>Consumer Durables & Machinery</u>			
Refrigerator	฿/100 bottles	346.30	46.00
Telephone	฿/100 units	3,258.00	34.40
Electric and houseware	฿/million units	51,890.50	171.45
Motorcycle and bicycle	฿/ton	678.65	111.00
Flashlight battery	฿/1,000 units	77.13	5.83
<u>Machinery</u>			
Other non-electric machine & equipment	฿/units	346.30	46.00
<u>Equipment</u>			
Telephone cable	฿/ton	5,373.67	150.25
Motor vehicle			
- promoted firm (reduction)	฿/100 units	849.34	56.64
- non promoted firm	฿/100 units	1,360.15	56.64

¹ Column (a) - Full rate, used in case exporters have not used the reduction and refunding through the department of customs and Revenue Department.

Column (b) - Regular rate, used in case exporters have used the reduction and refunding through the Customs Department and Revenue Department.

The following taxes are not included in the refund rates:

- 1) Tariffs on machinery and equipment.
- 2) business taxes paid by exporters in case exporters are not manufacturers.

Exporters who paid those taxes may apply for their refund in addition to the stated refund rates.

² "Promoted firm" means those producers who benefit from the reduction of duties on imported inputs, as specified by the Investment Promotion Act.

³ Plastic products: rate is the average of the rates of plastic glue, polyethylene products, poly-vinyl chloride tubes and pipes.

Table A-3

Tax Refunds Through Customs Department to Export
Manufacturers by Type of Product, 1976-1978

	(Thousand Baht)		
	1976	1977	1978
<u>Processed Food</u>	9,211.5	12,102.5	18,673.6
1. Dairy food	2,796.8	2,991.8	3,750.5
2. Cereal products	219.4	156.1	148.2
3. Canned food	5,966.5	8,826.0	14,550.7
4. Glutamic acid & monosodium	-	-	-
5. Monosodium glutamate	228.7	128,128.7	224.2
<u>Beverage & Tobacco</u>	-	64.5	31.1
6. Cigar	-	-	-
7. Whisky	-	64.5	31.1
<u>Construction Materials</u>	5,983.2	2,489.1	853.8
8. Cement	5,451.0	1,396.2	243.3
9. Mixed concrete	-	-	-
10. Pre-fabricated concrete products (reinforced)	-	-	-
11. Vyl floor tile	223.9	381.0	137.4
12. Sanitary wares	308.3	686.5	267.8
13. Gypsum board	-	25.3	205.3
<u>Intermediate Products I</u>	1,815.0	2,875.1	3,526.4
14. Thread and yarn	177.6	146.0	69.6
15. Parquet flooring	-	-	-
16. Laminate flooring	-	-	-
17. Plywood	549.2	829.6	572.6
18. Coconut fibre	199.3	71.0	-
19. Synthetic fibre	-	-	-
20. Glass sheet	141.4	1,571.2	2,125.1
21. Pig iron	50.3	70.3	28.5
22. Iron rod	64.8	-	-
23. Non-ferrous metal products (Aluminum sheet)	43.9	48.9	105.4
24. Chemical products (sodium lauryl sulphate)	588.5	138.0	29.1

Table A-3 (Cont.)

(Thousand Baht)			
	1976	1977	1978
<u>Intermediate Products II</u>	40,188.7	60,697.6	51,362.7
25. Textile products	29,126.7	45,664.5	38,813.6
26. Bags and sacks	8,063.0	5,733.0	5,542.6
27. Wood product	50.8	-	-
28. Pulp, paper & paperboard	391.6	1,009.4	255.5
29. Female napkins	-	15.2	61.0
30. Basic industrial chemicals	84.1	103.5	261.6
31. Tyre and tubes	645.2	755.4	352.4
32. Vulcanized rubber	55.9	31.5	4.5
33. Rubber shores	39.6	6.1	5.4
34. Plastic product	1,186.5	5,516.4	5,254.7
35. Aluminum products	495.8	538.9	589.9
36. Metal products	49.7	1,323.9	221.5
<u>Consumer non-durables</u>	3,642.4	24,840.6	29,747.9
37. Made-up textile goods	540.4	2,171.7	5,386.2
38. Knitting mill (outer wear)	165.9	196.6	40.8
39. Wearing apparel	2,460.3	19,592.0	18,430.8
40. Optical goods	56.7	145.0	86.5
41. Flashlight batteries	-	-	-
42. Flashlight cylinder	-	-	85.8
43. Plastic button	419.1	740.9	711.5
44. Cultery hand tools & general hardwares	-	885.5	330.5
45. Glazed ceramic tile	-	1,109.0	4,645.7
<u>Consumer Durables & Machinery</u>	3,835.9	6,826.9	8,146.7
46. Refrigerator	406.9	749.2	420.8
47. Telephone cable	2,509.6	168.8	2,171.0
48. Television set	403.0	-	471.2
49. Radio	-	-	82.1
50. Condensor	-	252.1	993.2
51. Bicycle & motor-cycle chain	516.4	524.5	1,040.6
52. Motor vehicles' engines	-	1,723.9	2,967.9
Total	64,676.7	109,896.3	112,312.2

Source: Fiscal Policy Office

Appendix B. System of Quota Distribution in Thailand.

Thailand is at present a member country of the Multifibre Agreements (MFA), and having bilateral agreements on textile trade with a number of major importing countries including the United States, EEC member countries, Sweden, Norway, Canada, and Finland. The quota restrictions by the United States and EEC member countries covered a wide range of textile products, while those by other countries are mostly confined to garments. In addition, since the United States and EEC are major customers of Thai textile exports, the import restrictions by these countries are seen to be more important in restraining Thailand's textile exports at present by many textile producers than the quota imposed by other countries.

The quota restrictions, on the other hand, are seen to be desirable by a number of fabric and garment producers in that they ensure certainly in export quantity as long as Thai textile goods are with competitive price and quality. The quota distribution system in Thailand, however, tends to discriminate against small textile exporters and restrict new entries into textile export trade.

Most of the Thai textile exporters start to feel the constraint of the quota restrictions on their export expansion, and try every possible way to find overseas markets which are not subject to quota restrictions, as well as gearing their production toward the product not subject to quota wherever this is possible.

The effective utilization of quotas allocated by importing countries differs for different countries and different commodities. This is due either to the fact that some textile commodities which abundant quotas are not produced in a significant amount in Thailand, or that they are products which Thai producers lack competitive strength at the present time. It could also be due to the fact of slack demand for certain textile products in some specific period, and unawareness or lack of marketing channels for certain products in certain countries. Table B-1 to Table B-4 present the data on agreement quotas and actual quantity exported of Thai textile goods to the United States and EEC countries. In general, quotas by the EEC are more fully utilized than those allocated by the United States. This is because, according to some textile exporters interviewed in the survey, the United States tends to allocated "unwanted" quotas to Thailand, i.e., a variety of products which have been allocated quotas are not to the interest of Thai textile producers to export because of low profit margin, or the products are simply not produced in Thailand at the present time. The data on quota utilization, however, tend to reveal that fact that even in the restricted markets, there are still some room for expansion for Thai textile products, if the producers are keen enough to find additional marketing channels, and adjust their products according to the need of the markets wherever it is economically feasible.

The Thai government negotiates for textile quotas with the importing countries and distributes to textile exporters accordingly. The distribution of export quotas for textile goods is largely based on past performance. For textile goods which are not previously under quota agreement (those which are first time under quota restrictions), the distribution of quotas will be based on past export records on each item to each country. For textile goods which have been subjected to quota restriction in the previous years, the distribution of quotas will also be based on the actual export amount of the previous year. In addition, there is a regulation to penalize those exporters who did not utilize the full amount of quotas allocated in the past year as the following:

a. firms which exported more than 95% of the quotas distributed in the previous year will be allocated the full quotas received in the previous year plus any appropriate amount of additional quotas (depending on the results of governmental negotiations with various importing countries).

b. firms which exported in the previous year between 50-95% of the allocated quotas will be distributed the following year quotas equal to the amount actually exported in the previous year.

c. firms which exported between 25-50% of the allocated quotas in the previous year will be distributed export quotas in the following year equal to one-half of the actual exports in the previous year.

d. firms which export in the previous year less than 25% of the allocated quotas will not obtain any export quotas in the following year.

Exporters of textile goods subject to quota restriction must obtain licenses from the Department of Foreign Trade, Ministry of Commerce for exporting of the products. They also have to apply for the export quotas needed. There are two application periods for export quotas in a year. The application periods will be adjusted according to specific quota agreements. But the first period is usually January 1-15 and the second May 15-31. There is a condition that those who obtain the quotas should export the full amount within the last day of the sixth month after the quotas are allocated, otherwise the quotas will have to be returned to the government. The quotas returned will then be distributed to new exporters as well as exporters already with quota allocation. The allocation of the remaining quotas is usually made equally to each firm applying for the remaining quotas regardless of the size of the firm.

Table B-1

Export of Textiles to the United States of America
January 1 - December 31, 1978

Category	Quota	Quantity Exported	Balance	Exported/Quota (%)
<u>Group I</u> Non-Apparel				
313 Cotton Fabric Sheeting	7,050,000	6,651,091	348,981	94.34
314 Cotton Fabric Poplin & Broadcloth	4,500,000	3,375,026	1,124,974	75.00
315 Cotton Fabric Printcloth	5,800,000	5,557,526	242,474	95.82
317 Cotton Fabric Twills & Sateens	5,600,000	3,404,441	2,195,559	60.79
319 Cotton Fabric Duck	3,450,000	3,355,036	94,964	97.25
320 Cotton Fabric Other Woven NES	8,000,000	3,581,908	4,418,092	44.77
360 Cotton Pillowcases	1,000,000	13,675	986,325	1.37
362 Cotton bedspreads and Quilts	1,000,000	2,015	997,985	0.20
363 Cotton Terry & Other Pile Towels	1,000,000	780,415	219,585	78.04
369 Other Cotton Mfg.	1,000,000	605,907	394,093	60.59
613 MMF Woven Fabrics, Other, Whly of Non-Cont. Fibers	5,000,000	3,112,767	1,887,233	62.26
666 MMF Other Furnishings	1,000,000	4,890	995,110	0.94
669 MMF Other Man-Made Manufacture	1,000,000	15,888	984,112	1.59
<u>Group II</u> Apparel				
331 Cotton Gloves and Mittens	1,166,000	1,114,000	51,723	95.56
334/335 Cotton Coats	1,700,000	1,600,334	99,666	94.14
336 Cotton Dresses	700,000	564,211	135,789	80.60
338/339 Cotton Knit Shirts	3,402,598	3,389,443	13,155	99.61
340 Cotton Shirts	2,000,340	1,964,760	35,580	98.22
341 Cotton Blouses	1,275,974	1,251,596	24,378	98.09
342 Cotton Skirts not Knitted	700,000	32,930	667,070	4.70
347/348 Cotton Trousers	2,500,000	2,114,053	385,947	84.56
350 Cotton Dressing Gowns	700,000	3,213	696,787	0.46
352 Cotton Underwear	700,000	51,700	648,300	7.39
359 Cotton, Other Apparel	700,000	15,125	684,875	2.16
434 Wool Other Coats	100,000	11,875	88,125	11.00

Table B-1 (Continued)

Category		Quota	Quantity Exported	Balance	Exported/Quota (%)
436	Wool Dresses	100,000	2,485	95,515	2.49
440	Wool Shirts & Blouses not Knit	100,000	11,088	88,912	11.09
442	Wool Skirts not knitted	100,000	310	99,690	0.31
445/446	Wool Sweaters	210,000	80,114	129,886	38.15
448	Wool Trousers	100,000	193	99,807	0.19
631	Gloves and Mittens	700,000	67,441	638,946	9.63
632	MMF Hosiery	700,000	193	699,807	0.03
634/635	Coats & Jackets	11,871,850	9,903,492	1,968,358	83.42
636	MMF Dresses	700,000	43,261	656,739	6.18
637	MMF Playsuits	700,000	56,871	643,129	8.12
638	MMF Knit Shirts	700,000	668,394	31,606	95.48
639	MMF Knit Shirts & Blouses	14,830,200	14,212,680	617,520	95.84
640	MMF Shirts, Not Knit	700,000	494,472	205,528	70.64
641	MMF Blouse, Not Knit	1,800,000	1,758,705	41,295	97.71
642	MMF Skirts	700,000	36,187	663,813	5.17
645/646	MMF Sweaters	2,082,586	1,990,843	91,743	95.59
649	MMF Brasieres etc.	700,000	8,760	691,240	1.25
652	MMF Underwear	700,000	19,824	680,176	2.83
659	MMF Other Apparel	1,041,066	1,041,066	-	100.00
Total		54,000,000	47,004,983	6,995,017	87.05

Source: Department of Foreign Trade.

Table B-2

Export of Fabrics From Thailand to EEC Countries, 1978

Country	Agreement Quota			Quantity Exported			% Exported of Quota		
	Cotton Fabric	Synthetic Fabric	Total	Cotton Fabric	Synthetic Fabric	Total	Cotton Fabric	Synthetic Fabric	Total
W. Germany	3,395,000	1,296,000	4,691,000	3,266,100	1,097,438	4,363,538	96.20	84.68	93.02
United Kingdom	714,000	780,000	1,494,000	433,848	731,264	1,165,112	60.76	93.75	77.98
France	166,000	398,000	564,000	168,327	413,455	581,782	101.40	103.88	103.15
Italy	2,123,000	2,500,000	4,623,000	1,213,305	3,147,945	4,361,250	57.15	125.92	94.33
Denmark	1,150,000	176,000	1,326,000	995,312	263,846	1,259,158	86.55	143.91	75.06
Ireland	44,000	60,000	104,000	3,457	62,241	65,698	7.85	103.73	63.17
Benelux	665,000	585,000	1,250,000	385,336	863,827	1,249,163	57.94	147.66	99.93
Grand Total	8,257,000	5,795,000	14,052,000	6,465,685	6,580,016	13,045,701	78.30	113.54	92.84

* Exports exceeded quotas in some cases because of allowance for carrying over of unused quotas from the previous year and transfer between different types of fabrics.

Source : Department of Foreign Trade.

Table B-3

Export of Yarn of Discontinuous Synthetic Fibre to EEC Country (BTN 56.05)

(January-December 31, 1978)

Country	Agreements Quotas	Quantity Exported	Balance	Unit Kg.
				Quantity Export to Quota (%)
W. Germany	265,000	21,412*	243,588	8.08
United Kingdom	103,000	78,952	24,048	76.65
France	29,000	-	29,000	-
Italy	441,000	400,809	40,191	90.88
Denmark	2,000	-	2,000	-
Ireland	1,000	-	1,000	-
Benelux	59,000	46,191	12,809	78.29
Total	900,000	547,364	352,636	60.82

* Excluding the export figures of yarn under the special quota for Berlin Fair.

Source : Department of Foreign Trade

Export of Some Textile Items Under Export Control to EEC
January-December 1978

Description	Country	Quota	Quantity Exported	Balance	% Exported/Quota
Knitted shirts, singlets t-shirts	United Kingdom	2,473,858	2,473,858	-	100.00
	Denmark	312,000	257,138	54,862	82.41
	Germany	1,742,000	1,682,210	59,790	96.57
	Italy	85,000	2,000	83,000	2.35
	France	2,507,000	2,034,101	472,899	81.13
	Ireland	10,000	9,544	456	95.44
	Benelux	499,800	484,452	15,348	96.93
Jersey, pullovers, and the like	United Kingdom	1,823,550	765,514	1,058,036	41.98
	Denmark	375,128	299,138	75,990	79.74
	Germany	1,660,000	776,028	889,972	46.75
	Italy	94,000	2,560	91,440	2.72
	France	122,000	32,256	89,744	26.44
	Ireland	66,000	-	66,000	-
	Benelux	621,000	194,223	426,777	31.27
Men's and women's woven trousers and men's short and breeches	United Kingdom	105,000	92,687	12,313	88.27
	Denmark	202,872	202,872	-	100.00
	Germany	425,100	367,439	57,661	86.43
	Italy	29,000	28,991	9	99.97
	France	51,000	600	50,400	1.17
	Ireland	-	-	-	-
	Benelux	164,450	97,556	66,894	59.32
Women's woven and knitted blouses	United Kingdom	187,000	182,849	4,151	97.78
	Denmark	158,000	151,452	6,548	95.85
	Germany	943,950	869,354	74,596	92.09
	Italy	232,000	194,494	37,506	83.83
	France	132,000	123,127	8,873	93.28
	Ireland	7,000	3,852	3,148	55.03
	Benelux	235,000	218,714	16,286	93.07

Table B-4 -- (Continued)

Description	Country	Quota	Quantity Exported	Balance	% Exported/Quota
Men's woven shirts	United Kingdom	107,000	86,715	20,285	81.04
	Denmark	515,000	486,385	28,615	94.44
	Germany	400,000	151,587	248,413	37.89
	Italy	311,000	287,820	23,180	92.54
	France	86,000	76,436	9,564	88.88
	Ireland	11,000	-	11,000	0.00
	Benelux	246,000	237,528	8,472	96.55
Knitted gloves	United Kingdom	465,000	461,394	3,606	99.22
	Denmark	-	-	-	-
	Germany	1,000,000	1,000,000	-	100.00
	Italy	34,000	33,600	400	85.71
	France	42,000	36,000	6,000	85.71
	Ireland	2,000	2,000	-	100.00
	Benelux	305,960	305,960	-	100.00
Dresses	Italy	165,000	164,991	9	99.99

Source : Department of Foreign Trade.

Appendix C.

List of Textile Manufactures Interviewed

1. Asia Fiber Co.
Asia Garment Co.
2. The Bangkok Weaving Mills Ltd.
3. Dusit Textile Co., Ltd.
Erawan Textile Co., Ltd.
4. K. Cotton and Gauze Co., Ltd.
5. Luckytex (Thailand) Co., Ltd.
6. Metro Spinning Co., Ltd.
7. Siam Synthetic Textile Industry Ltd.
8. Siam Synthetic Weaving Co., Ltd.
9. Thai American Textile Co., Ltd.
10. Thai Durable Textile Co., Ltd.
11. Thai Filament Textiles Co., Ltd.
12. Thai Garment Export Co., Ltd.
13. Thai Iryo Co., Ltd.
14. Thai Kurabo Co., Ltd.
15. Thai Tiejin Textile, Ltd.
16. The Thai Textile Co., Ltd.
17. Thai Toray Textile Mills Co., Ltd.
18. Thai Wacol Co., Ltd.
19. Thai Weaving and Knitting Factory Ltd.
20. Union Textile Industry Corp.
21. Boonpradit Industry Co., Ltd.
22. Royal Textile Co., Ltd.
23. Chareon Weaving Mill
24. Unity Textile, Ltd.
25. Liang Ha Seng.

Appendix D.

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VI. Future Prospects

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2. Export market.

Appendix E. Type of Entrepreneurs and Different Export Orientation:
Case Studies of Selected Thai Firms.

The following examples show different type of Thai entrepreneurs with different export orientation.

The president and major shareholder of company I who also own several other textile firms is considered to be a capable entrepreneur in the Thai textile industry. He has received no formal education but has wide experience in textile trade and manufacturing. Although he has joint investment with a number of Japanese partners, the controlling power of the firms is usually his. His market strategy is mainly oriented toward the domestic market and border trade because of higher prices and profitability on these sales. Export sales are made through Japanese trading companies only to dispose of the surplus from domestic sales. As a result, the export to total sale ratio of company I fluctuates from 0 to 50%. The company has lost much of its export quota and it become more difficult for the firm to dispose its products to foreign market in recent years.

Company A, on the other hand, aims mainly to the export market. The company is the largest canvas producer in Southeast Asia and one of the oldest weaving mill in Thailand which was set up in 1950. The owner sent his son to study textile engineering in Britain in 1952. Later on other members of the family were also sent for overseas training. The management system of the company

was then changed. Foreign experts were invited to improve production techniques and several engineering graduates from Thai university were hired to help in the production process. In 1973, the company were converted into joint venture with a few foreign companies. The local entrepreneur maintained the largest share-holding and the controlling power of the company. A Japanese GTC became the company's major foreign partner and the representative from the GTC has been in charge of the export sales. The company was then largely expanded. New machineries were installed and production facilities for other cotton fabrics were added. The motivation for the joint investment was to obtain more capital for expansion, and to enter into international market by utilizing the worldwide marketing network of the partner trading company. The Japanese GTC by having the joint ownership in turn benefitted from guaranteed supply of canvas to Japan. The canvas importer in Japan, which was also a minor shareholder of the company, sent their men to give technical advice to improve the quality of the product. Technicians and foremen were initially set at 60% export and 40% domestic sales. Export sales were at a loss in the first few years but the entrepreneur believed strongly that for long run growth of the firm, export sales were necessary. The company has gradually accumulated unutilized export quotas from other textile firms. In 1978 export-sale ratio reached its target. The company is at present the largest exporter of cotton fabrics from Thailand. Export sales have become the major profit earner of the firm.

In 1976 a major textile firm were bankrupt due to over expansion coupled with drop of world demand for textiles and the lost of border trade in 1974-75. In March 1977, the company was divided into two parts, one of the plants was taken over by the creditors and they entrust the management to a textile producer-distributor group. This became company J. The other plant was continued on under its old name company G but with partly new ownership. The market orientation of these two companies is quite different. Company G was set up in 1960 and expanded tremendously during the 1960's. The founder of company G is a businessman who has good connection with many textile wholesalers in Sampeng district. The products were sold to Sampeng of which up to 30% was sent to neighbouring country through border trade. No attempt was made for direct export sales. The management of the company before the financial crisis was solely controlled by the owner and it is believed that over centralized management and the resulting financial linkages in the company were among the causes of the bankruptcy. The management style of the company has much been changed since the restructuring in 1977. A number of capable personnel were recruited. Various departments were set up. Cost accounting system were introduced, and a stricter quality control system was adopted. At present the company is exporting 20-25% of its products, mainly to the EEC countries.

Company J, on the other hand, has been more export oriented. The company has been distributed some export quotas from company G in the beginning of its establishment and has gradually increased its quotas by capturing unutilized quotas of other textile firms. Considerable attempts have been made to improve the quality of the products manufactured. The range of the products was narrowed down to save production cost. Raw materials were standardized. High quality cotton imported from United States and Sudan was used instead of domestic cotton. Strict quality control system was imposed. During the first year of operation, production together with sale personnel were sent to contact directly with overseas customers. The export sales of the company has been transferred to a GTC owned by the same group since the establishment of the GTC in 1979. At present, company J is exporting 60% of its products, mainly grey textile fabrics to the EEC countries. The strategy for exporting of the company is to sell to EEC market where there are relatively guaranteed order resulting from the quota system at present, then try to expand to countries with no quota restrictions. Attempts will also be made in the future to extend production to those items which are not subject to quota restriction.

In Thailand, there are a large number of textile firms not engaged in exporting at all. These are mostly small and medium scale firms, operated by the owners and their family members. Company X and company Z in our samples are among such non-exporting firm.

Company X is a weaver of P/C and cotton fabrics while company Z is a garment producers. The reasons given by the entrepreneur of company X for not exporting at all are that there have been enough demand for the firm's current production in the domestic market and there is no need for the firm to extend to export sales. In addition, selling in the domestic market does not have strict quality requirement, whereas export sales need high quality products which require installation of new machinery and this is beyond the financial capability of the firm. The entrepreneur has had long contact with local wholesalers in Sampeng but has no knowledge or experience at all on the export market. He feels that it is too risky for the small firm like his to do export business. The garment producer Z also owns a shop at Bobe market, the place for wholesaling garments in Thailand. The products of the company are Pijimas, children clothings and student uniforms. The firm purchase fabrics from Sampeng wholesalers to cut and sew in the factory, then the garments are sent to Bobae for sales. The entrepreneur reveals that at present there are some small garment producers who sell their products to Middle East and Thailand's neighbouring countries (Malaysia, Singapore and Burma) through trading companies. But he himself is reluctant to sell to foreign market since profit margin for export sales is lower, and it is hard to find workers with good workmanship in Bangkok at the moment. He is satisfied with the growth of his domestic sales thus far and have no intention to export his products.

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