

Prevailing Issues on AEC
for SMEs in Thailand



Part

03

OSMEP
Office of
Small and Medium
Enterprises Promotion

ASEAN SME Policy Index



Chapter 5

ASEAN SME Policy Index

The ASEAN SME Policy Index is an indicator of the effectiveness of SMEs development in several areas. The intention of the member countries has continued as stated in the ASEAN Policy Blueprint as regards SME development, and the ASEAN Strategic Action Plan for SME Development (2010–2015), which laid out policy measures to address 5 priorities: (1) access to capital, (2) business facilitation, (3) technology development, (4) promotion, and (5) human resources development.

5.1 Dimension of Macroeconomic Policies and Business Environment

Indicators of possible problems are:

5.1.1 Internal Weakness

Regarding the economic deficiency of each country, the financial system may be taken into consideration since it is linked to several factors such as financial growth, loan expansion, inflation rate, interest rate, financial liquidity, budget deficit, expense of the government sector, and loan offered to the government sector by the bank system.

5.1.2 External Weakness

The selection of external factors that affect macroeconomic deficiency can be considered in terms of the reasons of the deficiency and factors causing crisis including currency exchange rate, current account balance, alteration of trade agreements, difference of domestic and international interest rates, and change of the level and structure of foreign capital flow. Also included are other variables such as the proportion

of money from the foreign reserve fund, and relation between the size of short-term external debt and short-term external assets (net exchange rate reserved).

5.1.3 Financial Sector Weakness

In cases where financial weakness is the root of financial crisis, the variables that can be taken into account are the growth of private loan, financial liberalization measures, the level of short-term foreign debt of banks and overall financial system, the structure of domestic interest rate, change in the price of equity instruments, the quality of a bank's assets measured by an amount of debt that does not produce an income, and the quality of governance.

5.1.4 Weakness of Exchange Rate

The level of actual exchange rate is another significant indicator of weakness and sustainability. However, this indicator is complicated and it may be variable as the appreciation is driven by the result of supply. For example, the ability to produce goods for international trade is strengthened rapidly. Also, the variation of this indicator may be caused by a higher growth rate of price as regards product consumption that does not arise from the international trade; however, this is not a general rule.

5.2 Dimension of Promoting the Faster and More Cost-Effective Business Start-up or the Reduction of Burdens Regarding Regulations and Administration for SME Entrepreneurs

5.2.1 Faster and More Cost-Effective Business Start-up

This dimension takes into consideration the significance of the start-up process of new businesses in the three following areas: (1) improvement of the registration process that helps increase the number of newly set-up business, (2) compilation of

regulations and practice of the private business sector for application and access to business service, financial provision, and provision of the government sector with the objective of building more opportunities to improve products, and (3) an improved registration system can help better the overall business environment of the private sector and raise the standards of service of the government sector.

5.2.2 Enactment of Better Laws and Regulations

In most countries, SME and large entrepreneurs abide by the same laws and regulations. This may not be suitable for SMEs since their capacity to maintain competitiveness in operating, understanding and acting according to complicated regulations is limited. Therefore, making regulations and laws more compatible with SMEs allows the support of entrepreneurs and market access to be carried out in a more evident and transparent manner. This is regarded as an essential component of SME development.

5.3 Dimension of Access to Finances

Access to Finances can be evaluated according to three dimensions:

5.3.1 Policy Framework Suitable for the Financial Sector The support mechanisms strictly operated by the government sector, and the expansion of outside financial sources for SMEs cover the following factors: loan insurance, business start-up fund, specific fund for SME entrepreneurs, loan for small-scale entrepreneurs, a hire purchase loan, and access to capital markets.

5.3.2 Governance Framework and Support Law including regulations regarding the collateral and rights of borrowers.

5.3.3 Improved Structure of the Financial Sector and Enhancement of Competence of Financial Institutions, including a provision of financial knowledge project, office of credit information, an improvement of competence, and consultancy provision for financial institutions.

5.4 Dimension of Technology and Technology Transfer

5.4.1 Promotion of Technology Transfer

ASEAN should improve the efficiency of tools for technology transfer (by promulgation of law, rewards and gratuity). When compiling the promotion index of knowledge transfer between companies, including multinational corporations, and domestic SME entrepreneurs and across the border knowledge transfer, emphasis should be placed on companies (SMEs and multinational corporations), neutral organizations (such as standards agencies, technology transfer agencies, training agencies, research and development laboratories and universities), and the government agencies responsible for the governance of the promotion (including gratuity) with the objective of promoting technology transfer.

5.4.2 Collaboration for Research and Commercialization

The first important thing is to provide the necessary knowledge to SME entrepreneurs so that they are able to participate in activities requiring knowledge. Being equipped with knowledge creates a great deal of value. The second significant thing is to strengthen SME entrepreneurs' ability to gain access to knowledge such as a conceptual framework of policy promoting technology development in universities, business incubators, and research and development laboratories. Support should especially be provided to advanced technology companies such as those in Silicon Valley, Route 128, and Hsinchu Science and Industrial Park (Taiwan) where business incubators have become the executives of several new company projects. The third important thing is to develop high technology business to be in concordance with the trade agreements as regards the issue of intellectual properties.

5.4.3 Promotion of Collaborative Network between Companies

Regarding the policy promoting the collaborative network, goals should be set in terms of the making of infrastructure of high speed technology information

transmission at the national level (like Singapore) or within significant areas. There should also be a connection with universities, research and development laboratories, and business incubators. If the government sector can implement the policy efficiently, SME entrepreneurs will:

- Have strong contact and coordination for the creation of effective network between companies, neutral organizations and the government agencies.
- Be satisfied in becoming part of the strengthening of a powerful business network
- Place importance on the formation of close associations whereby new products and operations are presented on a regular basis.

5.4.4 Innovation and Learning about Finance

When considering technology as public product, the role of outside finance is an essential issue. Supports, tax privileges, gratuity, and joint venture all play a crucial role in initiating or encouraging the upgrade of technology for SME entrepreneurs who do not have resources to operate as such. Meanwhile, the upgrade of technology is an operation for the private sector. The government sector provides substantial support to SME entrepreneurs during the first year of establishment of SMEs. Technology development, therefore, depends on the government's capability to maintain, examine, and evaluate the previous implementation of policy. In addition, as technology itself is public product, participation of SMEs should be urged by using knowledge, incentives, gratuity, and joint venture to enhance technology.

5.5 The Dimension of Gaining More Benefits from the Single Market

5.5.1 Augmenting SMEs Acknowledgement About the Benefits and Regulations of General Internationalization and Internationalization within the ASEAN Economic Community 2015

The first important step that SMEs at the regional level should take in order to obtain more benefits from the single market of the ASEAN Economic Community is

effective communication as regards the following topics: benefits to be acquired from entering a new stage of internationalization, what to do to become internationalized, why it is good for even small-scale entrepreneurs, major challenges and limitations, encouragement of potential assessment of companies concerning entering internationalization, and communication of operational progress of becoming a part of the ASEAN Economic Community, both in terms of the expected outcomes and actual outcomes as well as the tangible benefits gained from entering the ASEAN Economic Community in the year 2015.

5.5.2 Provision of Valuable Information about the Market and Customers in the ASEAN Economic Community

As commonly mentioned by SME entrepreneurs, the major limitation as concerns the access to and competition in the regional market is a lack of information regarding the characteristics of the market, customers' capabilities, and agreements of collaboration - the regulations, rules, and operational procedures at the regional level. Furthermore, a great number of SMEs have limited ability to make use of information; therefore, means to present information should be taken in account.

5.5.3 Supporting Proactive Operation of SMEs to Search for Market Opportunities in the ASEAN Economic Community

There are operations in several areas enabling SME entrepreneurs to specify the business opportunity: support of activities linked to trade and business matching in the region, promotion of export and trade in a country with the capability to draw potential clients to suppliers, and the training and skill development for SME managers responsible for the marketing and development of marketing.

5.5.4 Business Development Project for Strengthening Competitiveness of SMEs at the Regional Level in the ASEAN Economic Community Market

Competition in the international market is fierce, especially for SME entrepreneurs with limited competence and resources. Implementation of policies enabling SMEs to compete in the market may strengthen management skills relating to internationalization, improvement of manufacturing capabilities and efficiency to compete at the regional level, and enhancement of competence to meet international standards.

5.5.5 Finance to Support Internationalization of SMEs

Accessing capital sources is another limitation encountered by SME entrepreneurs. Access to capital sources and access to information are ranked the top two significant limitations SMEs entrepreneurs constantly face, especially when they search for a capital source where banks are the main financial system. This prevents entrepreneurs from obtaining capital to establish their new business. Carrying out policy, thus, plays a key role in supporting access to capital sources, whether it be direct implementation (such as a finance for export project), or reduction of risk as regards investment or commercial loans.

5.5.6 Promotion of SME Partnership, Network, and Cooperation with Emphasis on Export

The implementation of policy can strengthen business and industrial organizations beneficial to the association of SMEs. It also facilitates large and small entrepreneurs in joining SME networks and cooperation resulting in horizontal and vertical collaboration.

5.5.7 Capacity of Logistics and Trade Facilitation

The improvement of the potential of logistics and trade facilitation is crucial for competition in the international market, particularly for SME entrepreneurs who may have different conditions and capabilities from large companies. The operations are: strengthening infrastructure (especially the economy of less developed regions), an efficient multi-transportation system, the support of facilities (such as management and warehouse storage with transportation), the improvement of policy framework and information related to transportation, the flow of documents, and the compilation of the improvement of import and export procedures.

5.5.8 Enhancement of Innovative Competence and Entrepreneurship for the Market and New Clients in the ASEAN Economic Community

This helps develop the product system and business to be compatible with the regional market. The policy in strengthening the innovative capability in terms of marketing covers the facilitation to access capital sources to be used for innovation, and the support of entrepreneurship. It also includes the improvement of management skill concerning innovation, the creation of special infrastructure such as “Innovation Park”, supporting collaboration with research institutes and facilitation in terms of linkage with clients during the beginning stages in the manner of an innovative partner (a person who is able to help specify product forms).

5.5.9 Promotion of Linkage between International Enterprises in the ASEAN Economic Community and Regional SMEs

Strengthening the linkage of international enterprises and regional SMEs under the framework of the expansion of the regional manufacturing network and the global supply chain is related to two policies: enhancement of domestic SME competency as a supplier and service provider in each manufacturing network, and operations focusing on drawing more international enterprises to regional SMEs.

5.6 Dimension of Human Resource Development and Training

Human resource development and training covers a variety of activities such as studying entrepreneurship or learning to become an entrepreneur as well as promotion and skill improvement for both entrepreneurs and workers of each enterprise.

5.6.1 Framework of Policy for Entrepreneurial Learning (EL)

This minor dimension is related to the following factors: (a) the coordination and policy partnership of major stakeholders, (b) the provision of sufficient resources to support policy, and (c) the evident announcement of policy.

5.6.2 Promotion of Entrepreneurial Learning (EL) and Formal Education

An indicator of this minor dimension is the promotion of entrepreneurial learning (EL) in formal education which comprise: (a) supporting EL in fundamental education (both primary and secondary), (b) supporting EL at university level, and (c) supporting collaboration between business and educational institutions regarding the study of entrepreneurship.

5.6.3 Promotion of EL Through Non-Formal Education

In several ASEAN member countries, the goal of fundamental education has not yet been achieved despite progress over several decades. The promotion of EL, therefore, needs to be carried out outside the classroom since those who want to learn about EL are not in formal education.

5.7 Creation of Human Capital in SMEs

The two major indicators for this minor dimension are: (a) provision of and access to training opportunities, (b) quality insurance of the provision of and access to

training opportunities. There are several methods of quality insurance depending on the geographical characteristics of a training program and the location where training is organized. The method of training, and distribution of information and documents for certain places can be organized online.

5.8 Dimension of Information Technology and Communication Technology and Access to Information

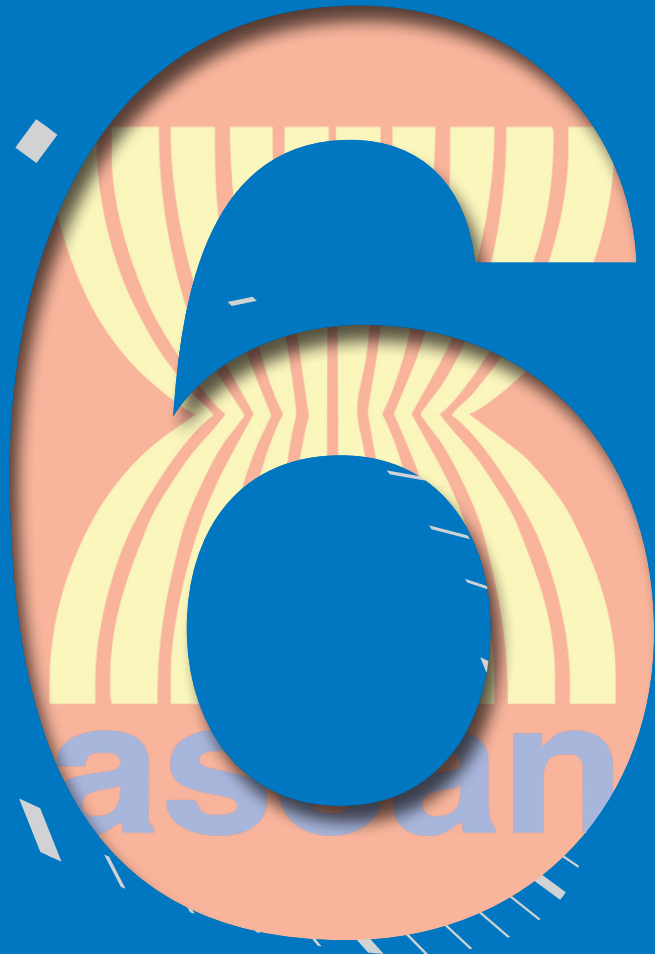
According to the World Bank in 2008, SME entrepreneurs encountered with an imbalance in the two sides of information: one from entrepreneurs trying to gain access to information relevant to business and marketing and the other from service providers. Obtaining complete business-related information such as marketing opportunities, object sources, taxes, price setting, and other information that may result in higher costs. In addition, entrepreneurs lack resources in accessing information. The United Nations Industrial Development Organization (UNIDO) also reported in 2003 that most SME entrepreneurs in the least developed countries (LDC) faced inadequate business information and received information from independent institutions rather late. Access to information was difficult to gain and limited. There was also no integration of information.

5.9 Dimension of Promotion of SME Entrepreneurs to Acquire a Strong Role in Stipulating Policy

SME entrepreneurs that are efficient, dynamic and strong will ensure that social and economic development is on a broader foundation, extensive and sustainable. This is because the proportion of SME entrepreneurs to total enterprises is over 90% in most countries. Strong SMEs are key to the support of regional integration including entering the ASEAN Economic Community in 2015.

Nonetheless, SME entrepreneurs in ASEAN still face challenges in finance, structure and several others, as well as limited access to capital sources, technology and market. Furthermore, there is doubt as to whether the spirit of being an entrepreneur and the management skills of SMEs in ASEAN are strong enough. These problems all stem from a lack of information, inadequate capabilities to operate in accordance with standards and certifications, and a lack of policy environment leading to business. To tackle these limitations, the monitoring and the assessment of current policy and operational guidelines is needed to find out if SME representatives are effective and to what extent they strengthen regional SMEs. ASEAN, therefore, should take into account the need to become an effective representative.

Impact of the ASEAN Economic Community on the Six Industrial Sectors Significant to Thailand's Economy



Chapter 6

Impact of the ASEAN Economic Community on the Six Industrial Sectors Significant to Thailand's Economy

In 2011, the Office of Small and Medium Enterprises Promotion (OSMEP) conducted a study of the impact of the ASEAN Economic Community (AEC) on the industrial sectors vital to Thailand's economy (high-impact sectors). High-impact sectors are those important industrial sectors receiving the positive impacts of the ASEAN Economic Community (AEC). As each industrial sector is different experiencing a variety of factors, the study needed to specify the criteria for considering the significance of that particular industrial sector. The study took into account index values + key economic indicators of Thailand - and a number of entrepreneurs and employees of SMEs.

According to the abovementioned results of analysis, a consultant selected six industrial sectors significant to Thailand's economy as concerns the impact of the ASEAN Economic Community on Thai SME entrepreneurs as follows:

1. Machinery industrial sector
2. Food industrial sector
3. Industrial sector of rubber products
4. Industrial sector of package and plastic-made articles
5. Textile and garment industrial sector
6. Gems and ornaments industrial sector

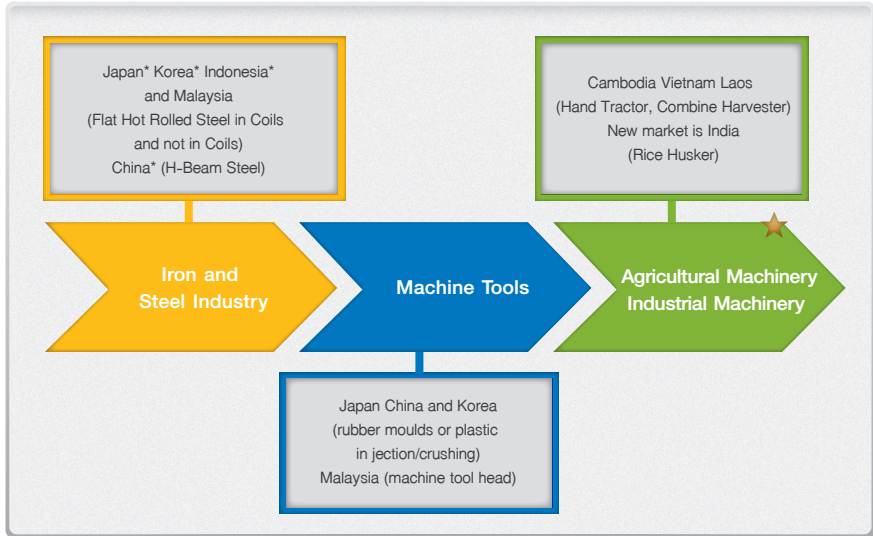
6.1 Machinery Industrial Sector

Table 6.1 Summary of Average Index Values of Machinery Industrial Sector from 2001 to 2010

Index	Value
Export value in ASEAN	165,641.09 Million Baht
Proportion of export value in ASEAN to gross domestic product	4.24%
Trade balance in ASEAN	64,241.68 Million Baht
Trade value in ASEAN	267,040.49 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	1.219
Number of SMEs	1,747 Enterprises (99%)
Proportion of laborers in SMEs	89%

According to Table 6.1, the machinery industrial sector had a substantial impact on the overall economy of the country, especially the ASEAN market and even the global market. Thailand can gain benefit from being a member of the ASEAN Economic Community (AEC) in expanding exports. The benefits also come from the trade agreements made between ASEAN countries and non-ASEAN countries such as ASEAN+3 and ASEAN+6. Key trade partner countries of Thailand in the world market are in the Asian region and are trade partners in ASEAN+3 and ASEAN+6 which are Japan and China, as indicated by the export and import values. Considering the export value to the global market, Thailand was ranked fifth for trade surplus and had a Revealed Comparative Advantage (RCA). This had a substantial impact on SME entrepreneurs, as was evidenced from the number of small and medium enterprises (SMEs) and the ratio of the number of laborers in SMEs ranked fifth and the first respectively.

Figure 6.1 Strategic Partnerships with Foreign Countries in the Machinery Industry



In conclusion, under the AEC free trade agreement whereby trade barriers among the ASEAN member countries have been removed, the demand in machinery in Thailand will rise owing to the expansion of continuous or downstream industries such as the automotive industry, textile industry, and agricultural and agricultural processing industry. Furthermore, the free trade agreement results in the higher growth of export of agricultural products in other ASEAN member countries particularly the CLMV group. This leads to greater demand in agricultural machinery beneficial to the export of agricultural machinery to that group of countries. Thailand should implement long-term policy in promoting the development of the manufacturing technology of machinery in order to strengthen competitive advantage and maintain market share. In addition, trade liberalization allows Thai entrepreneurs in the machinery industry to obtain benefits from being exempt from import tax on manufacturing raw materials.

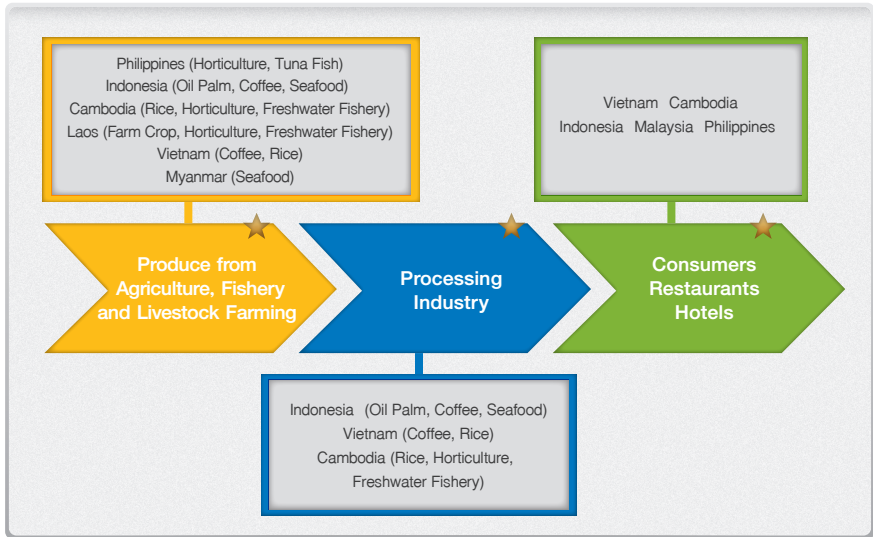
6.2 Food Industrial Sector

Table 6.2 Summary of Average Index Values of Food Industrial Sector from 2001 to 2010

Index	Value
Export value in ASEAN	92,638.47 Million Baht
Proportion of export value in ASEAN to gross domestic product	2.34%
Trade balance in ASEAN	64,438.90 Million Baht
Trade value in ASEAN	120,838.04 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	2.260
Number of SMEs	95,506 Enterprises (99%)
Proportion of laborers in SMEs	51%

According to the information presented in Table 6.2, the food industrial sector had a substantial impact on the overall economy of Thailand especially the ASEAN market and even the global markets of Japan and Brazil, considering the export and import values. Thailand was also ranked number two in trade surplus in the ASEAN market and in the top ranks in the world market. Thailand had a Revealed Comparative Advantage (RCA) with the export value to the world market being ranked number two. This had a substantial impact on SME entrepreneurs, as evidenced from the number of small and medium enterprises (SMEs) and ratio of laborers in SMEs ranked second and sixth respectively.

Figure 6.2 Strategic Partnerships with Foreign Countries in the Food Industry



The government sector, as a promoter of entrepreneurship, should adjust its role as a regulation controller and take on that of a facilitator assisting entrepreneurship or a significant strategic partner of entrepreneurs to create more integral collaboration with the objectives of strengthening Thailand's industrial sectors and enabling them to rapidly overcome obstacles caused by change. This will eventually bring positive results to the industrial sectors.

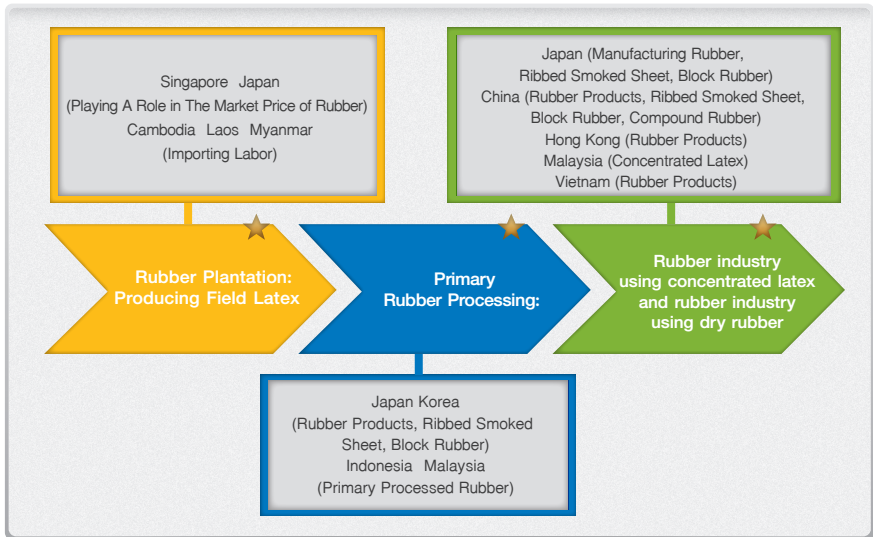
6.3 Industrial Sector of Rubber Products

Table 6.3 Summary of Average Index Values of Industrial Sector of Rubber Products from 2001 to 2010

Index	Value
Export value in ASEAN	48,680.68 Million Baht
Proportion of export value in ASEAN to gross domestic product	1.20%
Trade balance in ASEAN	43,705.07 Million Baht
Trade value in ASEAN	53,656.26 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	5.469
Capacity utilization rate	70.45
Number of SMEs	75%

According to the above information, the industrial sector of rubber products had a substantial effect on the overall economy of Thailand. This sector had a high growth rate both in the ASEAN market and the global market, especially in the global market where the expansion rates of exports and imports in 2010 were quite high. The major trade partners were Malaysia, Indonesia, Vietnam, Singapore, Japan, the United States of America, and China. Thailand continues to have an advantage regarding trade balance being among the top ranks in the world market and ranked number four in ASEAN. It is likely to continually increase considering the average growth rate of the past ten years, especially in 2010 when the growth rate was high. Furthermore, Thailand had a Revealed Comparative Advantage (RCA) as seen from the export value to the global market of 5.469, taking it to first place. Thailand had the proportion of the number of small and medium enterprises (SMEs) of over 50.00%.

Figure 6.3 Strategic Partnerships with Foreign Countries in the Industrial Sector of Rubber Products



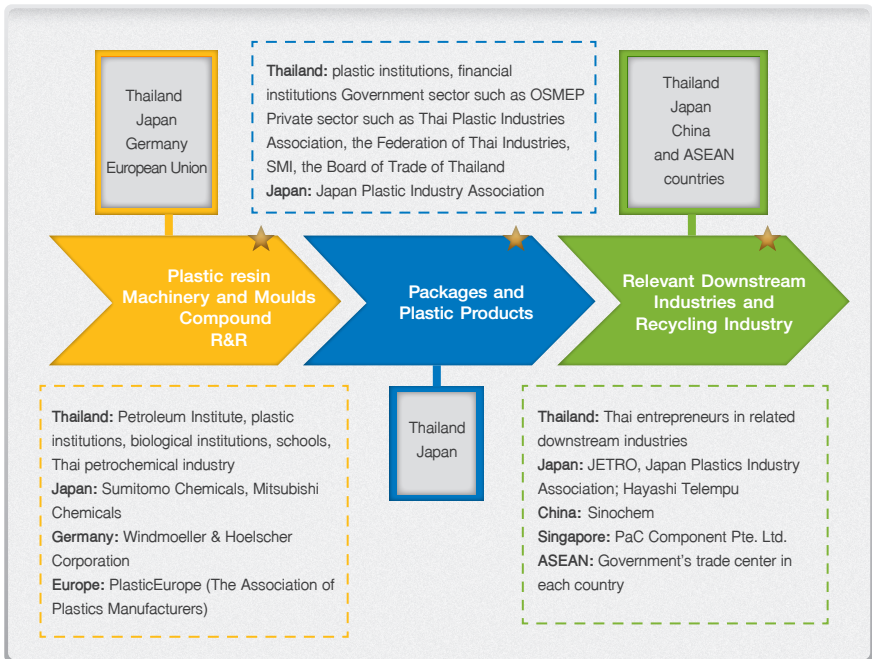
6.4 Industrial Sector of Package and Plastic-Made Articles

Table 6.4 Summary of Average Index Values of Industrial Sector of Package and Plastic-Made Articles from 2001 to 2010

Index	Value
Export value in ASEAN	46,549.80 Million Baht
Proportion of export value in ASEAN to gross domestic product	1.17%
Trade balance in ASEAN	15,454.19 Million Baht
Trade value in ASEAN	77,645.41 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	1.365
Capacity utilization rate	65.40
Number of SMEs	70%
Proportion of laborers in SMEs	51%

According to Table 6.4, the industrial sector of package and plastic-made articles affected the overall economy of the country, the ASEAN market and the global market considering the continuous growth rate over the previous decade of the import and export values. This resulted in a higher growth rate of trade value, especially in 2010 when the growth rate of trade value turned positive after being negative in 2009. Nonetheless, Thailand continued to have an advantage in trade balance despite signs of decreasing growth. In addition, Thailand had a Revealed Comparative Advantage (RCA) taking into account the export value to the global market being ranked number four. This greatly affected SME entrepreneurs. The proportion of SMEs to that of all enterprises equalled 70%, and the proportion of laborers in SMEs was 51% or 46,443 persons.

Figure 6.4 Strategic Partnerships with Foreign Countries in the Industrial Sector of Package and Plastic-Made Articles



6.5 Textile and Garment Industrial Sector

Table 6.5 Summary of Average Index Values of Textile and Garment Industrial Sector from 2001 to 2010

Index	Value
Export value in ASEAN	28,766.15 Million Baht
Proportion of export value in ASEAN to gross domestic product	0.73%
Trade balance in ASEAN	20,365.72 Million Baht
Trade value in ASEAN	37,166.58 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	1.155
Number of SMEs	115,002 (99%)
Proportion of laborers in SMEs	63%

As seen from the information presented above, the industrial sector of textile and garments had a significant effect on the overall economy of Thailand, both in terms of exports and imports. In 2010, although having a greater amount of imports both in the ASEAN market and the world market, Thailand was still ranked number five in the ASEAN market as regards the surplus of trade balance. Thailand also gained a surplus in trade balance in the world market despite a decrease in rate in 2010. However, taking into account the value of trade balance over the past ten years, the market condition of this sector highly fluctuated. Moreover, Thailand had a Revealed Comparative Advantage (RCA) when considering the export value to the world market with Thailand being number eight. This had an immense impact on SME entrepreneurs as viewed from the number of small and medium enterprises (SMEs) and the proportion of laborers in SMEs being ranked number one and three respectively.

Figure 6.5 Partnerships in the Trade Strategy of the Textile and Garment Industry



The suggestions for SME entrepreneurs in the textile and garment industry in Thailand are:

- Entrepreneurs should alter their vision to be more proactive by taking tax privileges from Cambodia, Laos and Vietnam where laborers are great in number in order to solve labor shortages. In addition, entrepreneurs can gain benefits from making these countries, as underdeveloped countries, their export base to countries outside ASEAN.
- Entrepreneurs should enhance their competitiveness by creative thinking, developing products to create value added, focusing on creating trademarks, and increasing more export channels to foreign markets. They should also have fast and efficient manufacturing processes and delivery of goods to create value for customers.
- Entrepreneurs should collaborate in pushing forward a creation of a manufacturing network to connect from upstream industries to export for the low manufacturing cost of products and the creation of networks that make the same products in order to reduce competition, and increase capital and productivity.
- Entrepreneurs should invest in creating new innovations, and managing the supply chain systematically.

6.6 Gems and Ornaments Industrial Sector

Table 6.6 Summary of Average Index Values of Gems and Ornaments Industrial Sector from 2001 to 2010

Index	Value
Export value in ASEAN	2,874.80 Million Baht
Export value to the world market	178,492.59 Million Baht
Proportion of export value in ASEAN to gross domestic product	4.39%
Trade balance in ASEAN	-3,955.90 Million Baht
Trade balance in the world	21,668.02 Million Baht
Trade value in ASEAN	9,705.50 Million Baht
Trade value in the world market	335,317.16 Million Baht
Index of Revealed Comparative Advantage (RCA Index)	1.915
Number of SMEs	3,311 Entreprises (99%)
Proportion of laborers in SMEs	53%

From the table above, it can be seen that the industrial sector of gems and ornaments had a great effect on Thai SME entrepreneurs, considering the number of small and medium enterprises (SMEs) and proportion of a number of laborers in SMEs being ranked number five. Despite a rather small amount of export value in the ASEAN market, this industrial sector had the highest expansion rate showing good signs of growth. Nonetheless, the main target group continued to be a non-ASEAN countries—that of Switzerland. As for the ASEAN market, Thailand still experienced a trade deficit. Contrarily, Thailand had a trade surplus in the world market but at a decreasing rate. This indicated that Thailand imported a large number of raw materials both from the ASEAN market and the global market. The ASEAN Economic Community (AEC) will promote entrepreneurs in this sector in terms of the import of raw materials from ASEAN countries. They can also use ASEAN countries as a passage to import raw materials from countries outside ASEAN. Furthermore, Thailand had a Revealed Comparative Advantage when considering the export value to the global market reached number three. This showed that Thailand had high competitiveness in the world market.

Figure 6.6 Strategic Partnerships with Foreign Countries in the Gems and Ornaments Industrial Sector



Major Strategies

1. Sustainably providing a source of raw materials in the future.
2. Improving and developing the government's structure of tax, regulations and mechanisms.
3. Developing and expanding the gems and ornaments market
4. Providing capital source for entrepreneurs
5. Improving skilled labor, design, and developing standards of products
6. Strengthening collaboration between entrepreneurs and relevant agencies.

Strengthening SMEs in the Manufacturing Sector to Prepare for Entering the ASEAN Economic Community (AEC)



Chapter 7

Strengthening SMEs in the Manufacturing Sector to Prepare for Entering the ASEAN Economic Community (AEC)

Thailand as an ASEAN member is due to enter the ASEAN Economic Community (AEC) in 2015. The main purpose of AEC is to bring ASEAN towards the single market and production base. This means the free transfer of five categories: products, service, investment, skilled labor and capital. Certainly, there will be those who gain and lose benefits from such liberalization, more or less depending on the potential of entrepreneurs in each country.

Strengthening SMEs in the manufacturing sector to prepare for entering the ASEAN Economic Community project was carried out from 17 March to 23 September 2011 with the objective of creating knowledge, understanding and awareness of the necessity to enter the AEC among entrepreneurs in the manufacturing sector; collecting data from SME entrepreneurs for analysing the capability of entrepreneurs in each category; and specifying strategies of the manufacturing sector as support information for the government sector in planning the country's strategies for entering the AEC. The information was collected in the form of focus group discussion in 30 industry clubs (with over half of the members being SME entrepreneurs): renewable energy, food processing, agricultural machinery, rubber and rubber products, granite and marble, ceramic, glass manufacturers, power producer, roofing and accessories, panel product, wood processing, chemical, software, gas, machinery, auto parts, garments, printing and paper packaging, plastic, textile, footwear, furniture, electrical electronics, biotech, herbal, gift and decorative, leather based, gem and jewellery, pharmaceuticals, air-conditioning and refrigeration. The information was also collected in ten pilot provinces (with areas adjacent to the border of, or trade linked to, the ASEAN countries): Phra Nakhon Si Ayutthaya, Kanchanaburi, Tak, Chiang Mai, Udon Thani, Sakon Nakhon, Sa Kaeo, Trat, Ranong, and Songkhla.

Conclusion of the project 1) 5,000 books under the title “Road to AEC for Thai SMEs” were compiled to provide knowledge about the AEC to entrepreneurs and distributed to entrepreneurs nationwide, 2) there were 1,000 entrepreneurs in total who participated in the focus group discussion, 3) 4,100 entrepreneurs received information on the AEC, 4) analytical results of the competence of entrepreneurs from 30 industry clubs and ten provinces were received, and 5) publication of strategies of the manufacturing sector was obtained.

Opportunity and Impact of the ASEAN Economic Community on Industrial Sector in Thailand

Negative Impacts considered an impediment to business operations

- Since regulations are favourable to the transfer of labor, there may be a shortage in professional labor such as engineers who may choose to work in a country where they are offered higher salaries such as Singapore. Nowadays, SME entrepreneurs are unable to offer engineers a high salary. Once entering AEC, the labor shortage in this field will be more affected.
- Competition in the domestic market will become fiercer due to a flow of foreign products into Thailand where consumers' capabilities to purchase products is ranked amongst the top in ASEAN, making other ASEAN countries turn to Thailand for trade.

Positive Impacts regarded as opportunities for Thai entrepreneurs.

- Owing to tax privilege, the price of raw materials imported from ASEAN will drop as tax for most raw materials is 0%.
- Benefits gained from cancellation of Non-tariff barriers.
- The market of customers becomes larger. This is a channel for Thai entrepreneurs who are ready and have adequate potential to expand their customer base to the ASEAN countries more easily.
- At present, Thai entrepreneurs have advantages in several ASEAN member countries as concerns knowledge bodies, technologies, and capital, enabling them to expand the investment base in the ASEAN countries with more ease.

Trend of Adjustment, Readiness, and Utilization of the ASEAN Economic Community

- Study the information, rules and regulations of ASEAN for the benefit of business operations.
- Study English and the languages of ASEAN countries for the benefit of business communication.
- Study the culture, nature and character of people in ASEAN for the benefit of the future expansion of customer base.
- Develop production efficiency, update technology and improve products to meet standards to compete in the ASEAN countries.

Recommendations for the Government Sector

- Establish agencies responsible for collecting data and informing entrepreneurs about the rules, regulations, and data on trade of countries in ASEAN to facilitate entrepreneurs in planning.
- Promote more learning of English, Chinese, and languages of countries in ASEAN otherwise Thailand will be at a disadvantage compared to other ASEAN countries.
- Encourage entrepreneurs to enhance efficiency of production and develop technology to be more advanced than other ASEAN countries.
- Supervise the standards of products in order to stop the flow of products that do not meet the standards from ASEAN countries into Thailand.
- Revise regulations of Thailand that are not in concordance with those of ASEAN, which are considered unfavourable and obstacles to Thai entrepreneurs.
- Plan the labor development for skills and competency in order to support the shortage of labor arising from the entering of AEC.

Sectoral Strategies

Industry Sectors with High Urgency and Challenges

The opening of the AEC is most favourable for industrial groups under this category. The major strategies are creating value added from marketing and product development, and compiling a database of customers and regulations of trade and investment in the target countries. The industry clubs under this category are: garments, agricultural machinery, plastic, food processing, leather and leather product, footwear, rubber products, and gems/jewellery.

Industry Sectors with High Urgency and Moderate Challenges

This group of industries needs to rapidly expand trade and investment to ASEAN countries owing to the transportation advantage of Suvarnabhumi being located in the centre of Thailand, especially Laos, Myanmar, Cambodia and Vietnam. The major strategy is creating investment opportunities in CLMV countries in order to reduce production costs in terms of raw materials, laborers and the manufacturing process. New markets are also created such as construction. The industry clubs of this category are: furniture, panel product, roofing and accessories, and glass manufacturers.

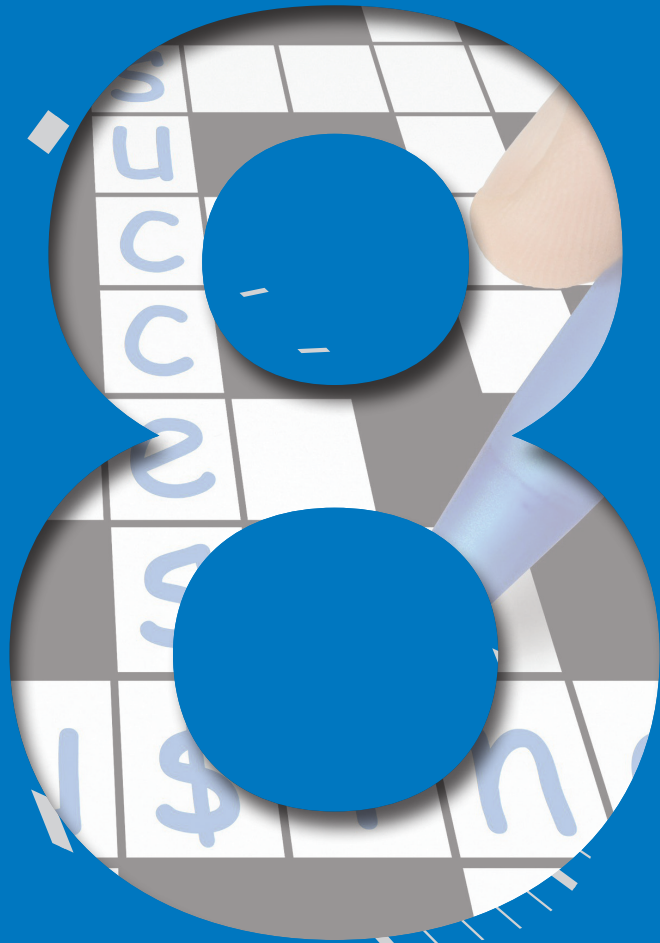
Industry Sectors with Moderate Urgency and High Challenges

This industry sectors tends to obtain benefits primarily in terms of marketing from entering AEC—more opportunities to expand markets in ASEAN groups. However, there is high risk and competition both from outside and inside ASEAN. The major strategies place emphasis on the creation and development of new markets, improvement of the database system of marketing in the target country, product development, and the enhancement of industrial infrastructure. The industry sectors in this category are: electrical appliances, air-conditioning and refrigeration, gas, textile, herbal, software, and machinery.

Industry Sectors with Moderate Urgency and Moderate Challenges

The industry sector of this category are: gift and decorative, pharmaceuticals, biotech, printing and paper packaging, renewable energy, auto parts, ceramic, granite and marble, wood processing, chemical, and power producer.

A Study of the Impact of the Liberalization of the Service Sector on the Business Operations of Small and Medium Enterprises



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A Study of the Impact of the Liberalization of the Service Sector on the Business Operations of Small and Medium Enterprises

8.1 Overview of Activities and Projects Concerning Promotion of Small and Medium Enterprises Classified by Source of Budget

The Office of Small and Medium Enterprises Promotion (OSMEP) realizes the significance of the fact that Thailand is entering the ASEAN Economic Community (AEC) in 2015 since ASEAN is the economic collaborative framework closest to Thailand and the country's number one export market. In 2009 Thailand exported to ASEAN market at the ratio of 21.31% of the export value of the country. Thailand's surplus of trade balance with ASEAN totalled 7,791.22 million US dollars and this has a tendency to increase in the future. The main purpose of the AEC is to create the ASEAN single market and production base for the free transfer of products, service, investment, capital and skilled labor as well as the promotion of more tangible collaboration of major fields in ASEAN.

Nonetheless, if an operation is carried out according to the above goals, it will have a direct impact on SME entrepreneurs. ASEAN entrepreneurs who operate businesses have advantages in capital, management and technology. Thai SME entrepreneurs, with limitations in knowledge bodies, will be unable to adjust themselves to the changing competitive environment if they are not properly assisted by the government sector. SME entrepreneurs in certain industries in the service sector, in particular, will benefit from the strength of the region, larger market and more convenient trading. However, some industries will also benefit from the liberalization of within the AEC. Thai entrepreneurs, therefore, need to prepare for entering the ASEAN Economic Community efficiently. Preparation in several aspects is, for example, in terms of

domestic and international investment, regulations, measures, enhancement of competency of entrepreneurs at every level, improvement and amendment of law and regulations to be favourable to business operation.

8.2 Overview of Impact of Liberalization of Service Sector on Thai SMEs

The liberalization of the service sector under the framework of AFAS abides by the principle of progressive liberalization. Simply put, the member countries are required to increase the level of liberalization every time negotiations take place or every time the Schedule of Commitments is presented. At this moment, the member countries are operating under Commitment Article 8. According to the time framework, ASEAN investors must be allowed to hold shares in certain categories of service business of Thailand at a higher proportion than stipulated by Thai law. That is to allow ASEAN to hold more shares in the Priority Integration Sector (PIS)-health, e-ASEAN and tourism-of at least 70%. As for the rest of the service sector, ASEAN is entitled to hold shares of at least 51% in over 80 categories of service. This Commitment is beginning to gain in significance to investors as Thailand has to allow foreigners to hold over half of a company's stakes.

Although the liberalization of the service sector helps strengthen the overall competitiveness of Thailand-some industries will obtain benefits from the strong region, larger market, and more convenient trading, certain categories of domestic industries will be affected. Thai entrepreneurs, especially of small and medium enterprises have to face more competition from the business operations of ASEAN entrepreneurs who have advantages in capital, management, and technology. SMEs, therefore, need to be ready, with efficiency, for the ASEAN Economic Community. The direct negative effects on SMEs in Thailand can be summarized as follows:

- Thailand must allow ASEAN entrepreneurs to hold shares in a service business of not less than 70% by 2015, and the reduction of limitations resulting in foreign business establishment.

- For businesses currently in operation of which ASEAN shareholders hold a high proportion of shares, there is a chance that ASEAN shareholders may increase their proportion of shareholding leading to a loss in business ownership by the Thai people.
- Certain types of business with the liberalization of the transfer of skilled labor may experience shortages in competent personnel who choose to work in a country where they are offered higher compensation.

8.3 Guidelines in Supporting Thai SMEs from the Impacts

- Relevant agencies, particularly the Ministry of Commerce, have continually advertised and disseminated news and information with the objective of sharing experience.
- A fund for the adjustment of the manufacturing and service sectors affected by the liberalization (according to the cabinet resolution on 8 May 2007) has been set up to provide help to manufacturers and entrepreneurs of processed agricultural products, industrial and service products who are affected by the trade liberalization. The main responsible agency for this matter is the Department of Foreign Trade.
- At present, the government has established a subcommittee on free trade agreement negotiations whereby a specific working team supervises the remedies for affected parties. The duties of the working team are to study and evaluate the impact, as well as consider measures remedying those suffering from negative effects and integrate the remedies of agencies to be compliant.
- Nowadays, there are two main measures of trade remedies: a project to assist the adjustment of the manufacturing and service sectors having been affected by the trade liberalization organized by the Ministry of Commerce, and a fund for adjusting the manufacturing structure of the agricultural sector in order to enhance the competitiveness of the country operated by the Ministry of Agriculture and Cooperatives.

1. Tourism

Tourism, a crucial industry for the country's economy, is business in the service sector with a great number of SME entrepreneurs, and the number one source of employment and income of Thailand's service sector. On top of this, Thailand is strongest in this industry in ASEAN. However, it might be possible to state that the strength of Thailand's tourism partly comes from the diversity of beautiful natural tourist attractions which other ASEAN countries do not have. Therefore, it is likely that after the tourism liberalization, more investors from ASEAN will invest in Thailand.

Impact of Liberalization on Tourism Industry

- 1) Cross border supply includes hotel reservation and travel programme via the Internet. At present, Thailand and countries in ASEAN do not have specifications hindering the operation of this aspect. Tourists in each country can freely opt for service via the Internet; thus, the liberalization does not have any effect.
- 2) Consumption abroad is the fact that ASEAN tourists obtain travel services in Thailand / Thai tourists use services in other ASEAN countries. This is the normal service provision of travel business so the liberalization does not have any impacts.
- 3) Commercial presence is the fact that ASEAN entrepreneurs set up their business in Thailand / Thai entrepreneurs establish their enterprises in ASEAN countries. This will have the utmost impact on Thai entrepreneurs.
- 4) Presence of natural persons is personnel coming from ASEAN to Thailand to work / Thai personnel traveling to work in ASEAN. ASEAN has finished compiling a Mutual Recognition Arrangement (MRA) for 32 positions of tourism personnel. However, the transfer of personnel does not quite worry Thai entrepreneurs as they may gain benefits from the entering of mid-level executives competent in management and language. Nonetheless, Thai personnel and laborers working in the travel business may worry due to the impact of ASEAN personnel taking away their job positions.

2. Health Service

Health service is one of the service categories that needs the acceleration of integration. Although Thai SMEs in the category of health service do not play a key role in the country's economy compared to other business fields, the health service and other health-related services in Thailand are accepted internationally in terms of quality and standards as well as being recognised as not too costly as concerns service charges. Thailand has policy to push itself to becoming the medical hub of Asia. The readiness of Thai SMEs, therefore, is essential for promoting the growth of health service business and other related business.

Impact of Liberalization on Health Service

- 1) Cross border supply is the provision of health service across countries carried out via electronic media. This type of service is still not available in Thailand. However, considering the service provision between ASEAN countries, the chance of having this type of service is small as countries in ASEAN are not equipped with advanced technology or medical supplies.
- 2) Consumption abroad is traveling to receive health services in ASEAN countries or customers from ASEAN travel to Thailand for treatment. There is no limitation as regards this type of service provision in any country. If the service liberalization is complete, traveling between ASEAN countries can be done more conveniently leading to more customers from neighboring countries to obtain service.
- 3) Commercial presence is when ASEAN entrepreneurs establish their business in Thailand / Thai entrepreneurs set up their business in ASEAN. This worries Thai entrepreneurs most.
- 4) Presence of natural persons is ASEAN personnel traveling to Thailand to work / Thai personnel traveling to ASEAN to work. ASEAN has come to a Mutual Recognition Arrangement (MRA) for doctors, dentists and nurses. Nevertheless, personnel from ASEAN working in Thailand and Thai personnel working in ASEAN countries have to act in compliance with the regulations or specifications of each country.

3. Logistics

Logistics is a major industry enhancing the competitiveness of entrepreneurs, industry, and the country. It is a crucial component in product costs. An efficient logistics system helps business to have advantageous operational costs in competition. At present, Thailand's logistics has low efficiency compared to that of Singapore and Malaysia. Nevertheless, Thailand has geographical advantage with the borders adjacent to most ASEAN countries and is also a pathway to China. In addition, the trade liberalization of ASEAN and regional collaboration to develop the logistics system will partly promote higher growth of the logistics business in the region. This will become a driving force to improving the logistics system of Thailand.

Impact of Liberalization on Logistics Industry

- 1) Cross border supply is a type of service unlikely to happen regarding the transportation and warehouse services that require the involvement of products. The liberalization, therefore, poses no impact.
- 2) Consumption abroad is traveling to ASEAN countries for transportation or warehouse services / ASEAN customers traveling to Thailand for services. There are neither laws nor regulations limiting these types of services so the liberalization has no effect.
- 3) Commercial presence is ASEAN entrepreneurs establishing their business in Thailand/Thai entrepreneurs setting up theirs in ASEAN countries. This causes most worry to Thai entrepreneurs.
- 4) Presence of natural persons is ASEAN personnel traveling to Thailand to work/Thai personnel traveling to ASEAN to work. However, the transfer of personnel does not worry Thai entrepreneurs much.