

CHAPTER IV

OVERVIEW OF THAILAND'S SMEs



In this chapter, overall of Thailand's SMEs will be overview in this chapter such as histories and development of Thai SMEs, evolution of definition and standards for identify SMEs, the role of organization and assistance to development of SMEs, government policy and master plan, and the determinant factors of Thailand. All of these will be reviewed like here.

Thailand's policy and government structure for promotion of SMEs in Thailand, promotion of SMEs has been going on for over 30 years. The government has realized the importance of SMEs for the grass-roots economy. Development strategies for SMEs have been worked out consistently to remove obstacles of SMEs' operations and enhancing their potentials and competitiveness. Now we have to study Thai SMEs by the following items.

4.1 Histories and Development of SMEs in Thailand

We can say that the development of SMEs in Thailand has started since 1926. It started from the Department of Industrial Development had a role of helping, supporting and controlling to the Industries and include SMEs by objective of government, Ministry of Commercial at that time.

In 1927, the new process of the Ministry is investigation and finding information from old industries and new industries to progress the industries. The government had to control all production industries by an Act of manufacturing legislation together with sale-stores, which are under the name of "Thai Industry Store". The idea of this processing was to promote Thai's industries. So the development of SMEs was happened at the first when the government realized to the important of industrial systems. The objectives were production sector promotion, industrial controlling, and marketing promotion. In the production

sectors, the entrepreneurs were free to choose any kind of business and technology development by themselves.

In the mid-1930s, the first Phibun government put more emphasis on promoting the manufacturing sector in order to counterbalance the role of foreign capital and Chinese merchant capitalists. In 1936, the Industry Division was set up under the Department of Commerce, Ministry of Economic Affairs, and it expanded into a specific Ministry of Industry in charge of the promotion of manufacturing activities. The first state factories were launched in sectors such as sugar, tobacco and handicrafts.

Until 1939 to 1960, most enterprises were founded and have remained small or medium-sized. The private capital could hardly compete with military –related capital, which had political privilege. Therefore, the manufacturing did not progress much.

In 1942, the regime of Phibunsongkhram, Field Marshal, was conscious in industrial development. So the Ministry of Industry was founded in May 5, 1942. After that, its responsibilities were moved to under the Department of Industry Development with the same objectives, which were the production promotion, extendibility of new manufacturing, the dividing of production chains and had to define of the kind family industry and general industry. This is the first step of intensive and obvious assistance to SMEs by the government's policies in the era of Phage. The government's policies were named of “ Mala bring Thai” or bring the patriot to adapt into to the performance plan.

During 1950s, most of the industrial activity was arrived out by the great number of small enterprises developing on the basis of family, especially among the Chinese community. Late of 1950s, the industrialization model was abandoned under the Sarit regime that was inspired by Mr. Pridi panomyong in the period of 1932-57. So Thailand closed to US then has to reliance on US and Japanese firms come up with shift of export.

From the late 1960s to 1970s, local SMEs separated from the rapid growth of entire economy and had gone through direct and indirect channels of multi-level

subcontracting. Non-farm production and employment diversification include part-time non-farming activities in control and the Northeast of Thailand had taken place in both the formal and informal sectors located in the main urban centers, the Bangkok Metropolitan Region. Multi-level subcontracting had either intensified in some traditional sectors such as textiles and garments; it had been a tool to disseminate modern production standards. The number and type of manufacturing SMEs had been on rise and both the informal sectors had contributed to flexible production by large firms.

The development and promotion of Thai's industries had to put in National Five Year Plan. The industries had been playing the vital role in economy over the past 4 decades since 1st National Plan in 1962-1966 and 2nd National Plan in 1967-1971. The government had supported any facility, utility, information, research and advice to private sectors for developing their businesses.

In the period of 1972-1976, Thailand still had more potential industries, which the government realizes in development especially, the supporting and propellant industries to suburban region. In otherwise, the government had to support the raw material and labor industry for Thailand's economic growth.

Government policies in relation to SMEs were strongly mentioned for the first time in the 4th National Plan (1977-1981) as a measure to create employment to harness and effectively use given natural resources and to narrow the income gap.

In the 5th National Plan (1982-1986), the objectives of development were SMEs extendibility, linkage of knowledge, capability, and marketing. The targets were to increase all rural labor income.

In the 6th National Plan (1987-1991) and the 7th National Plan (1992-1997), SMEs was contributed to the improvement of income distribution and at the same time, to speed up industrial decentralization in order to distribute economic activity and the use to local natural resources. This would be carried out consistently with regional and urban development plans through the following specific measures of improvement and expansion of promotion of small-scale enterprises in provincial

areas. The policy measures provided by the government for the promotion and support of SMEs can be classified into 3 key of (i) Investment Promotion, (ii) Financial Assistance and (iii) Technical Training and Consultancy through various administrative organizations dealing with SMEs promotion activities.

In the 1980s and 1990s, public incentives targeting large domestic and foreign firms had aggravated the imbalance and the rapid growth had not been distributed among all categories of producers. So SMEs have been able to develop and diversify along the path because Thai's SMEs had been more active on export from than many large firms and preoccupied with expanding domestic markets. SMEs controlled to large extent by Chinese traders. Other specific factors, requiring higher technology and capital had been gradually launched with foreign partners from Japan. Small firms have been able to benefit not only from cheap rural labor and had to established and expanded in sooner.

In the 8th Five Year Plan (1997-2001), there was quite a number of problems encountered by SMEs especially those in the manufacturing sector development because of the financial crisis period of Thailand. The government had to find out the measure and strategies to help and encourage SMEs in many ways.

The 8th National Economic and Social Development Plan is to promote and encourage establishment of industrial estates and export zones in the rural areas, control of industrial pollution, establishment of research institutes and development of quality industrial products.

The SME issue was hardly mentioned. There was only one minor item recommending the promotion of an SME industrial estate. During the first phase of the crisis between mid-1997 and mid-1998, the importance of the SME sector was recognized only on paper, under the revisions to the 8th National and Economic and Social Development Plan, and more specifically the National Industrial Restructuring Plan to be coordinated by the Ministry of Industry. In the planning document titled "Strategies for Incubation and Strengthening of SMEs under the Five Year, so a new SME strategy is supposed to target.

When financial crisis in 1997, expansion of domestic market had been the key development factor of local SMEs. The failure launch to SME market on Stock Exchange of Thailand has demonstrated again the deeply rooted family-based culture of SMEs. Thailand's Ministry of Industry has set up its policy guidelines for 2001-2006 in according to the 9th Nation Economic and Social Development Plan with particular emphasis on the development of the SMEs. Measures aimed at stimulating the grass-root industries in the near term include: initiating the "One Tambon, One Product" project for communities to use their local knowledge to develop own products with technical support from the Ministry; speeding up the implementation of the Industrial Restructuring Plan; Personnel development in modern production technology, environmental management, industrial safety and the adoption of international standards in both in the public and private sectors; providing consulting services for industrial production cost reduction; the measures of financial and economic assistance such as setting up the SME Bank to solve liquidity problems in the industrial sector; cooperating with commercial banks to provide credit to SMEs; speeding up tax restructuring program; providing measures to alleviate the impact of regional trade agreements and sharing information with the private sector on trade and investment related issues.

The 9th Economic and Social Development Plan to be implemented starting in 2002-2006 identifies competitiveness as one of the main pillars and embodies the return to longer-term issues. More recently, the present administration of Prime Minister Thaksin has seen increasing attention to industrial development and competitiveness. In early 2002, a very high-level National Competitiveness Committee was established to spearhead government's policy efforts across a wide rang of related areas, combined with the establishment of a special Office for SMEs Promotion, something related to Board of Investment focusing on supporting SMEs and other government agencies included private sectors.

4.2 Evolution of Definition and Standards for Identifying SMEs

In Thailand, no national definition of SMEs has been proposed and commonly accepted, various public agencies and each organizations have used their

own SME classification criterion, primarily to suit their respective institutional need. Some of concepts are confusing or unclear.

By general, the meaning of Small and Medium enterprises is the business of production and service that are low capital and low sale. Otherwise, it is fewer employees in firm and usually is individual business.

In Thailand, at the first time, there is no generally agreed definition of SMEs by law yet. Each organization has derived their own definition of SMEs for convenience in their work. The various administrative organizations that deal with the SMEs classify SMEs based on the measures of fixed assets, registered capital, sales or number of employees. Many institutions set their own definition by themselves.

In 1976, at the first time in Thailand, The Industrial Finance Corporation of Thailand supported NIDA and Thammasat University to study and research about SMEs industry. This research had made the important even that was utilized to SMEs and appeared the definition of SMEs at the first time. The SMEs were defined to be there groups industry by number of employees as the following :

<u>Type of Industry</u>	<u>Number of Employees (person)</u>
Small scale	10-49
Medium scale	50-199
Large scale	more than 200

The actually, it also consider the value of asset but it is difficult to define because of the asset data of each factories are unsystematic especially small industry. So at the first period, we have to define the size of SMEs by number of employees.

After that, Thailand's Small and Medium Enterprises according to the definition given by Ministry of Industry of Thailand on December 1987. SMEs defined by invested capital and number of employees as follows:

1. Defined by number of employee

- 1.1 Small scale industry - not more than 50 employees.
 1.2 Medium scale industry - more than 50 employees but not more than 200 employees.

2. Defined by invested capital

- 2.1 Small scale industry - not more than 10 million Baht
 2.2 Medium scale industry - more than 10 but not more than 100 million Baht

At the first period, the government has classified the definition as the above. Finally, the government by the SMEs Promotion Act, which is discussed in the national assembly, is also provide a definition of SMEs into four sectors of namely industry, service, trade (wholesale, retail) and others with different definition in the Act. Using Fixed Asset sets it up.

From the discussion between The Department of Industrial Promotion and the 11 support associations on 8 December 1997, they all agree that the definition of SMEs should be defined by objects of the related institutions with the value of Fixed Assets (include lands) and separated by 3 sectors.

1. Manufacturing
2. Service
3. Commerce (That are included of wholesaling and retailing)

On December 22nd, 1998, the Cabinet approved the indicator of net fixed assets as a third criterion to measure the size of enterprises. Then, on January 15th, 1999, it was decided to include under the new SME Bill, any kinds of SMEs definition, that are defined to be the same criterion by Ministry of Finance and Ministry of Industry, it was set up value of Fixed Asset by including lands and divided by type of enterprises as the following :

1. SME are considered as a single group;
2. Fixed assets are up to BHT 200 million for SMEs in production and services, up to BHT 100 million for wholesale trading SMEs, up to BHT 60 million for SMEs in retail trade;

3. Small enterprises have maximum fixed assets of BHT 50 million the first three sectors mentioned above, and up to BHT 30 million for those in the retail sector; and
4. Production includes agriculture, manufacturing and mining.

Table 4.1
The definition of SMEs by According to Fixed Assets

Sector	Small Enterprise	Medium Enterprise
Manufacturing	Not more than 50 million Baht.	Not more than 200 million Baht.
Service	Not more than 50 million Baht.	Not more than 200 million Baht.
Trade (wholesaling)	Not more than 50 million Baht.	Not more than 100 million Baht.
Trade (retailing)	Not more than 30 million Baht.	Not more than 60 million Baht.

Source: Ministry of Industry, Thailand, 1999 (land price is included in fixed asset)

The various administrative organizations are still having the other differentiation standard that issued by differentiation standard or regulation. It has been classify SMEs based on measures of fixed assets, registered capital, or sales as the below table

Table 4.2
Definition of SMEs issued by other Institutions

Institutions	Criteria	Definition
Bank of Thailand	Net fixed assets or Registered capital	Small scale industry, not more than 20 million Baht
Industrial finance Corporation of Thailand (IFCT)	Net fixed assets	Small scale industry, not more than 20 million Baht
Small Industry Finance Corporation (SIFC)	Net fixed assets	Small scale industry, not more than 20 million Baht
Commercial Bank	Sale amount, Net fixed assets and others	Various
	O.D. Credit or Outstanding	Small scale industry, not more than 10 million Baht

Source : Industrial Development Division, Department of Industrial Promotion, Ministry of Industry. (November 1995)

As far as, the definition of Small and Medium Institutions (SMIs) concern with the definition by using definitions which are often based on the fixed assets or total capital. Only a few institutions take the number of employees as the criterion.

They define the small size as holding fixed assets under 50 million Baht. So the current definition using by leading institutions is as follow.

Table 4.3
The current definition using by leading institutions

Institutions	Small-scale		Medium-scale	
	Assets	Employees	Assets	Employees
DIP	(F) less than Bt. 50	–	(F) Bt.50 – Bt.200	–
TCC	(F) less than Bt. 50	–	(F) Bt.50 – Bt.200	–
FIT	(F) less than Bt. 50	Up to 50	(F) Bt.20 – Bt.100	–
IFCT	(T) Bt.25 – Bt. 100	–	(t) Bt.100 –Bt.1000	–
SIFC	(F) less than Bt. 50	–	–	–
SICGC	(F) less than Bt. 50	–	–	–

Source ; Unico International Corporation International Development Center of Japan

Remarks: (T): Total assets
(F): Fixed assets
DIP: Department of Industrial Promotion, Ministry of Industry
TCC: Thai Chamber of Commerce
FTI: Federation of Thai Industries
IFCT: Industrial Finance Corporation of Thailand
SIFC: Small Industry Finance Corporation
SICGC: Small Industry Credit Guarantee Corporation

Especially the financial institutions define SMEs not by the number of employees but by the amount of asset. This is because IFCT and SIFC are basically dealing with project financing, in which the project cost indicate the company scale (i.e. amount of the new company's fixed asset). If the government bases its policy for the SMEs solely on the amount of the assets, it may fail to grasp the whole picture of the SMIs, which have many different modes of companies. Therefore, it will be more realistic to use both the amount of assets and number of employees as indexes.

For the business of SMEs in other country, it still has the different definition by suitable of each country. It may be defined by the value of total assets, fixed assets, capital investment, and number of employees or mixing.

4.3 The Role of Organization and Assistancess to Development of SMEs

a). Government Support Agencies

The goal of the SMEs policy implemented right now is, as stated in DIP's basic policy. Many support plans for technological improvement and human resource development are introduced in IRP project. Not only DIP but also other departments and institutions are also implementing similar projects

The support for SMEs information oriented infrastructure organization reform, and market development are hardly dealt with yet. To do this, support for development of the information oriented infrastructure and organizational reform cannot be avoided. The table of role and function government agencies related to SMEs development is as the follows.

Table 4.4
Role and Function of Government Agencies Related to SMEs Development

Policy Marking	NESDB, BOI	NESDB, DIP, OIE	NESDB, DIP, OIE	MOC, BOI, MOI	NESDB, MLSW, MOE, DIP	NESDB, MOE, DIP	NESDB, IEAT
Market Development Promotion	BOI	DIP	DIP	DEP, DFT, DIT	MLSW, MOE, DIP	MOI	IEAT
Financial Support	IFCT, SIFC, SICGC	IFCT, SIFC, DIP	SIFC, IFCT, BOT	Ex-Im, BOT	DIP	BOT, IFCT	
Organization Development		DIP	DIP		DIP	MOI	
Information Supply & Development	BOI, DIP	MOI, BOI	MOI, DIP, BOI, TPI	DEP, DFT, DIT	MOE, DIP	DIP, DEQP, TISI, NSTDA	IEAT
Seminar & Training	BOI, DIP	DIP (PIO)	DIP, BOI	DEP	DIP, MLSW, TPI	DIP, NSDA, DOVE, DIW, TISTR, NIMT	IEAT

Source ; Unico International Corporation International Development Center of Japan

Remarks:

BOI : Board of Investment

BOT : Bank of Thailand

DFT : Department of Foreign Trade

DIP : Department of Industrial Promotion

DIT : Department of Internal Trade

Ex - Im : Export-Import Bank of Thailand

MOE : Ministry of Education

NESDB : National Economic and Social Development Board

NSTDA : National Science and Technology Development Agency

OIE : Office of Industrial Economic

SICGC : Small Industry Credit Guarantee Corporation

SIFC : Small Industry finance Corporation

IEAT	;	Industrial Estate Authority of Thailand	TISTR	:	Thailand Institute of Science & Technological Research
IFCT	;	Industrial Finance Corporation of Thailand	TPA	:	Technology Promotion Association (Thailand-Japan)
MLSW	;	Ministry of Labor and Social Welfare	TPI	:	Thailand Productivity Institute
MOC	;	Ministry of Commerce	NIMT	:	National Institute of Metrology Thailand

The overall framework is still maintained up to now. The only change are that the Small Industry finance Corporation (SIFC), which had started its operation substantially in the latter half of 1994, was added, and due to the organizational change of DIP there were some jurisdictional adjustments.

The SMEs Promotion institutions, while the SMEDI is to support human resource development and management skill development. These two organizations are to become the core for the government to rise up the SMEs. If these two organizations fulfill the planned function well, they will bring a great result in rising up the SMEs in Thailand.

For the financial support, not only SIFC and IFCT, but also general commercial banks are moving in the direction of accommodating the need of the SMEs. MOI and MOF jointly work to strengthen the present SMEs financing system, compared to the past, this system is making progress. (The SIFC provides loan to small industries and IFCT provides loans to SMEs and large enterprises.)

Department of Industrial Promotion (DIP) under Ministry of Industry is to provide technical assistance, in terms of testing, training, technical information, and other consultancy services to overall SMEs and some target Agro-industry, metal-working and machinery industries, ceramics, gems and jewelry and handicrafts.

Bank of Thailand (BOT), provides credit to exporters through a concessionary rediscount facility with maturity periods of up to 180 days. This facility is operated through the commercial banks.

The Department of Export Promotion (DEP) under the Ministry of Commerce provided information on potential market and buyer's relevant training to Thai exporter, trade information to foreign buyers.

Boards of Investment (BOI) offer export-oriented incentives for export-oriented investors in Thailand by

- Exemption from import duties and business taxes on imported raw material, trade information to foreign buyers
- Selective exemption from business taxes.
- Exemptions from export duties and business taxes.

Other roles are provides a streamlined procedure to enable promoted exporters to make use of the tax exemptions on imports to be used in exports and offer tax incentives for setting up R&D laboratories and the related important machinery and equipment for use in R&D activities. The Thailand Institute of Scientific and Technological activity, i.e. research and develop to serve almost all production sectors of the economy.

Other kind of organizations, which are not in the table but also have a role to assist and support SMEs in any way such as:

1. The Science and Technology Department Board (STDB) raises the level of technological capability of Thai industry through R&D grant support to public-sector researchers, R&D grant and loan support to companies, as well as information and consultancy services.

2. The last one is The National Research Council of Thailand (NRCT) which funds research activities in wide-ranging areas, from basic science to social science in the public sector, including universities.

b). Private Organization and Support Agencies

In Thailand, there are the main economic organizations of private sectors as the followings:

1. Federation of Thai Industries (FTI)
2. Thai Chamber of Commerce (TCC)
3. Thai Banker' Association (TBA)

Among them, TBA is an organization for financial institutions, such as banks and insurance companies, which are not the target companies of this study. Therefore, will only deal with FTI and TCC here.

1. Federation of Thai Industries (FTI)

FTI used to be the Association of Thai Industries, which was established in 1967, and became the present organization in December 1987. The purpose of the organization is, in short, to lobby for the industrial promotion in Thailand. To support member companies, the FTI holds seminars to raise up resources and to improve skills and technologies.

The activity varies from sector to sector. FTI's membership includes SMEs, the ratio of SMEs in FTI is rather low, and main membership is the large size companies. The FTI installed the Small and Medium Enterprises Development Committee within it, and conducts pre-screening and mediate for SMEs for the promotion programs concerning technology transfer. It also supports SMEs members to get loans from financial institutions.

2. Thai Chamber of Commerce (TCC)

TCC is a head organization for the Chamber of Commerce in each Province, and conducts lobbying to the government, or sometimes on behalf of the nation, it deals with overseas organizations. Current membership nationwide is 24,000 companies, which include commercial, service, construction and manufacturers as well. Consequently, some manufacturers join to both TCC and FTI. Most of TCC members are classified as SMEs according to the TCCs' definition. Within TCC, there are 13 Sector Committees. There is also the Committee for Small and Medium Enterprise to gather opinions for supporting SMEs. One unique activity of TCC is that it founded the College of Commerce in 1940 as an internal organization for the improvement of management skill and knowledge of the SMEs.

We introduced FTI and TCC as representative non-governmental organizations in Thailand. At the first, there is virtually no private organization just for the SMEs. There is no organization in which small size companies can unite in

lobbying activities or secure business opportunities through joint efforts in actual business activities, and improve the status of the small size companies.

One recent movement is that the graduates of the “Entrepreneurship Development Program” sponsored by DIP. ATSMES started in 1997 as an official organization under the auspices of DIP. The secretariat is presently located inside the DIP. The organization has following six fields of activities :

- Human Resource Development
- Trade and Investment Promotion
- Foreign Affairs
- Member Relation
- Information Service
- Special Activities

One of the purposes for the organization is to strengthen the tie among SMEs, and to correct their disadvantage in competition. The ATSMES is an organization to foster mutual friendship. However, the task for the future is to promote the Thai small companies’ cooperation.

4.4 Government Policies and Master Plan Review Under the SMEs

Development to Manufacturing Sector

The development concept of Master Plan for SMEs Promotion is to enhance competitiveness to the global standard. SMEs will recover from the slump and further grow towards the international standard through strengthening of competitiveness. So five strategies for achievement of the concept of development were created that we offer as above. On April 11, 2000, the Cabinet agrees to extend the master plan to develop and strengthen manufacturing sector, which are responsible by Bureau of Industrial Promotion Policy & Planning, Department of Industrial Promotion. The strategies, measures & relevant agencies are briefed to be 7 point strategy as:

- Strategy 1 Upgrade Technological & Management Capabilities of SMEs
- Strategy 2 Develop Entrepreneurs and Human Resource of SMEs

- Strategy 3 Enhance SMEs' Access to Markets
- Strategy 4 Strengthen Financial Support System for SMEs
- Strategy 5 Provide Conducive Business Environment
- Strategy 6 Develop Micro-Enterprises and Community Enterprises
- Strategy 7 Develop Networking of SMEs and Clusters

4.5 The Investigable Factors of Thailand

a) Foreign Assistance and Support

In the past, Thailand has never got any fund to support SME from foreign country as Taiwan in after period of World War II. In Thailand, it is started from the economic shock of July 1997, the very rapid rise of unemployment during the first quarter of 1998 have been mainly attributed to the badly hit SMEs, in comparison to large firms. Prime Minister Chuan Leekpai's Cabinet has been criticized for pouring help into the financial institutions at the expense of the real industrial sector, including SMEs and the millions of unemployed. Externally, international financial assistance has also started to target the SME sector in Thailand. The initiative has not only come from the IMF or the World Bank, which have continued to work primarily at the macro policy level, but also come from the number one bilateral donor, namely Japan. Following a visit by the Thai Prime Minister to Tokyo in October, a first so-call Miyazawa Loan Facility of US\$2.35 billion was announced on December 16th, 1998. It was expected to become operational in March 1999 as part of a US\$30 billion regional recovery plan proposed by Japan.

Under the Miyazawa Facility, half of total funding should be devoted to the stimulation of investment and job creation, notably in the SME sector. Japanese multinational corporations and related support SMEs in key sectors of suppliers and subcontractors are automotive and electronics.

With the back up of the Miyazawa Plan, a first financial package of BHT 35 billion (about US\$945 million) was announced to facilitate the financing of SMEs

through the existing specialized financial institutions. An additional BHT 5 billion (US\$132 million) and BHT 2.1 billion have also been allocated to support the drafting of a so-called SME Master Plan and the establishment of an institute for SME development (ISMED).

Two venture capital funds were announced as part of the stimulation package of August 1999. A Thailand Recovery Fund, targeting medium-sized firms with initial capital of US\$100 million is to be set up with support of the Asian Development Bank (ADB), which is established a specialized investment fund for SMEs with certain level of competitiveness and possibly Japanese bilateral aid. Another SME investment fund will be started by the Ministry of Industry with a 10 years closed-end capital of US\$35 million, including a possible contribution of US\$15 million by Bank of Taiwan.

We also have The Union Support Fund for SMEs. The European Union is currently funding an SME development project in the south of Thailand, which has set up a pilot incubation program at Industrial Promotion Center in Had Yai. The incubation center is now operational and working particularly to encourage the development of new information technology based companies. The Institute for Small and Medium Enterprise Development has adopted this pilot incubation program and will develop it at other sites in Thailand.

b) Strong Leadership

We have some idea and opinions from many critics like these :

Some opinions from the web-side of Thailandguru.com, item of economy, government, business, which wrote about Thailand's leader as:

Thailand's government in the current Prime Minister is Dr. Thaksin Shinawatra, who is a rich businessman. He is different from previous prime ministers in that he is by far the most modern forward-thinking and business competent prime minister in Thailand history.

Prime Minister Thaksin is dominating leader in the current political system with the reason to look at Thailand's future. Some of the controversial ones is his effort to help the poor with cheap health care, which has created some financial burdens on the government hospital infrastructure (but does not affect the countless private hospitals). Another is his war against drugs and dark influential.

Dr. Shinawatra's government stands up well for Thailand in the world, and does not easily bow to pressure from foreign powers while most of its positions are seen in a positive light by foreigners, especially by business men, some political position are not seen the same way by the foreign press, though they are usually quite understandable. In order for any foreigner to understand or predict the current Thai government's positions, it is important to be able to see things through the eyes of a smart, experienced and independent thinking Thai leader.

BBC News online: World: Asia-Pacific on Monday, 31 December 2001 wrote about "Thailand's new style of leader" By Jonathan Head. Some information of close friends insisted that Thaksin's personal qualities would see him through. "He is a fighter, he never gives up, he wants, to make the country ready, to come back, to recover, to move forward", said former Finance Minister Thanong Bidaya.

Some opinion of Mr. Suranand Vejajiva said, "Mr. Thaksin's spokesman, his habit of speaking has come from his mind and his business background. He is not a real politician in that sense, he always says what he thinks, and sometimes what he thinks might not sound good to other people. He is a good businessman style in this globalize world."

Said Mr. Sunai Pasuk of the Asian Network for Free Elections, "Thaksin as a person can save the country and to meet the demands of the people for strong leadership."

The Asia Pacific Management News, 8th Jan. 2001, in the column of "Thaksin Shinawatra's Thai Rak Thai: Nothing succeeds like success" critic about him that :

Thaksin also cleverly exploited nationalist sentiment in the wake of IMF intervention post crisis and the increasing foreign ownership of Thai companies, especially the banking and finance sector.

The best thing that Thaksin has going for him is that he is a businessman (as CEO of Shin Corp), though success in business is not usually a strong predictor of success as a nation leader. Managing a country of 60 million is far more complex and different from any corporate enterprise, though some management skills are certainly transferable.

c) Investment Promotion and Encouragement of FDI

Foreign investment is welcomed and encouraged by the Thai government. Thailand provides an attractive environment for FDI with its central location in Asia, good infrastructure and efficient transportation, affordable wages, adaptable labor force, reasonably low real estate and construction cost, and commitment to trade and investment liberalization with ASEAN, APEC and other countries.

The Board of Investment (BOI) has various investment incentives for potential investors looking to set up a business in Thailand. The BOI also provides investment promotion services and aims to be one-stop shop for all investment related services. The BOI gives special consideration to investment projects, which are export oriented, support resource development, substantially increase employment.

To ensure security of investment, the Investment Promotion Act also guarantees against nationalization, state competition, and state monopolization. Furthermore, the investor is granted permission for foreign ownership of land and for entry, employment of foreign nationals, and to remit foreign currency abroad.

To help investors remain cost-competitive, the BOI actively promotes development of subcontracting relationships between end-product assemblers and

Thai part and component manufacturers through an initiative called the Vendors Meet Customers Program. On a monthly basis, the BOI organizes visits by Thai suppliers to end-product assemblers, thereby providing an opportunity for buyers to meet with dozens of potential suppliers at one time to discuss the possibility of domestic sourcing of parts and components, which will reduce their overall production cost.

The BOI aims to supplement and strengthen the domestic resources by encouraging foreign businesses, which allow technology transfer, encourage Thai participation in ownership and management, help upgrade the product quality of Thai suppliers and sub-contractors. The basic incentives offered by the BOI include tax incentives such as corporate income tax holidays, exemption or reduction of import duties on imported items, and exclusion from taxable income of dividends during the tax holiday, etc.

Major Tax Incentives for Promoted Companies:

The BOI grants two major types of tax incentives to promoted companies namely;

- Exemption or reductions of tariffs on imported machinery and equipment, as well as raw materials for the promoted activity, and
- Exemption from income tax on net profits and dividends.

To prevent unfair competition from imports, temporary tariff surcharges or bans may be imposed on imports.

To promote decentralization of industrial activities away from Bangkok, the BOI has divided the county into Investment Promotion Zones.

The BOI has divided all provinces of Thailand into three investment zones. Investors who set up their operations in provinces outside the central region of Thailand are entitled and derive special treatment to a wider range of tax incentives.

The promising areas for business and investment development in Thailand have been identified that are the sectors of Food processing industry, Electronics

and electrical industry, Automotive and auto parts industry and also Mould and die industry.

Advisory services to investors and interested persons include business and investment information, identification of prospective joint-venture partners between foreign and local investors, dissemination of information on investment opportunities, preparation of project proposals and study of project feasibility, advice on factory locations and on machinery and equipment, application for business incorporation and factory licenses, legal and tax advice, arrangement of seminars, business meetings, and training programs to boost the management efficiency of industrialists.

The strategy involves helping to upgrade Thai competitiveness, especially at the SME level. To help them become more productive, the BOI will expose them to “industry-best” practices and technologies and the importance of skills training and technology transfer. In addition, the BOI will work with foreign investors to attract technologies new to Thailand and introduce them to Thai SMEs. The BOI also has a strategy to market community enterprises by transforming the BOI’s regional offices into marketing organizations to help improve the capabilities of Thai SMEs at the grass-roots level. The BOI will work with other Ministries to ensure that promising SME enterprises receive all the support the government can provide.

The new law, which is to be entitled the Foreign Investment Law, is expected to open new sectors to foreign investment and amend existing legislation covering restrictions on foreign ownership of land, condominiums, and securities, as well as immigration and insurance. The intention of the new bill is to encourage more foreign investment by reducing the number of business sectors reserved for Thai nationals and introducing greater transparency into the regulatory process.

d) Emphasis on Market Mechanisms

Many SMEs’ productions are not market-oriented, with lack of marketing know-how in term of increasing the value-added of products, distribution channels,

and lack of marketing cooperation among SMEs. As a consequence, their marketing is not successful both in domestic and foreign markets.

In trade sector, SMEs have to struggle with high competition from countries that have lower production cost such as China and India. Thai exports are in a downturn as long as the efficiency of their production does not improve.

Thailand fully realized the importance of having a strong and effective competition policy that the government is to support an economic system under a free market system. The Ministry of Commerce, which is directly responsible for national trade and competition has defined its vision to promote free and fair trade in order for there to be an efficient market mechanism, to eliminate anti-competitive practices and monopoly, and to protect consumers.

Thailand operates a free market policy as international trade is an important factor in its national development. Therefore, it is imperative that Thailand participates in the negotiations to determine various rules and regulations in international for a both at multilateral and regional levels. Thailand as a member of the World Trade Organization (WTO)

The several measures have been adapted to trading environment and increasing their international market as strategy follows:

1. The Department of Export Promotion of the Ministry of Commerce works for implementing the five-year program to offer information services to exporters, to invite foreign imports to trade fairs and exhibitions.
2. Thailand has organized international seminars and attended various international conferences and seminars on competition policy and law in order to gain information, knowledge, and share experiences by other countries.
3. The Thai Export-Import Bank of Thailand supplies a grant for paying a fixed rate of interest to firms trying into export markets. For this grant, the International Trade Promotion Fund contributes 150 million Baht annually for five years, 750 million Baht in total to the Export-Import Bank. The grant is supplied within 5% according to export sales by firms.

4. In otherwise, The Export-Import Bank of Thailand is also providing SMEs with packing with lower interest rates when they launch out into an export enterprise. The total capital for the packing credit amounts to 2 million Baht.

5. We have a co-initiator in organizing a five-year Partner for Progress (PFP) project on competition policy for member countries of APEC with the financial support form Japan.

6. The Export Import Bank of Thailand is newly giving trade insurance to export bills or export letter of credit by small-lot exporters. The trade insurance aims to relieve their risks to develop new export markets. Since small-lot exporters take their risk to the Export-Import Bank of Thailand, they do not worry about raising funds when they embark on an export enterprise. The trade insurance to exportation with letter of credit can cover bankruptcy or default of the banks issued the letter of credit.

7. As to taxation support, the Ministry of Finance, the National Tax Administration Bureau, and the Department of Export Promotion of the Ministry of Commerce are trying to introduce a taxation system to deduct double the amount of expense needed to newly advance into the export market. Moreover, the BOI decided that exemption of import duties on raw materials to ten industries such as lather, ready-made clothes, shoes, and etc.

8. For marketing support, the government worked out a five-year program to develop new export market. This program aims to expand the export of Thai product beyond its traditional destination including Japan, Unite States, and Western Europe.

9. With respect to international forums, Thailand established a sub-committee to consider any issue related to competition policy and prepare the positions of Thailand for negotiations under WTO forums.

However, the changing marketing environment and increasingly high competition both in domestic and foreign markets it imperative for SMEs to adapt for survival. SMEs can apply their strength, such as flexibility and mobility in providing goods and services different from large enterprises. At the same time, the manufacturers also conduct market surveys to identify consumers' demand. Another popular marketing strategy is through E-commerce. This should largely

increase market channels for SMEs because E-commerce can reach targeted customers more widely and easily.

e) Supports for Industrial Advancement

A study report on Industrial Sector Development of Supporting Industries in Thailand (March 1995) prepared by UNICO International Corporation of DIP and the Japan international Cooperation Agency (JICA) included a proposal master plan for the development of supporting industries but which also affect SMIs in general. The proposal covers six elements as:

- a. Policy and Legislation
- b. Market Development
- c. Technology Upgrading
- d. Financial Support
- e. Upgrading of Management
- f. Investment Promotion

There are several Acts of Parliament. These refer to the setting up of the following institutions and regulations, which directly relate to SME development. As:

The Department of Industrial Promotion (DIP) under the Ministry of Industry acts as the lead agency of government of SMEs Promotion and development and follows the guidelines set by the Ministry of Industry and National Plan in elaborating its own policies to support the sector, this policies include:

- 1) encouraging the dispersal of urban industries to rural areas by: preparing industrial feasibility studies stimulating, guiding and providing advice to investors providing industrial information and incubator services for new entrepreneurs
- 2) encouraging investment in SMEs by: transferring knowledge to rural entrepreneurs providing advice and incubator service to both existing and new entrepreneurs promoting the use of the Consultancy Fund for

- developing SMEs in the rural areas carrying out career training on cottage and handicraft industries for local people
- 3) establishing industrial networks by: promoting rural industries in the form of community industries promoting linkages between large industries and SMIs coordinating with government financial institutions on loan policies promoting rural development.
 - 4) promoting investments in highly potential industrial sectors and enhance the competitiveness of Thai industries by: encouraging investment in and developing technological capabilities of SME supporting industries undertaking activities according to the master plan for the development of supporting industries.
 - 5) enhancing the competitiveness of export-oriented industries by: developing skill workers for the gem and jewelry industry promoting textile industry by modernizing its manufacturing technologies developing the skill of entrepreneurs in business negotiation and joint venture.

The Small Industry Credit Guarantee Corporation (SICGC) Act of 1991 established the corporation to enable collateral-short but viable small industries to obtain more loans from financial institutions, to increase credit extensions from financial institutions, to small-scale industries (SSIs), and to accelerate the dispersal of loans to SSIs.

Industrial Estate Authority of Thailand (IEAT) was established in 1979 by virtue of Act of Parliament as a state enterprise attached to the ministry of Industry with the main purpose of planning, developing and managing industrial estates throughout the country. The Act was amended to cover private industrial zones so that owners of factories located in private's industrial zones may be given fair protection. The IEAT has two types of Zones, which require specific privileges: the General Industrial Zone and the Export Processing Zone. Altogether, there are about 45 industrial estates in the country.

The Board of Investment is an agency under the Office of the Prime Minister established in 1977 under the Investment Promotion Act as a tool to help

promote foreign and domestic investment in Thailand and to provide assistance in such as areas as guarantees, taxes and monetary incentives. The BOI divides the country into three economic promotion zones with varying investment privileges.

In Thailand and many other emerging economies, supporting industries are generally concentrated in the manufacture of plastic injection moldings, metal parts, and moulds and dies. The supporting SMEs are manufacturers of finished goods and or suppliers of large firms. For example, the case of the die and mold industry plays a horizontal supporting role in providing vital machinery to different industries. It should be note here that the so-called supporting industries consist of two segments:

- (a) technical equipment and machinery and;
- (b) components, materials ad parts.

f) Robust System and Effective Institutions

The government has accelerated measures to improve the administrative efficiency of the agencies concerned, both within and outside the country, in order that they may carry out their duties in supporting and promoting export, whether in terms of marketing, providing information or helping resolve trade obstacles overseas.

At present, several government agencies are responsible for management improvement SMEs both of publish and private agencies such as Industrial Promotion Department, Labor Skill Development Department, and Thai-German Institute, Functioning independently of each other, their operations sometimes overlap. The benefits are not systematic and spread out to reach SMEs that are scattered all over the country.

In otherwise, the problems in supporting SMEs are that:

There are many of SMEs spread throughout the country. It is thus difficult to communicate with them and provide them with the services they really need; there are many government organizations deal with SMEs. While the scope and major role of each organization is not very clear. SMEs have to spend a lot of time contacting different organizations. They have always requested “one-stop-services”

from the Government; Most of the measures to support SMEs are new. Some of them are still in the process of setting up; the Government does not have enough good information on SMEs.

g) Well-train Labor Force

There are a number of government and private-sector agencies as well as educational institutions, which offer technical assistance and services to small and medium enterprises in the areas of production, technology, management design and packaging. The available services are in the form of short training courses, information and advisory services, research and development of industrial processes and products, physical and chemical testing of products and materials, etc.

The Department of Industrial Promotion stresses the importance of personnel development in both industrial and handicraft sectors. Training and seminars are available for industrial entrepreneurs and new investors and public sector involved in the industrial promotion. The key programs on DIP offer are:

1. Industrial entrepreneur and new investor development program
2. Manufacturing development for improved competitiveness program
3. Management training program
4. Technology training program
5. Industrial labor skill enhancement training program
6. Cottage industry and handicraft vocational training program
7. State official development program

The Government also established institutions to address the shortage of highly skilled technical personnel, with the support in part of international development organizations or developed countries such as Japan, Germany, etc.

In the other hand, The Ministry of Science, Technology and Environment also undertake several activities that assist SMEs. These include R&D in terms of applied aspect to help solve SMEs' technical problems, facilitate technology transfer, and provide S&T information services.

The government has to rely upon the experts from developed countries, i.e., Japan, Germany, USA for an access to information and right source of technology and because these experts are fully equipped with knowledge, experience and in many cases skills.

More over, National Economic and Social Development Plan, by Ministry of University Affairs, Ministry of Education and Ministry of Labor and Social Welfare was settled on the 7th National Economic and Social Development Plan for 5 year cooperated with industrial sectors such as TOYOTA Motor Thailand Co., Ltd., Training Center, University and any private institution such as Technology Promotion Association (Thailand-Japan), the training education done by Thai-German Institute of Technology that was established by the German government support around machine is done to worker.

Cooperation between University and Industrial Sector has made connection with the industrial sector close through the join research, consultation activity and plan about the construction of Industrial Park in the Bankhunthien area with the budget of Ministry of Education 4,000 million Baht. (But after that this project was fail after financial crisis.)

Continuous activities have been done though an introducer. The establishment plan of SMEs Development Institute (ISMED) was announced to support by providing the know-how of the training for the institute.

For business management skills development and consulting services, the Department of Industry Promotion together with the Institute of Small and Medium Enterprise Development (ISMED) are the two centers of operation. They cooperate with colleges and universities throughout the country. The interesting project is focused on business and management training and practicing on business plan preparation. Followed by business consulting and business incubator for the same target group.

Other agencies support of the government for SMEs such as the Department of Thailand Promotion, the Department of Skill Development, the National Science and Technology Department Agency, the Department of Science Service, independent institutes under the Ministry of Industry, International Training institutes, the Department of Internal Trade, the Federation of Thai Industries, and the Tourism Authority of Thailand. The past experience indicated that the HRD support help improve the basic knowledge of both employees and employers. However, in the areas outside Bangkok, the supports are not sufficiently extended to SMEs and the government agencies is lacking.

In addition, many vocational training programs have been initiated with an objective to increase a competitiveness of the labor force.

h) Educations and Industrious Populace

At present, the structure of the Thai education system is composed of three years of pre-primary education, six years of primary education, three years of lower-secondary education, and three years of upper-secondary education –in the fields of both general and vocational education. We will study some element of Thai's education with the purpose of comparison to Taiwan.

In 1997, Thailand's net primary school attendance rate was 88% compared to other countries' 90% or more. Thailand's net secondary school attendance rate is 47.6%, which much lower than the others.

Higher education is the principle concern of the Ministry of University Affairs, which coordinates the operation of state universities and 26 privately, operated universities and colleges. Education at this level copes with the thousands of secondary school leavers wishing to continue their study further. At present there are 42 universities and 36 teacher colleges in Thailand, many of them established since 1960.

From 2002 September, the compulsory education becomes nine years (at the 9th grade) from the current six years and is expected to increase in the future. So

education in Thailand is required from 7 to 15, and more Thai are pursuing education beyond high school, which has led to an expansion in the number of higher education facilities in Thailand.

The government was beginning in early 1990s to address issues and quality in secondary and higher education, which support by World Bank to improve the quality of science, mathematics and foreign language instruction in teacher colleges and secondary schools, and also try to improve education system loan fund has been increased by 80% and 200,000 grant scholarships have been availability. Government of Thailand is attempting to create new job rapidly for the unskilled and semi skill workers to increase household's incomes and lifestyle.

In July 2002, the Bureau of University Affairs has been approved by the Government the budget of M300 baht (USD 7.1) to promote young entrepreneurs. The amount of M200 baht (USD M4.7) is for providing loans to senior students or new graduates (not more than two years). While the amount of M100 baht (USD M2.4) is for universities to develop practical curricula of SMEs' development and management.

Universities will also become more autonomous, giving them greater flexibility to develop graduate with the skills demanded by the labor market. Public subsidies for private education would be increased, and regulations restricting their expansion relaxed. A separate vocational educational and training act is also being developed.

The legal basis is afforded to the reduce the power of the central ministry; decentralize to new school districts; establish quality control mechanisms; reform teacher employment; move to block grant financing; and increase school autonomy and accountability. The teaching process is to be adjusted and curricula revised with a view towards improving analytical and problem solving skill.

Look at the Thai average education of labor force finished only primary school level that was nearly 70 percent.

Most SMEs' workers have only primary education or lower. Sixty percent of the total SMEs' workers have only primary school degrees whereas 7 percent have bachelor degrees or higher.

So the Thai Government has recognized the very important role of younger generation for the development of SMEs. The Ministry of Education and Bureau of University Affairs have been assigned to review and adjust the curricula in order to develop entrepreneurial spirits since they are young, as well as to prepare and support them to be able to set up a successful business

Serious issues of curriculum relevance and quality also received increasing attention. At the tertiary level, science and engineering programs were weak and graduates failed to meet labor market standards. A productivity gap emerged between Thailand and other newly industrializing nations, which led to a decline in Thailand's export share of labor-intensive goods. For secondary schools dominated by rote learning and narrow vocation courses, the concern was that generations of Thai students would find it difficult to adapt to rapidly changing occupations and jobs.

i) Sound Infrastructure

Thailand's transportation systems consist of airports, railways, highways, waterways, ports and harbors. In general, service to the general public is adequate although it can be underdeveloped in some rural areas.

Road and Sky-train

Thai's government investments in road infrastructure facilitated the country's economic boom. It follows that Thailand's rapid economic growth has resulted in significant changes in the transport sector, mainly in road transport. Thailand has well developed a solid 170,000km network of roads. The Government focused its road sub-sector activities on the construction of a nation-wide network of major highways resulting in the growth of the paved network from 5,500 km in 1965 to about 43,000km in 1992. The public road network now comprises about 53,000 km of national highways, 140,800 km of rural roads and 14,000 km of

municipal roads. Now, with some 18 million vehicles on the road, road transport represents 88 percent of freight and 92 percent of passenger transport.

Railway

The State Railway of Thailand operates 3,000 km of railway tracks with 632 destinations; improved links between alleviating congestion at Bangkok's main port of Klong Toey.

To improve the railway service and network, more double track projects are implemented. Additionally, the State Railway Authority of Thailand (SRT), which is considering new railway lines, requires more locomotives and rolling stock, and plans to outsource several activities including maintenance of locomotives, rolling stock, and rail tracks. Some of the new railway lines may be privatized. New projects and expanded railways stations will also give rise to property development opportunities and the provision of services.

For inland container depot, Thailand's first purpose built inland container depot was completed in 1995. The depot is in the Lat Krabang Industrial Estate that is to support the importation and exportation of the country in conjunction with the new deep seaport at Laem Chabang on the Eastern Seaboard. The depot is divided into six independent modules that are leased out to private sector operators, but the facility is managed by SRT. The facility rose from 175,000 TEU in 1996 to 630,000 TEU in 1999, which is full capacity.

At present, export and import of goods can be conveniently transported by train through the Thai-Malaysia border without further unloading. The traffic is made via Suhai Kolok and Badang Besar Stations on the eastern and western borders of Malaysia respectively. Frequent shippers with a high volume of goods transported can enjoy the service through and from Singapore.

Airports

Currently, Thailand has six international airports (Bangkok, Chiang Mai, Chiang Rai, Hat Yai, Phuket, U-taphao) and more than 29 domestic airports. In response to predicted growth in air passenger and cargo demand, the Government is

construction a second international airport at Nong Nhu Hao, Samut Prakarn Province, to be opened in 2004. Aviation analyses predict that Bangkok will soon rival Singapore as a regional aviation hub.

According to Airport Authority of Thailand (AAT) figures, commercial aviation services totaled 243,475 flights in 2001. The largest airport, Don Muang, handles more than 12 million international and nearly 5 million domestic passengers a year. Other international airports, Phuket has been the most successful one. Major air transportation infrastructure projects include the Second Bangkok International Airport (SBIA) at Nong Ngu Hao. There will also be various other projects including the expansion of existing international and domestic airports as well as the development of new airports in the provinces. Combined, these projects will enable Thailand to achieve its goal of becoming a regional air transportation hub.

Seaport

At present, there are eight international deep-sea ports in operation, with four private ports permitted to handle container cargo. Laem Chabang Commercial Port and Map Ta Phut Industrial Port serve Eastern Seaboard Region. Songkhla and Phuket Ports have been developed to serve Southern Thailand. Bangkok Commercial port is the largest port in Thailand and handle approximately 14 million tons per years. Laem Chabang can handle about 7.3 million tons per year.

j) Social and Cultural Aspiration

Since the old time, Thai people do not have high numbers about doing business. People were very proud to work for the King; and later on to work for the government agencies, government enterprises, big financial institutions, and big corporations during democratic time.

The commercial class in Thailand is made up mainly of Thais of Chinese origin. Inter-marriage between Thais and Chinese has dated back centuries. The country's industrial and service industry development was rooted in the decade of the 1960s when the late Prime Minister General Thanarat Sarit embarked on

Western-style economic development. In contrast with the previous regime's policy founded upon public enterprises, General Sarit resorted to private enterprises as an engine for economic development. This policy, undertaken in early 1960s, contributed to the transformation of Thailand from an agricultural-based country to an industrial and service-based economy with a market-led and open orientation. The role of Thai-Chinese, as the dominant commercial class, has been a decisive factor in the country's industrial transformation. Their entrepreneurial spirit has helped expand entrepreneurial activity and speed up the economic development process.

Most of Thai SMEs are family business. Some SMEs enterprises were transferred from the previous generation, which has a family type management with no systematic business planning and accounting. Some of SMEs' descendants are not interested in family business and prefer working in a large organization. Hence, it is difficult to find the new and able generation to take over the family business. Moreover, some employers started their businesses without experiences and skills in many business aspects.