The Internationalization of Thailand's Automotive Industry: A Political Economic Analysis of the Late Developmental State

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ABSTRACT

With the rise of globalization, most countries depend on increasing their competitiveness and building competitive advantages to sustain their economic development. In this context, it must be determined whether late developmental states will follow the same patterns used in East Asia (Taiwan, South Korea, Singapore and Hong Kong) to build their industrial competitiveness. This study also addresses the manner in which late developmental states create improved investment environments to attract international capital and facilitate industrial development in the current free trade global market.

The automotive industry is ranked the fifth largest export industry in Thailand. In addition, as a car exporter, Thailand ranks the first among ASEAN countries, and third in Asia overall, with the biggest automobile assembly base in the region. Thailand is thus the regional center of the East Asian automotive industry, and has earned a reputation as the "Asian Detroit." Consequently, Thailand's automobile industry is a valuable example of industrial development for late developmental states.

The purpose of this study presents a discussion on the industrial growth in late developmental states by focusing on a single industry in a single country, namely the

automobile industry in Thailand. Thailand lacks a powerful state and stable political economic situation, and thus cannot control its domestic industrial development. The internationalization of the automotive industry in Thailand has been a dynamic process. It began in the 1960s with the "Dependence Development mode," in which foreign investments took the lead. After the 1990s, "Neo-liberalism" became dominant, the country's industrial policy remained free and open, and cooperation with multinational industries continued. During this stage, Thailand attempted to integrate itself into the global industry by employing internationalization of production and marketing. Although Thailand has not been able to build up its own automotive brands in this process or change the original structure of the world's production system, it still achieved a "later-entrants" advantage and the goal of industrial advancement by positioning itself appropriately in the international political and economic structure, and by taking advantage of the prevailing market mechanisms.

Keywords: *Thailand's Automotive Industry, Late Developmental States,*

I. Introduction

As a car exporter, Thailand is the largest among the Southeast Asia countries (ASEAN), and the third largest in Asia, as well as the largest ASEAN automotive market and assembler. However, rather than developing local brands, Thailand has chosen to collaborate with international automotive producers (Toyota, Honda, Peugeot, etc.) and become part of the global supply chain, since the industry was first established in the1960s (Rasiah, 1999; Nenham, 2006:8). The automotive industry has been included in the list of five industries that are being used by the government to encourage more multinational manufacturers to build plants in Thailand. Thailand signed a free trade agreement with Australia, New Zealand and India, and shifted towards auto parts as the primary focus for tariff reduction during trade negotiations, with the goal of entering international markets. Consequently, many leading multinational auto manufacturers have chosen Thailand as a production base. Pick-up trucks have been chosen as an additional focus of development since 2005, and Thailand has become the number one producer of these vehicles in the world (Rasiah, 1999:8). With these achievements, Thailand is now viewed as the regional center of the Southeast Asian automotive industry, earning the reputation of being the "Asian Detroit," and therefore setting a valuable example of industrial development for late developmental states.

Neo-liberal globalization has been the main trend in the world's economy since the 1990s. In theory, the late developmental states need to manage the issue of internationalization when facing the current globalized political and economic structure. In addition to the international market drive and industrial competition drive, the government drive is also significant in the pursuit of internationalization. The State must set appropriate trading policies, such as including domestic industries in free trade agreements, to encourage international economic and trade integration (Dicken, 1998:318). In the framework of globalization, different countries have different strategies for the international market. For example, Mexico, Brazil, and Spain depend on multinational corporations, and according to the transnational division of labor and high-efficiency production, build up their international markets in dominant areas such as market, location, and labor force. Korea and Malaysia relied on the state intervention and protectionist policies, rather than multinational corporations, to develop their automobile industries. They helped the local automobile manufacturers to sell their cars overseas through consolidation, production control, and the production of unified car models. These two modes of development have advantages and disadvantages (Tai, 2010:71-103).

This paper uses the view of historical institutionalism to examine the influence of globalization among the late developmental states in Thailand's automobile industry. Thailand lacks a strong state and a relatively stable political economic environment in the developmental process compared with other late developmental states, and therefore the state is unable to strongly control the development of the domestic industry (Soong, 2003:60). The internationalization of the automobile industry in Thailand matches the so-called "dynamic process" in the theory of historical institutionalism. Thailand initially used "import substitution" as a policy for a short time period, before adopting a "Dependence Development mode," in which foreign investments became the primary focus.[1] The cooperation with multinational industries continued after the 1990s, based

[1] Dependent Development Theory states that industrial development in late developmental state involves an interaction between the state and multinational corporations, and thus focuses on the role played by such corporations in the host country (Gilpin, 1975).

on Neo-liberalism, and Thailand retained a free and open policy to integrate itself into the global economy by employing the internationalization of production and marketing.

II. The beginning of the automobile industry in Thailand (1961-1982)

1. The initial period (1961-1972)

The automobile industry in Thailand started in the 1960s, prior to which all cars were imported. Prime Minister Sarit Dhanarajata (1958-1963) and Prime Minister Thanom Kittikachorn (1963-1973) advocated a relatively open policy to develop the national economy, following the military dictatorship and economic nationalism that was experienced under the rule of Prime Minister Pibul Songgram in the 1950s.[2] Therefore, Thailand set up the National Economic Development Board (NEDB) in 1959, and prioritized industrialization (Haggard, 1997:78-104). This background contributed to the initial development of the automobile industry in Thailand, as it followed the bureaucratic authoritarianism mode, in which the State used economic technocrats to dominate economic development (Soong, 1996:68-69).

The early developmental period of the automobile industry in Thailand employed two strategies under the lead of technocrats. The Automotive Industry Development Committee (AIDC), which was set up by Thailand's Ministry of Industry (MOI) and Parliament, became the state corporatism mechanism to dominate policy-making and planning in favor of promoting industrial policy (Soong, 1996:68-69).[3] The Thai Automotive Company, the first automobile company in Thailand, was set up in 1961.

In addition to national integration, at that time Thailand lacked development experience and local personnel who were skilled at management, and thus needed help from foreign investment in this period. Therefore, during the early days, the State invited multinational automotive groups and local investors (especially Chinese enterprises in Thailand) to form joint ventures. In 1962, the Office of the Board of

[2] At the end of 1950s, Sarit Dhanarajata became the prime minister and emphasized state capitalism with nationalization policies, and strove for the economic development in Thailand. State involvement in the economy thus reached a peak, and most foreign investment and Chinese economic activities were inhibited during this time.

[3] In the 1960s, Thailand was run under a Military Authoritarian Regime, and a system of military-political-and-bureaucratic cooperation controlled the operation of state agencies. On the basis of a stable political situation, it promoted the economy and industrialization.

Investment (BOI) implemented the Investment Promotion Act, which offered many preferential terms for the car assembly industry to attract European and Japanese automobile manufacturers to cooperate with local enterprises in Thailand, and thus, to establish an industrial base.

In brief, Thailand employed two strategies in the 1960s, national integration and cooperation with foreign investment, and thus experienced a rapid increase in the production of assembled cars. These privileged assembly plants enjoyed lower tariffs because they imported large amounts of components, and caused a significant trade deficit for Thailand, with the situation deteriorating further at the end of the 1960s. On the other hand, since the mid-1960s, calls for democracy had strengthened in Thailand, and people became discontented with military authoritarianism and the frequent associated coups, and demanded democratic reforms (Fujita, 1998:149-187). These demands were also reflected in economic policy. The local automobile manufacturers pressured the Automotive Industry Development Committee (AIDC) to slow the liberalization of industrial policy, and to stop establishing new automobile factories through the Association of Thai Industry. Under this pressure, the State reexamined the direction of the development of the industrial sector, and improved the domestic industry by means of import-substituted industrialization (Doner, 1991:192).

2. The import substitution period (1972-1982)

To ensure the survival of the industry, Thailand's Ministry of Industry accepted the suggestion by the Association of Thai Industries and announced a comprehensive reform program for the automobile industry. According to this program, locally assembled cars should meet the requirement of 25 % local content (Fujita, 1998:149-185). This was due to the change in the economic philosophy of Prime Minister Thanom Kittikachorn to embrace the concept of economic nationalism, with the aim of revitalizing industry, ending exploitation by foreign capital, and achieving national modernization. Thanom believed that the State should lead the development of the automobile industry through its interaction with domestic investors, use the Federation of Thai Industries as the organization of strategic development, and help local producers resist the competition from imports by adopting protectionist measures.

In 1973, Prime Minister Thanom was forced into exile due to a revolution led by a student movement. During this period, Thailand had six prime ministers and a number of coups, although there were no significant changes in the economic policy of the country.

The State of Thailand increased the range of its control in 1972. To strengthen local industrial development and reach economies of scale in production, Thailand restricted the number of models of domestic assembly cars to further enhance localization and foster the development of component firms (Fujita, 1998:152). In 1978, the government prohibited the import of Completely Built Units (CBUs) and increased tariffs on Completely Knocked-Down (CKD) units, as a further measure of protecting the domestic automobile industry (Fujita, 1998:152). Although short-term democratic movements occurred in the early 1970s, under military authoritarian and civil-military co-governance Thailand's industrial policy continued to follow an import substitution mode and employed high tariffs and limits on the country of origin to protect the domestic automobile industry, while also restricting the number of car models to gain the economic benefits of production scale. Although these protectionist measures helped to increase the number of local component makers, protection did not lead to the rapid development of the local automobile industry, as high prices limited domestic demand and further policy reforms were required (Doner, 1991:198).

III. The transition period (1982-1990)

Because of political instability in Thailand during the 1970s, the state focused on the development of national security expenditure, which significantly increased the trade and fiscal deficits of the country (Lin, 1990:50). With the support of both the military and a number of intellectuals, Prem Tinsulanonda (1980-1988) became the Prime Minister in 1980. Due to the constitutional framework of 1978, Thailand experienced a smooth political situation for the following eight years. During this period the Cold War was coming to an end, and many developing countries, including Thailand, prioritized economic development.

According to the constitution of 1978, the Prime Minister only required congressional consent to appoint citizens to cabinet positions, and such individuals could also retain their original positions in the private sector. Although this was significantly different to the system in Western democracies, when Prem Tinsulanonda became Prime Minister with the support of the military, political parties, other factions, and business interests, both the political structure and the industrial decision-making process changed.

As the political situation in Thailand gradually changed, enterprises began sending agents into political parties, parliament, and the cabinet to influence politics by becoming directly involved in the process of decision-making. During Prime Minister Prem Tinsulanonda's regime, Deputy Prime Minister Pong Sarasin was the former chairman of industrial organization of Thailand, the Minister of Industry, Ob Vasurat, was the former chairman of the Thai Chamber of Commerce, and Deputy Prime Minister Boonchu Rojanasathian was the former chairman of the Thai Bankers Association. The Minister of Industry, Ob Vasurat, stated, in cabinet, that enterprises should be encouraged to be involved in Thailand's economic decision-making (Doner, 1988:1555). In keeping with this, among the members of parliament in 1980, approximately 30 % had a business background, and 40 % of the members in the cabinet were from the business community (Cheng, 2008:159). As such, Thailand made significant changes to its industrial policy, and its economic decision-making mode changed from that of a bureaucratic polity to liberal corporatism (Laothamatas, 1992).

As Thailand's industrial policy was no longer under the control of the State, its automobile industry policy experienced significant changes, including the following: interest groups and civil society influenced automobile industry policy, multinational corporations promoted the upgrading of the automobile industry, and the State decided to employ an open trade policy in this sector.

1. Interest groups and civil society begin to affect the formulation of industrial policy

The prices of Thailand's agricultural products fell after the second oil crisis in 1979, and civil society demanded economic reforms (Kamaruding, 2003). To obtain loans from the World Bank and support from the United States, the National Economic and Social Development Board of Thailand (NESDB), which was responsible for the planning of economic policy, gradually relinquished control. Facing pressure from multiple forces in society and multinational corporations, the Joint Public Private Consultative Committee (JPPCC), set up in 1981 as the communication platform between government and enterprises, proposed that the NESDB should revise Thailand's economic policy by replacing import substitution with an export-oriented approach (Hewison, 1998:73).[4] Prime Minister Prem advocated that Thailand should follow the example of the economic development mode in Japan to build public-private partnerships, and what he referred to as "Thai Inc."

The JPPCC represented the interests of all local business groups, and was responsible for communicating policies. To achieve this, it held monthly committee meetings, which served as a communication platform between business group leaders and high-ranking government officials. The resolutions of JPPCC were sent to the cabinet or to the relevant ministries for discussion (Cheng, 2008:160). Through the JPPCC, the State of Thailand gradually loosened the control of license applications that began during the 1950s (Phongpaichit and Baker, 2000:154), and this greatly influenced the development of the automobile industry. One of the crucial policy reforms was the freezing of the 1978 "Ratio of Origin" requirement in 1982 (Fujita, 1998:152).

The Association of Thai Industries (established in 1967) was renamed as The Federation of Thai Industries, and served as a platform for participation in creating industrial policies for various industrial groups, including the automobile industry.[5] In addition, the Thai Auto-Parts Manufacturers Association (TAMPA), established in 1978 also became a communication platform for the components industries to participate in automobile industry policy decision-making. Under these various influences, component manufacturer Siam Cement Group became the largest industrial group in Thailand, and attracted many Thai enterprises to participate in the production of

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[4] Thailand abolished the "Outsiders Business Act" in 1979, loosened restrictions on investment, and built export processing zone, which had been considered an important industrial policy to speed up the process of transforming from import substitution to export-oriented industrialization.

[5] The predecessor of the Federation of Thai Industries was the Association of Thai Industries which was established in 1967. When Thailand passed the Industrial Union Act in 1987, it was renamed to the present title. This organization held the function of helping the Thai government to formulate economic development policy and coordinate comments from industrial sectors. (See the website, http://www.fti.or.th/2008/eng/ftiaboutfti.aspx (2010/6/16))

components by means of its improved political and commercial relations. These groups also urged the government to adopt more open policies (Doner, 1988:1557).

Thai firms and interest groups have influenced the policies, as observed in the development of domestic cars. To increase the use of local components, the government announced a joint project between Peugeot France and local enterprises in 1984, known as the "Domestic Car Manufacturing Project" (Kesavatana, 1989). According to the plan, 95 % of the components of "Thai cars" were to be produced locally. However, as this might have caused a significant loss of tariffs for imported components, a number of interest groups opposed this plan, and the Minister of Industry, Ob Vasuratna, who had a business background, decided to terminate the project (Doner, 1991:207). This event demonstrated that enterprises could significantly influence economic policy-making.

2. Multinational enterprises promote the automobile industry[6]

The middle-class had grown substantially in Thailand after the 1980s, and the State gradually lost its ability to lead industrial policy, and the government bureaucracy also lacked effective tools to undertake this. Therefore, in the developmental mode, opening and renewing cooperation with foreign investors, especially Japanese multinational corporations, became a necessity (Haggard, 1997:92).

Through the import substitution policy of the 1970s, accompanied by the global economic recession, crop failure, and shortage of foreign exchange reserves in declination of the 1980s, the State of Thailand successively issued many decrees to encourage foreign investment, in the hope of stabilizing the overall economy and promoting industrial development in the country (Sahasakul, 1989). For example, the 1983 amendment of the Investment Promotion Act listed the scope of various

[6] Thailand started to open international trade after the Bowering Treaty was signed in 1885, and developed closer relations with multinational corporations. As such, the early stage of economic development in Thailand relied on the processes of "dependency" and "economic interaction," which were formed by the situations of having a "UK-core" and "Thailand-frontier" (Soong, 1996:117). Prime Minister Pibul Songgram implemented economic nationalism during the 1950s for the purpose of gradually improving Thailand's position in the international economic structure. However, Thailand continued cooperation with foreign investors and multinational corporations, which helped domestic industrialization (Soong, 1996:118).

investment projects for foreign investors, including those focused on auto parts. The Investment Promotion Act not only aimed to encourage and stimulate domestic and foreign investment, by exempting certain items from tariffs, but also ensures that investment enterprises would not be nationalized, promises that not to make state-owned enterprises to compete with foreign investors (Lin, 1999:49).

European and American automobile manufacturers, which imported car components to make assembly cars, suffered significant losses during the period of import substitution. Furthermore, the political situation in Indochina and Thailand was unstable, and the manufacturers that had entered the Thai market in the 1960s began to leave (Fujita, 1998:153). However, Japanese companies cooperated with local investors and transplanted their industrial supply chain to Thailand to produce components locally, and became the largest beneficiaries of the localization policy (Dodwell Market Consultants, 1984).

As such, the Thai government has had a tendency to maintain cooperative relationships with Japanese multinational automobile manufacturers. Thailand was able to attract Japanese capital for a number of reasons. In 1985, the Plaza Accord forced the appreciation of the yen[7] and Japanese enterprises needed to move overseas to lower-cost locations, and Thailand became the first choice for the overseas investment of the Japanese automobile industry.[8] The State of Thailand offered generous tax concessions to Japanese-based multinational corporations, and created a more conducive environment for their investments. These industry liberalization measures caused foreign investment (FDI) to rise, and since 1986, Thailand has become the most popular country for foreign investment in Southeast Asia (Warr, 1993:30-34).

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[7] The United States, Japan, Britain, France, and West Germany, five major industrial countries, gathered at the Plaza Hotel New York to have a secret meeting on September 22, 1985. Their finance ministers and central bank presidents signed the famous “Plaza Accord” to cooperate in a joint intervention in the foreign exchange market, to depreciate the US dollar against the Japanese yen to resolve the massive U.S. trade deficit.

[8] Thailand particularly welcomed Japanese capital mainly as Japanese investment was labor-intensive and could create more job opportunities.

Table 1: Foreign investment in Thailand 1980-1993

Unit: Million Thai Baht

	1980-5 average	1986	1987	1988	1989	1990	1991	1992	1993
Japan	1.7	3.0	3.3	14.6	18.8	27.9	15.6	8.6	9.3
Korea	-	-	-	0.3	0.3	0.5	0.3	0.3	0.4
Taiwan	-	0.1	0.7	3.1	5.1	7.2	2.8	2.2	1.4
Hong Kong	0.7	1.0	0.8	2.8	5.7	7.0	11.6	14.5	4.4
Singapore	0.7	0.4	0.5	1.6	2.7	6.1	6.5	6.7	5.8
USA	1.9	1.3	1.8	3.2	5.2	6.2	5.9	11.9	7.4
UK	0.3	0.3	0.3	0.9	0.2	1.1	0.3	3.2	4.1
Germany	0.2	0.2	0.4	0.6	0.8	1.2	0.8	0.6	0.8
Others	0.7	0.7	1.1	0.9	6.9	7.5	7.7	5.8	5.1
Total	6.1	6.9	9.0	28.0	45.7	64.7	51.4	53.8	39.0

Source: Bank of Thailand; Juan-Hui Lin, op. cit., 1999, p. 71.

Foreign investment helped Thailand's automobile industry to accumulate learning experience, and enabled local manufacturers to set up production processes, supervise and control quality, offer financial intermediation, and to market products in export markets. Japanese companies not only brought orders, but also provided more job opportunities. Local workers who engaged in production activities related to the automotive industry could also accumulate experience related to production technology. Thai component manufacturers gradually began to flourish with the help of Japanese multinational corporations.

Thailand's economic growth rate was maintained at 9 % on average due to the increase in foreign capital, causing the rise of the middle classes, which increased demand in the domestic automobile market.[9] This condition led the state to once again reconsider lifting restrictions on imports of foreign cars.

3. The State chooses a more open policy

Thailand entered into a semi-democratic period in the 1980s, while the business community, administrative bureaucracy, and elected politicians played important roles

[9] Cited from the Ministry of Economic Affairs, Department of Investment Service, index of all nation's General economic data, see:
http://twbusiness.nat.gov.tw/asp/sec.asp (2009/2/1)

in the decision-making process. The State still had control over society, but the relationship had become more tolerant, and enterprises were allowed to influence the politics.

Industrialization in Thailand was led by the private sector since the 1980s, and the State only played the role of a promoter (Ikemoto, 1992:172). For example, the State of Thailand hoped that industries could develop their own competitive advantages, and focused on the development of pick-up trucks (one-ton light trucks) to position Thailand as the global production center for such vehicles. The automobile industry is capital-intensive and, during the development stage, the State of Thailand did not choose to intervene by using direct investment (such as developing state-owned enterprises). The development goal for the automobile industry in Thailand was to set up production bases through the use of foreign capital. Local investors, by means of cooperating with foreign investors, could develop the production of components and accumulate business experience. Compared with other Asian leaders during the same period, such as Indonesia's Suharto, Malaysia's Mahathir and the Philippines' Marcos, Thailand lacked a political leader who utilized a highly centralized form of leadership and governance, and hence could not fully control the industrial development (Doner, 1988:1561).

After1985, because of the weak government, collusion of Thailand's state bureaucracy, corruption, and alliances with commercial interests, the autonomy of the state was infringed upon. Prime Minister Chatichai Choonhavan took office in 1988, and began to adopt a development-oriented economy with a focus on the market. However, the government was afflicted by corruption and bribery, and this contributed to the military coup that occurred in 1991 (Bunbongkarn, 1996:27).

This did not mean that the decision-making process of the automobile industry was completely controlled by foreign investors or interest groups. Import substitution was implemented at an early stage in Latin America, so that multinational corporations could control industries (Amsden, 2003). However, in Thailand, local investors bore the main duties of production and learning, and did not operate in line with the expectations of Dependency Theory. Doner states that, in the 1980s, although the industrial policy of

Thailand had successfully attracted foreign investors and supported the connection between multinational corporations and local investors, the State of Thailand still retained autonomy, and served as the communication bridge between these groups. Local investors were able to expand the market and upgrade their technology through cooperation with multinational corporations (Doner, 1988:1561).

IV. The period of industrial internationalization (1990-present)

The political situation in Thailand gradually stabilized during the 1990s. Prime Minister Anand Punyarachun abolished many of the restrictions on the automobile industry, which assisted the export of whole cars and components. As Thailand was the first country in Southeast Asia to implement liberalization in its automobile industry, it would gain a “first mover” advantage. This process included two major processes, the internationalization of production and the internationalization of marketing.

1. Internationalization of production: Relaxation of import controls and cooperation with foreign investors

The first step in the internationalization of production was to open the local market. In 1991, Thailand partially opened automobile imports and substantially cut tariffs on vehicles and components. The reason that this was undertaken was that the State of Thailand had determined that, to achieve the goal of internationalization, it would be necessary to closely follow the trends of technological development in the major producing countries, such as those in Europe and Japan, and adopted an open industry policy and chose the development mode of cooperation with foreign investors. The Thai government undertook a series of measures, such as abolishing the restriction on foreign car companies in setting up factories in 1993, and offering investment incentives for automobile assembly plants in 1994, including an export tax rebate and an eight-year corporate income tax exemption (Lin, 1999:4).

Due to this new open policy with regard to imports, a large number of low-cost cars from Korea and Europe began to enter the Thai market, which was dominated by Japanese vehicles at the time. The Japanese market share dropped from 79 % in 1990 to 68.7 % in 1995 (Fujita, 1998:154). The growth rate of automobile manufacturing in Thailand from 1990 to 1994 was the highest in the world due to these large investment projects, with the annual growth rate of the domestic market reaching up to 20 % (Fujita, 1998:154).

The Asian economic crisis of 1997 affected the automobile industry in Thailand, significantly reducing demand in the domestic and regional markets, and the scale of automobile production shrank by 40 %. In response to the crisis, the State decided to maintain a positive and open policy, with four main strategies.

First, in the five-year economic development plan of 1998, the development goals of the automobile industry were set as follows: Thailand should become the automotive manufacturing center of Asia, and use its powerful domestic supply chain to increase product added value.[10] As Thailand implemented a liberalization policy earlier than other countries, many multinational corporations had already invested considerable "sunk costs." Thailand's whole car and components exports were incorporated into Southeast Asia's regional markets through the marketing capabilities of international automobile plants, with the help of Toyota's "world car" concept.

Second, as many components factories were on the brink of collapse during the Asian economic crisis, the "Foreign Business Act" relaxed restrictions on foreign investment projects in 1999, and allowed foreign investors to completely own their Thai subsidiaries, and encouraged them to purchase nearly bankrupt factories. In this way, the problem of overcapacity caused by the shrinking domestic market could be solved, while the immediate rewards offered to foreign producers encouraged even more investment.

Third, Thailand joined the World Trade Organization (WTO) in 2000, and multinational corporations were allowed to set up wholly-owned companies, without the need to use locally made vehicle components, which also led to a rise in the number of multinational corporations investing in the Thailand automotive industry.[11] As

[10] "Master Plan for Thai Automotive Industry,", see : http://www.oie.go.th/policy7/Mplan/Auto/MP_Ex_Auto_en.pdf (2010/08/01)
[11] In the trade negotiations for participating in WTO, Thailand must fulfill "Trade-Related Investment Measures (TRIMs)." According to TRIMs, automobile markets should abolish the demand of origin, but developing countries were granted a grace period of 5 years. According to this time frame, Thailand

automobile component production technology is patentable, multinational corporations usually set up subsidiaries to protect their patent assets by taking a majority stake or fully-owning them. The relaxation of foreign capital restrictions due to the WTO accelerated the rate of factory expansion. When foreign investors could fully own their subsidiaries, products could be exported to assembly plants in other countries through the global component supply system, thus building up Thailand's involvement in the international market system.

These policies led to a rise in foreign direct investment, and many scholars believe that this is the main reason that Thailand became the main automobile production hub in Southeast Asia (Kohpaiboon, 2007:8). More multinational corporations set up plants in Thailand after 1998 (see Table 3), including the world-class Japanese auto parts manufacturers, DENSO and DANA. According to Archanun Kohpaiboon's statistics, a quarter of foreign investments in the manufacturing sector, from 1999 to 2005, was concentrated in automotive related industries, as shown in Table 2 (Kohpaiboon, 2007:8).

Table 2: Multinational automobile related investments since Thailand's open market policy in the 1990s

Year	Foreign investor	Investment (million baht)	Item
1994	MMC Sittipol	6,022	Sedan
1995	Honda Automotive	2,525	Automobile assembly
1995	Siam VMC Automotive	700	Pick-up
1995	Toyota Motor	8,146	Automobile assembly
1996	Auto Alliance	8,917	Pick-up
1996	General Motors	16,200	Sedan
1998	Auto Alliance	998	Vehicle body
1998	BMW	1,295	Sedan
1998	Hino	806	Pick-up
2001	Fiat Auto	524	Sedan
2001	Siam Nissan Automotive	8,269	Automobile assembly

Source: Authors calculated from TAPMA Yearbook, 2007, <http://www.thaiautoparts.or.th>2010/7/20

began to relax the requirement of origin in 1997, and completely removed it in 2000.

Fourth, factories that were funded by native Thai investors usually produced low-priced factory components, focusing on relatively low-tech items, such as those related to exterior modification. These firms mainly served local price-conscious customers or budget auto repair shops. For the purpose of promoting industrial development and the specialization of domestic manufacturing systems, the government allowed foreign capital to dominate the car assembly industry, while local investors focused on the supply chain of related components.

The Asian economic crisis in 1997 brought new opportunities for Thailand's automobile industry. Prime Minister Thaksin Shinawatra took office in 2001 and accepted competitiveness "guru" Michael Porter's suggestion to choose five competitive industries: tourism, fashion, food, software and computer animation, and automobiles, of which automobiles was chosen as the most important (Ketels and Porter, 2003).

Thailand further proposed a "Vision 2020" program, which was an attempt to shift the focus of investment from labor-intensive industries to capital-intensive industries. The government announced the opening of the following six centers: "World Kitchen," "World Medical Center," "Oriental Detroit," "Asian Tourism Resources," "Asian Tropical Dress and Fashion Center," and the "World Rubber and Related Products Manufacturing Center" as indices for industrial development, and offered further investment incentives to attract foreign capital. The automobile industry was included in the "Oriental Detroit" project.

As a partial result of this policy, Thailand has 14 automobile assembly plants, of which 12 are 100 % foreign-owned, including those operated by three major U.S. automakers, as well as firms from Japan and Europe. Thailand is also Toyota's second-largest overseas market. According to statistics from the "International Organization of Motor Vehicle Manufacturers," the automobile industry is the third largest industry in Thailand, employing more than two hundred thousand people. In 2008, Thailand produced 1,393,742 cars, becoming the world's thirteenth largest producer, and ranking third in East Asia, after Japan and Korea.[12]

2. Internationalization of the market: Industrial policy transforms into trade policy

In addition to marketing and competitive efforts during the process of internationalization, the government's industrial policy is also critical when facing globalization and international economic integration. In terms of the internationalization of the automobile industry, most developing countries only focus on building firms that can operate as component OEM (Original Equipment Manufacturer), while Thailand has been one of the few countries to export fully built cars.

The Thai government announced an "Automobile Industry Export Promotion Program" in 1993 due to the fact that the domestic market could not accommodate large-scale manufacturers and sustain economic growth. This program transformed the domestic market-oriented industrial policy to an export-oriented policy, and promoted exports to balance the increasing import competition. This policy led to annual increases in the amount of components that were exported (Kohpaiboon, 2007:6) (Table 3).

Table 3: The automobile industry's share of Thailand's exports（1981-1993）

Unit: billion (baht)

Year	1981	1985	1988	1990	1993
Auto parts as a percentage of total exports (%)	0.1	0.3	3.8	5.5	16.5

Source: Thailand Development Research Institute (1994); Bank of Thailand.

In addition to government incentives, another export advantage of Thailand's automobile industry is closely related to geography. In the process of production and marketing, the cost of transportation and packaging is relatively high, thus the automobile industry tends to choose regional centers as production locations to reduce shipping costs. This has benefited Thailand, as it is located in the heart of Southeast Asia.

[12] See the website, http://www.oica.net/category/production-statistics/ (2010/7/20).

The following government actions have also been implemented to aid the Thai automobile industry: promoting the automobile industry as a key item in the ASEAN free-trade agreement; including the industry in the negotiation list in bilateral free trade agreements with China, Australia, and India; and reducing non-tariff trade barriers.[13]

In addition to the WTO, which Thailand joined in 2000, the regional integration of the ASEAN Free Trade Area (AFTA) has also hastened export liberalization. According to the norms of the ASEAN Free Trade Area, ASEAN members Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand's import tariffs and non-tariffs were lowered to between 0 % and 5 % in 2003. The ASEAN Industrial Cooperation Scheme (AICO) states that when a country's auto parts manufacturing industry meets the standard of using parts that are 40 % locally made, a 0 % to 5 % special tariff is applicable within ASEAN. Thailand implemented its liberalization policy earlier than other member countries, and its tariff reduction projects met the time frame and standards set out in this free trade agreement. Therefore, since 2003, Thailand has reduced tariffs on imported cars to 5 %, becoming the country with the largest tariff reductions in Southeast Asia (Xu, 2002) (See Table 4).

Table 4: ASEAN countries' tariff reduction process table for imports of fully assembled cars (CBU)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010
Thailand	15%	5%	→	→	→	→	→	→	0%
Philippines	20%	5%	→	→	→	→	→	→	0%
Indonesia	5%	→	→	→	→	→	→	→	0%
Malaysia	No reduction	No reduction	No reduction	15%	%5	→	→	→	0%
Vietnam	No reduction	No reduction	No reduction	No reduction	20%	→	Plan to be 20%	Plan to be 5%	→

Note: Although Malaysia agreed to begin the tariff reduction in 2006, foreign car imports are still restricted by franchise licenses.

Source: *ASEAN Automotive Integration: Private Sector Perspective,* paper

[13] "Master Plan for Thai Automotive Industry," see website: http://www.oie.go.th/policy7/Mplan/Auto/MP_Ex_Auto_en.pdf (2010/08/01)

presented in the 8th APEC Automotive Dialogue, Bali, Indonesia, 15-18 May 2006.

In brief, to achieve the aim of becoming the automobile production base in Southeast Asia, Thailand must solve the problem of its insufficient domestic auto market. In addition, measures to outwardly expand and internationalize the industry are attempts to increase its export competitiveness. ASEAN is an emerging market with a population of approximately five hundred million people, and when Thailand implemented the 5 % tariff reduction in the ASEAN Free Trade Area, it was the significant beneficiary of this process of regional integration, with its exports increasing each year, as shown in Table 5 (Cheng, 2006).

Table 5: Automobile production, sales and exports in Thailand (1997-2009)

Year	Total production	Passenger Cars	Buses	Pick-up trucks	The annual exports (Baht）
1997	**358,686**	111,937	914	245,731	20,722.84
1998	**143,250**	19,078	637	123,535	34,110.33
1999	**321,411**	72,716	81	248,614	60,105.53
2000	**405,761**	97,129	0	308,632	83,245.46
2001	**454,797**	156,066	271	298,460	107,110.16
2002	**564,392**	169,321	388	394,683	107,729.72
2003	**750,512**	251,684	9,220	489,608	138,161.39
2004	**960,371**	299,439	5123	655,809	202,079.9
2005	**1,125,316**	277,603	412	847,301	294,243.9
2006	**1,193,885**	298,819	272	894,794	342,655.95
2007	**1,301,149**	329,223	578	971,348	469,303.35
2008	**1,391,728**	399,435	376	991,917	516,243.89
2009	**999,378**	313,442	458	685,478	379,486.62

Source: Statistics by the author based on figures from the Automotive Institute of Thailand＜http://www.thaiauto.or.th/Records/eng/records_menu_eng.asp＞ (2010/5/31)

Finally, in addition to geographical conditions and the government’s policy incentives, Thailand’s export competitiveness is closely related to cooperation with foreign investors. In terms of market size, while Malaysia is the largest car market in Southeast Asia, the government insists on the protection of its domestic brand and car manufacturer PROTON, thus setting a high barrier to foreign investors. This high level of protection means that the cars produced in Malaysia lack competitiveness. In contrast, the high level of cooperation with multinational automobile companies has significantly aided car production growth and exports in Thailand (Tai, 2009).

V. A political and economic assessment of Thailand's automobile industry development

In discussing Thailand's political and economic development, a number of scholars believe that the main difference between Thailand and other East Asian Developmental States is that, since the 1970s, Thailand has not had a strong state that was able to develop performance standards and regulate capital. [14] These scholars reason that a developmental state's industrial policy can be more successful when the state has a certain degree of autonomy to regulate capital and intervene in industry.

Due to the post-war historical background, the governments in many East Asia states (especial in Taiwan, Korea, Hong Kong and Singapore) were strong enough to intervene in industrial policy through their authoritarian rule. Compared to other East Asian states, Thailand lack of stability and a strong state[15] did not see the conditions of other developmental states in the region and thus and could not lead industrial development in the area (Hawes and Liu, 1993:629-660).[16] Thailand thus has not been able to conduct interventional policy in domestic industrial development. Due to this background, Thailand's automobile industry has operated in which foreign investors and multinational corporations took the lead.

Thailand was run by a military authoritarian regime prior to the 1980s, which followed the policies of state capitalism and economic nationalism. Interest groups and

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[14] Chalmers A. Johnson proposed the concept of a "Developmental State" in his research into the Japanese industry. He advocated that, in developing countries, the state's efforts to promote economic development would contribute to the process of industrialization (Johnson, 1982) .The research by Alice H. Amsden reaches a similar conclusion in East Asia (Amsden, 1989:71).

[15] Thailand often underwent military rule from the 1950s to the 1990s (Cheng, 2009:65-116),

[16] Scholars also believe that the differences in the industrial development policies between Southeast Asian countries and developmental states are as follow: first, unlike East Asian countries, Southeast Asian ones did not need to hold down wages to increase export competitiveness; second, unlike East Asian countries, Southeast Asian ones did not have so much policy autonomy; third, Southeast Asian countries were more affected by their colonial history and the competing demands of their ethnic groups.

civil society began to affect the formulation of industrial policy after the 1980s. Thailand encouraged multinational corporations to invest in the country to promote economic development. In brief, it was a triple-alliance that oversees Thailand's automotive industrial development, which is formed by the State, in partnership with international and domestic capital. Under this system, these three parties try to achieve mutual benefits and growth under the structure of "Dependent Development" (Evans, 1979:32-54). In this regard, the choice of industrial development mode by a late developmental state is closely related to the political and economic environment and historical context of each country.

Since the international economic system became globalized in the 1990s, late developmental states must open their economies and reduce protectionism (Wade, 2003:621-644). Thailand liberalized its industrial policy at the beginning of the 1990s, as politics became more open. As a late developmental state, Thailand's political and economic structures have the characteristics of an open economy; therefore, multinational corporations are more willing to make it a regional production center, and gradually build up economies of scale to meet the requirements of globalization. When the industry matured in the 1990s, this mode changed to one that followed the principles of Neo-liberalism, as it tried to integrate itself into the global industry and production division mechanism of free trade by employing internationalization of production and marketing.

After the Asian economic crisis in 1997, the ending of restrictions on foreign capital further strengthened Thailand's status as a regional production hub, and the automobile industry's target shifted from the domestic market to regional and international markets. The regional integration plan in the ASEAN Free Trade Area also helped to liberalize the car and auto parts market. As Robert Wade noted, in the era of globalization, multinational (auto) corporations invest in late developmental states not only to attain domestic markets, but also with the hope of integrating such operations into their global supply chains (Wade, 1990:231). When facing pressure to open its market, the state of Thailand employed a "follow the market" policy, and thus continued to maintain industrial competitiveness and seize the opportunities presented by early liberalization (Amsden and Chu, 2003:200-211).

The case of Thailand's automotive industry demonstrates that the industrial development of late developmental states in Southeast Asia can follow a mode that is different to the intervention seen in "Developmental States". First, Thailand made good use of the Dependent Development Theory during the 1980s and 1990s, as local enterprises attained the necessary technologies and resources from multinational corporations to increase their industrial competitiveness and accumulate experience. In addition to the Dependent Development mode, Thailand's automobile industry adopted the concepts of "Neo-liberalism" and "Flying Geese" after opening up the market in the 1990s, established supplier relationships with multinational companies, and allowed them to completely own and operate subsidiaries. This strategy has three advantages: 1. It can produce a stable source of income to meet the needs of management and research; 2. It can maintain a good relationship with multinational corporations to attain the latest information about technology and the market; and 3. It can promote product image and increase export competitiveness.

VI. Conclusion

The main argument of this paper is that Thailand's automobile industrial development mode provides late developmental states in Southeast Asia with a path that is different from those adopted by East Asian "Developmental States." The traditional theory of the "Developmental States" is bound to be reexamined if industrial internationalization is the ultimate goal of industrial development. Under different contexts, "Developmental States" theory has lost its specific historical conditions, and the mode of the theory is not necessarily applicable to the late developmental states in Southeast Asia (Wang, 2003:13).

During the process of reaching the goal of internationalization, when external protection and the scope of intervention are restricted, the State, in late developmental states, must employ different strategies and capacities to lead industrial development (Hitt, Hoskisson and Kim, 1997:767-798). The resulting dynamic and flexible industrial policy is the main reason that the Thai automobile industry quickly became internationalized.

Meanwhile, according to "Embedded Liberalism" theory, although the economic system of every nation is moving toward a market economy, they are also embedded in the context of their historical institutions and thus they all have different adaptation methods for their economic policies (Ruggie, 1982:397-415). The case of Thailand's automobile industry shows that, through correct self-positioning in the international political and economic structure and the use of market mechanisms, it is possible to build up a later-entrants advantage and achieve industrial development.

It is undeniable that, in the process of industrial internationalization, Thailand has only been able to find a position in the global industry division system, and has not been able to either establish independent domestic brands, or change its original position in the world production system. Thailand's automobile industry is, thus far, just a "follower," and still has a long way to go to achieve the independent development of advanced industrial countries.

Based on the above analysis of the automobile industry in Thailand, this paper found that: although Thailand has not been able to build up its own automotive brands or change the original structure of the world's production system during the process of internationalization, it has achieved a later-entrants advantage and the goal of industrial advancement by positioning itself appropriately in the international political and economic structure, and by taking advantage of the prevailing market mechanisms (Amsden and Chu, 2003).[17] Thailand case proves that by operating with a relatively "open mind," Thailand's automobile industry has been able to find its own position in the globalized production mode of transnational division, and is a successful example for other late developmental states.

[17] "Later-entrants advantage" means later-entrants may not possess advanced technology, but may know the proper time to enter into the industry when the production has reached maturity. Then they quickly expand the capacity of production to a large scale, in order to win OEM (Original Equipment Manufacturer) orders from multinational companies and control world class supplier's key components. In this research, East Asian developmental states refer to Taiwan, Japan, South Korea, Singapore, and so on; late development states refer to Thailand, Malaysia, the Philippines, and other Southeast Asian countries.

Appendix: The history of Thailand's automobile industry policy and changes in its politics and economy

Year	Industrial Policy	Political and economic changes	Theoretical meaning
1961	Thailand's fist automobile company established, Thai Automotive Company	Prime Minister Sarit Thanarat Military authoritarian rule	
1962	Implemented automobile assembly promotion system (CKD Import tariff rates 50% reduction in 5 years, 5-year corporate tax relief).	Prime Minister Sarit Thanarat Military authoritarian rule	Import Substitution Bureaucratic authoritarianism
1967	Increased CBU tariff rate to 60%, reduced CKD import tariff rate for sedans by 30%, special trucks 20%, and trucks 10%.	Prime Minister Thanom Kittikachorn Military authoritarian rule	Import Substitution Bureaucratic authoritarianism
1969	Automotive Industry Development Committee established	Prime Minister Thanom Kittikachorn	Bureaucratic authoritarianism State Corporatism
1972	Implemented restrictions on the origin of components, expected to reach 25% in 1975 。	1970 to 1980, the reconciliation period between military and civilian	Import Substitution Bureaucratic authoritarianism
1978	Prohibited car import and establishment of automobile assembly plants, reexamine import tariff rate.	Prime Minister Kriangsak Chomanan The 1978 Constitution,	Import Substitution Bureaucratic authoritarianism
1980	Implemented restrictions on the origin of car components (planned to reach 50% in 1983).	In 1980, Prem Tinsulanonda took office under the support of military and civilian for 8 years Semi-democratic period In 1981, JPPCC established.	Coalition government must consider the benefit of different parties Industrial policy changed from import substitution to export orientation Middle class and social groups began to influence economic policy
1982	Froze the limit on the origin of parts to 45%.	Prime Minister Prem Tinsulanonda Semi-democratic period Middle class began to experience pressures of liberalization	Industrial policy changed from import substitution to export orientation Business people entered into politics and began influence decision Started privatization
1983	Proposed new automobile industry development policy	Prime Minister Prem Tinsulanonda Semi-democratic period	Industrial policy changed from import substitution to export

			orientation
1985	Open import of sedans with 2.3 liter engines	Prime Minister Prem Tinsulanonda Semi-democratic period 1984, the world economic (oil) crisis Plaza Accord	Industrial policy changed from import substitution to export orientation
1986	Small commercial vehicles must use locally produced engines, with investment from Japan, more local manufacturers participated in the production of components.	Prime Minister Prem Tinsulanonda Semi-democratic period Large-scale investment of Japanese automobile companies.	Industrial policy changed from import substitution to export orientation Open to foreign investment Maintain the autonomy of the State
1989	mplemented the restriction of locally made engines to 20%	Prime Minister Chatichai Choonhavan Economic development	Industrial policy changed from import substitution to export orientation Further liberalization
1991	Open import of sedans with less than 2.3 liter engines. Import tariff rate for sedans with engines over 2.1 liters was reduced from 300% to 100%; less than 2.3 liters, from 180% to 60%.	Chaotic military coups Middle class had street protests Prime Minister Anand Panyarachun	Tried to change image after military coups Moves to further open economy. Prime Minister Anand supported ASEAN's AFTA plan.
1992	Import tariff rate of CBU changed, for sedans less than 2.4 liters, cut from 60% to 42%, over 2.4 liters, from 100% to 68.5%, special trucks, from 120% to 60%.	Prime Minister Chuan Leekpai Stable political situation	Further liberalization
1993	Abolished the restrictions on setting up automobile assembly plants. Began Auto Industry Export Promotion Plan.	Prime Minister Chuan Leekpai Stable political situation	Export oriented industry policy Open domestic market
1994	Implemented CBU preferential tariff.	Prime Minister Chuan Leekpai Stable political situation	Export oriented industry policy Encourage export
1997	Abolished unified price system for sedans less than 1.6 liters Allowed an increased ratio of foreign shareholding	Prime Minister Chuan Leekpai The Asian economic crisis led Thailand to further open its market, and foreign capital had easier access to it	Export oriented industry policy
1998	Relaxed the restriction on auto financing payment caps, which were relaxed from 48 months to 72 months, to expand domestic market.	Prime Minister Chuan Leekpai The Asian economic crisis	Export oriented industry policy

2000	Removed origin restrictions of auto parts joined WTO in 2000, abolished the restriction of locally made whole car components, allowed multinational corporations to set up wholly owned enterprises.	Prime Minister Chuan Leekpai	Industrial internationalization
2003	According to the norms of ASEAN Free Trade Area (AFTAP), the tariff on automobiles imported in 2003 reduced to 5%, the automobile industry thus reached complete liberalization.	Prime Minister Thaksin Shinawatra	Industrial internationalization
2008	Vision 2020 was proposed in 2008, in an attempt to transfer the investment from former labor-intensive industries to capital-intensive industries, the automobile industry was promoted as "Oriental Detroit."	Prime Minister Samak Sundaravej transferred power to Prime Minister Abhisit Vejjajiva. Political upheaval never influenced Thailand's liberalization policy	Industrial internationalization

Source: Organized by the author.

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