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Thailand: Looking Ahead to 2020 in Light of Global and Regional Changes [*]

Chalongphob Sussangkarn [**]

This paper argues that it is now more difficult for countries to ensure successful development by following the simple export-led development strategy. This strategy was successfully utilized for countries of East Asia in the past, and led to a narrowing of their income gaps with the advanced countries. However, this model of development is now the norm, and many developing countries are pursuing the strategy. This is leading to a much fiercer global competitive environment, with more rapid changes in comparative advantages. In the case of Thailand, its comparative advantage in labor intensive manufactured exports has just about ended after just one decade. With more and more countries pursuing export-led strategies, especially large countries, the cycle of comparative advantage is likely to get shorter and shorter. Under such an environment, a country needs to focus much more carefully on the factors that are likely to give it a more permanent comparative advantage, and try to gear its development strategies to these advantages. Usually, this will imply some form of outward oriented development strategies, but ones that are more linked to advantages that the country can expect to maintain over the longer term. This paper highlights a number of sources of more permanent comparative advantages for Thailand and suggests development strategies that could be used over the next couple of decades toward ensuring the full utilization of these advantages.

The paper consists of three main parts. The next section analyzes some data on regional growth to document the catching up process of the countries of East Asia with the more advanced regions. The second main section discusses the fierce competitive global environment and rapid changes that have occurred to Thailand's export structure. The final section discusses the factors that are likely to be sources of more permanent comparative advantages for Thailand and the development strategies consistent with full utilization of such advantages over the longer term.

PAST GROWTH AND THE CATCHING UP PROCESS

Over the past two to three decades, the Thai economy has grown at a satisfactory pace. Per capita GNP in 1990 US dollars grew by an average of about 4.3 percent per annum between 1970 and 1992. Many other countries in East Asia have grown at even higher rates. In particular, Japan, South Korea, Hong Kong and Singapore achieved spectacular growth during the same period (6.6%, 9.5%, 7.5% and 7.7% per annum respectively; see Table 1).[1] This has led to a narrowing of the income gap between the countries in East Asia (Japan, South Korea, Hong Kong and the ASEAN[2] countries), and the more developed regions of Australia/New Zealand, NAFTA,[3] and countries in Europe (excluding the previous Eastern Block). Of course, Japan is now one of the most advanced country in the world, but even excluding Japan, the other East Asian economies were catching up with the advanced regions. Between 1970 and 1992, the per capita GNP (1990 US dollars) of these East Asian countries, excluding Japan, grew by an average of about 5.5 percent per annum compared to the average growth of 2.1 percent, 1.1 percent and 3.9 percent per annum for Australia/New Zealand, NAFTA and Western-block Europe respectively.[4]

The narrowing of income differentials between the East Asian economies and the more advanced regions can also be seen by looking at the trends in the coefficient of variation of log dollar per capita GNP for various groups of countries. Figure 1 plots the trends in the coefficient of variation of log per capita GNP for three groups of countries. The first group consists of 102 countries for which per capita GNP data between 1970 and 1993 were available from the World Bank's Social Indicators of Development. This group is labeled "All Countries" in Figure 1. The second group of countries consists of the countries that were included in Table 1. These are countries of NAFTA, Western-block Europe, Australia/New Zealand and the above named East Asian countries. This group is labeled "Selected Regions" in Figure 1. Finally, the last group consists of the countries in the "Selected Regions" excluding the East Asian countries but including Japan. This group is labeled Sel-Asia+Jap in Figure 1.

Between 1970 and 1993, the line for "Selected Regions" in Figure 1 shows a clear downward trend indicating that income variations among this group of countries are tending to become more equal over the period. If Asian countries except for Japan are excluded from the "Selected Regions" group, the line for "Sel-Asia+Jap" does not show a clear downward trend. This shows that the greater equality trend of the "Selected Regions" group comes mostly from the Asian economies catching up with the more advanced regions. This is consistent with the above discussions of the data in Table 1. Looking at the world as a whole, however, the line for "All Countries" shows a clear upward trend, particularly since about 1980. Thus, for the world as a whole, income disparities among countries are increasing. Unlike the countries of East Asia, the other developing countries of the world, as a group, are falling further behind the advanced countries.[5]

That East Asian countries have achieved above average rates of growth over the past several decades has been widely documented.[6] While the circumstances of each of these countries vary greatly, most of them have relied upon international trade as a major impetus for growth. Following Japan, these East Asian countries have learned that the key to growth is to develop efficient industries that can be competitive in export markets, and to fully utilize the dynamism of the private sector. As Japan has been able to capture a large chunk of the world market for manufactured products by gradually moving up the ladder of product sophistication over the past half century, so other East Asian countries are similarly trying to follow the same path. Some, such as South Korea and Taiwan are already competing successfully with Japan in sophisticated consumer products. For countries at lower levels of development, they generally start with labor intensive manufactured exports, and then move on to medium to high technology export products.

Data in Table 2 bears out the open nature of the East Asian economies. The degree of openness, measured as the ratio of export plus import to GNP, is presented for various groups of countries corresponding to the group breakdown discussed in Table 1 and Figure 1. For each group, the average degree of openness between 1970 and 1990 (weighed by the size of the economy) is presented. For "All Countries" the average degree of openness was 37.41 percent. For the advanced countries (the Sel-Asia+Jap group above), the average degree of openness was 35.21 percent. The average degree of openness for the East Asian economies (excluding Japan) was much higher at 93.42 percent. To some extent, the very high degree of openness of the East Asian economies is influenced by the extremely high degree of openness of the trading-based economies of Hong Kong and Singapore, both with openness rates ranging from over 100 percent to over 300 percent for some years. However, even excluding Hong Kong and Singapore from the analysis, the average degree of openness of the other East Asian economies was still very high at 62.98 percent. This is much higher than the world average, and was more than twice as high as the degree of openness for Latin American countries (29.01%), which is also included in Table 2 for comparison.

The outward looking development strategies of the East Asian economies have led to their past successes. Looking ahead to the future, the same outward looking development strategies are certainly expected to continue. However, the international environment is rapidly changing, and countries need to carefully design their development strategies in order to take account of these changes. In the future, it may no longer be sufficient to expect that a simple reliance on an outward oriented development path can ensure sustained growth for a country. This is the topic of the next section.

THE INTERNATIONAL ENVIRONMENT AND CHANGING COMPARATIVE ADVANTAGES

The international environment is swiftly changing along the path of greater global integration, vis-a-vis freer trade and cultural exchange. This trend is expected to continue, and even accelerate, in the future, and will affect all countries in numerous ways. Each country, including Thailand, needs to carefully plan its development strategies in light of major changes occurring in the world environment. This section will focus on the trend toward more liberal trade regimes and intense economic competition.

The outcomes of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations, on-going World Trade Organization (WTO) negotiations, and numerous regional co-operative and trade agreements such as the Asia-Pacific Economic Cooperation (APEC), ASEAN Free Trade Area (AFTA), NAFTA and ASEM (Asia-Europe Meeting) point the way to a continual process of greater liberalization of world trade. These efforts should ensure sustained growth in world trade, and would seem to facilitate the success of the outward oriented development strategies that have proved so successful for the countries of East Asia in the past. While this should certainly be true, the more liberal trade regimes are also expected to bring about much greater competition between countries in the future, as goods, services and resources flow more freely across national boundaries.

A factor contributing to the fiercer competition is the fact that the East Asian development model is now almost a "norm" for all countries throughout the world striving to develop their economies. Many developing countries of the world are now pursuing the export-oriented development path. This of course implies that competition becomes fiercer and fiercer. While the trend toward a more liberal trade environment in the world is likely to ensure continued growth in world trade, the absorptive capacity of the world market is unlikely to be enough for the needs of all the countries that want to pursue export-led growth. In particular, when very large countries, with vast amounts of manpower, embark on an outward-oriented development path, as China is successfully doing, and as the countries of South Asia are likely to eventually do, then the capacity of the world market is likely to become a major constraint on the future success of the standard pattern of the export-oriented development strategy. When the Asian NICs (Hong Kong, Singapore, South Korea and Taiwan) were fully exploiting the potential of the export market in their rapid growth process, most developing countries in the world were still more intent on import substitution development strategies. The NICs are also relatively small countries. This meant that there was no problem with the capacity of the world market to absorb the exports from these countries, and their export growth grew at extremely high rates over almost two decades.

The situation now is very different. Many more countries are actively pursuing the export market as the key source of economic growth, and now big countries are playing the same game. A country such as China still has a huge amount of human resources that could be utilized in export industries. If China, and presumably countries of South Asia in the future, can gain and maintain comparative advantages in the key industrial trade products, then not much room would be left for other countries.

Under current and expected future trends, one can expect that the fierce competition between countries in the world market will lead to rapid changes in comparative advantages among countries. Even now capital and technology are highly mobile. Production bases can easily shift to take advantage of the most cost effective location anywhere in the world. A country can quickly find itself losing comparative advantage in products that have been a main impetus for the country's growth, as production elsewhere becomes more cost effective. And as more and more countries are pursuing the export-led path, choices as to where to locate the production base for various products are now more numerous. In the case of Thailand, the experiences over the past decade or so illustrate this trend quite clearly.

Table 3 shows the trend of Thai exports by sector. In 1980, the main component of Thai exports was agricultural products, which accounted for more than half of all Thai exports. Between 1980-85, the world economy was in recession in the aftermath of the second oil price shock, and the trend in the prices of agricultural commodities was also downward. Thai exports between 1980-85 only grew on average by about 1.8 percent per year, but there was also a gradual structural shift toward more manufactured exports in this period. While Thailand still had comparative advantage in agriculture, as witnessed by the fact that Thailand was one of or *the* major world exporter of key agricultural commodities such as rice, cassava and rubber, Thailand's comparative advantage in semi-skilled labor intensive manufactured exports was gradually increasing. By the mid 1980s, the Asian NICs had dominated the world market for labor intensive manufactured exports for almost two decades, and by that time their income levels had risen far above the Thai level, giving a gradual cost advantage to Thailand. During that time the NICs were also gradually becoming more competitive in the production of medium-to-high technology manufactured products, and were close to becoming competitive with Japan for the low to medium end products.

The large exchange rate realignments between the Japanese yen and the dollar and major European currencies in 1986 as a result of the Plaza Accord changed the comparative advantages among countries in East Asia significantly. These changes benefited the Thai economy substantially. This, in effect, led to a substantial depreciation of the baht (the Thai currency) against the average currency of Thailand's trading partners, as the baht was tied mostly to the dollar. It also led to changes in comparative advantages between Japan and the Asian NICs, who also very much tied their currencies to the dollar, and allowed these countries to push more strongly into the export markets for technology and skill intensive manufactured products, such as cars and sophisticated electronic consumer products. By the middle of the 1980s, the Asian NICs were probably already near to losing their comparative advantage in the production of labor intensive semi-skilled manufactured products (such as basic garment products) to other economies with plentiful supplies of low wage semi-skilled workers. The changes in the international economic environment in the mid-1980s simply accelerated the transition of the NICs upward. The comparative advantage for the semi-skilled labor intensive manufactured commodities now lies with countries at a lower level of development compared to the Asian NICs, in particular, Thailand and some of the other East Asian economies, such as Malaysia and Indonesia.[7] The changes in comparative advantage boosted the local production and export of semi-skilled manufactured products in this latter group of countries. In addition, Japan also relocated some of their medium technology production processes to these countries, thus boosting the latter's investment and growth.

Changes since the mid 1980s can clearly be seen in Table 3. The growth of Thai manufactured exports accelerated between 1985 and 1990. The average growth rate was over 37 percent per annum, and the growth remained at over 21 percent per annum between 1990-95. The impact on the export structure was huge. Manufactured exports became larger than agricultural exports in value for the first time in 1985. By 1990, manufactured exports accounted for about 75 percent of total exports, while agriculture exports' share fell to only about 22.5 percent compared to 51 percent in 1980. By 1995, manufactured exports accounted for about 82 percent of total exports, and the share of agricultural exports fell further to just over 16 percent of total exports.

The changes from agricultural exports to manufactured exports between 1980-1990 demonstrated the major impact of changing comparative advantage. Meanwhile another major change in the Thai export structure was also occurring rapidly. This was the change in the composition of the manufactured exports. Table 4 breaks down manufactured exports into two main groups; the labor intensive products, such as garments, shoes, leather products, gems and jewelry, etc., and the medium-high technology products, such as computer parts, electronics, electrical appliances, etc. Between 1985 and 1990 and up to 1993, the labor intensive manufactured products were the largest part of Thailand's manufactured exports. However, the growth of medium-high technology manufactured export products has been very rapid since 1990, averaging over 30 percent per annum between 1990-95, compared to about 14 percent per annum for labor intensive manufactured exports during the same period. By 1995, exports of medium-high technology products were about 40 percent larger than that for labor intensive products, and given their differential growth trends, exports of medium-high technology products will soon dominate Thai manufactured exports.

Table 4 also demonstrates Thailand's loss of comparative advantage in the production of labor intensive manufactured exports, especially the low-to-medium quality products. Thai exports suffered a major shock in 1996. From an average growth of around 20 percent per annum between 1990-95, exports for the first 11 months of 1996 declined by about 1.1 percent compared to the same period in 1995. Thus, for the whole of 1996 export growth is likely to be negative. Looking at the performance of different groups of products, it is clear that the labor intensive manufactured exports suffered major setbacks. Exports of these products declined by about 14.6 percent in the first 11 months of 1996. Another poor performing sector was fisheries, with a decline of about 12.6 percent. The poor performance of fisheries was due mainly to a virus that severely affected shrimp production, and this problem should be mostly solved in 1997, so that the problem of this sector is likely to be more of a short-term problem. The problem with the labor intensive exports is much more serious, as it indicates that Thailand is no longer competitive in many of these products.

The loss of comparative advantage in the production of labor intensive manufactured exports is a fairly natural process. The growth of these exports contributed to the high growth of the Thai economy and Thai incomes over the past decade. As Thai incomes grow, production costs inevitably rise compared to countries who are less developed than Thailand. Eventually, the production base of the medium-low end labor intensive products will shift to lower income countries, just as it shifted from the NICs to countries in Southeast Asia in the mid-1980s. That it is happening to Thailand in the mid-1990s shows how the force of competition is shortening the life cycle of comparative advantage. For Thailand, labor intensive manufactured products really took off after 1985. After just one decade, Thailand has already lost its comparative advantage in these products.

It is fortunate for Thailand that as the country begins to lose its comparative advantage in labor intensive manufactured products, exports of medium-high technology products now form the main part of manufactured exports, and these exports are still growing at reasonably high rates. If the growth rates of these products can be maintained, then there is a good chance that close to double digit export growth can resume in 1997 or 1998. However, the rapid loss of comparative advantage in labor intensive products due to fierce global competition as more and more countries strive for export-led growth, raises fundamental issues about sustainable economic development strategies, both for Thailand and for developing countries in general.

It is clear from the Thai experience and the earlier experiences of the NICs, that comparative advantages in labor intensive manufactured exports based on cheap labor are simply *transitory* advantages. As exports of these products lead to higher incomes in the country, the time will come when countries who are less developed and who have plentiful supplies of cheaper labor will gain comparative advantages in such products. Further, given greater competition, the cycle of comparative advantages in such products appears to be getting shorter and shorter. In Thailand's case, it was about a decade, whereas for the NICs it was probably twice as long. For countries now gaining comparative advantage in these products, it is likely to be less than a decade.

Currently Thailand has shifted to an export pattern based on medium-high technology products, which shows that it presently has some comparative advantage in the production of these products. But as with labor intensive exports, the question arises concerning how long such comparative advantages will last. For Thailand, it is clear that for most of the medium-high technology products that Thailand is currently exporting, Thailand is simply an assembly base. The technological development, design and brand name of these products are predominantly foreign. Thus, similar to the case with labor intensive export products, the current comparative advantage of Thailand in medium-high technology products is based on low assembly cost. Therefore the current comparative advantage in medium-high technology export products is almost certain to be transitory, and eventually other countries will be able to assemble these products just as well as Thailand but at a lower cost. When that time comes, the assembly base for these medium-high technology products will inevitably move to other countries. What then will be left of Thai manufactured exports?

Thailand should, of course, take advantage of these transitory comparative advantages as they arise. But it has to be realized that these are short-lived. Meanwhile serious attention should be paid to the more sustainable types of comparative advantage that Thailand possesses, and how they can be fully exploited. The country's development needs to be patterned around these more permanent comparative advantages in order for development to be sustainable on a long-term basis. This conclusion is equally applicable to many other developing nations as well.

THAILAND'S STRATEGIC ECONOMIC DEVELOPMENT DIRECTIONS TOWARD 2020[8]

In this section, some key strategic development directions for Thailand over the next couple of decades are highlighted. These draw upon studies that have been carried out to identify factors contributing to the strengths of the Thai economy which could be utilized to shape the country's development in the future, and policies that are needed to rectify some key weaknesses are suggested.[9]

1. Education and Skills Improvement

The quality of the population is considered to be the key to the country's development. This is a key focus of the current Eighth National Economic and Social Development Plan which started in October 1996.[10] Up to five years ago, Thailand was lagging behind other countries in the region in terms of the enrollment ratio at the secondary level. While universal primary education was achieved many years ago, and the adult literacy rate in Thailand is one of the highest in the region, more than half of those who finished primary school did not go on to secondary education. Many reasons have been given for this, such as the very high percentage of the population in agriculture who, in the past, did not see the value of academic secondary education for their children, or the difficulty of access to the secondary schools, especially in rural villages. However, with the rapid shift in economic structure toward modern industry and services, there was a clear need to accelerate secondary enrollment.

Over the past 5 years, rapid progress has been made in secondary enrollment, partly because parents now see the value in secondary education for their children, as it gives them access to the better jobs in the modern sector, and partly because of the policy to open up secondary school classes in primary schools, which exist in almost every village. Table 5 shows the trend in gross enrollment ratios from 1990 to 1995, as well as projections to 2020. Currently, the transition rate from primary to secondary education is close to 90 percent, with the gross secondary enrollment ratio at the lower secondary level jumping up from only 38.7 percent in 1990 to 73.0 percent in 1995.

The trend to 2020 shows that by about 2010, enrollment rates in different levels of education will be comparable to the present rate experienced by developed nations. Almost all children will be spending 12 years in school, and about half of those who finish secondary education will be going on to higher education. Apart from quantitative improvements, much also remains to be done on improving quality. Effective improvement will prepare the Thai people to make maximum use of a wide range of opportunities that come with the global information age. With so much information available now at the press of a button, the ability to synthesize and analyze information will be crucial. Thai people must be educated to be able to use the available information for creative self-development. In fact, creativity is a trait that is already a fundamental part of Thai culture. Thai society has long been influenced by both western and eastern cultures, and the Thai people have always been creative in blending strong points of different cultures into the uniqueness of being Thai. The problem is that the Thai formal education system does not enhance, and may even diminish, such creativity. The present educational system places too much stress on the ability to memorize rather than on understanding, critical thinking and research. If effective educational reform can reinforce the creativity already inherent in all Thais, and Thai universities put greater emphasis on excellence in research, Thai people will have a good chance to be on the frontiers of research and the ability to contribute to the world's body of human knowledge. They will also contribute to the country's technological capability and lessen the reliance on foreign technology, which makes Thailand more of an assembly base than a complete production base for many medium-high technology manufactured products.

Even though in school enrollment has shown tremendous progress over the past five years, and Thai enrollment rates are quickly converging with rates found in current developed countries, much remains to be done for those who are already out of school. Because secondary enrollment was very low in the past, the proportion of Thai workers who have only primary education or less is very high. At present, almost 80 percent of Thai workers have only primary education or less (see Table 6). With this level of education, they have little access to prosperous jobs in the modern world. This situation must be quickly rectified. Currently, the Department of Non-Formal Education is actively pursuing projects to upgrade the educational and skill levels of Thai adults. Ideas such as distant learning via satellite, and bringing schooling into factories are being implemented. They should be encouraged and substantially expanded.

Apart from education and skills improvement which will substantially contribute to the economic strength of Thailand, the future development strategy should focus on full utilization of factors that are likely to be part of the more permanent comparative advantages of Thailand. Four such factors can be highlighted.

A) The quality of agricultural resources which, if well protected, efficiently developed, and optimally utilized, will continue to enhance the country's position as one of the world's leaders in agriculturally based exports.
B) The diversity and capability of the private sector which has been an important factor behind the past rapid growth of the economy.
C) Cultural uniqueness of the Thai society which has facilitated the growth of service-oriented industries and has enhanced Thailand's relationships with foreigners.
D) The country's geographical advantages which have the potential to turn the country into the main regional center of production, transportation, tourism, and services.

Utilization of these four factors leads to a number of development strategies.

2. Fully Utilize Thailand's Comparative Advantage in Agriculture toward Becoming the World Leader in High Quality and High Value Tropical Agricultural Products

Even though agriculture now accounts for a small share of total exports, Thailand is still a major exporter of many commodities. Thailand is the largest exporter of rice, tapioca and rubber in the world, and also ranks high for exports of frozen shrimp and sugar. This shows the quality of the country's agricultural resources, which still have tremendous potential further exploitation.

For the traditional agricultural commodities, trade liberalization will finally pave the way for Thailand to enter the once highly protected markets for these types of products, particularly rice. However, it is unlikely that Thailand can continue to rely on these traditional export commodities to generate high growth of agricultural incomes in the longer term. Countries at a lower development level than Thailand are likely to enter these markets more and more in the future. While Thailand may have some quality advantages at the beginning, the competitors are likely to catch on fast. The problem is that these commodities are fairly "generic" in nature. Where they are produced does not affect the quality that much, if the right techniques are used. One clear exception at present is the case of Thai fragrant premium rice, the cultivation of which requires specific climatic and soil conditions. In 1996, the price of fragrant premium rice reached an all time high, due to high demand coming from overseas, particularly China where it is considered a luxury product, and due to the fact that, so far, it does not have the same characteristic fragrance when grown elsewhere. This suggests that, in the future, Thailand should be focusing on selective agricultural products, where the quality produced in Thailand is the best or among the best, especially when the high quality is derived from "location specific" factors. Thailand should also target sales to markets with high purchasing power.

Thai tropical fruit falls naturally into this category of fairly location specific agricultural products. The quality of tropical fruit in Thailand is among the very best in the world, and becoming more and more recognized internationally. Over the next two decades, Thailand should set the target of becoming the world's leading exporter of tropical fruit. Tropical fruit from Thailand should be of the best quality, and be targeted toward countries of moderate to high income. It is not so far fetched to visualize Thai fruit reaching the kitchen of every middle to high income household in these countries.

Realization of this goal will bring in considerable income to Thai farmers. Fruit growing areas are likely to expand to all parts of the country, and prosperity will be widely distributed. Most importantly, if such a scenario can be realized, income from tropical fruit will become sustainable, as it will be based on Thailand's permanent comparative advantage based on soil and climatic conditions. This will be similar to the wine industry in France or the cigar industry in Cuba, which are internationally acclaimed for being the best.

In order for this goal to materialize, the public and private sectors as well as agriculturists must collectively join forces in systematic planning and implementation. At least four ministries are required to join in collaborative efforts. First, the Ministry of Agriculture and Cooperatives will have to be involved in ensuring the highest quality of production and preservation. Secondly, the Ministry of Commerce will have to promote and find new markets. Thirdly, the Ministry of Transport and Communications will have to ensure efficient transportation modes to the designated markets. And, lastly, the Ministry of Science, Technology and Environment, together with the Ministry of Agriculture and Cooperatives, need to get involved in research and development so as to ensure the quality as well as durability of tropical fruit, so that the products reach the markets at their best quality. Co-operation of many governmental agencies requires continuity and close monitoring, which may not be easy under the way the public sector operates in Thailand at present. Nevertheless, if the government is determined to achieve this goal as a national level project with high priority, achievement of the desired goal is not out of reach.

Apart from tropical fruit, the major traditional agricultural exports need continued support. To cope with fiercer and more liberal competition, the Thai agricultural sector must constantly adjust and improve its production structure to include products of higher value. It should increasingly focus on high quality products of high value which other countries are unlikely to excel in. The production process must be in balance with the conservation of natural resources and the environment. Also, upgrading the quality and efficiency of the processed food industry to meet international standards will also provide further value-added to the agricultural sector.

3. Promotion of the Private Sector as the Main Engine of Economic Development via a Competitive Market Regime, with the State Playing a Supporting and Regulative Role

A key strength of the Thai economy is the diversity and quality of Thai entrepreneurs. The base of entrepreneurship in the country is also very broad. Basically, Thai society has been able to harness the available entrepreneurial talents, whatever their racial, religious, or socioeconomic background. This relates to the unique cultural characteristics of the country, stressing tolerance, compassion, compromise and the middle path, characteristics which have helped the country successfully integrate those of diverse racial and religious backgrounds. The diversity of informal sector activities in Thailand is also of importance in developing entrepreneurial skills. This sector should really be regarded as "schools for entrepreneurs." Entrepreneurial skills are certainly not something that can be easily taught formally through educational institutions. It was the learning by doing that occurred in vast amounts in the informal sector in the past that has shaped many of the top entrepreneurs or entrepreneurial families in the Thailand of today. Of course, it is not likely that a high percentage of those starting out in the informal sector will end up as millionaires or billionaires in the future. However, even if the percentage is small, the large size of the informal sector ensures that a sufficiently large number of successful entrepreneurs graduate upward. The quality and diversity of Thai entrepreneurs explain why the Thai economy is so diverse. The country has strength in agriculture, industry, and services.

The quality and diversity of the Thai private sector must be nurtured and fully utilized. In a world of fierce and liberal competition, the strength and diversity of the Thai private sector will be the key to sustained economic growth and national development. The public sector's direct role in production should be decreased where it could be done more efficiently by the private sector. The state should focus on its role as a promoter and regulator of the private sector, making sure that there is free and fair competition, and there is a balance between economic production and consumption and the conservation of natural resources and the environment.

At the same time, effective labor relations must be developed. Employers and employees should be encouraged to unite and work in mutual harmony and benefit. Participatory business management practices should be promoted. A sense of partnership between employers and employees should be enhanced so that creative ideas from both parties can be drawn upon to strengthen the enterprise and its ability to compete. Continued upgrading of labor skills must be carried out, labor rights protected, and safety standards improved to meet the standards of the advanced countries.

4. Promote the Country's Competitive Edge by Fully Utilizing Thailand's Comparative Advantages for Effective Export-Led Development Strategies

While export-led development strategies will require increased efforts due to the increasingly competitive international environment, the country's potential as reflected by factors A to D above can help ensure success. The second strategy already discussed above related to the utilization of factor A (agricultural resources), and the third strategy related to utilizing factor B (entrepreneurs) which is partly related to factor C, the cultural characteristics that facilitated the development of entrepreneurs. Factor C is particularly important in the current age of globalization where relations to other nations and other peoples are integrated parts of the economic process. The fact that Thailand has never been colonized has enabled the Thai people to be very proud and confident of their roots. As a result, Thai people tend to have positive and open attitudes toward foreigners, and can relate to them on equal terms. Foreigners feel comfortable being in Thailand, whether for business or leisure. This has helped the country's economic development as well as integration into the international arena. Despite major persistent problems, such as traffic congestion and pollution, Thailand's sincere friendship toward foreigners and foreign investors will remain important advantages that will assist the country's development amidst fiercer world competition, where success will depend crucially upon effective and diversified linkages with foreign countries and foreign people.

Strategies that could effectively utilize factors C and D are as follows.

4.1 Promotion of Thailand as a Regional Tourism Center

Thailand possesses various comparative advantages in the area of tourism. The country is blessed with diverse natural tourist attractions, and equally important, as already mentioned, it is a genuinely friendly country to foreigners. Its culture is unique. Its food and fruit are popular world-wide. Moreover, the geographic location of Bangkok gives it high potential to become the regional aviation center linking Europe to East Asia and Australia. It is necessary that Thailand maintain the attraction of the tourist sites, with particular focus on the conservation of natural resources and environment. Equal emphasis must be given to conservation of art and cultural heritage. Production of folk objects must be preserved. Production of unique Thai goods must be promoted. Moreover, tourists themselves should be encouraged to understand Thai art and culture, to value them and to desire Thai goods representing such uniqueness. In this way, tourism can also help to preserve Thai culture.

Apart from the existing comparative advantages, other potential advantages must be strengthened. Thailand should be developed into the main shopping center of Southeast Asia. At present, Thailand is already an important shopping destination for many product lines, especially more labor intensive types of products. However, certain goods, such as computers, electronic products, cameras, watches and pens of leading brands, cosmetics, etc., are more expensive in Thailand than in other countries. If Thailand became the shopping destination where prices of these items are the lowest in East Asia, the country’s potential for tourism would increase enormously. Moreover, it would lower the incentive for Thai tourists to go on shopping sprees abroad. Apart from tax measures, close co-operation between the public and private sector will be required to plan the detailed strategies and implementation plans. Transportation networks need to be more efficient, to reduce transportation overhead. Furthermore, to attract a higher number of tourists, the traffic situation in Bangkok needs serious upgrading.

4.2 Promotion of Sustainable Industrial Exports

In the short to medium term, Thai industrial exports will mostly comprise medium to high technology products. Despite the fact most of these products are foreign brands and that Thailand merely serves as a production base, Thailand should be able to maintain its comparative advantage in this regard, at least in the medium run. The production of many products which used to cater to domestic demand are now fairly efficient, with sufficient scale economies achieved, and these products are now being assembled for export, such as motor vehicles and electrical appliances. It is therefore unlikely that the production bases of these products will be transferred from Thailand within the next 10-15 years. Moreover, high economic growth among ASEAN countries, Thailand’s comparative advantage in the assembly of medium to high technology industrial goods, and the implementation of the AFTA agreement will boost competition among multi-national corporations to invest in the region, and this will also benefit Thailand. The geographical advantage of Thailand in being the center of the region will also boost the country’s potentials as a central production base for export to countries in the region.

However, in the long run, especially when the year 2020 is in sight, situations which are not critical in a short or medium term may prove severely damaging. As income of the Thai people will constantly rise, production cost will also increase. At a certain point, it may no longer be financially viable for multi-national corporations to locate their export production bases in Thailand, and the production base will be transferred to other countries. To cope with such a situation, over the next couple of decades, the Thai people must aim to develop creativity and competence to be able to create original products and industrial designs which can compete with products from the leading economic nations. To reach such a goal, Thailand needs to implement measures to accelerate technology acquisition and transfer. A target should be set that Thai people can fully participate in industrial design, development, and production of some key products within the next 10-15 years. Incentives for technology transfer must also be provided. Measures to encourage full partnership between Thai and international corporations must be developed. Funds for research on industrial technological advancement must be set up. The level of scientific research in universities and academic institutions must be upgraded to international standards, so that Thais can keep up with and contribute to advancement in technology, with special stress on applying scientific and technological knowledge in the development of specific industrial products.

At present, many ASEAN countries, such as Malaysia, Philippines and Indonesia, are facing a similar situation as Thailand in being mainly an assembly site of multi-national corporations. Like Thailand, these countries strive to develop their own industrial products and promote technology transfer so that their locally produced industrial goods can successfully compete in the world market. Some countries stress particular products, such as the motor car industry in Malaysia and Indonesia. Nevertheless, each ASEAN country alone will only have a limited capacity in locally developing industrial products to compete with the dominant economic superpowers, who control most of the technology and markets for medium to high technology industrial products, particularly members of the European Union, Japan, the United States, and South Korea. Under such circumstances, it is time that ASEAN countries jointly implement common industrial development strategies for some products, with the aim to jointly develop, design and produce some internationally competitive industrial products. These will be "Made in ASEAN" products. With close co-operation and serious efforts, it should be possible for many "Made in ASEAN" products to compete successfully with products developed in other parts of the world. This will benefit the sustainability of growth in all countries in the region.

Over all, the industrial strategy for Thailand has to recognize the fact that the key to survival in this current age of global integration and fierce competition is to "compete through partnerships." Thailand needs to develop diverse business partnerships with the more advanced countries, as they strive to increase their production capacity in the region to take advantage of regional market growth. At the same time, there is also a need to look ahead to developing the country's own technological capability, in partnership with other countries in the region, to develop the regional technological capability for long-term sustainable industrial development. In pursuing these "competition through partnership" strategies, factor C above, or the friendship factor, is likely to facilitate Thailand's pursuit of such strategies.

4.3 Using Geographical Advantages to Turn Thailand into a Major Economic Center in the Region

Finally, given the advantages of Thailand's geographical situation (factor D), Thailand has high potential to develop into the main regional economic center for industrial production as well as transportation. Many regional transportation projects have been planned and are in the process of being implemented. These will link up countries in the region by extensive transportation networks. As for land transportation, Thailand is the natural center of the region, whether by road or by rail. In terms of air transportation, Bangkok has many advantages which can facilitate its becoming the main air transport hub of the region, as already mentioned.

As the regional center of land and air transportation, Thailand will serve as an important regional production base as well as a center for tourism. Moreover, the financial liberalization policy which has been enacted for many years has strengthened Thai financial institutions. Thai financial institutions are therefore expected to play a more vital role in the region as well. All of these factors indicate that the country has good prospects of developing into a key economic center for the region over the longer term.

In conclusion, the above discussions have indicated that Thailand still has much potential for successful development over the longer term. Currently, the country is undergoing a transition where labor intensive industries are being replaced by medium-high technology industries in line with rapidly changing comparative advantages due to changes in the international environment and fierce global competition. Under these circumstances, it becomes even more important that the country exploits more fully its more permanent advantages. This paper has pointed out some factors that are likely to give Thailand such permanent advantages, and the strategies that can best utilize these factors for long-term development. The extent to which the country can exploit these advantages will, however, also depend on the commitment of the government and the public sector to efficiently planning and implementing the necessary measures and projects. Only then can the full potential of the country be realized.
