



Thai Government Policy towards Japanese Automobile MNCs in the 21st Century: Directions and ChallengesApiwit Anuntaseree¹ Attakrit Patchimnan²**Abstract**

The objective of this research were: (1) to examine Thai's government policy towards Japanese MNCs; (2) to clarify whether Thai's government policy really appreciate Japanese firms; (3) to understand the direction of Thai economic development plans; (4) to prove whether the automobile MNCs create mutual benefits; and (5) to find out whether these firms really competitive in the world markets. This research was conducted by using the interpretive analysis of context and content. The main point is to find out Thai direction of industrial policy especially for the Automobile sector. As the Japanese automobile MNCs controlled over the majority of automobile selling in Thailand for the past few decades, these firms are quite decisive according to Thai's economy in the part of foreign direct investment. Moreover, to strengthen this research, the interview on experts by journalists was also imposed. The results show that: (1) Thailand can be the hub of automobile exporter in Southeast Asian region from 1st ranking in automobile producers in the region and 9th ranking for the world producers; (2) after the year 2000, Thailand had developed the fiscal and project incentive in achieving Japanese Automobile MNCs on FDI, the most popular was Detroit of Asia; (3) the challenges can be seen as external and internal factors. External factor was that other countries in the region try to achieving FDI as well. Internal factor was seen as the political instability. The recommendations were the project incentive for short term attraction and human resource development for the long term.

Keywords: Thai government policy, Japanese Automobile MNCs, Foreign Direct Investment, Detroit of Asia

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Introduction

This research was conducted under the public policy scheme in response to the multinational companies (MNCs) who invest in Thailand since the year 2000. The study points into the Automobile sector from the “production reached 2.45m vehicles of which 1m were exported. This made Thailand the 7th largest car exporter globally.”¹ This could be recognized as one of Thai’s potential industries for Thailand in order to capture as the strategic sectors. Thailand had achieved foreign direct investment (FDI) from Japan in the automobile sectors after launching the Detroit of Asia plan which provides tax and fiscal incentive. Thailand relied heavily on the basis of FDI for the capital flow. The study to achieve Japanese FDI is very significant to prove that these flows really appreciate and generate Thai’s economy. More importantly, this study shows the paths to maintain the Japanese FDI level from challenges both internal and external factors.

Thailand, before 1997 crisis, was a rising star and was seen as the tiger in economic term from growing of GDP per capita. There was the expectation to become the so called “Detroit of Asia”. Thailand was seen that it had the potential produce for domestic consumption first and then export over the region. In the 21st century, after the 1997 crisis, Thailand is still the important base for some Japanese MNCs firms such as Toyota which primarily produce the pick-up car as well as the other segments. Despite facing the debt crisis in 2007, the world economy was stagnated; Thailand got affected but the market still growing even in the small scale. Moreover, in 2011, Thailand had faced with the most severe flood which makes some Japanese automobile MNCs affected such as Honda Automobile Thailand. The plant is still in the production.

The historical background went back in 1960s which the automobile industry was founded in Thailand. At that time, it was in the sense of joint ventures. The turning point was the initiative of Import Substitution Industrialization (ISI) which was the grand strategy of the economic development at that time. From being ISI, the automobile industry got effect. In 1970s, during this period, even though there are several policies changed but the grand strategy which influence the policy remain unchanged. From being military government, the decision making was made in order to satisfy the company who support the government. In 1980s, as continuing ISI strategy, the local production was stimulated by the Ministry of Commerce that imposed the Banned on imported Complete Build Unit (CBU) and the raise of duties rates on both CBUs and Complete Knocked Down (CKD)’ parts from the Ministry of Finance. Since supporting on ISI strategy, local firms which are the assemblers and parts producers will be protected by the government. The MNCs and Joint ventures had to transfer their technology in order to maintain their advantages in Thailand. Despite banning on the imported car, Japanese assemblers in Thailand got favored that there had been the establishing their assembling plants as joint ventures and become the important industry in Thailand. In 1985, there was the Plaza Accord which appreciation of Yen currency. Therefore, the Japanese firms decided to go out the country and seeking for the new place to set up there basement which is cheaper with skilled labor.

Moreover, the major turning point is in the late 1980s that the Thai government had shifted its grand strategy from being ISI to Export-Oriented Industrialization (EOI). The significance factors came from the rapid economic growth. There was the establishment of vehicles exporting in 1987.

In 1990s, the government was established the turning point of automobile policies. The policies were conducted under the strategy of liberalization which reduced the tariff on CBUs as well as CKDs. Moreover, the cancellation of banned on imported vehicle was imposed. Apart from cancellation, there was the initiative of parts production approved. Apart from the domestic consumption, the exporting sectors would be exempted from being taxed. The government also imposed the tax exemption instrument for the export activities. However, in 1997, the Asian Financial Crisis made Thai’s economic growth stagnated. For this crisis, Thai government had changed the policies of investment. The allowance of major shareholders of foreign stakeholders was implemented in order to stimulate the foreign investment. Moreover, the tax policy was updated.

Moreover, on the 2001-2006, under Thaksin Shinawatra government, he is well-known of populist policy in order to pursue the people of the country. This period, there was some famous initiative called “Detroit of Asia” which the goal was set to be the regional hub for exporting vehicles within the Southeast Asian.

After 2006, there were political uncertainties which effect the policy process in term of the initiative because the government had to secure their stability by emphasizing the political dimension rather than economic. Moreover, with the sub-prime crisis in 2009, it made the world economy stagnated.



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Many developed and developing countries relating to the United States got affected. Therefore, it was not dynamic at that time until 2011 which the government leading by the first women prime minister Yingluck Shinawatra initiated the “First Car Policy” as populist and recovery policy to facilitate not only automobile industry but also people which mostly the lower-middle class who had never own the car. It can be said that this group of people tend to rise at fast pace.

At this point, the study of 21st century is the timeframe which General Agreement on Trade and Tariffs (GATT) was applied to Thai economy for trade liberalization. GATT, Uruguay Round was held by World Trade Organization (WTO) which “the Round came into effect in 1995 with deadlines ending in 2000 (2004 in the case of developing country contracting parties) under the administrative direction of the newly created WTO”². The problem is Southeast Asian nations, Vietnam, Indonesia, and Malaysia would like to share the Japanese FDI from Thailand. Therefore, this study examines these problems and finds the suitable solution for Thailand industrial sectors especially automobile sectors in order to retain the level of Japanese FDI.

Objectives

1. To examine Thai’s government policy towards Japanese automobile MNCs
2. To clarify whether Thai’s government policy really appreciate the firms
3. To understand the direction of Thai economic development plans
4. To prove whether the automobile MNCs create mutual benefits
5. To find out whether these firms really competitive in the world markets

Method

This research is contributed by the method of interpretive analysis of context as well as content in order to find out what is the Japanese firms would like Thai’s industrial sectors direction. As the Japanese automobile MNCs controlled over the majority of automobile selling in Thailand for the past few decades, these firms are quite actually decisive according to Thai’s economy in the part of foreign direct investment. These firms also employed many labors, both unskilled and skilled, not only for their companies but also for the sub-contractors. It is significant to see the strategies of these companies to conduct the implementation from Thai’s government.

Moreover, the documentary analysis has to be used in order to accomplish the historical background and some issues which is very important to know the purposes of these MNCs. And also the content analysis is used to see whether these firms as well as labor sectors go along well. In the other way, this research also focuses on the MNCs side, how is it affected to the Thai’s economy conducting policy analysis from Thai government.

Result

From the total sales and production of Thai markets, there was an initiated plan about Thailand to become the “Detroit of Asia”. Japanese car producers did not generate only for Thai markets but also export to the other countries within the region especially 1-ton truck. This meets with the strategy of Thailand to produce for exporting in order to generate the income in the country. In the production system, in the way of producers, they would like to minimize the production cost which is very important to gain as much profits as the producers get. The main production cost is not the natural resources because every firm has to use the similar resources but Thai producers achieve the labor pool with semi-skilled and cheaper price compare to the other emerging country such as South Korea at that time. Thai’s labors are efficient compare to other countries in the region. It is of course higher labor cost but Japanese MNCs would not like to relocation their base to another countries because they have to invest more in establishing production plant and to find the local part suppliers. Thai government saw this opportunities to create the “special economic zone (SPZ)” in order to subsidize the local producers in the way of taxation and resources.

Until recently in 2013, Thai government, led by Prime Minister Yingluck, implemented the policy of minimum wages 300baht for unskilled labor. This policy is totally affected the local producers from being small-medium sized industry that they have to hold the cost of production which is higher. Together with the economic stagnation from the world recession, it would make the situation more

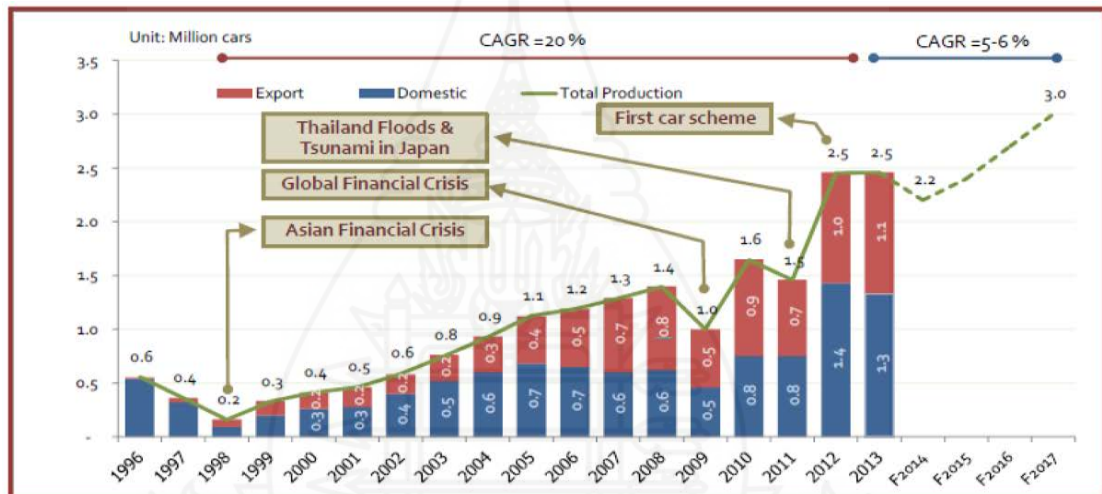


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severe. However, in 2011 Thailand faced with the most catastrophic flood which was impact to many local producers and some Japanese car assemblers. There were some rumors at that time about relocation of Japanese automobile MNCs. Thai government coped with this problem by implementing the “First Car Policy” that generate the total sales amount of eco car with the cheaper price than ever from tax redemption to cars buyers. This is of course created the demand which is recognized as the very short term. It is a kind of fake demand that Thai government would like spoil the Japanese automobile firms and also to meet the lower middle-class need from owning cars.

“After the flood situation subsided, manufacturers pressed ahead with their reconstruction process to resume production to meet pent-up demand, which was due to the impacts of the floods and the government tax rebate scheme for first-time car buyers.”³ The policy was approved in 2011. It had launched and implemented in order to, mostly, recover the economic situation which is shocked and stagnated. The industries had to stop the operation. There were many labors unemployed, mostly are the temporary workers. The owners also affected that their industries had to be temporary down with no any supplementary. Moreover, the policy was originated to subsidize the automobile industries as well as the supplementary. First car buyer is the only group who benefits from the policy. It is a kind of tax rebate from owning the first car. These people are mostly the new emerging middle-class. It can be seen that there is more consuming power in term of purchasing cars which would expand the scope of car owners as well as the cars model range.



Source: Thai Automotive Industry Association, SBG: Forecast 2014-2017

This figure shows the total production of Thai Automobile industry since 1996 by categorizing into export and domestic consumption. It can be seen that after the year 2000, the growth of the industry went well until 2009 which the economic stagnation from the Global Financial Crisis. Moreover, in the year 2011, Thailand faced with the catastrophe which affected to the most industry located in the rural areas. However, for recovery plan in 2012, the first time car buyers, made the production into the eyes. Thailand can be the hub of Southeast Asian region automobile production from the figure below:



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Year	Thailand				World	
	Commercial Vehicle	Overall	World ranking		Commercial Vehicle	Overall
			CV	Overall		
2007	971,902	1,287,346	5	14	20,064,715	73,266,061
2008	992,433	1,393,742	4	14	17,794,376	70,520,493
2009	685,936	999,378	4	14	14,019,270	61,791,868
2010	1,090,126	1,644,513	5	12	19,362,284	77,703,987
2011	919,811	1,457,798	6	15	20,147,802	80,045,075
2012	1,484,042	2,429,142	3	10	21,138,198	84,208,200
2013	1,409,797	2,532,577	5	9	21,866,828	87,300,115

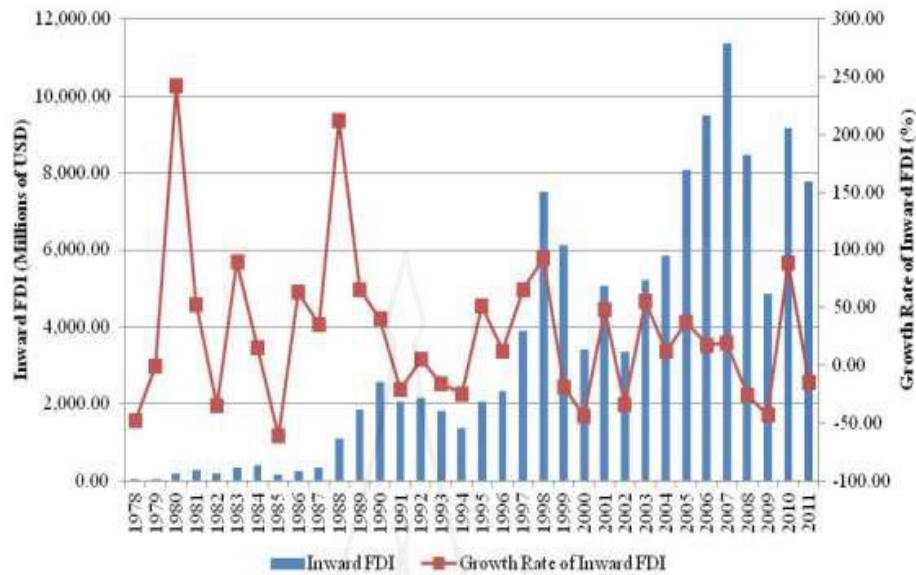
Source: Thai Autoparts., 2015. *The Preparation Of Thai Automotive Parts Industry'S Workforce In The Journey Towards The Asean Economic Community*. <http://www.thaiautoparts.or.th/download/Article%202.pdf>

In Automobile sectors, it has to divided into local part suppliers and foreign own assemblers i.e. Japanese MNCs. Local part producers can be categorized as suppliers to the MNCs because mostly Japanese firms would like sub-contract in the way of just-in-time in order to hold less cost of production. The below figure, after 1997 crisis, Thailand relies heavily on FDI in order to develop the country as the government expenditure. The volume is higher tentatively since 2002. The strategy of Thai government is to capture FDI in order to invest in Thailand to generate the liquidity of Thai's economic system.



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Source: Sermcheep, Sineenat. 2013. 'Foreign Direct Investment And Economic Growth: The Case Of Thailand'S Inward And Outward FDI'. Faculty of Economics, Chulalongkorn University.

The FDI flew to Thailand, point out after the year 2000, the year 2003 is tentatively rise from the initiative of Detroit of Asia project and rise continuously from 2002-2007 which the project is on track that FDI was flew in order to invest in Thailand. However, the year 2008-2009 when the FDI were dropped, it can be seen as the effect of global financial crisis. After the crisis was relief, in 2010 the FDI was growth. Although it seems to be good opportunities in 2010, in the year 2011, there was catastrophe which affect to the most industry in Thailand, the automobile industry also affected.

Net Inflows of FDI to Thailand Classified by Country
(average % share to total)

Country	1980-86	1987-1996	1997-1998	1999-2007
Japan	29.3	29.7	33.0	38.1
United States of America	29.0	14.6	23.2	10.3
EU 15	16.1	9.6	13.8	13.5
ASEAN	2.9	9.6	9.7	23.7
of which: Malaysia	1.0	0.2	0.3	1.3
Singapore	1.6	8.9	9.0	21.8
Hong Kong	12.9	15.0	9.9	4.9
Taiwan	1.0	7.0	2.9	2.2
Korea, South	0.1	0.7	1.1	0.8
Others	8.8	13.8	6.3	6.3
Total	100.0	100.0	100.0	100.0

Source: Bank of Thailand., 2009. *Thailand'S Investment In The Post-Crisis Era: Issues And Challenges.*

In classified into country, "Japan has been the largest source of FDI since the late 1980s"⁴. This could be implied that Japanese dominate the market. These Japanese firms came to Thailand as the MNCs in order to relocate their companies to the attractive destination with the incentive to the FDI for example the tax exemption. This can be proved that Thai government project and fiscal incentive attracted the



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Japanese Automobile MNCs and can be seen as successful for Thailand as the strategy of industrial development.

Moreover, the interview from first, Mr. Acharin Sarasas, Chief of Automotive sector, the Association of Thai Industries, are very precise in the sense that Thailand nowadays has many MNCs, mostly Japanese. Thailand has no national car brands unlike Malaysia. It can be implied that Thai government should create the satisfaction environment to keep these MNCs from relocating their base to other country such as Indonesia. The incentives that the government provided would not be sufficient. The human resources development is one of the important scheme that to supply the workforces to the industries. These could create the confidential environment to maintain the MNCs in Thailand.

Second, Dr. Vachara Phanchet, who was the assistant of Minister of Industry, implied that there were many projects in order to promote Thai automobile industry including parts industry. The goal of the development is to achieve the international standard in order to compete in the international market because if the domestic consumption only, it would not be enough to attract the FDI from MNCs. The scale of automobile industry is to achieve over the Southeast Asian region. Thailand has to encourage as well as develop the standard of the industry for the new scheme of production such as the Eco Car project. Thai local producers should produce the parts that meet the MNCs standard. The human resource development should be induced that to raise the standard of workforce to supply the industry efficiently.

These two interviews have been proved that Thai government is on the right track in order to attract FDI especially from Japan who relocate their production bases to Thailand in the 21st century. Apart from the Detroit of Asia, the first car buyer policy is very significant for the short-term demand as the recovery plan. It was the Eco Car Project but the government at that time was overthrown by military coup d'état. The government was regenerating the project to become the short-term stimulation.

The major challenge is the rising of industrial development of neighboring countries such as Vietnam whose efficiency is to attract FDI from newly developing countries with lower minimum wages comparing to Thailand. There will be the recommendation to cope with this critical point in the recommendation section.

Conclusion

Since the year 2000, there are many policies to stimulate the economy. The fiscal policy can be seen as one of the successful measures to rule the industrial sectors in Thailand. Moreover, technically, apart from non-tariffs barriers such as Local Content Requirement, the fiscal policy is very effective in the sense that the policy restriction to provide the guideline to the industrial sector as well as to attract FDI to circulate the domestic economy which creates the employment rate in the rural areas. This could make Thailand become more industrialized country from having fiscal incentive to FDI. It is not only for domestic consumption but also for the basement for exporting which make Thailand gains the scale of production.

The primary concern of Japanese automobile MNCs is to let the profit maximization. "As profit maximizing companies, the Japanese companies would want to produce where the labor was the cheapest, unless other benefits outweighed a higher labor cost."⁵ In order to reduce the production cost, the relocation to the third countries that provided incentive would be excellence strategies. After the government incentive, with the economic boom, the relocation of manufacturers base as well as part industry establish Thailand as the basement in the SEA region. It is not only for domestic market but also as a base for exporting to the third countries. Moreover, Japanese MNCs have some highlight challenges such as the market competition and Yen currency appreciation. Last but not the least, this chapter provided the MNCs strategies as well as the analysis of Thai economy and Japanese Automobile MNCs, these three have been linked unavoidably that Japanese MNCs Strategies see Thai economy as an opportunities to establish the manufacturer plants from the government incentives.

Recommendations

After analyzing all the information, it can be categorized into short-term and long-term plan for Thailand to keep the cooperation among the government and Japanese MNCs.

In short-term recommendation, the plan is to provide the project incentive in order to maintain the level of inward FDI. The government should create the demand and consuming environment domestically in order to gain the capital reinvestment in the system. For the exporting sectors, the



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government can provide tax and tariffs exemption for particular products for example the new model of 1-ton pick-up trucks.

For the long-term period, the recommendation should focus on the human resource development which is very important for not only automobile sector but also in any industries. This is to raise the labor standard in order to compete with the world market as the exporter because if Thailand would like to maintain the strategy of low wages, the neighboring countries can followed and they can gain the comparative advantages from lower wages comparing to Thailand. Therefore, shifting to develop the labor's skill is more important.

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